Research Monograph 66
2023

Export Finance and Incentives: Implications on Export from Bangladesh

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Published in April, 2023 (Online)

Published by Bangladesh Institute of Bank Management (BIBM)
Plot No. 4, Main Road No. 1 (South), Section No. 2
Mirpur, Dhaka-1216, Bangladesh.
PABX : 88-02-48032091-4, 88-02-48032097-8, 48032104
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Printed by **……………………………………………….**

Foreword

The findings of the research topic titled "Export Finance and Incentives: Implications on Export from Bangladesh" are presented as part of the ongoing dissemination of BIBM research outputs. The research was presented in an online session held on the Zoom platform on November 6, 2021.

Exports are vital to a nation's economy. To build their economies, developed and rising countries aim to increase exports. Export-led growth encourages firms to export via various economic measures.

Exports are supposed to boost economic growth and development; thus, governments should prioritize them. To achieve these aims, governments, especially in developing nations, have historically offered large export incentives to industries considered the economy's backbone. Fiscal and non-fiscal export incentives may result in major institutional transformations.

Export finance and incentives aim to boost exports. Monetary incentives and export finance may affect export growth. This study examines how incentives and export finance affect export growth.

It brings me great pleasure to offer this valuable resource of academic insights to bank and financial institution practitioners, regulatory agencies, policymakers, academics, and general readers on behalf of BIBM. I think that this keynote paper will be a useful resource for policymakers interested in learning more about the role of export finance and cash incentives in boosting exports in Bangladesh. We welcome feedback from our valued readers on this topic, as it will undoubtedly assist us in improving our research operations in the next years.

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

Acknowledgement

The research project titled “Export Finance and Incentives: Implications on Export from Bangladesh” comes to light with the immense support from many persons, especially from the executives of different banks to assess the impact of export finance and cash incentives on the export growth of Bangladesh and also to identify several challenges and risk associated with the export financing and cash incentive in promoting export development in the country and made some recommendations. We would like to extend our gratitude to Dr. Md. Akhtaruzzaman, Honorable Director General of BIBM, for his valuable advice, observations and thoughts to progress our research work.

The research team is indebted to the chief guest, panelists and the participants of the seminar for their valuable comments that immensely helped us to improve the quality of the paper. The observations and remarks of Professor Dr. Barkat-e-Khuda, Former Dr. Muzaffer Ahmad Chair Professor of BIBM, helped us to improve the quality of the paper. Further, the paper benefitted from careful review and editing by Professor Dr. Barkat-e-Khuda. We are also very grateful to Dr. Ashraf Al Mamun, Associate Professor and Director (Research, Development & Consultancy) of BIBM for his support. We are thankful to the office of Research, Development & Consultancy, BIBM to complete the publication process. Finally, we would like to thank all of those who extended their support in this research work.

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Acronyms

ADB	Asian Development Bank
ADF	Augmented Dickey-Fuller test
ADs	Authorized Dealers
AIC	Aaike Information Criteria
AML	Anti Money Laundering
ARDL	Autoregressive Distributed Lag
BB	Bangladesh Bank
BDT	Bangladesh Taka
BFIU	Bangladesh Financial Intelligence Unit
BGMEA	Bangladesh Garments Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BRPD	Banking Regulation and Policy Department
BTB LC	Back to Back LC
BTMA	Bangladesh Textile Mills Association
ECA	Export Credit Agencies
ECGS	Export Credit Guarantee Scheme
ECM	Error Correction Model
EPB	Export Promotion Bureau
ERQ	Exporters Retention Quota
FDBP	Foreign Documentary Bills Purchased
FEPD	Foreign Exchange Policy Department
FERA	Export Development Fund
FERA	Foreign Exchange Regulation Act
FGD	Focus Group Discussion
FOB	Free On Board
GDI	German Development Institute
GFET	Guidelines for Foreign Exchange Transactions
GoB	Government of Bangladesh
GTF	Green Transformation Fund
HSBC	The Hongkong and Shanghai Banking Corporation Limited

IBBL	Islami Bank Bangladesh Ltd
ICC	International Chamber of Commerce
IMF	International Monetary Fund
KYC	Know Your Customer
LC	Letter of Credit
MLR	medium- and long-term
MoF	Ministry of Finance
MSME	Micro and Small Enterprise
NPLs	Non-Performing Loans
OECD	The Organization for Economic Cooperation and Development
PCBs	Private Commercial Banks
PP	Phillips Perron
RMG	Ready Made Garments
SBC	Shadharan Bima Corporation
SCF	Supply Chain Finance
SEBL	Southeast Bank Ltd
SOCB	State Owned Commercial Banks
TBML	Trade Based Money Laundering
TFPs	Tradition Financing Products
UCB	United Commercial Bank PLC
USD	US Dollar
VAT	Value Added Tax
WTO	World Trade Organization

Executive Summary

Several governments base their economies on export-oriented growth. Several countries now prioritize export growth in their private-sector-led international trade. International business relies on banks to aid merchants with payment, financing, and risk mitigation. Trade finance is essential to international commerce because banks typically assume corporate risks.

Banks are also assisting exporters in utilizing the various government incentives to increase exports. In order to encourage exports in accordance with the country's objective for export-led economic growth, the government of Bangladesh provides export incentives to certain export industries. Two major types of incentives are duty deductions and cash incentives.

With the joint objective of accelerating the country's export growth, incentives and export funding are both put into place. Yet, it could be necessary to look at how financial incentives and export finance impact export growth. The particular aims are to: 1. empirically analyze the link between export finance and monetary incentives and Bangladesh's export development; 2. Discuss export funding, monetary incentives, and the regulatory framework; 3. establish significant findings on how banks in Bangladesh support export financing and cash incentives; and 4. offer policy inputs to better utilize export financing and give incentives for Bangladesh's export growth.

Primary and secondary data support the study. International literature on export development relied on secondary sources. Our study relies on data from, Export Promotion Bureau (EPB), Bangladesh Bank (BB), and Shadaran Bima Company data (SBC). Secondary data from 1993 to 2020 came from Ministry of Finance (MoF) and BB publications. A questionnaire survey was conducted among participants to collect data on bank-facilitated cash incentives and export finance instruments. 31 banks—4 SOCBs, 25 PCBs, and 2 FCBs—completed the study's questionnaire. The research comprised case studies on export finance and financial incentives of various bank branches to explore difficulties from the bank and consumer perspectives. Thirty-one bank representatives participated in one Focus Group Discussion (FGD) to evaluate data and identify impediments and future actions (Appendix Table 2 & 3). BB, Customs, SBC, merchants, and auditors were also interrogated. Autoregressive Distributed Lag (ARDL) technique has been used to investigate the effects of financial incentives and export financing on the export volume.

The study identified several challenges and risk associated with the export financing and cash incentive in promoting export development in the country and made some recommendations.

Long-term and short-term export finance benefits export growth. But, short-term financial return is significant. This study found that cash incentives had little short-term impact on export volume. Export-oriented manufacturing facilities cannot get financial incentives and bonded storage or Duty Drawback (DEDO) facilities. This might discourage exporters from utilizing financial incentives. Exports outpaced cash incentive growth. Sector-specific evaluations show that spending doesn't effect export growth. Governments should also reconsider how to employ financial incentives to increase exports. Bankers and auditors must enhance financial incentive allocation. Though financial incentives helped Bangladesh's early export development, they must be effectively coupled with other export facilitation items for better outcomes. As export finance affects export growth, stakeholders should focus on minimizing the export financing gap by ensuring effective use of refinancing funds, eliminating operational issues, and strengthening trader negotiation abilities.

Sales Purchase Contracts now account for more exports. Open account trade is growing worldwide. Without legally enforceable contracts, the export business is struggling. Merchants and bankers increasingly worry about order cancellation, payment delays, inability to settle disputes, change of circumstances, etc. in global financial crisis, while realizing export revenues. The UNIDROIT Principles of International Commercial Contracts (UPICC) and the Vienna Convention on the Sale of Goods (CISG) should be ratified. With COVID-19, foreign businesses should grasp their goals and benefits.

Lack of compliance understanding, customer due diligence, and unscrupulous bankers, dealers, and auditors may lead to cash incentive frauds. So, banks and auditors face penalties, legal challenges, and reputational threats. Banks and auditing firms should improve their compliance management of monetary incentives to eliminate these concerns.

Bangladesh's export growth benefits from export funding and incentives. Banks' export finance and trade facilitation incentives have been criticized for a range of reasons, some intentional and others due to capacity limitations. Operational, regulatory, and commercial risk requires collaboration between traders, bankers, auditors, and regulators. Financial incentives and export finance are essential to expanding exports, thus they need better operational strategy and regulatory constraints. Sector-specific research is required to generate more tailored policies. Policymakers assisted exporters by loosening regulations, offering inexpensive refinancing, and providing direct financial incentives. These stages may be handled and implemented properly. All parties want to accelerate export growth, but they must communicate and coordinate.

Export Finance and Incentives: Implications on Export from Bangladesh

1. Background

1.1 Introduction

One of the key elements of international trade is export, which significantly ensures a nation's economic situation. Both developed and emerging nations always strive to boost their exports in order to grow and expand their economies. A strategy for export-led growth tries to encourage manufacturers to export their products using a variety of economic and political initiatives. Therefore, export-oriented development has served as the cornerstone of the economic strategy of many governments. Today, the primary focus of many governments is encouraging export growth in their overseas commerce which is headed by the private sector. Banks play a crucial role in helping merchants with payment, financing, and risk reduction difficulties when it comes to supporting international commerce. Because international commerce entails a variety of business risks that banks often take on, trade financing is crucial to its success. Since importers and exporters often decline to assume these trade-related business risks, these services provided by banks and financial organizations become crucial (ADB, 2017). It is commonly accepted that more cross-border trade flows correlate with higher export financing activities, and developed and developing nations have assumed growing significance in this respect (Aubin, 2017).

Any government's main priority should be to encourage exports since it is thought to accelerate economic growth and development. To accomplish these goals, governments, particularly in developing countries, have a history of offering sizable export incentives to sectors that are seen as the foundation of the economy. Fiscal and non-fiscal export incentives end up being much more than a shift in relative pricing since they may lead to significant institutional reforms. For instance, demand spillovers from one industry to another are more probable if export incentives are given to a sector with significant economies of scale. It's perhaps conceivable that these prosperous industries would not have developed in the absence of such incentives drik, 1995). Additionally, export credits are monetary instruments that lower the economic and/or political risks faced by home enterprises while doing business abroad. They may lessen the chance of buyer default or bankruptcy, as well as protect customers who refuse to pay because of monetary changes, political unrest, or other occurrences. The working capital financing requirements of exporters are met by export finance, which also takes care of liquidity and risk management issues. Depending on the kind of financing, several forms of export financing may be given to the exporter on a "non-recourse" basis.

Bangladesh's export industry encompasses goods and services connected to trade financing, trade payments, and other services provided by banks' trade services departments or other financial services that are closely tied to international trade transactions. In Bangladesh's banking system, import and export finance make up the majority of foreign trade financing. Through a broad variety of solutions that assist their clients in managing their overseas payments and related risks as well as providing necessary operating capital, banks facilitate export finance. Exporters and trade finance service providers have been facing more difficult problems as a result of the growth of export financing operations, which also brought about the introduction of new products and increased complexity. Since trade finance is the backbone of cross-border trade transactions, developing nations are particularly challenged by their underdeveloped national financial markets and their constrained access to global financial markets; the lack of export finance may thus become a barrier to global trade that hinders sustainable development (GDI, 2015).

Additionally, banks are helping exporters use the various government incentives for the growth of export. The Government of Bangladesh offers export incentives to certain export sectors to promote exports in line with the nation's plan for export-led economic development. Cash incentives and duty drawbacks are two general categories of incentives. For shipments beginning on or after July 1, 1986, the GoB introduced a financial incentive (export subsidy) plan in FY1986–87 at a rate of 15% of FOB value for readymade garment exports. It was initially meant to be utilized for regional textiles with an eye toward export. The scope and reach of the financial incentive scheme have expanded since then. To include additional items, the eligibility list has been modified.

Incentives and export financing are both implemented with the shared goal of hastening the nation's export growth. However, there may be a need to investigate how monetary incentives and export financing affect export growth. In this research, we want to understand how incentives and export financing relate to the growth of exports. With this general goal in mind, the specific goals are to: (1) identify the relationship between export financing and cash incentives and Bangladesh's export development through empirical analysis; (2) discuss the regulatory environment and the role of export financing and cash incentives in export development; (3) articulate key observations on how banks in Bangladesh facilitate export financing and cash incentives; and (4) to identify policy inputs to better use export financing and provide incentives for Bangladesh's export growth.

The report has been organized into seven sections. After an introductory section with the background, objectives, and methodological issues, Section-2 briefly reviews the related literature to explain the conceptual link of export financing and cash incentive with export development and global practices and challenges are also included in this section. The empirical analysis is described in section three. Legal frameworks of export financing and cash incentives is explained in section four. Section five deals with the trends of export volume, export financing and cash incentives. Several key observations export financing and cash incentive facilitation by banks are identified in section six. Finally, Section-7 puts forward a few recommendations.

The seven parts that make up the report are divided into. Following a background, aims, and methodology part, Section-2 provides a short assessment of the relevant literature to clarify how export finance and cash incentives are conceptually linked to export development. This section also covers worldwide practices and obstacles. In part three, the empirical analysis is explained. Section four explains the legal foundations for export finance and financial incentives. The trends in export volume, export finance, and financial incentives are covered in section five. In section six, a number of important remarks are made on export finance and cash incentive facilitation by banks. Section-7 concludes by making a few suggestions.

