Impediments of financing and impact of domestic and foreign financing on economic growth in Bangladesh

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Abstract

The main objective of the study is to analyze a significant impact of financing on economic growth in Bangladesh. Besides, study has identified the impediment of financing on borrower perspective. From the data of last twenty years (FY 1999-2018), we have found that there is a significant gap between domestic financing and net foreign financing to contributions of economic growth in Bangladesh. To conduct quantitative analysis, we have used Correlation, regression, test of hypothesis and descriptive analysis in the paper. Primary and secondary data has been used in this paper. Primary data has been collected through structure questionnaires format from borrowers, investor, and businessmen. Secondary data has been collected from some economic reviews and journals. The results suggest that, if the government can overcome impediments of financing and make balance both the sources of financing, which will help more significantly in achieving targeted GDP in Bangladesh. The study will make available to the policy makers that how overcome the impediments of financing and which financing is more emphasis for achieving targeted level of GDP. At the end, have given some recommendations regarding overcome the impediments of financing and how to make the financing balance between the domestic financing and foreign financing to drive the economic growth by accelerating investment.

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Keywords: Domestic Financing, Net Foreign Finance, Impediments, GDP, Economic growth,

1. Introduction

Domestic financing and foreign financing have traditionally attributed on significant role for long term investment to drive economic growth of a country. Domestic savings helps for domestic financing which transform low saving economy into high savings economy. In addition, Domestic savings are the key determinants of domestic investment. Besides, domestic investment depends on the various sources of capital in financing **(Bangladesh Economic Review).** Economic growth of a country depends on especially domestic financing, foreign direct investment, remittance, and external debt **Haque, S.T. (2013)**[8]. An efficient financial system maximizes the wealth through mobilizing the scattered domestic savings into capital and making credit or loan according to the investor's demand so drawing an investment models both domestic and foreign financing is considered as key indicators **(Alom M.S.and Ullah M.A. (2006)**[15]**.** The empirical results show that in the case of Asian countries like Bangladesh investment is driven by domestic savings, bank loan to the private sector and Foreign Direct Investment (FDI) **N.C. Leitao, (2012)**[10]. Economic development of a country depends on the following indicators such as, GDP growth rate, satisfactory remittance inflow, comfortable balance of payment, stable exchange rate **Levine, R. (1997)**[17]. But, in some circumstances economy of Bangladesh is facing problem such as, sluggish investment because lack of adequate financing, (CPD, 2016). In our studies shows that net foreign finance and gross domestic product is a positive relationship between them and motivating for promoting net foreign finance for spurring domestic investment. More recently FDI have emerged as an important form of private capital flows surpassing official development aid and increasingly trend of foreign financing in stimulating domestic investment in developing countries (ADB-2015). Empirical studies have established important role of domestic savings as a driver of domestic investment and domestic sources of financing is consist of scattered savings of general people **Ayodele (2014)**[18].

2. Objective of the Study

- To identify an impediment of financing on the borrower perspective in Bangladesh.
- To identify an importance of domestic financing and net foreign financing that affects economic growth in Bangladesh.
- To estimate the regression analysis, hypothesis testing between domestic financing and foreign financing and GDP over time in Bangladesh.
- Recommend some overcoming the impediments of financing.

3. Research Methodology

The study is an empirical research. Data and information required for the research were collected through both primary and secondary sources (Bangladesh economic review)[1]. To develop the theoretical background of the study secondary data were collected from economic reviews and different journals. I have taken into consideration GDP (at current market price) for last 20 years. Well accepted regression model has been developed in the study for identifying the impact financing on GDP in Bangladesh. The model has covered 3 variables including GDP as the dependent variable and domestic financing, net foreign financing is used as independent variable. Besides, primary data also cover 8 variables these are High lending interest rate, Political instability, lack of basic infrastructure, and managerial efficiency, Inadequate of loan able fund, extremely short grace of period Complexity of Loan sanction process, Problem of creditworthiness Problems of collateral. For conducting the study simple random sampling (SRS) has been adopted to survey the respondent from different borrowers and investors were selected purposively. It should be mentioned that a total of 250 structured questionnaires were provided among the respondent. The surveys were conducted in May and June 2019. Data entry was conducted in SPSS 16.0 data editor and analyzed under some specific hypothesis. Statistical tools like correlation coefficient; coefficient of determination, analysis of variance (ANOVA) was used in this paper.

