

University of Rajshahi

Rajshahi-6205

Bangladesh.

RUCL Institutional Repository

<http://rulrepository.ru.ac.bd>

Institute of Bangladesh Studies (IBS)

PhD thesis

2004

Bangladesh Shilpa Bank : A Study of Development Banking

Choudhury, Afrauz Zaman Khan

University of Rajshahi

<http://rulrepository.ru.ac.bd/handle/123456789/400>

Copyright to the University of Rajshahi. All rights reserved. Downloaded from RUCL Institutional Repository.

Bangladesh Shilpa Bank : A Study of Development Banking

by

Afrauz Zaman Khan Choudhury

A Dissertation submitted to the Institute of Bangladesh Studies (IBS),
University of Rajshahi in fulfillment of the requirement for the degree of

**Doctor of Philosophy
in
Finance and Banking**

Institute of Bangladesh Studies (IBS)
University of Rajshahi
Rajshahi, Bangladesh

August, 2004


Rajshahi University Library
Document Section
Date.....

CERTIFICATE

I have the pleasure to certify that the dissertation entitled *Bangladesh Shipa Bank: A Study of Development Banking* is the original work of Mr. Afrauz Zaman Khan Choudhury. As far as I know, this is the candidate's own accomplishment and is not a collective work. He has completed this dissertation under my direct supervision.

I also certify that I have gone through the dissertation and found it suitable for submission to the Institute of Bangladesh Studies (IBS), University of Rajshahi, for the degree of Doctor of Philosophy in Finance and Banking.

Rajshahi
August, 2004


(M. Zainul Abedin Ph.D.)
Professor of Economics
&
Director
Institute of Bangladesh Studies
Rajshahi University
Rajshahi, Bangladesh
&
Supervisor of the Dissertation

DECLARATION

I do hereby declare that the dissertation entitled *Bangladesh Shi/pa Bank: A Study of Development Banking* is based exclusively on my own and original research work and my indebtedness to other works/publications have been duly acknowledged at relevant places.

It has not been submitted in part or full to any other University or Institute for any degree, Diploma or other similar purposes.

Afrauz Zaman Khan Choudhury
Ph.D. Research Fellow
Institute of Bangladesh Studies (IBS)
University of Rajshahi
Rajshahi
&
Professor
Department of Finance and Banking
University of Rajshahi
Rajshahi

August, 2004

ACKNOWLEDGEMENT

I express my sincere gratitude and indebtedness to Dr. M. Zainul Abedin, Professor of Economics and Director, Institute of Bangladesh Studies (IBS) Rajshahi University, who kindly supervised and guided my research works for the completion of this thesis. I have no hesitation to say that it would have been impossible for me to complete this research work without his invaluable guidance and constant help.

I am grateful to my teacher Dr. M. Sulaiman Manda!, Professor (Retd.) of Economics, Department of Economics, Rajshahi University, for thoroughly checking the earlier draft of this research work and making valuable comments on it.

My thanks to the management of Bangladesh Shilpa Bank for their active co-operation and help in supplying me the necessary much needed information and data.

I greatly appreciate the library assistance rendered to me by the Ratan Tata Library of Delhi University, Library of the Management Development Institute, Gurgaon, Haryana, India; Library of the Bangladesh Institute of Bank Management, BIDS Library, Dhaka; IBS Library, and by the Library of Rajshahi University.

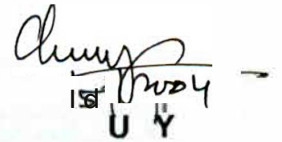
My thanks to all of my colleagues in the Department of Finance and Banking, University of Rajshahi for their encouragements and help.

Thanks to my friend Professor AFM Mafizul Islam, for giving his valuable comments on the earlier draft. He had always been a source of inspiration to me for this research work.

Thanks to my colleagues and affectionate students Dr. Mehrul Islam Khan, Dr. Md. Hafizur Rahman and Mr. Sohel Rana for helping me in various ways.

Finally, I must thank my wife Mrs. Rehana Choudhury, my sons Asaduz Zaman Khan Choudhury and Rashique Zaman Khan Choudhury for their sacrifice, patience, co-operation and encouragement for completing this research work.

Rajshahi,
August, 2004



(Afrauz Zaman Khan Choudhury)

ABBREVIATION

ADB	Asian Development Bank
BB	Bangladesh Bank
Ems	Bangladesh Bureau of Statistics
BSB	Bangladesh Shilpa Bank
BSRS	Bangladesh Shilpa Rin Sangstha
CSE	Chittagong Stock Exchange
DSE	Dhaka Stock Exchange
GDP	Gross Domestic Product
GOB	Government of Bangladesh
IBRD	International Bank for Reconstruction and Development
IBS	Institute of Bangladesh Studies
ICICI	Industrial Credit and Investment Corporation of India
IDBP	Industrial Development Bank of Pakistan
115	Industrial Investment Schedules
NIP	New Industrial Policy
PAYE	Pay As - you - earn
PIW	Project Identification Wing
PPT	Project Promotion Team
RIIS	Revised Industrial Investment Schedule
SAF	Special Assistance Fund.
WES	Wage Earners Scheme

ABSTRACT

Development Bank as an institutional device to accelerate the pace of economic development in underdeveloped countries is of a comparatively recent origin. Despite the fact that development banks are a post Second World War Institutional device, it cannot be regarded as an untried innovation because prototype of these banks had already been in existence even before the World War I. A development bank is an institutional mechanism which functions as an active agent for promoting a balanced and viable process of economic development. A development bank has been defined as an institution which undertakes to perform banking functions as well as development functions.

When availability of finance in general or to special types of enterprises in particular from the normal channels is deficient, the special machinery of development banks has been created to fill this gap. The Bangladesh Shilpa Bank (BSB) has been the prime development Bank in Bangladesh. It is set-up to meet financial and developmental or promotional needs of industries.

Over the years, the BSB has grown into good source of industrial finance. But the crisis in the functioning of the BSB has been mounting up as more and

more loans to industries fell into arrear in their debt servicing. The magnitude of the debt default crisis is now threatening the very survival of the BSB.

Previously, no research work was conducted on this very important subject. Only a few research works covered little portion of it. In the present study intensive efforts have been taken to examine the performance of BSB. With this end in view, the following objectives are set for the study : reviewing the past activities of the BSB, evaluating its performance, assessment of operational efficiency of BSB, assessment of the allocational efficiency of the same. Finally initiatives have been taken to specify that problem of BSB and the remedies to overcome those. Method is the way of approaching to solve the problem. Methodology stands for the correct arrangement of thoughts either for the discovery or for the exposition of truth. One method, that is documentary analysis has been applied in this study for collection of necessary information and data. Secondary information was collected, from the publication of the BSB, Ministry of Finance, Government of Bangladesh, Bureau of Statistics, Bangladesh Bank and other institutions. The primary information were collected from the BSB's officers engaged in the department of loan operation, central accounts, management information service and secretary to the board of directors. Many senior officials of BSB also provides the researcher with necessary data and information. Collected data were processed and analysed manually as well as with the help of a computer.

As a development Bank, the BSB has also both banking function and development function. The banking function of the BSB relates to its operational efficiency. The development function of the BSB relates to its allocational efficiency.

BSB being the prime development Financing Institution, continued its efforts to make an effective contribution towards expansion of industrialisation process in the country. By mobilising local resources, the bank emphasized on long term lending to the viable comparatively advantageous, export oriented, forward and backward linked agro based, local technology dependent and raw material based projects. Top priority has been given to the realization of its loans towards augmenting and recycling of the investable funds and maintaining satisfactory loan portfolio for increasing profitability. Although BSB has gone a long way in helping industrial development of Bangladesh, but its performance has not been up to the mark. More than three decades have been passed away since the starting of the BSB, and now its activities should be examined from different angles.

The present study covers the period from 1972 to 2003. This is a period of more than three decades. From the very birth of a new sovereign country till date, Bangladesh witnessed many changes with ups and downs in the economic scenario and in political arena. In the early years of independence, the political aim of Bangladesh was to pave the economy in a socialist path and later on, the subsequent regimes put it in a capitalist way. So, the BSB in the 1970's disbursed funds only to public enterprises and subsequently in the late 1970's and 1980's till date diverted its funds towards the growth of private industry.

The period is also very important in the circumstances of a new-born country like Bangladesh where the urge for development is very strong. So, the time taken might show interesting picture in the functioning of the BSB.

The analysis in this study brings out that the BSB has emerged as an apex financial institution in the task of promoting industrialisation in Bangladesh. The BSB disburses loans to individual industrial project after completing a thorough project appraisal report and following other general norms. But the colossal volume of overdues and a huge amount of provision of debt accumulated by the Bank raise some questions. Though the project appraisal procedure has been done by the specialised man power of the Bank, there is the possibility of outside interference from the political power structure which in turn endangers the whole process of financing by the BSB.

The most important financial indicator to test economic efficiency of the BSB's lending and investment operations is its profitability record. Viewed from this perspective of financial management, the BSB's performance was not very satisfactory. Its gross and net profit margins have declining trends. Increase in the interest payment in the later phase of the study may be one of the reasons.

The BSB's expense ratios had a consistent rising trend both in terms of operating and financial expenses. It is borne out by the fact that its returns failed to keep pace with the rise in the cost of debts and as such its margins are adversely affected.

The rate of return of the BSB has been very low. The volume of overdues had been continuously increasing at a rapid rate. The BSB also re-scheduled/

adjusted the overdues on an increasing scale in the second phase of the study. The delayed recoveries from the borrowers ultimately contribute to low returns to the BSB.

The low profitability in respect of BSB's lending, raise a doubt as to the soundness of its own lending operations and accounts for low returns. There may also be certain other factors responsible for such a state of affairs. As a promotional financial institution, the BSB's loan operations are not expected to be guided exclusively by commercial feasibility of the project, but its promotional efforts are equally important and treated as a means to pursue socio-economic objectives. But a large part of these type of finances are prone to high risk leading with low returns from loan investment portfolio. Hence, its nature of financing is partly held responsible for the low returns to the BSB.

The BSB had been operating with low working capital margins or low current ratios. Though the low current ratio for the BSB may well be accepted, the persistent downward trend in the ratio may pose a serious problem in terms of meeting its obligations.

So far as the capital structure of the BSB is concerned, its existing debt-equity ratio is not consistent with its operating policy and the World Bank Model. The BSB's debt-assets ratio had a decreasing trend and equity-assets ratio shows almost static trend.

The debt-service-coverage ratio and interest-coverage ratio of the BSB marked a firm-declining trend.

The continuous shrinkage in the debt-equity and debt-assets ratio of the Bank has thwarted its profitability, and decreasing trend in the debt-service coverage ratio and interest-coverage ratio hampered its operational efficiency.

To improve allocational efficiency, the BSB could not diversify and broaden development investment with the objective of attaining geographical dispersion of industries. Experience shows that the maximum flow of financial assistance by the Bank went to developed areas of Bangladesh, which was also concentrated to a very few industrial sub-sectors.

For entrepreneurship development, the BSB took certain programmes under different names (e.g. PIW, PPT, special window service etc.). But these programmes were not continued for a long time and did not contribute anything worth mentioning. The BSB's financing in equity capital and underwriting of capital issues has not been encouraging and far below in comparison to total disbursement of loan portfolio. Lack of sufficient capital has been one of the main hindrances to prospective entrepreneurs. By supplying investable funds, the BSB has definitely contributed to the development of entrepreneurship in Bangladesh, but much remains to be done.

To give relief and rehabilitate the sick projects of the term loans of BSB, it rephased/rescheduled the repayment activities on an increasing scale. The increasing trend in the overdues and very low recovery of loans show little impact of rescheduling. However, still the bank plays an important role in the industrialisation process and in the economic development of Bangladesh.

TABLE OF CONTENTS

CERTIFICATE	i
DECLARATION " ,,	ii
ACKNOWLEDGEMENT	iii
ABBREVIATION	v
ABSTRACT	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF CHART	xiii

CHAPTER I: INTRODUCTION 1

1.1 Development Banking	1
1.2 The Economy of Bangladesh and need for Development Banks	12
1.3 Financial Structure of Bangladesh	19
1.4 Statement of the Problem	26
1.5 Objectives of the Study	29
1.6 Review of Literature	29
1.7 Justifications	42
1.8 Scope and Limitations	44
1.9 Methodology	46
1.9.1 Definition	46
1.9.2 Selection of Methods	47
1.9.3 Documentary analysis method	47
1.9.4 Field survey method	48
1.9.5 Types of data collected and their sources	48
1.9.6 Selection of Samples	49
1.9.7 Technique of Data Analysis	50
1.10 Plan of the Study	50

CHAPTER 2 A BRIEF PROFILE OF BSB	52
2.1 Origin, Objectives and Functions of BSB	52
2.2 Disbursement of Term Loans and Other Investments	59
2.3 Financing Procedures and Policies of BSB	62
2.4 Expansion of Branches and manpower of BSB	65
2.5 Growth Trend of Income, Expenditure and Profit of BSB	66
2.6 Organisational Chart of BSB	67
CHAPTER 3 PROJECT APPRAISAL PROCEDURE OF BSB	70
3.1 Introduction	70
3.2 SECTION 1	70
3.2.1 Meaning of Project Appraisal	70
3.3 SECTION II	72
3.3.1 Appraisal Procedure by the BSB	72
3.4 SECTION III	81
3.4.1 Problems of Project Appraisal	81
3.5 SECTION IV	82
3.5.1 Project Appraisal Report: A Case Study of M/s Dhaka Knitwear Ltd ...	82
3.5.2 Security of Loan	93
3.6 SECTION V	96
3.6.1 Comments	96
CHAPTER 4 PROFITABILITY OF BSB	97
4.1 Introduction	97
4.2 SECTION 1	99
4.2.1 Profit Margin	99
4.3 Net Profit Margin	100
4.4 SECTION II	103
4.4.1 Expense Ratios	103
4.5 SECTION III	110

Content	Page
4.5.1 Rate of Return	110
4.6 SECTION IV	120
4.6.1 Observations	120
CHAPTER 5 RESOURCE MANAGEMENT OF BSB	121
5.1 Introduction	121
5.2 SECTION I	122
5.2.1 Sources and Uses of Funds by BSB	122
5.2 SECTION II	125
5.3.1 Cash Flow by BSB	125
5.4 Control of Cash Flow by BSB	130
5.5 Cash to Current Liabilities Ratio	132
5.6 SECTION III	134
5.6.1 Management of Liquidity	134
5.7 SECTION IV	137
5.7.1 Management of Capital Structure of BSB	137
5.8 Section V	145
5.8.1 Problems of Default and Over-dues	145
5.9 Section VI	150
5.9.1 Observations	150
CHAPTER 6 PROMOTIONAL ROLE OF THE BSB IN FINANCING INDUSTRIAL PROJECTS	152
6.1 Introduction	152
6.2 SECTION I	152
6.1.1 Geographical Dispersal of Enterprises by the BSB	152
6.3 SECTION II	158
6.1.2 Entrepreneurship Development.	158
6.4 SECTION III	164
6.1.3 Rehabilitation of Sick Mills by the BSB	164

CHAPTER 7	SUMMARY RECOMMENDATIONS AND CONCLUSIONS	169
7.1	The Preamble	169
7.2	Chapter I : Introduction	175
7.3	Chapter II : A Brief Profile of Bangladesh Shilpa Bank	175
7.4	Chapter III : Project Appraisal Procedure of BSB	176
7.5	Chapter IV : Profitability of BSB	178
7.6	Chapter V: Resource Management of BSB.....	179
7.7	Chapter VI: Promotional Role of the BSB in Financing Industrial Projects ..	181
7.8	Policy Recommendations	182
7.9	Conclusions	185
7.10	Suggestions for further research	187
	Bibliography	188
	Appendix-C	201
	Appendix-D	215
	Appendix-E	226

List of chart

Chart 2.1 ORGANISATIONAL CHART OF BANGLADESH SHILPA BANK	69
--	----

Table	Caption	Page
Table 4.11	Payments to national exchequer by BSB from 1972-73 to 1993-94	114
Table 4.12	Provision for Bad and Doubtful Debts created by the BSB from 1985-86 to 2000-01	115
Table 4.13	Relative Share of Interest Income to Total Income of the BSB from 1985-86 to 2002-03	118
Table 4.14	Rate of Return on Loans and Investment of the BSB from 1972-73 to 2002-03	119
Table 5.1	Sources and Uses of Funds of the BSB from 1985-86 to 1998-99	124
Table 5.2	Cash Flow Statement of BSB	128
Table 5.3	Cash to Current Assets Ratio	131
Table 5.4	Cash to Total Current liabilities Ratio	133
Table 5.5	Current Ratio of BSB from 1972-73 to 2002-2003	136
Table 5.6	Debt-equity Ratio of BSB from 1973-74 to 2002-03	140
Table 5.7	Debt-assets Ratio of the BSB from 1972-73 ^{3/4} 2002-03	141
Table 5.8	Equity-assets Ratio of the BSB from 1973-74 ^{3/4} 2002-03	142
Table 5.9	Debt-service Coverage Ratio (DSCR) of BSB from 1977-78 to 2002-03	143
Table 5.10	Interest Coverage Ratio of BSB from 1972-73 ^{3/4} 2002-03	145
Table 5.11	Share of Over-dues to Total Outstanding of the BSB from 1972-73 to 2002-03	147
Table 5.12	Relative share of Recovery of Loans (cash) to Total Outstanding of Loans of the BSB from 1972-73 to 2003-04	147
Table 5.13	Relative Share of Recovery of Loans (cash) to Total Over-dues of the BSB from 1972-73 to 2003-04	148
Table 6.1	BSB's Term Loan Disbursed by Region	156
Table 6.2	Disbursement of Underwriting and Debenture by the BSB from 1977-78 to 1992-93	162
Table 6.3	Equity Participation by BSB on 30th June 1994	163
Table 6.4	Term Loan Rephased/Rescheduled by the BSB from 1972-73 to 2002-03	166

LIST OF TABLES

Table 1.1	Contribution of Manufacturing sector to GDP and its Growth rates (at constant prices of 1995-96)	14
Table 1.2	Structure of GDP in Bangladesh	16
Table 1.3	Employment Trends in manufacturing Sector	17
Table 1.4	Banking Structure in Bangladesh as on April 2004	22
Table 1.5	Insurance Companies in Bangladesh, as on 30 June 2000	25
Table 2.1	Receipt and Repayment of funds of BSB up to 30.6.2001	60
Table 2.2	Disbursement and Recovery of Term Loan	61
Table 2.3	Category-wise Disbursement of Loans by the Bank	62
Table 2.4	BSB's Offices Operating in Bangladesh	65
Table 2.5	Income, Expenditure and Profits of BSB	66
Table 3.1	The BSB's Loan Portfolio/Sectoral Performance	83
Table 3.2	Export of Sweater from Bangladesh	84
Table 4.1	Gross Profit Margin of BSB from 1972-73 to 2002-03	100
Table 4.2	Net Profit ratio of BSB from 1972-73 to 1993-94	102
Table 4.3	Operating Expense Ratio of BSB from 1972-73 to 2002-03	104
Table 4.4	Financial Expense Ratio of BSB from 1972-73 to 2002-03	104
Table 4.5	Cost of Debt of the BSB from 1972-73 to 2002-03	106
Table 4.6	Rate of Return on Loans and Investment of BSB from 1972-73 to 2002-2003	107
Table 4.7	Gross Profit Spread of the BSB from 1972-73 to 2002-03	108
Table 4.8	Rate of Return on Average Total Assets (ROTA) of BSB from 1972-73 to 1993-94	112
Table 4.9	Rate of Return on Average Capital Employed (ROCE) of BSB from 1972 to million)	112
Table 4.10	Rate of Return on share holders equity (ROSE) of BSB from 1972-73 to 1993-94	113

Chapter 1

INTRODUCTION

1.1 Development Banking

The origin of development banking can be traced, as far as to 1822, when the "Societe Generale Pour Favouriser l' Industry Nationale" was founded in Belgium to finance commercial and industrial ventures. The 'Credit Mobilier' of France, established in 1852, soon caught the imagination of industrial financiers in different countries. It became a model for similar investment banks in Germany, Austria, Netherlands, Italy, Switzerland and Spain.¹ The concept of modern 'development banking' is not very much old, though the genesis of banking could be traced in the history of mankind from the times immemorial.² The concept of modern "development banking" was developed in view of the needs felt by the Governments of various countries, particularly those affected by the wars, to provide the financial aid to industry, specially for its rejuvenation and regeneration.

The movements for development banking and development planning came mutually to reinforce each other, leading and following as if by turns. Development banking took the lead: it gave a fillip to development planning as it placed stress on systematic and programmed assessment, mobilization and

¹ S.L.N. Simha, *Development Banking in India* (Madras : Institute for Financial Management and Research, 1976), p. 2.

² Industrial Finance corporation of India, "Growth and Development" *A Compendium of Chairman's Statements Made at the Annual General Meeting of IFCI-1988*, p. 11.

PART I

THE BACKDROP

utilization of an economy's resources for the tasks of economic development. During the fifties the movement for economic planning took over and, following independence, touched one less developed country after another. The authorities of many newly independent countries turned to development banking as an instrument for proper direction and better use of their resources. During this phase, which lasted roughly till the middle and later sixties, development planning was the pace-setter for development banking.³ With development planning somewhat in disarray, the initiative has passed back to development banking. Development banking is an instrumentality and an important one of development planning or economic development in the country.⁴ The development banks in underdeveloped countries, established in earlier years, were often primarily agents for executing Government investment projects. Some were also given responsibility for 'planning' economic development, presumably in order to remove 'planning' from direct political influence, shield it from administrative instability and free it from bureaucratic red tape.⁵

Economic Development has a direct relationship with industrialization.⁶ Industrialisation is a dynamic concept, involving as it does, a radical transformation of economic, political, social and cultural framework of a society. To redesign the predominantly agricultural and underdeveloped economy like

³ B.K. Madan, *Management of Development Banks* (Delhi : Management Development Institute, 1975), p. 2.

⁴ B.K. Madan, "The Directions of the Professional and Technical Development Programme of DFis in Asia", *Journal of Development Finance Asia-Pacific*, ADFIAP Secretariat, Metro Manila, p. 25.

⁵ W. Dimond, *Development Banks* (London : The John Hopkins Press, 1969), p. 2.

⁶ K. Malhotra, *Development Banks and Industrially Backward Areas* (New Delhi : Deep and Deep Publications, 1991), p. 1.

that of Bangladesh, to develop and diversify the economy by establishing large scale industries which has ultimately a significant role to play. It was hoped that industrialization would bring social transformation, social equality, higher levels of employment, more equitable distribution of income and well balanced regional development.⁷ The process of industrial growth requires, among other factors a well developed capital market with financial intermediaries, namely banks, insurance companies, underwriting agencies, investment trusts and finance corporations, that can channelise loanable funds into industrial investment.⁸ Economic development is a multi-dimensional challenge, confronting many developing nations of the world today. Current economic development and historical pattern of economic growth indicate that industrialization is a pre-requisite for sustained economic growth.⁹

In the light of growing realization that without accelerated industrialization, no economic development could really take place, 'development banking' came to be recognized as an instrument of change, which could respond effectively to the emerging socio-economic compulsions. Development banks have a major role in contributing to the establishment of essential infrastructure that industrial development demands.¹⁰ By providing resources for investment in infrastructure, agriculture and industry, development banks play a

⁷ G.M. Meir, *Leading Issues in Economic Development* (New York : Oxford University Press, 1976), p. 659.

⁸ Indian Investment Centre, *Specialised Financial Institutions* (New Delhi : June, 1972), p. 7.

⁹ M.V. Lal, *Development Banks* (New Delhi : Criterion Publications, 1990), p. 12.

¹⁰ O.G. D 'Eslaing, 'Principal Problems that Industrial Development Banks are Likely to Confront' in United Nations : *Development Banking in the 1980's* ; selections from the proceedings of the UNIDO/World Bank, Symposium, Zurich, June 1979, (New York : United Nations Publications, 1980), p. 12.

major role in correcting the lopsided structure of an economy.¹¹ To acquire factors like capital, entrepreneurship quality, modern techniques of production, managerial and technical talent etc. special agencies were needed and the development bank, burgeoned as one of such agencies designed and geared to the task of financing the establishment and accelerated growth and development of industries.¹² Development banks are unique financial institutions in the developing countries, specializing in the provision of high-risk, long-term financing for the purpose of industrialization.¹³ These banks were expected to provide not only long-term finance but also play a catalytic promotional role in setting in motion a viable widely diffused process of industrialization. The resulting combination of financial and production experience has given the development banks significant capacity for implementing industrial policy.¹⁴

The establishment of International Bank for Reconstruction and Development (IBRD), in short The World Bank, in 1945 following deliberations of the United Nations Monetary and Finance Conference held at Bretton Woods, U.S.A. was perhaps the first successful global endeavour in the field of modern development banking. From the international level, this idea has also spread to continental and regional levels. The earliest to be established was the Inter-

¹¹ K. Jacobi, "Welcome on Behalf of the Host Country", United Nations : *Development Banking in the 1980's*; selections from the proceedings of the UNIDO/World Bank, Symposium, Zurich, June 1979, (New York : United Nations Publications, 1980), p. 7.

¹² L.K. Bansal, *Regional Development Banks and Industrialization* (New Delhi : Deep and Deep Publications, 1988), p. 17.

¹³ V.V. Bhat, *Development Perspectives, Problems, Strategy and Policies* (London : Pergamon Press, Oxford, 1980), p. 182.

¹⁴ J.S. Ray, "Institutional Relationship between Governments and Development Banks", United Nations, *Development Banking in the 1980s*, p. 19.

American Development Bank in Latin America followed by African Development Bank in Africa and Asian Development Bank in Asia. In Europe, the European Investment Bank was set up.¹⁵

The creation of the machinery of special financing institutions, more appropriately designated in economic literature as 'development banks', is an integral part of the deliberate and conscious attempt by the Government to orient the financial system to the requirements of planned economic development.¹⁶ A development bank is like a living organism that reacts to its success which again, depends on reacting most aptly to that environment.¹⁷ Development banks have been conceived as gap fillers, when availability of finance in general or to special types of enterprises in particular from the normal channels is deficient, the special machinery of development banks has been created to fill this gap. Development banks are like artificial limbs created to compensate for the relatively slow growth of the normal sources of finance.¹⁸ Generally, development banks have no direct link with the ultimate sources of savings. They are, in effect, merely distributive agencies.

¹⁵ R. Manohar, "Performance Evaluation of Development Bank in India", An unpublished Ph.D. thesis, Dept. of Commerce, University of Madras, July 1991, p. 32.

¹⁶ M.Y. Khan, "Development Banking in India Role and Problems", *Artha Vijnana*, Vol. XXII, No. I, March, 1980 (Poona : The Gokhale Institute of Politics & Economics), p. 89.

¹⁷ A.G. Kheradjou, 'The Development Banking in fast Developing Economy in Saxena', G.S. (ed), *Search Light on Development Banking : A Compendium of IFIC, Silver Jubilee Memorial Lectures* (New Delhi : Industrial Finance Corporation of India, 1984), p. 68.

¹⁸ L.C. Gupta, *The Changing Structure of Industrial Finance in India* (Oxford : Clarendon Press, 1969), p. 165.

The combination of banking and developmental criteria in investment decisions is the distinguishing mark of a development bank.¹⁹ The accent of the Development banks is on development²⁰ so that their purpose is to make the provision of development finance which may be defined as real investment in fixed assets. Development banking will have to be modelled on a pattern and adopt operational strategy, which is in consonance with the economic, social political and cultural environment of the country in which it operates.²¹

The effectiveness of a development bank depends in part on the relationships it establishes, not only with Governments, but also with other institutions and organisations that make up the total development environment. The dynamism of a development bank is related to its responsiveness to society, to national objectives and to its capacity to lead rather than simply to follow in this regard. It should have an innovative spirit. The heart of a development bank is innovation.²²

The structure and functioning of a development bank have to have a built-in capacity to respond to challenges. Without such innovative ability, men as well as institutions decay and stagnate.²³

¹⁹ Boskey, S., *Problems and Practices of Development Bank* (Balltimore : The John Hopkins Press, 1964), p. 5.

²⁰ Om Prakash, "Industrial Development Corporations in India and Pakistan", *Economic Journal*, Vol. LXVII, 1957, p. 40. M.Y. Khan, *Indian Financial System* (New Delhi : Vikas Publishing House Pvt. Ltd., 1985), p. 129.

²¹ R.M. Saksena, *Development Banking in India* (Bombay : Vora & Co. Publishers, Private Ltd., 1970), p. 33.

²² W. Diamond, "Inaugural Address Given at Bankers Training College", *Bombay on Regional Course on Development Banking*, pp. 6-7.

²³ V.V. Bhatt, "A Decade of Performance of Industrial Development Bank of India", *Commerce*, Annual Number Vol. 129, No. 3321, 1974, p. 156.

Development banks may be best regarded as the channel through which not only capital but also all the other ingredients of economic development flow under direction so as to irrigate and fertilise the arid regions and transform them into economically developed fruitful areas.²⁴ Investment lies at the heart of economic development. A development bank is designed to supply one or more of the essential ingredients of effective investment.²⁵ The attainment of a higher level of investment may well be futile in terms of achieving economic development without accompanying qualitative changes to which the development bank can make a significant contribution.²⁶ The gap between the rising aspirations for a fast rate of growth and the inadequacy of the available resources to translate these aspirations into reality was indeed formidable, and this was sought to be bridged through the agency of development banks which were supposed to supply the missing links, both financial and non-financial, in the growth process.²⁷

The close nexus between financial growth and economic development is now recognized universally in financial literature.²⁸ Gurley and Shaw have

²⁴ S.K. Basu, *Industrial Finance in India*, 1961, p. 16; L.K. Bansal, *Regional Development Banks and Industrialisation*, p. 23.

[S.J. A. Kane, *Development Banking* (London : Loxington Books, 1974), p. 4.

²⁵ W. Diamond, "The Process of Investment", L.C. Gupta (ed), *Readings in Industrial Finance* (India : The Macmillan Company of India Limited, 1976), pp. 11-12.

²⁷ V.S. Singh, *Development Banking in India* (New Delhi : Deep & Deep Publications, 1985), p. 19.

²⁸ M.Y. Khan, *Indian Financial System* (New Delhi : Vikas Publishing House Pvt. Ltd., 1985), p. 19.

argued this problem vehemently and emphasized that development involves finance as well as goods.²⁹ So, economic development is usually accompanied by financial development. Financial development can be defined as an increase in financial intermediation and is reflected in an increased separation between savers and investors.³⁰

Special Financial Institutions, designated as 'Development Banks' in economic literature are a "Chosen instrument for facilitating and stimulating economic growth".³¹ These institutions emerged as a consequence of the special needs and circumstances of the time carrying variegated nomenclatures, which include non-bank financial institutions, development corporations or development finance institutions; and such institutions had concentrated on formulating and executing techniques of development bank for financing industry in preference to the prevalent techniques of financing. Development banking comes to be significantly recognized as a means of economic development in a country. Financial Institutions need not be passive instruments for economic activity; but with dynamic management and adequate permissive environment of available opportunities and of favourable policies, they can be active engines of economic development.³²

²⁹ J. G. Gurley and E.S. Shaw, "The Impact of Economic, Development on Financial Structures : A Cross Section Study", Stanford University, Stanford Photocopy undated; M.J. Fry, *Resource Mobilisation and Anancial Development*) Centre for Economic Development and Administration, Nepal : Kathmandu, 1974, p. 67.

³⁰ K. Jansen, "Monetary Policy and Financial Development", E.V.K. Fitzgerald & Rob Vos (ed.), *Anancial & Economic Development*(London : Gower Publishing Company, 1989). p. 55.

³¹ H.T. Parek, 'The Story of Development Bank ICICI, 1955-79", L.K. Bansal, *Regional Development Banks and Industrialization*, p. 17.

³² W. Diamond, "The Interplay between Financial Institutions and Economic Development", G.S. Saxena (ed.), *Search Light on Development Banking* (New Delhi : Industrial Finance Corporation of India, 1984), p. 55.

Development banks should be dynamic institutions, continuously adapting themselves to the needs of an economy. Development banking should be flexible in adopting its instruments and techniques to the diverse and changing needs of its beneficiaries. Development bankers must be on occasions harder than diamond and on some other occasions softer than the petal of a flower.³³ It is customary to say that a development bank's business in 'development' or that "accepting responsibility for furthering the nations development policies is the special factor which makes a bank a development bank or that a development bank's activities must contribute to the national interest".³⁴ The function of an industrial development bank is to assist its government's structural industrialization objective through the provision of technical assistance and long term capital.³⁵

A development bank is an organic body that acts and reacts to the needs of its environment. It must strive to find an appropriate place for itself in the economy and also create a proper image for itself with the Government, industry and other sectors that it serves.³⁶

³³ S.L.N. Simha, *Development Banking in India*, p. 16.

³¹ W. Diamond, "Notes on Purposes and Strategies", Seminar Paper on Development Bank Management held at Economic Development Institute, Washington D.C. February 5-16, 1979, p. 1

³⁵ L. Helmers, "Industrial Development Banks and Social Benefit-Cost Analysis", paper presented at seminar on Development Bank Management held from 5-16 February 1979 (Washington : Economic Development Institute), p. 1

³⁶ C.P. Sharma, *Industrialisation and Development Banking* (New Delhi : Deep and Deep Publications, 1989), p. 48.

Each Development bank is a response to the particular needs of the country which it serves; and to the political, economic and social environment in which it functions. There is considerable variety among them, particularly in the scope of activity. Adoption, relaxation and flexibility as to the conditions of the country and to the needs of the enterprises to be financed are but the first requisites of a development bank.³⁷ Extension work is an essential part of a development bank's functioning, although efforts could take different forms depending upon the needs of the economy and the existing institutional structure.³⁸

Development Banks in their financing operations are expected to take into consideration the aspects of public interest. The implication of the feature from the operational stand point is that the criterion for selecting projects for financing by Development banks would not be, as in the case of the ordinary investment institutions, the strict commercial profitability alone, but more importantly they would have to take into account the broad objectives of national development.

Development banks are not mere financing agencies as they have not only to make finance available but also perform an allocation function. As developmental organizations, they are concerned with the total impact of their financing on the

³⁷ W. Diamond, *Development Banks* (Baltimore : The John Hopkins Press, 1967), p. 85.

³⁸ S.S. Nadkarni, "The All India DFI's", *Journal of Development Finance*, Association of Development Financing, Manila : Institutions in Asia and Pacific Secretariat, p. 27.

economy. In specific operational terms, the Development banks would address themselves to the solution of the following three types of problems.

- (a) Stimulation of the capital market;
- (b) Directing efforts to specific development objectives such as (i) growth of broad-based entrepreneurship and promotion of a diversified industrial structure; (ii) encouraging new enterprises; (iii) assisting small firms, (iv) meeting needs of 'lame-dog' concerns defined as those either whose past profit record is chequered/unimpressive or companies, the market values of the shares of which happen to be below their par values; (v) financing the viable projects and the allied element of bolstering the business skills of its borrowers, and (vi) regional aspects of development and so on; and
- (c) Corporate shareholding and related dimension of the control and direction of private industry.

Translated into blueprint for action-criterion for the allocation of assistance, the development banks define priorities for assistance by them, which include, inter-alia, (i) the projects coming up in the backward region; (ii) the projects coming up in the small-scale sector; (iii) the projects promoted by new and technician entrepreneurs; (iv) the projects producing goods of mass consumption; and (v) the projects in the nature of export promotion and import substituting industrial units. In addition to these long term priorities, they have also to work with short term priorities by adopting their lending strategy to certain sectors where demand is slack or critical raw materials or utilities are not

easily available, or not to create situation of shortages or gluts of certain commodities at some future date.³⁹

Because of the peculiar structural drawbacks from which an underdeveloped economy suffers, the responsibilities of a development bank increases many fold. It has to increase capital formation, induce the investors and the entrepreneurs, seal the leakages of material and human resources by careful allocation thereof, undertake developmental activities and try to ensure that no good project suffers for want of financial and / or technical resources.⁴⁰

1.2 The Economy of Bangladesh and need for Development Banks

The economy of Bangladesh is uniquely characterized by poverty, aid-dependence and disaster proneness. Macro economic policies, in this context are aimed at maintaining short-run stability as well as leading the economy towards egalitarian and self-reliant growth in the medium and long-run.⁴¹

Covering an area of 147570 Square kilometre, Bangladesh has the highest density of population in the world with approximately 916 persons per square kilometre. The population of the country stood at 135.20 million in 2004,⁴² unemployment and underemployment have reduced the country to a state of

³⁹ M.Y. Khan, *op. cit.* pp. 129-130.

⁴⁰ R.M. Saksena, *Development Banking in India* (Bombay : Vora & Co. Publishers Pvt. Ltd., 1970), p. 16.

⁴¹ R. Sobhan, *et. al*, *Report of the Task Forces on Bangladesh Development Strategies for the 1990s*, Vol. I (Dhaka : Dhaka University Press Ltd., 1991), p. 1.

⁴² GOB, *Bangladesh Arthonailic Samikha 2004* (Dhaka : Economic Advisers wing, Finance Division, Ministry of Finance, June 2004), pp. XVII.

abject poverty and extremely poor living condition.⁴³ A heavy and growing pressure of population on a limited and underdeveloped resource-base is the root cause of this abysmal poverty. Agriculture is the main occupation of its people and there is a crushing pressure of population on land. The annual growth rate of population in Bangladesh in 2004 is 1.5 percent.⁴⁴ The galloping increase in the country's population has been accentuating the problem of poverty and unemployment. The number of new entrants to the labour force is estimated at 1.8 million man-years.⁴⁵ There being no other outlet available to the rapidly growing labour force, agriculture is groaning under the pressure of fast increasing numbers. Unless employment opportunities outside agriculture increases, income of landless and marginal farm families are likely to continue deteriorating in real terms. Land being limited, the obvious limitation to expansion of employment is investment. So measures to accelerate appropriate industrial development are of crucial importance.

In a resource scarce agrarian country like Bangladesh, where irrigated acreages cannot be expanded beyond a certain point, the acceleration of growth of Gross Domestic Product in the long run depends critically on the growth of the industrial sector. The development strategy of the country, therefore, needs to be geared towards rapid structural shift from agriculture to industry.⁴⁶

⁴³ GOB, *The third Five Year Plan : 1985-90* (Dhaka : Planning Commission, Minister of Planning, 1985), p. 101.

⁴⁴ GOB, *Bangladesh Arthanaitic Samikha, 2004*, p. XVII.

⁴⁵ GOB, *The Two Year Plan* (Dhaka : Planning Commission, Ministry of Planning, 1978-80), p. 33.

⁴⁶ GOB, *The Fourth Five Year Plan .1990-95* (Dhaka : Planning Commission, Ministry of Planning, 1990), pp. VI-1.

The industrial activities in Bangladesh are mainly concentrated in a few urban pockets. The contribution of large scale industry in the total industry sectoral GDP in 1969-70 was over 60 percent, while that of small scale industry was 40 percent.⁴⁷

The role of industry sector is indispensable for accelerating economic growth. The manufacturing sector accounts for 16.25 percent of GDP in 2003-04. The rate of growth in this sector was projected at 7.4 percent in fiscal year 2004.

The Table 1 shows growth rate of manufacturing sector during 1996-97 through 2003-04.

Table 1.1
Contribution of Manufacturing sector to GDP and its Growth rates (at constant prices of 1995-96)

(in crore Taka)

Type	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Small & cottage industries	7609.1 (7.8)	8124.0 (6.8)	8184.9 (0.75)	8659.3 (5.8)	9267.4 (6.6)	9980.1 (7.7)	10780.0 (8.0)	11517.9 (7.7)
Medium and large industries	18270.4 (3.9)	19966.8 (9.3)	20803.3 (4.2)	21708.6 (4.4)	23130.2 (7.0)	24194.1 (4.6)	25780.8 (6.6)	27667.2 (7.7)
Total	25879.5 (5.0)	28090.8 (8.5)	28988.2 (3.2)	30367.9 (4.8)	32397.6 (6.7)	34174.2 (5.5)	36560.8 (6.8)	39185.1 (7.4)

Note : Figures in the parentheses indicate rate of growth.

Source : GOB, *Bangladesh Atthanitic Samikha 2004*. Economic Adviser's wing, Finance Division, Ministry of Finance, Dhaka. June 2004.

⁴⁷ M.R. Sharif, *Industrial Enterprises Some Financing and Related Issues in the Bangladesh Context*(Dhaka : Dhaka University, 1976), p. 20.

The manufacturing sector, although accounting for only a small percentage of GDP, is an important element in the Bangladesh economy. It provides basic consumer goods, supplies agriculture with key inputs, produces a substantial part of the country's exports and is a major employer. While its basic structure has changed little since independence, the performance of the sector has a critical bearing on resource mobilization and the sector is potentially an important area of rapid economic growth.

