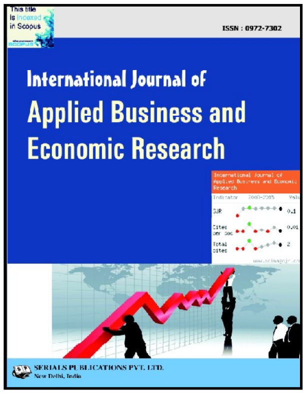

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The Influence of Letter of Credit for Exporting Goods and Product Quality to National Revenue

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Abstract: To support the effort of natural preservation and ensure export foreign exchange accurateness, The Minister of Trade, Rahmat Gobel makes it compulsory for every exporter to use Letter of Credit (L/C), especially for some certain goods. The regulation is written in Minister of Trade policy number 04/M-DAG/PER/1/2015 about the use of Letter of Credit for certainexporting goods. This regulation is established on January 5th, 2015, and applied on April 1st 2015. "The application of using Letter of Credit as obligation for exporters of certain goods is aimed to push export optimization and estimate export foreign exchange accurateness, especially for natural resources export commodity. Enterprises that manage mining industry do not object with government policy on using Letter of Credit in Export activity. In the relation with *letter of credit,* there must be an effect caused by cost addition. And surely it is a burdensome the price, since price cannot be intervened.Commodities that are included to be compulsorily using L/C in the payment are: mineral, coals, naturaloiland gas, *crude palm oil* (CPO) and *Crude Palm Kernel Oil* (CPKO). The aim of this research is to find out the influence of letter of credit for exporting goods and product quality to country's revenue

Keywords: Policy, Letter of credit, country revenue

INTRODUCTION

The application of L/C payment for exporters of special goods pushes the optimization and accurateness of DHE earning, especially for natural resources commodity product. The policy is to support the effort of natural resources preservation, by ensuring export productforeign exchange accurateness, and pushing the improvement of user investment and industry to improve added value of national economy. The obligation of L/C is also aimed to improve the business orderliness and effectiveness on special exporting goods, and to push banking industry activity. For exporters, they will get the feeling of security in doing the transaction, also the assurance of order and production.

Some fundamental clauses in this ministry of trade regulation no. 04 in 2015 rules the use of L/C in exportingcertain goods and it is mentioned in Export Declarationwith the minimum value written in L/C should be the same with international market price. If the export of certaingoods is not equipped with L/C, automatically, the export cannot be preceded further. For export of certain goods, it should be equipped with Surveyor's report that is issued by surveyor who is appointed by minister of trade. For that reason, surveyor should be awareof the use of L/C. If exporters do not use L/C, it means that surveyor cannot issue Surveyor Report. Next, another regulation in conducting payment by using L/C is that L/C should be accepted through national foreign exchange Bank and every exporter should fill L/C column in export declaration and fill it with accurate data. The policy of export with this L/C is only applied on specific commodity. Commodities with requirement of L/C are CPO and CPKO, mineral(including lead), coals, and natural oil and gas.

The choice of certain export commodity in this minister regulation is already passed a comprehensive review, based on some criteria. Some of the criteria are that those commodities become comparative strength and they have important role in the economy of Indonesia, they have significant role in total export, it is in the position of seller market, and is unrenewable/renewable resources that should be preserved. It is also primary commodity that the value should be improved. The monitoring of L/C obligation should be done in Indonesia National Single Window (INSW). For some commodities that should be equipped by LS, research on the use of L/C is done before the issue of LS by Surveyor. General Director of international trade will report the implementation of L/C monthly to the minister of trade, Cc the Coordinating Minister of economy, Governor of Bank Indonesia, Minister of Finance, Minister of energy and human resources, Minister of Industry, and Head of Central Bureau of Statistics. This policy is also the follow up of article 40 regulation No. 7 year 2014 about trade. Government will not hesitate in giving firm sanction based on laws for those who broke this regulation.