1.2 Methodology

1.2.1 Data and Methodology for Descriptive Analysis

The research is supported by both primary and secondary sources of data. Secondary publications on export development and related topics served as sources for pertinent international literature. Our analysis draws heavily on reports from the Export Promotion Bureau (EPB), the Bureau of the Census (BB), and the Shadaran Bima Corporation (SBC). The secondary data were gathered from Ministry of Finance (MoF) and BB papers for the time spans 1993 to 2020. However, there are often three different sorts of incentives for this parameter: duty drawback, bonded warehousing facilities, and cash incentives. The data for cash incentives was accessible for quantitative research. Additionally, discussions with BB officials and representatives from the banks' trade services departments were also held. To gather data on the facilitation of monetary incentives by banks and information relevant to export financing products, a primary survey (Appendix Table-4) was carried out among participants. 31 (thirty-one) banks in total, including 4 SOCBs, 25 PCBs, and 2 FCBs, responded to the study's questionnaire (Appendix Table-1). In order to understand problems from the viewpoints of banks and customers, case studies on the export financing and cash incentives of certain bank branches were included in the study. Thirty-one representatives from various banks participated in one Focus Group Discussion (FGD) to validate data and discuss obstacles and potential future courses of action (Appendix Table 2 & 3). Additionally, BB officials, Customs officials, SBC, merchants, and auditors were interviewed on occasion.

1.2.2 Empirical Methodology

This research used the Autoregressive Distributed Lag (ARDL) technique suggested by Pesaran et al. to investigate the effects of financial incentives and export financing on the export volume (2001). The ARDL has the benefit of allowing a combination of I(0) and I(1) in the dataset. This study applied the following linear function model to identify the long-run dynamic links using three variables based on prior studies and our research goal:

$$= \int (\mathrm{CI}, \mathrm{EF})$$

EV = Export volume
CI= Cash Incentives
EF= Export volume

The F test was used to identify the long-term link between variables at the beginning of the ARDL process (Pesaran & Pesaran, 2010). On the basis of that, it calculates the model's long-term estimation using the AIC and SBC criteria. After that, the Error Correction Model (ECM) is also used to locate both short-term and long-term information. The ECM's primary benefit is that it provides information on how the disequilibrium of the previous year has been corrected (Asteriou and Hall, 2015). The functional link between export volume, export financing, and Cash incentives is included in this study's ARDL model specifications using the following model:

$$dEV_t = a_0 \sum_{i=1}^{4} b_i dEV_{t-i} + \sum_{i=1}^{4} c_i dCI_{t-i} + \sum_{i=1}^{4} d_i dEF + \delta_1 LEV_{t-i} + \delta_2 LCI_{t-i} + \delta_3 LEF_{t-1} + u_t \ldots\ldots\ldots\ldots(i)$$

The hypothesis for long run estimation

Null Hypothesis:

$$\mathrm{H_0}: \mathrm{b_1} = \mathrm{b_2} = \mathrm{b_3} = \mathrm{b_4} = \mathrm{b_5} = \mathrm{b_6} = 0$$

Alternative:

$$\mathrm{H_0}: \mathrm{b_1} \neq \mathrm{b_2} \neq \mathrm{b_3} \neq \mathrm{b_4} \neq \mathrm{b_5} \neq \mathrm{b_6} \neq 0$$

2. Literature Review

2.1 Conceptual Relationship of Export Development, Export Finance and Incentives

Export is without a doubt regarded as one of the key deterministic factors in boosting economic development. International commerce and the benefits of specialization for the economy were both stressed in the classical economic theories of Adam Smith and David Ricardo. The past 40 years or so have seen a significant amount of economic progress driven by what is now known as export-led growth or export promotion strategies for industrialisation. The industrialization paradigm of export-led development is seen to be a viable alternative to the industrialization paradigm of import substitution. Germany, Japan, and East and Southeast Asia are home to some of the export-led growth strategy's most notable success stories. The idea that export expansion encourages overall economic development is supported by a number of cross-country research (such as Michaely 1977; Heller and Porter 1978; Balassa 1978; Kavoussi 1984; Ram 1985, 1987; Feder 1983; and Tyler 1981).

2.1.1 The Impact of Export Incentives (Subsidies) on Export

Additionally, the empirical data on the effects of export subsidies and incentives is often equivocal. Export incentives have been more successful in certain economies than others. According to Westphal and Kim (1982), South Korea, often known as Korea, is the only nation in the Asian area for whom subsidies have been shown to have a statistically significant impact on export performance. Firm specific export objectives were also a component of Korea's export promotion policy, in addition to the considerable subsidy on working capital for exports until at least 1980 that was given to counterbalance the tariff and non-tariff protection of domestic market sales (Rhee et al., 1984). Jung and Lee (1986) demonstrated that a 1% increase in subsidies - which include preferential export financing, tariff reductions, and exchange rate changes - would result in a 2% increase in Korea's manufactured export supply using data for the years 1964 to 1980. However, neither export insurance nor duty drawback are included in their calculation of export subsidies. Mahmood (2006) reports that the duty drawback program was successful in enhancing Korea's export supply from 1975 to 2001 in a different research.

2.1.2 Export Subsidies also Shows Mixed Result

Celasun and Rodrik (1989) find no empirical evidence to substantiate the impact of export incentives and explain Turkey's export performance in the 1980s to real devaluation. However, the simulation research by Arslan and Wijnbergen (1993) revealed that the export subsidies made only modest contributions to the export boom in Turkey at the same time. The experience of export subsidies in Latin America has yielded conflicting results. Nogs (1989) looked at how export subsidies were used in Latin America between 1960 and 1970. He discovered that export subsidies often had little effect on Latin American nations' anti-export attitudes since they were not accompanied by other export-friendly measures. After lowering import barriers, Mexico likewise witnessed increased exports with little export subsidies and what seem to be lower social costs than Brazil. In other Latin American nations where fraud, corruption, and rent-seeking were rife, export subsidies failed. The situation is the same in Africa and other nations. For instance, duty drawback programs have provided relatively little exporter advantages in several African nations (Hinkle et al., 2003). According to Rhee (1994), this is due to a lack of a legal framework or implementation restrictions, as stated in Ianchovichina (2007). The failure of export subsidies in Latin American nations was also significantly impacted by the lack of ancillary additional free trade measures, such as tariff evasion. Different findings have also been found in other international and national studies on export incentives and export performance. Export promotion organizations and export performance were examined cross-sectionally using information from 103 developing and developed nations. According to Lederman et al. (2010), export promotion organizations have a statistically significant impact on the growth of exports.

2.2 Export Financing and Incentives in Global Context: Products, Market Trends and Challenges

Export credits are financial tools that help domestic businesses expand internationally by reducing economic and/or political risks. Export financing meets the working capital financing needs of exporters as well as a variety of liquidity and risk management requirements. Understanding the financing's goal, its suitability for the export's nature, and the source of repayment or settlement is crucial when providing any kind of export financing. Banks, non-bank financial institutions including factoring businesses, and "alternative" finance providers like invoice finance markets, trade finance funds, and fintechs may all provide export financing. Trade credit insurers play a part as well by protecting exporters and others who offer financing for trade receivables. China provides a wide range of tools to support exports and provide preferential access to raw materials and new markets. These tools consist of: (i) preferential export buyers' credits; (ii) preferential export sellers' credits; (iii) mixed credits; (iv) loans and lines of credit backed by natural resources; (v) concessional loans; and (vi) additional things like direct government subsidies or export economic zones.

2.2.1 Key Issues for Export Finance

Three major concerns fall under the category of export finance: the requirement for financing the production of goods destined for export, the choice of payment options that will make their product competitive on global markets, and the way to recognize and manage associated risks without endangering their balance sheet or jeopardizing their credit policies. Both pre-export finance programs, which fund manufacturing for export, and post-export finance, which deals with payment mechanisms, risk management, and financing instruments, may deal with these problems. Additionally, pre-shipment export finance and post-shipment export financing are two categories for export financing requirements that take the shipping timetable into account.

Along with the seller's capacity to carry out the terms of the buyer's contract, a purchase order from a reliable buyer, a documentary or standby letter of credit, or a bank payment obligation, issued on the buyer's behalf in favor of the seller, is frequently a crucial component in motivating the financing. Purchase orders, whether verified by the buyer or not, demand projections, or underlying commercial contracts may all serve as the basis for financing. Pre-shipment Finance may be offered on a transactional basis, covering a single transaction, or on a programmatic basis, generally for smaller sellers (typically for larger sellers). A portion of the order's value may be advanced by the financing provider, maybe in installments as the order is completed. The seller and the finance company agree on the financing's maturity dates, which are often linked to the day the buyer will actually make payment. In order to cover the time between shipping and the raising of the invoice to the buyer's ultimate payment, the finance provider may provide post-shipment financing utilizing strategies like receivables discounting or payables finance.

2.2.2 A Shift in Financing Approach that is Expected to Continue over the Next Few Years

The ICC survey 2020 indicates that conventional export financing is the main source of export facilitations by banks, although the advantage is now hardly significant when compared to open account trading. Now, a change that is anticipated to last for the next several years, even if a temporary COVID-induced return to conventional methods does take place. Only 53% of respondents said supply chain finance is an urgent concern, despite market moves away from conventional commerce and trade financing arrangements. This shows a discrepancy between the areas on which banks are concentrating and the direction of the market. It remains to be seen whether the gap is closed by banks realigning their priorities to meet changing customer demands or by the entrance of additional non-banks into the trade finance sector.

Receivables discounting (71%) is now seen as the most in-demand supply chain strategy among the many supply chain products from the viewpoint of clients, followed by payables financing (54%), loans/advances against receivables (46%), and factoring (45%). About 35% of respondents predict that their SCF will make up 0-15% of overall trade financing in 2025, while 38% predict that it will make up 15-30%, and 10% predict that their SCF would make up more than 50% of the total by that year (ICC, 2020). Despite the rising popularity of SCF, forecasts suggest that TFPs may still dominate in the years to come. The most popular kind of trade financing, short-term (ST) trade finance products allow for delayed payment over a period of less than a year (often less than 180 days), and are particularly sensitive during times of uncertainty, which may raise costs and decrease overall availability (OECD, May 2020).

However, exporters have trouble obtaining ST financing in the private sector. The Wall Street Journal (Julie Steinberg, September 2020[6]) reported a 60% rise in trade credit insurance application rejections in the US. On the other hand, the demand for the short-term goods offered by government-backed Export Credit Agencies (ECAs) is rising. The main use of medium- and long-term (MLT) export finance is the financing of capital equipment, either alone or as a component of significant projects (such as infrastructure, manufacturing, oil and gas, etc.) that call for longer payback terms. This kind of assistance mostly consists of buyer credits that let international customers use MLT finance to acquire goods and services from exporters.

Moreover, given the scarcity of cash in European nations like Portugal, export financing has even greater significance. The effectiveness of export aid programs implemented by governments and central banks of various developing nations has been examined in a number of studies (Moini 1998, Kotabe and Czinkota 1992, Howard and Herremans 1988, Kedia and Chhokar 1986). According to Janda (2008), state export assistance provided by government organizations is a common practice in the economy of the great majority of nations, including the Czech Republic, Malawi, Zambia, India, Pakistan, Ghana, Ruwanda, etc. Government and its agencies establish specialized funds under various names in numerous nations to hasten the growth of exports in such nations.

2.2.3 Challenges in Global Export Financing Trend

There is mounting evidence that MSME applicants have suffered as a result of plans or applications for export financing being rejected. The anticipated USD 1.5 trillion export financing gap faced by SMEs before the uncertainties brought on by the Covid-19 epidemic might grow to USD 2.5 trillion by 2025, according to the World Economic Forum (Gamser, 2020). According to estimates, there is a $5 trillion MSME financing gap in developing nations, which is 1.3 times the amount of MSME loans now available. Women-owned businesses had the lowest access to trade finance (Trade Finance Global, 2020).

AML/ KYC requirements and high transaction costs are the biggest barriers, according to the ICC report 2020 (with 63 percent being highly worried) (Table -2.1). Macroeconomic figures also show that the epidemic has had a big impact on the global economy, especially the export market. The crisis looks to be having the most impact on short-term export financing, in part because of barriers to accessing prospects for trade financing brought on by the private market's decreased risk appetite. On the other hand, despite the fact that regulatory flexibilities have been shown in the reduction of fiscal, financial, and non-financial incentives with the aim of maintaining a consistent country export performance, the success of the flexibilities has been hampered by factors such as lack of awareness, misuse, moral hazard, and fund diversions, among others.

Table 2.1: Barriers to Trade Finance (% of Responses)	
AML/KYC requirements	76%
High transaction costs or low fee income	59%
Low credit ratings of company and/or obligor’s country	52%
Issuing bank’s low credit ratings	51%
Low company and/or obligor credit rating	43%
Global economic uncertainty such as trade tensions	41%
Client’s lack of familiarity with products	32%
Lack of dollar liquidity	29%
Bank staff’s lack of familiarity with products	25%
Source: Rutaazi, 2020	

Participants in less controlled markets are thought to be more flexible and at ease supplying export services than those in more regulated markets. Although these institutions or non-banks are still subject to regulation and licensing, they are not subject to the same degree of strict control as banks in terms of risk compliance and capital sufficiency, and they have more freedom in terms of product creation and delivery. The growth and development of "shadow banking" might lead to the misuse of the services and operations.

