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Export Financing Practices in Bangladesh: An Appraisal of some Selected Commercial Banks

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ABSTRACT

Export sector in Bangladesh had been considering being a pivotal sector of national economy even prior to its major policy changes of early eighties. But export suffers from the lack of proper support of financial requirement. The problem of the study, therefore, is to make a comprehensive analysis of present position of export financing, evaluation of different schemes, role of financial institutions in advancing export credit along with problems and difficulties of both financier and recipient of finance in Bangladesh. The focal theme of the study is to know how and to what extent the existing system is supportive of financial needs of the export business, positive impact of export on economy is a precondition of institutional arrangement of export financing being successful. The main objective of the study is to highlight the export financing practices, performance, problems and prospects in Bangladesh. It intends to focus all important aspects of export financing programmes of the commercial banks. Banks opinion has been sought in a 5-point interval scale structured with seventeen such perceived consequences of a separate institution. The study reveals that there is no significant different in the perception of different categories of bank relating to the number of issues considered as problem. Integrity, solvency and performance history of exporters are commonly considered by all banks. There is no statistically significant difference between categories of banks regarding the numbers of factors considered in this respect. It is found that there is a very little agreement among the banks on possible undesirable practices and their consequences.

Keywords: exporter, export finance, commercial bank, Kappa Analysis.

1. INTRODUCTION

Export occupies the focal position in reformulated development strategy of Bangladesh since the policy of economic reform and structural adjustment has been adopted by the country. The economic compulsion of Bangladesh is not different from that of any other developing countries and, therefore, Bangladesh has to face the problem of large balance of trade deficit identical to any other

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

1.1 Export Financing

Export sector in Bangladesh had been considering being a pivotal sector of national economy even prior to its major policy changes of early eighties. But export suffers from the lack of proper support of financial requirement.. This support implies the institutional arrangement of providing finance at the time of the requirement of exporters. This need may arise either at pre-shipment stage or at post-shipment stage. Finance is a resource of cardinal importance to an exporter. In view of substantial financial need to pursue export trade, it is often difficult to arrange the required fund from their personal resources of the exporters and thus demand for institutional involvement to alleviate their financial problem is a longstanding one. The system of institutionalized export financing may broadly be divided into two tiers – a) policy formulating agencies and b) policy implementing agencies. Policies relating to export financing are formulated by the Government with the help of Export Promotion Bureau. On the other hand, the Central Bank i.e., Bangladesh bank is entrusted with the responsibilities of formulating detailed operational aspects of those policies to be followed by other financial institutions (Bangladesh Bank, 1982). Total number of banks in Bangladesh are 52 Out of 52, 4 are nationalised commercial banks, 6 are specialised banks, 26 are interest-based private commercial banks (Pvt.^{IB}), 4 are interest-free private commercial banks ($Pvt.^{IF}$) and 12 are foreign commercial banks.

2. PROBLEM OF THE STUDY

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

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

Keeping this in view, the Government of Bangladesh has arranged the extension of export credit support system with the help of commercial banks at concessional rate of interest against confirmed letter of credit. Export policies formulated by the Ministry of Commerce, Government of Bangladesh provides the overall guidelines and incentives for promotion of exports in the country. Bangladesh Bank has created an Export Development Fund for assuring continued availability of Foreign Exchange to meet the import requirements of manufactured items. The problem of the study, therefore, is to make a comprehensive analysis of present position of export financing, evaluation of different schemes, role of financial institutions in advancing export credit along with problems and difficulties of both financier and recipient of finance in Bangladesh.

3. IMPORTANCE OF THE STUDY

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

So far the aspect of the study is concerned; there was no systematic and thorough study on export finance in Bangladesh except casual observations made by professional economists, business leaders, planners and policy makers etc. There was no empirical investigation to verify observations made by them. Many aspects of export financing are yet to be understood interrelating facts and figures. In this period of new economic world order, i.e., under the WTO regime, the openness of the economy through liberalising trade gave birth to a complete new environment of competition with which the entrepreneurs of erstwhile protective country like Bangladesh are not familiar. Both convertibility of domestic currency and abolition of tariff protection have changed the meaning of the requirement of finance. Now, it is not only the quantum of finance, which is important, but the timely availability is also crucial to have an edge in the competition. In this changed economic milieu of the new millennium all aspects of export finance deserve to be studied with the perspective of globalisation, liberalisation and openness.

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

4. LITERATURE REVIEW

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

Reza (1981) has conducted a study on pattern and prospects of Bangladesh export covering the period 1950-1978. Two main objectives of his study were: (i) an examination of the past export performance of Bangladesh and (ii) the determination of the income and employment implications of an export-oriented strategy of growth as compared to an import substitution for the country.

