CHAPTER VII

FINDINGS AND RECOMMENDATIONS

In the foregoing chapters we have attempted to portray a detailed picture of the financing procedures and policies and financial operations of three non-banks, i.e., Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangtha and Investment Corporation of Bangladesh with a view to bringing into focus their methods of purveying financial assistance to the industrial clients and the role they have played in the large scale industrialisation of Bangladesh. The theory relating to financing procedures and policies of non-banks maturing both in the developing and developed economies over time has also been depicted in an effort to assess and evaluate the position of Bangladeshi non-banks. It has been our endeavour to estimate whether the operations of these non-banks have been in conformity with the programmes formulated in different plan documents of the Government. An effort has also been made to locate the areas of weaknesses and shortcomings in their financing procedures and policies and financial operations. The views of the two partners, i.e., the clients and the officials involved in this game, have also been recorded at appropriate places. The variations in the allocation of funds as between the public and private sectors contingent on the shift of emphasis from one to the other through time have also been portrayed. An attempt has also been made to assess and evaluate the proportion of the aggregate demand
for funds that they have been able to satisfy and the relative shares of these three non-banks in the total investment sanctioned for private sector industries. It is now right and proper at the end of this exercise to state the principal findings as also the policy implications arising therefrom.

Financing Procedures and Policies

The entrepreneurs continue to harbour the impression that the time taken by Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha in processing loan applications is much too high. This perception of the entrepreneurs was also corroborated and confirmed by the Federation of Bangladesh Chambers of Commerce and Industry. An attempt was made to gauge the degree of truth in the allegation levelled against these institutions against time norm of 1 year 2 months from the submission of application to first disbursement prescribed by the Inter-Ministerial Study Group (IMS6)\(^1\). In case of Bangladesh Shilpa Bank, it was found that out of 27 projects it could process only 7 projects, i.e., 26.00 per cent of the cases, within this time limit\(^2\). Bangladesh Shilpa Rin Sangstha processed only 11 projects, i.e., 31.00 per cent, out of 35 projects within the same time\(^3\). Though Investment Corporation of Bangladesh has been able to process 20 projects out of 25, i.e., 80.00 per cent within the prescribed time limit\(^4\), it has

\(^1\)Chapter III of the present study, pp. 96–97.
\(^2\)Table 3.7, p. 99.
\(^3\)Table 4.3, p. 183.
\(^4\)Table 5.2, p. 249.
got little room for complacency as the quantum of applications processed by it may be said to be comparatively much less than that of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha and the prescription of time norm itself seems to be on the high side. So, it is seen that the time taken by Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha is unusually long as compared to time prescribed by the Inter-Ministerial Study Group.

In this age of inflationary situation, delay in approving a project is suicidal both for the applicant and the institution from the viewpoint of cost. Also, the excessive processing time may dampen the enthusiasm and initiative of the entrepreneurs. The longer the time, the greater the possibility of the project idea turning out to be different from the one originally conceived. The Government policies also might undergo drastic and substantial changes during this time. Considering all these factors, both the parties need to make concerted efforts to eliminate inordinate delays in the matter of processing loan applications. The factors responsible for delay may be due to the entrepreneurs as well as the institutions. The institutions cannot help much if the fault lies with the entrepreneurs. But to the extent that the institutions are responsible for procrastination, they need to exert themselves in an effort to minimize delays.

The nature and margin of security required by the financial institutions, as was observed, act as a deterrent in the way of smooth purveying of industrial finance. Though there is no specific indication as to the margin, the
institutions take adequate security against loans granted. The margin requirement of Bangladesh Shilpa Bank has varied between 35.00 per cent and 62.00 per cent in the case of five selected cases. In the case of three sample projects it was observed that the Sangsthata insisted on the margin requirement of 55.13 per cent, 37.28 per cent and 32.37 per cent respectively.

The practice of Investment Corporation of Bangladesh is almost similar to that of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangsthata. The margin requirements of our institutions appear to be higher even when compared to the margins asked for by the principal financing institutions in countries like Nepal, Sri Lanka and Malaysia. It indicates that the non-banks in Bangladesh in their industrial financing operations lay more emphasis on security aspects which has come to be universally accepted as a traditional approach. The modern approach must give more weightage to the bonafides of promoter(s) behind the project and its viability. The time-worn, age-old outlook towards security requirements needs complete overhauling and that too to be accomplished without any loss of time.

The system of valuing assets by the financial institutions on the basis of book value in case of existing concerns is against the interest of clients. The persistent spectre of inflation has pushed the value of assets in the market to levels

---

5 Table 3.8, p.103.
6 Table 4.4, p.185.
7 Table 3.9, p.104.
8 Chapter III and IV of the present study, pp.94 and 185 respectively.
much higher than their book value. This inflationary enhancement in the value of assets needs to be taken into account in determining the quantum of loan assistance to be sanctioned. It also demands attention because of the fact that if an entrepreneur becomes a defaulter and the institution has to dispose of the asset, it will surely sell it at market value and not at book value. So, market value should be a better index of the value of assets pledged as security. To avoid mistrust and misunderstanding in respect of valuation, independent assessors need to be appointed.