2.2.4 A History of Offering Generous Export Incentives

Any government's primary priority is to encourage exports since it is thought that doing so would accelerate economic development and growth. Governments (especially in developing nations) have a history of providing large export incentives to industries that are seen as the backbone of the economy in order to achieve such aims (Table-3.2). Because they may lead to important institutional improvements, fiscal and non-fiscal export incentives ultimately amount to much more than a shift in relative pricing. For instance, there is a greater chance of demand spillovers from one industry to another if export incentives are given to a sector with considerable economies of scale. It's perhaps conceivable that without these lucrative sectors, no such establishment would have been viable (Rodrik, 1995). The textile industries of India, Pakistan, and Bangladesh account for a significant portion of overall industrial output, export revenue, employment, and capital creation. Because of this, all three governments have a tendency to provide different incentives, such as duty exemptions, low tax rates, export financing, and others, to encourage their textile industries. Most of the time, once provided, both fiscal and non-fiscal incentives are not evaluated for their effectiveness. Any queries about a comparison of the worth of export incentives in other nations go unanswered as a consequence.

Table 2.2: Export Incentives in Different Countries					
Countries	Duty Drawback and Tax Exemption	Concessionary Export Finance	Export Insurance and Guarantee	Export Cash Subsidy	Export Promotion Organization
India	Yes	Yes	Yes	Yes	Yes
Pakistan	Yes	Yes	Yes	Yes	Yes
Bangladesh	Yes	Yes	Yes	Yes	Yes
Malaysia	Yes	Yes	Yes	Yes	Yes
Philippines	Yes	Yes	Yes	Yes	Yes
Thailand	Yes	Yes	Yes	Yes	Yes
Korea	Yes	Yes	Yes	No	Yes
Singapore	Yes	Yes	Yes	No	Yes
Indonesia	Yes	Yes	Yes	No	Yes
China	Yes	Yes	Yes	No	Yes
Japan	No	Yes	Yes	No	Yes
Source: UNCTAD, 2017					

Export incentives aid businesses in developing nations in overcoming obstacles. These obstacles include the high manufacturing costs of exportable goods brought on by tariffs and other associated expenses. Both emerging and developed nations might choose a policy option to lower import barriers in the form of tariffs to increase export incentives. The three kinds of export trade incentives are fiscal incentives, monetary incentives, and non-monetary incentives. Even yet, there are other additional export incentives that are crucial for export businesses, such as supplying sufficient information, fair trade, research, export and education insurance (Theingi, 2011).

2.2.5 Financial Incentives are Intended to Make Exporting more Appealing

Financial incentives are intended to compensate for price disadvantage brought on by internal rules that are not focused on export promotion, making export operations more appealing (Fox, 2004). Direct and indirect cash subsidies, export credit facilities for pre- and post-shipment transactions, special foreign currency allocation, and the elimination of tax ordinarily imposed on earnings are examples of this type of incentives. According to Erzan (1991), exporters may overcome their financial limitations when they have access to financing at a reasonable interest rate. Financial incentives, according to Lederman (2006), are "autonomous" and "complementary" policies that aim to offer unique incentives for exporting activities without necessarily being connected to any disincentives that would be associated with the current trade, investment, and exchange rate regimes. Johnson (2007) also makes the case that financial subsidies may increase export growth by reducing the allocative distortions brought on by unfavorable loan markets.

2.2.6 Different Incentives have been Provided by Some Countries

Different incentives, such as preferred financing, promotion subsidies, tax breaks, subsidized infrastructure, and foreign investment incentives, have been offered by certain nations (Johnson, 2007). Four components have been identified in various academic works as essential to the success of export push strategies in Asian nations: access to imports at market prices; provision of export financing to support the expansion of new export activities; market penetration strategy through export subsidy; and through the establishment of international trading companies. Some export-led initiatives used purely result-oriented approaches; if a plan failed to boost exports within a reasonable amount of time, it was immediately abandoned. Second, exports promoted the adoption of international standards, hastened the spread of technology, and offered performance-based credit allocation criteria (IMF, 2016). African nations made an effort to imitate prosperous Asian nations.

For example, in Kenya, the government provided credit subsidies through commercial banks and specialized financial institutions, as well as provisions of export incentives like the Export Compensation Scheme (until 1989), Manufacturing under Bonded Warehouse (introduced in 1989), Export Promotion Zone (introduced in 1990), and Import Duty Exemptions Schemes targeted at exporters who weren't using the Export Compensation Scheme [IMF, 2016]. The government of Zimbabwe implemented programs like the Duty Drawback Scheme and the Inward Processing Rebate Scheme, which are comparable to manufacturing under bond. The government's assistance and fiscal policies, which included incentives like the currency retention scheme, manufacturing under bond, duty drawback, export credit and insurance scheme, export development fund, and similar ones, served as the foundation for the government's export assistance and programs in Nigeria [Johnson, 2007].

Due to complicated processes, lengthy delays in receiving certain incentives, restricted access to such incentives, and inadequate execution of incentive policies and programs [Siggle, 2007], the endeavor did not, however, yield as much fruit. This is supported by [IMF 2013], which states that the failure of many low-income nations to build the appropriate tools, institutions, and procedures resulted in the deployment of economic broad incentive schemes. According to [Siggle, 2007], exporters cannot enjoy neutral status without a unique export finance structure in nations (particularly Africa) where the money and financial markets are underdeveloped and severely fragmented. These make it more difficult to take advantage of developing nations' export potential and put exporters at a disadvantage in comparison to both global rivals and domestic credit rationing recipients. Different fiscal policies perceive financial assistance as a crucial resource to increase export in light of global markets.

3. The Results and Findings

3.1 Unit Root Test:

This research used the unit root test to verify the co-integration test while evaluating the stationary using the ADF Augmented Dickey-Fuller test (ADF) and the PP test. Few variables, in both situations, were still non-stationary after the initial difference, according to this analysis. In the sample data set, a mixed result I (0) and I (1) is therefore seen (Table-3.1).

Table 3.1 : Unit Root Test

Variables	ADF			PP		
Level Form	T-stat	CV	Decision	T-stat	CV	Decision
EV	-.69077	-3.645	NS	-.97609	-3.594	NS
CI	-4.1354	-3.645	S	-7.7228	-3.594	S
EF	-1.0202	-3.645	NS	-1.2091	-3.594	NS
	ADF			PP		
Differenced Form	T-stat	CV	Decision	T-stat	CV	Decision
EV	-3.3736	3.659	NS	-5.4984	-3.602	S
CI	-3.8888	-3.659	NS	-4.0232	-3.602	S
EF	-3.6646	-3.659	S	-4.3952	-3.602	S

Notes: NS denotes non-stationary and S denotes stationary

If the calculated F-statistic is outside of a certain range, Pesaran et al. (1996)'s tabular critical values may be employed to reach a firm conclusion. This may be done without knowing whether the underlying variables are fractionally integrated, integrated in the I(0) or I(1) direction, or both. If the calculated statistic is inside the key value range and the result depends on whether the underlying variables have the value I(0) or I, the inference cannot be concluded (1). The findings are statistically significant, as shown by Table 3.2, where the estimated F-statistics of the first model are greater than the upper limit critical value at the 5% significance level of 4.378. This makes it feasible to rule out the null hypothesis that there isn't a long-term co-integrating connection. These results suggest that the export volume, monetary incentives, and export financing have a long-term connection (Table 3.2).

Table 3.2: F-Statistics for Testing the Existence of Long-Run Relationship

	Computed F-Statistics	**Decision**
F(DEV/DEV, DCI, DEF)	28.6701**	Cointegration
F(DCI/DCI, DEV, DEF)	4.4055	No-Cointegration
F(DEF/DEE, DCI, DEV)	1.4053	No-Cointegration
F-Critical value	*Upper bounds : 4.378* *Lower bounds: 3.219*	
** indicates 5% level of significance		

This research employed long-run estimate utilizing both AIC and SBC to determine the long-term association. Table-3.3 of this study's findings shows that LCI has a detrimental but minor effect on the amount of exports. However, export financing significantly and favorably affects the amount of exports. At the 5% level of significance, one unit of export financing raises export finance by 1.1629. (Table-3.3).

Table 3.3: Long-run ARDL Model Estimation using AIC and SBC		
	Model 1 : (AIC) Dependent Variable : EV	**Model 2: (SBC) Dependent Variable : EV**
C	1.5685*** (.38091)	1.6638*** (.50153)
LCI	-.099737 (.10725)	-.074663 (.13740)
LEF	1.1629*** (.10172)	1.1354*** (.13012)
Testing for existence of a level relationship among the variables in the ARDL model		
Computed F-Statistics and W-Statistics		
F Statistics *Upper bounds(95%) : 5.812* *Lower bounds(95%): 4.500*	8.1889	5.5661
W-Statistics *Upper bounds(95%) : 17.437* *Lower bounds(95%): 13.501*	24.566	16.6982

The error-correction model (ECM) was also used to estimate the short-term dynamics relating to the long-term connections. The equilibrium correction coefficient in both models is determined to be -0.644 and -0.506, respectively, with statistical significance after assuring all diagnostic tests, such as the Diagnostic tests for serial correlation, autoregressive conditional heteroscedasticity, and normality test. This suggests that after a shock, everything will quickly return to normal. This year, around 65% of the shock disequilibrium from previous year converges to long-run equilibrium. The effect of export financing is favorably significant in the short run as well as in the long term projection. Regarding financial incentives, the negative effect on export volume has persisted over the last two years (Table-3.4).

Table 3.4: Error Correction Models		
Variable	**AIC**	**SBC**
	dEV	**dEV**
dLCI	-.030565 (.089324)	-.030950 (.092441)
dLCI1	-.14790** (.059481)	-.14627** (.061546)
dLEF	.44380*** (.14266)	.57501*** (.11594)
ecm(-1)	-.64401*** (.14018)	-.50644*** (.10892)
χ^2Serial Correlation	.70658[.401}	1.9306[.165]
χ^2 Functionality Form	2.4828[.115]	1.7410[.187]
χ^2(Norm)	.028023[.986]	.74418[.689]
Heteroscedasticity	.19106[.662]	.72707[.394]

4. Regulatory Environment of Export Financing and Incentives in Bangladesh

The regulatory framework for trade services in general applies equally to the country's export sector. Bangladesh Bank, as the regulatory and supervisory authority, oversees and directs all trade services activities for the export sector.

4.1 Regulatory Framework of Exports and Export Financing

While providing trade services, banks are required to abide by a number of national laws as well as global standards and regulations. The Foreign Exchange Regulations (Amendment) Act 2015, Bangladesh's forex control law, is the most significant domestic law controlling cross-border transactions in this respect. The Export Policy and the Import Policy Order, two trade policies published by Bangladesh's Ministry of Commerce, must be followed by banks according to the Imports and Exports (Control) Act, 1950. The International Chamber of Commerce's (ICC) publications are the most relevant when it comes to global norms and standards. Because FERA is now more powerful, Bangladesh Bank now has control over foreign exchange activity and sometimes issues circulars. All of the FE circulars and circular letters issued by BB up to November 2017 are included in the policy statement "Guidelines for Foreign Exchange Transactions." Two significant refinancing mechanisms, the Export Development Fund (EDF) and pre-shipment export credit guarantee program, are available to industrial units focused on exports at lower interest rates. To remedy the problem brought on by COVID-19, BB released a refinancing plan for pre-shipment credit under BRPD circular No.09 dated April 13, 2020. (Table 4.1).

Table 4.1 : Key Features of Refinance Scheme for Packing Credit	
Fund of the Refinance Scheme	• BDT 5000 Crore
Target Group	• Any Export Oriented Industrial Units
Criteria/Eligibility	• No export overdue • Maximum 10% of Net FOB value of firm contract/Export LC
Duration of the Fund and Loan	• 3 Years, Revolving
Duration of Refinance Scheme for Participating Bank	• Maximum 180 days
Rate of Interest/Profit	• 5% per annum to be charged on borrowers • 2% for the participating bank to be provided by Bangladesh Bank
Source: BB, 2021	

FEPD released a master circular on EDF with circular no.45 dated December 31, 2017. Following then, a number of changes to the EDF were made in response to stakeholder demand and market trends (Table-4.2).

Table 4.2 : Key Features of Export Development Fund	
Fund Size	• USD 5 Billion
Target Group	• Manufacturer-exporters regardless of sectors and sizes for input procurements, Type B and C industries of EPZs/EZs
Refinance from EDF to ADs	• Input procurements under back to back arrangements • Foreign currency loans to manufacturer-exporters • Type B industries in EPZs producing readymade garment for export • No overdue against the realizable export proceeds from the date of applications for loans
Tenor of EDF loans	• Within 180 days from dates of disbursement
Loan Limit from EDF	• USD 30.00 million for member mills of BGMEA and BTMA and USD 20.00 million for member mills of BKMEA, leather goods and footwear industrial sectors • For bulk export, export performance over the preceding twelve months or USD 500,000, whichever is lower
Interest rate on borrowings from EDF	• 2 percent pa to borrowers
Source: BB, 2021	

Some significant funding provisions are included in the current export policy 2018–2021 to increase exports of products and services (Box 4.1). There are important measures regarding pre-shipment export finance in the current Import Policy Order (2015–18). (Box 4.1). The efficient usage and risk management of the back-to-back LC facility for exporters have been covered in a number of circulars and circular letters that BB has released in accordance with trade rules. A particular portion of issuing back-to-back LCs against an export contract or export LC is covered by GFET (Table-4.3).

