EXPORT FINANCING IN BANGLADESH:

A STUDY OF EXPORT CREDIT BY FINANCIAL INSTITUTIONS

Thesis submitted in partial fulfillment of requirements for the Degree of Doctor of Philosophy in Commerce of the University of North Bengal

by

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July 2003

In loving memory of
my revered father
(The fountain of inspiration)

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To whom it may concern

This is to certify that the research work reported in this thesis entitled "***Export Financing in Bangladesh: A Study of Export Credit by Financial Institutions***" by **Md. Nesarul Karim** has been carried out by himself under my supervision and guidance. He has fulfilled all the requirements for the submission of the thesis for Ph. D. degree of the university of North Bengal. In character and disposition Md. Nesarul Karim is fit to submit the thesis for Ph. D. degree.

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Acknowledgement

I would like to express my affectionate and deeply felt gratitude to my supervisor Dr. Ajit Kumar Ray, Department of Commerce, University of North Bengal, for his valuable guidance, suggestions, supervision and critical comments at all stages of my work. It is his generous encouragement, inspiration and interest that helped me a lot to continue and finish my present research work. In spite of heavy pressure of work and pre-occupation he always spent his precious time in going through most of the present thesis. Indeed I am fortunate enough in having him as my supervisor. I owe the greatest debt to him.

It is a matter of immense pleasure to acknowledge the hospitality and moral support received by me from Dr. (Mrs.) Saswati Biswas, Department of sociology, NBU. She has also been kind enough to go through and comment on the draft form of a few chapter of my thesis.

I am grateful to faculty members of Department of Commerce, University of North Bengal for their kind cooperation in many ways. More particularly, the valuable help from Dr. M. K. Roy, Dr. I. Roy and H. Roy of department of commerce have immensely benefited me. I am thankful to all of them. Moreover, I would never for got all sorts of co-operation extended to me by Mr. Himangshu Ghosh, Record Assistant, Department of Commerce, NBU.

I consider myself fortunate enough to have constant discussion and association with a group of teachers of different department of NBU who have been a constant source of inspiration to me and they have also made my staying in India comfortable and studies enjoyable in many respect. In this regard I would like to express my gratitude to Dr. P.K. Mandal of department of Physics, Dr. P. Bandopadhyaya of Chemistry. Further, I am willing to record, high sense of appreciation for suggestion on my works to Prof. M. Dasgupta, Dr. C. Mukherjee and Dr. J. Sankrityayan, department of economics, University of North Bengal.

I also wish to record my debt and gratitude to my teacher, Professor Dr. Abdul Hye, who read my first version of interview schedule and gave me valuable advice. I received help, cooperation and inspiration from Professors A. J. M. Nuruddin Chowdhury, Dr. Jahirul Haque, Dr. Kazi Ahmed Nabi, Dr. M. Loqman, Mr. Harun-Ar-Rashid, Dr. A. N. M. A. Moqtadir and Dr. Syed, M, Ather, Mr. Golam Mohiuddin , Dr. Santi Ranjan Das and Begun Ismat Ara Haq of University of Chittagong. I am thankful to all of them I express my gratefulness to all of my friends in Bangladesh particularly Mr. Saiful Islam (Bangladesh Bank) and Mr. Samsul Karim Samim. All of my friends and scholars from Bangladesh in University of North Bengal sacrificed lot for me. I am thankful to all of them.

I should like to express grateful acknowledgement to those writers whose contributions are recognised in notes and texts of the thesis, which follow. I should also like to make explicit my special debt to Victor Ukpolo, Professor of economics,

California State University, Los Angels, for sending me two of his valuable research papers.

I owe my indebtedness to the authorities of libraries of Bangladesh Bank, Bangladesh Institute of Development studies (BIDS), Bangladesh Institute of Bank Management (BIBM), University of Dhaka, University of Rajshahi, IIM Calcutta, ISI Calcutta, Jadavpur University, and ICSSR to allow me to use their library.

I express my thanks to the Exports Firms, Commercial Banks, Sadharan Bima Corporation, Export Promotion Bureau, who were kind enough to allow me the interview and also extended their fullest cooperation. More particularly I am grateful to Mr.Pijush Kanti Sha of Agrani Bank and Mr. Ponu Ranjan Das of Janata Bank for their special kind of cooperation.

I am grateful to the Government of Bangladesh and Chittagong University for granting me leaves for my study in India and to the Government of India as well as University of North Bengal for giving me permission to conduct the research in India.

Expressing only thanks and gratefulness to my wife Rahela Akter (Moni), will not enough to compensate her silence and forbearance for my research work in India. Moni had face all the troubles and hazards created due to my absence. I am grateful to my mother in law, Mrs Nurun Nahar, for taking care of my wife and son during my study period in India.

I admit that any theory on measurement of deprivation would not ever be able to account for the extent of my son Irfan (Manan) has deprived of getting his father's association at the struggling phase of learning to walk, of acquiring new word and of producing first sound in his life.

Last of all I want to express my deepest regards towards my mother who have always encourage me for higher education and without her sacrifice I could not come to this stage.

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Acronyms

ADF	Augmented Dickey-Fuller
AIC	Akaike Information Criterion
BBS	Bangladesh Bureau of Statistics
BIC	Bayesian Information Criterion
BKB	Bangladesh Krishi Bank
BMRE	Balancing, Modernization, Replacement and Expansion
BSB	Bangladesh Shilpa Bank
BSRS	Bangladesh Shilpa Rin Sangstha
BW	Bonded Warehouse
C&F	Cost & Freight
C.V	Coefficient of Variation
CAD	Cash Against Documents
CC	Cash Credit
CC	Cash Credit
COD	Cash on Delivery
DA	Documents Against Acceptance
DC	Developed Country
DDB	Duty Drawback
DF	Dickey-Fuller
DFI	Development Financial Institution
DMER	Drawback of Manufactures Export Rules
DP	Documents Against Payments
DW	Durbin Watson
ECGS	Export Credit Guarantee Scheme
ECGW	Export Credit Guarantee Wing
EFPA	Export Finance Per Account
EPB	Export Promotion Bureau
EPE	Final Prediction Error
EPF	Export Promotion Fund
EPZ	Export Processing Zone
ERC	Export Registration Certificate
EXIM	Export Import
FCB	Foreign Commercial Banks.
FOB	Free on Board
GC	Granger Causality
GDP	Gross Domestic Product
GNP	Gross National Product
GOB	Government of Bangladesh
GRGDP	Growth Rate of Gross Domestic Product
GRMI	Growth Rate of output of Manufacturing Industry
GRMI	Growth Rate of Investment
GRMX	Growth Rate of Manufacturing Export
GRPL	Growth Rate of Population
GRPX	Growth Rate of Primary Export
GRX	Growth rate of Export
GSP	Generalised System of Preference
HS	Harmonized System
IFS	International Financial Statistic
IMF	International Monetary Fund

IPO	Import Policy Order
L/C	Letter of Credit'
LDC	Less Developed Country
LIC	Less Industrialised Country
LME	Leading Manufacturing Exporting Country
MIC	More Industrialised Country
MILDC	Middle Income Less Developed Country
MX	Manufacturing Export
NBR	National Board of Revenue
NCB	Nationalised Commercial Bank
NFI	Non Bank Financial Institution
NIC	Newly Industrialising Country
NIP	New Industrial policy
NP	Number of Policy
OECD	Oil Exporting Developing Countries
OLS	Ordinary Least Squares
OPEC	Organisation of Petroleum Exporting Countries
PC	Percent
PCB	Private Commercial Banks.
PCB	Private Commercial Banks
P_{VT}^{IB}	Interest Base Private Commercial Bank
P_{VT}^{IF}	Interest Free Private Commercial Bank
PX	Primary Export
QR	Quantitative Restriction
REA	Relative Export Account
REF	Relative Export Finance
RSS	Residual Sum of Squares
SBC	Shadharan Bima Corporation
SC	Schwartz Criterion
SC	Schwartz Criterion
SIC	Semi-industrial Country
SR	Settlement Ratio
SRO	Special Revenue Order
SRO	Special Revenue Order
SSE	Sum of Squares of Residual Error
TX	Total Export
Taka	Bangladesh Currency
UNCTAD	United Nations Conference on Trade and Development
UVAR	Unrestricted Vector Autoregression
VAR	Vector Auto-regression
VAT	Value Added Tax
WTO	World Trade Organisation

Contents

Chapter - 1

Introduction

1.1 Export and Development:

Export occupies the focal position in reformulated development strategy of Bangladesh since the policy of economic reform and structural adjustment has been adopted by the country. The debate on the issue, that whether the development strategies would be based on Ricardian theory (or Heckscher-Ohlin– the other major theories that have dominated this field) of comparative advantage or on the theory of 'import substitution', is endless and inconclusive (Bhagwati, 1969). Literature both empirical and theoretical on development strategies of less developed Countries (LDC) is enormous. Emphasis on development strategy based on either of these two schools of economic theory, namely outward–looking and inward–looking strategies (Streeten, 1973) is, therefore, largely influenced by the political philosophy of reigning forces of the nation and other global economic and political compulsions of a particular period. During sixties and seventies, import substitution strategies were much more acceptable to planners and policy makers of any developing or underdeveloped nation. Although a study on South–East Asia's economy, commissioned by the Asian Development Bank (Myint, 1973b) strongly recommended strategies of comparative advantage. Little-Scitovsky-Scott (1970) and Johnson (1971) advised on the same line.

Attri (1996), while studying export-led growth in LDCs, classified post-war literature on trade and economic development into two distinct categories – i). Export pessimism; and ii). Export optimism. He argued that the belief in 'secular deterioration hypothesis' of terms of trade, put forward by Prebisch and Singer in the late 1940s, was the reason that the LDCs pursued the policy of import-substitution at the cost of export expansion. This assertion possibly, by and large, is not untrue but other part of his opinion may not be universally true where he concluded that 'this phase of export pessimism was over by the year 1966-67' (Attri, 1996:19). If this phase was over in 1966-67, then how Bangladesh at the time of its independence in 1971, adopted 'import substitution' policy? The belief in 'secular deterioration hypothesis', which allegedly gave birth to 'export pessimism' was still in mind of the policy makers at the time of formulating planning document first time for the country in 1973 . Thus it seems that the choice in national development strategies does depend

more on political philosophy and aspiration of the ruling class than in the advocacy of economic literature. This possibly is uniformly true for developed and less-developed countries. It would not be hard to cite examples from history of economic literature that though two schools of thought in developing strategies have existed from the very beginning of modern economics, countries favoured one or the other according to the best interest of ruling class (Routh, 1975).

On the other hand , the economists of the developed western nations were possibly highly influenced by the proposition which prof. Hicks expounded in 'An Inaugural Lecture' (Hicks, 1953). A series of articles of innumerable economists following Hick's paper, each of which tried to refine the theoretical model of Hicks, proved the influence of his proposition on other economists In that famous paper he emphatically argued in favour of his "provocative thesis that technical change – a major source of growth had been biased in favour of export in the nineteenth century in a way which stimulated trade, while technical progress in this century has been predominantly import–replacing in character and hence biased against trade." (Roychoudhury, 1978) 'Import substitution' strategies being identified as 'biased against trade' , developed nations strongly advocated outward-looking strategies which were bound to go in their favour due to superior technology and infrastructural facilities. Introduction of welfare concept with economic growth and trade, exposes other possible disadvantageous situations, such as 'immiserizing growth' (Bhagwati,1958) and the possibility of siphoning off the benefit of underdeveloped economies to advanced industrial countries (Roychoudhury, 1978 : 81).

The economic compulsion of Bangladesh is not different from that of any other developing countries and , therefore, Bangladesh has to face the problem of large balance of trade deficit identical to any other developing nation. Economic compulsion of capital goods requirement, necessity of petroleum, various developmental input factors and other essential consumer goods, such as food, edible oil, cotton etc. being impossible to be curtailed in the short run makes the import bill ever increasing. So discarding 'import-substitution strategies' and adopting export-led growth strategy has been prescribed as the panacea for all problems of deficit balance

of payments in recent times. The line of argument behind the prescription of export-led growth strategy for Bangladesh is the one which is commonly put forward for all developing countries for overcoming the deficit balance of payment as a consequence of the increasing demand of import of productive inputs. The country needs imports of capital goods, intermediate inputs and technology for rapid growth. Increase of food and other essentials for maintaining health and productive capacity of vast masses of people as well as poverty alleviation program require import of some essentials. Exports earnings of Bangladesh covered only 66.36% of import bill (Bangladesh Bank, 2000). The rest of its import bills are met from foreign aids and grants. As a result not only the burden of its foreign debt is increasing at a faster rate but also it has been creating serious problems of debt servicing. This state of affairs seems unacceptable to be allowed to continue for a long time. It is, therefore, imperative to increase export earnings so that the ever-increasing import bills could be met as far as possible from the nation's resources. The only way out of this situation and elixir of economic growth, as envisaged by a section of the experts and Government planners under new global economic milieu, is to accelerate export.

1.2 From Inwardness to Openness:

Bangladesh, during seventies – as a newly born sovereign and independent state, also favoured the 'import-substitution strategies (Islam, 1973). A few years 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 and the policy of import-substitution has been replaced by the strategy of export-led growth (Begum et al, 1998).

But, the process of liberalisation of Bangladesh economy actually acquired momentum in 1991 when a new industrial policy has been adopted in line with the new strategy. There are, therefore, three economic phases in Bangladesh. Among these three, the first phase is the period prior to economic liberalisation. Post economic liberalisation period may be divided into two phases - pre and post 1991. During this entire period of post-liberalisation, steps those are taken by the Govt. of

Bangladesh are mainly in the following area of i) removal of quantitative restrictions ii) tariff reduction and iii) exchange rate adjustment

Removal of Quantitative Restrictions:

The mechanism for elimination of quantitative restrictions (QR) was the removal of large groups of items from the control list in the Import Policy Order (IPO). The IPO (1993-95) did away with import licenses except those on the IPO control list. This had been substantially trimmed since 1990 when almost 25% of all items under 4-digit headings were subject to quantitative restrictions (Economic review, 1995). Table 1.1 represents different phases of removal of quantitative restrictions and show how Bangladesh has reduced the number of items on the control list of IPO gradually.

Table: 1.1
Removal of Quantitative Restrictions: Different Phases
(Number of Items)

Year	Total items under QR	Trade Reasons			Non-trade Reason
		Banned	Restricted	Mixed	
1989/90	315	135	66	52	62
1990/91	239	93	47	39	60
1991/92	193	78	34	25	56
1992/93	93	13	12	14	54
1993/94	109	7	19	14	69

Source: Bangladesh Economic Review, 1995: p-45

Total 4-digit tariff headings under the Harmonized System (HS) is 1240 of which 315 HS–4 digit level were subject to QR in 1989-90. It came down only to 109 items gradually in 1993-94.. Of these only 40 headings are on the list for trade reasons under all category i.e. 'banned', 'restricted, 'and mixed'.

Tariff Reduction:

In Bangladesh trade liberalisation had been selective in the eighties. High tariff rates and some non-tariff measures continued to apply to consumer goods but low tariff rates were imposed on intermediate imports and machineries necessary for increased domestic production and export. Since 1990/91 the incident of import taxation has been brought down by drastic reduction in import duties. The top operative rate has been brought down from 350% in 1990/91 to only 60% in 1994/95 with rates falling into only five slabs in place of 12. (Economic Review, 1995:46). Further in 1997/98 the maximum rate of import duty was effective at 42.5% which

was reduced to 37.5% in 1999/2000 (Khan, 2001:59). The progress in tariff reduction over the last few years are presented in Table 1.2.

Table: 1.2
Trends in Import Tariff

Year	UN Weighted Average(%)	Import Weighted Average (%)
1991-92	57.5	24.1
1992-93	47.4	23.6
1993-94	36.0	24.1
1994-95	25.9	20.8
1995-96	22.3	17.0
1996-97	21.5	18.0
1997-98	20.7	16.0
1998-99	20.3	14.1
1999-000	16.7	13.9

Source: Bangladesh Economic Review, 1995, 1999 and Mid Term Review of the Fifth Five Year Plan, 1997-2002.

It is evident from table 1.2 that an import-weighted average tariff was 24.1% in 1991/92, which was reduced to 20.8% in 1994/95 and further to only 13.9% in 1999/2000. While un-weighted average tariff rate was 57.5% in 1991/92, which was reduced to 25.9% in 1994/95 and further 16.7% in 1999/2000. We can visualise the declining trend of tariff rate of Bangladesh in Figure 1.1.

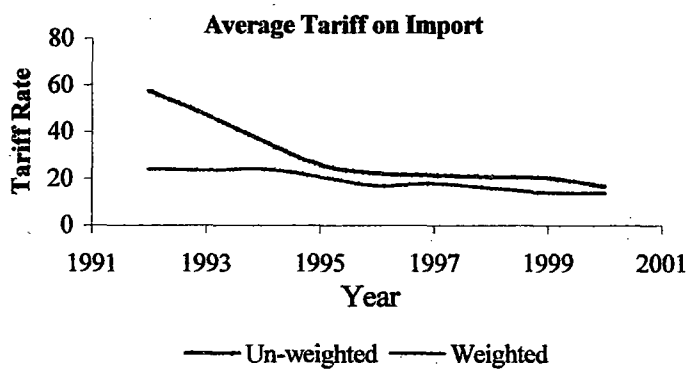


Figure : 1.1

Exchange Rate Adjustment:

Bangladesh had a multiple exchange-rate system until January 1992, when steps were taken to unify the exchange rate. In April 1994, the government of Bangladesh accepted the obligations of Article VIII of the International Monetary Fund (IMF), which implies the significant commitment to current account convertibility and consent to the liberalisation of exchange transactions on current

account. Foreign exchange controls, which had been constraining transaction for a long time, have been lifted for most current account transactions. On the exchange rate, the government has been managing policy flexible to avoid appreciation of the exchange rate and maintain macroeconomic stability. The real effective exchange rate depreciated by about 12% between 1991 and end of 1994, despite a 5.7% appreciation during October 1993 and January 1994 (Economic review, 1995:47). Further Taka depreciated by 11% with respect to dollar during the period of 1997/98 to 1998/99.

1.3 Economic Change at a Glance:

After pursuing the open economic model with greater emphasis in export promotion and trade liberalisation policy for almost two decades, the comparison of some of the national economic parameters may help us to understand broadly the direction of change due to the policy change.

Table: 1.3
Economic Indicators of Bangladesh Economy :1972-73 to 1998-99.

Indicators	Phase- I	Phase-II	Phase - III	Total Period
Average Growth rate of GDP	3.46 (1.15)	4.24 (0.33)	4.93 (0.14)	4.15 (0.60)
Mean Agriculture–GDP ratio	46.44 (0.05)	40.06 (0.06)	33.49 (0.06)	40.48 (0.14)
Mean Industry–GDP ratio	10.67 (0.07)	9.93 (0.02)	11.01 (0.04)	10.53 (0.06)
Average Investment GDP ratio	10.10 (10.35)	13.24 (0.15)	16.76 (0.19)	13.12 (0.30)
Average growth rate of export	9.65 (0.02)	8.79 (0.02)	11.55 (0.01)	9.79 (1.48)
Average share of manufactured goods in exports	54.06 (0.12)	56.72 (0.16)	75.06 (0.05)	60.74 (0.19)
Average share of primary goods in exports	32.08 (0.27)	21.89 (0.20)	10.10 (0.15)	21.87 (0.46)

Source: Calculated by the author from BBS & EPB data.
Figures in the parenthesis indicate Co-efficient of Variation

We have calculated values of such indicators in Table 1.3 by dividing the whole period into three different phases: (i) a period prior to initiation of the openness of the economy starting from independence i.e. from 1972–73 to1981–82; (ii) a period of economic liberalisation prior to adoption of new industrial policy i.e. from 1982–83 to1990–91; and (iii) a period after introduction of said industrial policy-1991 i.e. from

1991–92 to 1998–99. Table 1.3 shows that, some of the economic indicators of Bangladesh show positive changes over the period 1972–73 to 1998–99.

It is evident from the above table 1.3 that average growth of export sector which was 9.65% during the period prior to economic liberalisation, marginally declined in the beginning (phase-ii: 1972-73 to 1981-82) but steadily attained the average level of 11.55% in the next period (phase-iii: 1991-92 to 1998-99). The average share of manufacturing exports in total export of the country increased from 54.06% to 56.72 % in phase-ii and then to 75.06% in the third phase. On the other hand, the average share of primary exports on the aggregate of the national exports, which was 32.08% initially, shows a decreasing trend. In the first period of economic liberalisation it declined to 21.89% and then further to 10.10% during 1991-92 to 1998–99. Furthermore, mean agriculture-GDP ratio was at 46.44% before economic liberalisation but then decreased to 40.06% at early stages of openness and ultimately to 33.49% during the period of 1991-92 to 1998-99. This declining trend of share of agriculture in GDP is compensated by increase in share of industry from 10.67% to 11.01% in those respective periods. The GDP growth and Investment – GDP ratio in both phases of liberalisation indicate improvement.

1.4 Export Financing :

Export sector in Bangladesh had been considering to be a pivotal sector of national economy even prior to its major policy changes of early eighties. But export suffers from the lack of proper support of financial requirement.. This support implies the institutional arrangement of providing finance at the time of the requirement of exporters. This need may arise either at pre-shipment stage or at post-shipment stage. Finance is a resource of cardinal importance to an exporter. In view of substantial financial need to pursue export trade, it is often difficult to arrange the required fund from their personal resources of the exporters and thus demand for institutional involvement to alleviate their financial problem is a longstanding one. The system of institutionalized export financing may broadly be divided into two tiers – a) policy formulating agencies and b) policy implementing agencies. Policy relating to export financing are formulated by the Government with the help of Export Promotion Bureau. On the other hand, the Central Bank i.e., Bangladesh bank is entrusted with the responsibilities of formulating detailed operational aspects of those policies to be

followed by other financial institutions (Bangladesh Bank, 1982). Total number of banks in Bangladesh are 52 (upto 2000). Out of 52, 4 are nationalised commercial banks, 6 are specialised banks, 26 are interest-based private commercial banks(Pvt.^{IB}), 4 are interest-free private commercial banks (Pvt.^{IF}) and 12 are foreign commercial banks.

1.5 Problem of the Study :

There have been several studies on the inquiry into the role of exports in economic development. It has been found that the success of export-led growth strategy in a LDC depends on attainment of some minimum level of development. (Michaely,1977:52). Bangladesh being a LDC has been pursuing the export-led growth strategy over two decades. Supposedly, growth of export sector in Bangladesh primarily depend on this conditionality i.e. attainment of required minimum level of development. Specific studies on this aspect of Bangladesh express views contradictory to each other. While Nath (1997) has failed to find any impact of export on economic growth, Begum et el. (1998) have observed positive impact.

Secondly, Bangladesh being a LDC, its export always suffers from the lack of adequate financial supports. Though there are several types of financial institutions, commercial banks are the main financiers of export trade in Bangladesh. Finance, generally working capital in nature, is required for the support in pre- shipment and post–shipment period to the exporters. However due to risky nature of export trade and uncertainties linked with the extension of export credit, financial institutions are usually hesitant to become involve in export credit business. This impedes the export marketing process and exerts adverse impact on the competitive ability of export firms.

Keeping this in view, the Government of Bangladesh has arranged the extension of export credit support system with the help of commercial banks at concessional rate of interest against confirmed letter of credit. Export policies formulated by the Ministry of Commerce, Government of Bangladesh provides the overall guidelines and incentives for promotion of exports in the country. Bangladesh Bank has created an Export Development Fund for assuring continued availability of Foreign Exchange to meet the import requirements of manufactured items. Sadharan

Bima Corporation, the only export credit guarantee organisation, has introduced Export Credit Guarantee Scheme (ECG) with effect from January '78, through its Export Credit Guarantee wing as per the order of Government of Bangladesh in order to promote national exports. Following the World Bank's prescription, steps have been taken for integration of some of these schemes. Comprehensive study of each of these schemes could reveal the present difficulties with these schemes and could give us idea of any modification, if necessary.

The problem of the study, therefore, is to make a resolution of conflicting findings of the effect of export on economic growth and a comprehensive analysis of present position of export financing, evaluation of different schemes, role of financial institutions in advancing export credit along with problems and difficulties of both financier and recipient of finance in Bangladesh.

1.6 Importance of the study:

The study seems to carry an enormous academic value. Firstly, as we have stated that though there are studies on the first aspect of the problem i.e.; impact of export on economy of Bangladesh, findings are conflicting in nature. But Government has been pursuing the export-led growth strategy for over more than two decades. The success of export-led growth strategy should have a reflection in the changing pattern of the demand of export finance during this two decades. As our focal theme of the study is to know how and to what extent the existing system is supportive of financial needs of the export business, positive impact of export on economy is a precondition of institutional arrangement of export financing being successful.

Thus the study of the first part of our problem is addressed to resolve the conflicting findings on the role of export on economy of Bangladesh in particular. It would also help to extend the general theoretical understanding of the subject with relation to LDC.

So far the second aspect of our study is concerned, there was no systematic and thorough study on export finance in Bangladesh except casual observations made by professional economists, business leaders, planners and policy makers etc. There was no empirical investigation to verify observations made by them. Many aspects of export financing are yet to be understood interrelating facts and figures. In this period

of new economic world order, i.e., under the WTO regime, the openness of the economy through liberalising trade gave birth to a complete new environment of competition with which the entrepreneurs of erstwhile protective country like Bangladesh are not familiar. Both convertibility of domestic currency and abolition of tariff protection have changed the meaning of the requirement of finance. Now, it is not only the quantum of finance, which is important, but the timely availability is also crucial to have an edge in the competition. In this changed economic milieu of the new millennium all aspects of export finance deserve to be studied with the perspective of globalisation, liberalisation and openness.

The findings, therefore, may be helpful to the Government, to the export firms, the export financial intermediaries and the national policy makers who have been making serious endeavour to ensure export-led growth in this country. The study may help in restructuring the bank's export-credit programs for increasing their effectiveness in the ensuing days. The study seems to contribute to enriching the literature on export financing which is an important and rapidly growing branch of finance discipline.

1.7 An Over view of Literature :

Literature review has been discussed in three parts. In the first part, we have attempted to review the empirical studies on the impact of export on economic growth and development of LDCs in general. In the second part, we have tried to summarise the findings of the studies on the same with respect to Bangladesh economy and in the last part, we have dealt with the articles relating to export financing in Bangladesh.

Impact of export growth on economic growth:

Several empirical studies have been reported in recent years on the impact of trade policy reform on the economy of less developed countries. Some of these studies have considered cross-section data to examine the movements of export volume with national product of respective countries. Another section of studies specifically has tried to examine the causal relation assuming export as an independent variable with time series data of a single country or multiple countries.

Estimates obtained from cross-section data are useful in many ways, especially when the number of observations for an individual country is small. Many

existing studies using cross-section data have made useful contributions towards an understanding of the role of exports in economic growth.

Different economists have investigated the effect of growth of export on economy of LDCs over the last few decades from different perspectives and have tried to prove or disprove the relationship with various economic parameters. While some of them have claimed to have observed positive relationship with national income irrespective of level of development [Emery(1967), Vivodas(1973), Sawhney & DiPetro(1994), etc.], a few have observed that exports positively influence economic growth in relatively advanced countries having an industrial base but not the least developed countries [Balassa(1978), Ram(1985), Helliner(1986), Sheehey(1992) etc]. Findings of the later group of researchers actually substantiate the findings of Michaely(1977) who has tried to make the point that export would positively influence the economic growth provided the country has achieved a minimum level of development. On the other hand, Lal and Rajapatiram(1987) have found that export had a positive influence on economic growth even for low-income countries in post 1973 period. Many researchers have judged the export performance with relation to balance of payments effects [Lubitz (1973)], non-export output growth [Heller & Porter(1978)], economic performance or scale effect [Tyler(1981), Kavoussi(1986)], capacity to absorb external shock [Balassa(1985)], export promotion policy [Esfahanai(1991)], structural change [Ram(1987)] etc.

Some researchers have criticized the cross-country study on the ground that it implicitly assumes that causality runs from export growth to GDP growth. Sheely(1990) , Pritchett(1996) have found that the conclusion from cross country test are doubtful as the various trade policy indicators used by those studies are unconnected across country. Critique of the cross-country studies, therefore, have preferred to test the causality directly and have argued that if the direction of causality is found from export to economic growth, then it would prove the positive influence of export on economic growth but not in the reverse direction.

However, the multi-country studies could not prove beyond doubt any specific causation. Different subsets of countries of the same sample have showed different causation in most of these studies - causation runs from economic growth/income growth to export growth, reverse or neither way [Chow(1987), Bahmani-Oskooe et

el.(1991), Ukpolo(1994)]. Several studies have found that export growth caused economic growth for developed countries only but not for non-industrialised developing countries [Marin(1992), Afxentiou and Serletis(1991), Ghartey(1993)].

But there are studies those have observed export caused economic growth in LDCs [Attri (1991)], even in low-income countries depending on primary product export [Love(1992), Ukpolo(1994)]. Conflicting results have been found in case of 'golden boys' of south-East Asia [Darrat(1986,1987), Bahmani–Oskooee et el.(1991)].

In country specific studies also we have found evidences which do not prove any causation in unique direction. Here, we shall confine to the discussion of findings of studies already made on export–growth link with relation specifically to Bangladesh and empirical studies on other countries would be discussed in **chapter-II.**

In the context of Bangladesh, the evaluation of exports-growth link is an under researched area. Roy(1991), Rahman(1993), Nath(1997) and Begum et el.(1998) provide some evidences of the impact of exports on economic growth in Bangladesh.

Roy(1991) has investigated Bangladesh exports performance and has provided some preliminary evidences of the relationship between exports and GNP. Using annual data for 1975-88, Roy has observed a large positive rank correlation coefficient between GNP and share of exports in GNP. In addition, he has found a positive correlation between the export and non-export sectors output. The correlation result is indicative of a strong relationship. However, no firm conclusion could be drawn from Roy's study about the partial impact of exports on economic growth.

Rahman(1993) has evaluated the effect of export on economic growth applying an add hoc regression model on GNP covering the period 1972-73 to 1985 –86. He has also performed Granger–causality test between manufactured exports and manufactured GDP based on annual data for 1972-73 to 1990-91 at current prices and has argued that causality running from exports to industrial development in Bangladesh. However, whatever his findings may be, question may be raised on use of data at current prices instead of constant prices.

Under two-sector framework Nath(1997), has verified the causal relationship between export and non-export sector of Bangladesh economy for the period 1972-73

to 1991-92. Applying Granger causality test, the conclusion drawn by Nath is that '.....there has not been found causal relation in any direction' (Nath, 1997: 26).

On the other hand Begum et el (1998) have performed Granger causality test as a supplementary to verify the key findings of their structural econometric model and have expressed the views that exports growth caused GDP growth at 2.5% level of significance. The period covered by them is 1962 to 1992. We, however, have observed some methodological differences between Nath and Begum et al along with contradictory findings. Nath(1997) has employed log-linear equations while Begum et al(1998) have used the linear equations. Inclusion of time series data for the pre-independence period (1962 to 1971) in Begum et al study, may cast doubts about the actual scenario of Bangladesh economy (Bangladesh became an independent state in 1971). Bangladesh initiated its economic liberalisation policy from 1982 and the process acquired momentum in 1991 when a new industrial policy has been adopted in line with the new strategy. It is, therefore, unlikely that the effect of export-led growth strategy would be reflected in their study. Besides we have found some computational errors and misreporting of results.

Literature on Export and Finance:

No systematic and comprehensive study of export financing in Bangladesh has yet been done. A few literature has dealt with different aspects of export financing in Bangladesh. Alam(1974) has made an attempt to focus on the financing problems of export firms. Further, the study has revealed that it is relatively easy for big exporters to get financial accommodation from commercial banks compared to small sized firm. The author has also made an attempt to highlight the necessity of establishing a separate specialised institution for export financing. As the study covers the initial years of independence of the country when import-substitution policy was being pursued, it has lost its relevance at the development stage of export-led growth of to-day.

Reza(1981) has conducted a study on pattern and prospects of Bangladesh export covering the period 1950-1978. Two main objectives of his study were : (i) an examination of the past export performance of Bangladesh and (ii) the determination

of the income and employment implications of an export-oriented strategy of growth as compared to an import substitution for the country.

Hossian(1983) and Rahaman(1983) have discussed structural characteristic of Bangladesh export and Abraham(1984) has observed rapid rise in manufacturing exports due to liberalisation measures. However, the observation is doubtful for its naïve methodology which measures the economic effect of liberalisation policy just after two years of its adoption.

Nabi and Ather(1986) have made a regional study of the role of nationalised commercial banks in export trade. This study, which covered a period of only two years, dealt with mere export of non-traditional items and has based on a single city. They have observed a few problems in the process of evaluation of creditworthiness of the exporters by the NCB in matter of export credit..

Chowdhury(1986) have intended to examine the state of institutional export service in Bangladesh. In the light of their findings they have drawn the conclusion that the quality and quantity of institutional services in Bangladesh do not conform to the expectations of exporters in many respect. However the services of nationalised commercial banks have been found to suffer from the limitations of official procrastination in processing export credit.

Sood(1989) while studying the problem of trade and economic development of Bangladesh (along with India & Pakistan), has made some passing remarks on the situation of export financing and that also on the basis of data upto 1984–85. Obviously, her comments and observations have lost relevance today with the passage of almost 15 years. However, her observation regarding the inadequacy of the credit guarantee of Sadharan Bima, is still valid in a general way but requires an in–depth study with relation to to-day's needs and requirements.

While exploring the policies and strategies that should be followed in developing export-sector of Bangladesh, Zaman(1999) has opined that inadequate provision of working capital loan is a major hindrance for the development of export oriented industries. Labour intensive export has been found as the most suitable development strategy for Bangladesh in this study of Zaman. Alam(1999) has

conducted also a study to highlight the problems of financing of export-oriented industries in Bangladesh and has observed that there is a scarcity of credit in export sector of Bangladesh.

Ray and Karim(2001) have made an attempt to evaluate the Export Credit Guarantee Scheme (ECGS) for the period 1978 to 2000 and have observed that the objectives of introducing ECG have not been achieved to the expected level. The change of Government policy from import-substitution to export-led growth strategy has not changed the situation. An evaluation of econometric relationship between insurance coverage and export in the period of liberalised economy has not shown any statistically significant difference in estimated parameters.

We will cite a few more studies relating to evaluation of existing export promotion schemes in Bangladesh in **chapter-IV.**

1.8 Objectives of the study :

This study attempts to probe the impact of export on economic growth in Bangladesh and to highlight the export financing practices, performance, problems and prospects in Bangladesh. It intends to focus all important aspects of export financing programmes of the commercial banks. The broad objectives of the study are as follows:

1. To study whether export has significant impact on economic growth of Bangladesh.
2. To analyse the performance of financial institutions with respect to export credit.
3. To evaluate the effectiveness of the existing incentive schemes and policies of export financing
4. To analyse the opinion of the export firms regarding the export credit services by the financial institutions.
5. To analyse the opinion of financial institutions regarding export credit and its problems.

1.9 Research Hypotheses:

For the purpose of the study as elaborated above, the following hypotheses are to be tested :

1. Export has significant impact on economic growth of Bangladesh and thus export-led growth strategy is appropriate to be followed for development.
2. Adoption of new development strategy does not make any difference in the role of financial institutions in relation to extending credit facilities to exporters.
3. Implementation of the existing schemes including Export Credit Guarantee Scheme is not as effective as expected.
4. In case of advancing credit, banks do not discriminate between primary (commercial) and manufacturing (industrial) exporters or between exports and imports.
5. Instituting a specialised export financing organisation may solve the problems of export financing significantly.

1.10 Methodology and sources of data of the study:

The research is based on both secondary and primary sources of information and data. A sample survey has been conducted to know the viewpoints of the banks and exporters. The published documents of the Ministry of Commerce, GOB, the Export Promotion Bureau, the Bangladesh Bureau of Statistics, the National Board of Revenue, the Bangladesh Bank (Central Bank of Bangladesh) and other concerned banks have been consulted for secondary data and information. The collected data are analysed by means of appropriate statistical tools and whenever necessary appropriate hypotheses are tested. Multivariate analysis for identifying the economic factors responsible for credit financing are used. Descriptive statistics are used to analyse and compare distribution of parameters of different categories of banks or exporters. Non-parametric test specially to identify the level of agreement among respondents are used.

1.11 Plan of the study :

The thesis spans over seven chapters including the present one. Chapter – 2 contains an analysis of the causal relation between export growth and economic growth. It also addresses to seek the allocative justice of scarce resources among primary and manufacturing exports.

Chapter–3 deals with the role of commercial banks in Bangladesh with respect to export financing in order to promote export.

In chapter–4 we have reviewed different existing schemes in export financing and evaluated the performance on the basis of expansion of credit under these schemes over the period of study. The chapter also contains the analytical views of the policies relating to export promotion and export financing.

Chapter–5 summarises the data collected through survey among randomly selected sample of exporters. Exporters' view are statistically analysed and interpreted in this chapter.

Chapter–6 deals with bankers' views collected through the questionnaire administered among twelve selected banks of three different categories.

Chapter–7 provides a summary of the findings.

Chapter - 2

Export Growth Link: A Study Of Bangladesh Economy

A part of this chapter was presented at the 8th University Level Workshop On Research Methodology in Economics (22 – 23 March, 2002), titled '*Test of Two-Way Causation Between Export And Economic Growth: An Empirical Evidence of Bangladesh Economy*', in Department of Economics, University of North Bengal, Darjeeling, India.

2.1 Introduction:

There has been an inconclusive debate on the role of trade and on the choice of trade strategy for the development process of developing countries. This is the debate between trade economists and trade pessimists. Economists like Singer(1950), Myrdal(1957), Prebisch(1959), Nurkse(1961), and others have suggested an inward-oriented approach for development of LDCs. Nurkse saw declining demand from developed countries for disappearing the role of exports as engine of growth in twentieth century unlike nineteenth century. Prebisch and Singer found deterioration of terms of trade as a factor making trade unfavourable for the growth of LCD's. On the other hand economists like Bhagwati (1978), Kruger (1978), Chenery (1961), Balassa (1977, 1978), and others strongly advocated the export-led growth strategy in the line of liberalisation and globalisation principle for developing countries, they opined that export could be an engine of growth under free trade mechanism. The IMF and World Bank (1987) have been extending their support in favour of export-led growth approach.

In this context importance of export finance to a large extent depends on relative importance of export in the on-going process of development in Bangladesh. From the point of view of the development economics, it is desirable that the resources should be allocated most efficiently and optimally. If export is proved to be genuinely 'engine of growth', then making provision of finance for export appropriately should be considered as economic necessity, and priority of finance should be attached accordingly. However, the pious wish and the declaration of the Government to help growth and development of the economy by promoting export does not suffice to make it objectively realisable. It entails so many economic factors and pre-conditions very specific and relatively applicable to Bangladesh economy, that one can not determine without a systematic study what role export is actually playing in the development process. This identification of causal relationship between export growth and economic growth enjoys importance for the reason that the success of export-led growth strategy implicitly assumes that export growth causes economic growth. Because of such a crucial policy implication, the causal relationship between

export growth and economic growth in case of Bangladesh economy deserves to be studied prior to the actual study of the export finance. The reason is that, if export is found not to be the cause of economic growth but a causal relationship exists in opposite direction, then the aim of achieving economic development and growth through export promotion policy is bound to prove futile. The economic rationality obviously suggests that the planners and policy makers should, on the contrary, mobilise their resources, on the production of goods and service for domestic sectors, which would be fruitful for economic development and may consequently cause growth in exports. Actually, experience suggests that three possible direction of causality may exist: One is bi-directional where both export growth and economic growth reciprocates the growth of each other. Second, unidirectional where the causal effect flows in either way i.e, either export growth helps to promote economic growth, or the economic growth induces export growth. Third is the situation when no - causal relationship actually exists. The importance of export finance is relative to these three possible situations. We in this thesis, primarily aim to study the position of export finance in Bangladesh which is already pursuing its declared policy of open and liberalised economy. Therefore, it is imperative to study the causal relationship between export growth and economic growth prior to the evaluation of the position of export finance. This chapter solicits to clarify the nature of relationship between exports and economic growth of Bangladesh economy by taking time series data; through econometrical testing.

So far as the economic literature on theories and empirical studies are concerned, these are vast in magnitude and inconclusive in nature. In the next section we provide a brief account of empirical studies that have already been made by different scholars in this respect.This is followed by a section on the description of data along with its subsections explaining the procedure they have adopted for testing stationarity of variable and determination of appropriate lag.

2.2 A Brief Account of Empirical Studies:

Literature on economic growth has focused considerable attention on determining the effect of export on economic growth. During the last three-decade or

so, innumerable empirical studies have been done in relation to export and economic growth both from demand and supply side approach. The findings of these studies are rigorous. In some studies, positive link between export and economic growth has been found. Among all these studies, prominent are: Emery (1967), Vivodas (1973), Balassa (1978, 1985), Williamson (1978), Mizaels (1968), Fajana (1979), Tyler (1981), Feder (1982), Kavoussi (1984), Ram (1985, 1987), Greenway et al (1994), Begum et al (1998).

There are two aspects of the relation between export and economic growth. Economic growth and particularly growth of manufacturing industries can help expansion of exports. On the other hand, 'export can promote economic growth by increasing aggregate demand faced by the economy'. This two-way relation has been studied in the development economy literature from various approaches. One of the approaches is to establish link between economic parameters with the export-led growth. A list of such studies is presented in Table 2.1.

Table - 2.1
A List Of Studies On The Link Between Development Parameters & Export-Led Growth.

Authors	Link
Michaely (1977)	National income
Heller and Porter, (1978)	Production of non-export goods
Balassa, (1978,)	Capital efficiency and capability to mange external shocks
Tyler, (1981)	The scale effects and externalities
Feder, (1982)	Resources reallocations
Kavoussi, (1984)	The total factor productivity
Jung et al.(1985), Chow, (1987)	Structural transformation
Edwards, (1992)	Capacity to absorb new spillovers of world technology

The above table indicates that there can be numerous essential links in the model of export-Led growth hypothesis. However, many refinements have been used in assessing the empirical evidence for export-led growth. Table 2.2 presented below summarises some previous empirical works examining the supply characteristics of export commodity.

Table - 2.2
A List Of Studies Of Export-Growth Link: Production Function Model

Authors	Nature of the Study	Other variables	Coefficient of export growth
Balassa (1978 , p:186)	A cross sectional analysis of 10 DC(1960 – 73)	Domestic investment/output, foreign investment/output, Labour force growth,	0.04
Begum, S. et al (1998, p:107)	Time series study of Bangladesh (1962 – 92)	Labour Force, Investment	0.957
Emery (1967, p: 478)	A cross sectional analysis of 50 DC (1953 – 63).	Current account	0.330
Fajana (1979, p: 75)	Time-series analysis on Nigeria (1954 – 74,)	Trade balance, current account	1.095
Feder (1982, p:128)	A cross sectional analysis of 31 LDC (1964 – 73)	Labour force growth, Investment /output	0.422
Greenway et al. (1994, p : 161)	Time series study on Pakistan (1971– 85)	None	1.971
Kavoussi (1984, p: 247)	A cross sectional analysis of 73 DC (1960 – 78,)	Growth rate of capital stock and labour force	0.105
Lubitz (1973 : p.318)	A cross sectional analysis of 11 LME(1954 – 69)	Capital Formation, Manufactured Export	0.430
Michaely (1977, p: 52)	A cross sectional analysis of 41 LDC(1950 – 73)	None	0.523
Nath N. C. (1997, p:19)	Time series study of Bangladesh(1972 – 92)	Domestic Saving, Labour Force, Foreign Investment	0.290
Ram (1885, p:419)	A cross sectional analysis of 73 LDC (1960 – 77)	Labour force, Capital input Countries dummies	0.148
Ram (1987, p:64)	A cross sectional analysis of 88 DC (1960 – 82)	Labour force, Capital input Investment output ratio	1.55
Tyler (1981, p:128)	A cross sectional analysis of 55 MILDC (1960–77)	Labour force growth, Investment growth	0.570
Vivodas (1973, p:343)	A cross sectional analysis of 22 LDC (1956 – 67)	Country dummies	0.200
Williamamson	A cross sectional analysis Of 22 LAC (1960 – 74)	Country Dummies, Direct Investment, Other Foreign Capital.	na

LDC =Less Developed Countries, **DC** = Developed Countries, **MILDC** = Middle Income Less Developed Countries. **LME**=Leading Manufacturing Exporters Countries.

