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# Problems Faced By The Bankers While Sanctioning Export Finance

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**Abstract:**

Exporters need export funding in order to accept and successfully complete their export orders. For brief intervals before and after the delivery or shipment of an order, export credit is necessary. Pre-shipment export finance is necessary as working capital to complete the production, packing, and delivery of the orders in a timely manner. Post-shipment financial facilities help exporters' businesses while they wait for payments from foreign clients. A significant portion of export financing is provided by commercial banks. By employing a multi-stage sampling technique, the primary data were gathered from 206 bank branches of commercial banks in the Vellore area. The study's sample size is 206. The study's conclusions indicate that banks' inability to monitor the proper use of export credit is one of the biggest issues bankers encounter when authorising such credit.

**Keywords:**

Export finance, Commercial banks, Problems

## 1.1 INTRODUCTION:

In India, the commercial banks were one of the key institutional sources of credit for export financing. Commercial banks have steadily grown to be a significant source of export finance among institutional sources. As a result, the SBI was established in 1955, 14 significant commercial banks were nationalised in 1969, the lead bank scheme was implemented in 1970, and six additional commercial banks were nationalised in March 1980, giving the public sector banks control over nearly 91 percent of the nation's total banking system resources. Export financing is offered by commercial banks at a rate that is below their prime lending rate. Banks now have a great deal of leeway to pick the structures of their lending and

deposit rates and to more skillfully manage their assets and commitments thanks to the increasing deregulation of interest rates.

Banks are able to choose their own lending rates, including the prime lending rate, when it comes to lending. With the board's consent, banks may choose between a fixed rate and a floating rate for deposits. Tenor-linked prime lending rates were implemented in conformity with international practice in April 1999, giving the scheduled commercial banks more operating flexibility. After the need that it be a floor rate for loans over Rs. 2 lakh was eliminated, the PLR was changed into a benchmark rate. Commercial banks are now permitted to lend at Sub PLR rates on loans aggregating more than Rs. 2 lakh as of April 19, 2001. The Rupee export credit interest rate structure now includes ceiling rates that are tied to the pertinent PLRs of the banks as of May 5, 2001. There was an expectation that this would encourage healthy competition and give exporters more options when using banking services in terms of interest rates, service caliber, and transaction fees. One of the most important activities for commercial banks in India is lending to priority sectors. It comprises financing for small businesses, transport companies, and agriculture. Over and above the priority sector, export financing exists.

**Table 1.1**

**Gross Bank Credit by Commercial Banks for Leather Products In India**

**(Rs. Crores)**

| Year | Amount |
|---|---|
| 2020 | 11098 |
| 2019 | 10813 |
| 2018 | 10786 |
| 2017 | 94576 |
| 2016 | 10500 |

## 1.2 REVIEW OF LITERATURE:

The paper "Role of Banks and Financial Institutions in Export Finance of Bangladesh" by **Syed Tanimul Haque et al. (2017)** states that the study's main objective is to evaluate the role played by banks and financial institutions in export financing. Banks and exporters provided data for the researcher to compile. Trend analysis is the method used for the analysis. The researcher hypothesised and came to the conclusion that the nation has not yet created an appropriate policy package for long-term growth and development. In this context, it should be noted that among development economists and policymakers, the phrase "Export or perish" has recently gained a lot of traction. Today, almost all developing countries have put various reforms into place to create an open market economy. In comparison to earlier years, current export policies and promotional initiatives are far more practical. However, there has always been a big gap between policies and implementations, making it difficult to fully reap the rewards of policies in the past.

The major goal of the study is to assess the rise of the leather industries, and **D. Ramalingam (2017)** analysed this in their essay on the "Growth of leather industries in Tamil Nadu under the British." According to the study, India has thrived in all traditional industries from the start, especially the leather industry. Particularly in the 19th century, the consequences of the industrial revolution in England and Europe led to a growth in the prominence of this sector. The European markets required raw materials for its leather makers. Following various policies, the British rulers of Tamil Nadu during their rule**:** [1] Spent a significant amount of money on a railway network to guarantee the security of leather material's arrival at the ports. [2] British businesses' technological advancements, which harmed Tamil Nadu's handicraft industry, forced the state's handicraft industry to fail.

