Volume 9, Number 33, Spring 2020

Suggesting and Prioritizing Policy Solutions for Export Financing Development in Iran

Alireza Garshasbi, A.[1*], Rahnemon, T.[2]

Abstract

One of the major requirements for increasing the competitiveness among the range of export goods in global markets is to equip financial markets in terms of development and supply of financial resources required to strengthen and foster export activities, given the fact that firms involved in the international trade have access to a wide variety of export financing methods, which puts them at an advantage over domestic exporters. Therefore, failure to acknowledge this issue may give rise to serious constrains in the development and growth of non-petroleum exports. Financing of export activities in the form of financial arrangements, insurance and guarantee, with regard to the level of business and non-business risks, is carried out through government institutions in two forms of export financing before and after the shipment of goods. The surveys indicated that, however, there are multiple in structural (based institutional framework), behavioral (export financing function) and environmental challenges (out of the firms' control) in non-petroleum export finance. Due to the difference in scope of effecting, and the costs of each solution related to these challenges, the main purpose of this article is to offer and prioritize a set of solutions addressing the most important challenges faced by non-petroleum export finance in the mentioned axis. Hence, in this study, a questionnaire related to policy solutions is arranged and handed out to some 45 policy makers in the export and financing domain. After confirming the validity and reliability of the questionnaire, the solutions were prioritized through the statistical analysis and the TOPSIS method. As a result, the most important and the most prioritized policy options for non-oil export financing are related to the behavioral factors and include increasing the working capital for export units, increasing the Export Development Bank and Export Guarantee Fund of Iran capital from the resources provided by the government, creating and expanding of low-cost export credit lines from the Central Bank to the Export Development Bank of Iran, and cutting commissions on export credits, guarantees and insurance policies.

Keywords: Exports, Export Finance, Export Credit Institutions, Policy Solutions of Finance Development, TOPSIS.

JEL Classification: F10, F30, G30, F13.

---

1. Assistant Professor at Institute for Trade Studies and Research — **Email:** a.garshasbi1986@gmail.com

2. Researcher at Institute for Trade Studies and Research — **Email:** Tayyebehpiruj@gmail.com

Volume 9, Number 33, Spring 2020

1. Introduction

The importance of exporting goods and services in economic development has urged countries to adopt export promotion as an integral component of their economic and industrial development strategy, particularly during the recent decades. Export promotion, while providing foreign exchange revenues, plays an important role in creating new jobs and employment opportunities, as well as increasing production capacity and achieving economies of scale. It also links the economy with the global production chain, thereby paving the way for transferring knowledge and technology and strengthening the balance of trade. Also, since the competitors in the global markets have access to a wide range of export financing methods, one of the requirements for increasing the competitiveness of export goods in the global markets is the development of financial markets in order to provide the financial resources needed by exporters. Therefore, failure to pay serious attention to this issue can restrain the growth and development of non-oil exports. Due to the high commercial and non-commercial risks, financing export activities in the form of financial, insurance and guarantee arrangements, are mainly done in two forms through government institutions: pre-shipment financing and post-shipment financing. In this regard, Mazini et al. (2014) believe that in the current situation and in order to benefit from the existing structures, among the sukuk that can be used in the field of non-oil exports, sukuk al-istisna has the operational capability in financing the export of technical and engineering services and Mudaraba sukuk can be used to finance the export of goods. In addition, Musharaka sukuk can be used in both areas. Ahmadzadeh (2013) identified the legal, infrastructural and political obstacles, financial obstacles in the banking system, as well as obstacles within the firm as the main problems associated with export financing in the services sector. He suggested that attracting domestic and foreign investment and also developing diplomatic relations at the regional and international levels is one way of expanding financial resources for the export sector. The Majles Research Center (2013) examined the theoretical foundations of export insurance and insurance institutions that support exports and their performance from the beginning of their establishment, and concluded that the government's intervention in issuing mandatory liabilities should be reduced and the fund's capital be increased in the form of an annual budget. Furthermore, Hosseini (2007) examined and evaluated the factors affecting the development of export of Iranian technical and engineering services to independent states with common interests. In this regard, he ascribed utmost importance to government support and facilitation of project financing. On the other hand, Griffith (2011) pointed out that access to financial resources is the key condition for export success. The results obtained from export data show that the characteristics of an ideal exporter are determined by a strategic orientation of the analyst, past financial performance and financial resources. Lingayi and Ogunmokon (2001) have also focused on the sources of competitive advantage and the resources and capabilities needed to create a competitive advantage in export markets. They believe that creating a competitive advantage in exports can lead to higher export performance, and, as a result, export financing resources and managerial skills needed for export supply chain play a significant role in both competitive advantage of diversified export baskets and low cost.

One important point, inter alia, is that there are several challenges in the structural (institutional and basic frameworks), behavioral (export financing performance) as well as environmental (outside the control of the firm) axes in non-oil export financing. Major challenges include high risk of fluctuations in macroeconomic variables, especially exchange rates, lack of expansion of international financial and banking relations and collateral restrictions on access to export credits, low volume of export credits including banking facilities, insurance and guarantee credits, high interest rates on banking facilities and high fees for insurance policies and guarantees, lack of coordination between export institutions such as the Export Development Bank of Iran, the Export Guarantee Fund of Iran, the National Development Fund, the Ministry of Industry, Mines and Trade, the Central Bank of the Islamic Republic of Iran, the Ministry of Economic Affairs and Finance and the infrastructural weaknesses of the above-mentioned institutions in facilitating exports and expanding export capacities due to low productivity of distribution of funds throughout the value chain. Accordingly, based on the challenges in financing the country's non-oil exports, strategies for developing export financing have been proposed, and also classified in the framework of qualitative research, using questionnaires, and survey of experts in the field of export financing and banking, The Export Guarantee Fund and the Trade Development Organization of Iran as well as TOPSIS[1] method. It should be noted that the scope of effectiveness, feasibility and costs of each of the proposed solutions are different.