Four main steps in Export using L/C

1. ***Sales Contract Process***: *Sales contract* is document/ letter of agreement between seller and buyer that is considered as follow up of purchase order requested by importer. The content is requirements of payment, such as price, quality, quantity, insurance, etc. this contract is also the foundation for buyer to fill L/C book keeping at bank.

   (a) *Promotion:* The activity of promoting exported commodity is done through promotion media, such as advertisement in electronic media, magazine, newspaper, commercial fair or through department that is related to export promotion activity, such as PEN, Chamber of commerce and industry, commercial attaché, etc.

   (*b*) *Inquiry*: Letter of inquiryof a commodity is sent by importer to exporter. It usually contains goods description, quality, price, and time of shipping.

   (*c*) *Offer Sheet*: Request of importer will be answered by *offer sheet* that is sent by exporter. This *Offer sheet* consists of information as requested by importer, about goods description, quality, price, and time of shipping. Besides, in this *offer sheet,* clear explanation about payment is usually mentioned, and they also give sample/brochure.

   (*d*) *Order Sheet*: After offer sheet from exporter is received and studied, if it is agreed, then importer will send *order sheet* (*purchase order*) to exporter (*e*) *Sale's Contract*: Based on data from *order sheet, next,* exporter will prepare sales contract that is equipped by *force majeur clause official statement* and *inspection clause*. This *Sales contract*is signed by exporter and is sent double fold to importer.

(*f*) *Sales Confirmation*: *Sales contract* will be studied by importer, if importer agrees, so, that sales contract will be signed by importer and is returned to exporter as *sales confirmation*. Another *copy*of this *sales contract* will be kept by importer.

2. L/C *Opening Process*: *Letter of credit* (L/C) is a guarantee from issuing bank to exporter, based on instruction from importer to do payment for specific amount of money and in particular period, based on document term of delivery requested by importer.

Process of L/Cbook keeping is as follow:

1. Importer will ask for *Opening Bank (*Bank Devisa) to open *Letter of Credit* as insurance and it is fund that will be used for payment to exporter, based on the sales contract. The opened L/C is for and named by the exporter or person or other corporation that is mentioned by exporter under payment requirements in sales contract.
2. *Opening bank will manage to open L/C* through its correspondence bank in the origin country of exporter, in this case, it is *advising Bank*. Process of L/C opening is done through electronic media, while confirmation will be made in written form and is produced in L/C *confirmation*that is continued from *opening Bank* to *advising* Bank to be delivered to exporter.
3. *Advising Bank*is going to check validity of L/C opening from *opening Bank*, and if it is appropriate, *advising Bank will send* intermediary letter (L/C *advice*) to the right exporter. If *advising Bank*is being asked by *opening Bank* to guarantee the payment of that L/C, for that reason, *advising Bank* is also called *confirming Bank*

3. Cargo Shipment Process: Important *Output* from this process is shipping document that is functioned as evidence that exporter has sent ordered goods by importer in accordance with requirements that are mentioned in LC

C*argo Shipment process*steps are as follows:

1. Exporter is going to receive L/C *advice* as reference to send goods and at this time, exporter is going to do *shipment booking* to shipping company in accordance with*terms* that are mentioned in *sales contract*. After that, exporter should manage export declaration(PEB) at custom office of loading port. Also some other things, such as the payment of export tax, and additional export tax at the *advising Bank*
2. *Shipping Company* is going to load goods and hand receipt of goods, shipping contract, *bill of ladin,* and other shipping documents (if available) to the exporter, and then exporter will send it to *advising Bank* to be sent to *opening Bank*
3. *Shipping Company* is going to load the goods to destined port as mentioned at *Bill of Lading* (B/L)
4. Importer is going to receive shipping document if the payment to *opening Bank has done. After that,* these shipping documents is used to manage *import clearance* with customsat port, and to take cargo at*shipping Company*

5. *Shipping Agent* is going to hand goods to importer if service payment of *shipping agent* is paid.

4. *Shipping Document Negotiation Process*: This process is a process of cashing of shipping documents for exporters and is a process of claim paid goods for importer.