Most of the studies proved that there exists a positive association between growth rate of export and economy, and that exports play a key role as an additional factor in the process of economic growth. Except Fajana (1979), Greenway et al. (1994), Nath (1997) and Begum, et al. (1998), these studies have been done on cross - section data of different countries.

Furthermore, almost all of the above studies regress a growth variable on a contemporaneous export variable. A few of them consider the direction of the causal relation between export and growth. Testing the direction of causality, some economist like Jung and Marshall (1985), Chow (1987), Nandi et. al. (1991), Ghartey

(1993), Ukpolo (1994), Riezman et al. (1995) found support for the export-led growth hypothesis. On the other hand Darratt (1986), Ahmed et al. (1991), Oxley (1993), Jim Love (1994), Henriques and Sadorsky (1996), Richards (2001), observe that exports growth did not cause economic growth, However a number of studies using new time series methods have found inconsistent evidence on the link between exports and growth. For example Bahamni-Oskooee et al. (1991), Sharma and Dhakal (1994), conducted cross-countries studies of LDCs and arrived at mixed results regarding the causal relation from exports to economic growth. Analysing the Arab countries Khalifa (1997), finds that export and economic growth are cointegrated without specifically addressing the issue of the causal relationship between the variables. Using time series diagnostic tests, a number of individual country based studies have attempted to treat the issue of causality that is central to export-led growth hypothesis. Among these studies, prominent are: Sengupta et al. (1994, Korea), (Kwan et al. 1996, Taiwan), (Ghatak et al. 1997, Malaysia). From these studies there emerges no conclusive pattern of causality between exports and economic growth. The following Table-2.3 provides exhaustive lists of noteworthy studies considering the causal relationship between export and economic growth with their methods, sample of the study and results.

Table - 2.3
Studies of Export - Growth Causality.

Author(s)	Methods	Countries in the Sample	Results
Jung & Marshall (1985)	Granger-causality (GC)	37 LDCs	xy in Indonesia, Egypt, Costa Rica and Ecuador
Chow (1987)	Sims's version of GC	Argentina, Brazil, Hong Kong, Israel, Korea, Mexico, Singapore, Taiwan	No causality in Argentina; xy in Mexico; xy in all others
Darrat (1987)	White (1980) [arbitrary, up to 4 lags]	Korea, Taiwan, Singapore, Hong Kong	xy in Korea
Ram (1985)	Time series regression; aggregate production function specification, incorporating possible export externalities	73 LDCs	xy in 38 or 37 countries (depending on specific model being estimated); positive but insignificant relationship in another 35
Kunst & Marin (1989)	Granger-causality [Akaike Information Criterion (AIC). & arbitrary up to 8 lags]	Austria	OECD GDP Productivity
Ahmad & Kwan (1991)	GC on pooled sample; [AIC for lag length]	47 African countries	no xy in any of several specifications; little causality overall

Table - 2.3(Cont.)
Studies of Export - Growth Causality.

Bahmani-Oskooee et al (1991)	Standard Granger-causality Final Prediction Error (FPE) for lags.	20 LDCs	xy in 10 (including those for which tests conflict); unidirectional positive relationship in Nigeria & Taiwan only
Afxentiou & Serletis (1991)	Granger-causality [Schwartz Criterion (SC), 1979, for lags]	All countries classified as industrial by IMF (16)	xy in U.S.; yx in Norway, Canada, Japan (with 10-yr lag in Canada, Japan)
Kugler (1991)	Johansen/Juselius, (1990, procedure), Augmented Dickey-Fuller (ADF) for stationary, AIC for lags.	US, Germany, Japan, UK, France, Switzerland	Exports enter cointegrating vector only in Germany and France
Nandi et al. 1991	Sims Test	India	xy
Marin (1992)	Granger-Causality [Bayesian Information Criterion (BIC)]	Germany, U.K., U.S., Japan	xy for all four, but little impact as measured by sum of AR coefficients
Serletis (1992)	Granger-causality , [SC for lags]	Canada	xy except for post-WWII period
Bahmani-Oskooee and Alse (1993)	Regression analysis of error-correction model, ADF for stationarity,	Colombia, Greece, Korea, Malaysia, Pakistan, Philippines, Singapore, South Africa, Thailand	xy for all but Malaysia (x and y not cointegrated in Malaysia)
Dodaro (1993)	Granger-causality	87 LDCs	xy (positive effect) in 7; yx (positive effect) in 13
Ghartey (1993)	FPE, Hsiao (1979) [FPE, BIC]	U.S., Japan, Taiwan	xy in Taiwan, yx in U.S., terms of trade x in Japan
Oxley (1993)	Schmidt, [1976]; ADF and Johansen tests for unit roots & FPE for lags.	Portugal	yx
Rahman (1993)	Granger, arbitrarily up to 4 lags	Bangladesh	Export to Industrial development
Ukpolo (1994)	Time series regression of output on dis-aggregated exports	Congo Republic, Kenya, Morocco, Nigeria, Senegal, Sierra Leone.	xy for non-fuel primary products
Riezman et al. (1995)	Conditional linear Feedback By Gewek(1984)	126 countries in the Summers and Heston (1991) data set	xy in 30 countries, yx for 25 countries.
Henriques et al. (1996)	VAR	Canada	yx
Nath (1997)	Granger,	Bangladesh	No causality
Begum et al (1998)	Granger,	Bangladesh	xy (with 12 lags)
Richards (2001)	Modified Granger, ADF for Stationary, AIC for lags.	Paraguay	No causality.
Chandra, R. (2002)	Modified Granger, ADF for Stationary, Engle Granger for Lags.	India	Bi-directional causality

* xy implies export causes economy's output and yx implies the reverse.

Table-2.3 clearly indicates that these studies in order to make empirical assessments of the export-led growth strategy greatly vary in application of econometric techniques, types of country taken together as a group and conclusion arrived at. Some economists have raised the question whether the role of export on economic growth is unconditional or depends upon the fulfillment of certain requirements. Michael(1977), Heller and Porter(1978), found that a minimum level of development is needed before the particular phase where export growth can positively influence on economic growth. Michealy(1977) argued that growth is affected by export performance only once countries achieve some minimum level of development" (Michealy, 1977:52.).

Helleiner's(1986) study of low–income inward-oriented sub-Saharan countries for the period 1960–80 substantiates further Michealy's finding for the least developed countries.

Kohil and Shing(1989), Boulding(1992), Greenway and Sapsford(1994), Poon(1995), and Behzad and Reza(1995) argue that the relationship between exports and economic growth depends on the level of development and the economic structure of a country. Export expansion may not impact on the economic growth of a country at a low level of development .

2.3 Data and Methodology:

The data used in this study cover the period from 1972–73 to 1998–99. In the analysis we have used the time series data to compute growth rates of (i) Gross Domestic Product (GRGDP), (ii) Output of Manufacturing Industries (GRMI), (iii) Export (GRX), (iv) Investment (GRI), (v) Population (GRPL) (vi). Export of manufactured commodity (GRMX), and (vii) Export of Primary commodity (GRPX) published by the Bangladesh Bureau of Statistics (BBS) and the Export Promotion Bureau (EPB) respectively. Data of primary export and export of manufactured commodity are deflated by unit value indices of export (Base:1984-85) to make it compatible with GDP data.

Stationary Test of the Variables:

It is well recognised that if the time series variables are non-stationary, then the estimated OLS results may be misspecified. If the distribution of a random variable in time series is free from the influence of time, then it is said to be stationary. The result of a causality test (Granger or Sims) has been demonstrated

valid if, and only if, the relevant original series are cointegrated. As time series data sets are taken for the study, the data are first tested for their stationary characteristics to avoid the error of spurious regression. On the basis of the Dickey-Fuller (DF) & Augmented Dickey-Fuller (ADF) test a multi-step procedure is applied for testing the stationary characteristics of the data sets. For practical purpose, the ADF test is applied to regression run in the following forms:

$$\Delta Y_t = \delta Y_{t-1} + u_t \qquad (1)$$

$$\Delta Y_t = \beta_1 + \delta Y_{t-1} + u_t \qquad (2)$$

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + u_t \qquad (3)$$

where 't' is the time trend variable.

In each case the null hypothesis is that $\delta = 0$, that is there is a unit root. If the error term u_t is found autocorrelated, the following modified Augmented Dickey-Fuller (ADF) test has been employed:

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \alpha_i \sum_{i=1}^{m} \Delta Y_{t-1} + \mu \qquad (4)$$

If the computed absolute value of the 'τ' statistic (i.e. $|\tau|$) is greater than DF critical values, then we do not reject the hypothesis that the given time series data is stationary. If, on the other hand, $|\tau|$ less than DF critical values, the time series is proved to be statistically non-stationary. Table 2.4 represents the results of ADF unit root test . The result of the test shows that computed absolute value of ' τ' statistic of all the variable are greater than that of critical values i.e. $|\tau| > DF_{critical}$ at 1% level in every step . That, the null hypothesis Ho : $\delta = 0$ is being rejected at 1% level. Thus all the variables are stationary i.e. interrelationship between the variables is not time bound to make the regression result spurious.

Table - 2.4
Results of Stationary Test
(n = 25), $H_{o:\delta=0}$

Stages	Calculated 't' values							DF 'τ' critical values		
	GRGDP	GRX	GRMI	GRMX	GRI	GRPX	GRPL	1%	5%	10%
Constant and time	-10.20	-6.26	-13.48	-5.51	-5.11	-6.18	-5.57	-4.38	-3.60	-3.24
Constant, no time	-8.65	-6.53	-12.44	-5.52	-5.196	-6.19	-4.15	-3.75	-3.00	-2.63
No const. No trend	-2.79	-4.32	-8.23	-3.72	-3.862	-5.99	-1.25	-2.66	-1.95	-1.60

Source: Critical values of 'τ' have been quoted from Philip Hans Franses, (1998, p: 82]

Determination of Appropriate Lag of the Data Series:

In autoregressive models the direction of causality may depend critically on the number of lagged terms included for dependent and independent variable. So where more than one lag is required for the variable, one has to apply an appropriate technique for choosing the optimal number of lags for each variable. There are several methods followed by the researchers for determination of the appropriate lags. Hsiao(1979), Bahmani-Oskooee et al.(1991), Oxley(1993), and Love(1994) followed the 'Final Prediction Error (FPE) criterion to identify the optimum number of lags. On the other hand Afxentiou & Serlities(1991) , Ghartey(1993) employed Bayesion Information Criterion (BIC). Engle and Granger(1987) recommended a search method in which one starts with fewer lags and then goes ahead to test for added lags. Another arbitrary system has been used by Darrat(1987), Kunst and Marin(1989). They include sufficient number of lags on the right hand side of the equation to ensure that there is no autocorrelation in the estimated equation.. Another way is Akaike Information Criterion (AIC), that has been followed by Kunst & Marin(1989), Ahmed and Kwan(1991), Kugler(1991), Richards(2001), where the lag value that minimises the AIC is chosen as optimal .

The inclusion of too many lags may leads to over parameterisation of the model and consequently to loss of degree of freedom. Furthermore, too many lags may be undesirable in case of small sample size. We, however, for determination of appropriate lag length, have computed the AIC values of the variables. Table 2.5 presents the results of AIC test. From the table it is found that two-lag is optimal in case of the variables GDP, Export and GRMX respectively and three-lag is optimal in case of variable GRMI. Thus in our OLS estimation we use two-lag for the variables GDP, Export, and GRMX and three lag for GRMI.

Table 2.5
Results of AIC Test

Lags:	GDP	Export	GRMI	GRMX
1st	51.94	93.06	69.23	98.29
2nd	47.03*	62.26*	68.22	98.28*
3rd	48.36	92.77	68.13*	100.03
4th	49.87	94.28	69.38	101.21

Source: Calculated by the author. * Indicates optimal AIC

2.4 Causality Test:

Causality as a philosophical concept implies existence of a priori laws that govern the relation between the cause and the effect [Feigel(1953), as quoted in Bahmani-Oskooee et al.(1991:405)] In the case of time-series data, tests of the direction of causation are available. There are several methods of testing causality, as Granger(1969), Sims(1972), Schmidt(1976) and Pierce and Haugh(1977). Following Granger(1969), a variable X is said to cause another variable Y, if Y can be predicted with greater accuracy by using past values of X rather than not using such past values, all other relevant information in the model remaining same. According to Granger "absence of correlation between past values of one variable X and that part of another variable Y which cannot be predicted from Y's own past implies absence of causal influence from X to Y" [Grange(1969), as quoted by Rahman(1993: 305)]. Another test for causality is that of Sims(1972). This technique suggests that the variable 'Y' can be regressed on past and future values of 'X' and ' if causality runs from 'X' to 'Y' only, future values of 'X' in the regression should have coefficient insignificantly different from zero, as a group' (Sims,1972:545). The practical technique of testing causality in a bivariate model proposed by Sims(1972) and modified Granger methodology for testing causality, proposed by Bahmani et al.(1991) chosen for the present study.

2.4.1 Export and Economic Growth:

The literature on applied growth theory stresses the hypothesis that export is a key factor in promoting productivity growth. The possible relationship between exports and GDP are: (i) export-led growth, (ii) growth-led export and (iii) the two-way causal relationship. The direction of causal relationship in case of Bangladesh economy is of considerable implications. If export growth is shown not to cause economic growth, but a reverse causal relationship exits, policy makers would not need to follow the export-led growth policy. In this section we observe the movements between export and economic growth from both way causative process on the basis of Sims (1972) concept of causality. Therefore, for our present study of both way causative processes we have the following linear equations with distributed lags:

$$Y_t = a_0 + \sum_{i=1}^{3} a_i X_{t-(i-1)} + \sum_{i=1}^{2} b_i X_{t+i} + u_1 \quad (5)$$

$$Y_t = c_0 + \sum_{i=1}^{3} c_i X_{t-(i-1)} + u_2 \quad (6)$$

$$X_t = \alpha_0 + \sum_{i=1}^{3} \alpha_i Y_{t-(i-1)} + \sum_{i=1}^{2} \beta_i Y_{t+i} + e_1 \quad (7)$$

$$X_t = \lambda_0 + \sum_{i=1}^{2} \lambda_i Y_{t-(i-1)} + e_2 \quad (8)$$

where Y stands for growth rate of GDP and X stands for growth rate of export.

We have, therefore, the null hypothesis (H_o) that export growth 'X' does not cause growth of national income 'Y' for equations (5) & (6). Similarly the null hypothesis for equations (7) & (9) is that income growth 'Y' does not cause growth of export 'X'. In order to test the hypothesis that coefficients for future values of explanatory variables are jointly equal to zero, F-statistics have been calculated by the following equation:

$$F = \frac{(RSS_{i+1} + RSS_i)/(df_{i+1} - df_i)}{RSS_i / df_i} \quad (9)$$

where RSS_i is the residual sum of squares and df_i is the degrees of freedom for $i = 1$ for equations (5) & (6) and $i = 3$ for equations (7) & (8). Thus 4 degrees of freedom for equations (5) & (7) and 2 degrees of freedom for equations (6) & (8) are lost. In order to compensate the loss of degrees of freedom due to distributed lags we have considered the periods of the study from 1973-74 to 1998–99, though, Bangladesh adopted exports promotion strategies since early 80's. Four OLS equations (5) to (8) have been estimated and the F-statistics as given in equation (9) are calculated. OLS results are shown in table 2.6 & 2.7 The F-statistics and the results of hypothesis testing are shown in table 2.8.

Table - 2.6
Estimation of the model Equations (5) and (6)
(Growth of GDP 'Y' as Dependent Variable)

Eq.	Intercept	X_t	X_{t-1}	X_{t-2}	X_{t+1}	X_{t+2}	R^2	DW	F
5	4.81* (3.90)	0.007 (0.23)	0.018 (0.67)	-0.033 (-1.11)	-0.031 (-1.20)	-0.02 (-1.20)	0.20	1.92	0.78
6	3.90* (5.79)	0.02 (0.78)	0.03 (1.27)	-0.02 (-0.64)	-	-	0.11	1.81	0.83

Figures in the parenthesis indicate corresponding 't' values. *Indicates significance at 5% level.

Table - 2.7
Estimation of the model Equations (7) and (8)
(Growth of Export 'X' as Dependent Variable)

Eq.	Intercept	Y_t	Y_{t-1}	Y_{t-2}	Y_{t+1}	Y_{t+2}	R_2	DW	F
7	22.07 (1.07)	0.29 (0.15)	-2.65 (-1.63)	-1.08 (-0.75)	-1.34 (-0.67)	1.93 (1.07)	0.26	1.10	2.07
8	24.72* (2.16)	0.41 (0.23)	-2.87* (-2.15)	-0.96 (-0.79)	-	-	0.19	1.61	2.13

Figures in the parenthesis indicate corresponding 't' values. * Indicates significance at 5% level.

Table 2.8
Summery of Sim's Causality Test

Equations (5) & (6) The null hypothesis H_o : Export growth (X) does not cause growth of GDP (Y). The statistic F = 0.68 Since 'F' is less than table value of $F_{0.05}$, we accept the null hypothesis.
Equations (7) & (8) The null hypothesis H_o : Growth of GDP (Y) does not cause growth of Export (X) The statistic F = 0.40 Since 'F' is less than table value of $F_{0.05}$, we accept the null hypothesis.

The econometric result in table 2.8 shows clearly that 'no way' causality exits in Bangladesh. The implications of this are that neither the growth of exports causes growth of GDP, nor the growth of GDP causes growth of exports. As we have mentioned earlier that the absence of any definite causative process indicates that alternative strategy should be employed for structural transformation of Bangladesh but not the export-led growth. These results are remarkedably consistent with what we observe in the simple time series plots of growth of GDP and Export (Figure 2.1)

Growth Rate of GDP & Export

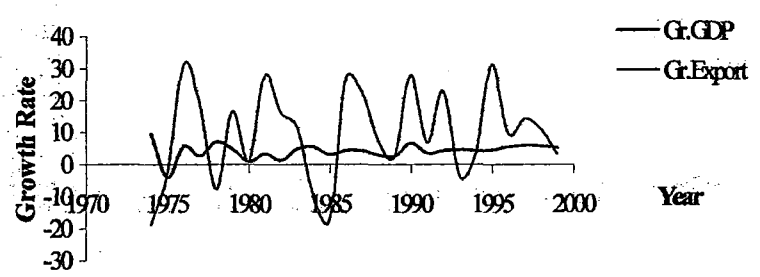


Figure : 2.1

2.4.2 Export and Industrial Development:

It is noteworthy that, export growth played an important role behind the development of the present advanced countries, when they were in their pre-industrial phase. The structure of their economies gradually shifts from primary industries (i.e. agriculture) to secondary industries (i.e. manufacturing) and finally to tertiary (i.e. service). Balassa argued that the development of the manufacturing sector is a 'part and parcel of overall economic development' , [Balassa(1981), essay–1, – as quoted in Chow(1987):56]. Therefore, growth of manufacturing industries in Bangladesh can be considered as a proxy to measure her first stage of industrial development. We, however, can conceive three different situations :

i) a definite unidirectional causality from export expansion to development of manufacturing industries, [MX $\rightarrow$ MI].

ii) a definite unidirectional causality opposite to (i) , [MI $\rightarrow$ MX].

iii) a bi-directional causality, [MX $\leftrightarrow$ MI].

In case of the first situation, export will promote the growth of national income and lead to structural transformation in the developing countries like Bangladesh. The second situation would imply the development of basic infrastructure or a minimum level of development in order to expand the country's export. In the third situation, export growth and development of manufacturing industries have a reciprocal causal relationship. It is important to note that the absence of any definite causative process implies that alternative strategy other than export-promotion should be needed for structural transformation of a country like Bangladesh. Investigating the causal relation between the growth of manufactured exports and industrial development in Bangladesh will important implications for development strategies. The intention of this study is to test causality between the growth of manufactured exports and development of manufacturing industries in Bangladesh. Our objective is to empirically validate the proposition that there exist a causal relationship between expansion of manufacturing goods (GRMX) and growth of manufacturing industries (GRMI). The next step in the analysis is to test the causal relationship between GDP of Industrial Output and Manufactured Exports. We then used the practical technique of modified Granger methodology for testing causality,

proposed by Bahmani et al. (1991) and as quoted by Richards (2001). Therefore , for our present study we have the following linear equations with distributed lags:

$$GRMX_t = b + \sum_{i=1}^{K} \gamma_i GRMX_{t-i} + \sum_{i=1}^{L} \lambda_i GRMI_{t-i} + \mu_i \qquad (13)$$

$$GRMI_t = b_0 + \sum_{i=1}^{K} b_i GRMI_{t-i} + e \qquad (10)$$

$$GRMI_t = a + \sum_{i=1}^{m} \alpha_i GRMI_{t-i} + \sum_{i=1}^{n} \beta_i GRMX_{t-i} + e_1 \qquad (11)$$

$$GRMX_t = b_0 + \sum_{i=1}^{K} b_i GRMX_{t-i} + \mu \qquad (12)$$

where GRMI is the rate of growth of GDP to industrial output and GRMX is the growth rate of manufactured exports.

The choice of the lag lengths for dependent and independent variable is determined by Akaike(1974) information criteria (AIC). That lag value is chosen as optimal that minimise the AIC. At first we regressed the dependent variable on its own lagged value. In the second stage lagged values of the independent variable are added to the model. If the addition of the lagged values of the independent variable reduce the AIC we conclude that the independent variable 'causes' the dependent variable.

If there exists any causal relationship between dependent and independent variables , we then try to identify the direction of causality. For this, following Bahmani et al.(1991) , we take the sum of the coefficient related to the independent

variables of the two estimated equations . If $\sum\beta_i > 0$ then we conclude growth of manufactured exports causes industrial growth to increase i.e. GRMX $\rightarrow$ GRMI . If , on the other hand $\sum\lambda_i > 0$ then the conclusion will be opposite. In order to test the significance of the coefficients, again following the same authors provides a joint 'F' test. F – statistics will be calculated by the following equations:

$$F = \frac{(SSE_r - SSE_u)/n}{SSE_u / \{T-(m+n+1)\}} \qquad (14)$$

where SSE_r is the sum of squares of the residuals of the restricted under the test of the hypothesis that either $\sum\beta_i$ and / or $\sum\alpha_i = 0$. SSE_u is the sum of squares of

the residuals of the unrestricted model. T , n and m refers to the number of observations and the lag lengths of the independent and dependent variable.

For our OLS equations (10) to (13) have been estimated and the 'F' statistic as given in equation (14) are calculated. OLS results are shown in Table 2.9 & 2.10. The 'F' statistic and the results of causality testing are shown in Table 2.11.

Table - 2.9
Estimation of the model Equations (10) and (11)
[Growth rates of Output of Manufacturing Industries 'GRMI' as dependent variable]

Eq.	Intercept	$GRMI_{t-1}$	$GRMI_{t-2}$	$GRMI_{t-3}$	$GRMX_{t-1}$	$GRMX_{t-2}$	$GRMX_{t-3}$
10	3.28** (1.86)	-0.006 (-0.03)	0.10 (0.54)	0.20** (1.93)	-	-	-
	R^2 = 0.18		DW = 1.78		F = 1.43		
11	2.00 (0.98)	0.03 (0.14)	0.02 (0.09)	0.19** (1.79)	0.03 (0.63)	-0.01 (-0.19)	0.10** (1.94)
	R^2 = 0.35		DW = 1.68		F = 1.45		

Figures in the parenthesis indicate corresponding 't' values. **Indicates significance at 10%

Table - 2.10
Estimation of the model Equations (12) and (13)
[Growth rates of Manufacturing Export 'GRMX' as dependent Variable]

Eq.	Intercept	$GRMX_{t-1}$	$GRMX_{t-2}$	$GRMI_{t-1}$	$GRMI_{t-2}$	R^2	DW	F
12	20.33* (4.03)	-0.20 (-1.01)	-0.34** (-1.79)	-	-	0.16	1.89	1.93
13	17.84* (2.61)	-0.16 (-0.76)	-0.33 (-1.56)	0.05 (0.06)	0.30 (0.68 *	0.18	1.94	1.03

Figures in the parenthesis indicate Corresponding – 't' values. **Indicate significance at 10%

Table - 2.11
Summary of Granger Causality Test

Equations (10) & (11) $GRMI_{(3)}$ causes $GRMX_{(2)}$ AIC before inclusion of independent variables = 63.17 AIC after inclusion of independent variables = 66.86 $\Sigma\beta_i = 0.12$ Test of the restriction $\Sigma\beta_i = 0$ is not rejected at 0.05 level F = 1.39 , $F_{0.05}$ = 3.42.
Equations (12) & (13) $GRMX_{(2)}$ causes $GRMI_{(3)}$ AIC before inclusion of independent variables = 94.50 AIC after inclusion of independent variables = 98.21 $\Sigma\lambda_i = 0.35$ Test of the restriction $\Sigma\lambda_i = 0$ is not rejected at 0.05 level F = 0.26, $F_{0.05}$ = 3.03.

N.B : subscript with the variable indicates corresponding lag values determined by the **AIC**

The econometric results in the above Table 2.11 clearly shows that the causal process is far less significant in the either direction in Bangladesh. The implication of this is that neither the growth of manufacturing industries causes the growth of

manufactured export, nor the growth of manufactured exports causes the growth of manufacturing industries in Bangladesh. However, we are able to detect a positive relationship running from industrial output to manufactured exports, but 'F' test on the corresponding restrictions fail to reject the null hypothesis. Thus the results of causality test is far from supporting the export-led growth hypothesis in Bangladesh.

We may be able to find out the positive but non-causal relationship between growth of manufacturing export and output of manufacturing industries from simple time series plots (Figure: 2.2).

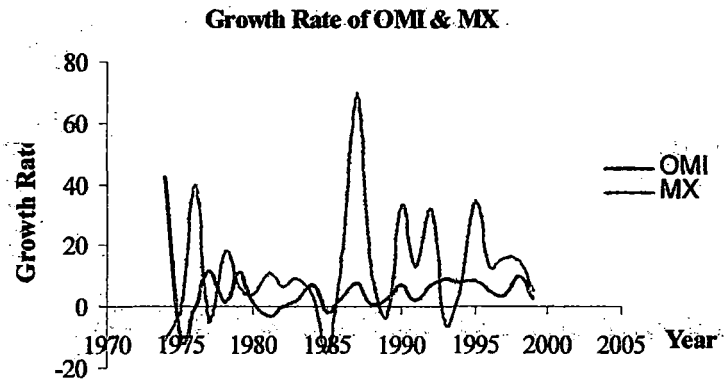


Figure : 2.2

2.5 Regression Analysis under Production Function Frame Work:

We find in the previous section that there exists 'no -way' causal relation in Bangladesh both for exports and industrial development and for export and economic growth in general by applying Granger and Sim's causality test. The Granger test, however, is subject to certain critical limitations pointed out by the econometricians. The main objection against the Granger Causality test is that, being a test of precedence, it only explains the existence of precedence of one variable over another. It is said that there are situations where precedence is sometimes suggestive of causation but not always. As it indicates that precedence is at least not sufficient for causality, it raises serious doubt that how far the method is applicable for ascertaining the economic causality. Second important requirement, which is suggested in the literature of time series econometrics, is the number of observations of a time series variable. It is said that the sample size should be large enough.

A section of economists, therefore, consider that adopting a structural econometric model as the principal method of analysing is better than the causality test. We, therefore, undertake to study the extent of impact of export as factor input on national output in this section. It seems that the study will be helpful in getting rid of

all controversy relating to selection of methodology and we will also be able to reconcile the result of the study with the one that we have already obtained from the findings of causality test.

2.5.1 The Model and Related Issues:

As has been mentioned earlier, Bangladesh has been stressing on export-led growth and proportion of its export contribution to GDP has increased. The economy of the country in general and manufacturing export in particular, has been gradually increased. So it apparently indicates that export-led growth strategy plays an important role in the economic development of Bangladesh. For an objective analysis of export- growth link of the country, we like to study the role of exports in economic growth in the framework of a straightforward production function model that considers export as similar to that of production input. In order to test whether Primary Export (Px) or Manufacturing Export (Mx) makes an individual contribution to growth of GDP, we have included both Px & Mx separately as explanatory variables of economic growth. It is believed that Mx may be a better proxy of the structural transformation of the economy. We also like to test whether external factors or domestic factors play an important role in the determination of level of GDP of the country. For this , we regress Total Export (Tx) , Primary Export (Px) and Manufacturing Export (Mx) against GDP along with other two explanatory variables capital (K) and labour (L). So the functional form of the model may be specified as follows:

$$Y = f\ (K, L, Tx, Px, Mx) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (15)$$

Where : Y = Aggregate real out put (GDP);

L = Labour input ;

K = Capital input ;

Tx = Total export;

Px = Primary export; and

Mx = Manufacturing export

To ensure the reliability of statistically significant result in the time series analysis, we have run the regression in terms of rate of growth of the variables using a logarithmic relationship. The model is estimated stepwise by the Ordinary Least Squares (OLS) method. Therefore for practical purpose, taking log-difference and manipulating the

terms slightly, the following are the empirical specifications of the model to be estimated:

$$\Delta \ln Y = \alpha_0 + \alpha_1 \Delta \ln K + \mu_1 \quad 16$$

$$\Delta \ln Y = \beta_0 + \beta_1 \ln L + \mu_2 \quad 17$$

$$\Delta \ln Y = \delta_0 + \delta_1 \Delta \ln Tx + \mu_3 \quad 18$$

$$\Delta \ln Y = a_0 + a_1 \Delta \ln Mx + \mu_4 \quad 19$$

$$\Delta \ln Y = b_0 + b_1 \Delta \ln Px + \mu_5 \quad 20$$

$$\Delta \ln Y = \lambda_0 + \lambda_1 \Delta \ln K + \lambda_2 \Delta \ln Tx + \mu_6 \quad 21$$

$$\Delta \ln Y = \pi_0 + \pi_1 \Delta \ln K + \pi_2 \Delta \ln Px + \mu_7 \quad 22$$

$$\Delta \ln Y = \phi_0 + \phi_1 \Delta \ln K + \phi_2 \Delta \ln Mx + \mu_8 \quad 23$$

$$\Delta \ln Y = \Omega_0 + \Omega_1 \Delta \ln K + \Omega_2 \Delta \ln L + \mu_9 \quad 24$$

$$\Delta \ln Y = c_0 + c_1 \Delta \ln K + c_2 \Delta \ln Mx + c_3 \Delta \ln Px + \mu_{10} \quad 25$$

$$\Delta \ln Y = d_0 + d_1 \Delta \ln K + d_2 \Delta \ln Mx + d_3 \Delta \ln Tx + \mu_{11} \quad 26$$

$$\Delta \ln Y = e_0 + e_1 \Delta \ln K + e_2 \Delta \ln Px + e_3 \Delta \ln Tx + \mu_{12} \quad 27$$

$$\Delta \ln Y = \gamma_0 + \gamma_1 \Delta \ln K + \gamma_2 \Delta \ln Tx + \gamma_3 \Delta \ln Px + \gamma_4 \Delta \ln Mx + \mu_{13} \quad 28$$

$$\Delta \ln Y = \chi_0 + \chi_1 \Delta \ln K + \chi_2 \Delta \ln Tx + \chi_3 \Delta \ln Px + \chi_4 \Delta \ln Mx + \chi_5 \Delta \ln L + \mu_{14} \quad 29$$

where $\Delta \ln$ indicates log difference of the variables , all appropriately suffixed α , β , δ, a, b, λ, π, ϕ, c, Ω, d, e , γ, & χ are the coefficients of the variables and similarly suffixed μ are random terms.

2.5.2 OLS Results and Interpretation:

Findings of the estimated parameters of OLS equations described in 16 to 29 are presented in table 2.12. Goodness of fit (R^2), auto-correlation (DW) and statistic for test of significance (t & F) are provided appropriately for each OLS equation. Equations 16 to 20 are being used to introduce each of our explanatory variable i.e., Capital (k), Labour (L), Total Export (Tx), Primary Export (Px), and Manufacturing Export (Mx) individually against the total output (Y). Results show that only three variables, namely, Capital, Primary Export, and Manufacturing Export appear significant as explanatory variables with varying degree of goodness of fit and level of significance. While capital is significant at 5% level, other two are significant only at 10% level. Other two variables, labour and total exports do not imply significant influence on Y individually. While labour seems to explain only 0.004 percent with positive coefficient, the variable total export, though better ($R^2 = 0.02$) than labour but not only fail to explain substantial or cognizable part of variation, the coefficient being negative, the relation is totally unacceptable theoretically.

We, therefore, introduce variables stepwise and 'manufacturing export' appears to be most promising as an element of the set of explanatory variables along with capital.

Thus the estimation of the OLS equations 23 is done and the results of the estimation reveal that these two variables jointly are able to improve the level of explanation of the variable. Both the coefficient are significant at 5% level and the value of R^2 increases to 0.51. If we introduce the other significantly contributory variable 'Primary export' with capital, than also it improves the value of R^2 than its value in case of individual contribution and both the coefficients appears significant. However, value of R^2 is less than the value we get in case of the contribution of capital and Mx. Since, in both case, R^2 improves, coefficient do not change their sign and remain significant, we prefer to introduce these three variables together following the OLS equation 25.

Table : 2.12.
OLS Results : Equation 16 - 29
(GDP 'Y' as Dependent Variable;Period 1972-73 to 1998-1999.)

Eq	β_0	K	L	Tx	Px	Mx	R^2	DW	F
16	0.1 (6.43)*	0.70 (3.28)*					0.31	2.60	10.8
17	0.02** (1.72)	-	0.29 (.32)				0.004	2.82	0.10
18	0.02 (6.78)*			-0.03 (-0.74)			0.02	2.92	0.55
19	0.02 (7.64)*				0.04** (1.89)		0.13	2.37	3.65
20	0.2 (5.40)*					.04** (1.81)	0.15	2. 45	2.38
21	0.01 (4.60)*	0.08 (3.18)*		0.02 (0.63)			0.32	2. 56	5.44
22	0.01 (6.81)*	0.07 (3.61)*			0.04 (2.67)*		0.44	2.23	9.21
23	.01 (3.72)*	0.09 (4.65)*				0.09 (3.10)*	0.51	2.18	12.1
24	0.02 (2.02)	0.07 (3.19)*	-0.06 (-0.08)				0.31	2.61	5.15
25	0.01 (3.92)*	0.09 (4.41)*			0.02 (1.16)	0.07 (2.14)*	0.54	2.06	8.63
26	.01 (4.10)	0.08 (4.08)*		-0.05 (-1.36)		0.12 (3.35)*	0.55	2.26	8.96
27	0.02 (5.63)*	0.06 (2.56)*		-0.04 (-0.98)	0.06 (2.46)*		0.47	2.21	6.45
28	0.12 (4.88)*	0.68 (3.43)*		-0.09* (-2.34)	0.46 (2.22)*	0.11 (3.11)*	0.64	2.15	9.14
29	0.01 (2.29)*	0.07 (3.36)*	-0.13 (-0.22)	-0.09* (-2.29)	0.05 (2.17)*	0.11 (3.03)*	0.63	2.16	6.99

* indicates 't' statistics significant at 5% level. ** indicates 't' statistics significant at 5% level

Estimation results show that the level of explanation of variation improves from $R^2 = 0.51$ to $R^2 = 0.54$. None of the coefficient changes its sign adversely. However, while coefficients of capital and manufacturing export remain significant, the coefficient of primary export does not appear statistically significant. But as the value of R^2 improves & the coefficient remains positive, we can neither consider this variable superfluous nor detrimental. The situation, however, is not same when we consider other two variables, namely, total export and labour. Interestingly, when replacing 'primary export' we try to estimate 'total export' along with 'capital, and 'Mx' as given by the OLS equation 26, we find that the value of 'goodness of fit' is even better ($R^2 = 0.55$). But , the coefficient being negative, it appears detrimental to the causal relation. The situation does not change when the OLS equation is estimated. Finally, therefore, our OLS analysis shows that primary export (Px) and Manufacturing export (Mx) have significant contribution to GDP (Y) along with the amount of the capital invested.

We thus get the following marginal productivities with respect to capital, Px and Mx:

$$\frac{\partial Y}{\partial K} = 0.09; \quad \frac{\partial Y}{\partial Px} = 0.02; \text{ and } \frac{\partial Y}{\partial Mx} = 0.07$$

It seems to reveal that manufacturing export has greater marginal contribution to economy's output than primary export. Moreover, $\partial Y/\partial Mx$ is statistically significant, whereas $\partial Y/\partial Px$ is not. Results seem to answer the question that how the scarce resources are to be distributed efficiently to increase productive capacity of the economy of Bangladesh among primary export and manufacturing export sectors. The factor productivity in manufacturing export sector being greater, productive capacity of country would be enhanced if greater share of scarce resources is directed towards manufacturing export sector.

2.6 Concluding Remarks:

Inference drawn from the study of this chapter 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 progress of the development edndeavour 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 to manufactured exports 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 development initiatives, exports in Bangladesh will play a leading role in transforming the nation's economy. However, with respect to the alocative 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 primary export.

Chapter - 3

An Appraisal Of Export Financing: Role Of Commercial Banks.

3.1 Introduction:

Banks have been playing a crucial role in enriching the economic development of a nation. In modern economy, it is said bankers are to be considered not merely as 'dealers in money' but more realistically the 'leaders in development'. Similarly, banks are not just the storehouse of the country's wealth but are the reservoirs of resources necessary for economic development. The basic role of commercial banks is to mobilise adequate financial resources to meet the financial demands of the various productive sectors of the economy in such a way that the most preferred sectors, however unattractive they may be, are properly looked after in the interest of better development of the country. The path of economic growth and development may be altered by the banks by affecting the allocation of savings and not necessarily by altering the savings rate [Beck, et al. 1999].

The role of credit in economic development has long been recognised. The development of any sector of the economy is a function of not only the resource endowments but also the ability to cater to the financial need of the sector for improved productivity [Arosanyin, 2001, p. 263]. The export sector is not an exception. The need for accelerating the export trade of developing economy like Bangladesh can hardly be overemphasised. This is because export earnings enable the country to finance its massive requirements of growth to maintain its essential imports and stimulate the process of economic development. In fact, "expansion of exports may well be described as an integral part of the development process, neglect of which can only be at the peril of development itself" [Rao, 1968, p.377]. To achieve this role the exports sector requires that its financial problems be properly addressed.

An exporter may need finance at two distinct stages for an export transaction, vide pre-shipment and post-shipment stage. To a limited extent, the financial needs of an export operation may be met by an exporter through : (a) his own resources, (b) the amount of credit he is able to obtain from his suppliers or sub-suppliers, and (c) the advanced payment he secures from the overseas buyers. The scope of supporting the financial needs of export from the sources mentioned in (b) and (c) being very scanty and uncertain, the exporter has to depend largely on his own resources, which makes the scale of his export operation limited. It is, therefore, imperative to have support from a source of finance other than exporter's own resources in order to enhance the

scale of operation in line with the envisaged export-led economic growth strategy. At the pre-shipment stage, when an exporter gets an order, he is likely to require finance for mobilising further inputs (from home and from abroad). To be very specific, an exporter seeks financing facilities at pre-shipment stages for the following purposes:

a. Import of raw materials
b. Cash for local procurement and meeting related expenses
c. Packaging and transportation of goods
d. Insurance premium
e. Inspection fees
f. Processing of goods for export and
g. Freight, port, custom, & shipping agent charges.

Generally an exporter seeks pre-shipment credit from his bank by presenting evidence of the firm's export order that he has received. Such evidence could be a 'Letter of Credit' (L/C), or a firm's order providing information for payment by means of other than a L/C. But in case of export-oriented processing industries, the situation is slightly different. They receive export orders that require shipment at short notice. It may not be possible for such exporters to start production after the order has been received, if the goods are to despatch on time. The exporter therefore undertakes production continuously in anticipation of export orders, based on his past export volume. If he initiates the process of mobilising pre-shipment finance only after receiving the export order, he may not be able to obtain funds in time. In such a situation, it is necessary to extend pre-shipment finance facilities to the exporter in anticipation of his export order.

If the exports are made on cash payment at the time of despatch of goods for export, exporter may not need any further financial support. This is the case if the export transaction is made on the basis of a L/C providing for payment at sight. If , on the other hand, the overseas buyer has sought and the exporter has agreed to extend credit, the exporter has to wait much more longer period for payment. Besides these, when goods are exported on a 'consignment' basis, they are not sold at the point of shipment. The goods remain as stocks abroad on the supplier's (exporter's) account. From time to time, some of the stocks are sold. In these circumstances, to improve the

liquidity position of the exporter and to undertake further business activities, the exporter looks for financing facilities at post-shipment stage also.

In view of substantial financial need to pursue export trade, it is often difficult to provide the required fund from the own resources of the exporters and thus demand for institutional involvement to alleviate their financial problem is a longstanding one. The agencies and institutions connected with export financing are the government, the central bank of the country (Bangladesh Bank), the commercial banks , specialised financing institutions / Development financial institutions and Sadharan Bima Corporation (for export credit guarantee schemes).

We feel that an overview of inter-institutional national structure of all such agencies involved in the process of providing finance to the exporters in Bangladesh is necessary as a pre-requisite to understand the pros and cons of export finance. With this view in mind, we undertake a brief discussion on existing inter-institutional environment and provide a schematize presentation of it in the next section 3.2.

