CHAPTER I

INTRODUCTION

PART A

Bangladesh is an old land with new status recently acquired through constant effort at exterminating foreign domination and annihilating external stranglehold over its economy. Covering an area of 55,591 square miles, Bangladesh has the highest density of population in the world with 1286 persons per square mile. After remaining under Muslim rule for 560 years, i.e., from 1197 to 1757 A.D., this area passed into British hands after the defeat of Nawab Sirajudowl at the battle of Plassey on June 23, 1757. The British ruled over India for nearly 175 years, i.e., from 1772 to 1947 A.D., when the country was a part of the provinces of Bengal and Assam. Thereafter it remained an integral part of Pakistan for about 24 years, i.e., from August 14, 1947 to March 25, 1971.

2Ibid., Table 2.12, p.57.
and was known as East Pakistan.¹

The achievement of independence has opened before her a vast vista of economic opportunities long denied to her by external domination and foreign rule. Agriculture is the main occupation of its 87 million⁵ people and there is a crushing pressure of population on land (77.20 per cent of the civilian population of both sexes in the age group of 10 years and above constituting agricultural labour force in 1974⁶). But in developed countries like U.S.A., U.K., Canada, West Germany and Australia less than 5.00 per cent of the active population is engaged in agriculture.⁷ Quite about 91.20 per cent of the population (India 79.40 per cent) in Bangladesh lives in the rural areas.⁸ Unemployment and under-employment have reduced the country to a state of abject poverty and extremely poor living conditions. The per capita income which is one of the lowest in the world is Tk. 1992 only (equivalent to about US $ 100).⁹ Nearly

¹1979 Statistical Year Book of Bangladesh, p.3.
⁶1979 Statistical Year Book of Bangladesh, Table No.11.2, p.388.
⁷Birla Institute of Scientific Research (Economic Research Division), World Economic Profile (Selected Countries), New Delhi, 1975.
⁸1979 Statistical Year Book of Bangladesh, Table 16.2, p.517.
30 million, i.e., about 35.00 per cent of the population, are unemployed or under-employed and 80.00 per cent live below the poverty line. It is estimated that the total number of unemployed in India could be anywhere between 40 and 50 million or nearly 20.00 per cent of India's total labour force. According to estimates made by the Planning Commission of India, 48.13 per cent of India's total population or 305.20 million people were below the poverty line during 1977-78. In contrast, a bare 2.20 per cent of the working force in Sweden was unemployed in November, 1980. Twenty four million people are unemployed in 24 nation OECD countries. The rate of unemployment is 7.30 per cent in U.S.A. The industrial activities in Bangladesh are mainly concentrated in a few urban pockets namely Narayanganj, Chittagong, Khulna and Rajshahi.

The contribution to the value added in 1969-70 was over 60.00 per cent for large industry and less than 40.00 per cent

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10 The Patriot, op.cit.
12 '305.20 million people below poverty line', The Economic Times (New Delhi, India), December 11, 1980.
13 Ibid.
14 'Present Unemployment in the Western Countries', The Tribune (Chandigarh, India), November 22, 1980.
for small industry. The ratio has more or less remained the same till to-day. The contribution of different sectors of the economy to its GDP becomes clear when one looks at the following table:

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>(i) Agriculture</td>
<td>56.73</td>
</tr>
<tr>
<td>(ii) Manufacturing</td>
<td>8.43</td>
</tr>
<tr>
<td>(iii) Construction</td>
<td>4.40</td>
</tr>
<tr>
<td>(iv) Power and Gas</td>
<td>0.67</td>
</tr>
<tr>
<td>(v) Housing</td>
<td>4.61</td>
</tr>
<tr>
<td>(vi) Trade, Transport and other services</td>
<td>25.16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>


The unprecedented devastation of the war of liberation caused tremendous damage to the economy's physical assets.