1. After receiving B/L from *shipping Company,* Exporteris going to prepare all needed document that is required in L/C, such as *Invoice, packing list,* quality certification, certificate of origin, etc.All of these documents will be handed to *negotiating Bank*, in this case is *advising Bank*, that is ruled in L/C to get payment of L/C
2. *Negotiating Bank* is going to check the completeness and accurateness shipping document sent by exporter, if it is compatible with requirements of L/C, then, *negotiating Bank* will do payment in accordance with exporter claim from available L/C fund
3. *Negotiating Bank*is going to*send shipping document to opening Bank* to get *reimbursement* of the payment paid to exporter
4. *Opening Bank*is going to*check* completeness and accurateness of shipping document, if it is compatible with requirement of L/C, then *opening Bank* will give *reimbursement* to*negotiating Bank*
5. *Opening Bank* is going to*then inform* importer about *shipping documents.* Importer will settle payment those documents to get shipping document to take ordered goods from *shipping agent* and local customs

Generally, Letter of Credit is a statement from issuing bank for importer, as a costumer of that bank, to prepare fund and pay some money for exporter. The opening of L/C by importer is done through mentioned bank or Issuing Bank.

Generally, L/C is used to re-fund long distance selling contract between buyer and seller that are not acquainted. (Henry D. Gabriel, Standby Letter of Credit Does the Risk Out Weigh the Benefits? Columbia Business Law Review, vol. 1988 Num3, p. 139 - 153)

L/C is used to fund transaction in international commerce. However, L/C is none of a guarantee or securities that is transferable (negotiable instrument). (David D. Command, "The Uniform Commercial Code Law Journal. Vol.17 Num. 1, Summer 1984, p. 44.) C. F. G. Sunaryati Hartono, argued,

> "Literally, L/C can be interpreted as bonds or receivable letter, or bill, however, L/C is actually a commitment of payment if the requirements are fulfilled.

While"UCP 600" stated that L/C is a promise from issuing bank to do payment to receiver or endorser to other bank for paying receiver for referral of documents (for example:manifest, facture, assurance certificate) that is corresponding to L/C requirements. The point is, L/C is "commitment of payment". Issuing bank pays receiver either directly or indirectly through other bank based on instruction from applicant who commits to re-pay the issuing bank. In L/C transaction, there are main legal relations as follows:

- Legal relation between buyer (applicant) and seller (receiver) is based on sales contract.
- Legal relation between applicants to issuing bank is based on the issue of L/C as contract.
- Legal relation between issuing bank and receiver is based on L/C as contract

- Legal relation between issuing bank and continuing bank is based on agency contract.
- Legal relationship between continuing bank and receiver is based on payment contract of L/C.

Moeljonosaw the nature of L/C as an "engagement". Next, Amir M.S., author and trader said about *Import & Export*, (2003 :37) "Letter of Credit or L/C is payment made by bank based on request from importer affiliated with that bank that is aimed to international exporter as business partner. It gives right to the exporter to draw money orders of the importer as mentioned in the letter" the point of definition made by Amir M.S. is that L/C is more to be "letter of payment."

Uniform Customs and Practice for Documentary Credit (UCP) is a guidance that becomes international regulation in term of international trading, about payment method that must be done by buyer through bank. This UCP regulation is already accepted by many countries and is used internationally. Also in Indonesia, the country uses UCP as international guidelines of trading payment. Government Act No. 1 year 1982 is legal foundation in using L/C in Indonesia. Stipulation of the implementation of Government Act No. I year 1982 that regulate the use of L/C in detail is not available yet. Based on the reality that in Indonesian banking system, they use UCP as requirement of L/C since 1970s. (Ginting, *2000* : 18).