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

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

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

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

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

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

5. OBJECTIVES OF THE STUDY

The main objective of the study is to highlight the export financing practices, performance, problems and prospects in Bangladesh. It intends to focus all important aspects of export financing programmes of the commercial banks. The broad objectives of the study are as follows:

1. To analyse the performance of financial institutions with respect to export credit.
2. To analyse the opinion of the export firms regarding the export credit services by the financial institutions.
3. To analyse the opinion of financial institutions regarding export credit and its problems.

6. RESEARCH HYPOTHESES

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

1. Adoption of new development strategy does not make any difference in the role of financial institutions in relation to extending credit facilities to exporters.
2. In case of advancing credit, banks do not discriminate between primary (commercial) and manufacturing (industrial) exporters or between exports and imports.
3. Instituting a specialised export financing organisation may solve the problems of export financing significantly.

7. METHODOLOGY AND SOURCES OF DATA OF THE STUDY

The research is based on both secondary and primary sources of information and data. A sample survey has been conducted to know the viewpoints of the banks and exporters. The published documents of the Ministry of Commerce, GOB, the Export Promotion Bureau, the Bangladesh Bureau of Statistics, the National

Board of Revenue, the Bangladesh Bank (Central Bank of Bangladesh) and other concerned banks have been consulted for secondary data and information. The collected data are analysed by means of appropriate statistical tools and whenever necessary appropriate hypotheses are tested. Multivariate analyses for identifying the economic factors responsible for credit financing are used. Descriptive statistics are used to analyse and compare distribution of parameters of different categories of banks or exporters. Non-parametric test specially to identify the level of agreement among respondents are used.

8. FINDINGS AND ANALYSIS

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

8.1 Analysis of Facilities and Services Provided To Exporters by Commercial Banks

As we have mentioned, credit schemes are again may be classified according to pre-shipment and post-shipment. We have discussed different available provisions of credit to exporters at pre-shipment and post-shipment stage in chapter – 3. Bankers do not offer credit against all such provisions. According to bankers' own credit policy, they prefer few selected types of credit schemes that they think convenient for them; Responses regarding credit offered by the different categories of banks are classified according to schemes under pre-shipment and post-shipment stages in order to understand whether there is any difference in preference among the credit schemes of two stages. Results are presented in Table 1.

Table 1: Average Types of Credit Offered By Different Categories of Banks

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

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

8.1.1 Types of Credit Demanded

Credit facilities are of different types as we have discussed earlier. Credit facilities may be classified according to types of credit or it may be classified according to stage at which it is advanced i.e. pre-shipment or post-shipment. Naturally, demand for each type of credit facilities is not uniform. Exporters' preferences may be understood from the demand pattern of different types of credit. For this, we have sought the opinion of the banks on what kinds of credit are normally asked for. We furnish an exhaustive list of types of credit on the basis of the responses of banks in Table 2.

Table 2: Types of Credit Preferred By the Exporters
(% of the Banks Respondents)

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

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

8.1.2 Commodity for Which Commercial Banks Offer Credit

List of major items of exports in Bangladesh constitutes Readymade Garments (RMG), Frozen Food, Raw Jute, Jute's Goods, Tea, Leather and Handicraft etc. Responses to the question of items of export financed by the banks are summarised in Table 3.

Table 3: Percentages of Sample Banks Financed Each Export Commodity

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

Summarised results in Table 3 reveal that maximum number of banks (92 percent) offers credit to readymade garment and the least number of banks (16 percent) provide credit to fruits and vegetable, hides & skins, chemicals, computer software etc. It also shows that 58 percent of the banks offer finance to the export of frozen foods, 50 percent provide fund for raw jute, about 42 percent banks used to finance export of jute goods, tea and leather and about 33 percent of banks provide fund for the export of handicraft. Some sample banks, however, have reported that they are ready to finance all kinds of export commodities, if the exporters seek financial help from them.

8.1.3 Procedure of Sanctioning and Disbursement of Loans

Starting from the receiving an application to final disbursement of loan, there are some sequential steps that have been followed by the commercial banks. After critically scrutinising the application form, bank ascertains creditworthiness of the exporters. If the proposal is found credit worthy and the amount of loan is within the sanctioning power of the branch manager, then the loan is sanctioned normally within a short time. Otherwise, the proposal is sent to head office for appropriate steps and advice. Foreign trade financing division of the bank reviews the proposal and places before the appropriate authority for final approval. If the loan is approved, the proposal is sent back to respective branch office mentioning terms and conditions to be fulfilled by the exporters. However, after approval of the amount of credit the disbursement procedure starts. A few more administrative and procedural steps are followed including preparation and creation of documents, seeking legal advice on documents etc before final disbursement of credit. The whole process of sanctioning and disbursing procedure takes time that varies with the duration of completing the requirement. Exporters generally express their grievances against bureaucratic procedure and longer time taken for final approval of the proposal. We have assessed average time - minimum and maximum- taken against export finance proposal from the responses of respondent banks. Descriptive statistics of the responses are shown in Table 4 for minimum and maximum time of each category of banks as well as commercial banks in general.