According to a U.N. Report, the damage to the economy amounted

to around US $1.2 billion. Before the advent of independence, almost all the key sectors of the economy were owned and managed by the Non-Bengaleses. The industrial structure, however meagre, was in the grip of a few entrepreneurs from West Pakistan. The war of liberation culminating in the achievement of independence saw the exodus of these foreign elements, which, in its turn, created a void and aggravated the problem still further. To cap it all, galloping increase in the country's population is accentuating the problem of poverty and unemployment. The annual growth rate of population is 2.7 per cent. The number of new entrants to the labour force is estimated at 18 lakh man-years. There being no other outlet available to the rapidly growing labour force, agriculture is groaning under the pressure of fast increasing numbers. A large-scale movement of people from agricultural pursuits to secondary and tertiary occupations is a sin-qua-non even for the rationalisation and modernisation of agriculture itself. These avenues of secondary and tertiary occupations can be created mainly through the process of large-scale


17 According to Rehman Sobhan, 53 per cent of the fixed assets in the private sector were owned by non-indigenous elements before liberation (Mehiuddin Almagir, Bangladesh - A Case Study of Below Poverty Level Equilibrium Trap, The Bangladesh Institute of Development Studies, Dhaka, 1978, p.70).

18 Bangladesh Economic Survey 1979-80, p.188.

19 The Two Year Plan 1978-80, p.33.
industrialization.

The socio-economic problems of developing countries like Bangladesh are so enormous that highly innovative and radical policies alone could hope to grapple with them. It is universally accepted that the scope for introducing technological sophistication in large enterprises is much more than in a small business firm. It is often said that small scale industry is the main means of mitigating growing unemployment and under-employment in the developing countries. But there is no apriori theoretical reason why a unit operated on a small scale should be more labour intensive or for that matter capital intensive than the one operated on a large scale.20

Industrialisation, particularly large scale, is a painful economic path to complex economic growth which, among other things, is a function of new capital formation. The process of capital formation involves three stages: (1) the creation of savings, (2) mobilisation and canalisation of savings, and (3) acquisition of capital goods out of such savings. The function of industrialisation requires huge financial resources in their various manifestations - fixed and working capital for balancing, modernisation, replacement and expansion of existing industries as also for the establishment of new industries and diffusion of economic

activities over a wide area. The process is also required to be supplemented by appropriate technological skill, managerial ability and administrative competence.

Funds for large scale industrialisation are available from two sources: domestic and foreign. Foreign capital is a fair-weather friend, likely to be withdrawn at the slightest shock of adversity or difference of political opinion. It can at best be called upon to play a supplementary role. By and large the economic advancement of a developing economy like Bangladesh has to depend, in the main, on its own domestic resources. But the quantum of domestic resources is small and not commensurate with the requirements of the situation. The rate of domestic saving in Bangladesh is about 3.00 per cent of Gross Domestic Product. 21 This rate is pitifully low as compared to similar rates elsewhere. The ratio of national savings to GNP in Pakistan, for example, was 11.90 per cent in 1979-80. 22 The savings rate in India was 23.50 per cent of GNP in 1979-80. 23 Japan's savings as a ratio of GNP stand at 33.00 per cent, in U.S.A. 18.00 per cent, in West Germany 25.00 per cent and 21.00 per cent in the U.K. 24 In Bangladesh proportionate shares of domestic and foreign resources in

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21The Two Year Plan 1978-80, p. 54.
22'Economic Situation in Pakistan Grim', The Times of India (New Delhi, India), 12th December, 1980.
23M.S. Patwardhan, 'Indian Economy, Policy', The Economic Times (New Delhi, India), February 11, 1981.
24Dilip Mookerjee, 'Tokyo to step up Defence Outlay', The Times of India (New Delhi, India), August 28, 1980.
financing development expenditure at current prices turned out to be 24 : 76 as against the projected ratio of 97 : 43 in the First Five Year Plan: 1973-74 to 1977-78. This has been due to paucity of domestic resources relative to sizeable and substantial inflow of foreign aid. Moreover, the resources are widely scattered and have not been fully mobilised. Underdeveloped countries channel less than 10.00 per cent of their incomes into net investment per year. The average figure for underdeveloped countries of Asia comes to about 6.00 to 7.00 per cent. In Japan, the rate of capital formation ranges between 20.00 and 26.00 per cent of national income. The tax-GDP ratio of Bangladesh is one of the lowest in the developing world. The tax revenue as a share of GDP was only 4.75 per cent in 1972-73. This is much lower than the tax ratio in other developing countries as can be seen below:

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25 Currently Bangladesh is dependent on foreign aid for nearly 80.00 per cent of its development outlay (Second Five Year Plan 1980-85, p II 12).