According to **Syeedun Nisa's (2017)** article, "A Study of the Export Potential of Indian Leather Industry and Strategies for Growth," India ranks fourth in the world for leather exports. It is one of India's greatest employers of skilled and semi-skilled labourers as well as the country's top earner of foreign exchange. The study was conducted to determine the current state of the industry and its position in relation to global trade. An extensive study was carried out to evaluate and understand the current export pattern of Indian leather under various titles and sectors. Based on industry-specific shipments to various EU nations, data were collected. Preliminary screening was carried out in light of the data analysis pattern that was discovered. France and the United Kingdom import more footwear than other countries, while Italy only imports finished leather sheets.

**1.3 Objective of the study:**

The study's primary goal is to examine the challenges faced by bankers when approving export financing.

**1.4 Research Methodology:**

The scientific method for validating the research plan is the research methodology. It is the procedure the researcher uses to generate legitimate study results. The study's research design, the types and sources of the data acquired for the study, and the specifications of the research instrument used are all covered in the methods section. It also briefly explains the study's variables and provides information on the many tests conducted to assess the accuracy and validity of the data collected for data analysis. The article concludes by describing the statistical methods and tools used to analyse the data and empirically test the hypotheses based on the objectives of the study. Data from both primary and secondary sources have been used to compile the information. The major sources for the data were the 206 commercial bank branches in the Vellore district. The secondary data were also collected from various reports and publications.

### 1.4.1 Population of the Study:

The sample respondents from bankers were selected by adopting Multi-stage random sampling process.

### 1.4.1 First Stage:

The district of Vellore was chosen by the researcher for the investigation. because the Vellore district of Tamil Nadu exported the majority of leather goods. A significant portion of export financing is provided by commercial banks. Therefore, the study's commercial banks were chosen by the researcher.

### 1.4.2 Second stage:

In the second round of sample selection, the researcher selected the banks. There are several commercial banks in the Vellore neighbourhood, but the researcher mainly focused on five of them: State Bank of India, Indian Bank, Indian Overseas Bank, Canara Bank, and Karur Vysya Bank Ltd. Based on which bank has the most bank branches in the Vellore district, the banks on the above list were selected.

### 1.4.3 Third stage:

In the last stage, the researcher selected the total population for the bankers. Therefore, the total population of bankers is 206. The population of the bankers were explain in table 1.3

**Table 1.1**

**List of top five bank branches of commercial banks in Vellore district**

| S.No | List of Bank Name | No of Bank Branches |
|---|---|---|
| 1 | Indian Bank | 64 |
| 2 | IOB | 33 |
| 3 | SBI | 49 |
| 4 | Canara Bank | 45 |
| 5 | Karur Vysya Bank Ltd | 15 |
| Total | | 206 |

***Source: State Level Bankers Committee in Tamil Nadu.***

## 1.5 DATA ANALYSIS AND INTERPRETATION:

### 1.5.1 Demographic profile of the Respondents:

**Table 1.2 Demographic profile of the bankers**

| Demographic Profile of the farmers | Options | Frequency | Percent |
|---|---|---|---|
| Gender | Male | 146 | 31.3 |
| | Female | 60 | 68.7 |
| | Total | 206 | 100 |
| Age | Less than 30 years | 48 | 23 |
| | 30 to 40 years | 57 | 28 |
| | 41 to 50 years | 62 | 30 |
| | 51 to 60 years | 39 | 19 |

| | | | |
|---|---|---|---|
| | Above 60 years | - | - |
| | Total | 206 | 100 |
| Marital status | Married | 186 | 90 |
| | Unmarried | 20 | 10 |
| | Total | 206 | 100 |
| | Post Graduation | 98 | 48 |
| | Under Graduation | 108 | 52 |
| | Total | 206 | 100 |
| Residence | Rural | - | - |
| | Semi –Urban | 94 | 46 |
| | Urban | 112 | 54 |
| | Total | 206 | 100 |
| Year of Experience in the field of Banking | Less than 1 years | - | - |
| | 1-3 years | 36 | 17 |
| | Above 3 years | 170 | 83 |
| | Total | 206 | 100 |

**Source:** Primary Data

**Gender:** Out of 206 respondents, 71% were men and the remaining respondents were women. The bulk of the male respondents, it might be assumed, worked in banks.