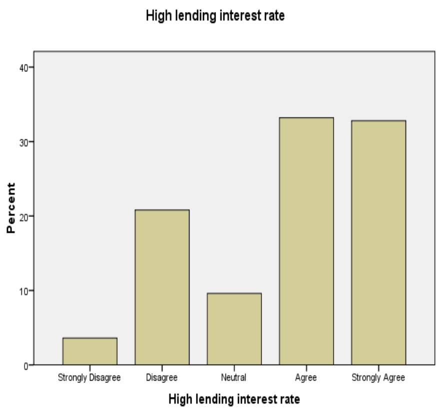
4. Review of Literature:

Peter et al (2015)[6] has identified that domestic savings and bank credit in the private sectors is the main sources of domestic investment. Therefore, Foreign aid or loan and financial intermediation are the main sources of foreign financing for economic development of a country. **Makinde (2016)**[3] have identified that financial institution are considered as main sources for supplying fund in the financial market and leading to economic growth. The benefits accruable from a healthy and developed financial system relate to saving mobilization and efficient financial intermediation. **Chekwube Madichie et al (2014)**[7] has revealed that financial development has played a significant role for economic growth in Nigeria and the result confirm that a long-term relationship between GDP and financial development depends on several variables of financial development indicators. **Shahnur and Azam (2013)**[9] conclude that banks should come forward with broader capital fund, to mobilize the capital to boost an economy for strengthening financial system in Bangladesh. **Ghos (2010)**[13] has examined that the interconnection between domestic financing and foreign financing is required for economic growth because that efficient banking system increase loan supply from internally (domestic) and externally (foreign). **Kashfia and Tanvir (2009)**[14] opined that for ensuring economic growth, poverty alleviation and rapid industrialization have been achieved if the financial institution and non-bank organization provide credit facilities with minimum interest rate charges and grant loan with a few formalities. **Diego (2003)**[19] has found that maintaining efficient credit policy financial institution can acquire information about firms and managers and general people for the purpose of capital formation and thereby enhancing investment efficiency. **Alam M.S. and Ullah, M.A(2006)**[15] found that major impediment of financing in the borrowers perspective are high interest rate charges ,required high collateral security ,and maintaining formalities for loan sanction. **Vipin (2015)**[5] finds that an efficient financial system positively contributes to economic growth that's why the financial system should be liberalized to ensure its good functioning, boost savings, encourage productive and profitable investments, push technology growth and sustain economic growth. **S. Ghosh, (2010)**[13] show evidence that there exists an equilibrium relationship in long run between financial deepening and economic development and the government must take effort for financial deepening and to provide easy credit to private sector, stock market development and to foster foreign trade.

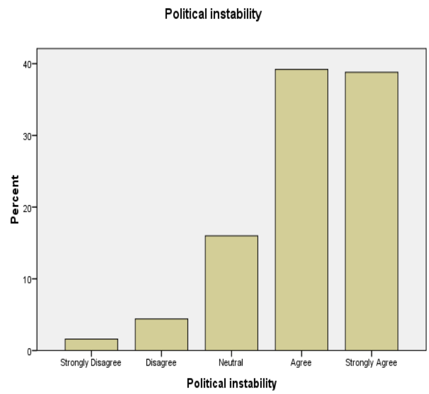
5. Statistical Results and Findings

From the econometric analysis of the primary data from 250 structured questionnaires were provided among the respondent and Findings of the study are categorically discussed in the following subsections:

5.1. Descriptive statistics:

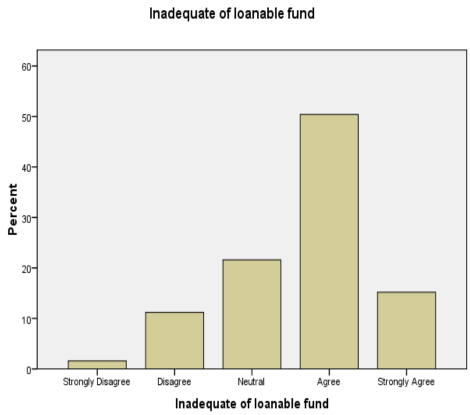


Graph: 1

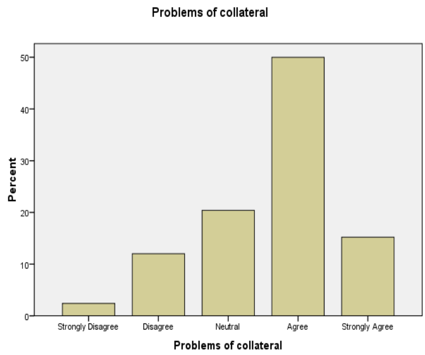


Graph: 2

In our analysis **(Graph: 1)** found that only 33.23% borrower are strongly agreeing with interest rate and 32.8% respondent opined that interest rate is not reasonable for them. Only20.8% respondent comfort with the interest rate. Most of the borrowers, investor, and businessman are dissatisfied about the interest rate charges by the lender. So, borrowers do not feel comfort with the interest rate; the larger rate usually creates a burden to the entrepreneurs. They usually demand the loan at lower rate. **About** 78% **(Graph: 2)** respondents feel that political interferences are the reasons of getting loan.

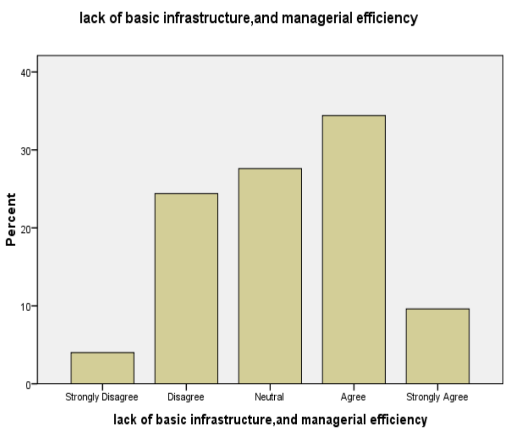


Graph: 3

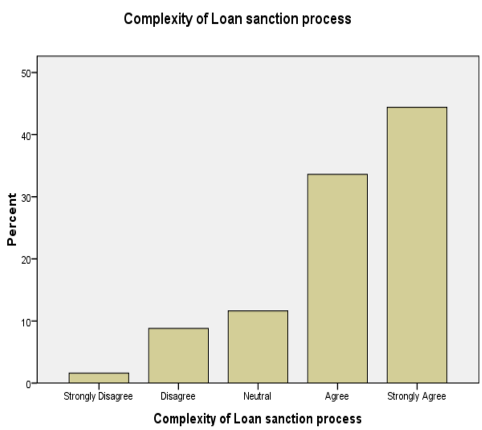


Graph: 4

In our analysis (**Graph: 4)** found that only 50.4% respondent opined that collateral security is required for taking loan and it is the major problems of financing. So, most of the respondent have opined that lender ask for collateral at the time of granting loans. It hinders the borrowers to get credit from the institutional sources.