28 The Two Year Plan 1978-80, p.9.
Table 1.2

Tax Revenue as a Share of GDP in Different Regions of the World

<table>
<thead>
<tr>
<th>Countries by region</th>
<th>Average in percentages (1966-68)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East and North Africa</td>
<td>16.10</td>
</tr>
<tr>
<td>South America</td>
<td>14.60</td>
</tr>
<tr>
<td>Tropical Africa</td>
<td>14.90</td>
</tr>
<tr>
<td>Central America and the Caribbean</td>
<td>13.10</td>
</tr>
<tr>
<td>Asia and Far East</td>
<td>11.60</td>
</tr>
<tr>
<td>Average for the sample</td>
<td>14.00</td>
</tr>
</tbody>
</table>


The value of urban property has increased rapidly especially after the liberation and the owners of property are beneficiaries of windfall incomes. The yield from this source has remained low because of inefficiency and ineffectiveness of the country's administrative apparatus. All these indicate that vast local resources have still remained untapped. As these resources have remained unutilized, the rate of capital formation has been utterly inadequate to generate a rate of development for the economy which may more than neutralize the rate of population growth and make a visible impact on per capita real national income and, therefore,

29 The Two Year Plan 1978-80, p.55.
distressingly low living standards.

Whatever meagre resources, both domestic and foreign, she has at her disposal, Bangladesh will have to make determined and concerted efforts to their large scale mobilisation and effective use. The traditional commercial banks with their vast branch networks spread over the length and breadth of the country mobilise savings of the community on a short term (usually one year) basis and for that reason, are on principle, reluctant to supply finance to industry for a long period. Of late they have started extending bridge finance against underwriting of shares and debentures as members of the consortium organised under the leadership of Investment Corporation of Bangladesh. In the absence of an appropriate and effective via-media between savers and investors, savings are discouraged, entrepreneurial activities remain dormant and investment opportunities go a-begging. So, the creation of non-bank financial institutions is motivated by a desire not only to mobilise and harness the country's resources on a long term basis for financing large scale industries but also to supply some other vital ingredients indispensable for their rapid development.

The mature economies of today like U.S.A., West Germany, France, Japan etc. are the glaring examples of such initiative.\(^{30}\)

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\(^{30}\)In economically advanced countries like U.S.A., U.K., the efforts in organising special financing machinery have been directed mainly to finance the small business units. The large business units usually do not face any difficulty in raising adequate capital internally or externally for their varied requirements (S.C. Kashal, *The Industrial Economy of India*, 14th Edition, Chaitanya Publishing House, Allahabad, 1979, p.270).
In the initial stage of their industrial development, they had to resort to the system of non-bank financial intermediation for the effective utilisation of scarce economic resources and as a catalyst for creating an entrepreneurial community capable of shouldering untried and risky ventures for the diversification of their predominantly agricultural economies. Those countries (i.e., U.K.) which did not experience resource constraint in the initial stages had to depend on such institutions for directing funds to desired channels.

The non-bank financial institutions are intended to provide necessary capital, enterprise, managerial and technical know-how where these are not adequately available and also assist in building up the financial and socio-economic infrastructure favourable to rapid rate of economic growth. In short, they are conceived of as powerful instruments for transforming lop-sided predominantly agricultural economies into modern, highly industrialised ones. The non-banks, with the passage of time, acquire expertise adapted to the task of supplying these inputs to the economy.

