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.

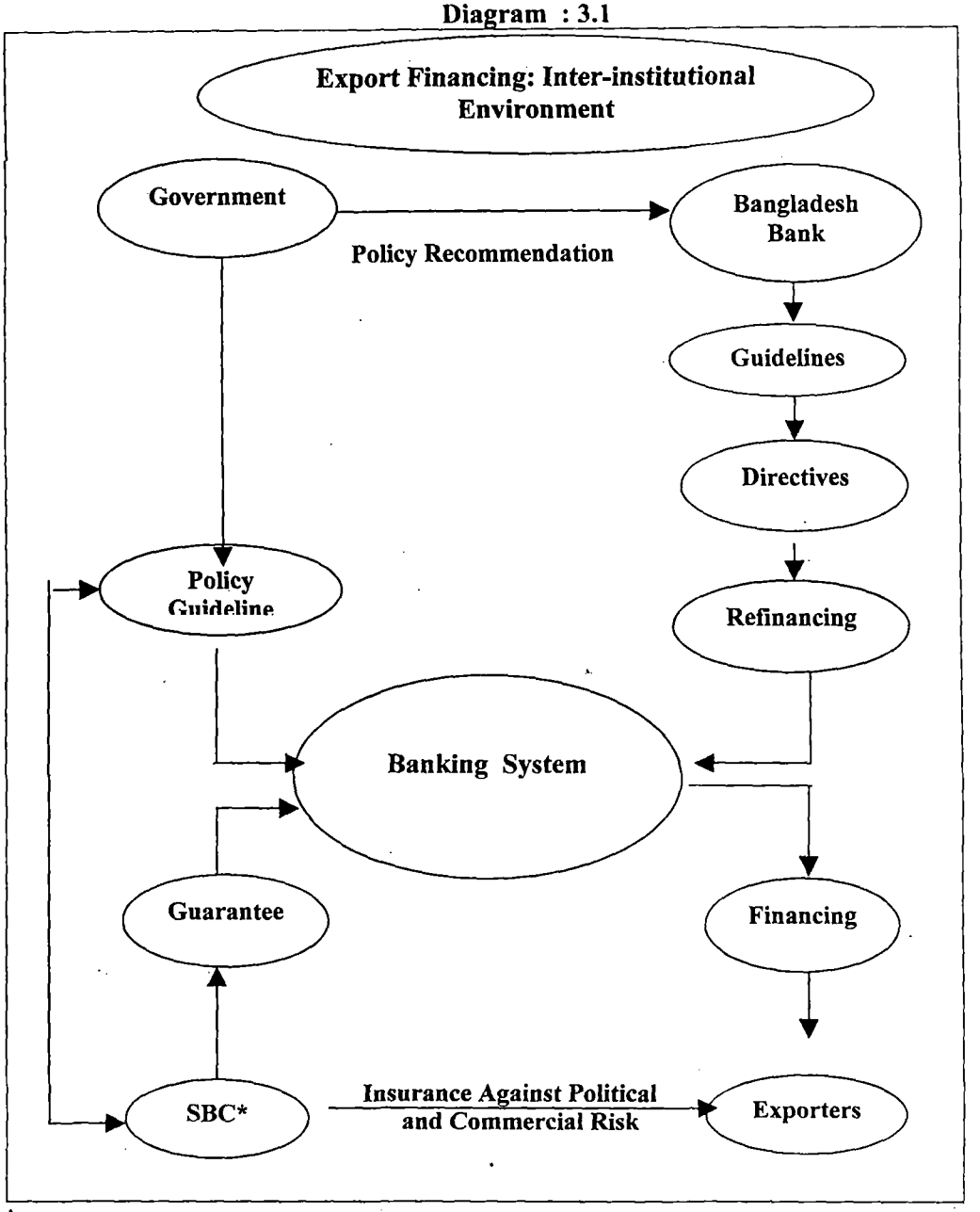
3.2 Inter-institutional Environment & Export Finance:

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

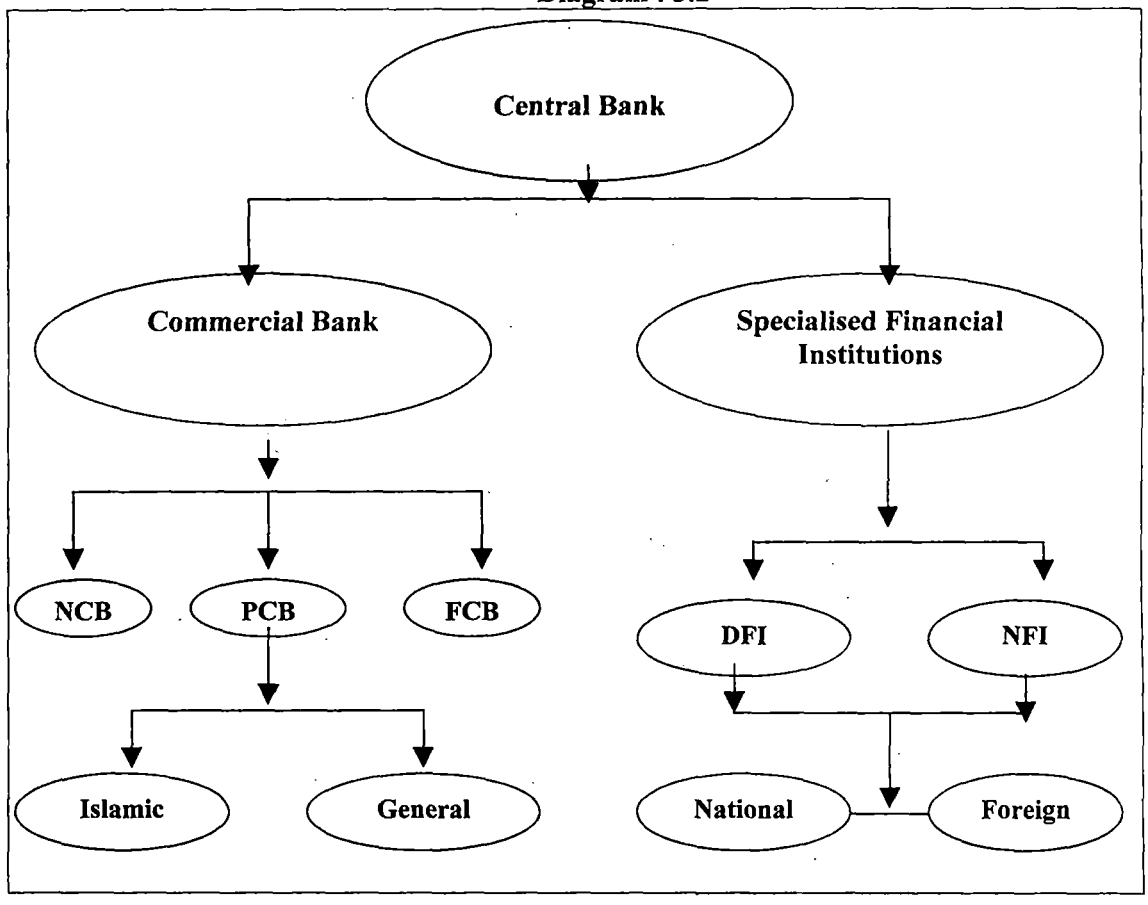


* **SBC** = Sadharan Bima Corporation

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)