The manufacturing sector of Bangladesh accounted for about 7.78% of GDP in 1969-70.⁴⁸ The sector's share rose to a peak level of 16.24% in 1997-98 and then became almost stagnant 15.97% in 2002-2003 (Table 1.2).

⁴⁸ The World Bank : Staff appraisal report of a second IDA credit of Bangladesh Shilpa Bank' Bangladesh Report, No. 3186-BD. February 23, 1981 : Industrial Development and Finance Division South Asia Projects Department, p. 1.

Table 1-2
Structure of GDP of Bangladesh

(in%)

Sectors	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Agriculture	20.59	21.17	20.32	22.22	19.80	20.29	19.54	18.62	18.06	18.22
Manufacturing	15.29	15.33	15.43	15.61	16.24	15.47	15.23	15.61	15.73	15.97
Construction	6.37	6.62	6.89	7.02	7.20	7.37	7.70	7.89	8.01	8.63
Gov. Electricity & water supply	1.62	1.55	1.50	1.47	1.37	1.34	1.34	1.37	1.39	1.54
Transport Storage And Communication	9.71	9.24	9.07	8.99	8.69	8.51	8.63	9.03	9.21	9.76
Others	46.42	46.09	46.79	44.69	46.70	47.02	47.56	47.48	47.60	45.88
Total	100	100	100	100	100	100	100	100	100	100

Source: Bangladesh Bureau of Statistics, Statistical Year Book 2002 & Bangladesh Arthanitic Samikah, 2004.

The manufacturing sector contributes to 12% of GDP and employed 28.97 million people in 1984-85, 30.19 million in 1985-86 and 39.25 million in 1988-89. The number increased to 43.75 million in 1999-2000 (Table 1.3).

Table 1.3
Employment Trends in manufacturing Sector

(in thousand)

Year	1973-74	1985-86	1988-89	1990-91	1995-96	1999-00
Number of people	1026	3019	3925	3976	4085	4375

Source : *Statistical Year Book of Bangladesh 2002*.

As applicable to most of the least developed countries, Bangladesh suffers from a number of basic structural weaknesses, such as paucity of natural, human, financial and technological resources and prevalence of wide spread and chronic poverty etc. which limit their ability to achieve sustained accelerated growth.⁴⁹

Smuggling has become more rewarding than trading, and trading more rewarding than manufacturing. So, the resources have shifted from manufacturing to trading and other activities, thus rendering the hope of a long term industrialisation an elusive one.

Among other things, industrialisation is a function of new capital formation. The process of capital formation involves three stages: (1) the creation of savings; (ii) mobilization and canalisation of savings; and (iii) acquisition of capital goods out of such savings.

⁴⁹ R. Sobhan, *Report of the Task Forces on Bangladesh Development Strategies for the 1990s*, Vol. 2 (Dhaka : University Press Limited, 1991), pp. 1-2.

Finance occupies a pivotal position in the development and continued existence of industrial enterprises. In fact, finance and its proper management is the life-blood of industry, without which the wheels of modern industrial system can not be greased.⁵⁰ But the problem of generating an adequate surplus for a reasonable rate of investment is perhaps the most uncertain of all aspects of the economic future of Bangladesh. There is no obvious source of a large surplus that can be mopped up with relative ease.⁵¹ So, whatever fund is available, that should be best managed and utilised in the right way. If we look into the First Five Year Plan of Bangladesh, it is found that the growth in industrial sector was 9.24% and subsequently it decreases to 2.26%, 4.76% and 4.32 respectively in the Two Year Plan, 2nd Five Year Plan and in the Third Five Year Plan period. In the same period capital output ratio also had shown a lower trend.⁵²

The function of industrialisation requires huge financial resources in their various manifestation like 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 can be channelised through development bank like Bangladesh Shilpa Bank (BSB).

⁵⁰ M.S. Paonia, *Development Banking in India* (Jaipur : Prateeksha Publications, 1987), p. preface.

⁵¹ A.R. Khan, *The Economy of Bangladesh* (London: The Macmillan Press Ltd., 1972), p. 165.

⁵² GOB, *Economic Survey 1991-92* (Dhaka : Ministry of Finance, 1992), p. 25.

Besides finance, some equally important desiderata of industrialisation are entrepreneurial ability, competent management, sound technical skills etc. These factors are all the more necessary where experiences in and exposures to industrial development has been inadequate specially in a developing country like Bangladesh. Development banks / development financial institutions (DFI) have been an outcome of such needs as these were not expected to be met through 'normal' channels.⁵³

A sound financial system is a pre-requisite for planned economic development in a developing country like Bangladesh. Bangladesh has a fairly extensive and well established structure of financial institutions for serving her industrial sector. These include industrial term lending and investment institutions, a variety of special purpose institutions serving agriculture, construction and other priority sectors, domestic and foreign commercial banks and stock exchange. The industrial financing institutions are the Bangladesh Shilpa Bank (BSB), Bangladesh Shilpa Rin Sangstha (BSRS) and Investment Corporation of Bangladesh (ICB) which provide financing for small, medium and large-scale projects in the public and private sectors.

1.3 Financial Structure of Bangladesh

At the top of financial structure of Bangladesh, the central Bank or Bangladesh Bank exists. It is responsible to print money, to issue licenses to

⁵³ P.K. Jain, *Industrial Finance Corporation of India : A Study in Anancial Management* (New Delhi : Anmol Publications, 1988), p. 3.

different types of banks, to supervise and monitor the activities of the banking companies. The financial system of Bangladesh consists of 49 scheduled banks (as on April 2003-2004) of which four are nationalised commercial banks, five are specialised banks of which three are development banks, thirty are local private banks, and ten are foreign commercial banks. Out of thirty local private commercial banks, five are Islamic Bank and out of 10 foreign banks, one is Islami Bank. At the end of February 2004, the branches of the scheduled banks functioning in Bangladesh come to 6230. The number of branches of nationalised commercial banks are 3390, of private commercial banks are 1488, of foreign banks are 34 and the specialised banks have 1318 branches. Besides these scheduled banks, there are one national co-operative bank, One Ansar VDP bank, one Karmasansthan Bank and one Grameen Bank (Table 1.4).⁵⁴

Side by side, with the banking sector there are some non-bank financial institutions which are financing industry, trade, housing and modern information technology.

There are seventeen⁵⁵ life insurance corporation and companies of which one is in public sector and one is operating as foreign private life insurance company, forty two general insurance companies, of which one is in public sector;

⁵⁴ GOB, *Bank O. Arthic Prathisthan Somuher Karjabali 2003-2004*, p. 1, See Table 1.4.

⁵⁵ See Table 1.5.

and post office savings scheme (as on June 2000).⁵⁶ All types of banking as well as industries financing companies operate through their branches in Bangladesh. It also embraces stock exchange and the informal market (Table 1.5).⁵⁷

Historically speaking the idea of establishing special institutions for providing finance to industry was put forth in strong terms, as far back as 1931, by the central Banking Inquiry Committee. The committee recommended the creation of Provincial Industrial Credit Corporations and an All India institution for meeting the financial requirements of industries of regional and national importance respectively. Almost no action was taken on these recommendations till the beginning of 1945.⁵⁸

Development banks in Bangladesh, specially the BSB has come into existence to propel the wheel of the industrial sector and foster and accelerate the pace of economic growth.

⁵⁶ Wasim Md. Mezbahul Haque, "Financial Development in Bangladesh", Unpublished Ph.D. Dissertation, IBS, R.U.

⁵⁷ GOB, *Report of the National Commission on Money, Banking & Credit* (Dhaka : Bangladesh Bank, 1986), p. 10.

⁵⁸ N.C. Joshi, "Rejuvenating India's Development Banks", *The Journal of the Indian Institute of Bankers*, Vol. 54, No. 2, Bombay, April-June 1983, p. 82.

Table 1.4
Banking Structure in Bangladesh as on April 2004

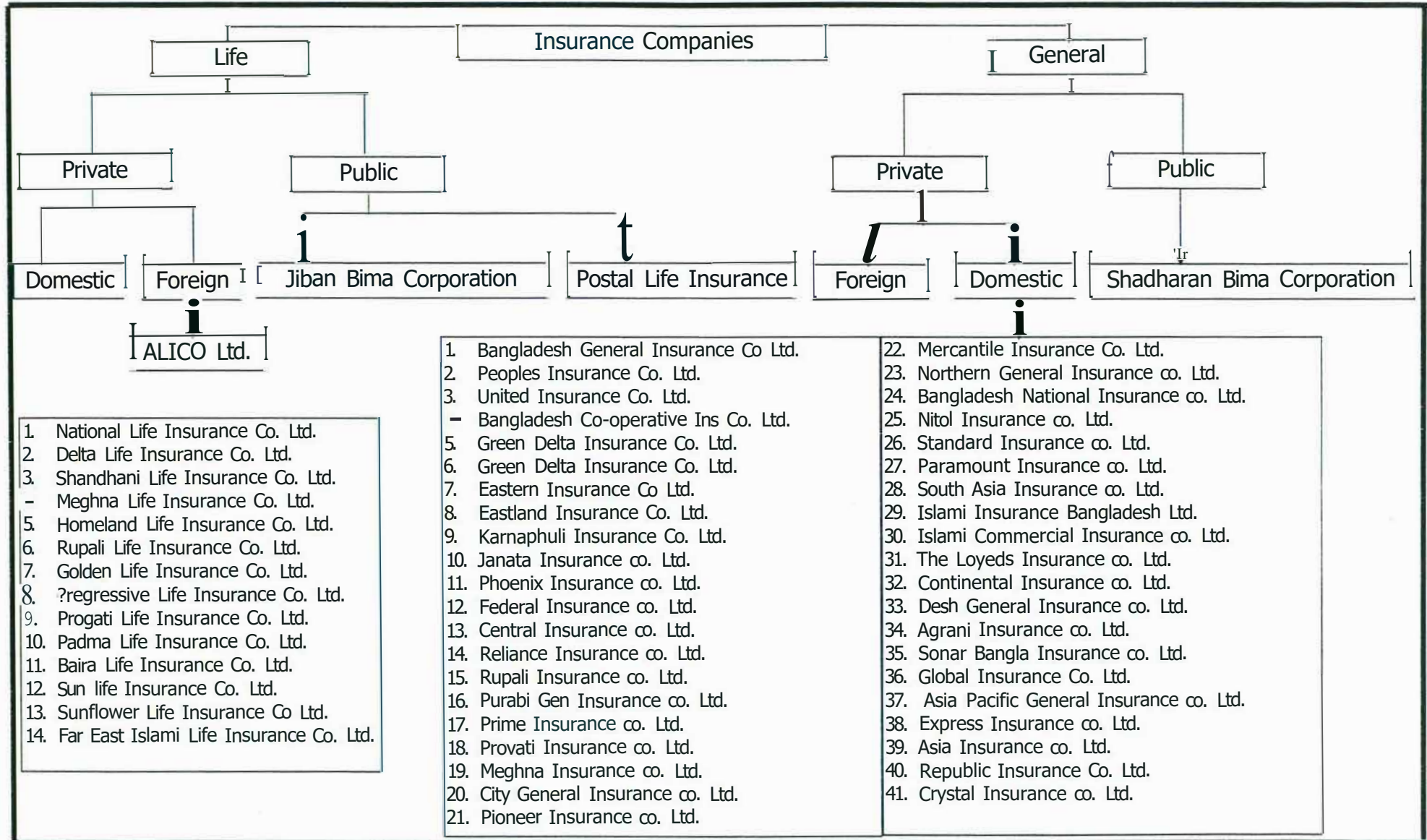
Central Bank	Bangladesh Bank			
Nationalised Banks	Local Private Banks	Foreign Private Banks	Specialised Banks	Financial Institutions
1. Sonali Bank	1. Pubali Bank Ltd.	1. American Express Bank Ltd.	1. Bangladesh Krishi Bank	1. Ansar-VDP Development Bank
2. Janata Bank	2. Uttara Bank Ltd.	2. Standard Charter Bank	2. Rajshahi Krishi Unnayan Bank	2. Bangladesh Somobaya Bank Ltd.
3. Agrani Bank	3. Arab Bangladesh Bank Ltd.	3. Habib Bank Ltd.	3. Bangladesh Shilpa Bank	3. Grameen Bank
4. Rupali Bank Ltd.	4. National Bank Ltd.	4. State Bank of India	4. Bangladesh Shilpa Rin Sangstha	4. Karma Sangsthan Bank
-	5. The City Bank Bangladesh Ltd.	5. Commercial Bank of Ceylon Ltd.	5. BASIC Bank Ltd.	5. Investment corporation of Bangladesh
-	6. Islami Bank Bangladesh Ltd.	6. National Bank of Pakistan	-	6. Bangladesh House Building Finance Corporation
-	7. International Finance & Investment And Commerce Bank Ltd.	7. City Bank NA	-	7. Saudi-Bangladesh Industrial and Agricultural Investment Company Limited
-	8. United Commercial Bank Ltd.	8. Ori Bank	-	8. Industrial Development Leasing Company of Bangladesh Ltd.
-	9. The Oriental Bank Ltd.	9. The Hong Kong and Shanghai Banking corporation Ltd.	-	9. GSP Finance Company (Bangladesh) Ltd.
-	10. Eastern Bank Ltd.	10. Shami! Bank of Bahrain EC	-	10. Vanik Bangladesh Ltd.

				11. The UAE Bangladesh Investment Company Ltd.
				12. Phoenix Leasing Company Ltd.
				13. Bay Leasing and Investment Ltd.
-	11. National Credit and Commerce Bank Ltd.	-	-	14. Prime Finance & Investment Ltd.
-	12. Prime Bank Ltd.	-	-	15. Delta Brae Housing Finance Corporation Ltd.
-	13. South East Bank Ltd.	-	-	16. International Leasing and Financial Services Ltd.
-	14. Dhaka Bank Ltd.	-	-	17. Oman Bangladesh Leasing and Finance Ltd.
-	15. AI-Arafa Islami Bank Ltd.	-	-	18. Industrial Promotion & Development Company of Bangladesh Ltd.
-	16. Social Investment Bank Ltd.	-	-	19. Uttora Finance & Investment Ltd.
-	17. Dutch Bangla Bank Ltd.	-	-	20. United Leasing Company Ltd.
-	18. Mercantile Bank Ltd.	-	-	21. Union Capital Ltd.
-	19. Standard Bank Ltd.	-	-	22. People's Leasing & Financial Services Ltd.
-	20. One Bank Ltd.	-	-	23. Infrastructure Development Company Ltd.
-	21. Export Import Bank of Bangladesh Ltd.	-	-	24. National Housing Finance & Investment Ltd.
-	22. Bangladesh Commerce	-	-	25. MIDAS Financing Ltd.

	Bank Ltd.			
-	23. Mutual Trust Bank Ltd.	-	-	26. First Lease International Ltd.
-	24. First Security Bank Ltd.	-	-	27. Bangladesh Finance & Investment Company Ltd.
-	25. The Premier Bank Ltd.	-	-	28. Industrial & Infrastructure Development Finance Company Ltd.
-	26. Bank Asia Ltd.	-	-	29. Islamic Finance & Investment Ltd.
-	27. The Trust Bank Ltd.	-	-	30. Fareast Finance & Investment Ltd.
-	28. Shahjalal Bank Ltd.	-	-	31. Fidelity Assets & Securities Company Ltd.
-	29. Jamuna Bank Ltd.	-	-	32. Premier Leasing International Ltd.
-	30. Brae Bank Ltd.	-	-	33. Self Employment Finance Ltd.
-		-	-	134. Dhaka Stock Exchange Ltd.
-		-	-	35. Chittagong Stock Exchange Ltd.

Source: GOB. *Bank O Arthick Prathisthan Somuher Karzabali 2003-2004*, Dhaka : Ministry of Finance, Finance Division, p. i

Table 1.5
Insurance Companies in Bangladesh, As on 30 June 2000



Source: Wasim Md. Mezbahul Haque, 'Financial Development in Bangladesh' (Unpublished Ph.D. Dissertation, 18S, R.U. 2004), p 67.

1.4 Statement of the Problem

For Industrialisation and development of Bangladesh, the need of development banking is very urgent. From this view point, BSB should be assessed on the basis of performing (i) banking function and (ii) development function criteria.

The Banking Function of the BSB relates to its operational efficiency. The operational efficiency of the BSB might mean how well it is running as a financial institution and how the technical competence it brings to bear on its various functions. The first ingredient of the efficiency of BSB as banking institution may be, the project appraisal for sanctioning and disbursement of loans. The total operational efficiency of the BSB depends upon the feasibility study of individual projects by the Bank. If the viability of the projects can be correctly assessed at the outset, the function of the Bank may become smoother, invigorating its banking performance.

The BSB as a bank should have a profit to keep itself alive. Profitability examines its profit margin and expense ratio, cost of debts, its rate of return, etc. The dimension of the banking criteria of the BSB includes on the sources from which funds are to be raised, its financing, its management of liquidity, maintaining of its leverage ratio etc.

The operational efficiency of the BSB also relates to the problems of defaults and overdues of the assisted industries. The importance of the prompt

recovery of funds from the clients can hardly be underscored. Without the recovery of its principal as well as interest, the BSB simply cannot sustain itself.

The Banking Criteria for the assessment of the BSB in the present study in brief includes to following: (1) appraisal techniques applied in the assisted projects, (2) profitability, (3) solvency, liquidity, problems of overdues, etc.

The development function of BSB relates to its allocational efficiency. To measure allocational efficiency, the almost universally accepted⁵⁹ criterion is the maximisation of the net present worth but it cannot be a yardstick measure for the BSB. This is because unlike purely financial institutions for which earnings are the exclusive test of economic efficiency, a development bank like the BSB cannot reduce all the ingredients of financing decisions into a single measurable standard. The BSB, as a part of the financial system of Bangladesh, should be considered as allocationally efficient.

As a developmental organisation, the BSB is concerned about the impact of a project on the community as a whole. The setting-up of the BSB constitutes an important part of the strategy for boosting up the growth rate of Bangladesh economy. As a tool of economic development, the BSB would help in overcoming the various obstacles to growth as well as in supplying the missing ingredients. In the assessment of the BSB's allocational efficiency, therefore the development

⁵⁹ P.K. Jain, *Industrial Finance Corporation of India: A Study in Financial Management*, p. 21.

criterion is taken to constitute the broad framework for meeting the purposes of the present study.

The development criteria for the assessment of the BSB in the present study concisely includes : (i) development of backward regions through regional distribution of assisted enterprises; (ii) growth of broad based entrepreneurship; (iii) rehabilitation of sick industries etc.

As a bank the BSB is concerned with the financial results of its funds. From purely banking point of view, it is natural that the Bank will allow assistance to bankable projects only. But all bankable projects are not necessarily viable nor are they economically important. The BSB as a development bank will not achieve its development objectives if it devolves its limited capital to bankable projects irrespective of their purposes. At the same time, as a bank it cannot afford regularly to ignore the financial aspects, and thereby run the risk of failing to preserve its capital intact. The present study is based on the hypothesis that these concepts are applicable and are central to the fundamental ideas on which the study of the performance of the BSB should be based.

BSB has been working since 1972, but its performance is not upto the satisfactory level. It is suffering from various problems. So, the study aims at examining and analysing the present crisis of the BSB, and finding out the possible solutions for its better prospects.

1.5 Objectives of the Study

The specific objectives of the study are as follows :

- (1) To review and examine the growth trends of different activities of the BSB;
- (2) To evaluate the performance of the BSB;
- (3) To assess the operational efficiency of BSB;
- (4) To assess allocational efficiency of BSB;
- (5) To identify the problems of BSB; and
- (6) To suggest remedial measures for better performance of the bank.

1.6 Review of Literature

As far as can be ascertained the studies on the BSB and institutional financing of medium and large scale industries in Bangladesh and topics related to it are not many. However, in this section we have tried to give a brief survey of the articles, papers and research work available.

Giassudding Ahmed⁶⁰ in his study on Institutional finance in Bangladesh concluded that lack of financial resources constitutes an obstacle to rapid economic development. According to him, the general poverty level limits the rate of mobilisation of domestic savings in the country. The development of capital markets should be initiated to mobilise savings on a far more large scale for investment. Ahmed narrated that development banks and investment banking institutions played important roles in stimulating and broadening industrial growth. He briefly covered the Bangladesh Shilpa Bank (BSB),

⁶⁰ G. Ahmed, "Institutional Finance in Bangladesh", A.H.M. Habibur Rahman (ed), *Industrial Finance in Bangladesh*, Dhaka : University of Dhaka, 1976.

Bangladesh Shilpa Rin Sangstha (BSRS), Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Krishi (Agriculture) Bank, Commercial banks, General and Life Insurance Corporations, Post Office Savings Banks, etc. as sources of finance to relative sectors. But Ahmed touched upon most of the financial institutions in Bangladesh without citing any specific importance individually. He therefore did not go deep into the BSB.

Sulaiman Choudhury⁶¹ raised some of the issues and aspects of Government's investment policy, sources and methods of financing industries and the role of the BSB, BSRS as credit institutions. He stressed that entrepreneurs could not obtain fund because of the nature of constituents of the capital market in Bangladesh. He mentioned the importance of specialised financial institutions regarding the impact of their financial institutions regarding the impact of their financial assistance as well as allocational efficiency. Choudhury showed some problems of financing private sector industries from economic and non-economic point of view, but he made no in-depth analysis of BSB's financial performance as such.

M. Habibullah⁶² focussed on the growth of indigenous private capital in Bangladesh. As the availability of loanable fund is not enough to promote capital formation, he stressed the importance of entrepreneurship growth which

⁶¹ S. Choudhury, "Financing Private Sector Industries in Bangladesh, Methods, Problems and Prospects", A.H.M. Habibur Rahman (ed), *Industrial Finance in Bangladesh*, Dhaka : University of Dhaka, 1976.

⁶² M. Habibullah, "Developmental Role of Industrial Banks in Promoting Entrepreneurship", A.H.M. Habibur Rahman (ed), *Industrial Finance in Bangladesh*, Dhaka : University of Dhaka, 1976.

could be done through proper guidance, leadership development incentives and orientation training. He suggested that development-oriented institutions like the BSB should extend their scope of activity to potential industrial concerns at the embryonic stage. The lack of bankable project, according to him, was a serious problem of industrialisation. He argued that it was the duty of the industrial bank to train and educate the new and inexperienced entrepreneurs in the techniques and methods of preparing bankable projects. He asserted that it might be a vital step towards promoting entrepreneurship, if the BSB developed designs for feasible projects and then sought out prospective entrepreneurs to implement them. The supply of profitable projects can be a powerful promotional tool. So the BSB should be more active in developing bankable projects and hunting up and motivating potential entrepreneurs. Habibullah portrayed entrepreneurship development through DFIs specially the BSB.

M. Habibullah⁶³ in another study also related BSB, BSRS and ICB (Investment Corporation of Bangladesh) in industrial financing. He put some suggestions regarding their workability.

Azizur Rahman Khan⁶⁴ in an unpublished research report made an effort to explore the role of the BSB, BSRS and Investment Corporation of Bangladesh (ICB) in providing loan and equity capital in the installation of new industrial enterprises by private entrepreneurs. It elucidated the pattern of capital need, sources of capital, utilisation method of loanable fund and

⁶³ M. Habibullah, "Industrial Financing and Institutional Arrangement for Setting up of Industries in the Private Sector", *The Dhaka University Studies*, Part C-1(2), 1980.

⁶⁴ A.R. Khan, *Financing Private Sector Industries in Bangladesh* (Dhaka : Bureau of Business Research, University of Dhaka, 1980).

problems of obtaining financial accommodation by private entrepreneurs. The study was based on taking samples of 82 public limited companies selected purposively. The study dealt with the DFIs in a nutshell without giving any special importance to the BSB.

A.R. Khan⁶⁵ in a separate article evaluate policies, procedures and operations of DFIs including the BSB in Bangladesh. He examined the industrial policies of the Government of Bangladesh relating to financial incentives, operational procedures of involved DFIs. He sought to assess the loaning operations of these institutions and their performances in loan recovery. Khan reviewed the DFI as a whole without concentrating much on the BSB and its performance evaluation.

Rehman Sobhan and Akhter Mahmood⁶⁶ investigated the repayment performance the BSB and BSRS loans to private entrepreneurs. They found that the loan repayment performance was very poor. There was also considerable accumulation of overdues on account of non-payment of interest and instalments. This accumulation and build up of overdues was pervasive amongst all enterprises. They noticed that the poor repayment performance was not related to firm-size differences, their location or entrepreneurial classes. They specified that book keeping procedures within the BSB and BSRS made it

⁶⁵ A.R. Khan, An Evaluation of Politices, Procedures and Operations of DFIs in Bangladesh; in Nabi K.A. (ed.), *Development Financing Institutions (DFIs) of Bangladesh: Policy Performance, Problems and Prospects* (Dhaka : Goethe-Institute, 1992).

⁶⁶ R. Sobhan and S.A. Mahmood, "Repayment of Loans to Specialised Financial Institution in Bangladesh : Issue and Constraints", *n,e Bangladesh Development Studies*, Vol. IX, No. 1 winter, 1981, The Bangladesh Institute of Development Studies, Dhaka, 1981.

necessary to continue sanction and disbursement of loans to borrowers, despite defaults and overdues. This contradiction was partially resolved in the account by keeping back a part of the new disbursement and adjusting it against the outstanding debt. This accounted for inflated figures for the debt burdens of borrowers and actual disbursement of loanable funds. They observed that the loan repayment performance was better in the relatively developed areas than in the backward ones. The paper tried to exhibit and analyse the repayment problems of two DFIs (BSB and BSRS) from various angles. However, their analysis was somewhat biased towards the public enterprises and socialist ideas.

Kazi Ahmed Nabi⁶⁷ in his doctoral thesis investigated the case of three DFIs namely the BSB, the BSRS and the ICB. He made it manifest that industries particularly, large one needed huge capital which could be provided only by non-bank financial institutions. He examined the financing procedures with a view to finding the shortcomings and inadequacies of these financial institutions in performing their mandatory roles. He emphasised on innovative outlook and continuous regeneration of ideas and co-operation between the financial institution, the Government and the entrepreneurs to cope with changing circumstances. Nabi dealt with three financial institutions without giving much preference to their performance evaluation. Moreover, he worked with data of 1980 and before.

⁶⁷ K.A. Nabi, "Role of Non-bank Financial Institutions in the Development of Large Scale Industries in Bangladesh", An unpublished Ph.D. thesis submitted to the Punjab University, Chandigarh, 1981.

Nabi⁶⁸ in another study sought to identify the problem of project appraisal and implementation in the context of the BSB and BSRS. He found that the borrowers had the basic responsibility for the execution of their projects but the development banks needed to remain in close touch with them in order to ensure that they executed the project as planned for attaining the various objectives laid down during their appraisal. Nabi suggested project appraisal techniques for the DFIs of Bangladesh; but he designed them to overcome the implementation problems in the light of KFW's opinion, which would seem impracticable under the present socio-economic condition of Bangladesh.

Rehman Sobhan and Ahmad Ahsan⁶⁹ assessed the prospects of promoting private industry in Bangladesh through the patronage of development finance institutions like the BSB, the BSRS and the ICB. They opined if industrial enterprises could be set up without delay, their output would meet the needs of the people, generating new employment opportunities. The surpluses from their productive activities would provide revenues for the national exchequer and resources for reinvestment to further expand the productive base of the economy. But all these depend on how quickly an industrial project could be commissioned to yield output. But the process of investment, it took too much time between the sanction of loan and the execution of industrial projects in

⁶⁸ K.A. Nabi, "Problems of Projects Appraisal and implementation of the Development Finance Institutions of Bangladesh", Research Center for International Agrarian Development, Hedielsberg, 1988.

⁶⁹ R. Sobhan and Ahmad Ahsan, "Implementation of Projects in the Private Sector in Bangladesh : A Study of DFI Sponsored Projects", *Bangladesh Journal of Political Economy*, Vol. 7 No. 1, Bangladesh Economic Association, Dhaka, December, 1986.

various phases. They found that upto June 1982 only 49.4 percent of the projects sanctioned had been implemented. They took a sample of 84 industrial projects sanctioned by the BSB and BSRS. They pointed out many factors and agencies responsible for the delay in starting commercial production of an industrial project.

So far they have framed reasons for a problematic development of private industries in Bangladesh without giving any analytical suggestions, to overcome the same.

Rehman Sobhan and Ahmad Ahsan⁷⁰ in another article investigated the effect of exchange rate fluctuations of the Taka (currency of Bangladesh) in contributing to the accumulations of debt overdues of private borrowers from the two DFIs namely the BSB and the BSRS. The article surveyed the recovery problems of these two institutions, and related the discussion to the policy of EFAS only without going much into other aspects of problem of loan repayment of BSB.

Rehman Sobhan and Ahmad Ahsan⁷¹ in a research report reviewed the changes in the structure of industries by DFI financing in Bangladesh, specially the BSB and BSRS. They revealed the massive default of loan instalments by most of the projects set up with the loans from them. The report indicated that the private industrial investment financed by the BSB and the

⁷⁰ R. Sobhan and Ahsan Ahmad, "The Effect of Exchange Rate Depreciation on the Loan Repayment Performance of Private Enterprise in "Bangladesh", *Bangladesh Development Studies*, Vol. IX, No. 4 December, 1987, Bangladesh Institute of Development Studies, Dhaka, p. 1

⁷¹ R. Sobhan and Ahsan Ahmad, "The Structure of DFI Sponsored Investment in Bangladesh" *Research Report*, No. 76, Bangladesh Institute of Development Studies, Dhaka, 1988.

BSRs were less than successful. Again, some part of the term loans might have been invested abroad through over invoicing of equipment imports and as such the realized investment was likely to be less than the recorded investment.

The research report unearthed many problems of stuck-up loans of the BSB and the BSRS; but it seems to trace them mainly to development of private enterprises and market economy.

Rehman Sobhan and Ahmad Ahsan⁷² in still another research report visualized the problems of repayment from the perspective of borrowers. The report endeavored to study the repayment problems of private sector industries financed by the BSB and the BSRS. This was done in two : (i) to relate the repayment problem to operational performance of these two institutions and (ii) to indicate the perception of the entrepreneurs with regard to the problems of repayment and Government policy in general. The article dealt only with the repayment problems of the BSB and the BSRS without examining the performance evaluation of the BSB in details.

Mohiuddin Khan Alamgir⁷³ attempted a general study on development banks including the BSB in the perspective of Third Five Year Plan of Bangladesh. He observed that no financial instruments conducive to long-term

⁷² R. Sobhan and Ahsan Ahmad, "Problems of Repayment to the DFIs in Bangladesh : Results of a Field Survey of Selected Enterprises", *Research Report*, No. 112, Bangladesh Institute of Development Studies, Dhaka, March 1990.

⁷³ M.K. Alamgir, "Development Banks in Bangladesh : Problems and Policies for Third Five Year Plan", *Bangladesh Journal of Political Economy*, Vol. 7, No. IA, Bangladesh Economic Association, Dhaka, 1986.

deposits and advances was introduced by the development banks. He set forth that inadequate long term deposits and absence of non-depository financial instruments in the capital market coupled with limitations on growth of loanable funds made development banks dependent on the Government. He proposed that 'A Special Development Fund' should be established by the BSB in order to meet credit requirements on a sustained basis, increasing it in both foreign exchange and domestic currency as venture capital to support innovative entrepreneurs. He emphasized that the Fund should be kept outside the purview of income and corporate tax, so that it could grow over years to support venture investments and facilitate introduction and use of domestic capital goods. He also emphasized the need for development of capital markets. Though his work deals with many facets of development financing, it did not throw much light on the performance of the BSB.

A.M.M. Shawkat Ali, et al⁷⁴ presented an overview of the working of the BSB and the BSRS. The paper sought to define development bank and its growth in Bangladesh. It gave a descriptive account of the relationship between development bank and other banks working on a limited scale in the same or related sectors. The article narrated them in a literary manner without making an in-depth analysis of BSB's role as development bank.

⁷⁴ A.M.M.S Ali, *et al*, "Aspects of Development Finance Institutions in Bangladesh", *Bangladesh Journal of Political Economy*, Vol. 8, No. 1, Bangladesh Economic Association, Dhaka, 1988.

In an article written in Bengali, **Rehman Sobhan and Binayak Sen**⁷⁵ highlighted loan repayment problems of the BSB and the BSRS sponsored private enterprises and the crisis of capitalist development. They exhibited the features of loan repayment, problems of rescheduling loans, legal problem involved in loan recovery, and transition of a mixed economy to capitalist form and related crisis in it. Though they have raised many important issues of recovery by the BSB and the BSRS, the analysis seems to be concerned mainly with the scenario of transforming Bangladesh economy into a capitalist system.

Rehamn Sobhan and Binayak Sen⁷⁶ examined the repayment trends of the BSB and BSRS over the last decade ending on the 30th June, 1987. The paper sought to assess the overall impact of various policy measures (including legal actions) undertaken by successive regimes in Bangladesh since 1975 to expedite the process of loan recovery. The study pointed to the all pervasive nature of defaults and to anatomize further their societal implications, failure of the legal system to ensure recovery of loans and the weakness of entrepreneurship. It suggested for reviewing the prevailing industrial policy, which had failed to transform defaulting borrowers into a development seeking entrepreneurial class and for other remedial measures. Although the article seemed to have a socialistic bias and to side tract main problems of the BSB and the BSRS with regard to development financing.

⁷⁵ R. Sobhan & B. Sen, "Unnayan Artha Logini Prothisthaner Rin Parishod Sankat : Bangladeshe Pujibadi Bikasher Sankat. *The Bangladesh Development Studies*, Annual number, 5th Part, Dhaka, 1989.

⁷⁶ R. Sobhan & B. Sen, "Trends in the Repayment Performance in the DFis : Implications for the Development of Entrepreneurship in Bangladesh", *Ine Bangladesh Development Studies*, Vol. XVII, Vo. 3, September 1989, Dhaka.

Rehman Sobhan⁷⁷ edited a research-oriented volume. It reported a massive infusion of public resources into the private sector during the second half of the 1970's and early 1980's with a view to promoting private entrepreneurship for industrialization in Bangladesh. The infusion, however, ended up in a large scale default of loans disbursed by the Development Finance Institution (DFIs), specially the BSB and the BSRS and became an issue of major concern for the viability of the financial system of Bangladesh. The study stressed the need for reviewing prevailing industrial policy of the Government and the attendant financial system underwriting the industrialization process and recommended various remedial measures for immediate policy action to introduce discipline into the DFIs including the BSB and the BSRS and to promote efficiency oriented entrepreneurial culture in Bangladesh. The book is concerned with the general problem of the economy as a whole without giving much emphasis on the BSB.

Jahirul Haque⁷⁸ pointed out different test of evaluating investment projects in terms of economic, financial and commercial aspects. The paper concentrated on the project appraisal techniques followed by the BSB and the BSRS. Haque indicated different functional stages in appraising projects by the BSB and the BSRS and specified some problems in practice. The paper discussed

⁷⁷ R. Sobhan (ed.), *Debt Default to the Development Finance Institutions* (Dhaka : University Press Limited, 1991).

⁷⁸ J.M. Haque, "Project Appraisal Practices of DFIs of Bangladesh", K.A. Nabi (ed.), *Development Financing Institutions (DFIs) of Bangladesh : Policy Performance, Problems and Prospects*.

the appraisal technique theoretically rather than suggesting measures for solving the existing problems faced by the BSB.

K.M. Salahuddin⁷⁹ dealt with the various aspects of project appraisal undertaken by the multilateral agencies and DFIs. He was concerned more with problems of appraisal and less with finding solutions for them.

Serajul Haque⁸⁰ sought to unveil different aspects of financing policy such as investment policy, financing criteria, financing strategy, lending and investment limits, types of financial assistance, repayment period, foreign exchange risk, procurement of machinery and disbursement of loan by the BSB and BSRS. He emphasized the changing policies and procedures of these institutions. The article assessed the performance of the BSB and the BSRS sectorwise without any yearly break up. Haque disclosed some internal and external causes of poor recovery of the BSB and BSRS without assigning specific reasons.

Nurudding Chowdhury⁸¹ focused on the problems encountered by entrepreneurs in obtaining and using the industrial finance obtained from the BSB and the BSRS. He described the problems from the viewpoint of the banks as well as from those of entrepreneurs. He opined that the BSB and the BSRS should play a

⁷⁹ K.M. Salahuddin, "Project Appraisal, Practices of DFIs", K.A. Nabi (ed.), *Development Financing Institutions (DFIs) of Bangladesh : Policy Performance, Problems and Prospects*.

⁸⁰ S.M. Haque, "Financing Policy, Procedures and Operations of Development Financing Institutions (DFIs) of Bangladesh", K.A. Nabi (ed.), *Development Financing Institutions (DFIs) of Bangladesh : Policy Performance, Problems and Prospects*.

⁸¹ A.J.M.N. Chowdhury, "Problems of DFI-Financed Entrepreneurs in Bangladesh", K.A. Nabi (ed.), *Development Financing Institutions (DFIs) of Bangladesh : Policy Performance, Problems and Prospects*.

much more effective role to solve the problems of entrepreneurs for promoting industrial development in Bangladesh. Chowdhury, however, dealt mainly with the problems of a limited number of entrepreneurs.

Besides the published materials surveyed above, some unpublished research reports were prepared by the Business Management Education and Training Project⁸² (BMET) under the sponsorship of World Bank, the University Grants Commission of Bangladesh and the Bureau of Business Research⁸³ University of Dhaka, Bangladesh. These are studies aiming mainly at making some general views which did not discuss the specific problems of the BSB with regard to performance.

Mohamaed Jahangir Hossain⁸⁴ in his doctoral thesis evaluated the performance of public and private sector commercial Banks in Bangladesh. He was dealing with productivity and profitability of commercial banks without touching the case of development banks specially the BSB.

SK. Md. Golam Saklayen⁸⁵ in the doctoral thesis of his own examines, growth and role of credit and its impact on the economy of Bangladesh. He dealt

⁸² A.C. Saha, *Some Aspects of Financial Performance of Bangladesh Shikha Bank, 1986*; M.Z. Hossain, *Role of Bangladesh Shikha Bank in Entrepreneurship Development : A Study Around Rajshahi, 1986*.

⁸³ B. Bhowmik, *Loan Recovery Problems Faced by Development Financing Institutions in Bangladesh : A Case Study of Bangladesh Shikha Bank* (Dhaka : Bureau of Business Research, 1986).

⁸⁴ Mohammad Jahangir Hossain, "A Study on the Performance of Public and Private Sector Commercial Banks in "Bangladesh", An unpublished Ph.D. thesis submitted to the Institute of Bangladesh studies, University of Rajshahi, Rajshahi 2000.

⁸⁵ Md. Golam Saklayen, "Growth of Credit and Its Impact on Bangladesh Economy with Reference to Sonali Bank", An unpublished Ph. D thesis submitted to the Institute of Bangladesh studies, University of Rajshahi, Rajshahi, 2000.

with only the Sonali Bank and covers a period of twenty seven years from 1972 to 1998. It examines the impact of bank credit on the GDP, money supply and investment of the country etc. But the researcher covers only some selected aspects of the bank credit. It could not take the impact of credit on consumers demand, trade and commerce etc. Again the study covers only one bank i.e. Sonali Bank.

1.7 Justifications

The review of literature shows that there exists knowledge gap in evaluating the role and performance of BSB in Bangladesh Economy. In purely quantitative terms, the BSB have grown into a good source of industrial finance and as the single most important supplier of capital in Bangladesh. The BSB has an over-whelming qualitative dimensions in its promotional functions in their operations. It is a response to the particular needs of the country. Its organizational set up and functions are structured according to social, economic and political considerations of Bangladesh. In view of the progressively widening role and scope of operations, BSB has emerged to occupy pre-eminent position in the financial system of Bangladesh. Its role is fairly pervasive and widespread, so far as the requirement of industrial capital is concerned. BSB not only provides direct assistance to those large complicated projects which do not find support from other financial institutions; but also works as an apex institution to co-ordinate, guide and supervise their activities.

Thus, in the prevailing socio-economic environment and in terms of the multifarious objectives of BSB, its performance should be judged not only on the basis of volume of financial assistance extended; but also on the developmental activities undertaken by the bank.

The relevance of a development bank like BSB, in the context of economic development of Bangladesh, arises from a wider range of needs. Financial systems may be said to be made up of all those channels through which savings become available for industrial investment. Development banks are not mere financing agencies, as they have not only to make finance available; but also to perform an allocational function.⁸⁶ As development organizations, they are concerned with the total impact of their financing on the economy. The development function of BSB is an attempt to reduce certain problems of or bottlenecks to development.

Although BSB has gone a long way in helping the industrial development in Bangladesh, its success has not been at the desired level. With an ever-increasing role of the BSB, it is necessary to briefly examine its activities and to what extent it has been fulfilling its objectives.