Box 4.1: Some Key Provisions for Export Financing as per Export Policy 2018-2021 and Import Policy Order 2015-2018
• Banks can provide export finance for at least 90% of a confirmed export contract or export letter of credit, and they can allow pre-shipment or post-shipment cash credit based on exporters' performance. • Banks are prohibited from charging late interest rates on exports conducted under sight LC. • The 'country of origin' provision does not apply to export-oriented sectors. • Before establishing a back-to-back LC, export-oriented firms might import raw and packing supplies. • For textile finishing (mechanized) operations operating under the bonded warehouse system, Grey Fabrics' anti-back-to-back LC is approved.
Source: Trade Policies

The GoB offers a variety of fiscal, non-fiscal, and financial incentives to stimulate exports in line with the country's export-led economic growth plan (Appendix Table-5).

Table 4.3: Key Features of Back to Back LC

Target Group	• Export oriented industrial units operating under bonded warehouse system
Eligibility	• Adequate validity of Master Export Contract or LC • Complying value addition requirement • Usance basis for a period not exceeding 180 days • Admissible to Inland Back to Back LC in foreign currency
Payment settlement against BTB LCs	• Out of proceeds of the relative export • Retention of foreign currency in single pool for back to back import payments
Source: BB, 2021	

Additionally, with the FEPD circular no.25 dated 30 June 2020, exporters are permitted for exports under open account against payment risk coverage from financial institutions overseas during COVID-19 to limit the risk of non-payment from export abroad. Exporters outside of EPZ or EZ are permitted to retain a certain percentage of their export income in ERQ accounts for use in permissible commercial endeavors. Additionally, a 200 million USD longer-term refinancing window known as the Green Transformation Fund (GTF) was established in January 2016 to guarantee sustained development in the export-oriented leather and textile industries, which is advantageous to the nation's transformation to a green economy. The fund has been available to all manufacturer-exporters from September 2019, regardless of industry, for the purpose of importing capital equipment and accessories to carry out specified environmentally beneficial activities. A recent 200 million euro infusion was given to the fund. This Euro portion of the GTF may be used to buy industrial raw materials for use in all manufacturing companies, including export-oriented and prospective exporters, as well as green machinery (only Buyers Credit).

Bangladesh also offers the Export Credit Guarantee Scheme (ECGS), which is run by the Sadharan Bima Corporation (SBC). The ECGS shields banks and exporters from the political and financial risks associated with global commerce. Since 1978, Bangladesh has had the ECGS government program, which offers several kinds of insurance against risks encountered by exporters. Post-shipment export finance guarantee, comprehensive guarantee, and pre-shipment export finance guarantee are all included in ECGS (Table-4.4).

Table 4.4: Key Features of Export Credit Guarantee Schemes in Bangladesh

	Pre-shipment Export Finance Guarantee	**Post-shipment Export Finance Guarantee**	**Comprehensive Guarantee**
Objective	Risk Coverage for Pre-shipment Export by Small and Medium Enterprises	Risk Coverage for export bill purchase or discounting	To cover the risk of non-payment under credit sales
Assured	Pre-shipment Trade Financing Bank	Negotiating or Discounting Bank	Exporting Entity
Risks Covered	Unable to adjust pre-shipment trade financing loan due to insolvency or non-repatriation of export proceeds and loan default of exporters	Unable to adjust bank loan timely	Commercial Risk and Political Risks against confirmed sales contract or export LCs
Premium	10 paisa per BDT 100 (Hundred Taka) per month on maximum outstanding on any day in a month	05(Five) paisa per BDT 100 (Hundred Taka) per month on maximum outstanding on any day in a month	For export LC, from 0.125 percent to 0.65 percent. For export contract, 0.40 percent to 2 percent
Compensation Rate	75 percent of export finance	Maximum 75% of actual loss, 25% to be borne by bank	85 percent for commercial risks, and 95 percent for political risks

Source : Shadharon Bima Corporation, 2021

Additionally, GFET states that ADs should be totally satisfied with the clarity of the requirements in the export order or export LC before providing export funding. The reputation and creditworthiness of the international counterparts should also be taken into consideration by ADs. In this backdrop, the Bangladesh Financial Intelligence Unit (BFIU) established recommendations for the prevention of TBML in 2019. These guidelines are intended to prevent TBML and Combatting Financing for Terrorism.

4.2 Regulatory Framework of Incentives

The GoB provided a monetary incentive (export subsidy) of 15% of FOB value for exports of ready-made clothing for shipments beginning on or after July 1, 1984, in FY1984-85. It was initially meant to be utilized for regional textiles with an eye toward export. Since then, the scope and reach of the monetary incentive scheme have expanded (Figure 4.1). To include additional items, the eligibility list has been modified. In compliance with a Ministry of Finance regulation, Bangladesh Bank publishes cash incentive circulars every year.

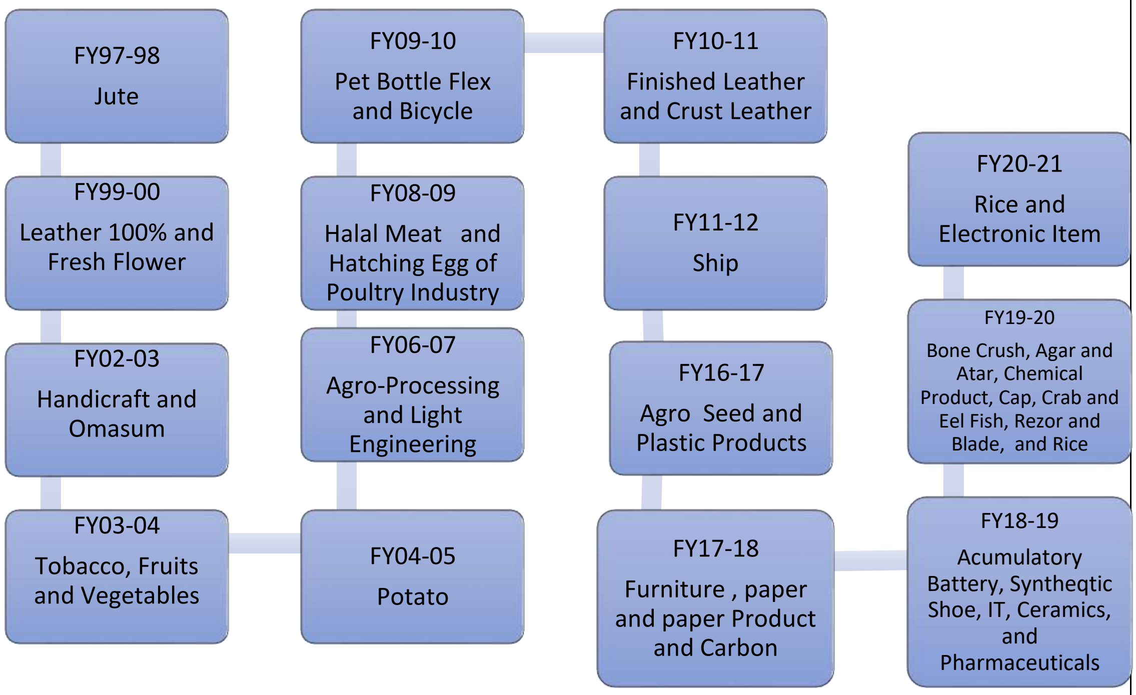
On submission of an application to BB, Bangladesh Bank would pay qualifying exporters a cash incentive via ADs in BDT. After the export earnings are achieved, ADs are to transmit applications from exporters to BB. There are various requirements for different industries that must be met in order to use the cash incentive facility in the required forms. In box 4.2, some standard requirements for receiving financial incentives are listed.

Box 4.2: Some Common Terms and Conditions for Availing Cash Incentive

- For cash incentive in RMG exports, only locally produced from local yarn or fabric collected from a member of the BTMA is permitted.
- Only one of the three parties (RMG producer, Fabric producer and Yarn producer) involved in making the export item can avail get cash incentive in any particular export.
- The name of the party eligible for the incentive must be mentioned in BTB LC.
- The value imported or collected item against which bond or duty drawback facility will be or have been enjoyed should be deducted from the export value. However two facilities, new market expansion and special incentive in RMG/Textile sector are out of the above conditions.
- With some exception, cash incentive is not allowed if the exporters receive duty draw back facilities or bonded warehouse facilities.
- ADs (Nominated Bank) are to receive application from exporters of cash incentive within 180 days of the realization of the export proceeds.
- Proceeds received through exchange house are not eligible for incentive.
- In case or irregular payment made violating the rules of the concerned circulars, the disbursed amount will be realized by debiting the account of the bank concerned.

Source: BB, 2021

Figure 4.1: Chronological Inclusion of Different Export Items in Cash Incentive Facilities



Duty drawback is another direct incentive offered by the government to boost export volume. Except for a few commodities, all exports from Bangladesh are zero-rated, which implies that in addition to being free from customs and taxes, products and services are also eligible for refunds of duties and taxes paid on the inputs/raw materials that went into their production. Exporters may make drawback claims in one of two ways: either (a) on an individual basis or (b) on a flat rate basis. All claims for duty and tax refunds must be submitted to the appropriate Custom House or Customs, Excise, and VAT Commissionerate, while all claims for drawbacks of duty and tax against export must be submitted to DEDO. Input-output coefficient provision and duty and tax drawback payment are DEDO's two main tasks.

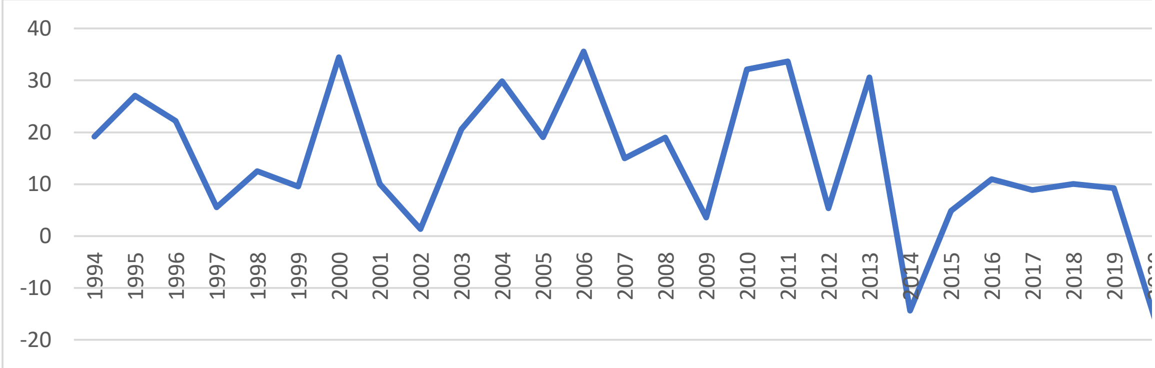
5. Export Financing by Banks and Cash Incentives in Export Development: Trends and Relevant Issues

When Bangladesh gained independence, its trade ratio was less than one-seventh, indicating a largely restricted economy. Since then, the amount and diversity of Bangladesh's goods exports and imports have grown substantially. Bangladesh's exports have increased since 2001 at a pace of around 10% annually on average (Figure 5.1). Due to a global trade slowdown brought on by the Covid-19 pandemic, Bangladesh only exported US$33.7 billion in 2019–20 as opposed to US$40.5 billion in 2018–19. This is a 16.8% decrease from the previous year. The World Trade Organization (WTO) predicts a decline in global commercial trade of 13 to 32% in 2020. In contrast, exports climbed to US$38.75 billion in 2020–21.

The Bangladeshi government has set a goal of US$51 billion in exports for the fiscal year 2021–2022. Bangladesh's exports reached a record high of $4.73 billion in October 2021, up 60.37 percent from the previous year because to the astonishing turnaround in the shipping of readymade and non-readymade garments. According to figures from the state-owned Export Promotion Bureau, total export revenues rose 22.62 percent to $15.74 billion between July and October (EPB). Both the RMG and non-RMG sides have seen an increase in export revenues. Even Nevertheless, non-premade clothing is growing faster than readymade clothing. It indicates that demand has increased as a result of the recovery in the economy in significant markets.

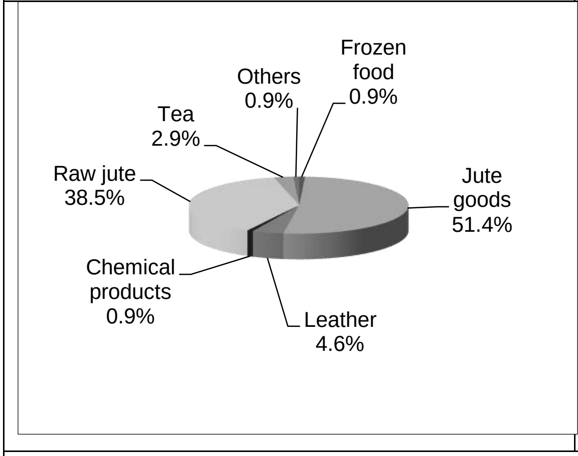
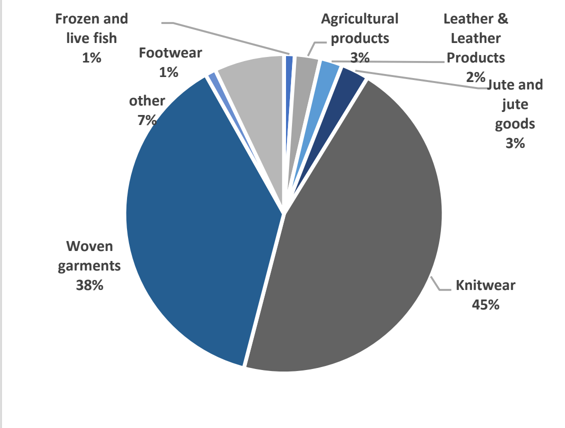
Coronavirus has also affected production to some extent in China and Vietnam. This has been advantageous to Bangladesh in a number of ways. In the first four months of the current fiscal year, garment shipment earnings increased by 20.78 percent year over year to $12.62 billion. $7.21 billion, or 24.27 percent, of the total was knitwear shipment. Woven clothing shipment volume rose by 16.41% to $5.41 billion. Live and frozen fish exports rose by 17.46% to $225.23 million, agricultural exports by 29.34% to $464.11 million, and shipments of leather and leather goods by 28.85% to $364.9 million. However, exports of jute and jute products fell by 24.11 percent to $332.98 million last month. The ready-made clothing industry and other export-oriented industries both require product diversification. Due to the necessity of revamping the current cash incentive system in light of technological advancements, manufacturers must increase productivity, skill, and technology (FGD).