Table 4: Average Minimum & Maximum Time for Processing a Credit Application (in days)

	Minimum				Maximum			
	NCB	$Pvt^{.IB}$	$Pvt^{.IF}$	ALL	NCB	$Pvt.^{IB}$	$Pvt.^{IF}$	ALL
Mean (μ)	6.5 (2.87)	8.00 (2.52)	2.00 (0)	5.50 (1.38)	22.5 (4.33)	33.75 (7.18)	30.00 (0)	28.75 (2.90)
Std.dev	5.75	5.03	0	4.80	8.66	14.36	0	10.03
C.V.	0.885	0.629	0	0.873	0.385	0.425	0	0.349
Mode	3.00	7.00	2.00	2.00	15.00	45.00	30.00	30.00
Median	4.00	7.00	0	3.00	22.50	37.50	0	30.00
Kurtosis	3.41 (2.62)	2.23 (2.62)	0	1.04 (1.23)	-6.00 (2.62)	-1.29 (2.62)	0	-.19 (1.23)
Skewness	1.86 (1.01)	1.13 (1.01)	0	1.49 (0.64)	0	-.855 (1.01)	0	0.086 (.637)

Note*: Figure S in the parenthesis indicates standard error*

Measures of central tendency, as shown in Table 4, indicate that $Pvt.^{IF}$ takes the least time (2 days) to complete the credit procedure when the application is processed within minimum time. But the average minimum time for any bank of nationalised group is 6.5 days and of $Pvt.^{IB}$ is 8 days. Though $Pvt.^{IB}$ takes on the average longer time, its time distribution is less dispersed in comparison with NCB as **C.V.**= 0.629 compared to **C.V.**= 0.885 of NCB. But, in case of maximum time, NCB takes much less time than $Pvt.^{IB}$ and $Pvt.^{IF}$. Moreover, its coefficient of variation is also less than $Pvt.^{IB}$. NCB takes maximum 15 days time on the average in completing the procedure in contrast to 45 days and 30 days by $Pvt.^{IB}$ and $Pvt.^{IF}$ respectively. However, in case of minimum time, distributions for all categories of banks are leptokurtic while in case of maximum time, distributions are platykurtic. It implies that the concentration of values in the distribution around the central tendency is low with long tail in later case. In short, banks usually take as low as 2 days to as maximum as 45 days to complete the procedure of credit. Secondly, both minimum and maximum limit of time vary with the categories of banks. Significance level is tested and computed t–values are presented in Table 5. Computed values of '**t**' indicate the acceptance of null hypothesis $\mathbf{H_0} : \mu_1 = \mu_2$ in all case. It shows that the differences are statistically significant. Hence, minimum and maximum time is not independent of bank category.

Table 5: Computed 't' Values between Means of Time
(Average Processing Time of an Application)

Bank	Minimum			Maximum		
	NCB	$Pvt.^{IB}$	$Pvt.^{IF}$	NCB	$Pvt.^{IB}$	$Pvt.^{IF}$
NCB	-	0-.393	1.567	-	-1.342	-1.732
$Pvt.^{IB}$		-	2.384		-	0.522
$Pvt.^{IF}$			-			-

Note: *Critical value of* $\boldsymbol{t_{0.05}}$ ***= 2.447*** *(two tail test) with* ***d.f.= 6.***

Comparing this finding regarding processing time of a credit application with the finding from exporters' view in the previous chapter, we apparently observe no contradiction. But reconciling the views of service provider and service receiver, it could be said that taking maximum time is more normal than the minimum time.

8.1.4 Analysis of Bankers' View: Export Financing

8.1.4.1 Problem Faced by the Commercial Banks

The commercial banks those are involved in financing export business usually face a number of difficulties in advancing credit to the exporters even though they have confessed to have desire to provide credit liberally. A list of such perceived problems - independent to each other was given to the respondents. Results of the responses are provided in a frequency Table expressed in percentage in Table 6. The Table shows that inability in measuring the risk and uncertainty in the event of non-acceptance of consignment by the foreign buyers, either due to poor quality or delay in shipment, is considered as a major problem by the cent percent respondents. 92 percent respondents feel that (i) difficulties in ascertaining genuineness of an exporter and (ii) lack of experience or proper knowledge about the export trade of exporters are two other important problems that they usually encountered with. While processing loan proposal of an exporter, authorities often find that the security offered by the exporters is either not proper or adequate to cover the desired amount of credit. Moreover, exporters sometimes could not provide the appropriate documents. Though the credit proposal appears to be attractive, they could not take decision in favour of granting credit under such circumstances. 83 percent of respondents feel these two as important problems in processing export-financing proposal. 75 percent of the banks do consider that incomplete knowledge and information about local and foreign market of an exporter is another problem for extending credit to export trade. 67 percent of the commercial banks view that determination of the ability of the exporter repayment capability is a very cumbersome work. Subjectivity in assessing the possibility of adopting undesirable practices by any exporter is considered as a problem by 42 percent of banks. A small percentage of the respondents (13 percent) face problem due to discrepancies in the furnished information in the documents.

