

Chapter - 7

Summary And Conclusion

Bangladesh, during seventies – as a newly born sovereign and independent state, also favoured the ‘import-substitution strategies. A few year after independence, the Government of Bangladesh adopted a public ownership strategy in the form of mixed economy to attain a socialistic pattern of society, which was abandoned at the end of 1975. Finally, since early 80’s the Government of Bangladesh started liberalising foreign trade and deregulating the economy as an officially declared policy. The policy of import-substitution has been replaced by the strategy of export-led growth. Export has occupied the more focal position in reformulated development strategy of Bangladesh since the policy of economic reform and structural adjustment has been adopted by the country. Eversince the adoption of economic openness the importance of studies on causal relation of export and economic growth in Bangladesh has been accepted. Though there have been a few serious econometric studies on this aspect, findings however fail to conclude the definite causal relation that exists in Bangladesh. This study attempts to probe the impact of export on economic growth in Bangladesh and to highlight the export financing practice, performance, problems and prospects in Bangladesh. It intends to examine critically all important aspects of export financing programmes of the commercial banks. The importance of the study is not only relate with the determination of development strategy of Bangladesh but also with the recent theoretical debate of the role of export in economic growth under the open and globalised economy in LDCs. Chapter-2 attempts to identify causal relationship between export growth and economic growth in Bangladesh with updated data series and to reconcile diverse findings of earlier studies on the basis of the time-series data upto 1992. Cointegration of time series data has been verified by the unit root test employing Dickey–Fuller or Augmented Dickey–Fuller. No way causation has been found in this study by Granger and Sims causality test. Our inference contradicts the findings of both Rahaman [1993] & Begum et el [1998] in favour of export-led growth hypothesis but supports the findings of Nath [1997] that “there has not been found causal relation in any direction”. This study with an extended data-set upto 1999 seems to indicate that after a considerable period of almost two decades since the adoption of export-led growth strategy through economic liberalisation policy, the situation has not changed from the position that was observed by Nath upto the period of 1992.

The positive changes in development economic indicators along with the result obtained by this study provide the conclusion that greater emphasis in allocating national resources to export sector may prove to be counter productive. Michael's finding in this direction may be useful in explaining the present situation of Bangladesh. Thus an alternative strategy for structural transformation rather than export-led growth strategy is needed, at least for a short-run period, for continuance of the development endeavour as long as the minimum level of development, as suggested by Michael, has not been achieved. Since a conducive minimum level of development is pre-requisite to export-led growth strategy for an underdeveloped country like Bangladesh, allocation of resources should have been directed to achieve that level.

The weak positive interdependence between industrial output and manufactured export, possibly suggests that the industrial base of the country has not matured enough to induce export. On the basis of the results of this research it would be difficult to conclude that in the absence of serious initiatives for the development of domestic infrastructural facilities and other economic conditions, exports in Bangladesh would be able to play a leading role in transforming the nation's economy. It does not of-course imply the other way of impact since no way causation has been found. However, with respect to the allocative justice of scarce resources in order to enhance productive capacity, the study shows that the marginal productivity of manufacturing export being more than the primary export, greater share of resources should be allocated to promote manufacturing export rather than primary export.

Rest of the study is focussed on the nature and problem of export financing and the role of the financial institutions which are supposed to provide financial support to exporters' credit needs. Schemes are being evaluated on the basis of the historical data as well as survey data among banks and exporters.

Chapter-3 provides the review of inter institutional environment and examines the role of financial institutions in export credit. Banks that provide credit to exporters are guided by the policies and directives issued time to time by the Government, the Bangladesh Bank and SBC with respect to their respective area of control. Exporters need credit facilities primarily at two stages – pre-shipment and post-shipment. It has been observed that annual growth of total advances made by all banks together significantly influences annual growth rate of export finance which remains mostly positive and

fluctuating and does not vary much with bank category throughout the period of study. In case of share of export finance, annual growth rate does not show any systematic change irrespective of bank category.

Analysis on the basis of the distribution of credit shows two distinct phases. The first phase covers the period upto 1989-90 and the second phase covers the rest of the period. The year 1990-91 appears as a transition period. It indicates that the allocation of credit is influenced by the Governmental policy decision which declares greater emphasis on export commensurate with the export-led growth strategy. Analysis on the basis of number of accounts, export finance per accounts, trend analysis of overall growth rate substantiates the above findings. The study finds that the initial initiatives in accordance to the change in the development strategy was taken by the nationalised banks and thereafter private banks gradually followed the same. Relatively greater emphasis in allocating credit to export sector by the private banks has been observed in the second phase.

In chapter-4, evaluation of several existing schemes for export promotion has been done. Several incentive schemes had been introduced by the Government of Bangladesh even before the period of globalisation. Some of these schemes were designed to meet the credit need or to provide risk coverage of the financial institutions, like Export Credit Guarantee (ECG) schemes. Main objective of introduction of schemes under ECG is to promote export for the interest of national economy. An independent department was set up by the Government for this purpose in the year 1978. As the country has opted for export-led growth strategy by changing its import-substitution policy since 1982, export promotion became very crucial. Need of export finance, especially for small and medium scale exporters, is supposed to be met by the advances made by the financial institutions, particularly commercial banks. However, banks are normally hesitant to provide funds to the exporters due to substantial unforeseen risks involved in the export business. According to government decision, SBC insures banks (or exporters in case of comprehensive schemes) against this unforeseen risk. It was expected that these schemes would play a pivotal role for the promotion of the national export. This study finds that all schemes as a whole or any individual scheme predominantly has not helped export promotion. Relationship between increase in insurance coverage and volume of export over the period 1978 to 1999

appears statistically insignificant. It is, therefore, not very difficult to conclude that during the period of 1978 – 2000, the increment in insurance coverage under ECGS is not due to the increase of number of policies. It neither shows any dependence on export volume nor the settlement of net claim lodged.