There was hardly been much discussion in the past on BSB and its performance, though these issues were widely focused without adequate analysis of relevant data. Wider debates on these issues are however, inhibited by inadequacy of data, and methodological problems. Given these constraints,

⁸⁶ M.Y. Khan, *Indian Financial System*.

no systematic effort has so far been made to analyse and interpret the role of BSB. Accordingly an attempt is made here to evaluate the financial and development performance of BSB and as such, "Bangladesh Shilpa Bank : A Study of Development Banking" has been selected as the topic of present study.

More than thirty three years have been elapsed since the inception of the BSB. It is now necessary to briefly examine its activities. In view of the dominant position of the BSB in the financial system of Bangladesh, the present study made an endeavour to critically evaluate how efficiently the BSB has managed its financial resources, on the one hand, and discharged its development function, on the other. The results may be useful to the Bank's Executives, employees, customers; policy makers and the general public.

8 Scope and Limitations

The Bangladesh Shilpa Bank has been the prime development bank in Bangladesh, which was set up to meet financial and developmental/promotional needs of the industries. It's basic goal is to ensure rapid industrialization in accordance with socio-economic development policies of the government.

The study made an attempt to review and critically examine the activities of the BSB during the period from 1972 to 2003. Over the years, the BSB has grown into a good source of industrial finance. In view of its progressively widening role and scope of operation, the BSB has emerged to occupy a pre-eminent position in the financial system of Bangladesh. The BSB does not only provide financial assistance to small and medium scale industries but also work

as an apex institution to co-ordinate, guide and supervise their activities. All these functions of BSB are critically evaluated in this study.

But the crisis in the functioning of the BSB has been mounting up, as more and more loans to industries fell into arrears in their debt servicing. The magnitude of the debt default crisis is now threatening the very survival of the BSB. This problem has also been analysed in the study.

The role and effectiveness of the BSB depends not only on the quantum of its assistance to the industrial projects but also on the efficiency with which its financial resources are managed. But there has hardly been any academic discussions made in the past on the BSB and its performance, though some of the issues were discussed without focusing on the relevant data. Wider debates on these issues are, however, inhibited by inadequacy of data and methodological problems and as such no systematic effort has so far been made to analyse and interpret the role of the BSB. This study covers all these aspects and tries to fill up the knowledge gap existing in this field.

Limitations

BSB as a prime development bank plays a vital role in the development of industry and as such in the economic development of Bangladesh. So, the bank's role and activities should be looked into from different angles. But due to various constraints, such as time, money, resources etc, it is not possible to examine or analyse all the aspects of the bank, in a single research. Therefore this research

covers only some selected aspects of the BSB. Again we could not conduct a field survey to have the opinions of clients and the officials.

1.9 Methodology

1.9.1 Definition

Research methods may be understood as all those methods/techniques that are used for conducting a research work. Research methods or techniques thus refer to the methods the researchers use in performing research operations.⁸⁷

A method is the way of approaching the problem. In order to find out the truth involved in a problem, certain steps must be taken in certain order, and the ordered steps are called a method.⁸⁸ A method or methodology is a systematic and analytical study of the standard of conduct, which is followed in scientific investigations; it is "the system of principles, practices, and procedures applied to any specific, branch of knowledge."

The word, 'method' means 'a way of doing'⁸⁹ something. It came from the Greek words 'Meta' and 'hodos' meaning "a way".⁹⁰ Thus the word, 'methodology' stands for "a set of methods used in a particular area of

⁸⁷ C.R. Kothari, *Research Methodology, Methods & Technique* (New Delhi : Wiley Eastern Ltd., 1993), p. 10.

⁸⁸ B.N. Ghosh, *Scientific method and Social Research* (New Delhi : Sterling Publication Ltd., 2000), p. 25.

⁸⁹ A.S. Hornby, *Oxford Advanced Learner's Dictionary of current English*, By Jonathan Crowther (ed.) (London : Oxford : Oxford University Press, 5th ed., 1995), p. 734.

⁹⁰ William Geddie (ed.), *Chamber's Twentieth century Dictionary* (London : W. and R Chambers Limited, 1965), p. 669.

activity'.⁹¹ Broadly a method or methodology is "the underlying principles and rules of organisation of a philosophical system or inquiry procedure."⁹² Thus, methodology is the systematic and logical study of the principles guiding scientific investigation.⁹³ It is the system of principles, practice, and procedures applied to any specific branch of knowledge.⁹⁴ Research methodology is a way of systematically solving the research problem.

1.9.2 Selection of Methods

There are various methods for conducting a social science research. Apprehending the objectives of the study, it is essential to set a suitable research method to conduct the study systematically. Sometimes a combination of two or more methods yields an excellent result. With a view to realising the objectives of the study, the researcher has used mainly documentary analysis method.

1.9.3 Documentary analysis method

The documentary analysis method is defined as an attempt to find out what has happened in course of time and to correlate the events within the limits of available materials on the one hand, and the researcher's intelligence and understanding on the other, into a meaningful sequence.⁹⁵ This analysis is

⁹¹ A. S. Hornby, *op.cit.*

⁹² Lawrence Urdong (ed.), *The Random House Dictionary of English Language* (New York : Random House, 1968), p. 841.

⁹³ Julius Gould and William L. Kolb (eds.), *A Dictionary of the Social Science* (London : Tavistack Publications, 1964), p. 425.

⁹⁴ Robert Ison (ed.), *Reader's Digest Great Illustrated Dictionary* (London : The Reader's Digest Association Ltd., 1985), p. 1071.

⁹⁵ Francis Rummel, *An Introduction to Research Procedures in Education* (New York : Harper & Row, Publishers, 2nd ed., 1964), p. 170.

primarily quantitative in nature and deals with characteristics which can be identified and counted; albeit, qualitative interpretations are also necessary and desirable.⁹⁶ In this research work we have mainly concentrated into the documentary analysis method. The study segregated and analysed mainly the data from the annual reports of BSB, different other publications of the bank and different data and information from other secondary sources for drawing inferences and conclusions.

1.9.4 Field survey method

Survey method is a technique of gathering information /data for making induction about characteristics of the population / universe by observing only a representative portion of them.⁹⁷ In this research field survey method has not been used. But many information has been collected from the bank officials. However, informally opinions were collected on different issues relating to BSB from some knowledgeable persons.

1.9.5 Types of data collected and their sources

The required data used in the study are of both primary and secondary nature. Primary data include unpublished official documents, interviews and discussions with BSB's executives and other experts on banking, specially development banking, industrialists etc. The secondary data include published official statistics, reports, documents, books, various financial newspapers' articles, journals, laws and ordinances.

⁹⁶ Ibid., p. 164.

⁹⁷ M. Zainul Abedin, *A Hand Book of Research for the Fellows of M.Phtl. and Ph.D. Programmes*(Dhaka: Book Syndicate, 1996), p. 53.

For the present study data have been collected from different sources for different periods. These include annual reports of BSB, Quarterly review of BSB, operational statistics of BSB, different publications of BSB and unpublished materials. Besides, information are also collected from the official files of BSB with the co-operation of concerned officers. The booklets, brochures issued by BSB to inform the prospective entrepreneurs are also consulted.

The different 'Industrial Investment Schedules (IIS) and 'Investor's Guide', published by the Department of Industry (Ministry of Industries, Government of Bangladesh) (GOB) depicting the industrial policy guidelines of the Government of Bangladesh are also consulted. The plan documents of First Five Year, Two Year, Second Five Year and Third Five Year, Fourth Five Year plans published by the Planning Commission of Bangladesh also figured in the list of literature studied. Besides, some literature of World Bank, specially reports on DFIs in Bangladesh with reference to BSB are also consulted.

Some dissertations, manuscripts and theses, many books and articles written by distinguished scholars are used in the study as source materials. Extensive library work was done in Bangladesh and in India.

1.9.6 Selection of Samples

The present study covers the BSB and the period from 1972 to 2003. This is a period of three decades. From the very birth of a new sovereign country till date, Bangladesh witnessed many ups and downs in the economic scenario and in political arena. In the early part of independence, the political aim was to

throw the economy in a socialist path and later on, the subsequent regime, put it in a capitalist way. So, BSB in its early eighties disbursed funds only to public enterprises and later in the nineties it diverted its funds to the growth of private industry. The period is also important in the circumstances of a new-born country like Bangladesh where the urge for development is very strong. So, the time taken might show interesting picture in the functioning of BSB. The BSB is the only sample selected for this study, since it is the only bank of its kind in Bangladesh with its unique position and role.

1.9.7 Technique of Data Analysis

In our study banking efficiency is evaluated in terms of profitability, good recovery of loan and interest dues. Balance sheet and profit and loss account of various years from the annual reports of BSB have been analysed by using different tools of financial management to evaluate the performance of the Bank. Percentage, arithmetic average, index number, growth rate, tables and graphic presentations have been extensively used in our study.

1.10 Plan of the Study

The study has been divided into four parts. Part One of the study consists of two chapters. Chapter one portrays the introduction followed by the picture of the economy of Bangladesh and need for development Banks, financial structure of Bangladesh, statement of the problem, objectives of the study, review of related literature, Justification, scope, methodology and plan of the study. Chapter two briefly explains a brief profile of BSB, disbursement of term loans by

the BSB, financing procedures of the BSB, expansion of branches and manpower, growth trend of income, expenditure and profit of BSB followed by organizational chart of BSB.

The core area of the study would be found in parts two and three. Part two of the study is devoted to analyse financial or banking function of BSB. It enumerates the operational efficiency of the BSB. The content of part two is divided into three Chapters. Chapter three discloses the project appraisal techniques of the BSB.

Chapter four examines the profitability of the operations of the BSB. Chapter Five scrutinises the resource management of the BSB.

Part three of the study reflects the development functions of the BSB. It's allocational efficiency is reflected in this part. This part of the study comprises only one Chapter. Chapter six explains the role of the BSB in financing industrial projects.

Finally, part four summarises the main conclusions of the study. It is composed of one Chapter. Chapter seven sums up the main findings of the study with indications of probable suggestive measures.

Chapter 2

A BRIEF PROFILE OF BSB

2.1 Origin, Objectives and Functions of BSB

In a resource scarce agrarian country like Bangladesh, the development strategy needs to be geared towards rapid structural shift from agriculture to industry. A sound financial system is a pre-requisite for planned economic development in Bangladesh. Reflecting on this imperative, a wide variety of financial institutions have been set up in the country, largely at the initiative of the Government as detailed in Table 1.4 in chapter I. The Bangladesh Shilpa Bank (BSB) is an important segment of the financial system of Bangladesh which deals primarily with industrial finance.

The BSB had a legacy from the Pakistan period. As early as 1949, a special institution for medium and long term industrial financing known as Pakistan Industrial Finance Corporation was set up.¹ The Industrial Development Bank of Pakistan (IDBP) was established in August 1961, which included Pakistan Industrial Finance Corporation. While the IDBP had its head office in Karachi, it was operating in East Pakistan through its provincial head office in Dhaka. As a sequel to the emergence of independent Bangladesh the Bank's office in East Pakistan (Now Bangladesh) was upgraded into head office and was renamed as the Industrial development Bank of Bangladesh by a Presidential Order on the 30th December 1971.

¹ A. Mennai, *Money and Banking in Pakistan* (Karachi : The Allies Book Corporation, 1966), pp. 65-66, 69.

BSB was established in December 1971 to take the assets and liabilities of the Industrial Development Bank of Pakistan (IDBP) in Bangladesh (including those of the Equity Participation Fund managed by IDBP). Between December 1971 and October 1972, BSB was known as the Industrial Development Bank of Bangladesh.²

It was formally established on October 31, 1972 under statute, called the Bangladesh Shilpa Bank Order, 1972 (P.O. No. 129 of 1972). The BSB Order 1972 was amended by the Parliament in December, 1986 to provide more operational autonomy to its management.

51 % of the authorized capital of BSB has been subscribed and paid-up by the Government leaving 49% to be subscribed by Bangladeshi nationals or by financial institutions, local or foreign. Presently 100 percent ownership of the bank belongs to the Government.

To accelerate industrial growth in the country by way of financing new industries, rehabilitating sick industries and balancing, modernization, replacement and expansion of on-going industries where necessary, the bank extends loan both in local and foreign currencies. It guarantees repayment of loans to foreign companies/ organizations, extends equity support by way of purchase of shares and underwriting the public issues of shares of companies with limited liabilities. It also extends cash credit facilities to its financed projects on a limited scale and other banking services to the general customers.

²The World Bank, *Report No. 3168*, p. 1.

The BSB is a development banking company. Its main objective is to provide credit facilities and equity support to stimulate industrial development in Bangladesh. BSB advances long and medium term loans in local and foreign currencies for setting up new industries as well as for balancing modernization replacement and expansion of existing units in both public and private sectors. It provides working capital loans in a limited scale to the bank financed industrial units. It also assists industrial units owned by public limited companies with equity support in the form of bridge loan. It issues guarantees on behalf of borrowers, mobilizes a deposits by conducting limited commercial banking functions. It purchases and sells shares / securities for BSB and on behalf of customers as member of Dhaka Stock Exchange (DSE) Ltd and Chittagong Stock Exchange (CSE) for capital market development.

BSB conducts project promotional activities in conformity with Government's Industrial Policy formulated from time to time and with the approval from its board of directors. BSB provides long term loans as per broad guide-lines for investment indicted in the Industrial Policies and Industrial Investment Schedules formulated by the Government of Bangladesh from time to time. Other types of financial assistance are also provided by BSB in the form of Guarantees for credit/loans equity support and working capital loans to the BSB financed project on limited scales.³

To arrest the down swing in the industrial sector performance, the Government of Bangladesh took some pragmatic steps as enshrined in the New

³ BSB, *Guide to Investors*, p. 1.

Industrial Policy (NIP) which was announced in June, 1982 with a view to expanding the manufacturing sector of the country with increased participation of the private sector. More incentives and opportunities were given to the private entrepreneurs in the NIP. The Revised Industrial Investment Schedule (RIIS) with broad indicative guidelines was published to facilitate private investment. The schedule introduced a concurrent list of sub-sectors in which industries could be set up by both private and public sectors. A free list of sub-sectors was also announced by the Government in which industries could be established by the private sector entrepreneurs alone, out of their own resources by procuring the machinery locally and/or by importing machinery and equipments under the 'Wage Earners Scheme' (WES) or suppliers' credit on approved terms of Pay-As-You-Earn (PAYE) scheme or out of non-repatriable foreign exchange.

The Government again announced Industrial Policy in 1986. Its main objectives are to:

- (i) Increase growth of industrial sector primarily through participation of private enterprise with priorities on development of small, cottage and handloom industries.
- (ii) Develop intermediate and basic manufacture, agro-based and agro-supportive, export-oriented and import-substituting industries.
- (iii) Promote industries using indigenous raw materials and technology.
- (iv) Encourage foreign investment particularly in high technology, export-oriented and labour intensive industries, and
- (v) Limit the role of public sector to establishment of strategic and heavy industries only.

The Industrial Policy incorporates within it the strategies for fiscal and monetary incentives and administrative support to realize the objectives. Fiscal incentives to the entrepreneurs included softer debt-equity ratio, concessionary interest rates and reduced import duties on import of capital machinery and equipment for industries to be located in less and least developed areas. Two Industrial Investment Schedules (IIS) : One for a large and medium industries and the other for small industries were adopted. These schedules were the guides to the investors.

The Bank may carry on and transact the following kinds of business, namely:

- (1) Advancing and lending of money, and opening of cash credits for the specific purpose of assisting an industrial concern upon the security of-
 - a. Debentures or other securities for money issued under the authority of any law for the time being in force or under the authority of the government;
 - b. Stocks, funds and securities in which a trustee is authorized to invest trust money by any law of the time being in force;
 - c. Goods and machinery which or the documents of title to which are deposited with or assigned to the Bank as security for such advances, loans or credits;
 - d. Debentures of companies with limited liability subject to such directions as may be issued by the Board;
 - e. Shares of companies with limited liability with the prior approval of the Board;

- f. Accepted bills of exchange and promissory notes endorsed by the payees and joint and several promissory notes of two or more persons or firms unconnected with each other in general partnership; etc.
- (2) Granting loans to or subscribing to debentures of industrial concerns.
- (3) Underwriting the issue of stocks, bonds or debentures by industrial concerns.
- (4) Facilitating investment by selling new share float atones of companies without underwriting obligations.
- (5) Converting of any loan into equity at the option of the bank.
- (6) Lending short-term loans for meeting working capital requirements of the industrial projects. The amount of such loan usually does not exceed 25 percent of the total loan sanctioned to a unit.
- (7) Mobilizing deposits through its commercial banking service.
- (8) i) All loans granted to an industrial concern in foreign currency shall be repaid in accordance with such terms and conditions as may be determined by the Board. Either- (a) in the currency at the rate of exchange prevailing on the date of payment (b) or at such other rate as the government may, by order, determine from time to time in this behalf.
- ii) Any loss incurred by, or profit accrued to, the Bank in connection with any foreign currency borrowed by it under clause (2) or Article⁴ 26 due

⁴ Clause (2) of Article 26 Predict that in the Foreign Exchange Regulation Act, 1947 (VII of 1947), or in any other law for the time being in force the bank may, for the purpose of granting loans and advances to industrial concerns in foreign currency, borrow such currency from the Government or from any bank or other financial institution in Bangladesh or from any foreign Government or assign to such Government bank or financial institution all or any part of the security taken by the Bank for the loans granted in foreign currency.

to any fluctuation in any exchange rate shall be on the account of the recipient from the bank of the foreign currency borrowed by it.

- iii) The Bank may adopt an insurance policy to cover the risk of loss due to fluctuation in the exchange rate of the foreign currency borrowed by it under clause (2) of Article 26 and the recipient from the Bank. Such foreign currency shall pay such premium for the insurance policy as the Bank may determine.

Besides these, the bank provides guarantee for credits /Loans raised by the investors from other sources. It conducts pre-investment studies and post sanction inspection of BSB financed projects. It also carries out research on industrial and related problems and compiles statistics on various aspects of its operation. BSB also operates as a Scheduled commercial bank on a limited scale by accepting deposits on fixed savings and current accounts and extending short-term working capital loans.

BSB does not sanction loans if sponsors are defaulters in repayment to BSB or other financial institutions. In performing its past sanction and post-investment obligations BSB, emphasizes on and co-operations for timely completion of pre-disbursement formalities by project sponsors. It monitors intensively the progress of implementation of the sanctioned projects. It gives additional loans and technical advice and restructures repayment schedules for the projects in genuine financial and technical difficulties and takes appropriate legal steps against delinquent borrowers.

2.2 Disbursement of Term Loans and Other Investments

BSB tried to meet its fund requirement from various sources for lending and investment. The bank emphasized more on deposit mobilization. BSB played the pioneering role in the industrialization of the country. It extended financial assistance for establishing projects in almost all the industrial sub-sectors of the economy. BSB has a prime role for development of industries in the sub-sectors viz. large-scale jute, textile processing, ready-made garments and garment accessories, deep sea fishing trawlers, fish processing, shrimp culture, cold storages for preservation of vegetable and potatoes, leather processing and footwear manufacturing, cinema halls, clinics, water transport (both passenger and cargo), oil tanker, computer software, steel re-rolling, international standard hotels, cement, chemicals and pharmaceuticals etc.

The Bank has so far (as of June 2001) financed a total of 1769 projects⁵ (including 787 projects financed during pre-liberation period), of which 1237 projects have already liquidated their loan liabilities and are making substantial contribution to the national economy. Of the total projects, 159 are export oriented; 338 are import substituting; and 1272 are either non-trading manufacturing and/or service industries.

The main sources of fund of the BSB are (i) paid-up capital, (ii) Government of Bangladesh, (iii) Bangladesh Bank, (iv) Different Loan giving agencies and (v) Customer's Deposits. A portion of the loan and advances recovered from its own financed projects is also recycled through investment to

⁵ Bangladesh Shilpa Bank, *Industrialisation of Bangladesh Role of BSB*, Dhaka : 2002, p. 3.

the newly sanctioned projects. The present paid up capital of the bank is Tk. 1320 million against the authorized capital of Tk. 2000 million. Fund received from 1972-73 to 2000-2001, loan repaid so far and the amount outstanding in different projects are shown in the Table 2.1.

The growth of finance by the BSB can be visualized in terms of changes in the volume of disbursement of loans as depicted in Table 2.2. From the year 1972-73 to 1974-75 the bank disbursed Tk. 51 million and from 1980-81 to 1984-85 it rises to Tk. 2448 million. Subsequently, from the year 1985-86 to 1989-90, it declined to Tk. 1809 million and afterwards there has been an upward trend in the disbursement of term loans to the tune of Tk. 4707 million during 1995-96 - 2000-01. The total term loan disbursed upto 2001 stands at Tk. 12682 million. So, this trend in the magnitude of finance disbursed by the BSB eloquently bears out the remarkable growth in its financial operations.

Table 2.1 : Receipt and Repayment of funds of BSB up to 30.6.2001

Source	Million Taka		
	Amount received	Amount repaid	Amount Out standing
Govt. of Bangladesh	2255	4714	1814
Bangladesh Bank	6879	4633	6592
Loan giving agencies	1083	1119	159
Total	10217	10466	8565

Note : Amount out standing are inclusive of interest payable

Source : BSB, *Industrialization of Bangladesh, Role of BSB*, p. 6.

From Table 2.2 we see a good recovery trend. From 1972-73 to 1974-75 a recovery Tk. 131 million rose to Tk. 6340 million during the year 1995-96 to 2000-01. The total recovery of bank loan stands at Tk. 14921 upto 2001 since inception.

Table 2.2 Disbursement and Recovery of Term Loan

Million Taka

Year	Disbursement	Recovery
1972-73 to 1974-75	51	131
1975-76 to 1979-80	882	752
1980-81 to 1984-85	2448	1652
1985-86 to 1989-90	1809	2930
1990-91 to 1994-95	2785	3116
1995-96 to 2000-01	4707	6340
Total	12682	14921

Source : BSB, *Industrialization of Bangladesh, Role of 858*, p. 7.

The total amount of outstanding term loan comes to Tk. 18600 million. The total amount loan disbursed depicted in Table 2.3 to different accounts of 1511 including working capital loan, equity capital bridge loan, debenture & others to Tk. 14608 million. The total outstanding reaches a alarming amount of Tk. 20954 million.

As against the funds of Tk. 10217 million received from different sources and also from paid up capital and loans recovered, BSB has so far invested Tk. 14608 million. Detailed category wise disbursement of loan by the BSB since its inception is shown in Table 2.3.

During fiscal year 2002-2003 the bank invested Tk. 6.44 million⁶ to purchase shares from the primary and secondary markets. The bank earned an amount of Tk. 5.82 million as capital gain, dividend and commission for share trading.

⁶ BSB, *Annual Report 2002-2003*, p. 15.

Table 2.3 Category wise disbursement of Loans by the Bank

Types of financing	Million Taka			
	Total number of loan accounts	Total amount Disbursed	Number of projects in the Bank's loan portfolio	Amount outstanding
a) Term loan	982	12682	532	18600
b) Commercial (Trading) Working capital loan	259	1033	166	1090
c) Equity capital	55	158	34	121
d) Bridge loan	192	129	113	284
Debenture	23	72	17	106
f) Others	-	534	-	753
Total	1511	14608	862	20954

Source : 858, *Industrialisation of Bangladesh, Role of BSB*, p. 7.

2.3 Financing Procedures and Policies of B5B

A prospective entrepreneur has to submit four copies of the BSB's prescribed application form duly filled in, together with other necessary papers to the BSB's head office or to any of its three divisional offices or to any of its 15 branches. It is the first important stage since the application filed, is the basis for determining the eligibility of the project for sanctioning and disbursement of loan.

BSB has laid down a few standard terms and conditions applicable to all kinds of financial assistance. The other terms and conditions vary from case to case depending on the nature of assistance and financial status and experience of the borrowers. Loans are usually secured by mortgage and hypothecation of title existing and future assets of the project, viz, land building, machinery etc. created or to be created with sponsors equity and BSB's loans. Share certificate issued by the borrowing companies during implementation of the projects remain deposited with the bank generally until the start of commercial operation as

collaterals. As additional cushion as well as to ensure undivided attention of the borrowers to the affairs of the project, personal guarantees of the directors are also obtained in each case. Further collateral securities may also be asked for in, appropriate cases.

Both private sector and public sector projects are eligible for financial assistance from BSB. BSB finances only those projects which are found, through its own appraisal technically feasible, financially rewarding and economically and commercially viable, provided further that the managerial capability and creditworthiness of the sponsors of such projects are considered satisfactory by the BSB. The maximum amount of loan that can be given by BSB to a viable project depends largely on the size of the project and its cash generating power.

Subject to Government's overall industrial policy, BSB gives preference to those projects which have any one or more of the following features:

- a. export oriented;
- b. import-substituting;
- c. based on local raw materials;
- d. balancing, modernisation, replacement and expansion of the existing industrial concerns;
- e. whose foreign currency cost is met by non-reportable capital of Bangladeshi who is living/working abroad;
- f. joint-ventures with equity-participation from investors;
- g. labour intensive;
- h. located in less-developed areas;

- i. based on locally manufactured machinery / resources with available skill and know-how, and
- j. which contribute to production of intermediate goods / basic manufactures.

While submitting the projects the applications of all projects involving total loans exceeding Tk. 5.00 million shall have to submit the full dress feasibility reports (with techno-economic options) to be prepared at their own costs with the prescribed application form for financial assistance.

To ensure the sponsor's adequate financial stake in the projects to be financed by the BSB, the sponsors would have to deposit 10 percent of the total project cost in three stages to a interest bearing account in the following way:

- (1) 2% with the loan proposal (maximum limit up to Taka fifty lakhs).
- (2) 3% at the time of acceptance of terms and condition of pre-loan sanction letter.
- (3) 5% within two months of getting the loan sanction later.

In 'escrow account' of the local currency loans is introduced by BSB which is to be maintained and jointly operated by an official of branch office and a representative of the borrowing company.

In accordance with the Industrial policy-1986, a special Assistance Fund (SAF) has been created by BSB to provide concessional loans to the projects (1) based on local innovation and invention of the products and the processes; (ii)

utilizing locally manufactured capital goods; and (iii) for production of capital machinery and other non-traditional items.

2.4 Expansion of Branches and manpower of BSB

Table 2.4 shows that in 1984-85 there were 13 branches of the bank, and in 2003-04 the number rose to 15. BSB has a small number of branches. As on June 30, 2003 total staff position of the bank stood at 794, of whom 430 were officers and 364 were supporting staff.⁷ The number of staff decreased to 775 on March 2004.⁸ In the year 2004, the bank has 603 vacant post for different categories of staff. On 24.06.2004, the BSB applied to the ministry seeking permission for the employment of 105 officers and employees. The application is still remained pending at the ministry.

For upgrading the professional competence and skills of its employees, the bank is continually arranging training programs both at home and abroad. During fiscal year 2002-2003, 229 officers were provided in house and local training. Besides, 6 officers were sent abroad for this purpose.

Table 2.4 BSB's Offices Operating in Bangladesh

Year	1985	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of branches	13	19	19	17	17	19	19	19	19	15	15	15	15	JS	15

Source : GOB, *2001 statistical year Book of Bangladesh*, pp. 403 and BSB, *Annual Report*, Various Issues.

To improve the working efficiency and to provide better customer services, computerization of the bank's activities is going on. In this regard, the bank has

⁷ BSB, *Annual Report 2002-03*, p. 21.

⁸ GOB, *Bank O Arthick Prathistan Somuher*, Karjabali : 2003-2004, p. 203.

taken a far-flung action plan. The implementation of the first phase of network-based computerization is completed and the 2nd phase of work is going on. Besides, from fiscal year 2002-2003 the bank has introduced computer based one-stop service in its commercial banking operations.

2.5 Growth Trend of Income, Expenditure and Profit of BSB

From Table 2.5 the growth trend of profit of BSB is visualized. From 1972-73 to 1984-85, the annual average gross profit was Tk. 61.08 million. There was no profit in the year 1985-86. From 1986-87 to 1993-94, the annual average gross profit rose to Tk. 83.5 million. Again, there was no profit up to 1997-98. In the years 1998-99 and 1999-2000, BSB incurred losses. The annual average loss tuned to Tk. 1642.5 million. Afterwards, till 2002-2003, there has been an increment of annual average income as well as decrease in expenditure. During these years annual average profit rose to Tk. 793.66 million.

Table 2.5 Income, Expenditure and Profits of BSB

(in million Taka)

Year	Total income	Annual Average income	Total Expenditure	Annual average expenditure	Total gross orofit	Annual average gross profit
1972-73 to 1984-85	3030	233.08	2236	172	794	61.08
1986-87 to 1993-94	4628	578.5	3960	495	668	83.5
1998-99 to 1999-00	1418	709	4703	2351	(3285)	(1642.5)
2000-01 to 2002-03	3349	1116.33	968	322.67	2381	793.66

Source : Compiled from the data of Appendix C. 1

2.6 Organisational Chart of BSB

The successful functioning of a development bank depends to a great extent on its organizational set-up. The degree of delegation of authority that exists and the extent of independence it enjoys in its day-to-day functioning is very important for the operations of BSB or any other bank.

Management by a board of directors is the general rule of development bank. The composition of the board of directors is very important. The emphasis must be given on professional management, with some executive directors, where the board consists of non-executive directors, it is important that it includes men with wide knowledge of industry, business and finance and also representative of the different regions and sub regions. The board should include men with technical and financial expertise and care should also be taken to avoid filling the board by Government officials only and non-officials with requisite background should be invited to join the board.

In any event the effective management of a development bank should rest with the salaried executives, who should be chosen for their ability and integrity, dynamism and missionary zeal and also practical wisdom. Development bank also cannot run by 'pure' bankers only rather functioning of a development banking depends on teamwork.

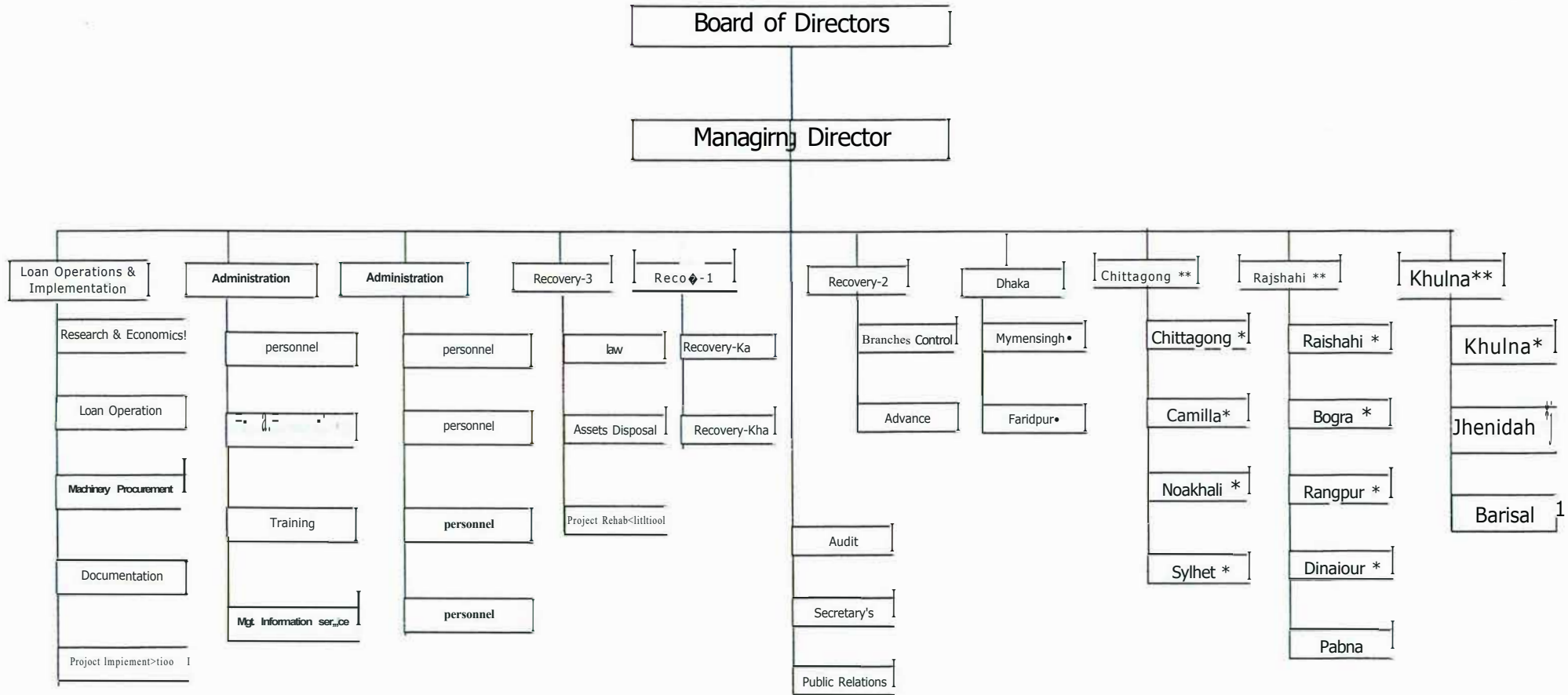
The general direction of business and administration of BSB vests in a Board of Directors appointed by the Government. The BSB order allows the board with full autonomy to organise, operate and manage the bank's operations. The Board

of Directors of the bank consists of 9 members including the chairman and the managing director. Non-Government shareholders subscribing to the capital of the bank shall eventually elect 4 directors from amongst themselves. The managing director is the chief executive of the bank. The General Managers assist the managing director in conducting the overall banking business (Chart 2.1).

The head office of the bank with 5 divisions and 21 departments is in Dhaka (capital of the country). In addition, the bank has 3 zonal offices at Chittagong, Khulna and Rajshahi and 15 branch offices located at commercially important district headquarters of Bangladesh⁹, in Dhaka, Bogra, Barisal, Chittagong, Camilla, Dinajpur, Jhenaidah, Khulna, Mymensingh, Noakhali, Pabna, Rajshahi, Rangpur, Sylhet and Faridpur. The BSB is a development banking company. Its main objectives are to provide credit facilities and equity support to stimulate industrial development in Bangladesh. The next chapter deals with the project appraisal procedure of BSB.

⁹ BSB, *Annual Report, 2002-03*, p. 3.

Chart 2.1
ORGANISATIONAL CHART OF BANGLADESH SHILPA BANK



** - Zonal Office
* - Branch Offices at district head quarters

PART II

**THE OPERATIONAL EFFICIENCY OF
THE BSB**

Chapter 3

PROJECT APPRAISAL PROCEDURE OF BSB

3.1 Introduction

The major chunk of the BSB's activities consists of disbursement of loans to industrial projects preceded by project appraisal. The purpose of the present chapter is to narrate precisely the project appraisal methodology followed by the BSB, and its problems with the help of a case study. Project appraisal is a very important and significant stage in the process of approval of a loan project. It is a team work where the banker, engineer, economist and financial analyst put their joint efforts for evaluating the application of a loan project.

We have segregated this chapter into five sections. Section one outlines the meaning of project appraisal. Section two provides the appraisal procedures adopted by the BSB. Section three examines the problems of project appraisal; and a case study of a project, recently appraised by the BSB for sanctioning of loan, is outlined in section four. The concluding observations have been recapitulated in section five.

3.2 SECTION 1

3.2.1 Meaning of Project Appraisal

Project appraisal may mean examination of a project before the industrial project is undertaken. The word 'project' can be used in many senses. For the purpose of the BSB, a project¹ means a scheme for capital investment to develop facilities to provide goods and services. Project appraisal is an "ex-ante"

¹ BSB, *Manual of Project Appraisal for Bangladesh Shikpa Bank* (Dhaka : 1984), p. 1

analysis. The main purpose of project appraisal is to ensure the most effective use of capital. Project appraisal refers to the evaluation of projects which is essentially the study of and selection between alternatives. It takes into account the future cash flow requirements of the project.²

There is no fixed or standardized approach to project appraisal. Numerous and diverse elements enter into the process of appraisal. It is difficult to have a cut and dried formula with the help of which a proposal for financial assistance can be adjudged straightway as acceptable or unacceptable. While broadly the same set of factors are taken into consideration in the scrutiny of individual applications, the weightage given to the factors varies from project to project. In practice, project appraisal involves investigation of six different aspects of an industrial project, namely technical, commercial, financial, economic, managerial and organizational.³ These analyses are completed before financial assistance is sanctioned. So, project appraisal requires the combined efforts of a team of engineer, economist and financial analyst, whose work should be complementary.

The fundamental attraction of project appraisal is that it reduces a complex problem to something less complex and more manageable. It assesses the benefits from the cost of a project and reduces them to a common

² SPS Deol, *Project Follow-up, Concept Technique and Problems* (New Delhi : Development Banking Centre, Management Development Institute, 1982), p. 61.

³ BSB., *Manual of Project Appraisal for Bangladesh Shilpa Bank*, 1984, p. 2; SPS Deol, *op.cit.*, p. 36.

denominator. If benefits exceeds costs, both expressed in terms of this common denominator, the project is acceptable, if not, the project should be rejected.⁴

Project appraisal is not an end in itself, but only a means to arrive at an investment decision. In other words, it is intended to provide broad guidance to the BSB in forming its judgment regarding the future prospects of a particular project and to work out the terms and conditions for financial assistance.

3.3 SECTION II

3.3.1 Appraisal Procedure by the BSB

Procedurally, the starting point of project appraisal is the receipt of application from the sponsors in the Bank's standard questionnaire forms. Both private sector and public sector projects are eligible for financial assistance from the BSB.

The prospective entrepreneurs have to submit four copies of the BSB's prescribed application form duly filled in, together with other necessary papers to the BSB's Head Office or to any of its three Zonal offices or to any of its 14 branches. Loans are usually secured by mortgage and hypothecation of the existing and future assets of the project, viz. Land, building, machinery, etc. created or to be created with sponsors equity and the BSB's loans.

While submitting the projects the applicants of all projects involving total loans exceeding Tk.5.00 million shall have to submit the full dress feasibility

⁴ Lyn Squire and Herman G. Van der Tak, *Economic Analysis of Projects* (The John Hopkins, Baltimore : A World Bank Research Publication, 1975), p. 1, K.A. Nabi, *Problems of Project Appraisal and Implementation of the Development A'nance Institutions of Bangladesh* (Research Centre for International Agrarian Development, Heidelberg, Heidelberg : 1988), p. 9.

reports (with techno-economic options) to be prepared at their own costs in the prescribed application form, for financial assistance.

To ensure the sponsor's adequate financial stake in the projects to be financed by the BSB, the sponsors would have to deposit 10 percent of the total project cost in three stages to an interest bearing account in the following way :

- (1) 2% with the loan proposal (maximum limit upto Taka fifty lakhs)
- (2) 3% at the time of acceptance of terms and condition of pre-loan sanction letter.
- (3) 5% within two months of getting the loan sanction letter.

The filled in form submitted by the sponsors are scrutinized by the concerned section of the BSB called receiving cell. If the filled in form together with the required papers and documents are found in order, the loan proposal is considered as fully documented and accepted for further processing.

On receipt of the fully documented loan proposal, it is forwarded to the appraisal section for processing, in keeping with the guidelines/suggestions of the international loan giving agencies, policy directives of the Government, the Project Appraisal Manual of the BSB and other directives of the Board of Directors of the Bank etc., received from time to time. The BSB finances only those projects which are found through its own appraisal feasible provided that the managerial capability and credit worthiness of the sponsors of such projects are considered satisfactory by the bank.

The appraisal of the loan proposal by the BSB covers the following aspects:

(a) Technical Appraisal

The engineering and technical aspects of an industrial project are appraised with regard to product specification, process, size, internal balance, suitability, and availability of physical facilities, designs and layouts of equipments and buildings.⁵ The BSB has to ensure that the projects are designed on sound basis and appropriately engineered.

Technical appraisal is concerned with questions of physical scale, layout and location of facilities, the technology to be used, including types of equipment or processes, the appropriateness to local conditions of technical standards adopted, the approach to be followed for the provision of services, the realism of the implementation schedule and the likelihood of achieving the expected levels of output.

A critical part of the technical appraisal by the BSB is a review of the cost estimates and the engineering and other data on which they are based. The purpose is to determine whether they are accurate within an acceptable margin of error. The technical appraisal is also concerned with estimating the costs of operating project facilities and services and with the availability of necessary raw

⁵ G. Irvin, *Modern Cost-Benefit Methods : An Introduction to Financial, Economic and Social Appraisal of Development Projects* (London : The Macmillan, 1978), p. 5, K.A. Nabi, *op.cit.*, p. 9.

materials and other inputs. The potential of the project on the human and physical environment is also examined by the BSB to make sure that any adverse effects can be controlled or minimized.

(b) Market Appraisal

Detailed market appraisal report is prepared by the project economist of the BSB to determine the size of the market and ascertain the supply gap, on the one hand, and to analyse the marketability of products and services, on the other. The demand for the products and the services changes over time as a function of price, income and other variables. Generally, the actual consumption, or in other words, the effective demand for an output in physical quantities is determined taking into consideration, production, imports, exports and changes in stock position. In absence of adequate information, apparent consumption method⁶ is used by the BSB as an approximation to true consumption.

