Global Journal of Science Frontier Research: F
Mathematics and Decision Sciences
Volume 17 Issue 1 Version 1.0 Year 2017
Type : Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4626 & Print ISSN: 0975-5896

Role of Banks and Financial Institutions in Export Finance of Bangladesh

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As an apex body in the financial system, Bangladesh Bank plays an important role in export financing through its policy formulation and refinancing facilities. Commercial banks are dealing with export financing directly.

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GJSFR-F Classification: *MSC 2010: 97K80*

ROLEOFBANKSANDFINANCIALINSTITUTIONSINEXPORTFINANCEOFBANGLADESH

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Role of Banks and Financial Institutions in Export Finance of Bangladesh

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As an apex body in the financial system, Bangladesh Bank plays an important role in export financing through its policy formulation and refinancing facilities. Commercial banks are dealing with export financing directly.

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I. Background of Export Financing in Bangladesh

Bangladesh economy is characterized by major structural problems and as a result it is exceptionally dependent on external assistance for financing development activities and for bridging its sizable fiscal and external deficits. An alternative to overcome the excessive dependence on external assistance is export-led growth strategy. Recent success story of export-led growth in some Asian economies like the Republic of Korea, Taiwan, Hong Kong, Malaysia, Indonesia, Singapore, and the Philippines have laid sufficient ground to believe in the idea of export-led growth strategy for economic development. Furthermore better export performance of the country in recent years especially in garments sector and other nontraditional sectors has also brought about some hope of success in economic development through export-led strategy.

Export finance system of the country could play a significant role in pursuance of Government's export-led growth strategy. With this view in mind Government introduced several financial incentives for increasing export of our country over past several years.

Export Performance Benefit (EPB) scheme, Duty Draw Back System, Bonded Warehouse System, Export Credit Guarantee Scheme, Preferential Interest Rates, Income Tax Rebate, Travel Quota Retention, Convertibility of Taka on Current Account and so on. An export development fund has been maintained with Bangladesh Bank with a view to refinancing the commercial banks engaged in export financing, Sadharan Bima Corporation (SBC) has also been playing a significant role in export financing through export credit guarantee schemes. Other general insurance companies also have been involved in export financing through their insurance policy coverage for exporters.

A high level committee to review monthly export performance of the country has been set up which chaired by the Finance Minister himself. Despite high priority given

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to export financing, academicians or government officials have done little research work on the issue relating to export financing except some statistical works on export performance either. For this the present study on export financing problems of Bangladesh has been attempted to cover some of the questions related to this field.

a) Research objectives

This study examines the Export Finance scenario in the line with export promotion policies and programs of Bangladesh with special emphasis on Export Finance activities of Banks and financial institutions. More specifically, it attempts:

1. To review the export promotion policies of the country,
2. To analyze the county's export structure,
3. To analyze the role of banks and financial institutions in export financing
4. To describe and evaluate the existing export financing system, recommend policy and institutional reforms that can further strengthen the export sector.

b) Lists of Hypotheses

The list of hypotheses for the study is as follows:

1. Inadequate equity capital or inadequate collateral or insufficient insurance cover is the problem for export finance.
2. Interest rate control by Bangladesh Bank has reduced the profit of commercial banks in export finance.
3. Improved customer service is necessary for banks to overcome the present problems in export finance.
4. Loan terms should be easier to boost up export credit.

c) Scope of the study

This study gives an overview of our financial system, which can be helpful to our exporters. Furthermore, results of questionnaire survey on banks and exporters may be informative to our export credit monitoring committee headed by the Governor, Bangladesh Bank. Evaluation of export finance system of the country may set ground for more comprehensive study and evaluation in this field. Foreign trade financing of Islamic Banking System has been kept outside the preview of this study.

d) Methodology

Methodology of research for this study includes-

Primary data collection:

A questionnaire survey on selected banks and exporters.
Discussion with several bank officials and exporters.

Secondary data collection:

Study of journals, newspapers, periodicals and other reading materials.
Informal talks with officials of Bangladesh Bank, Export Promotion Bureau, Sadharan
Bima Corporation, Duty Exemption & Draw Back Office (DEDO) and commercial banks.

Data Analysis:

A Trend analysis technique of Time series analysis has been used to compare and evaluate the data.
Ten years data of banks and financial institutions has been used to find out the current trend and situation of export financing.

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e) Limitations

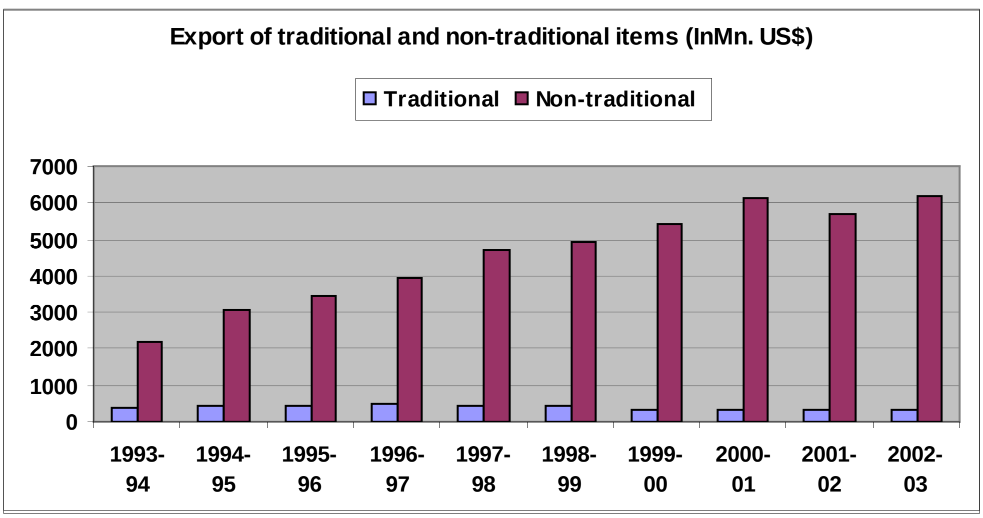
Limitations of the study are as follows-

1. Lack of financial data of commercial banks.
2. Time constraint of related persons in replying to the questionnaire.
3. Reluctance of some officials to respond at the time of interview.
4. Lack of cooperation in providing data by primary sources.
5. Since some of the sources of information were personal interviews, this tool is vulnerable to personal bias and distortions.