Table: 6 Frequency of Problems in Granting Export Credit

Problems encountered	(%)
Inability in measuring 'risk and uncertainty' of non- acceptance of commodities by foreign buyer due to poor quality	100
Inability in measuring risk and uncertainty of non – acceptance of commodities by foreign buyer due to delay in shipment	100
Lack of experience and proper knowledge of exporters about the export trade	92
Difficulty in ascertaining genuineness of the exporters'	92
Inability of providing adequate and proper security by the exporters	83
Exporter does not possess appropriate documents	83
Lack of proper knowledge and information about local and foreign market	75
Difficulties in determining the ability of the exporters repayment capacity	67
Subjectivity in assessing possibility of adopting undesirable practice by any exporter	42
Discrepancies in documents	17

Average number of problems faced by a commercial bank, of-course, varies category to category. The study finds that the numbers of problems faced are higher in case of Pvt$^{.IB}$(9) than other two categories of banks Pvt$^{.IF}$(8) and NCB(7). The average number of problems encountered by banks in general is 8. In Table 7, we provide the computed **t**–values to test whether these differences are statistically significant.

Table 7: Computed t –Values between Means
(Number of Encountered Problems)

Categories of Banks	**Calculated t-values**		
	Pvt.^{IB}	**Pvt.^{IF}**	**NCB**
Pvt$^{.IB}$ (9)		-1.177	1.852
Pvt$^{.IF}$ (8)			-0.414
NCB (7)			

Note: *Figure in the parenthesis indicates average number of encountered problems*

Computed **t**-values, as shown in Table 8, are found less than critical values at 5 percent significance level. Thus, the null hypotheses ($\mathbf{H_0: \mu_i = \mu_j; i \neq j}$) are accepted. It implies that there is no significant difference between mean numbers of problems encountered by different categories of bank. It implies that number of problems encountered by a bank is independent of bank category.

8.1.4.2 Risk factor in Realising Export Credit

Financing in the export sector has always been considered as risky with respect to realisation of credit. Banks identify the business of financing in this sector as risky because of uncertainties and unpredictability involved in a good number of factors associated with export environment. However, bankers' attitude towards these factors regarding riskiness is nonhomogeneous and therefore, each and every factor may not be perceived as equally risky or at all risky by every bank. We have tried to identify the factors from the opinions collected from bankers. There are altogether ten factors disclosed by the bankers. However, unanimity does not exist among the bankers on what actually makes the realisation of advance difficult. Table 8 shows that 50 percent of the banks consider non/late/short shipment of export commodity is an important risky factor in realising the export credit irrespective of categories of banks.

Table 8: Factors Perceived Risky In Realising Export Credit
(Percentage of Bank Respondents)

Risk factors	NCB	Pvt.^{IB}	Pvt.^{IF}	Average
Non/Late/Short shipment	50.0	50.0	50.0	50.0
Non execution of export order	50.0	0	75.0	41.7
Cancellation of export orders	75.0	25.0	0	33.0
Non repatriation of export proceeds	25.0	75	0	33.0
Use of money for other purpose	50.0	0	0	17.0
Fall in price in buyers country	25.0	25.0	0	17.0
Partial non execution of export order	25.0	0	0	8.3
Insolvency of the buyer	25.0	0	0	8.3
Political unrest in the buyers country	25.0	0	0	8.3
Non-acceptance of goods by the buyer	25.0	0	0	8.33

About 42 percent of the banks do consider that non-execution of the export order creates risky situation for the banks in realising export credit. Interestingly the interest based private banks remain non-committal on this issue. However, cancellation of export orders & non-repatriation of export proceeds are considered as risky factor by 33 percent of respondent banks. 17 percent of the banks have expressed that realisation export credit appears risky because of the possibility that exporters may use money for other purposes and expected price of exported commodity may fall in the buyer's country. On the other hand partial non execution of export order, insolvency of the buyer, political unrest in the buyer's country, non-acceptance of goods by the buyer etc. are considered risky in realising export credits by only 8.33 percent of the respondent banks.

Interestingly, no private bank does consider these factors as having any contribution in forming risk of realisation of credit from the exporters.