It is observed that the list of documents that are required to be signed by the entrepreneurs is quite long. In order to establish title to factory land owned by private individuals, 12 years' non-encumbrance certificate has to be produced by the entrepreneurs. The experience of entrepreneurs is that it takes sometimes one full year to obtain such a certificate. It adds to the untold harassment and sufferings of entrepreneurs. In so far as object of documentation is to bind the promoters legally so that no room is left for them to evade liability, there should be no room for doubt or dispute. But if the entrepreneurs have to observe numerous formalities, they may be discouraged from coming forward to avail of institutional finance and may be forced to go for distress borrowing. This may produce adverse effect on the tempo of industrial development and the achievement of industrial development goal may become a far cry. It is not

9Chapter III and IV of the present study, pp. 93 and 177 respectively.
an easy task to put forward concrete suggestions on legal matters without having sufficient insight into the subject. So, one may hesitate to go beyond expressing a simple desire that formalities of documentation should be streamlined and relaxed wherever possible.

The role of Bangladesh Shilpa Rin Sangsth and Bangladesh Shilpa Bank in the selection of machinery is considered by the promoters as an interference. As a matter of fact, the promoter is the man who may be rightly presumed to have conceived the project idea, who knows well what products will have to be manufactured, with what machinery and of what quality. It may also be presumed that the promoters might gather sufficient idea about the right kind and source of machinery during the course of loan negotiation. It is complained that without giving importance to his arguments, direct and indirect pressure is brought to bear on him from powerful and influential quarters to import machinery from a particular source through a particular agent. This is simply undesirable and uncalled for. The institution, as a financier, can always give advice for the selection of proper machinery. It is most welcome and there cannot be any objection to and harm in such an advice being preferred. But the task of ultimate selection should be left to the entrepreneurs and entrepreneurs alone.

The debt-equity ratio of 60:40 for so-called developed areas and 70:30 for underdeveloped areas, as per the version of the entrepreneurs is on the high side. The gradual increase in project cost due to inflation followed by declining
profitability is eroding the financial capacity and capability of entrepreneurs. Moreover, the static, virtually moribund capital market in existence in the country is handicapping the mobilisation of adequate amount of risk capital. So, the insistence on the promoters contributing a higher proportion of equity capital from their own resources is posing a threat to their already squeezed financial condition. Though debt-equity ratio stands changed to 65:35 for developed areas and 80:20 for other areas since 1st September, 1979, it still seems to be on the high side, not favourable for entrepreneurs. Effort may be made to further reduce this ratio to 80:20 for developed areas and 90:10 for other areas in order to facilitate the entry of more entrepreneurs in the field of industry.

The wide divergence between the estimated and the actual costs in most of the cases casts serious doubt about the validity and relevance of the project appraisal techniques applied by the non-banks in Bangladesh. In 15 selected projects in the case of Bangladesh Shilpa Bank, the estimated project cost varied between 7.56 per cent and 214.64 per cent, the average variation being 20.55 per cent.\(^\text{10}\) For the Sangatha, in the case of similar number of projects, the cost varied between 5.56 per cent and 89.08 per cent, the average variation being 79.11 per cent.\(^\text{11}\) It is complained by the entrepreneurs that the cost standards used are old and outdated and similar estimate is used for an item of

\(^{10}\) Table 3.3, p.87.

\(^{11}\) Table 4.1, p.174.
expenditure requiring separate assessment. The glaring divergence between the two costs is also corroborated by the concerned officers. The officials confessed that sometimes cost of project shot up by as much as 50.00 per cent. Cost estimation should be a continuous exercise so as to bring such estimates close to the reality of the changing economic situation. This has to be done more particularly in the context of the spiralling prices all round. In a recent survey, the Bureau of Public Enterprises of India found that the implementation of 19 high priority projects was delayed by 7 months to 48 months and cost of project escalated between 50.00 per cent and 215.00 per cent. So, delays in project implementation and escalation in project costs seem to be two unfortunate but apparently inescapable features of project implementation. Perpetual efforts, however, need to be made to keep a close watch on the changing economic situation and provide for the escalation of costs to the extent possible.

The flight of professional staff from Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangsta to other organisations in quest of better jobs and attractive emoluments has become a chronic problem. It is found that 51 professional persons left Bangladesh Shilpa Bank during 1978-79. It had 342 professionally

---

12 Chapter IV of the present study, p.173.

13 Editorial, The Economic Times (New Delhi, India), November 10, 1980.
qualified persons as on June 30, 1979. The number that left Bangladesh Shilpa Rin Sangstha during the same period was 15. It had 84 professional persons on its pay-roll as on 30th June, 1979. The institutions could hardly brook this depletion of their expertise because of severe scarcity of professionally qualified persons in the field of industrial finance. Some non-banks like Industrial Development Bank of Turkey pay very attractive salaries to their employees to minimise high turnover. It is said that persons selected for civil service, sometimes prefer to step into the Industrial Development Bank of Turkey because of the higher emoluments available there. The Bangladeshi non-banks may think on these lines in an effort to attract and retain trained, competent and experienced persons.