Figure 5.1: Export Growth during FY1994 to FY2020



Source: MoF,2021

Between 1995 and 2012, Bangladesh increased its export market share by operating well in the apparel industry. (Kathuria and others, 2016) Bangladesh's economy was unscathed by the 2009 recession since it is a competitive one (Taslim and Haque, 2011). The majority of the nation's early exports were raw jute and a few jute-related products. This represented around nine-tenths of the $377 million in export income for the fiscal year 1972-73. (Taslim & Haque, 2011). Since then, the country's export mix has changed significantly. Jute has been supplanted as the main export good by readymade garments (RMG), which comprise knitwear and woven clothing goods (Figure 5.2 and Figure 5.3). The RMG industry has played a significant role in the extraordinary growth of the nation's exports. Although Bangladesh has industries including shipbuilding, footwear, processed food, jute products, and pharmaceuticals, they are mostly geared toward the local market and make a negligible contribution to exports (FGD).

Figure 5.2: Sectoral Distribution of Export in 1972-73	**Figure 5.3: Sectoral Distribution of Export in 2020-2021**
	
Source: Export Promotion Bureau, 2021	

Exports grew at an average annual rate of 15.36 percent from 1996 to 2020, while export finance grew at a rate of 12.72 percent during the same time period (Figure 5.4). Furthermore, the cash incentive has a 29.44 percent annual growth rate (Figure 5.10). In the case of export finance, the growth line is in sync with export growth, however there is a gap between export proceeds realization and export financing in 2020. Several export orders were cancelled or postponed as a result of the epidemic, widening the gap. However, in 1984, the government provided cash incentive for the RMG industry that was commensurate with export earnings in order to stimulate export growth. The trend in figure 5.5 shows that the amount of cash incentive increased substantially because of high allocation to state owned jute industries in 2014. However, political unrest, late shipment and late presentation were the common phenomenon at 2013-14 which had an impact on our total export growth at that time (FGD). To lessen the production cost, shipment cost etc., cash incentive amount was increased as motivation at that time.

Figure 5.4: Comparison of Export Growth and Export Finance

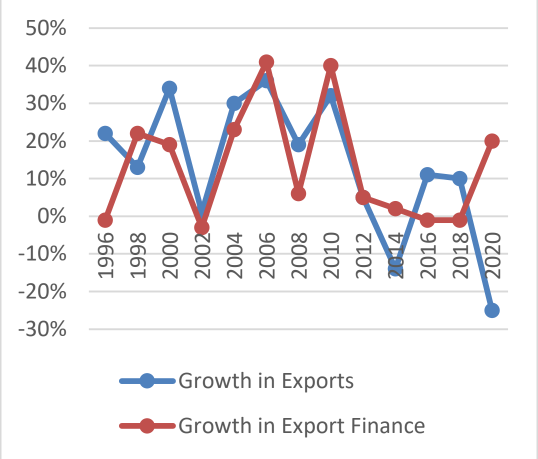
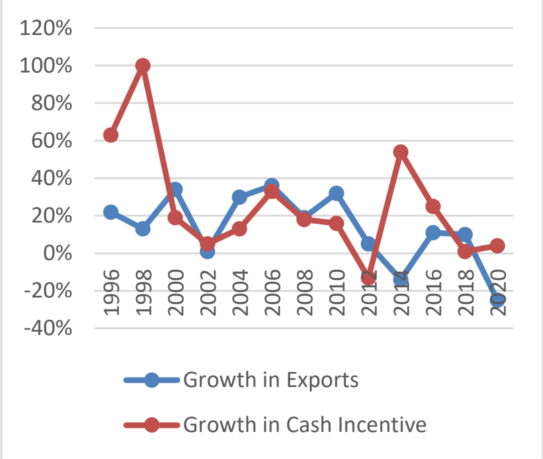


Figure 5.5: Comparison of Export Growth and Cash Incentive



Source: MOF and BB

In our nation, PCBs play a significant role in the realization of export revenues, export financing, and financial incentives. The proportion of SOCBs in the realization of export revenues grew during the previous two years. The rise in export facilitation in SOCBs is mostly linked to the absence of PCB and FCB financing (Table 5.1). Due to increased AML/CFT standards, the market share of export profits realization in FCBs decreased in FY 2019–20. (From Interview with Official of FCBs).

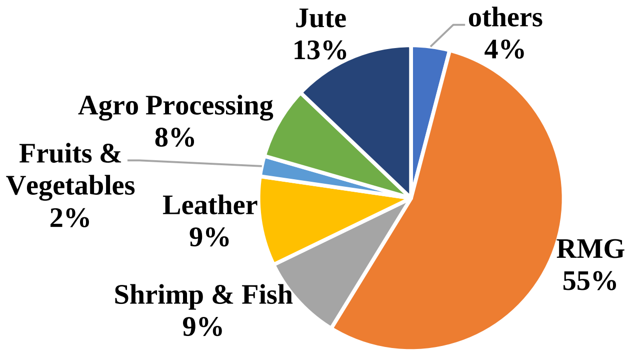
Table 5.1: Bank Group wise Export Earnings, Export Finance and Cash Incentive in Percentage

	FY2018/2019			FY2019/2020			FY2020/2021		
	Export Earnings	Export Finance	Cash Incentive	Export Earnings	Export Finance	Cash Incentive	Export Earnings	Export Finance	Cash Incentive
PCBs	75%	55%	76%	73%	65%	74%	73%	62%	76%
SOCBs	7%	43%	17%	20%	34%	17%	20%	36%	15%
FCBs	18%	2%	**7%**	7%	1%	9%	7%	2%	9%

Source: BB and MoF,2021

The main drivers for the introduction of monetary incentives for export from Bangladesh are a strong backward connection and the diversification of export products. RMG, frozen seafood, leather, jute, etc. are the main industries where financial incentives are offered (Figure-5.6). In Figure-5.04, the RMG sector receives the biggest monetary incentive (55%), followed by the jute (13%), leather (9%) and the seafood (9% each) sectors in FY20-21.

Figure 5.6: Export Sectors Availing Cash Incentive (in Percentage)



Source: BB,2021

Although political upheaval and pandemics caused the RMG industry to have a downward trend in 2015, 2017 and 2020, the provision of monetary incentives rose to support export growth. Despite a large increase in monetary incentives, the shrimp and seafood industry's average yearly export growth rate was -1.16% as a result of the COVID-19 pandemic-related cancellation of export orders. Additionally, compared to the prior fiscal year, export revenue from jute and jute products decreased in the most recent fiscal year. In order to reverse the poor growth of jute export, the incentive was quadrupled in this industry in 2014. With a cash incentive share of 9% in FY20, the leather export growth rate is 8.2% on average annually.

Figure 5.7: Growth Rate of RMG Export and Allocation of Cash Incentive

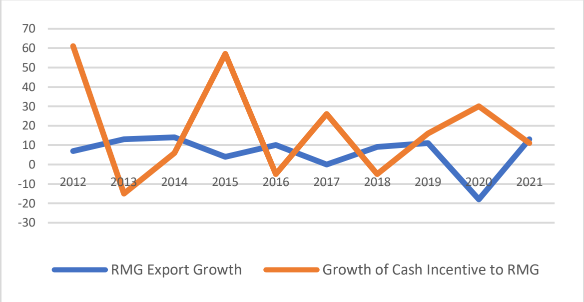


Figure 5.8: Growth Rate of Shrimp & Fish Export and Allocation of Cash Incentive

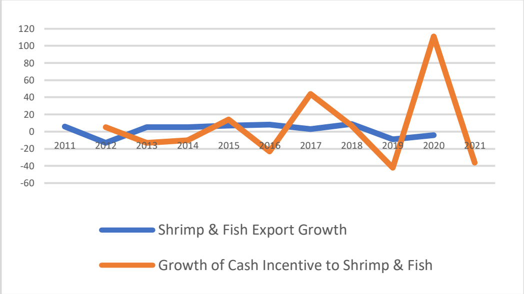


Figure 5.9: Growth Rate of Jute Export and Allocation of Cash Incentive

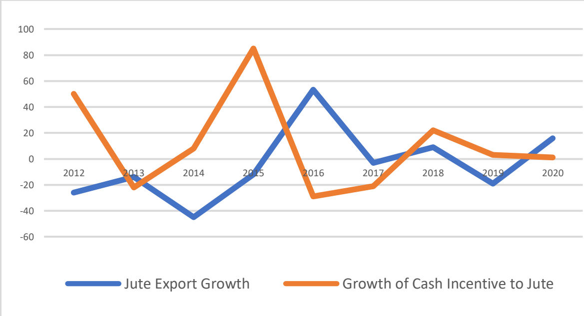
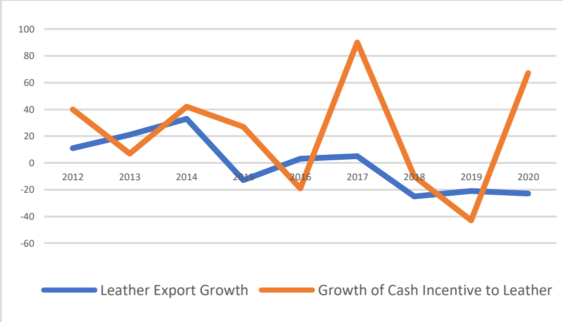


Figure 5.10: Growth Rate of Leather Export and Allocation of Cash Incentive



Source: BB, 2021

The market share of PC among the various export finance products decreased to 70% in 2020 from 81% in 2018, mostly as a result of funding for stimulus packages in Covid-19 (Figures 5.11 to 5.13). Additionally, the desire for a refinancing plan for pre-shipment loans lacked traction. Only 8.65 percent of the fund's total amount (BDT 5000 crore) has been distributed to 66 businesses as of October 2021. (BB, 2021). On the other hand, EDF use and demand are both still quite high, mostly as a result of the fund's increased size (USD 5 billion) and reduced interest rate (2% annually) (Habib, et. al, 2021). By the end of October 2021, commercial banks had paid out all of the EDF funding given to 9262 exporters. The green transformation fund is also allocating 118.59 million USD and 5.10 million EUR until June 30, 2021 for the import of environmentally friendly technologies for export-oriented enterprises.

Figure 5.11: Pre-Shipment Export Finance in 2018

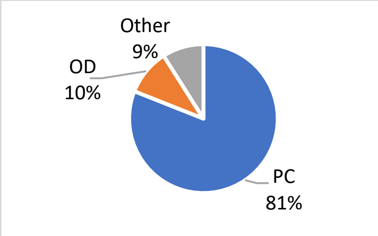


Figure 5.12: Pre-Shipment Export Finance in 2019

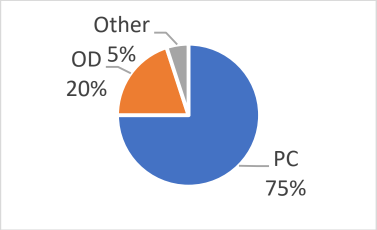
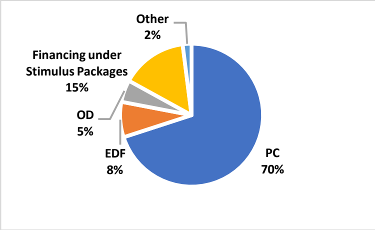


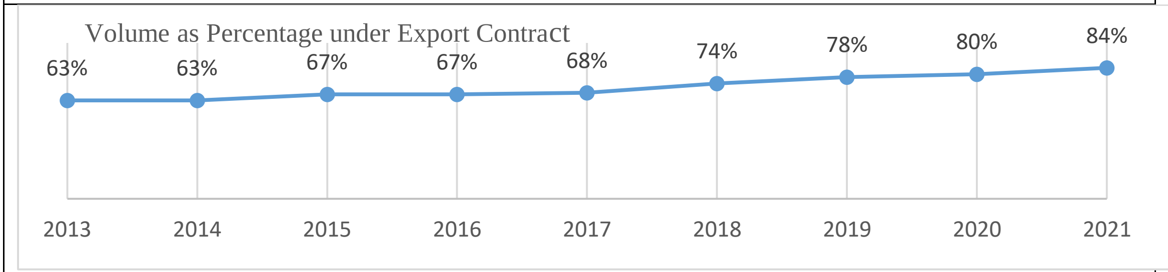
Figure 5.13: Pre-Shipment Export Finance in 2020



Source: Habib et al., 2021

Banks provide back-to-back LC against export LC or export contract decreased sharply in recent years (Figure-5.14). The growing tendency of issuing back-to-back LC against contract shifted risk profile of this trade finance product comprehensively.