**Age:** It is understood that 30 percent of respondents are believed to be between the ages of 41 and 50, 28 percent to be between the ages of 30 and 40, 23 percent to be under the age of 30, and the remaining 19 percent to be between the ages of 51 and 60. As a result, the bulk of responses are between the ages of 41 and 50. Therefore, the age range of the majority of respondents was between 41 and 50.

**Marital Status:** It is observed that 90% of the respondents were marries and remaining 10% were unmarried. Therefore majority of the respondents are married. Married employees were working in banking sector.

**Educational Qualification**: It is noted that 48% of the respondents were graduate and remaining 52% of them were post graduate. Therefore, majority of them were post graduate working in bank.

**Residence:** It has been noted that 46% of respondents live in semi-urban areas, and 54% of respondents do so in metropolitan areas. The bulk of respondents were so from metropolitan areas. Since metropolitan areas account for the majority of the data collected.

**Year of Experience in the field of banking**: It is noted that 83 percent of respondents have more than 3 years of experience in the field of banking, while 17 percent of respondents have fewer than 1-3 years. As a result, the majority of responders had experience in banking activities spanning more than three years.

### 1.5.2 Association between Type of Bank and Type f Minimum Loan Amount Sanctioned – Cross Tabulation:-

Loan amount is most important one for all the leather exporters. Likewise, both public and private sector banks were providing loan amount for all the leather exporters. Depending upon the repayment capacity the loan amount were sanctioned to leather exporters.

**Table 1.3**
**Cross tabulation of Type of bank and Type of Minimum loan amount sanctioned**

| Type of bank * Minimum Loan Amount | | Minimum loan amount | | | Total |
|---|---|---|---|---|---|
| | | Less than 5 Lakhs | 5-10 Lakhs | Above 10 Lakhs | |
| Type of bank | Public sector banks | 12 (6%) | 81(42%) | 98(51%) | 191 |
| | Private sector banks | 0 | 12 (80%) | 3 (20%) | 15 |
| Total | | 12 | 93 | 101 | 206 |

**Source**: Primary Data

[1] The table 1.3 shows that, 6% of the public sector banks provided loan for less than 5 Lakhs, 42% of the public sector banks provided loan amount between 5-10 Lakhs and 51% of the public sector banks provided loan amount above 10 Lakhs. Therefore, majority of the public sector banks were provided loan amount above 10 Lakhs.

[2] It is also observed that from the table 1.3 it shows that 80% of the private sector banks provided loan amount between 5-10 Lakhs and remaining 20% of the private sector banks provided loan amount above 10 Lakhs. Therefore, majority of the private sector banks were provided loan amount above 10 Lakhs.

[3] Therefore, it is concluded that from the above discussion that both the public sector banks and private sector banks provided loan between 5 -10 Lakhs.

### 1.5.3 Association Between Type of Bank and Minimum Loan Amount Sanctioned – Chi square Analysis:

Chi-square test is a non-parametric test and is used to test whether there is significant association between two variables.

**Hypothesis:** There is no significant association between the type of the bank and the type of Minimum loan amount sanctioned.

**Table 1.4**
**Type of bank and Minimum loan amount sanctioned**

| Chi-Square Tests | | | |
|---|---|---|---|
| | Value | Df | Asymptotic Significance (2-sided) |
| Pearson Chi-Square | 8.076 | 2 | .000 |
| Likelihood Ratio | 8.941 | 2 | .011 |
| Linear-by-Linear Association | 2.395 | 1 | .122 |
| N of Valid Cases | 206 | | |

**Source**: Primary Data

The estimated value is 8.076, and level of significance is.000 at degree of freedom 2, as can be seen in table 1.4. As.000 is considered significant, the null hypothesis is disproved. It implies that there is a strong correlation between bank type and the minimum loan amount approved.

### 1.6 Problems Faced By The Bankers While Sanctioning Export Finance- Factor Analysis:

Exporters need export funding in order to accept and successfully complete their export orders. For brief intervals before and after the delivery or shipment of an order, export credit is necessary. Post-shipment financial facilities support exporters' company operations while they wait for payments from foreign customers, but pre-shipment export financing is necessary as working capital to complete the manufacture, packaging, and delivery of the orders on schedule. Commercial banks contribute significantly to export financing. Banks continue to experience problems even after lending money to exporters. The respondent was asked to score the risks using the categories of strongly agree, agree, neither agree nor disagree, disagree, and strongly disagree on a likert scale after the researcher identified 12 risks. Twelve different risks are included in export credit. Factor analysis has been employed to comprehend the similarity of statements and groups among the 12 statements. In order to categorise the issues that bankers confront when approving export financing, factor analysis uses the Kaiser-Mayer-Olkin (KMO) and Bartlett's tests, principal component extraction method, rotation of Varimax with Kaiser Rotation method, and principal component analysis.

