



Export Financing by Exim Bank of India and Its Impact on Export performance: An Empirical Assessment

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Abstract- The present study is mainly concerned with the trends in export financing/credit lending by Export Import (EXIM) Bank of India and examining its impact on the export performance of the country considering the data evidence on export and credit extension in the last couple of decades (i.e., from 2000-01 to 2019-20). The credit extension and financial assistance is more important in the case of export transactions due to the prevalence of novel non-price competitive techniques encountered by exporters in various nations to enlarge their share of world markets. The paper discusses in general the trends in the loan approval and disbursement by EXIM bank and that in export along simple calculations accompanied by the graphical presentation, but it mainly envisages the impact assessment. For the purpose of reaching inference and testing assumption, inferential linear regression model has been used. The study concludes that there exist significant association between the variables considered and that the export financing is significant determinant of export performance.

Keywords: EXIM Bank, Export Financing, Export Performance, Loan Disbursed, Loan Approved.

I. INTRODUCTION

The selling techniques are extended to payment terms offered by exporters. Liberal payment terms usually score over the competitors not only of capital equipment but also of consumer goods. The payment terms however depend upon the availability of finance to exporters in relation to its quantum, cost and the period at pre-shipment and post-shipment stage. Production and manufacturing for substantial supplies for exports take time in case finance is not available to exporter for production. They will not be in a position to book large export order if they do not have sufficient financial funds. Even merchandise exporters require finance for obtaining products from their suppliers. The exporter may require short term, medium term or long-term finance depending upon the types of goods to be exported and the terms of statement offered to overseas buyer. The short-term finance is required to meet "working capital" needs. The working capital is used to meet regular and recurring needs of a business firm which refer to purchase of raw material, payment of wages and salaries, expenses like payment of rent, advertising etc. The exporter may also require "term finance" which is required for medium- and long-term financial needs such as purchase of fixed assets and long-term working capital.

In 1982 such an institution was set up in the name of Export-Import (EXIM) Bank of India under the Export-Import Bank of India Act 1981, for undertaking mainly export financing in the economy. It was to augment exports from India and also to combine the country's foreign trade and investment with the overall economic growth. Initially the bank started with its operations as an export credit supplier, but over the period evolved as an institution playing major role in partnering Indian industries including small and medium enterprises. It has been one of the prime institutions encouraging project exports from India offering wide range of services for enhancing the prospect of Indian project exports. Availability of favorable Export finance schemes directly impacts the local trade, encourages exporters, enlarges markets abroad, improves quality of domestic goods and overall helps the nation boost its exchange earnings.

The primary objective of the bank is to provide financial assistance to importers and exporters and function as the top financial institution. Some of the services of the bank include overseas investment finance, film finance, export credit, finance for export-oriented units and agricultural & SME finance. EXIM Bank of India plays the role of source of finance, promoter, coordinator, and consultation to India's foreign trade mechanism through its grassroot initiatives taken by envisaging the upbringing of rural India on global level. It hosts several programmes relatively focusing more on the weaker sections in this line including artisans, craft-men, rural entrepreneurs etc. It looks towards creation and enhancement of

export capabilities of small firms or those who are not in export business with optimum potential utilization. In globalizing the firms, it assist in bidirectional approach and thus assists the firms in locating them with distributors, buyers and business partners for the specific products and services. As far as its operational differentiation is concerned, it is characterised by its fund-based assistance programme, although the bank with its highly scholastic wings has been also entrusted with the responsibility to cater non-financial assistance as has been discussed later on. But the financial nature of assistance mechanism mainly takes concern of Indian exporters, commercial banks and overseas buying entities through their banks or through Overseas Buyer's Credit facility. The non-financial assistance it extends to the exporters' community are of advisory functions and guarantees which strengthen and ensure the export performance on the world map. The non-fund-based assistance include *guarantees and bonds* and *advisory services*. The functions of EXIM bank have been broadly presented in Figure 1.