The future demand for goods and services of an industrial project is determined by the BSB on the basis of trend extrapolation. In a large number of cases, reliable data relating to past levels of consumption, income and prices are not available for a period. In such cases, the trend method is used for projecting future demand.

⁶ K.M. Salahuddin, "Project Appraisal Practices of DFI", K.A. Nabi (ed.), *Development Financing Institutions (DFIs) of Bangladesh : Policy, Performance Problems and Prospects* (Dhaka : German Cultural Centre, 1992), p. 174.

This is done by way of establishing a median line⁷ between the quantities consumed over a number of years and estimating the future demand in accordance with the trend of this line.

The demand for capital goods is estimated on the basis of the rate and volume of investment in the using industry, durability of capital goods, technological innovations etc. In the demand projection of import substituting goods, the level of imports is taken as the indicator.

(c) Financial Appraisal

A detailed financial appraisal is prepared by a financial analyst of the BSB for determining the financial viability of the industrial project. The industrial project is looked at from a micro level or private point of view. The findings of

⁷ In order to decide the trend type, the observed data is plotted on the graph paper. If it is found that the trend is linear, the following equation may be used to find out the trend line and extrapolate the same:

$$y = G + bt$$

Where Y is dependent variable representing quantity demanded.

a and b are constants measuring the intercept and the slope of the curve respectively t is an independent variable representing time-period. The value of a and b can be found as follows:

$$a = \frac{\sum Y \sum t^2 - \sum t \sum Y}{n \sum t^2 - (\sum t)^2}$$

$$b = \frac{\sum t \sum Y - \sum Y \sum t}{\sum t^2 - (\sum t)^2}$$

The values of a and b can also be computed in the following way:

$$A = 1/M (a_1 Y_1 + a_2 Y_2 \dots + a_n Y_n)$$

$$B = 1/M (b_1 Y_1 + b_2 Y_2 \dots + b_n Y_n)$$

Where $a_1, b_1 \dots$ etc. are the co-efficient and M is constant.

Y_1, Y_2 etc. are observed demand in various years.

information collected on technical, commercial, economic, managerial and organizational aspects are reduced to concrete monetary terms on the basis of market prices. The purpose of financial appraisal is to assess the viability of the industrial project in terms of its operation in the future years and its financial soundness. It is concerned with assessing the feasibility of an industrial project from the point of view of its financial results. The industrial project's direct costs and benefits are calculated in monetary terms at the prevailing market prices. In respect of a loan proposal, the BSB has to satisfy itself not only about the current solvency of the sponsors but also about their continued solvency during the currency of loan to ensure timely repayment of the principal, regular payment of interest and adequacy of physical assets representing security for the loan of the BSB.

The two main aspects examined in the financial appraisal by the BSB are:

- (1) Financial requirements to bring the industrial project into existence and probable sources from which the required funds can be obtained.
- (2) Prospects of adequate revenue generation by the industrial project through a production-cost-profit relationship at a different volume of production. It is shown that the actual cash generation is sufficient to pay obligatory payments i.e. a principal amount of loan and interest thereon and other cash outflows such as taxation, dividends etc.

The first aspect deals with the estimation of total cost of the project (fixed cost and net working capital) and a suitable financing arrangement (debt-

equity relation). The second aspect relates to the analysis of production, cost, income etc. at different volumes of production at different levels of activity. The BSB's focus of attention is on the earnings of the industrial projects. Earnings should be sufficient so as to enable the project to service its debt (installment and interest).

As regards uncertainty, sensitivity analysis is carried out about key variables like the price of raw materials and capital cost of the project and provision is made for an escalation in cost,⁸ while forecasting earnings.

Various approaches to financial appraisal used by the BSB are as follows :

- (1) Ratio analysis, that includes; (a) liquidity ratio (b) leverage ratio (c) profitability ratio etc.
- (2) Break even analysis (3) Earnings forecast, (4) Fund flow statement (5) Internal rate of return (IRR) (6) Pay back period method (7) Net present value method etc.

(d) Economic Appraisal

In economic appraisal any industrial project is looked at from the national or social point of view. The economic cash flow is constructed considering true or real prices known as accounting or shadow prices by valuing the inputs and outputs on the basis of conversion factors⁹, supplied by the Planning Commission of Bangladesh.

⁸ The provision according to recent appraisal reports of the BSB is seen to be 10% in case of price of raw materials and capital cost of project and 5% for wages and salaries. It is assumed that increase in prices of raw materials will be offset by the corresponding increase in the selling prices of finished goods. See K.A. Nabi, *op.cit.*, p. 11.

⁹ K.A. Nabi, *op.cit.*, p. 12.

In economic appraisal, estimation is done by the BSB on how many jobs will be created by the proposed industrial project; how much money will be contributed as value added to the Gross Domestic Product (GDP); whether the industrial project will mitigate regional maldistribution of industrial expansion; what probable impact will have the project on gearing up economic activities in the area; where it will be located; and what amount of foreign exchange the proposed industrial project will earn or save in order to keep a positive impact on the balance of payment situation of the country, etc. The impact of the project on other economic activities is seen qualitatively.

Economic analysis eliminates the divergence between social and private costs by valuing all goods and services in terms of the real costs and benefits. The economic analysis of an industrial project by the BSB begins with the appropriate valuation of all inputs and outputs. The foreign exchange is converted into local currency at the official exchange rates for valuation of all items in a common standard.

Treatment of inflation is always a peculiar problem in the field of project appraisal. This problem is handled by way of considering a contingency margin depending on the current rate of inflation. As regards the inflation of exchange rates, the BSB has introduced a self-financed insurance scheme known as 'The Exchange Rate Fluctuation Absorption Scheme (EFAS)'.

Once all costs and benefits are valued and the life of the project is determined, the cost and benefits occurring at different points of time are

compared with the future costs and benefits. This is done by way of application of the Discounted Cash Flow (DCF) technique for calculating Internal Rate of Return (IRR) and Economic Rate of Return (ERR).¹⁰

(e) Management Appraisal

Before sanctioning loans, the BSB also looks into the management of the borrowers. The successful implementation and running of the industrial project rests primarily on the resourcefulness, its competence and integrity of its management.

Two queries of organizational aspects are taken care of by the BSB i.e. whether outside help will be needed in the construction phase and if so, to which extent, wherefrom, at what cost; and whether responsibility and authority will be centralized or decentralized in the operating phases. The analysis of organization also includes availability of necessary manpower, adequacy of training and internal controls.

The credit investigation, which includes proper identification of applicants and determination of their ability to abide by agreement, is also undertaken systematically. The credit worthiness of the sponsors are assessed among others by way of obtaining credit reports from the various banks and financial institutions. Banks and DFIs are requested to provide credit reports on the sponsors.

After preparation of the draft project report containing the above information, it is placed before the BSB's Loan Committee for its consideration.

¹⁰K.M. Salahuddin, *op.cit*, p. 177.

After having clearance from the Loan Committee, a memorandum on the project for sanctioning loan is prepared and placed for approval by the respective authority. After the loan is sanctioned, a pre-sanction letter is issued to the sponsor for acceptance of the terms and conditions of the loan. Formal sanction letter is issued on receipt of the acceptance of pre-sanction terms and conditions by the sponsors and the required project deposit.

3.4 SECTION III

3.4.1 Problems of Project Appraisal

The project appraisal of the BSB is beset with many problems which are varied in nature. The majority of industrial projects financed by the BSB have failed to fulfill the expectations placed on these. This in turn, places some doubt on the quality of the appraisal.

There is lack of adequate and updated data in Bangladesh. Because of a weak database, market reports do not always reflect the actual scenario. The lack of appropriate market studies has resulted in a poor operational and financial performance of the projects through creation of capacities much beyond the BSB's estimation.

Many of the BSB's clients are first generation entrepreneurs. Again, the BSB appraise, a particular industrial project based, among others, on the feasibility report submitted by the sponsors. It has been observed that the feasibility reports do not contain adequate and reliable information. As a result, industrial projects are ill conceived at the very outset.

In some cases political consideration has been given much more emphasis than the economic justification of the industrial project. So, due to inadequate financial and economic appraisal of the industrial project, the estimated NPV and IRR of the project eventually turn out to be unjustified both from the financial and economic points of view.

Since project appraisal depends to a large extent on estimates and forecasts, it is likely to give rise to large margins of error. Moreover, the circumstances conditioning loan applications to the BSB are seldom uniform. So, an appraisal report should be based on adequate information and critical analysis so as to help the BSB in taking decision on providing financial assistance to industrial projects.

3.5 SECTION IV

3.5.1 Project Appraisal Report : A Case Study of M/s Dhaka Knitwear Ltd.

This section presents a brief appraisal report on a project financed by the BSB. For reasons of secrecy, the original name has been changed.

Project Brief

This proposed project is a 100% export-oriented readymade knitted-wear (Sweater) manufacturing unit. It would be set up at Sheorapara, Mirpur, Dhaka, a Government specified developed area in Bangladesh. The annual production capacity of the unit on the basis of 12 hours per day and 300 working days a year would be 41,250 dozens of sweaters.

Industrial Classification

The project is covered under the sub-sector hosiery and other knitted products as per bank's classification.

Table 3.1 The BSB's Loan Portfolio/Sectoral Performance

Item	All Sectors	Textile Sectors	Hosiery & other knitted goods sub-Sector
	(TK)	(TK)	(TK)
a) Loan portfolio including undisbursed commitment as on 31.3.1992	14748.00 (100.00)	5793.60 (39.28)	157.73 (1.07)
b) Total recoverable amount (for financial year 1991-92)	4757.80 (100.00)	1343.54 (28.24)	92.53 (1.94)
c) Amount recovered upto 31.3.92 (during financial year 1991-92)			
i. Cash	161.18 (100.00)	63.46 (39.37)	0.16
ii. Rephasement/adjustment/others	73.03 (100.00)	30.12 (41.24)	nil
iii. Overdues as on 31.3.92	4523.59 (100.00)	1249.96 (24.63)	92.37 (2.04)

Figures in the parenthesis indicate percentages.

Table 3.1 indicates that the loan amount of hosiery and other knitted goods was Tk. 157.73 million which is only 1.07% of the total loan portfolio of the BSB. This loan amount seems to be small in comparison with the loans of textile sector.

Plant and Machinery

The plant and machinery for the project consists of yarn-winding section, knitting section, linking section, sewing section, labeling and inspection section, washing, drying and ironing section and inspection, finishing and packing section. The machinery has been proposed to be imported from South Korea/Taiwan.

Raw Materials

The project is based on imported and local raw materials like wool/acrylic, sticker/label, zipper, polybag, cartoon box, etc. the cost of which has been estimated at Taka 59.66 million at rated capacity.

Implementation Schedule

The project is expected to go into normal operation within 10 (ten) months from the date of opening letter of credit for machinery and equipments to be imported.

Market Aspects

Export Potential of Sweater

The export of woolen garments specially sweater from Bangladesh has a very prospective and rising trend.

Table 3.2 Export of Sweater from Bangladesh

Year	Quantity (000 pcs)	increase
1989-90	2055	
1990-91	2640	
1991-92	3305	60.83

Source : Information collected from Bangladesh Garment Manufacturer and Exporters' Association.

Table 3.2 shows that the export of sweater from Bangladesh was 2055 thousand pieces in 1989-90 which increased to 3305 thousand pieces in 1991-92 marking an increasing trend of 60.83% over the years. The major importers of Bangladeshi sweaters are U.K., Germany, France, Norway, Sweden, Holland, Belgium, Italy and USA. The major exporter of sweaters are Italy, Hong Kong, Korea and India.

There are only 12 export oriented sweater knitting industry functioning in Bangladesh.

Selling Arrangements

Export of sweater may be made through the buying houses as had been the cases of garment products. About 135 buying houses representing foreign principals are now operating in Bangladesh. The sponsors could sell the product through appointment of agents or by arranging direct orders from foreign buyers.

Economic Aspects

The Economic Rate of Return (ERR) of the project is calculated to be above 50% on the basis of assumption made in the financial evaluation.

Foreign Exchange Earning

The net foreign exchange to be earned during the whole economic life of the project is expected to be Tk. 251.26 million equivalent to US\$ 6.42 million.

The modified Bruno ratio works out to Tk. 20.57 to earn US\$ 1 (one), taking exchange rate of Tk. 39.13 equal to \$ 1 in the year 1992-93.

Employment Opportunity

The project is going to employ a total number of 226 persons of various categories. Cost per employment to be generated works out to approximately Tk. 80,442.48.

Financial Aspects

Cost of the Project

The total cost of the project has been estimated at TK. 18.18 million including a net working capital of Tk. 1.60 million and a foreign exchange component of Tk. 6.42 million.

Means of Finance

The aforesaid costs of the project proposed to be financed as under :

(Taka in Million)

Long-term loans	F/C (Tk.)	L/C (Tk.)	Total (Tk.)
BSB Foreign Currency (F/C) Loan	6.42	-	6.42
BSB Local Currency (L/C) Loan	-	3.70	3.70
Deferred Payment of Interest Due	-	.74	.74
Total Term Loans	<u>6.42</u>	<u>4.44</u>	<u>10.86</u>
Equity			
Sponsor's Investment	-	7.32	7.32
Total Equity	-	7.32	7.32
Total Loan & Equity	<u>6.42</u>	<u>11.6</u>	<u>18.18</u>

Dept-equity ratio = 60:40

Capital Structure

The authorized capital of the company is Tk. 30.00 million to be divided into 0.03 million ordinary shares of Tk. 1000.00 each. The paid up capital is Tk. 7.32 million that is equal to 7.32 thousand ordinary shares.

Financial Evaluation

The main assumptions of earning forecast are as follows :

- (i) The factory will work on the basis of 12 hours per day and 300 working days a year.
- (ii) The cost of raw materials has been calculated on the basis of imported prices and prevailing market prices while the sales prices of the proposed products have been considered at (freight on board) price.
- (iii) The cost of raw materials as well as the sales proceeds of the finished goods have been estimated at constant prices throughout the projected years on the assumption that any increase in the price of raw materials will be off set by the consequential increase in the price.
- (iv) The raw materials for the products will be imported under back to back letter of credit for 120 days sight credit. As such the estimate of working capital requirements for importing raw materials has been assumed to be nil. Local raw materials' stock has been considered for 30 days.
- (v) An increment of wages and salaries at the rate of 5% per annum and the amount of bonus equal to two months pay have been taken into account.

- (vi) Depreciation has been charged on the straight-line method at the rate of 5% on building, 10% on machinery and 20% on other assets.
- (vii) Capacity utilization has been assumed to be 60%, 65%, 70% and 70% for the first four years of operation of the project.
- (viii) The project will enjoy tax-holiday benefit for 5 years provided the company purchases Government bond to the extent of 15% of its net profit each year.
- (ix) Dividend has been estimated at the rate of 20% on 1st, 2nd, 3rd and 4th years respectively.
- (x) Economic life of the project has been assumed to be 12 years without any major replacement.

Based on the above assumptions, the profitability forecasting is summarized as follows :

Profitability Forecast

(Taka in Million)

Years of Operation	1st yr.	2nd yr.	3rd yr.	4 th yr.
Capacity utilization	60%	65%	70%	70%
Sales revenue	50.27	57.31	61.88	62.13
Gross profit	9.98	11.50	12.59	12.31
Operating profit	6.68	7.87	8.69	8.27
Net profit after return on bond purchase	4.39	5.47	6.31	6.18
Ratios(%)				
Gross profit to sales	20	20	20	20
Operating profit (before tax and interest) to sales	13	14	14	13
Return on average equity	48	40	33	25
Return on average capital	32	31	28	23

Debt-Service Coverage Ratio (DSCR)

The DSCR Worked Out as Follows

(Taka in Million)

Income	1st yr. {TK}	2nd yr. {TK}	3rd yr. {TK}	4th yr. {TK}
Net profit after return on bond purchase	4.39	5.47	6.31	6.18
Depreciation & write-off	1.24	1.24	1.24	1.24
Interest on loans	1.51	1.53	1.46	1.31
Total=	7.14	8.24	9.01	8.73
Liabilities				
Installment to BSB on loans	-	-	1.12	1.12
Installment on deferred payment	.15	.15	.15	.15
Interest on loans	1.51	1.53	1.46	1.31
Total=	1.66	1.68	2.73	2.58
DSCR (times) =	4.30	4.90	3.30	3.38

Break-even Analysis

The project is expected to break-even at 46.52% of the assumed capacity utilization and 32.56% of the rated capacity at a sales of Tk. 28.90 million as detailed below :

Break-even Point (BEP)

Break-even sales in amount can be measured by the following formula:

$$S = \frac{F}{C} \text{ and } C = \frac{P - V}{P}$$

Where S = break-even sales in amount.

F = Fixed costs per period.

C = Contribution margin ratio.

P = Sales revenue per period.

V = Variable cost per period.

(Taka in million)

1 Sales revenue of the project at 70% capacity utilization (4th year)	TK 62.13		
2 Total operating cost, administrative and financial expenses (4th year) of the project at 70% assumed capacity	Variable Cost	Fixed Cost	Total Cost
	TK. 49.43	+ TK. 5.78	= TK. 55.21

(1) BEP (Sales)

$$C = \frac{\text{Tk.}62.13 - \text{Tk.}49.43}{\text{Tk.}62.13}$$

$$= 0.20$$

Substituting the value of C, we have

$$S = \frac{\text{Tk.}5.78}{0.20} = \text{Tk.}28.90 \text{ million}$$

i.e. 46.52% of the assume capacity and 32.56% of the rated capacity.

(2) BEP(Cash)

Break-even (cash) can be computed by following formula :

$$S = \frac{F - D}{C}$$

Where $S = \text{Break-even (cash)}$

$F = \text{Fixed Cost per period}$

$C = \text{Contribution margin ratio}$

$D = \text{Depreciation \& write-off per period}$

$$S = \frac{\text{Tk. } 5.78 - \text{Tk. } 1.24}{0.20}$$

$= \text{Tk. } 22.70 \text{ million}$

i.e. 36.54% of the assumed capacity and 25.57% of the rated capacity.

Cash Flow Statement

Cash flow statement based on profitability estimate has been worked out.

It shows that the project is expected to have comfortable cash position which will enable the unit to repay the BSB dues in time.

Financial Rate of Return

The Financial Rate of Return (FRR) computed, following discounted cash flow technique works out to around 50% which seems to be satisfactory.

Sensitivity

The variables to which the financial viability of the project is sensitive has been identified to be the cost of goods sold and sales revenue. Necessary sensitivity test has been done and the project withstands the test as follows :

Debt-service Coverage Ratio (times)	1st yr.	2nd yr.	3rd yr.	4th yr.
With 10% increase in cost of goods sold	2.24	2.56	1.72	1.67
With 10% decrease in sales revenue	1.73	1.97	1.32	1.24
With 5% decrease in sales revenue and 5% increase in cost of goods sold	1.98	2.26	1.52	1.45

Rate of Interest, Exchange Risk Burden and Other Charges

a) Foreign Currency Loan

- (1) Interest on the foreign currency loan will be charged at such rate as may be stipulated by the Bank/re-lending terms of the credit line under which it will be accommodated. For the purpose of project appraisal, the interest @ 12% per annum has been considered as per circular No. 25/92 dt. 15.11.92 of the Bank. Interest shall be payable on compound basis (six monthly) on the principal amount of loan disbursed/availed of by the borrowers from the Bank and also on the outstanding dues from time to time.

- (2) Since the borrowers have not opted in favour of EFAS, they will have to bear the burden of exchange rate fluctuation and shall pay exchange risk commission, if applicable, as such rate as may be applicable to cover the risk beyond the loan period.

b) Local Currency Loan

Interest on local currency loan shall be charged at the rate stipulated by the Bank. For the purpose of project appraisal, interest rate of 12% per annum has been considered as per circular No. 25/92 dated 15.11.92 of the Bank.

c) Exemption of Interest

In no case, will the interest on the BSB loans be exempted and/or reduced.

3.5.2 Security of Loan

The BSB loans will be secured by :

- a) Mortgage/hypothecation by way of first charge on the tangible fixed assets of the company both existing and future.
- b) The personal guarantee of all the directors and shareholders of the company in their individual capacity.
- c) The company shall deposit 100% share certificates of the sponsoring directors of the company with the BSB as collateral security along with blank shares transfer deeds duly verified, signed and sealed by them and the same shall be retained by the Bank till the time its loans are liquidated. The BSB will be at liberty to use these against the borrowers or towards liquidation of loans in case of default.

Credit Worthiness of the Sponsors

The credit worthiness of the directors of the company has been compiled on the basis of information submitted by them. The total net worth has been estimated at Tk. 11.34 million as against their equity requirement of Tk. 7.32 million. Out of the six directors of the company, three are income tax payee.

Management of the Company

The over-all management will be vested with the Chairman and Managing Director of the company and they will be assisted by other directors. The Board of Directors will decide and formulate policies and provide guidelines for smooth operation of day-to-day business. The sponsors formed private limited company in June 1992, which was incorporated under the Registrar of Joint Stock Companies in Bangladesh.

For disbursement of loan the following conditions must be fulfilled by the sponsors :

- i. One chief accountant-cum-secretary for the project to be appointed and terms of service shall be determined with the due approval of the BSB. He will be one of the joint operators of the company's bank account.
- ii. The company shall have to grant the BSB the right to nominate one or more persons as director of the company and to replace such person(s) from time to time.

Recommendations

In view of the above analysis, the project may be considered suitable for BSB financing. It may be recommended for a foreign currency loan of US\$ 164,057.00 equivalent to Tk. 6.42 million (inclusive of pre-shipment inspection charge) and a local currency loan of Tk. 3.70 million.

Disbursement Schedule

The foreign currency and local currency loans will be disbursed by the Bank in the following way :

Foreign Currency Loan

Out of the total foreign currency loan of US\$ 164057.00, an amount of US\$ 163241.00 will be disbursed by way of opening confirmed irrevocable letter of credit for machinery and equipments be imported through the BSB, under any suitable line of credit available with the Bank at the time of opening of the letter

of credit, and the balance amount of US\$ 816.00 will be disbursed towards payment of pre-shipment inspection charges.

Local Currency Loan

Out of the local currency loan of Tk. 3.700 million, an amount of Tk. 0.645 million will be disbursed for payment of import duty direct to the customs authority on arrival of machinery.

The balance of the local currency loan of Tk. 3.055 million will be disbursed in three instalments in the following manner :

- i. The first instalments of Tk. 0.867 million will be disbursed for civil works.
- ii. The second instalments of Tk. 0.593 million will be disbursed for purchasing office equipments, including fire fighting equipment and office furniture, provided the previous loan instalment has been properly utilized fulfilling all the terms and conditions laid down by the BSB.
- iii. The third instalments of Tk. 1.595 million will be disbursed for reimbursement of working capital for the company.

Repayment Schedule

The repayment of the loan will be made in the following manner :

- (a) The loan will be repaid in eighteen, half-yearly instalments over a period of 9 years. Repayment will start after forty two months of opening of letter of credit or twenty four months after the unit goes into commercial operation, whichever is earlier.
- (b) The interest to accrue on the BSB loans during the period of construction of the project will be realised from the borrowers in five equal instalments

after the expiry of the construction period not exceeding fourteen months and the usual grace period.

Observations

The case study of appraisal of the above project seems to be sound, prima facie. But sometimes the fate of a project depends upon many unforeseen factors not accurately predictable. Yet the visible aspects in the course of appraisal may prove difficult on account of factors, say for example, valuation of the property which may be inflated, the credit worthiness of the sponsors etc. Proper maintenance of books of accounts by the sponsors of the above project should be carefully examined for, smooth functioning of the project in the long run.

3.6 SECTION V

3.6.1 Comments

The project appraisal is an aid in decision making by the BSB. This is one of the main mechanism on the basis of which the BSB disburses its entire loan portfolio. So, naturally performance of the BSB as a bank depends on the very success of this device. To draw a fruitful result in the arena of industrial development of Bangladesh in general, and performance of the BSB in particular, the required logistic including human aspects and quality of management should be developed for proper diagnosis of industrial projects through project appraisal by the BSB.

In the next chapter the profitability of the BSB has been analysed.

Chapter 4

PROFITABILITY OF BSB

4.1 Introduction

In the earlier chapter the project appraisal procedure related to the BSB has been narrated. The objective of the present chapter is to examine the operational efficiency of the BSB in terms of its profitability.

The BSB should earn profit as a financial institution. The extent to which the BSB will succeed in its main function of making funds available for industrial growth will, inter alia, depend on its operational efficiency as a bank. It cannot survive, if it concentrates only on development role. Financial management of resources in terms of profitability constitutes by far the most important element of the BSB's operational efficiency. So profitability is a measure of efficiency and the search for it provides an incentive to achieving efficiency.¹ It is a central measure of the earning power and operating efficiency of any institution.²

Resources of the BSB are raised mainly by way of borrowings, deposits and share capital, etc. So, financial policies need to be attuned to the ideas and expectation of its creditors and shareholders. The main concern of the creditors is the safety of their investments. Apart from creditors (both short term and long term) and the shareholders, the management of the BSB itself is interested in

¹ M.Y. Khan & Jain P.K., *Financial Management* (New Delhi : Tata McGraw Hill Publishing Co. Ltd., 1992), p. 28.

² M.Y. Khan & Jain P.K., *Management Accounting and Financial Management* (New Delhi: Tata McGraw Hill Publishing Co. Ltd., 1992), p. 30.

the financial soundness of the bank which ultimately depends upon the profits earned by it.

Profit test is more than a conventional test of economic efficiency, i.e. whether resources are gainfully employed or not, whether the BSB is operating competitively or not, all these have a direct bearing on its ability to perform some of its basic functions, and in fact its success as a development bank. So the BSB as one of the main financiers of industries in Bangladesh should not only be financially self-sufficient but should also generate surplus with which further industrial enterprises can be financed.

The profitability of the BSB may be measured by its profitability ratios, e.g. profit margin, expense ratios, rates of return, etc. These ratios are based on the premise that the BSB should earn sufficient profit on each Taka of income.

For the analysis, the chapter has been divided into four sections. Section one outlines the profit margin of the BSB. Section two focuses on the expense ratios of the BSB. Section three deals with the profitability of the BSB in terms of rate of return. Section four presents concluding observations.

There have been fluctuations from year to year in the profitability of the BSB. In order, however, to analyse its trend, the period of 31 years has been divided into three parts covering 11 (eleven) years, 11 (eleven) years and 9 (nine) years. The first eleven years from 1972-73 to 1982-83 comprise first phase, the next eleven years (1983-84 to 1993-94) covers the second phase and

the next nine years (1994-95 to 2002-03) constitutes the third phase. In section one below the profit margin of the BSB has been discussed.

4.2 SECTION 1

4.2.1 Profit Margin

The profit margin is an important measure of profitability. This ratio provides the same insights into a bank's operation as it does for a firm. As profits may be gross and net, there are two types of profit margins, (i) Gross profit margin, and (ii) Net profit margin.

Gross Profit Margin

This is also known as gross margin. It may be calculated by dividing the gross profits by total incomes. In our study the total income has been taken after making provision for bad and doubtful debts, because no segregated data of income had been available till 1985-86.

Major sources of the BSB's income have been derived from such assets as loans and investments. With respect to loans, BSB should price them at a level sufficient to cover expenses and provide for an adequate profit. But, the loan pricing is conditioned greatly by the country's general monetary and credit conditions, competitive conditions, usury laws, the loan mix³ etc. The gross profit margin indicates first the BSB's ability to generate income and second its ability to control expenses. The gross profit margin of the BSB represents that

³ O.G. Wood and R.J. Porter, *Analysis of Bank Financial Statements* (New York : Van Nostrand Reinhold Company, 1979), p. 75.

limit beyond which the fall in income is unacceptable. A high gross profit margin might reflect managerial ability to keep costs under control. A relatively low gross margin is definitely a danger signal.

Table 4.1 contains data on trends in the BSB's gross profit margin. The gross margin for the first eleven years (1972-73 to 1982-83) was 26.13 percent, while that for the next eleven years (1983-84 to 1993-94) was 15.06 percent showing a decline of 11.07 percentage point. Thus there is a downward trend in the gross profit margin over the periods. However from 2000-01 to 2002-03 there seems to be a rise in gross profit margin to the tune of 71.08 percent. For the last 6 six years begging from 1994-95 till 1999-00 BSB could not earn any profit.

Table 4.1 Gross Profit Margin of BSB from 1972-73 to 2002-03

(Taka in Million)

Year (end-June)	Gross profit (TK)	Total income (after provision of bad and doubtful debt) (TK)	Gross Profit margin (Col. 2 as % of Col. 3%)
1972-73 to 1982-83	522.38	1999.06	26.13
1983-84 to 1993-94	937.41	6225.79	15.06
2000-01 to 2002-03	2379.91	3348.64	71.07

Note : There was no gross profit in 1985-86 and from 1994-95 to 1999-2000. Gross Profit Margin =

$$\frac{\text{Gross Profit}}{\text{Total Income}} \times 100$$

Source : For absolute data and details of individual years please refer to Appendix C-2.

4.3 Net Profit Margin

This ratio is also known as net margin. This measures the relationship between net profits and total income. A bank's net profit margin depends on all

the factors that influence the gross profit margin plus that determine applicable income taxes. For lack of data we have taken income tax provision created by the BSB. The net profit margin may be calculated by dividing EAT (Earning after taxes) by total income.

The net profit margin is indicative of management's ability to operate the BSB's business with sufficient success recovering, from revenues of the period, the operating expenses, cost of borrowed funds etc. as well as leaving a margin for reasonable dividend to the shareholders.

A high net profit margin would ensure adequate return to the shareholders as well as enable the BSB to withstand in adverse economic conditions. A low net profit margin has the opposite implications.

Table 4.2 shows that the BSB's net profit margin had been falling. The net profit margin of the Bank in the first phase was 10.06 percent. However, it markedly decreased to 6.32 percent in the second phase. In the third phase of our study i.e. from 1994-95 to 2002-03 BSB, could not give or had any provision of income tax. As such EAT cannot be calculated, so there is no net profit margin.

Table 4.2 Net Profit ratio of BSB from 1972-73 to 1993-94

(Taka in million)

Year (end-June)	EAT (TK)	Total income (after provision of bad and doubtful debt) (TK)	Net Profit ratio (Col.2 as % of Col. 3%) (TK)
1	2	3	4
1972-73 to 1982-83	201.11	1999.06	10.06
1983-84 to 1993-94	393.39	6225.79	6.32

Note : EAT = Earning after tax

Source : For absolute data and details of individual years please refer to Appendix-C-4.

It is clear from the fact that both gross margin and net margin of profit for the BSB had a steady declining trend, though in absolute monetary terms both gross profits and net profits of the Bank had increased over the years. This signifies that the BSB's gross profits and net profits increased much less proportionately than its total expenses.

The down trend in the profit margins might have been due to interest rates on funds, increases in the provision for bad and doubtful debts and the inability of the BSB to increase interest rates on loans commensurate with the increase in costs.

Bangladesh Bank (the central bank of the country) used to fix, refix and regulate rates of interest on deposits and advances of the BSB till 1989-90. But it had to pay interests charged by different loan giving agencies. However, from 1990-91 under financial sector reform policy taken by the government, the BSB was allowed to change its rate of interest, if necessary, within the limit fixed by the Bangladesh Bank.

4.4 SECTION II

4.4.1 Expense Ratios

Another dimension of profitability analysis is examination of expenses incurred in relation to revenues earned. In this section profitability of the BSB in terms of expenses is estimated.

The total expenses of the BSB may be divided into two categories : (1) operating expenses and (2) financial expenses and as such there are two expense ratios. Here, operating expenses include all expenses except interest paid on borrowings and deposits. Financial expenses include interest paid on borrowings and deposits.

The expense ratio is the reciprocal of the profit margin, gross as well as net. As a working proposition, a low ratio is favourable, while a high one is unfavourable. The implication of a high expense ratio is that only a relatively small percentages of shares of income is available to the BSB as profit.

The operating expense ratio can be computed by dividing operating expenses by total income. The BSB's operating ratio in the first phase was 10.47 percent; and in the second phase it was 16.84 percent. In the third phase the operating expense ratio is almost same to that of the second phase. Table 4.3 shows an increasing trend of expenses. A low operating ratio is, by and large a test of operational efficiency. But the BSB's major sources of income and expenses are non-operating. As such, this ratio cannot be used as a yardstick of profitability.

Table 4.3 Operating Expense Ratio of BSB from 1972-73 to 2002-03

(Taka in million)

Year(end-June)	Operating expense (TK)	Total income (TK)	Operating expense ratio (Col.2 as % of Col. 3%)
1	2	3	4
1972-73 to 1982-83	209.28	1999.06	10.47
1983-84 to 1993-94	1048.30	6225.79	16.84
1994-95 to 2002-03	1173.64	7329.74	16.01

Note : Operating expense ratio = $\frac{\text{Operating expense}}{\text{Total Income}} \times 100$

Source : For absolute data and details of individual years please refer to Appendix-C-5.

Financial expense ratios relate to cost of raising funds i.e. cost of capital. For a financial institutions cost of funds constitutes the major segments of their total expenses. In fact, it is as important to a financial institution as cost of goods sold to manufacturing or trading enterprises.⁴

Table 4.4 Financial Expense Ratio of BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Financial expense (TK)	Total income (after bad and doubtful debts) (TK)	Financial expense ratio (Col.2 as % of Col. 3%)
1	2	3	4
1972-73 to 1982-83	1267.40	1999.06	63.40
1983-84 to 1993-94	4240.08	6225.79	68.11
1994-95 to 2002-03	3320.53	7329.73	45.30

Note : Financial expense ratio = $\frac{\text{Financial expense}}{\text{Total Income}} \times 100$

Source : For absolute data and details of individual years please refer to Appendix-C-6.

⁴ Jain P.K. *Industrial Finance Corporation of India : A Study in Financial Management* (New Delhi : Anmol Publication, 1988), p. 51.

Financial expense ratio of the BSB is exhibited in Table 4.4. The annual average of BSB's financial expense ratio in the first phase was 63.40 percent; and the same was 68.11 percent in the second phase. In the third phase financial expense ratio comes down to 45.30 percent. This may be because of no net profit for last six years starting from 1994-95 to 1999-00. The bank improves its capacity during 2000-01 to 2002-03. So, it is clear that financial expense ratio of the Bank marked an upward trend.

The analysis reveals that financial expenses constitute a lion's share of the BSB's total expenses. As such its profitability is largely related to changes in this component of costs.

Debts have a large share in the capital structure of the BSB. For profitability, the cost of debt should be measured. Here, cost of debt has been determined on pre-tax basis in alignment with the cost of debt. Moreover, it serves as a useful benchmark to determine gross profit spread on the BSB's financing operations.

The amount of interest payable is the cost of debt.⁵ For computing BSB's cost of debt the average interest rate has been taken by dividing the total debts by total interest paid for the year.

⁵ B. Banerjee, *Financial Policy and Management Accounting* (Calcutta : The World Press Pvt. Ltd., 1993), p. 491.

Table 4.5 Cost of Debt of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Before tax cost of Debt (Annual Average)
1972-73 to 1978-79	5.11
1979-80 to 1993-94	8.68
1994-95 to 2002-03	4.31

Source : For absolute data and details of individual years please refer to Appendix-C-8.

Table 4.5 contains the pre-tax cost of debt of the BSB. The annual average of the costs of debt during 1972-73—1978-79 was 5.11 percent while the same for the period from 1979-80—1993-94 was 8.68 percent indicating an increasing trend over the years. In the third phase cost of debt comes to 4.31 percent showing a decline trend. This is due to the fact that from 2000-01 the bank tries to be cost effective. From 2000-01—2002-03 the bank's cost of debt becomes less than 2 percent to a minimum of 1.23 percent. Again, there is a substantial decrease in the payment of annual interest during the above three years. This may also be a reason for such low cost of debt.

The rising trend in the cost of debt signifies that the BSB's expenses on interest had increased at the average rate in the last fifteen years. In the early years of independence, Bangladesh had procured concessionary funds from different international bodies, a portion of which was given to the BSB for its functioning. But, afterwards cheap loans were not so easily available due to global impact. Moreover, the traditional donors like ADB, IDA etc. withheld new commitments of loans on the grounds of poor recovery and low repayment by

the BSB in the second phase. This necessitated the Bank to hunt for new sources of funds which may be costly.

For profitability of the BSB, the rate of return on loans and investment should also be examined and this is done below.

Table 4.6 Rate of Return on Loans and Investment of BSB from 1972-73 to 2002-2003

(Taka in million)

Year (end-June)	ROR on loans and investment (Annual Average) (%)
1972-73—1978-79	7.01
1979-80—1993-94	8.35
1994-95—2002-03	3.72

Source : For absolute data and details of individual years please refer to Appendix-C-9.

The contents of Table 4.6 shows that the rate of return (ROR) on the BSB's loans and investment was 7.01 percent in the first seven years' period (1972-73 to 1978-79) and 8.35 percent during the next fifteen years' period of our study. In the subsequent phase starting from 1994-95 to 2002-03 the annual average of the rate of return on loans and investment of the BSB has declined to 3.72 percent.

The analysis discloses that there had been a very little increment in the ROR on loans and investment of the BSB from the first phase to the second phase of the study. But in the last phase RoR on loans and investment lowered sharply. Again, at the same time, the Bank experienced a rapid increment in the cost of debt over the years. This signifies that the BSB's profitability had been dwindling.

For examining profitability, the spread analysis of the Bank should be appraised. Spread analysis measures the difference between gross interest received on earning assets and the gross interest paid on interest-costing liabilities. The BSB acquired funds from various sources for which it has to pay interest. While acquiring assets on account of loans and investments, the BSB received interests and profits. The difference between what the Bank paid for funds and what it got for funds is the spread.

Table 4.7 indicate that gross profit spread in terms of the difference between rates of return (ROR) on loans and investments and cost of debt incurred by the BSB. From 1972-73—1978-79, its annual average of gross profit spread was 1.90 percent, it however, declined to the negative figure of (-) 0.33 percent in the subsequent fifteen years. During the last phase of the study, it roses slightly from the negative figure to 0.59 percent, and could not exceed the fraction figure.

Table 4.7 Gross Profit Spread of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Rate of Return (ROR) on loans and investments % (Annual average)	Before tax cost of debt (Annual average)	Gross spread Col.2 - Col.3)
1972-73—1978-79	7.01	5.11	1.90
1979-80—1993-94	8.35	8.68	-0.33
1994-95—2002-03	3.72	4.31	0.59

Source : Compiled from data of Table 4.5 and Table 4.6.

The gross profit spread of the BSB shows a declining trend throughout the three phases of our study. In the years from 1979-80—1993-94 the spread slowly declined to a negative figure. In the last phase of the study the spread could not cross the figure of the first phase. The negative and a continuous decreasing gross profit spread of the BSB should be attributed to the rapidly rising growth in the cost of debt and very meagre increment in the ROR on loans and investment. This signifies that the bank has been virtually running at losses.

The main factors that affect the profitability of the BSB are its financial and administrative costs and its income derived chiefly from interest on loans and to some extent from dividends on investments. The BSB had little control over its financial costs, because it had no choice but to pay the charges set by the providers of funds. Administrative costs can be controlled to some extent, by the management of the bank. Administrative costs are determined not simply by efficiency, it also depends on how the BSB defines its tasks. If it devotes considerable effort to sector studies, promotion, advisory services and technical assistance activities, which may have no early financial return, administrative cost will obviously be higher.

Profitability of the BSB should also be examined through its rates of return illustrated in the section three.

4.5 SECTION III

4.5.1 Rate of Return

The rate of return (ROR) is a commonly accepted measure for assessing the profitability of an institution.⁶ Profitability of the BSB may be measured in three ways.

These are :

- (1) Return on total assets (ROTA)
- (2) Return on capital employed (ROCE)
- (3) Return on shareholders' equity (ROSE)

ROTA is useful as an overall measure of performance of operating efficiency. The ROTA may also be called profit-to-assets ratio. It can be computed by dividing the Earning Before Interest and Tax (EBIT) by total assets.

The ROCE is similar to the ROTA except in one respect, that is, here the profits are related to the total capital employed. The term, capital employed, refers to long-term funds supplied by the creditors and owners of the institution. It can be computed in two ways. First it is equal to non-current liabilities (long-term liabilities) plus owners' equity. Alternatively, it is equivalent to net working capital plus fixed assets. ROCE may be measured by dividing the EBIT by total capital employed.

⁶ P.S. Kemp, "Using Return on Investment for performance Evaluation in cost and management, Ottawa", June, 1964, pp. 275-77, Jain P.K., *Industrial Finance Corporation of India, op.cit.*, p. 26.