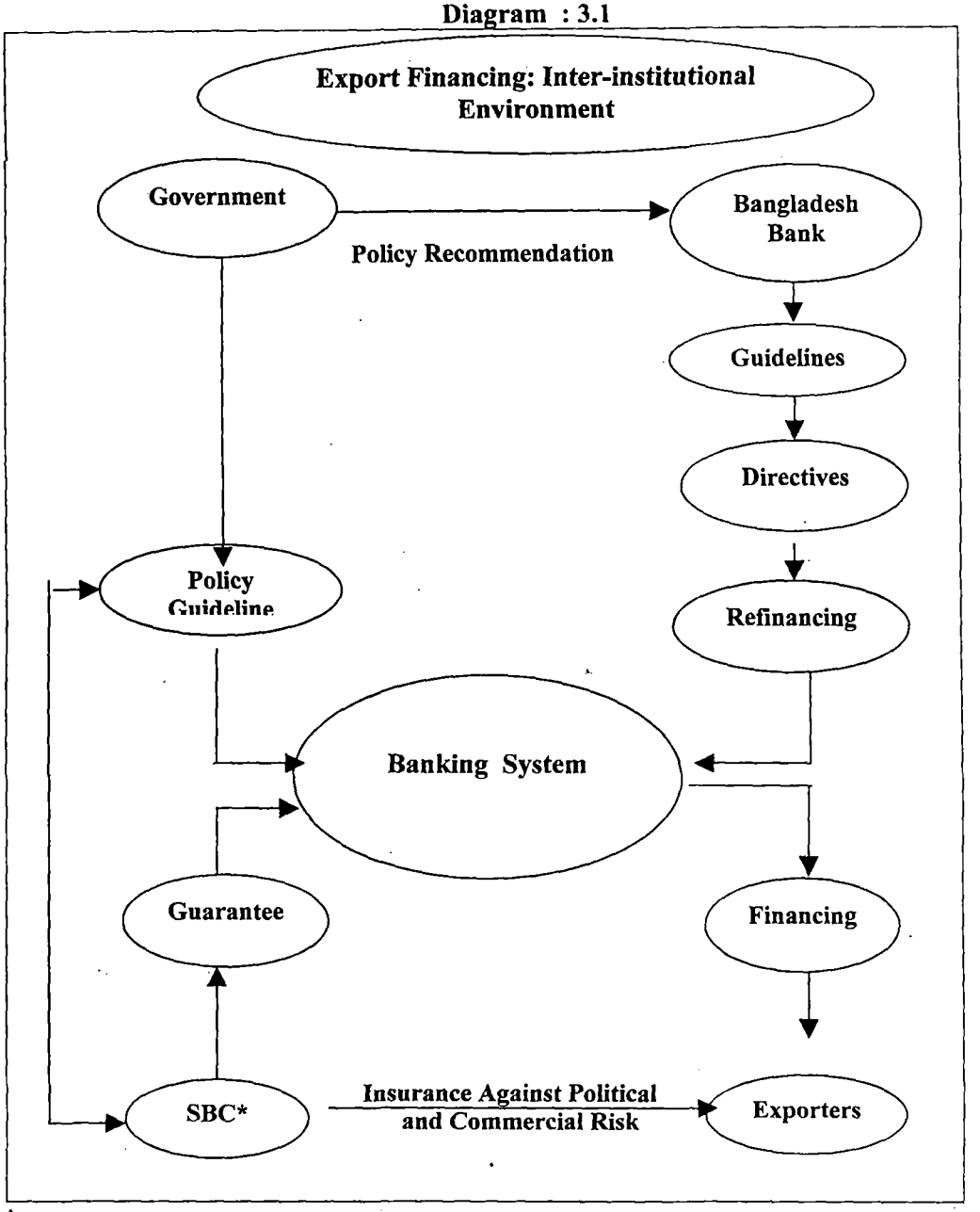
3.2 Inter-institutional Environment & Export Finance:

The government formulates policies, makes recommendations and issues guidelines and directives to the banks concerning export financing through the Bangladesh Bank which is the central bank. Bangladesh Bank has to issue guidelines and directives to banks connecting the priorities to be accorded to export financing, the rates of interest to be charged, the period for which concessional finance should be available and so on. The Bangladesh Bank also provides the refinancing facilities to the commercial banks. Commercial banks have the responsibility for providing both the pre-shipment and post-shipment finance to exporters, to the extent of their reasonable needs and in accordance with the guidelines and directives of the central bank. The banks also issue guarantees on behalf of their clients in connection with their export operations. Sadharan Bima Corporation operating a separate wing provides finance through the export credit guarantee schemes to the exporters. Specialised financial institutions and the development financial institutions normally meet the financial need of developing infrastructure suitable for export.

The macro level institutional environment of export financing of Bangladesh is shown in the following schematic diagram 3.1. The banks operating in pre-

independent Bangladesh ,except those incorporated abroad, were nationalised after liberation. These banks were merged and grouped into six commercial banks named as Agrani, Janata, Rupali, Sonali, Pubali, and Uttara Banks. Of the total six commercial banks, Pubali Bank and Uttara Bank have subsequently been transferred to the private sector with effect from January 1985 [Bangladesh Bank, 1999].

Diagram : 3.1

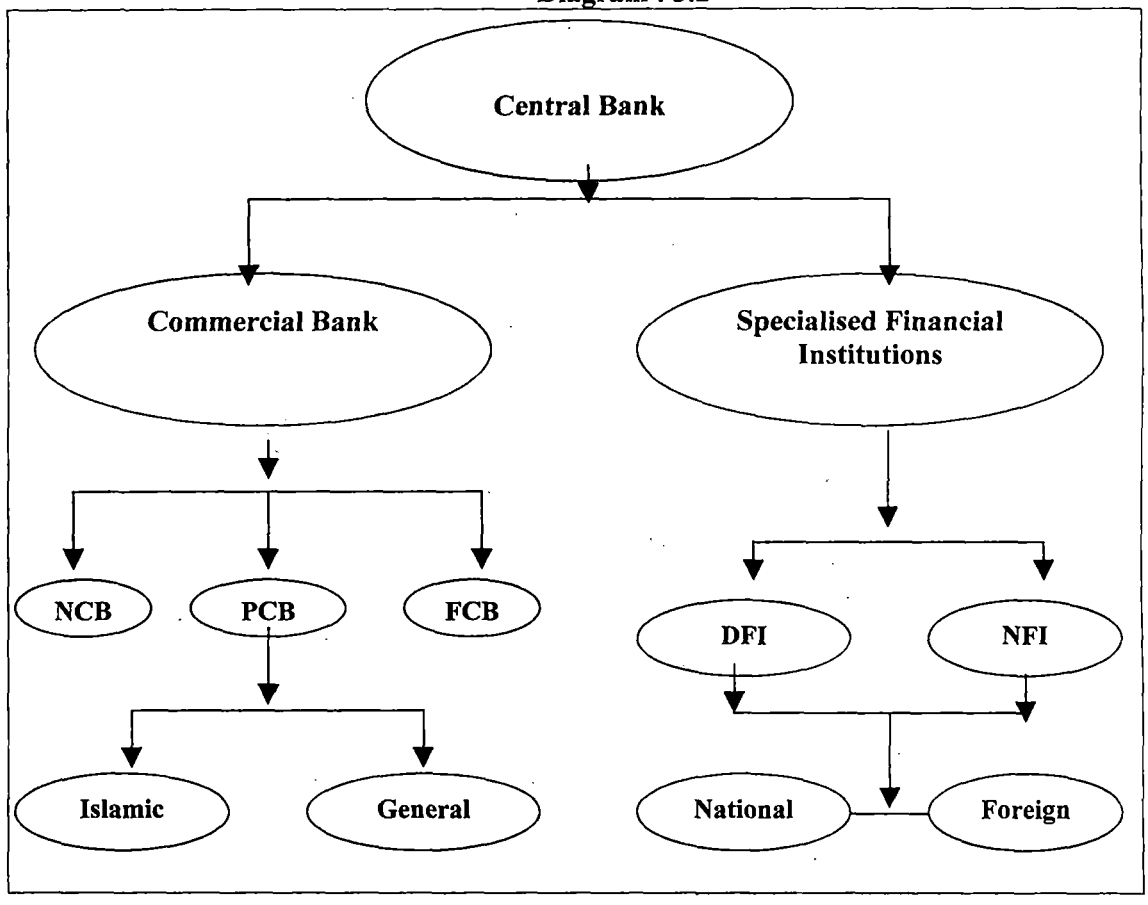


* **SBC** = Sadharan Bima Corporation

The Two Government owned specialised banks were renamed as Bangladesh Krishi Bank and Bangladesh Shilpa Bank. Bangladesh Shilpa Rin Sangstha started its industrial policy incorporating the liberalisation in the financial sector . From then

several financial institutions both in public and private sector emerge in Bangladesh. Diagram 3.2 represent the present banking structure of Bangladesh:

Diagram : 3.2



Note:
NCB = Nationalised Commercial' Banks; **FCB** = Foreign Commercial Banks
PCB = Private Commercial Banks; **DFI** = Development Financial Institution
NFI = Non bank Financial Institution.

In financing the export sector the involvement and participation of banks and financial institutions other than commercial banks, both national and private, are minimal. The major non-bank financial institution, which is directly involved in the process of getting finance by an exporter, is a general insurance institution namely 'Sadharan Bima Corporation'. Foreign financial institutions, both specialised and commercial, are normally not operating in this particular sector. Other specialised banks , like *Bangladesh Krishi Bank, Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha* and all kinds of Development Financial Institution, are incorporated for a very specific objective which does not merit financing to export trade. As such, we thus left with a single category of financial institutions involved in export financing

mainly non-foreign origin commercial banks - both national and private. For this, the role of financial institution, if so felt, is synonyms to the role of commercial banks in the context of export financing in Bangladesh, We, would therefore, like to concentrate our analysis on the performance of commercial banks related to export financing over time. However, private commercial banks in Bangladesh are again classified into two groups with respect to the banking procedure followed. A group of banks that follows the usual banking practice like elsewhere is denoted by us as 'general' and henceforth will be denoted by Pvt.^{IB}. There is another group of banks which, though incorporated under company Act as a public limited company, follows the banking business practices sanctified by Islamic Shariah principles. As a result, these banks claim that they do not charge interest against advance. We, therefore, prefer to term this class of banks as private commercial banks (interest free) rather than Islami bank and henceforth will be denoted by Pvt.^{IF}.

Financing may be made at two stages : a) pre-shipment stage or b) post-shipment stage. Before proving into details of the role of financial institution in export finance, it is thought that a brief discussion on the existing financial facilities available at these two stages is to be necessary for better understanding of the problem in hand. We, therefore, in the next section, analyse the existing financial schemes.

3.3 Export financing facilities in Bangladesh:

Export policy (1997-2002) emphasises the monitoring policy of export credit by taking three independent measures. It makes provision of i). Monitoring the over-all flow of export credit (ii) creation of export credit cell and (iii) creation of export monitoring committee [Policy, 1997-98, p. 8-9]. Accordingly, Bangladesh Bank has been entrusted with to take necessary steps to ensure that normal flow of export credit is maintained. The central bank is also authorised to monitor the quantum of credit squeeze measure. The C.C limit of the exporters will be determined only on the basis of the export performance in the preceding year except new entrants.

A special export cell which has been set up as per the provision of the export policy is empowered to 'supervise and monitor' the function of export financing of Bangladesh bank. Moreover, the policy ensures that all export credit problems are being processed by a special unit in every commercial bank created exclusively for this purpose.

Besides this provision of monitoring by the central bank and the cell, there is a high-powered committee called 'Export monitoring committee'. This committee is empowered with the task of (i) assessing the export credit requirement, (ii) reviewing and monitoring the flow of export credit, and (iii) ensuring that adequate and timely credit are made available to the exporters.

3.3.1 Pre-shipment Credit:

Pre-shipment credit is essential as a short-term credit, which is to be liquidated by negotiation/ purchase of export bills covering the particular shipment for which the credit has been granted. Particularly, most of the pre-shipment export credits are granted for a single transaction in the forms of limits duly sanctioned by the bank in favour of the exporters for a particular period, say, a year or two with the condition to adjust the drawings fully once within a period of 3-6 month in conformity with the terms and conditions as stipulated in the limit sanction advice. It may be pointed out here that , before extending pre-shipment credit to the exporters , the banks take into consideration the credit worthiness of the exporters along with all other necessary information required for sanctioning the credit in accordance with the existing rules and regulation in force in this regards . However for all practical purposes, pre-shipment credit takes the following forms:

(a) Export Cash Credit (Hypothecation):

This type of facility is allowed generally to the first class exporters. Under this arrangement a credit is sanctioned to the exporter depending upon his credit requirement against the security of hypothecation of raw materials or finished goods intended for export. The exporter by signing the letter of hypothecation duly stamped creates a charge against the exportable goods for an amount of debt. The letter of hypothecation creates a charge against the merchandise in favour of the bank but neither the ownership nor the possession is handed over in favour of the bank but exporter binds himself to give possession of the goods to the bank when called upon to do so . When the possession is handed over, the charge is converted into pledge. As the bank has got no security in this case, except charge documents and lien of export L/C contract. Hence the banks normally insist on the exporter to furnish collateral security as they deem fit.

(b) Export Cash Credit (Pledge) :

In this case a cash credit limit is sanctioned against security of pledge of exportable goods or materials in process. The exporter surrenders the physical

possession of the goods under "bank's effective control" as security for payment of bank's dues . The ownership of the goods , however, remains with the exporters. The pledge of the goods creates an implied lien in favour of the bank on the concerned goods and in the event of failure of the exporters to honour his commitment the bank can sell the pledge (merchandise) for recovery of the advance subject to serving proper notice to the exporter in advance.

(c) Export Cash Credit against Trust Receipt :

According to this mode of credit, unlike pledge, the exportable goods remain in the custody of the exporter. He is required to execute a stamped export trust receipt in favour of the bank, wherein a declaration is given that goods purchased with financial assistance from the bank are held by him in trust for the bank. This type of credit is granted when the exporter wants to utilise the credit for processing, packaging and rendering the goods in exportable position and when it seems that exportable goods can not be take into bank's custody. Here also bank's security is minimum, hence collateral security is generally obtained.

(d) Packaging Credit:

Packaging credit is any loan or advance granted to an exporter from a pre-sanctioned credit limit for financing the purchase, processing, manufacturing or packaging of goods for export. This type of credit is sanctioned for the transitional period starting from despatch of the goods till the negotiation of the export documents for procurement of goods for further exports. Packaging credit facilities are extended against security of Railway/Steamer /Barge/Truck Receipt representing the evidence of transportation of goods to the port for shipment in addition to usual charge documents including letter of credit. Both direct and indirect exporters are eligible for packaging credit. In case of direct exporters packaging credit is generally granted on the basis of letter of credit established by banks of (standing abroad) in favour of exporter. If no letter of credit has been established, the credit can be granted on the basis of a firm order.

(e) Back to Back Letter of Credit:

Under this arrangement the bank finances export trade by opening a letter of credit on behalf of the exporter who has received a letter of credit from the overseas buyers but is not the actual manufacturer or producer of the exportable commodities. The letter of credit is opened in favour of the actual producer or supplier of the

commodity either inside or outside of the country. Since the second letter of credit is opened on the strength of and backed by another letter of credit, it is called "Back to Back Credit". The need for a back to back credit arise because the beneficiary of the original (export) letter of credit may have to procure the goods from the actual producer who may not supply the goods unless the payment of the goods is guaranteed by the bank in the form of opening inland letter of credit. In this case the actual suppliers of the goods submits the documents of titles of goods and other documents to the bank, which has established the inland letter of credit for payment. Since this type of financing is, to a great extent risky, the bank generally obtains collateral security from the exporter concerned. This back to back letter of credit must confirm to the terms and conditions of the original letter of credit with the following exceptions:

i). Name of the original beneficiary shall be submitted by that of actual supplier.

ii). The credit amount shall normally be lower than that of original letter of credit.

iii). The back to back letter of credit shall be made valid for shipment and negotiation prior to expiry of the corresponding date.

(f) Advance against Anticipatory Letter of Credit:

So far we have discussed the types of credit which are generally granted to the exporters at pre-shipment stage on their own risk and responsibility. But advance against anticipatory letter of credit, the negotiating/beneficiary bank is making the advance to the exporters under the authority of the L/C opening bank. Anticipatory letter of credit may be classified as (a) Red Clause L/C and (b) Green Clause L/C. As the clause containing such authority is printed/typed either in red ink or in green ink on the top of the L/C, it is called Red Clause or Green Clause L/C respectively. Under Red clause letter of credit, the opening bank authorises the advising bank/ negotiating bank to make advance prior to shipment to enable him to procure the exportable goods in anticipation of his effecting the shipment and submitting a bill under the L/C. The advances are restricted to the amount authorised under the red clause. The credit-disbursing bank is to take necessary documents & undertaking from the exporters and to conform to the terms and conditions mentioned in Red clause. But in case of Green clause L/C, the opening bank authorises the advising

bank to make advances not only to procure exportable goods but also storage cost for storing the goods prior to shipment.

3.3.2 Post Shipment Credit:

This type of credit refers to the credit facilities extended to the exporters by commercial banks after shipment of the goods against export documents. Commercial banks are generally extending post-shipment credit under the following instruments:

(a) Negotiation of Documents under L/C:

Under this arrangement, after the goods are shipped, the exporter submits the relevant documents to the negotiating bank for negotiation. The documents should be negotiated strictly in accordance with the terms and conditions and within the period mentioned in the letter of credit.

(b) Purchase of DP & DA Bill's:

In such a case, the banks purchase / discount the DP (Documents against Payment) and DA (Documents against Acceptance) bills at the rate published by the Exchange Rates Committee of authorised dealers. While doing so, the banks should scrutinize minutely all the export documents separately and obtain, clear instructions whenever necessary, from the drawer of the bill in regard to all important issues related to the negotiation of the bills.

(c) Advanced Against Bills for Collection:

The commercial Banks generally accept export bills for collection proceeds when they are not drawn under a L/C or when the documents even though drawn against a L/C contains some discrepancies. Bills drawn under L/C. without any discrepancy in the documents, are generally negotiated by the bank and the exporter gets the money immediately from the bank. However, if the bill is not eligible for negotiation, he may obtain advance from the banks against the security of export bills. In addition to the export bills, banks may ask for collateral security.

3.3.3 Advanced Against Duty Drawback :

The import duty paid on raw materials or components for export products or the excise duty paid on items indigenously produced for export are repaid to the exporter on completion of the export. The needs for advance against duty drawback arises because of delay involved in verifying the claims of the exporters by National Board of Revenue (NBR) and payments of drawback by authority concerned. During

this interval exporter's fund is locked up and seeks financial assistance from the bank to tie over the situation.

If an exporter wishes to take advantage of 100% drawback credit facility against refundable drawback, he can apply to his bank for credit with relevant documents only after issuance of SRO by National Board of Revenue (NBR). Normally, the exporter can claim the drawback amount from the concerned authority only after export of goods by producing the necessary documents to them. But bank finance against incentives may be made available either at the pre-shipment stage or at the post-shipment stage. Advance against drawback at the pre-shipment stage is granted only to exporters of goods subject to furnishing the satisfactory evidence to the bank as to the amount of their entitlements. The exporter should also undertake to authorise the bank to receive the entitlement when he makes claim with the NBR. Advances may also be made at the post-shipment stage as a separate limit. On the strength of certification and recommendation from the NBR, the exporter's bank makes a clean advance of the amount of duty drawback entitlement. The credit is free of interest for a period of 90 days.

3.4 Export Finance and Commercial Banks* in Bangladesh:

In our discussion in the previous chapter, we have tried to summarise, the relative importance of export in Bangladesh since the adoption of globalisation policy which emphasised on export-led growth strategy rather than import substitution policy followed earlier. So far the analysis of econometric studies in chapter-2 is concerned, the results seem to expose that, given the present stage of economic development in Bangladesh, the adopted policy is hardly justified. But, as the policy had already been implemented and the country had been pursuing the economic policy towards meeting the obligation of economic growth through promoting export, the importance of commercial banks' financing in export is well understood. In this section we have tried to evaluate the role of banks during the period of study from 1983-84 to 1998-99 with respect to export financing.

3.4.1 Export Finance Vis-à-vis Total Finance:

We normally find that the volume of export finance increases with the increase of total advances made by the banks. Volume of export finance thus depends on total

* Henceforth, if not otherwise stated, 'bank' would imply 'commercial bank' throughout the thesis

banks' advances. However, inspite of increase in volume of export finance, any of the two completely different situations may be revealed:

i) export finance increases at an increasing rate with respect to change in total advances

ii) export finance increases at a decreasing rate with respect to change in total advances.

Similarly, with respect to annual growth, there may be increasing/decreasing rate of change with the increasing annual growth rate of total advances. In order to investigate that, to what extent, change in export finance is caused by the change in total advances - both in terms of absolute value and annual growth rate, we regress export finance and its annual growth rate on total banks advances and growth rate of total bank advances respectively for all banks together as well as for each category. Results presented in tables 3.1 and 3.2 , show that the rate of change in total advance in each case is positive. **t** and **F** statistics of the regression coefficients indicate that the values of the slope are statistically significant except for the annual growth of Pvt^{IF} . $\mathbf{R^2}$ - values also prove that, except in case of annual growth rate of $Pvt.^{IF}$, regressions are good fit. However, **DW** values in the Table-3.1 indicate the presence of positive auto-correlation except in regression equation of $Pvt.^{IF}$ banks. ($\mathbf{d_L}$ = 1.33, $\mathbf{d_U}$ = 1.381).

Table : 3.1

OLS Results :Export Finance on Total Finance [$Ex^F = f(T^F)$]

Categories of Banks	Constant	T^F	R^2	F	DW
All Banks	-1679.29 (-4.04)*	0.24 (24.85)*	0.98	617.40	1.08
NCB	-127.46 (-0.361)	0.21 (13.79)*	0.93	190.09	1.04
$Pvt.^{IB}$	-546.69 (4.51)*	0.25 (24.60)*	0.98	605.21	0.92
$Pvt.^{IF}$	-64.98 (-1.41)	0.26 (14.94)*	0.94	223.20	1.48

Figures in the parentheses indicate t-values. * indicates t-statistics significant at 5% level

Table : 3.2

OLS Results: Gr. of Exp. Finance on Gr. of Total Finance [$Gr.Ex^F = f(Gr.T^F)$]

Categories of Banks	Constant	T^F	R^2	F	DW
All Banks	.04 (1.40)	0.85 (7.41)*	0.70	54.95	1.98
NCB	0.02 (0.72)	0.76 (7.81)*	0.81	60.93	2.00
$Pvt.^{IB}$	0.08 (1.57)	0.85 (4.22)*	0.56	17.81	1.80
$Pvt.^{IF}$	0.42 (1.48)	0.36 (0.46)	0.03	0.21	1.21

Figures in the parentheses indicate t-values. * indicates t-statistics significant at 5% level

From Table-3.2 it is observed that, in case of regression with annual growth values, while no positive or negative auto-correlations are exhibited for first three regression equations, the last one gives inconclusive indication (d_L=1.06, d_U =1.37) regarding autocorrelation. Thus, there is statistically significant positive impact on annual growth rate of export finance with the increasing rate of annual growth of total advances made by all banks together. This statistically significant positive impact is observed when banks are analysed category wise - NCB and Pvt.[IB]. This dependency is, however, not beyond doubt due to presence of positive auto-correlation (table 3.1) when annual values are considered.

3.4.1.1 Export Finance and its Annual Growth:

We present advances made by the banks to export sector and annual growth

Table : 3. 3
Export Finance and its Annual Growth
(Tk. in crore , Base : 1984-85)

Year	NCB		Pvt.[IB]		Pvt.[IF]		Total	
	Amount	Growth	Amount	Growth	Amount	Growth	Amount	Growth
1982 - 83	1771.38		255.46				2026.90	
1984	2022.33	14.17	446.15	74.6	9.52		2478.03	22.26
1985	1653.76	-18.2	453.89	1.73	38.40	303.55	2146.07	-13.40
1986	2134.10	29.05	496.50	9.39	60.00	56.24	2690.61	25.37
1987	3896.54	82.58	733.81	47.8	113.61	89.35	4743.97	76.32
1988	4153.22	6.59	850.48	15.9	266.58	134.65	5270.30	11.09
1989	4169.44	0.39	968.32	13.9	243	-8.85	5380.76	2.1
1990	5513.84	32.24	1557.08	60.8	295.08	21.43	7366.01	36.9
1991	4891.46	-11.3	2028.11	30.3	467.90	58.57	7387.48	0.29
1992	6180.23	26.35	2552.40	25.9	510.32	9.06	9242.96	25.11
1993	5362.20	-13.2	1962.54	-23.10	597.19	17.02	7921.95	-14.29
1994	5024.32	-6.3	2553.63	30.1	612.04	2.49	8190	3.38
1995	5663.26	12.72	3003.14	17.6	833.69	36.22	9500.10	15.99
1996	6047.36	6.78	3282.43	9.3	860.52	3.22	10190.32	7.27
1997	6619.88	9.47	3920.68	19.3	1100.85	27.93	11641.41	14.24
1998	6133.59	-7.35	4579.34	16.8	1141.26	3.67	11854.19	1.83
1998 - 99	6002.70	-2.13	5138.42	12.2	1110.78	-2.67	12251.90	3.36

Source: Please see note-1 at the end of the chapter

in columns 8 and 9 of Table 3.3 respectively. We would like to point out that the operation of foreign banks (FCB) in export sector has been started in Bangladesh since 1993-94. As the contribution of FCB to the export sector covers only last six years of the whole period of study, we prefer to discuss the role of FCB in export sector separately. It is revealed from the table that the increase in total amount of finances to export sector over the years was phenomenal. It rose to Taka 12,251.90 crore in 1998-99 from only Taka 2026.90 crore in 1982-83.. As the amounts are in constant prices the increment appears substantial.

Computed annual growth rates shown in column 9 of table 3.3 exhibit positive changes in almost every year except 1984-85 and 1992-93. But out of all the years with positive growth rate, there are five particular years when growth rates were as high as around 25 percent or more than it. Maximum growth rate was 76.32 percent in 1987 followed by 36.9 percent in 1990. In the remaining three years i.e., in 1984, 1986 and 1992 growth rates were around 25 percent. Thus negative growth rate in 1993 seems to imply that export sector took time to adjust with the environment created by these additional funds and thus the amount advanced in 1992-93 was less than the previous year, though it was more than the year before last. However, though changes in annual growth rate has been observed predominantly positive, it suffers from lack of uniformity. The situation is depicted graphically in figure 3.1.

Growth Rate of Export Finance (Total)

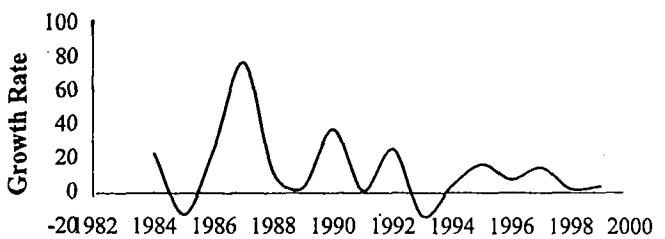


Figure 3.1

3.4.1.2 Bank Category:

Policy of financing and attitude towards promotion of export may not be uniform with respect to different categories of banks. Nationalised banks are normally committed to fulfill some social obligation and are controlled by the government. Thus, the economic and development policies of the government influences the decision of the nationalised banks regarding allocation of investible funds into different sectors. Private banks, on the other hand, do not have such obligation, compulsion, and accountability. These banks, therefore usually peruse their profit maximization objectives without patronizing any economically or financially non-viable schemes. Analysis on the basis of aggregate data of all banks together may conceal the positive attempt in the promotion of export by a particular category of banks by the non-encouraging attitude of another. Analysis on the basis of individual bank category may reveal the scale dynamics of movements of export financing over time. Thus, in Table-3.3, we also provide the export finances and their annual growth

rates for each of the three categories bank. Comparing the figures in table 3.3, we find that NCB and Pvt.^{IB} slashed down their volume of export finance in 1992-93 but not by the Pvt.^{IF}. But the level of operation of Pvt.^{IF} banks being less in comparison with other two categories, the overall credit shows negative growth rate. It also shows that the level of operation of private banks has increased more rapidly during the period than the nationalised banks. For example, in 1982-83, total export finance by the banks was Taka 1771.38 crore as against only Taka 255.46 crore by the private banks. Thus private commercial banks' advance was only 14.42 percent of the nationalised banks in 1982-83. This ratio gradually increased over time and in 1998-99, private banks - Pvt.^{IB} and Pvt.^{IF} together, advanced Taka 6249.22 crore as against Taka 6002.70 crore, by the NCB. This amounts to 104.11 percent of advances made by the NCB. Table 3.3 shows that the dominance of private banks in export financing, by extending the level of operation gradually in terms of volume of finance, over the nationalised sector during the period of study was contributed by both the categories of private banks.

In case of Pvt.^{IF}, there was a negative growth rate in 1998-99 . Except this one year of negative growth, Pvt.^{IF} registered consistently positive growth rate. It is clearly evident that Pvt.^{IF} started to give great attention to export since 1984-85 / 1985-86. In the year 1987-88 volume of export finance by Pvt.^{IF} was more than double than the previous year. For both categories of banks, higher growth rates have been observed in early part of the period and thereafter, the rates of growth were maintained uniformly. On the contrary, we observed negative growth rate more frequently in the later period for nationalised banks. Category wise annual growth rates of export finances are shown in figure 3.2

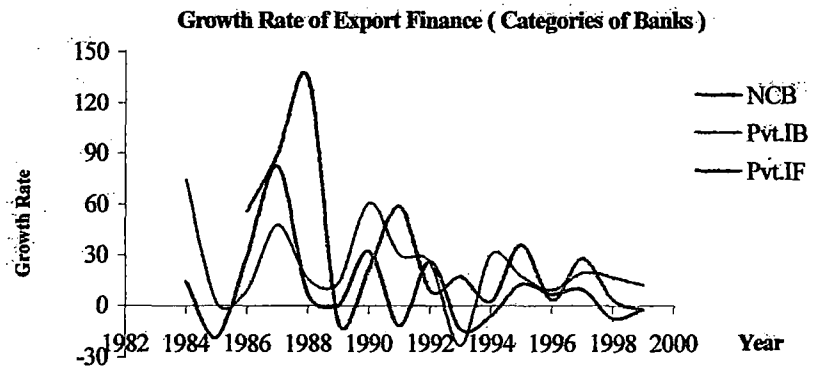


Figure: 3.2

3.4.1.3 Comparative Analysis on the Basis of Descriptive Statistics:

Some of the descriptive statistical measures like, measure of central tendency, dispersion, skewness and kurtosis of the export finance distribution over the period of study may help to understand the nature of distribution pattern in a better way. Computed statistics are provided in Table 3.4.

Table : 3.4
Descriptive Statistics of Export Finance (Categories of Banks)

Bank Category	Mean	St. dev.	C.V.	Kurtosis	Skewness
Total	7075.47 (845.87)	3487.62	0.49	-1.24 (1.06)	-0.09 (0.55)
NCB	4243.68 (466.02)	1921.45	0.45	-1.03 (1.06)	-0.596 (0.55)
Pvt.[IB]	2046.02 (372.37)	1535.30	0.75	-0.646 (1.06)	0.363 (0.55)
Pvt.[IF]	516.29 (99.26)	397.04	0.77	-1.23 (1.09)	0.343 (0.564)

Note: Figures in the parenthesis indicate Standard Error

Results show that export finance by all banks together during this period is widely dispersed (std. 3487.62) with mean Taka 7075.47 crore and distribution is negatively skewed. Comparison of means of different categories of banks reveals that NCB occupies a significant position with respect to export finances having mean advances Taka 4243.68 crore in comparison with Taka 2046.02 and 516.29 crore made by Pvt.[IB] and Pvt.[IF] respectively. However, the distributions are positively skewed in case of both types of private banks but the distribution is negatively skewed in case of NCB. This clearly indicates that private banks gradually enhanced the priority in the later period and the nationalised banks did not maintain the greater weightage they had given in the initial years in the later period.

3.4.2 Share of Export Sector:

The relative importance or weightage of credit given by the banks to export sector with respect to total bank's advances may be captured by their ratio. If the ratio is found to be increasing gradually over time, then it can be said that the export finance gets its priority in allocation of total advance. Similarly, opposite is true if the ratio is found to be decreasing over time. But, if no definite trend is observed then nothing conclusive can be said. For this, we have computed the ratio of export finance to total finance during the period of our study and we refer to it as *'relative export*

finance' **(REF)** for convenience of our discussion. These ratios are presented in Table 3.5.

'Export finance' means sum total of 'credit' disbursed to export sector by banks or, in other words, the banking system described in diagram 3.2. 'Total finance' implies sum total of 'credit' allowed to different sectors by banks. The term 'credit' in a year includes book value of all loans and advances granted only in that particular year by the banks against relevant head of accounts.

3.4.2.1 Banks as a Whole:

Percentage shares of export finance of all banks together with respect to total finance as shown in column 8 of table 3.5 reveal that it lies between 13.25 percent to the maximum of 24.41 percent. Starting from 1982-83 an overall increase in weightage is observed and at the end of the period of study, export sector occupies nearly one-fourth of total finance. Graphical presentation of relative export finance in figure 3.3 substantiates this fact.

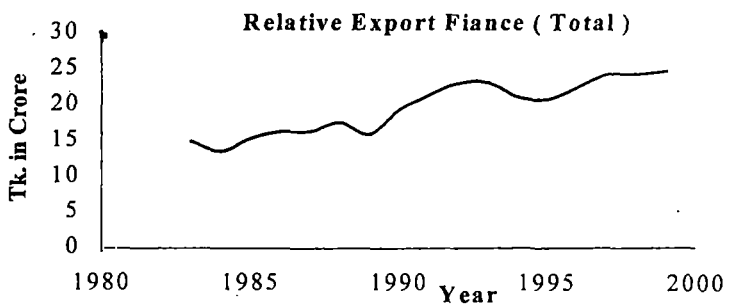


Figure 3. 3

However, declining weightage are observed in a few years. Annual growth rates would be able to show the situation more clearly. Growth rates of these percentage shares in different years are computed and are presented in column 9 of table 3.5. We find that during this period of 17 years, the growth rates were negative in five years. In the remaining years when the growth rates show positive change, the incremental growths are very marginal in three years.

Table : 3.5
Banks' Credit: Share of Export Sector

Year	NCB		Pvt.[IB]		Pvt.[IF]		Total	
	% Share	Growth	% Share	Growth	% Share	Growth	% Share	Growth
1982-83	18.89		10.33				14.63	
1984	16.20	-14.23	11.11	7.84	4.15		13.25	-9.42
1985	18.98	17.17	13.81	23.93	14.87	258.06	15.07	13.7
1986	20.91	10.19	11.64	-15.72	14.85	-0.12	15.96	5.91
1987	19.31	-8.98	11.29	-3.07	14.72	-0.86	15.95	-0.02
1988	20.06	5.42	12.49	10.73	25.73	74.75	17.26	8.2
1989	18.10	-9.79	12.05	-3.54	16.83	-34.58	15.6	-9.66
1990	21.39	18.19	16.87	40.07	16.3	-3.17	18.98	21.7
1991	23.26	8.71	19.96	18.24	24.4	49.74	21.05	10.9
1992	24.54	5.5	23.37	17.08	20.33	-16.69	22.76	8.14
1993	25.28	3.04	21.04	-9.95	27.56	35.56	22.83	0.33
1994	19.74	-21.92	21.61	2.7	19.21	-30.31	20.84	-8.71
1995	19.24	-2.52	20.62	-4.57	21.71	13.02	20.58	-1.26
1996	20.35	5.77	21.8	5.7	21.4	-1.39	22.21	7.90
1997	20.97	3.01	22.62	3.76	25.99	21.4	23.95	7.84
1998	19.99	-4.65	22.85	1.03	26.41	1.61	23.98	0.13
1998-99	20.14	0.76	21.25	-6.99	29.71	12.51	24.41	1.79

Source: Please see note-1 at the end of the chapter

For example, in the year 1997-98, the growth rate merely shows 0.13. Same is true for the year, 1992-93, when the rate is only 0.33. The actual scenario is well depicted in the graphical representation shown in figure 3.4

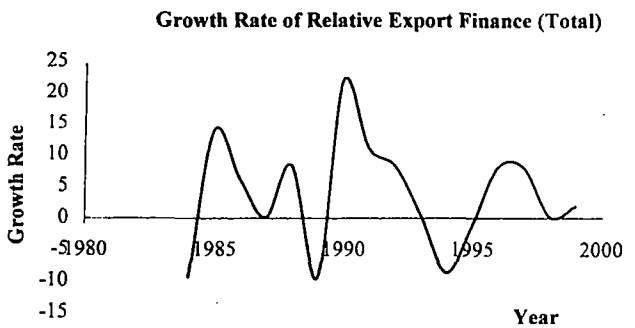


Figure 3.4

Thus, growth rates in different years do not show any gradual positive change but erratic ups and downs. But a sudden jump to a growth rate of 21.7 in 1989-90 followed by a gradual decrease upto 1994-95 is observed. This irregular movement in growth rate prevents to conclude any definite pattern. However, if we consider the percentage share of export finance in different years, a distinguishable phase

transition can be identified. We observe that before 1990-91, percentage share shows a variation from around 13 percent to around 18 percent and distribution clustered around 15 percent. On the other hand , during the period after 1990-91, the percentages of REF are ranging between 21.05 to 24.41 with an average value of 22.21. Thus, the whole period of study is distinctly divided into two phases: The first phase covers the period upto 1989-90 when export sector is allocated on an average 15 percent of total bank finance. The second phase covers the period 1991-92 to the rest of the period of study and export sector gets on average more than 22 percent of banks total finance. The year 1990-91 may be regarded as a transition period when export sector receives 21.05 percent of total finance. It indicates that the change in export policy with the advent of implementation of liberalised economic and development strategy through the initiation of new industrial policy (1991) began to get translated into action in the real field of economy. As a result of it, substantial quantum jump from around 15 percent to more than 22 percent share of export in total advance is observed. However, although the growth rates of relative export finance in the successive years during this period do not exhibit monotonically increasing trend, enjoying 22 percent or more than one fourth of total bank finance in every year by a particular sector is not a mean incident. The result does not imply inappropriate role of banks towards export finance and demands detail study of other aspects in this area.

In the following sub-section we would try to understand the problem in more details by analysing category wise banks' functioning towards the objective of accommodating emerging needs of finance in export sector.

3.4.2.2 Role of Different Categories of Banks:

As stated earlier, we have categorised banks into three groups, namely nationalised banks (NCB), interest based private banks (Pvt^{IB}), and interest free private banks (Pvt^{IF}). Ratios between export finance and total finance in different years and the growth rates of percentage share over the previous year of each specific year have been computed and shown in column 2 to 7 of table 3.5 under three categories of banks. Results clearly indicate that, prior to the year 1991-92, it is the group comprising nationalised banks, gives greater priority to export than the other

two categories of private banks. It is observed that while the nationalised banks as a group allocated almost twenty or marginally below twenty percent of credit to the export sector prior to the declaration of new industrial policy (1991), the Pvt^{IB} banks as a group in almost every year made advances less than thirteen percent before 1990-91. In the year 1990-91, which we have already identified as a year of transition, export sector receives 19.96 percent of total finance of this Pvt^{IB} group of banks. Otherwise, the export sector gets most often 10-12 percent share except once when it gets 16.87 percent. The weightage or priority given by the Pvt^{IF} group is relatively better than the Pvt^{IB} group. This group of banks started operation in the year 1984-85. Barring the initial year, when the share of export is only 4.15 percent, prior to 1990-91, Pvt^{IF} as a group always sanctioned above 14 percent which is always higher than the share of allocation to the export sector by the Pvt^{IB} group.

However, the credit scenario of this new period of economic globalisation which was started with introduction of new industrial policy (1991), is not identical with the credit pattern of the first period. As a result of new industrial policy introduced by the government, which was directed towards achieving the goal of export-led growth strategy and, for all practical purposes, as the nationalised banks are controlled by the government, a noticeable quantum of jump is observed in three initial consecutive years of this phase in share of export sector. It rose to 25 percent in 1992-93. Except initial three years, the priorities given by the private banks were slightly higher than the priorities given by the nationalised banks during the rest of the period of the study. The graphical representation of percentage share of export finance of different categories of banks is shown in figure 3.5, which helps us to understand the relative priority given by each category of banks.

The revelation is not, however, unexpected and shows the change in line with the new economic strategy of development. One of the objectives of liberalisation policy is to assign greater role to the initiatives of private entrepreneurs. After injecting a major part of the total advances to the export sector for an initial boost, it gradually squeezed its role and made room for private initiatives. Thus we find greater emphasis in allocating fund to export by both $Pvt.^{IB}$ and $Pvt.^{IF}$ in the later

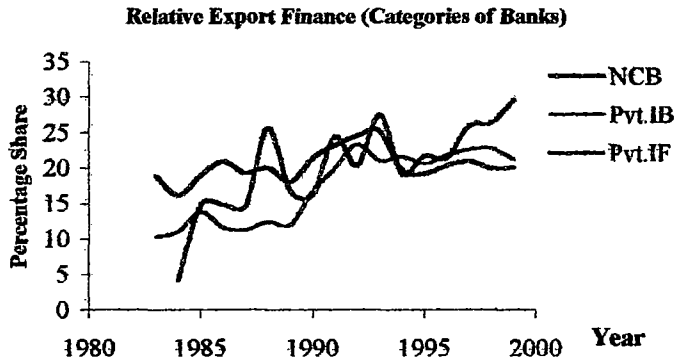


Figure: 3.5

period of the study. Also in this later phase, like the first phase, we find that Pvt^{IF} played better role with relation to giving greater weightage than the Pvt^{IB} group of banks. In the year 1998-99, $Pvt.^{IF}$ groups assigned 30 percent of total advances to export sector. Though the percentage share fluctuates between 19 percent to 26 percent, except in the year 1993-94 when it was only 19 percent, the share was always higher than twenty percent during this later period. Moreover, we find that starting from 1994-95 this category maintained a steady increasing trend for last six years of the period of study.

So far the category wise dynamics of growth rate of relative export finance is concerned, it reveals an almost periodic motion and does not reflect any systematic change. However, with respect to change over from the 1st period to second period, NCB and $Pvt.^{IB}$ in 1989-90 and $Pvt.^{IF}$ in 1990-91 registered 18.19 percent, 40.07 percent and 49.74 percent growth rate respectively. This sudden abnormal rise in growth rate of export finance distinctly identifies the time from which the liberalised economic policy and export-led growth strategy began to get into action. It, therefore, seems to imply that the time span beginning from 1990-91 to 1992-93, is the period when all banks began to assign greater emphasis in export financing. However, the growth rates of relative export finance in different years even in this later phase dwindle in between positive and negative values. This is shown in Figure 3.6

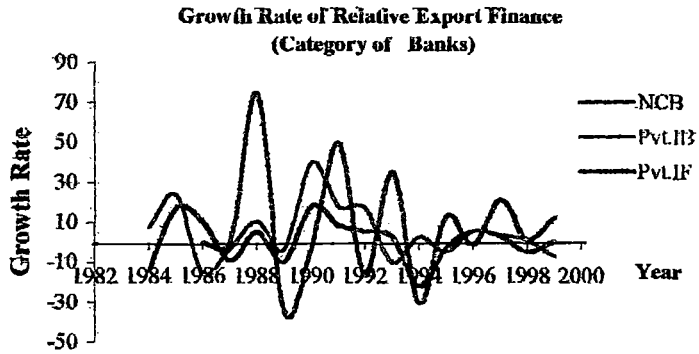


Figure: 3.6

This distinctiveness of two periods is substantiated by the descriptive statistics provided in table 3.6.

Table : 3.6
Descriptive Statistics of Relative export Finance
Categories of Banks

Bank Category		Mean	St. dev.	C.V.	Kurtosis	Skewness
Total	Whole Period	19.371 (0.912)	3.76	0.19	-1.544 (1.063)	-0.165 (0.50)
	Phase - I	15.84 (0.61)	1.72	0.11	0.93 (1.48)	0.537 (0.752)
	Phase - II	22.51 (0.48)	1.45	0.06	-1.62 (1.40)	-.108 (.717)
NCB	Whole Period	20.432 (0.546)	2.253	0.11	0.817 (1.063)	0.670 (0.550)
	Phase - I	19.23 (0.580)	1.64	0.09	0.609 (1.48)	-0.602 (0.752)
	Phase - II	21.50 (0.814)	2.52	0.12	-0.997 (1.48)	0.884 (0.752)
Pvt.IB	Whole Period	17.34 (1.214)	5.00	0.29	-1.894 (1.063)	-0.243 (0.550)
	Phase - I	12.45 (0.73)	2.07	0.17	2.858 (1.48)	1.621 (0.752)
	Phase -II	21.68 (0.34)	1.11	0.05	-0.821 (1.48)	0.076 (0.752)
Pvt.IF	Whole Period	20.261 (1.634)	6.54	0.32	-0.785 (1.091)	-0.785 (0.564)
	Phase - I	15.35 (2.38)	6.29	0.41	2.77 (1.59)	-0.266 (0.79)
	Phase - II	24.08 (1.36)	3.60	0.15	-1.32 (1.40)	0.136 (0.717)

Note: Figures in the parenthesis indicate Standard Error

It is observed that mean relative export finance in phase - II is 22.51 (std.dev. 1.45) percent of total advances made by all banks together, whereas the same was

of two periods we find that the distribution is less skewed in the period-II than in the former. Moreover table 3.6 shows that mean relative export finance in period-II is greater than period-I, for all categories of banks. Results show that in case of private banks this added weightage is more proponents than the nationalised banks. For example, for private interest free (Pvt.[IF]) banks, the mean of the distribution shifted from 15.35 percent (std.dev. 6.29) in period-I to 24.08 percent (std. dev. 3.60) in phase-II, for Pvt.[IB] banks 12.45 percent (std.dev. 2.07) of mean relative finance in phase-I shifted to 21.68 percent (std. dev. 1.11) in phase–II. But for nationalised banks (NCB), shift was less than 2 percent (19.23 to 21.21). It is to be noted that the coefficient of variation (CV) for the whole period of study is 0.19, but the CV for both the phases of I and II reduces to 0.11 and 0.09 respectively. The fact that the whole period being divided into two phases reduces dispersion indicates that relative export finance of each phase is close to the means of the respective phases. Moreover, distribution of the first phase is leptokurtic but in the phase–II, it is platykurtic with higher mean value 15.84 of phase–I. It seems to establish the fact that the distribution of relative export finance in each phase has different distinctive characteristics. Export finance thus seems to get higher weightage (around 22.51) in phase–II than phase–I (around 15.84). Similarly, CV for the distribution in phase–II for each category reduces substantially than the CV of the whole period. Means of the phase–II in each category being higher than the whole period, it certainly explains that relative export finances in phase–II of each category clustered around the higher values and thus indicates distinctively different distribution.