Bank Indonesia in circular letter No. 26/34/ULN dated December 17th, 1993 manages L/C issued by Foreign Exchange bank (commercial bank) whether they can complyor not to UCP. Bank Indonesia juristically gives freedom toForeign Exchange bank in Indonesia to decide. In L/C, they have to comply to UCP, so that UCP has legal capacity of L/C, issuing bank should put a clause in L/C to explain that L/C is comply to UCP as stated in article 1 UCP No. 600 year 2007 stated:

> Uniform Customs and Practice for Documentary Credit (UCP) Revision 2007 No. 600, will be applied for all "documentary credit" (including standby letter of credit explains how far this UCP can be applied) if in the credit text mention expressly that the credit is comply to Uniform Customs and Practice for Documentary Credit, 2007 Revision, ICC Publication No. 600. (UCP) it bonds all related parties, unless the difference is firmly determined in the credit.

METHODOLOGY

1. Material and Procedures

This study uses survey, by interview using a questionnaire (questionnaire). Sampling method in this research is done by using purposive sampling, the sampling technique with a certain consideration. The method can be used if the sources or respondents interviewed are people who are experts or working in a field, The data used in this research is primary data and secondary data. The primary data is data obtained directly from study subjects using a measuring device or appliance makers as a source of information of data such as interviews, questionnaires, or observation. Secondary data were obtained with a literature study of the relevant agencies. The sampling technique is :

$$n = \frac{Z^2 \alpha / 2 \ p(1-p)N}{d^2(N-1) + Z^2 \alpha / 2p \ (1-p)}$$

This study aimed to analyzeThe Influence of Letter of Credit for Exporting Goods and Product Quality to National Revenue. This research using quantitative descriptive method, with Instruments and techniques of data collection using a questionnaire first tested for validity and reliability. Activities undertaken in this study is a) an action plan; socializing Letter of Credit to the public and stakeholders b) implementation of the action; publish the notice board ,operationally implement export and import policies and carry out surveillance of the effectiveness of policy implementation c) observation and reflection on the implementation of policy measures as well as how big implications for program improvement activities examined.

Giving meaning to categories based on the coefficient as follows :

1. 0.00 and 0.20, the category is very small and can be ignored
2. 0.20 and 2.99, the low category
3. 3.00 and 3.50, the moderate category (enough)
4. 3.51 and 3.99, the category is High
5. > 4.00 then the very high category

Pictures of the general design of an action research with spiral cycle as follows:

2. Data Analyzed

As for the criteria that should be analyzed in this study are described in the next section. The instrument by using the formula Pearson Product Moment Correlation (Pearson Product Moment Correlation). as follows:

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{\{N\Sigma x^2 - (\Sigma x)^2\}\,\{N\Sigma y^2 - (\Sigma y)^2\}}}$$

Structural equation model to be tested take the form of The Multiple Linear Regression Analysis as follows: $Y = a + b_1 X_1 + b_2 X_2 + e$

RESULT

1. Statistical Test

To determine the degree of relationship variables Letter of Credits (X_1), Export of Quality Product (X_2) and the National Revenue (Y) then used Pearson correlation analysis . Based on the results of data processing SPSS20 .0 for Microsoft Windows .

Table 1
Correlations

			Implementation	*Zoning*	*Protection*
Spearman's rho	Letter of Credit	Correlation Coefficient	1.000	.415	714
		Sig. (2-tailed)	.	.919	.736
		N	50	50	50
	Export	Correlation Coefficient	.415	1.000	.364**
		Sig. (1-tailed)	.000	.	.709
		N	50	50	50
	Revenue	Correlation Coefficient	.714	.364**	1.000
		Sig. (2-tailed)	.736	.709	.
		N	50	50	50

Tabel 2
Model Summary[b]