II. Traditional and Non- Traditional Export of Bangladesh

Bangladesh export can be divided into traditional and non- traditional exports. Export items like raw jute, jute goods, tea etc. are traditional items and items like garments, shrimps, frozen fish, leather and leather products, fruits, specialized textiles, handicrafts, engineering goods, consultancy service etc. are non-traditional items.

We started calculation of data from FY 1993. In 1993 share of traditional items in total export was 85.51% where share of non-traditional items in total export was 14.49%. This trend is still in succession; moreover, with passage of time, share of traditional items in total export is increasing. As in FY 2002-03 share of traditional items in total export is 94.59% where share of non-traditional items in total export was 5.41%. Following figure of Export of traditional and non-traditional items gives us clearer picture of this tradition.



Source: Export Statistics by EPB Bangladesh

Figure 2.1: Export of traditional and non-traditional items

From the above figure-2.1 it is observed that share of traditional items in our export earnings reduce from a14.49% to 4.95% during 1994-2003. On the other hand, that of non- traditional items increased from 85.51% to 95.05% during the same period.

a) Share of major export commodities In Bangladesh export:

A couple of commodities have always been the principle in the export scenario from FY 72-73 to mid 80s. Items principally contributing to the export earnings were jute, jute goods, leather and tea of which jute and jute goods were the main export earners.

In FY 72-73 jute and jute goods along contributed 90% of the total earnings and leather and tea to these two, raising their contribution to 97.4pc. This situation

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continued up to mid 80s when the scenario started changing with appearance of new products, specially RMG (woven garments & knitwear), shrimp, frozen foods, chemical and agricultural products.

During 90-91 FY, RMG including hosiery jute and jute goods, leather, frozen foods and chemical products contributed 92.1pc to the total export earnings. RMG alone earn more than 50pc. If Tea is added to these 6 products, the contribution of 6 products in FY 90-91 comes to 94.6pc out of approximately 114 exportable items.

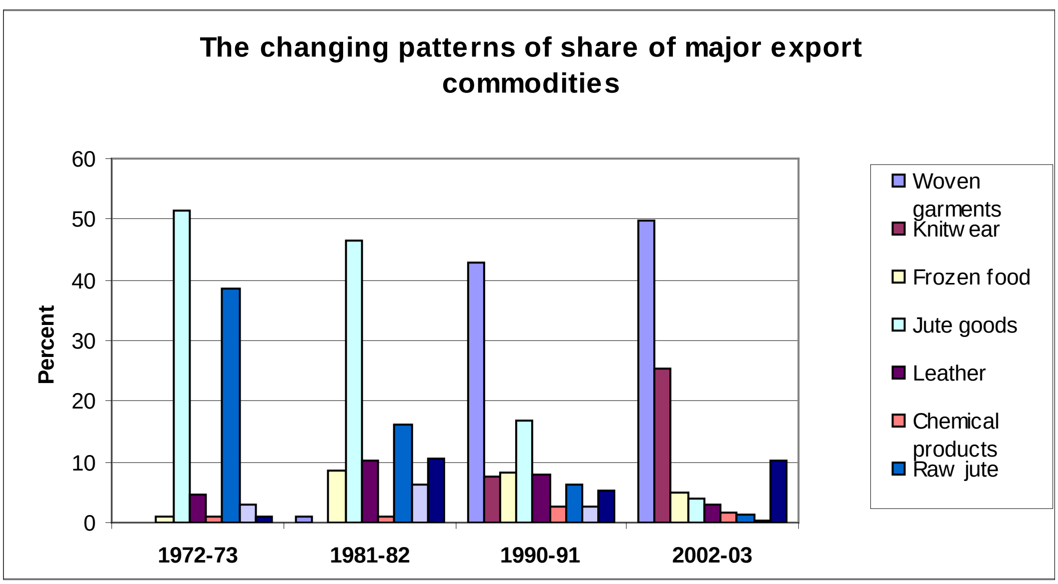
Table-2.1 shows the changing pattern of share of major export commodities in export of Bangladesh.

Table 2.1: The changing patterns of share of major export commodities in last four decades

Products	1972-73	1981-82	1990-91	2002-03
Woven garments	-	1.1	42.8	49.8
Knitwear	-	-	7.6	25.3
Frozen food	0.9	8.5	8.3	4.9
Jute goods	51.4	46.5	16.9	3.9
Leather	4.6	10.1	7.8	2.9
Chemical products	0.9	1.1	2.6	1.5
Raw jute	38.5	16.3	6.1	1.3
Tea	2.9	6.1	2.5	0.2
Others	0.9	10.4	5.4	10.2
Total:	100	100	100	100

Source: Annual Report of Export Promotion Bureau.

Following Bar chart will help us more to understand the situation clearly.



Source: Annual Report of Export Promotion Bureau.

Figure-2.2: The changing patterns of share of major export commodities in last four decades

During FY 2002-03 RMG alone earn nearly 80%and raw jute and jute goods earn only 5%. Leather, frozen foods and chemical products contributed 9.3pc. Tea earns record lowest 0.2% and other all products earn 10.2pc.

b) Major commodity wise export earnings in recent years

The principal commodities of which export earning has increased during the financial year under review in comparison with the previous year are: Agricultural products (12.96%), Jute goods (5.61%), Raw jute (34.89%), frozen shrimp and fish (16.55%), petroleum by product (215.45%), chemical product (50.95%), knitwear (13.34%), woven garments (4.28%). The commodities, which registered decline in exports earnings, are Tea (10.99%), Leather (7.77%), and Handicrafts (2.78%). Following Table shows the comparative export earnings of major commodities between FY98 to FY04.

