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An Empirical Study on Export Financing (Awareness, Impact and Satisfaction) among Handicraft Export Firms in India

Balraj Saini
Research Scholar, Mewar University

Raghuveer Singh Rajpurohit
Former Professor
Institute of Management Studies, Noida

Abstract

The present paper is empirical in nature and studies the Export Financing (Awareness, Impact and Satisfaction) among Handicraft Export Firms in India. The study finds out whether the handicraft exporting firms are aware about the export finance and how many are using export finance? This paper further explores the effectiveness of the export finance in increasing the exports by finding the correlation between the increase in export sales just after getting the finance and regular increase in export finance in five consecutive years; satisfaction level of the firm with the institution providing export finance. Other parameters which have been found out in the study are the reasons for taking finance from a particular bank and what are the most important aspects for all the firms for choosing a bank for export finance? Firms with turnover less than 1 Crore do not use export finance. This could be explained with the fact that as their turnover is low, they get smaller orders for which they have their own capital and also for smaller orders, buyers do not mind giving advance. Majority of the firms availing the export finance use Pre-shipment only followed by both Pre-shipment as well as Post Shipment Finance and that too in Indian Rupees. The export sales increase just after the year export finance is availed. There is a very high degree positive correlation between the Export Finance and Export Sales. Firms availing Export Finance are satisfied with their institution providing Finance and the most satisfying factor is the behaviour of the staff. Major data has been collected with the help of questionnaire using a five point likert scale. The tools for data analysis are – mean standard deviation, chi-square and correlation.

Keywords:

Export Finance, Impact of Export Finance, Pre-shipment Finance, Post Shipment Finance, Role of Finance in Exports, Finance and Exports

Introduction

Many small exporters find it quite challenging to get financing for the exports. They might somehow manage to produce goods with their internal sources of funds. But when the buyers demand anything from 30 days to 180 days of credit from exporters, the financial crunch of the exporters would be acute. They would not like to reject the orders. They look for other sources. They borrow either at exorbitant rates from private lenders or use the supplier credit. Petersen and Rajan (1995) show that firms especially the new, use more credit from suppliers when credit from financial institutions is unavailable. Suppliers are interested to provide credit to these new firms as they have more information about these firms than the formal sources of finance especially if they find out the potential in getting the future business. Demirguc-Kunt and

Maksimovic (2001) say that suppliers offer trade credit because they have a greater ability to enforce repayment from risky firms and also they are able to earn higher returns by adding more margin than the cost of credit to the price of the goods supplied. This is not beneficial to the exporters but new and smaller exporters have to get trade credit as they might have not have access to institutional credit. As per the policy note of World Bank, the importance of credit for enhancing export competitiveness is well established. Klapper (2006) talks about the problem faced by exporting firms as overseas buyers show reluctance to open letter of credit. Firms in developed countries often refuse to pay on receipt of goods as they would like to have some time to assess the quality of the goods. Export finance becomes a key factor especially for the small exporting firms from developing countries.

Literature Review

The two World Bank Development Reports (1996 and 2002) say that if countries have to derive maximum benefit from trade liberalization, financial sector development is an important policy instrument. Beck (2003) has demonstrated that everything else equal, countries with a higher level of financial development have higher export shares and trade balances in industries that rely more on external finance. But Samba and Yan (2009), taking a time series approach and using the VAR Model have concluded the opposite that comparative advantage in international trade of a country affects the financial needs of entrepreneurs in this country and undoubtedly leads to the development of its financial sector. Susanto, Rosson and Costa (2011) have shown that there is a positive impact of financial development on bilateral trade flows for the manufacturing sector especially in developing countries (Asia, Latin America, MENA and SSA). Shaheen, Awan, Waqas and Aslam, 2011, using Granger causality test results have proved unidirectional causality from financial development to international trade.

Aworemi, Oyedokun and Odeyemi (2011) found that export profit would be negative if no form of export finance is used for export operations. Rajan and Zingales (1998) say that industries using more external finance enjoy higher profit margins and growth prospects. Rhee (1989) argues that it is imperative that exporters have access to trade finance on time especially in Developing Economies so that export opportunities are not lost and trade potential is fully exploited. Finger and Schulknecht (1999) argue that international trade requires important services from financial institutions, and if these are not available, the transaction costs of trade are likely to grow strongly. They consider finance as a "lubricant" for international trade.