According to return on shareholders equity (ROSE) ratio, profitability may be assessed by dividing the net profit after taxes (EAT) by shareholders' equity. The ratio exhibits how profitably the shareholders' funds have been utilized by the BSB. This is probably an important ratio to judge whether or not the BSB has earned a satisfactory return for its shareholders. It would be recalled that the objective of financial management is to maximize the return to the shareholders.⁷

The ROTA and ROCE show how efficiently the BSB's financial resources are deployed. The rate of return on shareholders' equity (ROSE) focuses the profits on the funds given by the shareholders. The first two types of ROR have been determined on the basis of pre-tax earnings before interest (EBIT). By precluding effects of financial structure and tax rates, these rates highlight directly the operating efficiency of the BSB. The logic for inclusion of interest is that the RORs based exclusively on pre-tax profits would be an under-estimation. This is because the interest paid to the lenders is excluded from the net profits in numerator, whereas total assets or total capital employed as a part of denominator includes borrowed funds. In fact, the real return on the total assets is the net operating earnings including interests.

A more reliable indicator of the true return on assets is the net profits inclusive of interest. Apart from this fact, the advantage of taking EBIT as the numerator base is that it keeps the leverage effect constant. Thus the methodology framed above seems to signify well for evaluating the profitability of the BSB.

⁷ BSB is fully owned by the Government of Bangladesh and as such the government is its shareholder.

The 31 years' data of the BSB relating to its profitability measured in terms of rates of return on total assets (ROTA), rates of return on capital employed (ROCE) and rates of return on shareholder's equity (ROSE) are presented in the Tables 4.8, 4.9 and 4.10 respectively.

Table 4.8 Rate of Return on Average Total Assets (ROTA) of BSB from 1972-73 to 1993-94

(Taka in million)

Year (end-June)	ROTA (Annual Average) (%)
1972-73—1982-83	6.53
1983-84—1993-94	6.18
1994-95—2002-03	3.35

Source : For absolute data and details of individual years please refer to Appendix-C-10.

The rate of return on the total assets (ROTA) of the BSB in the first phase (1972-73—1982-83) as shown in Table 4.8 was 6.53 percent; which slightly declined to 6.18 percent in the second phase (1983-84—1993-94). In the third phase (1994-95—2002-03) it markedly deteriorated and came down to 3.35 percent only.

Table 4.9 Rate of Return on Average Capital Employed (ROCE) of BSB from 1972 to million)

Year (end-June)	ROCE (Annual Average) (%)
1972-73—1982-83	7.03
1983-84—1993-94	7.75
1994-95—2002-03	5.45

Source : For absolute data and details of individual years please refer to Appendix-C-11.

The rate of return on capital employed (ROCE) of the BSB slightly increased from 7.03 percent in the first phase to 7.75 percent in the second

phase. The reason might have been the increment of long-term funds in the second phase of the study. But a gloomy picture is exhibited in the third phase of the study. The annual average of ROCE decreases to 5.45 percent during the period from 1994-95—2002-03.

Table 4.10 Rate of Return on share holders equity (ROSE) of BSB from 1972-73 to 1993-94

(Taka in million)

Year (end-June)	ROSE (Annual Average) (%)
1973-74—1982-83	3.96
1983-84—1993-94	2.36

Note : There was no ROSE in 1985-86 and 1994-95 to 2002-03, because the EAT was nil in those years.

Source : For absolute data and details of individual years please refer to Appendix-C-12.

The profitability of the BSB in terms of rate of return on shareholders' equity (ROSE) for the first phase was 3.96 percent which fell sharply to 2.36 percent in the second phase. In the third phase of our study a horrible picture reveals. There has been no ROR on shareholders equity for the last nine years. During the said period BSB, could not create any provision for income tax payment to the government.

The BSB gradually raised the paid-up capital substantially over the years. The decrease in ROSE may be ascribed to the increase in the equity base. The decrease in return on equity was the result of reduced net profits of the BSB. This is also noticed from the extent of payment made to national exchequer by the Bank.

Table 4.11 Payments to national exchequer by BSB from 1972-73 to 1993-94

(Taka in million)

Year (end-June)	Payment to national exchequer (TK)	Annual Average (TK)
1	2	3
1972-73 to 1982-83	69.69	6.34
1983-84 to 1993-94	71.48	7.94

Note : No payment was made to national exchequer in the years 1985-86, 1986-87 and from 1994-95 to 2002-03

Source : For absolute data and details of individual years please refer to Appendix-C-13.

The profitability aspects of the BSB also pertain to the dividends paid by the Bank. As the BSB is fully owned by the Government of Bangladesh, the payment to the national exchequer by the Bank may be treated as dividend. The simple annual average of payment to national exchequer by the BSB was Tk. 6.34 million in the first phase as against Tk. 7.94 million in the second phase. Again, in the third phase the BSB could not see the light of any net profit. The bank could not develop any position to give payments to the national exchequer from its profit.

The profitability of the BSB should be judged by taking into account the amount of provision made for bad and doubtful debts. The provision for bad and doubtful debts is made by the BSB on the basis of guidelines given by the Bangladesh Bank (the central Bank of the country) and ADB/IDA. Besides, the Bank's own classification of the individual loan cases has also been considered.

Contents of Table 4.12 focuses a magnitude of bad and doubtful debts incurred by the BSB from 1985-86—1993-94.

Table 4.12 Provision for Bad and Doubtful Debts created by the BSB from 1985-86 to 2000-01

(Taka in million)

Year (end-June)	Bad debt provision created (TK)
1985-86	199.00
1986-87	228.07
1987-88	70.00
1988-89	75.00
1989-90	85.00
1990-91	100.00
1991-92	115.13
1992-93	106.37
1993-94	183.16
1994-95	471.93
1995-96	-
1996-97	-
1997-98	-
1998-99	-
1999-00	2659.44
2000-01	2023.71

Source : BSB, *Annual Report*, Various issues.

The provision of bad and doubtful debts of the BSB during 1985-86 was made in the accounts by deducting them from the gross income and correspondingly from loans and outstanding with the additional provision for Tk.

475.17 million.⁸ Besides, provision of Tk. 199.00 million as shown in Table 4.12 was made by adjusting equity in terms of an agreement reached among the government of Bangladesh, IDA, ADB and the BSB.

During 1986-87 a sum of Tk. 460.22 million was provided as an additional provision against the equity of the BSB over and above Tk. 228.07 million (shown in the Table 4.12) provided through the profit and loss account as per recommendation of the report of Hossain Committee.⁹

The profitability of the BSB should also be judged by taking the amount of provision created for bad and doubtful debt. The contents of Table 4.12 focuses on the fact that a high magnitude of bad and doubtful debts was created by the Bank during the period from 1985-86—1993-94.

In the year 1995-96, provision for bad and doubtful debts was assessed¹⁰ to Tk. 1090.00 million as per Bangladesh Bank's BCD circular No. 34/89, 20/90, 21/94 and 12/95. But that was provided to the extent of net profit. In that year there was no net profit of the bank. That is why the assessed amount remind unprovided.

In the year 1996-97 provision for bad and doubtful debt of the BSB assessed to Tk. 1166.20 million as per Bangladesh Bank's BCD circular, but provided to the extent of excess of income over expenditure. In that year BSB's

⁸ BSB, *Annual Report*, 1985-86, p. 38.

⁹ BSB, *Annual Report*, 1986-87, p. 37.

¹⁰ BSB, *Annual Report*. 1995-96, p. 37.

expenditure equals to income and as such Tk. 1166.20 million¹¹ assessed for the doubtful debt remains unprovided.

In the year 1997-98 required provision for bad and doubtful debts was Tk. 5786.43 million which was assessed as per Bangladesh Bank's BCD circular.¹² But the Bank has provided to the extent of excess of income over expenditure for the year, so the amount remains unprovided. General and specific provisions against bad and doubtful debts are made in the Bank's Head office books on the basis of information furnished by the branches of the bank.

In the year 1998-99 required provision for bad and doubtful debt was Tk. 6479.18 million which was assessed as per Bangladesh Bank's BCD circular No 16/98. BSB provided Tk. 3185.08 million upto 30.06.99, as such there arises a shortage of provision of Tk. 3294.10 million.¹³ Provisions against the aforesaid bad and doubtful debts are made in the banks head office books.

In 1999-2000 and 2000-2001 fiscal years ,the amounts of Tk. 2659.44 million and Tk. 2023.71 million were earmarked for provision of bad and doubtful debt. This two years' provision for bad debt has been shown in the banks profit and loss account.

From fiscal year 1995-96 to 1998-99 and 2001 to 2003, the provision for bad and doubtful debt of BSB, though calculated but not shown in the profit and

¹¹ BSB, *Annual Report. 1995-96*, p. 39.

¹² BSB, *Annual Report. 1999-98*, p. 34.

¹³ BSB, *Annual Report. 1998-99*, p. 39.

loss account of the bank for various reasons. This shows that the bank even could not have the capability to show it in the yearly profit and loss account. This is really a frustrating situation for the prime development bank of the country.

The large volume of the provision created for bad and doubtful debts exposes a gloomy recovery situation of the BSB. It is apparent that the capacity of the BSB to reinvest funds had been greatly hampered due to the poor recovery. As interest is its main income constituting more than 90 percent of the total (shown in Table 4.13) the BSB's profitability is sure to be crunched by shortage of reinvestable funds. The control of loans and losses will be a key to maintaining its profitability in the future.

Table 4.13 Relative Share of Interest Income to Total Income of the BSB from 1985-86 to 2002-03

(Taka in million)

Year (end-June)	Interest income	Total income	Share of interest income (Col.2 as % of Col. 3%)
1985-86—1993-94	4739.57	5085.39	93.20
1994-95—2002-03	6312.51	7329.73	86.12

Source : Compiled from the data of Appendix-C-1 and Appendix-C-14.

The BSB's main income comes from interest. Table 4.13 shows that during 1985-86 to 1993-94 interest income formed 93.20 percent of the total income, and in the next subsequent nine years, it decreased to 86.12 percent. This decrease might be due to lowering in the amount of loans and advances during the period. Again, there may be increment of income from profit on the sale of marketable securities and commission on purchase/sale of securities.

For profitability of BSB, rate of return on loans and investment should also be examined. Contents of the Table 4.14 reveals that the annual average of rate of return on the BSB's loans and investment was 7.01 percent in the first seven years (1972-73 to 1978-79) and 8.55 percent in the next fifteen years. It sharply reduced to 3.72 percent in the third phase of our study. This shows that in the last phase BSB could not disburse sufficient loans and advances to earn a reasonable profit. This down ward trend in the ROR on loans and investment exposes that the very base of BSB is shaking for its survival.

Table 4.14 Rate of Return on Loans and Investment of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Rate of return on loans and investment % (Annual average)
1972-73—1978-79	7.01
1979-80—1993-94	8.35
1994-95—2002-03	3.72

Source : For absolute data and details of individual years please refer to Appendix-C-9.

The BSB's rate of return (ROR) as a whole was very low and had a declining trend during the period under study. A plausible explanation for low returns may be the philosophy governing its financial operations. The BSB being a promotional institution, it is not expected to be guided exclusively by commercial feasibility of the projects. Its operations are to be in conformity with the objectives of national plans such as rapid economic growth, balanced regional development, etc. These financing are prone to higher risks on the one hand and provide low returns on the other hand.

4.6 SECTION IV

4.6.1 Observations

The above analysis clearly depicts that there exists a down trend profitability of the BSB over the years. The gross and net profit margin decreased sharply from the first to second phase and to third phase. At the same time its expense moves upward. Both operating and financial expense ratios marked an increasing trend over the years. Financial expense is the main cost component of the BSB. With the ever-increasing trend in the cost of debt, its profitability had been dwindled, which clearly exhibited in the negative figure of gross profit and the spread. The rate of return of the BSB is also not at all encouraging. The ROTA and ROSE decreases with very little increase in ROCE.

Chapter 5

RESOURCE MANAGEMENT OF BSB

5.1 Introduction

In the preceding chapter four, the performance of the BSB has been evaluated in terms of profit margin, expenses, and rates of return. The aim of this chapter is to analyse some other aspects of financial management having bearing on profitability and operational efficiency of the institution. For this purpose, the BSB's effective resource planning in terms of sources and uses of funds, maintenance of adequate liquidity, judicious capitalization, and its performance in terms of good record of recoveries have been testified.

Planning of resources of the BSB has to be viewed keeping in mind its philosophy and objectives as laid down in its charter. The financial operations of the BSB is now under considerable pressure, due partly to very high expectations from the Government, the industrial community and the public in general. It is due partly to inflationary trends in the economy, recessionary trends in the industry, rising capital costs, disconcerting input-output ratios, diminishing margins, growing financial uncertainties, increasing risks and, above all, uneasy resource planning exercises. As a development bank the initial challenge to the BSB is to evolve sound development banking practices and procedures for carrying out its operations at a time when the industry is in its conceptual state.

The chapter has been divided into the following six sections. Section one deals with the sources and uses of funds. Section two explains the cash flow statement of the BSB and section three examines the management of liquidity of the BSB. Section four testifies the capital structure/leverage ratio of the BSB and in section five problems of default and over-dues are registered. Some observations are given in section Six.

5.2 SECTION 1

5.2.1 Sources and Uses of Funds by BSB

The BSB's biggest challenge to remain viable depends inter-alia on its capacity to procure adequate funds. Generally, it acquired funds from borrowing, repayment of loans by borrowers, increase in paid-up capital, funds from business operations, sale of investments, etc. Funds are required to finance project loans (both long term and working capital), subscribe to securities of industrial enterprises and financial institutions, pay dividends and to repay borrowings, etc.

Funds-flow analysis have been used for indicating the trends of sources from which funds have been obtained and the uses to which they have been applied. The procedure is advantageous because it explicitly reveals how 'financial outflows' have been sustained. The approach brings it to the extent to which such finances have been made out of borrowings, repayment of loans by borrowers, increase in paid-up capital, etc.

A third important financial statement is the flow-of-funds or sources and uses of funds' statement. This statement shows the movement of funds into the bank's current assets from external sources. It also shows the movement of funds to meet the bank's obligations or pay dividends.

Over a period of time the profit and loss account will not be the only area affected by bank's operating decisions. There will also be changes in most assets and liabilities, particularly in the accounts making up working capital, such as cash, receivables and current payables. The statement that displays such changes in terms of funds movements is called a funds' flow statement.¹ It provides the basis for a dynamic analysis that focuses on the changes in financial condition resulting from the decisions made during a given period. The statement is prepared from a comparison of the beginning and ending balance sheets and is also linked to the operating statement for the period. It reflects decisions involving uses and sources of funds, that is, (a) commitments of funds to invest in assets or to repay liabilities; or (b) raising of funds through additional borrowing or by reducing asset investments. One major source of funds, of course is profitable operations in which revenues exceed costs and expenses. In contrast unprofitable operations are a use of funds.

Table 5.1 shows sources and uses of funds by the BSB. We have taken a period of fourteen years ranging from 1985-86—1998-99. This is because BSB uses fund flow statement up to 1998-99 and after wards it uses cash flow

¹ Helfert Erich, *Techniques of Financial Analysis*, op.cit., p. 22.

statement. For the analysis we may divide the fourteen years period into three phases. The first phase comprises five years from 1985-86 to 1989-90 and second phase comprises four years from 1990-91—1993-94 and third phase comprises five years from 1994-95 to 1998-99.

The Table indicates that from 1985-86 to 1989-90 and from 1993-94 to 1995-96 there was surplus fund implying an increase in sources. During 1990-91 to 1992-93 and from 1996-97 to 1999 there was deficiency in funds indicating an increase in uses of funds.

Table 5.1 Sources and Uses of Funds of the BSB from 1985-86 to 1998-99

(Taka in Million)

Year (end-June)	Total sources of funds (TK)	Total uses of funds (TK)	Surplus (deficiency) (Col. 2 - Col. 3) (TK)
1	2	3	4
1985-86	868.90	704.00	164.90
1986-87	1333.76	1222.47	111.29
1987-88	783.87	505.99	277.88
1988-89	2086.05	1181.82	904.23
1989-90	1793.65	1721.96	71.69
1990-91	1633.03	1793.37	(160.34)
1991-92	1753.43	1830.32	(76.89)
1992-93	2389.42	2464.59	(75.17)
1993-94	1447.86	1442.55	5.31
1994-95	1032.10	880.37	151.73
1995-96	2991.28	2738.29	252.99
1996-97	2352.48	2800.21	(447.73)
1997-98	2305.25	2408.77	(103.52)
1998-99	1224.87	1232.20	(7.33)

Source : Source : For details and percentage-wise data please refer to Appendix -D-1(i) & (ii)

The analysis shows that the borrowings were one of the important constituents of the sources of funds of the BSB. In the first-phase, the annual average of borrowing as part of the total sources of fund was 20.70%; this rose to 39.20% in the second phase and 60.69% in the third phase. The recovery of the loan showed a decreasing trend. In the first phase, the share of recovery in the total sources of fund was 29.27%. This sharply declined to 10.72% in the second phase and slightly increases in the third phase of the study to 22.10%.

The analysis of the uses of the funds shows that the annual average of disbursement of term loans by the Bank was 34.74% in the first phase. This constituted most important constituent in the total uses of funds during the years. However, its importance relatively declined to 27.46% in the subsequent phases and in the third phases it increases to 31.43%. During three sub-phases of the study, the share of repayment of borrowings remained almost static, in so far as it was 13.53% in the first phase and 12.99% in the second. Nearly constant rate of repayment coupled with increasing trend in the borrowings put financial burden and hampered the BSB's profitability during the period. But annual average of repayment during the third phase of our study increases to 25.83%.

5.3 SECTION II

5.3.1 Cash Flow by BSB

BSB uses cash flow statement from 1998-99. A major responsibility or a financial institution like BSB is to maintain an adequate cash position. A growing business that is operating profitably - as shown by its income (or profit and loss)

statement - may be starved for cash and in danger of technical insolvency.² According to J. M. Keynes, "It is the cash which keeps a business going".³ In fact, cash is the basic input needed to keep a financial institution running on a continuous basis. Though holding of cash balance has a cost in the form of its opportunity cost. The higher the level of idle cash, the greater is the cost of holding it due to loss of interest which could have been earned either by investing in other projects or by reducing the burden of interest charge by paying off the loans taken previously⁴ It is clear that proper cash management is required for smooth running and maximum profitability of the business.

In the previous section fund flow statement of BSB has been discussed to show the causes for the change in working capital. It also shows the sources from which the bank has financed its required funds and the uses to which it has applied its funds over the period of time. But the fund flow statement is more effective for studying long-range financial position of an enterprise. An enterprise may fail to meet its short-term commitments in spite of its sound long-range financial position and adequate profitability. Therefore, in studying short-range financial position, the management of BSB has given more emphasis on the cash flow analysis in recent years. Cash flow analysis provides more accurate information about its ability to meet obligations in near future. Such a

² Harry G, Guthman, and Herbert E, Dougall, *Corporate financial Policy* (USA : Prentic-Hall Inc. Englewood Clefts, 1962), p. 71.

³ Sujan C Jain and N D Mathur, *Financial Management* (India : Arihant Publishing House, 1994), p. 46.

⁴ *Ibid.*

statement is useful for the management to assess excess or shortage of cash, which help them to pay loans, to repay borrowed money to other banks, to pay interest to debenture holders, and to pay dividend to its shareholders.

Cash is one of the components of working capital and cash flow analysis deals with the cash transaction only. Under cash flow analysis, all movement of cash, rather than inflow and outflow of working capita would be considered. Such movements are depicted in a statement called Cash flow Statement.⁵

Cash flow statements are statements of changes in financial position prepared on the basis of funds defined as cash or cash equivalents. In short, cash flow statements summarize sources of cash inflows and uses of cash outflows of the enterprise during a particular period of time.⁶ In other words, a cash flow statement shows the movement of cash into and out of a business by listing the sources of cash receipts and the uses (disbursements) of cash.⁷ Cash flow statement of BSB during the last five years i.e. from 1999 to 2003 has been produced in Table 5.2.

⁵ N P Srinivasan, *Management Accounting* (New Delhi : Sterling Publishers Private Ltd, 1988), p. 236.

⁶ M Y Khan, *Financial Management* (New Delhi : Tata McGraw-Hill Publishing Company Ltd., 1988), p. 71.

⁷ P K Kulkarni, *Financial Management : A Conceptual Approach* (Bombay : Himalaya Publishing House, 1983), p. 154.

Table 5.2 Cash Flow Statement of BSB

(amount in million Tk.)

		1998	1999	2000	2001	2002
A	Cash Flow from Operating Activities					
	1. Profit from operational Activities	(222.98)	(3048.78)	680.42	918.36	790.78
	2. Increase/Decrease of operational Assets	(298.64)	314.87	(560.22)	(97.47)	2.32
	3. Increase/Decrease of Operational Liabilities	(149.02)	33.87	80.55	(.05)	(.08)
	Total (1+2+3)	(670.64)	(2700.04)	200.75	815.44	3114.55
B	Net Cash Flow from Investing Activities (1+2)	1.38	4.27	(6.01)	3.24	(0.038)
	1) Dividend Received	2.33	5.22	4.14	5.52	7.81
	2) Purchase & Disposal of fixed assets	(0.95)	(0.95)	(10.15)	(2.28)	(7.84)
C	Cash flow from Financing Activities (1+2)	662.10	2628.84	(209.29)	(744.41)	(3200.56)
	1) Increase/Decrease in borrowing	633.07	66.42	138.16	176.60	72.78
	2) Increase /decrease in other liabilities	29.03	2562.42	(347.45)	921.01	3273.35
D	Net increase/ Decrease of Cash & cash equivalent (A+B+C)	(7.16)	(66.96)	(14.55)	74.27	(86.05)
E	Opening Cash & Cash Equivalent	204.8	197.64	130.71	116.15	190.42
F	Closing Cash & Cash equivalent	197.64	130.71	116.16	190.42	104.37

Source : BSB, *Annual Reports*, 1998-99 —2002-2003.

It is evident from the above table the size of total cash at the end of each year decreased throughout the period of five years except in 2002. The size of total cash was Tk. 197.64 million in 2001. However; i.e. in 2003, it again, dropped to Tk. 104.37 million.

It is observed from the table that the components of cash balance represent the aggregate of (A) cash flow from operating activities, (B) Cash flow from investing activities, and (c) Cash flow from financing activities. The table points out that cash flow from operating activities and Cash flow from financing activities generally formed the major part of total cash in each of the years covered by the present study. Among the three components, cash flow from investment activities is very insignificant in all the years. Investment activities consist of dividend received and purchase and disposal of fixed assets. Thus, it is observed that the management failed in generating a considerable amount of cash in the form of dividend received in its investment activities.

Cash flow from operating activities shows negative increasing trend in the first two years and positive increasing trend in the remaining three years. On the other hand, cash flow from financing activities shows positive increasing trend in the first two years and negative increasing trend in the last three years. The two opposite correlation between cash flow from operating activities and financing activities indicates that, to cover the significant amount of cash out flow in operating activities, the bank had to borrow almost the same amount through its financing activities in the first two years. In the last three years of our study, the bank succeeded in increasing cash in flow through its operating activities but it had to repay a significant amount of borrowing funds in its financing activities. Thus, due to higher cash out flow from operating activities and lower cash in flow from financing activities (i.e. year 1998-99 & 1999-2000) or lower cash in flow from operating activities and higher cash out flow from financing activities (i.e.

year 2000-01, 2001-02 & 2002-03), the size of closing cash balance decreased gradually from Tk. 197.64 million in 1999 to Tk. 104.37 million in 2003.

5.4 Control of Cash Flow by BSB

One of the major objectives of cash management in every financial institution is to maximize profitability by imposing effective control over cash flow. Because, holding unnecessary cash not only adversely affects the profitability but also reduces purchasing power in an inflation ridden economy like Bangladesh. It is also of importance to shareholders and long term creditors of the bank in determining the prospect of dividend and interest payment. Thus, as a financial institution, BSB should always maintain an optimum cash balance- neither a small nor a large cash balance. To find out the optimum cash balance, the bank generally utilizes its past experience. It also compares its cash balance with its current assets or current liabilities to find out what portion of current assets or current liabilities should be held in cash balance to avoid the risk of not holding enough cash and the opportunity cost of holding idle cash.

The study now judges the adequacy of cash balance of BSB in the last ten years with respect to its current cash balance to its current assets or current liabilities. In this issue James E. Walter proposed, "instead of matching current asset assets with current liabilities i.e. current ratio, better results can be obtained by matching current obligations with net cash flow."⁸ In this regard, R.K. Mishra suggests that an enterprise to be actually liquid and solvent should

⁸ James E. Walter, "Determination of Technical Solvency", *Journal of Business*, Vol. 30, January 1957, pp. 30-43 sighted in Sujan C. Jain and N.D. Mathur, *op.cit.*, p. 59.

have 100 per cent or more net cash flows to current liabilities ratio.⁹ With respect to cash balance another study proposes that in a comfortably financed business it will probably run not less than 5 to 10 per cent of the current assets.¹⁰ The ratio of cash to current assets, for a period of ten years, has been presented in the following Table 5.3.

Table 5.3 Cash to Current Assets Ratio

(million tk.)

Year	Cash	Current Assets	Ratio
1993-94	353.39	992.04	35.62
1994-95	505.10	1098.42	45.98
1995-96	758.09	1649.57	45.96
1996-97	310.35	1312.67	23.64
1997-98	745.47	1190.04	62.64
1998-99	197.64	1423.35	13.88
1999-00	130.71	1122.84	11.64
2000-01	116.16	1118.12	10.39
2001-02	190.42	1233.92	15.43
2002-03	104.37	1607.71	6.49

Source : BSB, *Annual Report*, Various Issues.

The above table presents the cash to total current assets ratio in BSB for a period of last ten years (i.e. from 1993-94 to 2002-03). It is observed that the ratio of cash to current assets in BSB was very high in the first five years of the

⁹ R K Mishra, *Problems of Working Capital with Reference to Selected Public Undertakings in India* (Mumbai : Somaiya Publications Pvt. Ltd., 1997), p. 134.

¹⁰ Surendra Kumer Jindal, "Working Capital Management in Scooter Manufacturing Companies in India", Sujan C Jain and N.D. Mathur, *Financial Management* (India : Arihant Publishing House, 1994), p. 64.

table. It was very high at 35.62% in 1994 which further increased in next four years and went up to as high as 62.64% in 1997-98. In comparison to the first five years, the ratio was very low in each of the next five years. After showing a very high ratio up to 1998, it decreased by more than four times and came down to 13.88% in 1999. Thereafter, it decreased continuously and reached as low as 6.49% in final year of our study. It is evident from the table that out of the ten years, the ratio was very high in the first five years, and among those years it has crossed even sixty percent in one year, which is a clear indication of existing idle cash in those years. In this connection, it can be mentioned that the concerned bank should invest excess cash in marketable securities which can be conveniently and promptly converted into cash when it is required. Thus, the information presented in the table indicates that the management of the bank sometimes failed to tighten its effective control over the cash.

5.5 Cash to Current Liabilities Ratio

The efforts of the bank to control cash flows can also be investigated through analysing the level of cash balance in relation to current liabilities. The ratio of cash to current liabilities in BSB for a period of ten years has been presented in Table 5.4.

Table 5.4 Cash to Total Current liabilities Ratio

(million Tk.)

Year	Cash	Current Liabilities	Ratio
1993-94	353.39	2808.54	12.58
1994-95	505.10	3017.55	16.73
1995-96	758.09	2599.45	29.16
1996-97	310.35	3017.55	10.90
1997-98	745.47	2808.54	30.06
1998-99	197.64	1892.07	10.44
1999-00	130.71	7993.79	1.63
2000-01	116.16	9671.92	1.20
2001-02	190.42	6944.56	2.74
2002-03	104.37	5795.28	1.80

Source : BSB, *Annual Reports*, different years.

The ratio of cash to total current liabilities in BSB shows the similar trend which was observed in the previous table. The ratio was very high in the first five years which started from 12.58% in 1994 and fluctuated within the range of 10 to 30 per cent. In the beginning of the last five years the ratio came down from 30.06% in 1998 to the 10.44% in the 1999 which further decreased to 1.63% in 2000 and remained very low in each of the subsequent years.

It is also observed that, in the first phase of our study, the amount of cash balance at the end of each year was very high as compared to current liabilities, but while the latter started to increase very rapidly, the amount of cash balance also started to decrease very rapidly. It indicates that the bank was not able to pay for its short term obligations due to lack of sufficient cash balance and consequently current liabilities had increased significantly in those years. Therefore, it is said that sufficient efforts were not made by the bank

management to avoid excessive cash resource in the first five years of our study. It is also said that the management was unable to maintain enough liquid assets in the form of cash in the business in the last five years of our study.

5.6 SECTION III

5.6.1 Management of Liquidity

Another aspect of operational efficiency of the BSB affecting its profitability is the size of liquid funds maintained by it. The importance of adequate liquidity, ability to meet the current and short-term obligations as and when these become due for payment, cannot be over-emphasized. For the main objective of efficient working capital management is to maintain adequate liquidity without impairing profitability. Liquidity implies, from the view point of utilization of the funds, that funds are idle or they earn very little. A very high degree of liquidity of the BSB, means that its funds are unnecessarily tied up in current assets. A proper balance between the two contradictory requirements, i.e. liquidity and profitability, is required for efficient financial management.¹¹

BSB's ability to pay its debts can be measured partly through the use of liquidity ratios. Liquidity ratios examine the adequacy of funds, the solvency of the bank and the bank's ability to pay its obligation when it is due. Short – term liquidity involves the relationship between current assets and current liabilities.¹² If the bank has sufficient net working capital (the excess of current assets over current liabilities), it is deemed to have sufficient liquidity.

¹¹ M Y Khan & Jain P K, *Financial Management* (New Delhi : Tata McGraw Hill Publishing Co. Ltd., 1992), p. 81.

¹² John J. Hempton, *Financial Decision Making Concepts, Problems and Cases* (New Delhi : Prentice Hall of India Pvt. Limited, 1996), p. 102.

The current ratio is a ratio of the bank's total current assets to its total current liabilities. A low ratio is an indicator that BSB may not be able to pay its future bills on time. A high ratio may indicate an excessive amount of current assets and the management's failure to utilise the bank's resources properly.

The current ratio is computed by dividing current assets by current liabilities.¹³ Current assets are viewed as relatively liquid, which means they can generate cash in a relatively short time period. Current liabilities are debts that will come due within a year.¹⁴

A poor current ratio may imply that only one or that several of the specific current assets and liabilities are at an undesirable level. Thus a low current ratio could mean that cash, marketable securities, accounts receivable should be increased. Similarly a low current ratio may mean that one or more of the debts-accounts payable or not payable or accruals or provisions for taxes – should be reduced.

As a measure of current financial liquidity, it indicates that the Taka of current assets available for each Taka of current liability. The higher the current asset ratio, the larger the amount of Taka available per Taka of current liability (Taka is the currency of Bangladesh).

A very high ratio of current assets to current liabilities may be indicative of slack management practices and poor credit management in terms of over-

¹³ Weston Fred J and Brigham Eugene F, *Managerial Finance* (Uinois : The Dryden Press, 1981), p. 139.

¹⁴ Schall Lawrence D and Haley Charles W, *Introduction to Financial Management* (Singapore : McGraw Hill Inc., 1991), p. 510.

extended accounts receivable. The BSB should have a reasonable current ratio. Although there is no hard and fast rule for the same, as a rule of thumb a current ratio of 2 : 1 is considered satisfactory. The rule of thumb cannot be applied mechanically. The satisfactory ratio depends upon the development of capital market and the availability of long-term funds to finance current assets.

The picture that emerges regarding current ratio of the BSB from 1972-73 to 2002-2003 are summarized in Table 5.5. The data contained in the table shows that the BSB operates gradually with lower margin of working capital or relatively lower current ratio. This is also evidenced from the fact that annual average of the current ratio for the first five years (1972-73 to 1976-77), the second five years (1977-78 to 1981-82), the third five years (1982-83 to 1986-87) and the fourth seven years (1987-88 to 1993-94) and the last nine years (1994-95 to 2002-03) of the period of study were 4.61:1, 1.61:1, 0.57:1, 0.55:1 and 0.38:1 respectively. The analysis seems that the BSB's current ratio had a clear declining trend.

Table 5.5 Current Ratio of BSB from 1972-73 to 2002-2003

Year (end-June)	Current Ratio
1972-73—1976-77	4.61 : 1
197-78—1981-82	1.61 : 1
1982-83—1986-87	0.57 : 1
1987-88—1993-94	0.55 : 1
1994-95—2002-03	0.38 : 1

Source : For absolute data and details of individual years please refer to Appendix-D-2

In Bangladesh there is an undeveloped capital market. However, it has a rising trend, and the BSB as a fully government owned financial institution, has

an easy access to money market and can easily tap it in times of needs. So, a high current ratio for the BSB is not advisable. The special privileges available to the BSB to make short-term borrowing from the Government of Bangladesh and the Central Bank i.e. Bangladesh Bank should enable it to operate on smaller margins of working capital. So, for efficient working, higher current ratio should be avoided so that current assets do not lie idle with the BSB.

5.7 SECTION IV

5.7.1 Management of Capital Structure of BSB

One of the functions of financial management analysis is the examination of leverage or capital structure ratios. The analysis is important for measuring efficiency of a development bank like the BSB. In this section the proportion of debt to shareholders equity, the terms of financing debt and other related questions to capitalization have been explained.

The short-term creditors interested in the current financial position would use the liquidity ratio. The long-term creditors would judge the soundness of the development bank on the basis of its long-term financial strength. The leverage or capital structure ratios may be defined as the financial ratios which throw light on the long-term solvency of a development bank reflected in its ability to assure the long-term creditors.

Leverage ratios, which measure the funds supplied by owners as compared with the financing provided by the bank's creditors. It has a number of implications. First creditors look at the equity, or owner-supplied funds, to

provide a margin of safety. Second, by raising funds through debt, the shareholders (the government) gain the benefits of maintaining control of the bank with a limited investment third; and if the bank earns more on the borrowed funds than it pays in interest, the return on the owners is magnified.

Banks with low leverage ratios have less risk of loss when the economy is in a downturn, but they also have lower expected returns when the economy booms. Conversely banks with high leverage ratios run the risk of large losses but also have a chance of gaining high profits.

In practice, leverage is approached in two ways. One approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the bank. The other approach measures the risks of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profits.

There are thus two aspects of the long-term solvency of a development bank- (i) ability to repay the principal when due, and (ii) regular payment of the interest. Accordingly, there are two different, but mutually dependent or inter-related, types of leverage ratios. The first, types are ratios based on the relationship between borrowed funds and share of capital. These ratios are computed from the balance sheet and have many variations such as- (a) debt-equity ratio, (b) debt-assets ratio, (c) equity-assets ratio, and so on.

The second types of capital structure ratios, popularly known as coverage ratios, are calculated from the profit and loss accounts. The ratios included in this category are : (a) debt service coverage ratio, and (b) interest coverage ratio, etc.

Debt-equity Ratio of BSB

An appropriate mix of debt and equity is an important consideration for financial appraisal of any development bank. Accordingly, here the proportion of debt of the BSB to shareholder's equity has been discussed.

The debt equity ratio, is calculated by dividing the total debt by the total equity. The ratio shows how much of the BSB's assets are financed by debt and equity. If BSB has excessive debt, it will experience difficulty in locating additional debt financing. The bank will be able to borrow only at high interest rates. On the other hand, if the ratio is low it may indicate a failure to use relatively lower cost borrowed funds.

What constitutes an ideal debt-equity ratio is difficult to specify. There is an inherent risks in the long-term loans of any financial institution. So, a rational decision on the capitalization structure of a development bank and various exposure limits to it have to be based on an assessment of these risks. But the BSB does not require to frame any strategy on this line because of its special facilities of getting funds in times of needs as a fully government owned bank. The BSB should have a fairly high debt-equity ratio. The bank might be required to go with the World Bank's requirement of capital structure. The capital

structure in the "World Bank Model" allows a maximum of nine units of debt capital for every unit of shareholders equity.¹⁵

Debt equity ratio of BSB listed in Table 5.6 shows a decreasing trend from the first ten years' period to the next eleven years' period. But it rose to 4.06 : 1 during the last nine years' period of the study. The annual average of debt – equity ratio for the first ten years (1973-74 to 1982-83) was 3.21 : 1 and during the latter eleven years' (1983-84 to 1993-94) period was 2.76 : 1 and for the last nine years' (1994-95 to 2002-03) period was 4.06 : 1. The foregoing analysis shows that in the last part of our study the debt – equity of the BSB has an increasing trend. But, the analysis reveals that during the whole period of our study it could not cross the ratio of 5 : 1 laid down as a minimum ratio in its operating policies. The increasing trend in the last phase of the study is a good sign. The lower debt-equity ratio of the bank is indicative of its problem of borrowing as a source to meet the growing requirements. This decreasing trend in the ratio may be due to suspension of giving loans to the BSB by the traditional donor agencies from 1983-84. The analysis seems to signify that the shortage has been made-good by having increase in equity.

Table 5.6 Debt-equity Ratio of BSB from 1973-74 to 2002-03

Year (end-June)	Debt-equity ratio
1973-74—1982-83	3.21 : 1
1983-84—1993-94	2.76 : 1
1994-95—2002-03	4.06 : 1

Source : For absolute data and details of individual years please refer to Appendix-D-3.

¹⁵ Jain P.K. "Industrial Finance Corporation of India : A Study in Financial Management", p. 68.

Debt-assets Ratio

The ratio of total debt to total assets, generally called the debt ratio.¹⁶ It measures the percentage of total funds provided by creditors. In debt asset ratio, it is calculated by dividing the total debt by the total assets. If the debt ratio is too high, there is a danger of encouraging irresponsibility on the part of the owners. Creditors prefer moderate debt ratios.

In Table 5.7 the debt – asset ratio of the BSB has been shown. The table exposes a clear declining trend of the ratio throughout the period of our study. The annual average of debt assets ratio of the BSB in the first phase was 71.83%, in the second phase it was 57.81%, and also in the third phase of the study it has shown a downward trend to the tune of 53.22%.

Table 5.7 Debt-assets Ratio of the BSB from 1972-73—2002-03

Year (end-June)	Debt-assets ratio (%)
1972-73—1982-83	71.83
1983-84—1993-94	57.81
1994-95—2002-03	53.22

Source : For absolute data and details of individual years please refer to Appendix-D-4.

Equity-assets Ratio

The ratio which is related to owners' funds to total assets is called equity-assets ratio. The ratio indicates that the proportion of total assets are financed by the owners (in case of BSB, the Government).

¹⁶ Weston Fred J and Copeland Thomas E., *Managerial Finance* (Chicago : The Dryden Press, 1989), p. 181.

The annual average of equity-assets ratio of the BSB in the first ten years (1973-74—1982-83) was 22.35%, in the second phase (1983-84—1993-94) it was 21.53%, and in the third phase (1994-95—2002-03) it was 12.33%. Contents of Table 5.8 indicate that owners participation in relation to assets of the BSB has been gradually reduced. The analysis shows that the increases in investable funds have been made out of equity (Table 5.8).

Table 5.8 Equity-assets Ratio of the BSB from 1973-74—2002-03

Year (end-June)	Equity-assets ratio (%)
1973-74—1982-83	22.35
1983-84—1993-94	21.53
1994-95—2002-03	12.33

Source : For absolute data and details of individual years please refer to Appendix-D-5.

Debt-service Coverage Ratio

The financial appraisal of BSB should also be made by examining its position to meet its repayment obligations both in terms of return on the principal and payment of interest on borrowing. For this purpose debt-service coverage ratio (DSCR) has been examined. The DSCR is one of the conventional ratios frequently used to test the debt-servicing capacity of the financial institutions.¹⁷ It is an important guide to the BSB. This ratio presents how many times more the interest and debt charges are covered by the funds ordinarily available for total repayment obligations. This ratio also denotes the extent to which the earnings may fall without causing any risk to the BSB regarding repayment of debts and interests.

¹⁷ B.A. Rao and I Parthasarathi, "Debt-service Coverage Ratio in SFCs : An Appraisal", *Financial Express*, 21.7.1986.

A high DSCR is desirable, but too high a ratio indicates that the BSB is not using credit or debt facility to the best advantage. A very low ratio indicates excessive reliance on debt, which is equally undesirable. Usually debt coverage of two and above is deemed as satisfactory.¹⁸

The annual averages of debt-service coverage ratios (DSCR) of the BSB are presented in Table 5.9. It was 1.41 times from 1977-78—1982-83. However it declined to 1.28 times in the second phase of our study. Again, it increases to 1.92 times in the third phase (1994-95—2002-03) of our study. This signifies that the BSB's profitability and its capacity to service huge volume of debt has been decreasing in the second phase which shows a slight upward trend in the third phase of the study.

Table 5.9 Debt-service Coverage Ratio (DSCR) of BSB from 1977-78 to 2002-03

Year (end-June)	DSCR
1977-78—1982-83	1.41 times
1983-84—1993-94	1.28 times
1994-95—2002-03	1.92 times

Source : For absolute data and details of individual years please refer to Appendix-D-6.