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Table-2.3: Major Commodity wise export earnings (Value in million US dollar)

Year	RMG	Raw jute	Jute goods	Frozen shrimps & Fish	Knitwear & hosiery products	Fertilizer	Leather
FY98	2843.30	107.80	278.60	293.80	940.30	58.70	190.30
FY99	2984.74	71.75	301.91	274.32	1035.36	58.67	168.24
FY01	3082.56	71.62	262.70	343.82	1269.83	59.88	195.05
FY02	3363.89	67.18	229.11	363.23	1496.23	68.17	253.93
FY03	3124.56	61.13	241.61	276.11	1459.24	47.93	207.33
FY04	3258.27	82.40	256.54	321.81	1653.83	78.62	191.23

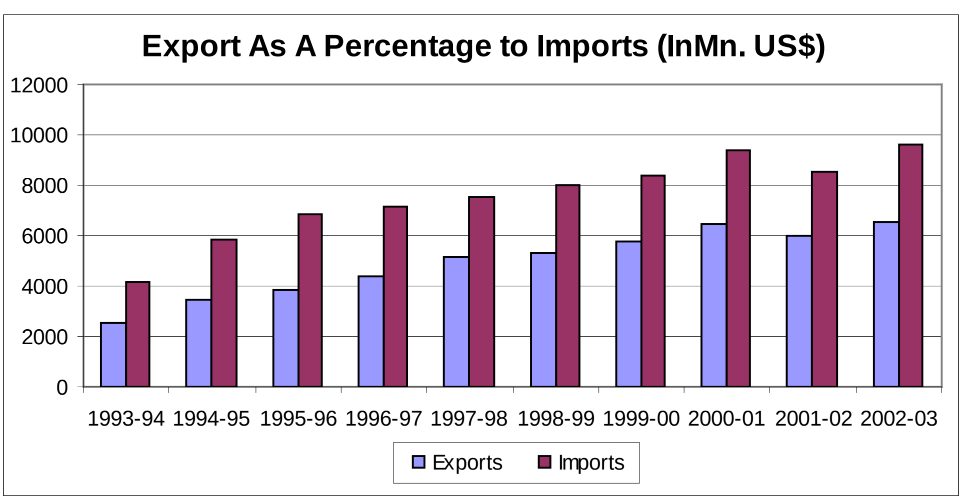
Source: Bangladesh Bank Annual Report

Above table-2.3 reveals that among the major export commodities RMG achieved the most impressive average earnings follows by Knitwear and hosiery. Raw jute and jute goods shows a meager of 2.2% and 3.31% average annual growth rate over the year 2000 to 2003. Frozen shrimps & Fish also lost their average earnings over the period of 1998 to 2001.Fertilizer have the lowest export earnings among stated commodities.

c) Export as a percentage of imports

Export as a percentage of import show a country's ability to meet the requirements of its import payment from internal resources. The greater the percentage, the greater the country's ability to pay import bill from internal resources, meaning lesser dependence on external aid and grant.

Figure 2.2 below shows the share of export earnings as a percentage of import payment from 1993-1994 to 2002-2003.



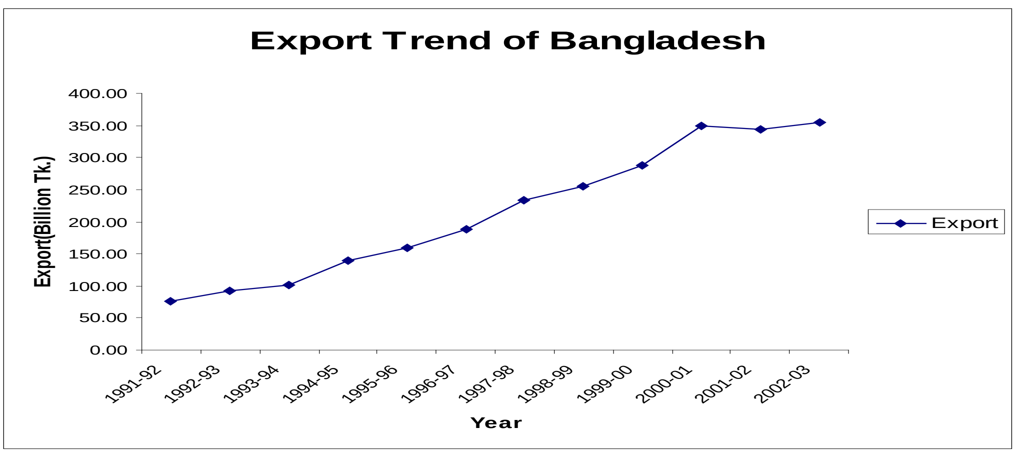
Source: Bangladesh Export Statistics

Figure 2.3: Export As A Percentage to Imports

Figure 2.3 it is observed that share of export increased from 60.46% in 1993-94 to 70.09 % in 2001-2002. This indicates that our performance in export sector has been improved remarkably. During 2001-2002 total export was for 6548 million US $. Stated data shows that export is consistently increasing except FY 2001-02. And our export is always is from nearly 60% to 70% of import. This is partly attributable to export promotion policies of the government over the past decade, despite various setbacks.

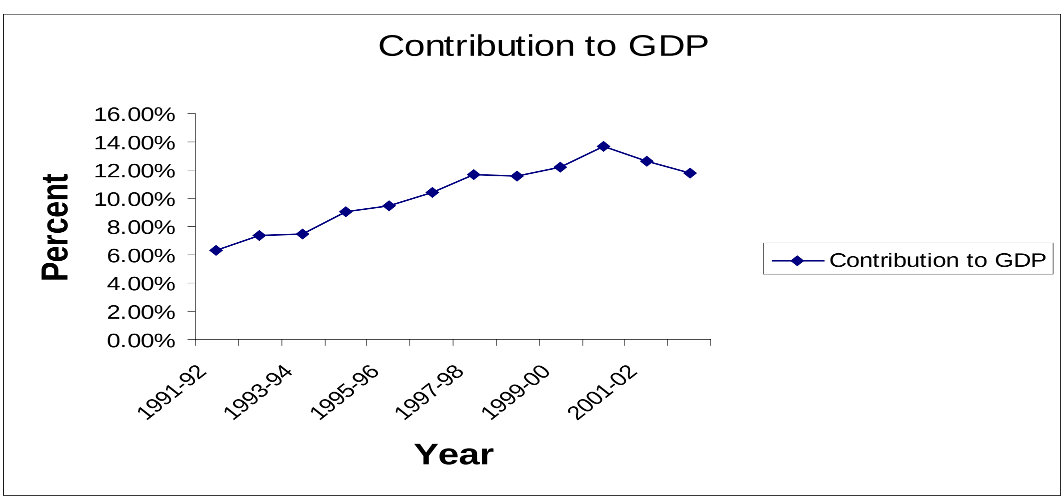
d) Export Trend and its contribution to GDP

