PA-ABD-238

REPORT

on

PRIVATE SECTOR DEVELOPMENT IN BANGLADESH

by

Lyell Ritchie
Demos Menegakis
K. M. Sakhawatullah

to

United States
Agency for International Development (AID)

Contract Numbers

DPE - 0008 - C - 00 - 5058 - 00
DPE - 2023 - C - 00 - 5074 - 00
388 - 0249 - C - 00 - 7035 - 00

May 13, 1987

Arthur D. Little, Inc.

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

PREFACE

This report presents findings, conclusions and recommendations by Lyell Ritchie, Demos Menegakis and K.M. Sakhawatullah for the Private Enterprise Development Study (PEDS) of AID/Dhaka. The objective of this study was to identify and assess opportunities for AID to encourage and promote the private sector in Bangladesh as an effective vehicle for development.

The report is based on information gathered in Bangladesh by the study team in a six-week period during March and April, 1987. The team conducted interviews with individuals from the private and public sectors in Bangladesh, non-governmental organizations, multinational organizations, international financial institutions, donor country aid agencies, and United States Embassy and AID staff. Interviews conducted in Bangladesh are listed in Appendix 10.

A draft of this report was submitted to AID/Dhaka on April 26, 1987 and discussed with AID/Dhaka staff on April 27, 1987. This draft report was then revised by L. Ritchie and D. Menegakis in response to comments made by AID/Dhaka, edited and printed at Arthur D. Little.

The consultants performed their work under contracts from AID/Washington (Messrs. Ritchie and Menegakis), and AID/Dhaka (Mr. Sakhawatullah). The services of Mr. Ritchie, an independent consultant, were provided under a work order by the Center for Privatization in connection with the Center's contract with AID, numbered DPE-0008-C-00-5058-00. The services of Mr. Menegakis, a senior professional staff member of Arthur D. Little, were provided under a work order to Arthur D. Little, Inc. by Coopers & Lybrand (C&L) in connection with C&L's contract with AID, numbered DPE-2028-C-00-5074. Mr. Sakhawatullah's services were procured directly by AID/Dhaka under contract number 388 -0249-C-00-7035-00. Mr. Sakwatullah is an independent consultant in Dhaka, Bangladesh.

The study team would like to express its appreciation of the support and cooperation it received at AID in Dhaka. We are particularly grateful for the help provided by the secretarial staff and the motor pool personnel.

I. THE ROLES OF PRIVATE AND PUBLIC SECTORS IN BANGLADESH

Statistical information is unreliable in Bangladesh. Nevertheless, there is sufficient information to roughly describe the economy and the roles the private and public sectors play in it.

A. The Economy

Gross Domestic Product (GDP) for Bangladesh for 1985/86 is estimated by the World Bank at about $14 billion. Sector distribution of the GDP is as follows:

	Billion ($)	Percent
Agriculture	6.4	45.2
Industry	1.1	7.5
Construction	0.8	5.7
Energy	0.1	0.6
Services	5.8	41.4
-- Transport	1.1	7.8
-- Trade	1.4	10.0
-- Housing	1.1	7.9
-- Govt., Fin., Other	2.2	15.7

Real GDP growth (in percent) in the last five years (as estimated by the World Bank) has been as follows:

	1981/82	1982/83	1983/84	1984/85	1985/86
GDP Total	0.8	3.5	4.3	4.1	3.9
Agriculture	0.9	4.8	1.4	1.9	2.9
Industry	1.3	- 1.3	3.9	2.5	1.0
Construction	5.6	- 1.7	21.9	13.9	1.9
Energy	18.4	35.1	25.0	22.5	20.0
Services	0.4	3.5	6.3	6.3	5.6

Major output associated with these sectors, and issues are as follows:

- Agriculture
  - -- Rice, wheat, jute, tea, tobacco, sugarcane, principal crops
  - -- Bangladesh economy is dependent on agriculture, 45% of GDP, 40% of exports, 80% of employment.
  - -- Weather biggest factor, expansion of irrigation facilities and fertilizer inputs needed.

- -- Jute principal non-food crop; stagnant world market; diversification needed.
- -- Self sufficiency in food grains a government objective; productivity improvement needed.
- -- Little opportunity for future new employment generation.

- Industry

  - -- Jute goods, textiles, food processing, principal industries
  - -- Jute manufacturing dominant, 30% of value added in industrial sector, 90% of jute production exported, 40% of country's export receipts.
  - -- Poor management prevalent in all industrial activities; lack of maintenance of capital equipment; overmanning in large industry.
  - -- Few large industrial units, many small establishments.
  - -- Principal sector to provide future new employment opportunities.

- Energy

  - -- Natural gas production increasing and reasonably efficient.
  - -- Electricity production and distribution inefficient; electricity losses very high, reflect poor maintenance and particularly poor billing; steps are taken for improved metering and collection.
  - -- Energy prices increasing to market prices; subsidies slowly being removed.

- Construction

  - -- Indigenous engineering capability exists, in fact excess engineering talent; air-conditioning capability needed.
  - -- Under-capitalized; new equipment needed.
  - -- Corruption in contracts a way of life.
  - -- Can handle construction of large projects -- infrastructure, industry, residential.
  - -- Boom in 1983-85 period; new jobs a function of donor projects and economic development.

- Services

  - -- All segments face management and productivity problems.

Total employment in Bangladesh on the basis of Bangladesh Bureau of Census data is estimated to be on the order of 20 million distributed as follows:

	Total Employment (Million)	Public Sector	Private Sector
Agriculture	14+	0	14+
Industry	1.5+	.25	1.25+
Construction	0.6	0	0.6
Energy	0.025	0.025	0
Services			
--Transport	0.5	.125	0.375
--Trade	1+	0	1+
--Finance	0.3	.225	0.075
--Professional	1	0	1
--Government	1+	1	1
Total	20+	1.6	18.4+

There is rampant unemployment reported in the range of 20-40%. Considering apparent underemployment and under-reporting, a figure of 50% unemployment on a full-time-base equivalent would not be surprising.

The private sector covers 90% of employment, but somewhat less than 90% of the gross domestic product. The agriculture sector (all private) while it covers 70% of all employment, provides only 45% of the GDP. The industrial sector covers 7% of employment and 8% of the GDP; the private sector contributes roughly half the GDP contributed by industry.

Agriculture -- Total employment in the agricultural sector is about 14 million. Agriculture is completely in the private sector. However, there are no foreseeable employment opportunities in agriculture.

- There are some 10 million farms, 25% less than half an acre in size. Average size is less than 2.5 acres.

- Small farm operators are poor, with little access to institutional credit, fertilizer, high yielding variety seeds and irrigation. Farms are fragmented, have poor equipment, poor power, and poor techniques.

- Government and donor policies are to provide better water control, guaranteed producers prices and markets, supplies of agricultural inputs (fertilizer) and credits. Increasing productivity will reduce employment opportunities in agriculture and will put pressure to create non-agricultural employment opportunities in rural areas.

Industry -- Total employment in the industrial sector is on the order of 1.5 million:

- Public Sector:

  -- 250 units, 250,000 employment.

- Private sector:

  -- Large scale -- 2,500 units, 100,000 employment.
  -- Small scale -- 25,000 units, 400,000 employment.
  -- Cottage -- 250,000 units, 750,000 employment.

The industrial sector is considered the premier sector for employment generation in the immediate future, almost all of it in the private sector.

Construction -- This sector employs about 0.6 - 0.8 million people, all in the private sector.

Energy -- This sector employs about 25,000 people, all in the public sector.

Services -- Transport - This sector employs about 500,000 people, roughly 75% in the private sector and 25% in the public sector. Railway and air transport is 100% public sector. Road and water transport is 85% private sector, 15% public sector.

Trade -- This sector employs about 1 million people almost all in the private sector. There is some public sector participation in hotels, tourism and import trade. The Tourism Corporation operates some hotels -- some under direct public sector management, others under management contract to the private sector. Some handicraft shops are also operated under public sector cottage industry enterprises. The Bangladesh Trading Corporation (Public Sector) engages in international trade.

Finance -- This sector employs about 300,000 to 400,000 people roughly, 75% in the private sector and 25% in the public sector.

Professional Services -- Employment is estimated at 1.5 - 2.0 million people, all in the private sector.

Public Administration -- employment is estimated at over one million, all in the public sector.

B. The Public Sector

The public sector in Bangladesh comprises the central government, 15 financial public enterprises, 35 non-financial public enterprises and about 4,500 administrative units.

- Central government consists of:

  - The presidency and ministries.
  - Autonomous agencies in education, health, research.
  - Railway and communications (post, telegraph, telephone)

- Financial public enterprises consists of:

  -- Nationalized commercial banks -- Sonali, Janata, Agrani, Rupali.
  -- Specialized Banks (DFI's) -- Shilpa, Shilpa Rin Sangstha (Industry), Krishi (Agriculture).
  -- Cooperative institutions -- Jatiya Samabaya Bank, Rural Development Board.
  -- Non-Bank Financial Institutions -- House Building Finance Corporation, Investment Corporation of Bangladesh, Grameen Bank, National Credit Limited, Bangladesh Commerce and Investment Company, National Investment and Finance Company.

- Non financial public enterprises

Established before as well as after independence, lost some of their importance in recent years with gradual change in official policy, but still play a dominant role in industrial, transport and energy sectors.

Public enterprises are defined as sector corporations under each of which there could be several units or enterprises. For example, there are 38 enterprises under the Bangladesh Jute Mills Corporation, and there are five companies under the Bangladesh Oil, Gas and Mineral Corporation.

During the seventies public enterprises underwent major changes, but their role was significantly curtailed since May 1982. Out of a total 155 units, 13 were closed, 30 were consolidated into 12, and 21 were reorganized to improve their efficiency. Moreover, several units were transferred to the private sector or disinvested.

Ten major public enterprises play the leading role in the economy. They are:

- Manufacturing Sector

  -- Textile Mills Corporation (BTMC)
  -- Steel and Engineering Corporation (BSEC)
  -- Sugar and Food Industries Corporation (BSFIC)
  -- Chemical Industries Corporation (BCIC)
  -- Jute Mills Corporation (BJMC)

- Energy Sector

  -- Power Development Board (BPDB)
  -- Oil, Gas and Mineral Corporation (BOGMC)

- Transportation Sector

  -- Shipping Corporation (BSC)
  -- Biman Corporation (BBC)

- Trade

  -- Petroleum Corporation (BPC).

These ten corporations account for about 80-85 percent of the total revenues of public sector enterprises and 80-85 percent of the total assets.

The five corporations in the manufacturing sector account for about 40-45 percent of total industrial production as well as 40-45 percent of total industrial employment. BJMC, the largest manufacturing enterprise, employs more than 50% of all public industrial workers and accounts for 20% of total value added of the industrial sector. BTMC accounts for 10% of the total industrial domestic production.

BOGMC controls exploration, development, production and distribution of domestic natural gas, and exploration of domestic oil. BPC controls exploration of crude and refined oil products, and distribution and retailing of petroleum products.
BPDB general and transmits electricity.

BBC operates international air routes and scheduled domestic passenger service. BSC carries about 20 percent of Bangladesh foreign maritime trade.

C. The Private Sector

The private sector in Bangladesh dominates agriculture, construction, commerce (trade and services) and industry. As indicated above, agriculture is highly diffused, in the hands of many small farm holders. In industry, services and trade operating units are generally small, firms (only a few) with more than 250 employees are considered "large." There is a vast small scale sector consisting of "shops" employing 1-5 people, and a vast informal sector consisting of "roadside" entrepreneurs, hand loom operators and other self-employed people. The boundaries of small scale, cottage and informal sectors are not well defined.

The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) represents the collective interests of broad trade and industry in the country. It considers itself as "the national representative forum of the private sector" and lists "development of a strong private sector" as its objective. The primary function of the FBCCI is to represent private sector views to the government consultative committees. The FBCCI has membership of 130 industry, trade, service and regional business organizations. The list of FBCCI member organizations below gives an idea on the breath of the private sector (excluding agriculture) in Bangladesh:

- Manufacturers and Industry Associations -- manufacturers of batteries, aluminum, drugs, bricks, electrical appliances, electronics, furniture, garments, handicrafts, paint, shoes, soap, leather, textiles, bakery and confectioneries, tobacco, hosiery; the tea, cold storage, engineering, frozen foods, fruits and vegetables, handlooms, jute, printing, fishing, and publishing industries; ship breakers and ship builders.

- Trade Associations -- travel, manpower and indenting agents, machinery and hardware merchants, jute goods merchants, hotel and restaurant owners, chemists and druggists, records dealers, studio owners, motion picture exhibitors and exporters.

- Transportation Associations -- bus and truck owners, water transport owners.

- Chambers of Commerce -- Agrabad, Chittagong, Dhaka, Dhaka Metropolitan, Bangladesh, and others.

D. <u>Non-Government Organizations (NGO's)</u>

NGO's are development assistance service organizations implementing family planning, rural development, literacy, nutrition and health programs. NGO's started in the early seventies implementing international relief programs (CARE, CARITAS, etc), but since then have mushroomed to some 300 organizations employing more than 10,000 people and are involved in various community development, manufacturing, health care and private sector development activities. NGO's can be classified by origin as:

- International (CARE, CARITAS, SCF, CONCERN, OXFAM, Asia Foundation, etc.)

- National (BRAC, Rangpur-Dinajpur Rural Service, etc.)

- Local (Proshika - Comilla, and others)

NGO's obtain funds from their parent organizations -- international fund raising, Bangladesh Government, and donor agencies (USAID, SIDA, NORAD, etc.). They all implement "projects" which have some "productive" output. For example:

- CARE administers the cost accounting of the USAID Food For Work program.

- Social Marketing Project (SMP) administers USAID's contraceptives marketing program.
- MIDAS administers credit and manufacturing activities under USAID's enterprise development project.
- Asia Foundation administers a publications program.
- BRAC administers cottage industry projects.
- Many NGO's provide family planning and health services.
- Some NGO's provide technology services (e.g. appropriate technology center for agricultural implements in Comilla).

International NGO's tend to be well organized and provide efficient services. Some Bangladeshi NGO's are well organized and also provide efficient service (e.g. BRAC). These would tend to be under the guidance of charismatic leaders. The rest of NGO's appear to be similar to government organizations, providing "cushy" employment and lacking managerial capability.

Donors are becoming selective in NGO projects they fund, and seek to fund projects with clear innovation and demonstration values.

E. Policy Environment

Since 1982 Bangladesh has been increasingly instituting policies to facilitate the role of the private sector in the country's economic development.

- In agriculture, key policy improvements have been the emphasis on the private sector in the distribution of inputs (fertilizer and irrigation equipment) and removal of subsidies in these inputs.
- In industry, large-scale denationalization of public enterprises has been initiated, import policies have been liberalized by significantly broadening the scope of a relatively free secondary foreign exchange market, investment sanctioning and control procedures have been relaxed, export promotion policies have been improved through exchange rate policies and export incentives, a duty drawback system and bonded warehouses have been established, and access to export financing has been improved. A description of the privatization efforts in Bangladesh is included in Appendix 1.

The above policies caused a rise in private investment in import substitution and export-based activities, the most being ready made garments. A poorly managed credit system in the last few years caused overdue debts in agriculture of $600 million, and $250 million in industry. A "default crisis" has ensued whereby the development finance institutions (DFI's) are endeavoring to recover outstanding loans. Defaulters tend to be the wealthier borrowers. Small loans to the less well off have had the highest recovery rates.

The Government is embroiled in this crisis. It espouses the policy that "the outstanding amounts will be recovered and the defaulters will be punished" but implementation of this policy appears difficult and slow.

II. GOVERNMENT AND DONOR PROGRAMS

Both the Bangladesh Government and donor agencies have significant programs to facilitate development of the private sector both for large scale and small scale enterprises.

A. Bangladesh Government

The Industrial Policy of 1986 announced for the Third Five Year Plan Period (1985-90) is the principal government instrument that will affect private sector development in Bangladesh in the near future. Under this policy, indicative investment schedules have been published to guide private sector investment.

These schedules do not provide any guidance for capital outlays, but indicate potential capacity to be developed (if any) in all industrial subsectors. The policy emphasizes rural industrialization by the development of small and cottage industries. Briefly the policy is as follows:

- A "Reserve List" specifies currently seven sectors (defense, electricity, forestry, telecommunications, air transport, atomic energy and currency printing) for public sector investment only.

- All other sectors are open to private sector investment.

- A "Discouraged list" specifies currently eleven subsectors (automatic rice mills, cigarettes, cold storage, distilleries, edible oil, jute yarn, sugar mills, jute carpets, wooden tea chests, tanneries, and safety matches) where investment is possible but discouraged. Special considerations will govern new investment in these subsectors.

- There are two "Investment Schedules":

  -- Large and medium industries; and
  -- Small and Cottage industries, itself consisting of two schedules for:

    - Small industry, and
    - Cottage industry.

  These schedules identify "projects" in industrial categories (similar to the U.S. Standard Industrial Classification -- SIC categories) and list capacity installed, capacity underway, indicative capacity required, and possible preconditions for project development (such as for export market only, or for remote rural area only, or for specific application as over-capacity may exist, and so on.)

- Foreign investment is encouraged, particularly in: export oriented industries, industries in the EPZ, industries providing high technology products, undertakings in which use of natural resources can be made, and existing public sector enterprises for increasing productivity or improving quality of products.

The industrial policy and the schedules are included in Appendix 2.

Other instruments to encourage and support private sector development are:

- Fiscal incentives -- incentives such as tax holidays, import duty rate reductions for machinery and raw materials, exemptions from certain taxes, are offered for establishing industrial activities. A description of fiscal incentives is included in Appendix 3.

- Creation of Export Processing Zones -- The Export Processing Zone Authorities (BEPZA) operates the Chittagong Export Processing Zone (CEPZ) and is planning a new zone in Dhaka to facilitate establishment of export oriented activities. A description of the functions of the BEPZA is included in Appendix 4.

- Support of training institutions:

    -- BITAC, the Bangladesh Industrial Technical Assistance Centre, provides vocational and technical training for engineering industries.
    -- BMDC, the Bangladesh Management Development Centre, provides training for supervisory and management level staff.
    -- IBA, the Institute of Business Administration, provides MBA level and post-graduate professional training.

B. Donors

Since the creation of Bangladesh, foreign donors have committed some $20 billion for assistance of which some $14 billion have been disbursed. Annual commitments from 1971/72 through 1985/86 averaged $1.3 billion. Disbursements averaged $1.0 billion annually. As of the end of 1985/86 there were some $5 billion committed but undisbursed funds in the "pipeline". The ability by Bangladesh to absorb aid commitments is questionable. Yet, the 1986/87 commitment was $1.85 billion and the 1986/87 commitment by donors is $1.95 billion. Donors are classified as bilateral (USA, Japan, etc.), multilateral (IDA, UN, EC, ADB, other international financial institutions), and other sources (e.g. suppliers credit). USA, Japan, Canada, IDA and the UN have been the major donors to Bangladesh. Recently, IDA and ADB have been increasing their aid dramatically, while U.S. aid is declining.

Aid to Bangladesh is categorized in three classes:

- Food aid -- supplies of basic foodstuffs to meet demand without excessive price increases. U.S., Canada, Australia and the UN are the major donors in this category. Food aid reflects basically relief programs against famine and malnutrition. For the U.S., food aid reflects PL-480 contributions. Food aid is not normally conducive to private sector development activities. However, food aid has been used for the development of projects which lend themselves to private sector activities. For example, Food For Work projects help to improve rural infrastructure, which in turn may stimulate higher crop production and other economic activities.

- Commodity aid -- provides foreign exchange for imports of capital equipment, and raw materials for the public as well as the private sectors. Commodity aid finances foreign purchases of key imports (e.g. fertilizer, raw materials, semi-manufactured goods and spare parts for industry, and petroleum) to agriculture and the rest of the economy. It permits the running of the economy and facilitates private sector development by maintaining and creating employment. The private sector is theoretically entitled to foreign exchange made available through commodity aid at the official rate for BMRE purchases, but rarely has access to this line as the public sector exhausts all donor provided foreign exchange. The private sector finances foreign exchange requirements through the WES. All donors except socialist and OPEC countries provide significant commodity aid to Bangladesh. Commodity aid is the dominant part of aid provided by Japan, Germany, Netherlands, Scandinavia and the EC. Commodity aid is used by private donors such as USA, and IDA as policy leverage to influence Bangladesh policies to support private sector development and allow development of a market economy.

- Project aid -- reflects aid for specific activities such as family planning programs, infrastructure projects, research projects, institution building projects, and specific technical assistance. Project aid is provided to both public and private sectors. Large project aid donors relative to their total aid to Bangladesh are USA, UK, France, Denmark, Socialist and OPEC countries, IDA and the ADB.

Another categorization of aid is by source of funds: grant-aid, and loans. Of the total aid disbursed to Bangladesh through FY 1984, 48% was grant-aid and 52% was loans. Major donors of grant aid are USA, Canada, UK, OPEC, the UN and EC. Major loan-aid donors are Japan, Germany,France, socialist countries, IDA and ADB.

Tables in Appendix 5 show the distribution of aid to Bangladesh by donor, class, and source of funding. Salient points of aid by major donors are described below.

1. <u>World Bank (IDA)</u>

- -- Total aid to Bangladesh approximately $2.1 billion. All aid under loans.
- -- Average aid about $150 million per year; 1985/86 nearly $300 million, indicating substantial increasing aid in recent years.
- -- Most recent disbursements -- commodity aid one third, project aid two thirds, no food aid; provided 20% of total commodity aid, 27% of project aid received by Bangladesh.
- -- Uses commodity aid leverage to influence policy: no subsidies on agricultural inputs, market prices on energy, efficiency improvement in public sector enterprises, privatization, creation of policy environment to support private sector.
- -- Influenced development of liberal industrial policy, pleased with results, seeks to influence improvement of implementation of free enterprise policy.
- -- Discussed with Bangladesh Government in January 1987 structural adjustment framework for continued IDA aid. Structural adjustment policies and strategies to effect them as required by IDA are included in Appendix 6.
- -- Caught in the default crisis of the DFI's, now pressing hard for reconvey of loans by DFI's and punishment of defaulters; will not provide new industrial credit through DFI's; seeks improvements of management and information capabilities of financial sector (DFI's, and domestic banks).
- -- WB new strategy is to work (i.e. provide project loans) through the private sector; but will not do it unless the financial system (now in disarray) gets strengthened.
- -- Major emphasis on infrastructure projects -- roads, bridges, power and energy (one third of project funds); irrigation and agriculture also important (one third), industry least emphasis (one fifth of funding); almost all lending by IDA went to public sector projects.

- Aid not "poverty" oriented. Criteria for project funding are economic return of project, not social benefits. Its rural development project is intended to help poor people by creating opportunities for improved productivity and income.
- See Appendix 7 for listing of IDA Bangladesh projects.

2. Asian Development Bank (ADB)

- Total aid to Bangladesh approximately $600 million. All aid under loans.
- Average aid about $40 million per year; 1985/86 nearly $180 million, indicating substantial aid in last few years.
- Most recent disbursements -- project aid three quarters, commodity aid one quarter, no food aid; provided 8% of total commodity aid, 16% of total project aid received by Bangladesh.
- Major donor in last few years, severely impacted by default crisis, in fact stopped disbursements until DFI's reform themselves; made precondition that Bangladesh Government accept technical assistance on financial system implementation and management improvements before opening new financial windows.
- Major emphasis on infrastructure projects (irrigation, energy, railways), but principal funding agency for industry -- both public and private through the DFI's; major agency in the default crisis.
- Aid not "poverty" oriented, but less hard-nosed than IDA, tends to consider some social factors, e.g. women participation, environmental impact, and energy conservation more than IDA.
- Currently considering financing directly to the private sector industrial projects in the areas of agro-industries, textiles, consumer goods and tourism in projects, ranging from $6 to $15 million.
- See Appendix 8 for listing of ADB Bangladesh projects.

3. United Nations

- Total aid to Bangladesh approximately $850 million. All aid grant aid.
- Average aid about $60 million annually; 1985/86 over $70 million, indicating increased aid in last few years.
- Most recent disbursements -- food aid two-thirds of total, project aid one-third; provided about one-half of total project aid received by Bangladesh, and about one quarter of food aid.