This study contributes to the literature by designing a questionnaire that contains proposed policy strategies for the development of export financing in the form of a three-dimensional or three-branch SBC model (structure, behavior and context) and also prioritizing these strategies based on the information received from questionnaires through statistical analysis and TOPSIS method.

2. Method

Initially, the diagnosis of non-oil export financing was carried out in the export firms level using the SBC model (structure, behavior, and context) based on document review, expert analysis, and interviews with experts. Then, in order to enumerate and confirm the challenges of export financing based on expert analysis and interviews with experts, questionnaires were distributed the results of which have been used as a study support to this article wherein the most important limitations and challenges of export financing are associated with

1. Technique for Order Preference by Similarity to Ideal Solution.

structural (institutional and basic frameworks), behavioral (export financing performance) as well as environmental (outside the firm's control) factors.

This study is "applied-developmental" and was conducted using survey, interview, and statistical analysis. At this stage, based on the above-mentioned challenges and their analysis and by interviewing the official advisors of the country in the target export markets to extract the policies adopted by competing countries in developing the desired export financing schemes, the proposed strategic axes for the development of export financing were identified. Then, a questionnaire was developed to include proposed policy solutions for export financing development, the validity of which was confirmed by a group of experts in the field of export financing. On the other hand, the reliability of this questionnaire was assessed using Cronbach's alpha, which was found to be 0.8, confirming the validity and internal consistency of the questionnaire. Then, the questionnaire was distributed among 45 experts in the field of export financing, who were selected using random sampling method, from organizations and Export Guarantee Fund and Trade Development Organization of Iran and out of experts in the field of banking. Finally, the questionnaire was designed in the form of SBC model, which prioritized the mentioned solutions using the information received from it, using statistical analysis and TOPSIS method.

2-1. Prioritizing proposed policy solutions using TOPSIS

One of the most well-known methods that is widely used to solve multi-criteria decision making problems is the Fuzzy Analytic Hierarchy Process. This method is used to rank and select alternatives (Gungor et al., 2009). One such model is the fuzzy TOPSIS, first developed by Chen et al. in 1992. In the TOPSIS method, the $m \times n$ matrix is formed, which has m alternatives and n indexes. Each subject is considered as an alternative while indexes are performance indicators, features or parameters that are considered to select decision alternatives. In this model, weights and decision matrices are defined as fuzzy numbers and, like classical TOPSIS, carry out ranking based on the distance from positive and negative ideals. The ideal solution maximizes profit indexes while minimizing cost indexes. In other words, the solution of the positive ideal includes all available criteria, while the solution of the negative ideal is a combination of the worst values of the available criteria. As a result, it would be a better alternative to have the shortest distance from the positive ideal solution and the longest distance from the negative ideal solution.

3. Conclusion

According to the results of the present study, prioritizing the proposed policy strategies for the development of non-oil export financing based on the scope of effectiveness, the feasibility and cost of each strategy is as follows: extension of working capital credits of export units from the National Development Fund; increasing the capital of Iran Export Development Bank and Iran Export Guarantee Fund from government resources; creation and expansion of cheap

Volume 9, Number 33, Spring 2020

export credit lines by the Central Bank to Iran Export Development Bank; Reduction of fees charged on credit, export guarantees and insurance policies; expanding financial resources required by annual support package for non-oil exports; Increasing export share of banking system facilities in annual monetary policy; Providing a guaranteed exchange rate for the export of technical and engineering services; setting up an interbank foreign exchange market; expanding the country's banking relations with foreign banks based on international standards; establishing bilateral monetary agreements with export target countries.

The results of this study allow policymakers, managers, and export planners not only to become familiar with the harmful effects of export financing but to take into account prioritization of the development of export financing strategies in developing policies and programs.

References

Ahmadzadeh, Kh., Hassanpour, Y., Ahmadi Mehrbani, M. R., Hosseini, M. R., Pour Ghorban, R., Ahmadzadeh, A. & Mohebbi, H. (1392). “Development of a support package to improve the financing system of companies exporting technical and engineering services in the market of Islamic countries”. *Institute for trade Studies and Research*.

Hosseini, S. M. R. (1386). “Export of Technical and Engineering Services to Commonwealth Countries (CIS)”. *M.Sc. Thesis*, Islamic Azad University, Science and Research Branch, Tehran.

Parliament Research Center. (1392). “Investigating the performance of the Export Guarantee Fund”. *Economic Studies Office*, serial number. 13118.

Mazini, A. H., Ghorbani, S. & Solhkhah, N. (1393). “Designing an Operational Model for Export Financing Using Sukuk in the Iranian Economy”. *Quarterly Journal of Economic Research (Sustainable Growth and Development)*, No. 2, 205-233.

Griffith, D. A. (2011). “Insights into Gaining Access to Export Financing: Understanding Export Lenders'Ideal Exporter Profile”. *Journal of World Business*, 46, 84-92.

Gungor, Z., Serhadloglu, G., Kesen, S. E. (2009). “A Fuzzy AHP Approach to Personnel Selection Problem”. *Applied Soft Computing*, 9, 461-646.

Ling-Yee, L. & Ogunmokun, Gabriel, O. (2001). “Effect of Export Financing Resources and Supply-Chain Skills on Export Competitive Advantages: Implications for Superior Export Performance”. *Journal of World Business*, 36, 260-279.