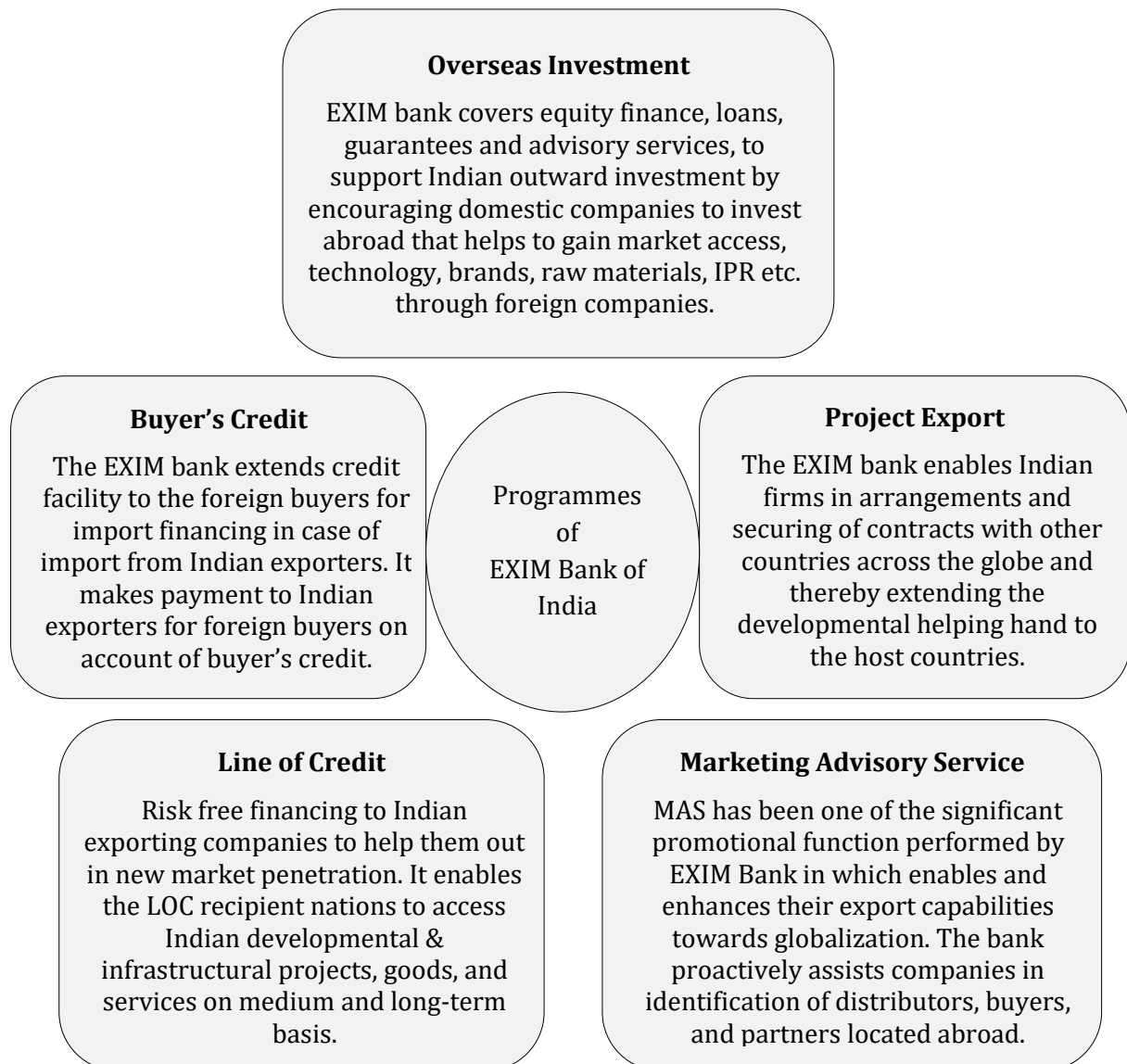


Figure 1: Flagship Programmes of EXIM Bank of India

The figure clearly reveals that the EXIM Bank of India hosts different kind of programmes and schemes to assist exporters in India and importers abroad for the import of Indian goods and services. Specifically, the bank is identified as an institution for its lending facilities holding significant financial mechanism.