In short, therefore, it seems that the relative weightage or priority of export finance had increased at the advent of introduction of new industrial policy (1991) and the private banks gave greater weightage than the nationalised banks.

3.4.3 Number of Accounts in Export Finance:

In order to understand the scenario of export finance with relation to performance of banks, the changing pattern of number of accounts against which the export finances were sanctioned may be considered to be an important parameter. Perception of the common people regarding the role of banks in financing export is that banks favour only the big firms or financially sound operators and disfavour new entrants or minnows. If the growth rate of export finance increases disproportionately

than the growth rate of number of accounts over a long period, then it would imply the concentration of banks' finances in the hands of a few. As we have considered the data series at constant price, if this difference between the rate of growth of finance and number of accounts appears statistically significant, then it would only mean that the above mentioned common perception has some justification.

Number of accounts and its annual growth rates of all banks together are shown in columns 6 and 7 of table 3.7 for the period for which data are available i.e.; 1985-86 to 1998-99. Due to this nonavailability of data, we could not incorporate a part of the period of study i.e.; 1982-83 to 1984-85 in this discussion of number of accounts. However, number of accounts for two categories of private banks is not available separately. For this, Instead of Pvt.^{IB} and Pvt.^{IF}, we consider private banks (PCB) jointly in a single group.

Number of accounts of all banks (indicated by the term 'total') is shown graphically in Figure 3.7 It is very much evident from the table and graphical presentation that starting from 1985-86, there was a monotonic sharp increase in number of accounts upto 1989-90 and than there was a decline for two subsequent years.

Table 3.7
Number of Export Account and its Annual Growth.

Year	NCB		PCB		Total	
	No. of A/C	Growth	No.of A/C	Growth	No.of A/C	Growth
1985 - 86	2065		842		3702	
1987	2563	24.12	510	-39.43	3665	-0.10
1988	10423	306.67	610	19.61	11181	205.08
1989	8419	-19.23	2790	357.38	12520	11.98
1990	11969	42.17	2746	-1.58	16629	32.82
1991	10152	-15.18	2757	0.40	13543	-18.56
1992	8177	-19.46	1111	-59.70	10369	-23.44
1993	9691	18.52	1488	33.93	13685	31.98
1994	10119	4.42	1831	23.05	13199	-3.55
1995	7243	-28.42	1816	-0.82	10938	-17.13
1996	13162	81.72	1947	7.21	16779	53.40
1997	11946	-9.247	3062	57.27	16600	-1.07
1998	10654	-10.82	4012	31.03	17612	6.10
1999 - 99	7189	-32.52	4863	21.21	12909	-26.70

Source: Please see note-1 at the end of the chapter

In all other years changes in number of accounts are marginal. Analysis on the basis of the annual growth rates will help us to understand another dimension of the

situation. Graphical presentation of annual growth rates of total number of export accounts of all banks depicts the scenario very clearly in Figure 3.8.

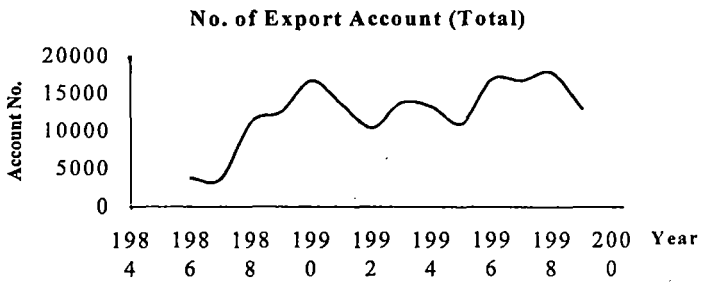


Figure : 3. 7

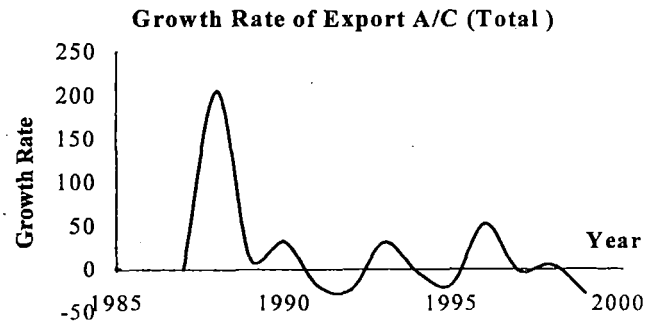


Figure : 3.8

Except in 1987-88 - when there was a sudden 205.08 percent growth rate, we observe a periodic movement of growth rates ranging between -26.70 percent to +53.40 percent. This fluctuation is not always identical with the periodic ups and downs of export volume of Bangladesh. (Figure : 2.1).

It simply proves that banks occasionally did fail to support newer exporters who expectedly had applied for finance in accordance to the additional demand that had been created in export market. Similarly, when there was a slump in e export market, banks opened newer accounts. Perhaps the naive expectationist type behaviour on the part of the banks and exporters may explain the situation. Banks are generally supposed to be risk aversive and are careful in forming their rational expectations. This phenomena, however, is contrary to this general belief. It is difficult to explain why often number of accounts declines when volume of export increase but number of accounts increases when volume of exports decline.

On the other hand, if we consider the values of export finance in different years we find predominantly an increasing trend, except negative growth in 1992-93 and 1984-85 (figure 3.9).

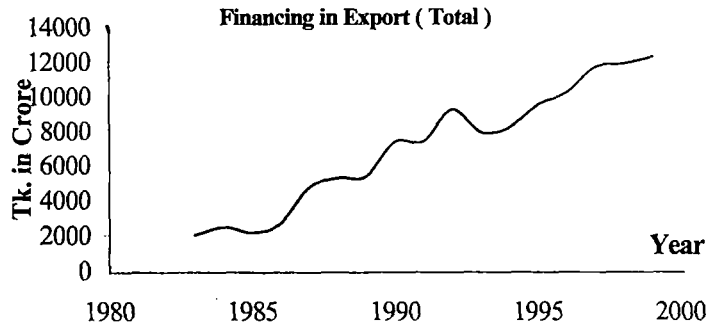


Figure 3.9

But when we consider the annual growth rate of export account, we find that there was negative growth rates in almost every alternative year. It reveals that the increase in volume of export finance was neither necessarily due to increase of account numbers nor the decline of volume of export finance necessarily due to decrease of accounts number.

Analysing of number of accounts according to bank category - nationalised and private - we find that extent of increase of bank accounts during the period in private sectors is much more than the nationalised sector. In case of private banks, number of accounts increased from 842 in 1985-86 to 4863 in 1998-99 i.e. 5.77 times. In case of nationalised banks, the increase is 3.48 times i.e., from 2065 in 1985-86 to 7189 in 1998-99. In terms of growth rate, number of accounts for both categories of bank showed initial jumps and thereafter, maintained periodic fluctuations between positive and negative growth rate. In case of private banks it ranges between -59.7 to +57.27, whereas it ranges between -32.52 to +81.72 in case of nationalised banks. However, there is a noticeable difference between policies of expansion of export accounts in nationalised and private sector during the last four years of the period of study. Number of accounts of export finance in nationalised banks came down to only 7189 in 1998-99 from 13,162 in 1995-96 and thus registered a continuous negative growth during the last four year of the period of study. But in case of private banks, we observed just the reverse. Number of accounts of PCB in 1995-96 was 1947 and was raised to 4853 in 1998-99. The rise, however, started from 1991-92 when number

of accounts was 1111 declining by 59.70 percent from 2757 of the previous year. It is noteworthy that prior to 1991-92, number of accounts of PCB was more than 2700 for three consecutive years. It seems to appear that private sector did not keep pace with the sudden growth rate of 357.38 percent in 1988-89 more than three years and number of accounts declined to 1111 in 1991-92. But after this private sector banks maintained uniform growth rate and the number of accounts gradually increased to 4863. But in case of nationalised banks, fluctuations in growth rate were more sporadic and hardly reflected any systematic policy.

Different statistics of distribution of number of export accounts are provided in Table 3.8. Dividing the whole period of study according to the phases we have already mentioned, we present different statistical measures of distribution in the table. We find that for both categories of banks, number of export account exhibits marginal expansion in the post-liberalisation period. Kurtosis being negative for all the cases, it implies that distribution of number of accounts during both pre and post liberalisation period has low concentration of values in the neighbourhood of the respective means when compared to a normal distribution of same standard deviation.

Table 3.8
Descriptive Statistics of No. of Export Account Categories of Banks

Bank Category		Mean	St. dev.	C.V.	Kurtosis	Skewness
Total	Whole period	12380.79 (1161.26)	4345.05	0.35	0.704 (1.154)	-1.033 (0.597)
	Phase - I	10206.67 (2189.23)	5362.51	0.53	-1.614 (1.741)	-467 (0.845)
	Phase - II	14011.38 (963.80)	2726.05	0.19	-1.56 (1.481)	0.056 (0.752)
NCB	Whole period	8840.86 (874.52)	3272.14	0.37	0.681 (1.154)	-1.054 (0.597)
	Phase - I	7598.50 (1734.44)	4248.50	0.56	-1.841 (1.741)	-0.680 (0.845)
	Phase - II	9772.63 (764.56)	2162.51	0.22	-1.029 (1.481)	0.234 (0.752)
PCB	Whole period	2170.36 (342.349)	1280.95	0.75	-0.058 (1.154)	0.631 (0.597)
	Phase - I	1709.17 (473.97)	1160.98	0.68	-3.24 (1.741)	-.034 (0.845)
	Phase -II	2516.25 (469.77)	1328.71	0.51	-3.89 (1.481)	0.952 (0.752)

Note: Figures in the parenthesis indicate Standard Error

Bank category-wise distribution of number of accounts shows that it is negatively skewed in the first phase but positively skewed in the second phase for

both categories. It implies that longer tail of the distribution is formed with the lower values in phase one, while the longer tail is formed with the higher values of distribution in the second phase. In case of private banks, skewness being positive as well as much higher than the nationalised banks in phase two, it substantiates that private banks gradually increased number of accounts in the later period consistently.

Evaluation of banking operation in export sector may be understood by the ratio between number of export accounts and total accounts. This may be the criterion to understand whether banking operation in export sector is expanding, declining or remaining static with respect to the growth of operation of a bank or a group of banks. We provide relative number of export accounts, its annual growth rate and different statistical measure for the whole period as well as two different phase in Table 3.9 and 3.10.

Table : 3.9
Relative Number of Export Accounts and its Annual Growth

Year	NCB		PCB		Total	
	% share	Growth	% share	Growth	% share	Growth
1985 - 86	0.07		0.31		0.06	
1987	0.125	69.26	0.29	-9.25	0.07	20.02
1988	0.45	261.55	0.38	33.22	0.21	192.00
1989	0.32	-29.21	1.73	355.63	0.22	2.44
1990	0.45	40.74	1.66	-4.23	0.29	32.33
1991	0.73	63.44	1.63	-2.07	0.46	58.48
1992	0.48	-34.99	1.31	-19.58	0.30	-35.03
1993	0.52	8.09	1.66	27.07	0.36	22.41
1994	0.48	-6.82	1.79	7.91	0.31	-14.24
1995	0.32	-33.30	1.54	-14.21	0.23	-24.54
1996	0.57	76.59	1.32	-14.40	0.34	44.96
1997	0.50	-11.47	1.88	42.34	0.33	-3.23
1998	0.38	-24.48	2.28	21.76	0.29	-13.17
1998 - 99	0.23	-38.87	2.08	-9.04	0.19	-32.83

Source: Please see note-1 at the end of the chapter

Computed values in column – 4 of table 3.9 show that the number of accounts in private sector relative to total number of accounts increases uniformly over time. Starting from 0.31 percent I n 1986, it rose to more than 2 percent at the end of the period of study. But in case of NCB, there was neither such uniform pattern, nor it had been rose to more than 0.73 percent.

However, Table 3.10 shows that export sector improves its position in phase – II than phase – I for all banks together and for each category. Standard deviation and C.V. being less in phase – II for every case implies that incremental values are less dispersed. However, distribution of export and account of export finance would not be able to give complete understanding regarding the role of banks in export finance. Export finance per account analysis may be better to understand the said role in advancing export.

Table : 3.10
Descriptive Statistics of Relative No. of Export Account Categories of Banks

Bank Category		Mean	St. dev.	C.V.	Kurtosis	Skewness
Total	Whole period	0.261 (0.029)	0.109	0.42	0.641 (1.154)	-0.419 (0.957)
	Phase - I	0.218 (0.061)	0.149	0.68	0.249 (1.741)	0.660 (0.845)
	Phase - II	0.294 (0.020)	0.057	0.19	0.124 (1.481)	-9.45 (0.752)
NCB	Whole period	0.402 (0.047)	0.177	0.44	0.128 (1.154)	-0.325 (0.597)
	Phase - I	0.358 (0.099)	0.242	0.68	-0.347 (1.741)	0.355 (0.845)
	Phase - II	0.435 (0.041)	0.115	0.26	-0.215 (1.481)	-0.856 (0.752)
PCB	Whole period	1.419 (0.172)	0.645	0.45	-0217 (1.154)	-0.928 (0.597)
	Phase - I	1.00 (0.302)	0.739	0.74	-3.292 (1.741)	0.001 (0.845)
	Phase -II	1.733 (0.122)	0.346	0.20	-0.888 (1.481)	0.260 (0.752)

Note: Figures in the parenthesis indicate Standard Error

In the next sub-section, we thus undertake the export finance per account for discussion.

3.4.4 Export Finance per Account:

We calculated export finance per account as well as its annual growth rates and presented it in Table 3.11. Export finance per account is shown graphically in figure 3.10 for all banks together and in figure 3.11 for individual bank category. Unusual increase of per account finance in 1987 does not appear as a reflection of change in policy of export financing. In that particular year, there was 76.71 percent additional allocation in export, but simultaneously number of accounts decreased to 3665 from 3702 of the previous year. As a resultant effect, per account finance shows

an abnormal value. But this ratio was not sustained in subsequent years and may be considered as an aberration. Comparing columns 2 and 4 of table 3.11 it can be said that allocation of finance per account was always higher in case of nationalised sector.

Table 3.11
Export Finance Per Account

Year	NCB		PCB		Total	
	Per A/C	Growth	Per A/C	Growth	Per A/C	Growth
1985 - 86	4.94		0.66092		0.73	
1987	7.99	61.74	1.6616	151.41	1.29	76.71
1988	1.99	-75.09	1.83125	10.21	0.47	-63.57
1989	2.74	37.69	0.43416	-76.29	0.43	-8.51
1990	2.15	-21.53	0.67449	55.36	0.44	2.33
1991	2.07	-3.72	0.90533	34.22	0.55	25
1992	3.08	48.79	2.75672	204.50	0.89	61.82
1993	2.19	-28.90	1.72025	-37.60	0.58	-34.83
1994	2.52	15.07	1.72893	0.50	0.62	6.90
1995	4.06	61.11	2.11279	22.20	0.87	40.32
1996	2.26	-44.34	2.12786	0.71	0.61	-29.89
1997	2.64	16.81	1.63995	-22.93	0.7	14.76
1998	2.88	9.09	1.42587	-13.05	0.67	-4.29
1998 - 99	4.15	44.10	1.28505	-9.88	0.95	41.79

Source: Please see note-1 at the end of the chapter

Figure 3.10

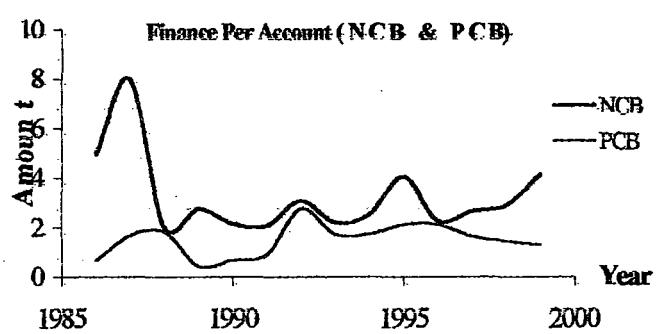


Figure : 3.11

We plotted per account finance according to bank category in figure 3.11. The graph clearly represents that PCB was never able to cross the level of NCB. In our discussion in the earlier section , we find that the performance of PCB with respect to increase in volume of export and number of accounts was praiseworthy. Nationalised sector could not maintain the same ratio of increase w ith PCB. Per account finance being much higher during the whole period of study by the NCB, it seems to appear that big exporters prefered to deal with nationaolised banks. In otherwords, private sector banks targetted the small exporter segment of the market.

Moreover, it is evident from column 6 of the table that since 1991, per account finance started to increase gradually. These findings are, of-course, in confirmatory with our previous idenfication of two distinct phase. Figure 3.10 shows that except the sporadic spark in 1987, per unit finance was less than 0.5 befor 1991 and thereafter it always maintained a higer level. As the values are in constant price, it seems to indicate that export activity of an exporter was intensified in post industrial policy (1991). Dividing the whole period into two, in accordance with the visible distinction that we have discussed earlier, we calculated different measures of central tendencies and dispersions of per account finances of each of these two phases and presented in table 3.12.

Table 3.12
Descriptive Statistics of Export Finance Per Account

Bank Category		Mean	St. dev.	C.V.	Kurtosis	Skewness
Total	Whole period	0.70 (0.063)	0.236	0.34	1.739 (1.154)	1.213 (0.597)
	Phase - I	0.652 (0.136)	0.332	0.51	3.650 (1.741)	1.913 (0.845)
	Phase - II	0.736 (0.051)	0.145	0.20	-1.766 (1.481)	0.505 (0.752)
NCB	Whole period	3.261 (0.435)	1.627	0.50	5.205 (1.154)	2.156 (0.597)
	Phase - I	3.647 (0.98)	2.401	0.66	1.71 (1.741)	1.55 (0.845)
	Phase - II	2.973 (2.68)	0.758	0.25	-0.743 (1.481)	0 852 (0.752)
PCB	Whole period	1.498 (0.174)	0.652	0.44	-0.336 (1.154)	-0.005 (0.597)
	Phase - I	1.028 (0.236)	0.579	0.56	-1.655 (1.741)	0.725 (0.845)
	Phase -II	1.85 (0.166)	0.47	0.24	0.914 (1.481)	0.951 (0.752)

Note: Figures in the parenthesis indicate Standard Error

It shows that in phase–I, an average credit per account was maintained by all banks together only at 0.652 (Std. 0.332) crore Taka, whereas, during the later period i.e. in phase - II, average credit per account was enhanced to 0.736 (Std. 0.145) corer Taka.

However, according to bank category mean value of per account finance is less in phase-I than phase-II in case of NCB. This is due to the fact that number of accounts in the initial two years were very small. But, within a year number of accounts 2563 in 1987 was increased to 10423 in 1988 by the nationalised banks. In subsequent years NCB maintained on the average 9928 number of accounts in export.

Eliminating per account finance in these two initial years, the mean value of per account finance in phase-I was 2.29, which was less than phase-II. Mean of per account finance in all other cases were always greater in phase-II. Moreover, coefficient of variation in phase-II for each case was much less. It seeks to justify that per account finances were clustered more closely around mean in the second phase. In short, the study finds that there is a positive impact of liberalisation policy on export finance especially after declaration of industrial policy (1991).

3.4.5 Trend Analysis and overall Growth Rate:

In the previous sub-section we have computed simple growth rate of each year over the preceding year and have tried to understand the pattern of change by percentage share of export in each year. This analysis, however, does not provide us the growth rate over the whole period and does not substantiate the result statistically. For this we employ the statistical trend analysis and estimate a non-linear regression as follows:

$$\ln(Ex^F) = \beta_1 + \beta_2 t + \mu_t^* \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3.1)$$

where

$\beta_1 = \ln(Ex^F_o)$ and $\beta_2 = \ln(1+g)$,

'g' indicates growth rate and

Ex^F indicates export finance in the initial year.

Differentiating of equation (1) with respect to time and minor algebraic manipulation shows that,

$$\beta_2 = \frac{d(\ln Ex^F)}{dt}$$

$$= \frac{1}{Ex^F} \cdot \frac{d(Ex^F)}{dt}$$

$$= \frac{\frac{d(Ex^F)}{Ex^F}}{dt} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3.2).$$

Relation (2) expresses that the slope coefficient measures the constant proportional or relative change in export finance for an absolute change in time

Results of the trend analysis given in the Table 3.13 for export finance by all banks together, NCB, Pvt.^{IB} and Pvt.^{IF}. Standard Errors and t-values of slope and

* Error term is added after log transformation of data for the reason discussed in Gujrati D. N., 'Basic Econometric' (Third Edition), McGraw-Hill, India.

intercept in each case appear statistically significant. Values of goodness of fit (R^2) show the trend is a good fit, p - values for both intercept and slope are insignificantly small. As we have already discussed and showed that our time series data are stationary, the model is appropriate to apply.

Table 3.13
OLS Results of Trend Analysis (Export Finance)

Bank Category		Intercept	Slope	R^2	P values
Total	Total Period	7.79 (0.09,82.54)	0.12 (.01, 11.51)	0.90	.0000 .0000
	Phase - I	7.52 (.11, 71.19)	0.19 (0.03, 7.63)	0.91	.0003 .0000
	Phase - II	8.92 (.05, 188.85)	0.06 (0.01, 6.31)	0.85	.0004 .0000
NCB	Total Period	7.67 (.11, 69.07)	0.08 (0.01, 6.99)	0.76	.0000 .0000
	Phase - I	7.34 (.12, 59.96)	0.18 (.03, 6.07)	0.86	.0009 .0000
	Phase - II	8.56 (.052, 164.40)	0.02 (0.01, 2.13)	0.39	.0700 .0000
Pvt.^{IB}	Total Period	5.84 (.09, 67.59)	0.18 (.009, 19.57)	0.96	.0000 .0000
	Phase - I	5.66 (.09, 64.56)	0.22 (.02, 10.68)	0.95	.0000 .0000
	Phase -II	7.55 (.08, 109.53)	0.11 (0.01, 8.18)	0.90	.0001 .0000
Pvt.^{IF}	Total Period	3.71 (.27, 13.60)	.27 (.03, 8.57)	0.84	.0000 .0000
	Phase - I	2.84 (.31, 9.30)	.35 (.08, 6.35)	0.89	.0000 .0000
	Phase -II	6.26 (.06, 108.95)	.12 (0.01, 9.08)	0.93	.0000 .0000

Note: Figures in the parenthesis indicates standard error & t-value respectively.

Results in table 3.13 reveal that over the period 1983-84 to 1998-99, the export finance in Bangladesh by the banks as a whole or by different categories of banks increased positively per year. It grew at the rate of 12 percent per year when all banks were considered together. Category-wise trend analysis indicates that the overall growth rate over the said period was the lowest, 8 percent per year for nationalised banks (NCB) and was the highest, 27 percent per year for interest free private commercial banks (Pvt.^{IF}). Overall growth rate of export finance by private banks (pvt.^{IB}) maintained the rate in-between other two categories. However, results show that the export finances grew at a lower rate in the second phase than in the first phase. This is true for banks as a group and also for different category of banks. As the year in which the sudden change had been initiated is lying within the 1st phase,

the compounded growth rate shows higher value. But graphical presentation of export finance of individual category banks shown in figure-3.12 indicates that there was a definite impact of the declaration of industrial policy (1991) on private sector banks, especially Pvt.^{IB}.

Thus, during the post-industrial policy (1991) period, Pvt.^{IB} expanded their level of financial operation in export sector in such a way that, starting from a position

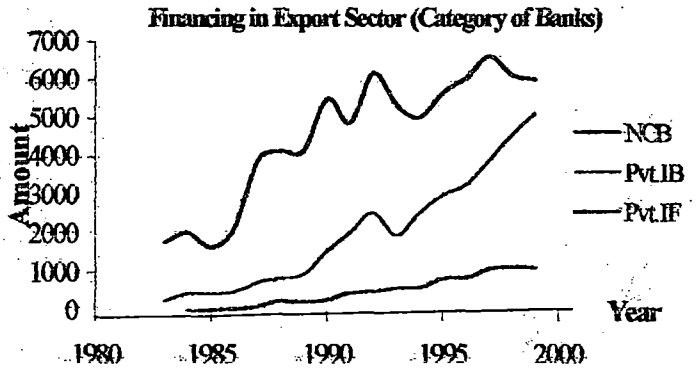


Figure : 3.12

far behind they almost caught up the level of operation of the nationalised banks. However, these computed overall growth rates being on the basis of absolute values of export finance, the understanding sometimes may be misleading. Much higher incremental amount in a particular year of a bank of which advances in the previous year was large may appear very insignificant than a mini-scale increment in the same year by another bank if its export finance of the previous year was less. For example, increment of Tk. 1000 in export sector in a particular year by a bank with Tk. 10,000 initial export finance will show much less growth rate than a bank which makes an additional increment of Tk. 50 only if its initial export finance is, say Tk. 100. To get rid of this problem we, therefore, study the performance of banks with respect to the relative share of export finance. Replacing the variable export finance (Ex^F) in equation 3.1 by the relative export finance we estimated the equation and results are presented in table 3.14.

Results show that except Pvt^{IF} in other two cases the compounded growth rates of export finance relative to total finance in pre-industrial policy (1991) period appeared almost identical to growth rate over the whole period. Secondly, during post-industrial policy (1991) period, compounded growth rate was less than the previous period. Thirdly NCB showed rate of decay ($\beta < 0$) in the second phase of post-

Table 3.14
OLS Results of Trend Analysis (Relative Export Finance)

Bank Category		Intercept	Slope	R^2	P values
Total	Total Period	2.65 (.03, 77.63)	0.04 (.003, 10.25)	0.88	.0000 .0000
	Phase - I	2.63 (.04, 62.29)	.04 (.01, 3.59)	0.68	.011 .000
	Phase - II	3.05 (.03, 98.81)	0.02 (.006, 2.22)	0.41	.062 .000
NCB	Total Period	0.19 (.01, 18.82)	0.02 (.001, 0.174)	0.12	.0000 .1743
	Phase - I	2.89 (.05, 54.82)	0.02 (0.01, 1.43)	0.25	.203 .000
	Phase - II	3.15 (.05, 57.82)	-0.03 (.01, -2.12)	0.43	.078 .000
Pvt.^{IB}	Total Period	-2.23 (.07, -33.78)	0.05 (.007, 7.78)	0.80	.000 .000
	Phase - I	2.36 (.08, 29.61)	0.04, (.02, 2.19)	0.44	.0713 .0000
	Phase -II	3.09 (.03, 101.31)	0.007 (-.007, -.10)	0.09	.0000 .0002
Pvt.^{IF}	Total Period	-2.20 (.16, -13.51)	0.07 (0.02, 3.78)	0.50	.0000 .0002
	Phase - I	2.10 (.31, 6.70)	0.18 (.09, 2.02)	0.45	.099 .001
	Phase -II	3.03 (.09, 34.12)	0.04 (1.88, 2.28)	0.39	.1000 .0000

Note: Figures in the parenthesis indicates standard error & t-value respectively.

liberalisation policy. Fourthly, Pvt.^{IF} maintained the highest positive growth rate (β = 0.18) in the 1st phase of liberalised economy. It seems to indicate that Pvt.^{IF} took early initiative in exploiting the advantage of changed economic policy of the government that relied more on private initiatives for economic development. Trend of number of export account is estimated by

$$\ln(E_{X.A}) = \beta_1 = \beta_2 t + u \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (3.4)$$

and results are shown in table 3.15. Values of R^2 in each case indicated estimation to be moderately good fit except NCB in phase - II, where R^2 = 0.004. It indicates that, during this period, the trend does not follow the exponential that we have estimated. However, when a reciprocal function is fitted for this period the R^2 improves to 0.527 with β_2 = 0.12711. It thus explains that during phase - II, number of accounts registered an inverse growth rate of 12.711 percent per year. [Please sees the note (*) of table 3.15].

Table : 3.15
OLS Results of Trend Analysis (No. of Export Account)

Bank Category		Intercept	Slope	R^2	P values
Total	Total Period	8.80 (.19, 45.17)	.08 (.03, 3.21)	0.46	.008 .000
	Phase - I	8.27 (.26, 31.79)	.32 (.09, 3.70)	0.77	.021 .000
	Phase - II	9.37 (.11, 83.10)	.05 (.03, 1.73)	0.33	.134 .000
NCB	Total Period	8.50* (.24, 34.92)	0.07* (.03, 2.34)	0.56	.037 .000
	Phase - I	7.85* (.33, 23.64)	.35* (.11, 3.22)	0.72	.032 .000
	*Phase - II	9.14* (.16, 58.86)	.002 (.04, .214)	.004	.838 .000
PCB	Total Period	6.71* (.25, 27.33)	0.12* 9 .03, 3.73)	0.56	.003 .000
	Phase - I	6.30* (.38, 16.54)	.36* (0.13, 2.84)	0.69	.047 .000
	Phase -II	7.01* (.08, 84.00)	0.20* (.02, 10.09)	.49	.000 .000

Note: Figures in the parenthesis indicate standard error & t-values respectively. Values of β_2=0.12711, β_1 =7.22981 and R^2 = 0.527 when fitted against a reciprocal function.

Results show that PCB (both groups of private banks together) extended their financing activities among exporters more rapidly than NCB and their performance was much better in phase - II, when compared to the growth rate of NCB during the same period.

We estimated the following two equations for finance per export account (EFPA) and for the ratio of export to total accounts (REA). Results of the estimation are presented in tables 3.16 and 3.17.

$$\text{In (REA)} = \beta_1^F + \beta_2^F + u^F_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.5)$$

$$\text{In (EFPA)} = \beta_1^A + \beta_2^A + u^A_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3.6)$$

Results show (table 3.16) that equation (3.5) is a good fit for all cases as suggested by the high to moderately high values of R^2 except when NCB is estimated for the whole period when R^2 = 0.192. Rates of decay ($\beta_2 < 0$) for the period of post-industrialisation policy are observed for 'total' and NCB. It implies that the increase in the rate of change of number of accounts in export sector was not equal with the increase in the rate of total number of accounts during this period. In all other cases β_2, being positive, implies that export account increases with high compounded growth rate with relation to total number of accounts. But R^2 values of estimation of

equation (3.6), shown in Table 3.17, suggest that the functions are fitted very poorly except for the 1st phase of NCB and 'total', when R^2 - values appear moderately around 0.50.

Table : 3.16
OLS Results of Trend Analysis (Relative No. of Export Account)

Bank Category		Intercept	Slope	R^2	P values
Total	Total Period	-1.974 (.26, -7.65)	.08 (.03, 2.32)	0.31	.039 .000
	Phase - I	-2.816 (.18, -15.24)	.41 (.06, 6.84)	0.88	.001 .018
	Phase - II	-0.944 (.13, -7.54)	-.06 (.03, -1.41)	0.44	.208 .000
NCB	Total Period	-1.48* (.30, -4.89)	.07 (.04, 1.66)	0.19	.123 .000
	Phase - I	-2.427* (.29, -8.22)	.47* (.10, 4.54)	0.78	.023 .035
	Phase - II	-.459* (.087, -2.88)	-.087 (.16, -2.88)	0.49	.136 .012
PCB	Total Period	-.69* (.24, -2.80)	.13* (.03, 4.12)	0.59	.001 .016
	Phase - I	-1.49* (.33, -4.16)	.51* (.11, 3.93)	0.79	.017 .041
	Phase -II	.355* (.10, 3.68)	.06* (.02, 2.40)	0.49	.053 .016

Note: Figures in the parenthesis indicates standard error & t-value respectively.

Table : 3.17
OLS Results of Trend Analysis (Export Finance Per Account)

Bank Category		Intercept	Slope	R^2	P values
Total	Total Period	-0.48* (.16, -2.96)	0.011 (.02, 0.58)	.03	.576 .011
	Phase - I	-0.073 (.29, -.24)	-0.14 (.12, -1.73)	0.50	.820 .181
	Phase - II	-0.466* (.12, -3.80)	0.028 9 .03, .45)	0.03	.670 .031
NCB	Total Period	1.22* (.21, 5.96)	-0.022 (.03, -1.09)	0.04	.482 .000
	Phase - I	1.774* (.36, 4.80)	-0.273* (.149, -18.35)	0.53	.016 .163
	Phase - II	0.836* (.14, 5.84)	.047 (.03, 1.58)	0.26	.000 .158
PCB	Total Period	-0.06 (.25, -0.22)	.053 (.03. 1.61)	0.18	.134 .831
	Phase - I	.15 (.53, .289)	-0.07 (-.22, -.60)	0.16	.790 .592
	Phase -II	0.54* (.21, 2.56)	-0.008* (.04, -0.17)	0.59	.037 .867

Note: Figures in the parenthesis indicates standard error & t-value respectively.

3.4.6 Specialised and Foreign Banks:

Other than these two categories, there are other two minor categories of banks involved in export finance - namely, foreign banks and Specialised bank. Unlike foreign banks, which started export financing operation very recently, specialised banks, are operating for a very long period but have been contributing very insignificantly in export. Table 3.18 shows contribution of specialised banks in export finance. But foreign banks began to give additional priority to export from 1993-94.. During this six period, this group of banks advanced around 35 percent of their total credit to export.

Table: 3.18
Contribution of Specialised Banks in Export Finance

Year	Total Finance	Export Finance	Share of Ex. Finance	Export Per A/C
1982 - 83	1435.876	0.054571	3.8005E-05	
1984	1879.646	0.033823	1.7994E-05	
1985	1845.488	0.01846	1.0003E-05	
1986	2653.002	0.014918	5.6231E-06	0.098755
1987	2179.724	0.014861	6.8178E-06	0.147466
1988	2678.965	0.011115	4.149E-06	0.706419
1989	2788.262	0.008242	2.956E-06	0.097056
1990	3166.58	0.010753	3.3958E-06	0.054399
1991	2464.976	0.009889	4.0118E-06	0.158975
1992	2640.263	0.025284	9.5763E-06	0.036466
1993	2225.25	0.013622	6.1216E-06	0.022518
1994	2239.5	0.01416	6.3228E-06	0.041793
1995	2538.493	0.00613	2.4148E-06	0.062001
1996	2745.871	0.005537	2.0165E-06	0.076108
1997	2439.358	0.00423	1.7341E-06	0.101633
1998	2576.677	0.003605	1.3991E-06	0.058048
1998 - 99	2673.801	0.003052	1.1414E-06	0.223932

Source: Please see note-1 at the end of the chapter

Moreover, table 3.19 shows that finance per account is much higher than other categories and that amount per account rapidly increases over time starting from 9.74 crore Taka to 30.85 crore Taka within six years. Very high values of finance per account, of-course, indicate that foreign banks specially preferred big operators and they started operation in export financing in 1994 to take advantage of economic liberalisation. However, only six year's operation is too short a period to evaluate their role in export financing.

Table: 3.19
Foreign Banks
Bank Credit: Share of Export Sector(Tk. In Crore)

Year	Total Credit	Export Credit	% Share	Finance Per A/C
1993 - 94	3151.13	11236.75	39.24	9.74
1995	3664.88	1441.01	39.32	11.17
1996	4896.93	1788.37	36.52	18.82
1997	6527.44	2363.98	36.22	21.69
1998	7601.34	2238.42	29.45	17.22
1998 - 99	9525.34	2838.12	29.83	30.84

Source: Please see note-1 at the end of the chapter

3.5 Concluding Remarks:

Review of inter institutional environment suggests that 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 positively and significantly influences annual growth rate of export finance, which though remains mostly positive throughout the period of study but fluctuating and does not vary much with bank category. 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 influence by the Governmental policy decision which declares greater emphasis on export in 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 private banks gradually followed the same. the greater emphasis by the private banks was observed in the second phase.

Note-1: Values shown in the table are computed on the basis of the published data. Sources are as mentioned in the section 'Methodology' in chapter-1.

Chapter - 4

Evaluation Of Existing Schemes & Policies Of Export Financing

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A part of this chapter has been published in *Bank Parikrama* (Vol. XXVI, No. 3&4, pp. 90-117) under the title '*Export-led Growth: An Evaluation of Export Credit Guarantee Scheme as a Tool of Export Promotion in Bangladesh*'.

4.1 Introduction:

Exports of Bangladesh have lagged considerably behind imports till to date. A major object of EXIM policy of Bangladesh Government was to increase foreign-exchange earnings through export expansion from the very beginning of its existence. For a newly independent country with a low level of entrepreneurship, however, the entry into the world trade market in a large way was difficult. Realizing this difficulty, many shames have been introduced for providing incentives to the exporters at different point of time by the successive government. Over the last few decades some entrepreneurs have engaged themselves to the business of export trade. Since the world economic situation has been changed gradually as well, the study on the performance and effectiveness of these schemes may be of great help to understand the problem of exports in general and more particularly, the problem of export financing in Bangladesh.

The study exclusively on the export financing schemes, their effectiveness and performance is so far not comprehensive. It lacks both theoretical exposition and empirical verification so far the effective implementation in a third world country is concerned. Any under-developed country is deprived of having access to latest technology which generally cost effective, production efficient but labour serving. On the other hand, it has a burden of an army of job-seeking huge population. The extent of disadvantage due to relatively less 'cost-effective and production effective' technology being in operation may be compensated by introducing promotional measures and incentives schemes in export provided these schemes are feasible and effective. The serious study on this aspect is all the more becoming important in a changed scenario of world-trade under globalisation since direct subsidies are, in many cases, limited to an extent resolved by the world-trade authority. A very few studies are available on export financing incentive schemes in general as well as in the context of Bangladesh economy.

Islam(1968) has investigated the effectiveness of export promotion measures in stimulating exports in Pakistan. In the analysis, by using effective exchange rate as the measurement of export incentives in a time series investigation, he found that manufactured exports responded strongly to the export subsidies introduced in the various incentive schemes. He argued that an increase in the effective exchange rate

by either devaluation or a system of indirect subsidies increased the receipts in local currency per unit of exports. However, this is just an empirical verification of century old practice of export promotion by devaluation of domestic currency.

Hunchangsith et al.(1977) has examined various aspects of Thailand exports. Such as the incentive structure and their effectiveness and the relation between export, economic growth and employment. They examined the export incentives and their effectiveness by cross -section data and regression analysis and found a favourable result. They also found a positive relation between effective rate of promotion and export growth and concluded that export is surely a growth-leading factor and therefore should be promoted.

Rab(1984) has made an evaluation of the effective assistance to export production in Bangladesh. He argued that export production of the country, in general is being very inadequately assisted relatively to the average level of assistance being received by the import substitution activities. Sakhawatullah(1984) has evaluated the Duty Drawback Scheme and Bonded Warehousing in Bangladesh. From his study it appears that the duty drawback system has not worked as a satisfactory incentives to the exporters due to lengthy verification procedure and uncertainty about the amount and timing of reimbursements. Bonded warehousing facilities are important aids to industrial development but the facilities are not easily available to all export oriented industries. In a study, Roy(1993) has showed that incentives played a significant role in promoting exports.

Anwaruzzaman(1998) has made an attempt to explore quantitatively the response of Bangladesh economy to export incentives within the framework of a general equilibrium model. On the basis of his study, he has expressed that a 'well-implemented subsidy scheme may take the economy a long way towards export-oriented growth'. [Anwaruzzaman(1998):74]

It, therefore, explicitly reveals that the only study specifically on export financing schemes in Bangladesh was done in 1984. It normally could not cover the schemes introduced in nineties and particularly during the period after 1991. Moreover findings of the study may not remain valid to day, as several changes have been made thereafter in the procedure for obtaining incentives under these two schemes covered by this study. In the present context, the extent of studies seems to appear inadequate and incomplete.

In compliance of the importance, the present chapter of the study is planned to evaluate the existing schemes and policies of export financing in Bangladesh. Since incentive schemes and promotional measure are largely dependent on government export policy, we like to start with a section on 'Review of Export Policy of Bangladesh', followed by a section introducing existing schemes and policies under three categories, namely, financial, fiscal and general. Subsequently, discussion on evaluation of schemes separately will be taken up. Of-course, major emphasis will be given on the evaluation of ECG schemes which are not yet studied by any scholar.

4.2 Review of Export Policy of Bangladesh:

Export policy of Bangladesh upto 1990 was basically characterised by adhoc measures adopted on one-year basis. In addition to that, the country experienced a very restrictive and complex set of industrial and trade policies, which discouraged the expansion of manufacturing sector including those having high export potentialities. Non-tariff measures, such as, quantitative restrictions on imports in general had been applied to a considerable range of importable raw materials, including primary inputs. The countries tariff regime continued to discriminate strongly against export production [Zaman et al(1999)]. In 1991, firstl time a two-year export policy (1991-1993) was announced by the Government of Bangladesh (GOB), which contained a lot of incentive provisions. But fruits of the many of those incentives could not be reaped by all the exporters [Zaman et al.(1999):76]. In 1993, GOB declared, adding some new incentives another tow-year export policy with some modifications of the earlier one. But again due to the weak and ineffective implementation of announced policies manufacturing sector in Bangladesh failed to stimulate competitive export oriented sector.

In this backdrop, GOB announced the first Five-year export policy for 1997 - 2002. The policy primarily aims at attracting entrepreneur to establish export oriented industries for the very purpose of fostering employment opportunities through increased production and trade, improving the balance of payment through narrowing down the trade gap with the diversification of export commodities. As a necessary condition of expanding the export base, establishment of backward linkage with export-oriented industries and development of export infrastructure in the country

were visualised. For achieving those objectives the following major strategies were declared:

(1) Simplification of export procedure, strengthening supportive role of the Government and more integration of the private sector with the export related activities.

(2) Up-gradation of technological, improvement of productivity and quality, reduction in costs of production of exports items.

(3) Development of backward linkage industries for utilisation of local raw materials.

(4) Providing bonded warehouse facilities to 100% export-oriented high value added leather industries in importing raw materials and chemicals.

(5) Expansion of modern semi-intensive shrimp culture and improvement of quality to increase shrimp exports.

(6) Development of adequate infrastructure within the country to facilitate computer software, data processing, electrical and electronic appliance industries.

(7) Providing applied and technical training of personal to create skilled workforce in the export sectors.

(8)Arranging international trade fair and commodity based exhibitions in the country and abroad on a regular basis.

The government also identified some items in export sector for the crash programme. At present toys, luggage, fashion items, electronics, leather goods, diamond cutting and polishing, jewelry, silk fabric, stationary goods, cut and artificial flowers, orchid, gift items, vegetables, engineering consultancy services etc. have been included in the list.

In order to boost production and promote export of these crash programme items along with other export commodities, various financial incentives and institutional support and promotional measures were in vogue in this policy. In the following section we will give a bird's eye view on existing incentives and export promotional measures.

4.3 A Brief Account of Existing Schemes and Facilities:

With a view to help the exporters in overcoming the difficulties arising out of relatively narrow export base and make their products competitive different schemes of incentives are usually provided to the exporters. Ministry of Commerce,

Government of Bangladesh in its publication 'Export Policy: 1997 - 2002', published in July 1998 provides an exhaustive list of export incentives. The document provides old schemes, modified version of the existing and newly introduced schemas. It categorised schemes and incentives under two main heads: Financial and Fiscal. Those, which cannot be included in either of these two, are categorised under the head 'general'. For the convenience of our discussion we, therefore, produce below a few schemes, following the same division of category as under

1. Financial Incentives:

The ultimate purpose of the financial incentives is to increase the profitability of export sectors. This can be achieved either by increasing sales volume without downward revision of price, or by reducing the cost. Thus, all the prescribed schemes under this category, either intends to raise sales revenue while others intend to reduce per unit cost of production. Following are the different forms of measure prescribed by the government in the said policy called 'financial incentives' available for the exporters:

(i) Export Credit Guarantee Scheme (ECGS).