8.1.4.3 Documents Required with Credit Application

Export trade being a process of exchange of goods & services between two sovereign states, is complicated enough to involve large number of documents which are required for completion of the export transaction. A commercial bank while granting credit to an exporter normally takes possession of all or some of these important documents such as trade license, L/C in hand, letter of pledge & hypothecation, documents of title of goods etc. It may be mentioned here that there are some transferable documents which create title to the goods, necessitated to take delivery of the goods at the port of destination. When such transferable document is pledged against the bankers, they can easily realise the credit by selling out commodities in the market if the exporters become defaulters. Though the requirement of such documents makes the credit to the exporters more secure, the hassle of supplying all necessary documents on the part of an exporter makes the credit procedure unattractive. Exporters are critical about the paper work and generally express their unhappiness on this issue. How many documents does a bank in financing an export-financing proposal consider necessary? We have tried to know what number of documents is required by the banks in granting advance to the exporters and how many of those documents are sought with the application on an average. Results of the responses are summarised in Table 9. From the Table it appears that, on an average, the number of documents required by the banks is ten. Further, average number of documents required to submit is less in Pvt$^{.IF}$ than Pvt$^{.IB}$. The average numbers of required documents are 8 and 9 respectively. In case of NCB this average number is 13, which is much higher than banks' average (10). However, the null hypothesis that the means of number of documents between two categories of banks (**H_0: $\mu_1=\mu_2$**) are identical is verified by **t**-test. The computed **t**-values are shown in Table 10. Results show that the differences between nationalised banks with both groups of private banks are statistically significant while the difference between two types of private banks is appeared statistically insignificant.

Table 9: Computed t-Values between Means
(Number of Documents)

Categories of Banks with means (μ)	Calculated t values		
	NCB	Pvt.^{IB}	Pvt.^{IF}
NCB (13)	-	3.138	3.959
Pvt$^{.IB}$ (9)		-	0.319
Pvt$^{.IF}$ (8)			-
Bank Average (10)			

Note: *Figure in the parenthesis indicates average number of encountered documents.*

8.1.4.4 Factors Influencing in Measuring Creditworthiness

A commercial bank is not bound to finance anybody who knocks at its door. As bank deals with other people's money in credit business, a bank has to ensure the safety of depositors' money and to look into its liquidity position carefully. So, before granting credit the commercial banks have to satisfy themselves as to the credit-worthiness of the client. Export trade being more risky, banks are usually more careful in assessing the credit-worthiness of an exporter. Measuring credit-worthiness of an exporter, therefore, is a very crucial assessment procedure in making the decision of advancing against an export proposal. Banks usually take multiple factors into consideration. One of our objectives has been to identify the set of such factors those are considered by the banks as critical. In our schedule, we have sought responses of banks against twelve pre-set independent factors. Results are summarised below in a frequency Table expressed as a percentage of banks' responses in Table 10. This study shows that the banks try to determine the credit-worthiness of an exporter by considering several factors and this number of factors varies from bank to bank.

Table 10: Factors Influencing Evaluation of the Credit Worthiness of an Exporter (pc of Bank Respondents)

Factors	(in %)
Business integrity of the exporter	100
Solvency of the exporter	100
History of past performance of the exporter in export business	100
Business turnover of the export firm	83
Volume of security offered by the exporter	83
Liability with other banks	83
Volume of export transaction of the exporter	75
Balance sheet position of the exporter	67
Export market report of the goods to be exported	67
Availability of exportable commodity in domestic market	67

Table 10 shows that business integrity, solvency and history of the past performance of the exporters are considered unanimously as influencing factors in measuring credit-worthiness of an exporter. Business turnover, volume of security and liability with other banks are considered as important factor by 83 percent of the respondents. Volume of export transaction of an exporter is considered by 75 percent of the respondents, while 67 percent of the sample banks consider balance sheet position, export market report and availability of the exportable commodity in the domestic market as factors in measuring credit worthiness. Only 25 percent respondents consider income tax return as one of such factors. Furthermore, on the average, banks consider ten factors in measuring credit-worthiness. However, the average numbers of factors vary according to category of banks. Table 11 shows that nationalised sector banks appear to follow more stringent procedure and private interest based banks follow the least stringent procedure in giving approval to an exporter's proposal. Pvt.^{IF} stands in between these two extreme positions in this respect. However, except the difference between NCB and Pvt.^{IB}, hypothesis testing by **t**-test accepts the null hypothesis ($\mathbf{H_0: \mu_1 = \mu_2}$) as the computed **t-**values<$\mathbf{c_{ritical}}$ in all cases as shown in Table 11. Thus it appears that the differences in number of factors considered for measuring credit worthiness between different categories of banks are not statistically significant except the difference between nationalised and interest based private banks.