The Investment Corporation of Bangladesh has got no technical department of its own. It has to take the assistance of outside consultants to scrutinize the financial aspects of the project. This work is so important that the institution cannot think of continuously relying on outsiders for this service. There are some difficulties in this arrangement. The service of outside consultants may not be available in times of need and they may charge exorbitant rate of fee in case of urgency. This may exert adverse pressure on its already depleted financial resources. The quality of work,

14 Chapter III of the present study, p.86(f.n.14 and 13).
15 Chapter IV of the present study, p.172.
16 Chapter V of the present study, p.240.
as may be desired by an institution of the Corporation's status, may not be available in the market. Considering all these limitations, the Investment Corporation of Bangladesh should organise its own department to handle technical work as early as possible. All modern non-banks have their own internal organisation of technical, engineering, law and other departments to undertake various tasks.

The data base of Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh is very weak as compared to Bangladesh Shilpa Bank. The Bangladesh Shilpa Bank has got a full-fledged statistics department to collect, analyse and disseminate different types of information concerning its working for the use of the Bank itself and also for the use of outside organisations including individual researchers. It has also recently started a 'Data Bank' in addition to statistics department though the distinction between them is not very clear. The Bangladesh Shilpa Bank can more or less supply information on request. The persons who deal with statistics in Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh are very few and not well-equipped. If any information is sought from them, they have to write to individual departments to collect information which is a time-consuming process. A well-organised information pool is a sin qua non for quick decision-making. So, Bangladesh Shilpa Rin Sangstha should organise an independent statistics department as early as possible with the required staff. The
Investment Corporation of Bangladesh should equip its already existing Economic and Business Research Department with sufficient up-to-date information concerning its functioning.

Many restrictive conditions imposed by the non-banks to ensure financial discipline on the projects assisted by them, the entrepreneurs complained, may do much harm than good. These conditions do not permit the promoters to work freely. The clauses relating to preferential allotment of shares to the institution and insistence on the right of conversion of loan into equity, the entrepreneurs felt, amounted to indirect nationalisation. The condition imposed on inter-company investment also did not find favour with the entrepreneurs.

Because it is as clear as broad daylight that when a company carries out expansion work or forms a new company, it finances major cost from its past savings and existing business. The rigidity in this respect may hamper expansion of industries. The non-banks should think further as to how they could somewhat relax conditions pertaining to conversion of loan into equity and inter-company investments. They should try to blend element of liberality and financial prudence in a judicious manner while imposing restrictive conditions.

The inter-institutional co-operation and co-ordination that exists today between the three non-banks under study is very thin. The only co-operation that exists is in the field of underwriting of shares and debentures operated through a consortium formed under the leadership of Investment Corporation of Bangladesh. The co-ordination work has become very essential
in this modern age as the field of industrial finance is increasingly getting complex and diversified day by day. The persistent presence of inflation is making the task of financing projects costlier. So, individual institution may not find it possible to cope with the emerging situations successfully. The techno-economic survey, industrial potential survey, establishment of technical consultancy organisations which are very essential for industrial expansion require huge funds beyond the capacity of a single institution. There are also other fields like common appraising and common application form where adequate scope exists for co-operation. The Indian experience in this respect seems to be quite impressive. There is the system of Inter-Institutional Meetings (IIM) Forum under the leadership of Industrial Development Bank of India. The IIM Forum has two layers: full IIM, attended by Chiefs of the institutions and Senior Executives Meeting. The full IIM meets monthly to consider issues relating to policy matters, sharing of assistance, waiver or exercise of conversion option etc. The Senior Executives - officials of second level in each institution meet fortnightly to exchange preliminary views on the project proposals and decide about the lead institution in addition to follow-up matters and exercise of conversion option. The Industrial Development Bank of India, the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India follow common appraisal system with the object of streamlining the present procedures and reducing the time taken (processing of applications and their sanctions do not take more than 4 to 5
months under the present system) in processing applications for financial assistance. These meetings have proved very useful to quicken the flow of sanctions and disbursals. According to William Diamond, 'the effectiveness of a development bank depends in part on the relationships it establishes, not only with Governments (a matter often dealt with), but also with its potential clients and with other institutions and organizations that make up the total development environment'.

The co-ordinated approach is a modern approach. It economises both cost and time. It gives a clear direction to financing activities and avoids duplication of effort. The non-banks in Bangladesh should not sit idly in this respect. They should pool together their resources and skills to cope successfully with the stupendous task of financing the development of industries in Bangladesh.