Interest Coverage Ratio of BSB

Interest coverage ratio is also important for examining the BSB's operational efficiency, which measures its debt servicing capacity in so far as fixed interest on long-term loan is concerned. This ratio is determined by

¹⁸ S.K. Bhattacharya, "Cost of Production and Profitability Projections and Cash Flow's", Second Foundation Course in Development Banking, Background Material, New Delhi: Management Development Institute.

dividing the operating profits or earnings before interest and taxes (EBIT) by the fixed interest charges on borrowing and deposits. It may be noted that this ratio uses the concept of net profits before taxes because interest is tax-deductible. So that tax is calculated after paying interest on long-term loans. This ratio, as the name suggests, shows how many times the interest charges are covered by the EBIT and to what extent it is tolerable in the sense that the ability of the BSB to service its debt would not be adversely affected. The larger the coverage, the greater the ability of the BSB to handle fixed charges, liabilities and the more assured payment of interest to the creditors. However, too high a ratio may imply unused debt capacity, and a low ratio is a danger signal for the BSB of using excessive debt and does not have the ability to offer assured payment of interest to the creditors. Interest coverage between 3 to 4 as a rule of thumb, is regarded as satisfactory.¹⁹

The BSB's interest coverage ratio are portrayed in Table 5.10 and those registered a diminishing trend up to second phase of the study. In the first phase (1972-73—1982-83) and in the second phase (1983-84—1993-94) and in the third phase (1994-95—2002-03) the annual average of the coverage ratio were 1.59 times, 1.41 times, and 1.22 times respectively. The examination seeks to explain that BSB's capacity to service interest, had been dwindling up to second phase. But afterwards BSB's capacity to service interest has been gradually improving over the years in the third phase.

¹⁹ D.N. Davar, "Financial Appraisal of Industrial Projects by Financial Institutions", Second Foundation Course in Development Banking, p. 70.

In view of the above analysis it would be worthwhile to know the soundness of the total portfolio. This can be measured by the ratio of total funds outstanding on projects in default to the total loans portfolio. Due to non-availability of data such measure could not be applied. However, some insight about the soundness of loan portfolio could be focussed by relating amount received to the total amount due. This makes the subject of deliberation of section five below.

Table 5.10 Interest Coverage Ratio of BSB from 1972-73—2002-03

(million Tk.)

Year (end-June)	EBIT (TK)	Interest paid (TK)	Interest coverage ratio (Col. 2 as % of Col. 3%)
1972-73—1982-83	1789.78	1267.40	1.41 times
1983-84—1993-94	5177.49	4240.08	1.22 times
1994-95—2002-03	5285.98	3320.53	1.59 times

Source : Compiled from data of Appendix-C-3.

5.8 Section V

5.8.1 Problems of Default and Over-dues

An important criterion to judge the operational efficiency of the BSB is to see the problem of defaults and over-dues by the assisted companies and institutions in the matter of recovery of principal as well as interest. Not only does the profitability, but also the very survival of a financial institution depend on the recovery of money lent out.²⁰ So, it is necessary that the amounts due from assisted concerns should be received in time. This section deals with the default and recovery position of the BSB.

²⁰ S. Kumar and N. Gera, "Recovery Strategy of SFC's", *Financial Express*, 14.03.1989.

All those dues which are not good and irrecoverable, technically speaking, are bad debts. The BSB cannot completely eliminate losses arising out of bad debts irrespective of the degree of sophistication adopted in the appraisal and follow-up techniques. Reasons are numerous. Inability of the assisted projects to honour the commitments might be due to uneconomical operations, closure of the unit, conscious decision to write-off a portion of dues by the BSB itself, as a part of resuscitation measures, repudiation of dues by assisted projects, inadequate security coupled with the absence of any hope of getting the dues fully secured due to indifferent attitude of the borrowers and prolonged legal battle to which the dues are subjected to by the borrowers, are just a few illustrations in this context. Whatever be the reason, the net result is a fall in the income of the BSB which has either been accounted for or has to be accounted for. Bad debts, increasing social obligations, compulsion to enter totally unconnected areas of business, adverse movement of exchange rates and drying up of source of funds are all taking their toll on the BSB.

The borrowers have shown an inordinately poor capacity for repayment and regeneration of reinvestible surpluses from the projects commissioned from the BSB's lending programmes. The share of delinquent loans in the BSB's assets portfolio increased to a point where the viability of the BSB is put into question.

Table 5.11 shows that annual average of total over-dues of the BSB has been rising in comparison to total outstanding. It appears that the share of over-dues in the first phase (1972-73—1982-83) was 28.57% and in the second

phase it was 41.63% and again, in the third phase (1994-95—2003-04) it was 55.82% showing a clear increasing trend.

Table 5.11 Share of Over-dues to Total Outstanding of the BSB from 1972-73—2002-03

Year (end-June)	Over-dues as percentage of total outstanding (%)
1972-73—1982-83	28.57
1983-84—1993-94	41.63
1994-95—2002-03	55.82

Source : For absolute data and details of individual years please refer to Appendix-D-7.

BSB's recovery of loans (cash) in comparison to total outstanding has been examined in Table 5.12. During the first phase the recovery of annual average was 8.16% of the total outstanding of the BSB's loan portfolio. But even this modest rate has further declined to as low as 5.60% in subsequent phase of study. In the last phase of the study however, there was a modest increase up to 6.58% of recovery of loan to total outstanding of the BSB.

Table 5.12 Relative share of Recovery of Loans (cash) to Total Outstanding of Loans of the BSB from 1972-73 to 2003-04

Year (end-June)	Recovery of loan (cash) as percentage of total outstanding loan (%)
1972-73—1982-83	8.16
1983-84—1993-94	5.60
1994-95—2003-04	6.58

Source : For absolute data and details of individual years please refer to Appendix-D-8.

The recovery of the BSB's loans to total over-dues also discloses a downward trend. Contents of Table 5.13 exhibits that the annual average of

recovery of loans (cash) to total over-dues in the first phase (1972-73 to 1982-83) was 34.32% but it falls to 12.81%, marking more the two and a half fold reduction from the first to the second phase (1983-84 to 1993-94); and in the last ten years (1994-95 to 2003-04), it slightly decreases to 11.94%.

Table 5.13 Relative Share of Recovery of Loans (cash) to Total Over-dues of the BSB from 1972-73—2003-04

Year (end-June)	Recovery of loan (cash) as % of total over-dues (%)
1972-73—1982-83	34.32
1983-84—1993-94	12.81
1994-95—2003-04	11.94

Source : For absolute data and details of individual years please refer to Appendix-D-9.

The Tables 5.12 through 5.13 make it clear that the BSB's recovery of loans deteriorated from the first phase to the second phase and to third phase of our study. The rate of increase in the proportion of over-dues in comparison to total outstanding; and declining rate in the recovery in comparison to outstanding and over-dues, from the first phase to the subsequent second phase and third phase, is really distressing. The above analysis reveals that huge magnitude of defaults definitely tells upon the BSB's profitability and its operational efficiency.

At the root of poor repayment to the BSB lies on the actual operational performance of the borrowing enterprises.²¹ The extent to which an enterprise has chosen its investment project unwisely without consideration of its

²¹ R. Sobhan, & A. Ahsan, *Research Report*, p. 5.

perspective market regime, state of competition and access to raw materials and credit and the available infra-structure facilities, it may be expected to face difficulties. All this results in bad debts.

Measures initiated by the Government of Bangladesh (GOB) for improvement of BSB's management included inter alia, the decision to strengthen the legal framework to take effective measures against the defaulters. GOB promulgated the 'Artha Rin Adalat' (Money and Loan Court) Ordinance-1989²² by Ordinance No. 16 of 1989. This court was meant for the quick disposal of bank loan cases with sufficient powers.

But the recovery and sale of assets have proved the most futile of all exercises, so that the effective sanction of law has held little hope of improving recovery. It may therefore be good for the BSB to depend more on persuasion rather than taking the cases to the court of law in cases of default on the part of borrowing firms.

The problems of repayment to the BSB has posed a series of critical questions which need to be resolved, if the industrialization process is to be sustained. If repayment performance is to be improved, then operational performance of the enterprises must improve to the point where surpluses can be generated.

²² GOB, *Bangladesh Gazette Ordinary* (Dhaka : 13th November 1989).

Any policy intervention to improve repayment performance of the BSB assumes capacity to exercise discipline in public life guided by principles rather than personal interests. It will assume the supremacy of institution over personal access and influence. If we cannot create such a political environment, then improved performance of the BSB and better repayment will either be cosmetic and/or temporary. The existing default culture should be replaced by payment culture. There should be good government and good management in industries for smooth performance and functioning of the BSB.

5.9 Section VI

5.9.1 Observations

On the basis of preceding analysis, the main observations may now be drawn. Analysis of sources and uses of funds reveals that the share of recovery of term loan (principal) has been gradually decreasing. On the uses side, the disbursement of term loan has slightly been decreasing from the first phase to the second phase and third phase; but repayment of borrowing had a declining trend which may impose financial burden on the BSB.

From the view point of liquidity, the BSB has been functioning gradually with low working capital margin and low current ratio. Though it has an easy access to resources of short-term funds as a fully government owned bank, the continuous and steady declining trend in the current ratio is really alarming. If this trend persists in the future, the BSB may face problems in terms of meeting short-term obligations.

For capitalization the BSB's debt-equity ratio seems to be not very satisfactory. The ratio is far below the 'World Bank Model' and also as prescribed in its operating policies. This signifies that the BSB has been handicapped by the paucity of investable funds. As a development bank, the BSB cannot procure sufficient borrowed funds, if its profitability definitely remains hamstrung.

The BSB's DSCR and interest coverage ratio has been steadily decreasing. Its implications falls on its low income trend. The DSCR of the BSB should improve at least to the point of upgrading its operational efficiency and raising earning power not only to achieve greater capacity to service the existing debts, but also to redeem a part of the total debts.

Low recoveries of loans and persistent increase in over-dues, undermines its profitability and operational efficiency. The low recoveries can however, be ascribed partly to the nature of its project financing operations and partly to socio-politico-economic factors beyond its control.

PART III

**THE ALLOCATIONAL EFFICIENCY OF
THE BSB**

Chapter 6

PROMOTIONAL ROLE OF THE BSB IN FINANCING INDUSTRIAL PROJECTS

6.1 Introduction

Partially the various dimensions of the efficiency of BSB has been examined in the previous chapters. As formulated in chapter one, the second aspects of the appraisal of the BSB relates to its allocational efficiency. The present chapter, in part four analyses the allocational efficiency of the BSB in terms of the part played by it.

To highlight the subject matter, the chapter has been divided into four sections. Section one deals with the regional distribution of assisted enterprises, section two enquires about the entrepreneurship development, section three assesses the extent of rehabilitation of sick mills assisted by the BSB, and the final section four sums up the concluding observations.

6.2 SECTION 1

6.1.1 Geographical Dispersal of Enterprises by the BSB

This section attempts to show regional distribution of loans and advances by the BSB. The BSB can contribute a lot to alleviate regional economic disparities and promote industries in backward areas by providing assistance in those areas.

The government's policy of promoting a balanced development is consistent with long-term economic viability and a geographical dispersal of industries. Accordingly, Bangladesh is divided into three¹ categories of regions, namely- (a) developed areas, where adequate infrastructure exists and sufficient industrialization has taken place; (b) the less developed areas, where partial infrastructure has been developed and some industrialization has taken place; and (c) the least developed areas where neither infrastructure has been developed nor any industrialization has taken place. All these areas and regions are specified by the government and notified in the official gazette, which is subject to review from time to time.

Various industrial policies and plans (e.g. Industrial Policy of 1972, New Industrial Policy (NIP) of 1982 & Revised Industrial Policy (RIP) of 1986, Two Year Plan (1978-80) and Five Year Plans (1973-78, 1980-85, 1985-90 and 1990-95) of Bangladesh had been articulated in stressing the need to achieve industrial dispersal to reduce inter-regional disparities. The Government for this purpose had worked out a comprehensive package of measures, financial as well as non-financial to promote the process of industrialization in the less developed regions of the country. The important among these measures are recapitulated hereinafter in the following sections.² In order to make institutional financing viable and continuous, the following measures were taken by the government-2 and the BSB.

¹ GOB, *Industrial Policy-1986* (Dhaka : Ministry of Industries, July, 1986), p. 11.

² *Ibid.*, pp. 11 & 17.

(1) A Special Assistance Fund (SAF) had been created by the BSB (as per government policy and directives). This Fund would be utilized to provide concessional loans to the projects which are (i) based on local innovation and invention of products and processes; (ii) utilizing locally manufactured capital goods; and (iii) producing of capital goods, machinery parts and other non-traditional item.³ But, the BSB had to work out the modalities for creation and administration of this Fund.

To improve industrially backward regions, the government made a concessionary rate of import duty, non-imposition of sales tax and import licence fees and longer period of tax holiday for those areas. There shall be a tax holiday of five years, seven years and nine years for industries to be set up in Developed Areas, Less Developed Areas, and Least Developed Areas, respectively. The period of the holiday will be calculated from the month of the commencement of commercial production.

The rate of import duty on machinery and equipments with integral parts and components for setting up of new industry and for balancing, modernisation replacement and expansion of existing industries shall be as follows:

- (i) For Developed Areas : 20% ad valorem (no sales tax),
- (ii) For Less Developed Areas : 7.5% ad valorem (no sales tax), and
- (iii) For Least Developed Areas : 2.5% ad valorem (no sales tax).

³ *Ibid.* p. 14; BSB, *Annual Report-1986-87*, Dhaka, p. 46.

As a matter of government policy, the DFIs (which include the BSB) would have to reserve appropriate funds as directed by the Bangladesh Bank (The Central Bank) both in local and foreign currencies for investment in the less/least developed areas. To improve the accessibility of its service as well as dispersal of industrialization process, the BSB had been widening its special coverage throughout the country.

In consistent with the government policy, the BSB used to give concessional assistance to the project coming up from less developed areas in the form of lower interest rate⁴ (1% less interest on loans), longer initial grace period for commencement of the repayment of the loan and amortization period, lower margin of security and promoters contribution (the debt-equity ratio for industrial projects coming from less and least developed areas would be 70 : 30 to 80 : 20. The minimum of debt-equity ratio for developed region would be 60 : 40).

But, in spite of Government's efforts through different policy formulations, incentives and directives and also the BSB's commitment to follow and implement it by sanctioning loans to industrial enterprises to be located at different regions, a contrary scenario is evidenced. BSB had four divisional headquarters namely, Dhaka, Chittagong, Khulna and Rajshahi.

⁴ BSB, *Guide to Investors* (Dhaka, 1984), p. 7; GOB, *Industrial Policy-1986*, p. 12.

Table 7.1 discloses that most of the disbursed loan flows to Dhaka Division which is a developed zone. In the first phase (1972-73 to 1982-83) this region received 54.10% of the total loan and that rose to 60.27% in the second phase (1983-84 to 1993-94). Except Khulna Division where the disbursement of loan slightly increased from 1st phase to the tune of 10.19% to 14.76% in the latter phase. Chittagong and Rajshahi Divisions experienced a downward trend in the disbursement of loan. In the third phase (1995-96 to 2003-04) most of the Loan disbursed, went to Dhaka division and in the rest three divisions, there was a clear down trend in loan disbursements.

Table 6.1 BSB's Term Loan Disbursed by Region

Year (end-June)	Dhaka Division (TK)	Chittagong Division (TK)	Khulna Division (TK)	Rajshahi Division (TK)	Total (TK)
1972-73—1982-83	1473.13 (54.10)	555.07 (20.38)	277.35 (10.19)	417.59 (15.33)	2723.14 (100.00)
1983-84—1993-94	2775.51 (60.27)	652.27 (14.17)	679.63 (14.76)	497.46 (10.80)	4604.87 (100.00)
1995-96—2003-04	2988.86 (87.38)	91.53 (2.68)	318.39 (9.13)	21.59 (0.63)	3420.37 (100.00)

Note : Figures in brackets are percentages of the total.

Source : For absolute data and details of individual years please refer to Appendix E-1.

The financial incentives and subsidies alone cannot ensure the industrial development of the backward region. In recognition of this imperative, the BSB has simultaneously launched the non-financial development activities. In this endeavour to promotional activities, the BSB formed 'Project promotion Team' (PPT). The PPT, comprising technical and financial experts, undertakes tours in different areas, particularly in the less developed areas of the country, to identify viable projects and to assess industrial potentials.

High emphasis has been given by the BSB on research and development with a view to channelling its resources to high potential growth sectors for augmenting the industrialization process of the country. Research is carried out by the BSB through market study, survey of existing industrial concerns, preparation of sectoral reports and collection of technical literature from relevant sources both at home and abroad for identification of new, innovative, high-tech, export oriented industrial projects and the projects with broader linkages and with the possibility of high employment generation. Profiles are sold to intending entrepreneurs at a nominal price to assist them in selecting suitable industrial projects. Besides a list of potential areas where the BSB's financial assistance may be extended are published from time to time in the local newspapers.

The Bank would extend counselling services, in technical, financial, marketing and other related areas, to the prospective entrepreneurs with respect to the industrial projects undertaken/proposed to be undertaken by them. The BSB also develops projects' ideas in new areas. In order to generate project ideas and also to pass on project designs to the prospective investors, the Bank has a 'Project Identification Wing' (PIW) at the Head Office of the Bank. In addition to what the PIW does, the BSB's concerned officials at its Head Office, three zonal offices and fourteen branches at District Headquarters, help the prospective entrepreneurs in filling in the prescribed application forms for financial assistance and guide them at all stages of project implementation and operations.

Though the BSB had launched some programme for industrial development all over the country, it lasts for a very short period of time. Some programmes were widely spoken in writings, specially in its Annual Report and brochures but did not find its place in practice.

6.3 SECTION II

6.1.2 Entrepreneurship Development

The other aspect of the qualitative role of the BSB is the promotion of broad-based entrepreneurship. An egalitarian industrial structure consistent with the socio-economic objectives of the nation is a function, inter alia, of broad-based entrepreneurship. Realizing the importance of broad-basing entrepreneurial class, the BSB has evolved schemes to encourage the entrepreneurs, specially the new ones.

One of the major factors necessary for successful establishment of new industrial enterprises, is the raising of adequate capital. It is assumed that private entrepreneurs needed loan capital to stimulate their enterprises. Because of low rate of domestic saving, acquiring necessary finance has become, some what more serious a problem in Bangladesh. As a source of finance, the BSB played a significant role in financing the prospective enterprises.

Historical Background of Entrepreneurial Development in Bangladesh

The lack of indigenous entrepreneurship in today's Bangladesh draw on historical factors. On the separation from Pakistan in December, 1971 and the emergence of Bangladesh as a new state, an economic vacuum was created

following the total pull out of the West Pakistani entrepreneurs from Bangladesh. Immediately this vacuum was filled in by the Government's taking over of the ownership and control of all big and small industries and enterprises deserted by their West Pakistani owners. With the change in government policy from socialist economy to market economy in mid 1975, the financial institutions in Bangladesh specially the BSB have come forward in a big way to contribute to the promotion and development of indigenous entrepreneurship.

Entrepreneurship and the BSB

Entrepreneurship is composed essentially of two sets of aptitudes/abilities: one relating to the 'efficient' acquisition of real and physical resources needed whether for existing operation or for growth; the other to the 'efficient' coordination of the resources acquired in the processing of goods and services.⁵

In order to rehabilitate the industrial projects facing operational problems, the BSB has undertaken an elaborate programme for studying such projects in detail with a view to finding out practical solutions. For this purpose a management Consultancy Service unit has been formed with technical assistance from the Asian Development Bank (ADB) which provided the services of three experts in the fields of management, financial analysis and industrial engineering. Besides the ADB experts, this unit had been staffed with local counterparts. To encourage private entrepreneurship, the Chairman and

⁵ M. Choudhury, "Towards an Understanding of Entrepreneurship in Early Development : The Case of Cotton Textiles, in Bangladesh", *Research Report Series*, New Series No. 37, Dhaka : Bangladesh Institute of Development Studies, 1985, pp. 1 & 25.

managing Director of the Bank holds regular meetings with the sponsors of the new and slow moving projects. In order to remove the bottlenecks hindering the progress of implementation of such projects, the suggestions of the sponsors are given due considerations and they are impressed upon the necessity of early implementation of these projects. Such exchange of views has had an encouraging impact on the sponsors.⁶

The BSB's Project Promotion Team (PPT) during their fact finding tours to less developed regions of the country appraised of the incentives and facilities provided by the Government and the Bank. In addition, the PPT helps prospective entrepreneurs in the formulation and implementation of their proposal by supplying information consisting of economic and other data. For providing the entrepreneurs with required knowledge about efficient management and operation of industrial projects, the BSB also organises workshop from time to time.⁷ As a result, considerable interest has been generated in the mind of the prospective entrepreneurs and this will greatly help promote new entrepreneurship. Thus, the Bank instead of twiddling thumb sitting in office and wait for investors or sponsors is out to seek them in a supply-leading manner.

⁶ BSB, *Aid to Investment* (Dhaka, 1977), p. 5.

⁷ BSB, *Annual Report 1989-90*, pp. 52-53.

With a view to expanding its qualitative role, the BSB has taken a scheme by opening a 'Special Window'⁸ for Non-Resident Bangladeshis (NRBs) working abroad. The aim of the Scheme is to help the prospective NRB entrepreneurs to invest in the viable projects with the BSB's financial assistance. Under the scheme, required institutional support would have to be provided free of cost. Besides, the project profiles prepared by the Bank are sent to Bangladesh embassies/high commissions abroad to encourage foreign entrepreneurs as well as the NRBs.

The elaborate programme taken by the BSB for entrepreneurship development was very encouraging at the outset. But soon the much publicised scheme gradually disappeared with the lapse of time, stagnating any fruitful result by the BSB.

For the purpose of entrepreneurship development, the BSB has outgrown its supplementary character of suppliers of funds in terms of its conception as 'gap fillers'. In Bangladesh there is a depressed state of securities' market. The BSB performs dual functions of substitute for the capital market in that, when industrial enterprises are unable to raise funds from normal channels, the BSB fills the gap as well as resuscitates the capital market. The capital market activity of the BSB is primarily in the form of underwriting of capital issues. Sometimes it is impossible to collect equity requirements from the entrepreneurs alone. Therefore, they plan their requirements and enter in the capital market for raising the desired amount of

⁸ BSB, *Non-Resident Bangladeshi, Investment Scheme*, Dhaka.

capital. But the public responses cannot be exactly estimated before the capital issue. This uncertainty necessitates underwriting of securities.

The BSB in consortium with other banks/financial institutions headed by the Investment Corporation of Bangladesh (ICB) is providing underwriting debenture, financial assistance to the public limited companies to help the healthy growth of the capital market and expand the base of equity investment which pave the way of entrepreneurial development in a steady manner.

Table 6.2 Disbursement of Underwriting and Debenture by the BSB from 1977-78 to 1992-93

Year (end-June)	Disbursement of underwriting and debenture (TK)	Annual average of disbursement of underwriting and debenture (TK)	Growth rate (%)
1977-78—1986-87	28.11	2.81	-
1987-88—1992-93	15.78	3.16	12.46

Note : No Underwriting/debenture was provided in the year 1991-92 & after 1992-93.

Source : Compiled from the data of Appendix E-2.

The underwriting of capital issues by the BSB had been of limited magnitude shown in Table 7.2. The disbursement of underwriting and debenture in the first ten years ranging from 1977-78 to 1986-87 was Tk. 28.11 million and in the next seven years between 1987-88 and 1993-94 was Tk. 15.78 million. The annual average of disbursement of debenture and under-writing in the first ten years being Tk. 2.81 million rose to Tk. 3.16 million in the subsequent four years marking a growth of 12.46% over the years. It may be mentioned here that the BSB's role in the underwriting should not be judged simply in terms of the absolute amount

underwritten. This is because the BSB's participation adds prestige to the issues, and conveys the investors an implicit guarantee regarding the soundness of an issue. So, the promotional aspects of the BSB finds its expression in the support of issues of risk capital and nursing of new entrepreneurs.

Table 6.3 Equity Participation by BSB on 30th June 1994

(Amount in million)

S.No.	Industries	Amount (TK)
1.	Cotton, Woolen and Synthetic textile	50.11
2.	Food and allied products	34.72
3.	Metal Products	16.45
4.	Jute and allied fibre products	15.00
5.	Water Transport	6.35
6.	Tannery and its products	6.09
7.	Non-metallic mineral products	4.66
8.	Paper, Paper products and printing	1.54
9.	Electrical machinery and goods	0.95
10.	Machinery and spare parts	0.60
11.	Miscellaneous	8.90
	Total=	145.37

Note : Investment in shares are not included. After 1993-94 BSB did not participate in equity.

Source : BSB : Quarterly Review of BSB's Activities. April-June 1994. p. 45.

In addition to providing loans, the BSB also made equity investment. An industrial sectorwise account of equity participation by the Bank is presented in Table. 7.3. The Table indicates that upto June 30, 1994 BSB participated mainly in ten industrial sub-sectors, involving an amount of Tk. 145.37 million. The

participation in equity investment by the Bank though limited, will definitely encourage entrepreneurship development in Bangladesh.

The proper working of the BSB depends mainly upon healthy entrepreneurs. An industrial project runs profitably only because of skilful handling by the entrepreneurs. If a project runs smoothly and profitably, it will definitely repay bank loans as such the problem of debt default might be mitigated to some extent.

The BSB's policies have gone a long way to foster new entrepreneurship in Bangladesh, but what remains to be done is a gigantic task, since the problems of new entrepreneurs are numerous. The BSB's effort is indeed commendable and there is no gainsaying that the Bank is quite responsive to the needs of new entrepreneurs, but while in the process of finding solutions to problems, the only care that needs to be exercised is that no new impediments develop which tend to check the intended efforts of their policies.

6.4 SECTION III

6.1.3 Rehabilitation of Sick Mills by the BSB

Another aspect of functional re-orientation of the BSB in terms of innovational functions is the attempt to foster the rehabilitation of sick industrial projects which has been explained in this section.

After promulgation of the privatisation policy, the requirement for speedy utilization of foreign funds and onrush of entrepreneurs for undertaking industrial

ventures with less/no background in the field, resulted in investment in many projects which either became stuck-up during construction period or could not operate successfully after implementation. These projects could neither pay back the Bank's dues nor make any contribution to the national economy. The BSB made a special programme for rehabilitation of the projects which were identified as sick due to their inability to generate sufficient funds for debt servicing.

A separate department namely 'Project Rehabilitation Department'⁹ has been created by the BSB for implementation of this programme. This programme had two aspects: (1) identification of reasons for sickness, and (ii) taking various remedial reassures for rehabilitation.

To rehabilitate the sick projects, the BSB adopted a three dimensional measures.¹⁰ Such as (1) debt relief, (2) injection of additional funds including working capital, and (3) direct project management. With a view to making sick projects capable of debt-servicing through profitable operation, the Bank tried to solve their problems through a combination of measures including a financial package. As a measure of debt relief, the BSB rephrases/reschedules the loan repayment procedure, waives overdue interest, transfers overdues to block account and converts loans into bank's equity for many industrial projects facing the problems.

⁹ BSB, *Annual Report 1989-90*, p. 27.

¹⁰ *Ibid.*, p. 34.

Table 7.4 indicates that there had been an increasing trend in the replacement/rescheduling of the BSB's loan accounts. During the first phase a total amount of Tk. 1081.81 million of the BSB's loans to sick industrial projects had been rephrased/rescheduled. However, it rose to more than five fold, amounting to the tune of Tk. 5123.15 million in the following eleven years. In the subsequent nine years it rose to Tk 7607 million.

Table 6.4 Term Loan Rephrased/Rescheduled by the BSB from 1972-73–2002-03

Year (end-June)	Amount rephrased/rescheduled (TK)
1972-73—1982-83	1080.81
1983-84—1993-94	5123.15
1994-95—2002-03	7607.00

Source : For year wise data please refer to Appendix E. 3.

The analysis seems to signify that the BSB has been trying to relieve sick industrial projects by way of rephrasing/rescheduling of existing loans/overdes. It exposes that the Bank has to carry the burden of huge debt default. The ever increasing trend in the magnitude of rephasing/rescheduling of loans signifies the BSB's problems in its operations.

The Bank made a programme of taking over management of sick projects directly where other measures were not considered sufficient due to inefficient management/mismanagement. In 1989-90 BSB created another department named 'sick project management department'¹¹ for ensuring efficient management of such projects.

¹¹ *Ibid.*, p. 35.

One of the major problems of sick mills in the Bank's portfolio and an important reason for failure of many of the industrial projects had been shortage of working capital funds. Normally, the BSB meets the long term credit needs for implementation of its projects. The BSB's Charter provides extension of a very limited scale of working capital to its financed projects. While sanctioning loans by the BSB, provision is made for commercial banks to provide 70% of the working capital needs. But, it has been found that in most cases, the project management either cannot at all raise the required working capital from the commercial banks, or they cannot raise the required amount in due time. As a result, these projects could not go into operation on schedule or generate sufficient funds for debt-servicing due to poor capacity utilization.

The foregoing discussion shows that the BSB has emerged as a promotional agency since its inception. But the fact is that its record as instrument of development, leaves much to be desired. Its failure as a Development bank is to be found in its neglect of backward region, and new entrepreneurs and so on. The BSB's assistance to the projects on the whole in the less/least developed regions has been only nominal. 'The-let-the clients-approach' methods has been the hallmark of its operation. The BSB should change its behaviour of 'demand following' policy and encourage "supply leading" policy as well.

Due to imperfect and ill developed capital market, many of the industrial projects face difficulty in raising funds from the market though they deserve special assistance on economic and social grounds. The BSB's role in this regard is not very significant, this is because it is mainly a distributive agency. The Bank's capacity to increase the magnitude of loans sometimes are restricted by non-availability of funds.

PART IV

THE SUMMING UP

Chapter 7

Summary Recommendations and Conclusions

7.1 The Preamble

Economic development has a direct relationship with industrialization. The industrial development of a country helps not only in optimizing the utilization of its scarce resources but also in diversification of the uses of resources. This is a key element in Bangladesh for attaining economic development. Provision of long-term funds is a pre-requisite for building up a thriving industrial base. This led to the necessity of setting up a financial institution known as Industrial Development Bank of Bangladesh or Bangladesh Shilpa Bank. This was established with a view to fill up the gap in the financing of industrial development projects.

The face of the industrial financing organisation in Bangladesh has changed over the years, since independence. The limelight is now on institutional finance being provided in growing amounts in the development projects for the industrialization of this country.

The importance of the special institutions should not be judged simply by the volume of funds supplied through them. Equally importance should be given on the volume of their assistances and on their impact on the allocative efficiency of the financial system. In different studies on the role of financial intermediaries in economic development an increased emphasis has been placed on the differences among the intermediaries in relation to their allocation

decisions and on differences in the degree in which these decisions permit economic development.¹

Finance is the lifeblood of the process of economic growth and industrialisation. It generates new investment opportunities and encourages entrepreneurs to explore new fields of production. It provides basis for industrialisation and offers new opportunities to create the entrepreneurs. The provision of finance through financial and developmental institutions draws more and more people from different walks of life into the vortex of industry. It is an indispensable pre-requisite for any widespread and sustained industrial development. "No business enterprise can reach its full potential of growth, and success without adequate finance".²

The advancement of backward regions in the economy is another area where a development bank can play a vital role. With assistance and cooperation of various Government departments engaged in planning, infrastructure development and other services, it can harness human and financial resources for a more balanced growth and a more equitable distribution of developmental activities in the economy.³

¹ Robert L. Bennett, *The Financial Sector and Economic Development: The Mexican Case*. Baltimore, 1965, p. 136.

² Rosen. G, *Some Aspects of Industrial Finance in India* (Bombay: Asia Publishing House, 1962), p. 1.

³ Asafa Demissie, "The Role, Function and Purpose of Development Banks", *International Journal of Development Banks*, Vol. 3, No. 1, January 1985, pp. 4344 quoted in Sharma, C.P., *Industrialisation and Development Banking* (New Delhi: Deep & Deep Publications, 1989), p. 15.

BSB grants financial assistance to such industries as are in conformity with the national priorities as set out in the national development plans. Besides, each individual project is appraised in regard to its technical feasibility, commercial profitability, financial soundness, economic returns and managerial competence and only such projects that satisfy the criteria are assisted. Subject to these criteria, preference is given to the projects in backward areas, the projects promoted by new and technically qualified entrepreneurs, and the projects with large employment generating capacity and those which are export oriented or import -substitutive.

The BSB is a specialised financing institution wholly owned by the Government of Bangladesh. Its main objective is to provide finance both in local and foreign currencies for establishment of new industrial projects as well as for balancing, modernisation, replacement and expansion of existing industrial units in Bangladesh, both in private and public sectors. Other types of financial assistance are also provided by BSB in the form of guarantees for credit/loans, equity-support and working capital loans to the BSB financed projects. The bank also transacts other kinds of banking business on limited scales. The broad guidelines for investment by the bank are indicated as per Industrial Policies and the Industrial Investment schedules formulated by the Government from time to time.

BSB has been working since October 1972. But its performance seems to be not up to the satisfactory level. It is suffering from various problems. No intensive effort has so far been made to conduct a searching probe into the

working of BSB. So, one of the purposes of this thesis is to examine and analyse the past and present crisis of the BSB and to find out possible solutions of the existing problems for its better prospects.

Objectives

With this end in view the following objectives of the study has been framed.

- (1) To review and examine the growth trends of different activities of the BSB.
- (2) To evaluating the performance of the BSB.
- (3) To assess operational efficiency of the BSB.
- (4) To assess allocational efficiency of the BSB.
- (5) Finally to suggest some measures on the basis of the findings of the study for better performance of BSB.

Methodology

Depending on the nature of this study, mainly documentary analysis method has been used here. Documentary analysis method is used in the study to evaluate and examine the performance of the BSB. The study is primarily based on secondary data. The annual reports, the operational statistics of BSB for different years, the brochures issued by them from time to time and the unpublished statements and records made available by them are the important sources of data and information. The discussions with the concerned officials of BSB are immensely helpful in the analysis and interpretation of data and understanding its main trends.

The present study covers the period from 1972 to 2003. This is a period of more than thirty years. From the very birth of new sovereign country till date, Bangladesh witnessed many changes with ups and downs in the economic scenario and political arena. In the early years of independence, the political aim of Bangladesh was to pave the economy in a socialist path and later on, the subsequent regimes put it in a capitalist way. So, the BSB in the 1970's disbursed funds only to public enterprises; and subsequently, in the late 1970s and in 1980s to till date diverted its funds towards the growth of private industry. The period is also important in the circumstances of a new-born country like Bangladesh where the urge for development is very strong. So, the time taken might show interesting picture in the functioning of the BSB.

Sources of Data

The required data used in this study have been collected from unpublished official documents, interviews and discussions with the BSB's executives and other experts on banking, specially development bankers and industrialists. The data were also obtained from published official statistics, reports, documents, books, various financial news papers, articles, journals, laws and ordinances, such as BSB Order-1972, Annual Reports of the BSB, Quarterly Review of BSB's Activities, Operational Statistics of the BSB, and different publications of the BSB and its unpublished materials. Besides, information was also collected from the official files of the BSB with the co-operation of concerned officers. The booklets, brochures issued by the BSB to inform the prospective entrepreneurs were also consulted.

The different industrial investment Schedules (IIS), investors guides and industrial policies published by the Department of Industry, Ministry of Industries, Government of Bangladesh (GOB), depicting the policy guidelines of the GOB for industrial development are considered. The plan documents, such as the plans of The First Five Years, Two Years, The Second Five Years, The Third Five Years, The Fourth Five Years and Fifth Five Years, published by the Planning Commission of Bangladesh were taken into account. Besides, relevant Reports of the World Bank, specially reports of DFIs in Bangladesh with reference to the BSB are also consulted and analysed for the above purposes.

Justification

As the prime DFI of the country, the BSB has grown for promoting industrial development of the country. The bank's lending policy is aiming at encouraging export-oriented, import substitute and joint-venture projects, apart from sanctioning of loans for BMR of existing ones and rehabilitation of sick industries. It emphasizes on long term lending to the viable new projects having comparative advantage, forward and backward linkages and local technology as well as local raw material based projects. Though BSB has been trying to do utmost for the industrial development of Bangladesh, but its result is not at the desired level. There was no in-depth study done on BSB. But now time has come to examine its activities thoroughly and critically. So, the dissertation titled "Bangladesh Shilpa Bank : A Study of Development Banking" has been undertaken for conducting an in-depth study and analysis on the performance of the bank.

7.2 Chapter I : Introduction

This is an introductory chapter. In this chapter the origin, definition and function of development banking have been narrated. Here, a brief picture of Bangladesh economy is given. Again, in the economy of Bangladesh the necessity of development bank is also explained. The financial structure of Bangladesh is shown here, with banking structure and insurance companies working in Bangladesh. This chapter depicts the statement of the problem. Here the objectives of the study are framed. A review of the existing literature on this topic is done. Justifications of the study is discussed in this chapter. The scope and limitations of the study was also narrated here. The methodology, its definition, selection of methods, sources and types of data collection are also exposed here. The techniques of data analysis are discussed here. The chapter ends with the plan of the study.

7.3 Chapter II : A Brief Profile of Bangladesh Shilpa Bank

Here the origin, objectives and functions of the BSB are narrated. The BSB was originated in Pakistan as Industrial Development Bank of Pakistan (IDBP). The offices of IDBP were converted to the offices of BSB after independence in 1971. Here, receipts of funds from Bangladesh Bank (the central bank of the country) as a loan giving agency is shown. The disbursement of term loans of BSB has been portrayed. The expansion of bank branches and manpower has also been shown here. The organisational chart of BSB is given in this chapter. In brief, this chapter shows the growth trends of different activities of BSB covering the last three decades.

Upto 2000-01, BSB invested Tk. 14608 million. But the total amount of outstanding stands to Tk. 20954 million. The huge amount of outstanding is really alarming. Though the BSB is a Prime Development Bank of this country, the expansion of bank branch and manpower is far below the expectations. This may hinder the smooth functioning of the bank.

7.4 Chapter III : Project Appraisal Procedure of BSB

This chapter narrates the project appraisal methodology followed by BSB. Here, the meaning of project appraisal have been elucidated. In practice project appraisal involves the evaluation of different aspects of an industrial project. These are technical aspects, commercial aspects, financial aspects, managerial aspects and organizational aspects. Project appraisal includes the services of engineers, economists and financial analysts. So, it is somewhat a team work.

Here, project appraisal procedure followed by the BSB is analysed and explained. In the manual of project appraisal for Bangladesh Shilpa Bank, a guideline has given for the bank officials. The loan application procedure to be followed by an entrepreneur is also stated and analysed here.

Seldom does BSB adopt an 'Accept' or 'Reject' approach. Every project, when it is submitted to BSB, has within it loose ends and weak links, less than ideal characteristics in regard to some aspects. BSB strengthen, these weak links, restores consistency, and balances inter-relationships.

The overall decision on a financing proposition, whether the decision is positive or negative, is a composite of several important sub-decision modes at various stages and processes. The sub-decisions provide the framework and also the basis for the formulation of a rational judgment in order to arrive at a final financing decision. The final financing decision is generally never in the form of a carte blanche. It is a conditional decision.

Though every loan project of BSB has been thoroughly examined and scrutinized as per bank's project appraisal procedure, many of the industry financed by the bank have failed to fulfill the expected results. In this chapter a case study of project appraisal of a project of the bank is presented.

The project appraisal is a barometer of decision making for loan disbursement. So, sufficient logistic and trained manpower should be involved in the process.

The huge amount of outstanding and bad debt is indicative of lapses in project appraisal. Experience depicts that BSB's project appraisal report had been lengthy, cumbersome, mechanically repetitive and not distinguishable one from another in spite of different sponsors and locations. The success of any development bank depends upon the innovation. So, BSB should have to take an innovative outlook. Again, upto date data specially on market study and other input required for the appraisal should be supplied for proper feasibility study of the projects.

7.5 Chapter IV : Profitability of BSB

In this chapter profitability of BSB is examined. Profitability is a yardstick for measuring the performance of the bank. This is one of the core chapter of the study. For a bank, profit is a must for its survival. Again, as a development bank, the BSB has to cover the development aspects which may reduce profitability. To measure profitability the gross and net profit margins are calculated. Profitability ratios, for example, net profit ratios, rate of return on loans and investment, return on total assets, return of capital employed (ROCE) and return on shareholders equity (ROSE) were calculated to show the profit trend of the BSB.

The preceding analysis in chapter-4 outlined that BSB was not financially sound. BSB's rate of return on average total assets (ROTA), average return on capital employed (ROCE) or on equity was not encouraging. The ROTA shows a declining trend and same was the case of ROCE. The rate of return on shareholders equity (ROCE) also depicts the same fate. In most of the years, it varied between 0.02% to 4% except in two years with ROCE of 5% and 6% only. Again, after 1993-94, there was no ROCE. There was no increasing trend in the BSB's rate of return. It follows that BSB's profitability was in shaky position.

The gross profit margin of the BSB was below 30% except five years during the period of our study. From 1994-95 to 1999-2000, there was no gross profit margin of BSB, as such no profit for those years.