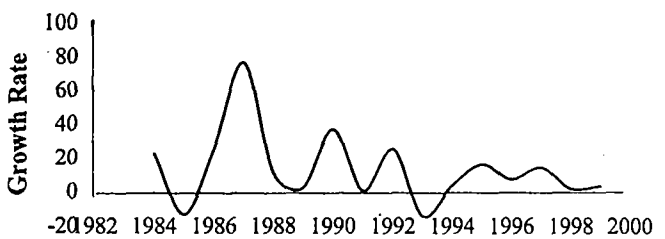


Figure 3.1

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

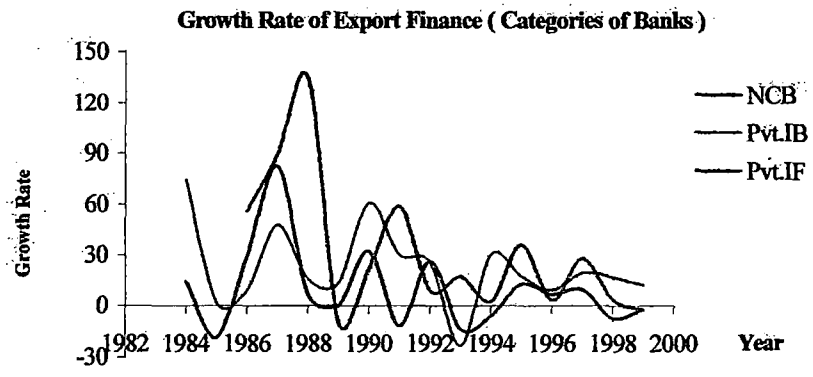


Figure: 3.2

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.

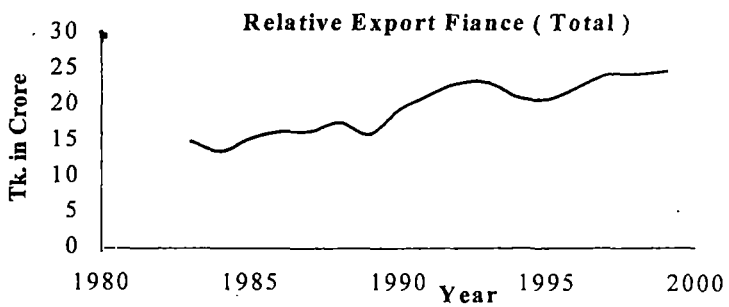


Figure 3. 3

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

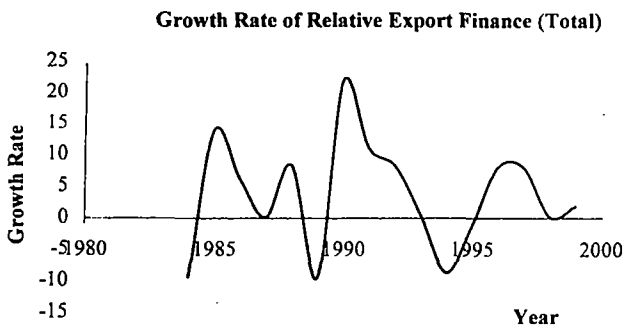


Figure 3.4

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

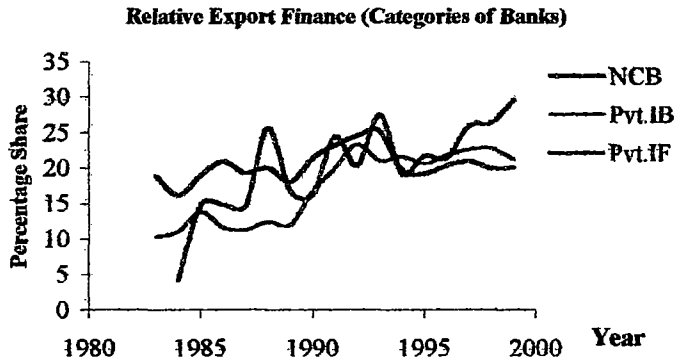


Figure: 3.5

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

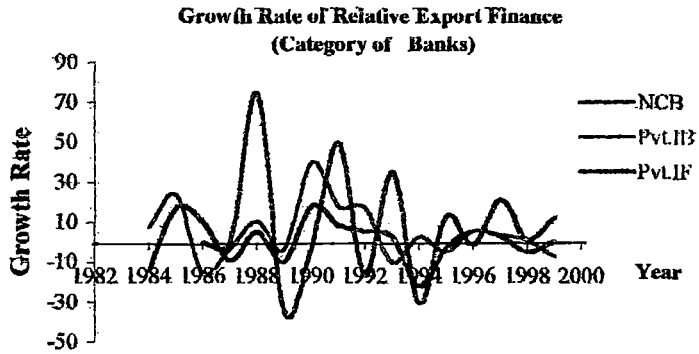


Figure: 3.6

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.