Openness in trade and expansionary export policy help export sector of Bangladesh to show a steady growth over the years. Though September 11, crisis shrink the world trade and Bangladesh was not out of that crisis. Consequently on 2001-2002 fiscal year export of Bangladesh showed negative growth. Analyzing the Table A.1 in annexure it is observed that from 1991-92 to 2002-03 average growth in export is 15.07% and export grew at highest rate 20.96% in 2000-01 fiscal year. Contribution of export sector in GDP in this time frame on an average 10.50% and growth rate is 5.87%. Export trend of Bangladesh and its contribution in GDP presented graphically in Figure 4.4 & 4.5.



Source: Bangladesh Economic Review

Figure 2.4: Export trend of Bangladesh (1991-2003)



Source: Bangladesh Economic Review

Figure 2.5: Contribution of Export to GDP (1991-2003)

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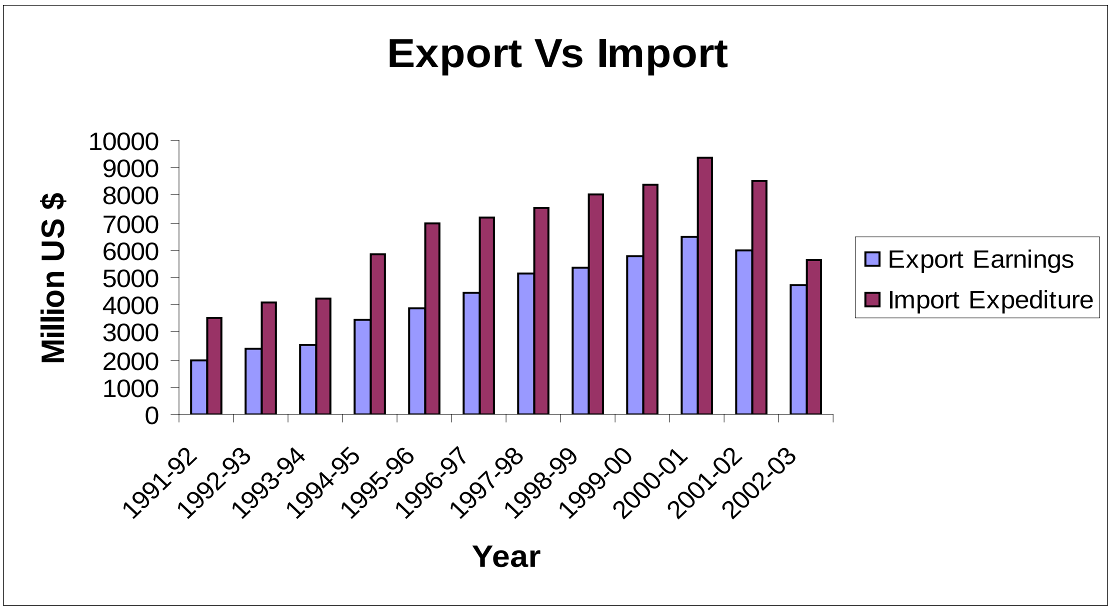
Figure 2.4 & 2.5 it is clear that though recently export earnings and import expenditure is showing decreasing trend but export earning shows higher growth rate than that of growth in import expenditure. Average growth in export earnings is 8.15% and import expenditure is 4.39% during 1991 to 2003. Which indicate a positive economic development of the country.

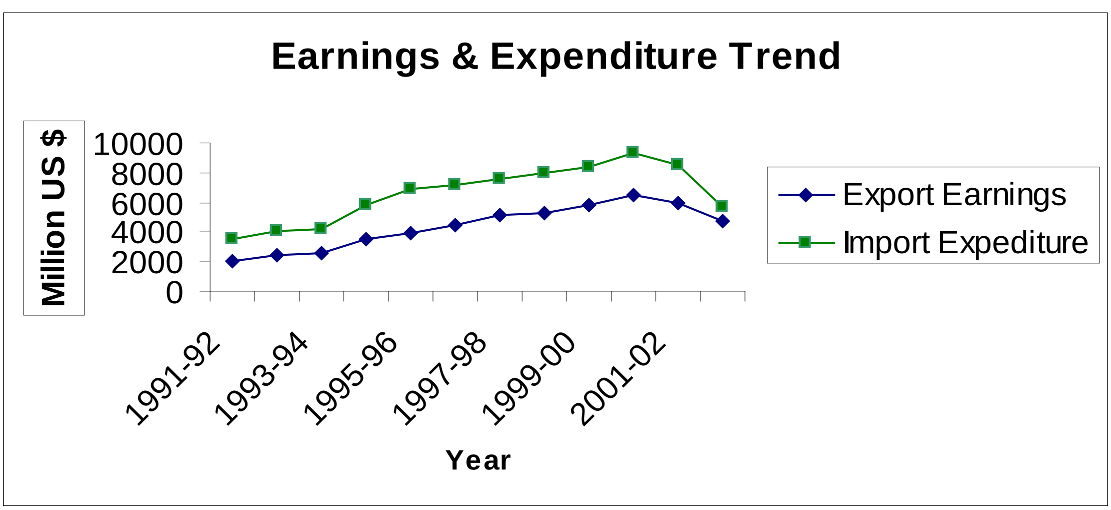
e) Export Earnings and Import Expenditure

Export earnings and import expenditure is an important factor for the balance of payment (BOP) of a country. Our export is always far behind from our import. Following two figures give us the latest information about the relationship of our export earnings and import expenditure.



Source: Bangladesh Economic Review

Figure 2.6: Export earnings and Import expenditure of Bangladesh (1991-2003)



Source: Bangladesh Economic Review

Figure 2.7: Trend of Export earnings and Import expenditure of Bangladesh (1991-2003)

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From the above two figures we can easily understand that our export is lower than our import. But for a developing country it is always necessary that export is greater than import. During FY 2000-01 and 2001-02 our export receipt was far bellow than our import payments. But in FY 2003 this situation improved little bit.