The imposition of 2.00 per cent penal interest per annum for not making payment of instalment of principal and interest in time, according to the opinion of entrepreneurs, is too stringent. Sometimes, the entrepreneur defaults on payment of loan instalment in time because of strained financial position. So, the institution may think of applying penal interest with selectivity. Those defaulting for genuine reasons need to be

---

17 Indian Investment Centre, Specialised Financial Institutions, New Delhi, January 1980, pp. 3-5.

exempted from paying such penalty. The provision of penal interest, as per data, has not expedited payments. The massive size of the outstanding amounts, i.e., 86.27 per cent in case of Bangladesh Shilpa Bank and 94.46\textsuperscript{19} per cent in case of Bangladesh Shilpa Rin Sangstha, is the proof. It will be much better if the punitive provision, a negative approach, is replaced by positive provision of allowing rebates for prompt and punctual repayment of instalments due. This will be more in tune with modern financial practices and more effective in ensuring punctual repayments.

The entrepreneurs took serious exception to the timing of the imposition of commitment charge by Bangladesh Shilpa Rin Sangstha.\textsuperscript{20} They felt that the charge was imposed after one month of the sanction of the loan though the credit agreement was signed much later and utilisation of money also started much later. The commitment charge needed to be imposed after the signing of credit agreement as actual disbursement started only after that formality.

The application form, as per the entrepreneurs, was lengthy and its contents, written in English, not properly

\textsuperscript{19}The average recovery in case of BSB was 13.73 per cent and in the case of BSRS 5.54 per cent. The outstanding amounts, therefore, came to 86.27 per cent and 94.46 per cent respectively. (Sources : Table 3.34, p.165 and Table 4.22, p.233).

\textsuperscript{20}Chapter IV of the present study, p.189.
understood by many. Bangladesh like many other less-developed countries, had no organised information pool. Moreover, whatever information base she had, was destroyed to a great extent, if not entirely, during the war of liberation. The entrepreneurial base is not strong and is backward in many respects as compared to its counterparts elsewhere. They are not well aware of the accurate sources of information. So, in order to collect information one has to move from pillar to post, undergoing severe physical and mental strains. It may be a costly exercise at the expense of valuable enthusiasm and initiative. The printing of application form in a foreign language, i.e., English also posed formidable problem in comprehending its contents by entrepreneurs adequately. It was the feeling of many entrepreneurs that the institution could think of devising a short application form with contents like name of the applicant, industrial background, financial capacity and the project to be undertaken. The promoters could be asked to apply, furnishing only basic information, the financial institution shouldering the responsibility of doing the rest. A Bengali version of the application form could also be tried in an effort to give clear understanding of its contents to the prospective clients.

It was found that Bangladesh Shilpa Rin Sangatha disbursed local currency loan to the supplier of machinery and equipments or raw materials directly though it was supposed to disburse the same to the lessee. The entrepreneurs expressed their disgust and resentment at this practice of the institution. They complained that if the institution disbelieved
and suspected the bona fides of the applicant, it could refuse the loan. But once the loan was granted, the institution had no right to suspect the integrity and sincerity of the promoters. This method of disbursement of local currency simply confirms the existence of mistrust between the two partners of industrial finance. The entrepreneurs in fact felt disturbed psychologically by this shabby treatment. So, funds should be disbursed to the person who alone is responsible for repayment of the loan.

The guideline relating to period of repayment is surprisingly missing from the 1972 Ordinance of Bangladesh Shilpa Rin Sangtha. It is a fact that period is an important segment of financing. It is the period policy, apart from other things, which determines the amount of money the institution required to keep in hand. If the period is comparatively short, the institution can recycle funds with lesser financial resources. If the period is comparatively long, it will have to manage more resources. The absence of the guideline regarding the duration of the loan left room for discretion and discretion was the source of bitter criticism. Though absence of such guideline may not pose a problem about loans of shorter duration, the officials may grope in the dark about the long period loans. So, clear directions need to be spelled out in the form of carefully formulated guidelines about the duration of such loans.

It is observed that even though an individual member of the consortium consents to extend underwriting assistance to a project in the meeting held under the leadership of
Investment Corporation of Bangladesh, it may refuse to accept the appraisal done by Investment Corporation of Bangladesh as final and valid. The applicant has to run to each member separately with the same set of documents to secure its commitment. This is clearly a duplication of effort involving much waste of valuable time. Above all, it is against the principle of scientific financing through consortium. So, the system needs to be evolved in such a way that the Corporation's group sanction stands as final and unquestionable.

The disbursement procedure of Investment Corporation of Bangladesh is also not without defects. When the applicant comes out successful in realizing commitment from individual member of the consortium, there comes the stage of actual disbursement. Here there are three distinct stages: (1) some members prepare cheques in the name of party and send it to the party directly; (2) some prepare cheque in the name of Investment Corporation of Bangladesh and send it to the party. The party has to deposit the cheque with Investment Corporation of Bangladesh, which in turn, issues a fresh cheque in favour of the party; and (3) some prepare cheques in the name of Investment Corporation of Bangladesh and send them to the Corporation which, in turn, issues its own cheque to the party. The entrepreneurs complained that this method of disbursement was not uniform and was a source of unnecessary harassment. According to them, it was also a time-consuming process causing undue delays. So, the method of disbursement should be made uniform. The promoters felt that if the cheques were issued
in their names and sent to them directly, it would minimise expense, labour and time.