- -- UN provides much technical assistance, all to the public sector but some is implemented through private sector agencies; BSCIC is supported through technical assistance and credit for capital development -- project considered satisfactory; an ILO project provides technical assistance for small scale industry -- this also is perceived successful; another project implemented through the Bangladesh Employers Association on management is considered a failure.
- -- A new project will provide overseas training for people in the Stock Exchange, ICB and the Ministry of Finance Office of the Controller of Capital Issues.
- -- A UNIDO technical assistance project provides investment assistance to Ministry of Industry -- organized recent investors forum, considered a major success.
- -- There are many technical assistance and training programs offering assistance to institutions for vocational and management training (BITAC, BMDC, BSCIC, and other).
- -- See Appendix 9 for listing of UN Bangladesh projects.

4. Japan

- -- Total aid to Bangladesh approximately $ 1.5 billion; about one quarter grant-aid, three quarters loans.
- -- Average aid about $ 100 million per year; 1985/86 about $ 150 million, indicating increasing aid.
- -- Most recent disbursements -- commodity -aid about two thirds, food aid one tenth, project aid one quarter; provided 5% of total food aid, 22% of commodity aid, and 6% project aid received by Bangladesh.
- -- Grant aid and technical assistance have been extended mainly in agriculture and health; loans primarily for telecommunications and roads.
- -- JETRO has resident advisors in Dhaka, provides networking for Bangladesh businessmen to Japan on technology and credit.
- -- JICA (Japan International Cooperation Agency) provides technical assistance, latest project Meghna Bridge.
- -- Disillusioned with Bangladesh government processing of commodity aid, and its inability to process disbursements and trace their disposition.

5. Germany

- -- Total aid to Bangladesh approximately $ 650 million; about equal in grants and loans.
- -- Average annual aid about $45 million, 1985/86 over $55 million; provided 3.5% of total aid to Bangladesh, 4% in 85-86.

-- Most recent disbursements -- commodity aid about one half, project aid about two fifths, food aid about one tenth; provided 2% of total food aid, 5% of total commodity aid, 3% of total project aid received by Bangladesh.
-- Reducing training assistance - popular up to a few years ago, sensed antipathy of Bangladesh Government to technical assistance.
-- Disenchanted with aid implementation, bureaucracy, Government attitudes, seeks to be a good world citizen but has no illusions about effectiveness and accountability of aid to Bangladesh.
-- Concentrated project aid on infrastructure -- electricity, telecommunications, railways, gas. Also family planning (contraceptive distribution); has financed public sector enterprise (paper mill, cable) but backed out of them. Considering financing LPG plant directly for private sector in collaboration with ADB; 50% of commodity aid goes to private sector.

6. United Kingdom

-- Total aid to Bangladesh about $600 million; seven eighths in grant aid, one eighth in loans.
-- Average annual aid approximately $40 million; in 85/86 nearly $35 million; Bangladesh aid second largest of British bilateral aid (after Kenya); provided 4% of total aid to Bangladesh, but about 2.5% in 1985/86, proportionately decreasing aid contributor to Bangladesh.
-- Most recent disbursements -- project aid about half, commodity aid about a third, food aid a little over one fifth; provided about 3% of commodity and project aid, only 1% of food aid received by Bangladesh.
-- Project aid primarily electricity and gas support.
-- British aid supportive of private sector development and increasing employment outside agriculture; considering financing with Commonwealth Development Fund three private sector projects -- a urea plant, a cold rolling mill, a steel furnace project, $25 million investment. 40% of commodity aid goes to private sector.
-- Provides technical assistance and training support (British Volunteer Service Overseas service in Bangladesh, training of Bangladeshis in British institutions).

7. Canada

-- Total aid to Bangladesh approximately $1 billion, almost all in grants.

-- Average annual aid about $65 million, 1985/86, $87 million; Bangladesh is the largest recipient of Canadian bilateral aid; provided 7% of total aid to Bangladesh, 6% in 1985/86.
-- Most recent disbursements -- food aid about 45%, commodity aid one third, project aid one fifth; provided 15% of total food aid, 7% of commodity aid and 3% of project aid received by Bangladesh.
-- Food aid is for Food For Work type program, tied to rural road maintenance program, implemented by CARE; commodity aid is for fertilizers and industrial raw materials (pulp and metals); this aid goes to private sector; project aid mainly for irrigation, railways, natural gas.
-- Part of the five "like minded" donors -- Netherlands, Scandinavia and Canada, seeks to channel aid to the "assetless", "the poor", and concentrate aid on rural and small scale industries; seeks to reach aid recipients directly, not through Government; supportive of MIDAS.

8. Netherlands

-- Total aid to Bangladesh about $450 million; four fifths in grant aid, one fifth in loans.
-- Average annual aid about $30 million, in 1985/86 nearly $40 million; provided slightly over 3% of total aid to Bangladesh, but less than 3% in 1985/86.
-- Most recent disbursements -- commodity aid a little less than two thirds, project aid almost a third, food aid about one fifth; provided about 8% of total commodity aid,2.5% of total project aid, a little over 1% of total food aid received by Bangladesh.
-- Commodity aid to support agriculture through deliveries of fertilizers, and to support handloom weavers through deliveries of raw cotton; project aid emphasizes small scale irrigation, dams, land reclaiming, natural gas projects.
-- Part of "like minded" group, seeks to reach the poorest population groups.
-- Currently funding IBA project to develop curriculum for private sector and entrepreneurial development.

9. Scandinavia - Sweden, Norway, Denmark

-- Total aid to Bangladesh about $650 million; nine tenths in grant aid, one tenth in loans.
-- Average annual aid approximately $45 million, $55 million in 1985/86; provided almost five tenths of total aid to Bangladesh, but four tenths in 1985/86.

- -- Most recent disbursements -- about one half in commodities aid, nearly two fifths in project aid, and one thirtieth in food aid; provided a little of 6% of total commodity aid, a little under 3% of project aid, and a little over one half of one percent of food aid received by Bangladesh.
- -- Commodity aid mostly fertilizers, ore, metals, pulp; project aid in rural projects, water transport, family planning and health.
- -- Part of "like-minded" group, seeks to reach the "grass roots" poor; shifting from commodity aid to target oriented project aid. Very supportive of rural and small scale industry projects, supportive of MIDAS, Grameen, and BSCIC regional projects.

10. <u>Other DAC (France, Belgium, Switzerland, Italy, Finland, Australia, New Zealand)</u>

- -- Total aid to Bangladesh about $550 million; two thirds in grant aid, one third in loans.
- -- Average annual aid almost $40 million, but $33 million in 1985/86, indicating decreasing aid; provided about four tenths of total aid to Bangladesh, but only over two-tenths in 1985/86.
  Most recent disbursements -- About 70% in project aid, over 20% in food aid, less than 10% in commodity aid; provided nearly five percent of project aid, over four percent of food aid, less than one percent of commodity aid received by Bangladesh.

11. <u>Socialist Countries (Soviet Union, Hungary, Bulgaria, Poland, Rumania, Czechoslovakia, China)</u>

- -- Total aid to Bangladesh nearly $500 million; nine tenths loans, one tenth grant aid.
- -- Average annual aid about $35 million, a little less than $35 million in 1985/86; provided about one thirtieth of total aid to Bangladesh, about one fortieth in 1985/86.
- -- Most recent disbursements -- nearly 95% in project aid, over 5% in food aid, none in commodity aid; provided about 5% of project aid, about 1% of food aid, none of commodity aid received by Bangladesh.
- -- Unlikely source for private sector development support.

12. <u>OPEC (Bilateral Saudi Arabia, Kuwait, UAE, Iran, Iraq, Libya)</u>

- -- Total aid to Bangladesh about $850 million; average annual aid about $60 million, over $65 million in 1985/86; provided about 6% of total aid to Bangladesh, less than 5% of total and in 1985/86.

- Most recent disbursements -- nearly 85% project aid, almost 15% food aid, about 2% commodity aid; provided about 7% of project aid, half of that level food aid, two tenths of one percent commodity aid received by Bangladesh.
- More recent source of aid to Bangladesh; increasing funding and influence; potential source for private sector development support.

III. FINANCIAL INSTITUTIONS AND MARKETS

A. The DFI's

1. The Bangladesh Shilpa Rin Sangstha (BSRS)

The 1984 Price Waterhouse study recommendations concerning BSRS would in the main appear to have been accepted and be under implementation. These recommendations were that:

- BSRS not again become a source of industrial development financing, but rather act as a collection agent for outstanding portfolio indebtedness; and that
- BSRS and the Investment Advisory Centre of Bangladesh (IACB) be merged with the objective of developing a 'national consulting house'.

From discussions with local representatives of the World Bank and ADB, there appears to be no sentiment towards reactivating BSRS as a lending institution. BSRS also appears more reluctant (and has less leverage) than its sister DFI (BSB) to take serious action against its portfolio defaulters: recoveries during the first nine months of the fiscal year ending June 30, 1987 were barely more than one third of the target levels set in conjunction with the World Bank and ADB.

The merger with IACB has taken place, but is compounding BSRS's internal problems. IACB was established as the Dhaka branch of an AID-sponsored Pakistan investment promotion institution created in the 1960's. After independence, the newly-named IACB lived a hand-to-mouth existence in the Government's annual development budget, primarily doing feasibility studies for public sector corporations and a modest amount of perfunctory investment promotion.

Suggested AID Role:

None. BSRS's bloated bureaucracy will (or should) be fully preoccupied reaching its targeted 40% recovery of existing portfolio indebtedness. The addition of IACB's small but mediocre professional staff will not build a base on which to build a meaningful consultancy capability, now or in the foreseeable future.

2. Bangladesh Shilpa Bank (BSB)

Major lenders, particularly the World Bank and ADB, have been working closely with the BSB to put some semblance of order into its operating and financial procedures. For the fiscal year ended June 30, 1986, BSB wrote off Tk.200 million (over $6 million) in bad and doubtful debts against its profit and loss statement (interest income has always been booked on a accrual basis -- and incentive bonuses paid accordingly). A further Tk.475 million (nearly $15 million) of bad debts were written off and recapitalized as equity, and provision made for Tk.600 million (over $18 million) of doubtful or bad debts to be written off in fiscal 1987.

At the end of fiscal 1986, BSB had 957 projects (222 sponsored by BSCIC) on its books. At the end of the third quarter of fiscal 1987, the number of projects still stood at 932, and of these only some 150-160 were current. These numbers, however, mask significant achievements. BSB is suing some 400 borrowers, and obtained legal authority whereby it can have defaulters jailed, can block credits (by refusing to issue a "no objection" notice) from any other financial institutions, and under Section 34 of its charter (which BSB states could not be employed during the martial law period) can take physical possession of projects.

BSB management states that their key needs now are:

- Staff Development: to that end BSB has over the past 18 months recruited some 80 junior professionals and with the help of UNDP, IDA et al it is developing overseas post graduate degree programs.

- Operational Efficiency: with the assistance of UNDP and UNIDO, BSB is acquiring the hardware to computerize its accounting systems.

- Legislative Revisions: BSB is seeking (and states that the Bangladesh Government has accepted), changes in law (for example, to allow for the equivalent of U.S. Chapter 11 bankruptcies) and in its own charter (to broaden its equity base, to permit greater autonomy).

BSB further says that currently no more than 20% of its borrowers are in difficulties, and that for the most part even there the problems (foreign exchange fluctuations, changing market conditions, BSB's accounting system) are not of their own making. This is not the perception in other quarters - and particularly where it matters most, the World Bank and ADB.

At present a technical assistance agreement is being negotiated (final terms of reference have not yet been agreed) to be financed by UNDP with ADB as the executing agency whereby consultants would be hired to upgrade BSB personnel in areas such as management accounting, MIS, personnel management and to improve subborrower management. The opening of new credit lines to BSB would be contingent not only on the implementation of this agreement but more importantly, on significant improvement in operating results stemming therefrom. The ADB, in fact, has not ruled out utilization of the commercial banks as an alternative vehicle for channeling industrial financing to the private sector.

Suggested AID Role:

None. While the U.S. Government is sometimes accused in Bangladesh of being the Machiavelli behind the World Bank's and ADB's emphasis on private sector mechanisms, the USAID Mission is fortunate in not being directly identified with the DFI debacle (and the resultant creation of 200-300 conspicuous - consumption families/groups). The World Bank and ADB are capable of pulling their own chestnuts out of the fire.

3. DFI Privatization

The Bangladesh Government currently plans to increase BSB's authorized capital from Tk.1 billion ($30 million) to Tk.2 billion ($61 million), and to offer 49% of the total to private investors, including foreign institutions. BSB management takes the somewhat ambivalent stance that while they can do without World Bank and ADB credit lines (citing China and Japan as alternative sources), they would like to see IFC and ADB as equity investors.

Suggested Aid Role:

None. Quite apart from the dilution (proceeds would go to the Government not BSB) of an already dubious asset base, potential institutional investors are likely to be concerned inter alia about (a) having less than a controlling interest (b) Bangladesh Government dominance of the Board of Directors (c) implementation of proposals for greater management autonomy, and (d) the potential emergence of BSB defaulters as BSB shareholders.

B. Investment Corporation of Bangladesh (ICB)

The ICB somehow remains a generally unknown entity although it was designed to play a critical role in industrial development in general and for the investing public in particular. Its Pakistani predecessor was established in 1966 to develop (with subsequent AID assistance) the capital market, mobilize savings, begin risk financing and underwritings. Revenues were to come, on the supply side, from bridging loans and, on the demand side, from opening margin accounts with overseas brokerage firms.

ICB was reactivated in 1976 (from 1971 to 1975 it was "a nonexistant part" of BSRS) with essentially the same mandate: underwrite share issues and provide bridge financing, purchase corporate debentures/banks, merchandise equities (by maintaining investors' accounts, float and manage mutual funds, purchase and resale of government-owned shares), participate in joint ventures and provide investment counsel to issuers and investors.

Between 1980 and 1986 ICB floated four mutual funds and a unit fund. As of June 30, 1986 the Corporation had sanctioned some 292 projects representing a commitment of Tk.89 million (about $3 million) of its own funds and Tk.63 million (about $2 million) from its consortium (nationalized banks, financial and insurance companies). Of the 292, at least 90% were BSB/BSRS projects referred to ICB for bridge financing (a procedure whereby ICB may provide as much as 50% of the project equity in the form of a term loan until such times as the enterprise is sufficiently viable that it is in ICB's interest to convert the loan into shares).

ICB's 1986 annual report states that nearly 80% of the projects it has financed are in commercial operation - which would suggest, rightly or wrongly, that its record is significantly better than the DFIs, or that ICB has been fairly selective in choosing which DFI projects to participate in. However, as of the same date the total overdues on principal alone was over 60%. ICB management admits that no more than 10% of its portfolio companies submit financial reports on a timely basis and, further, that establishing an "adequate" monitoring system would bankrupt ICB.

Within its limited powers and resources, ICB is taking some steps to improve project monitoring. Perhaps the most important of these is a revision whereby ICB personnel will act as the borrowers' company secretaries. This will not only give ICB first hand knowledge of actions and decisions taken at the Board of Directors level but will also make the companies' chief financial officers accountable, in effect, directly to ICB.

<u>Suggested AID Role</u>:

ICB has in the past been the principal source of new issues by private enterprises for private investors. Its portfolio companies may comprise the major source of equity offerings in the future. Other than possible UNDP management assistance (referred to above) for BSB subborrowers that may also be in ICB's portfolio, there does not appear to be any significant source of external assistance available to ICB or its debtors.

In view of the foregoing it would seem desirable that, over the short term, AID become better acquainted with ICB operations and objectives - particularly those that may affect or influence the direction of the Dhaka Stock Exchange. But, for the present, there should be no suggestion of AID's providing any sort of assistance (the private sector is full of tales regarding the payoffs needed for ICB staff to process even the most routine paper work).

Over the longer term, there may be opportunities to reach and assist ICB portfolio companies which are meeting the point at which their shares are publicly marketable. This could be done through existing AID privatization mechanisms, third parties such as IESC, a pilot program designed specifically for such companies or a combination thereof.

C. Dhaka Stock Exchange (DSE)

The origins of the DSE date back more than 30 years (to the time when the Calcutta Stock Exchange prohibited trading in Pakistani securities). Just prior to independence the exchange was relatively active; 190 companies were listed and average daily volume was some 20,000 shares. Trading activities were resumed in 1976, at which time there were nine listed companies. By 1984, with increasing public interest, the number of listed companies had risen to 58, and currently stands at 82. Trading volume has increased even more dramatically: in January 1987 the volume of shares traded exceeded the quarterly level of 1986 and the entire annual volume of 1984.

Nonetheless, the point must be made strongly, and underscored repeatedly, that the DSE is a miniscule operation. Total trading for the year of 1986 amounted to some 670,000 shares, which is equivalent to roughly one minute's volume on a busy day at the New York Stock Exchange (not to mention the American, OTC or regional exchanges).

Bids and offers are made in units equivalent to Tk.500 ($15 million); the DSE guesses that the average trade is around 25 units. The exchange has 195 members, 50 are "active". The standard commission rate is 1%, but the DSE negotiates lower rates on "large" transactions. Clearly, as the DSE admits, no one can make a living as a trader (most members appear to function strictly as brokers, some may act as jobbers).

More crucial perhaps than the present comparatively low level of activity is the DSE's own ambivalence about the scope of its future functions. At present the Exchange is involved in two areas: (a) share offerings and distribution and (b) information collection and dissemination, not only as to its own operations but also those of listed companies. However, the DSE's present perception of its needs and responsibilities is far broader. It includes:

- Electronic hardware to replace existing manual operations.
- Training of DSE personnel in Dhaka and overseas, as well as exposure to the operations of other stock exchanges.
- Fiscal incentives from the Government such tax relief on dividends of listed companies and reduced corporate tax rates, reductions of commercial bank interest rates on term deposits and savings accounts, lower commercial bank borrowing rates for traders.

- Legislation requiring all enterprises with an authorized capital of Tk.1 crore (or $300,000) or more to be public limited companies and all such companies to have five shareholders for each Tk.1 lac ($3,000) of paid-up capital.

- Revision of the Companies Law to allow the DSE to appoint its own independent auditors of enterprises listed on the Exchange.

It is the latter points that are particularly worrisome. DSE officials express the belief that not only is there a great demand for new issues but also that the process of going public will force a greater degree of accountability (particularly if the Exchange has regulatory powers such as independent audit). They cite new issues such as Bangladesh Oxygen, Bata Shoe and Singer which were over subscribed four-five fold, but do not recognize (or, at least, admit) that the stature of such companies is not readily transferable to a relatively new and unproven local enterprises.

More disturbing is the DSE's concept of adding a non-trading regulatory role alongside its present securities marketing and information activities. These functions are essentially incompatible, especially housed in a single institution. Moreover, if the principal objective is to facilitate a share market of breadth and dynamism, it may be necessary to accept some period of excessive (and socially undesirable) speculation prior to imposition of regulatory controls, whatever the source. For the DSE to be handed such powers at this juncture entails a very real risk not only in terms of confusion of functions but of emasculating its primary objectives.

Suggested AID Role:

AID can and should involve itself with the development of the DSE. The trick will be to measure out assistance in amounts that are appropriate to the Exchange's real needs at any given time.

A point of departure might well be underwriting the cost of selected DSE officials' visits to neighboring stock exchanges -- Delhi, Bangkok, Kuala Lumpur, and Singapore or Hongkong. The initial focus should be not on the mechanical aspects of trading but on the evolutionary role of a stock exchange in developing capital markets, on the relative merits of different financial instruments and on opportunities for capital formation as well as distribution. Concurrently, there is need for discussion with the Bangladesh Government regarding the denationalized public sector enterprises which are apparently planned for sale through the DSE. Even if the Government cannot be moved from its stated position of retaining 51% of the equity, it would be worth exploring options for (a) a balanced Board of Directors which might elect its own Chairman (b) private sector control of management either on an interim (perhaps contract) or permanent basis.

The relevance to the DSE is that if the Government tries to market minority positions in denationalized enterprises - and the issues flop (an ICB share offering in 1984 was less than 2% subscribed) - everybody loses. The Government might also be encouraged to involve the DSE in the offering process at an earlier stage - Exchange officials say that their first knowledge of such an event is when they see the prospectus in the newspapers.

Overall, AID's approach to the development of the DSE should have a time frame of 5 to 10 years with limited, flexible annual assistance and achievement targets. As known, the Asia Foundation is also interested in the DSE. At a minimum, they could help establish a reference library of relevant stock exchange literature, facilitate DSE itineraries in neighboring countries where the Foundation has resident representation and provide guidance as to revision of Companies Law and related issues.

D. Commercial Banks

The study team's meeting with one local commercial bank was not particularly enlightening, and when contacts in the financial community suggested that more meetings - whether the banks were denationalized or still nationalized - would not be dissimilar, it was decided not to pursue further investigation of local banks.

The study team met with the Managing Director and three other senior executives of Uttara Bank. At the time of denationalization in 1984, Uttara "surrendered" 20 of its 202 branches to Krishi Bank (outside sources say that from the standpoint of efficiency Uttara could close another 100-125 branches). In the interim there has been no staff retrenchment, but every employee has been made an officer (a clever device to prevent unionizing).

Uttara seems to have little interest in introducing new management methods or systems. The bank does its own training of entry level university graduates. There is no use of computers other than for its WES accounting. The bank claims to far exceed the Government's guidelines of 5% of loanable funds for small local enterprise, but this can only be because Uttara includes rural trade accounts in that category. Term loans that are generated at the branch level are fully collateralized, reviewed by the branch and regional managers and approved at the head office. Conversely, the head office does not generally accept new applicants; they are told to first open an account with a Uttara branch.

Suggested AID Role:

At the end of study team's work in Dhaka, the Deputy Prime Minister and Minister for Industries in a lengthy meeting disclosed plans to establish small scale industry loans cells in selected commercial bank branches in every district in the country. BSCIC is to play a key role in program development and monitoring, for the involvement of commercial banks in small industries, which in turn will provide AID with the opportunity to watch developments closely.

It is understood that local banks have very poor service orientation apart from lacking capabilities in project assessment. The private sector bitterly complained about the incompetence and lack of service of the commercial banks. To the extent that AID can assist in management training, and instilling service orientation to the local banks, development of the private sector will be enhanced.

E. Industrial Promotion and Development Company (IPDC)

IPDC is a small highly disciplined investment finance company owned 30% by the Government and 70% - in equal shares - by the IFC, CDC, DEG and the Aga Khan Foundation (institutions which have cooperated in similar ventures elsewhere). As of the end of 1986, IPDC had made commitment to 11 industrial projects, including an industrial equipment leasing company which has the Korea Development Leasing Corporation as its technical partner and includes IFC, DEG and the Aga Khan Foundation among its foreign shareholders.

IPDC's lower limit is equivalent to Tk. 20 million (about $6 million). Its participation in any single project is limited to 10% of its net worth (paid up capital is $6 million) or 33% of total project cost, whichever is lower. For larger projects IPDC will attempt to raise funds from other local financial organizations and/or act as an intermediary with international institutions (a related development has been recent efforts by British Aid to identify and develop fairly large industrial projects that might be financed either through IPDC or directly from CDC; the original concept was to transfer funds so utilized to a Trust which would in turn finance an institute for middle management training).

Management is not yet sure whether IPDC is financially viable given its costs of project appraisal (although shareholders provide free technical assistance) and existing financial spreads. Consideration is being given to charging an up front fixed fee irrespective of whether a given project is ultimately approved.

Suggested AID Role:

None. IPDC is essentially complementary to MIDAS (discussed below) and serves a different segment of industrial borrowers. While there is dissatisfaction within some sectors of the Government as to IPDC's slow pace (a desirable target of 2,000 project approvals was cited in one interview), IPDC's present shareholders are fully capable of providing additional financial and technical resources as required.

F. Micro Industries Development Assistance Society (MIDAS)

There is obviously no need to describe MIDAS's history, operations or objectives in a report addressed to AID. Nor that MIDAS's reorientation from an NGO to a self-supporting institution is not without possible pitfalls.