Export Financing & Credit Extension

Financing function of the bank has been recognized as one of the most significant and effective tool exercised for the empowerment, encouragement, and promotion of export related activities in India. There are several credit schemes and loan extension facilities hosted by the bank which have set

milestone in conversion of the potential exporters into the substantial exporters and thus contributing towards overall export growth. The loans extended by EXIM Bank of India is not just limited to the Indian export entities but also to the commercial banks and overseas buyers helping the Indian products' sell in foreign countries from all possible perspectives. Hence, the loans to all three parties have been briefly discussed further.

Loans to Indian Entities: The term finance is provided to Indian exporters of eligible goods and services, which enables them to offer deferred credit to overseas buyers. Deferred credit can also cover Indian consultancy, technology, and other services. Commercial banks participate in this program directly or under risk syndication arrangements. The Pre-shipment creditfinance is available from EXIM Bank for companies executing export contracts involving cycle time exceeding six months. The facility also enables provision of rupee mobilization expenses for construction/turnkey project exporters. It also extends Term loans for export production through extending guarantees to 100% Export Oriented Units (EOUs), firms in Free Trade Zones (FTZs). It provides Overseas Investment finance: Indian companies establishing joint ventures overseas are provided finance towards their equity contribution in the joint venture. Finance for export marketing: This program, which is a component of a World Bank loan, helps exporters implement their export market development plans.

Loans to Commercial Banks in India: EXIM Bank is privileged to avail loans to the commercial banks in India by means of guaranteeing obligations, export credit refinance and export bills rediscounting. Export Bills Rediscounting states that commercial banks in India which are authorized to deal in foreign exchange can rediscount their short-term export bills with EXIM Banks, for an unexpired usance period of not more than 90 days. Refinance of Export Credit deals with that the authorized dealers in foreign exchange can obtain from EXIM Bank 100% refinance of deferred payment loans extended for export of eligible Indian goods. It also participates with commercial banks in India in the issue of guarantees required by Indian companies for the export contracts and for execution of overseas construction and turnkey projects, hence guaranteeing of obligations is another significant function performed towards strengthening Indian export potential.

Loans to Overseas Entities: EXIM Bank of India also avails credit facilities to the overseas entities so as to enable them import from India. These credits are availed generally in the form of Overseas Buyer's Credit (OBC), Line of Credit (LOC), and Relending to Overseas Banks. Under OBC, credit is directly offered to foreign entities for import of eligible goods and related services, on deferred payment, whereas under LOC, finance is available to foreign financial institutions and government agencies to on-lend in the respective country for import of goods and services from India. Relending facility is concerned with the credit extension to overseas banks enabling them in providing term finance to their clients across the globe for imports from India.

II. LITERATURE REVIEW

Export financing plays vital role in development of an economy by encouraging export activities (Evans and Oye, 2001; Rendell, 1976; Wright, 2011; Baumann and Braga, 1988; Klapper, 2006; Seringhaus and Botschen, 1991; Kawas, 1997; Mahone, 1991; Picha et al., 2014; Leonidou, 2004; Lamberte et al., 1989). Krauss (2011) in his work titled 'Role and Importance of Credit Agencies' revealed the significance of Export Credit Agencies (ECAs) in imparting with the exporters the ability of foreign credit competition, further extending finances to the foreign buyers, and assuming the risks beyond which are assumed by private lenders (Griffith, 2011; Griffith and Czinkota, 2012). Mudugal (2020) in the research 'Role of Exim Bank for Development of International Business - A Study' examined the performance of export rendered by the EXIM Bank of India. Developing countries like India concentrates more on increasing the value and volume of the export turnover to attain economic developments to provide employment opportunities to Utilize all the available resources and to finance for exports. Ghose (2015) in his work 'An analysis of the growth of EXIM bank as India's premier export financing institution' has discussed about export financing and other factors contributing to the growth of export considering the role, functions, and objectives of the EXIM Bank of India. Developing countries like India concentrates more on increasing the value and volume of the export turnover to attain economic developments to provide employment opportunities to utilize all the available resources and to finance for exports. Few studies revealed the crux of assistance provided by the bank for securing export contracts which shown a fluctuating but increasing trend (Shekhar, 2016; Sharma, 2003; Mukherjee and Mukherjee, 2012). Shekhar (2016) found that there is an increase in almost every aspect of export contracts as regards to the assistance provided to the different countries and discussed different types and number of contracts and their values. Kesavan (2015) in a study on 'Financial facilities provided to exporters by EXIM bank with Specific reference to India'

attempted to examine the impact of financial revealed that over a period of decade Exim bank has showcased an extraordinary, exemplary performance in helping exports and export-oriented projects in India and in abroad having positive impact on the export performance of the concerned economies availed assistance. Ahmed and Ansari (2016) also discussed the export financing strategy in his work 'EXIM Bank of India's Export Financing Strategy: An Analysis' which reflects that the export credit plays vital role in strengthening export performance.