A historical review of the establishment of such institutions in Bangladesh appears quite relevant here. In 1947, the time of partition of British India, the territories now comprising Bangladesh were a hinterland to the industries located in West Bengal. Although three-fourths of raw jute was produced by this area yet there was not a single jute mill in this region. The industrial base in the late forties consisted of 4 textile mills, 5 sugar mills and 2/3 engineering
industries apart from hosiery and handloom industry which were in the small scale sector. 31

To remove this marked hiatus between natural resources and extreme industrial backwardness, the then Government of Pakistan adopted a number of measures to quickly develop industries based on local raw materials. Some of the measures adopted were:

(1) **Industrial policy**

The industrial policy statement published on April 2, 1968, among other things, declared that "Free play will be given to private enterprise and industrial initiative", subject to certain constraints and conditions. To implement the policy, Government encouraged people to set up factories with duty-free imports and interest-free capital at the initial stage. 32

The first and second five year plans, i.e., 1955-60 and 1960-65 of Pakistan respectively emphasised the development

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Out of total investment of Rs. 173.9 million of 10 mills under study, the authors found that the owners contributed only Rs. 35.17 million or 20.00 per cent as their equity share. In three mills, the equity share of their owner was below 7.50 per cent of the total investment (Mahmood Sobhan and Musaffar Ahmed, Public Enterprise in an Intermediate Regime: A Study of the Political Economy of Bangladesh, the Bangladesh Institute of Development Studies, Dacca, 1980, p. 40).
of industries through private sector. The third plan (1965-70) was even more explicitly oriented towards the private sector than the first two. "The draft Fourth Five Year Plan (1970-75), recognised the compulsion of a new development strategy different from the policy of seeking maximum growth through encouragement of private enterprise backed by public sector financing and development of the social, physical and institutional infrastructure". This plan sought to shift the emphasis a little bit away from the private sector.

(2) Establishment of Specialised Financial Institutions

(a) The Pakistan Industrial Finance Corporation (PIFC)

It was established in February, 1948. Its paid-up capital was Tk. 20 million as against its authorised capital of Tk.30.00 million. The Central Government bought 51.00 per cent of its shares and guaranteed the repayment of shares and minimum rate of dividend prevailing at that time. It could issue bonds and debentures valued up to 5 times of its paid up capital, redemption of which was also guaranteed by the Government. It was formed to finance the private sector but its progress was halting and slow.

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34 Ibid., p.27.

35 Ibid., p.28.
(b)(i) **Pakistan Industrial Development Corporation (PIDC):**

PIDC was established in 1952 to carry out promotional role in industrialization. It established industries with 51.00 per cent public shares and 49.00 per cent private shares. When the industrial unit attained viability, PIDC disinvested its share to the private sector and undertook to finance new industries.

(ii) **East Pakistan Industrial Development Corporation (EPIDC):**

Pakistan Industrial Development Corporation was bifurcated in 1962 and EPIDC was formed with its head quarters in Dacca to give more emphasis to the industrial development of this area. At the time of the country's liberation, it accounted for 34.00 per cent of the assets in the modern industrial sector.³⁶

(c) **Pakistan Industrial Credit and Investment Corporation (PICIC):**

It was set up in October, 1957 by private industrialists and business interests at home and abroad with an authorized capital of Tk. 150 million of which Tk. 20 million were initially paid up, but subsequently raised to Tk. 30 million in 1961 and to Tk. 40 million in 1963 when International Finance Corporation bought its shares with Tk. 2 million.³⁷

(d) **The Industrial Development Bank of Pakistan (IDBP):**

This institution was founded in April, 1961 with a paid-up capital of Tk. 30 million, later raised to Tk. 40 million in

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³⁶Ibid, p.36.
July, 1968. It played a major role in financing EPIDC/Associate Jute Mills and private sector small industries.

(3) **Consortium Financing**

Mid-sixties saw the development of consortium financing for industrialisation. Under this system, if a private entrepreneur(s) came forward with only Tk. 1.8 million, EPIDC, IDEP, PICIC, Investment Corporation of Pakistan, Banks, Insurance Companies - all these in collaboration could advance him/them balance amount to make him/them ultimate owners of Jute or Textile Mills involving an investment of Tk. 20 million.  

The year 1969-70 was followed by a period of political upheaval, election fever and its after-math and bloody liberation war ending in victory on December 16, 1971.