MIDAS has a good reputation among the private sector organization and individuals (the study team's meeting with the Metropolitan Chamber was an exception; one participant claimed MIDAS was "no good for the country"). MIDAS personnel are considered competent and corruption free; its consultancy studies are generally well regarded. Some concern has been expressed as to whether the rules of financial viability should apply to MIDAS given its overall mandate.

MIDAS is, if anything, even better known and regarded in the donor community. NORAD, DANIDA, IDA and similar organizations see MIDAS as one of the very few respectable conduits for channelling assistance to small scale enterprise.

Suggested AID Role:

In addition to the nurturing and guidance provided in the past, AID may now also need to shield MIDAS from the well - intentioned overtures of other donors. MIDAS is a small organization with an even smaller core of experienced professionals. AID's own $8 million capital injection to assist in the creation or expansion of 30-50 innovative enterprises per year together with an extensive internal strengthening and reorganization program (we question, incidentally, AID's proposed reorganization of MIDAS's project monitoring system) will not be easily accomplished.

G. Grameen Bank (GB)

After six years as a personal initiative by Professor Yunus, Grameem Bank was established in September 1983 under a special ordinance. As such it is not subject to banking or companies law; further, Government ownership has been reduced from 60% originally to the current 25% so GB is also not subject to public service regulations.

Funds are provided primarily by the Bangladesh Bank directly and from IFAD (2% to GB) and are currently relent at 16%. Borrowers also pay into obligatory savings programs called a Group Tax (5% of the loan amount) and an Emergency Fund (equal to 25% of GB's lending rate). Over the ten plus years of GB's pilot and formal operating history overall loan recoveries have seldom fallen below the 99% level.

This is a direct result of GB's systematic use of peer pressure. No business is conducted at branch offices; the local manager goes to villages in his area to describe GB operations. A potential applicant (who is by definition landless) must find four cosponsors (not guarantors) of which three are outside his family. Other group members may subsequently apply for financing. Weekly group meetings (family planning, literacy, physical exercise are included) are held and penalties assessed for nonattendance. Loans, which average less than Tk.2,000 ($60) are for exactly one year and are repaid in weekly instalments.

Suggested AID Role:

None. GB currently has 400 branches serving 250,000 borrowers in 6,000 villages. Its goal is 1,700 branches by 1995, but funding is not a perceived constraint, now or for the future.

H. Small Industries Bank

According to the Deputy Prime Minister and Minister of Industries, creation of a Small Industries Bank, has been approved at both the Ministerial and Presidential levels. Ownership of this bank would be 70% private (equity held by an employees retirement fund) and 30% Government. The bank would operate strictly as a private domestic bank and its investors would bear the burden of success or failure. In other words, this bank would not be protected or subsidized in any manner. Conditions for its operation are that : (a) it charge interest at 10% for SSE loans, 14% for industrial loans, and 18% for trade loans; (b) that it balance its loan portfolio value at 50% SSE and 50% commercial; and (c) it establish a wide network in the country. The Government views this new financial institution as strictly a private sector enterprise with public sector equity participation. Prior to the Minister's elaboration of the proposed scheme to the study team (as described above), it was variously reported that existing ADB and OPEC small industry credit lines would be transferred from the commercial banking system to this bank. No financial institution or donor organization (including the ADB which is interested in a possible private sector DFI) the team has questioned admits to having been approached by the Government to participate in the Bank in any capacity. These organizations express doubt that such an institution - irrespective of the level of private sector involvement and/or interest rates charged - will prove financially viable.

A basic issue is who the Bank would serve and through what mechanisms - where, in other words, is the proposed market. If, as it presumably is, the intention is to assist primarily rural non-agricultural enterprises, there is implicitly an enormous infrastructure investment (duplicating the existing commercial banks' branch networks). This will not appeal to private investors, individual or institutional. Then comes the issue of supplying the Bank branches with trained, motivated personnel - and a system of performance incentives (a key problem in motivating commercial bank branch officials). And, then, lending costs which may run 8-10% of the loan amount as compared with 2-3% in urban areas.

Nevertheless, according to the Minister, the backers of this proposed bank claim they can establish a profitable operation and are willing to take the risk.

Suggested AID Role:

Whether or not the proposal proves to fit within AID's overall private sector development strategy, there may be opportunities to influence the Government in developing an institution that is more useful and viable for small scale enterprise.

As indicated before, financial institutions need assistance in improving their management capability and service orientation. In parallel with any training assistance AID may provide to the commercial banks (discussed earlier), it may also assist the Small Industry Bank.

As in the commercial bank case, BSCIC is going to play an important role in project assessment and monitoring bank performance; AID can follow up the situation through BSCIC.

AID may find it advantageous to use a credit line as leverage to influence proper decision making at this Bank and it may consider continuing the credit line it now has through its BSCIC project to this bank.

IV. PRIVATIZATION

As AID is aware, the study team was successively requested to 'coordinate with', 'build on' and 'not duplicate' the work done by Clare Humphrey. In fact, the only available documents relevant to Humphrey's work were a draft table of contents (dated October 12, 1986) provided in Washington and a preliminary set of recommendations for USAID (dated March 5, 1987) from the Mission.

Given this situation and related discussions with Mission personnel, the study team did not directly pursue the issue of privatization per se. What follows is a composite view of the current status of privatization in Bangladesh as seen from the perspective of the private sector. It is composite in the sense that no single businessman listed every element of the scenario presented below, the study team has that we have no reason to believe that there would be significant disagreement with the overall portrayal. It might also be noted that in one meeting with Government officials, we were asked about the private sector's view of the privatization initiative: the officials present did not take exception to the following representation.

The private sector in Bangladesh sees the nationalization of commerce and industry following Independence primarily in terms of political necessity and only secondarily as one of philosophical bias. The Pakistani owners and managers were gone; the new government (and its Awami League supporters) were the only available group to run the country.

Similarly, not to minimize either its real or symbolic importance, denationalization is seen not so much as a philosophical watershed but as an evolutionary process that has been underway for years. It appears that starting in the late 1970's Government disposed of hundreds - perhaps thousands - of small commercial and productive enterprises. We have not attempted to establish either a more exact magnitude nor the terms or recipients of such transfers (one source would be CIDA's forthcoming study which traces 500 such divestitures back to specific points in time and the then - governing regulations).

More recent divestitures have been larger units -- or the order 400 to 500 - from the Ministries of Jute, Textiles and Industries. The consensus in the private sector is that from beginning to end the entire process was inept and/or corrupt. The Government is seen as having made little effort to establish a 'going-concern' value of the assets to be sold. The bureaucracy responsible for divestiture is seen as wanting to establish arbitrarily high prices to embarrass or discredit private sector buyers. The process of sealed-bid auctions is perceived as unsound.

As for the buyers, it is accepted that some were former owners who sincerely wanted to regain their properties (and whose subsequent anger concerning the viability of their enterprises is genuine), others in good faith were Bangladeshis with savings (perhaps from years working in the Gulf) who did not understand the nature of the balance sheet liabilities they were acquiring. It has, however, been an open joke in business circles that many (perhaps the majority of) prospective bidders had not the slightest intention of paying the full asking price.

Whatever the ultimate objective, the initial gambit was to make good on the 20-25% down payment to gain physical control of the enterprise. Thereafter, a buyer had the options of (a) attempting to renegotiate the purchase price (b) paying only the 7-8% overdue penalties (c) reselling the movable and fixed assets to as many people and in as short a time as possible.

We have been told on various occasions that the Government will end up having to repossess many denationalized enterprises, particularly in the jute and textile sectors. According to recent newspaper stories this has already begun to happen. The local managing director of one multinational expressed the irony that while privatization was not critical to the President in the sense that the upazila program was, the resultant scandals (following on the DFI debacles) could well be the factor that destroyed the present administration.

AID's public declarations regarding Bangladesh as a world leader in privatization are, numerically at least, correct. However, if the private sector's perceptions are reasonably accurate, privatization has been a 10-12 year process, not a recent policy reorientation. Moreover, it is one that now has developed a potential for havoc with which AID might not wish to be directly identified.

AID's own definition of privatization (e.g. International Conference of Privatization, February 17-19, 1986) includes not only denationalization of state enterprises, but "equally important" the removal of impediments to free play of market forces and reform of macroeconomic policy environment. In this context, privatization in Bangladesh appears to be entering a new phase (whether or not reflecting a desire to improve on past results is unclear) in which the Government will retain control of denationalized enterprises. As discussed with reference to the Dhaka Stock Exchange, there is a clear need or opportunity to move the Government from an equity posture of 51/49% and if that proves not possible, to try for a better private sector balance at the board and/or management levels.

V. SMALL SCALE ENTERPRISE (SSE)

Development of small scale enterprise is currently the most popular topic (e.g. the widespread interest in MIDAS) among Bangladesh donors and NGO's. Among the identifiable reasons are:

- Recognition that the Bangladesh Government's past investments in large-scale industrialization (premised on import substitution and, to a lesser extent, exports) have had limited benefit, particularly in terms of employment.

- Disappointment about the past performance of the principal financial institutions responsible for provision of industrial and agricultural credit, and their indirect contributions to increasing the gap between rich and poor.

- Prospects of massive increases in the labor force and the limited abortive capacity of the industrial and agricultural sectors.

- The Government's recent concern and support for development approaches that would include smaller elements of the private sector - local procurement, subcontracting, backward linkages, etc.

Over the years the principal conduit for assistance to SSE has been the Bangladesh Small and Cottage Industries Corporation (BSCIC), successor to a similar (AID-supported) Pakistani organization established in 1957. Initially designed to facilitate production inputs, the focus shifted during the 1960's to promotional (e.g., industrial estates, advisory and design services, project identification, facilitation of credit) activities.

Over the same years, a distinguished roster of donors and NGO's have contributed to BSCIC and its programs. As of mid - 1985 (the most recent fiscal year for which data are available) BSCIC was utilizing credit lines from IDA, NORAD, USAID, DANIDA and UNCDF (average recovery rates: 51%). Under the Third Five Year Plan - 1985-1990 (TFYP) and subsequent 1986 Industrial Policy the small and cottage industry sector (redefined as having a total investment of Tk.15 million ($500,000) or investment in machinery and equipment not exceeding Tk.10 million ($300,000)) has been given priority status. Each bank (nationalized, commercial, foreign as well as public sector banks) has been asked to allocate a percentage of its loanable funds to the sector, and to provide separate windows for that purpose. A maximum lending rate of 10% and a debt-equity ratio of 80:20 were established and special incentives such as tax holidays and tax incentives introduced. To date the banks have largely ignored these directives, a situation reflected in the Government's current decision to create the special Small Industries Bank.

During the five years of the Second Five Year Plan -- 1980-85 (SFYP), also ended in mid-1985, BSCIC's listed accomplishments included preparation of over 26,000 project profiles, counselling of nearly 48,000 small and cottage industry entrepreneurs, skill development for over 28,000, entrepreneurship development for 16,000, and distribution of more than 7,000 product prototypes and designs. BSCIC's industrial estate program was continued (20 estates with 1065 industrial units in operation, 9 estates with 1348 plots under development) and plans call for a sharp increase under the TFYP.

Whatever BSCIC's past accomplishments, the theoretical demand is far larger. By BSCIC's own calculations, during the SFYP small and cottage industries accounted for nearly half of industrial GDP and over three quarters of industrial employment. From a developmental point of view, the capital costs of small and cottage industry job creation are a small fraction of that in larger enterprises.

The proposed Small Industries Bank (SIB) is a clear signal that the present credit system for small and cottage industry is not working to the Government's satisfaction. However, credit is not necessarily the most pressing problem in developing the small scale enterprises. Further, there is no reason to expect another new conventional banking institution will make a big difference. There is reason to hope that small and cottage industry units can be reached in urban areas under programs of local procurement, subcontracting, MIDAS's labor-intensity orientation, and in rural areas by programs conducted under the auspices of organizations such as BRAC and Grameen Bank. But a very large portion of existing and potential SSEs, particularly in the countryside, will not likely be reached. We, frankly, have not found any new mechanisms to propose, nor to our knowledge has anyone else in the donor and NGO communities.

The Mission's paper on employment and small scale enterprise strategy accepts as an introductory premise that "our strategy is inchoate". This self-inflicted criticism may be justified, but it could also simply be reluctance to admit that there are problems for which there are no acceptable solutions.

The paper first addresses the question of where AID/Dhaka should concentrate its employment efforts, and answers that it has adopted a multi-faceted approach: improved agricultural research and technology to increase productivity, on-farm employment and inputs for processing industries; creation of rural infrastructure. The paper further states, and we agree, that stimulating employment through public sector enterprise itself or at the cottage industry level is not likely to prove particularly useful, and that AID is left with "small, efficient, profitable enterprises in both the industrial and the service sectors".

The paper correctly stresses the "paucity of reliable information in Bangladesh" whether with regard to unemployment, the SSE sector, labor markets, informal financial systems or what motivates operators of small enterprises. It describes both the Government policy and the allocations (i.e., credit, education, infrastructure) that discriminate against the SSE sector. Finally, AID acknowledges that to have significant impact its commitment to employment in general and small scale enterprise in particular must have a catalytic effect on the Bangladesh Government and on other donors. AID itself would help create the policy environment, the infrastructure and institutional capabilities to train SSE owners and managers.

We believe that this approach is structurally very sound. Perhaps, however, more emphasis might appropriately be given that - as successful as the direct and/or catalytic effects may prove to be - AID will be only nibbling around the edges of the problem. This is not to suggest that AID or any donor walk away from the issue. But that retrospectively the quantitative difficulties in increasing employment may make those in decreasing fertility seem comparatively simple.

We would not, by omission, minimize the value of AID's continuing efforts to identify private sector opportunities within its principal areas of activity (food and agriculture, population and health) whatever the employment impacts. The privatization of fertilizer distribution is a good example: to oversimplify, a few dedicated technicians backed by AID (and the World Bank) pitted against a public sector organization with 20,000 employees and an unquantifiable number of special interests. There are battles still to be won or lost, but one objective acceptable to everyone - foodgrain self-sufficiency - is now within reach.

VI. MISSION CONSTRAINTS

The study team's scope of work calls for identification of "constraints within the Mission to working effectively with and for the private sector and make recommendations for overcoming them". Among the study team findings in the Mission were:

- There is no lack of interest, either at top management levels or among operating personnel, in private sector development,

- There is no lack of awareness of private sector programs, obstacles, relationships (internal workloads, however, do severely restrict the time available for out-of-office private sector interaction).

- Reluctance on the part of those responsible for major USAID programs (food and agriculture, population and health) are not a significant obstacle to private sector initiatives.

- Internal budget, organization or staffing limitations are not employed as defensive justifications.

Clare Humphrey's first recommendation in his preliminary report to the Mission (March 5, 1987) was the appointment of a private sector officer (PSO); his justification was that private enterprise development has become a primary concern of AID/Dhaka which in turn is in consonance with AID/Washington's "Four Pillars" approach.

We concur. There should be a specific PSO post in the Mission. At present such functions are spread among several project development officers, each of whom also has time-consuming duties not directly associated with private sector development. To the extent possible within AID, we feel that the PSO should be encouraged to define his own terms of reference - to identify intervention points and participate in the formulation of policy dialogues regarding on-going Mission programs, to screen and tailor AID/Washington initiatives for cost effective in-country utilization, and - getting out of the AID offices - to develop local networking contacts to identify possible new initiatives for Mission and AID/Washington consideration.

A parallel recommendation is the hiring of a qualified local counterpart. If our concerns prove valid about the amounts of professional man hours the Mission will spend overseeing MIDAS in the next two years or so, it might be wise to include in the counterpart's qualifications experience in project appraisal and financial analysis.

VII. PRIORITY INDUSTRY SECTORS

Industrial development policy in Bangladesh, as in the rest of the subcontinent, has traditionally been considered to be in the domain of the public sector. Planning commissions create 5-year strategy documents which identify priority sectors or subsectors in terms of desired levels of capacity and prospective foreign exchange/ local currency investment requirements. These strategy decisions again traditionally have been predicated first on import substitution as a means to conserve foreign exchange and secondly on maintaining commodity or semi-finished exports also with a view to foreign exchange requirements.

Following independence, the public sector became responsible not just for policy but for the bulk of industrial ownership and management. The issue of the extent to which that was a matter of political philosophy or practical necessity is largely irrelevant in this particular context. The bottom line was that Government planned, controlled and managed virtually all investment funds allocated to productive enterprise.

In the industrial sector there were, admittedly, a number of multinationals whose presence in Bangladesh predated independence. The Government acquired the "abandoned" shareholdings, but in general did not seriously interfere with operating viability. Between these corporations and the bottom layer of small enterprises was an enormous structural gap created in part by Government ceilings on the size of permissible private sector activities, the private sector's resultant reluctance to invest in fixed assets and the historical orientation toward trade and commercial activities.

From the late 1970's, increasingly open policies regarding the scope of private sector involvement and increasing availability of term finance for productive purposes made industrial investment a more attractive option. Nevertheless, industrialization priorities continued to be set by Government fiat and adhered to by financing sources. Well-connected entrepreneurs were not slow to realize that accepting such directions facilitated, in every sense, project approvals. The entrepreneur's friends and neighbors were also not slow in following his apparently successful entry into, say, trawling or cold storage.

There is, in summary, little precedent for private businessmen making independent decisions (and little reliable data on which to base such decisions) regarding priority sectors of industry. The ready made garment phenomenon of the early 1980's was triggered by Korean, Taiwanese and other Asian interests in pass-through opportunities offered by Bangladesh quotas and labels. Bangladeshi followers have raised the level of gross domestic value from (our estimate of) 15% in 1983 to perhaps 25% today, but here again the sector did not result from local private initiatives.

As to the priority industry sectors in 1987, the general consensus - with which the study team agrees - is fish and shellfish, leather processing and products, fresh and processed foodstuffs, natural gas-based products, textiles and garments, construction materials, electronics assembly and handicrafts. Note that of these eight categories, five are based exclusively on indigenous raw materials and two more (textiles and garments, and construction materials) readily lend themselves to increasing levels of local content. Note also that, with the sole exception of construction materials, all categories have significant export potentials.

A third common denominator is the need for backward linkages from existing and prospective processing facilities to quantitative and qualitative gains in raw materials inputs. Shrimp producers should have access to more prolific varieties and to advanced technology in feeding and management systems. Techniques of fish farming in other part of the world far exceed anything available to prospective users in Bangladesh. Fruit and vegetable processing will be severely constrained in the absence of modern systems of inter alia, contract farming. Locally produced textiles can be improved to meet garment manufactures specifications and to compete directly on world markets.

A final common ingredient is the long recognized but still unmet need to develop marketing (and design) capabilities in such sectors. Here again, the private sector has traditionally been content to rely on Government for assistance. The consequences have been abysmal - e.g., badly organized and attended trade fairs with poor product presentations and totally inadequate follow up. The Government has now made major strides in liberalizing its industrial, investment and trade policies. It remains to be seen whether the private sector will respond - at least in these key areas of opportunity - by taking control of its own future.

VIII. INFRASTRUCTURE CONSTRAINTS

The scope of work asks the study team to identify "critical infrastructural gaps". Raising the topic in meetings with private sector groups presented no problem; what proved difficult was preventing such discussions turning into acrimonious harangues regarding Government policy and practice: capricious revision of utility rates, delays and costs in getting power connections, unreliability of power, poor telephone service, and so on.

There is no question that electricity supply (outages, power shedding) remains a major problem for productive enterprises. Some concerns have their own standby generating capacity, others schedules shift work around periods of load shedding. But overall industrial productivity certainly suffers. Productivity losses are to an extent a factor of plant location, as are constraints imposed by inadequate transport, telecommunications and water supply. Factories situated in the Chittagong EPZ have few if any serious complaints concerning infrastructure (or unions, which are no longer permitted).

We were surprised as to the relatively low levels of concern expressed by the private sector as to labor issues. Workers were termed sincere, dedicated, trainable (particularly the women). Union troubles were described as mostly happening in public sector corporations (possibly a troublesome issue in future denationalizations.)

IX. PRIVATE/PUBLIC SECTOR RELATIONSHIPS

Inasmuch as most of the study team's meetings have been with private sector individuals and institutions or organizations which provide credit and other facilities to the private sector, we reflect below not so much the Government's view of the private sector, as the private sector's perception of the Government's view. In any case it is certainly safe to say there is a great deal of room for improvement in both directions.

Until recently it was relatively easy for the private sector to point to Government's restrictive policies as proof positive of its distrust of private enterprise. With the liberalization of investment, industrial and trade policies (some businessmen will say for the record that Bangladesh's present policies are among the most progressive in the third world) that argument is lost.

Current frustrations therefore focus on the gulf between public sector policy and implementation (of course bureaucratic actions in the past also did not necessarily reflect policy, and the private sector has been responsible for supporting - with "baksheesh" - the existence of such practices). What seems to be emerging as the other side of the policy liberalization coin is more endemic blatant bureaucratic corruption. Businessmen say, almost without exception, that the sheer volume of required payoffs is much higher than in the past.

We do not see much near term likelihood of significantly narrowing this gulf. The bureaucracy is too large, cumbersome and financially needy. But over time, given political stability, the situation should improve.

Stability is also what the private sector needs to develop a greater sense of social responsibility. There is said to be a very real and widespread desire to be a member of industrial sector in Bangladesh. Among the reasons given are social prestige and a perception that profit opportunities in traditional trading lines are diminishing. Prospective industrialists (people with capital seeking viable investments) will say they are doing it for their children, that they recognize the short term profit opportunities are much greater in other economic sectors.

At the same time, bankers tell us that (a) these same people want to put as little of their own capital at risk as possible, (b) they want to leverage every project to the greatest possible extent (which are textbook approaches to profit maximization, but can carry some penalties where forward planning is as uncertain as it is in Bangladesh), (c) they see profits as theirs and losses as the banks', and (d) to move and keep their capital out of the country is a primary motivation. The bankers' solution: time and stability whereby private entrepreneurs identify more personally with the country's long term development.

X. PROPOSED NEW AID INITIATIVES

This section offers a brief review and suggestions regarding various initiatives that have been presented to AID/Dhaka in recent months.

A. Bangladesh - U.S. Business Council/American Business Council Dhaka (ABCD)

The Coopers and Lybrand (C&L) study (November 1986) of the newly created Bangladesh - U.S. Business Council presents, in our judgement, an objective analysis, including the obstacles to the Council fulfilling its mandate. These obstacles range from the Council's current structure and services through the limited amount of reliable business information about Bangladesh, the need to be able to provide sector (and even company) specific data to the time and effort needed to alter U.S. businessmen's perceptions of Bangladesh. The Bangladesh -- U.S. Business Council's proposal of April 1987 acknowledges, implicitly at least, one of C&L's findings in that only $20,000 of its proposed 1987-1988 budget would come from membership fees. AID is asked to provide the $163,000 balance.

The Council would establish "strong representation" in both the U.S. and Bangladesh (in which C&L concurs) and would embark on three specific activities:

- An information clearing house, offering (for sale) information from other sources and developing " a computerized data base on Bangladeshi companies including qualifications, experience....."
- Luncheons, where "distinguished persons" would speak in "different cites", and
- Seminars, in six U.S. cites between September '87 and May '88. Delegations from Bangladesh would be invited to participate and supplementary promotional material provided.

According to the proposal, the Council would further undertake: studies of Bangladesh's comparative advantage; investigative studies of at least two specific management contract opportunities; review of existing feasibility studies and preparation of new studies as necessary in Bangladesh; and conduct a trade fair for small computers in January 1988.

We believe that the Council cannot meet its stated objectives at anywhere near the proposed budget and in any event the bulk of its program activities will not produce tangible results. We would endorse the establishment of a small office in the U.S. (with a modest allowance for travel, promotion and entertainment) and in Bangladesh (see discussion of the ABCD below). We do not feel that the proposed luncheons and seminars would be productive at this time. This represents not only a judgement as to the Council's proposal, but also the study team's beliefs that (a) new foreign investment is not, relative to times in the past, a high priority in the U.S. and (b) Bangladesh currently is comparatively more attractive to corporate investors in various Asian countries.