Using a panel of 9352 UK firms over the period 1993-2003, Greenaway, Guariglia and Kneller (2005) found that those firms more likely to face financial constraints are less likely to export. They further add that this happens essentially because healthier balance sheets make it easier for firms to meet the sunk export markets entry costs. Tybout (2003) introduced the concept of sunk cost in accessing the foreign markets. These are the costs which are incurred by the new exporting organisations in gathering information on foreign markets, developing marketing channels, adapting products and packaging to foreign tastes etc. He emphasized that the exporting firms need public funds to cover these costs at least in the initial phases.

The exporting firms require credit not only for the sunk costs but also for financing their working capital as compared to the firms supplying in domestic market only because longer transport time is associated with exported goods (Amiti & Weinstein, 2011). Using firm-level data for China, Feenstra, Li and Yu (2011) discuss about the higher working capital needs of the exporting firms. Shamsuddoha, Ali and Ndubsi (2009) argue that finance helps the export performance indirectly especially by creating competitiveness at the initial stage of export and other international activities.

Ronci (2004) has demonstrated, using panel data evidence from 10 crises that trade finance affects positively both export and import volumes in addition to relative prices and income in the short run. Asiedu-Appiah (2005) is of the view that flexible payment terms make a product more competitive. Given a similar product form different countries, product financing can make the difference as to whether a sale will be made or lost. Similarly, the cost of finance (interest rate and other fees) has a strong effect on price and can make a product very uncompetitive in the international market.

Auboin (2007) says that more than 90% of trade transactions involve some form of credit, insurance or guarantee, one can reasonably say that trade finance is the lifeline of trade. Producers and traders in developing or least-developed countries need to have access to affordable flows of trade financing and insurance to be able to import and export, and hence integrate in world trade. Auboin and Engemann (2013) are also of the opinion that trade finance matters for international trade.

Besedes and Lugovskyy (2012) are also of the same opinion that credit constraints reduce the initial volume of the exporting firms as they cannot finance their activities. They further add that the debilitating effect of credit constraints on the exporting firms disappears relatively quickly, within the first three years of an export relationship.

Damijan and Kostevc (2011) are of the view that the aggregate cost of exporting a firm can bear and the magnitude of uncertainty it can cope with, however, are related not only to its size and productivity, but also to its access to either internal or external sources of finance.

Based on the various researches as mentioned above, it can be said that

i. Export finance is very important for the small exporting firms from developing countries.

ii. If institutional credit is not available to new firms, they might use trade credit which might be overall more expensive that the normal bank credit.

iii. Financial sector development is very important for international trade i.e. finance should be readily available to the needy firms so as to derive maximum benefit of the trade liberalization developing countries (Asia, Latin America, MENA and SSA).

iv. Industries using external finance have higher margins and growth prospects.

v. Export profit could be negative without the use of external finance.

vi. Companies with financial, constraints are less likely to export as they might not have enough funds to meet the sunk export markets entry costs.

vii. Exporting firms require export finance for their working capital requirements as longer transport time is associated with exported goods as well as for giving credit to buyers which they generally ask for.

viii. Export finance helps the export activities indirectly by creating competitiveness especially at the initial stages.

ix. By availing export finance, the exporting firms can offer flexible payment terms to the buyers and be competitive in the market.

x. Export finance is the life line of the international trade and firms in the developing or least developed countries must have access to the finance so as to integrate in the world trade.

xi. Credit constraints have a debilitating impact in the initial years of an exporting firm but later the impact gets diminished.

xii. The access to the internal or external sources of finance impacts the overall cost of export as well as capability of an exporting firm to cope up with the uncertainty.