It is said that the Investment Corporation of Bangladesh carried out duplicated processing which, according to the entrepreneurs, was occasionally unnecessary. The Investment Corporation of Bangladesh dealt with two types of projects. Those in the first category came after obtaining permission from the Department of Industries, Government of the People's Republic of Bangladesh and were normally financed out of the promoters' own resources. They did not require any loans from the non-banks. The other category included projects which obtained loan sanction either from Bangladesh Shilpa Bank or Bangladesh Shilpa Rin Sangstha where the viability of the project was assessed thoroughly. The Investment Corporation of Bangladesh had to appraise the project compulsorily in case of first category in order to determine eligibility for underwriting support. This exercise could be ignored in case of second category if the Corporation so wished. But it is complained that the Corporation carried out project appraisal even in the case of second category projects. This is simply a wastage of time and energy. This may be avoided if there is no sharp change in the financial structure and other economic variables related to the project in-between the date of the sanction of the principal loan and the date of appraising application for underwriting support.
Financial Operations

It is observed that the non-banks under study, i.e., Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh have tried modestly to help the flow of greater financial assistance to less-developed areas with the object of attaining geographical dispersion of industries. The Bangladesh Shilpa Bank has channelled about 32.51 per cent of its sanction to less-developed areas (i.e., Development and Priority Development Area together) in 1978-79 as compared to about 31.05 per cent in 1972-73 and about 13.11 per cent in 1976-77. The flow of funds from Bangladesh Shilpa Rin Sangstha to less-developed areas in 1978-79 was about 37.66 per cent of the Sangstha's aggregate sanction as compared to about 9.34 per cent and 12.70 per cent in 1972-73 and 1976-77 respectively. The share of less-developed areas rose from 17.95 per cent in 1972-73 to 42.00 per cent in 1978-79 as can be seen from the financial performance of Investment Corporation of Bangladesh. Though the shares of less-developed areas in the aggregate resources of the institutions have gone up over time still it is necessary to accelerate the process all the more so that greater financial resources find way to these areas in the days to come.

21 Table 3.29 A, p.154.
22 Table 4.17 A, p.224.
23 Table 5.12, p.272.
The package of concessions designed to attract industries in the less-developed areas also has a role to play towards this end. The present concessions are limited to debt-equity ratio, electricity and some fiscal provisions. Concessional interest financing of projects in the less-developed areas is a popular practice in some of the developing countries like India. The Industrial Development Bank of India charges 9.50 per cent interest for specified backward areas for direct project loans as against the normal rate of 11.00 per cent (The rate has recently been raised to 14.00 per cent). The package of concessions needs to be made more comprehensive and more effectively implemented.

Though it is unrealistic to expect equal economic growth in all regions of a country simultaneously yet regional inequalities in such countries cause severe repercussions and create serious problems. In fact, the main issue which activated Bangladesh Independence Movement in 1971 was that of glaring regional disparities in Pakistan. As such, a clear policy needs to be formulated in this regard in an attempt to control the flow of resources with a view to dispersing them over different areas in an equitable manner.

The recovery position of all the three non-banks has been far from satisfactory. It was only 13.73 per cent, 5.54 per cent and 0.21 per cent respectively in cases of Bangladesh

---

Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh. The unsatisfactory recovery position may imply many things such as: (1) the projects financed may be in financial trouble and, therefore, not in a position to pay the dues in time, (2) the promoters are withholding payment intentionally by canalizing funds to other avenues of investments, and (3) the department entrusted with fund realization is not efficient and effective etc. The first possibility may cast serious doubt on the project appraisal capability of a financial institution to a great extent. The feeling of financing institutions is that about 90.00 per cent cases of default are those of intentional or deliberate non-payment in time. There is also no denying the fact that some entrepreneurs may face genuine financial difficulty and, therefore, may fail to pay.

Whatever may be the causes of default, the performance portrayed cannot be accepted as satisfactory. The institutions cannot continue their financing operations for a long time with such discouraging recycling of funds. So, it is imperative that the causes of poor recovery should be enquired into in-depth to have a clear grasp of the problem and positive steps, e.g., increasing frequency of contact, timely intimation etc., need to be taken to reverse the dismal situation.