We do believe that a comparative advantage study has merit, but (a) the Council is not equipped to undertake it and (b) considerably more thought should be given to the cost and scope - in all probability such a study should encompass at least Bangladesh, India, Malaysia, Nepal and Thailand.

In its April 1987 proposal the Council agrees to consider a collaboration "provided ABCD can demonstrate its capability and organizational strength" to support the Council. In fact, the reverse is more accurate.

The ABCD is a unique resource not replicable anywhere in the U.S. Its members demonstrably know the Bangladesh environment and operating conditions, can speak as businessmen to businessmen and have a very tangible motivation - survival. Moreover, the Council seems to assume a homogeneity in U.S. interests regarding Bangladesh (an error C&L does not make). Corporate CEO's are not going to come to Bangladesh (particularly on fact-finding missions). It will be lower level finance, marketing, technical personnel and for whom ABCD members can make available counterparts from within their own organizations.

We feel that at this pilot stage the Council's primary role in the U.S. should be to identify (from the Bangladesh Embassy, U.S. Department of Commerce, contacts of its own making) company representatives with Bangladesh on their prospective itineraries. This information would go to the Council's Dhaka office (headed by a personable, bilingual Bangladeshi), screened as possible for those with only perfunctory interests and the remainder passed on to the appropriate ABCD member. Whether ABCD would consider a more active role, and whether AID financial support would be a necessary component is not yet clear.

B. <u>International Executive Service Corps (IESC)</u>

The key issue is whether IESC would consider establishing a resident representative in Bangladesh. If the answer is possibly yes, we believe that AID should pursue discussions as to what conditions IESC (and/or the Bangladesh Government) would require for doing so.

We do not believe that technical assistance requests channeled through third country offices or directly to the U.S. produce sufficiently favorable results to be given priority in meeting technical assistance needs in Bangladesh. An experienced in-country representative is needed to identify, in the current jargon, the potential recipient's hidden agenda.

C. Young Presidents Organization (YPO)

There were risks of inflated expectations and cultural mismatches in organizing a UNIDO Investor's forum or a Bangladesh-U.S. Business Council. The gap between Bangladesh and the YPO organization is that much wider again. We would not endorse YPO as a sponsoring or organizing institution for private sector development in Bangladesh.

D. National Association for Resource Improvement (NARI)

Established in 1986, NARI as an affiliate of Women's World Banking (WWB) offers credit on a shared basis (WWB guarantees 50%, NARI 25% and a commercial bank is at risk for the balance). In addition to credit, NARI's objectives includes training, marketing facilities and support (e.g. family planning, legal aid) assistance.

NARI seeks financing from AID to increase its local guarantee fund to $20,000 (to serve 50 low income women entrepreneurs during 1987-1988) and $40,000 for operating expenses. The success of any such effort depends less on meeting a valid social and economic need and more on forceful leadership. In that context, it is a bit disturbing that two thirds of the requested funding is earmarked for administrative uses. AID might assist NARI in developing a more balanced program.

E. Revolving Fund (RF)

The Revolving Fund is seen as a source of investment capital for new or expanding small-to- medium size enterprises utilizing technology new to Bangladesh. AID/Dhaka, PRE/Washington, a U.S. financial institution (American Express) and local capital (raised by IPDC) were each to contribute equally to the initial $4 million.

As stated elsewhere in this report we believe that AID credit is not currently a serious constraint at the enterprise level which the RF would operate (e.g. urban, relatively knowledgeable entrepreneurs). There may be a size gap in which the RF could function with IPDC on one side and MIDAS on the other, but we question whether it justifies establishing a new financial instrument. It should be noted that AID is very fortunate not to be significantly involved in any of the existing industrial finance programs and participating in a new (unnecessary) program should be looked at with extreme caution.

Finally, we did not find IPDC or American Express particularly receptive to the RF concept (one contact called it a "grand committee"). American Express, in fact, indicated that while it would consider reviewing projects for debt financing on a case-by-case basis, it would not participate in any pool arrangement. In summary, we find neither a compelling need for the RF nor particular receptivity among potential local participants.

F. Trade Development Program (TDP)

In the context of AID/Washington's recent paper on trade development policy, the Bangladesh Government has made major policy changes in freeing the economy, and the private sector in particular. The policy document (a) cautions about supporting government-managed export or investment promotion schemes, but (b) encourages the establishment of free trade zones.

We agree on both counts. Specifically, a free trade zone at Zia airport has been under consideration for several years. A first phase would require nowhere near the infrastructure and organization investment that went into the Chittagong EPZ. It could begin with bonded warehouse and storage facilities, utility connections and security. More important would be the technical assistance for private sector exporters in improving input (see below), processing, packaging and marketing standards.

G. Projects Utilizing U.S. Commodity Stocks

The study team has not had occasion to pursue directly the issues of agricultural production and consumption in Bangladesh. Our reactions, therefore, to this proposal are subjective, not based on fact, but nonetheless are distinctly negative. The prospects of successfully marrying U.S. dairy surpluses to small farmer cooperatives (to be organized) for agricultural development in Bangladesh appear remote.

H. Contract Farming

The CEO of a local multinational retains a vivid memory from the Investor's Forum in 1982: one attendee represented a U.S. company specializing in fish farming which offered a 'total technology' package for $1 million. The representative freely admitted that it made no sense for a single Bangladeshi company; he was looking for some one who could bring together perhaps 100 to 500 potential producers. After a couple days of increasing frustration the man left and - to the CEO's knowledge - has never returned.

In 1987 there is widespread under utilization of cold storage, freezing, trawling and food processing capacity. Owners should be receptive to assistance in increasing raw material supplies whether fish, shrimp, fruit or vegetables. Absent owning the land and production facilities directly, contract farming offers their best assurance of quantity and quality inputs.

We are told that farmers, even owners of very small plots, will be responsive to such arrangements if they have confidence that the buyer will honor his contractual obligations. Also, it is generally in everyone's interest for the processor to make available credit, quality inputs, extension and transport facilities.

As in so many areas of Bangladesh, the first obstacle is lack of knowledge about specific sector requirements. Some one needs to meet with the relevant trade associations and major factors therein. Then that information needs to be centralized, kept current and available. The specific location is not critical, but here as in other sections of this report our inclination is that AID consider funding a unit to be housed in the FBCCI. A parallel effort for AID to consider would be funding the visits of specialists from successful companies in countries such as Thailand and the Philippines to identify opportunities for technical assistance, management and linkage (e.g., shrimp feed) investments.

XI. SUMMARY OF FINDINGS AND CONCLUSIONS

A. General Overview

As of early 1987 the Bangladesh Government is in a period of consolidation following inter alia, last year's elections and announcement of new initiatives (liberalization of industrial, investment and trade policies; revisions of divesiture groundrules, etc.). Economically, rural purchasing power is severely depressed by a combination of low international jute prices and institutional efforts to recover outstanding agricultural credit indebtedness.

Government backed efforts by the DFI's to extract repayments from defaulting borrowers are receiving widespread press coverage but there is equally widespread cynicism as to whether the politically well-connected will be affected. Government plans to increase the locally-sourced content of foreign aid projects are also receiving publicity; it can not be coincidence that concurrently there is sharply increasing resentment as to the level of foreign advisors involved with donor and NGO programs. Donors and NGO's do not question the qualifications of Bangladeshi technical personnel, but without exception are adamant as to the necessity of having expatriate 'no-sayers'.

Pay-off requirements are continuing to spread, certainly horizontally, whether vertically as well depends on the amount of credence given to hearsay.

Like the Government, the private sector is at present in a holding pattern. Established entrepreneurs are skeptical, and even resentful, of the Government's liberalized investment policies. The business community has long been accustomed to the Government for guidance as to what is economically or politically desirable. Owners of enterprises in which there is current overcapacity want to be protected from further competition.

While there are no reliable means of measurement, we would guess that new industrial investment is also on hold. There are unquestionably prospective entrepreneurs, with capital, looking for investment opportunities. There is excess capital in the banking system (which is structurally weak and unlikely to improve over the near term). Concurrently the Government and donors are seeking to establish yet more institutional credit sources. In part this probably reflects the freeze on the activities of public sector DFI's-there has been a sharp reduction (in quantitative terms, not qualitative) in institutional facilities for project formulation. But, again, we understand that at all but the lowest levels of the economy credit is not a constraint.

Some period of consolidation, both in Government and in the private sector, could be beneficial if it is seen as evidence of increasing stability - political, social and/or economic. Whether it will also improve the forum for constructive policy dialogues is, unfortunately, unclear.

From the standpoint of how the private sector views the Government, the most constructive action the Government could take at this time would be to narrow the perceived gap between the administration's policies (as liberal as they may be) and the bureaucracy's implementation practices (which have their own vested constituencies). Changing the bureaucracy's posture from one of policing and control to one of service orientation and facilitation will be a lengthy process. But the Government can contribute immediately by spelling out the specific rights accorded to specific elements of the private sector. Todate, the bureaucracy response to private enterprise's new entitlements has been to create requirements for official documents which can be presented to prove that official documents are no longer required.

B. Foreign Assistance

First as disaster relief and thereafter as development aid, Bangladesh has received and is receiving enormous amounts of foreign assistance. Currently there is some $ 5 billion in the pipeline, i.e. commitments in excess of disbursements. Delaying factors include Government difficulties in processing aid programs and in carrying through on conditions required by donor organizations. This is readily seen in the amounts of project aid in the pipeline as compared with the faster-moving food aid.

Donor nations have leverage and do influence the pattern and directions of Bangladesh's development programs. All major donors espouse the concepts of a market economy and private sector initiative as policy objectives and, often, as conditions for their support. At any given time there are differences in emphasis among the major donors. Currently these might be summarized as: IDA (World Bank) - credit and infrastructure; ADB - industrial; USA and Canada - food, agriculture, family planning, small enterprise; U.K. and Germany - credit and energy; UN - food, technical assistance and training.

These aid sources, in particular, may be expected to continue pressing for market pricing, removal of subsidies, a more responsive public sector and improving environment for the private sector. As of this time, it appears probable that the World Bank will maintain the lead role for public sector efficiency improvements, infrastructure projects, policy changes to enhance a market oriented economy and private sector development. The ADB, Japan, the UK and Germany appear inclined to concentrate on growth in the private sector and the financing of larger industrial projects. Canada, the Netherlands and the Scandinavian donors seem very much oriented to specific projects in rural areas with quantifiable results. The UN agencies will be the principal source of technical assistance, funding many small projects across a broad cross section of Bangladeshi institutions (as well as maintaining its involvement in food and health programs).

C. AID Program

In our judgement, AID's basic program objectives of reducing fertility, increasing food production and expanding employment opportunities are not issues for debate. Bangladesh has been able to survive a doubling of its population since 1950, but at the cost of declines in per capita consumption of fish by a third, vegetables by two fifths, fruit by nearly half, and pulses by two thirds. If all conditions for fulfillment of the present five year plan (including 4% annual growth in agricultural productivity) are met, only 10% of the rural poor - measured in terms of caloric intake - will have been brought above the poverty line by 1990-91. It seems unthinkable that any lower priority be given to fertility and food initiatives.

Employment generation warrants equal concern. There will be explosive growth in un-and under-employment, particularly among the rural non-farming population. The current success of AID's small enterprise development program has attracted the interest of other donors, but can relieve only a microscopic fraction of impending unemployment. The issue deserves the attention of the entire donor/NGO community, but there will be no quick solutions, and in absolute terms there may be no aid-funded solution.

AID is not involved in large capital projects or in large credit programs. We would not recommend that it become so. AID can coordinate with donors such as ADB, British, German and Japanese aid who seem-in the vacuum left by the DFIs-to be moving toward financing large-scale industrial projects.

As described in AID/Dhaka's recent 1988-89 Action Plan, the Mission will "feature prominently" policy dialogue and donor coordination, supported by policy studies in rural finance, fertilizer, food grain pricing and distribution, emergency and private enterprise development. In context of dialogues concerning private sector development, while the World Bank will presumably continue to lead at the macroeconomic reform level, we have encountered a number of private sector issues which USAID might consider raising with the Bangladesh. Among these are:

- The Government's plans, as discussed in the Missions' Action Paper, to cut use of expatriate technicians which could seriously hamper the establishment of new and/or rehabilitation of existing private productive enterprises.

- Possible guidance as to the structure and scope of the proposed Small Industries Bank.

- Helping shape plans for further privatization of state owned enterprises- possible topic areas include assumption of liabilities, transfer pricing, ownership, control of the Board and management.

- The contemplated role of the Dhaka Stock Exchange in distribution of shares in denationalized enterprises, and the Exchange's capacity to fulfill such functions.

- Establishment in the Bangladesh private sector of a primary source for the collection/dissemination of hard data for potential foreign investors.

- The discrimination against multinationals operating in Bangladesh introduced by the new industrial policy of 1986; UK representatives are trying to get the Government to recognize the inequities, but it may be that they could use support (presumably in such event, the U.S. Embassy would have the lead role).

Finally, it seems that every donor organization is trying to establish a particular nitch or intervention point for its Bangladesh private sector strategy. We would suggest that AID point for a program focus on <u>quality</u>: that the initiatives and institutions with which AID is associated have the capacity to establish leadership and respect. Those are attributes the private sector needs and wants.

D. <u>Private Sector Role</u>

The constraints on the private sector and its utilization as the engine of development are formidable: few (land, water, natural gas) exploitable natural resources; very limited purchasing power in the domestic economy; the absence of a traditional entrepreneurial and managerial class; continuing post -- independence political instability; dominance of the bureaucracy and, until recently, public sector corporations; underdeveloped or unreliable infrastructure. Lastly, private enterprise suffers from a long-standing reliance on the Government to do the private sector's thinking (Five Year Plans, sector investment schedules, etc.).

Other than labor availability and costs, the developable assets available to the private sector are largely intangible: a common language, strong cultural identity, absence of serious religious or racial divisions, good work ethic (leaving union distortions aside). Most important perhaps, at least over the near term, are the clearly widespread desire among Bangladeshis with capital to participate in productive enterprise and the equally pervasive evidence of entrepreneurial skills and ambitions at the private sector's root levels.

Expansion of a responsible and dynamic private sector at this juncture requires: leadership, information access and networking, "real world" decision making, and demonstration effects - that quality inputs lead to quality results.

XII. RECOMMENDATIONS

The scope of work calls for development of "a concept paper for a small project to finance a wide range of studies and technical assistance to support private sector and privatization activities". Given time pressures, in lieu of a separate paper there follows a listing based on report findings and conclusions of possible projects and intervention points together with recommendations concerning the future direction of present private sector oriented programs:

- Establish a project to provide technical assistance to the private sector through the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI). A full time advisor would be placed in the FBCCI's Dhaka headquarters with the resources to bring in short term specialists from the U.S. He should initiate projects, network with the private sector, advise on technical and management matters. Most important, he should establish and maintain a serious professional approach to project assessment.

  He should be assisted by a local-hire experienced and well conversed Bangladeshi. He should also be provided with some business "infrastructure" -- personal computers, a fax machine, a copier, a set of business and manufacturing reference materials (Thomcat catalogs, D&B directories, company annual profiles, US Department of Commerce and other business publications, etc.)

  This advisor would be expected to be a "superman" in the sense that he should be generally knowledgeable in manufacturing and service operations, have some sense of costs of operations, have strong business sense, and most of all have a tough attitude towards "hard-nosed" decision making and project assessment. His position would be parallel to the advisor currently resident at IPDC under German Aid auspices, and his advice and actions would be expected to have a demonstration effect on Bangladesh in "proper" private sector decision making. He would be expected to "push" the Bangladeshis in thinking up new, viable projects, and assist them anywhere his talents are useful. He will be expected to initiate projects, bring in specialists from the United States and connect Bangladesh private sector firms to U.S. suppliers, buyers or investors.

- Establish in conjunction with or parallel to the new Development Management Training project - an umbrella technical assistance project for the private sector. This would include:

- -- Training and overseas travel for professional personnel in institutions such as IBA and BMDC as one element in attaining standards comparable to similar institutions in Turkey and Pakistan;
- -- Comparable training opportunities made available at professional and technical staff levels in industrial and financial enterprises;
- -- Provision of software where indicated in support of the above efforts;
- -- As discussed in the text, among the financial institutions that deserve priority consideration in this context is the Dhaka Stock Exchange, perhaps the Investment Corporation of Bangladesh and, although it seems most unlikely at this juncture, the proposed Small Industries Bank. Development of such a program should force a decision, inter alia, on AID utilization of the IESC.

- Commit some financial and organizational support for a pilot investment information and promotion project directed at the U.S. business community. Initially, at least, the emphasis would not so much be on research and creation of new documentation but on packaging existing information. Various Government agencies and other organizations, have for years been preparing such information, and in substantive terms. Much of it is quite good, but most of it is lost without a trace (or even a file copy) and the balance needs periodic updating.

  This project would involve two new organizations: The Bangladesh-U.S. Business Council and the American Business Council-Dhaka.

- Establish a new post within the Mission of Private Sector Officer, who would network with project managers within AID/Dhaka, with other donors and the Government, with USAID missions in neighboring countries and AID/Washington to identify, develop and coordinate private sector initiatives. The PSO should also be provided with a Bangladesh direct-hire assistant.

- Establish, in cooperation with the World Bank, a pilot private sector project for the repair and servicing of rural agricultural machinery (with initial emphasis on pumps and tubewells). From limited discussions, the basic premise seems sound; the scope, organization, training requirements, etc., need much more thought.

- Consider establishing a small project to create new information which would facilitate development of the private sector. The multinationals and the top layer of local firms (very few well organized firms) can fend for themselves, but the less organized (i.e., most of the) private sector is intimidated by officialdom and lacks information to facilitate networking and business development. Thus, development of both administrative and market information would be useful. The project could include (a) compilation of the "rights" of business enterprises and types of forms and data required for obtaining permits, financial assistance, customs clearance, and so forth, and (b) development of a "yellow pages" type publication which would list business enterprises by type of activity in principal commercial centers of the country. This project may be made part of the scope of the FBCCI project (described above).

With regard to on-going programs, we would recommend:

- Continuing support for BSCIC and the present emphasis for both staff and BSCIC clients on hard decision making.

- Continuing support for MIDAS with a suggested long-range objective of reducing its financing responsibilities relative to other sources of development credits. For the present, MIDAS is needed as a source of finance, as are its reputation for integrity and its policy emphasis on labor intensive and technologically innovative proposals. We would hope MIDAS can be the premier, quality institution for private sector small business in cooperation with other financial organizations, not just as one more donor-supported DFI.

Regarding policy dialogue, AID effects policy through covenants and preconditions associated with projects. For example, such conditions in rural electrification, agriculture and fertilizer projects bring about desired changes in Government policies which are conducive to private sector development. These projects bring about the use of market and price mechanisms in the allocation of resources and remove subsidies which are objectives of AID policies and enhance private sector development. This form of policy dialogue and influence in the development of a market economy appears successful, and we believe should be continued.

Regarding the priority currently given to "employment generation", the Mission is well aware of its own limitations - and those of the entire donor community - relative to the magnitude of the country's problems (in this context: fertility, food and employment). We suggest that AID proceed with caution in involving itself with projects (Grameen, for example, as successful as it is) where the prime objective is employment generation at or below the cottage industry level. As discussed earlier in broader terms, we strongly support projects, for example, such as fertilizer distribution which has secondary employment effects and/or food for work.

APPENDICES

1. Privatization in Bangladesh
2. Industrial Policy, 1986, and Industrial Investment Schedule
3. Fiscal and Other Incentives to Promote Industrial Development
4. Functions of Bangladesh Export Processing Zones Authority
5. Aid to Bangladesh
6. World Bank, Structural Adjustment Policies, 1987-89
7. World Bank, Bangladesh Projects, 1987
8. Asian Development Bank, Bangladesh Projects, 1987
9. United Nations, Bangladesh Projects, 1987
10. List of Interviews

APPENDIX 1

Privatization in Bangladesh

Paper by

Md. Shamsul Haque Chisty
Conference on Privatization Policies, Methods and Procedures

Asian Development Bank
Manila, 1985

The Experience of Bangladesh

MD. SHAMSUL HAQUE CHISHTY*

I. THE EVOLUTION OF THE PUBLIC SECTOR

Pre-Liberation Period

The evolution of the public sector in Bangladesh should be viewed as a part of the historical process starting from the days of British rule in India. In those days, the public sector was mostly confined to administration and regulatory functions, fulfilling limited social objectives in the form of communications, education, health, broadcasting, telegraph, telephones, roads and railways, transportation, a limited banking facility and certain defense establishments. The main objective was to serve the needs of a colonial regime.

After the British had left India, Pakistan inherited the same framework and outlook. The first policy declaration on industry, made in September 1948, limited the role of the public sector to the ownership of arms and ammunition, generation of hydro-electric power, railways, telephones, telegraph and wireless. The Government, however, reserved to itself the initiative to develop those industries which could be considered of national importance but where private initiative was found lacking. With this end in view, the Pakistan Industrial Development Corporation (PIDC) was established in 1952. PIDC was responsible for the promotion of industries in jute, textiles, paper, heavy chemicals, heavy engineering, shipbuilding, fertilizer, cement and sugar. It floated shares for its projects in order to allow private participation. In some cases, PIDC only provided the foreign exchange or agreed to promote and supplement private enterprises. Government also developed other public sector bodies, such as the State Bank of Pakistan (the central bank), the Industrial Finance Corporation, the National Bank of Pakistan, the Agricultural Development Bank, the Small Industries Corporation and the Port Trust, to promote or to facilitate the promotion of the private sector.

* Secretary, Ministry of Establishment, Government of Bangladesh. Mr. Chishty was formerly Secretary, Ministry of Jute and Textiles.

PIDC was bifurcated in 1962 — the East Pakistan Industrial Development Corporation (EPIDC) to take care of the industrialization of the then East Pakistan, and the West Pakistan Industrial Development Corporation (WPIDC) for West Pakistan. EPIDC played a pioneering role in the industrial development of the erstwhile East Pakistan, now Bangladesh. Up to the period of liberation, it set up 74 manufacturing units either by itself or in association with the private sector. The list included investments in jute, textiles, paper, fertilizer, chemicals, pharmaceuticals, shipbuilding, engineering, sugar, steel, electrical machinery and equipment, machine tools and diesel engines.

EPIDC became the major instrument of the Government policy of creating a class of entrepreneurs from amongst the Bengali small trading class. It pursued the strategy followed by PIDC of pioneering joint ventures in collaboration with Bengali entrepreneurs to set up jute mills and then divesting its projects to this class. This was not, however, an easy job. Apart from the dearth of a sufficient number of Bengalees with adequate business experience who dared to move into industrial ventures, there was a dearth of capital to participate in the joint ventures. In its efforts to build up local entrepreneurs, EPIDC received support from the existing Government-controlled financial institutions, namely, the Industrial Development Bank of Pakistan (IDBP) and the Pakistan Industrial Credit and Investment Corporation (PICIC). EPIDC helped with plans and designs and the construction of jute mills, and also in the selection of machinery. The most substantial help to a project would allow a capital structure with a maximum debt/equity ratio of 70:30. The debt was to be covered by a foreign exchange loan advanced to the project by the financial institutions in order to finance the cost of the machinery. However, this ratio was relaxed in some cases where the equity share of the owner was as low as 7.5 per cent of the total investment. To set up a jute mill, an entrepreneur was not always required to come forward with cash. After EPIDC had accepted him as a partner, he could go to a commercial bank and obtain a bank guarantee to cover his portion of the equity, the guarantee being provided against paper pledges of real estate and jewelry. Commercial banks did not hesitate to provide such guarantees when the entrepreneur was going to be put into the management of a 250-loom jute mill worth about Rs 20m.

Apart from building up a Bengali class of industrialists, EPIDC also followed the policy of divesting those enterprises it had established. Such efforts were not very successful because of the lack of local entrepreneurs with the requisite finance. As a result, EPIDC divested only one cotton mill, one sugar mill and two jute mills in the years before liberation. EPIDC offered a capital structure with a debt/equity ratio of 60:40. The buyer was to put up 40 per cent while the remaining 60 per cent was to be underwritten by a consortium of financial institutions mobilized by the Investment Corporation of Pakistan (ICP), another public sector enterprise. The financing institutions were to offer their shares to the public in course of time. At the time of liberation, EPIDC controlled about 34 per cent of the fixed assets in the modern industrial sector of the East Wing of Pakistan.