After the achievement of independence, the Government of Bangladesh nationalised all the industrial undertakings with fixed capital of over Tk. 2.5 millions in March, 1972. Besides, the Government took over the control of all the industrial and commercial units abandoned by the entrepreneurs from Pakistan. Through this process, Government brought 85.00 per cent of the industrial production capacity under its direct ownership and control.

At the dawn of independence, Bangladesh had the branches of all the non-banks that were functioning in Pakistan in the field of industrial finance. The Government of Bangladesh

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recognised the importance of such institutions for the industrialisation of the country. But with the aim of socialising the means of production, it reduced the number of such institutions to two: Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS). With the change in Government in the later part of 1975, the Investment Corporation of Bangladesh was formed in October, 1976 to fill the equity gap of private industry.

PART B

(1) **Objectives**

The study is planned to achieve the following objectives:

(a) To examine the place of Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh in the context of their role as instruments of large-scale industrial development.

(b) To investigate into the financing procedures, policies and operations of these institutions in so far as they relate to the financing of large scale industries.

(c) To identify the shortcomings and inadequacies of these institutions inhibiting them in performing their role as institutions designed to subserve the goal of accelerated economic development.
(d) To gather the perceptions of the industrial clients of such institutions regarding their procedures and policies and difficulties encountered by them in raising loans from these institutions as also the views of responsible officers of these institutions about the problems confronting them.

(e) To assess whether the operations of these institutions are in conformity with the development goals as envisaged in the First Five Year and Two Year Plans of the country.

(f) To study the extent to which the allocation of financial resources of these institutions as between public and private sectors has been in tune with the role assigned to them in the plans and shift in the policy of the Government in favour of one or the other from time to time.

(g) To suggest measures in the formulation of an effective policy in an effort to make them powerful instruments of planned industrial growth.

(2) **Methodology**

The annual reports/quarterly reviews of Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh were the main sources of data. Besides, information was also collected from the official files with the co-operation of concerned officers. The
booklets/brochures issued by these institutions to inform the prospective entrepreneurs about the method of raising funds and facilities and concessions available were also consulted.

A group of 25 entrepreneurs in the case of each institution, selected through purposive sampling, were interviewed to know their perceptions about the institution's financing procedures and policies. A formal questionnaire was used to elicit information about the problems faced by the entrepreneurs in raising funds from the institutions (see Appendix). In selecting the entrepreneurs the various considerations kept in view were: inclusion of different areas, developed and less-developed; different units, new and existing; manufacturing and service and comparatively big and small in the group of large scale industry.

Three responsible officers of the rank of Assistant General Manager/Deputy General Manager in the case of each institution were interviewed to elicit their perceptions about the problems faced by them in their dealings with entrepreneurs.

The President of the Federation of Bangladesh Chambers of Commerce and Industry, Vice-Chairman of the Expert Promotion Bureau of Bangladesh, the Chairman of the Dacca Stock Exchange - the only stock exchange of the country, and the Registrar of

39 The entrepreneurs represent 5.59 per cent, 9.80 per cent and 24.75 per cent of the projects financed by Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Investment Corporation of Bangladesh respectively within the period of research.
Joint Stock Companies in Bangladesh were also consulted in this connection to elicit their views on various problems and issues pertaining to the problems under investigation. The periodicals and annual reports published by these institutions were also consulted in an effort to have a total picture in its various details regarding the role of non-banks in relation to the development of large-scale industry in Bangladesh.

The printed speech of the President of Bangladesh Chambers of Commerce and Industry delivered on the occasion of Businessmen's Meet 1979, and that of the President, Narayanganj Chamber of Commerce and Industry, the oldest chamber of the sub-continent, delivered on 20th June, 1979 in the 74th Annual General Meeting were also collected and consulted. Some annual reports published by the Narayanganj, Dacca and Chittagong Chambers of Commerce and Industry were consulted to acquaint oneself with the representations made by them to the Government from time to time regarding different problems hindering the growth of industry.

The different 'Industrial Investment Schedules (IIS)', and 'Investor's Guide' published by the Department of Industry...
guidelines of the Government of Bangladesh were also consulted.
The plan documents (i.e., First Five Year, Two Year and Second
Five Year Plans) published by the Planning Commission of
Bangladesh also figured in the list of literature studied.