The studies referred reflected that the financial extension by a dedicated institution like Export Import Bank on India play significant role in strengthening the capacity to inter into the international market and capturing market by grabbing competitiveness. Lack of capital has been a constant issue with the industrial prosperity in India along with several other reasons. The capital availability certainly imparts a sense of strength among the businesses which kept themselves restrained from entering into the international market. Therefore, the study tries to enquire and validate whether the export financing activities by EXIM Bank in India tends to influence export performance or not.

III. METHODOLOGY

It is an empirical study based on completely secondary data fetched from annual reports and financial statements of the Export Import bank of India for the period extending from 2000-01 to 2019-20. The data on gross export and re-export figure of India collected from Economic Survey of India, 2020-21, whereas that on loan approved and disbursed by the EXIM Bank has been collected from various issues of the Annual Report of the bank i.e., annual report from AR 2010-11 to AR 2019-20. The data have been put to descriptive statistical analysis and trend analysis to get an overview of the growth and distribution. Further, simple correlation has been used to measure the association among the variables and linier regression model has been used to measure the degree of impact of dependent variable i.e., export over the independent variable i.e., credit extension.

Association among the Variable Considered for Assessment: To trace the association between the data set of export and export financing, *Karl Pearson's* correlation statistics has been used where, the correlation coefficient is denoted by 'r' which has been computed along following formula:

$$\text{Equation 1: } r = \frac{N \Sigma xy - (\Sigma x) \cdot (\Sigma y)}{(\sqrt{\{n \Sigma x^2 - (\Sigma x)^2\} \{n \Sigma y^2 - (\Sigma y)^2\}})}$$

Impact of FDI on Economic Growth: To examine the impact of export financing on export a model is considered as in equation 2 along function of Y i.e., $Y = f(\text{Loan Disbursed})$:

$$\text{Equation 2: } Y_x = \beta_0 + \beta_1(LD) + \varepsilon$$

Where, Y_x is response variable representing Export, β_0 is total factor intercept, β_1 represents loan disbursed (export financing by EXIM Bank) which is explanatory variable, and ε is error term.

Both the equations (1 & 2) have been implied to examine the degree of relationship and degree of impact on the given set of data for the period from 2000-01 to 2019-2020.

IV. RESULTS AND DISCUSSION

Table 1 basically deals with the Loan Approved and Loan Disbursed by EXIM Bank during last 20 years period. The given data shows the amount of loans approved and disbursed for different exporting activities by the bank under different schemes.

Table 1: Loan Approved and Disbursed by EXIM Bank During the last 15 Years

Year	Loan Approved (LA)	%age Growth in LA	Loan Disbursed (LA)	%age Growth in LD	%age of Loan Disbursed	India's Export	%age Growth in Export
2000-01	21.74	-	18.96	-	87.22	44.08	-
2001-02	42.41	95.08	34.53	82.12	81.42	43.88	-0.45
2002-03	78.28	84.58	53.20	54.07	67.96	52.72	20.15

2003-04	92.66	18.37	69.57	30.77	75.09	63.84	21.09
2004-05	158.54	71.10	114.35	64.37	72.13	83.54	30.86
2005-06	204.89	29.24	150.39	31.52	73.4	103.09	23.40
2006-07	267.62	30.62	220.76	46.79	82.49	126.41	22.62
2007-08	328.05	22.58	271.59	23.03	82.79	163.13	29.05
2008-09	336.29	2.51	289.33	6.53	86.04	185.29	13.58
2009-10	388.43	15.50	332.49	14.92	85.6	178.75	-3.53
2010-11	477.38	22.90	344.23	3.53	72.11	249.82	39.76
2011-12	444.20	-6.95	370.45	7.62	83.41	305.96	22.47
2012-13	419.19	-5.63	406.35	9.69	96.94	300.4	-1.82
2013-14	482.64	15.14	432.62	6.46	89.64	314.41	4.66
2014-15	576.84	19.52	384.08	-11.22	66.58	310.34	-1.29
2015-16	725.76	25.82	518.22	34.93	71.40	262.29	-15.48
2016-17	647.78	-10.74	446.94	-13.75	69.00	275.85	5.17
2017-18	978.26	51.02	685.35	53.34	70.06	303.53	10.03
2018-19	380.00	-61.16	366.60	-46.51	96.47	330.08	8.75
2019-20	402.55	5.93	337.35	-7.98	83.80	313.36	-5.07