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Durbin-Watson*
1	.850[a]	.722	719	3.483	202.031

a. Predictors: (Constant), Letter of Credits

b. Dependent Variable: Revenue

Tabel 3
ANOVA[b]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	13.106	2	6.553	.540	.586[a]
	Residual	570.236	47	12.133		
	Total	583.341	49			

a. Predictors: (Constant), Letter of Credits, Export

b. Dependent Variable: Revenue

Tabel 4
Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*			*Collinearity Statistics*	
		B	*Std. Error*	*Beta*	*t*	*Sig.*	*Tolerance*	*VIF*
1	(Constant)	9.912	1.600		6.195	.000		
	Letter of Credit	653	.660	651	5,331	.742	.874	1.144
	Export	662	.678	524	3.804	.425	.024	1.144

a. Dependent Variable: Revenue

DISCUSSION AND CONCLUSSION

1. Discussion

1.1. Letter of Credits (X_1) significantly affect the National Revenue (Y)

Based on Table 1 Correlation that the influence between variables Letter of Credits (X_1) on the National Revenue (Y), which is calculated with a correlation coefficient of 0.714 or (r_{xy} = 0.714). This shows the strong influence among Letter of Credits on National Revenue. Meanwhile, to declare the size of contributions X_1, Y or coefficient against determinant = r^2 X 100% or 0.7142 X 100% = 52.91%, while the remaining 47.01% is determined by other variables. Then to find significant levels of correlation coefficients X_1 to Y by using one hand (one tailed) of output (measured from Probability) .00 Since the probability of generating numbers far below 0.50, then the influence of Letter of Credits on National Revenue was significant

Coefficients of table 4, illustrates that the regression equation is as follows:

$$Y = a + b_1x_1 = 9.912 + 0.651$$

The constant of 9.912 states that if there is no increase in the value of the variable Implementation Letter of credits (X_1), then the value of the National Revenue (Y) is 9.912. A regression coefficient of 0.651 states that any additions (for the sign +) of the score or the value of Implementation letter of credits will give rise to a score of 0.651. T test to test the significance of the constants and the dependent variable National Revenue. Test criteria regression coefficients of the variables Letter of Credits on the National Revenue as follows:

The first hypothesis proposed in the form of the sentence is:

Ha: Implementation Letter of Credits significantly affect National Revenue

Ho: Implementation Letter of credits does not significantly affect National Revenue

Basis for a decision by comparing the value t table with t, as follows:

If the t count > t table, then Ho is rejected it means a significant regression coefficient

If t< t table, then Ho accepted means of regression coefficients were not significantt = 5,331

Taken from table .4, t value variable coefficient X_1 = 5,331 t table = 1.684. The significance level œ = 0.05 df (degrees of freedom) = the number of data (n) -2 = 50-2 = 48. The test was done one side, so that the value t table = 1.684 (interpolation). Decision: because t count > t table, or 5.331 > 1.684, then Ho Rejected. Visible column sig (significant) in the table 4 coefficient sig 0,000 or less than the probability value 0.05, or 0.05 value> 0,000 hence Ho refused and Ha acceptable means significant regression coefficients, it is thus Implementation Letter of Credits significantly affect National Revenue

1.2. Export of Quality Product (X2) significantly affect the National Revenue

Based on Table .1. Correlation between variables that the influence of Export of quality product (X_2) on the National Revenue (Y), which is calculated with a correlation coefficient of 0.709 or (r_{xy}) = 0.709. This shows the strong influence among the National Revenue. As for the size of the contribution declare variables X_2 to Y or coefficient determinant = r^2 X 100% or 0.7092 X_2 100% = 50.27%, while the remaining 49.73% is determined by other variables.

Then to find significant levels of correlation coefficients X_2 to Y by the method of one-sided (one tailed) of output (measured from Probability) .00 Since the probability of generating numbers far below 0.50, then the influence of Export of Quality Product on National Revenue was significant

Coefficients of table 4.4, illustrates that the regression equation is as follows:

$$Y = a + b2x2 = 9.912 + 0.524$$

The constant of 9.912 states that if there is no increase in the value of the variable Export of Quality Product (X_2), then the value of the National Revenue (Y) is 9.912. A regression coefficient of 0.524 states that any additions (for the sign +) of the score or the value of Export of Quality Product will give rise to a score of 0.24.