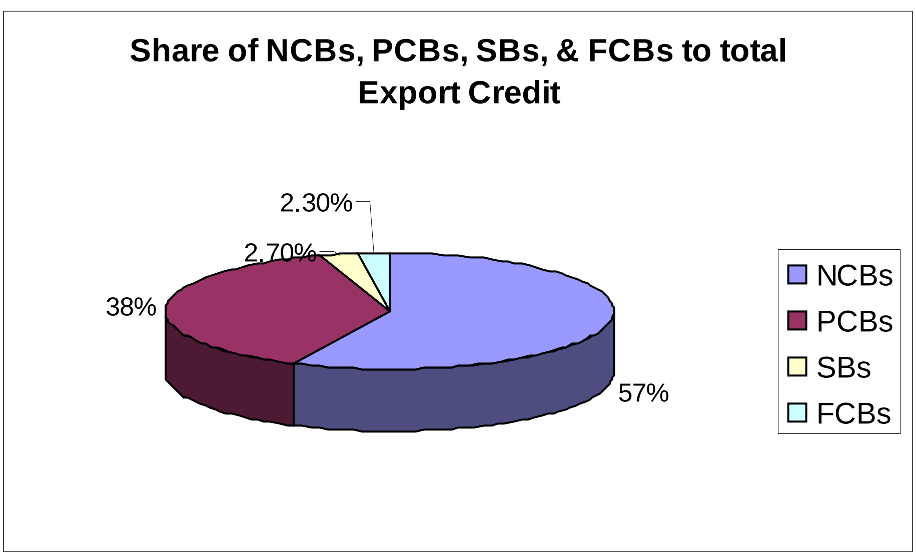
III. Comparative Performance of Total Banking System

During year 2003 all Scheduled banks as NCBs, PCBs, SBs, and FCBs perform total export financing of 8953670lacs Taka. Where Nationalized Commercial Banks disburse 57% export credit to total export credit of 2oo3. Then private Commercial Banks disburse 38% and Specialized Banks perform 2.7% export credit to total export credit of 2oo3. Foreign Commercial Banks disburse lowest 2.3% export credit. On the bank wise export credit to total credit, NCBs perform highest 7.38% export credit to their total credit of 3616846lacs Taka. PCBS, SBs, and FCBs disburse 4.82%, 1.16% and 1.56% export credit respectively to their total credit of the year 2003. Following table-3.1 and figure-3.2 shows the detail condition of export financing by banking system in 2003.

Table 3.1: Export finance by all banks during year 2003 (Value in lac Taka)

Banks	Total credit	Export credit (EC)	% Export credit to total credit	% Of bank wise EC to total EC
NCBs	3616846	266792	7.38	57
PCBs	3724150	179447	4.82	38
SBs	926297	11514	1.16	2.7
FCBs	616377	9639	1.56	2.3
Total	8953670	467392	5.22	100

Source: Schedule Bank Statistics



Source: Schedule Bank Statistics

Figure 3.1: Export performance of 4 NCBs (2000-2003)

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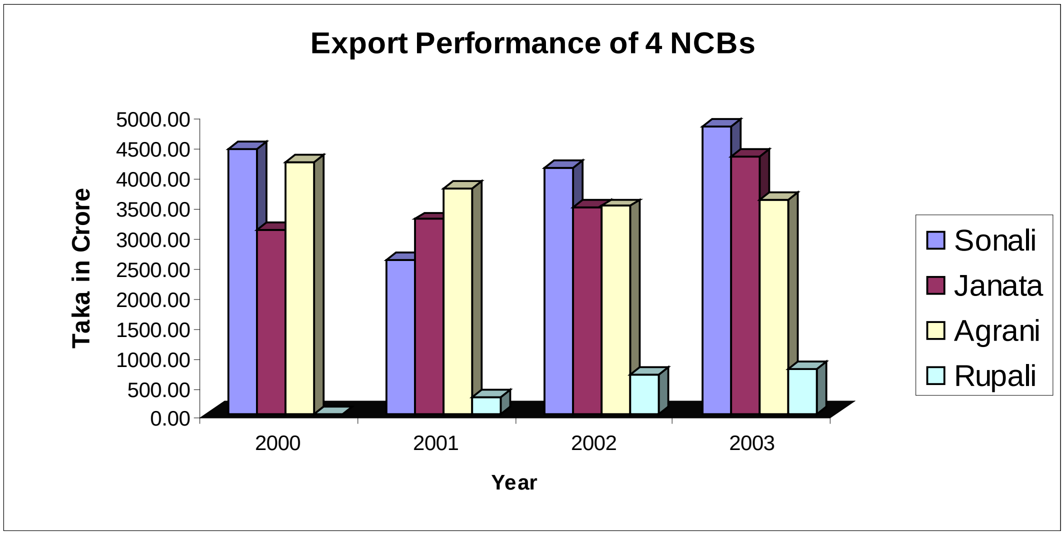
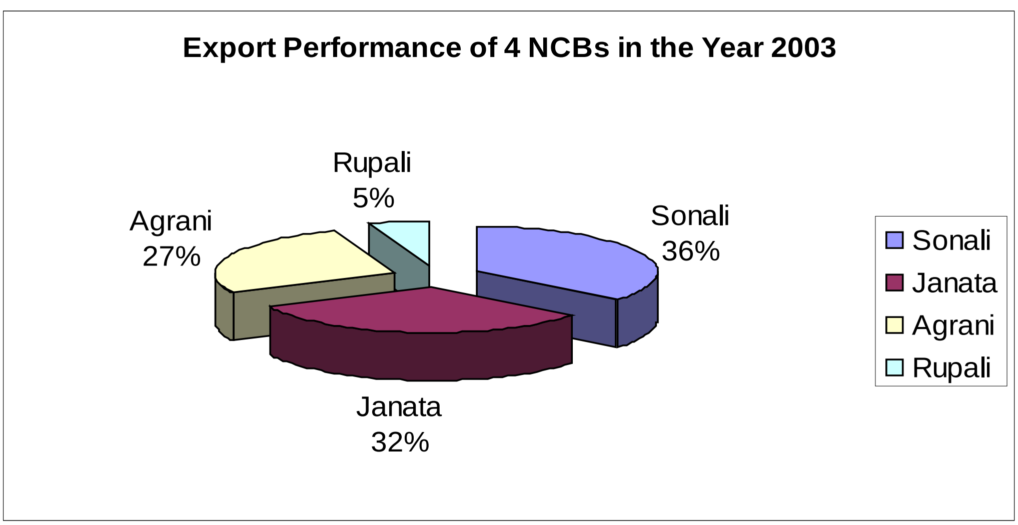
a) Comparative performance of NCBs



Source: International division (Export) Janata Bank, Head office.