Figure 5.14: Proportion of Back to Back LC against Export LC during CY2013 to CY2021



Source: Bangladesh Bank, 2021

Banks primarily provide exports post-shipment credit in the form of negotiating with or purchasing papers under an export LC or contract. Over time, FDBP has been the primary component (99%). Banks also buy certain export invoices as part of the post-shipment financing process using a receivable purchase and factoring procedure (Figure 5.15 to 5.17). Some banks have already formed financing arrangements with foreign financial institutions in light of the liberalization of exports under open accounts.

Figure 5.15: Post-Shipment Export Finance in 2018

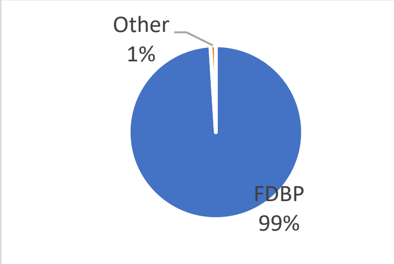


Figure 5.16: Post - Shipment Export Finance in 2019

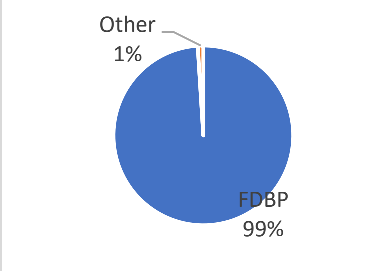
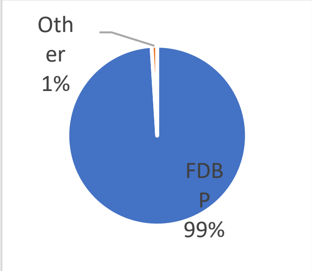


Figure 5.17: Post - Shipment Export Finance in 2020



Source: Habib et. al 2021

Table 5.2 shows bank specific performances in export earnings, export finance and cash incentives for the CY20202.

Table 5.2: Top Five Banks Facilitating Export Volume, Cash Incentives and Export Finance

Export Volume Facilitated by Banks during CY2020	Cash Incentives Disbursed by Banks during FY 20-21	Export Finance by Banks during FY 2020-2021
1. HSBC	1. IBBL	1. Janata Bank Ltd
2. Standard Chartered Bank	2. Agrani Bank Ltd	2. IBBL
3. UCBL	3. UCBL	3. EXIM
4. SEBL	4. Pubali Bank Ltd	4. Sonali Bank Ltd
5. EXIM Bank	5. Janata Bank Ltd	5. Pubali Bank Ltd

Source: Authors' Calculation Based on BB Data, 2021

6. Observations on Facilitating Export Financing and Cash Incentives by Banks of Bangladesh and Identifying Challenges

All stakeholders, including regulators, are involved in implementing various export financing and cash incentive in Bangladesh. To identify important observations and obstacles in trade finance and cash incentives, selected concerns are examined and cases are added as follows.

6.1 Export Finance Gap in Bangladesh

Global banks are having trouble coming up with strategies to endure and consolidate as a consequence of the crisis. The most current ICC Global Survey (the 2020 Global Survey), based on answers from 346 banks from 85 countries, emphasizes respondents' desires to extend their trade-finance arrangements to new customers, items, and places as well as develop their digital capabilities. In relation to their trade finance models, almost 77 percent of respondents said they were thinking about going digital. Additionally, 61 percent said they wanted to increase their product offerings, and 54 percent said they wanted to get more involved in the market.

6.2 Export under Sales purchase Contract

Contract-based exports have increased during the past 12 months. Approximately 70% of export receipts are thought to be made through contract-based payments. Additionally, 84 percent of our back-to-back LC is contract-based. The sales-purchase agreement that the Bangladeshi exporter has obtained, however, is primarily not a binding contract. In Bangladesh, back-to-back LCs against non-binding sales contracts are common and growing in proportion and number. The country's weak sales-purchases agreements and traders' vulnerability were exposed by contract terminations and a shift from DP to DA without involving exporters (Mini Case 1, 2 and 3).

Mini Case 1: Lack of a Structured Contract with Legal Coverage, Exporters are Unable to Seek Legal Assistance.
An exporter contract for jute yarn valuing USD 392,000 was received by a Bangladeshi exporters from Turkey with a provision of DA. Shipment and forwarding export documents was made timely. However due to the non-payment from importer after maturity, the exporter was unable to avail the cash incentives. Even if the BB's support to exporters, exporter could not collect the payment due to the absence of the clauses regarding dispute settlement in the purchase order.
Note : Bank Source, 2021

Mini Case 2: A Well-known Buyer's Bankruptcy in COVID Creates Difficulties for Bangladeshi Exporters
Bangladeshi suppliers are struggling as a result of the bankruptcy of Debenhams and JC Penney in the United Kingdom, as they have no idea when they will be paid for goods they have already delivered or made. The two companies owe the clothes exporters upwards of $56.87 million, according to industry insiders. A total of 964 export bills have already been delivered to the world's two largest and most storied department store companies. In this case, some 28 banks are participating in trade finance. Bangladeshi exporters now want a strong negotiating platform to compensate for their losses in this bankruptcy. However, according to the BGMEA, the key problems in negotiations are that the exporter worked under a poor sales/purchase contract, and Bangladesh is not a signatory to any international contract convention. Suppliers are now concerned about the lack of various amenities, such as cash incentives and EDF facilities.
Note : Bank Source, 2021

Mini Case 3: Banks' are Facing Trade Finance Challenges under Sales Purchase Contracts
A bank received a USD 3 million sales-purchase contract from one of its exporters. Two different letters of credit were supposed to replace the contract. When the contract was eventually replaced by two LCs, some of the terms and conditions were flagrantly in violation of the country's domestic laws. However, the bank was forced to accept the letters of credit because it had opened 17 letters of credit in a row totaling USD 1.7 million, all of which were accepted by the bank. Though the export earnings were fully realized, bankers faced considerable regulatory and operational risk on the ground.
Note : Bank Source

6.3 Non-Performing Loans in Export Financing:

In some circumstances, exporters' non-compliance resulted in NPL (Mini Case-4) in offering this product. NPLs are frequently the result of fund diversion, contract cancellation, and bank non-professional activity (Mini Cases 5 and 6). Bankers must be cautious when opening back-to-back LCs in this type of arrangements. In covid 19, bankers faced problem in issuing this against contract.

Mini Case 4: Forced Loan became Classified against Back to Back LC under Contract
A deferred back to back LC of raw materials was issued by a bank, upon compliant presentation of back to back LC, issuing bank gave acceptance. However, after releasing goods from the customs, no shipment was made by exporter under the contract. Consequently, bank made Back to Back LC payment from its own account by creating forced loan which ultimately resulted in classified.
Note : Bank Source, 2021

Mini Case-5: Local Traders and Banks Affected due to the Fraudulence by a Non-existent of British Company
Two local garment buying houses placed export orders to different Bangladeshi garment exporters with a special requirement to use the raw materials from selected suppliers in China. After getting the export orders, the exporters approached to different banks in Bangladesh to open back to back LC for importing raw materials from China. Bankers asked for credit report. Some credit report of the foreign buyer showed 'Unavailable to Locate' and some shown high risk to failure in payment. With such report some banks were unwilling to open back to back LC. But some banks opened LCs on the credibility of the local exporters. After final shipment to UK, no payment was received on due time. Several banks and RMG traders were affected. The non-funded liability under back to back lc became funded.
Note : Bank Source

Mini Case 6: Export Finance became Classified for the Cancellation of the Export Order
A composite Knit Exporter received Sales-Contract for USD 1 million. Lien Bank of the exporter issued Back to Bank LC for USD 6, 00,000 for procurement of Cotton Yarn in favor of a spinning mill which is a sister concern of the Exporter. Few days later, the lien Bank received the documents against Back to back LC and accepted the bills. At maturity, Back to Back LC issuing bank made payment by creating forced loan as shipment was not made. After 1 (one) month of Back to Back payment, local exporter declared that the Buyer cancelled the order due to their internal reason.
Source: Bank Source

6.4 *TBML Risk in Export Financing and Cash Incentive Facilitation:*

Trade-based money laundering is one of the many trade-related scams that all policymakers are concerned about on a worldwide scale. The first and fourth main approaches of trade-based money laundering (TBML) are frequently used in Bangladesh for money laundering. They involve over- and under-invoicing of goods and services, over- and under-shipping of goods and services, multiple invoicing, and falsely characterized goods and services. Even though the primary goal of TBML is to conceal the proceeds of crime, there are certain instances when government assistance programs and tax/duty avoidance motivate offenders to participate in money laundering. Criminals employ underpricing of exports and overpricing of imports for export-oriented sectors, often low-duty items like capital equipment, raw materials, and spare parts, to conceal or benefit from the profits of crime via unlawful outflows of money from Bangladesh.

6.5 Fraudulent Activities and Undue Behaviour of the Bankers and Traders

Occasionally, desk level officers or managers collaborated with the exporter to engage in unlawful transactions. External fraudsters or dishonest customers can easily achieve their goals if one or more bank executives assist them. For example, after working with bank officials, a client withdrew the proceeds out of their account without making any adjustments to the import payment of the BTB LCs, and the bank made payments by creating forced loans against the same customer. (Mini Cases 7 & 8);

Mini Case 7: Creation of Forced Loan without adjustment of Bank Liability and Diversion of the Export Proceeds
ZXY, an export oriented company, opened 49 Back-to-back LCs against some export LCs against which exports were carried out and subsequently, export proceeds were realized. Upon collaboration with the bank, customer moved the proceeds out of their account without adjustments of import payment of the BTB LCs and consequently payments were made by the bank through creation of forced loans against the same customer. Meanwhile, another bank took all the funded and non-funded liabilities of the customer after waiver of interest. Taking of punitive actions against the branch officials is under consideration of Bangladesh Bank.
Note: BB Source

Mini Case 8: Transferrable LC from Buying House with Inspection Requirement Caused Problems for Traders and Banks
An exporter, buying house agent in RMG sector, received a foreign transferrable LC and transferred it wholly in favor of another beneficiary of Bangladesh. The transferred LC contained clauses to use raw material from a supplier nominated by buyer and inspection certificate to be issued by nominated agent in Bangladesh. The Second beneficiary approached his bank to issue back to back LCs in favor of the nominated supplier. The back to back LCs were accepted by the issuing bank. After preparing the export product, the second beneficiary was facing problem to manage inspection certificate from the nominated agent. Consequently, the exporter was unable to make shipment in due time and document was discrepant. Then second beneficiary approached to first beneficiary for amending the date of shipment. But the first beneficiary did not cooperate in this regard. However, this challenge arose due to the absence of legal regulatory framework for buying house agents operating in Bangladesh.   **Source:** Survey Data

To get cash incentives, an exporter has to prove that export proceeds have actually been repatriated to Bangladesh. But in some cases, the export proceeds came not from the destinations of exports but from elsewhere without reference of underlying contract to get cash incentives. And the bank official helped the exporter in availing cash incentive in few instances (Mini Case 9, 10 & 11).

Mini Case 9 : Cash Incentive Scam by Exporter and Lack of Due Diligence of Bank
In a private commercial bank, one textile entity received about BDT 20 crore cash incentive through its nominated bank. For the textile sector, cash incentive is allowed only against locally produced yarn or fabrics. In this regard, textile entities need a certificate from BTMA which shows that the business entity has utilized locally produced yarn or fabrics. But, upon investigation, it was found that local suppliers of yarn or fabrics had neither spinning machines nor existence of companies. Moreover, BTMA certificate which was not for cash incentive rather for GSP purpose. Inspection team found extreme negligence of bank officials in claiming such a cash incentive. Though the party (fraudster) filed a case against BB and bank but the court made a decree against the party, consequently BB debited the said amount from the concerned bank account and credited it to the government account.
Source: BB Source

Mini Case 10: Cash Incentive Scam by Exporter and Lack of Professional Behavior of Bank Officials
In an agro-processing business entity, the inspection team of Bangladesh Bank found irregularities of cash incentives around BDT 7 crore. As per the rules of cash incentive, cash incentive is not allowed against the export proceeds which are realized through an exchange house or from export receipt from a third party which does not relate with the underlying contracts or importer. However, in this case, they received the export proceeds from an exchange house. Consequently, BB debited the bank's account and credited the government account of the said amount. In this case, bank officials could make STR while receiving export proceeds from an exchange house.
Source: BB

Mini Case 11: Swindling by Shoe Exporter and Negligence of Bank Officials
Bangladesh Bank found a huge amount of irregularities for a shoe exporter in cash incentive. A state owned commercial bank claimed BDT 408 crore and the said amount was disbursed but, upon investigation, Bangladesh Bank revealed that the claim was invalid. Consequently, BB debited the concerned bank account for the said amount and credited it to the government account. The bank officials claimed a cash incentive even though the business entity had a number of overdue export bills. Moreover, some claims were against fake transport documents. At the end, some bank officials had to face termination from the bank and legal complexity arose between the bank and its customer.
Source: BB

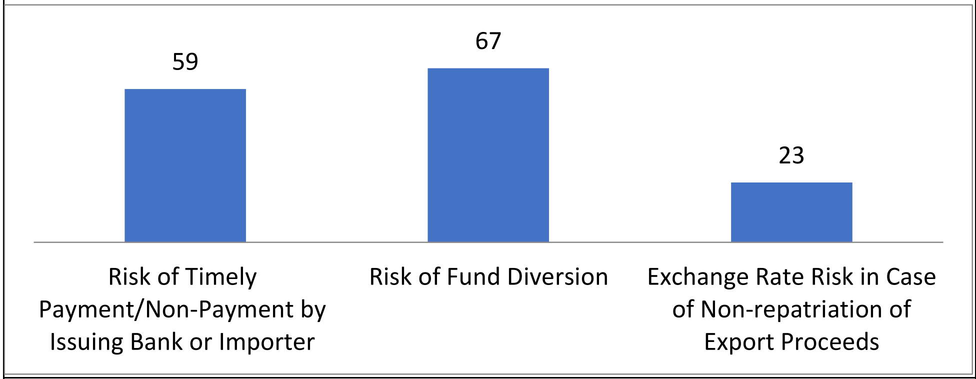
6.6 Irregularities in Refinancing Facilities may Create Risk of Misuse

In the pandemic, policymakers only established a couple of refinancing options that were more affordable to help excellent exporters. The two main export financing options to help exporters are EDF and pre-shipment refinancing facilities. There are a few requirements from BB to be eligible for an EDF facility. Avoiding such standards when choosing clients for EDF facilities may sometimes put bankers and ADs at unnecessary danger (Mini-case 12) . EDF must be used properly since it is a foreign currency fund and not for everyone. An important consideration for bankers when offering an EDF facility is the choice of borrowers. Some qualified exporters misuse the subsidy by deviating from its intended purpose (Mini Case 18). In our nation, EDF import accommodation bills are sometimes drawn merely to address unexpected cash shortages, as a simple source of finance, and to generate speculational profit. It might be challenging for bankers to determine the purpose of the financial diversion. The main problem here, however, is the tight monitoring and oversight required for appropriate EDF money usage.