Some annual reports/brochures of three all-India
financial institutions (i.e., Industrial Finance Corporation
of India, Industrial Credit and Investment Corporation of
India and Industrial Development Bank of India), Industrial
Development Bank of Turkey and Thailand, Kreditanstalt-fur-
Wiederaufbau (KFW) of West Germany, Nepal Industrial
Development Corporation, Nepal Rashtra Bank and International
Bank for Reconstruction and Development were also consulted
for making occasional comparisons here and there.

(3) Rationale of the Study

So far as can be ascertained, the studies focusing
on institutional financing of medium and large scale industries
in Bangladesh and different topics related to it are not many.
An attempt is made in the following paragraphs to assess and
evaluate the articles, papers and research work available.

One small article, Industrial Finance in Bangladesh, 41
covering altogether about 9 pages, is by M. Habibur Rahman.

41 The Business Review, ed. Durgadas Bhattacharjee,
In this article he has tried to highlight some aspects of the financing pattern of private industries in the then-East Pakistan and continuation of the same trend in Bangladesh. He has tried to focus on the form and character of credit institutions that one could reasonably expect to emerge in socialist Bangladesh vis-a-vis state's role as promoter, financier and administrator of industries. He makes a strong case for framing a separate financial plan within the framework of the central plan with a view to gearing up the process of industrial development. The author wrote this article keeping in view the emergence of a socialist economy in Bangladesh.

The national seminar on 'Industrial Finance in Bangladesh' and subsequent publication of its proceedings under the same title in the form of a book is another significant work available in this area. One of the papers relevant to this topic was presented by M. Habibullah on "Development Role of Industrial Banks in Promoting Entrepreneurship". The author felt that capable entrepreneurs is a sin qua non for rapid industrial development. He urged the development banks like Bangladesh Shilpa Bank to prepare bankable projects and then to seek out entrepreneurs to implement them. He further opined that entrepreneurs were

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42 The seminar was held on January 25 and 26, 1975. The proceedings of the seminar published in October, 1976 were edited by A.H.M. Habibur Rahman of the Department of Finance, Dacca University.
not auto-generated and hence required to be nursed and prompted as was practise in countries like Japan. There can be no two opinions about the importance of entrepreneurship as a vital ingredient of industrial development. But this is only one aspect. There are other ingredients like finance which did not figure in this article. However, the very title of the paper did not permit comprehensive treatment of the subject.

Another paper on 'Institutional Finance in Bangladesh' was presented by Ghiasuddin Ahmed. He recalled the importance of capital as one of the prerequisites to economic development and poverty as a limiting factor to the generation of domestic savings. He highlighted different forms of foreign assistance flowing to a developing economy like Bangladesh and discussed the different sources from which domestic savings accrued. He further felt that when increased volume of transferred savings became available to investors in private and public sectors, one of the main hurdles to development disappeared. He also dwelt upon the mode of financing proposed development outlay in the First Five Year Plan both in the public and private sectors. He briefly covered Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha, Bangladesh Small Industries Corporation, Bangladesh Krishi (Agricultural) Bank, Commercial Banks, General and Life Insurance Corporations, Post-Office Savings Banks and promoter-financing as sources of finance to relevant sectors. According to him, the institutional
arrangements in Bangladesh for purveying finance did not seem to be grossly inadequate. Since the article covers wide segments of the financial arena, in-depth study of the subject could not be possible.

Mesbahuddin Ahmed presented a small three-page-paper under the caption "Some Problems of Institutional Financing in Private Industries". The author has tried to bring into focus the multifarious difficulties encountered in raising loans from specialised financial institutions and commercial banks and put forward some suggestions for the alleviation of the same. The article relates to one sector of the economy and, therefore, lacks wide coverage.

Another small paper read by Sulaiman Chowdhury on "Financing Private Sector Industries in Bangladesh - Methods, Problems and Prospects" covered Government's investment policy, sources and methods of financing industries, importance of Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangasta and Bangladesh Small Industries Corporation as credit institutions and their financing criteria and problems and prospects of financing industries. The article, though interesting, is by its very nature and length limited in scope and coverage.