Figure 3.2: Export performance of 4 NCBs (2000-2003)

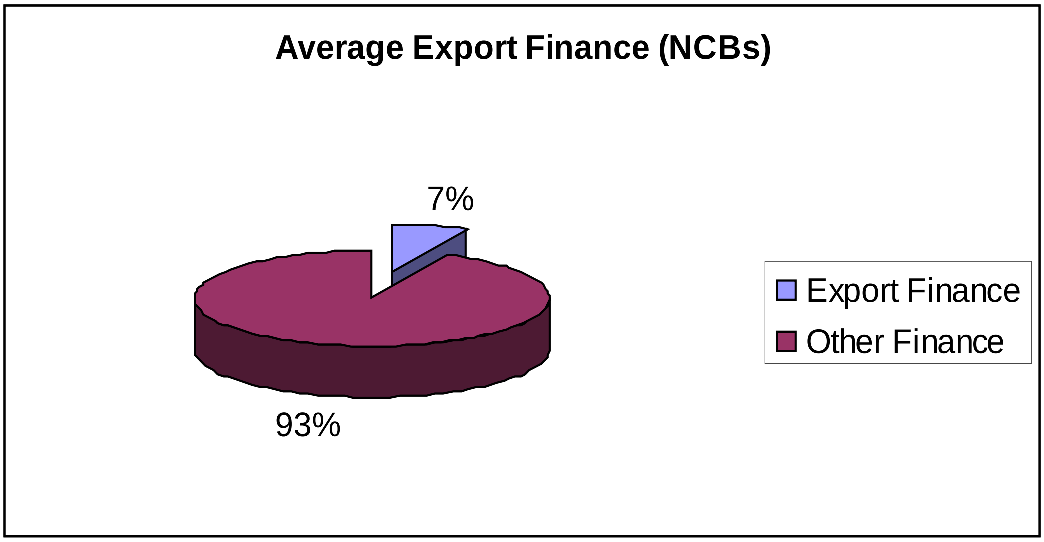
As NCBs perform highest export credit in export of Bangladesh, so we will focus on details performance NCBs. Among 4 NCBs at present Sonali Bank has secured 1st position. It is observed from Table A.6 and Figure 5.3 that among them Janata Bank and Rupali Bank has shown steady growth during 2000 to 2003. In 2003 contribution of Sonali Bank in the total export performance of four NCBs was 36%, which reflected in Figure 3.2



Source: International division (Export) Janata Bank, Head office.

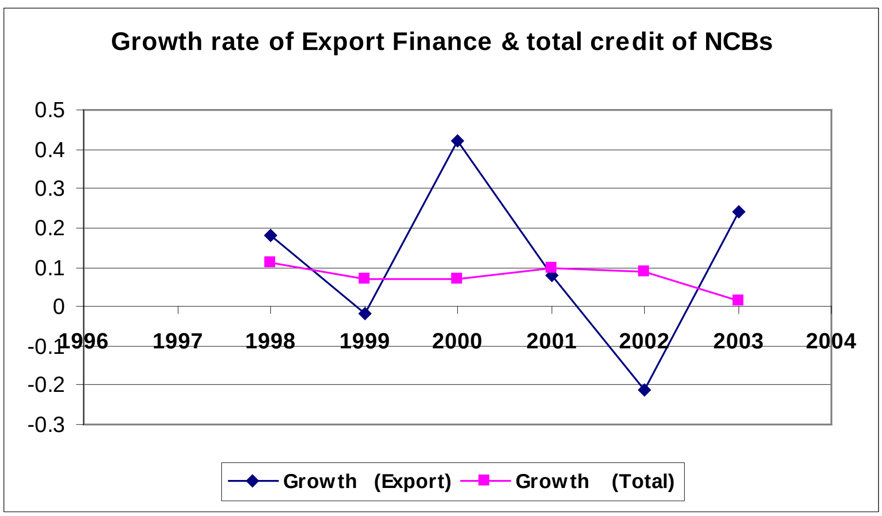
Figure 3.3: Share of Export performance of 4 NCBs in the year 2003

Total credit disbursed by Nationalized Commercial Banks grown at an average rate of 9% and export finance at a rate of 7% during the observed period (1997 to 2003). Growth of export finance by NCBs also deflects a rough fluctuating trend. Export finance comprise about 7% out of total disbursement by NCBs during 1997 to 2003.



Source: Schedule Bank Statistics

Figure 3.4: Share of Export Finance to total credit disbursed by NCBs (1997-2003)



Source: Schedule Bank Statistics

Figure 3.5: Growth rate of Export Finance & total credit of NCBs (1997-2003)