Source: Compiled from Annual reports of EXIM Bank (2010-11 to 2019-20)

Since 2000-01, the amount of loan approved can be seen increasing by and large till 2010-11, and then for consecutively two years i.e., 2011-12 and 2012-13 it has been found recording retardation in the approved amount. In 2016-17 the credit extension shrunk by approximately 11 percent, and most surprising decline can be observed in 2018-19 when the loan approved for export promotion was cut down by around 61 percent. Table.1 shows the trend of export financing by EXIM Bank, and the total export of India during the period under study.

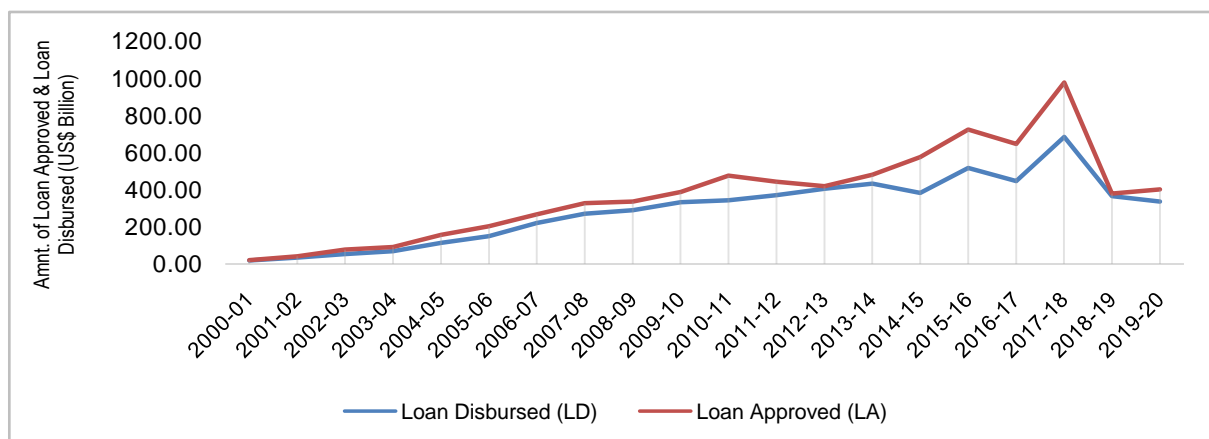


Figure 2: Loan Approval vis-à-vis Loan Disbursed by EXIM Bank of India

The export data and growth percentage reveals that the export has increased substantially over the period, however, during 2009-10 the gross export recorded a decline by 3.53 percent which was certainly due to the impact of financial crisis (Shekhar & Jena, 2021). The export recorded retardation during 2014-15 and 2015-16 by 1.29 percent and 15.48 percent respectively. The decline in Indian export amidst global economic turbulence and because of several internal economic indicator turmoil can be digested but the efforts made by EXIM bank are assumed to be quite significant during these all-past years except the huge cut-short in credit approval in year 2018-19. Figure 2 clearly shows that loan approved have always been higher with substantial margin. The highest amount of loan approved was during year 2017-18 with a figure of US\$ 978.26 billion. The gap between LA and LD can be observed in Figure 3.