(ii) Convertibility of Taka in Current Account.

(iii) Retention of 40% of FOB value of export earning in exporters own account in dollars and pound (except 7.5% retention rate for those items where the import components are relatively high).

(iv) Export Promotion Fund (EPF).

(v) Export financing facilities: concessional rate of interest, expansion of export-credit limit from 180 days to 270 days with exemption of overdue interest and inland back to back letter of credit (L/C),

(vi) Insurance premium rebate for non-traditional exporters.

2. Fiscal Incentives:

(i) 50% tax rebate on export earnings.

(ii) Bonded warehouse facilities to 100% export oriented firms, with payment facilities through commercial banks.

(iii) Duty Drawback

(iv) Duty free import of Capital goods for 100% export oriented firms.

(v) Tax holiday.

(vi) VAT refund facilities for use of jute cloth and bags in the packing of exports goods.

3. General Incentives:

(i) Special rebate in airfreight for perishable agricultural products and product under crush programme.

(ii) Training course on external trade.

(iii) Arrangement of international trade fairs, country - based exhibitions in the country and participation in foreign trade fairs.

(iv) National Export Trophy to successful exporters.

4.4 Evaluation of different Incentives Schemes:

In the last section we have mentioned that there are all together 16 incentive schemes for export promotion. Out of these fifteen provision, one under financial category, namely, ECGS and two under fiscal category, namely, BW and DDB are widely known to people involved in export business. While the benefits derived from the schemes other than these three are marginal, these three schemes can provide direct and substantial benefit to all sections of exporters.

For example, incentives schemes mentioned under the head 'general' - 3(ii), and 3(iv) are either motivational in nature, or can build up a business environment and culture which is conducive to export trade. Except 3(i), none of these schemes is supposed to provide any direct benefit to the exporters. Similarly, three schemes enlisted under the head 'fiscal i.e., 2(i), 2(v), and 2(vi), are related to tax benefit. These schemes obviously are designed to attract more and more entrepreneurs to export trade. Another scheme, mentioned under same category i.e., 2(iv), reduces the cost of production as well as makes the availability of raw materials easy. No doubt, if the exporters avail of the facility, it would most often help to make the export item competitive. Moreover, sometimes it also makes an item feasible to be exported. Scheme, under the head 'financial', which could have been a potential export promotion measure linked with export financing directly, is ECGS. Under this scheme there are provision of financing both pre and post shipment stage of export. Others are facilities not directly related with availability of credit but extend provision of foreign

exchange transaction, availability of rebate on insurance premium, extension of time limit for certain exportable commodities, additional benefits (other than credit) to non-traditional industrial product etc.

It, therefore, seems to imply that among all the schemes, ECGS, BW, DDB are deserved special attention as major and important incentive schemes. However, BW, DDB are fiscal facilities and several studies have already been made on the advantage and disadvantages of these two. The main contention of this, therefore, does not merit details analysis of these two facilities. But these two facilities provide a basic infrastructural requirement, which has a direct consequence on the overall export volume. Moreover, there is a provision of limited period interest free credit assistance under DDB scheme. Hence, we briefly discuss these two facilities.

Our main intention, of course, is to evaluate and analyse the performance of ECGS. Availability of export credit for the exporters and extending advances to the exporters by the financial institutions represent demand and supply side of export financing respectively. Both demand and supply may be influenced by the successful implementation of these schemes. We have also mentioned that the performance of export promotion under ECG schemes has not been evaluated so far, though it could have been an important instrument for export promotion. We, therefore, intend to evaluate and discuss the performance of ECGS exhaustively under a separate section 4.5 and brief critical notes on remaining two important incentives DDB and BW under the sub-sections 4.4.1 and 4.4.2 respectively.

4.4.1 Duty Drawback System:

The duty drawback system refers to a situation in which an exporters of manufactured goods entitled to get back in full (or in part) the duty and taxes paid on imported raw materials used as an ingredient solely for exported goods. As a result relevant export sectors get their necessary inputs at world prices. This helps to make their products competitive in the export market both in quality and price. This partial duty draw back system was first introduced in 1982 and the refund of full duty was introduced later. The Drawback is provided in three alternative ways:

(a) Duty Drawback at Actual Rates,

(b) Duty Drawback at Flat Rate and

(c) National Payment.

Flat rate and actual rate methods are operated on reimbursement basis. For exported products not covered by the flat rate, repayment is determined on the basis of actual duty and taxes paid on imported inputs.

The exporter can received his duty back either from the custom office or from the bank on producing a certificate from the appropriate office of the collector of customs that shipment has actually been done. Details procedure is laid down by the Drawback for Manufactured Export Rules (DMER), 1970 [SRO. 202(1)/ 70 dated 19.8.70]. This procedure is sometimes, if not always, allegedly time consuming and therefore, actual reimbursement takes time. Introduction of a credit facility during this intermediary period of waiting after filing a claim recognises the fact.

To assist the exporters to bear the interest cost on blocked fund while waiting for reimbursement, the government has introduced this credit facility in which exporter can obtain interest free advanced from the bank equal to 100% of eligible drawback. If an exporter wishes to take advantage of 100% drawback credit facility against refundable drawback, he can apply to his bank for credit with relevant documents only after issuance of SRO by National Board of Revenue (NBR). The credit is free of interest for a period of 90 days. In this system the exporters has to apply to the Director of Inspection and Training for survey and fixation of the rate of drawback and also for the certification. On the strength of this certification and recommendation from the Directorate, the exporter's bank makes the advance to the extent of amount entitled to be drawn back.

This system is, however, not free from limitations. The complicated, bureaucratic and time-consuming procedure is alleged often be the cause of more of disincentives rather than incentives. A survey of the exporters' attitude, view and perception on different incentives schemes and credit facilities has been done as a part of this thesis and findings on this issue are presented and discuss in chapter-5.

4.4.2 Bonded Warehouse Facilities (BW):

Bonded warehousing system is a highly useful device for facilitating export-oriented industrial development. Export units, which can receive this facility, can import their input requirement tax-free. The National Board of Revenue (NBR) under

section 13 of the Custom Act of 1969 provides this facility. The Collector of Custom within his jurisdiction is the respective competent authority empowered to administer and operate the bonded warehousing system. The existing legal provisions are alleged to make the availability of warehouse facility restrictive. Moreover, exporters are believed to get victimised unjustifiably due to differential implementation of the discretionary power vested on the collector of customs who is the competent authority in a district. This differential use of discretionary power of collector of customs is alleged to varying district to district and thus prevents uniform application of the facility.

There are two types of BW in Bangladesh: (1) public and (2) private. Public warehousing is maintained and operated by the Custom Department. Private warehousing facilities are available to export oriented industries as well as to industries producing goods for home consumption. Any private importer/exporter can use the warehouse to store goods upto two years. The rate of duty payable is charged at the rate prevalent on the date of clearance. In case of export-oriented industries no taxes are required to be paid. Industries, which qualify for the following benefits, are eligible for bonded warehouses:

i. Duty Drawback arrangement for export,
ii. Back-to-Back letter of credit for import of raw materials,
iii. Goods sold for international tender against foreign exchange.
iv. Deferred payments of duty and taxes

Though the bonded warehousing facility is viewed an important incentive to industrialisation, the facility is not available liberally to all export oriented industries uniformly as a matter of policy. In the actual operation of BW there are some problems faced by the bonders also. The most common complaint from the bonders is that the production of goods in time and delivery or export on schedule is hampered by the lack of prompt action of the custom officer. Custom department, on the other hand, says that the utmost vigilance which is necessary in preventing illegal leakage of the bonded commodity into the domestic market defer prompt action.

As we have already mentioned that these two facilities discussed in 4.4.1 and 4.4.2 are not directly involved in getting export finance except short-term advance DDB credit. But these two facilities help to expand the export operation and thereby, indirectly influence the need of export finance. For this a brief discussion on the state

of these facilities appears to be relevant, although ECG schemes are directly involved in export financing, which we are supposed to discuss in details in the next section.

4.5 Evaluation of Export Credit Guarantee Scheme (ECGS):

Commercial Banks are the main financier of export trade in Bangladesh. However, since substantial extent of risks are contingent upon the several unforeseen happenings or situations like, insolvency of the exporter, non-shipment or short-shipment of goods, non- repatriation due to insolvency of the buyer, the refusal of accepting the consignment by the buyer, the change in the economic and political condition in the buyer's country etc., banks are usually hesitant to become involved in export credit. This impedes the processing of export order and causes an adverse impact on the competitive ability of export firms. The need therefore, is felt for a scheme of export credit designed to insure exporters against the consequences of risk of default payment, and to enable them to expand their overseas business without fear of loss. ECGS is one of these long felt promotional measures declared by the Government of Bangladesh to mitigate the adverse effect on the very process of sharpening the competitive edge of the exporters in the world market. Sadharan Bima Corporation (SBC) introduced 'Export Credit Guarantee Scheme' (ECGS) with effect from 1st January 1978 through its Export Credit Guarantee Wing (ECGW) as per the order of the Government of the People Republic of Bangladesh (GOB). In the present period of new economic world order i.e. under the WTO regime, the openness of the economy through liberalising trade gave birth a complete new environment of competition which entrepreneurs of protective countries and so in Bangladesh, are not familiar with. The importance of ECGS is, therefore, now more than that actually thought of at the time of initiation. After a lapse of more than two decades, the performance of ECGS may deserve a proper evaluation as no systematic study of ECGS in Bangladesh has yet been done, except casual observations of professional economists, business leaders and the bankers. An econometric analysis is necessary to verify observations made by them and to evaluate effectiveness of Export Credit Guarantee Scheme as an export promotion measure.

4.5.1 A Brief Outline of the Existing Export Credit Guarantee Schemes (ECGS):

Policies introduced by the SBC are under the following schemes: (a) Export Finance Guarantee (b) Export Payment Risk (known as comprehensive) Guarantee

(c) Whole Turn over Finance Guarantee. Under Export Finance Guarantee there are actually two schemes namely (i) Pre-shipment Guarantee and (ii) Post-shipment Guarantee. For all practical purposes, therefore, there are four following independent schemes:

1. Pre-shipment Guarantee
2. Post-shipment Guarantee
3. Comprehensive Guarantee and
4. Whole Turn over Finance Guarantee.

Among these policies, Comprehensive scheme insures exporters who become policyholders and the rest of four insure risk of the bankers. The salient features of the ECGS's are given below:

(a) **Pre-shipment Guarantee**: Pre-shipment Export Finance Guarantee policy provides bankers, who become policyholders, with a guarantee against losses resulting at the pre-shipment stage. The intended objectives of the scheme are to induce the banks to channelize increased volume of credit to the export sector. Risk covered under such guarantee includes any loss incurred by the banks on account of (i) the insolvency of the exporter & (ii) the failure of the exporter to repay loan within four month of the due date of payment. The extent of guarantee coverage is 75% of the loan where the loss is established. The policy worked on the principle of no-profits–no-loss basis and, therefore, the premium rate is claimed to be kept as low as possible.[1]

(b) **Post-shipment Guarantee**: Exporters often face problem to adjust the post – shipment account with the bank when payments for goods sold on credit are not made by the foreign buyers. Under such circumstances, banks in Bangladesh are generally hesitant to provide post–shipment finance to the exporters. The post–shipment Credit Guarantee has, therefore, designed to protect commercial banks from losses that may be sustained by them in respect of advances granted to exporters by

1. The premium is payable @ 0.01% on the highest outstanding during each month. If the collateral against the credit limit is less than 50% of the limit, the premium is payable @ 0.015% per month.

way of discount, purchase or negotiation of export bills. It, therefore, supplements the cover given to banks under the Pre-shipment Credit Guarantee[2].

(c) **Comprehensive Guarantee**: To remove the exporter's risk of buyers turning defaulter of payment against credit sale of exports and to overcome his post–shipment finance problem, the ECGW of SBC has introduced the Export Payment Risk Policy (Comprehensive Guarantee). Comprehensive Guarantee covers both commercial and political risk. It covers commercial risks (i.e. risk arising out of buyer's action) upto 85% and political risk (i.e. risk arising due to Government action) upto 95%. Premium rate for this policy is considered to be low [3].

(d) **Whole Turn Over Finance Guarantee**: In order to make the ECG scheme more simple, more cheap and much convenient to the banking community, ECGW of SBC has introduced recently a new Scheme entitled 'Whole Turnover' Pre–shipment Guarantee. The concept has become very popular in many countries like India, Indonesia, and Sri Lanka etc. This guarantee, issued against a commercial bank designed to provide cover for all the pre–shipment finances those are extended to all of its customers under a single guarantee. In other words, it is a contract between the ECGW and the bank to whom the guarantee is issued and it protects the insured bank in respect of the losses that it may incur while giving pre–shipment credits to its exporter clients. In comparison to individual Pre–shipment Finance Guarantee, this guarantee is easy to handle, has less paper work and less premium cost. The bank has to submit the proposal for the guarantee in the prescribed form supplied by the ECGW. The guarantee is normally issued for a single financial year[4].

4.5.2 Methodology and Sources of data: We assume that the perceived existence of risk and uncertainty associated with the export business both on the part of banks and exporters have been reduced substantially by the introduction of ECGS and therefore, these schemes have played a significant role in promoting export as

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2. Premium is payable @ 0.05% per month on the highest amount of loan outstanding on any day during the month.
3. It varies from 0.125% to 2.00% of the invoice value depending on the terms of payment, credit information of the buyer, and the stability of political and economical condition of the buyers country. Incase of L/C , the minimum premium rate is .125% and maximum 0.65%. Incase of Confirmed Sale contract the minimum rate is 0.40% and maximum rate is 2.00%.
4. Premium is payable @0.075% per month on the total average products of all accounts (exporters). 80% of loss incurred by the bank are compensated under this guarantee.

expected by the Government. If it actually does play such a role then amount of insurance coverage will show positive relationship with the volume of export. But the amount of insurance coverage is also directly related with number of policies. Furthermore, another factor that should have a motivating and inspiring impact on financiers and the exporters in the amount of settlement of claims. Settlement of claims may supposed to be made financial risks of both the financiers and the exporters minimum and thus should encourages the financier to finance with minimum risk of under-recovery and exporters to extend scale of export operation with required financial support. Higher amount of claim settlement will thus attract more users to take advantage of the coverage under these schemes, if these schemes are at all beneficial to bankers and exporters. Thus with the increasing volume of export and settlement ratio the volume of insurance coverage should exhibit a statistically significant relationship. Thus we hold that, for each individual scheme and one for all schemes together (to be mentioned as '**total**' herein after)

$$Xo = \beta_o + \sum_{i=1}^{3} \beta_i x_i + u \qquad (1)$$

Where x_o = Insurance coverage in different years under each scheme or for total,

x_1 = Volume of exports in different years (Export),

x_2 = Insurance settlement ratio (SR) under each scheme or for total,

x_3 = No. of policies in different year (NP), u = Random terms

and through OLS Regression, we obtain

$$\hat{X}_0 = \hat{\beta}_0 + \sum_{i=1}^{3} \hat{\beta}_i x_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Significance of β_i (i = 0,1,..,3) will be tested by S.E. test or 't' - test at 5% significance level for null hypothesis

$$Ho : \hat{\beta}_i = 0$$

against the alternative hypothesis

$$H_i : \hat{\beta}_i \neq 0$$

Three independent variables x_1, x_2, x_3, may have a strong correlation among themselves and thus the possibility of presence of multicollinearity cannot be ruled out altogether.

The presence of multicollinearity may make the estimation of OLS parameters indeterminate though the exact effect of collinearity is yet to be established theoretically by econometrician, [Koutsoyiannis(1973), Klien(1974), Farrar & Glauber(1967), Theil(1961), Frisch(1934)]. If the existence of multi-collinearity is found in any OLS analysis, one has different options for taking care of that. Among those methods, suggested in literature, we could not adopt the method of increasing the size of the sample, which is fixed in our case. Distributed-lag Model as suggested by Koyck(1954), is not also found appropriate. Removal of factors from the process of formation of simultaneous equation is not also possible as the introduction of additional relationship is not meaningful. Therefore, we are left with no options but to apply Frisch's Confluence Analysis. We intend to take care of autocorrelation problem by Theil and Nagar methods. Though the value of R^2 decreases in the process, it guarantees efficiency and consistency of parameters estimation.

The study is based on secondary data, from the SBC and the Export Promotion Bureau (Dhaka). We have used the data of pre–shipment, Post-shipment and total export credit guarantee scheme for the last twenty-three years covering the period 1978 - 2000. In case of Post-shipment guarantee scheme we have used data for last seventeen years covering the period 1984 – 2000. Data for ECGS are available on the basis of calendar year i.e. January to December, and accordingly time period for available data on export volume are adjusted to make it compatible with ECG data. Time series Data available for the period related to payment of insurance claim are under the following heads: claim lodged, claim withdrawn, claim settled. But as the settlement of claim usually takes time, therefore, the claim lodged in a particular year may spill over to the next year (if not settled during that particular year). Hence we consider net claim lodge by subtracting amount of claim withdrawn from the claim lodged and calculate a ratio, settlement ratio (SR), which is obtained in dividing the amount of claim actually settled in a particular year by the total outstanding net claim lodged till that year. Unfortunately, year wise separate data for new claim lodge and outstanding claim of the year are not available. As a consequence of spill over of unsettled claim of previous year, the net claims settled in some years are found more than the claim lodged in these particular years. Only way left to us in making these data useable, as one of the explanatory variables is to transform the data in this form of ratio instead of absolute values.

Recently introduced scheme (d) is not studied in this thesis because of absence of time series data.

4.5.3 OLS Results and Interpretation:

The OLS results of the study are presented in Tables 4.1 to 4.10 Table - 4.1 represents the OLS results of Pre-shipment Guarantee Scheme, while Tables 4.2, & 4.3 represent the results of Post – shipment, and Total respectively. Tables 4.4 & 4.5 represent results of comprehensive scheme. We prefer to discuss and interpret the results for Comprehensive scheme separately as the result exhibits different trend than that of other two and Total. As, in the section of methodology, we have mentioned already the possibility of presence of multicollinearity, we introduce variables stepwise in the OLS model following Frisch Confluence Analysis starting with export as the most expected explanatory variable. We decide on the character of variables as 'unacceptable', 'superfluous' and 'detrimental' depending on the increasing / decreasing values of R^2 and the change of sign of parameter β as follows:

i). If the new variable improves R^2 without rendering the individual coefficients unacceptable on a priori considerations, the variable is considered useful and is retained as an explanatory variable.

ii). If the new variable neither improve R^2 and nor affects to any considerable extent the values of the individual coefficients, it is considered as superfluous and is rejected.

iii) If the new variable affects considerably the signs or the values of the coefficients, it is considered as detrimental.

We observe the following from the results of OLS analysis and interpret as under:

a) 'Total' and schemes other than Comprehensive: -

The OLS results presented in the following Table 4.1, 4.2, & 4.3 shows that individually NP appears to be the most important explanatory variable followed by SR. But export never appears significant individually. NP and SR jointly improve the values of R^2 in all three cases and the co-efficient β_3 and β_2 exhibit statistically significant values except in post-shipment scheme wherein, though SR improves the value of R^2, the t-value of co-efficient β_2 proves the null hypothesis to be acceptable. When export is introduced with SR and NP, it proves itself 'detrimental' in cases of pre-shipment and post-shipment. In case of 'total' it becomes 'superfluous', as the value of R^2 remains unchanged at 0.62. Moreover it reduces the level of significance of β_2 from 5 percent level to 10 percent level.

Table: 4.1
Results of OLS analysis (Pre-shipment : 1978 – 2000)

Explanatory Variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
Export	81974.07* (3.88)	.00107 (.122)	_	_	.0007	0.51	.014	22
SR	46750.77* (2.23)	_	199813.30 (2.20) *	_	.19	0.83	4.82	22
NP	4976.90 (0.25)	_	_	396.43* (4.60)	.50	1.01	21.14	22
Export, NP	-566.69 (-0.024)	.0028 (0.44)	_	398.72* (4.53)	.51	1.04	10.26	21
SR, NP	-10782.28 (-.52)	_	125483.40 (1.79)*	358.31* (4.23)	.57	1.23	13.29	21
Export, SR	54215.16* (2.43)	.0086 (-.97)	244850.22 (2.39)*	_	.22	0.94	2.87	21
Export, SR, NP	-6801.00 (-.30)	-.00311 (.66)	143404.49 (1.75)*	350.30* (3.97)	.58	1.25	8.58	20

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Table : 4.2
Results of OLS analysis (Post-shipment : 1984 – 2000)

Explanatory Variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
Export	38247.24* (4.59)	-.004 (-1.33)	_	_	0.11	0.64	1.78	16
SR	24118.01* (4.22)	_	14090.62 (1.57)**	_	0.14	0.72	2.45	16
NP	5067.62 (0.69)	_	_	268.31* (3.77)	0.48	1.00	14.23	16
Export, NP	-56389.12 (0.1428)	0.0028 (-0.98)	_	325.43* (4.46)	0.52	1.21	7.47	15
Cov = f (SR,NP)	3903.93 (0.53)	_	8326.63 (1.18)	248.04* (3.43)	0.53	1.16	7.99	15
Export, SR	31785.86* (3.29)	-0.003 (0.003)	11674.00 (1.25)	_	0.20	0.74	1.71	15
Export, SR, NP	-10119.31 (-0.71)	.0034 (1.14)	9506.27 (1.35)**	314.27* (3.41)	0.58	1.52	5.87	14

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Table : 4.3
Results of OLS Analysis (Total : 1978 – 2000)

Explanatory Variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
Export	94035.52* (3.36)	.006 (.522)	_	_	0.013	0.24	0.27	22
SR	53056.09 (2.01)*	_	246051.4 (2.49)*	_	0.23	0.64	6.21	22
NP	1987.20 (.08)	_	_	354.28 (5.01)*	0.54	0.43	25.14	22
Export, NP	-23372.27 (-.81)	.012 (1.49)**	_	368.21 (5.31)*	0.59	0.55	14.43	21
SR, NP	-17446.59 (-.71)	_	147050.60 (1.98)*	314.03* (4.53)	0.62	0.78	16.27	21
Export, SR,	59701.29* (2.08)	-.0075 (-.633)	279360.18 (2.47)*	_	0.24	0.72	3.22	21
Export, SR, NP	-25181.52 (-.89)	.0052 (.58)	119459.30 (1.34)**	327.83* (4.41)	0.62	0.76	10.60	20

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Comprehensive Scheme :-

Results of OLS for this scheme presented in the following Table-4.4 are somewhat perplexing and deserve further probing. Export and SR, as a single explanatory variable, gives the values of R^2 as .047 and .037 respectively. It implies that Export and SR do not contribute anything as independent variables in explaining the change in increasing value of insurance coverage under this scheme. β_1 and β_2 do not appear significant either. The value of β_3 , co-efficient of NP, comes out as significant but the value of R^2 is only 0.133. The value of R^2 does not improve when we introduce other two variables stepwise with NP, but the significance level of β_3

Table : 4.4
Results of OLS analysis (Comprehensive : 1978 - 2000)

Explanatory variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
SR	3566.67* (5.60)	_	-56.45 (-.90)	_	.037	0.82	0.82	22
Export	3886.43* (4.47)	-.0003 (-1.016)	_	_	.047	0.82	1.03	22
NP	1901.38* (2.1)	_	_	52.42* (1.79)	.133	0.76	3.21	22
Export, NP,	2027.09 (1.31)	-.00004 (-.10)	_	50.43** (1.41)	.133	0.77	1.54	21
SR ,NP	1970.21 (1.49)		-5.83 (-.08)	51.02** (1.49)	.133	0.76	1.54	21
Export, SR	3874.71* (4.624	-2.51 (-.56)	-29.10 (.72)	_	.053	0.82	0.56	21
Export SR, NP	2039.70 (1.27)	-.00003 (-.07)	-3.30 (-.04)	50.05** (1.33)	.333	0.76	0.97	20

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

deteriorates from 5% level to 10% level. Thus the variables SR and Export appear to be 'detrimental' and the only explanatory variable left with significant co-efficient is NP which explains only 13.3 percent of the variation in insurance coverage.

According to this scheme, exporters can independently undertake the insurance for minimising their risk against any unforeseen financial loss. But we find that export volume does not contribute meaningfully and contribution of NP is also very negligible ($R^2 = .133$). It indicates that the coverage under this scheme must be determined by some factors other than those have so far been introduced. We thus decide to introduce a new variable, post-shipment coverage (PC), as an explanatory one (x_4) and OLS equation (i) is reformulated for this purpose as

$$X_0 = \beta_0 + \sum_1^4 \beta_i x_i + u_1 \qquad (3)$$

where, x_4 = Post-shipment coverage (PC) ; x_1, x_2, x_3, are as defined already.

The results presented in Table–4.5 reveal that post-shipment coverage alone explains 35% (R^2 = 0.35) and jointly with NP it explains 68% (R^2 = 0.68). Variables export and SR, however, does not appear as promising in presence of PC and proved themselves 'unacceptable'. The indication of the result is that the coverage under the comprehensive scheme is, to a large extends, influenced by the post-shipment coverage. It implies, inter alia, that banks when agree to finance exporters do not feel fully secured under the coverage of the post-shipment scheme and impose additional burden of coverage under the comprehensive scheme on the exporters. Number of policy issued in case of Comprehensive Guarantee Scheme seems to be influenced by bank compulsion but not exporters own interest.

Table : 4.5
Results of OLS analysis(Comprehensive: 1984 - 2000)

Explanatory variables		DF
PC	$1714.56\beta_0$** + .076 (PC)*. (1.83) (2.87) R^2 = .35, DW = 1.38, F = 8.23	16
PC, NP	-888.81 + .10(PC)* + 75. 81 (NP)* (-.91) (4.84) (3.77) R^2 = .68, DW = 2.06, F = 14.83	15
PC, Export	3657.82* + .06 (PC)* + -.0006* (Export) (2.86) (2.32) (-2.04) R^2 = .50, DW = 1.88, F = 7.06	15
PC, SR	2501.41* + .07(PC)* + -59.26**(SR) (2.34) (2.54) (-1.39) R^2 = .43, DW = 1.92, F = 5.34	15
(PC, Export, SR, NP.	-4285.18** + .13*(PC) + .0005 (Export) + 35.74 (SR) + 119.66 *(NP) (-1.39) (3.87) (1.03) (.83) (2.80) R^2 = .71, DW = 2.00, F = 7.43	14

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Post economic liberalisation scenario: -

Though Bangladesh started to follow economic liberalisation policy since 1982, it got its momentum after introducing the new industrial policy in 1991. We estimated the same set of parameters for the period 1991 to 2000. Results are shown in Tables-4.6 to 4.10. Under post-shipment scheme individually NP causes R^2 equals to 0.42 with significant co-efficient but other two variables appear as 'detrimental' when introduced with NP (Table-4.6) and transforms the significant value of β_3 insignificant. In both the cases of 'Total' (Table-4.7) and pre-shipment (Table-4.8) the estimation indicates identical situation with the minor exception that co-efficient β_3 is not changed to insignificant level though introduction of other two variables do appear non-promising and 'detrimental'.

Table : 4.6
Results of OLS analysis(Post-shipment : 1991 – 2000)

Explanatory variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
Export	42032.44* (5.44)	-0.0049* (-2.25)			0.39	2.70	5.07	9
SR	24656.30* (4.00)		-12056.22 (-0.29)		0.0105	1.31	0.08	9
NP	10512.96 (1.48)			243.15* (2.41)	0.42	2.49	5.80	9
Export, NP	23107.68 (0.98)	-0.002 (-0.56)		157.60 (0.86)	0.4452	2.60	2.81	8
SR,NP	4946.44 (0.55)		-33386.38 (-1.02)	269.86* (2.59)	0.4952	3.07	3.43	8
Export, SR	40055.17* (5.00)	-0.0054* (2.42)	-33.37.18 (-0.987)		0.46	3.11	2.99	8
Export, SR, NP	19282.31 (0.81)	-0.0026 (-0.66)	-35411.64 (-1.037)	171.81 (0.93)	0.53	3.20	2.25	7

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Table: 4.7
Results of OLS analysis(Total: 1991 – 2000)

Explanatory variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
Export	214770.92* (7.60)	-0.02* (3.09)			0.54	2.00	9.53	9
SR	145846.11* (10.44)		-10421.85 (-2.20)*		0.38	1.31	4.84	9
NP	11044.84 (-0.66)			530.58* (9.06)	0.911	2.18	82.13	9
Export, NP	5997.28 (0.15)	-0.0026 (-0.47)		499.93* (5.49)	0.913	2.12	37.18	8
SR, NP	-139.5 (-0.006)		-1756.64 (-0.79)	497.78* (6.82)	0.92	2.28	39.43	8
Export, SR	203495.69* (5.73)	-.02 (-1.73)	3356.51 (-0.57)		0.56	1.99	4.53	8
Export, SR, NP,	3470.40 (0.08)	-0.006 (-0.10)	-1617.26 (-0.59)	492.11* (5.11)	0.92	2.26	22.58	7

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Table : 4.8
Results of OLS analysis(Pre-shipment : 1991 – 2000)

Explanatory variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
Export	178397.03* (6.50)	-0.02* (-3.00)			0.53	1.77	9.05	9
SR	103266* (7.26)		-10365.71 (-1.36)		0.19	0.77	1.86	9
NP	-42743.19* (-2.17)			736.15* (7.66)	0.88	1.93	58.74	9
Export, NP	8364.73 (0.27)	-0.0083* (-1.98)		617.14* (5.98)	0.92	2.22	42.09	8
SR, NP	-66059.76* (2.95)		5692.94 (1.70)	852.05* (7.74)	0.91	1.46	37.76	8
Export, SR	171506.99* (6.00)	-0.021* (-2.59)	-5804.11 (0.96)		0.58	1.71	4.93	8
Export, SR, NP	-17132.87 (-0.56)	-0.0075* (-2.02)	4961.69 (1.76)	727.51* (6.57)	0.95	1.82	37.53	7

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

Table: 4.9
Results of OLS analysis
(Comprehensive: 1991 - 2000)

Explanatory variables	β_0	Export (β_1)	SR (β_2)	NP (β_3)	R^2	DW	F	DF
SR	2674.51* (3.98)		-1.56 (0.03)		0.0007	1.22	0.01	9
Export	4025.99* (2.59)	-0.0004 (-0.96)			0.1026	1.48	0.91	9
NP	2510.36 (1.25)			11.27 (0.08)	0.0008	1.23	0.01	9
Export, NP,	8695.20 (1.81)	-0.00096 (-1.40)		-218.27 (-1.10)	0.2203	1.42	0.99	8
SR ,NP	2553.19 (1.11)		-1.20 (-0.05)	8.87 (0.06)	0.0012	1.23	0.004	8
Export, SR	4460.50* (2.46)	-0.00059 (-1.06)	13.36 (0.54)		0.1382	1.69	0.56	8
Export , SR, NP	10645.44** (1.99)	-0.0014 (-1.64)	22.21 (0.886)	-275.71 (-1.22)	0.3105	1.71	0.90	7

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

The study of Comprehensive scheme during this period of liberalised economy does not show any statistically meaningful relationship due to negative coefficients and insignificant value of R^2 except in case of singly introduced NP, which though shows positive coefficient but exhibits untenable value of R^2 (Table – 4.9). However, when PC is introduced as an explanatory variable, NP becomes unacceptable (Table – 4.10). We find that alternative hypothesis is acceptable at 5% level only for the variable PC and it improves the value of R^2 to 0.43. All other variables appear either 'detrimental' or 'unacceptable'. The results, therefore, clearly indicates that the situation does not improve due to change in attitude towards export after the initiation of new liberal economic policy.

Table: 4.10
Results of OLS analysis
(Comprehensive: 1991 - 2000)

Explanatory variables		DF.
PC	-180.77 + 0.11(PC)*, (-0.14) (2.46) R^2 = 0.43, DW = 1.65, F = 6.06	9
PC, NP	993.74 + 0.13 (PC)* -139.25(NP), (0.63) (2.77) (-1.17) R^2 = 0.52, DW = 1.80, F = 3.85	8
PC, Export	-1186.33 + 0.12 (PC)* + 0.0002(Export) (-0.42) (2.07) (0.40) R^2 = 0.44 DW = 1.78, F = 2.79	8
PC, SR	-202.38 + 0.11 (PC)* + 1.44 (SR) (-0.15) (2.30) (0.09) R^2 = 0.43, DW = 1.70, F = 2.66	8
PC, Export, SR, NP.	3775.96 + 0.12(PC)** + 0.0004 (Export) + 3.54 (SR) - 211.18 (N P) (0.59) (1.61) (-.43) (0.14) (-1.03)	6

Note:Figures in the parenthesis indicate corresponding 't'– values. * & ** Indicate significance at 5% and 10% level respectively.

However, we could conceive the possibility that the parameters are not being estimated correctly due to presence of auto-regression. The presence of auto-correlation is highly prominent as shown by the values of DW. We follow Theil and Nagar method to eliminate the influence of auto-regression but it does neither give any new insight in explaining the relationship nor it changes the interpretation. (Results are not shown separately for this reason). We then finally conclude that our parameter estimation remains valid and is not influenced by the presence of auto-correlation.

4.6 Findings of Sample Survey:

4.6.1 Awareness and Availability of Incentives to Exporters:

The success of all such schemes of export financing and incentives in the final analysis should be judged by the extent of utilisation or degree of enjoyment of the benefits derived by the exporters. More the number of exporters accessed the facilities offered more is the success. Primary condition of extensive utilisation is that the legitimate users are well conversant with provisions of facilities and advantages of export financing and promotional schemes. It is very much imperative to know that what ways those schemes could be beneficial for their export business in general and financing problem in particular. In a word, it is the extent of awareness regarding schemes and provisions of incentives that could make the exporters really beneficial. Being aware of the benefit that could be derived out of the declared policies of the government and the formal procedures in accessing the entrusted agencies, more demand for those facilities is expected. For this, a part of our survey among exporters targeted to evaluate the rate of awareness and rate of availability of benefits from different types of incentives and facilities.

The sample of our survey is randomly selected of size fifty six. Sampling, sampling procedure and other details of the methodology are discussed in the chapter-vi where we presented comprehensively the findings of the whole survey. In this section, we intend to present and analyse survey data relating only to the rate of awareness regarding schemes and rate of availability of benefits as an appraisal indicator of existing schemes of export promotion.

Analysis is based on two different aspects of exporters: (i). Nature of the export product and (ii). Size of the firm. In the first case, respondents are grouped either in primary or in manufacturing product. In the second case, scale of operation

of the export firm is categorised as small, medium and large. Out of several provisions of benefits of three different types - (i). Financial, (ii). Fiscal and (iii). General, as mentioned in government policy, we considered only fifteen relatively major provisions from all three types. We then calculated the probability [p(x)] that an export firm of a specific type (either in size or in product nature) selected randomly is aware of a particular scheme. Then we also calculated the probability that the firm has actually availed the benefits provided he is aware of the scheme [p(y/x)]. Finally, we calculated the joint probability of happening that the firm is aware as well as beneficiary for each scheme i.e.

$$p(x \cap y) = p(x) . p(y/x)$$

Thus, the rate of success of each scheme will be indicated by $p(x \cap y)$ which express the probability or chance of getting benefits by any exporters. We can compare whether the more number of exporters, dealing with primary product, is deriving benefits than manufacturing. Similarly, we would be able to analyse whether benefits are biased towards any size of firms or scale of operation. Results are given in table 4.11. Results show that the single provision which every exporters are aware of and getting benefits from is insurance rebate for non-traditional exports. This is followed by the provision of holiday. However, the probability shows that manufacturing firm is more likely to avail the opportunity than primary firm. It also indicates that the most of the firms engaged in exporting primary product are tiny units. Besides these two schemes which are widely known and better accessed, there are five provisions which, though far less known and availed of than previous two, are fairly probable [$p(x \cap y=0.5$] with respect to remaining eight. Out of these five, one of the schemes is applicable for only selected few i.e.; special rebate in air freights for export of perishable agricultural product under crash program. Remaining four are (i). Deposit of export earnings in the exporters own account, (ii). Bonded Warehouse facilities, (iii). Convertibility of Taka in current account (iv) 50% tax rebate on export earnings. The probability that any firm is aware of the scheme and have availed the benefits, from any of these five is lying between 0.39 to 0.59 i.e.; almost within the range of 40 percent to 60 percent. Surprisingly, it seems to reveal that the level of awareness among the exporters regarding ECGS and DDB system is not satisfactory. It is revealed that neither the primary exporters are interested to take advantage of it

nor they are getting chance of availing the facility. Units those are getting this facility is manufacturing unit and the probability of getting the benefit is very low.

Table 4.11
Probability of Awareness and Assistance Availed of the existing exports incentives by the exporters.

Incentives		Product Nature		
		Primary	Manuf.	Total
Export Credit Guarantee Scheme	P(x)	.60	.28	.34
	P(y/x)	.3	.08	.13
	P(x∩y)	**.30**	**.08**	**.13**
Convertibility of Taka in current account	P(x)	.40	.89	.76
	P(y/x)	.25	.61	.57
	P(x∩y)	**.10**	**.53**	**.43**
Deposit of **7.5% / 40%** of FOB value of export earnings in own account in Dollar and Pound	P(x)	.60	.94	.87
	P(y/x)	**.33**	**.74**	**.68**
	P(x∩y)	**.20**	**.69**	**.59**
Export Development Fund (34)	P(x)	.40	.58	.73
	P(y/x)	.50	.19	.24
	P(x∩y)	**.20**	**.11**	**.18**
50% of tax rebate on export earnings	P(x)	.60	.92	.85
	P(y/x)	.33	.48	.46
	P(x∩y)	**.20**	**.44**	**.39**
Duty Draw Back facilities (34)	P(x)	.60	.76	.88
	P(y/x)	0	.29	.27
	P(x∩y)	**0**	**.22**	**.24**
Insurance premium rebate for non traditional export (34)	P(x)	.60	.58	.96
	P(y/x)	1	1	1
	P(x∩y)	**.60**	**.58**	**.96**
Bonded Warehouse facilities (34)	P(x)	.30	.85	1
	P(y/x)	0	.52	.47
	P(x∩y)	**0**	**.44**	**.47**
Duty free import of capital goods	P(x)	.40	.72	.65
	P(y/x)	.25	.31	.30
	P(x∩y)	**.10**	**.22**	**.20**
Tax holiday (41)	P(x)	.50	1	1
	P(y/x)	.40	.86	.80
	P(x∩y)	**.20**	**.86**	**.80**
Special rebate in air freight for export of perishable agricultural product under crash program (2)	P(x)	1	0	1
	P(y/x)	.50	0	.50
	P(x∩y)	**.50**	**0**	**.50**
Training course on external trade	P(x)	.40	.42	.41
	P(y/x)	.50	.40	.42
	P(x∩y)	**.20**	**.17**	**.17**
Assistance in improvement of quality and packing	P(x)	.40	.28	.30
	P(y/x)	.25	.60	.50
	P(x∩y)	**.10**	**.17**	**.15**

In case of ECGS also it is the primary product firm which has the better chance of getting the benefit than manufacturing export unit. Overall probability of getting the benefits is very dismissal at around 0.13. Very important and critical revelation of this study of probability of awareness is that a large section of exporters

remain ignorant about the facility of duty-free import of capital goods. Besides, a very few of those aware are actually utilising this facility. For primary product firms this awareness is the least. It seems to imply that the extensive awareness campaign among exporters especially dealing with primary products is urgently needed.

4.6.2 Bankers' Perception on Performance of Export Promotional Measures:

Among the incentives, ECGS is the one, which is directly linked with the credit facility or advanced to be provided to the exporters by the financial institutions. In order to assess the bankers' perception regarding successful implementation and problems therein we incorporated two specific questions on ECGS in section - D. First question was address to know that how many of bankers perceived that the scheme is helpful. Second question was asked to identify the shortcomings, if exists in their perception, of the scheme. Summaries of the answer of the respondents against first and second questions are presented in Table 4.12 and 4.13 respectively.

Table 4.12 shows that only 16.67% of banks consider the scheme as a helpful one to the exporters. Interestingly all these banks are private commercial interest free banks. 41.66% of commercial banks do consider that scheme is not much helpful. While 33.33% of these commercial banks are nationalised, remaining 8.33% constitute private interest based commercial banks. However, 41.47% of respondent banks either remain non-commitant or express inability to gauge the usefulness. On the whole, it seems to communicate a very clear indication that banks do not consider the scheme very much helpful to exporters.

Table – 4.12
Opinion of the Commercial Banks about the usefulness of ECGS

Opinion	NCB	Pvt^{IB}	Pvt^{IF}	Sample Average
So much helpful	-	-	16.67%	16.67%
It is not so much helpful	33.33%	8.33%		41.66%
No knowledge about it.		25%	16.67%	41.47%

In table 4.13 we enlisted the shortcomings as perceived by the banks regarding the scheme. Three distinct reason or facts are identified for the scheme not being very much successful: (i) Lack of proper publicity (ii) Delaying in settlement of claims and (iii) Nonobligatory nature of the scheme. Altogether 16.67% of banks feel that the scheme lacks proper publicity to be successful, of which nationalised commercial banks and private (interest based) commercial banks constitute equally. It may be noted that their feeling is in conformity with the findings of the previous section

where we obtained that level of awareness among the exporters regarding the scheme is unexpectedly poor.

Table – 4.13
The shortcomings of Export Credit Guarantee Scheme (ECG)

Shortcomings	NCB	Pvt[IB]	Pvt[IF]	Sample Average
Lacks of proper publicity	8.33%	8.33%		16.67%
Makes delay in settlements	25%		8.33	33.33%
Not obligatory for the exporters			8.33	8.33%
Not known		25%	16.67%	41.67%

An important point expressed by the banks is that delaying in settling the claim lodged under the scheme is one of the reasons of this facility being unattractive. About 33% of the banks shared this view. It may be referred that the OLS analysis of the performance of ECGS (section- 4.5.3) identified settlement ratio as an important explanatory variable influencing export operation. But the percentage share of claim settled to claim lodged is not satisfactory.

A good percentage of bankers opined that the ECG scheme should be made obligatory on the part of an exporter. It is because of this nonobligatory nature, exporters do prefer not to go for ECGS. However, other findings of this study and the nature of the scheme possibly do not substantiate this feeling. On the whole, however we find that adequate awareness programme seems to be necessary to make all the exporters well aware with feasible benefits of different schemes in general. Secondly, it seems that financing to exporters would be much wider if the ECGS procedure is made less cumbersome and less complicated.

4.6.3 Exporters' Perception On Performance Of Promotional Measures: Effectiveness of ECGS:

It is already mentioned that a great majority of the export firms (87 pc) did not aware about the ECGS, which was introduced by the GOB to promote export trade of the country. In this section we, however, made an attempt to know whether the exporters who were aware about ECGS, considered the same as an effective incentive scheme. It is evident from Table 4.14 100 pc of the exporters did not consider ECGS as an effective incentive scheme. 62 pc of the respondents who were aware about ECGS reported that they did not availed advantage of ECGS. 38 pc of the sample firms reported that they availed advantage of the same and only 19 pc of them logged their claim for loss to ECG authority. Among them primary exporters and manufacturing

Table: 4.14
Effectiveness of E C G S (percentage of respondents)

Situation		Exporters		
		Primary	Manuf	Total
Considering ECGS as an effective incentives	Yes	0	0	0
	No	100.0	100.0	100.0
Availed advantage of ECGS	Yes	50.0	30.0	38.0
	No	50.0	70.0	62.0
Obtained ECGS easily from SBC	Yes	17.0	30.0	25.0
	No	83.0	70.0	75.0
Claim for loss to ECGS authority	Yes	33.0	10.0	19.0
	No	67.0	90.0	81.0

exporters constituted 50 pc and 30 pc of their respective groups. However, 75 pc of the exporters mentioned that they did not get ECGS easily from Sadharan Bima Corporation.