T test to test the significance of the constants and the dependent variable National Revenue. Test criteria regression coefficient of variable Export of Quality Product on Regional Revenue as follows:

The first hypothesis proposed in the form of the sentence is:

Ha: Export of Quality Product significantly affect National Revenue

Ho: Export of Quality Product does not significantly affect National Revenue

Basis for a decision by comparing the value t table with t, as follows:

If the t count > t table, then Ho is rejected it means a significant regression coefficient

If t < t table, then Ho accepted means of regression coefficients were not significant

t = 3.804. Taken from table 4. , the coefficient t value $X_2 = 3.804$

t table = 1.684. The significance level æ = 0.05 df (degrees of freedom) = the number of data (n) -2 = 50-2 = 48

The test was done one side, so that the value t table = 1.684 (interpolation). Decision: because t count> t table, or 3.804> 1.684, then Ho rejected. Show column sig (significant) in the table .4. coefficient sig 0.24 or smaller than the probability value 0.05, then Ho is rejected and Ha accepted means significant regression coefficients , it is thus Export of Quality Product significantly affect National Revenue

1.3. Implementation of Letter of Credits (X_1), and Export of Quality Product (X_2) jointly significant effect on National Revenue (Y)

According to the table .2. Model Summary that the influence Letter of Credits and Export of Quality Product together -Same against which performance is calculated by the correlation coefficient is 0.850 or $r_{X1X2Y} = 0.850$, suggesting a strong influence, while for together (simultaneously) variable X_1 and X_2 to Y = R^2 = 0.8502 x 100% x 100% = 72.25% while the remaining 27.75% is determined by other variables. Then to determine the level of significant multiple correlation coefficient shown in Table:3Anova between variables Implementation Letter of Credits and Export of Quality Product together on National Revenue. With the first method tailed of output (measured by probability), yielding 0.000 sig figures. Because the probability is much lower than the figures sig 0.05, then the influence of Implementation Letter of Credits and Export of Quality Product together against National Revenue is significant

From table 4 illustrates that multiple regression coefficient as follows:

$$Y = a + b_1X_1 + b_2X_2 = 9.912 + 0.524 + 0,651\ X_1\ X_2$$

Constantant amounted to 9.912 states that if there is no increase of the variable Implementation Letter of Credits(X_1) and Export of Quality Product (X_2), then the National Revenue value is 9.912. A regression coefficient of 0.651 and 0.524 states that each additional score or value of Implementation Letter of Credits and Export of Quality Product , will give rise to a score of 0.651 and 0.524. F test at Anova table 3 , for test the significance of the constants and the dependent variable (National Revenue). Test criteria regression coefficients of the variables of Implementation Letter of credits and Export of Quality Product on National Revenue as follows:

The third hypothesis is proposed:

Ha: Implementation Letter of credits and Export of Quality Product jointly significant effect on National Revenue

Ho: ImplementationLetter of credits and Export of Quality Product together no significant effect on National Revenue

Taken from the table 3. Anova, F count = 7.544. Basis for a decision by comparing the value of F arithmetic with F table value as follows: If F count> F table value, then Ho is rejected, it means a significant regression coefficient. If the value of F arithmetic <F table value, then Ho received, meaning that a significant regression coefficient

Looking Ftable value using the F table with the formula:

Significance œ = 0.05

Ftable = F (1-œ) (df = k), (df = n-k-1)

= F (1-œ) (df = 2), (df = 50-2-1)

= F (1 to 0.05), (2.47)

Or numerator = 2, denominator = 47

Ftable = 3.20 (interpolation) Decision:

It turned out that F count > F table value, or 7.544> 3.20, then reject Ho and Ha accepted that Implementation Letter of credits and Export of Quality Productjointly significant effect on Regional Revenue

Conclussion

(a) Implementation Letter of Credits showed good applicability

(b) Export of quality product shown good improvement / increase

(c) National Revenue high performance / good

(d) Implementation Letter of Credits and Export of quality product significant effect either partially or jointly against the National Revenue

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