Post-Liberation Period

When Bangladesh became independent on 16 December 1971, there was no planned arrangement for the smooth transfer of power in view of the fact that the country was liberated through a bloody war. The change had a significant impact on the political, administrative and economic conditions of the country. The extent of dislocation of public administration and the economy was determined by the degree of dependence of the erstwhile Government of East Pakistan upon the Government of Pakistan. Before liberation, the former was mainly entrusted with executive functions. The major policies regarding preparation of the national budget, annual development program, mobilization of internal and external resources, were within the domain of the Central Government. In the field of foreign trade, the details of commercial policy were laid down by the Central Government, although the Provincial Governments were consulted before these were framed. The areas where the Provincial Governments had a major degree of autonomy were agriculture, health, transport, power, housing, education and industry (within certain limitations).

In the field of banking and insurance, the State Bank of Pakistan was located in West Pakistan and made all the policy decisions including the control of foreign reserves and domestic monetary policy. The commercial banks, which were mostly set up at the initiative of the West Pakistanis, naturally had their head offices there. The same applied to the National Bank of Pakistan, the first commercial bank to be set up on Government initiative in Pakistan. Only two banks were set up on the initiative of East Pakistanis — the Eastern Banking Corporation and the Eastern Mercantile Bank. Their head offices were located in East Pakistan but they accounted for only 16.6 per cent of the deposits with the commercial banks. The major insurance companies too had their policy-making head offices located in West Pakistan. Of the institutions which provided credit to the industrial sector, only the Industrial Development Bank of Pakistan (IDBP) had its headquarters in Dhaka, where it was shifted just two years before independence. The head offices of other similar institutions like the National Investment Trust (NIT), the Equity Participation Fund (EPF), ICP and PICIC were located in West Pakistan.

In the field of industry, the bulk of investment and output was in the private sector. An estimated 47 per cent of the fixed assets in the modern industrial sector were controlled by non-local entrepreneurs. Thus, when

Bangladesh became independent, in addition to the problem of finding the right type of personnel to run the country's administration, there was also the question of establishing national control over the economy. The most serious problem lay in the financial sector whose policy and decision-making offices were all located in West Pakistan. There had been a negligible number of Bangladeshis working at the policy or decision-making levels of the Central Government. Consequently, on independence, both institution-building and policy-making had to be carried out from first principles and experience acquired on the job.

Independence created a very big problem for the private sector. The entire industrial sector, much of which was owned by non-locals, came to a halt. The Government had to step in to fill the vacuum created by the departure of the Pakistanis. The vacuum thus led to a major expansion in the public sector's activities. After liberation, public enterprises in Bangladesh could be grouped under four categories:

(i) enterprises taken over as abandoned under Presidential Order (PO) 16 of 1972;
(ii) enterprises nationalized under PO 27 of 1972;
(iii) enterprises vested under PO 29 of 1972; and
(iv) enterprises promoted and set up by PIDC and its successor, EPIDC.

Immediately after liberation, the Government of Bangladesh passed the Abandoned Properties Ordinance on 2 January 1972. All properties classified as abandoned by their owners, including 725 industrial units, were brought under the Government's control and management. A large number of commercial enterprises and private properties were similarly vested. To manage these abandoned properties, the Government passed executive orders entrusting the management of each enterprise to a board of management drawn from the Ministry of Industries, existing managerial cadres, workers and outsiders. This arrangement for the management of abandoned properties did not prove successful. The Ministry of Industries did not have sufficient suitable personnel to shoulder this responsibility and the running of the enterprises was usually left to the other members of the board of management. It was found subsequently that in some enterprises finished goods and raw materials were sold by the managements to pay the salaries and wages of the staff and workers while, in some cases, part of the income went to fill up the pockets of the members of the management boards. The Government therefore dissolved the management boards and appointed in their places an administrator for each enterprise. The administrators were persons drawn from the erstwhile management cadres of the enterprises or recruited from outside. The selections were not very judicious and in many cases led to mismanagement.

It became clear that the ad hoc arrangements made for running the abandoned enterprises were not proving adequate. So the Ministry of Industries prepared a working paper in the early part of February 1972 on the question of the future management of the abandoned properties. The working paper categorized the properties under three heads and made proposals for their management/disposal as follows:

(i) large units should be taken over by the Government;
(ii) medium-sized units should be left to joint ownership with the private sector; and
(iii) small units should be sold to the highest bidder.

The Government soon debated the ideological issue of whether a Bengali capitalist class should be built up by divesting to them the abandoned enterprises; and whether the Bangladesh Industrial Development Corporation (BIDC, formerly EPIDC) should set up joint ventures with them. A large amount of Government resources would in any case be required since at least some of the abandoned units were to be run by Bangladeshi entrepreneurs who had very limited resources and experience.

The Government also had to take a decision on whether to go ahead with socialism, as being advocated by an overwhelming section of the working class, the student community and a section of political leaders, or to follow a mixed economy as pursued by some of the neighboring countries. Ultimately, the Government decided in favour of nationalization. The policy decision was announced on 26 March 1972, the first anniversary of the declaration of independence for Bangladesh. The Government nationalized all abandoned enterprises with assets valued at above Tk 1.5m, along with the entire jute, textile and sugar industries irrespective of ownership. The other major sectors which were nationalized included banking and insurance, and the export of raw jute. The policy declaration of 26 March resulted in the increase of public ownership of fixed assets from 34 per cent to 92 per cent of modern industry, whilst the increase in the number of public enterprises was from 53 to 392. Unfortunately, the country was not well supplied with the administrative and managerial cadres to shoulder the gigantic task of running these institutions, except perhaps in the field of banking and insurance. Above all, neither the party in power nor the administration nor the managements had the ideological indoctrination so essential for the success of socialist institutions.

II. THE RELATIONSHIP BETWEEN THE GOVERNMENT AND THE PUBLIC CORPORATIONS

PO 27 of 1972, by which certain categories and sizes of industries were nationalized or vested, also established ten public corporations with a view to ensuring the efficient control, supervision, management and coordination of different groups of industries placed under them. The Order spelt out the following principles on which the nationalized industries should be organized and run:

(i) it should be the function of a corporation to control, supervise and coordinate, subject to any regulation made in this behalf, the activities, business and affairs of the scheduled industrial enterprises placed under it, and to establish and develop new industrial enterprises within its respective field;
(ii) without prejudice to the generality of the foregoing provision, the corporation should exercise such powers as may be prescribed in respect of the industrial enterprises placed under it;
(iii) in respect of the industrial enterprises placed under it, the corporation should exercise such powers of the Government as the latter may by notification in the Official Gazette delegate to the former; and
(iv) notwithstanding anything contained in this Order, the corporation should exercise such other powers and functions as may be conferred on it by or under any law.

The actual powers which the chairman and the directors of a corporation should exercise were to be determined and prescribed by the Government. These powers had to be codified into 'rules of business', defining the limits of the powers and responsibilities of the Government, the corporation and the enterprises under the corporation. In the absence of the rules of business, all powers relating to the operation of public enterprises were vested in the Government, i.e. the Ministry concerned. Since rules of business were never framed, it led to:

(i) the running of the nationalized enterprises on bureaucratic instead of commercial principles;
(ii) delays in decision-making;
(iii) over-concentration of power and responsibility in the corporations at the expense of the efficiency of the enterprises placed under them;
(iv) frustration among the managements of the enterprises resulting in loss of initiative on their part; and
(v) diffusion of responsibility and a consequent inability to establish accountability for failure.

In order to allow the maximum operational freedom to the public corporations, the Government ultimately decided to give divisional status to them. By this time such precedents had already been established. Four corporations were given the status of divisions under their respective Ministries and their chairmen were given the ex officio rank of Secretary.

There was a move to organize the remaining corporations into divisions but the process came to a halt after the assassination of President Sheikh Mujib on 15 August 1975. The new Government rescinded all orders relating to the change in the status of the corporations and their chairmen. Thus the country went back to the earlier system under which the Secretary of a Ministry was to exercise control and supervision over a corporation.

The above situation continued until 15 May 1976 when the Government laid down guidelines on the relationship between itself and the corporations and between the corporations and the enterprises under them. Under these guidelines, the responsibilities of a Ministry, in relation to these autonomous bodies of a commercial nature, were to ensure that the corporations functioned in such a manner as would enable them to achieve the objectives stated in the relevant law, or in any rules and regulations, or in any policy directives issued by the Government from time to time. The relationship between the Ministry and a corporation would be regulated by the provisions of the respective laws so that:

(i) the functions of the Ministry would be confined to policy-making, the appointment of chairman/directors/members, the approval of budgets, the appointment of auditors and the review of audit reports, the evaluation of performance, and such other matters as might be prescribed in the relevant laws, rules and regulations; and
(ii) the functions of a corporation would be confined to its smooth and efficient operation, within the limits of the respective laws, rules and regulations; and
(iii) the corporation would submit periodic performance reports in such a form as might be prescribed by the Government.

The relationship between the corporation and its enterprises was to be regulated by the provisions of the respective laws so that the functions of the corporations were confined to supervision and coordination, and to ensuring the smooth and efficient operation of the enterprises. The enterprises would submit performance and other reports to the corporation periodically in such a form as might be prescribed under the rules and regulations. The relationship between the Government and the corporations was further elaborated in a Resolution of the Cabinet Division of 24 July 1983, the main features of which, inter alia, were:

(i) the Ministry/Division would exercise only such supervision and control over the autonomous and semi-autonomous bodies under it as were assigned to it under the relevant law and were necessary for ensuring financial discipline and accountability in the management of such bodies. The Ministry/Division would refrain from interfering in the day-to-day management of these bodies and should limit its control within the ambit of the law;

(ii) the administrative Ministry would scrupulously respect the operational freedom of the corporations, autonomous and semi-autonomous bodies, by abstaining from directly dealing with any functional matter; and

(iii) a system should be developed for ensuring accountability in the management of the public corporations and enterprises without, at the same time, putting undue constraints upon their operational freedom.

III. PRIVATIZATION POLICY: 1972-82

March 1972 — August 1973

The nationalization policy of 1972 did not clearly define the role of the private sector except by implication. It specifically excluded private enterprises from the jute, textile and sugar industries, the raw jute export trade, and banking and insurance. After a lot of discussions, the Government recognized that a limited private sector could play an important role within a planned framework. However, the role of the private sector was restricted to small-sized industry. The main features of the private investment policy as envisaged by the Government in 1972 were as follows:

(i) private enterprises would be allowed to grow up to a size of Tk 2.5m in terms of assets and up to Tk 3.5m with reinvested profits;

(ii) there would be a moratorium on nationalization for ten years for existing units of up to Tk 2.5m;

(iii) industrial enterprises which were continuously incurring losses or were under-utilizing installed capacity due to mismanagement would be nationalized; and

(iv) preference for new industries would be given in areas where few or no industries were located.

Foreign investment policy was designed to give incentives to operate and invest where they were most needed, especially in the areas of technological know-how. However, they were to be subject to the discipline of a socialist economic system. The salient features, inter alia, of the policy then envisaged for foreign private investment were:

(i) foreign investment would be allowed only in collaboration with the Government which would have 51 per cent of the equity;

(ii) foreign collaborators would provide the foreign exchange component of the projects and, if this exceeded 49 per cent of the equity, excess foreign exchange would be provided by the foreign investors through loans on negotiated terms and conditions;

(iii) remittances would be allowed of 50 per cent of the net salary of foreign nationals subject to a maximum of £150 per month per individual, and also of retirement and termination benefits;

(iv) there would be no nationalization for ten years and, in the event of nationalization after ten years, compensation would be paid on a fair and equitable basis;

(v) sterling tea estates would remain in the foreign private sector; and

(vi) foreign collaboration in the private sector would be confined to licenses and patents, but without equity participation.

August 1973 — December 1975

The industrial investment policy envisaged in 1972 continued until August 1973. Thereafter, it was reviewed. The revised policy gave greater scope to private entrepreneurs in order to enable them to mobilize internal resources for rapid industrialization. But industries of basic and strategic importance, or in the nature of public utility services, would remain exclusively in the public sector. Emphasis was also given to labor-intensive industries for creating employment opportunities and producing essential commodities within the country. Some industries were reserved for the public sector (see Appendix 1). All other industries not so reserved were open to the private sector. The previous ceiling on investment in the private sector was raised from Tk 3.5m to Tk 30m, in view of the large increases in the cost of land, property and capital machinery necessary for setting up any sizeable industry.

Foreign private investment was allowed in collaboration with both the Government and local private entrepreneurs. Foreign participation, both in equity and management, was allowed in projects where the technology involved was complicated, capital outlay was high and also in industries which were based on local raw materials and export-oriented. Foreign collaborators would generally provide the foreign exchange component of the project as equity. Remittance and repatriation of capital, capital gains, and accumulated profit were allowed as before. Allowed remittance of the salaries of foreign nationals was further increased from £150 to £200 per month per individual. The period of moratorium on nationalization was increased from 10 to 15 years. Almost all the multinational companies had lost their juristic personality on independence as they had been located in West Pakistan. After their registration in Bangladesh under the Companies Act, the title, rights and interests of foreign equity shareholders were restituted during 1972-74. The total paid-up equity investment of 19 multinational companies was Tk 422m.

December 1975 — May 1982

The industrial investment policy was again reviewed in the light of experience, the higher cost of investment, the galloping inflation following the oil price hike, and the inadequate response from the private sector. With a view to accelerating investment in the private sector, the Government announced an industrial investment policy in December 1975 which continued until May 1982. Under this policy, private entrepreneurs were accorded adequate scope and facilities for investment, and efforts were made to improve efficiency in the public sector. The main features of the December 1975 investment policy were:

(i) the ceiling on investment in the private sector was further raised from Tk 30m to Tk 100m. (In September 1978, this ceiling was abandoned, though investment proposals above Tk 100m would need the approval of the Executive Committee of the National Economic Council (ECNEC));

(ii) the number of industrial sectors reserved for the public sector was reduced to eight and ten sectors were put on the concurrent list;

(iii) rather than there being a restricted time period during which assets would be exempt from nationalization (as in the earlier investment policy), there would be no nationalization (subject to a qualification below);

(iv) industrial finance bodies were allowed to participate in or provide equity and loan capital to private sector industries;

(v) the stock exchange, which had remained closed during 1972-75 because all the industries listed before liberation had been either nationalized and/or abandoned, was reactivated to mobilize and channel private savings into industrial investment;

(vi) the Investment Corporation of Bangladesh (ICB) was set up in 1976 in order to provide bridging finance and underwriting facilities to private entrepreneurs;

(vii) with a view to bringing unutilized funds into productive use and to facilitate the purchase of divested abandoned enterprises, it was allowed that those who disclosed unutilized funds could use them for new investment or to purchase abandoned enterprises without any questioning by the Government; and

(viii) industrial enterprises which had been taken over as abandoned units and placed under various public sector agencies for management should be divested to private entrepreneurs.

In the light of the Government policy of divestment of specialized textile and jute mills, a number of such abandoned nationalized units were returned to their former Bangladeshi owners or sold in the absence of such owners. In compliance with this decision, all the six jute yarn mills were returned or divested. This provided a great encouragement to entrepreneurs, so much so that by the middle of 1983, 39 new jute yarn mills were sanctioned with a total capacity of 82,000 tons. Of these, 29 units have gone into production with a capacity of 69,500 tons.

In order to promote and protect foreign private investment, the Foreign Private Investment (Promotion and Protection) Act was passed in 1980. This accorded fair and equitable treatment to foreign private investment which would enjoy full protection and security in Bangladesh. Foreign investors would enjoy no less favorable treatment than that accorded to private investment by citizens of Bangladesh. Foreign private investment would not be expropriated or nationalized except for a public purpose against expeditious payment of adequate compensation which would be freely transferable. Repatriation of capital returns including retained earnings would be granted, except for deferment in circumstances of exceptional financial and economic difficulties.

IV. PRIVATIZATION SINCE JUNE 1982

The New Industrial Policy

The present Government, after coming to power in March 1982, reviewed the performance of the public corporations. It decided to make a major break with the past because of the inherent problems of bureaucratic control, the lack of proper accountability, the contradiction between social justice and commercial considerations, and the financial constraints from which many of the enterprises were continuously suffering. In order 'to provide a new dimension and greater thrust to the industrialization of the country', the New Industrial Policy (NIP) was announced on 1 June 1982. The main objectives of NIP were to expand the private manufacturing sector and to limit the role of the public sector to the establishment of basic, heavy and strategic industries. The sectors of industries have been classified into two lists: the Reserved List (Appendix 2) and the Concurrent List (Appendix 3). The six industries mentioned in the Reserved List are reserved for public sector investment. The Concurrent List covers sectors where both public and private investment can take place. All industries not included in the Reserved List are open to private entrepreneurs who may set up enterprises in collaboration with foreign investors and/or public corporations. In appropriate cases, the management of enterprises with a public majority stake can also be given to private entrepreneurs with minority shareholdings.

A large number of incentives and concessions for investors have been provided for the first time, such as protection against exchange rate fluctuations and notional payments of duty on imported raw materials used by the export-oriented industries. Other important incentives include adequate tariff protection for domestic industries, lower rates of interest (1 per cent less than the normal rate) for industries in less developed areas and export-oriented industries, the exemption of royalty and technical know-how fees from income tax, and excise duty and income tax rebates for additional production and exports.

Over the years, it was found that the public corporations had little time to take up a promotional role to plan for the establishment of new industries as most of their time was taken up in the management of the industries entrusted to them. Further nationalization of industries and the limitation on the role of the private sector did not prove beneficial as the country was denied the resources and the dynamism of the private sector, with the result that industrial progress was greatly retarded. In order to improve the investment climate, the Government, therefore, embarked upon a major divestment process. The public corporations would then have sufficient time to concentrate on planning new industries in areas where the private sector was not coming forward.

In order to achieve the objectives of NIP, the scope of the earlier privatization policy has been further widened in the following directions:

(i) reductions in the size of the public corporations by the divestment of abandoned/vested enterprises in a phased manner, irrespective of their profitability;
(ii) divestment of enterprises established by the corporations with their own resources or Annual Development Plan (ADP) funds where such units are found to be incurring continuous losses or are not able to compete with the private sector;
(iii) the offering for public subscription of up to 49 per cent of the shares in enterprises managed by the public corporations or operated by ICB in order to reactivate the stock market and raise additional equity capital; and
(iv) the return of nationalized jute and textile mills to their former Bangladeshi owners/shareholders in order to improve the investment climate and promote confidence in the minds of prospective entrepreneurs.

The NIP places great reliance on local and foreign private initiatives. Adequate fiscal and other incentives have been provided to private entrepreneurs. Foreign private investment is encouraged, in conjunction with both the public and private sectors, in almost all sectors, particularly the industries indicated in Appendix 4.

In order to encourage the transfer of technical know-how and technology from foreign investors, the Government has identified 84 industries for technical collaboration so as to create new product lines and exports. Payments of royalties and technical know-how, engineering services, and technical assistance fees have been assured. The Foreign Investment Cell has been set up under the direct control of the President and the Chief Martial Law Administrator in order to expedite the process of sanctioning foreign investment. All proposals for foreign investment, both under joint ventures and other forms of collaboration involving the participation of foreign and local investors are received directly in the office of the Minister for Industries or by the Director-General, Ministry of Industries. 'One-stop-service' has been initiated to facilitate the processing of private investment proposals, including those involving loans, and also to afford the necessary guidance to foreign investors, starting from pre-investment counselling to assistance in surmounting post-sanction problems. The investors are thereby relieved of the task of visiting various offices to obtain the necessary sanctions.

With regard to the private sector, NIP has concentrated on the simplification of industrial investment sanctioning procedures and import licensing; the fixing of time-limits for sanctioning and disbursement of loans; the decentralization of sanctioning powers; improvements in the terms of debt-servicing; the categorization of fiscal incentives on the basis of developed and less developed areas; and operational coordination with financing institutions. As has already been discussed, one of the prominent features of NIP was the privatization or divestment of enterprises managed by the various public corporations. There are two categories of such enterprises, namely, nationalized industries and abandoned/vested enterprises.

Nationalized Industries

In order to create a favorable investment climate and establish confidence in the minds of prospective entrepreneurs, the Government decided in principle to return the Bangladeshi-owned jute and textile mills to their previous owners. The *modus operandi* for the return of the units, including verification of the claims of Bangladeshi owners, was to be worked out subsequently. In doing so it would have to be ensured that the sale of jute goods in foreign markets was not adversely affected. For the implementation of this policy, the Government set up a Working Group to work out the details. The first question to be sorted out was identification of the mills formerly owned by Bangladeshis. On the basis of the Working Group's recommendations, the Government accepted the following criteria for such identification:

(i) mills not declared abandoned after 16 December 1971;
(ii) mills in which Bangladeshis held a majority of shares;
(iii) mills in which Bangladeshi promoter-shareholders held less than 50 per cent of the shares but in combination with the shares held by the financial institutions as underwriters were in the majority; and
(iv) mills in which Bangladeshi shareholders were in the minority

but had undertaken management. Shareholders who were holding less than 51 per cent of the shares but who would now like to buy up to 51 per cent in order to take control of management would be allowed to do so, provided their original shareholding had not been less than 30 per cent.

The next step was to negotiate the terms and conditions for the transfer of the mills to the former owners/shareholders. This was a very time-consuming exercise. Initially, the former owners were not willing to shoulder the burden of liabilities incurred between the date of nationalization and the date of transfer. However, after prolonged negotiations and intervention at the level of the minister and the President and the Chief Martial Law Administrator, the former owners agreed to take over all the liabilities along with their existing terms of repayment. The detailed terms and conditions of transfer can be seen in Appendix 5.

Before starting the process of privatization, the Government, under the Nationalisation Order 1972, formed an interim board of directors for each mill comprising between 5 and 9 directors, depending on the size of the enterprise. Their tasks were to verify and determine the title and nationality of the former owners/shareholders and their legal heirs or successors; to take physical inventories of all property, assets and stock-in-trade; to verify the deposit of share money in designated banks; to execute instruments for the transfer of shares; and to hand over the management of mills to new boards of directors elected at extraordinary general meetings of shareholders from amongst the former shareholders under the provisions of the Companies Act 1913. Once all of these tasks were completed, the interim boards of directors were dissolved immediately, after handing over the management of the transferred mills to the new boards. Under these arrangements the Government privatized 33 jute mills accounting for 38 per cent of the total production capacity, and 27 textile mills with 45 per cent of the spinning and 57 per cent of the weaving capacity. The whole process of privatization was completed within a year. The Government has also recently sold four textile mills through sealed tenders.

Abandoned/Vested Industrial Enterprises

Many industries, tiny, small, medium and large, were abandoned after the liberation of Bangladesh, due to the emigration of their owners. Organizationally, they were sole proprietorships, partnerships or joint stock companies. In some cases of partnerships or limited companies, some persons later claimed shares as partners or shareholders. These enterprises therefore had to be categorized as either partly or fully abandoned, in relation to the laws on title and ownership, and the right of preemption.

The processing of the privatization of abandoned enterprises has been made through the following forums:

(i) the Tender Committee (to open and examine the validity of tenders);
(ii) the Scrutiny Committee (to verify the title and nationality of the former shareholders/co-owners);
(iii) the Working Group on Disinvestment (to examine the valuation of the property/assets/shares of fully-abandoned enterprises; to examine the valuations of shares claimed by Bangladeshi former owners, and worked out by independent firms of chartered accountants; and to make recommendations to the Disinvestment Board); and
(iv) the Disinvestment Board (the highest and final decision-making authority in respect of divestment and all important ancilliary matters).