Ahsun Rahman Khan has produced one good research publication on "Financing Private Sector Industries in Bangladesh." He has covered sources and uses of funds, the work undertaken in 1979 is financed by the Bureau of Business Research, Dacca University.
impact of institutional financing facilities on policy actualisation, process of obtaining financial accommodation and problems faced in the process. He has tried to assess clientele satisfaction as also the problems perceived by the executives of the concerned agencies. But the findings of the study, according to the author, cannot be taken as fully representative of private sector as the study was limited to 82 ICB-assisted public limited companies only.

It is seen from the discussion of available literature that since the inception of Bangladesh, no comprehensive work has been undertaken to assess and evaluate the role of specialised financial institutions in the development of large scale industry both in the public and private sectors. This is why it was felt necessary to undertake the present study in an effort to fill the vacuum in this research-gap area.

(4) Scope of the Study

There are non-banks in the field of industry, agriculture and housing in Bangladesh. The present study is intended to cover non-banks engaged in the field of industry only. Again in the field of industry, there are two types of institutions: those exclusively engaged in the field of small scale industry and others in the field of medium and large scale industry. The title of the present work excludes small-scale industry. In the medium and large-scale sector, the study concentrates on the operations of the following institutions:
(a) Bangladesh Shilpa Bank.  
(b) Bangladesh Shilpa Rin Sangstha, and  
(c) Investment Corporation of Bangladesh.

The above institutions are directly engaged in financing large-scale industries. The Sadhuran Bima (General Insurance) Corporation and the Commercial banks have been kept outside the scope of this work because the former is not directly and primarily involved in industrial financing and the latter are excluded by the very nature of the topic. But as a member of the consortium organised under the leadership of Investment Corporation of Bangladesh for underwriting of shares and debentures, contributions of these institutions do figure in appropriate places in aggregative form in the chapter on "Investment Corporation of Bangladesh".

The present study does not commit itself to the making of a comparative study in relation to similar institutions in

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Shilpa Bank means Industrial Bank.  
Shilpa Rin Sangstha means Industrial Credit Corporation.  
Bangladesh Shilpa Bank finances small scale industry to a negligible extent. It has channelled only 9.59 per cent of its total term-loans to projects with fixed cost up to Tk. 2.50 million within the period of research, i.e., 1971-79. If official definition of small scale industry, i.e., project with fixed cost up to Tk. 1.00 million excluding land, is taken into account, the share of small projects will still be lower. The share of such projects is ignored in evaluating the financial operations of Bangladesh Shilpa Bank for working convenience (Bangladesh Shilpa Bank, Quarterly Review of the Bank's Operations: 1st April to 30th June, 1979, Exhibit 5(b), unpublished).
other countries. Attempt has, however, been made here and there to bring in the financing procedures followed by similar institutions in other countries, more particularly neighbouring countries like India, Nepal, Pakistan, Thailand etc.

The study covers the period from 1971-72 to 1978-79, a period of about eight years. This duration, though not long according to consensus of opinion in business circles and in the context of the eternal flow of time, constitutes formative years - a period within which a business organisation strikes roots, grows and tries to develop distinctive identity of its own. The period is also important in the circumstances of a new-born country like Bangladesh where the urge for development is naturally very strong.

(5) **Limitations of the Study**

(a) Full-fledged statistics department are non-existent in all the institutions under study. The data, being scattered in different files, made the task of their collection rather difficult.

(b) Data on each aspect of the operations of these institutions are maintained mostly in aggregative form and the style and fashion of the maintenance is also different from the one desired by the researcher.

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1971-72 covers the period from 16th December, 1971 to 30th June, 1972. The information for this short period was available only with Bangladesh Shilpa Bank.
(e) The divergent and dissimilar nature of the data available with the different institutions makes the task of comparing different aspects of their working really difficult. To facilitate comparisons, data had to be suitably regrouped and reorganised at appropriate places.