Objectives

1. To find out awareness about Export Finance in Indian Handicraft Export Firms
2. To find out the usage of Export Finance in Indian Handicraft Export Firms
3. To find out the effectiveness of Export Finance in increasing exports
4. To find out the satisfaction level of Handicrafts Export Firms with the Export Finance
5. To find out the factors about the Export Finance which are important from an Indian Handicraft Export Firm's point of view

Research Methodology

For the study, Primary Data has been collected from the field with the help of a questionnaire having 20 questions comprising open ended and close ended questions. Pilot test was performed on 10 respondents to finalize the questionnaire. A structured direct survey method has been followed for data collection. The total number of respondents (handicrafts exporting firms in India) surveyed was 55. Questionnaires of two respondents were not up to the mark and 53 were used for analysis. The sampling technique used is convenience sampling. Likert scale used for the study is Highly Dissatisfied (HD) - 1, Dissatisfied (D) – 2, Neutral (N) – 3, Satisfied (S) – 4, Highly Satisfied (HS) - 5

Analysis and Results

Table 1 - Utilisation of Export Finance

Utilisation of Export Finance		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Use Export Finance	18	34.0	34.0	34.0
	Do not Use Export Finance	35	66.0	66.0	100.0
	Total	**53**	**100.0**	**100.0**	

It was found out that 66% of the handicrafts exporting firms are not utilizing export finance and only 34% utilize export financing.

Table 2 - Awareness about Export Financing

Awareness	Frequency	Percent
Aware	51	96.2
Not Aware	2	3.8
Total	**53**	**100.0**

96% of the handicrafts exporting firms are aware about availability of export financing.

Table 3 - Category of Exporter (Export Turnover of the Organisation) and Use of Export Finance

Turnover	Export Finance		Total
	Using	Not Using	
Turnover less than Rs. 1 Crore	0	11	11
Turnover between Rs.1 to 5 Crores	10	16	26
Turnover more than 5 Crores and up to 10 Crores	2	2	4
Turnover more than 10 Crores	6	6	12
Total	**18**	**35**	**53**

Out of the total firms availing export finance, 55% of the firms' turnover lies in the range of Rs. 1 to 5 Crores followed by 33% firms in the range of more than 10 Crores. **An interesting aspect comes out that the firms with turnover less than 1 Crore do not use export finance.** This could be explained with the fact that as their turnover is low, they get smaller orders for which they have their own capital and also for smaller orders, buyers do not mind giving advances. 55% of firms whose use Export Finance, their turnover is in the range of Rs 1to 5 Crores. It means that these are in the growth stage and do not have enough funds to execute bigger orders. Once these firms grow beyond 5 crores, their propensity to use Export Finance goes down. It can be explained with the fact that they might have accumulated enough profits to execute bigger orders without the Export Finance.

Table 4 - Place of Exporting Firm and Use of Export Finance

Place	Using Export Finance	Not Using Export Finance	Total
Delhi NCR)	4	25	29
Moradabad	8	5	13
Others	6	5	11
Total	**18**	**35**	**53**

It is observed that 44% of the firms which use export finance are based at Moradabad followed by 33% based at other places (Jaipur, Jodhpur, Saharanpur, Panipat etc.) and 22% based at Delhi – NCR.

Table 5 - Chi-Square Tests between Place of Exporting Firm and Use of Export Finance

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.746	2	.003
Likelihood Ratio	12.173	2	.002
Linear-by-Linear Association	8.498	1	.004
N of Valid Cases	**53**		

This is noted from table 5 that ***there is a significant association between the Place of Exporting firm and Uses of Export Finance.***

Table 6 Reasons of Not Using Export Finance

	Total Choices	N
Own Funds	35	24
Advance	35	26
Not Aware	35	2
No Policy	35	3

Out of 35 exporters who are not using export finance, the effort was made to know that why they are not doing so. In the response of a multiple choice question, the major reasons cited by the respondent firms for not using export finance (74.28% of the total respondent firms not using export finance) are that they have their own funds and they also get advance from the buyers.

Table –7 Choices for Export Finance

	N	% age
Public	38	71.69
Private	14	36.41
Foreign	1	1.90
Total	**53**	**100**

71% of the respondent firms are using the Public Sector Banks for their export needs followed by 26% firms which are using the Private Sector Banks.