The operating expense ratio of BSB experienced a bit stable condition, the ratio was around 20% except some exception in certain years. The financial expense ratios from 2000-01 to 2002-03 were almost static. But, in the earlier years, the financial expense ratios were very high. The cost of debt of BSB discloses a rising trend upto 1999-2000. Though from 2000-01 to 2002-03, the cost of debt was at its minimum level. Paucity of getting funds may be one of the reason. BSB could not give any amount to national exchequer from 1994-95 to till date. The gross profit spread also had a declining trend. The analysis indicates that BSB's profitability was very low with a decreasing trend over the years.

From 1985-86, BSB's provision for bad and doubtful debt was presented in its profit and loss account. From 1972-73 to 1984-85, this provision was not visible from BSB's statement. Provisions for bad debts, doubtful debts, and investments write offs are usually concealed in the balance sheets through reduction in their declared income and performing assets.⁴ In the year 1999-2000 and 2000-01 a huge provision for bad debt was created. The large amount of provision for bad and doubtful debt by the BSB indicates to its problems with ever increasing low recovery of loans.

7.6 Chapter V: Resource Management of BSB

This is a core chapter of the dissertation. It states the procedures of the management of the resources of the BSB. Subsequently, fund flow statement is shown to show the sources and use of fund. A cash flow statement which is

⁴ *The Economic Times*, India at 23.1.93.

followed by BSB is also explained. Liquidity of the BSB is discussed here with the help of current ratio. The leverage or capital structure ratio is analysed through debt- equity ratio, and debt assets ratio. Debt- service coverage ratio, and interest coverage ratio is explained to show the strength of the BSB. The problems of default, outstanding and over dues are also discussed here.

Apart from various sources of income like commission, fees, commitment charges, dividends, interest on temporary investments, the interest income from term loans was the mainstay of the earnings of BSB. Again, borrowing was also one of the main source of funds of BSB. Deposits of the bank are also a good source of funds.

From 1980-81, the current ratio of the bank is gradually decreasing. It is far below the normal rule of thumb of 2:1 ratio. But as a fully Government owned institution, it had easy access to funds in times of needs.

BSB's debt-equity was not satisfactory. From 1982-83 to 1990-91, debt-equity ratio became almost static to around 2:1 ratio. After this period, it increased a little bit. But BSB could not reach the debt-equity ratio of 9:1 as propounded by the World Bank. It follows that BSB faced a problem regarding the sources of fund.

The debt-service coverage ratio (DSCR) of the BSB from 1977-78 to 1999-2000 was around 2:1 or less. This discloses its excessive dependence on debt. However, from 2000-2001 to 2002-2003 the ratio had been increasing,

which indicate that BSB was not using the debt facility. The BSB may not be giving loans to its fullest extent to different projects.

BSB's interest coverage ratio was not encouraging. In the second phase of our study it had decreased and in the third phase it had increased slightly. All these indicate that BSB's fixed charge liabilities and payment of interest to the creditors were seriously affected.

The recovery position of BSB had been far from satisfactory. BSB had a huge amount of loans in arrears. The percentage of recovery revealed a decreasing trend. The situation of over dues is very alarming and it is increasing day by day. Any way, the BSB should get back the loan disbursed for its smooth running.

7.7 Chapter VI: Promotional Role of the BSB in Financing Industrial Projects

Various industrial policies and five year plans of Bangladesh emphasised the need of development of backward areas and removal of regional disparities through dispersal of industries. The BSB is a development bank. Unlike other financial institutions, it has to do some other functions i.e. the development functions. For this, BSB must play its promotional role. It should work for the development of entrepreneur as well as for the industrialisation of the country. Geographical dispersal of its term loan is shown in this chapter.

The BSB was one of the Government vehicles for diversifying and broadening investments for development. Though BSB's aim was to help the flow of greater financial assistance to less and least developed areas of Bangladesh

with the object of attaining geographical dispersion of industries, but the observation is quite contrary to that. It is observed that maximum amount of loan disbursed were concentrated to Dhaka region i.e. developed region. This signifies that there is an imbalance of industrial development in Bangladesh.

Entrepreneurial promotion should be extended to attract persons from backward areas, who have migrated for lack of opportunity. An effective follow-up action is required for this purpose. BSB could develop entrepreneurial class in different regions of Bangladesh. BSB had taken many programmes with this end, but most of the programmes did not continue for a long time.

To rehabilitate sick projects the BSB as a measure of debt relief rephase/reschedule the loan repayment. It is seen that from the first phase of study to second and third phases, the amount rephased had been gradually increasing. Though BSB has rephase/reschedule the repayment procedure of many problematic loan-receiving industries, but the results are not very encouraging, as shown by its increment in the volume.

7.8 Policy Recommendations

In the light of the findings of this study, the following policy recommendations are made to improve the performance of the BSB.

- (1) The main purpose of project appraisal is to ensure the most effective use of capital. Efforts should be taken to ensure non-interference by the outside forces, and to ensure that the bank can take decisions on its own.

- (2) Efforts should be taken to increase the recovery position of the BSB. Proper steps should be taken to increase disbursement of funds to less and least developed areas of Bangladesh.
- (3) The BSB should provide the required amount of working capital to its financed projects, so that the project could go into operation on schedule without any hindrance.
- (4) As there had been a lack of well experienced entrepreneurial class in Bangladesh, the BSB is considering the experiences of PICIC and EPIDC. It should establish industries and hand over the enterprises to prospective entrepreneurs. Probably, this could flourish industries in Bangladesh in a planned way.
- (5) Generally, the sponsors seeking loan, submit inflated wealth statements. To improve the situation, the BSB should ask for the income tax returns for considering the financial capabilities of the borrowers.
- (6) The BSB is required to pay taxes on its net income as a separate legal body. But, the BSB is following the principle of 'accrual' instead of actual receipt. To mitigate the loss, the BSB should change its stand.
- (7) Transparency in financial statements of the BSB has recently assumed the top importance. The present level of disclosures by the BSB relating to the provisions for losses fall far short of the requirements of the present day. The BSB should put a schedule annexed to the financial statement giving break-up of the provisions for bad and doubtful debts, taxation and other contingencies.
- (8) The BSB should evolve a human resource development plan where career path iner-twined with performance and an element of accountability will be established.

- (9) One of the BSB's main problem is the lack of getting easy sources of funds. The general banking may be activated to mitigate this problem.
- (10) Arrangement should be made to subscribe the balance of 49 percent of the authorised capital of the BSB by Bangladesh nationals or by financial institutions, local or foreign as told to upgrade the operational efficiency of the Bank.
- (11) The BSB should bring some organisational changes so as to reflect continuing responsibility for implementation of projects and recovery of loans from the projects. The BSB should assume the role of partner in joint-ventures rather than perform the traditional role of creditors.
- (12) The effectiveness of the BSB depends in part on the relationships it establishes not only with Government, but also with its present and potential clients. BSB should improve its full spectrum of diversified and specialised financial services and products including leasing, merchant banking, corporate advisory services, venture capital, stock holding, investor services, debenture trusteeship, etc.
- (13) The BSB should strengthen it as a stock broking firm and should also start setting up new portfolios by opening a mutual fund and a credit rating agency.
- (14) The effectiveness of the BSB depends in part on the relationships it establishes not only with the government, but also with other institutions and organisations that make up the total development environment. But, unless institutional integrity is maintained, the BSB would not be in a position to pursue its developmental goals. The BSB needs to be as imaginative and innovative as is possible within the given economic, political and social limitations in Bangladesh.

7.9 Conclusions

BSB had a pioneering role in the industrialisation of Bangladesh for decades. But the bank in the recent past years encountered many hurdles in the form of shortage of fund, poor recovery vis-à-vis increase of non-performing loan. With huge amount of loan outstanding, 302 projects involving around Tk. 5650 million⁵ are under court settlement. About 65 percent of loan (as on 30.06.2001) is classified which contributed to rate the bank as a poor one.

The present condition of the bank is the result of a host of factors. Lack of co-ordination in the policies/directives, in experience of the sponsors/entrepreneurs and inadequate infrastructural facilities, natural calamities, etc. are primarily responsible for poor performance of the bank in the recent past. Presently, the management of the bank has taken up new initiatives to revamp the bank and chalked out realistic plans and action programmes to infuse new life into the bank.

In addition, the distribution of the portfolio over a large number of projects, is desirable, and the BSB's portfolio should be well spread over different sectors and different sub-sectors. This may help to reduce the risk element in BSB's portfolio and spreads and benefit of development financing to several sectors.

The unsatisfactory recovery position of BSB might imply many things such as (1) the projects financed might be in financial trouble and therefore not

⁵ BSB, *Industrialisation of Bangladesh Role of BSB, 2002*, p. 13.

in a position to pay the dues in times; (2) the promoters were with holding payment intentionally by channelling funds to other avenues of investments' (3) the Department of BSB which was entrusted with fund realisation was not efficient and effective. The first possibility cast serious doubt on the project appraisal capacity of BSB to a great extent. There might be weaknesses in appraisal procedure and thereby, the viability of the project had not been satisfactorily established at the planning stage. The project could be sound at the time of appraisal by BSB, but subsequent changes in the general economic conditions, market situation, Government policy, cost etc. may have adverse effects on the viability of the projects resulting in a default in meeting financial obligations. Whatever might be the causes of default and poor recovery, it should be enquired into in-depth to have a clear grasp of the problem and positive steps e.g. increasing frequency of contact with borrowers, timely intimation etc. needed to be taken to reverse the dismal situation.

It is expected that if the recommendations given above, are executed, the overall performance of the development banks in Bangladesh would further improve. Thus, the thesis, which is introduced in chapter one, has adequately been concluded in the last chapter seven. This in-depth and intensive study has opened up new issues and proposals. The implementation of those might lead the BSB to move from a stagnant situation to forward looking and active situation.

In reckon, it can be said that the future performance of BSB will depend to a considerable extent on its ability to mobilise additional funds at reasonable

cost, amplify its financial returns, exercise control over default and sticky accounts, and above all, strike a balance between its banking and developmental functions.

7.10 Suggestions for further research

To deal with a large number of issues within the scope of a single thesis is neither possible nor desirable.⁶ So many current issues and important dimensions could not be dealt with in this dissertation. But this study would enrich and may create interest for further research. In the light of the present study, a few suggestions are given for further research, which are as follows.

1. The same type of study may be replicated by taking all the development banks working in Bangladesh.
2. A full fledged study may be conducted by covering only the profitability and productivity aspects of the development banks, by using more advanced statistical tools and techniques.
3. An in-depth study may be taken on the role of development bank in developing new entrepreneur class in Bangladesh.
4. Impact of financial sector reform on the performance of development bank may be considered as an important area of research.

⁶ M. Zainul Abedin, *Commercial Banking in Bangladesh: A Study of Disparities of Regional and Sectoral Growth Trends (1846-1986)* (Dhaka : NILG, 1990).

BIBLIOGRAPHY

MANUSCRIPTS

Abedin, M.Z., *et al.* "Measurement of Productivity in Commercial Banks of Bangladesh Compared to that in Other Countries". Dhaka : Bangladesh Institute of Bank Management, 1990. ✓

Bhattacharya, S.K. "Cost of Production and Profitability Projections and Cash Flow". *Second Foundation Course in Development Banking, Background Materials*. New Delhi : Management Development Institute.

Diamond, W. "Notes on Purposes and Strategies". *Seminar Paper on Development Bank Management*. Washington D.C : Held at Economic Development Institute, February 5-16, 1979.

Gupta, L.C. "Institutional Financing of Industry in India". Delhi : An Unpublished Ph.D. Thesis. Delhi : University of Delhi, 1965.

Hossain, M.J. "A Study on the Performance of Public and Private Sector Commercial Banks in Bangladesh". Unpublished Ph.D. Dissertation. Institute of Bangladesh Studies, Rajshahi University, 2000. ✓

Huda, N. "The Financial Institutions and Entrepreneurial Development : A Case-Study of Bangladesh". An Unpublished Dissertation for the Degree of Master of Economics. The University of New England, 1980.

Jain, N. "Development Banks : Role and Performance (IDBI, IFCI, ICICI)". Delhi : An Unpublished M. Phil. Dissertation. Delhi : University of Delhi, 1989.

Khan, A.R. "Financing Private Sectors Industries in Bangladesh". Dhaka : Bureau of Business Research, University of Dhaka, 1980. ✓

Mamta, K. "Industrial Development Bank of India : A Study in Financial Management". Delhi : An Unpublished M. Phil. Dissertation. Delhi : University of Delhi :, 1989.

Manohar, R. "Performance Evaluation of Development Bank in India". An Unpublished Ph.D. Thesis. University of Madras, 1991.

Misra, P.N. "Financial Institutions and the New Entrepreneurial Class". Delhi : An Unpublished Ph.D. Thesis., Delhi : University of Delhi, 1983.

Nabi, K.A. "Role of Non-bank Financial Institutions in the Development of Large Scale Industries in Bangladesh". Chandigarh : An Unpublished Ph. D. Thesis., submitted to the Chandigarh : Punjab University, 1981.

Rahman M.H., "Development of Capital Market in Bangladesh : A Study on Dhaka Stock Exchange Limited". Unpublished Ph.D. Dissertation, Institute of Bangladesh Studies, Rajshahi University, 2003.

Saklayen, M. G. "Growth of Credit and Its Impact on Bangladesh Economy, with Reference to Sonali Bank". Unpublished Ph. D. Dissertation, Institute of Bangladesh Studies, Rajshahi University, 2000.

Vij, M. "Management of Financial Institutions in India : Analysis of the Practices and Problems of Term lending Institutions". Delhi : An Unpublished Ph. D. Thesis., submitted to the Faculty of Management Development Studies, Delhi : University of Delhi, 1989.

Wasim M. M. H. "Financial Development in Bangladesh". (Unpublished Ph. D. Dissertation. Institute of Bangladesh Studies. Rajshahi University, 2004.

DOCUMENTS

Bangladesh Shilpa Bank (BSB). *Aid to Investment*. Dhaka, 1977.

_____. *Guide to Investors*.

_____. *Industrialisation of Bangladesh, Role of BSB*. 2002.

Bangladesh Shilpa Bank (BSB). *Manual of Project Appraisal for Bangladesh Shilpa Bank*. Dhaka : 1984.

_____. *Non-resident Bangladesh Investment Scheme*.

_____. *Operational Statistics, 1989-90, to 1993-94*.

_____. *Procedures and Guidelines for Procurement of Machinery, Equipments, and Services for Utilisation of BSB Loan*. June, 1983.

_____. *Quarterly Review of BSB's Activities*. April-June 1994.

Eslaing, O.G. *Principal Problems that Industrial Development Banks are likely to Confront*. United Nations : Development Banking in the 1980's, Selection from the proceedings of the UNIDO/World Bank Symposium, Zurich, June 1979, New York : United Nations Publications, 1980.

GOB. *2001 Statistical Year Book of Bangladesh*. Dhaka : Bureau of Statistics, 2002.

_____. *Bangladesh Economic Review*. Dhaka : Ministry of Finance, June, 2003.

_____. *Bangladesh Economic Survey*. Dhaka : Ministry of Finance, 1972-73 to 1993-94.

_____. *Bangladesh Gazette*. February, 1991.

_____. *Guide to Investment*. Department of Industries, 1980.

_____. *Industrial Investment Schedule for Third Five Year Plan (1985-90) for Private Sector*. Dhaka : Ministry of Industries, 1986.

_____. *Industrial Policy 1986*. Dhaka : Ministry of Industries, 1986.

_____. *Industrial Policy 1991*. Dhaka : Ministry of Industries, July 1991.

GOB. *Mid-Term Review of the Third Five Year Plan 1985-90*. Dhaka : Planning Commission, Ministry of Planning, 1989.

_____. *Report of the National Commission on Money, Banking and Credit*. Dhaka, 1986.

_____. *Report of the Sub-committee for Industrial Finance*. Dhaka : Ministry of Industries, 1985.

_____. *Resume of the Activities of the Financial Institution in Bangladesh*. Dhaka : Ministry of Finance, 1972-73 to 1993-94, 2003-2004.

_____. *The First Five Year Plan 1973-78*. Dhaka : Planning Commission, Ministry of Planning, 1973.

_____. *The Fourth Five Year Plan 1990-95*. Dhaka : Planning Commission, Ministry of Planning, 1991.

_____. *The Second Five Year Plan 1980-85*. Planning Commission, Ministry of Planning, 1980.

_____. *The Third Five Year Plan 1985-90*. Planning Commission, Ministry of Planning, 1985.

_____. *The Two Year Plan 1973-80*. Dhaka : Planning Commission, Ministry of Planning, 1978.

Sobhan, R. and Ahmad Ahsan. *Problems of Repayment to the DFIs in Bangladesh : Results of a Field Survey of Selected Enterprises*. Research Report No. 112. Dhaka : Bangladesh Institute of Development Studies, March, 1990.

Sobhan, R. and Ahmad Ahsan. *The Structure of DFI Sponsored Investment in Bangladesh*. Research Report, No. 76. Dhaka : Bangladesh Institute of Development Studies, 1988.

The World Bank. *Annual Report*. 1972-73 to 2002-2003.

_____. *Bangladesh Shilpa Bank Order-1972*. (As amended upto 10th December, 1986 by the Bangladesh Shilpa Bank (Amendment) Ordinance 1986-Ordinance No LXX of 1986 and all other previous ordinance amending this order).

_____. *Staff Appraisal Report of a Second IDA Credit of Bangladesh Shilpa Bank*. Bangladesh Report, No. 3186-BD, February 23, 1981.

BOOKS

Abedin M.Z. *A Hand Book of Research for the Fellows of M. Phil and Ph. D. Programmes*. Dhaka : Book Syndicate, 1996.

Banarjee, G. & S. Banarjee. *Borrowing from Financial Institutions*. Delhi : UDM Publishing House, 1988.

Banerjee, B. *Financial Policy Management Accounting*. Calcutta : The World Press Pvt. Ltd., 1993.

Bansal, L.K. *Regional Development Bank and Industrialisation*. New Delhi : Deep and Deep Publications, 1988.

Basu, S.K. *The Theory and Practices of Development Banking : A Study in the Asian Context*. New Delhi : Asia Publishing House, 1965.

Batra, V. *Development Banking in India*. Jaipur : Printwell Publishers, 1986.

Bhatt, V.V. *Development Perspectives, Problems, Strategy and Policies*. Oxford : Pergamon Press, 1980.

Boskey, S. *Problems and Practices of Development Banks*. Baltimore : The Johns Hopkins Press, 1964.

- Chandra, P. *Projects, Preparation, Appraisal, Implementation*. New Delhi : Tata McGraw-Hill Publishing Co. Ltd., 1988.
- Dagli, Vadilal. Ed. *Financial Institutions of India*. Bombay : Vora and Co., 1976.
- Deol, S.P.S. *Project Follow-up, Concept, Techniques and Problems*. New Delhi : Management Development Institute, 1982.
- _____. *Selected Readings in Development Banking*. New Delhi : Development Banking Centre, Management Development Institute, 1982.
- Diamond, W. & Reghavan V.S. Ed. *Aspects Of Development Bank Management*. London : The Johns Hopkins University Press, 1982.
- Diamond, W. *Development Banks*. London : The Johns Hopkins Press, 1969.
- Fitzgerald, E.V.K. and R. Vos. Ed. *Financial and Economic Development*. London: Gower Publishing Company, 1989.
- Fry, M.J. *Resource Mobilisation and Financial Development in Nepal*. Kathmandu, Nepal : Centre for Economic Development and Administration, 1974.
- Gardner, J.M. and Mills, D.L. *Managing Financial Institutions*. New York : The Dryden Press, 1988.
- Gold Smith, R.W. *Financial Institutions*. New York : Random House, 1968.
- Gupta, D.B. & N.P. Srinivasan. *Entrepreneurial Development*. New Delhi : Sultan Chand & Sons, 1992.
- Gupta, L.C. *The Changing Structure of Industrial Finance in India*. Oxford: Clarendon Press, 1969.
- Gupta, R.K. *Development Banks and Industrial Development*. New Delhi : Deep and Deep Publications, 1993.

- Hellfert, E. A. *Techniques of Financial Analysis*. Bombay : Jaico Publishing House, 12996.
- Hempel, H.G. & Yawitz, J.B. *Financing Management of Financial Institutions*. New Jersey : Prentice-Hall Inc., Englewood Cliffs, 1977.
- Houk, J.T.D. *Financing and Problems of Development Banking*. New York: Frederick, A Praeger Publishers, 1967.
- Hubbard, R.G. *Money in the Financial System, and the Economy*. Massachusetts : Addison Wesley Longman, Inc., 1997.
- Indian Investment Centre. *Specialised Financial Institutions*. New Delhi, 1972.
- Industrial Development Bank of India. *Development Banking in India*. Bombay, 1977.
- Jain, P.K. *Financial Institutions in India*. Delhi : Triveni Publications, 1983.
- _____. *Industrial Finance Corporation of India : A Study in Financial Management*. New Delhi : Anmol Publications,, 1988.
- Kane, J.A. *Development Banking*. London : Loxington Books, 1974.
- Khan, A.R. *Strategy of Development in Bangladesh*. London : The Macmillan Press Ltd., 1972.
- _____. *The Economy of Bangladesh*. London : The Macmillan Press Ltd., 1972.
- Khan, M.Y. and P.K. Jain. *Financial Management*. New Delhi : Tata McGraw Hill Publishing Co. Ltd., 1992.
- Khan, M.Y. and P.K. Jain. *Management Accounting and Financial Management*. New Delhi : Tata McGraw Hill Publishing Co. Ltd., 1992.

- Khan, M.Y. *Indian Financial System : Theory and Practices*. New Delhi : Vikas Publishing House Pvt. Ltd., 1985.
- _____. *Industrial Finance*. New Delhi : Tata Mcgraw Hill Publishing Co. Ltd., 1982.
- _____. *New Issue Market and Finance for Industry in India*. New Delhi : Allied Publishers Pvt. Ltd., 1978.
- Kohn, M. *Financial Institutions and Markets*. New Delhi : Tata McGraw-Hill Publishing Company Limited, 1999.
- Lal, M.V. *Development Banks*. New Delhi : Criterion Publications, 1990.
- Lal, R.N. *Capital Formation and Its Financing in India*. New Delhi : Allied Publishers Pvt. Ltd., 1977.
- Madan, B.K. *Management of Development Banks*. New Delhi : Management Development Institute, 1975.
- Malhotra, K. *Development Banks and Industrially Backward Areas*. New Delhi : Deep and Deep Publications, 1991.
- Meenai, S.A. *Money and Banking in Pakistan*. Karachi : The Allies Book Corporation, 1966.
- Meir, G.M. *Leading Issues in Economic Development*. New York : Oxford University Press, 1976.
- Misra, P.N. *Development Banks and the New Entrepreneurship in India*. New Delhi : National Publishing House, 1987.
- Nabi, K.A. Ed. *Development Financing Institutions (DFIs) of Bangladesh : Policy, Performance, Problems and Prospects*. Dhaka : Goethe-Institute, 1992.

- Nabi, K.A. *Problems of Project Appraisal and Implementation of the Development Finance Institution of Bangladesh*. Heidelberg : Research Centre for International Agrarian Development, 1988.
- Pandey, I.M. *Financial Management*. New Delhi : Vikas Publishing House Pvt. Ltd., 1991.
- Parekh, H.T. *The Story of Development Bank*. ICICI, 1955-79.
- Poonia, M.S. *Development Banking in India*. Jaipur : Prateeksha Publications, 1987.
- Rahman, A.H.M.H. Ed. *Industrial Finance in Bangladesh*. Dhaka : University of Dhaka, 1976.
- Rao, B.R. *Balance Sheet Analysis and Credit Appraisal for Bankers and Borrowers*. Bombay : Progressive Corporation Private Ltd., 1991.
- Saksena, R.M. *Development Banking in India*. Bombay : Vora and Co. Publishers Pvt. Ltd., 1970.
- _____. *Regional Development Banking*. Bombay : Somaiya Publications Pvt. Ltd., 1972.
- Saxena, G.S. Ed. *Search and Research*. New Delhi : Industrial Finance Corporation of India, 1984.
- _____. Ed. *Industrial Finance Corporation of India : Growth and Development*. New Delhi : Viva Photolithography's, 1988.
- _____. Ed. *Searchlight on Development Banking : A Compendium of IFCI Silver Jubilee Memorial Lectures 1973-1983*. New Delhi : Industrial Finance Corporation of India, 1984.
- Sexena R.B. *Management of International Financial Institutions*. Delhi : Discovery Publishing House, 1985.

- Sharma, C.P. *Industrialisation and Development Banking*. New Delhi : Deep and Deep Publications, 1989.
- Sharma, K. *Dynamics of Industrial Finance and Development Banks*. Jaipur : Preteeksha Publications, 1987.
- Sharma, M.L. *Financial Appraisal of Industrial Corporations in India*. Jaipur : Preteeksha Publications, 1986.
- Shetty, M.C. Ed. *Evaluation of Management in Project Appraisal*. New Delhi : Management Development Institute, 1979.
- Sikidar, S. *Development Banking : A Study of the Working of State Financial Corporations*. New Delhi : S. Chand & Co. Ltd., 1985.
- Simha, S.L.N. *Development Banking in India*. Madras : Institute for Financial Management and Research, 1976.
- Singh, P.N. *Role of Development Banks in a Planned Economy*. Delhi : Vikas Publishing House Pvt. Ltd., 1974.
- _____. *Role of Financial Institutions in Rural Entrepreneurship and Development*. New Delhi : Management Development Institute, 1982.
- Singh, V.S. *Development Banking in India*. New Delhi : Deep and Deep Publications, 1985.
- Sobhan, R. Ed. *Debt Default to the Development Finance Institutions*. Dhaka : University Press Ltd., 1991.
- Sobhan, R. *Report of the Task Forces on Bangladesh Development Strategies for the 1990's*. Vol. 1 & 2. Dhaka : University Press Ltd., 1991.
- Srivastava, R.M. *Management of Indian Financial Institutions*. Bombay : Himalaya Publishing House, 1984.

Srivastava, U.K. & N.M. Oza. *Stipulation and Exercise of Convertibility Options by Financial Institutions*. Ahmedabad : Indian Institute of Management, 1978.

Suneja, R.H. *Management of Bank Credit*. Bombay : Himalaya Publishing House, 1992.

Wood, O.G. and Robert, J.P. *Analysis of Bank Financial Statements*. New York : Van Nostrand Reinhold Company, 1979.

Yeager, C.F. & N.F. Seitzne. *Financial Institutions Management, & Text & Cases*. Varginia : Reston Publishing Co., 1982.

JOURNAL ARTICLES

← Ahiya, K. "The Banking Sector After Reforms". *The Indian Economic Journal*. Vol. 44, No. 4, April-June, 1996-97.

← Ahmed, K. "The Role of Bangladesh Shilpa Bank in Financing Private Sector Industries". *The Dhaka University Studies*. Part C, Vol. 2, No. 2. December, 1981.

← Alamgir, M.K. "Development Banks in Bangladesh : Problems and Policies for the Third Five Year Plan". *Bangladesh Journal of Political Economy*. Vol. 7, No. 1, A. Dhaka : Bangladesh Economic Association, 1996.

Alamgir, M.K. "Public Enterprise and The Financial System in Bangladesh". *Bangladesh Journal of Political Economy*. Vol. 8, No. 1. Dhaka : Bangladesh Economic Association, 1988.

Ali, A.M.M.S. *et al.* "Aspects of Development : Finance Institutions in Bangladesh". *Bangladesh Journal of Political Economy*. Vol. 8, 1. June, 1988.

Bhatt, V.V. "A Decade of Performance of Industrial Development Bank of India". *Commerce*. Annual Number, Vol. 129, No. 3321, 1974.

- Habibullah, M. "Industrial Financing and Institutional Arrangement for Setting up of Industries in the Private Sector". *The Dhaka University Studies*. Part-C, 1(2), 1980.
- Huda, N.M. "Bangladesh's Financial Sector : An Overview". *Bank Parikrama*. Vol. XXII, Nos. 3 and 4, September and December, 1997.
- Joshi, N.C. "Rejuvenating India's Development Banks". *The Journal of the Indian Institute of Bankers*. Bombay : Vol. 54, No. 2. April-June, 1983.
- Khan, M.Y. "Development Banking : The Indian Experience". *Lok Udyog*. Vol. XV. No. 4. July, 1981.
- _____. "Development Banking in India, Role and Problems". *Artha Vijnana*. Vol. XXII, No. 1. Poona : The Gokhale Institute of Politics and Economics, March, 1980.
- Nadkarni, S.S. "The All India DFIs". *Journal of Development Finance*. Manila: Association of Development Financing, Institutions in Asia and Pacific Secretariat.
- Rahman, M.H. "Industrial Finance in Bangladesh". Battacharjee, D. Ed. *The Business Review*. Vol. 1, No. 1. Dhaka, December, 1971.
- Shafiq, M. "Shilpo Bank is Captive in the Hands of 120". *Weekly Bichitra*. Dhaka, 6th September, 1985.
- Sobhan, R. & Mahmood, S.A. "Repayment of Loans to Specialised Financial Institutions in Bangladesh : Issue and Constraints". *The Bangladesh Development Studies*. Vol. IX, No. I. Winter, 1981.
- Sobhan, R. and Ahmad Ahsan. "The Effect of Exchange Rate Depreciation on the Loan Repayment Performance of Private Enterprise in Bangladesh". *Bangladesh Development Studies*. Vol. IX, No. 4. Dhaka : Bangladesh Institute of Development Studies, December, 1987.

Appendix C-1
Gross Profit of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Total income (after provision of bad and doubtful debt) (Tk.)	Total expenditure (Tk)	Gross profit (col. 2 - col. 3) (Tk.)
1	2	3	4
1972-73	39.98	30.82	9.16
1973-74	52.78	36.10	16.68
1974-75	72.73	43.88	28.85
1975-76	109.64	78.04	31.60
1976-77	123.66	91.52	32.14
1977-78	153.67	115.71	37.96
1978-79	175.33	130.25	45.08
1979-80	255.26	158.06	67.20
1980-81	291.31	213.75	77.56
1981-82	358.53	278.44	80.09
1982-83	396.17	300.11	96.06
1983-84	441.32	337.95	103.37
1984-85	589.08	422.29	166.79
1985-86	566.04	566.04	-
1986-87	409.00	408.42	0.58
1987-88	430.42	404.97	25.45
1988-89	535.20	442.61	92.59
1989-90	623.32	525.25	98.07
1990-91	614.31	514.46	99.85
1991-92	554.85	575.88	88.97
1992-93	681.10	555.14	125.96
1993-94	671.15	535.37	135.78
1994-95	5.5.37	505.37	-
1995-96	561.32	561.32	-
1996-97	724.72	724.72	-
1997-98	772.01	772.01	-
1998-99	501.51	733.70	(232.19)
1999-00	916.16	3969.57	(3053.41)
2000-01	1012.01	336.28	675.73
2001-02	12.36.44	321.84	914.60
2002-03	1100.19	310.61	789.58

(-) denotes nil.

Source : Compiled from the data of BSB : Annual Report, various issues.

Appendix C-2
Gross Profit Margin of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Gross profit (Tk.)	Total income (Tk)	Gross profit margin (col. 2 as % col. 3 %) (Tk.)
1	2	3	4
1972-73	9.16	39.98	22.91
1973-74	16.68	52.78	31.60
1974-75	28.85	72.73	39.67
1975-76	31.60	109.64	28.82
1976-77	32.14	123.66	25.99
1977-78	37.96	153.67	24.70
1978-79	45.08	175.33	25.71
1979-80	67.20	225.26	29.63
1980-81	77.56	291.31	26.62
1981-82	80.09	358.53	22.34
1982-83	96.06	396.17	24.25
1983-84	103.37	441.32	23.42
1984-85	166.79	589.08	28.31
1985-86	-	566.04	-
1986-87	0.58	409.00	0.14
1987-88	25.45	430.42	5.91
1988-89	92.59	535.20	17.30
1989-90	98.07	623.32	15.73
1990-91	99.85	614.31	16.25
1991-92	88.97	664.85	13.38
1992-93	125.96	681.10	18.49
1993-94	135.78	671.15	20.23
1994-95	-	505.37	-
1995-96	-	561.32	-
1996-97	-	724.72	-
1997-98	-	772.01	-
1998-99	(232.19)	501.51	-
1999-00	(3053.41)	916.16	-
2000-01	675.73	1012.01	66.77
2001-02	914.60	1236.44	73.97
2002-03	789.58	1100.19	71.77

(-) denotes nil.

$$\text{Gross Profit} = \frac{\text{Gross profit}}{\text{Total Income}} \times 100$$

Source : Compiled from the data of BSB : Annual Report, various issues.

Appendix C-3
EBIT, EBT and EAT of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end- June)	Total income (Tk)	Operating expenses (Tk)	Interest paid (Tk)	Income tax (provision) (Tk)	EBIT (col. 2- col. 3) Tk)	EBT (col. 6 - col. 4)	EAT (col. 7 - col. 5)
1	2	3	4	5	6	7	8
1972-73	39.98	6.34	24.48	4.66	33.64	9.16	4.50
1973-74	52.78	7.80	28.30	8.80	44.98	16.68	7.88
1974-75	72.37	9.79	34.09	13.87	62.94	28.85	14.98
1975-76	109.64	11.75	66.29	15.78	97.89	31.60	15.82
1976-77	123.66	12.57	78.95	16.03	111.09	32.14	16.11
1977-78	153.67	16.46	99.25	19.00	137.21	37.96	18.96
1978-79	175.33	21.78	108.47	22.90	153.55	45.08	22.18
1979-80	225.26	27.12	130.94	46.56	198.14	67.20	20.64
1980-81	291.31	31.35	182.40	48.54	259.96	77.56	29.02
1981-82	358.53	32.01	246.43	57.45	326.52	80.09	29.64
1982-83	396.17	32.31	267.80	67.68	363.86	96.06	28.38
1983-84	441.32	36.12	301.83	80.00	405.20	103.37	23.37
1984-85	589.08	59.39	362.90	120.00	529.69	166.79	46.79
1985-86	566.04	83.03	483.01	-	483.01	-	-
1986-87	409.00	103.88	304.54	0.32	305.12	0.58	0.26
1987-88	430.42	90.22	314.75	10.00	340.20	25.45	15.45
1988-89	535.20	90.19	352.42	52.50	445.01	92.59	40.09
1989-90	623.32	108.16	417.09	57.50	515.16	98.07	40.57
1990-91	614.31	103.36	411.10	57.50	510.95	99.85	42.35
1991-92	664.85	113.97	461.91	44.50	550.88	88.97	44.47
1992-93	681.10	125.80	429.34	60.00	555.30	125.96	65.96
1993-94	671.15	134.18	401.19	61.10	536.97	135.78	74.68
1994-95	505.37	140.62	364.75	-	364.75	-	-
1995-96	561.32	154.39	406.93	-	406.93	-	-
1996-97	724.72	163.61	561.11	-	561.11	-	-
1997-98	772.01	209.05	562.96	-	562.96	-	-
1998-99	501.51	202.44	531.26	-	299.07	-	-
1999-00	916.16	587.77	510.66	-	328.39	-	-
2000-01	1012.01	197.48	138.80	-	814.53	-	-
2001-02	1236.44	192.79	129.05	-	1043.65	-	-
2002-03	1100.19	195.60	115.01	-	904.59	-	-

(-) denotes nil.

EBIT = Earning before Interest and Tax.

EBT = Earning before Tax.

EAT = Earning after Tax

Operating expense = All expenses excluding interest and provision.

Source : Compiled from the data of BSB : Annual Report, various issues.

Appendix C-4
Net Profit Margin of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end- June)	EBT (Tk)	Income tax provision (Tk)	EAT (col. 2 - col. 3) (Tk)	Total income (After provision of bad & doubtful debts) (Tk)	Net profit margin (col. 4 as % of col. 5%)
1	2	3	4	5	6
1972-73	9.16	4.66	4.50	39.98	11.26
1973-74	16.68	8.80	7.88	52.78	14.93
1974-75	28.85	13.87	14.98	72.73	20.60
1975-76	31.60	15.78	15.82	109.64	14.43
1976-77	32.14	16.03	16.11	123.66	13.03
1977-78	37.96	19.00	18.96	153.67	12.34
1978-79	45.08	22.90	22.18	175.33	12.65
1979-80	67.20	46.56	20.64	225.26	09.16
1980-81	77.56	48.54	29.02	291.31	09.96
1981-82	80.09	57.45	22.64	358.53	06.31
1982-83	96.06	67.68	28.38	396.17	07.16
1983-84	103.137	80.00	23.37	441.32	05.30
1984-85	166.76	120.00	46.79	589.08	07.94
1985-86	-	-	-	566.04	-
1986-87	0.58	0.32	0.26	409.00	0.06
1987-88	25.45	10.00	15.45	430.42	03.59
1988-89	92.59	52.50	40.09	535.20	07.49
1989-90	98.07	57.50	40.57	623.32	06.51
1990-91	99.85	57.50	42.35	614.31	06.89
1991-92	88.97	44.50	44.47	664.85	06.69
1992-93	125.96	60.00	65.96	681.10	09.68
1993-94	135.78	61.10	74.68	671.15	11.13
1994-95	-	-	-	505.37	-
1995-96	-	-	-	561.32	-
1996-97	-	-	-	724.72	-
1997-98	-	-	-	772.01	-
1998-99	-	-	-	501.51	-
1999-00	-	-	-	916.16	-
2000-01	675.73	-	-	1012.01	-
2001-02	914.60	-	-	1236.44	-
2002-03	789.58	-	-	1100.19	-

(-) denotes nil

$$\text{Net profit margin} = \frac{\text{Earnings after interest and taxes (EAT)}}{\text{Total income}} \times 100$$

Source : Compiled from the data of BSB : Annual Report, various issues.

Appendix C-5
Operating Expense Ratio of the BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Operating expense (Tk)	Total income (after provision of bad and doubtful debt) (Tk)	Operating expense ratio (col. 2 as % of col. 3 %)
1	2	3	4
1972-73	6.34	39.98	15.86
1973-74	7.80	52.78	14.78
1974-75	9.76	72.73	13.46
1975-76	11.75	109.64	10.72
1976-77	12.57	123.66	10.16
1977-78	16.46	153.67	10.71
1978-79	21.78	175.33	12.42
1979-80	27.12	225.26	12.04
1980-81	31.35	291.31	10.76
1981-82	32.01	358.53	8.93
1982-83	32.31	396.17	8.16
1983-84	36.12	441.32	8.18
1984-85	59.39	589.08	10.08
1985-86	83.03	599.04	14.67
1986-87	103.88	409.00	25.40
1987-88	90.22	430.42	20.96
1988-89	90.19	535.20	16.85
1989-90	108.16	623.32	17.35
1990-91	103.36	614.31	16.83
1991-92	130.97	664.85	17.14
1992-93	125.80	681.10	18.47
1993-94	134.18	671.15	19.99
1994-95	140.62	505.37	27.83
1995-96	154.39	561.32	23.70
1996-97	163.61	724.72	22.57
1997-98	209.05	772.02	27.08
1998-99	202.44	501.51	40.37
1999-00	587.77	916.16	64.16
2000-01	197.48	1012.01	19.51
2001-02	192.79	1236.44	15.59
2002-03	195.60	1100.19	17.78

$$\text{Operating expenses ratio} = \frac{\text{Operating expenses}}{\text{Total income}} \times 100$$

Note : Operating expense = All expense excluding financial expenses.

Source : Compiled from the data of BSB : Annual Report, various issues.

Appendix C-6
Financial Expense Ratio of BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Financial expense (Tk)	Total income (after provision of bad and doubtful debt) (Tk)	Financial expense ratio (col. 2 as % of col. 3 %)
1	2	3	4
1972-73	24.48	39.98	61.23
1973-74	28.30	52.78	53.62
1974-75	34.09	72.73	46.87
1975-76	66.29	109.64	60.46
1976-77	78.95	123.66	63.84
1977-78	99.25	153.67	64.59
1978-79	108.47	175.33	61.87
1979-80	130.94	225.26	58.13
1980-81	182.40	291.31	62.61
1981-82	246.43	358.53	68.73
1982-83	267.80	396.17	67.60
1983-84	301.83	441.32	68.39
1984-85	362.90	589.08	61.60
1985-86	483.01	566.04	85.33
1986-87	304.54	409.00	74.46
1987-88	314.75	430.42	73.13
1988-89	352.42	535.20	65.85
1989-90	417.09	623.32	66.91
1990-91	411.10	614.31	66.92
1991-92	461.91	664.85	69.48
1992-93	429.34	681.10	63.04
1993-94	401.19	671.15	59.78
1994-95	364.75	505.37	72.17
1995-96	406.93	561.32	72.50
1996-97	561.11	724.72	77.42
1997-98	562.96	772.01	72.92
1998-99	531.26	501.51	105.93
1999-00	510.66	916.16	55.74
2000-01	138.80	1012.01	13.72
2001-02	129.05	1236.44	10.44
2002-03	115.01	1100.19	10.45

$$\text{Financial expenses ratio} = \frac{\text{Financial expenses}}{\text{Total income}} \times 100$$

Source : Compiled from the data of BSB : Annual Report, various issues.