Export credit guarantee scheme as collateral:

In connection with our effort to ascertain the effectiveness of ECGS we also tried to know the exporters perception about ECGS as collateral. 100 pc of the exporters replied that banks did not consider ECGS as collateral and it never lessened problem of getting credit. 87 pc of exporters reported that ECGS never made their financing easy either. Moreover, 62 pc of exporters replied that bank never asked for ECGS from them. The problem of non-recognition of ECGS was more pronounced in case of primary product exporters than manufacturing exporters. On the whole, it could be said that exporters felt that ECGS failed to act as an instrument of promoting financing to export sector.

Table: 4.15
E C G S as Collateral (percentage of respondents)

Consideration		Exporters		
		Primary	Manuf	Total
Considering ECGS as collateral by Bank	Yes	0	0	0
	No	100	100	100
Lessened problem of getting credit	Yes	0	0	0
	No	100	100	100
Easy Finance from Commercial banks on the basis of ECGS	Yes	0	20	13
	No	100	80	87
Bank Demand for ECGS	Yes	50	30	38
	No	50	70	62

Claim settlement of ECGS:

We tried to know exporter's perception regarding time taken in claim settlement process. Exporters who availed the ECGS facilities were asked that whether they considered the time taken in processing the settlement as 'normal' or 'long delay'.

Table: 4.16
Time Taken In Claim Settlement Process
(Percentage of respondents)

Time	Exporters		
	Primary	Manuf	Total
Within reasonable time	0	0	0
Long delay	100	100	100

Cent percent of exporters replied in favour of 'long delay' (Table 4.16). It definitely shows that exporters in general do not have good impression on this.

Problems of export credit guarantee scheme:

The exporters who were aware about ECGS were also asked to mention the problems, if any, observed by them in the operation of ECGS. Mentioned problems and respective percentages are summarised below:

(i) It creates delays in the approval (100 pc)
(ii) Operational procedure is slow (100 pc)
(iii) Total value of goods is not covered (100 pc)
(iv) Delays settlement of claims (100 pc)
(v) Non-obligatory Nature. (100 pc)
(vi) Limited number of Policies (81pc)

Exporters suggestion for improvement of ECGS:

(i) Bangladesh Bank should negotiate between the commercial banks and Sadharan Bima Corporation (SBC) to accept the ECGS as full pledged collateral.

(ii) SBC should introduce various new policies such as guarantee scheme specially for small exporters and exchange fluctuations risk cover scheme.

(iii) ECG scheme should be made user friendly and the claim settlement procedure should be simplified.

4.7 Concluding Remarks:

Main objective of introduction of schemes under ECG is to promote export for the interest of national economy. The Government set up an independent department for this purpose in the year 1978. As the country opted export-led growth strategy by changing its import-substitution policy since 1982, the importance of 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. As instructed by the government, SBC insures banks (or exporters for the comprehensive schemes).

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 do.not help export promotion. Relationship between increases 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 of insurance coverage under ECGS is not due to the increase of number of policies. It neither shows any dependence on export volume or the settlement of net claim lodged. Comprehensive scheme was introduced for the exporters. The study 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 exist as an independent beneficial scheme to exporters.

Very important and critical revelation of this study is that exporters are by and large ignorant about the incentive schemes. It has also been found that exporters are least aware about the benefits that can be derived from these schemes. For example, it has been found that a large section of exporters remain ignorant about the facility of duty-free import of capital goods. Besides, a very few of those who are aware are actually utilising this facility. For primary product firms this awareness is the least. It seems to imply that the extensive awareness campaign among exporters especially dealing with primary products is urgently needed. However, according to bankers' opinion, it has been found that delaying in settling the claim lodged under the scheme is one of the reasons of this facility being unattractive.

The change of Government policy from import-substitution to export-led growth strategy has not changed the situation. 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.

Chapter - 5

Analysis Of Exporters' View On Export Financing In Bangladesh - A Sample Study

5.1 Introduction:

There are two sides of the problem of same export financing – in one there are problems of bankers who supply the fund and in other, there are problems of exporters who receive the fund. Export firms which create the demand for the fund view the export financing from the angle of problems that they face at the time of getting the fund. On the other hand bankers view the export financing from the angle of problems of realisation of the credit that would be advanced. Therefore, studies of the problem of export financing from both sides would complement each other in order to give a complete picture of the actual scenario. In this chapter, we would try to get the views of the exporters.

Export of Bangladesh is basically divided into two groups of items – primary and manufacturing. According to Export Directory (1998) published by Export Promotion Bureau (EPB), GOB there are altogether 4926 firms engaged in export business, out of which 874 firms (17.742 percent) deal with primary commodities and the rest i.e. 4052 firms (82.57 percent) exports secondary items, which EPB prefers to identify as 'manufacturing' items.

Important items within primary export are fish and frozen food, fruits and vegetable-, tea and raw jute. Main items within manufacturing product are jute goods, leather and leather goods, readymade garments, paper and allied product, textile, handicraft, electronics etc.

A large sample (of size n = 60) is drawn from the total number of export firms and we administered a schedule among them. The schedule that consists of 4 sections is designed with the combination of structured, unstructured, open-ended and close-ended questions (Schedule annexed).

These sixty firms selected randomly from the total list of firms printed in the export dictionary, that we have mentioned already, according to the probabilities of selecting a firm being primary or manufacturing. Number of firms in primary and manufacturing groups, their respective probabilities and number of firms of each group selected in the sample are shown in Table- 5.1.

Table : 5.1
Sample Distribution

	Population	Probability	Sample Size
Primary	874	0.1774	60 x .1774 = 11
Manufacturing	4052	0.8226	60 x .8226 = 49
Total	4926	1.00	60 x 1.00 = 60

Thus the selected sample for our study is a stratified random sampling.

However, out of these sixty randomly selected firms, we have been able to administer the schedule successfully among forty-six firms. We could not able to collect data from fourteen firms for the following reasons:

i) Few firms do not exist at the place of address mentioned in the directory (6)

ii) Few firms are not operating at present (4)

iii) Few firms did not cooperate fully to complete the schedule (4)

This, however, does not preclude the sample size to be large.

5.2 Profile Of The Sample Firms:

A complete profile of sample firms is given in Table- 5.2. Out of total respondents, ten are from primary group and thirty-six are from manufacturing group.

Table : 5.2
Description Of Sample Firms.

	Commodity Groups	No .of Firm In the sample	Nature of firms		Year of establishment.			Business Premises			
			100 pc export	Non 100 Pc export	1970-80	1981-90	1991-00	Own	Lease	Rental	Others
Primary	Fish & Frozen Food (13.0)	6	6	0	0	5	1	3	1	2	0
	Fruits & VegeTable- (4.35)	2	2	0	0	2	0	0	1	1	0
	Tea (2.17)	1	1	0	1	0	0	0	1	0	0
	Raw Jute (2.17)	1	1	0	1	0	0	0	0	1	0
	Group Total	10	10	0	2	7	1	3	3	4	0
Manufacturing	Jute Goods (2.17)	1	1	0	0	1	0	1	0	0	0
	Leather & Leather Goods (7.70)	4	2	2	0	4	0	2	0	2	0
	RMG (34.78)	16	12	4	0	10	6	6	0	8	2
	Paper & allied (2.17)	1	0	1	0	1	0	0	0	1	0
	Textile (6.52)	3	2	1	1	0	2	0	0	3	0
	Handicraft (8.70)	4	3	1	2	2	0	2	1	1	0
	Electronic (4.35)	2	0	2	0	2	0	1	0	1	0
	Others (10.87)	5	3	2	3	1	1	0	1	4	0
	Group Total	36	23	13	6	23	7	12	2	20	2
	Sample Total	46	33	13	8	28	10	15	5	24	2
	Percentage share of total sample	100	71.74	28.26	17.39	60.87	21.73	32.60	10.87	52.17	4.35

Note: Figure in the parenthesis against each commodity group indicates percentage representation of the respective group in the sample.

Distribution of number of firms within primary and manufacturing are also shown. There are many firms in Bangladesh those are established under the statutory provision of 100 percent (pc) export-Oriented business. In our sample 71.734 pc firms fall into this category and remaining 28.26 pc firms do export along with non-

exporting business activities. All primary product export firms in our sample are 100 percent export oriented. Out of eight different products in manufacturing sector, readymade garment (RMG) represents 44.44 pc within group and 34.78 pc within sample. Similarly, the 'fish and frozen foods', which occupies the position of highest representation within primary group, represents 60 pc within group and 13.04 pc within sample. Thus these two items of products jointly represent 47.82 pc of the sample.

So far the year of establishment of business is concerned, most of our randomly selected firms i.e. 60.87 pc had been established during the decade 1981 to 1990, 21.73 pc are of the recently established firms i.e. in the last decade (1991 to 2000) and the rest i.e. 17.39 pc may be considered as 'old' since those had been established between 1970 and 1980.

The sample reveals the nature of business premises of export firms. More than fifty pc (52.17) of export firms in Bangladesh use rented premises and nearly one third (32.60 pc) of the firms have their own premises. Only 10.87 pc occupies leasehold land.

Nature of labour involvement in the export business of sample firms and availability of skilled labour are shown in Table- 5.3. It shows that majority of sample

Table : 5.3
Types Of Labour Engaged In Sample Firms

Labour Involvement		Percentage		
		Primary	Manuf	Total
Labour intensive		100.0	72.0	78.0
Capital Intensive		0	28.0	22.0
Skilled	Available	10.0	25.0	28.0
	Scarce	90.0	75.0	72.0
Un-Skilled	Available	100.0	100.0	100.0
	Scarce	0	0	0
Semi-Skilled	Available	100.0	100.0	100.0
	Scarce	0	0	0

firms are labour intensive. It constitutes 78 pc of total sample firms. It also reveals that cent percent of primary product export business is labour intensive, It implies that all firms those are capital intensive in our sample are manufacturing product exporters.

However, though the export business in Bangladesh predominantly labour intensive, there is a serious scarcity of skilled labour, Seventy two percent of export firms do consider the skilled labour as 'scarce'. There is, however, no scarcity of unskilled or semi-skilled labour.

In Bangladesh, a few sectors in export business are disproportionately overcrowded. The reason possibly is explained by the data relating to annual average profit of a single firm in each year from 1995 to 2000 obtained through this sample survey. The average annual profits of a firm in different sectors during this period are shown in Table- 5.4 and are presented graphically in figure 5.1.

Table : 5.4

Average Annual Profits Of Different Categories Of Export Firms (Taka in crore)

	Commodity Groups	Year						Average During the period
		1995	1996	1997	1998	1999	2000	
Primary	Fish & Frozen Food (454)	3.68	3.25	3.77	3.58	4.39	3.4	3.678
	Fruits & Vegetable- (148)	1.16	1.75	1.79	1.98	1.78	1.75	1.702
	Tea (40)	3.01	2.85	3.31	5.5	4.5	3.5	3.778
	Raw Jute (97)	2.23	2.85	3.10	3.25	2.95	2.95	2.888
Manufactured	Jute Goods (339)	2.91	2.65	3.86	3.39	3.11	3.02	3.157
	Leather & Leather Goods (692)	3.86	4.73	5.42	5.51	4.85	4.85	4.87
	Readymade Garments (2159)	8.51	7.8	8.81	8.65	8.55	8.15	8.412
	Paper & allied (30)	1.42	0.88	1.11	1.38	1.9	1.85	1.423
	Textile (128)	1.39	1.25	1.00	1.3	1.48	1.90	1.387
	Handicraft (123)	1.54	0.95	1.25	1.40	2.00	2.1	1.54
	Electronic (108)	1.49	1.32	1.4	1.38	1.55	1.80	1.49
	Others (395)	2.32	2.19	2.3	2.1	2.41	2.61	2.322
	Sample Average	**2.79**	**2.74**	**3.03**	**3.27**	**3.29**	**3.24**	**3.06**

Note: Figure in the parenthesis against each commodity group represents no. of export firms in respective group.

We find that there are mainly four items that earn profits higher than the average profit of export sector. These items are, readymade garment, leather goods, tea and fish & frozen foods. Moreover, readymade garment enjoys profits not only more than any other sectors but much above the export sector average. This extra profit signifies that the marginal profit in this sector is much higher than the marginal cost and this attracts new entrants in the sector. Numbers of export firms in different industrial or trading sector in Bangladesh are shown in Table- 5.4. It substantiates that higher the average profit, higher is the number of firms.

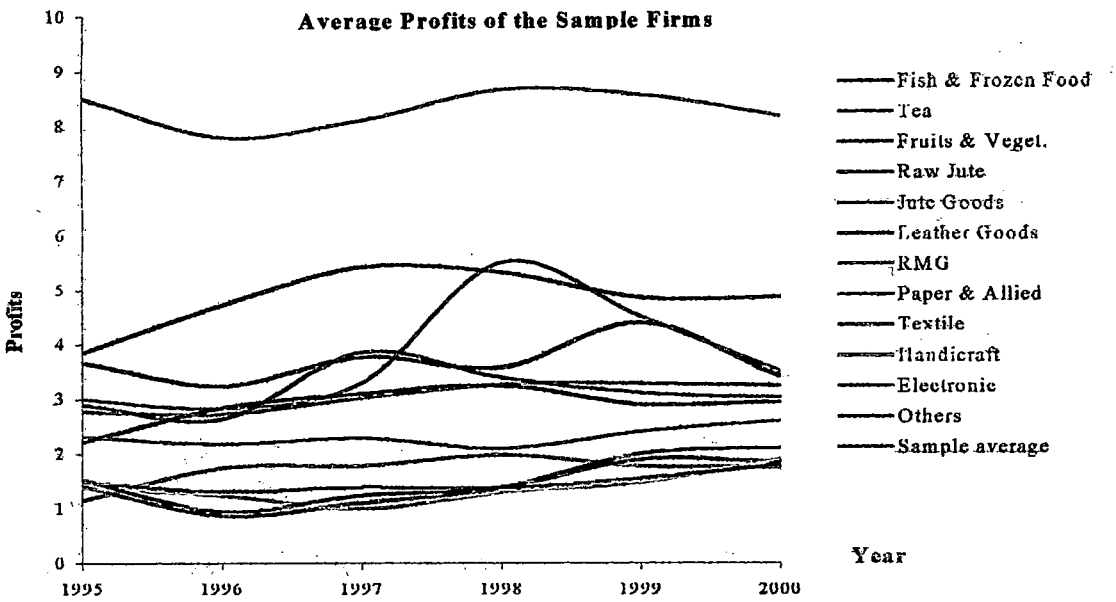


Figure : 5.1

5.3 Export Credit – Nature and Sources:

Generally there are two types of capital that a business firm needs – fixed capital and working capital. Normally, fixed capital is mobilized by a business firm through long-term means, like shares and bonds. Though the need of export financing is predominantly working capital in nature, the exporters sometimes feel the necessity of mobilizing funds for the expenses capital in nature, like a foreign-made deep freezer by a frozen food exporter or a foreign made electricity generating small equipment by a readymade garment exporter, etc. A small exporter often approaches bank for the short tern credit. In true sense, it does not constitute the demand of export financing.

Apart from this, a very important aspect of export trading that needs short-term financial support is packaging. Some of the exporters have their own packaging unit but the rest get it done by the Specialised agency. Divisions of getting services of packaging from own unit and from agency house among manufacturing and primary exporters are given in Table-5.5. It is found that 59 pc of respondent firms use the packaging service offered by the specialised packaging agency. Users of services provided by the packaging agency is higher in case of primary exporters (80 pc) and lower in case of manufactured exporters (53 pc). Further, it shows that 41 pc of sample firms use their own packaging facilities of which 47 pc are manufacturing exporters and 20 pc are primary exporters.

Table : 5.5
Responses On Source Of Using Packaging Facilities
(pc of Respondents)

Source	Exporter		
	Primary	Manuf.	Total
Agent	80.0	53.0	59.0
Own	20.0	47.0	41.0

5.3.1 Nature of Needs:

We have attempted to know the nature of credit demanded by the exporters in order to assess the extent of demands of two types of credit – short-term and long term (if any). Results of the responses are presented in Table- 5.6.

Table : 5.6
Responses on Nature of Export Finance Need
(pc of Respondents)

Nature of Credit	Exporters		
	Primary	Manuf.	Total
Working capital	100.0	100.0	100.0
Fixed capital (along with W/C)	0	44.0	35.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

It reveals that 100 pc of exporters of both categories need credit for working capital. It also reveals that 35 pc of total export firms need fixed capital along with working capital. All such respondents are from manufacturing sector and it represents 44.0 pc of manufacturing exporters. It, thus, seems to indicate that there is no demand for fixed capital within primary exporters in Bangladesh. On the contrary, however, almost half of the exporters (44 pc) of manufacturing items need fund for capital expenditure. We thus try to identify the purpose of both types of credit.

Short Term Credit:

Necessities of working capital arise both in pre-shipment and post-shipment stage. Pre-shipment financing is needed as working capital by an exporters during processing or manufacturing of export items, where post-shipment financing is needed by the exporters when international competition makes it necessary to extend credit to an overseas buyer. During our sample survey we have asked the exporters to indicate the purpose for which they need working capital at pre-shipment stage. The data collected in this regard are presented in Table- 5.7.

Table-: 5.7
Responses On Purposes Of Working Capital
(pc of Respondents)

Purpose	Exporters		
	Primary	Manuf.	Total
Cash for local procurement and meeting related expenses	100.0	83.0	87.0
Packing goods	100.0	47.0	59.0
Processing of goods for export	100.0	39.0	52.0
Import of raw materials	0	42.0	33.0
Freight charges	20.0	36.0	33.0
Payment of insurance premium	20.0	28.0	23.0
Inspection fees	20.0	14.0	15.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

We find that there are seven purposes for which short-term credit is sought for at pre-shipment stage. These are Cash for local procurement and meeting related expenses, Packaging goods, Processing of goods for export, Import of raw materials, Freight charges, Payment of insurance premium and Inspection fees. Results show that cent percent of primary exporters needs export credit for local procurement and related expenses, packaging and purchasing of goods. Only twenty percent of primary exporters need short-term credit for freight charges, payment of insurance premium and inspection fees. But in case of manufacturing exporters, packaging and processing goods, import of raw materials, freight charge are the purposes for which around 40 pc of exporters need short term credit. 28 pc and 14 pc of exporters need short term credit for payment of insurance premium and inspection fees respectively. Interestingly, 83 pc of manufacturing exporters need short-term credit for local procurement and related expenses. It appears unusual for manufacturing exporters. There are two reasons that very high pc of manufacturing exporters need short term credit for local procurement. First, Foreign buyers of developed country prefer the use of local inputs for which they get concession on import duty. Secondly, manufacturing exporters, like leather goods, jute goods etc utilise domestic inputs that they have to procure from places scattered throughout the country.

Long-term Credit:

As it is mentioned earlier in section 5.3.1 that sometimes exporters need long-term capital along with working capital. We, however, have asked sample firms to mention why they need long-term financing support. Views of the respondent firms are

summarised in Table- 5.8. From the Table- it is revealed that a significant percentage of respondents (26 pc) require long-term financing support for import of capital goods and

Table-: 5.8
Responses On Purposes Of Long Term Credit In Export Business
(pc of Respondents)

Purpose	Exporters		
	Primary	Manuf.	Total
Import of capital goods	0	33.0	26.0
BMRE	0	11.0	9.0

Manuf.= Manufacturing

9 pc of respondents require long-term credit for upgradation of plant and machinery. Results imply that the import of capital goods is the main purpose for the long-term credit demand. Out of 44 pc manufacturing exporters who need long-term credit, 33 pc require the same for import of capital goods.

5.3.2 Sources of Export Credit:

In Bangladesh, sources open to exporters, at least theoretically, are many. In this sample survey we have tried to ascertain the dependence of export firms on different sources of credit (Table-5.9).

Table : 5.9
Sources of Export Credit
(pc of Respondents)

Sources of Credit	Exporters		
	Primary	Manuf.	Total
Private Commercial Banks	100.0	83.0	87.0
Nationalised Commercial	80.0	39.0	48.0
Self	100.0	28.0	44.0
Foreign Commercial Banks	0	11.0	9.0
Sister Organization	20.0	6.0	9.0
Managing agent	0	8.0	9.0
Relatives and friends	25.0	0	2.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Exporters often not meet their entire credit requirement from a single source but multiple of sources. Results indicate that cent percent of exporters of primary goods depend on private commercial banks and self-financing. Moreover, they never use foreign commercial banks and managing agency as their sources of credit. Eighty percent of these exporters also use nationalised commercial banks. It is evident that sister organisations of the business or friends and relatives also play an important role as sources of credit for primary product exporters. In case of manufacturing exporters,

similar to primary product, majority depends on private commercial banks. Only 39 pc of such exporters approach to nationalised commercial banks. Other sources are used seldom by manufacturing exporters.

In short, findings indicate clearly that main sources of export credit in Bangladesh are private and nationalised commercial banks. Moreover, exporters have to depend on other sources for their need of export credit as these banks do not meet the total credit need.

5.4 Banks Evaluation of Creditworthiness:

Though it is found that exporters mainly depend on commercial banks for meeting their credit needs, banks do not advance credit without considering the credit worthiness thoroughly. Many queries are made and several information are sought from the exporters by the banks. On the basis of all these information banks determine the creditworthiness of an exporter and often fix the annual limit of credit, which is known as cash-credit limit (C.C. limit). A client having C.C limit has to submit documents \ relating to export order, security covering the risk of credit and others. But in case of an applicant who is either a newcomer or having no C.C limit, the application is considered by the bank very cautiously. In order to ascertain the creditworthiness of a client, banks do not only consider some objective factors but also, as exporters believe, consider some subjective factors. Considering all such factors, there are occasions when banks refuse to give credit to an exporter. The rate of refusal may be a good indicator to understand how far these factors really play crucial role in decision-making. In this section, we made an attempts to approximate the rate of refusal and to ascertain what are the queries and information that are sought by the banks from the exporters for objective as well as subjective assessment of an exporters' creditworthiness before granting the credit.

Refusal and Acceptance Criteria:

In order to find out the frequency of refusal, we have asked the question to respondent exporters whether the banks had ever rejected any credit application and if it had been rejected then what was the level at which the decision was taken. Results of the respondents are shown in Table- 5.10 and 5.11 respectively.

It is indicative from the Table-5.10 that the refusal rate of export credit application in Bangladesh is significant. There are twenty six percent of exporters whose applications were rejected at one time or other.

Table : 5.10
Responses On Refusal By Banks
(pc of Respondents)

Opinion	Exporters		
	Primary	Manuf	Total
Yes	40.0	22.0	26.0
No	60.0	68.0	74.0

It is further revealed that the applications of primary exporters are rejected more often than manufacturing exporters. Table-5.11 indicates the frequency of rejection at different levels of decision-making. It is observed that the rejection at branch level is more frequent (59 pc) than head-office level (25 pc).

Table- : 5.11
Responses On Reasons Of Refusal
(pc of Respondents)

Reasons	Exporters		
	Primary	Manuf	Total
Rejected by the branch office	75.0	50.0	59.0
Non- approval by the bank's head office	0	37.0	25.0
Not – known	25.0	13.0	16.0

However, there are 16 pc cases when this is not known. Interestingly, all credit applications of primary exporters, whose level of rejection are known, are rejected at branch level. 37 pc incidences of rejection of manufacturing exporters are happened at head office level. All cases of rejection at head office level are of manufacturing exporters.

It may be recalled in this connection that a credit application is forwarded to head office only when it is considered creditworthy but the credit amount is beyond the sanctioning power of the branch manager. (Please see the flowchart figure 6.1). It may be assumed that as the application is forwarded to head office, it is supported by all required documents. Thus, the reason of rejection at head office level may not be the non-complying of objective factors but subjective factors. The reason that the every decisions of rejection of application from primary exporters' are decided at branch level, may be that the credit amount is within the sanctioning power of a Branch Manager.

In the following two subsections we try to identify those objective as well as subjective factors.

Objective Factors:

We find from the sample survey of exporters (Table-5.12) that the information

Table : 5.12
Responses On Banks' Appraisal Of Creditworthiness
(pc of Respondents)

Appraising Criterion	Exporters		
	Primar	Manuf	Total
Size of the firm	100.0	100.0	100.0
Solvency of the exporter	80.0	100.0	96.0
Volume of security offered by the exporter as collateral	80.0	100.0	96.0
Liability with other Banks	60.0	94.0	87.0
History of past performance of the exporters in the export business	40.0	94.0	83.0
Period for which credit is sought	80.0	75.0	76.0
Business turnover of the export firm	50.0	58.0	57.0
Export market report of the goods to be exported	20.0	53.0	46.0
Availability of exportable commodity in domestic market	20.0	50.0	43.0
Volume of export transaction of the exporter	30.0	42.0	39.0
Amount of fixed deposit with the bank	20.0	17.0	17.0
Inspecting the income - tax return	0	8.0	7.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

that are sought by the banks from cent percent manufacturing exporters for objective assessment of the credit worthiness are related to size of the firm, solvency of the exporters, volume of security offered by the exporters as collateral etc. In case of primary product, except size of the firm other two are sought in eighty percent cases. Liability with other banks and history of the past performances are two factors that get greater weightage in case of manufacturing exporters than primary exporters. But, period for which credit is sought gets higher weightage than above two factors in case of primary product exporters. Another important factor is business turnover of the export firm. It is considered in fifty percent of cases. Other factors, mentioned in the Table, are though considered but less frequently.

Subjective Factors:

Exporters often allege that banks do consider not only above mentioned objective factors but also some subjective factors for measuring creditworthiness. In order of frequency of responses of exporters, shown in Table-5.13, the subjective factors are: business integrity, previous record of transaction with banks, status of the exporters, political and personal influence and guarantee from old and established clients. However, according to primary product exporters, status of the borrower,

political and personal influences are subjective factors of greater importance in their cases.

Table : 5.13
Responses On Subjective Factors
(pc of Respondents)

Considering Factors	Exporters		
	Primary	Manuf	Total
Business integrity of the exporter	80.0	94.0	91.0
Previous transaction with bank	70.0	78.0	76.0
Status of the borrower	80.0	53.0	59.0
Political influence	80.0	53.0	59.0
Personal influence of the borrower	70.0	44.0	50.0
Guarantee from old and established parties	30.0	25.0	26.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Results reveal that the consideration of subjective factors differ with the nature of export firm. Since, the most of the primary product exporters are small than manufacturing exporters, factors do not influence the credit decision uniformly for both group of exporters. For example, personal connection plays an important role in case of primary exporters (in 70 pc cases) but for manufacturing exporters, it influences much less cases.

5.4 Exporters View on Creditworthiness and Submission of Documents:

Once an exporter is judged as worthy to be granted credit, banks require a set of documents for final approval of the credit. These are (i) Export form duly signed by the exporter, (ii) Letter of credit in hand, (iii) Contract letter / Invoice, (iv) Letter of pledge duly stamped, (v) Lien on confirmed on irrevocable and unrestricted letter of credit from a bank, (vi) Letter of Hypothecation duly stamped, (vii) Document of title of goods, (viii) Detailed stock statement duly verified by a bank officials, (ix) Trust receipt, (x) Letter of disclaimer to be signed by the owner of the go-down in case of rented go-down, (xi) Order sheet, (xii) Export Credit Guarantee Insurance Certificate, (xiii) Insurance coverage under bank mortgage clause and (xiv) Visa, License & Certificate of Origin.

There is a general perception among the people involved in export business in Bangladesh that banks do consider many irrelevant factors in granting credit and that makes the export financing decision stringent. We have sought the opinion of exporters regarding the relevance of each of those factors. Results of the responses are summarised and presented in Table- 5.14.

Table : 5.14
Responses On Relevancy Of Required Documents
(pc of Rspondents)

Appraising Criterion	Exporters		
	Primary	Manuf	Total
Business integrity of the exporter	80.0	100.0	96.0
Availability of exportable commodity in domestic market	90.0	97.0	96.0
Liability with other banks	50.0	75.0	70.0
Export market report of the goods to be exported	60.0	58.0	59.0
History of past performance of the exporters in the export business	40.0	44.0	43.0
Business turnover of the export firm	20.0	47.0	41.0
Solvency of the exporter	20.0	28.0	26.0
Volume of export transaction of the exporter	10.0	19.0	17.0
Collateral security	10.0	19.0	17.0
Inspecting the income - tax return	0	3.0	2.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Table shows that majority of the exporters, both primary and manufacturing, do not consider the following factors as irrelevant: business integrity of the exporter, availability of exportable commodity in domestic market, liability with other banks and export report of the goods to be exported. However, majority of exporters do consider the following factors as irrelevant: history of the past performance, business turnover, solvency of the exporter, volume of export transaction, collateral security and income tax return. Majority of the exporters opine that if the firms business integrity is not questioned, if there is no unbearable liability with other banks, if the exportable commodity is readily available in the domestic market and the export market report is favourable – then other factors do not serve any purpose in determining creditworthiness. Among all these factors, solvency and collateral security are two important factors from the commercial banks' point of view. But a very insignificant percentage of respondents consider solvency and collateral security as relevant (26 pc and 17 pc respectively). We would reconcile this with the opinion of bankers in the next chapter.

Submission of Documents:

In responses to the question that whether exporters have any difficulties to supply all necessary documents that are required to be submitted prior to final approval of credit, we find the following presented in Table- 5.15.

Table : 5.15
Responses On Facing Difficulties In Supplying Documents
(pc of Respondents)

Responses	Nature of product		
	Primary	Manuf.	Total
Yes	40.0	6.0	13.0
No	60.0	94	87.0

It is evident that though manufacturing exporters (94 pc) do not consider the submission of all these documents as problematic, a large section of primary product exporters (40 pc) face difficulties. As the primary exporters are basically small-scale operator, the volume of official work necessary to furnish all documents may be burden on a section of them. Responses with respect to opinion of exporter on relevancy of each documents, however, reveal that, (Table- 5.16) except three documents, all other documents are considered relevant more than fifty percent of exporters.

Table : 5.16
Responses On Relevancy of Required Documents
(pc of Respondents)

Documents	Exporters		
	Primary	Manuf	Total
Letter of credit in hand	100.0	100.0	100.0
Export form duly signed by the exporter	100.0	100.0	100.0
Visa, License, & Certificate of Origin	100.0	100.0	100.0
Lien on confirmed on irrevocable and unrestricted letter of credit from a bank	80.0	92.0	89.0
Letter of disclaimer to be signed by the owner of the go-down in case of rented go-down	50.0	94.0	85.0
Contract letter / Invoice	70.0	83.0	80.0
Trust receipt	50.0	86.0	78.0
Letter of Hypothecation duly stamped	60.0	81.0	76.0
Letter of pledge duly stamped	50.0	72.0	68.0
Document of title of goods	40.0	56.0	52.0
Order sheet	30.0	58.0	52.0
Detailed stock statement duly verified by an bank officials	20.0	22.0	22.0
Insurance coverage under bank mortgage clause	10.0	14.0	13.0
Export Credit Guarantee Insurance Certificate	10.0	8.0	9.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Documents those are considered irrelevant are: detailed stock statement, Insurance coverage, and ECG certificate. However, if we consider primary product exporters separately, then there are three more documents those are not considered relevant by fifty percent of primary exporters. The additional three documents are: Letter of pledge, documents of title of goods and order sheet. The reason of not being considered as relevant by the majority of primary exporters may be well understood.

Because, primary exporters very often do business on consignment basis for which they do neither possess any final order sheet nor letter of pledge being applicable. Moreover document of title of goods is not make any sense always in case of primary product.

Processing of Documents and Effect on Export Business:

It is sometimes alleged that the purpose of fulfilling the requirement of documents is time consuming and cumbersome. We have sought the opinion of exporters on this issue. Responses of respondents are presented below in Table- 5.17.

Table : 5.17
Exporters' Perception On Existing Documentation Procedure
(pc of Respondents)

Quality of work	Exporters		
	Primary	Manuf	Total
Very bad & slow	0	3.0	2.0
Bad & Slow	30.0	50.0	46.0
Fair & Moderately slow	70.0	47.0	52.0
Good & Fast	0	0	0
Good & Very fast	0	0	0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Results show that none of the exporters consider the existing system 'very good' or 'good'. 50 pc of manufacturing and 30 pc of primary exporters consider the present system 'as bad and slow'. However, 70 pc of primary and 47 pc of manufacturing exporters consider the existing system 'as fair and moderately slow'. In short, exporters' general opinion is considerably negative regarding the present formalities in completing the submission procedure of documents.

Effect on Export Business:

The procedural formalities are expected to have impact on export business. If the procedure were simple and efficient with respect to processing time, export business would have presumably been benefited. However, if situation is just the reverse, it could affect the business in many ways, like, increment of cost, delaying in shipment and loss of order. Nature of effect on export business as assessed by the respondents is presented in Table- 5.18.

Table : 5.18
Responses On Impact Of Processing Of Export Financing
(pc of Respondents)

Impact	Product nature		Total
	Primary	Manuf.	
It delays shipment	70.0	67.0	67.0
It increases the cost	60.0	56.0	57.0
Loss of orders	10.0	19.0	22.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Results show that delaying in shipment and increment of cost are most frequently occurred effects. It sometimes results in loss of order also (22 pc cases). The opinion is not varying significantly with the nature of export firms.

5.5 Export Credit – Application Processing Time, Credit Period, Credit Terms and Rate of Interest:

We have already discussed that credit need arises at two stages – pre-shipment and post-shipment. If the credit is availed at pre-shipment stage then the necessity of period for which an exporter expects the support of credit depends on the sum total of time required for procurement of raw materials, processing of export commodity and realisation of export value. This, however, varies with the nature of ingredients to be used as raw materials –domestic or imported. On the other hand, if the credit is availed at post-shipment stage, then the credit period is associated with credit terms. Thus the time for processing application is very crucial. Because, many export item depend on imported ingredients and thus manufacturing process cannot be started unless imported raw materials are at ready stock. Exporters again cannot procure the raw materials if the credit is not allowed. Since most of the export orders are time-bound, the delay in processing the application may result in delay in shipment and may jeopardize the time commitment of the exporter. Delay in shipment has several adverse consequences including longer period of realisation of export value. It is thus related with credit period as well as the interest to be paid at the rate already fixed. Resultant effect of all these, however, is unwanted increment of cost. In this section, we analyse the opinion of respondents on all these interrelated issues.

Time taken in processing credit petition:

Data on exporters' experiences related to average time taken by banks for processing a credit application are collected through the sample survey. Results are presented in summary form in Table-5.19.

Table : 5.19
Responses On Credit Processing Time
(pc of Respondents)

Time	Scale of Operation			Exporters		Total
	Small	Medium	Large	Primary	Manuf.	
Below 1 month	22.0	20.0	50.0	20.0	25.0	24.0
1 month	41.0	34.0	25.0	40.0	36.0	37.0
Above 1 month	37.0	46.0	25.0	40.0	39.0	39.0

Table- indicates that in more than seventy five percent cases banks take one month or more in finalising the credit. Situation is almost identical for handling the application of primary and manufacturing exporters. To be more precise, results reveal that 40 pc respondents of primary group experienced processing time above one month, whereas percentage of manufacturing exporters having the same experience is 39 pc.

Expected Credit period:

The expected period of credit is related with certain terms and procurement policy of export operation. Further, expected credit period may vary on the basis of scale of operation and nature of export commodity. However, at present, maximum credit period allowed by the commercial banks is 270 days. Hence we made an attempt to know the expected period for which the export firms required credit facilities. The responses of the export firms are presented in Table- 5.20

Table : 5.20
Responses On Expected Credit Period
(pc of Respondents)

Expected Periods	Exporters		
	Primary	Manuf.	Total
90 days	0	11.0	4.0
180 days	20.0	22.0	22.0
365 days	80.0	42.0	50.0
above 365 days	0	31.0	24.0

It is clear from the Table- 5.20 that 50 pc of the sample firms opine that credit period should be 365 days. 80 pc exporters of primary product and 42 pc exporters of manufacturing product support this credit period. However, 24 pc of the total respondent's express that they need credit for more than 365 days. Exporters, who need credit for above 365 days, are all manufacturing exporters constituting 31 pc of their own group. 22 pc of the respondents both from primary (20 pc) and manufacturing (22 pc) exporters need credit for 180 days. An insignificant number of export firms (4 pc) report that they need credit for only 90 days. In short, it seems to imply that majority of exporters in Bangladesh 74 pc altogether) are not happy with the present credit period and they desire that credit period should be 365 days or more.

Credit Terms:

Short-term credit at pre-shipment stage, however, depends on credit term· (please see section 3.2.1). Normally, there are four acceptable modes of payment by the buyers of foreign country, namely, Sight Draft, CAD, DA bill and DP bill. Time of realising the export value depends on the mode of payment. During the negotiation, a

particular mode of payment, being agreed upon by the exporters and the buyer, is specifically mentioned in the contract document. This, therefore, is another factor that influences in accepting the post-shipment credit needs of the export firms by the banks. We have attempted to identify the frequencies of use of different mode of payment is export business from the responses summarised in the following Table- 5.21.

Table : 5.21
Responses On Use-Rate Of Credit Terms
(pc of Respondents)

Credit Terms	Exporters		
	Primary	Manuf.	Total
Sight Draft	60.0	78.0	74.0
C. A. D.	80.0	61.0	65.0
D. A. Bill	40.0	31.0	33.0
D.P. Bill	20.0	22.0	22.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

Table shows that sight draft is the most widely used form of payment followed by C.A.D., D. P. bill, and D.A. bill in order of their respective use rate. While the same order of use rate is observed in case of manufacturing exporters, the order of preference is different in case of primary exporters. Among the primary exporters, C. A.D. is the most frequently used form. It has also been found that the greater number of primary exporters use D.A. bill than exporters of manufacturing items. However, D.P. bill is occasionally used by only about twenty percent of both types of exporters.

Rate of Interest of Export Credit:

Rate of interest on credit is an important factor both from the bankers' and exporters' point of view. Government of Bangladesh declares concessionary interest rate time to time for export sector. We made an attempt to know that how many of exporters view the existing interest rate reasonable or otherwise. Results are given in Table- 5.22.

Table : 5.22
Responses On Rate Of Interest
(pc of Respondents)

Rate of Interest	Exporters		
	Primary	Manuf	Total
High	70.0	58.0	61.0
Low	0	0	0
Reasonable	30.0	42.0	39.0

Table shows that 61 pc of the exporters consider the existing interest rate as high. This view is shared by 70 pc of the primary exporters and 58 pc exporters of manufacturing commodity. However, 39 pc exporters do consider the present rate of interest as reasonable. Results reveal that more of the primary exporters then primary feel the rate unreasonably high. Since, primary exporters are predominantly small-scale operators, the rate of interest affect them unfavourably. A special concessional provision exclusively for primary exporters may be helpful for them.

5.6 Credit Preference:

It is sometimes alleged by the general exporters that they are being discriminated against because of higher risk compared to import in allowing credit by the banks. Similarly, it is sometimes alleged by the commercial exporters that they are being discriminated against because of the trading nature of this business as compared to (industrial exporters). In this section, we try to assess how many of exporters belief and what, according to their perception, are the reasons of this preferential treatment.

5.6.1 Export Vs. Import:

We have tried to know whether exporters received any discriminatory treatment from the commercial banks compared to import financing. Results are presented in Table-5.23. 72 pc of export firms feel that banks show unsympathetic attitude towards them regarding export financing. This feeling is more widely spread among manufacturing exporters. 78 pc of manufacturing exporters do feel like that. However, feeling in favour or against is evenly distributed among the primary exporters.

Table : 5.23
Responses On Banks' Attitude
(pc of Respondents)

Opinion	Exporters		
	Primary	Manuf	Total
Yes	50.0	78.0	72.0
No	20.0	22.0	28.0

Further the export firms that perceive that the banks are relatively unsympathetic towards export financing were asked to mention the reasons for the same. The summary of the replies is shown in Table- 5.24. From the Table- it is evident that 85 pc of the respondent firms thought that considering high degree of risk the commercial banks showed unsympathetic attitude towards export finance. Among the exporters who view the high degree of risk as a reason of unsympathetic behavior represent 70 pc of exporters of primary product and 58 pc of manufacturing exporters.

76 pc of the sample firms have mentioned that complicacy involved in realising export proceeds is another reasons of unsympathetic attitude of the commercial banks. The majority of this group consists of primary product (80 pc). On the other hand, majority do not share that low profit in export business and lack of efficient personal in handling export credit are any reasons of perceived discriminatory treatment.

Table : 5.24
Responses On Possible Reasons Of Banks' Unsympathetic Attitude
(pc of Respondents)

Reason	Exporters		
	Primary	Manuf	Total
Higher degree of risk	70.0	58.0	85.0
Complication involved in realizing export proceeds	80.0	42.0	76.0
Lack of efficient personnel in handling export financing	40.0	25.0	39.0
Low profit in export financing	40.0	17.0	30.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

5.6.2 Industrial Exporters Vs. Commercial Exporters:

It is alleged that the industrial exporters get better financial facilities from all sources compared to commercial exporters. We have tried to know about the opinion of the exporters about this allegation. Responses are summarised in Table- 5.25. About 61 pc of the export firms have mentioned that industrial exporters get better financial support than the commercial exporters. It is observed that 100 pc of exporters of primary product and 50 percent of manufacturing exporters have shared this view.

Table : 5.28
Opinion On Discrepencies: Industrial Vs. Commercial
(pc of Respondents)

Opinion	Exporters		
	Primary	Manuf	Total
Yes	100.0	50.0	61.0
No	0	50.0	39.0

Further, the sample firms who have admitted that industrial exporters get better financial facilities from the banks, were asked to mention the reason of such differential treatment on the part of banks. Table-5.26 shows that the cent percent exporters believe that reasons are economic and financial in nature. As industrial exporters are usually financially sound and their credit is adequately covered by security deposit, the banks feel their proposal economically more viable.

Table : 5.26
Responses On Reasons Of Alleged Discrepencies In Allocating Credit: Industrial Vs. Commercial (pc of Respondents)

Reason	Exporters		
	Primary	Manuf	Total
They have better financial background	100.0	100.0	100.0
They can offer better security to the bank	100.0	100.0	100.0
The industrial exporters can undertake much physical and financial risks	60.0	50.0	54.0
Industrial exporters are big persons having both political and economical influence	60.0	28.0	39.0
Industrial exporters are established firm having link with all	40.0	11.0	21.0
Most of the industrialist are also bankers and hence they take most advantage from bank	40.0	14.0	20.0
Government policy is in favour of the industrial exporters .	20.0	11.0	14.0
Incentives Schemes are so designed to serve more to industrialist then to commercial	30.0	0	11.0
Banks are more prone to help the industrial exporters	30.0	0	11.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

This explanation is supported by 60 pc of the exporters of primary product and 50 pc of the manufacturing product. 39 pc of the exporters have reported that due to political and economic influence the industrial exporters faces less difficulties in obtaining credit facilities from the banks compared to commercial exporters. Only 14 pc of the exporters have indicated that government policy is in favour of industrial exporters. On the other hand 11 pc of the respondents have thought that as banks are inclined to help industrial exporters and industrialists themselves are often bankers, they face less difficulty in obtaining credit from commercial banks.

5.7 Export Promotion Measures and Incentives:

The Government of Bangladesh has initiated different export promotion measures since its inception. Creation of Export Promotion Bureau (EPB) is one of such endeavours. Besides, there is a longstanding demand of establishing a separate financial institution to promote export. There are instances of specialised financial institutions to promote activities of a particular economic sector. For example, *Bangladesh Krishi Bank (BKB)* is to develop agriculture, *Bangladesh Shilpa Bank (BSB)* and *Bangladesh Shilpa Rin Sangstha (BSRS)* are to strengthen industry etc. How far the EPB is successful or to what extent exporters are aware of and benefited by the provision of promotional measures of EPB? What are the opinion on and what benefits are expected to be derived from separate financial institution?