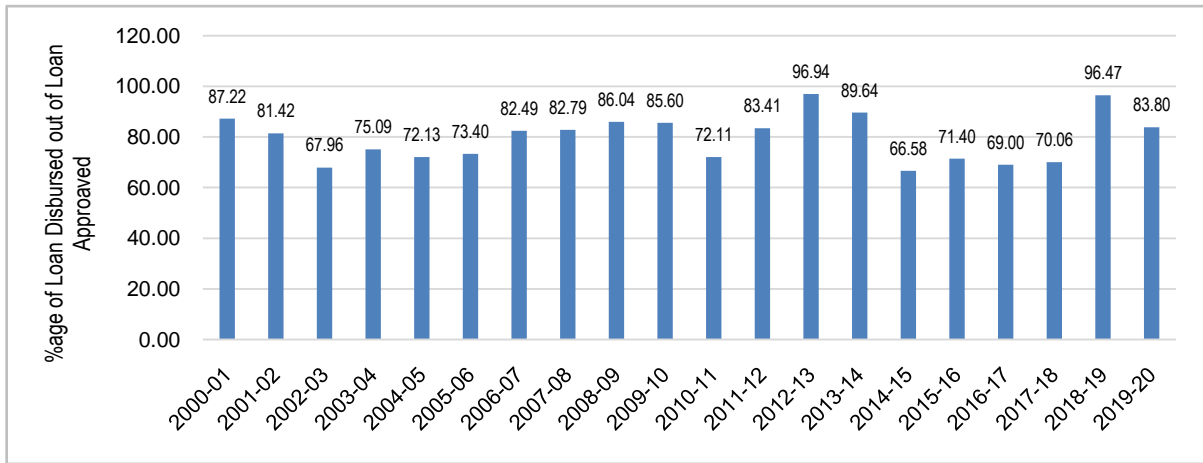


Figure 3: Share of Loan Disbursed out of Loan Approved by EXIM Bank of India

From Figure 3 it is evident that during 2014-15 the least percentage of the total approved loan was disbursed indicating towards less requisite. The margin between LA and LD have been found least during 2012-13 and 2018-19.

Relationship & Impact Assessment: To reach the inference regarding strength association between export financing (loan disbursed) by EXIM Bank of India and Export correlation analysis has been done. The correlation between the two has been found very strong at 99 percent confidence level with coefficient of .882. Further, regression analysis has been done to reach the inference regarding strength of impact assessment.