A floor price called the 'National Reserve Price' (NRP) is worked out for each enterprise put on sale by public tender. The NRP is taken as a basis for considering whether to accept the bids made by the prospective buyers. An enterprise is sold at its NRP or at the quoted price of the highest bidder, whichever is the higher, other things being equal. The successful bidder pays the sale price in instalments. Before the documentation for the transfer of an enterprise is complete, the buyer has to make a down payment on the sale price — 25 per cent for an enterprise situated in developed areas (Dhaka, Khulna and Chittagong) and 20 per cent for an enterprise located in less developed areas. The balance remaining is paid in three equal annual instalments for the developed areas and four equal annual instalments for the less developed areas. The payment of instalments begins after a lapse of 24 months from the date of execution of the Deed of Agreement for sale. Interest charged before 1982 on the unpaid sale price has been waived.

V. THE PERFORMANCE OF THE PRIVATIZED SECTOR

The majority of the privatized mills have been back under the managements of their former owners for less than two years and only one full year's performance record is available. The period is therefore too short for a fair assessment and comparison with their performance in the immediate pre-denationalization period when most of the broad loom mills in the jute sector were in any case laid off because of market constraints. The year before the present Government came into power was also marked by continued labor troubles. To make a fair comparison between the public and private sectors, at least four or five years' experience will be required.

However, since the return of the mills to the private sector, a sense of competition between public and private sector mills has been evident. Formerly, in the absence of a competitor, it was difficult for the Government to properly evaluate the performance of the public sector. Now the managers of the public sector mills are conscious of the constant efforts being made by the private managements to improve and increase their efficiency. This consciousness has led to an improvement in the performance of the public sector mills.

Jute Industry

Because of frequent fluctuations in the overseas markets for jute goods since 1972, it is difficult to compare performance of jute mills in their nationalized and denationalized periods. Production in the mills is programmed according to overseas market demand since about 92 per cent of the manufactured goods are exported. However, the one year's performance figures for 27 jute mills for major products show an improvement of about 10 per cent over their previous year's production. The mills suffered a net loss of Tk 114.19m in 1982, but during the year 1983, after privatization, they earned a net profit of Tk 55.23m. Thus, there was an overall increase in return of Tk 169.4m. However, in order to be fair to the public sector, it should be said that 1983 was a good year for the jute industry as a whole, and the public sector mills also did well financially, earning a profit of Tk 101.63m and contributing Tk 50m to the national exchequer. Unfortunately the industry's profitability during the current fiscal year (July 1984-June 1985) will be seriously eroded because the price of raw jute has risen by more than 200 per cent over last year's average price.

Textile Industry

Table 1: Comparison of Textile Mills' Performance

	1982	1983	Increase over 1982
Production			
Yarn (m. lbs.)	34.39	36.80	7.01%
Cloth (m. yards)	25.99	27.48	5.72%
Finances (m. taka)			
Profit/(Loss)	(97.22)	(28.29)	
Overhead expenses	90.39	30.50	

The performance of 23 transferred mills during the first year (1983) of management under their former owners compared to that under public corporations in 1982 is shown in Table 1. Ten mills actually made a profit of Tk 40.06m in 1983. However, the overall performance shows that the profit generated was far from adequate to pay off all the outstanding liabilities.

It may be mentioned that the textile industry is almost wholly dependent on imported raw cotton. The failure of cotton crops in major producing countries in 1983 resulted in high raw material costs in that year. There are also problems of power supply and labor agitation. Nevertheless, there are indications of better performance in future if the necessary inputs including finance are provided, a fair labor-management relationship is maintained and a balancing, modernization and replacement program (BMRE) for sick mills is undertaken.

Problems

At the time of the return of their mills, the managements found to their dismay that the loans taken by them from the Bangladesh Shilpa Bank (BSB) and/or Bangladesh Shilpa Rin Sangstha (BSRS) at the time of setting up the industries had been inflated beyond all imaginable proportions due to successive depreciation of the taka and the conversion of the foreign exchange components of the loans at fluctuating rates of exchange, levy of interest at rates higher than those originally stipulated, and the charging of penal interest. Such heavy and disproportionate liabilities created severe financial problems for the mills. It was the view of the industry that the mills should not be asked to bear the burden of adverse exchange rate fluctuations in cases where BSB and BSRS did not themselves have to bear such a burden. Otherwise, the viability of the units would be seriously affected. It may be pertinent to mention here that the transferred textile mills assumed short-term and long-term loans of about Tk 1,792.99m; long-term loans from the Government (Tk 264.74m), BSB (Tk 90.32m), and BSRS (Tk 29.49m), and short-term loans of Tk 1,408.44m from the Bangladesh Textile Mills Corporation (BTMC), commercial banks and others. Similar liabilities of the 53 transferred jute mills were Tk 3,184.72m, made up of long-term debts of Tk 2,020.31m and short-term liabilities of Tk 1,164 41m. The major long-term creditors were BSB (Tk 280.93m), BSRS (Tk 278.29m), and the Bangladesh Bank (Tk 170.02m). The short-term loans were due to commercial banks, the Bangladesh Jute Mills Corporation (BJMC) and others.

After a careful examination of the problem, the Government introduced the Exchange Rate Fluctuation Burden Absorption Scheme (EFAS) in 1983. The Scheme came into force from 1 July 1983, and it applied to both public and private sector projects. The borrowers were required to exercise their option to join the Scheme by 31 December 1983. The objectives of EFAS were to protect the commercial and financial institutions from the exchange risk on foreign currency term loans, and to provide the existing borrowers of long-term foreign currency loans with relief from the burden of exchange rate fluctuations. For past projects, EFAS provided for working out the net excess exchange risk burden and conversion of a part of the burden into either redeemable preference shares or debentures by the lending institution. Conversion of the excess burden would be 60 per cent, 50 per cent and 30 per cent, respectively, depending on whether the foreign currency loan was fully disbursed on or before 2 January 1972, 15 May 1975 (when there was a major devaluation of the taka), or after 15 May 1975. The remaining overdues and outstanding loans (both principal and interest) would be suitably rescheduled.

A number of borrowers of BSB and BSRS opted for the above scheme but many continued to default on their repayment, thus aggravating the financial position of these institutions. The Government's policy was to ensure recycling of the blocked resources in order to fulfill NIP's objectives. Consequently, on 19 December 1984, the Government modified EFAS to provide additional facilities and opportunities. The major features of the modifications applicable to past loans are:

(i) the excess burden of exchange rate fluctuations will be determined in a straightforward manner as the difference between the taka liability on the due date(s) of repayment and the taka liability on the date(s) of corresponding disbursements of foreign currency loans;

(ii) all financing institutions will follow an identical system of accounting whereby foreign currency loans will be converted, if not cleared in time, into local currency loans at the rate of exchange that prevailed on the due date of payment and interest will be charged at rates applicable to local currency loans on such date or as may be determined by the Government or the Bangladesh Bank from time to time;

(iii) for foreign loans which have been converted into grants by the donors, the outstanding and overdue portions of such loans will be converted into taka loans on the date(s) such conversion was made and interest applicable on local currency loans will be charged from such date(s); and

(iv) to provide incentives to the borrowers to clear their overdues, 10 per cent of the excess exchange burden will be relieved for borrowers who exercise this option by 28 February 1985.

Other benefits under EFAS, namely, the conversion of a portion of the excess burden into preference shares or debentures at 7 per cent interest and the rescheduling facility for the remaining overdues and outstandings, remain unchanged.

Soon after divestment, many of the mills received electricity bills for arrears amounting to millions of takas but relating to the period when the units were in the public sector. The Power Development Board (PDB), responsible for supplying electricity, claimed that this had happened due to faulty meter reading, and the consumption of electricity having not been correctly recorded by its field staff. Similar bills were also received by the mills still retained in the public sector. The Ministry of Jute and Textiles took it up with PDB. After prolonged negotiations, PDB agreed to grant substantial exemptions and reductions. Unsatisfactory power supply, however, continues to adversely affect production in the mills while PDB goes on increasing electricity tariffs every year.

In 1979-80 and 1980-81, when the mills were under the control of the public sector, they contributed large sums to the exchequer out of profits. Now the taxation authority has imposed income tax on the mills, treating the contribution to the exchequer as profit. The Ministry of Jute and Textiles has proposed to the National Board of Revenue that the contributions be treated as payments of income tax or as allowable expenditure for income tax purposes.

The NIP laid down that while working out the *modus operandi* for the return of the jute mills, 'it will have to be ensured that the sale of jute goods in foreign markets is not adversely affected'. This showed the Government's anxiety to protect the overseas markets for jute goods in view of the fact that about 92 per cent of the products are exported. It was one of the agreed terms of transfer of the jute mills that all foreign sales made under barter, tender and sales to government or semi-government agencies should be channelled through BJMC. To give effect to this condition, the Government promulgated the Jute Goods Trading Order 1982. A number of difficulties were faced in practical implementation and the private sector managements considered it a hindrance to their freedom to market their products. The Government rescinded the Order two years after its promulgation. Since textiles have a domestic market, no such clause was inserted in the transfer agreement for textile mills. Several of the mills are operating with age-old machinery. As no BMRE program has been undertaken by these mills, their production capacity has been reduced. As a result, the cost of production has gone up. The Government of Bangladesh is negotiating a credit with the World Bank/International Development Association (IDA) for the purpose of embarking on a BMRE program.

Privatization of Banks and Insurance

Side by side with the privatization of industrial enterprises, the private sector has been allowed to set up commercial banks so that they can play their due role in the country's development. So far, six banks have been set up by private entrepreneurs. There is also foreign participation in three banks. In addition, the Government has returned one commercial bank to the former Bangladeshi shareholders who had taken the initiative before liberation to set up this bank. Another bank in which the locals held a majority of shares is in the process of being divested back to them. The Government has also decided to allow life and general insurance business in the private sector. So far, four insurance companies have been allowed to do general business and two to conduct life business.

VI. FUTURE POLICY

The bold policy pursued by the Government in the privatization of public enterprises has created confidence in the minds of prospective entrepreneurs at home and abroad. This restitution of confidence will be clear from Table 2 figures of sanctions given to the private sector for setting up industries. Out of 611 units sanctioned in 1982-83, there was foreign investment in 18 units to the extent of Tk 224.80m. In 1983-84, the number of such units was 30 with total foreign investment of Tk 227.60m.

Table 2: Industrial Units Sanctioned

Year	No. of units sanctioned/ registered	Total investment sanctioned Tk.m.	No. of units in production	Actual investment Tk.m.
1982-83 (July-June)	611	2,759.70	327	889.30
1983-84 (July-June)	4,159	6,573.60	1,160	1,247.90
Total	4,770	9,333.30	1,487	2,137.20

The policy has had a very healthy impact upon the reactivation of the stock exchange which had been lying almost dormant since independence. Before July 1982, 24 companies were listed on the Dhaka stock exchange. Since the announcement of NIP, 30 more companies have been listed within a period of two and a half years. During 1982-83 (July-June), which was the first year of NIP, only two companies offered shares for public subscription, to the value of Tk 7.0m. The amount of public subscription was only Tk 0.8m, and the balance was subscribed by underwriters.

People's confidence in the Government's policy was shown in 1983-84 (July-June) when five privately owned companies offered shares for public subscription. With the exception of one (where response was to the extent of the offer), the shares of the other four companies were oversubscribed by 34 per cent to 182 per cent. In 1984-85 (July-December 1984 only), five companies including three banks offered shares for public subscription. With the exception of one bank's shares the shares of the other companies were oversubscribed to the extent of 9 per cent to 58 per cent. Thus the value of the shares offered so far since 1 July 1982 has been Tk 325.9m against which the public response has been to the extent of Tk 383.7m or 18 per cent above the total offered.

The divestment policy has brought substantial funds to the national exchequer and provided money for further development work. The Government's burden of subsidies to the divested units has been substantially reduced. There is, however, another side to this coin. The expectation of Government revenue being augmented has not been fulfilled. Most of the new or former owners of the divested units have defaulted on repayments of the outstanding consideration money, Government loans, and loans from the financing institutions. On 30 July 1984, the total payments due from the divested units to BSB and BSRS were Tk 682.6m, against which they paid only Tk 86.5m. The amounts payable by the jute and textile industries were Tk 306.7m and Tk 72.2m, respectively. However, the amounts actually paid were Tk 46.5m and Tk 21.8m. While some of the owners have genuine difficulties in making repayments, many are not paying deliberately. As a result, the two financing institutions BSB and BSRS, have hardly any funds to finance projects in the private sector. It also appears that the Government will have to continue giving incentives to the export-oriented industries, including jute.

The managements of the divested units are also gradually terminating the services of those workers and staff whom they consider redundant or inefficient. They are free to do this for the sake of achieving economy and efficiency but it is creating labor unrest. The working class is demanding a halt to the process of privatization. Even the President and the Chief Martial Law Administrator announced at a public meeting that there would be no further divestment or privatization of public enterprises. This announcement has not yet been put in black and white. However, it appears that the Government will allow the managements of the privatized units a reasonable time to vindicate the wisdom of the policy before embarking upon the next phase on a substantial scale.

APPENDIX 1

INDUSTRIES RESERVED FOR THE PUBLIC SECTOR

(As per the investment policy announced in January 1973)

1. Arms and ammunition and allied defense equipment
2. Atomic energy
3. Jute industry (sacking, hessian and carpet backing)
4. Textiles (excluding handlooms and specialized textiles)
5. Sugar
6. Paper and newsprint
7. Iron and steel (excluding re-rolling mills)
8. Shipbuilding and heavy engineering (including machine tools and assembly/manufacture of cars, buses, trucks, tractors and power tillers)
9. Heavy electrical industry
10. Minerals, oil and gas
11. Cement
12. Petrochemicals (fertilizers, PVC, ethylene and synthetic fibre)
13. Heavy and basic chemicals and basic pharmaceuticals
14. Air transport
15. Shipping (including coastal ships and tankers above 1000 DWT)
16. Telephone, telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)
17. Generation and distribution of electricity
18. Forest extraction (mechanized)

62

APPENDIX 2

RESERVED LIST

(As per the New Industrial Policy, 1 June 1982)

1. Arms and ammunition and allied defense equipment
2. Atomic energy
3. Air transport
4. Telecommunications
5. Generation (excluding stand-by generation) and distribution of electricity (excluding rural electrification by Pali Bidyut Samity)
6. Forest extraction (mechanized)

APPENDIX 3

CONCURRENT LIST

(As per the New Industrial Policy, 1 June 1982)

1. Jute industry (sacking, hessian and carpet backing)
2. Cotton textiles (excluding handlooms, powerlooms and specialized textiles)
3. Sugar
4. Paper and newsprint
5. Iron and steel (excluding re-rolling mills)
6. Shipbuilding and heavy engineering (including machine tools and assembly/manufacture of cars, buses, trucks, tractors and power tillers)
7. Heavy electrical industry
8. Minerals, oil and gas
9. Cement
10. Petrochemicals (fertilizer, PVC, ethylene, methalon, carbon-black, synthetic fibre, etc.)
11. Heavy and basic chemicals and basic pharmaceuticals
12. Shipping
13. Appliances and equipment for telecommunication service

Note: All sectors/industries not included in the Reserved List (Appendix 2) are open to private entrepreneurs.

APPENDIX 4

FOREIGN PARTICIPATION IN JOINT VENTURES

(As per the New Industrial Policy, 1 June 1982)

1. New enterprises, particularly those requiring specific technology available to the foreign investors, which will make an additional net contribution to the economy, including the training of Bangladeshis
2. Undertakings in which more intensive use of natural resources is made
3. Export-oriented industries
4. Capital-intensive technologies, the products of which will be either import substitutes or export-oriented
5. Existing public or private sector enterprises where an injection of foreign capital or technology will mean an increase in productivity and an improvement in the product

APPENDIX 5

TERMS AND CONDITIONS FOR THE PRIVATIZATION OF JUTE AND TEXTILE MILLS

GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH
Ministry of Industries & Commerce
Jute Division
Adamjee Court
115-120, Motijheel Commercial Area, Dacca — 2

No. JD/IC/TJM-1/82/ Dated: 27/9/82

NOTICE

Whereas the following industrial enterprises were Nationalised under the Bangladesh Industrial Enterprises (Nationalisation) Order, 1972 (P.O. 27 of 1972) and all shares in each of these Industrial Enterprises vested in Government;

And whereas the Government has decided to transfer all the shares of the aforesaid industrial enterprises;

Now, therefore, in pursuance of the second proviso to clause (2) of Article 4 of the said Order, the Government is pleased to make an offer to the persons entitled to receive payment of compensation under Article 9 of the said Order to sell, on the terms and conditions specified below, shares of the said industrial enterprises in proportion to their respective shareholdings in such industrial enterprises as on the date of nationalisation.

Names of the Industrial Enterprises:

1. Broad Burlap Industries Ltd.
2. Mohsen Jute Mills Ltd.
3. S.K.M. Jute Mills Ltd.
4. Sultana Jute Mills Ltd.
5. Mashrique Jute Mills Ltd.
6. Dacca Jute Mills Ltd.
7. Allied Jute Mills Ltd.
8. Noapara Jute Mills Ltd.
9. Afil Jute Mills Ltd.
10. Ajax Jute Mills Ltd.
11. Alhaj Jute Mills Ltd.
12. A.R. Howladar Jute Mills Ltd.
13. Alijan Jute Mills Ltd.
14. Co-operative Jute Mills Ltd.

15. Delta Jute Mills Ltd.
16. Kohinoor Jute Mills Ltd.
17. Maqbular Rahman Jute Mills Ltd.
18. Pubali Jute Mills Ltd.
19. Sattar Jute Mills Ltd.
20. W. Rahman Jute Mills Ltd.
21. Anowara Jute Mills Ltd.
22. A.K. Khan Jute Mills Ltd.
23. Aleem Jute Mills Ltd.
24. National Jute Mills Ltd.
25. Star Alkaid Jute Mills Ltd.
26. Sonali Jute Mills Ltd.
27. Ashraf Jute Mills Ltd.
28. Janata Jute Mills Ltd.
29. Quasem Jute Mills Ltd.
30. Gawsia Jute Mills Ltd.

In addition to the above, some more Bangladeshi managed enterprises are under scrutiny for transfer.

Terms and Conditions Under Which the Transfer is Proposed

1. The Bangladeshi shareholders whose names appeared in the share register of the company on the date of nationalisation and are entitled to receive payment of compensation under Article 9 of P.O. 27 of 1972 will be offered such number of shares as were held by them on that date. The price charged for each such share will be the same as worked out at the time of payment of compensation.

2. In cases where the Bangladeshi shareholders held less than 51% of the shares, they will be required to buy additional shares to enable them to acquire controlling shares of 51% or more, before transfer of management can take place. While they will be charged the same price per share as worked out for payment of compensation for the shares held by them on the date of nationalisation, the additional shares will be sold on the basis of revaluation.

3. The former Bangladeshi shareholders will have to pay in cash for the shares held by them on the date of nationalisation and now offered for sale to them. If for any reason some of them cannot pay cash for the entire value of these shares, they will be allowed to pay 51% of the total value of the shares in cash as a lump sum payment and the balance amount will be paid within a period not exceeding 12 months from the date of acceptance of the offer. Such shareholders will furnish adequate guarantee for the unpaid balance.

4. The former Bangladeshi shareholders will be offered to buy all the shares of the company, in addition to those held by them on the date of nationalisation. If some of the shareholders are unable to pay in cash the full value of these additional shares at a time, they will be allowed to pay in cash 10% of the full value of the shares and the balance within a period not exceeding 5 (five) years in 10 (ten) half-yearly instalments. Number of actual shares transferred will correspond to the payments received. If they do not exercise the option, those shares may be sold to other private parties. If sufficient response is not received from private buyers, Government may sell the balance shares to financial institutions like BSB, BSRS, ICB, Insurance Companies, etc. provided that if any of the financing institutions held any shares in the mills prior to nationalisation, then those shares may be transferred to them on the same basis as transfers to the original Bangladeshi shareholders.

5. If after offer of shares mentioned hereinbefore the Government still holds shares in the capital of a company, the Government will have the right to nominate Director(s) in proportion to its shareholding interest in the company.

6. The former Bangladeshi shareholders who will buy shares from the Government, will not be allowed to sell these shares within the period of encumbrancy without prior approval of the Government.

7. If the Bangladeshi shareholders default in discharging their liabilities to the Government, they will be liable to pay on the defaulted instalments a penal interest at 2% (two per cent) above the contracted rate.

8. Before handing over management of the mills, the Government under P.O. 27 will notify the formation of the first Board of Directors of the concerned mills. This Board will be a temporary one and it will function for a period not exceeding one year or till a new Board is elected in accordance with the Articles of Association, whichever is earlier.

9. All assets and liabilities of the companies existing on the date of transfer will continue to be the assets and liabilities of the denationalised companies.

10. The denationalised companies will take over the liabilities to BSB, BSRS, Commercial Banks, foreign creditors, etc. on the same terms and conditions as exist at present between the borrower and the lender.

11. BJMC's loan from Bangladesh Bank and Commercial Banks against Government undertaking or BJMC's debentures utilised for denationalised companies will be passed on to them on the same terms and conditions.

12. Any contract made or understanding arrived at by the mills or on their behalf by the Corporation either for sale or purchase including claims will be honoured by the new management of the denationalised companies.

13. For co-ordination of export sales, a Pricing Committee composed of representatives of BJMC, denationalised companies and Bangladesh Bank will be set up in the proportion 3:2:1.

14. All sales under barter/tender to foreign Government and local sales to Government/Sector Corporation will continue to be negotiated by the BJMC and allocated to the concerned mills on the basis of loomage. Common expenses in connection with such sales (including CBC) and allied functions will be shared proportionately by BJMC and denationalised mills. Details will be worked out by the Pricing Committee.

15. Repayment of Government investments (excluding the amount paid as subsidy) in the Jute Mills proposed for transfer will be the responsibility of the denationalised companies, part of this amount was in the form of capital infusion for equity support which did not carry any interest. These liabilities will be repaid by the companies to the Government in 12 years in respect of composite mills and 15 years in respect of broad loom units, the rate of interest remaining the same as at the time of initial investment by the Government.

16. In order to give relief to these mills under the new management, a moratorium on the repayment of Government investment for a period of 2 years will be given from the date of transfer within the overall repayment period stipulated in para 15 above.

17. The denationalised companies will take over all officers, staff and workers in employment in the enterprises on the date of transfer along with liabilities of service benefits. They will also take over an agreed number of officers and staff from BJMC Head Office and Zonal Offices, likely to be declared surplus after transfer of these mills to denationalised companies. There will be no termination or retrenchment for one year from the date of transfer.

18. If the company —

(i) presently defaults in discharging its liabilities to the Government, Krishi Bank, Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha, Commercial Banks and foreign creditors in accordance with the terms and conditions of the agreements with them as adopted by the company; or

(ii) does not faithfully and diligently discharge its liabilities in respect of the loans of Bangladesh Jute Mills Corporation taken from Bangladesh Bank and Commercial Banks against Government undertakings and now adopted by the company as its own liabilities; or

(iii) does not observe and perform the terms and conditions of finances obtained by debentures issued by Bangladesh Jute Mills Corporation and utilized by the Company and now passed on to the company for observance and performance; or

(iv) does not operate the Mills for any reason which is not beyond its control;

the Government will have the right to intervene in the affairs of the Company.

Applications (in duplicate) in the following form, from persons willing to buy the shares must reach within 21 days of the publication of this notice to Joint Secretary-In-Charge of the Implementation Cell for transfer of Jute Mills, Jute Division, Adamjee Court, Motijheel Commercial Area, Dacca.

212

FORM OF APPLICATION FOR SHARES OF
____________________ LIMITED
(Name of the Jute Mills)

1. Name of the applicant :
2. Present address of the applicant :
3. Permanent address of the applicant :
4. Citizenship of the applicant (Documentary proof in support of Bangladeshi citizenship to be enclosed) :
5. Total number of shares issued, subscribed and paid up :
6. Number of shares applied for :
7. Total number of shares originally held :
8. Distinctive numbers of such shares :
9. Face value and paid-up value of each share :
10. Present status of the shares —

    (a) Whether in the possession of the applicant or deposited with the "Compensation Cell" of the Ministry of Industries & Commerce:

    (b) If placed as security with any Bank or Financial Institution as Collateral, names thereof:

11. Whether any compensation under Article 9 of P.O. 27 of 1972 has been received for the shares, if so, state total amount:
12. Whether shares claimed as heirs/successors of original shareholders (if succession certificate obtained, attested copy to be enclosed).