(6) The Scheme of the Study

Part A of the first chapter attempts to depict a brief outline picture of Bangladesh economy covering position of agriculture and industry, need for diversification, the various instruments of capital mobilisation, inadequacy of the traditional institutions pointing to an urgent need for specialised financial institutions. A brief review of the history of the establishment of such institutions in Bangladesh as also the framework of Government's industrial policy within the four walls of which these institutions had to operate have also been highlighted adequately. The second part deals with the objectives, methodology, rationales, scope, limitations, scheme and conceptual bases of the study.

In the second chapter, Theory of Non-Banks, their financing procedures and policies, both in the developing and mature economies, have been highlighted. An endeavour is made to evolve sound norms in the realm of divergent policies and practices which could be considered suitable for a developing economy.
The third chapter, Bangladesh Shilpa Bank, contains two parts: Part I - Financing procedures and policies and Part II - Financial operations. The perceptions of the industrial clients and problems encountered by them have been suitably incorporated. Attention has also been given to the perceptions of the concerned officers at appropriate places about the issues and problems relevant to industrial financing.

The fourth and fifth chapters on Bangladesh Shilpa Bin Sangstha and Investment Corporation of Bangladesh respectively broadly follow the same pattern of study and analysis as adopted in the case of Bangladesh Shilpa Bank in Chapter III.

The sixth chapter, The Three Non-Banks - a Comparative Study, makes an effort to compare the financing procedures, policies and operations of each institution. An effort has been made to bring out the superiority of each institution relatively to others. The gaps in their functioning, if any, have also been brought into focus.

The concluding chapter is on 'Findings and Recommendations'. An effort is made here to bring into focus the shortcomings and inadequacies of these institutions and to put forward some suggestions with a view to making them powerful instruments of planned economic development.

(7) Conceptual Bases

(a) Non-Banks: These institutions include non-commercial banking financial institutions engaged in the
field of purveying industrial finance. Though some of the non-banks are considered as banking companies (i.e. Bangladesh Shilpa Bank) for administrative purpose, they are basically term-financing institutions. A variety of titles are used for these institutions, such as non-bank, development bank, finance corporation, development corporation, investment bank, credit and investment corporation and development finance company. The differences in title do not, however, indicate or reflect conceptual differences that may exist with regard to ownership and to the range and type of financing activities.

(b) **Large Scale Industry**: The scale of industry (i.e. small, medium and large) is a relative concept. It is the stage of economic advancement of a particular country which mainly determines the scale. What is large in Bangladesh, India, Nepal, Sri Lanka, Thailand, Burma, Pakistan and Malaysia may be small in the context of mature and advanced economies like U.S.A., Canada, West Germany, U.K., France, Japan, U.S.S.R. and China. The value of fixed assets of the Chittagong Steel Mills Limited, one of the largest mills of Bangladesh, was Tk. 50 crores (Tk. 500 million) with annual sales of about Tk. 50 crores (Tk. 500 million) in 1975-76. On the other hand, the value of the assets of the Hindustan Steel, the largest steel mill of India, was Rs. 1266 crores (Rs. 12660 million) with annual sales of Rs. 811 crores (Rs. 8110 million) in the same year. The assets

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48 MIS, Bangladesh Steel and Engineering Corporation, Motijheel Commercial Area, Dacca.
of Exxon - a largest American Company - were valued at Rs. 72,066 crores (Rs. 720660 million) with sales of Rs. 32,066 crores (Rs. 320660 million) in the same year.  
So, the scale differs from country to country.

The determination of scale is not an once-for-all affair. It may go on changing even with a change in the price level. For example, the investment limit of small scale industry in India has been recently raised from 10 lakh to 20 lakh rupees.

An industry which is not small scale is a large scale industry for the purpose of present study. The industrial units above small scale may incorporate both medium and large scale industry but the financial institutions do not make any such distinction and the investigator also has not made such demarcation for the purpose of working convenience.


50 The Financial Express (New Delhi, India), July 24, 1980

51 A small scale industry in Bangladesh is taken to include all industrial units having fixed cost up to Tk. 1.00 million excluding cost of land (Department of Industries, Government of the Peoples' Republic of Bangladesh, Guide to Investment in Bangladesh, 1977, p.9).