Clients' moral hazard and bankers' asymmetric information problem induce the risk of fund diversion. It is also found in our survey as a big challenge for bankers which is 67 percent (Figure-6.1).

Mini Case-12: Fund Diversion for Speculative Profit
An exporter required 10 MT of yarn for a period to execute export orders. An amount of 13 MT of yarn was procured for that period through EDF LCs. Excess Procurement of low cost yarn from abroad using EDF LC was sold in local market in high rate. At the time of bond customs audit, the exporter somehow managed it. It was difficult for AD to justify actual utilization of the yarn imported through EDF LC. So, the party got the option in making extra money by selling the excess volume of yarn which was not required for his export order. EDF LC must be opened for imported goods which would be used for production of finished export oriented products. **Note**: Bank Source

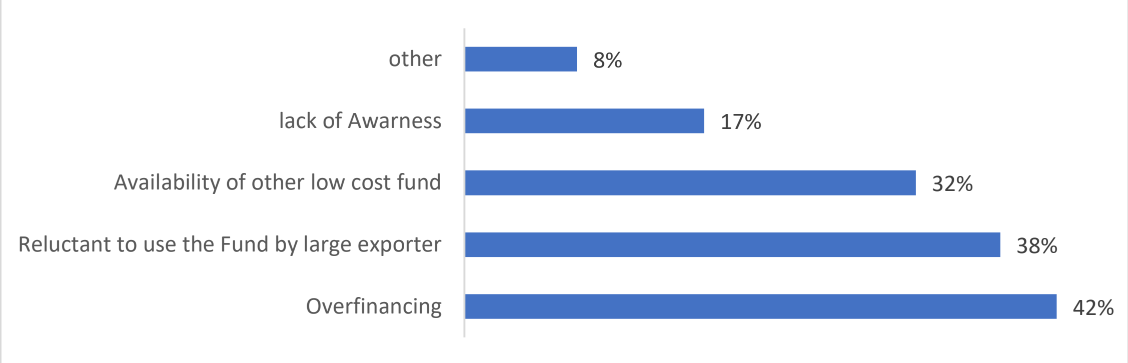
Figure 6.1 : Challenges of EDF: Banks' Perception in Percentage



Source: Survey data,2021

In addition, the demand for pre-shipment refinancing is not evident in the market due to the risk of over financing, reluctant to use the Fund by large exporter, availability of other low cost fund, lack of awareness etc. are the major reasons for the low demand of pre-shipment refinancing facility. Moreover, the refinancing facilities introduced in pandemic may cause a burden on the burden.

Figure 6.2: Reasons for Low Demand of Pre-shipment Re-Financing Facility



Source: Survey Data, 2021

6.7 Digitalization and Automation is now a Demand

The COVID-19 disruptions in the trade finance sector make digitization efforts clear. Initiatives to digitize trade in Bangladesh are ongoing at varying scales in various banks. The presence of banks with strong financial standing and technological infrastructure is essential in this context. Banks with centralized trade operations and technology infrastructure were able to adjust their work schedules and manage the operations during the first lockdown by combining the maximum amount of resources at "work from home" with a limited amount of resources in "physical locations." Decentralized trade operations and a weak technology infrastructure, however, presented significant difficulties and disruptions for banks. To reduce the risk of any future such catastrophes, a significant portion of the nation's banks must focus on centralized trade operations and technology adoption. It is without a doubt the case that some banks are actively promoting and outlining the adoption of cutting-edge technology for trade facilitation. Furthermore, it has been discovered that fraudulent export documents were used in some cases of cash incentive fraud. Due to improper automation, it is impossible to guarantee access to information about the actual export volume, which leads to data manipulation in the transport document and bill of export (Mini Case-13).

Mini Case 13: Manipulation of Export Document to Claim Cash Incentive
Exporter X received advance TT through a Bangladeshi bank from a middle east country to export agro-products. After certain period of time, exporter submitted the bill of lading and bill of export to claim the cash incentive. But after investigation, it is found that the export was actually not conducted. Moreover, the import and exporter are related parties. The document submitted to claim the incentive were manipulated document. Due to lack of automation, banks are unable to check the actual export volume from the system. The exporter was penalized in this case by BB.
Source: Audit Firm

6.8 Product Information Gap and Improved Capacity

Trade finance involves a wide range of instruments and innovation. Banks follow centralized and decentralized arrangement or systems to facilitate trade. Each arrangement and system has its own challenges and benefits. Centralization could bring due benefits in given circumstances and capacities (Box 6.1). Centralization could even bring challenges.

Box 6.1: Centralization could be Beneficial and Challenging as well

Now a days, few banks in Bangladesh are centralizing their trade operation departments. This centralization is done by both in Paper-based and Paper less & Scan based way. The centralization has some benefits on expertise development, easy compliance, international standard service, enhancing productivity etc. but beside these benefits, centralization procedure is facing some challenges. Late delivery is an issue as the central hub maintain queue which discourage valued clients. Sometimes valued customers want personalize service, which is not possible in case of Central possessing. Moreover strict compliance of limit and regulatory issues sometime discourage customers.

Note: Bank Source.

The FGD has identified and validated several export finance and cash incentive related issues and challenges. Responses of the FGDs were summarized in box 6.3 and figure 6.3 and 6.4.

Box 6.2 : Summary Outcome of Export Financing [Issues/Challenges] of Focus Group Discussions
• Bankers appreciated the response from Bangladesh Bank in the forms of relaxation and extension of timelines and restrictions considering covid-19 scenario to support the exporters. (78%) • Bankers are trying to use guarantee based open account in export but the demand from the traders is very low due to lack of competitive price benefit. (42%) • The demand for contract based export has increased and many contracts' payment terms have been deferred. So bankers are demanding a clear definition of the sales/purchase contract in international trade..(81%) • Due to lockdown in many countries, foreign importers were unable to make full payment. Traders faced challenge in shipping goods on time and that has created problem to manage export financing facility by banks. (88%) • Bangladeshi exporters are now facing lower price competitive bargaining. (27%) • The risk in trade services is growing as the exporters are availing a number of lien banks which increases the exposure of the client. (31%) • Now exporters are shifting to basic goods from luxury items in RMG sector. (18%) • Despite challenges, it is advisable to use realization clause in import LC (back to back LC) for buyer nominated foreign suppliers. (37%) • Delay in shipment requests from foreign buyer and delay in making payment have increased in this new normal scenario. The bankruptcy of many foreign buyers has resulted in a challenging situation for bankers as well as traders. (54%) • The stimulus package becomes burden for bankers as many traders are not using the package properly. (68%) • ECGS is lucrative policy initiative but there is awareness and knowledge in the market. (35%)
Source: FGD and Questionnare Survey

Figure 6.3: Challenges Faced by Bank Officials in Handling Cash Incentives

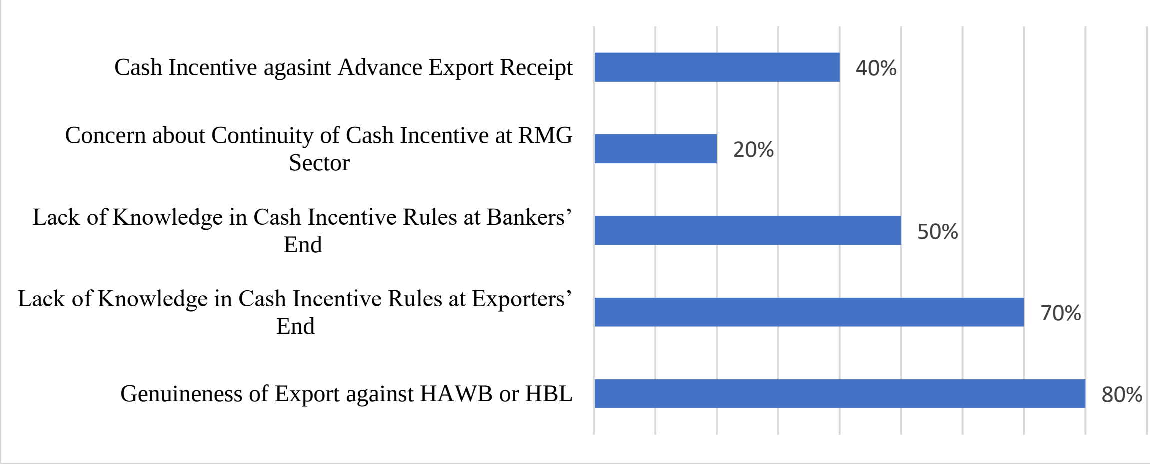
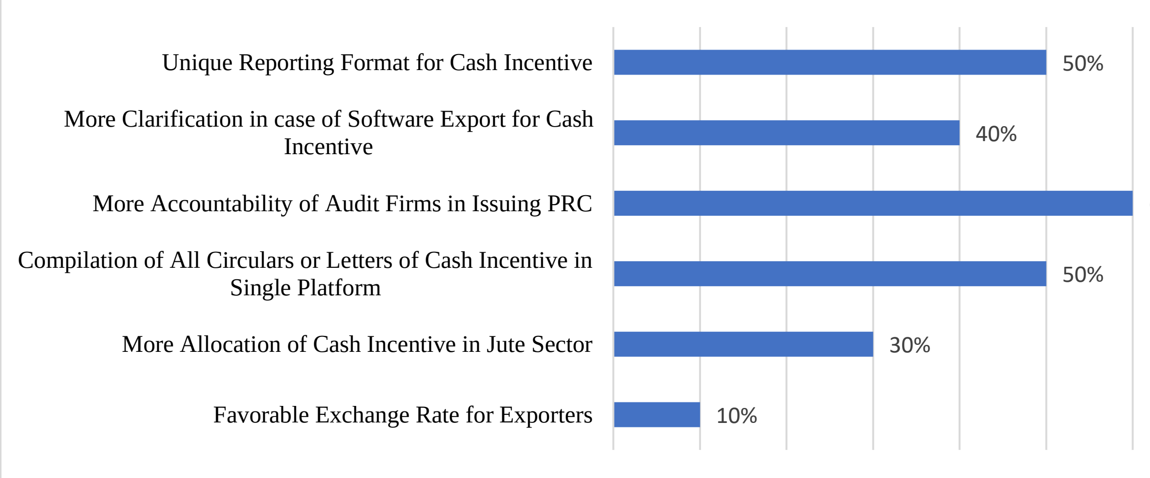


Figure 6.4 : Bankers' Expectation from Regulators for Better Use of Cash Incentive



Source: FGD and Questionnare Survey

7. Findings and Recommendations

The study identified several challenges and risk associated with the export financing and cash incentive in promoting export development in the country and made some recommendations.

One, export financing has a considerable, both long-term and short-term, beneficial link with export growth. However, there is a considerable short-term association with financial reward. According to this research, monetary incentives have a short-term influence on export volume that is negligible. It is probable that this is due to the government's incentive program. As already mentioned, export-oriented manufacturing facilities cannot simultaneously benefit from a financial incentive and a bonded warehouse or Duty Drawback (DEDO) facility. In the long term, this may deter exporters from using financial incentives. Cash incentive growth did not keep pace with total export growth. It is clear from sector-specific analyses that the quantity of expenditure does not affect the growth of a particular sector's exports. Additionally, governments should consider more carefully how to use a financial incentive to boost export growth. The ability of bankers and auditors to facilitate the correct allocation of financial incentives has to be improved. For greater results, monetary incentives must also be properly linked with other export facilitation items, because it is impossible to dispute the role that financial incentives played in Bangladesh's early export growth. However, since export finance has a significant impact on the growth of exports, stakeholders should concentrate on reducing the export financing gap by guaranteeing efficient use of refinancing funds, reducing operational problems, and improving trader negotiating skills.