I ________________________ do hereby declare that the par-
(Name of the applicant)
ticulars furnished in the application are correct and for any incorrect particulars, it shall stand cancelled. I further declare that I shall abide by the terms and conditions of the transfer of shares prescribed by the Government.

____
(Signature of the applicant)

By Order of the
Chief Martial Law Administrator

(M.A. Waheed)
Joint Secretary

APPENDIX 2

Industrial Policy, 1986
Industrial Investment Schedule

For
Third Five Year Plan (1985-90)

For

Private Sector
Large and Medium Industries
Small and Cottage Industries

INDUSTRIAL INVESTMENT SCHEDULE
FOR
THIRD FIVE YEAR PLAN (1985-90)
FOR
PRIVATE SECTOR
(LARGE AND MEDIUM INDUSTRIES)

MINISTRY OF INDUSTRIES
(DEPARTMENT OF INDUSTRIES)

15

FOREWORD

In order to accelerate the pace of growth of industries, Government in July, 1986 announced the Industrial Policy— 1986 for the Third Five Year Plan Period. The objectives of the Industrial Policy are :-

- (i) to increase contribution of the industrial sector to GDP and resources augmentation ;
- (ii) to effect growth of industries with increased emphasis on PRIVATE SECTOR Participation ;
- (iii) to lay emphasis on small, cottage and handloom industries as a priority sector ;
- (iv) to encourage investment from assembly to intermediate and basic manufacturing ;
- (v) to limit role of the public sector to the establishment of strategic and heavy industries ;
- (vi) to promote agro-based and agro-supportive industries ;
- (vii) to ensure continual increase of production of essential consumer goods at competitive prices ;
- (viii) to create employment opportunities, especially in the rural areas ;
- (ix) to promote efficient import-substituting, export-oriented and export-linkage industries ;
- (x) to encourage geographical dispersal of industries ;
- (xi) to promote development of indigenous raw material technology-based industry through research and adoption ;
- (xii) to support efforts to achieve self-sufficiency in clothing by 1990 ;
- (xiii) to encourage FOREIGN INVESTMENT in appropriate sectors and particularly in high technology, export-oriented and labour-intensive industries ;
- (xiv to encourage Bangladeshi ventures abroad in areas having competitive advantages ; and
- (xv) to encourage tourism.

2. The scope for private investment has been widened by limiting the public sector investment to the following sectors, called Reserved List :—

- (i) Arms, Ammunition and sensitive defence equipment ;
- (ii) Generation (excluding standby/captive generation), transmission and distribution of electricity ;
- (iii) Forest plantation and mechanised extraction within the bounds of reserved forests ;
- (iv) Telecommunications (excluding distribution and services) ;
- (v) Air transport (excluding cargo) and railways ;
- (vi) Atomic energy ; and
- (vii) Security Printing (currency note) and minting.

Public sector may, however, invest in those sectors either by themselves or in joint collaboration with the private entrepreneurs, where private investment is not forthcoming, and the Industries, so set up, may be transferred to the private sector in due course.

3. Private investment is open to the areas except those in the Reserved List. Two separate Industrial Investment Schedules for 1985-90 one for large and medium industries and the other for small and cottage industries, cover the areas for private investment. The Schedule for large and medium industries includes 11 (eleven) major groups of industries covering as many as 96 (ninety six) sub-sectors. **The Schedule which is indicative only, will guide the private investment. It will not be a regulatory instrument.**

4. The most important feature of the Schedule is that no capital outlay has been provided. Considering the installed capacity and the capacity under implementation, additional capacity to be developed, where needed, has been indicated. But this is not rigid at all, specially if a project is financed from the entrepreneurs' own resources. Financing institutions may finance in various sectors with due deference to the priority areas as indicated at Appendix-A of Industrial Policy- 1986 after such appraisal as they are required to make within the prescribed time period.

5. The Industrial Policy- 1986 emphasises rural industrialization by development of small and cottage industries. The following sub-sector where investments were so long being made under Industrial Investment Schedule of the Department of Industries, have been transferred to the exclusive sectors for sanction/registration under the Schedule of Bangladesh Small and Cottage Industries Corporation (BSCIC) :-

1. Governm[illegible]

Investo[illegible]

Foreign inves[illegible]

(i) Processing, Canning and Preservation of Fruits and Vegetables ;
(ii) Wheat and Grain Milling ;
(iii) Rice Mills ;
(iv) Misc. Food Preparations ;
(v) Handlooms ;
(vi) Hosiery and other Knitted Goods ;
(vii) Spooling and Thread Ball Manufacturing ;
(viii) Sericulture, Reeling and Filature including Ericulture ;
(ix) Industries based on Textile Wastes ;
(x) Jute Baling ;
(xi) Misc. Rubber Products ;
(xii) Petroleum Products (Alkatra, Lubricants, Grease and other) ;
(xiii) Glue, Gum and Resin ;
(xiv) Cast Iron Foundry ;
(xv) Stainless Steel Cutlery and Electroplating ;
(xvi) Gas Appliances ;
(xvii) Wood-Screw, Machine Screw, Roofing Screw, Bolts, Nuts, Washers, etc ;
(xviii) Aluminium Utensils, Enamelled Wares, Domestic Hardwares, etc ;
(xix) Hurricane Lantern, Pressure Lamps, Stoves, Torches, Gas Lamps ;
(xx) Light Engineering Workshop ;
(xxi) Pen, Pencils & other Office Stationery and Artists' Materials.
(xxii) Industries based on Slaughter House wastes including recovery of Tallow.

addition, each sub-sector of this Schedule covers manufacture of a number of items. There are some items der some sub-sectors, manufacture of which involves small investment. Projects for such items will be clusively sanctioned / registered under BSCIC Schedule.

,Projects under the following sub-sectors, called Common Sectors, will be sanctioned / registered under both e Schedules depending upon the size of investment :—

(i) Cold Storage ;
(ii) Packing Board
(iii) Poultry Farming and Poultry Products ;
(iv) Biscuit & Bakery (Mechanised) ;
(v) Specialised Textiles (Cotton Group) ;
(vi) Specialised Textiles (Synthetic Group) ;
(vii) Weaving, Ordinary Powerlooms ;
(viii) Readymade Garments ;
(ix) Paper Converting and Packaging ;
(x) Printing and Publishing ;
(xi) Footwear (Mechanised) ;
(xii) Disinfectants, Insecticides, Pesticides, Fungicides, Fumigants and Herbicides ;
(xiii) Paints, Varnishes, Lacquers, Polishes, and other Protective Coatings (All Types) ;
(xiv) Ink, all sorts ;
(xv) Perfumes, Cosmetics and other Toilet Preparations ;
(xvi) Essential Oil including Essence ;
(xvii) Plastic Products ;
(xviii) Industrial Chemicals ;
(xix) Agricultural Machinery, Tools and Equipments ;
(xx) Textile and Jute Mill Machinery Parts and Accessories ;
(xxi) Hand & Small Tools ;
(xxii) Metal Containers ;
(xxiii) Misc. Machinery and Equipments ;
(xxiv) Electrical Appliances, Accessories & Fittings ;
(xxv) Scientific and Precision Instruments ; and
(xxvi) Live-Stock and Poultry Feed

The Projects under the Common Sectors involving investment upto Tk.15.000 million will be sanctioned / registered under the BSCIC Schedule. If the investment exceeds Tk.15.000 million, the projects will be sanctioned / registered under the Schedule for large and medium industries.

7. To accelerate the pace of development of industries in the Less and Least Developed Areas, dispersal of industries away from the Developed Area is necessary. Government will provide fiscal incentives and develop infrastructural facilities for the Less and Least Developed Areas. Dispersal, where necessary, has been mentioned in the Schedule for guidance of financial institutions.

8. One of the objectives of the Industrial Policy-1986 is to encourage manufacture instead of simple assembly. Progressive manufacture, wherever necessary, has also been mentioned in the Schedule. Entrepreneurs may get the supplies of parts and components on sub-contracting basis for progressive manufacture or they may manufacture such parts and components in their own plants. But linkage with outside industries, wherever possible, will be encouraged.

9. The following industries will be discouraged for sanction / registration due to over-saturation or under-utilization of the existing capacity :-

(i) Automatic Rice Mills ;
(ii) Cigarettes ;
(iii) Cold Storage ;
(iv) Distillery ;
(v) Edible Oil, Refining and Hydrogenation ;
(vi) Jute Yarn and Twine ;
(vii) Sugar Mills ;
(viii) Jute Carpets ;
(ix) Wooden Tea Chests ;
(x) Tannery (For wet blue) ;
(xi) Safety Matches.

However, the industries in this list, termed **Discouraged List**, may be considered for sanction by the Government for Less and Least Developed Areas if localized demand or specific localised advantages are established. Sanction of industries in the Discouraged List, which will be reviewed from time to time, will require the approval of the Investment Board.

10. Government have simplified the sanctioning procedures. No formal permission of the Government will be required for setting up of industries with own finance outside the Reserved List and the Discouraged List, provided the entrepreneurs import machinery under SEM (Secondary Exchange Market), Supplier's Credit (Subject to the clearance by the Hard Term Loans Committee), Pay-As-You-Earn scheme and Non-repatriable Foreign Exchange. Entrepreneurs, after import of machinery or after opening of Letter of Credit for import of machinery or after procurement of machinery from local sources, shall apply in prescribed form to the Department of Industries or to the Department of Textiles or to the BSCIC, as the case may be, for registration. After registration, the entrepreneurs shall apply with copies of Letter of Credit, Bill of Lading and Invoices to (a) the Director General of Industries / Deputy Director General of Industries of the concerned Division, (b) the Director, Department of Textiles and (c) the Chairman, BSCIC for certificates for concessionary rate of import duty on machinery for large and medium industries, textile industries, and small and cottage industries respectively.

If the entrepreneurs desire to import machinery under Supplier's Credit, the terms of credit will have to be approved by the Hard Term Loans Committee before L.C. is opened. For import of machinery under PAYE Scheme, the entrepreneurs will have to obtain clearance from the Exchange Control Department of Bangladesh Bank. For setting up of Pharmaceutical factories, the entrepreneurs will have to submit their project profile to the Drug Administration in accordance with the prescribed guide-lines. Proforma for the project profile alongwith the guide-lines will be available from the office of the Director, Drug Administration. The entrepreneurs shall open L.C. for machinery after obtaining clearance from the Drug Administration.

11. Government will welcome foreign investment in Joint Venture projects and the interest of the foreign investors will continue to be protected by the Foreign Private Investment (Promotion and Protection) Act-1980. Foreign investment will be encouraged in the following Areas :-

(i) Export-oriented industries ;
(ii) Industries in the Export Processing Zone ;
(iii) High Technology products that will be either efficient import-substitute or export-oriented ;
(iv) Undertakings in which more diversified use of natural resources is made ;
(v) Existing public sector enterprises for increasing productivity and / or improving quality of products.

The following is the indicative list of industries in which foreign investment will be encouraged :-

(i) Soda Ash ;
(ii) Manufacture of Polyester staple Fibres ;
(iii) Methanol ;
(iv) Phosphogypsum Processing ;
(v) Caustic Soda ;
(vi) Beneficiation of Sand and Clay for Glass and Ceramics ;
(vii) Sheet and Plate Glass ;
(viii) Industries based on Natural Gas, Such as Plastic Compounds, Synthetic Fibre, Fertilizer, etc.
(ix) Dyes, Pigments and Colour (Basic manufacture) ;
(x) Gelatine and Gelatine Capsules ;
(xi) Pharmaceutical Chemicals ;
(xii) Leather Goods for export only ;
(xiii) Chemicals for Tanneries ;
(xiv) Manufacture of basic Pesticides ;
(xv) Manufacture of furfural for export
(xvi) Glue, Gum and Resin (special type) ;
(xvii) Hand and Small Tools ;
(xviii) Disposable Needles and Syrings ;
(xix) L.P.G. Cylinder ;
(xx) Capital Machinery and Equipments ;
(xxi) Optical Lenses, Prism, Microscope, etc ;
(xxii) Scientific and Precision Instruments and Laboratory Equipment.
(xxiii) Surgical, Medical and Dental Instruments and Equipment ;
(xxiv) Basic Electronic Components ;
(xxv) Office Equipments, such as, Type Writer, Duplicating Machine, Photocopier, Calculator, etc.
(xxvi) Wooden Furniture for export ;
(xxvii) Textile Spinning, Weaving and Finishing (composite Mill) —All types of T.C. and blended Fabrics to feed the export-oriented Readymade Garments industries.
(xxviii) Specialised Textile, Cotton and Synthetic Group for spares (All types i.e. Chiffon, Georgette, crap, etc.)
(xxix) All types of woven and printed labels, interlining pile, or channile fabrics, prices and washing instructions, etc.
(xxx) Fruits and Vegetable processing and Canning
(xxxi) Dairy Farming and Dairy Products ;
(xxxii) Shrimp Hatcheries ;
(xxxiii) Processed Potatoes for export ;
(xxxiv) Fish Meal and Fish Oil ;
(xxxv) Sports Goods ;
(xxxvi) Any other industry requiring transfer of technology or for export only.

12. Entrepreneurs desirous of setting up of projects with foreign currency and local loan will submit their applications to the Development Financing Institutions, namely, Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangstha and Bangladesh Krishi Bank or to the Commercial Banks. The Financing institutions will sanction the projects within their delegated authority. The projects which involve investment exceeding their prescribed Limits but not exceeding Tk.300.000 million and the projects requiring imported raw materials more than 50% of the total requirement, will be referred to the Investment Board for approval. All Joint Venture projects and projects involving investment of Tk.300.000 million or above will require the approval of the Standing Committee of the National Committee for Industrial Development.

13. Sanction limits of the sanctioning agencies have been extended and further decentralized. They have been given the authority to sanction the projects in the following manner :-

1. Standing Committee of the National Committee for Industrial Development.	(a) All projects (outside EPZ) involving foreign investments. (b) Projects involving investment of Tk.300.000 million or above.
2. Investment Board	Projects above financial powers of other sanctioning agencies but below Tk.300.000 million and all projects requiring imported raw-materials more than 50% of the total requirements.
3. Department of Industries	(a) Head Office-Projects involving investment upto Tk.30.000 million. (b) Divisional Office: Projects involving investment upto Tk. 2,500 million. (Only in respect of Discouraged List subject to approval of the Investment Board).
4. Development Financing Institutions (BSB, BSRS, BKB, IPDC & SABINCO)	(a) Board :Projects upto Tk.60.000 million and Regional Offices : Projects upto Tk.2.500 million, provided that the projects with imported raw materials content more than 50% in value will be referred to the Investment Board.
5. Bangladesh Small and Cottage Industries Corporation.	(a) Projects upto Tk.15.000 million. (b) District Industrial Centres in conjunction with the branch offices of the Banks will sanction projects upto Tk.1.000 million.
6. Commercial Banks	Head Office of the banks to sanction project upto Tk.30.000 million. Projects with imported raw materials content more than 50% will be referred to the Investment Board.
7. BEPZA	All projects involving local or foreign investment and located in EPZ.

Cost escalation upto 10% may be sanctioned by the respective sanctioning agencies.

14. Department of Industries will act as the secretariat of the Investment Board. All investment proposals requiring the approval of the Investment Board shall be sent to the Director General of Industries with the feasibility study reports. The proposals will be placed before the Investment Board with the recommendation of its Sub-Committee of which the Secretary, Ministry of Industries, is the Convenor.

15. Department of Industries will monitor all industrial sanctions / registrations issued by the sanctioning agencies. Immediately after the sanctions / registrations are issued, copies of the sanction / registration letters shall be endorsed to the Department of Industries. All the sanctioning agencies shall also send to the Department of Industries consolidated weekly and quarterly statements of sanction / registration which will be further consolidated by that Department for circulation to all the sanctioning agencies.

In the case of small and cottage industries, the concerned sanctioning agencies shall inform BSCIC immediately after the sanctions / registrations are issued. BSCIC in its turn will consolidate the information and report to the Department of Industries at the earliest.

16. Investment sanction procedures have been greately simplified to encourage prospective and existing entrepreneurs. Incentives have been made more attractive than what were before. Concerned agencies will create infrastructural facilities, particularly in the Less and Least Developed Areas. The Government believes that the entrepreneurs will play a positive role in industrialisation of the country thereby achieving the objectives of the Industrial Policy - 1986 during the plan period.

Dhaka,
December, 1986.

(ANISUR RAHMAN)
Director General
Department of Industries

CONTENTS.

INVESTMENT SCHEDULE FOR SMALL INDUSTRIES 1985-90

MINISTRY OF INDUSTRIES
BANGLADESH SMALL & COTTAGE INDUSTRIES CORPORATION
137-138, MOTIJHEEL COMMERCIAL AREA, DHAKA-2.

FOREWORD

Alleviation of poverty through higher production and employment generation is the prime objective of the Third Five Year Plan (TFYP) document. In order to achieve this objective Govt. has recognized the industrial development side by side with agriculture as an important effective tool. The Industrial Policy, 1986 has rightly manifested the commitment of the Govt. for an accelerated growth of an industrial structure with more spontaneous participation of private sector. The Small and Cottage Industry (SCI) sector has been given its appropriate place in the Industrial Policy, 1986 through declaration of the sector as a "Priority sector" in order to provide adequate resource allocation and priority treatment for its emancipation. The salient features of the Industrial Policy, 1986 in respect of SCI sector are:

- Declaration of the sector as a "Priority sector";
- Opening separate window in the financial institutions and commercial banks for financing small and cottage industries;
- Setting apart a definite percentage of resources by the financial institutions and banks for the SCI sector ;
- Debt-equity ratio of 80:20 to provide support to small entrepreneurs;
- Provision for setting up a small entrepreneur's credit guarantee scheme under joint sponsorship of BSCIC and Sadharan Bima Corporation;
- Income tax rebate in less and least developed areas linked to production;
- Allocation of fund for sick small industries and for supporting subcontracting;
- Irrespective of debt-equity ratio and areas, the rate of interest will be 10%.

Apart from the above the SCI sector has been provided special incentives and other benefits like tax holiday, reduction of import duty on machinery and equipments for setting up new industry and for BMRE to 2.5% advalorem for the SCI in less and least developed areas and also in BSCIC Industrial Estate, and exemption of income tax for all income arising from export of handicrafts. The Industrial Policy, 1986 has thus defined the Govt. commitments without any ambiguity and help create a congenial condition for fostering the growth of the SCI sector which aims at increase of production and harnessing natural resources and thereby increase its contribution to GDP and creation of gainful employment on continuous basis.

Bangladesh Small and Cottage Industries Corporation (BSCIC) being the prime-mover organization in the public sector entrusted with the responsibility of promotion and development of small and cottage industries in the country is one of the major implementing agencies of the Industrial Policy. In order to translate the policy into action and help the beneficiaries, BSCIC interalia has published this Investment Schedule for Small Industry (ISSI), keeping in view the objectives and strategies of TFYP vis-a-vis Industrial Policy. ISSI contains a "Priority List" of industries for promotion during the TFYP period and a "discourage list of industries" to warn the potential investors/financial institutions against investment in such sectors for non-viability and over subscription.

BSCIC has published industrial profile Vol. I and Vol. II containing information about one hundred industrial enterprises and more such profile will be made public in due course of time. Marketing reports on some selected products are available. Simultaneously marketing research is continuously persued.

No formal permission of the Govt. will be required to set up industry with own resources. However, the entrepreneurs / financial institutions shall be required to seek permission from BSCIC for setting up of small industries in the discouraged list . Projects having raw materials content of more than 50% in value shall be referred to the Investment Board if not financed from own resources.The SCI entrepreneurs will register their industrial enterprises with BSCIC for availing of the Govt. inputs and regular post investment counselling including consultancy services of BSCIC.

BSCIC will also act as the co-ordinating agency for promotion and development of small industry. All sanctioning agencies will send to the BSCIC monthly report regarding approval of small industrial units. The BSCIC will make periodic evaluation of sanction, monitor progress of implementation thereof and submit evaluative reports to the Department of Industries. We consider that this Investment Schedule for Small Industry (ISSI) will be helpful for the entrepreneurs to help accelerate industrial development in the country and generate employment and income as envisaged in TFYP.

(Mushfequr Rahman)
Chairman,
Bangladesh Small & Cottage
Industries Corporation

INDICATIVE PRIORITY LIST OF INDUSTRIES

SECTORS :

A. Agro-based Industries :

i) Dairy Farming and Dairy Products excluding Ice Cream.
ii) Packet Tea for Export.
iii) Fish Meal, Frog Oil and Frog Pituitaries for Export.
iv) Cattle, Poultry and Fish Feed.
v) Processing and Canning of Agricultural Products.

B. Textile Industries:

i) Textille Spinning.
ii) Specialised Textile (cotton)
iii) Specialised Textile (synthetic)
iv) Manufacture of Synthetic Staple Fibre and Filament Yarn.
v) Textile Finishing.
vi) Industry based on Textile Waste and Jute Waste.

C. Tannery, Leather and Rubber Products:

i) Finished Leather.
ii) Tyres and Tubes for Automobiles and 2/3 Wheelers including Retreading thereof.
iii) Industry based on Scrap Leather.
iv) Belting of all Sorts.
v) Export Oriented Leather Products.

D. Chemicals, Pharmaceuticals and Allied Industries:

i) Drug and Pharmaceuticals including Veterinary Medicines for Intermediate/ Basic Manufacture.
ii) Dyes, Pigment and Colour (except formulation)
iii) Soda Ash.
iv) Other Industrial Chemical (ferrous sulphate, manganese di-oxide, zinc sulphate, nickel sulphate, acetic and anhydrid etc.)
v) Caustic Soda.
vi) Petrochemicals based on Natural Gas.
vii) Fertilizer (for exportr only)
viii) Electric Blulb Shell.
ix) Sheet Glass.
x) Sensitised Film.
xi) Pen, Pencils, Ball Point Pen and its Refill.
xii) Cement.

E. Engineering Industries:

i) Agricultural Machinery, Tools and Equipments.
ii) Jute and Textile Mills Machinery and Spares.
iii) Hand Tools.

iv) Bicycle Parts including Roller Chain.
v) Electrical Transmission and Distribution Equipment and Structures.
vi) Transport Equipments.
vii) Scientific and Precision Instruments.
viii) L. P. G. Cylinder.
ix) Electric Motors above 20 H. P. and Turbine Pumps.
x) Non-ferrous Metal Foundries (refining and rolling)
xi) Meters.

F. Electric Industries:

i) Radio and T. V. Spare Parts and Components.
ii) Switch Gear, Transformer (above 500 KVA) and its Parts
iii) Meters (except KWH electric meters)
iv) Circuit Breakers, Adaptors, Carbon Resistors, Electronic Calculator etc.
v) Interphase Cables, Printed Circuit Boards/Memory Boards/Power Supply Boards/ Digital Boards/Converter Boards etc.

LIST OF INDUSTRIES WHICH WILL BE DISCOURAGED FOR SANCTION DUE TO OVER CAPACITY OR UNDER UTILISATION OF CAPACITY.

GROUP I : Agro-based Industries.

1. Automatic Rice Mill
2. Cigarettes
3. Cold Storages
4. Deep Sea Trawling
5. Distillery
6. Edible Oil Refining and Hydrogenation
7. Sugar Mills

GROUP II : Specialised Jute Products

8. Jute Yarn and Twine
9. Jute Carpets

GROUP III : Forest Products and Allied Industries.

10. Wooden Tea Chest.

GROUP IV : Tannery, Leather and Rubber Products.

11. Tannery (for wet blue)

GROUP V : Chemicals, Pharmaceuticals and Allied Industries.

12. Safety Matches.

N.B. Provided that industries in this list may be considered for sanction in less/least developed areas if localised demand and specific localised advantage is established.

CONTENTS

SUBCONTRACTING LIST

INVESTMENT SCHEDULE
FOR
COTTAGE INDUSTRIES
1985-90

MINISTRY OF INDUSTRIES
BANGLADESH SMALL & COTTAGE INDUSTRIES CORPORATION
137-138, MOTIJHEEL COMMERCIAL AREA, DHAKA-2.