To categorise the linked variables, the researcher employed the multivariate technique known as "factor analysis." The inert link between the entire collection of observable variables is explained using the multivariate statistical method known as factor analysis. Factor analysis is a technique for categorizing variables according to a set of shared traits that would act as the classification's common denominator. It is a method for analysis that can help with the initial research and understanding of the link among a significant number of interconnected and interdependent variables. A set of observable variables are resolved using new categories, or factors, as the main goal of factor analysis. The normalcy of the variable must be established prior to grouping it. KMO has therefore been utilised to determine the normalcy. To determine whether the data are appropriate for using in the factor analysis evaluation, the (KMO) measure of sampling adequacy index is used. KMO values less than 0.8 and more than 1 signify insufficient sampling. There aren't enough data to do a factor analysis, as shown by the number 6. Examining the contour of the normal distribution and confirming the smoothness of the curve are done using a statistical method called Bartlett's test of sphericity.

**Table 1.6**

| **Online purchase and its risks -KMO and Bartlett's Test** | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .900 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 5340.118 |
| | Df | 91 |
| | Sig. | .001 |

**Source:** Primary Data

Table 1.6 explain the results of KMO and Bartlett’s test. KMO value .900 indicates the sample size take for the factor analysis adequate. The P value of .001 of Bartlett's Test of Sphericity denotes the data is normally distributed and associated among them.

### 1.6.1 Problems faced by the bankers while sanctioning export finance - Communalities

Communities have been utilised to calculate the correlation coefficient between the variables. The factor of an online purchase and its dangers have been grouped using the main component analysis. It is a technique for reducing data. Communality is the percentage of a certain item's volatility that can be attributed to a shared element. In a principal component analysis, the communality's initial value is 1. The component column shows the challenges that bankers face when extending export loans and the risk involved. Each variable that is taken into account by the factor solution has its variance calculated by the extraction communalities. The sum is less than. The factor solution in figure 5 could potentially be modified by removing the variables it does not work well with.

**Table 1.7**

**Problems faced by the bankers while sanctioning export finance - Communalities**

| Communalities | | |
|---|---|---|
| **Components** | **Initial** | **Extraction** |
| Increasing Demand for Export Credit | 1.000 | .542 |
| Problem of Over Dues | 1.000 | .590 |
| Non- Performing assets | 1.000 | .782 |
| Unhealthy Competition & Lack of Coordination | 1.000 | .711 |
| Procedural Issues | 1.000 | .545 |
| Political Interference | 1.000 | .587 |
| Absence of Proper Control Mechanism | 1.000 | .632 |
| Inadequate Staff | 1.000 | .655 |
| Higher Transaction Cost | 1.000 | .727 |
| Illiteracy of exporters | 1.000 | .718 |
| Banks are not able to check the proper utilization of credit | 1.000 | .726 |
| Fixing Prudential norms | 1.000 | .620 |
| Extraction Method: Principal Component Analysis. | | |

Source: Primary Data

Table 1.7 explains the communalities value of export credit and its risks. Communalities values are useful to understand the correlation relationship among the 14 risks involved in online shopping. Communalities values for all the 12 risks are fall within .542 to .782. It means all the variables are having the correlation relationship of above 50 percent with another variable. So here all the variables can be taken for the factor analysis.