Table 11: Computed t-Values between Means No. of Factor Considered by Bank in Measuring Creditworthiness of an Exporter

Categories of Banks with means (μ)	Calculated t-values		
	NCB	Pvt.^{IF}	Pvt.^{IB}
NCB (12)	-	1.80	3.00
Pvt$^{.IF}$ (10)		-	-0.792
Pvt$^{.IB}$ (9)			-
Bank Average (10)			

Note: *Figure in the parenthesis indicates average number of factors*

In this connection, the problem of small exporters may be of interest of study. Small exporters are generally perceived as not worthy for export credit or are bracketed with a group of high-risk customers. Thus, there is a common belief that banks hesitate to financing small exporters as compared to big exporters. We have tried to determine the attitude towards small exporters and a comparative analysis of the attitude has been made among the sample respondents of nationalised and private banks. Results are summarised in Table 12 below. It is evident from the Table that the responses are evenly distributed among positive and negative answers. So a specific inclination of bank attitude towards big or small exporters is not established.

Table 12: Banks Attitude towards Small and Big Exporter (% of Banks Respondents)

Opinion	NCB	Pvt.^{IB}	Pvt.^{IF}	Average
Yes	50	50	50	50
No	50	50	50	50

8.1.4.5 Possible Undesirable Practices and its Consequences:

One of the major factors for which banks are often hesitant to provide export credit to exporters is the apprehension that exporters might be involved in undesirable practice with the advanced amount of money. Undesirable practices, which are apprehended by the bankers, are: (i) Exporter may delay the execution of order with the objective of exploiting some extra benefits during the intermediate period. This, however, increases the chance of rejecting the export order by the buyer in the foreign country. Realisation of credit by the bankers from the sales proceeds of the exported commodities becomes more risky. (ii) Exporters often change the product quality and grading that they have mentioned in the export order or credit documents. Foreign buyers naturally may refuse to accept the consignment and the advanced credit of the bank might be locked forever or might not be realised fully. Under this circumstance banks often realise partially by selling those commodities in the home market, which requires special permission from the appropriate authority. Bank naturally does not prefer to trap into such undesirable circumstances that make complete waste of resources and time. (iii) Exporters may often mis-utilise the loan amount by fulfilling the other exigencies of the business. (iv) Exporters indulge in under invoicing.

Any of such undesirable practices may harm the export financing business of the bankers. Extent of loss of the bankers may be temporary (short-run) or permanent (long-run). Temporary or short-run loss may be insignificant, normal or substantial in nature.

In this subsection we have tried to assess what type of undesirable practices bankers do consider the most crucial and what is the expected extent of loss on the banking business. We have found the level of agreement against each type of undesirable practices and the overall level of agreement among the respondents by using Kappa statistics. Similarly, by using the same non-parametric statistical test, we have identified the type of undesirable practice that affects the banking business and also to what extent. Results of the analysis are shown in Tables 13 and 14.

Table 13 shows that in accordance with the level of agreement among bankers, delaying the export order and using loan for other purposes are two successive important abuses of advanced credit in order of ranking. It has also been found that bankers do not believe that the chances of adopting any of such practice 'often' or 'very often' are high (probability 0.15) but there is a fifty percent chance that the exporter would involve himself in any of such practices 'sometimes'. On the other hand, the probability that the exporters would take resort to any of such undesirable practices 'rarely' is 0.20. However, the value of Kappa coefficient being very low (**K**=0.0476, std.dev. of **K**=0.0912) there seems to be hardly any agreement among the respondent bankers about the rating of the type of undesirable practices. The calculated value of **Z**=0.5217. This value does not exceed the **α**= 0.01 significant level (when **Z**=2.32). Therefore, we may conclude that the level of agreement among the bankers is not statistically significant.

Table 13: Possible Undesirable Practice by the Exporters

	Undesirable practice	Rarely	Sometimes	Often	Very often	Level of Agreement (S_i)
a	Exporter delays the execution of order	0	7	0	3	0.533
b	Exporter changes the product quality and grading	2	3	4	1	0.222
c	Exporter uses loan for other purposes	2	7	0	1	0.488
d	Exporter indulges in under invoicing	4	3	2	1	0.222
Pj	=	0.2	0.5	0.15	0.15	1.00
Kappa	**= 0.047619**		Var (K) = 0.0083313			
Std (k)	= 0.0912759		**Z = 0.5217044**			

8.1.1.1 Effect on Export Financing Activity

According to index of level of agreement of bankers' opinion, among those undesirable practices, two practices, namely (i) delaying of export order and (ii) using loan for other purposes affect the banking business and hold first two positions in order of ranking. Other two practices also affect the business and the levels of agreement regarding this (given by respective values of $S_{i)}$ are 0.3636 and 0.2575 respectively.