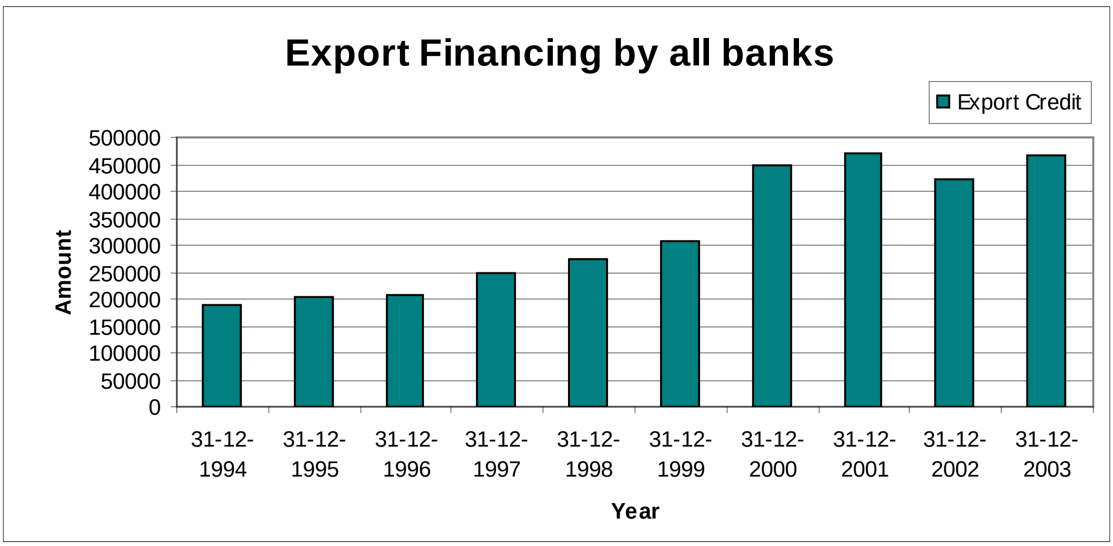
IV. Total Export Financing by Commercial Banks

A table of data reeling number of accounts and total export financing by the banking system from 1994 to 2003 is presented bellow to have a look over this. Share of export credit to total credit of the banking system is also given in the table.

Table-4.1: Export Financing by all banks (Taka in lacs)

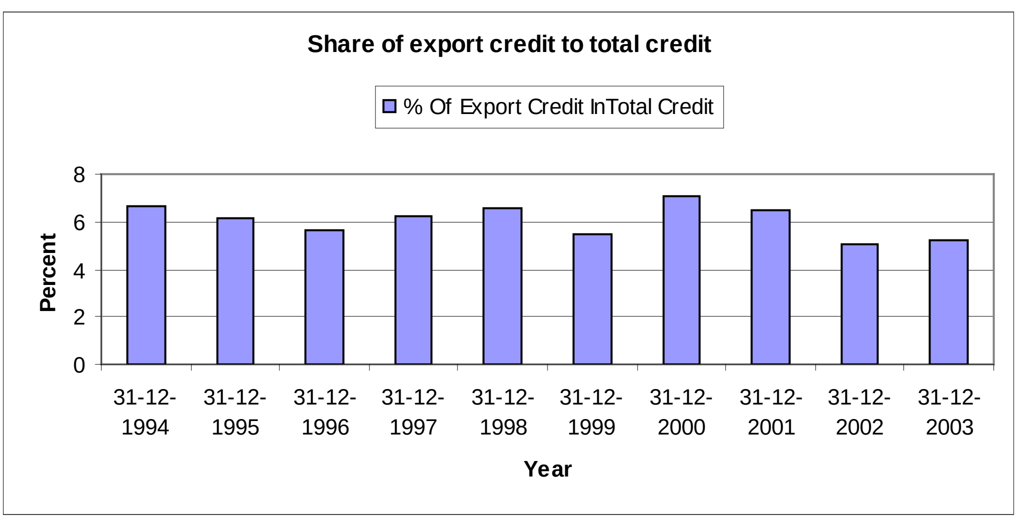
Year	No of A/Cs	Export Credit	% Of Total Credit
31-12-1994	13326	187843	6.63
31-12-1995	11067	202638	6.14
31-12-1996	16874	208402	5.61
31-12-1997	16709	246579	6.20
31-12-1998	18899	275636	6.60
31-12-1999	13001	309076	5.48
31-12-2000	18170	446451	7.07
31-12-2001	19721	471420	6.48
31-12-2002	15982	422630	5.09
31-12-2003	2623	467392	5.22

Source: Schedule Bank Statistics



Source: Schedule Bank Statistics

Figure 4.1: Total export financing by all banks



Source: Schedule Bank Statistics

Figure 4.2: Share of export credit to total credit of the banking system

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Above figure-4.1 and figure-4.2 shows that from 1994 to 2001 export credit by al banks has been increasing at an increasing rate but at 2002 it was decreased. At 2003 export financing regain its rate and roughly touch previously highest amount.

It is also observed that export finance shows 10% negative growth in the year 2002 though it achieved highest growth 44% in the year 2000. But in 2003 export finance shows 10% positive growth. Trend in export finance is very much fluctuating steady one. On an average 5.92% of total credit is shared by export finance during the observed period.