Table 8 - Reason(s) for Using this Bank / Financial Institution

Statement	Total Choices	Response
Percentage of Amount Sanctioned is good	18	3
Behaviour of Staff is good	18	5
Interest Rate is low	18	6
Bank understands your business	18	6
Staff is properly trained	18	4
Disbursal of finance is fast	18	3
Other/overall charges are less	18	3
Approval of Finance is fast	18	6
Staff is fast to respond to Your Queries	18	2
Documentation is limited	18	3
Does not Insist on having collateral with L/C	18	0
Staff is knowledgeable	18	3
Computerisation and SWIFT facility is good	18	4
Long term relationship	18	14

The export firms who are using export finance were asked on a multiple choice (checklist) question which are the most important reasons for availing the export finance from a particular Financer. The most important reasons have come out are the Long Term Relationship (14 out of 18) followed by Interest Rate is Low, Bank Understands Your Business and Approval of Finance is fast with only 6 out of 18. No one has selected the reasons of not Insist on having collateral with L/C.

Table 9 - Stage at Which Export Finance is Availed

Stage		Frequency	Percent	Valid Percent	Cumulative Percent
Pre-shipment		9	17.0	50.0	50.0
Post Shipment		2	3.8	11.1	61.1
	Both	7	13.2	38.9	100.0
	Total	**18**	34.0	100.0	
Not Using Export Finance		35	66.0		
Total		**53**	100.0		

50% of the total firms availing export finance avail Pre-shipment Finance and 39% avail both – Pre as well as Post Shipment Finance. Only 10% firms avail Post Shipment Finance.

Table 10 - Currency of the Export Finance Availed

	Cases Using Export Finance		Not Using Export Finance		Total	
	N	Percent	N	Percent	N	Percent
Stage of Export Finance * Rupee	16	30.2%	37	69.8%	53	100.0%
Stage of Export Finance * Foreign Currency	2	3.8%	51	96.2%	53	100.0%
Total	**18**					**1000**

90% of the total firms availing export finance avail finance in rupee and only 10% avail in foreign currency.

Table 11 - Stage of Export Finance in Rupee

		Rupee			Total
Stage of Finance	Pre-shipment	7	0	0	7
	Post Shipment	0	2	0	2
	Both	0	0	7	7
Total		**7**	**2**	**7**	**16**

Out of the total export finance availed in rupee , 44% export firms avail at Pre-shipment stage and 44% firms avail both Pre-shipment as well as Post Shipment.

Table 12 - Awareness about Export Import Bank of India

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Aware	19	35.8	35.8	35.8
	Not Aware	34	64.2	64.2	100.0
	Total	53	100.0	100.0	

Only 36% of the handicrafts exporting firms are aware about Export Import Bank of India. This could be due to the fact the handicrafts exporting firms are very small, require export financing of few lakhs of rupees. These needs can be served well by the other banks. Also Export Import Bank of India focuses more on big organisations who have much bigger needs and also whose needs are of specialized kind which other banks are either not in a position or not keen to fulfill. Hence, handicrafts exporting firms are not the target segment for the Export Import Bank of India.

Table 13 - Source of Information about the Exim Bank

	N
Internet	4
Advertising	3
Export Promotion Council	0
Fellow Exporters	3
Friends	2
Article in News Papers	2
Total	**14**

Most of the exporters have got awareness about the Exim bank from Internet, Advertising and Fellow Exporters.

Table 14 - Level of Satisfaction with the Export Finance Institution

Factors	N	Mean
Application form	18	3.7222
Credit Assessment by bank	**18**	**4.0556**
Amount	18	3.8889
Terms of sanction	18	3.8889
Margin stipulated	18	3.8333
Interest rate charged	18	3.5556
Documentation	**18**	**4.0000**
Time taken to approve finance	18	3.9444
Link between collateral security and export credit	18	3.3889
Other/overall charges	18	3.6111
Interchanging Pre -shipment & Post shipment Credit	18	3.7778
Bank's assistance about getting claim from ECGC	18	3.2222
Timely disbursal of credit	**18**	**4.0556**
Understanding of staff about your business	**18**	**4.1111**
Guidance by staff	18	3.8333
Knowledge of staff about various schemes	18	3.8889
Training of staff	18	3.7778
Experience of staff	18	3.8333
Response time to your queries	18	3.7778
Behaviour of the staff	**18**	**4.2778**
Computerisation and SWIFT facility	**18**	**4.1111**

The export firms who are utilizing export finance have rated the Behaviour of the staff as the most satisfying factor with mean value of 4.2778. The factors such as Computerisation and SWIFT facility, Timely disbursal of credit, Understanding of staff about your business, Documentation and Credit Assessment by bank have got a mean value above 4,which shows that the export firms are satisfied w.r.t. all these factors with their financial institution.