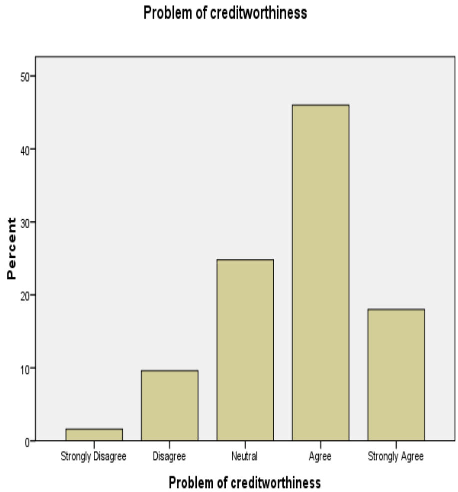


Graph: 5

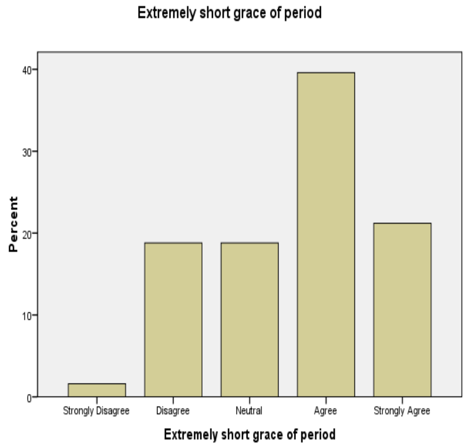


Graph: 6

Regarding the questionnaire 44.4% are strongly agree and 33.6% respondents are agreeing about the complexity of loan sanction process. So, the respondents have faced more burdening to get the loan from the financial institution. About 45% respondent opined that lack of managerial efficiency they suffer during taking loan.



Graph: 7



Graph: 8

Regarding the questionnaire 64% are agree that they are not interested to take loan because they can't manage the fund properly and 33.6% respondents are agree about the complexity of loan sanction process. So, the respondents have faced more burdening to get the loan from the financial institution. About 45% respondent opined that lack of managerial efficiency they suffer during taking loan.

5.2. Coefficient of Correlation: Secondary data of last twenty fiscal years (1999-2018) regarding Gross Domestic Product, Domestic Financing and Net Foreign Financing has been considered for calculating coefficient of correlation. From table-01, it has been found that there is a high degree of positive correlation (R=0.986) between Domestic Financing, Net Foreign Financing and GDP.

5.3. Regression analysis: From table -03, the following multiple regression has developed by taking GDP as the dependent variable and Domestic Financing and Net Foreign Financing as the independent variable.

Table: 01 - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.986	.972	.969	855.36363	.972	294.926	2	17	.000	.934
a. Predictors: (Constant), DF, NFF b. Dependent Variable: GDP										

Table: 02 - ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.3168	2	2.158E8	294.926	.000[a]
	Residual	1.2447	17	731646.935		
	Total	4.4408	19			
a. Predictors: (Constant), DF, NFF b. Dependent Variable: GDP						

Table: 03 - Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Co linearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	360.548	613.689		.588	.565	-934.222	1655.318		
	NFF	27.000	11.434	.319	2.361	.030	2.877	51.123	.090	11.063
	DF	18.500	3.689	.677	5.015	.000	10.718	26.283	.090	11.063
a. Dependent Variable: GDP										

The standardized regression model is:

$$GDP = \alpha_0 + \beta_1 DF + \beta_2 NNF + \in_i \textit{(Residual factors)} \ldots\ldots\ldots\ldots \text{(i)}$$

The fitted regression model is:

$$GDP = 360.548 + 0.677(DF) + 0.319(NFF) \ldots\ldots\ldots\ldots\ldots\ldots \text{(ii)}$$

Where,

GDP	Gross Domestic Product
DF	Domestic Financing
NFF	Net Foreign Financing

According to table -01, the value of R^2 = 0.972 or 97.2% which implies that 97.2% of the total variation of GDP can be explained by the above regression model where remaining 2.8% variation can be explained by the variables which are not included in the regression model **(Kothari, 2001)[16] and Gujarati, D.N, (2012)[11]**. Here, the value of adjusted R^2 is 0.969 or 96.9% which suggests that addition of other independent variables will not contribute in explaining any variation in the dependent variable. In the above model, if the value of all the independent variables is zero then GDP will be Tk. 360.548 billion.

5.4. Test of Hypothesis: In this study, following hypothesis has been developed:

H_0 : *There is no significant relationship between multiple determinations and the GDP*

H_1 :*There is a significant relationship between multiple determinations and the GDP*

The statistical method of F-test has been used at 5% level of significance to identify whether there is significant relationship between GDP and two independent variables. In this regard, null hypothesis can be accepted if the calculated p (Significance) value is greater than 0.05 and we can reject the null hypothesis if the calculated p (Significance) value is less than 0.05.