On the other hand, Comprehensive scheme was introduced for the exporters. The study has strongly established through econometric analysis that exporters did not normally seek the help of the schemes meant for them, but it was the insistence of and the compulsion imposed by the bankers that exporters insured themselves under this scheme in order to get the advantage of finance under Post-shipment guarantee schemes. Comprehensive scheme thus ceases to be an independent beneficial scheme to exporters. An evaluation of econometric relationship between insurance coverage and export in the period of liberalised economy does not show any statistically significant difference in estimated parameters. It, therefore, seems to appear that, the change of Government policy from import-substitution to export-led growth strategy has not changed the situation of export credit by making arrangement of guarantee against risk.

This thesis attempts to take into account exporters' opinion regarding export finance in chapter-5 and bankers' opinion in chapter-6. A schedule was administered to exporters of a large sample of size 60 selected through stratified random sampling. Two strata of respondents' are primary and manufacturing. Analysis of the respondents profile reveals that majority of the export firms of the sample use rental business premises and were established between 1981 to 1990 under the statutory provision of 100 percent export oriented business. It is also found that export firms having the problem of scarcity of skilled labour use labour intensive technology. It has been revealed that four industries which earn average profits more than annual average profit of export sector in Bangladesh are two from primary and two from manufacturing

Study indicates that the need of the export credit of export firms is basically for working capital and is short-term in nature. Purposes of short-term credit are mainly for local procurement related expenses, packaging and processing of goods etc. Import of raw materials also appears to be important purpose of credit but only applicable for manufacturing export sector. While every primary exporter requires credit for the above three purposes, all manufacturing exporters do not require credit for same. Long-term

credit demand, on the other hand, is restricted only to manufacturing exporters and that also for import of capital goods and BMRE.

Study shows that main sources of export credit are commercial banks – private and nationalised. However, exporters have to depend also on other sources for their need of export credit as the banks are not able to satisfy the total credit need. The interesting aspect that has been exposed by the study is that the manufacturing exporters depend on foreign banks, managing agencies etc. for unfulfilled credit need, while primary exporters depend much on their own sources instead of those two. Rate of refusal of credit application is also much higher in case of primary exporters and every time the decision of such rejection is taken at branch office level.

Though it is found that exporters mainly depend on banks for meeting their credit needs, banks do not advance credit without considering the creditworthiness thoroughly. Objective factors that are primarily considered for measuring creditworthiness are size of the firms, solvency of the exporters and volume of security etc. Eight other factors are identified also as objective factors. But exporters' opinion that has been reflected in this study is that banks do consider several other subjective factors also to take the final decision. Moreover subjective factors like political influence, personal connection etc. play important role in influencing the decision.

Exporters in Bangladesh, moreover, do feel that number of documents required at the time of credit application makes the credit procedure 'bad and slow'. It thus results in loss of orders, increase in cost and delay in shipment. In majority of cases, processing time of credit application is one month or more. In order to mitigate the loss of slow processing, exporters feel the present credit period should be extended to 365 days or more. Moreover majority of exporters feel the existing rate of interest to be high.

One of the perceptions of exporters that has come out from this study is the belief that the preference is given to import credit rather than to export credit and credit to industrial exporters than to commercial exporters. Exporters think that less preference is given to them due to higher risk in export business. Similarly industrial exporters are more preferred than commercial exporters due to better financial background of industrialist. The study reveals that the exporters feel that export promotion measures and incentives are inadequate and EPB is not of much help in this regard. There is, however,

very poor agreement among the exporters as measured by the Kappa coefficient, regarding setting up of a separate financial institution for export credit.

Similar to exporters, a schedule was administered among the respondents of a sample of 12 banks of three different categories – NCB, Pvt.^{IB}, and Pvt.^{IF}. Banks do offer financial as well as non-financial services and facilities to exporters. Commodities for which banks offer credit are RMG, frozen food, raw jute, jute goods, tea, leather and handicraft etc. Among these most of the banks offer credit to RMG. With regards to procedure of sanctioning and disbursement of loan, it has been found that it takes time depending on the completion time of the required documents. Mean minimum time is found minimum for Pvt.^{IF}. On the other hand mean maximum time is found minimum for NCB. Regarding the situations that make the credit allocation problematic and risky, the study reveals that, according to bankers' opinion, there two such situations. These are i) the situation when exported commodities are not accepted by the foreign buyers due to poor quality and ii) the situation when the shipment is delayed. Measuring the risk of providing credit to exporters is thus difficult. Though there are other contingencies but measuring the risk under these two situations is considered crucial problem by the cent percent of respondents. The study reveals that there is no significant difference in the perception of different categories of bank relating to the number of issues considered as problematic.

In order to minimize the risk banks usually seek a number of document. NCB requires the highest number of documents which statistically differs significantly with private banks' requirement. Factors that are considered by banks in measuring creditworthiness are many. Integrity, solvency and performance history of exporters are commonly considered by all banks. There is no statistically significant difference between category of banks regarding the number of factors considered in this respect. It is found that there is a very little agreement among the banks, given by the calculated Kappa coefficient, on the opinion of possible undesirable practices and their consequences. However, individual agreement score (S_i) being maximum, highest level of agreement among the bankers lies on apprehension that exporters may delay the execution of order.