However, export firms have rated almost all the factors above 3.5 (except Bank's assistance about getting claim from ECGC). This shows that the export firms are overall satisfied with the institution from which they avail finance.

Table 15 - Ranking of Various Factors Considered Important in Selection of Export Financer

Factors	N	Sum of Ranks	Ranking
Amount Sanctioned	53	172.00	2
Overall Time Taken to Approve Finance	53	195.00	3
Behaviour of Staff	53	276.00	5
Response Time of Staff to Your Queries	53	284.00	6
Interest Rate	53	126.00	1
Documentation	53	243.00	4
Understanding of your business	53	288.00	7
Other/overall charges	53	324.00	8

The above table shows the Ranking of various factors considered important in Selection of Export Financer. It comes out from analysis that Interest rate is the most important factor while selecting an export financer followed by Amount Sanctioned at 2nd place and Overall Time taken to approve finance at 3rd place.

Export firms have given least importance to understanding your business and overall charges by giving these factors 7th and 8th place respectively.

Table 16 - Growth in Export Sales after Export Financing

Sr. No.	Export Sales Before Finance	Export Sales After Finance	Growth
1	0	133	133
2	200	280	80
3	150	200	50
4	50	100	50
5	40	50	10
6	200	300	100
7	150	150	0
8	50	70	20
9	100	100	0
10	60	75	15
11	10	15	5
12	50	100	50
13	80	225	145
14	100	140	40
15	350	700	350
16	70	100	30
17	2500	2600	100
18	118	220	102
Total	**4278**	**5558**	**1280**

The average export sales growth from the year in which finance was not taken to the year when finance was taken have grown approximately with 30%.

Table 17 - Export Sales Five Consecutive Years from 2009 to 2013

	Export Sales				
Sl. No.	2009	2010	2011	2012	2013
1	1600	1900	2200	2800	3500
2	280	320	300	450	500
3	450	450	450	475	500
4	150	200	240	300	350
5	500	600	650	650	700
6	50	80	200	250	300
7	135	130	134	190	175
8	200	240	290	325	400
9	100	100	100	100	200
10	100	150	250	400	500
11	1000	1200	1500	1800	2000
12	100	150	300	540	600
13	150	100	149	100	100
14	1600	1800	2000	2200	2500
15	1000	1200	1500	1700	2500
16	200	220	240	300	350
17	3200	3300	3300	3600	3500
18	2224	2792	1926	2088	1300
Average Export Sales	**724.3889**	**829.5556**	**873.8333**	**1014.889**	**1109.7222**

Table 18 - Year Wise and Overall Growth of Export Sales

Year	Average Export Sales of 18 Export Firms	Growth in Export Sales	% Growth in Export
2009	724.3888889		
2010	829.5555556	105.1666667	14.51798451
2011	873.8333333	44.27777778	5.337530137
2012	1014.888889	141.0555556	16.1421578
2013	1109.722222	94.83333333	9.344208452
	Total Average Growth of 5 Years		**11.33547022**

The average growth of after and Before years of Export sales is around **30%,** however we can see from the table 18 that average growth (without specifically identifying the years of taking export finance) is **11.34%,** ***which means that export sales take a quick jump just after the year when an export firm avails the finance.***

Table 19 - Year Wise Growth of Export Finance

	Export Finance				
	2009	**2010**	**2011**	**2012**	**2013**
1	200	200	200	300	300
2	40	50	50	60	80
3	30	30	30	30	30
4	20	20	25	30	40
5	50	60	70	70	80
6	35	35	35	35	35
7	25	25	25	25	25
8	50	50	75	75	75
9	100	100	100	100	100
10	10	20	20	25	25
11	30	40	40	50	50
12	10	15	15	20	20
13	25	25	25	25	25
14	100	150	200	250	300
15	200	200	200	200	200
16	25	25	30	30	40
17	300	300	300	300	300
18	120	120	120	240	240
Average	**76.11111**	**81.38889**	**86.66667**	**103.6111**	**109.1667**