Table 14: Affecting the Export Financing Activity by Undesirable Practice

	Undesirable practice	Temporary Nominal	Temporary & Normal	Temporary & Substantial	Long-run	Level of Agreement **(S_i)**
a	Exporter delays the execution of order	0	0	10	0	0.681818
b	Exporter changes the product quality and grading	0	0	3	7	0.363636
c	Exporter uses loan for other purposes	0	2	0	8	0.439393

d	Exporter indulges in under invoicing	0	2	6	2	0.257575
Pj =		0	0.1	.475	.425	1.00
Kappa(K) = 0.3813942			Var (**K**) = 0.0070065			
Std (**K**) = 0.0837048			**Z = 4.5564206**			

Results presented in Table 14 indicate that, in the event of adopting any such undesirable practice, there is high probability that organization would be affected and it has a long-run bearing. Besides, if it is short-run, the extent of damage is also considered to be substantial. Bankers belief that when it happens then the extent of negative impact would never be of 'temporary and nominal' in nature and there is little chance that it would be 'temporary and normal' in character. On the contrary, bankers belief that the probabilities of adverse impact being 'long-run' and 'temporary and substantial' are 0.425 ($P_{j\ =\ 4}$) and 0.475 ($P_{j\ =\ 3}$) respectively. Kappa coefficient K being 0.3814, it can be conclude that there is moderate agreement among the bankers. The calculated value of Z being 4.556, it does exceed significant level $\alpha = 0.01$ for which Table value of Z = 2.32. It thus seems to establish that the level of agreement by Kappa index is statistically significant at 1 percent level of significance.

8.1.4.7 Banks Suggestive Measures

The respondents in order to improve the present system of export financing and make it more efficient by the banks have put several valuable suggestions forward. With respect to the experiences they have gathered over the years in the business of finance, these suggestions are worthy to be considered by the appropriate authorities. These, however, are meant for (i) Government / administrative authority and (ii) exporters. First set of suggestions may again be sub-divided into two parts: a set of suggestions outlined for making the existing system more effective or efficient, and another set outlined for improvement of the existing system. For making the existing system more effective and efficient, they have suggested that the government should take the following four measures:

(i) Pre-shipment inspection of goods should strictly be followed.
(ii) Grading and standardisation of goods should strictly be maintained.
(iii) Government should maintain rigid quality control.
(iv) Warehouse facilities should be extended.

92 percent of respondents are in favour of adoption of already existing regulation relating to pre-shipment inspection, grading and standardisation of goods. 75 percent and 42 percent of respondents have also supported other two suggestions.

For improvement of the existing system respondents have suggested three measures i.e.

(i) To develop the system of providing credit rating information about foreign buyers.
(ii) To formalize the arrangement for expeditious disposed of mortgage property, and
(iii) To provide the facility of underwriting a part of the probable loss.

According to bankers' opinion, as has been revealed by the sample survey, getting finances from the commercial banks in export business would be easier if the exporters follow three basic norms suggested by them. These are:

(i) Creation of *bona fide* by fair dealing
(ii) Keeping of proper and up to-date accounts
(iii) Supplying fresh and proper documents

Suggestions favoured by different bankers are given in Table 15 below with respective percentage of respondents.

Table 15: Measures Suggested by Bankers (% of Respondents)

Suggestions	Percentage
Pre-shipment inspection of goods should follow strictly	92
Grading and standardisation of goods should strictly maintained	92
Government should maintained rigid quality control	75
Warehouse facilities should be extended	42
Providing credit-rating information about foreign buyers	75
Helping expeditious disposal of mortgage property	42
Underwriting a part of the probable loss	33
Creation of *bona fide* by fair dealing	75
Keeping of proper and up to-date accounts	75
Supplying fresh and proper documents	50

8.1.4.8 Opinion on Separate Financial Institution

There persists a belief among exporters or common people that the problem of export finance may be reduced if a separate institution independently and exclusively dealing with export finance is established. We have studied the bankers' opinion on this aspect.

In this section, we have summarised and analysed the results of the responses of respondents on this issues. Results are shown in Table 16.

Establishing a separate export financing institution as a means to get rid of several problems of getting adequate finance easily and timely export business is a much talked about theme. Some of the benefits believed to be achieved by this are: i). it would be able to render quick service to the exporters, ii) finance would be easily available on easy terms and conditions, iii) it would be able to supply foreign market information to the exporters, iv) it would be able to work as export promotion agent, v) small exporters would be beneficial etc.