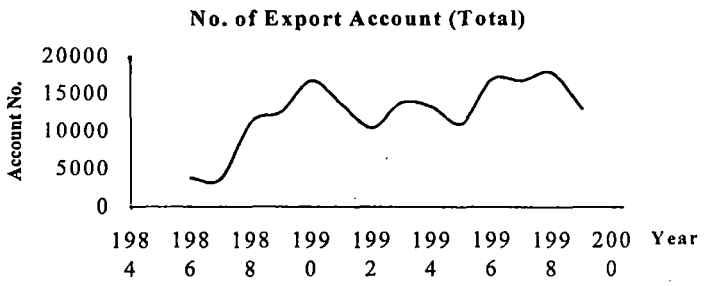


Figure : 3. 7

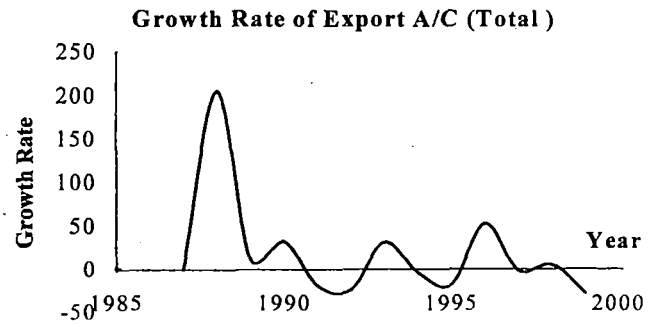


Figure : 3.8

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).

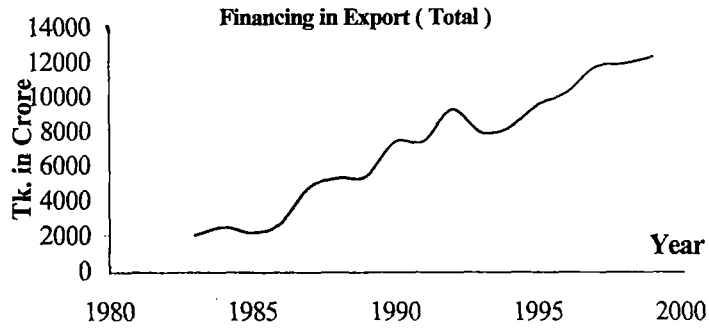


Figure 3.9

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

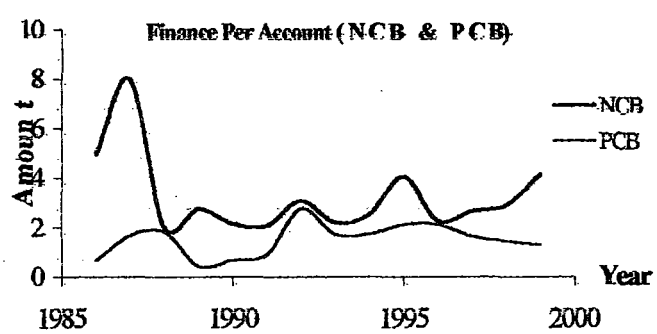


Figure : 3.11

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

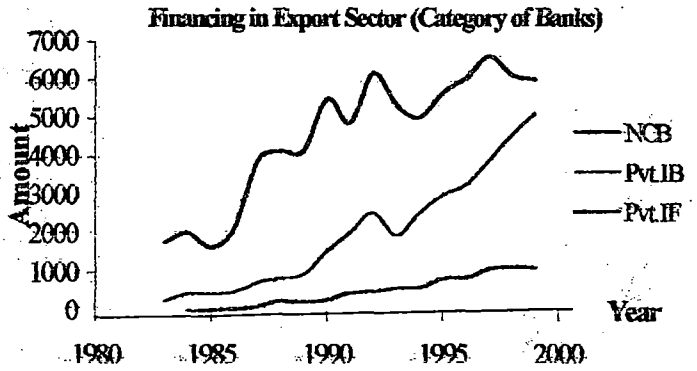


Figure : 3.12

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.