Table 20 - Year Wise and Overall Growth of Export Finance

Sr. No.	Year	Year Wise Export Finance of 18 Firms	Growth in Finance	% Growth in Export Finance
1	2009	76.11		
2	2010	81.39	5.28	6.937327552
3	2011	86.67	5.28	6.48728345
4	2012	103.61	16.94	19.5454021
5	2013	109.17	5.56	5.366277386
	Total Average Growth rate of Export Finance			**9.584072622**

Table 21 - Correlations between Export Sales and Export Finance (Just before and after Taking Export Finance)

		Export Finance	Increase in Export Sales after Export Finance
Export Finance	Pearson Correlation	1	.699(**)
	Sig. (2-tailed)		.001
	N	18	18
Increase in Export Sales after Export Finance	Pearson Correlation	.699(**)	1
	Sig. (2-tailed)	.001	
	N	18	18

** Correlation is significant at the 0.01 level (2-tailed).

It is presented in the table 20 that the correlation between the Increase in Export Sales Just after Export Finance and Export Finance is High Degree and Significant i.e. .699 which means the if the export finance increases, the export sales also increases and vice versa.

Table 22 - Correlations between Export Sales and Export Finance from 2009 to 2013

		Export Sales	Export Finance
VAR00001	Pearson Correlation	1	.871(**)
	Sig. (2-tailed)		.000
	N	90	90
VAR00003	Pearson Correlation	.871(**)	1
	Sig. (2-tailed)	.000	
	N	90	90

*** Correlation is significant at the 0.01 level (2-tailed).*

If we see the correlation between Export sales and Export Finance from **2009 to 2013,** we find that the correlation is high degree i.e. **.871.** This shows that Export Finance is positively correlated with Export Sales. When Export Finance Increases, Export Sale decreases and vice versa.

Findings and Conclusion

The present paper is Empirical in nature and Studies the Export Financing (Awareness, Impact and Satisfaction) among Handicraft Export Firms in India.

The study finds that out of 53 export firms only 18 firms use export financing. Most of the firms are aware about the export finance but very few about the Export-Import Bank of India. All the firms in this study, who have taken export finance, have not availed any finance from the Export-Import Bank of India. There firms are 35 firms who are not availing the facility of export finance. They are not availing finance because they have get advance from their buyers or they have their own funds which they feel sufficient for their business.

Out of the total firms availing export finance, 55% of the firms' turnover lies in the range of Rs. 1 to 5 Crores followed by 33% firms in the range of more than 10 Crores. An interesting aspect comes out that the firms with turnover less than 1 Crore do not use export finance. This could be explained with the fact that as their turnover is low, they get smaller orders for which they have their own capital and also for smaller orders, buyers do not mind giving advance. 55% of firms whose use Export Finance, their turnover is in the range of Rs 1to 5 Crores. It means that these are in the growth stage and do not have enough funds to execute bigger orders. Once these firms grow beyond 5 crores, their propensity to use Export Finance goes down. It can be explained with the fact that they might have accumulated enough profits to execute bigger orders without the Export Finance.

It is observed that 44% of the firms which use export finance are based at Moradabad followed by 33% based at other places (Jaipur, Jodhpur, Sahranpur, Panipat etc.) and 22% based at Delhi – NCR.

The most important reason for using a particular bank has been their long term relationship i.e the firms had been using services of a bank for long and started taking export finance from that bank only.

Majority of the firms availing Export Finance use Pre-shipment Finance followed by Pre-shipment as well as Post Shipment Finance and that too in Rupees.

The export firms are satisfied with their Banks with respect to almost all the parameters. They like the Behavior of Staff of Their Banks, Computerisation and SWIFT facility, Timely Disbursal of Credit, Understanding of Staff about Your business, Documentation and Credit Assessment by Bank.

In the opinion of export Firms, the interest rate is the most important factor they would consider for choosing a Bank for Export Finance. From the analysis of Export Sales and Export finance it is found that the average growth of Export Sales After taking Export Finance is around **30%** as compared to the Export Sales in the year just before taking Export Finance. However, we can see from the table 18 that average growth (without specifically identifying the years of taking export finance) is **11.34%, *which means that export sales take a quick jump just after the year when an export firm avails the finance.***

It is also observed from the study that there is a very high degree positive correlation between the Export Finance and Export sales. We can conclude that Export Financing certainly helps in increasing the Export Sales.

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