Banks opinion has been sought in a 5-point interval scale structured with seventeen such perceived consequences of a separate institution. Consequences are ranked on the basis of the average score calculated from the responses of the banks in accordance with the scores of all banks together as well as of each category as shown in Table 16. Levels of agreement on each consequence (**Si**) are shown in the Table along with overall agreement given by Kappa coefficient. On the basis of the ranking by all banks, the consequence that the employment opportunity would be enhanced is ranked first but level of agreement appears to be very low (**Si** = 0.2575). Consequence that the general exporters would be benefited provided the institution operates on regional basis is ranked second but with lesser degree of agreement (**Si** =0.2272). This consequence is ranked third by the Pvt.^{IF} and thirteenth by the NCB and Pvt. According to NCB and Pvt.^{IB}, however, the consequence of that export volume would be readily known is the highest ranked holder. This diversity in rank order between NCB and Pvt.^{IB} in one group and Pvt.^{IF} in the other has been established by the rank correlation coefficient matrix (Table 18). While a very high degree of positive correlation coefficient (0.99) has been found in ranking between NCB and Pvt.^{IB}, high degree of negative rank correlation coefficient has been found between Pvt.^{IF} vis-a-vis Pvt.^{IB} and NCB. However, very low levels of agreement among bankers have been observed against each consequence (shown by $\mathbf{S_i}$ in Table 17). Moreover, the value of Kappa coefficient (**K**= 0.053426) indicates that there is hardly any agreement among the bankers regarding the consequences of separate financed institution for export. The value of **Z** has been found greater than the theoretical value of **Z**=2.32 at one percent level of significance. It can be inferred that the conclusion that there exists diverse opinion among the bankers on this issue is statistically significant.

Table 16: Interval-Scale Score Rankings and Level of Agreement (S_j) on each of the Perceived Consequences of Separate Export Financing Institution

	Consequence	Total Score	Ave. Score	S_i	Ranking		
					NCB	Pvt.^{IB}	Pvt.^{IF}
a.	It will be able to render quick services to the exporters	44	3.666	0.227	13	13	3
b.	Finance will be readily available on easy terms	43	3.583	0.333	10	10	11.5
c.	It will be able to supply foreign market information to the exporters	42	3.5	0.257	16	16	5.5

d.	It will be able to work as export promotion agent	42	3.5	0.227	7.5	7.5	5.5
e.	Small exporters will be benefited	42	3.5	0.212	13	13	3
f.	Proper documents and maintenance of accounts of these agencies will be beneficial to exporters	42	3.5	0.196	15	16	7
g.	Export volume will readily be known	41	3.416	0.318	1	1	14.5
h.	Employment opportunity will be enhanced	39	3.25	0.257	10	10	1
i.	It will create monopoly	39	3.25	0.272	10	10	16
j.	It will create bureaucracy	38	3.166	0.333	4	4	14.5
k.	It may be dominated by the big exporters	38	3.166	0.363	4	4	17
l.	Commercial banks will be affected by such institutions	37	3.083	0.212	4	4	11.5
m.	Corruption will develop in the management of such institution	36	3	0.348	4	4	11.5
n.	This will be only helpful to the banks to get refinancing facilities	35	2.916	0.318	7.5	7.5	8.5
o.	General exporters will be benefited provided , it is done on regional basis	34	2.833	0.227	13	13	3
p.	General exporters will be benefited provided it is	34	2.833	0.272	4	4	11.5
q.	General exporters will be benefited provided it is sponsored by the government.	32	2.666	0.212	17	17	8.5

Table 17: Rank Correlation Matrix Of Rankings

	NCB	Pvt.^{IB}	Pvt.^{IF}
NCB	1.00	0.99	-0.6406
Pvt.^{IB}	0.99	1.00	-0.6353
Pvt.^{IF}	-0.6406	-0.6353	1.00

Table 18: Probability of Scale (P_j) and Level of Agreement, Kappa Coefficient (K) Among Bankers on Responses

		SA	A	UD	DA	SDA
Pj	=	.152961	.299019	.25590	.2117	.0833
Kappa	=	0.053426		Var (K)	=	0.000396
Std (k)	=	0.019892		Z	=	2.685749

9. CONCLUDING REMARKS

A questionnaire schedule was administered among the respondents of a sample of 12 banks of three different categories – NCB, $Pvt.^{IB}$, and $Pvt.^{IF}$. Banks do offer financial as well as non-financial services and facilities to exporters. Commodities for which banks offer credit are RMG, frozen food, raw jute, jute goods, tea, leather and handicraft etc. Among these most of the banks offer credit to RMG.

With regards to procedure of sanctioning and disbursement of loan, it is found that it takes time depending on the duration of completing of the requirement. Mean minimum time is found minimum for $Pvt.^{IF}$. On the other hand mean maximum time is found minimum for NCB. Banks considered that exported commodities are often not accepted due to poor quality and delay in shipment. Measuring the risk of providing credit to exporters is thus difficult. Though there are other problems but these two are considered crucial problems by the cent percent of respondents. The study reveals that there is no significant different in the perception of different categories of bank relating to the number of issues considered as problem.

In order to minimize the risk banks usually seek a number of documents. NCB requires a highest number of documents which statistically differs significantly with private banks.

Factors those are considered by banks in measuring credit worthiness are many. Integrity, solvency and performance history of exporters are commonly considered by all banks. There is no statistically significant difference between categories of banks regarding the numbers of factors considered in this respect.

It is found that there is a very little agreement among the banks on possible undesirable practices and their consequences. However highest level of agreement among bankers lies on the one of the four apprehensions that exporters may delay the execution of order.

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