The promotional activities so far undertaken by the

25 Table 3.34, p.165; Table 4.22, p.233; and Table 5.16, p.279.
non-banks under study are not broad-based. The routine promotional function performed by the institutions appears to be occasional tours by their officials to various less-developed areas and nominal guidance to the prospective entrepreneurs seeking advice on setting up projects. The techno-economic survey; industrial potential survey; identification, promotion and implementation of projects through the supply of information consisting of economic and other data and project files; creation of technical assistance fund to finance feasibility studies, project reports and organisation of entrepreneurial development programme; guidance on selection of consultants; formation of inter-institutional groups to facilitate work relating to identification of new projects and their follow-up and to ensure co-ordination among institutions; establishment of technical consultancy organisations to provide a package of services under one roof from the stage of project identification to its successful implementation and actual operation of the unit; creation of Chairs in Universities and academic institutions; organising special training programmes; establishment of management development institutes; institution of visiting fellowships and research scholarships; special considerations to new products and processes; conducting studies on topics of interest for industrial companies etc. have virtually failed to draw their attention. The development role of non-banks will remain neglected and undeveloped till these institutions are able to persuade themselves to develop all these lines of

26 For details see Chapter III, Chapter IV and Chapter V of the present study, pp.166, 235 and 280 respectively.
activity in a phased manner. The activities listed above will require funds which will have to be mobilised from different sources. The Industrial Finance Corporation of India finances its promotional activities out of the Benevolent Reserve Fund of the Corporation and the Interest Differential Funds received from the Government of India. The non-banks under study may think of financing promotional activities along similar lines.

The promotional activities should not be carried out on an ad hoc basis and in a half-hearted manner, rather they should be established on a permanent basis by firmly and effectively integrating them with other basic functions. Furthermore, it should be remembered that promotional activities are not a one shot affair but explicitly involve further dimensions of continuing responsibility.

The financing of equity capital by Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangtha, as observed, is totally unsatisfactory. The facts presented under this head in relevant places relate mostly to the pre-independence days. The capital market in Bangladesh is in an under-developed stage. The project promoters find it difficult to raise capital by selling shares in the market. To mitigate

---

27 IFCI 31st Annual Report, June 30, 1979, p.43.
29 Table 3.19, p.136 and Table 4.7, p.202.
this deficiency, the financing institution must come forward so that the project does not face financial strains and consequently industrial progress is not handicapped. It is true that the return on equity share is quite uncertain and initially the amount of return may be lower than the return on other fixed interest bearing bonds. In spite of all these drawbacks, it is an area of financing which demonstrates the risk-taking ability of the Development Finance Company and its attitude and feeling for development. So, effort should be made in the days to come to attach added weightage to this area of activity.

The underwriting and debenture finance scheme, after remaining suspended for a long period since liberation, has been started recently with the creation of Investment Corporation of Bangladesh in the later part of 1976. The Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha have extended financial assistance of Tk. 15.50 million and 19.64 million respectively under this head during 1976-79, a period of about three years. The initiative taken in this direction seems to be encouraging. However, it will be premature to pass any firm judgement at this stage.

The performance of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha in the field of 'Guarantee' seems to be rather poor. The only guarantee given by the Bank during the

---

30 Table 3.20, p.137 and Table 4.8, p.204.
period of study was to the tune of Tk. 0.64 lac. The reason
is not clear. There is no reason for playing down the importance
of guaranteeing as compared to direct lending. The guarantee
function has got certain advantages. It does not require the
disbursement of hard cash immediately. The financial liability
is secondary and remote. The guarantee function enables the
promoters to procure machinery and equipments and raw materials
at home and abroad and other facilities connected with industrial
finance at ease. So, introduction of guarantee function may be
considered where direct lending does not seem to be feasible.

The Bangladesh Shilpa Bank and Bangladesh Shilpa Rin
Sangstha have played a significant role in redressing the
pressure of unemployment. They, i.e., BSB and BSR have created
or helped to create 23,962 and 16,175 jobs respectively over
the period of study. In a country growing under the weight
of chronic unemployment problem, this achievement is by no means
insignificant.

The Bangladesh Shilpa Bank and Bangladesh Shilpa Rin
Sangstha have not been able to create jobs in the public and
private sectors at costs comparable with the ones fixed by the
Government. The Government's estimate for each job was
Tk. 0.0680 million in the public sector and Tk. 0.0028 million
in the private sector. But in actual practice, the amount

32Table 3.30, p.153 and Table 4.18, p.228.
33Chapter III of the present study, pp.160-161(f.n.56).
spent per job came to be Tk. 0.1243 million for public sector and Tk. 0.1101 million for private sector in the case of Bangladesh Shilpa Bank and Tk. 0.2060 million for public sector and Tk. 0.1550 million for private sector in the case of Bangladesh Shilpa Rin Sangstha. The justification for this relatively higher expenditure per job may be explained by the relative capital intensiveness of the projects financed by them.

The amount sanctioned was always less than the amount applied for. In case of Bangladesh Shilpa Bank the amount applied for over the period of study was Tk. 3522.98 million and the amount sanctioned against this was Tk. 1529.83 million or 43.42 per cent. The Sangstha's sanction was Tk. 240.400 million or 87.61 per cent against loan demand aggregating Tk. 274.387 million. In case of Investment Corporation of Bangladesh the sanction was Tk. 575.50 million or 81.71 per cent against demand for Tk. 704.28 million. The sanction of Bangladesh Shilpa Bank seems to be grossly inadequate. The position of Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh seems relatively better. Had the year-wise data of demand for funds been available, perhaps the position of the Sangstha like that of

34 Table 3.31, p.160 and Table 4.19, p.229.
35 Table 3.21, p.139.
36 Table 5.9, p.207.
37 Table 5.5, p.262.
the Bank could be a different one. But still it may be said that the funds provided by these development finance organisations are inadequate because of sharp cost escalation due to inflation.