Moreover, there are already different schemes of incentives in Bangladesh for export promotion, like subsidies or duty drawback. Opinion of the exporters on such existing incentive schemes may be of great interest.

In this section we would analyse the exporters view on already existing measures like EPB along with demand of separate financial institutions and different incentive schemes.

7.7.1 Promotion Measures:

1 Export Promotion Bureau (EPB):

Export Promotion Bureau was established by the promulgation of a Presidential Ordinance in 1977 as a semi-autonomous body with the objective of promoting export and improving plans and policies related with the export sectors. From the very beginning EPB offers various services to export for its development. The effectiveness of EPB can be measured on the basis of utilisation of its services by the exporters. On the other hand, awareness of the exporters about the services offered by the EPB is the primary condition for the success of EPB. For this, as a part of our survey among the exporters, we have made an attempt to determine the rate of awareness and rate of assistance availed from the services of EPB. For this, we calculate the probability [p(x)] that an exporter is aware about a particular service. Besides, we also calculate the probability that an exporter has actually availed the benefits provided he is aware about the service [p(y/x)]. Finally, we calculate the joint probability of happening that the export firm is aware as well as beneficiary for each service i.e.

$$p(x \cap y) = p(x) \cdot p(y/x)$$

Thus, the rate of success of each service will be indicated by $p(x \cap y)$ which expresses the probability of getting benefits by any exporter provided he is aware. Results are given in Table- 5.27 Results show that activities of Textile Cell are widely known and the probability of getting assistance $p(x \cap y)$ is 0.91. All these firms are exporters of manufacturing commodities. Most probable explanation for using Textile Cell service by majority of export firms is that, the 100 pc of export oriented RMG industries have to enroll themselves with the textile Cell of EPB for taking Visas, Licenses and Certificate of Origin against export.[1] Besides this, Textile Cell is the implementing

1. Exporters have to take visa for export of quota and non-quota items to USA, Licence for export of quota items to Canada, and Certificate of Origin for export of RMG to the EU countries.

Table : 5.27
Probability Of Awareness And Assistance Availed Of The Existing Services Offered By The EPB

Service		Exporters		Total
		Primary	Manuf	
Trade and Information Centre (TIC)	P(x)	0.4	0.67	0.61
	P(y/x)	0.5	0.67	0.64
	P(x∩y)	**0.20**	**0.45**	**0.39**
Publication of export	P(x)	0.30	0.50	0.46
	P(y/x)	0.33	0.72	0.67
	P(x∩y)	**0.10**	**0.36**	**0.31**
Product and service Development	P(x)	0.10	0.22	0.20
	P(y/x)	1.0	0.38	0.44
	P(x∩y)	**0.10**	**.36**	**.09**
Human resource development	P(x)	0.20	0.22	0.22
	P(y/x)	0.50	.38	.40
	P(x∩y)	**0.10**	**0.08**	**0.09**
Activities of Textile Cell	P(x)	0	1.0	1.0
	P(y/x)	0	0.94	0.91
	P(x∩y)	**0**	**0.94**	**0.91**
Trade Promotion	P(x)	0.20	0.17	0.17
	P(y/x)	0.50	0.50	0.50
	P(x∩y)	**0.10**	**0.09**	**0.09**
Export Intelligence	P(x)	0.10	0.14	0.17
	P(y/x)	0	0.40	0.33
	P(x∩y)	**0**	**0.06**	**0.06**

agency of the Textile Trade and Quota Administration Rules. However, it is evident from Table- 6.30 that overall probability of p (x ∩y) in case of Trade and Information Centre (0.39) the highest but one is. This is followed by publication of export (0.31). Rests of the services offered by EPB are Product and Service development, Human Resource Development, Trade Promotion, and Export Intelligence. The probability that any export firm is aware of the service and have availed the assistance from any of these four is varying in between 0.06 to 0.09. Further, findings representing in Table- 5.27 also show that the awareness level is very poor among the primary sector. Thus it confirms that it is the primary product firm which has the poorest chance of getting the assistance than manufacturing firms.

Adequacy of EPB services:

We have tried to know about the adequacy of the services offered by the EPB among the exporters who are aware of the services offered by the EPB. Exporters' perception in this regard is presented in Table- 5.28. It shows that remarkable numbers of respondents (80 pc) have reported that EPB had failed to meet the needs of the

exporters adequately. On the other hand 9 pc of the sample firms have expressed that service provided by the EPB are irrelevant. Thus, it seems to imply that majority of exporters, both primary as well as manufacturing, do feel the necessity of EPB but are of the opinion that much changes are required so that agency could meet the needs of the exporter adequately.

Table : 5.28
Exporters' Perception Regarding Adequacy Of EPB Services
(pc of Respondents)

Perception	Exporters		
	Primary	Manuf	Total
Adequate to meet Exporter's needs	10.0	11.0	11.0
Inadequate to meet exporters needs	90.0	78.0	80.0
Services are Irrelevant	0	11.0	9.0

Service Areas Needed Improvement:

In this connection, it is relevant to know the opinion of the exporters regarding the service areas which may be improved. In order to identify these service areas, we seek the opinion of exporters who are aware of the services provided by the EPB. The opinions of the exporters are presented in Table- 5.29.

Table : 5.29
Exporters Feeling Regarding The Necessity Of Improvement Of The Areas Of EPB Services (pc of Respondents)

Service	Exporters		
	Primary	Manuf	Total
Human resource development	100.0	100.0	100.0
Trade Promotion	100.0	100.0	100.0
Product and service Development	90.0	89.0	89.0
Export Intelligence	80.0	72.0	74.0
Trade and Information Center (TIC)	80.0	72.0	74.0
Publication of export	60.0	64.0	63.0
Activities of Textile Cell	0	25.0	47.0

Note: Total percentage is not equal to 100 due to multiple responses in different categories.

It shows that cent percent of the respondents have opined that EPB's Trade promotion efforts should be intensified to help the exporters for entering into newer overseas markets and steps should be taken to ameliorate the human resources development programmes to reduce the acute shortage of skilled inn this sector. 89 pc of the sample firms have thought that EPB should give more effort in their product and

service development programme. On the other hand 74 pc of the export firms have felt the need to streamline EPB's export intelligence and information service to make it more efficient and effective. In their opinion, steps should be taken to make the information service more broad based and scientific so that exporters could obtained up-to-date, adequate and regular information flow regarding the overseas markets. 63 pc of the sample firms have viewed that EPB should give more attention in their publication to attract foreign buyer. 47 pc of the firms have expressed that promptness of activities of Textile Cell is needed in quota allocation, transfer and issuing clearance certificate for shipment of allotted quota.

2. Demand for Specialised Financial Institution:

As we have already said that there is a longstanding demand that a separate financial institution should be established to facilities export credit. We sought the opinion of exporters about the consequences of the instituting such an organisation against a structured question on 5-point interval scale. Exporters opinion on consequences would be able to explain what sort of gap is expected to be fulfilled by this institution in export financing. There are altogether 17 independent questions representing both favourable and unfavourable situations. Responses are then ranked according to average score separately for primary and manufacturing exporters. Statistically analysed results of the responses are given in Table-5.30. Column 8 of the Table-5.30 indicates the consequences and their ranking according to exporters' perception. The first five consequences are: i) it would be able to render quick services to the exporters, ii) employment opportunity would be enhanced, iii) general exporters would be benefited (provided it is in the public sector), iv) export volume will readily be known and v) small exporters will be benefited. Column 5 of the Table gives the level of agreement among the respondents (S_i). For each of the consequences, the agreement level is very good ($S_i > 0.5$). Results by the manufacturing exports do not differ much with that of ranking of general exporters (rank co-relation coefficient=0.9797). But there is much less correlation between rankings by primary and manufacturing exporters. Table explains that the consequence that 'small exporters will be benefited' is ranked 5th by the exporters as a whole and 7th by the manufacturing exporters. But the same is ranked first by the primary exporters. It seems to imply that the demand for

Table : 5.30
Interval-Scale Score Rankings And Level Of Agreement (S_j) Of Each Of The Perceived Consequences Of Separate Export Financing Institution

Consequences		Total Score	Ave. Score	S_i	Ranking		
					Prim.	Ma.	Tot
a	It will be able to render quick services to the exporters	220	4.782	.6522	3.5	2.0	1
b	Finance will be readily available on easy terms	208	4.717	.4860	9.5	5.0	7
c	It will be able to supply foreign market information to the exporters	201	4.586	.4116	11.5	8.0	9
d	It will be able to work as export promotion agent	205	4.565	.5101	3.5	9.0	8
e	Small exporters will be benefited	210	4.565	.4976	1.0	7.0	5
f.	Proper documents and maintenance of accounts of these agencies will be beneficial to exporters	191	4.543	.3362	9.5	10.0	10
g	Export volume will readily be known	210	4.521	.5092	11.5	4.0	4
h	Employment opportunity will be enhanced	217	4.456	.5855	6.5	2.0	2
i.	It will create monopoly	127	4.369	.2357	15.0	13.0	14
j.	It will create bureaucracy	125	4.152	.2280	3.5	15.0	15
k	It may be dominated by the big exporters	190	4.130	.3391	8.0	11.0	11
l.	Commercial banks will be affected by such institutions	154	3.804	2464	14	14.0	13
m	Corruption will develop in the management of such institution	175	3.347	.2667	13	12.0	12
n	This will be only helpful to the banks to get refinancing facilities	112	2.760	.2618	16	16.0	16
o	General exporters will be benefited provided , it is done on regional basis	209	2.717	.4812	6.5	6.0	6
p	General exporters will be benefited provided it is privately organised	107	2.434	.2957	17.0	17.0	17
q	General exporters will be benefited provided it is in the public sector	211	2.326	.5082	3.5	2.0	3

Note: 'Tot.' stands for 'Total'; 'Prim.' Stands for "Primary';'Ma.' Stands for 'Manufacturing'

a separate financial institution exists among primary exporters who happen to be small-scale operators normally, due to the feeling that this would benefit them. It obviously indicates that small exporters or primary exporters are not satisfied with the existing

export financing system. It also substantiates our earlier finding that primary exporters generally feel that they are being discriminated against because of the lower scale operator as compared to big or industrial exporters.

Table : 5.31
Rank Correlation Matrix Of Rankings In Table : 5.30

	Primary	Manuf	Total
Primary	1.00	0.5957	0.6718
Manuf		1.00	0.9797
Total			1.00

Table : 5.32
Probability of Scale (P_j) and Level of Agreement Kappa Coefficient(K) Among Exporters On Responses of Table: 5.30

		SA	A	UD	DA	SDA
Pj	=	.4706	.2685	.0562	.1279	.0768
Kappa	=	0.1234		Var (**K**) = 0.00029		
Std (K)	=	0.017071		**Z** = 7.228		

SA = Strongly Agree, **A** = Agree, **UD** = Undecided, **DA** = Disagree, **SDA** = Strongly Disagree.

The values of the probability of each interval scale are given by P_j in the Table-5.35. It states that the probability that any randomly selected exporter would 'strongly agree' with the given consequences is 0.4706. However, the overall agreement among the exporters is given by Kappa coefficient. The value of Kappa coefficient (**K**) is 0.1234 which implies a very low level of agreement. The calculated value of Z being 7.228, it is exceed significance level $\alpha = 0.01$ for which table value **Z** = 2.32. It, therefore, can be concluded that, the level of agreement among exporters regarding the consequences of separate financial institutions on the basis of average scores of the 5-point interval scale, appears statistically low at 1 percent level of significance.

5.7.2 Incentives:

1. Export Subsidy:

Among the several export promotional measures, subsidy is the most important and directly related with financing problem of the exporters. We have made an attempt to know whether the export firms need any subsidy for their export business. Further, if they need subsidy, what are the mode and expected rate? Table- 5.33 and 5.34 represent the exporters opinion on export subsidy. It is evident from Table-5.33 that exporters favour subsidy in the form of cash for their export promotion and they are unanimous on this point.

Table : 5.33
Exporters' Opinion About Subsidies For Export Promotion
(pc of Respondents)

Opinion		Exporters		
		Primary	Manuf.	Total
Needs for Subsidy	Yes	100.0	100.0	100.0
	No	0	0	0
Forms of Subsidy	Cash	100.0	100.0	100.0
	Materials	0	0	0

Moreover, it is revealed from the Table-5.34 that 45 pc of the sample firms have quoted their expected rate of subsidy as 25 pc. So far the nature of product is concerned, 70 pc of the exporters of primary product and 39 pc of the manufacturing export firms have expressed this view.

Table : 5.34
Responses On Expected Rate Of Subsidies For Export Promotion
(pc of Respondents)

Expected rate of Subsidy	Exporters		
	Primary	Manuf	Total
15.0	0	28.0	22.0
20.0	30.0	33.0	33.0
25.0	70.0	39.0	45.0

However, 30 pc of primary and 33 pc of manufacturing firms have mentioned that they would expect 20 pc subsidies for their business. While only 22 pc of the export firms have opined that the expected rate of subsidy should be 15 pc. The percentage of exporters constitutes 28 pc of manufacturing groups. It is to be noted that no primary exporter expects subsidy less than 20 pc. In short, it seems to indicate that the primary exporters desire higher rate of subsidy than manufacturing exporters. This may not be beyond explanation for the reason that primary exporters being scale operators small and their profit margin being low, they are believed to be needed more support than manufacturing counterpart.

2. Duty Drawback:

We have already explained duty drawback in section 4.4.1. Here we have made an attempt to ascertain the exporters perception about the effectiveness of DDB system. Summarised form of the perception of the exporters on this issue is presented in the Table- 5.35. It explains that 47 pc of the exporters have considered DDB system as an effective export incentive, while the majority of the sample firms (53 pc) have reported the opposite view.

Table : 5.35
Responses On Effectiveness Of Duty Drawback (DDB)
(pc of Respondents)

Factors	Primary		Manufacturing		Total	
	Yes	No	Yes	No	Yes	No
Considered as an effective Incentives [n = 30]	0	100.0	50.0	50.0	47.0	53.0
53.0Claimed for DDB [n = 8]	na	na	100.0	0	100.0	0
Received back the full duty pai [n = 8]	na	na	50.0	50.0	50.0	50.0
Time Spent [n = 8]	na	na	50.0	50.0	50.0	50.0

n = number of respondents in the respective category; **na** = not applicable

Furthermore, we have also surveyed that how many of sample firms have availed the DDB facilities and received back full duty. We have collected data on the opinions that whether exporters, who have availed the facility, do consider the time spend as either 'reasonable' or 'long delay'. The answer is distributed between positive and negative views. 50 pc of the respondents have reported that they got the full duty back within reasonable time, while other 50 pc have answered negatively. Thus nothing could be concluded definitely.

Limitations of Duty Drawback:

We have asked those respondents, who had enjoyed the facilities of DDB, to mention limitations that they consider are making the DDB system inefficient. Limitations mentioned by the exporters are enlisted below:

(i) Number of items specified for flat rate is restricted and limited.

(ii) Since many items are not covered by the flat rate exporters have to seek drawback under actual rate.

(iii) The actual amount of duties and taxes paid is not always conforming to the amount of drawback under flat rate. Because these rates being fixed much earlier are most often less than the rates exist at the time of drawback.

(iv) Settlement of each case requires persuasion through the corridors of authority and power that consumes energy, time, and money. This disrespectful hassle makes the system unattractive and unremunerative.

Duty Drawback Credit:

An attempt has been made to know the exporters opinion on DDB credit. The findings are shown in Table-5.36. It reveals from the Table that 100 pc of the

respondents, who enjoyed the facilities, have considered DDB credit as an encouraging incentive scheme for the exporters.

Table : 5.36
Exporters Opinion On Duty Drawback Credit Facilities
(pc of Respondents)

Stages	Primary		Manufacturing		Total	
	Yes	No	Yes	No	Yes	No
Consider as encouragement for exporters	na	na	100.0	0	100.0	0
Applied for DDB credit	na	na	63.0	37.0	63.0	37.0
Received DDB Credit	na	na	80.0	20.0	50.0	50.0
Problem in getting full advantage	na	na	20.0	80.0	50.0	50.0

n.a stands for 'not applicable'

Further, 63 pc of the respondents who consider DDB as an effective incentive, have applied for DDB credit. The percentage of beneficiary of DDB credit is distributed evenly among positive and negative views. However, 50 pc of the respondents have mentioned that they do not face any problem in getting DDB credit from commercial banks, while another 50 pc of the respondents have expressed the opposite view. Further Table- 5.36 shows that all the export firms, who are aware as well as beneficiary from DDB credit, are exporters of manufacturing commodity.

5.9 Exporters' Opinion on Prospect of Export Business:

It was often asserted that the lack of adequate financial resources in many cases restricted the expansion of export trade. We asked our sample firms to mention as to what extent they could expand their export business if they are given adequate financial support. Responses of the exporters are presented in Table- 5.40.

Table : 5.40
Exporters' Expectation Regarding Improvement Of Business
(pc of Respondents)

Expected rate of increased	Exporters		Total
	Primary	Manuf.	
20.0	0	14.0	11.0
25.0	10.0	33.0	28.0
30.0	50.0	33.0	37.0
35.0	40.0	20.0	24.0

It is evident from the Table- that 37 pc of the respondents expressed the hope that if they are given adequate finance, they could increase their business by at least 30

pc, while 28 pc of the firms believed that they could expand the business by 25 pc and 24 pc of the firms reported that export business could be expanded to the tune of 35 pc. Only 11 pc of the export firms quoted 20 pc as expected increase of their business if adequate finance is available. However, the Table- shows that maximum respondents (89 pc) express the expected rate of increase of their business more than 25 pc, provided they are given required credit facilities.

Results show that primary product exporters are more optimistic than manufacturing exporters in this regard. We have already found that primary exporters are more critical of the existing credit system. Moreover, it has been found that the feeling of deprivation is more pronounced among this group of exporters.

5.10 Concluding Remarks:

A schedule was administered among exporters of the large sample of size 60 selected through stratified random sampling. Too strata of respondents are primary and manufacturing. Majority of the export firms of the sample use rental business premises and were established during the period 1981 to 1990 under the statutory provision of 100 percent export oriented business. It is found that export firms in Bangladesh use labour intensive technology and face problem of scarcity of skilled labour. It is also found that there are 4 industries – two from primary and two from manufacturing sectors - earn average profits more than annual average profit of export sector.

Need of the export credit of export firms is basically for the working capital and short-term in nature. Purposes of short-term credit are mainly cash 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 above three purposes, all manufacturing exporters do not require credit for the same. Long-term credit demand, on the other hand, is restricted to only manufacturing exporters and that also for import of capital goods and BMRE.

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 do not meet the total credit need. While manufacturing exporters depend on foreign banks, managing agencies etc. for unfulfilled credit need, 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 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 those are primarily considered for measuring creditworthiness are size of the firms, solvency of the exporters and volume of security. Eight others factors are identified also as objective factors. But exporters are of the opinion that banks do considered several other subjective factors to take the final decision. Moreover subjective factor like political influence, personal connection etc. play important role to influence the decision.

Exporters in Bangladesh do feel that number of documents require 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 that the existing rate of interest as high.

Exporters perceived that preference is given import credit than export credit and credit to industrial exporters than to commercial exporters. Exporters think that less preference is given due to higher risk in export business and industrial exporters are preferred than to commercial exporters due to better financial background.

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 regarding instituting a separate financial institution for export credit.

Chapter - 6

Analysis Of Bankers' View On Export Financing In Bangladesh - A Sample Study

6.1 Introduction:

We have evaluated the role of commercial banks and also the effectiveness of different schemes of export finance in our earlier chapters. We have also made a sample study on the opinions of exporters regarding their problems of financing as well as their perception regarding the role of commercial banks.

Discussion in chapter 3 indicates that change of development strategy from import substitution to export promotion in Bangladesh has positive impact on commercial banks' financing policy to exporters. The study also reveals that private commercial banks have responded more positively than the nationalised commercial banks (NCB). Initial response towards the changed Government policy came from the NCB, but subsequently they restricted their initial enthusiasm and left the responsibility on the private commercial banks to cater to the additional demand of the exporters. Though in terms of volume of export finance and number of accounts, a distinct positive change has been observed, the evaluation of different individual schemes in chapter-4 has raised serious doubts about their success in achieving expected results. The problem in export financing, however, is multifaceted and not solely dependent on bankers' attitude. General economic condition of the country, conduciveness of the environment of international trade change in government decision like introduction of new schemes or withdrawing of the old one etc influence bankers' decision on export financing to a large extent. Bankers' view on export financing should naturally encompass all such facets of the problems. Moreover, in the preceding chapter we have found from the sample survey of exporters' view on export financing that there are lot of aspects related to administrative and procedural for which bankers' attitude and perceptions are to be necessarily understood. The reconciliation of views of bankers and exporters is necessary for meaningful conclusion of the problem. Keeping this in mind we administered a questionnaire schedule among the respondents of a sample of 12 banks of three different categories. (The schedule is annexed at the end of the thesis.)

In this chapter, we like to comprehend bankers' view on different aspects of the export-financing problem on the basis of the responses made by them.

In section 3.2, we have provided a detailed structure of financial institutions which grant export finance in Bangladesh. We have seen that the direct export granting institutions are mainly the commercial banks.

Total number of banks in Bangladesh is 52. Out of 52, 4 are Nationalised Commercial Banks (NCB); 6 are Specialised Banks; 26 are interest based Private Commercial Banks (Pvt.^{IB}); 4 are interest free Private Commercial Banks (Pvt.^{IF}) i.e. Islamic Bank and 12 are Foreign Commercial Banks (FCB). Specialised bank, namely *Bangladesh Krishi Bank*, is confined so far to export financing related to agricultural product (Another Specialised bank has started its operation in financing to export very recently). Foreign commercial banks have started their operation in export market since 1994. For this reason, we prefer not to include any bank of these two groups in our sample. Thus, we left with only three groups of banks for selection in our sample, namely, NCB, Pvt.IB and $^{Pvt.IF}$. Number of banks in each category of NCB and Pvt.^{IF} is four. Thus we purposefully select all four banks from each of those two categories ^{in} our sample. Out of 26 interest based private commercial banks, we have selected first four banks from the list prepared in accordance with the descending order of deposit mobilisation.

6.2 Profile of the Sample Banks:

All the nationalised banks are included in our sample, namely, *Sonali Bank* (SB), *Agrani Bank* (AGB), *Janata Bank* (JB) and *Rupali Bank* RB). All these banks have started export financing since 1972. So far the number of branches and volume of operation are concerned, this group constitutes the largest banking sector having mean number of branches 901.5 (Std. dev. 318.85) of an individual bank of this group. With respect to branches having separate export cell, any bank of this group has positioned itself ahead of banks of other two groups with mean number 32 (Std. dev. 17.19). Similarly, sample responses indicate that each bank of this group deals with maximum number of export commodity with mean 7 (Std. dev. 1.63). With response to priority ranking, export financing occupies first position for each bank of this group.

Interest based private commercial banks (Pvt.$^{IB)}$ in our sample includes *Pubali Bank* (PB), *Uttara Bank* (UB), *Arab Bangladesh Bank* (AB), and *National Bank* (NB).

While UB has started export financing in 1972, other three have started operation in this sector in early eighties. Mean number of total branches of this group is 96.50 (Std. dev. 67.71) and mean number of branches having separate export cell is 24.25 (Std. dev. 11.64). The group deals with only 3.25 number of export commodities on the average with Std.dev. 1.89. Export however, ranks 5th in the priority list of this particular group of banks.

All four banks of interest free private commercial banks are included in our sample. These are Islamic Bank Bangladesh Limited (IBBL), Al-Baraka Bank (ALB), Al-Arafa Bank (ALA) and Social Investment Bank (SIB). While IBBL and ALB have started export financing in eighties, other two have started operation in this area very recently in 1996. Each bank of this group has a mean number of branches as well as branches having separate export cell much less than other two groups. These are 51 (Std.dev. 46.02) and 3 (Std.dev.1.63) respectively. On the average, an individual bank of this group deals with only three export commodities and export financing occupies 3rd position in the priority list of financing. A summary of responses relating to sample banks is given in Table 6.1.

Table: 6.1
Sample Banks Profile

Sample		Starting Export Finance	Total No. of Branch		Br. With Separate Export cell		Dealing No. of Export Commodities		Priority ranking
NCB	SB	1972	1293	901.5 (318.85)	43	32.00 (17.19)	5	7.00 (1.63)	1st
	AGB	1972	903		10		7		1st
	JB	1972	898		48		9		1st
	RB	1972	512		27		7		1st
Pvt^{IB}	PB	1982	60	96.50 (67.71)	26	24.25 (11.64)	2	3.25 (1.89)	5th
	UB	1972	198		39		2		5th
	AB	1982	62		21		3		5th
	NB	1984	66		11		6		5th
Pvt^{IF}	IBBL	1983	118	51.00 (46.02)	28	11.50 (11.56)	3	3.00 (1.63)	3rd
	ALB	1987	36		11		5		3rd
	ALA	1996	37		04		3		3rd
	SIB	1996	13		03		1		3rd

Note: Figure in the parenthesis indicates standard deviation

6.3 Analysis of facilities and Services Provided to Exporters by Commercial Banks:

As we have mentioned, credit schemes are again may be classified according to pre-shipment and post-shipment. We have discussed different available provisions of credit to exporters at pre-shipment and post-shipment stage in chapter – 3. Bankers

do not offer credit against all such provisions. According to bankers' own credit policy, they prefer few selected types of credit schemes that they think convenient for them; Responses regarding credit offered by the different categories of banks are classified according to schemes under pre-shipment and post-shipment stages in order to understand whether there is any difference in preference among the credit schemes of two stages. Results are presented in Table 6.2.

Table: 6.2
Average Types Of Credit Offered By Different Categories Of Banks

Categories of Banks	Pre-shipment	Post-shipment
NCB	3	3
Pvt.[IB]	3	2
Pvt.[IF]	2	3
Average	2.67	2.67

We find that, on an average, the banks offer 2.67 types of credit both in pre-shipment and post-shipment stages. The NCB and Pvt.[IB] offer highest number of types of credit jointly at pre-shipment stage at post shipment stage.

6.3.1 Non-financial Services and Facilities:

Export trade is very complicated and involves a number of formalities and procedures. In addition to financial support, an exporter needs several non-financial auxiliary services also. The banks also provide such non-financial services to exporters. In the sample survey we have collected the information about the types of non-financial services which the exporters seek and to what extent those services are provided by the banks. We find that there are altogether seven non-financial services that are sought by the exporters. We find that none of the banks provide all such non-financial services. On the other hand, the survey reveals that 25 percent of banks do not offer any kind of non-financial service to exporters at all. An exhaustive list of services and facilities along with the percentage of banks offered a particular one (within bracket) as per the responses of banks is given below:

(i) For early realisation of export bill regular follow-up with the buyer as well as L/C issuing bank (58%).

(ii) Introducing new exporter to the buyers (42%).

(iii) Providing information relevant to international trade to the exporters (33%).

(iv) Collecting necessary information about L/C issuing bank (25%).

(v) Informing the exporters regarding the rules and regulation of export trade (33%).

(vi) Obtaining credit reports of the foreign buyers (17%).

(vii) Providing warehouse services for storing exports commodities (17%).

6.3.2 Types of Credit Demanded:

Credit facilities are of different types as we have discussed earlier. Credit facilities may be classified according to types of credit or it may be classified according to stage at which it is advanced i.e. pre-shipment or post-shipment. Naturally, demand for each type of credit facilities is not uniform. Exporters' preferences may be understood from the demand pattern of different types of credit. For this, we have sought the opinion of the banks on what kinds of credit are normally asked for. We furnish an exhaustive list of types of credit on the basis of the responses of banks in Table-6.3.

Table : 6.3
Types Of Credit Preferred By The Exporters
(% of the Banks Respondents)

Types of Credit	NCB	Pvt.[IB]	Pvt.[IF]	Bank Average
Cash Credit	75.0	75.0	75.0	75.0
Foreign bill purchase/negotiation	75.0	75.0	50.0	67.0
Packing Credit	75.0	75.0	50.0	67.0
Back to Back L/C	50.0	50.0	25.0	42.0

It is clear from the exhaustive list that the exporters' choices remain limited to four types of credit and nature of choice hardly differs with the category of banks. Survey results show that the cash credit, according to bankers' opinion, is mostly sought after form of credit. Following this, two other forms of credit, namely, foreign bill purchase/negotiation and packaging credit, jointly held the second best position. Only 42 percent banks handle the last items of the list i.e. back to back L/C. Possible reason of the lower demand of this might be that this type of credit is not applicable for all industries of export sector but in garment industry.

6.3.3 Commodity for Which Commercial Banks Offer Credit:

List of major items of exports in Bangladesh constitutes Readymade Garments (RMG), Frozen Food, Raw Jute, Jute's Goods, Tea, Leather and Handicraft etc.

Responses to the question of items of export financed by the banks are summarised in Table 6.4.

Table: 6.4
Percentage Of Sample Banks Financed Each Export Commodity

Commodity	Financing Banks (%)
Readymade Garments	92
Frozen Food	58
Raw Jute	50
Jute Goods	42
Tea	42
Leather	42
Handicraft	33
Others	33
Hide & Skin	16
Fruits and Vegetable	16
Computer Software	16
Chemical	16

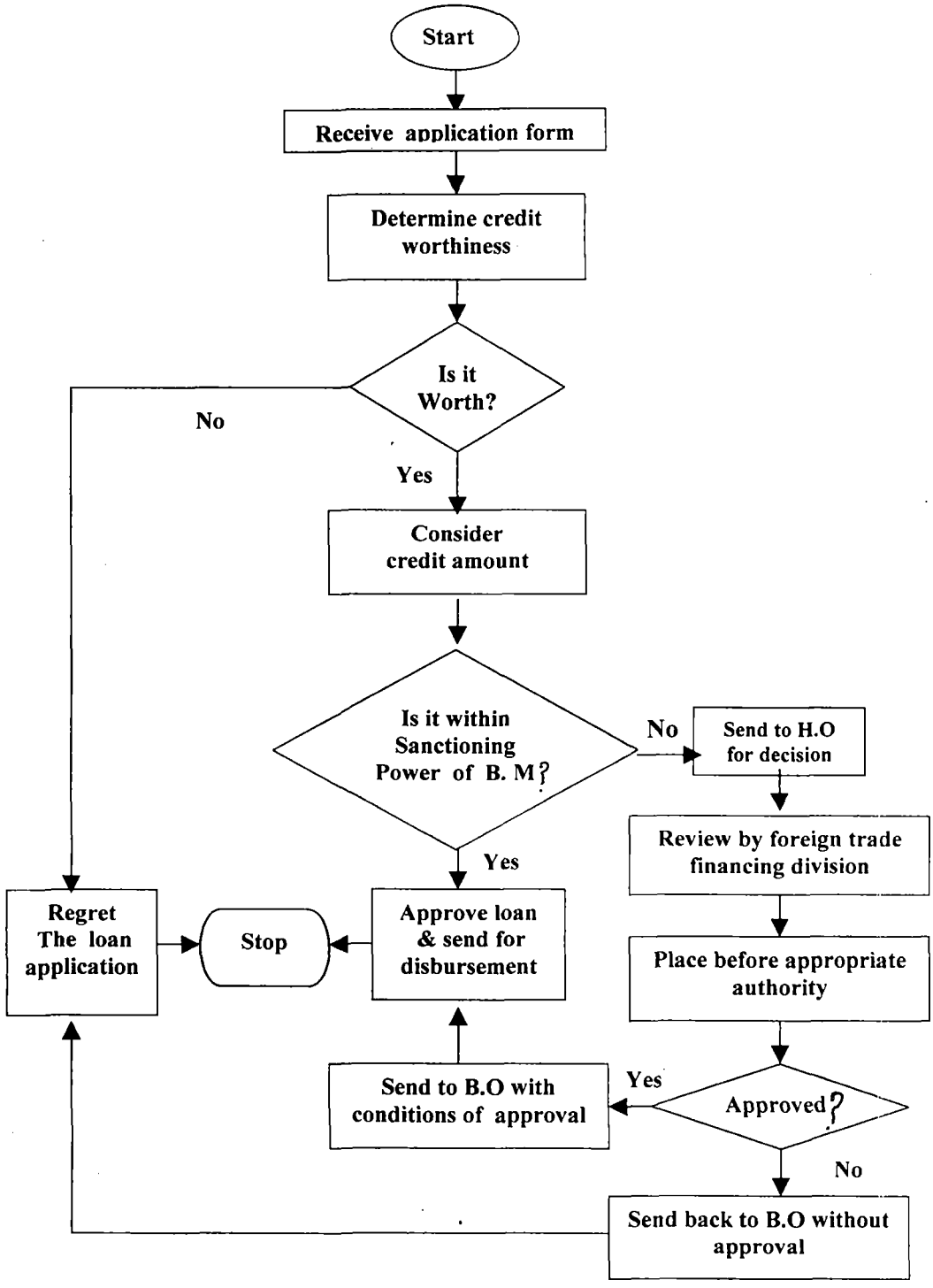
Summarised results in Table-6.4 reveal that maximum number of banks (92 percent) offers credit to readymade garment and the least number of banks (16 percent) provide credit to fruits and vegetable, hides & skins, chemicals, computer software etc. It also shows that 58 percent of the banks offer finance to the export of frozen foods, 50 percent provide fund for raw jute, about 42 percent banks used to finance export of jute goods, tea and leather and about 33 percent of banks provide fund for the export of handicraft. Some sample banks, however, have reported that they are ready to finance all kinds of export commodities, if the exporters seek financial help from them.

6.4 Procedure of Sanctioning and Disbursement of Loans:

Starting from the receiving an application to final disbursement of loan, there are some sequential steps that have been followed by the commercial banks. After critically scrutinising the application form, bank ascertains creditworthiness of the exporters. If the proposal is found credit worthy and the amount of loan is within the sanctioning power of the branch manager, then the loan is sanctioned normally within a short time. Otherwise, the proposal is sent to head office for appropriate steps and advice. Foreign trade financing division of the bank reviews the proposal and places before the appropriate authority for final approval. If the loan is approved, the proposal is sent back to respective branch office mentioning terms and conditions to

be fulfilled by the exporters. The complete sequential steps upto approval is shown as a flow-diagram in figure-6.1

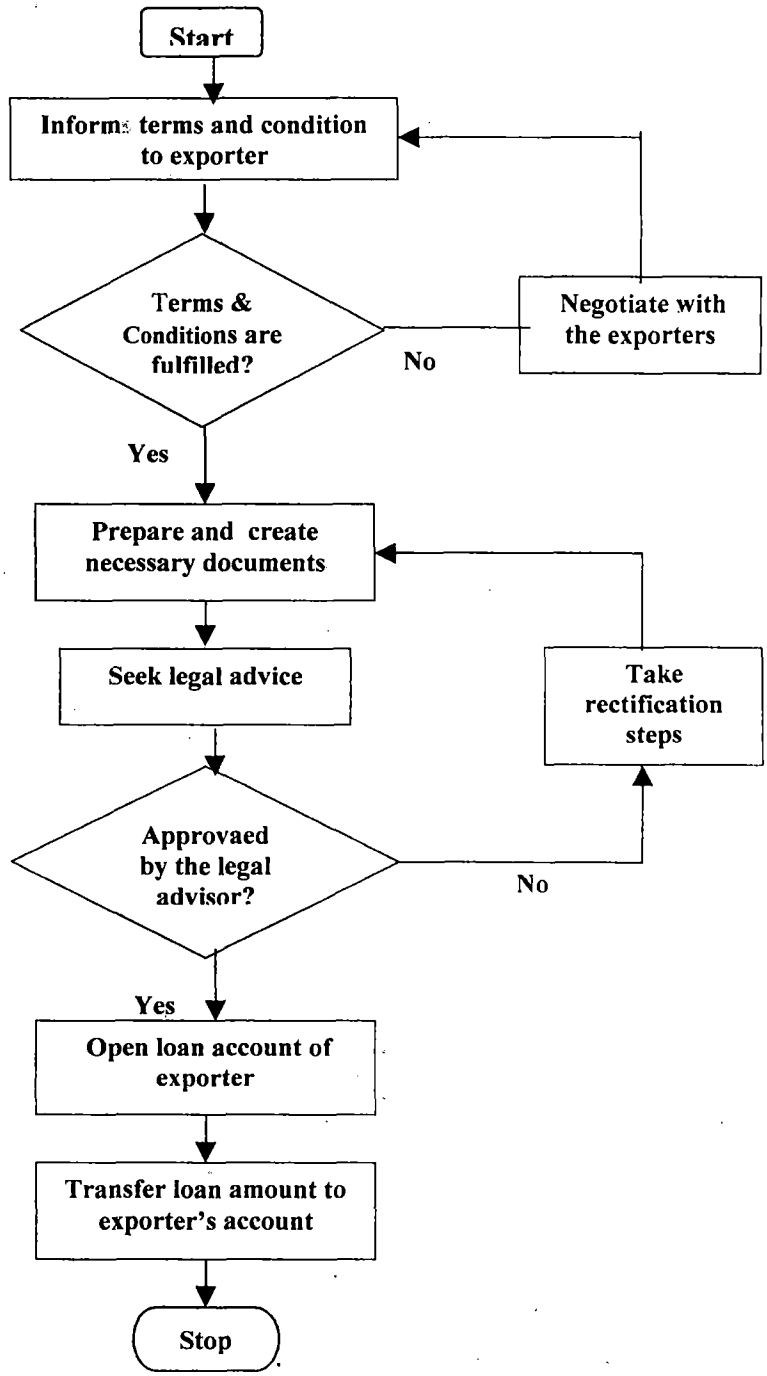
Figure - 6.1



However, after approval of the amount of credit the disbursement procedure starts. A few more administrative and procedural steps are followed including preparation and creation of documents, seeking legal advice on documents etc before

final disbursement of credit. The process of loan disbursement is shown in the flow figure-6.2.

Figure - 6.2



The whole process of sanctioning and disbursing procedure takes time that varies with the duration of completing the requirement. Exporters generally express their grievances against bureaucratic procedure and longer time taken for final approval of the proposal. We have assessed average time - minimum and maximum- taken against

export finance proposal from the responses of respondent banks. Descriptive statistics of the responses are shown in Table-6.5 for minimum and maximum time of each category of banks as well as commercial banks in general.

Table : 6.5

Average Minimum & Maximum Time for Processing a Credit Application (in days)

	Minimum				Maximum			
	NCB	Pvt.^{IB}	Pvt.^{IF}	ALL	NCB	Pvt.^{IB}	Pvt.^{IF}	ALL
Mean (μ)	6.5 (2.87)	8.00 (2.52)	2.00 (0)	5.50 (1.38)	22.5 (4.33)	33.75 (7.18)	30.00 (0)	28.75 (2.90)
Std.dev	5.75	5.03	0	4.80	8.66	14.36	0	10.03
C.V.	0.885	0.629	0	0.873	0.385	0.425	0	0.349
Mode	3.00	7.00	2.00	2.00	15.00	45.00	30.00	30.00
Median	4.00	7.00	0	3.00	22.50	37.50	0	30.00
Kurtosis	3.41 (2.62)	2.23 (2.62)	0	1.04 (1.23)	-6.00 (2.62)	-1.29 (2.62)	0	-.19 (1.23)
Skewness	1.86 (1.01)	1.13 (1.01)	0	1.49 (0.64)	0	-.855 (1.01)	0	0.086 (.637)

Note : Figure in the parenthesis indicates standard error

Measures of central tendency, as shown in Table-6.5, indicate that Pvt.^{IF} takes the least time (2 days) to complete the credit procedure when the application is processed within minimum time. But the average minimum time for any bank of nationalised group is 6.5 days and of Pvt.^{IB} is 8 days. Though Pvt.^{IB} takes on the average longer time, its time distribution is less dispersed in comparison with NCB as **C.V.**= 0.629 compared to **C.V.**= 0.885 of NCB. But, in case of maximum time, NCB takes much less time than Pvt.^{IB} and Pvt.^{IF}. Moreover, its coefficient of variation is also less than Pvt.^{IB} . NCB takes maximum 15 days time on the average in completing the procedure in contrast to 45 days and 30 days by Pvt.^{IB} and Pvt.^{IF} respectively. However, in case of minimum time, distributions for all categories of banks are leptokurtic while in case of maximum time, distributions are platykurtic. It implies that the concentration of values in the distribution around the central tendency is low with long tail in later case. In short, banks usually take as low as 2 days to as maximum as 45 days to complete the procedure of credit. Secondly, both minimum and maximum limit of time vary with the categories of banks. Significance level is tested and computed t–values are presented in Table 6.6. Computed values of '**t**' indicate the acceptance of null hypothesis $\mathbf{H_0}$: $\mu_1 = \mu_2$ in all case. It shows that the

differences are statistically significant. Hence, minimum and maximum time is not independent of bank category.

Table: 6.6
Computed 't' Values Between Means Of Time
(Average Processing Time of an Application)

Bank	Minimum			Maximum		
	NCB	Pvt.^{IB}	Pvt.^{IF}	NCB	Pvt.^{IB}	Pvt.^{IF}
NCB	-	0-.393	1.567	-	-1.342	-1.732
Pvt.^{IB}		-	2.384		-	0.522
Pvt.^{IF}			-			-

Note : Critical value of $t_{0.05}$ = **2.447** (two tail test) with **d.f.= 6.**

Comparing this finding regarding processing time of a credit application with the finding from exporters' view in the previous chapter, we apparently observe no contradiction. But reconciling the views of service provider and service receiver, it could be said that taking maximum time is more normal than the minimum time.

6.5 Analysis of Bankers' View: Export Financing

6.5.1 Problem Faced by the Commercial Banks:

The commercial banks those are involved in financing export business usually face a number of difficulties in advancing credit to the exporters even though they have confessed to have desire to provide credit liberally. A list of such perceived problems - independent to each other was given to the respondents. Results of the responses are provided in a frequency Table expressed in percentage in Table 6.7. The Table shows that inability in measuring the risk and uncertainty in the event of non-acceptance of consignment by the foreign buyers, either due to poor quality or delay in shipment, is considered as a major problem by the cent percent respondents. 92 percent respondents feel that (i) difficulties in ascertaining genuineness of an exporter and (ii) lack of experience or proper knowledge about the export trade of exporters are two other important problems that they usually encountered with. While processing loan proposal of an exporter, authorities often find that the security offered by the exporters is either not proper or adequate to cover the desired amount of credit. Moreover, exporters sometimes could not provide the appropriate documents. Though the credit proposal appears to be attractive, they could not take decision in favour of granting credit under such circumstances. 83 percent of respondents feel these two as important problems in processing export-financing proposal. 75 percent of the banks do consider that incomplete knowledge and information about local and foreign

market of an exporter is another problem for extending credit to export trade. 67 percent of the commercial banks view that determination of the ability of the exporter repayment capability is a very cumbersome work. Subjectivity in assessing the possibility of adopting undesirable practices by any exporter is considered as a problem by 42 percent of banks. A small percentage of the respondents (13 percent) face problem due to discrepancies in the furnished information in the documents.

Table: 6.7
Frequency Of Problems In Granting Export Credit

Problems encountered	(%)
Inability in measuring 'risk and uncertainty' of non- acceptance of commodities by foreign buyer due to poor quality	100
Inability in measuring risk and uncertainty of non – acceptance of commodities by foreign buyer due to delay in shipment	100
Lack of experience and proper knowledge of exporters about the export trade	92
Difficulty in ascertaining genuineness of the exporters'	92
Inability of providing adequate and proper security by the exporters	83
Exporter does not possess appropriate documents	83
Lack of proper knowledge and information about local and foreign market	75
Difficulties in determining the ability of the exporters repayment capacity	67
Subjectivity in assessing possibility of adopting undesirable practice by any exporter	42
Discrepancies in documents	17

Average number of problems faced by a commercial bank, of-course, varies category to category. The study finds that the numbers of problems faced are higher in case of Pvt^{IB}(9) than other two categories of banks Pvt^{IF}(8) and NCB(7). The average number of problems encountered by banks in general is 8. In Table- 6.8, we provide the computed **t**–values to test whether these differences are statistically significant.