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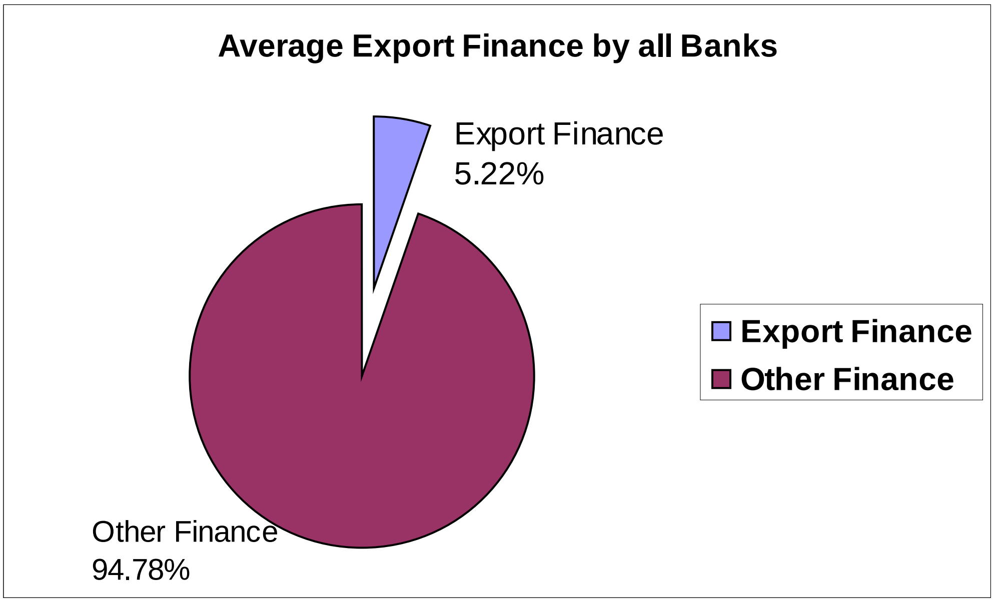
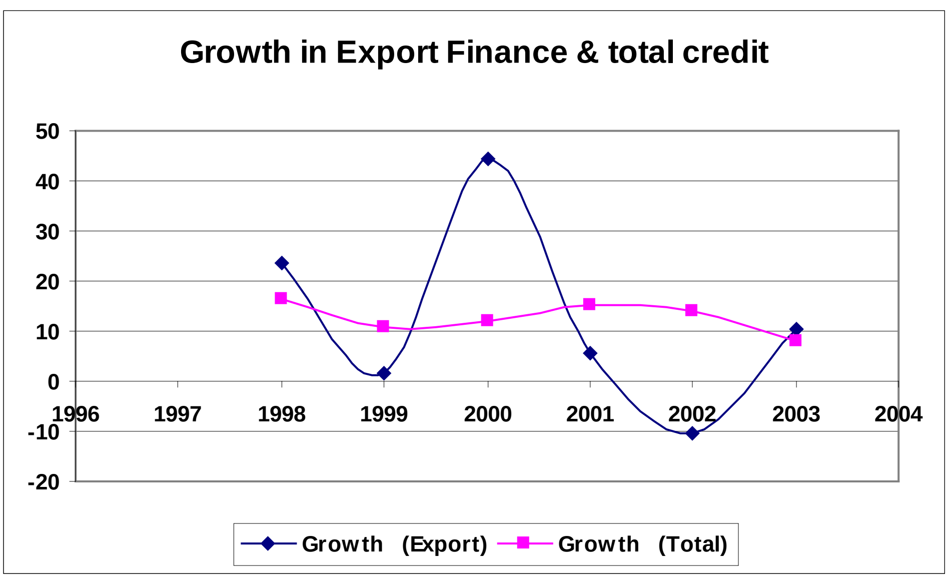


Source: Schedule Bank Statistics

Figure 4.3: Average Export Finance by all banks of Bangladesh



Source: Schedule Bank Statistics

Figure 4.4: Growth in Export Finance & total credit of Bangladesh (1997-2002)

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a) A brief picture of export financing in export of Bangladesh

When growth of total export financing by all banks is presented against that of our export, it is observed that export grew over the years with an average annual rate of 14.79% from 1992 to 2004 and export finance grew at a rate of 14.39% during the same tenure. Moreover contribution of export to GDP is 10.46% where as export finance comprises only 5.82% of total credit. Which means that export and export finance is not at par, there is a considerable degree of latitude for improving export finance.

Table-5.1: Export Finance By all Banks & Export performance of Bangladesh

As on	Export Finance (Lac Taka)	Percentage of Total Credit	Growth in Export Finance	Year	Export (Billion Taka)	Contribution to GDP	Growth in Export
31-12-1991	101,716	4.64		1991-92	75.90	6.30%	
31-12-1992	132,176	5.31	29.95	1992-93	92.60	7.40%	22.00
31-12-1993	158,017	6.40	19.55	1993-94	101.00	7.50%	9.07
31-12-1994	187,843	6.63	18.88	1994-95	139.30	9.10%	37.92
31-12-1995	202,638	6.14	7.88	1995-96	158.80	9.50%	14.00
31-12-1996	208,402	5.61	2.84	1996-97	188.10	10.40%	18.45
31-12-1997	246,579	5.63	18.32	1997-98	234.20	11.70%	24.51
31-12-1998	304,596	5.98	23.53	1998-99	254.90	11.60%	8.84
31-12-1999	309,076	5.48	1.47	1999-00	288.20	12.20%	13.06
31-12-2000	446,491	7.07	44.46	2000-01	348.60	13.70%	20.96
31-12-2001	471,420	6.48	5.58	2001-02	343.70	12.60%	-1.41
31-12-2002	422,630	5.09	-10.35	2002-03	355.40	11.80%	3.40
31-12-2003	467,392	5.22	10.59	2003-04	379.14	12.30%	6.67
Average		**5.82**	**14.39**			**10.46%**	**14.79**

Source: Schedule Bank Statistics

Analyzing information and presented data it is established that growth in export finance reflects poorer performance in respect to the growth of export. Moreover export finance is not proportionate against its contribution to GDP. A gap between policy and practice is observed. Being treated most favored sector it is still lagging behind and suffering from different set back.

V. Summary and Conclusion

Bangladesh gradually started to shift from its earlier economic development policy of import substitution to export-led growth strategy since 1982. Bangladesh is still striving hard through adopting various policies and strategies but achievement is much below expectations. This suggests that the country has yet to develop a suitable policy package for sustained growth and development. In this connection it may be mentioned that “Export or perish” now a day’s become a very popular slogan among the development economists and policy makers. In today’s world almost all developing countries have been adopted various reform measures in order to institute open market economy. Current export policies and promotional measures are much more realistic than that of previous years. But there has been always a wide gap between policies and implementations, so benefits of policies could not be reaped properly before.

Questionnaire survey and secondary data analysis on commercial banks reveals interest rate and inadequate collateral security as the main difficulties in extending export finance. Further, Export Development Fund (EDF) is not so attractive to commercial banks due to complications in the procedure. On the other hand, exporters surveyed mark export financing services of the commercial banks as inadequate. Besides, either exporter is not aware of the export credit guarantee or simply they do avoid complications. Exporters also observed bribery by customs officials, loan terms and lack of knowledge about market as number one problem in the growth of export. It is also observed that more finance is needed to plug the gaps between export finance and export. However, based on the findings of survey and evaluation of export finance data, important point that comes out is procedural simplification of EDF, extension of cash assistance, publicity of ECG, training of employees of commercial banks and good governance; not only economic but also political and social. Few reforms and lucrative incentive packages could not improve the situation. To chase the chiming challenge of globalization we need to integrate policy formulation, its implementation and have to improve law and order situation, appropriate judicial system.

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