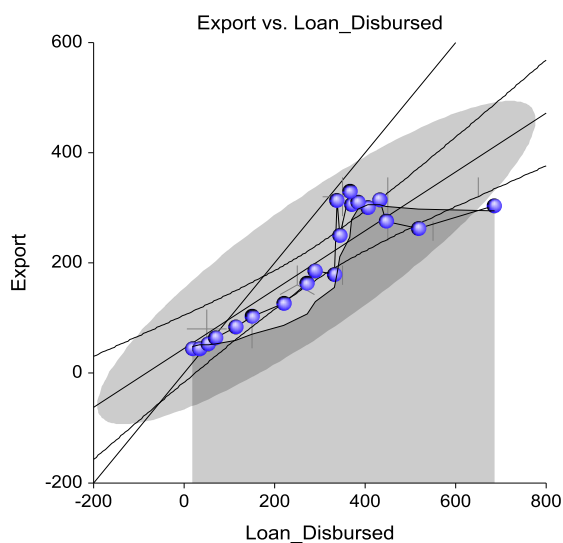


Figure 4: Linear Regression Plot

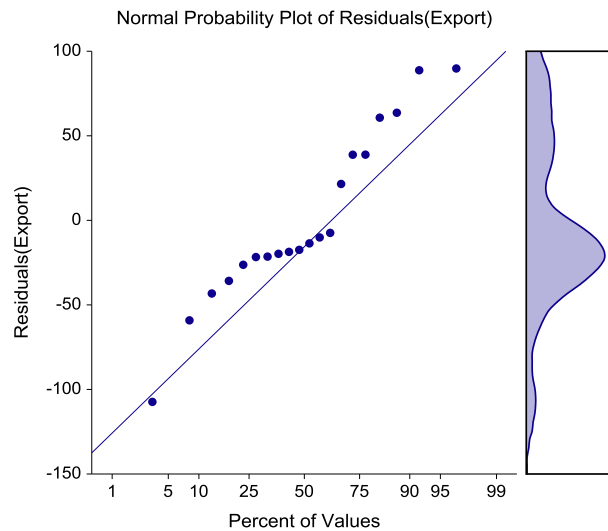


Figure 5: Distributional Plot

Figure 4 and Figure 5 are the outcome of NCSS 21 calculation of linear regression and normal distribution. Figure 4 reveals the actual contact line along regression line of the two variables. It through the confidence band and sunflower diagram clearly reveals that the strength of association among the two have been high in middle of the axis X. The normal probability curve in Figure 4 also depicts that export is well explained by the loan disbursed at the middle of the axis revealing the equation of the straight-line relating Export and Loan Disbursed is estimated as: $Export = (44.0406) + (0.5353) Loan\ Disbursed$ using the 20 observations in this dataset. The y-intercept, the estimated value of Export when Loan Disbursed is zero, is 44.0406 with a standard error of 22.8220. The slope, the estimated change in Export per unit change in Loan Disbursed, is 0.5353 with a standard error of 0.0672. The value of R-Squared, the proportion of the variation in Export that can be accounted for by variation in Loan Disbursed, is 0.7788. The correlation between Export and Loan Disbursed is 0.8825. A significance test that the slope is zero resulted in a t-value of 7.9597. The significance level of this t-test is 0.0000. Since

0.00 < 0.05, the hypothesis that the slope is zero is rejected.

The estimated slope is 0.5353. The lower limit of the 95% confidence interval for the slope is 0.3940 and the upper limit is 0.6766. The estimated intercept is 44.0406. The lower limit of the 95% confidence interval for the intercept is -3.9066 and the upper limit is 91.9879. The confidence interval for the Pearson correlation assumes that X and Y follow the bivariate normal distribution. This is a different assumption from linear regression which assumes that X is fixed, and Y is normally distributed. Two confidence intervals are given. The first is based on the exact distribution of Pearson's correlation. The second is based on Fisher's z transformation which approximates the exact distribution using the normal distribution.

Table 2: Values Extracted from Model Summary & ANOVA Tables

	Model Summary			ANOVA		
	R	R Square	Adjusted R Square	Df Total	F	Sig.
LD Explaining Export	.882	.779	.766	19	63.356	.000

Calculated by Authors

The model summary of the regression result in Table 2 reveals $R = .882$ explaining the degree of association between the predictors LD and dependent variable i.e., Export. Further, the value of *R-Square* which is also called coefficient of determination has been found .779 reveals that 77.9 percent of variance in export is explained by the predictor and is an overall measure of strength of association. Significance value in ANOVA table is less than the table value ($p < .05$) i.e., = .000 being less than the table value at 95% level of confidence reveals that the data set is perfect for running regression.

Table 3: Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	44.041	22.822		1.930	.070
FDI	.535	.067	.882	7.960	.000

Dependent Variable: Export

Calculated by Authors

Table 3 clearly indicates that the beta coefficient of FDI is .535 that means 1 unit of change in loan leads to bring change in export by unstandardized coefficient B (beta) units. The sig. value of .000 being less than p-value .05 validates that the export financing has significant impact on the export performance.

V. CONCLUSION

EXIM Bank of India has been found indulged in performing several functions all dedicated to encouraging and strengthen Indian export of the global map. The bank offers various credit facilities to the exporters enhancing their capability to export, and to importers in overseas enabling them with more finance availability to purchase more and more from India. Export finance, therefore, is quite significant aspect to study & understand the overall gamut of the international financial market. The study provides strong evidence to conclude that there is positive relationship between loan extended by the bank and the export performance of India. Also, that the export of the country is significantly determined by the loan disbursement by the bank to the domestic export entities and foreign importing entities and institutions as well under different schemes. EXIM Bank's export financing effort certainly plays vital role in export promotion. Though there has been fluctuation in the loan extension facilities by the bank but in the coming years, we may see a sharp rise in the level of financing amidst the changing economic dynamism, dynamic government policies, world politics and uncertain international relations etc. which have been major indices in regulating and controlling international trade dynamics. India has become more resilient to shocks of various kinds as a result of reforms that strengthened the shock absorbers and reduced the shock amplifiers, especially by strengthening the banking sector. It can be suggested that the government should look to extend more finances to the SMEs who have greater potential to change the wave of India's presence in global trade.

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