Two: after a pandemic shock, things quickly return to normal. This year, around 65% of the shock disequilibrium from previous year converges to long-run equilibrium. Authorities, in particular Bangladesh Bank, have reacted quite impulsively to assist our exporters throughout the epidemic. Among these, the lengthening of time, adaptability in delayed export receipt, EDF, refinancing options, etc., are noteworthy. However, these results may potentially provide regulators some leeway to consider reducing certain flexibilities before misuse. However, while offering EDF and refinancing facilities, moral hazard and asymmetric knowledge problems can increase the potential of cash diversion. It is important for all parties involved to take precautions to minimize misuse of this cash. Additionally, according to survey results, exporters often acquire entire export financing in the form of Back to Back LC, PC, EDF, and export bill buy. When the pre-shipment refinancing program was introduced last year, banks were concerned about realizing export earnings during the epidemic. Experts in the trade finance sector think that this refinancing technique may expose banks to more risk as a consequence.

Three, the percentage of exports dependent on contracts has grown over time. Globally, open account commerce payment options are becoming more and more prevalent. Due to a lack of legally binding contracts, the export industry is now suffering enormous difficulties, particularly in the case of Colombia. Order cancellation, payment delays, inability to resolve disputes, change of conditions, etc. are increasingly major concerns for merchants and bankers in the realization of export proceeds. In this case, ratification of the UNIDROIT Principles of International Commercial Contracts (UPICC) and the Vienna Convention on the Sale of Goods (CISG) are essential. Enterprises involved in international commerce now more than ever need to understand their purposes and potential advantages in light of COVID-19.

Four, in certain instances, exporters' non-compliance led to NPL. NPL may also be caused by financial misappropriation, termination of contracts, and unprofessional conduct on the side of banks. Since the non-funded liability of back-to-back LCs was turned to a funded liability, the conversion of export orders from DP to DA during the pandemic is a major problem. Instead of initiating back-to-back LCs against contracts, the contract-based technique for industrial imports of export-oriented industries may be employed (already approved in our import policy 2015–18). For more transparency, the NPL data on trade finance should be made available separately. ECGS may be crucial in reducing NPL in export financing. Additionally, it may be used by exporters and lenders as a tool for risk reduction.

Five, cash incentive scams occasionally arise due to, among other factors, lack of compliance knowledge, lack of sufficient customer due diligence, unethical behavior on the part of bankers, traders, and auditors. Banks and auditing companies will, thus, be subject to monetary fines, complicated legal issues, and reputational risks. Banks and auditing companies must increase their ability for efficient use of compliance in managing monetary incentives in order to reduce these worries.

Six, the lack of product information is a critical problem for guaranteeing the standard of export financing. There is no denying that as the number of qualified specialists in the field increased, the quality of the banking industry's trade services significantly improved over time. Enhancing human resource capacity across a range of product lines and technologies is a constant opportunity in trade financing. Traders in many poor countries usually suffer from a lack of knowledge of the procedure and the associated risks.. The lack of understanding among merchants extends even to traditional trade finance practices. To ensure complete compliance with both export financing and cash incentive facilitation, it is essential that all parties are well informed about all pertinent facts in the export process.

Seven, the Bangladesh Bank's implementation of an online reporting and monitoring system has resulted in a decrease in bank irregularities and an increase in data accuracy. However, there are still examples of several typical errors made by ADs. By providing training, BB is attempting to increase reporting efficiency; nevertheless, further training is required to assure higher efficiency and reduce information gaps. Stakeholder monitoring and cooperation have improved. Another impressive development in the sector is the integration of ASYCUDA. However, there are certain indications of fraud in the financial rewards due to lack of automation in the bills of lading and export. The stakeholders are now calling for digitalization to guarantee transparency in export facilitations.

8. Concluding Remarks

Export finance options and financial incentives are more advantageous options for Bangladesh's export growth. Banks' management of export financing and incentives for trade facilitation has been called out for a variety of problems, some of which are on purpose and others which are the consequence of capacity issues. To address the issues brought on by operational, regulatory, and commercial risk, traders, bankers, auditors, and regulators must collaborate. Because financial incentives and export financing are so crucial to increasing our exports, this incentive requires more effective management in terms of both operational strategy and specific regulatory limits. To develop more targeted policy design, however, further sector-specific research is needed. Regulators were loosened, affordable refinancing alternatives were made available, and direct financial incentives were among the ways that policymakers helped our exporters. These steps, nevertheless, need to be managed and applied well. The acceleration of export development is, undoubtedly, a goal shared by all stakeholders, but there is a need for effective communication and coordination among them.

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Appendixes

Appendix Table 1: List of the Banks Responded to the Questionnaire

State Owned Commercial Banks (SOCBs)

1. Sonali Bank Limited
2. Janata Bank Limited
3. Rupali Bank Limited
4. Agrani Bank Limited

Private Commercial Banks (PCBs)

1. Trust Bank Limited
2. Community Bank Limited
3. BRAC Bank Limited
4. Dhaka Bank Limited
5. Dutch-Bangla Bank Limited
6. Eastern Bank Limited
7. EXIM Bank Limited
8. First Security Islami Bank Limited
9. Islami Bank Bangladesh Limited
10. Mercantile Bank Limited
11. Mutual Trust Bank Limited
12. NRB Commercial Bank Limited
13. ONE Bank Limited
14. Al-Arafah Islami Bank Limited
15. Prime Bank Limited
16. Pubali Bank Limited
17. Shahjalal Islami Bank Limited
18. Social Islami Bank Limited
19. Southeast Bank Limited
20. Standard Bank Limited
21. Jamuna Bank Limited
22. The City Bank Limited
23. The Premier Bank Limited
24. Uttara Bank Limited
25. United Commercial Bank Limited

Foreign Commercial Banks (FCBs)

1. HSBC Bangladesh
2. State Bank of India

Appendix Table 2: List of Participants (Bank Officials and Others) Participated at Focus Group Discussions or Interviews		
Sl. No.	**Name**	**Bank Name**
1.	Mr. Md Yousuf Rana	Social Islami Bank Ltd
2.	Ms. Suhana Sharmin	Social Islami Bank Ltd
3.	Ms. Shireen Mahazaben	Dutch-Bangla Bank Ltd
4.	Mr. Md Atik	Dutch-Bangla Bank Ltd
5.	Mr. Abu Yusuf	Social Islami Bank Ltd
6.	Mr. Md Sohel Rana	Islami Bank Bangladesh Limited
7.	Mr. Jakir Imtiaz	Southeast Bank Limited
8.	Mr. Alamgir Kabir	Southeast Bank Limited
9.	Mr. Razib Dhar	Eastern Bank Ltd
10.	Mr. Md. Ibrahim Hossain	National Bank Limited
11.	Mr. Md. Rafiqul Islam	Dhaka Bank Limited
12.	Mr. Md. Morshed Anower	The Premier Bank Limited
13.	Mr. Md. Nazrul Islam Bhuiyan	ONE Bank Limited
14.	Mr. Zulfiker Ahmed Khan	First Security Islami Bank Limited
15.	Mr. S.M. Azharul Islam	First Security Islami Bank Limited
16.	Mr. Md. Nazir Hossain	ONE Bank Limited
17.	Mr. Arefin	EXIM Bank Ltd
18.	Mr. Hasan Murad Choudhury	Southeast Bank Ltd
19.	Mr. Upal Dey	State Bank of India, Bangladesh
20.	Mr. Md. Nahidul Islam	Shahjalal Islami Bank Limited
21.	Mr. Monjur Hasan	NCC Bank Ltd
22.	Mr. Selim Rashed	Sonali Bank Ltd
23.	Mr. Abdus Sattar	Jamuna Bank Ltd
24.	Mr. Sk. Faisal Bin Rahman	United Commercial Bank Limited
25.	Mr. Syed Tanjir Hossain	United Commercial Bank Limited
26.	Mr. Md. Jamal Uddin	Islami Bank Bangladesh Limited
27.	Mr. Bablu Khan	Modhuomoti Bank
28.	Mr. A S M Jahid	System Analyst, NBR
29.	Mr. Mahmud Reza	Shadharan Bima Corporation
30.	Mr. Nurul Alam Forhad	Italy Footwear
31.	Mr. Kazi Abdur Rahman	Golden Harvest Foods Ltd

Appendix Table 3: FGD Questionnaire for Bankers and Other Relevant Personnels
• What are the current market trends and development of export finance in the country? • -What are challenges faced by banks in export finance and probable controlling measures? • -What are operational obstacles faced by bankers in handling cash incentives? • What are the expectations from regulators in handling cash incentive and export finance? • What are the changes observed by bankers in export finance and cash incentives in covid-19? **Survey Summary data were been discussed in the FGD for validation.*

Appendix Table-4: Questionnaire

Questionnaire for the Seminar on "Export Finance and Incentives: Implications on Export from Bangladesh"

Name:	
Designation:	
Department/Division (Foreign Trade/International Banking):	
Bank Address:	
Cell:	**Tel:**
Email:	

A: Export Financing (Pre-shipment: Funded and Non-Funded)

		No. of Cases and Volume			
	Products	No. of Cases [2019]	Volume in USD [2019]	No. of Cases [2020]	Volume in USD [2020]
	Back to Back LC				
	EDF				
	Packing Credit				
	Financing against Stimulus Package				
	Others				
	Total				

B: Export Financing (Post-shipment)

	Number of Cases and Volume in USD				
	Forms of Financing	No. of Cases [2020]	Volume in USD [2020]	No. of Cases [2019]	Volume in USD [2019]
	FDBP				
	Receivable Purchase				
	Bill Discounting				
	International Factoring				
	Others				
	Total				

C: Export Finance

C1: Do you face any operational challenges in export finance, if yes, mention?
C2: Do you face any regulatory challenges in export finance?
C3: What do you expect from regulators to overcome those challenges?

D: Cash Incentives

D1: In which sectors, your bank provide cash incentive and amount?
D2: Do you think that cash incentive is beneficial for growth of export volume?
D3: Do you face any operational challenges in cash incentive?
D4: What do you expect from regulators to overcome those challenges?

E: AML/CFT Related Questions

Price, Quantity and Quality of Exportable or Importable Items

E1: Does your bank have mechanism to verify the price of exportable or importable items? If yes, what are the mechanisms?
E2: How does your bank determine price of exportable or importable items?
E3: Does your bank use any commercial database for verification of price of exportable or importable items?
E4: What preventive measures you suggest to prevent TBML through export finance and cash incentive?

Appendix Table 5 : Summary of Government Initiatives in Promoting Export of Bangladesh

- Concessionary duty as per SRO* is allowed on the import of capital machinery and spare parts for setting up export-oriented industries or BMRE of existing industries. For 100% export-oriented industries no import duty is payable.
- Facilities such as special bonded warehouse against back-to-back letters of credit or notional import duty and non-payment of Value Added Tax (VAT) facilities are available as per SRO of the government.
- System for duty drawback is being simplified and concise. The exporter will be able to get back the duty draw-back directly from the concerned commercial bank.
- Bank loans, of up to 90% if the value against irrevocable and confirmed letters of credit/sales agreement, are available.
- For granting export performance benefits, the list of export products and the rate of export performance benefit (XPB) are reviewed from time to time.
- With the intention of encouraging backward linkages, export-oriented industries including export-oriented readymade garment industries using indigenous raw materials instead of imported materials, are given additional facilities and benefits at prescribed rates. Similar incentives are extended to the suppliers of raw materials to export-oriented industries.
- Export-oriented industries are allocated foreign exchange for publicity campaigns and for opening offices abroad.
- Entire export earnings from handicrafts and cottage industries are exempted from income tax. In case of other industries, proportional income tax rebates on export earnings is given between 30% and 100%. Industries which export 100% of their products are given tax exemption up to 100%.
- Facilities for importing raw materials are given for manufacturing exportable commodities under banned/restricted list.
- Import of specified quantities of duty-free samples for manufacturing exportable products is allowed. The quantity and value of samples is determined jointly by the concerned sponsoring agency and the NBR.
- Local products supplied to local projects against foreign exchange under international tender are treated as indirect exports and the producer is entitled to avail of all export facilities.
- Export oriented industries like toys, luggage and fashion articles, electronic goods, leather goods, diamond cutting and polishing, jewelry, stationery goods, silk cloth, gift items, cut and artificial flowers and orchid, vegetable processing and engineering consultancy services

identified by the government as thrust sectors are provided special facilities in the form of cash incentives, venture capital and other facilities.

- Export oriented industries are exempted from paying local taxes (such as municipal taxes).
- Manufactures of indigenous fabrics (such as woven, knit, hosiery, grey, printed, dyed, garment check, hand loom, silk and specialized fabrics) supplying their products to 100% export oriented garment industries are entitled to avail a cash subsidy equivalent to 25% of the value of the fabrics provided the manufacturers of the fabrics do not enjoy duty draw back or duty free bonded warehouse facility.
- Apart from the above mentioned facilities, other facilities as announced and provided in the export policy are also applicable for export-oriented and export-linkage industries.
- Tax exemption on dividend income of non-resident shareholders during tax exemption period of an industry set up in an export processing zone and also after the expiry of tax exemption period if the dividend is re-invested in the same project.
- Exemption of tax on income from industrial undertakings set up in an export processing zone for ten years from the date of commercial production.
- Tax exemption on capital gains from the transfer of shares of public limited companies listed with a stock exchange.

Source: Various Department of Government of Bangladesh

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