### 1.6.2 Problems faced by the bankers while sanctioning export finance - Total Variance

Knowing the rotated sum of squares value is crucial when performing the total variance analysis. The rotating sum of square loading's cumulative variance should be more than 50%. Eigen values are helpful in determining the number of elements that have been rotated from the 14 statements in light of issues and potential concerns. The variables with Eigen values larger than one are what determine how many rotated factors there are. The results of the Rotated Sum of Square Loadings and Eigen value are shown in Table 1.8.**Table 1.8**

**Problems faced by bankers while sanctioning export finance- Total Variance**

| Total Variance Explained | | | | | | |
|---|---|---|---|---|---|---|
| | Initial Eigen values | | | Rotation Sums of Squared Loadings | | |
| Component | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.608 | 47.196 | 47.196 | 4.264 | 30.456 | 30.456 |
| 2 | 1.523 | 10.879 | 58.076 | 2.984 | 21.314 | 51.771 |
| 3 | 1.005 | 7.181 | 65.257 | 1.888 | 13.486 | 65.257 |
| 4 | .948 | 6.774 | 72.031 | 1.567 | 11.871 | 62.358 |
| 5 | .859 | 6.136 | 78.167 | | | |
| 6 | .558 | 3.989 | 82.156 | | | |
| 7 | .446 | 3.189 | 85.345 | | | |
| 8 | .401 | 2.864 | 88.209 | | | |
| 9 | .373 | 2.668 | 90.877 | | | |
| 10 | .354 | 2.526 | 93.403 | | | |
| 11 | .279 | 1.996 | 95.399 | | | |
| 12 | .254 | 1.811 | 97.210 | | | |
| Extraction Method: Principal Component Analysis. | | | | | | |

Table 1.8 explains the results of total variance. The cumulative rotated sum of square loading is 65.257; it is above with the benchmark value of 50 percent. Hence it is confirmed that factor analysis is meaningful one. Eigen values of 6.608, 1.523 and 1.005 are greater than one; it means all the 14 statements are rotated into three factors.

**1.6.3 Problems faced by the bankers while sanctioning export finance - Rotated Component Matrix:**

Rotated component matrix is useful to identify the groups among the 12 risks involved in online purchase. Table 1.9 explains the rotated component matrix result of the factor analysis.

**Table 1.9**

**Problems faced by the bankers while sanctioning export finance - Rotated Component Matrix**

| Statements | Factors 1 | Factors 2 | Factors 3 | Factor 4 |
|---|---|---|---|---|
| Increasing Demand for Export Credit | .786 | | | |
| Procedural Issues | .721 | | | |
| Illiteracy of exporters | .651 | | | |
| Unhealthy Competition & Lack of Coordination | | .751 | | |

| | | | | |
|---|---|---|---|---|
| Problem of Over Dues | | .821 | | |
| Political Interference | | .721 | | |
| Absence of Proper Control Mechanism | | | .651 | |
| Inadequate Staff | | | .631 | |
| Higher Transaction Cost | | | .751 | |
| Non- Performing assets | | | | .831 |
| Banks are not able to check the proper utilization of credit | | | | .821 |
| Fixing Prudential norms | | | | .762 |
| Rotation Method: Varimax with Kaiser Normalization Rotation Method | | | | |

**[1] Procedural Problems:**

Three variables make up the first factor, which is referred to as "Procedural Problems": growing demand for export credit (r =.786), procedural problems (r =.721), and exporter illiteracy (r =.651). The biggest issue facing bankers when approving export loans among these three variables is rising demand.

**[2]Over Due Problems:**

Unhealthy competition and a lack of coordination (.751), the issue of overdue payments (.821), and political interference (.721) are the three variables that make up the second element. All three of these variables are referred to as "Over Due Problems." The biggest issue that bankers encounter when approving export financing among these three variables is overdue debt.

[3] **Administrative Problems:**

Insufficient staff (.631), higher transaction costs (.751), and a lack of proper control mechanisms (.651) make up the third issue, which is referred to as "administrative problems." Higher transaction costs are the three elements that cause the bankers the most difficulty when approving export financing.

**[4] NPA Problems:**

The fourth element is made up of three factors: non-performing assets (.831), banks' inability to monitor adequate credit usage (.821), and fixing prudential standards (.721). Collectively, these three variables are referred to as "NPA Problems." Non-performing assets are the most significant issues that bankers encounter when approving export financing among these three variables.

**1.7 Conclusion:**

Commercial banks are important sources of export financing for the leather industry. The exporters of leather benefit from timely financing because it increases the output of leather goods. An important sector of the Indian economy is the leather, leather products, and footwear industry. This industry is among the top ten foreign exchange earners for the nation and is renowned for its constancy in producing significant export revenues. The study came to the conclusion that banks' inability to monitor the proper use of export credit is one of the biggest challenges faced by bankers when granting export credit.

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