Table : 6.8
Computed t –Values Between Means
(Number of Encountered Problems)

Categories of Banks	Calculated t-values		
	$Pvt.^{IB}$	$Pvt.^{IF}$	NCB
Pvt^{IB} (9)		-1.177	1.852
Pvt^{IF} (8)			-0.414
NCB (7)			

Note: Figure in the parenthesis indicates average number of encountered problems.

Computed **t**-values, as shown in Table-6.8, are found less than critical values at 5 percent significance level. Thus, the null hypotheses (**H_0: $\mu_i = \mu_j$; $i \neq j$**) are accepted. It implies that there is no significant difference between mean numbers of problems encountered by different categories of bank. It implies that number of problems encountered by a bank is independent of bank category.

6.5.2 Risk factor in Realising Export Credit:

Financing in the export sector has always been considered as risky with respect to realisation of credit. Banks identify the business of financing in this sector as risky because of uncertainties and unpredictability involved in a good number of factors associated with export environment. However, bankers' attitude towards these factors regarding riskyness is nonhomogeneous and therefore, each and every factor may not be perceived as equally risky or at all risky by every bank. We have tried to identify the factors from the opinions collected from bankers. There are altogether ten factors disclosed by the bankers. However, unanimity does not exist among the bankers on what actually makes the realisation of advance difficult. Table-6.9 shows that 50 percent of the banks consider non/late/short shipment of export commodity is an important risky factor in realising the export credit irrespective of categories of banks.

Table : 6.9
Factors Perceived Risky In Realising Export Credit
(Percentage of Bank Respondents)

Risk factors	NCB	Pvt^{IB}	Pvt^{IF}	Average
Non/Late/Short shipment	50.0	50.0	50.0	50.0
Non execution of export order	50.0	0	75.0	41.7
Cancellation of export orders	75.0	25.0	0	33.0
Non repatriation of export proceeds	25.0	75	0	33.0
Use of money for other purpose	50.0	0	0	17.0
Fall in price in buyers country	25.0	25.0	0	17.0
Partial non execution of export order	25.0	0	0	8.3
Insolvency of the buyer	25.0	0	0	8.3
Political unrest in the buyers country	25.0	0	0	8.3
Non-acceptance of goods by the buyer	25.0	0	0	8.33

About 42 percent of the banks do consider that non-execution of the export order creates risky situation for the banks in realising export credit. Interestingly the interest based private banks remain non-committal on this issue. However, cancellation of export orders & non-repatriation of export proceeds are considered as risky factor by 33 percent of respondent banks. 17 percent of the banks have

expressed that realisation export credit appears risky because of the possibility that exporters may use money for other purposes and expected price of exported commodity may fall in the buyer's country. On the other hand partial non execution of export order, insolvency of the buyer, political unrest in the buyer's country, non-acceptance of goods by the buyer etc. are considered risky in realising export credits by only 8.33 percent of the respondent banks. Interestingly, no private bank does consider these factors as having any contribution in forming risk of realisation of credit from the exporters.

6.5.3 Documents Required with Credit Application:

Export trade being a process of exchange of goods & services between two sovereign states, is complicated enough to involve large number of documents which are required for completion of the export transaction. A commercial bank while granting credit to an exporter normally takes possession of all or some of these important documents such as trade license, L/C in hand, letter of pledge & hypothecation, documents of title of goods etc. It may be mentioned here that there are some transferable documents which create title to the goods, necessitated to take delivery of the goods at the port of destination. When such transferable document is pledged against the bankers, they can easily realise the credit by selling out commodities in the market if the exporters become defaulters. Though the requirement of such documents makes the credit to the exporters more secure, the hassle of supplying all necessary documents on the part of an exporter makes the credit procedure unattractive. Exporters are critical about the paper work and generally express their unhappiness on this issue. How many documents does a bank in financing an export-financing proposal consider necessary? We have tried to know what number of documents is required by the banks in granting advance to the exporters and how many of those documents are sought with the application on an average. Results of the responses are summarised in Table-6.10. From the Table it appears that, on an average, the number of documents required by the banks is ten. Further, average number of documents required to submit is less in Pvt^{IF} than Pvt^{IB}. The average numbers of required documents are 8 and 9 respectively. In case of NCB this average number is 13, which is much higher than banks' average (10). However,

the null hypothesis that the means of number of documents between two categories of banks (H_0 : $\mu_1=\mu_2$) are identical is verified by t-test. The computed t-values are shown in Table-6.10. Results show that the differences between nationalised banks with both groups of private banks are statistically significant while the difference between two types of private banks is appeared statistically insignificant.

Table: 6.10
Computed t-Values Between Means
(Number of Documents)

Categories of Banks with means (μ)	Calculated t values		
	NCB	Pvt.^{IB}	Pvt.^{IF}
NCB (13)	-	3.138	3.959
Pvt^{IB} (9)		-	0.319
Pvt^{IF} (8)			-
Bank Average (10)			

Note : Figure in the parenthesis indicates average number of encountered documents.

6.5.4 Factors Influencing in Measuring Creditworthiness:

A commercial bank is not bound to finance anybody who knocks at its door. As bank deals with other people's money in credit business, a bank has to ensure the safety of depositors' money and to look into its liquidity position carefully. So, before granting credit the commercial banks have to satisfy themselves as to the credit-worthiness of the client. Export trade being more risky, banks are usually more careful in assessing the credit-worthiness of an exporter. Measuring credit-worthiness of an exporter, therefore, is a very crucial assessment procedure in making the decision of advancing against an export proposal. Banks usually take multiple factors into consideration. One of our objectives has been to identify the set of such factors those are considered by the banks as critical. In our schedule, we have sought responses of banks against twelve pre-set independent factors. Results are summarised below in a frequency Table expressed as a percentage of banks' responses in Table-6.11. This study shows that the banks try to determine the credit-worthiness of an exporter by considering several factors and this number of factors varies from bank to bank.

Table: 6.11
Factors Influencing Evaluation Of The Credit Worthiness Of An Exporter
(pc of Bank Respondents)

Factors	(in %)
Business integrity of the exporter	100
Solvency of the exporter	100
History of past performance of the exporter in export business	100
Business turnover of the export firm	83
Volume of security offered by the exporter	83
Liability with other banks	83
Volume of export transaction of the exporter	75
Balance sheet position of the exporter	67
Export market report of the goods to be exported	67
Availability of exportable commodity in domestic market	67

Table-6.11 shows that business integrity, solvency and history of the past performance of the exporters are considered unanimously as influencing factors in measuring credit-worthiness of an exporter. Business turnover, volume of security and liability with other banks are considered as important factor by 83 percent of the respondents. Volume of export transaction of an exporter is considered by 75 percent of the respondents, while 67 percent of the sample banks consider balance sheet position, export market report and availability of the exportable commodity in the domestic market as factors in measuring credit worthiness. Only 25 percent respondents consider income tax return as one of such factors. Furthermore, on the average, banks consider ten factors in measuring credit-worthiness. However, the average numbers of factors vary according to category of banks. Table-6.12 shows that nationalised sector banks appear to follow more stringent procedure and private interest based banks follow the least stringent procedure in giving approval to an exporter's proposal. Pvt.[IF] stands in between these two extreme positions in this respect. However, except the difference between NCB and Pvt.[IB], hypothesis testing by **t**-test accepts the null hypothesis ($\mathbf{H_0}$: $\mu_1 = \mu_2$) as the computed **t**-values<$\mathbf{t}_{critical}$ in all cases as shown in Table-6.12. Thus it appears that the differences in number of factors considered for measuring credit worthiness between different categories of banks are not statistically significant except the difference between nationalised and interest based private banks.

Table: 6.12
Computed t-Values Between Means
No. of Factor Considered by Bank in
Measuring Creditworthiness of an Exporter

Categories of Banks with means (μ)	Calculated t-values		
	NCB	Pvt.^{IF}	Pvt.^{IB}
NCB (12)	-	1.80	3.00
Pvt^{IF} (10)		-	-0.792
Pvt^{IB} (9)			-
Bank Average (10)			

Note : Figure in the parenthesis indicates average number of factors.

In this connection, the problem of small exporters may be of interest of study. Small exporters are generally perceived as not worthy for export credit or are bracketed with a group of high-risk customers. Thus, there is a common belief that banks hesitate to financing small exporters as compared to big exporters. We have tried to determine the attitude towards small exporters and a comparative analysis of the attitude has been made among the sample respondents of nationalised and private banks. Results are summarised in Table-6.13 below. It is evident from the Table that the responses are evenly distributed among positive and negative answers. So a specific inclination of bank attitude towards big or small exporters is not established.

Table : 6.13
Banks Attitude Towards Small and Big Exporter
(% of Banks Respondents)

Opinion	NCB	Pvt.^{IB}	Pvt.^{IF}	Average
Yes	50	50	50	50
No	50	50	50	50

6.6 Possible Undesirable Practices and its Consequences:

One of the major factors for which banks are often hesitant to provide export credit to exporters is the apprehension that exporters might be involved in undesirable practice with the advanced amount of money. Undesirable practices, which are apprehended by the bankers, are: (i) Exporter may delay the execution of order with the objective of exploiting some extra benefits during the intermediate period. This, however, increases the chance of rejecting the export order by the buyer in the foreign country. Realisation of credit by the bankers from the sales proceeds of the exported commodities becomes more risky. (ii) Exporters often change the product quality and grading that they have mentioned in the export order or credit documents. Foreign buyers naturally may refuse to accept the consignment and the advanced credit of the

bank might be locked forever or might not be realised fully. Under this circumstances banks often realise partially by selling those commodities in the home market, which requires special permission from the appropriate authority. Bank naturally does not prefer to trap into such undesirable circumstances that make complete waste of resources and time. (iii) Exporters may often mis-utilise the loan amount by fulfilling the other exigencies of the business. (iv) Exporters indulge in under invoicing.

Any of such undesirable practices may harm the export financing business of the bankers. Extent of loss of the bankers may be temporary (short-run) or permanent (long-run). Temporary or short-run loss may be insignificant, normal or substantial in nature.

In this subsection we have tried to assess what type of undesirable practices bankers do consider the most crucial and what is the expected extent of loss on the banking business. We have found the level of agreement against each type of undesirable practices and the overall level of agreement among the respondents by using Kappa statistics. Similarly, by using the same non-parametric statistical test, we have identified the type of undesirable practice that affects the banking business and also to what extent. Results of the analysis are shown in Tables 6.14 and 6.15.

Table-6.14 shows that in accordance with the level of agreement among bankers, delaying the export order and using loan for other purposes are two successive important abuses of advanced credit in order of ranking. It has also been found that bankers do not believe that the chances of adopting any of such practice 'often' or 'very often' are high (probability 0.15) but there is a fifty percent chance that the exporter would involve himself in any of such practices 'sometimes'. On the other hand, the probability that the exporters would take resort to any of such undesirable practices 'rarely' is 0.20. However, the value of Kappa coefficient being very low (**K**=0.0476, std.dev. of **K**=0.0912) there seems to be hardly any agreement among the respondent bankers about the rating of the type of undesirable practices. The calculated value of **Z**=0.5217. This value does not exceed the α= 0.01 significant level (when **Z**=2.32). Therefore, we may conclude that the level of agreement among the bankers is not statistically significant.

Table : 6.14
Possible Undesirable Practice By The Exporters

	Undesirable practice	Rarely	Sometimes	Often	Very often	Level of Agreement (S_i)
a	Exporter delays the execution of order	0	7	0	3	0.533
b	Exporter changes the product quality and grading	2	3	4	1	0.222
c	Exporter uses loan for other purposes	2	7	0	1	0.488
d	Exporter indulges in under invoicing	4	3	2	1	0.222
	Pj =	0.2	0.5	0.15	0.15	1.00
	Kappa = 0.047619		Var (K) = 0.0083313			
	Std (k) = 0.0912759		**Z = 0.5217044**			

Effect on Export Financing Activity:

According to index of level of agreement of bankers' opinion, among those undesirable practices, two practices, namely (i). delaying of export order and (ii). using loan for other purposes affect the banking business and hold first two positions in order of ranking. Other two practices also affect the business and the levels of agreement regarding this (given by respective values of $S_{i)}$ are 0.3636 and 0.2575 respectively.

Table: 6.15
Affecting The Export Financing Activity By Undesirable Practice

	Undesirable practice	Temporary Nominal	Temporary & Normal	Temporary & Substantial	Long-run	Level of Agreement ($Si_)$
a	Exporter delays the execution of order	0	0	10	0	0.681818
b	Exporter changes the product quality and grading	0	0	3	7	0.363636
c	Exporter uses loan for other purposes	0	2	0	8	0.439393
d	Exporter indulges in under invoicing	0	2	6	2	0.257575
	Pj =	0	0.1	.475	.425	1.00
	Kappa(K) = 0.3813942		Var (K) = 0.0070065			
	Std (K) = 0.0837048		**Z = 4.5564206**			

Results presented in Table-6.15 indicate that, in the event of adopting any such undesirable practice, there is high probability that organization would be affected and

it has a long-run bearing. Besides, if it is short-run, the extent of damage is also considered to be substantial. Bankers belief that when it happens then the extent of negative impact would never be of 'temporary and nominal' in nature and there is little chance that it would be 'temporary and normal' in character. On the contrary, bankers belief that the probabilities of adverse impact being 'long-run' and 'temporary and substantial' are 0.425 ($\mathbf{P}_{j=4}$) and 0.475 ($\mathbf{P}_{j=3}$) respectively. Kappa coefficient **K** being 0.3814, it can be conclude that there is moderate agreement among the bankers. The calculated value of **Z** being 4.556, it does exceed significant level $\alpha = 0.01$ for which Table value of **Z** = 2.32. It thus seems to establish that the level of agreement by Kappa index is statistically significant at 1 percent level of significance.

6.7 Banks Suggestive Measures:

The respondents in order to improve the present system of export financing and make it more efficient by the banks have put several valuable suggestions forward. With respect to the experiences they have gathered over the years in the business of finance, these suggestions are worthy to be considered by the appropriate authorities. These, however, are meant for (i) Government / administrative authority and (ii) exporters. First set of suggestions may again be sub-divided into two parts: a set of suggestions outlined for making the existing system more effective or efficient, and another set outlined for improvement of the existing system. For making the existing system more effective and efficient, they have suggested that the government should take the following four measures:

(i). Pre-shipment inspection of goods should strictly be followed.

(ii). Grading and standardisation of goods should strictly be maintained.

(iii). Government should maintain rigid quality control.

(iv). Warehouse facilities should be extended.

92 percent of respondents are in favour of adoption of already existing regulation relating to pre-shipment inspection, grading and standardisation of goods. 75 percent and 42 percent of respondents have also supported other two suggestions.

For improvement of the existing system respondents have suggested three measures i.e.

(i). To develop the system of providing credit rating information about foreign buyers.

(ii). To formalise the arrangement for expeditious disposed of mortgage property, and

(iii). To provide the facility of underwriting a part of the probable loss.

According to bankers' opinion, as has been revealed by the sample survey, getting finances from the commercial banks in export business would be easier if the exporters follow three basic norms suggested by them. These are:

(i). Creation of *bonafide* by fair dealing

(ii). Keeping of proper and upto-date accounts

(iii). Supplying fresh and proper documents

Suggestions favoured by different bankers are given in Table-6.16 below with respective percentage of respondents.

Table : 6.16
Measures Suggested by Bankers
(pcof Respondents)

Suggestions	Percentage
Pre-shipment inspection of goods should follow strictly	92
Grading and standardisation of goods should strictly maintained	92
Government should maintained rigid quality control	75
Warehouse facilities should be extended	42
Providing credit-rating information about foreign buyers.	75
Helping expeditious disposal of mortgage property.	42
Underwriting a part of the probable loss.	33
Creation of bonafide by fair dealing	75
Keeping of proper and upto-date accounts	75
Supplying fresh and proper documents	50

6.5.5 Opinion on Separate Financial Institution:

There persists a belief among exporters or common people that the problem of export finance may be reduced if a separate institution independently and exclusively dealing with export finance is established. We have studied the bankers' opinion on this aspect.

In this section, we have summarised and analysed the results of the responses of respondents on this issues. Results are shown in Table-6.17.

Establishing a separate export financing institution as a means to get rid of several problems of getting adequate finance easily and timely export business is a much talked about theme. Some of the benefits believed to be achieved by this are:

i). it would be able to render quick service to the exporters, ii) finance would be easily available on easy terms and conditions, iii) it would be able to supply foreign market information to the exporters, iv) it would be able to work as export promotion agent, v) small exporters would be beneficial etc.

Banks opinion has been sought in a 5-point interval scale structured with seventeen such perceived consequences of a separate institutions. Consequences are ranked on the basis of the average score calculated from the responses of the banks in accordance with the scores of all banks together as well as of each category as shown in Table-6.17. Levels of agreement on each consequence (**Si**) are shown in the Table along with overall agreement given by Kappa coefficient. On the basis of the ranking by all banks, the consequence that the employment opportunity would be enhanced is ranked first but level of agreement appears to be very low (**Si** = 0.2575). Consequence that the general exporters would be benefited provided the institution operates on regional basis is ranked second but with lesser degree of agreement (**Si** =0.2272). This consequence is ranked third by the Pvt.^{IF} and thirteenth by the NCB and Pvt. According to NCB and Pvt.^{IB}, however, the consequence of that export volume would be readily known is the highest ranked holder. This diversity in rank order between NCB and Pvt.^{IB} in one group and Pvt.^{IF} in the other has been established by the rank correlation coefficient matrix (Table-6.19). While a very high degree of positive correlation coefficient (0.99) has been found in ranking between NCB and Pvt.^{IB}, high degree of negative rank correlation coefficient has been found between Pvt.^{IF} vis-a-vis Pvt.^{IB} and NCB. However, very low levels of agreement among bankers have been observed against each consequence (shown by $\mathbf{S_i}$ in Table-6.18). Moreover, the value of Kappa coefficient (**K**= 0.053426) indicates that there is hardly any agreement among the bankers regarding the consequences of separate financed institution for export. The value of **Z** has been found greater than the theoretical value of **Z**=2.32 at one percent level of significance. It can be inferred that the conclusion that there exists diverse opinion among the bankers on this issue is statistically significant.

Table : 6.17
Interval-Scale Score Rankings And Level Of Agreement (S_j) On Each Of The Perceived Consequences Of Separate Export Financing Institution

Consequence		Total Score	Ave. Score	S_i	Ranking		
					NCB	Pvt.[IB]	Pvt.[IF]
a	It will be able to render quick services to the exporters	44	3.666	0.227	13	13	3
b	Finance will be readily available on easy terms	43	3.583	0.333	10	10	11.5
c	It will be able to supply foreign market information to the exporters	42	3.5	0.257	16	16	5.5
d	It will be able to work as export promotion agent	42	3.5	0.227	7.5	7.5	5.5
e	Small exporters will be benefited	42	3.5	0.212	13	13	3
f.	Proper documents and maintenance of accounts of these agencies will be beneficial to exporters	42	3.5	0.196	15	16	7
g	Export volume will readily be known	41	3.416	0.318	1	1	14.5
h	Employment opportunity will be enhanced	39	3.25	0.257	10	10	1
i.	It will create monopoly	39	3.25	0.272	10	10	16
j.	It will create bureaucracy	38	3.166	0.333	4	4	14.5
k	It may be dominated by the big exporters	38	3.166	0.363	4	4	17
l.	Commercial banks will be affected by such institutions	37	3.083	0.212	4	4	11.5
m	Corruption will develop in the management of such institution	36	3	0.348	4	4	11.5
n	This will be only helpful to the banks to get refinancing facilities	35	2.916	0.318	7.5	7.5	8.5
o	General exporters will be benefited provided , it is done on regional basis	34	2.833	0.227	13	13	3
p	General exporters will be benefited provided it is privately organised	34	2.833	0.272	4	4	11.5
q	General exporters will be benefited provided it is sponsored by the government.	32	2.666	0.212	17	17	8.5

Table : 6.18
Rank Correlation Matrix Of Rankings In Table : 6.17

	NCB	Pvt.^{IB}	Pvt.^{IF}
NCB	1.00	0.99	-0.6406
Pvt.^{IB}	0.99	1.00	-0.6353
Pvt.^{IF}	-0.6406	-0.6353	1.00

Table :6.19
Probability of Scale (P_j) and Level of Agreement Kappa Coefficient(K) Among Bankers On Responses of Table: 6.17

		SA	A	UD	DA	SDA
Pj	=	.1529	.2990	.2559	.2117	.0833
Kappa	=	**0.053426**		Var (K) = 0.000396		
Std (k)	=	0.019892		**Z = 2.685749**		

6.6 Concluding Remarks:

A questionnaire 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 is found that it takes time depending on the duration of completing of the requirement. Mean minimum time is found minimum for Pvt.^{IF}. On the other hand mean maximum time is found minimum for NCB. Banks considered that exported commodities are often not accepted due to poor quality and delay in shipment. Measuring the risk of providing credit to exporters is thus difficult. Though there are other problems but these two are considered crucial problems by the cent percent of respondents. The study reveals that there is no significant different in the perception of different categories of bank relating to the number of issues considered as problem.

In order to minimize the risk banks usually seek a number of documents. NCB requires a highest number of documents which statistically differs significantly with private banks.

Factors those 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 categories of banks regarding the numbers of factors considered in this respect.

It is found that there is a very little agreement among the banks on possible undesirable practices and their consequences. However highest level of agreement among bankers lies on the one of the four apprehensions that exporters may delay the execution of order.

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 sevaral 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 appears 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 ($\mathbf{S_i}$) being maximum, highest level of agreement among the bankers lies on apprehension that exporters may delay the execution of order.

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Appendices

Appendix - I

Export Financing in Bangladesh: A Study of Export Credit by Financial Institutions.

(Interview Schedule for the Export Firm)

Sample No :
Date of Interview :
Place of Interview :

(It is important for you to know that this information will be kept strictly confidential and be used for academic interest)

Section - A

1. Name of the Institutions / Organization :
2. Address of the Institutions / Organization :
3. Designation of the respondent :
4. Academic qualification of the respondent :
5. Nature of the Organization (Please tick) :

Commercial ☐ Industrial ☐

6. Nature of the Ownership (Please tick) :

Partnership /Sole Proprietorship ☐ Public Limited ☐ Private Ltd. ☐

7. Year of the commencement of the business : Date
8. Is it registered? :Yes ☐ No ☐
9. Is your company a 100% export company? :Yes ☐ No ☐
10. If no, what is your average % of export of the total business?
11. Factory shed / place of business :

Owned ☐ Industrial estate ☐ Rental ☐ Leased ☐

12. Please give annual performance of your company in the following years:

Year	Volume of exports	Total Sales Revenue	Annual profits
1996			
1997			
1998			
1999			
2000			

13. Is your company labour intensive / capital intensive? (Please tick)

Labour intensive ☐ Capital Intensive ☐

14. If it is labour intensive, what is the actual supply position of labour? (Please trick)

Labour	Available	Scarce
Skilled		
Un - skilled		
Semi - skilled		

15. If it is capital intensive, what is the actual position of the following:

	Available	Scarce
Technology		
Machinery		

Section - B

1. Do you feel the need for credit in your export business? (Please tick)

Yes ☐ No ☐

2. What type of credit do you need?

Working capital ☐ Fixed capital ☐

3. (a). Why do you need long term export credit? (Please tick)

i	Import of capital goods	
ii	BMR	
iii	Others (Please specify)	

(b). Why do you need short term export credit? (Please tick)

i	Import of raw materials	
ii	Cash for local procurement and meeting related expenses	
iii	Packing and transporting of goods	
iv	Payment of insurance premium	
v	Inspection fees	
vi	Freight charges	
vii	Processing of goods for export	
viii	Others (Please specify)	

4. From where you have obtained export credit? (Please tick)

i	Nationalized Commercial Banks	
ii	Local Commercial Banks	
iii	Foreign Commercial Banks	
iv	Relatives and friends	
v	Sister Organization	
vi	Managing agent	
vii	Self	
viii	Others (Please specify)	

5. State your awareness relating to existence and assistance availed of the existing export financing facilities in Bangladesh. (Please tick)

	Service	Aware		Assistance	
		Yes	No	Yes	No
i	Export Credit Guarantee Scheme				
ii	Convertibility of Taka in current account				
iii	Deposit of 7.5% / 40% of FOB value of export earnings in own account in Dollar and Pound				
iv	Export Development Fund				
v	50% of tax rebate on export earnings				
vi	Duty Draw Back facilities				
vii	Insurance premium rebate for non traditional export				
viii	Bonded Warehouse facilities				
ix	Duty free import of capital goods				
x	Tax holiday				
xi	Special rebate in air freight (for export of perishable agricultural product under crash program)				
xi	Training course on external trade				
xii	Assistance in improvement of quality and packing				

6. Do you use the service of packing agent or you do your own packing? (Please tick)

Agent ☐ Own ☐

7. For what period do you think credit in export trade be at best extended? (Please tick)

90 days ☐ 180 days ☐ 270 days ☐ 365 days ☐ above 365 days ☐

8. (a).What is the term of your export credit? (Please tick)

D. A Bill ☐ D.P bill ☐ Sight draft ☐ C. A. D ☐ Others (specify) ☐

(b). Please gives the time taken for receiving your export bill from the foreign buyers after shipment from your port for last ten shipments:

S.L	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Time										

9. (a). Do you need to fill up any prescribed application for obtaining export credit? (Please tick). Yes ☐ No ☐

(b). If no, do you feel the necessity of such form? (Please tick). Yes ☐ No ☐

10. (a). Which of the following Objective factors are examined by the bank in appraising creditworthiness of an applicant? (Please tick)

		Yes	No
i	the solvency of the exporter		
ii	Business turnover of the export firm		
iii	the volume of export transaction of the exporter		
iv	the balance sheet position of the exporter		
v	the volume of security offered by the exporter		
vi	the income - tax return of the exporter		
vii	the market report of the goods to be exported		
viii	the availability of exportable commodity		
ix	the business performance report of the past		
x	Liability with other banks		
xi	Amount of fixed deposit with the bank		
xii	Size of the firm		
xiii	Period for which credit is sought		
xiv	Others (Please specify)		

(b). Do you consider each of these objectives factors as relevant? (Please

		Yes	No
i	the solvency of the exporter		
ii	turnover of the export firm		
iii	the volume of export transaction of the exporter		
iv	the balance sheet position of the exporter		
v	the volume of security offered by the exporter		
vi	the income - tax return of the exporter		
vii	the market report of the goods to be exported		
viii	the availability of exportable commodity		
ix	the business performance report of the past		
x	Liability with other banks		
xi	Amount of fixed deposit with the bank		
xii	Size of the firm		
xiii	Period for which credit is sought		

11. Which of the following subjective factors , you considered, are considered by the financial institution in granting credit to the exporters? (Please tick)

i	Previous transaction with bank	
ii	Personal influence of the borrower	
iii	Status of the borrower	
iv	Guarantee from old and established parties	
v	the business integrity of the exporter	
vi	Political influence	
vii	Others , if any (Please specify)	

12. What documents related to export are wanted before final approval of credit? (Please specify)

i	Letter of credit in hand	
ii	Letter of pledge duly stamped	
iii	Letter of Hypothecation duly stamped	
iv	Document of title of goods	

v	Detailed stock statement duly verified by an bank officials	
vi	Lien on confirmed on irrevocable and unrestricted letter of credit from a bank	
vii	Insurance coverage under bank mortgage clause	
viii	Export Credit Guarantee Insurance Certificate	
ix	Letter of disclaimer to be signed by the owner of the go-down in case of rented go-down	
x	Trust receipt	
xi	Export form duly signed by the exporter	
xii	Contract letter / Invoice	
xiii	Others documents, if any (Please specify)	

13. Do you consider each of the documents relevant? ? (Please Tick)

		Yes	No
i	Letter of credit in hand		
ii	Letter of pledge duly stamped		
iii	Letter of Hypothecation duly stamped		
iv	Document of title of goods		
v	Detailed stock statement duly verified by an bank officials		
vi	Lien on confirmed on irrevocable and unrestricted letter of credit from a bank		
vii	Insurance coverage under bank mortgage clause		
viii	Export Credit Guarantee Insurance Certificate		
ix	Letter of disclaimer to be signed by the owner of the go-down in case of rented go-down		
x	Trust receipt		
xi	Export form duly signed by the exporter		
xii	Order sheet		
xiii	Contract letter / Invoice		
xiv	Others documents, if any (Please specify)		

14. Do you face any difficulties in supplying such documents? (Please tick)

Yes ☐ No ☐

15. (a). How good and prompt is the existing documentation procedure? (Please tick)

Quality of work		Time	
Very bad	☐	Very slow	☐
Bad	☐	Slow	☐
Fair	☐	Moderate	☐
Good	☐	Fast	☐
Very good	☐	Very fast	☐

(b). In what way does this affect your export business (Please tick)

i	It increases the cost	
ii	It delays shipment	
iii	Loss of orders	
iv	Others, if any (Please specify)	

16. How many days are taken for processing your credit petition from submission to first disbursement ? Please give the time (days) for last 10 loan petitions :

S.L	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Days										

17. Do you find any shortcomings in the disbursement procedure of loan ? (Please tick)

Yes ☐ No ☐

18. (a). Have you ever-refused credit for your export ? (Please tick)

Yes ☐ No ☐

(b). If yes , how many times :

19. If your credit application is ever rejected, please tick the level at which it was decided: (for respondents who said 'yes' in 18 (a).

i	Rejected by the Branch office	
ii	Non- approved by the bank's head office	
iii	Not Known	

20. Have you taken advantage of the Export Credit Guarantee Scheme? (Please tick)

Yes ☐ No ☐

20 (a). Did you ever face any major problem in availing these facilities?

Yes ☐ No ☐

21. What major problems did you face in availing these facilities? (Please tick)

i	It creates delay in the approval of credit limit	
ii	Operational procedure is slow	
iii	Total value of goods is not covered by such policy	
iv	Delay in settlement of claims	
v	Others	

22. Do you get finance from Commercial banks on the basis of your E. C. G policy easily? (Please tick). Yes ☐ No ☐

23. (a). Do you think that the financial institutions are not as sympathetic and as ready to finance the export trade as they are for import trade (Please tick)

Yes ☐ No ☐

(b). If yes, what are the reasons for this attitude on the part of the financial institutions? (Please tick)

a	Higher degree of risk	
b	Complication involved in realizing export proceeds	
c	Low profit in export financing	
d	Lack of efficient personal in handling export financing	
e	Others, If any (Please specify)	

24. Do you feel that an industrial exporter faces less difficulty in obtaining loans from the financial institutions compared to commercial exporter? (Please tick)

Yes ☐ No ☐

25. If yes, what is / are the reason (s) (Please trick)

i	Industrial exporters are established firm having link with all	
ii	Banks are more prone to help the industrial exporters	
iii	Industrial exporters are big persons having both political and economical influence	
iv	They have better financial background	
v	They can offer better security to the bank	
vi	Government policy patronises the industrial exporters for attaining rapid industrialization of the country	
vii	They earn several incentives like bonus, rebate etc.	
viii	Most of the industrialist are also bankers and hence they take	

	most advantage from bank	
ix	The industrial exporters can undertake much physical and financial risks	

26. What is your comment about the rate of interest charged for export credit:

Commodity	High	Low	Reasonable

28. State your awareness relating to existence and assistance availed of the following service offered by the Export Promotion Bureau (EPB). (Please tick)

		Aware		Assist. availed	
		Yes	No	Yes	No
i	Trade and Information Center (TIC)				
ii	Publication of export				
iii	Product and service Development				
iv	Human resource development				
v	Activities of Textile Cell				
vi	Trade Promotion				
vi	Export Intelligence				
vii	Others, if any (Please specify)				

28. Please state your opinion about the adequacy of EPB service. (Please tick)

i	Adequately meet Exporter's needs	
ii	Inadequate to exporters needs	
iii	Others, If any (Please specify)	

29. State (tick) where you feel the necessity of improvement of the areas of service provided by EPB:

i	Trade and Information Center (TIC)	
ii	Publication of export	
iii	Product and service Development	
iv	Human resource development	
v	Activities of Textile Cell	
vi	Trade Promotion	
vii	Export Intelligence	
viii	Others, if any (Please specify)	

30. (a). Do you need any subsidy for your export promotion? (please tick)

Yes ☐ No ☐

(b). If yes, what kinds of subsidy you need? (Please tick)

i	Materials	
ii	Cash	
iii	Others, if any (please specify)	

31. What is the chance of increasing your yearly export volume if you are given required credit facilities? (Please tick)

10 % ☐ 15% ☐ 20% ☐ 25% ☐
30% ☐ 35% ☐ 40% ☐ 45% ☐

32.(a). Do you consider Duty Draw Back as an effective incentive that helps to promote / increase export? (Please tick) Yes ☐ No ☐

b (i). Have you ever claimed and received back the duty you had paid in the goods exported? (Please tick) Yes ☐ No ☐

(ii). If yes, please give the following information:

Full Duty received back: Yes ☐ No ☐
Time spent Reasonable ☐ Long dealy ☐

(c). Have you ever applied for duty draw - back credit? (Please tick)
Yes ☐ No ☐

(d). Have you received the credit? (Please tick) Yes ☐ No ☐

(e).Do you find this credit as helpful or encouragement for an exporter? (Please tick)
Yes ☐ No ☐

(f). Are there any problem in getting full advantage from such kind of incentives?
(Please tick) Yes ☐ No ☐

33. (a).Have you ever received back your income tax rebate ? (Please tick)
Yes ☐ No ☐

(b). Do you think that this is a good incentive for exporter? (Please tick)
Yes ☐ No ☐

34. (a). Has your banker asked you to furnish Export Credit Guarantee Scheme
(ECGS) Policy as collateral for every export credit application? (Please tick)
Yes ☐ No ☐

(b). Was this policy alone considered by your banks as a good and adequate
collateral? (Please tick) Yes ☐ No ☐

(c).Has this scheme lessened your problem of getting credit from bank?
(Please tick) Yes ☐ No ☐

(d). Can you get this policy easily from Sadharan Bima Corporation (SBC)?
(Please tick) Yes ☐ No ☐

(e). Have you ever made any claim for loss / damage to SBC? (Please tick)
Yes ☐ No ☐

If yes, How quickly they were settled? (Please tick)
Long delay ☐ Within reasonable time ☐

(f). Do you think ECGS is an effective incentive and helping to increase export?
(Please tick) Yes ☐ No ☐

Section - C

1. Please mention (tick) your level of agreement with the consequence of establish -ment of a separate export financing institution in the country to finance the exporter.

		Strongly agree	Agree	Un-decided	Dis-agree	Strongly D. agree
a	It will be able to render quick services to the exporters.					
b	Finance will be readily available on easy terms.					
c	It will be able to supply foreign market information to the exporters					
d	It will be able to work as export promotion agent.					
e	Small exporters will be benefited.					

f	Proper documents and maintenance of accounts of these agencies will be beneficial to exporters.					
g	Export volume will readily be known.					
h	Employment opportunity will be enhanced					
i	It will create monopoly.					
j	It will create bureaucracy.					
k	It may be dominated by the big exporters.					
l	Commercial banks will be affected by such institutions					
m	Corruption will be develop in the management of such institution.					
n	This will be only helpful to the banks to get refinancing facilities.					
o	General exporters will be benefited provided, it is done on regional basis					
p	General exporters will be benefited, provided it is privately Organised					
q	General exporters will be benefited, provided it is sponsored by the government					

Section - D

1.Do you have any critical comment / observation relating to steps involved in sanctioning export credit to an applicant?

2.What is your opinion relating to terms and conditions imposed for repayment of export credit?

3.Please mention if you have any suggestions, which will make exporters, better equipped in order to securing credit from bank easily?

4. Can you give suggestion for making export financing sound and effective?

5. Please mention the problems encountered in obtaining export credit.

6. Please give possible suggestion to solve the problems of export credit .

7.Do you have any suggestion regarding the export policy.

8. In your opinion, can the Government do any thing, which could enable the commercial banks to liberalize their loan policy towards the exporters , if so what are these?

9.Do you have any critical comment / observation about the impact / changes in export business due to liberalization or globalization?

10.What are the terms and condition on which the Duty Draw Back credit is granted by your bank?

11.Please suggest the remedies (if any) for problem related in getting full advantage from Duty Draw Back credit granted by the financial institutions.

12. Do you have any suggestion to improve the present system of Duty Draw Back?

13.Do you have any suggestion to improve the present system of ECGS?

14.What shortcomings have you noticed in operation of Bonded Warehousing system?

15. Do you have any suggestion to improve the present system of BW system?

Appendix - II

Export Financing in Bangladesh: A Study of Export Credit by Financial Institutions.

(Interview Schedule for Financial Institution)

Section – A

1. Name of the Institutions / Organization :
2. Address of the Institutions / Organization :
3. Designation of the respondent :
4. Academic qualification of the respondent :
5. Nature of the Organization (Please tick) :

   Nationalized ☐ Private ☐
6. Year of starting export financing :
7. Total number of branches (up to June 2000) :

8.(a). Do you have branches exclusively dealing with export financing / credit ?
(Please tick). Yes ☐ No ☐
(b). If yes, how many :

9. (a). Do you have branches with a separate cell exclusively dealing with export credit?
(Please tick) Yes ☐ No ☐
(b). If yes, how many

Section – B

1.(a). Do you have any prescribed application form exclusively for export credit ?
(Please tick) Yes ☐ No ☐

(b). If no, why have you not developed such a form (Please tick)
i . Number of applicants being very limited it is not economically viable ☐
ii . General format is not feasible as requirement differs from applicant to applicant ☐
iii . Export is not a major area of operation of our organization ☐
iv . It is not treated as different from any other form of business advance ☐
v . Others , if any (Please specify) ☐

2. Do you have any independence in financing export credit or you have to work within the policy framed by the GOB? (Please tick)
   i. Fully independent of Government policy ☐
   ii. Dependent on Government policy ☐
   iii. Partially independent of Government policy ☐

3. (a). Do you have any priority based pre- defined sectoral allocation policy?
(Please tick) Yes ☐ No ☐

(b). Is export one of your priorities? Yes ☐ No ☐

(c). If yes, how does it rank in your priority list Rank :

(d). How is the priority determined?

By the GOB ☐ By the central bank ☐ By our organization ☐

(e). If priority is determined by your organization then what are the determinant ?

i. Return on Investment ☐ ii. Contribution to the national income ☐

iii. Meeting social obligation ☐ iv. Earnings of foreign currency ☐

4. (a). Do you have any specific time limit for processing export credit application from the date of submission to the first disbursement ? (Please tick)
Yes ☐ No ☐
(b). If yes, what are the time limits? Maximum Minimum

5. What documents is required to be submitted with application for loan?
(please tick) :

i	Letter of credit in hand	
ii	Letter of pledge duly stamped	
iii	Letter of Hypothecation duly stamped	
iv	Document of title of goods	
v	Detailed stock statement duly verified by an bank officials	
vi	Lien on confirmed on irrevocable and unrestricted letter of credit from a bank	
vii	Insurance coverage under bank mortgage clause	
viii	Export Credit Guarantee Insurance Certificate	
ix	Letter of disclaimer to be signed by the owner of the go-down in case rented go-down	
x	Trust receipt	
xi	ERC duly certified by Bangladesh Bank	
xii	Export form duly signed by the exporter	
xiii	Others documents, if any (Please specify)	

6. How does your bank determine the creditworthiness of an exporter? (Please tick)

a	the business integrity of the exporter	
b	the solvency of the exporter	
c	turnover of the export firm	
d	the volume of export transaction of the exporter	
e	the balance sheet position of the exporter	
f	the volume of security offered by the exporter	
g	the market report of the goods to be exported	
h	the availability of exportable commodity	
i	the business performance report of the past	
j	Liability with other banks	
k	Others (Please specify)	

7. (a). What are the various types of credits offered by your bank?

Pre – shipment stage

i. ii. iii. iv. v. vi.

Post – shipment stage

i. ii. iii. iv. v. vi.

8. What are the commodities for which your bank offers credit?

i. ii. iii. iv. v. vi.

9. What type (s) of credit commonly preferred by the exporter?

10. What problems are encountered by your bank in advancing loan to the exporters? (please tick)

i	Lack of experience and proper knowledge about the export trade of exporters	
ii	Inability of providing adequate and proper security by the exporter'	
iii	Exporter does not possess appropriate documents	
iv	Difficulty in ascertainment of genuineness of the exporters	
v	Lack of proper knowledge and information about local and foreign market	
vi	Difficulties in determining the ability of the exporters repayment capacity	
vii	Possibility of adopting undesirable practice by any exporter	
viii	Inability in measuring 'risk and uncertainty' of non- acceptance of commodities by foreign buyer due to poor quality	
ix	Inability in measuring 'risk and uncertainty' of non – acceptance of	

	commodities by foreign buyer due to delay in shipment	
x	Others, if any (Please specify)	

11. (a). Have you ever observed any undesirable practice on the part of an exporter ?
(Please tick). Yes ☐ No ☐

(b). If yes , please specify the frequencies of occurrence of different types of Undesirable practices:

		Rarely	Sometimes	Often	Very often
a.	Exporter delays the execution of order				
b.	Exporter changes the product quality and grading				
c.	Exporter uses loan for other purposes				
d.	Exporter indulges in under invoicing				
e.	Other(s) if any				

12. Is it true that banks are not as eager to grant loans to small exporters as they are for giving to big exporters? (Please tick) Yes ☐ No ☐

13. How does the following affect export financing activity of the financial institutions?

		Temporary nominal	Temporary & normal	Substantial	Long-run
a.	Delays in the execution of order by the exporter				
b.	Changes in the product quality and grading				
c.	Use loan for other purposes				
d.	Indulge in under voicing				

14.(a). Is there any risk factor of incurring loss on export credit ? (Please tick)
Yes ☐ No ☐

(b). If yes, what are the factors :

i. ii. iii. iv.

15. What is your opinion about the impact / changes in export business due to liberalization or globalization? (Please tick)

(a). Increasing demand for export finance. ☐
(b) Decreasing demand for export finance. ☐
(c). No change in the demand for export financing ☐

16. Please mention the prevalent rate of interest for the various types of credit :

(in %)

Types of credit ↓ Year →	1991	1992	1993	1994	1995
General loan					
Import loan					
Export loan :					

17. Please mentioned the credit information for the following year : (in Taka)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Export									
Import									

Section – C

1. Please mention (tick) your level of agreement with the consequence of establish -ment of a separate export financing institution in the country to finance the exporter.

	Consequence	SA	A	UN	DA	SDA
a	It will be able to render quick services to the exporters					
b	Finance will be readily available on easy terms					
c	It will be able to supply foreign market information to the exporters					
d	It will be able to work as export promotion agent					
e	Small exporters will be benefited					
f.	Proper documents and maintenance of accounts of these agencies will be beneficial to exporters					
g	Export volume will readily be known					
h	Employment opportunity will be enhanced					
i.	It will create monopoly					
j.	It will create bureaucracy					
k	It may be dominated by the big exporters					
l.	Commercial banks will be affected by such institutions					
	Corruption will develop in the management of such institution					
n	This will be only helpful to the banks to get refinancing facilities					
o	General exporters will be benefited provided, it is done on regional basis					
p	General exporters will be benefited, provided it is privately Organised					
q	General exporters will be benefited, provided it is sponsored by the government					

Section – D

1. What steps are involved in sanctioning export credit to an applicant?

2. What are the procedure followed for disbursement of export credit granted?

3. What terms and condition are imposed for repayment of export credit?

4. Besides providing loan, what other facilities and service are rendered by your organization to the exporters?

5. In your opinion how helpful has been Export – Credit Guarantee Scheme?

6. What shortcomings have you noticed in operation in ECG's?

7. Can you make some suggestion for making export financing sound and effective?

8. Can you suggest any way in which the exporters can manage themselves better for securing easy facilities from banks?

9. In your opinion, can Government do any thing, which could enable the commercial bank to liberalize their loan policy towards exporters, if so what are these?

10. What is your opinion about the effectiveness of Export Development Fund?

11. Do you have any critical comment / observation about the impact / changes in export Business due to liberalization or globalization?