Appendix C-7
Total Debt of BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Borrowing (Tk)	War adjustment account* (Tk)	Deposits (Tk)	Total debt (col. 2 + col. 3 + col. 4) (Tk.)
1	2	3	4	5
1972-73	229.72	552.64	50.12	832.48
1973-74	347.92	299.36	73.98	721.26
1974-75	482.69	429.42	111.68	1023.79
1975-76	491.30	669.22	181.92	1142.44
1976-77	327.40	689.17	250.56	1267.06
1977-78	366.37	710.87	358.53	1435.77
1978-79	506.13	741.09	372.71	1619.93
1979-80	922.22	306.05	515.25	1743.52
1980-81	1250.56	258.85	487.26	1996.67
1981-82	1883.29	162.87	530.50	2675.66
1982-83	2260.55	250.18	510.69	3021.42
1983-84	2643.07	88.81	706.65	3438.53
1984-85	3065.69	88.81	937.97	4092.47
1985-86	2831.37	215.32	1032.79	4079.48
1986-87	2439.35	191.09	600.06	3230.50
1987-88	2667.96	166.86	645.64	3480.46
1988-89	2891.46	135.94	1134.11	4161.51
1989-90	3234.26	140.27	894.54	4269.07
1990-91	3476.33	144.60	852.21	4473.14
1991-92	4126.81	148.92	768.87	5044.60
1992-93	5235.91	153.25	822.95	6212.11
1993-94	5907.68	157.58	1042.53	7107.79
1994-95	5056.42	161.90	1270.90	6489.22
1995-96	6941.91	166.29	1192.51	8300.71
1996-97	7550.99	170.55	1066.50	8788.04
1997-98	7904.98	-	569.84	8474.82
1998-99	8538.05	179.21	402.82	9120.08
1999-00	8604.47	179.21	447.62	9231.30
2000-01	8742.63	-	591.96	9334.59
2001-02	8919.23	-	564.55	9483.78
2002-03	8992.02	-	575.00	9567.02

* War adjustment account represents Bangladesh's Pre-independence foreign currency liabilities not yet recognised by the Government. But interest accrued for the same account has been posted in Taka counterpart fund account regularly.

** Deposits include fixed deposits, short-term deposit, saving account, deposit pension scheme

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix C-8
Cost of Debt of BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Interest (I) (Tk)	Total debt (TD) (Tk)	Before tax cost of debt (debt) (Tk)
1	2	3	5
1972-73	24.48	832.48	2.94
1973-74	28.30	721.26	3.92
1974-75	34.09	1023.79	3.33
1975-76	66.29	1142.44	5.80
1976-77	78.95	1267.06	6.23
1977-78	99.25	1435.77	6.91
1978-79	108.57	1619.93	6.70
1979-80	130.94	1743.52	7.51
1980-81	182.40	1996.67	9.14
1981-82	246.43	2675.66	9.21
1982-83	267.80	3021.42	8.86
1983-84	301.83	3438.53	8.78
1984-85	362.90	4092.47	8.87
1985-86	483.01	4079.48	11.83
1986-87	304.54	3230.50	9.43
1987-88	314.75	3480.46	9.04
1988-89	352.09	4161.51	8.46
1989-90	397.07	4269.07	9.30
1990-91	390.49	4473.14	8.73
1991-92	446.25	5044.60	8.85
1992-93	420.20	6212.11	6.76
1993-94	397.76	7107.79	5.60
1994-95	360.89	6489.22	5.56
1995-96	402.19	8300.71	4.85
1996-97	561.08	8788.04	6.38
1997-98	562.96	8474.82	6.64
1998-99	531.23	9120.08	5.82
1999-00	509.50	9231.30	5.52
2000-01	114.37	9334.59	1.23
2001-02	129.03	9483.78	1.36
2002-03	138.77	9567.02	1.45

$$k_i = \frac{I}{TD} \text{ where } K_i = \text{Before tax cost of debt}$$

I = Annual interest payment

TD = Total debt

Note : Interest paid on deposit at call and short notice has been excluded.

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix C-9
Rate of Return on Loans and Investment of BSB from 1972-73 to 2002-03
(Taka in million)

Year (end- June)	EBIT (Tk)	Total loans & advances (Tk)	Total investment (Tk)	Total loans and investment (col. 3 + col. 4) (Tk)	Rate of return on loans and investment (col. 2 as % of col. 5%)
1	2	3	4	5	6
1972-73	33.64	743.66	24.80	768.46	4.38
1973-74	44.98	788.58	25.38	813.95	5.53
1974-75	62.94	1013.81	75.33	1089.14	5.78
1975-76	97.89	1125.97	73.70	1198.14	8.17
1976-77	111.09	1206.93	91.77	1198.67	8.55
1977-78	137.21	1348.05	86.35	1298.70	9.57
1978-79	153.55	1653.78	131.46	1434.40	7.21
1979-80	198.14	1894.84	155.74	1785.24	9.66
1980-81	259.96	2426.24	159.24	2050.58	10.05
1981-82	326.52	3194.07	157.06	2585.48	9.74
1982-83	363.86	3989.20	162.06	3351.26	8.77
1983-84	405.20	4364.17	181.87	4151.26	8.91
1984-85	529.69	5197.31	38.71	4546.04	10.12
1985-86	483.01	4726.00	31.02	5236.02	10.13
1986-87	305.12	4072.07	31.64	4767.02	7.44
1987-88	340.20	4096.52	29.68	4126.20	8.24
1988-89	445.01	4185.24	1723.36	5908.60	7.53
1989-90	515.16	5041.30	1241.91	6283.21	8.98
1990-91	510.95	6241.77	513.01	6754.78	7.65
1991-92	550.88	7017.17	640.75	7657.92	7.19
1992-93	555.30	7846.30	1705.68	9551.98	5.81
1993-94	536.97	8614.98	1840.35	10455.33	5.14
1994-95	364.75	8258.17	1463.23	9721.40	3.75
1995-96	406.93	9532.13	1323.42	10855.55	3.75
1996-97	561.11	9670.53	2229.59	11900.12	4.71
1997-98	562.96	10496.17	1334.11	11830.28	4.76
1998-99	299.07	10168.21	1158.92	11354.13	2.63
1999-00	328.39	21321.56	1333.03	22654.59	1.45
2000-01	814.53	20715.37	2489.62	23204.99	3.52
2001-02	1043.65	19859.89	3400.85	23260.74	4.49
2002-03	904.59	16432.86	4048.04	20480.09	4.42

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix C-10
Rate of Return on Total Assets (ROTA) of BSB from 1972-73 to 2002-03
(Taka in million)

Year (end-June)	EBIT (Tk)	Total assets (Tk)	ROTA (col. 2 as % of col. 3%)
1	2	3	5
1972-73	33.64	877.06	3.84
1973-74	44.98	995.73	4.52
1974-75	62.94	1325.72	4.75
1975-76	97.89	1508.76	6.49
1976-77	111.09	1767.97	6.28
1977-78	137.21	2043.69	6.71
1978-79	153.55	2346.44	6.54
1979-80	198.14	2533.99	7.82
1980-81	259.96	2995.19	8.68
1981-82	326.52	3767.09	8.67
1982-83	363.86	4747.11	7.66
1983-84	405.20	5693.08	7.12
1984-85	529.69	6626.38	7.99
1985-86	483.01	6480.62	7.45
1986-87	305.12	5982.49	5.10
1987-88	340.20	6291.24	5.41
1988-89	445.01	7416.23	6.00
1989-90	515.16	7416.04	6.59
1990-91	510.95	7985.18	6.47
1991-92	550.88	8894.22	6.19
1992-93	555.30	10784.38	5.15
1993-94	536.97	11713.76	4.58
1994-95	364.75	11088.86	3.29
1995-96	406.93	12772.22	3.19
1996-97	561.1	13468.77	4.17
1997-98	562.96	13265.28	4.24
1998-99	299.07	13244.06	2.26
1999-00	328.39	24002.90	1.37
2000-01	816.56	24549.89	3.33
2001-02	1043.65	24714.64	4.22
2002-03	904.59	22307.24	4.06

$$ROTA = \frac{EBIT}{\text{Total assets}} \times 100$$

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix C-11
Rate of Return on Capital Employed (ROCE) by BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	EBIT (Tk)	Total capital employed (Tk)	ROCE (col. 2 as % of col. 3%)
1	2	3	5
1972-73	33.64	839.95	3.98
1973-74	44.98	449.78	4.74
1974-75	62.94	1263.69	4.89
1975-76	97.89	1457.97	6.71
1976-77	111.09	1672.08	6.64
1977-78	137.21	1892.30	7.25
1978-79	153.55	2127.77	7.22
1979-80	198.14	2442.80	8.11
1980-81	259.96	2673.47	9.72
1981-82	326.52	3382.32	9.65
1982-83	363.86	4291.74	8.48
1983-84	405.20	4976.33	8.14
1984-85	529.69	5720.50	9.26
1985-86	483.01	5565.37	8.68
1986-87	305.12	4755.44	6.42
1987-88	340.20	5020.73	6.78
1988-89	445.01	5741.32	7.75
1989-90	515.16	5884.74	8.75
1990-91	510.95	6121.29	8.35
1991-92	550.88	6727.27	8.19
1992-93	555.30	7948.26	6.99
1993-94	536.97	8906.12	6.03
1994-95	364.75	8287.55	4.40
1995-96	406.93	10232.75	3.98
1996-97	561.11	10715.82	5.24
1997-98	562.96	10573.15	5.32
1998-99	299.07	11039.02	2.71
1999-00	328.39	11078.04	2.96
2000-01	816.56	11181.69	7.30
2001-02	1043.65	11330.88	9.21
2002-03	904.59	11414.12	7.93

Note : Capital employed = Long term fund supplied by the creditors + owners' fund.

$$ROCE = \frac{EBIT}{\text{Total capital employed}} \times 100$$

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix C-12
Rate of Return of Shareholders Equity (ROSE) of BSB from 1973-74 to 2002-03

(Taka in million)

Year (end-June)	EAT (Tk)	Equity (Tk)	ROSE (col. 2 as % of col. 3%)
1	2	3	5
1973-74	7.88	228.52	3.45
1974-75	14.98	239.90	6.04
1975-76	15.82	315.53	5.01
1976-77	16.11	405.02	3.98
1977-78	18.96	456.53	4.15
1978-79	22.18	507.84	4.37
1979-80	20.64	699.80	2.85
1980-81	29.02	676.80	4.29
1981-82	22.64	706.66	3.20
1982-83	28.38	1270.32	2.23
1983-84	23.37	1537.80	1.52
1984-85	46.79	1628.03	2.87
1985-86	-	1485.89	-
1986-87	0.26	1524.94	0.02
1987-88	15.45	1540.27	1.00
1988-89	40.09	1579.81	2.54
1989-90	40.57	1615.67	2.51
1990-91	42.35	1648.15	2.57
1991-92	44.47	1682.67	2.64
1992-93	65.96	1736.15	3.80
1993-94	74.68	1798.33	4.15
1994-95	-	1798.33	-
1995-96	-	2098.33	-
1996-97	-	2098.33	-
1997-98	-	2098.33	-
1998-99	-	2098.33	-
1999-00	-	1847.10	-
2000-01	-	1847.10	-
2001-02	-	1847.10	-
2002-03	-	1847.10	-

(-) denotes nil

$$ROSE = \frac{EAT}{\text{Total equity}} \times 100$$

Note : Equity = Subscribed and paid up capital + reserves + quasi equity.
 Quasi equity = Interest free loan subordinated to capital + special fund and provision.
 Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix C-13
Payments to National Exchequer by BSB from 1972-73 to 2002-03
(Taka in million)

Year (end-June)	Payments to national exchequer (Tk)
1	2
1972-73	2.50
1973-74	2.50
1974-75	2.50
1975-76	2.50
1976-77	5.00
1977-78	5.07
1978-79	5.16
1979-80	13.53
1980-81	13.60
1981-82	7.90
1982-83	9.43
1983-84	10.10
1984-85	1.38
1985-86	-
1986-87	-
1987-88	5.00
1988-89	5.00
1989-90	5.00
1990-91	10.00
1991-92	10.00
1992-93	12.00
1993-94	12.50
1994-95	-
1995-96	-
1996-97	-
1997-98	-
1998-99	-
1999-00	-
2000-01	-
2001-02	-
2002-03	-

(-) denotes nil

Source : BSB : *Annual Report*, various issues.

Appendix C-14
Interest Income of BSB from 1985-86 to 2002-03

(Taka in million)

Year (end-June)	Interest income
1	2
1985-86	528.86
1986-87	372.68
1987-88	361.95
1988-89	476.08
1989-90	624.90
1990-91	507.72
1991-92	579.79
1992-93	651.67
1993-94	635.92
1994-95	472.15
1995-96	506.91
1996-97	660.18
1997-98	718.91
1998-99	452.99
1999-00	835.30
2000-01	929.48
2001-02	796.38
2002-03	940.21

Source : BSB, *Annual Report*, various issues.

Appendix -D-1(i)
Sources funds of BSB from 1985-86 to 1998-99

Year (end-June)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Source of fund (summation of col. 1 to col. 15) (Tk)
		Increase in paid up capital (Tk)	Profit after tax (Tk)	Depreciation (Tk)	Provision for bad and doubtful debt (Tk)	Borrowings (Tk)	Increase in borrowing (Tk)	Decrease in investment (Tk)	Increase in deposit (Tk)	Increase in other liabilities (Tk)	Decrease in assets (Tk)	Recovery of term loan (principal) (Tk)	Increase in reserve funds & other reserves (Tk)	Decrease in advance (Tk)	Encashment of securities (Tk)	
1985-86	-	-	-	9.60 (01.10)	199.00 (22.90)	58.60 (6.74)	-	-	174.70 (20.11)	-	-	417.20 (48.02)	-	-	9.80 (1.13)	868.90 (100.00)
1986-87	20.00 (1.50)	-	.26 (0.02)	9.18 (0.69)	228.07 (17.10)	208.62 (15.64)	-	-	-	155.69 (11.67)	-	206.20 (15.46)	-	505.74 (37.92)	-	1333.76 (100.00)
1987-88	-	-	15.45 (1.97)	8.62 (10.10)	70.00 (8.90)	245.29 (31.29)	32.24 (4.11)	1.96 (0.25)	116.17 (14.82)	-	-	294.14 (37.53)	-	-	-	783.87 (100.00)
1988-89	-	-	40.09 (1.92)	8.81 (0.42)	75.00 (3.60)	542.90 (26.02)	-	-	698.97 (33.51)	193.92 (9.30)	-	526.36 (25.23)	-	-	-	2086.05 (100.00)
1989-90	-	-	40.57 (2.26)	8.22 (0.46)	85.00 (4.74)	453.74 (25.41)	77.95 (4.35)	481.45 (26.84)	-	196.64 (10.96)	41.44 (2.31)	406.64 (22.67)	-	-	-	1793.65 (100.00)
1990-91	-	-	42.35 (2.59)	7.70 (0.47)	100.00 (6.12)	376.46 (23.05)	-	42.17 (2.58)	728.90 (44.64)	13.85 (0.85)	152.48 (9.34)	164.65 (10.08)	4.47 (0.28)	-	-	1633.03 (100.00)
1991-92	-	-	44.47 (2.54)	6.69 (0.38)	115.13 (6.57)	1000.00 (57.03)	169.41 (9.66)	-	99.73 (5.69)	109.97 (6.27)	-	203.65 (11.61)	4.38 (0.25)	-	-	1753.43 (100.00)
1992-93	-	-	65.96 (2.76)	6.63 (0.28)	106.37 (4.45)	500.00 (20.92)	745.66 (31.21)	-	480.39 (24.29)	130.36 (5.46)	-	249.71 (10.45)	4.34 (0.18)	-	-	2389.42 (100.00)
1993-94	-	-	74.68 (5.16)	7.02 (0.34)	183.16 (12.65)	1000.00 (69.07)	174.03 (12.01)	-	125.00 (18.63)	53.60 (3.70)	-	174.10 (12.02)	4.33 (0.30)	-	-	1447.86 (100.00)
1994-95	-	-	-	10.86 (10.05)	471.93 (45.73)	500.00 (48.44)	929.48 (90.05)	377.12 (36.54)	258.46 (25.04)	36.43 (3.53)	45.44 (4.40)	329.87 (31.96)	4.37 (0.42)	-	-	1032.10 (100.00)
1995-96	300.00 (10.03)	-	-	8.04 (0.38)	219.42 (7.34)	1600.00 (53.49)	424.44 (14.19)	13981 (4.67)	-	-	32.15 (1.07)	267.42 (8.94)	-	-	-	2991.28 (100.00)
1996-97	-	-	-	12.97 (0.55)	322.08 (13.69)	1500.00 (63.76)	32.27 (1.37)	-	-	193.15 (8.21)	-	292.01 (12.42)	-	-	-	2352.48 (100.00)
1997-98	-	-	-	13.33 (0.58)	154.44 (6.70)	500.00 (21.69)	186.78 (8.10)	970.91 (42.12)	-	-	-	479.79 (20.81)	-	-	-	2305.25 (100.00)
1998-99	-	-	232.19 (18.96)	11.54 (0.94)	-	500.00 (40.82)	4.99.97 (40.82)	-	-	-	-	445.55 (36.38)	-	-	-	1224.87 (100.00)

Borrowing Includes Foreign Exchange Borrowing and Local Currency Borrowings.

Figures in the Bracket Show Percentages of Total (-) Denotes nit.

Source : Compiled from BSB : Annual Report, 1985-86 to 1998-99.

Appendix -D-1(ii)
Uses of Funds by BSB from 1985-86 to 1998-99

Year (End- June)	2	3	4	5	6	7	8	9	10	11	12	Total use of funds (sum of col. 1 to col. 12) (Tk)
	Disbursement of term loan (Tk)	Repayment of borrowing (principal) (Tk)	Increase in advance (Tk)	Increase in other assets (Tk)	Decrease in deposit (Tk)	Increase in investment (Tk)	Decrease in fixed assets (Tk)	Decrease in reserve fund and other reserve (Tk)	Decrease in borrowing (Tk)	Decrease in other liabilities (Tk)	Surplus/Deficiency (Tk.)	
1												13
1985-86	124.90 (14.37)	141.00 (16.22)	29.07 (3.42)	161.70 (18.60)	-	-	9.00 (1.04)	15.60 (1.79)	151.90 (17.48)	70.50 (8.11)	164.90 (18.97)	869.20 (100.00)
1986-87	278.53 (24.57)	27.44 (2.42)	-	50.77 (4.48)	276.62 (24.40)	0.62 (0.05)	9.85 (0.87)	5.44 (0.48)	373.20 (32.92)	-	111.29 (9.81)	1133.76 (100.00)
1987-88	308.95 (39.36)	48.92 (6.23)	79.64 (10.15)	5.53 (0.70)	-	-	12.47 (1.59)	24.34 (3.10)	-	27.14 (3.46)	277.88 (35.41)	784.87 (100.00)
1988-89	468.13 (22.44)	309.00 (14.81)	221.95 (10.64)	111.20 (5.33)	-	22.51 (1.08)	7.12 (0.34)	31.47 (1.51)	10.44 (0.50)	-	904.23 (43.35)	2086.05 (100.00)
1989-90	631.33 (635.20)	190.89 (10.64)	716.37 (39.94)	-	179.82 (10.03)	-	3.17 (0.18)	0.38 (0.02)	-	-	71.69 (3.99)	1793.65 (100.00)
1990-91	835.30 (51.15)	176.56 (10.81)	629.82 (38.57)	-	133.59 (18.18)	-	18.10 (1.11)	-	-	-	-160.34 (9.82)	1633.03 (100.00)
1991-92	354.64 (20.22)	518.93 (29.60)	739.52 (42.18)	52.23 (2.98)	-	127.75 (7.29)	37.25 (2.12)	-	-	-	-76.89 (4.39)	1753.43 (100.00)
1992-93	661.89 (27.70)	136.56 (5.42)	523.31 (21.99)	40.47 (1.66)	-	1064.93 (44.57)	37.43 (1.57)	-	-	-	75.17 (3.15)	2389.42 (100.00)
1993-94	305.60 (21.11)	154.21 (10.65)	820.35 (56.66)	20.73 (1.43)	-	134.67 (9.30)	6.99 (0.48)	-	-	-	5.31 (.37)	1447.86 (100.00)
1994-95	647.46 (62.73)	421.78 (40.87)	19.62 (202.48)	-	-	-	13.61 (0.32)	-	-	-	151.73 (14.70)	1032.10 (100.00)
1995-96	1135.47 (37.96)	138.95 (4.64)	625.33 (20.90)	-	585.56 (19.58)	200.00 (6.69)	6.11 (0.20)	-	-	46.87 (1.57)	252.99 (8.46)	2991.28 (100.00)
1996-97	2.488 (8.71)	923.19 (39.24)	547.60 (23.28)	100.45 (4.27)	105.69 (4.49)	916.55 (38.96)	1.85 (0.08)	-	-	-	(447.73) 19.03	2352.48 (100.00)
1997-98	961.76 (41.72)	332.79 (14.44)	498.11 (21.61)	56.31 (2.44)	510.90 (22.16)	-	2.32 (0.10)	-	-	46.58 (2.02)	(103.52) 4.49	2305.25 (100.00)
1998-99	74.28 (6.06)	366.90 (29.95)	43.31 (3.54)	39.33 (3.21)	148.29 (12.11)	53.13 (4.34)	0.95 (0.08)	-	-	506.01 (41.31)	(7.33) 0.60	1224.87 (100.00)

Figures in the Bracket Show Percentages of Total (-) Denotes nit.
Source : Compiled from BSB : Annual Report, 1985-86 to 1998-99.

Appendix-D-2
Current Ratio of BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Current assets (TK)	Current liabilities (TK)	Current ratio (col. 2 ÷ col. 3)
1	2	3	4
1972-73	106.44	37.11	2.87 : 1
1973-74	179.70	45.96	3.91 : 1
1974-75	234.39	62.03	3.78 : 1
1975-76	307.47	50.78	6.05 : 1
1976-77	466.81	95.89	4.87 : 1
1977-78	494.44	151.38	3.27 : 1
1978-79	444.46	218.67	2.03 : 1
1979-80	345.93	91.19	3.79 : 1
1980-81	200.90	321.72	0.62 : 1
1981-82	269.69	384.77	0.70 : 1
1982-83	128.30	455.36	0.28 : 1
1983-84	557.09	716.75	0.78 : 1
1984-85	529.67	905.89	0.58 : 1
1985-86	721.09	915.25	0.79 : 1
1986-87	753.35	1227.05	0.61 : 1
1987-88	740.84	1270.50	0.58 : 1
1988-89	1308.03	1675.22	0.78 : 1
1989-90	1472.02	1722.35	0.85 : 1
1990-91	1025.45	1860.67	0.55 : 1
1991-92	1000.79	2075.83	0.48 : 1
1992-93	966.09	2693.96	0.36 : 1
1993-94	992.15	2808.54	0.35 : 1
1994-95	1098.42	3017.55	0.36 : 1
1995-96	1649.57	2599.45	0.63 : 1
1996-97	1312.67	2847.30	0.46 : 1
1997-98	1190.04	2479.85	0.48 : 1
1998-99	1423.35	1892.07	0.75 : 1
1999-00	1122.84	7993.79	0.14 : 1
2000-01	1118.12	9671.92	0.12 : 1
2001-02	1233.92	6944.56	0.18 : 1
2002-03	1607.71	5795.28	0.28 : 1

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix-D-3
Debt-equity Ratio of BSB from 1973-74 to 2002-03

(Taka in million)

Year (end-June)	Total debt (TK)	Total equity (TK)	Debt-equity ratio (col. 2 as % col. 3%)
1	2	3	4
1973-74	721.26	228.52	3.16 : 1
1974-75	1023.79	239.90	4.27 : 1
1975-76	1142.44	315.53	3.62 : 1
1976-77	1267.06	405.02	3.13 : 1
1977-78	1435.77	456.53	3.14 : 1
1978-79	1619.93	507.84	3.19 : 1
1979-80	1743.52	699.28	2.49 : 1
1980-81	1996.67	676.80	2.95 : 1
1981-82	2675.66	706.66	3.79 : 1
1982-83	3021.42	1270.32	2.38 : 1
1983-84	3438.53	1537.80	2.24 : 1
1984-85	4092.47	1628.03	2.51 : 1
1985-86	4079.48	1485.89	2.75 : 1
1986-87	3230.50	1524.94	2.12 : 1
1987-88	3480.46	1540.27	2.26 : 1
1988-89	4161.51	1579.81	2.63 : 1
1989-90	4269.07	1615.67	2.64 : 1
1990-91	4473.14	1648.15	2.71 : 1
1991-92	5044.60	1682.67	3.00 : 1
1992-93	6212.11	1736.15	3.58 : 1
1993-94	7107.79	1798.33	3.95 : 1
1994-95	6489.22	1798.33	3.61 : 1
1995-96	8300.71	2098.33	3.96 : 1
1996-97	8788.04	2098.33	4.19 : 1
1997-98	8474.82	2098.33	4.04 : 1
1998-99	9120.08	2098.33	5.35 : 1
1999-00	9231.30	1847.10	5.00 : 1
2000-01	9334.59	1847.10	5.05 : 1
2001-02	9483.78	1847.10	5.13 : 1
2002-03	9567.02	1847.10	5.18 : 1

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix-D-4
Debt-assets Ratio of BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Total debt (TK)	Total assets (TK)	Debt-assets ratio (col. 2 as % of col. 3%)
1	2	3	4
1972-73	832.48	877.06	94.92
1973-74	721.26	995.73	72.44
1974-75	1023.79	1325.72	77.23
1975-76	1142.44	1508.76	75.72
1976-77	1267.06	1767.97	71.67
1977-78	1435.77	2043.69	70.25
1978-79	1619.93	2346.44	60.04
1979-80	1743.52	2533.99	68.81
1980-81	1996.67	2995.19	66.66
1981-82	2675.66	3767.09	71.03
1982-83	3021.42	4747.11	63.65
1983-84	3438.53	5693.08	60.40
1984-85	4092.47	6626.38	61.76
1985-86	4079.48	6480.62	62.95
1986-87	3230.46	5982.49	54.00
1987-88	3480.46	6291.24	55.32
1988-89	4161.51	7416.23	56.11
1989-90	2469.07	7816.04	54.62
1990-91	4473.14	7985.18	56.02
1991-92	5044.60	8894.22	56.72
1992-93	6212.11	10784.38	57.60
1993-94	7107.79	11713.76	60.68
1994-95	6489.22	11088.86	0.59
1995-96	8300.71	12772.22	0.65
1996-97	4788.04	13468.77	0.65
1997-98	8474.82	13265.28	0.64
1998-99	9120.08	13244.06	0.69
1999-00	9231.30	24002.90	0.38
2000-01	9334.59	24549.89	0.38
2001-02	9483.78	24714.64	0.38
2002-03	9567.02	22307.24	0.43

Source : Compiled from the Appendix C-7 C-10.

Appendix-D-5
Equity-assets Ratio of BSB from 1973-74 to 2002-03

(Taka in million)

Year (end-June)	Total equity (TK)	Total assets (TK)	Equity-assets ratio (col. 2 as % of col. 3%)
1	2	3	4
1973-74	228.52	995.73	22.95
1974-75	239.90	1325.72	18.10
1975-76	315.53	1508.76	20.19
1976-77	405.02	1767.97	22.91
1977-78	556.53	2043.69	22.34
1978-79	507.84	2346.44	21.64
1979-80	699.28	2533.99	27.60
1980-81	676.80	2995.19	22.60
1981-82	7.6.66	3767.09	18.76
1982-83	1270.32	4747.11	26.76
1983-84	1537.80	5693.08	27.01
1984-85	1628.03	6626.38	24.57
1985-86	1485.89	6480.62	22.93
1986-87	1524.94	5982.49	25.49
1987-88	1540.27	6291.24	24.48
1988-89	1579.81	7416.23	21.30
1989-90	1615.67	7816.04	20.67
1990-91	1648.15	7985.18	20.64
1991-92	1682.67	8894.22	18.92
1992-93	1736.15	10784.38	16.10
1993-94	17.98.43	11713.76	15.35
1994-95	1798.33	11088.86	0.16
1995-96	2098.33	12772.22	0.16
1996-97	2098.33	13468.77	0.16
1997-98	2098.33	13265.28	0.16
1998-99	2098.33	13244.06	0.16
1999-00	1847.10	24002.90	0.08
2000-01	1847.10	24549.89	0.08
2001-02	1847.10	24714.64	0.07
2002-03	1847.10	22307.24	0.08

Source : Compiled from the data of BSB : *Annual Report*, various issues.

Appendix–D-6
Debt-service Coverage Ratio (DSCR) of BSB from 1978-79 to 2002-03

Year (end-June)	DSCR
1	2
1977-78	1 : 1
1978-79	2 : 1
1979-80	2 : 1
1980-81	2 : 1
1981-82	1 : 1
1982-83	1 : 1
1983-84	2 : 1
1984-85	2 : 1
1985-86	1 : 1
1986-97	1 : 1
1987-88	2 : 1
1988-89	1 : 1
1989-90	2 : 1
1990-91	1 : 1
1991-92	1 : 1
1992-93	1.5 : 1
1993-94	1.5 : 1
1994-95	1.5 : 1
1995-96	1.64 : 1
1996-97	0.87 : 1
1997-98	0.92 : 1
1998-99	0.30 : 1
1999-00	0.32 : 1
2000-01	3.70 : 1
2001-02	4 : 1
2002-03	4 : 1

Source : BSB : *Annual Report*, Various Issues.

Appendix-D-7
Relative Share of Over-dues to Total Outstanding of BSB from 1972-73
to 2003-04

(Taka in million)

Year (end-June)	Total over-dues (TK)	Total outstanding (TK)	(col. 2 as of col. 3%)
1	2	3	4
1972-73	273.69	772.77	35.42
1973-74	372.19	811.73	45.85
1974-75	488.23	1081.87	45.13
1975-76	632.17	1232.18	51.31
1976-77	245.47	1243.53	19.74
1977-78	239.94	1386.24	17.31
1978-79	342.64	1705.78	20.09
1979-80	377.36	2023.69	18.65
1980-81	452.97	2476.01	18.29
1981-82	718.18	3324.54	21.63
1982-83	1168.13	4317.79	27.06
1983-84	1616.00	4952.79	32.63
1984-85	2198.05	5673.99	38.74
1985-86	2673.45	6107.28	43.77
1986-87	2951.50	6413.73	46.02
1987-88	3476.17	7003.81	49.63
1988-89	3655.16	7467.59	48.95
1989-90	3225.85	8146.40	39.60
1990-91	3783.67	9507.04	39.80
1991-92	4958.62	10875.33	45.60
1992-93	6325.49	12259.20	51.60
1993-94	7501.55	13607.24	55.13
1994-95	8640.76	14963.37	57.75
1995-96	9290.41	16572.77	56.06
1996-97	10367.07	17500.71	59.24
1997-98	11536.24	19345.52	59.63
1998-99	11545.00	19866.00	58.11
1999-00	10595.00	19215.00	55.14
2000-01	10682.17	18602.28	57.42
2001-02	9480.97	17730.78	53.47
2002-03	6996.81	14374.57	48.67
2003-04	7371.71	13998.11	52.66

Source : Compiled from Quarterly Review of BSB's Activities, April-June, 1994, p. 5; and

BSB : Ledger of Head Office.

Appendix–D-8
Relative Share of Recovery of Loan (Cash) to Total Outstanding of BSB
from 1972-73 to 2003-04

(Taka in million)

Year (end-June)	Recovery of loan (cash) (TK)	Total outstanding (TK)	(col. 2 as % of col. 3%)
1	2	3	4
1972-73	23.98	772.77	3.10
1973-74	45.75	811.73	5.61
1974-75	60.74	1081.87	5.61
1975-76	61.48	1232.18	4.99
1976-77	90.13	1243.53	7.25
1977-78	144.39	1386.24	10.42
1978-79	130.10	1705.78	7.63
1979-80	326.85	2023.69	16.15
1980-81	317.01	2476.01	12.80
1981-82	341.25	3324.54	10.26
1982-83	287.16	4317.79	6.65
1983-84	340.44	4952.79	6.87
1984-85	366.98	5673.99	6.47
1985-86	381.58	6107.28	6.25
1986-87	614.58	6413.73	9.58
1987-88	529.31	7003.81	7.56
1988-89	662.54	7467.59	8.87
1989-90	411.73	8146.40	5.05
1990-91	224.32	9507.04	2.36
1991-92	283.05	10875.33	2.56
1992-93	437.82	12259.20	3.57
1993-94	379.31	13607.24	2.79
1994-95	882.00	14963.37	5.89
1995-96	913.00	16572.77	5.51
1996-97	1137.00	17500.71	6.50
1997-98	980.00	19345.52	5.07
1998-99	997.00	19866.00	5.02
1999-00	1224.00	19215.00	6.37
2000-01	1400.00	18602.28	7.53
2001-02	1198.00	17730.78	6.76
2002-03	1316.00	14374.57	9.16
2003-04	1120.00	13998.11	8.00

Source : Compiled from the data of Quarterly Review of BSB's Activities, April-June, 1994, pp. 5 & 86-87;
and BSB : Ledger of Head Office.

Appendix-D-9
Relative Share of Recovery of Loan (Cash) to Total Over-dues of BSB
from 1972-73 to 2003-04

(Taka in million)

Year (end-June)	Recovery of loan (cash) (TK)	Total over-dues (TK)	(col. 2 as % of col. 3%)
1	2	3	4
1972-73	23.98	273.69	8.76
1973-74	45.75	372.19	12.29
1974-75	60.74	488.23	12.44
1975-76	61.48	632.17	9.73
1976-77	90.13	245.47	36.72
1977-78	144.39	239.94	60.18
1978-79	130.10	342.64	37.97
1979-80	326.85	377.36	80.61
1980-81	317.01	452.97	69.98
1981-82	341.25	719.18	47.45
1982-83	287.16	1168.13	24.58
1983-84	340.44	1616.00	21.07
1984-85	366.98	2198.05	16.70
1985-86	381.58	2673.45	14.27
1986-87	614.58	2951.50	20.82
1987-88	529.31	3476.17	15.23
1988-89	662.54	3655.16	18.13
1989-90	411.73	3225.85	12.76
1990-91	224.32	3783.67	5.93
1991-92	282.05	4958.62	5.69
1992-93	437.82	6325.49	6.92
1993-94	379.31	7501.55	5.06
1994-95	882.00	8640.76	10.20
1995-96	913.00	9290.41	9.83
1996-97	1137.00	10367.07	10.97
1997-98	980.00	11536.24	8.49
1998-99	997.00	11545.00	8.64
1999-00	1224.00	10595.00	11.55
2000-01	1400.00	10682.17	13.12
2001-02	1198.00	9480.97	12.64
2002-03	1316.00	6996.81	187.81
2003-04	1120.00	7371.71	15.19

Source : Compiled from the data of Quarterly Review BSB's Activities. April-June 1994, pp. 5 & 86-87; and
 BSB : Ledger of Head Office.

Appendix-D-10
Recovery of Loans by BSB from 1972-73 to 2002-03

(Taka in million)

Year (end-June)	Cash (TK)	Rephased/adjusted/transferred (TK)	Total (col. 2 + col. 3) (TK)
1	2	3	4
1972-73	23.98	12.80	36.78
1973-74	45.75	14.71	60.46
1974-75	60.74	25.29	86.03
1975-76	61.48	38.85	100.33
1976-77	90.13	545.49	655.62
1977-78	144.39	75.32	219.71
1978-79	130.10	40.58	170.68
1979-80	326.85	68.82	195.67
1980-81	317.01	52.48	169.49
1981-82	341.25	62.72	403.97
1982-83	287.10	123.75	410.91
1983-84	340.44	116.44	456.99
1984-85	366.98	143.20	510.18
1985-86	381.58	517.67	899.25
1986-87	614.58	822.27	1436.85
1987-88	529.31	289.74	819.05
1988-89	662.54	697.85	1360.39
1989-90	411.73	1366.66	1778.30
1990-91	224.32	470.72	695.04
1991-92	282.05	191.83	473.88
1992-93	437.82	196.16	633.98
1993-94	379.31	310.61	689.92
1994-95	882.00	249.00	1131
1995-96	913.00	820.00	1733
1996-97	1137.00	313.00	1450
1997-98	980.00	762.00	1742
1998-99	997.00	1404.00	2401
1999-00	1224.00	1145.00	2369
2000-01	1400.00	574.00	1974
2001-02	1198.00	1833.00	3031
2002-03	1316.00	507.00	1823

Source : Quarterly Review of BSB's Activities, April-June, 1994, pp. 86-87 and Ledger of BSBs Head Office.

Appendix E-1
BSB's Term loan Disbursed by Region

(Taka in million)

Year (end-June)	Dhaka Division (TK)	Chittagong Division (TK)	Khulna Division (TK)	Rajshahi Division (TK)	Total Tk.
1	2	3	4	5	
1972-73	4.83	0.43	1.49	1.12	7.87
1973-74	5.81	0.14	0.45	1.83	8.23
1974-75	12.84	20.86	0.27	1.35	35.32
1975-76	62.35	17.57	0.90	6.75	87.57
1976-77	16.98	25.06	1.16	1.34	44.54
1977-78	62.18	29.83	5.34	18.32	115.67
1978-79	216.33	42.71	9.26	12.86	281.16
1979-80	222.16	92.85	18.83	17.90	351.74
1980-81	279.33	89.41	75.33	79.43	523.5
1981-82	264.90	143.27	99.14	138.53	645.84
1982-83	325.42	92.94	65.18	138.16	621.7
1983-84	140.13	58.98	85.95	84.33	369.39
1984-85	77.00	60.63	84.94	65.50	288.07
1985-86	58.91	12.40	32.28	18.75	122.34
1986-87	124.49	26.42	34.45	93.19	278.55
1987-88	155.41	18.01	111.24	24.29	308.95
1988-89	239.41	127.91	56.26	44.55	423.58
1989-90	460.70	69.61	41.25	59.77	631.33
1990-91	516.78	89.08	165.21	43.68	814.75
1991-92	216.48	78.48	35.34	24.33	354.63
1992-93	542.65	85.18	21.38	12.69	661.9
1993-94	243.55	25.57	11.33	26.38	306.83
1995-96	1052.56	40.62	32.57	10.25	1136.00
1996-97	172.98	27.26	1.29	1.47	203.00
1997-98	708.56	3.82	24.33	1.06	961.77
1998-99	67.70	4.46	2.14	-	74.30
1999-00	359.79	0.10	1.25	-	361.14
2000-01	123.73	9.72	-	0.31	133.76
2001-02	53.42	0.51	28.24	1.50	83.67
2002-03	162.63	-	3.17	4.20	170.00
2003-04	287.49	5.04	1.40	2.80	296.73

Source : Compiled from the data Quarterly Review of BSB's Activities, April-June, 1994. p. 62 & 64; and

BSB : Ledger of Head Office.

Appendix E-2
Disbursement of Underwriting and Debenture by the BSB from
1977-78 to 1992-93

(Taka in million)

Year (end-June)	Disbursement of underwriting and debenture (Tk)
1	2
1977-78	0.43
1978-79	1.13
1979-80	3.42
1980-81	7.23
1981-82	4.18
1982-83	3.55
1983-84	3.79
1984-85	2.93
1985-96	1.17
1986-87	0.28
1987-88	1.49
1988-89	1.32
1989-90	3.39
1990-91	6.76
1991-92	-
1992-93	2.82

Denotes Nil

Source : Compiled from the data of Quarterly Review of BSB's Activities April-June 1994. p. 6.

Appendix E-3
Term Loan Rephased/Rescheduled by the BSB from 1972-73 to
2002-2003

(Taka in million)

Year (end-June)	Term Loan Rephased/Rescheduled (Tk)
1	2
1972-73	12.80
1973-74	14.71
1974-75	25.29
1975-76	38.85
1976-77	565.49
1977-78	75.32
1978-79	40.58
1979-80	68.82
1980-81	52.48
1981-82	62.72
1982-83	123.75
1983-84	116.44
1984-85	143.20
1985-86	517.67
1986-87	822.27
1987-88	289.74
1988-89	697.85
1989-90	1366.66
1990-91	470.72
1991-92	191.83
1992-93	196.16
1993-94	310.61
1994-95	249
1995-96	820
1996-97	313
1997-98	762
1998-99	1404
1999-00	1145
2000-01	574
2001-02	1833
2002-03	507

Source : Quarterly Review of BSB's Activities April-June 94, p. 86-87; and BSB : Ledger of Head Office.

Rajshahi University Library
Documentation Section
Document No D-2371
Date .. 05/03/05