The quantum of private sector industrial investment is announced by the Ministry of Industries through Industrial Investment Schedules and the agencies that finance investments are Department of Industries, Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Bangladesh Small Industries Corporation. The Bangladesh Shilpa Bank has financed investment to the tune of about 33.86 per cent over the period from 1973-74 to 1978-79.\(^38\) The Bangladesh Shilpa Rin Sangstha has also financed about 33.79 per cent during the same period.\(^39\) The rest is presumably financed by the Department of Industries and Bangladesh Small Industries Corporation. Though the performance of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha is worthy of mention, there is no yardstick or measuring rod against which the performance could be plausibly analysed or evaluated. So, a separate target for each institution is imperative.

Development of export-oriented industries has been one of the priority areas of Government policy. These industries play pivotal role in country's industrialisation by supplying valuable foreign exchange and by easing out the pressure of

\(^{38}\) Table 3.22, p.141.

\(^{39}\) Table 4.10, p.209.
unfavourable balance of payments. The Bangladesh Shilpa Bank has financed 49 such projects involving financial assistance of Tk. 330.92 million, i.e., 21.63 per cent of the total term-loans extended by it over the period of study. The number of projects financed by Bangladesh Shilpa Rin Sangstha is 22 and had the sanction of Tk. 506.73 million, i.e., 34.46 per cent.

The number of export-oriented projects assisted by Investment Corporation of Bangladesh is 31 accounting for 50.84 per cent of its total financial commitment. Since development of export-oriented industries is a recent slogan, the performance of the three non-banks may appear to be quite satisfactory. But there is no target either total or individual against which the performance of these institutions could be judged. So, it is felt that initiative should be taken to set such targets: total as well as individual for this area of financing.

The tilt of Bangladesh Shilpa Rin Sangstha towards private sector industry reflected in its share in the aggregate loans sanctioned is not noticeable in case of disbursements. The disbursement to private sector over the period of study was Tk. 215.53 million, i.e., 17.68 per cent against sanction of Tk. 1218.61 million while the public sector got disbursement of Tk. 351.47 million or 139.60 per cent against Tk. 251.77 million as sanction.

40 Table 3.28, p.153.
41 Table 4.16, p.222.
42 Table 5.8, p.266.
43 Table 4.6, p.197.
the period prior to 1975-76. Effort should be initiated to improve the situation.

The Investment Corporation of Bangladesh seems to be operating under severe resource constraint. The resource gap which was only 4.100 million in 1976-77, the starting year, increased to Tk. 195.60 million in 1978-79 and Tk. 201.10 million in 1979-80. Though the situation may improve to some extent with the start of recycling of funds, an institution cannot continue handicapped in this way for want of adequate liquid resources. Serious attempt at home and abroad needs to be made to improve this precarious financial position.

The enlistment position in the Dacca Stock Exchange of the Corporation-assisted projects is very poor. The total number of companies which enlisted themselves with Dacca Stock Exchange were only 8, i.e., about 8.00 per cent out of a total of 101 projects financed up to June 30, 1979, resulting in limited activities in this organisation. The Corporation should apply the requirement of Stock Exchange membership more rigidly in order to rejuvenate its activities.

The Investment Corporation of Bangladesh has channelled 47.00 per cent of its commitment to agro-based industries. The role it has played in this regard, though passive, is quite impressive. Financing of agro-based industries is one of the

---

44 Chapter V of the present study, p.298.
45 Chapter V of the present work, p.277.
46 Table 5.9, p.268.
preferred areas of the Government policy as per plan documents and industrial policy pronouncements. So, the performance of Investment Corporation of Bangladesh in this sector is in tune with Government policy. 'The main problems of agro-industries are poor quality of the produce, irregular supply and sometimes high cost of raw materials. Whether the agro-industry is of crop processing type such as tobacco, tea or food processing such as dairy products or involving processing of raw materials into manufactured goods such as asetic acid, assurance of the agricultural inputs in appropriate quantities and of consistent quality at realistic prices continues to be one of the main impediments to the development of agro-industries'.

The problems can be removed with substantial improvement in agriculture, transport, storage and in the provision of necessary agricultural inputs. But care should be taken in extending excessive incentives lest they should erode the comparative advantage the country may have in producing agricultural raw materials.

The non-banks under study, in spite of scarcity factor, have extended assistance to industries more in foreign currency. This currency occupies about 61.95 per cent and 82.75 per cent respectively of the total financing operations of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangtha. The importance of foreign currency in a developing country like Bangladesh.

48 Table 3.25, p.147 and Table 4.15, p.220.
needs no emphasis. It is through this currency that machinery and equipments and basic raw materials, from which most of the developing countries suffer, are imported. So, the role of the Bank and the Sangsthana in this regard sounds satisfactory. The Investment Corporation of Bangladesh, on the other hand, extends finance in local currency only.