From table -02 of appendix, it has been found that the value of p (Significance) is 0.000 against all the independent variables which is less than 0.05. Hence, the null hypothesis is rejected. There is significant relationship between the independent variables and dependent variable. It can be said that Economic growth in Bangladesh is dependent on Domestic Financing and Net Foreign Financing where Domestic Financing are highly significant on GDP. (Gujarati, 2012)[11]

6. Conclusions and Recommendations

To carry out the objective of the research, statistical analysis such as, correlation analysis, regression analysis, test of hypothesis and descriptive analysis have been conducted with the help of SPSS. Through the study it has been found that there is high degree of positive correlation among dependent and independent variables. It can be mentioned that economic growth in Bangladesh is dependent on domestic and foreign financing where results are concluded that domestic financing are highly significant. For making effectiveness between domestic savings and domestic investment for economic growth an efficient and expert financial intermediary is necessary and financial system and financial market should be developed. Mentionable, functions played by bank and non-bank financial institution, create resources pooling, maturity transformation, price recovery and risk mitigation which are the most essential for domestic investment. Overcoming the impediments of financing, government and financial institutions should provide loan with a lower interest rate. The disbursement of credit/loan should be extended. The repayment condition of financial institutions should be revised. Loan sanctioning process should be simplified. Bank to provide collateral free bank loans. So, it is recommended that commercial banks can provide short term financing. In the globalizations age without proper financing system, business organizations cannot run their business in smoothly, so financing is necessary. Financial institutions and non-bank financial institutions should provide financing facilities with fewer formalities.

Future Research direction the survey has been conducted only the borrower's perspective and further study may be borrowers and lender perspective.

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Appendixes

Table: 01 - High lending interest rate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	2.3	3.6	3.6
	Disagree	52	13.5	20.8	24.4
	Neutral	24	6.2	9.6	34.0
	Agree	83	21.6	33.2	67.2
	Strongly Agree	82	21.3	32.8	100.0
	Total	250	64.9	100.0	

Table: 02 - Political instability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	1.0	1.6	1.6
	Disagree	11	2.9	4.4	6.0
	Neutral	40	10.4	16.0	22.0
	Agree	98	25.5	39.2	61.2
	Strongly Agree	97	25.2	38.8	100.0
	Total	250	64.9	100.0	

Table: 03 - Problem of creditworthiness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	1.0	1.6	1.6
	Disagree	24	6.2	9.6	11.2
	Neutral	62	16.1	24.8	36.0
	Agree	115	29.9	46.0	82.0
	Strongly Agree	45	11.7	18.0	100.0
	Total	250	64.9	100.0	

Table: 04 - Complexity of loan sanction process					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	1.0	1.6	1.6
	Disagree	22	5.7	8.8	10.4
	Neutral	29	7.5	11.6	22.0
	Agree	84	21.8	33.6	55.6
	Strongly Agree	111	28.8	44.4	100.0
	Total	250	64.9	100.0	

Table: 05 - Problems of collateral					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	1.6	2.4	2.4
	Disagree	30	7.8	12.0	14.4
	Neutral	51	13.2	20.4	34.8
	Agree	125	32.5	50.0	84.8
	Strongly Agree	38	9.9	15.2	100.0
	Total	250	64.9	100.0	

Table: 06 - Extremely short grace of period					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	1.0	1.6	1.6
	Disagree	47	12.2	18.8	20.4
	Neutral	47	12.2	18.8	39.2
	Agree	99	25.7	39.6	78.8
	Strongly Agree	53	13.8	21.2	100.0
	Total	250	64.9	100.0	

Table: 07 - Inadequate of loan able fund					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	1.0	1.6	1.6
	Disagree	28	7.3	11.2	12.8
	Neutral	54	14.0	21.6	34.4
	Agree	126	32.7	50.4	84.8
	Strongly Agree	38	9.9	15.2	100.0
	Total	250	64.9	100.0	