The industry-wise sanction by the non-banks may be said to be more or less in tune with Government development goals as expressed in the First Five Year Plan: 1973-74 to 1977-78, the Two Year Plan: 1978-80 and the different Industrial Investment Schedules announced by the Department of Industries, Government of the Peoples' Republic of Bangladesh from time to time. The industrial sub-sectors that received sizeable sanction from Bangladesh Shilpa Bank were Cotton, Woollen and synthetic textiles (29.11 per cent), Food and allied products (13.52 per cent), Transport equipments (13.10 per cent), and Jute and allied fibre products (10.66 per cent).\(^\text{49}\)

The important areas in Bangladesh Shilpa Rin Sangsthana were: specialised textiles (44.34 per cent), Food and allied products (17.11 per cent), and Engineering industries (11.58 per cent).\(^\text{50}\) The Corporation's preferred areas were: specialised textile (37.91 per cent), Food and allied industries (22.54 per cent), Engineering industries (12.52 per cent) and Chemicals and pharmaceuticals (7.47 per cent).\(^\text{51}\)

\(^\text{49}\) Table 3.83, p.143.
\(^\text{50}\) Table 4.11, p.211.
\(^\text{51}\) Table 5.6, p.264.
Another pattern vividly reflected in the operations of non-banks under study is their preference to new projects than to the existing projects. The new projects in the Bank, the Sangstha and the Corporation have captured 82.52 per cent, 85.54 per cent and 93.57 per cent respectively of the total financing.\textsuperscript{52} The new projects do not necessarily mean new promoters. But sanction to new projects whether initiated by new or old promoters contributes to industrial expansion. While encouraging new projects, an effort should be made to persuade established entrepreneurs to go to less-developed areas and the first-timers to developed areas for obvious economic and infrastructural advantages.

It is also seen that the non-banks have been able to divert major portion of their financial resources to manufacturing industries. The shares of Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh for this sector were 77.05 per cent, 86.04 per cent and 94.96 per cent respectively during the period of study.\textsuperscript{53} This is appreciable. But while giving preference to manufacturing industry, care should be taken to ensure that the sanction, as far as possible, goes to real manufacturing industry. For example, inclusion of cold storage projects in the list of manufacturing industries may be rather doubtful.

The total picture of financing by Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangstha reveals that they have

\textsuperscript{52}Table 3.26, p.149; Table 4.13, p.215; Table 5.11, p.270.

\textsuperscript{53}Table 3.27, p.152; Table 4.14 A, p.217; and Table 5.10, p.269.
financed mostly private sector industries quite apart from Investment Corporation of Bangladesh which is exclusively meant for that sector. The share of the Bank for private sector was 74.34 per cent\(^5^4\) and that of the Sangstha about 82.88 per cent\(^5^5\) during the period under research.

The Bangladesh Shilpa Rin Gangstha and Investment Corporation of Bangladesh have not yet started receiving term-deposits though they are permitted to do so. They may venture into this function to augment their local currency resources to the extent possible.

The Bangladesh Shilpa Bank has got no lower limit of investment. This may encourage small and uneconomic projects to seek loan assistance. This needs to be checked by laying down guidelines prescribing the minimum amount below which the Bank is debarred from accommodating entrepreneurs.

### Theory of Non-Banks

The Bangladeshi non-banks seem to be at par with their counterparts in the developing world in respect of observance of procedures and policies. The practices as to ownership of non-banks, exchange risk, areas of financing, organisation of staff for handling project appraisal work, rate of interest, period of repayment and limits of investment prescribed and observed by our non-banks do not differ significantly from

\(^5^4\) Table 3.17, p.129.

\(^5^5\) Table 4.6, p.197.
the similar procedures and practices of non-banks elsewhere. However, our development banking system seems to have some gaps and inadequacies.

There is no provision to check whether the lessee company could arrange for funds for its project from other sources before the institution could consider the feasibility of accommodating them. The object of non-bank is to supplement the available resources and not to supplant them. Though the facility of alternative sources in Bangladesh is very limited yet the maximum possible use of such sources, however meagre, needs to be made.

Then there is no mention of specific margin of security to be insisted upon while extending finance to industrial clients. The decision about margin is left to the sole discretion of the Board of Directors. This leaves much room for discretion, discrimination and favouritism.

There is no indication as to what should be the debt-equity ratio in the capital structure of Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangsth and Investment Corporation of Bangladesh. It means that the institution is ignorant about the proportion of capital and loan to be maintained in its own capital structure. This is against all canons of sound financial practice.

Policies and practices are for the most part still in an experimental stage; many will be modified, some will be abandoned. Just as no single model of non-bank is suitable to
all countries, so no single solution to a particular problem
has been found appropriate by all non-banks. But there is general
agreement that what is required is innovative outlook and
approach - continuous regeneration of ideas in the light of
changing circumstances.

The non-bank alone cannot solve all the problems relating
to industrial development. It is the end result of a
co-operative and purposeful effort of Government, financial
institutions and entrepreneurs all put together.