FOREWORD

Alleviation of poverty through higher production and employment generation is the prime objective of the Third Five Year Plan (TFYP) document. In order to achieve this objective Govt. has recognized the industrial development side by side with agriculture as an important effective tool. The Industrial Policy 1986 has rightly manifested the commitment of the Govt. for an accelerated growth of an industrial structure with more spontaneous participation of private sector. The Small and Cottage Industry (SCI) sector has been given its appropriate place in the Industrial Policy, 1986 through declaration of the sector as a "Priority sector" in order to provide adequate resource allocation and priority treatment for its emancipation. The salient features of the Industrial Policy, 1986 in respect of SCI sector are:

- Declaration of the sector as a "Priority sector";
- Opening separate window in the financial institutions and commercial banks for financing small and cottage Industries;
- Setting apart a definite percentage of resources by the financial institutions and banks for the SCI sector ;
- Debt-equity ratio of 80:20 to provide support to small entrepreneurs;
- Provision for setting up a small entrepreneur's credit guarantee scheme under joint sponsorship of BSCIC and Sadharan Bima Corporation;
- Income tax rebate in less and least developed areas linked to production;
- Allocation of fund for sick small industries and for supporting sub-contracting;
- Irrespective of debt-equity ratio and areas, the rate of interest will be 10%.

Apart from the above the SCI sector has been provided special incentives and other benefits like tax holiday, reduction of import duty on machinery and equipments for setting up new industry and for BMRE to 2.5% advalorem for the SCI in less and least developed areas and also in BSCIC Industrial Estate, and exemption of income tax for all income arising from export of handicrafts. The Industrial Policy, 1986 has thus defined the Govt. commitments without any ambiguity and help create a congenial condition for fostering the growth of the SCI sector which aims at increase of production and harnessing natural resources and thereby increase its contribution to GDP and creation of gainful employment on continuous basis.

Bangladesh Small and Cottage Industries Corporation (BSCIC) being the prime-mover organization in the public sector entrusted with the responsibility of promotion and development of small and cottage industries in the country is one of the major implementing agencies of the Industrial Policy. In order to translate the policy into action and help the beneficiaries, BSCIC interalia has published this Investment Schedule for Cottage Industry (ISCI), keeping in view the objectives and strategies of TFYP vis-a-vis Industrial Policy .

No formal permission of the Govt. will be required to set up industry with own resources. However, the entrepreneurs / financial institutions shall be required to seek permission from BSCIC for setting up of small industries in the discouraged list . Projects having raw materials content of more than 50% in value shall be referred to the Investment Board if not financed from own resources.The SCI entrepreneurs will register their industrial enterprises with BSCIC for availing of the Govt. inputs and regular post investment counselling including consultancy services of BSCIC.

BSCIC will also act as the co-ordinating agency for promotion and development of cottage industry. All sanctioning agencies will send to the BSCIC monthly report regarding approval of cottage industrial units. The BSCIC will make periodic evaluation of sanction, monitor progress of implementation thereof and submit evaluative reports to the Department of Industries. We consider that this Investment Schedule for the Cottage Industry will be helpful for the entrepreneurs to help accelerate industrial development in the country and generate employment and income as envisaged in TFYP.

(Mushfequr Rahman)
Chairman,
Bangladesh Small & Cottage
Industries Corporation.

CONTENTS

APPENDIX 3

Fiscal and Other Incentives

To

Promote Industrial Development

In

Bangladesh

10. FISCAL AND OTHER INCENTIVES

(a) Categories of areas and concessionery rate of duty :

(1) To promote industrial development in the country Tax Holiday has been allowed to the newly established industries for 5 years for developed areas, 7 years for less developed areas, 9 years for least developed areas and 12 years for Special Economic Zone.

(2) An assessee is entitled to accelerated depreciation at the rate of 80% of the actual cost of machinery or plant from the year the unit starts commercial production and @ 20% for the year next following if the industry is set up in a developed area. If the unit is set up in a less developed area, the depreciation shall be 100%. Depreciation allowance can be carried forward to the next year and so on for succeeding years if the unit sustains loss.

(3) Normal depreciation on machinery and plant is allowed @ 15%. In addition to this an extra allowance upto a minimum of 50% normal depreciation for double shift working and 100% of normal depreciation for triple shift working may be allowed in proportion to the number of days during which double or triple shifts are worked.

(4) An investment allownce is allowed at the rate of 20% of the actual cost of the plant and machinery of an industrial undertaking which is entitled to accelerated depreciation in respect of the year in which the industrial undertaking starts commercial production, if the industrial undertaking is set up in a developed area. The investment allowance is allowed at the rate of 25% in place of 20% of the cost of the machinery and plant if the undertaking is set up in a less developed area. Investment allowance is also admissible in respect of inland passenger vessels and fishing trawlers.

(5) The facilities available for setting off of losses and carry forward of losses are also liberal whenever a tax payer sustains any business loss, it is permissible to carry it forward to the following year and set it off against profit and gains in that year.

(6) Exemption from tax on capitl gains arising from sale of buildings or lands if such gains are invested in the acquisition of capital asset i.e. land, machinery plant, furniture etc. of industrial undertaking within a period of 2 (two) years from the date of transfer.

(7) Capital gain arising from transfer of land or building invested towards equity of a new industrial company is exempted from tax.

(8) Capital gain arising out of a process of transformation of a firm into a company, is exempted from tax if the entire capital gains are invested in the equity of the said company.

(9) Dividend on income received by an assessee by other than a company is exempted from tax upto Tk. 15,000.00 in a year irrespective of whether it is distributed by a public or a private company.

(10) Exemption from payment of a tax on Royalty, Technical Know-how and Technical Assistance Fee is allowed.

97

(11) There is relief from double taxation in case of the foreign investors of the countries with whom Bangladesh has agreement to that effect.

(12) Exemption is allowed from taxes on interest accrued on foreign loans under certain conditions provided there is an agreement of avoidance of double taxation with concerned countries.

(13) Certain expenditures viz. expenditure on foreign travel by the employees and their dependants once every two years, expenditure on the training of individual employee at home or abroad, expenditure on scientific, research etc. are allowed for deduction for the purpose of computation of income, profits and gains from business liable to tax under the Income Tax Act.

(14) Concessional rates of import duty are allowed @ 20% ad-valorem (no sales tax) for import of capital machinery for industries to be set up in developed area, 7½% ad-valorem (no sales tax) in less developed area and 2.5% ad-valorem (no sales tax) in the least developed areas. (Appendix-X). Payment of 2.5% import duty on capital machinery is also allowed for export oriented industries (minimum of 70% exports), selected industries using 70% or more indigenous raw materials (AppendixXI) and industries set up in BSCIC Estates— irrespective of locations.

(15) For less and least developed areas, 50% of the effective customs duty is allowed for payment in 2 (two) half yearly equal instalments.

(16) 25% rebate in excise duty is allowed on the additional production for essential and selective industries if such manufacturing units produce more than 100% of their sanctioned capacity.

(b) Incentives for Export-Oriented Industries

(1) Credit facility may be available upto 90% of the value of irrevocable letter of credit from any nationalised Commercial Banks for export.

(2) Income tax rebate is allowed ranging from 20% to 60% of tax attributable to export sales of non-traditional items.

(3) Exemption is allowed from the tax payable on the income, profits and gains of any industry set up in any Export Processing Zone for a period of 5 (five) years beginning with the month in which commercial production commenced.

(4) Exemption is considered for income tax payable on the salaries of a foreign technician in any of the four years immediately preceeding the year in which he arrived in Bangladesh and who is employed in any industry set up in any EPZ of the country.

(5) State recognition may be available in the form of awards and trophies for successful exporters, particularly of non-traditional items.

(6) Facilities under Export Credit Guarantee Scheme are available.

(7) For export-oriented industries, the rate of interest to be charged by the financing institutions is one percent less than that charged for the other industries located in developed areas.

(8) In deserving cases of export-oriented industries Government allocates cash foreign exchange from time to time for the import of capital machineries.

(9) System of notional payment of import duty and sales tax for export industries exists.

(10) Promotion of export of non-traditional items is given greater emphasis. Efforts are made not only to discover such new items but also to devise a package programme of incentives for the existing ones with a view to expanding efforts.

(c) Other Incentives:

(1) The period of repayment of both local and foreign currency loan is 12-15 years depending on the repaying capacity of projects.

(2) The repayment of foreign currency loan starts after 30 months of opening L/C or 18 months after the unit goes into commercial production, whichever is later.

(3) The repayment of local currency loan becomes due after 24 months from the final disbursement or 18 months after the unit goes into production, whichever is later.

(4) Employment of foreign nationals are allowed in the enterprises where their services are essentially required—with the approval of the appropriate authority (DOI). (See procedure of employment of Foreign National at Para vii under chap-3).

(5) Supplier's Credit is allowed on approved terms by the Hard Terms Loan Committee (HTLC) of the Ministry of Finance (Bangladesh Bank).

(6) Pay-As-You-Earn (PAYE) Schemes are approved on merit of the cases.

(7) Fcilities of long term credit from DFIs are available.

(8) No limitation on percentage of Bangladeshi capital in industry where foreign investment is approved.

(9) Tariff protection is provided to the deserving industries.

(10) Provision of liberal debt-equity ratio exists.

APPENDIX 4

Functions of
Bangladesh
Exports Processing Zones Authority
(BEPZA)

17. CHITTAGONG EXPORT PROCESSING ZONE

To boost up exports through setting up of export-oriented industries with special facilities, the Bangladesh Export Processing Zones Authority (BEPZA), an autonomous statutory body, has been created under which the country's first Export Processing Zone has been established at Patenga in the port city of Chittagong, called the Chittagong Export Processing Zone (CEPZ).

The Authority of the CEPZ i.e. BEPZA is heded by a Board of Governors whose Chairman is the President or his nominated Minister. BEPZA is independent of other Govt. Bodies/Agencies for executing their own policy of sanctioning and implementing the investment proposals within each Export Processing Zone through an Executive Board.

The functions of the EPZ Authority are as follows :—

(i) to allot land and building-spaces in a zone to investors on sale, lease or on rent and to allow them to mortgage the allotted lands for raising loan from financial institutions or commercial banks;

(ii) to provide infrastructure facilities, including buildings, utilities and warehouses;

(iii) to process applications for setting up of industries within a Zone and accord sanction in accordance with the guidelines given by the Government from time to time;

(iv) to provide customs bonded facilities in accordance with customs regulations for importation into a zone of building materials for construction purposes and packaging materials, raw materials and intermediate goods for the purpose of processing for exports;

(v) to allow import of raw-materials or semi-processed or other goods required for use in the zone and export of semi-processed, processed or other goods to be specified by the Board in such manner as may be prescribed;

(vi) to assist in transportation of imported raw materials and intermediate goods in bonded condition and export of finished products;

(vii) to provide necessary banking facilities within the zone in consultation with the Bangladesh Bank;

(viii) to establish liaison with the Port, Municipal and other authorities to make arrangements for transportation of imported raw materials and intermediate goods on bonded condition and for export of finished products;

(ix) to sanction employment of foreign nationals in accordance with the guidelines given by the Government from time to time, to posts for which local expertise is not available for efficient running of the industries in a zone.

An open door policy exists for foreign investors who wish to set up export-oriented industries in the Export Processing Zone. Joint Venture involving foreign and local investors or foreign investment with 100% foreign ownership are allowed in the Zone.

CEPZ is only 2.41 km. from the principal seaport, 7.24 km. from the international airport and 5.63 km. from the main business centre of Chittagong. The master-plan of this Zone has been drawn on 266 hectares with provision for future expansion to 405 hectares.

A plan for setting up Export Processing Zone in the port city of Khulna as well as an air based Zone adjacent to Zia International Air Port in the Capital City of Dhaka is also in the process.

Cost of labour in Bangladesh is still one of the cheapest in the world. A large section of professionally qualified technical and skilled manpower having adequate knowledge of English as working language go to foreign countries for employment. They may profitably be utilized by the Zone enterprises which makes the CEPZ a low-cost production base for export of manufactured goods to world market.

Type of Investment :

1. 100% foreign owned.
2. Joint Venture between foreign and Bangladeshi entrepreneurs.
3. 100% Bangladeshis owned.

Type of Industries :

Enterprises manufacturing, processing or assembling for export would be eligible for registration as a zone enterprise. Export industries could be based either on local or imported raw materials. Flexibility would be allowed to entrepreneurs in selecting industrial projects.

Facilities :

Free Imports/Exports :

Imports and exports to and from the Zone are freely allowed.

Land :

Fully developed industrial plots with adequate infrastructure will be leased out to prospective investors. Initial lease of 30 years is renewable. Annual rent US$ 1.00 per sq. metre.

Factory Building and Warehouses :

Standard factory buildings and Warehouses are available for lease to prospective Zone enterprises with rental facilities at the rate of US$ 1.50 per square metre on monthly payment basis, pay as you earn basis or such other arrangement as may be decided.

0 Services of a network of Bangladeshi and foreign banks.
0 Overseas satellite telecommunication network.
0 Direct dialing facilities.
0 Adequate supply of power and water.
0 Administrative Block to house all service offices.
0 Simplified procedures for business transactions.
0 Excellent road, rail, sea and air communications.

Fiscal Incentives :

(a) Zone enterprises are allowed a 5 years tax holiday regardless of the size of investment and number of persons employed. After the expiry of initial 5 years, rebate of 50% on income tax of export sales are allowed.

(b) Exemption of income tax on salary of foreign technicians upto 3 years.

(c) Exemption of income tax on interest on borrowed capital.

(d) Relief from double taxation in case of investors from the countries with whom Bangladesh has agreement to that effect.

(e) For non-resident shareholders, tax on dividend income would be exempted during the period of tax-holiday if the dividend income is re-invested in the same project.

(f) Pioneer promoting type of industries will be allowed 6 to 10 years tax-holiday followed by 50% release in export sales. Pioneer/promotional status will be determined by the Bangladesh Export Processing Zones Authority depending on the type of industries, capital invested, employment generated, technology imported and use of a local raw materials etc.

Credit Facilities from Commercial Banks and Development Financing Institutions to investors in EPZ :

Three nationalised banks namely Janata, Agrani and Sonali Banks have been designated by the Bangladesh Bank to finance 100% Bangladeshi investors in EPZ. In case of joint venture companies financing by these designated Banks has also been allowed in local currency to the extent of the cost of construction of factory building. In addition to this, following financing facilities are available to the investors in EPZ.

(i) 100% foreign owned investors may obtain long term loans and short term working capital facilities from the off-shore banking units.

(ii) In case of joint ventures as well as 100% locally owned industries, short-term working capital facilities may be extended by the Commercial Banks in Bangladesh to the extent of equity share of the local partners/shareholders against acceptable collateral securities.

(iii) Long-term loans may also be given to the joint venture and 100% locally owned industries by the development financing institutions like Bangladesh Shilps Bank (BSB), Bangladesh Shilpa Rin Sangstha (BSRS), Investment Corporation of Bangladesh (ICB) and Bangladesh Krishi Bank (BKB) and commercial Banks against acceptable collateral securities as per usual terms and conditions of the financial institutions.

Service of Off-shore Banking Units :

Both local and foreign banks have been allowed to set up 'Off-shore' banking units in EPZ with authority of maintaining code numbered accounts with a view to mobilising the resources from in and out of the country so that investors can obtain all sorts of easy financing from the 'Off-shore' banking units. These 'Off-shore' banking units may carryout transaction in US Dollar, Pound Sterling, Canadian Dollar, Deutsche Mark, Japanese Yen, Swiss Frank, Dutch Guilder, French Franc, Swedish Kroner and Singapore Dollar. 'Off-shore' banking units are also exempted from payment of income tax on interest payable on foreign currency loans obtained by them from outside Bangladesh. This facility has been extended to 'Off-shore' banking units just to attract foreign funds for the investors in EPZ.

Other facilities :

(a) Remittance of approved royalties and technical fees.
(b) Employment of foreign technicians wherever required.
(c) Freedom from national import policy restrictions.
(d) OPIC's (Overseas Private Investment Corporation) USA insurance and finance programme are operable.
(e) Relocation of existing industries are allowed.
(f) Courtesy services are extended to foreign investors for hotel reservation, transportation, pre-investment counselling etc.
(g) The investors are required to deal with only one organisation in the EPZ Authority for all their requirements. "One Window Service" covering all aspects of sanctions in setting up of industries is rendered by the EPZ authority within six weeks.
(h) Remittance of dividends of non-resident share-holders are allowed.
(i) Foreigners working in the zone have equal rights of a national in all respect and freedom of movement outside the Zone.
(j) Back to back L.C. facility for certain types of industry.
(k) Excellent site security arrangements for the protection of the assets of the Zone and its enterprises.

(List of Industries that can be set up in EPZ—vide Appendix XIII)

APPENDIX 5

Aid to Bangladesh

By

Donor, time period, type, and source

Source: Data in NORAD, 1987 Report

DISBURSEMENTS OF AID TO BANGLADESH
1972-1986
SUMMARY BY DONOR CLASS

($ IN MILLIONS)

	Cumulative, 1972-86			Latest Year 1985-86	
	Total $	Avg. Ann. $	PCT %	Total $	PCT %
Bilateral					
USA	2141	171	15.2	158	11.4
Other	6717	537	47.7	556	40.4
Total	8858	709	62.9	714	51.6
Multilateral					
IDA	2104	168	14.9	285	20.6
Other	2513	201	17.8	378	27.3
Total	4617	369	32.8	663	47.9
Other	615	49	4.4	8	0.6
Total Disbursements	14090	1127	100	1385	100

DISBURSEMENTS OF AID TO BANGLADESH
TOTAL AID 1972-1986

BY TYPE OF AID: FOOD, COMM, PROJ; BY TIME PERIOD

($ IN MILLIONS)

Period	TOTAL Total $	TOTAL Average Annual $	TOTAL PCT %	FOOD Total $	FOOD Average Annual $	FOOD PCT %	COMM Total $	COMM Average Annual $	COMM PCT %	PROJ Total $	PROJ Average Annual $	PROJ PCT %
1972-75	2185	624	100	924	178	42.3	911	260	41.7	351	100	16.1
1975-81	5572	929	100	1362	227	24.4	2252	375	40.4	1956	326	35.1
1981-86	6329	1266	100	1233	247	19.5	2158	432	34.1	2938	588	46.4
Total 1972-86	14086	971	100	3519	243	25.0	5321	367	37.8	5247	362	37.3

COMMITMENTS OF AID TO BANGLADESH
TOTAL 1972-86
BY TIME PERIOD; BY TYPE OF AID: FOOD, COMM, PROJ

($ IN MILLIONS)

	TOTAL			FOOD			COMM.			PROJECT		
	Total $	Average Annual $	PCT %	Total $	Average Annual $	PCT %	Total $	Average Annual $	PCT %	Total $	Average Annual $	PCT %
1972-75	3311	946	100	1047	299	9.0	1186	339	35.8	1080	309	32.6
Rem. Undisbursed	1126		100	123		10.9	276		24.5	728		64.7
1975-81	7306	1218	100	1294	216	17.8	2335	389	32.0	3675	613	50.3
Rem. Undisbursed	2864		100	59		2.1	361		12.6	2444		
1981-86	8909	1782	100	1375	275	15.4	2318	464	26.0	5216	1043	58.5
Rem. Undisbursed	5041		100	209		4.1	510		10.1	4322		85.7
1972-86	19525	1347	100	3717	256	19.0	5841	403	29.9	9968	687	51.1
Rem. Undisbursed	5041		100	209		4.1	510		10.1	4322		85.7

COMMITMENTS OF AID TO BANGLADESH
TOTAL 1972-1986

BY TIME PERIOD; BY TYPE OF AID, FOOD, COMM, PROJ
AND SOURCE OF AID: GRANT, LOAN

($ IN MILLIONS)

		TOTAL		FOOD		COMM.		PROJECT	
		$	%	$	%	$	%	$	%
1972-71	Total	3311	100.0	1047	100.0	1186	100.0	1080	100.0
	Grant	1449	43.8	648	61.9	595	50.2	206	19.1
	Loan	1862	56.2	399	38.1	591	49.8	874	80.9
1975-81	Total	7306	100.0	1297	100.0	2335	100.0	3675	100.0
	Grant	3008	41.2	983	75.8	1062	45.6	963	26.2
	Loan	4298	58.8	315	24.2	1273	54.5	2712	73.8
1981-86	Total	8909	100.0	1375	100.0	2318		5216	100.0
	Grant	4324	98.5	1283	93.3	1181	50.9	1860	35.7
	Loan	3434	7.2	92	6.7	1137	49.1	3356	64.3
1972-86	Total	19525	100.0	3717	100.0	5841	100.0	9968	100.0
	Grant	8781	45.0	2914	78.4	2338	48.6	3029	30.4
	Loan	10744	55.0	803	21.6	3003	51.4	3639	69.6

DISTRIBUTION OF DISBURSEMENTS OF AID TO BANGLADESH
MOST PECENT AID, TOTAL 1984-86
BY DONOR; BY TYPE OF AID: FOOD, COMM, PROJ
($ IN MILLION)

	TOTAL		FOOD		COMM		PROJECT	
	$	%	$	%	$	%	$	%
BILATERAL	1424	100	310	21.8	525	36.9	589	41.4
DAC	1250	100	290	23.2	523	41.0	437	34.2
USA	353	100	151	42.8	89	25.2	112	31.7
JAPAN	283	100	24	8.5	182	64.3	77	27.2
CANADA	163	100	72	44.1	55	33.7	36	22.1
GERMANY	91	100	9	9.9	44	48.4	38	41.8
UK	77	100	5	6.5	28	36.4	44	57.1
NETHERLANDS	106	100	6	5.7	67	63.2	33	31.1
SCANDINVIA	91	100	3	3.3	52	57.0	36	39.7
OTHER DAC	86	100	20	23.3	6	7.0	61	70.9
SOCIALIST	64	100	4	6.3	0	0	60	93.7
OPEC	110	100	16	14.5	2	1.8	92	83.6
MULTILATERAL	1210	100	161	13.3	321	26.5	729	60.2
IDA	540	100	0	0	173	32.0	367	68.0
UK	165	100	114	69.1	2	1.2	49	29.7
EC	83	100	47	56.6	26	31.3	10	12.0
ADB	295	100	0	0	71	24.1	223	75.9
OTHER ML	127	100	0	0	49	38.6	80	63.0
OTHER AID	18	100	0	0	0	0	18	100.0
TOTAL DISB	2653	100	470	17.7	847	31.9	1336	50.4

DISBURSEMENT OF AID TO BANGLADESH
1972-84
BY DONOR, BY SOURCE OF AID: GRANTS, LOANS

($ in million)

	CUM. $	TOTAL %	GRANT $	GRANT %	LOAN $	LOAN %
<u>BILATERAL</u>						
DAC	6270	100	3928	62.6	2342	37.4
USA	1788	100	1034	57.8	754	42.2
JAPAN	1236	100	288	23.3	948	76.7
CANADA	802	100	786	98.0	16	2.0
GERMANY	553	100	285	51.5	268	48.5
UK	496	100	433	87.3	62	12.7
NETHERLANDS	358	100	287	80.2	71	19.8
SCANDINAVIA	560	100	504	90.0	56	10.0
OTHER DAC	477	100	311	65.2	166	34.8
SOCIALIST	419	100	41	9.8	378	90.2
OPEC	746	100	472	63.2	274	36.7
<u>MULTILATERAL</u>	3407	100	1269	37.2	2138	62.3
IDA	1564	100	0	0	1564	100.0
UN	685	100	685	100.0	0	0.0
EC	367	100	319	86.9	48	13.1
ADB	318	100	0	0.0	318	100.0
OTHER ML	473	100	265	56.0	208	44.0
<u>OTHER AID</u>	597	100	219	36.7	378	63.3
TOTAL DISB.	11439	100	5928	51.8	5510	48.2

DISBURSEMENTS OF AID TO BANGLADESH
1972-1986
BY DONOR
($ IN MILLION)

	Cumulative, 1972-86			Latest Year, 1985-86	
	Total $	AVG Annual $	PCT %	Total $	PCT %
Bilateral	8858	611	62.9	714	51.6
DAC	7519	519	53.4	612	44.2
USA	2141	148	15.2	158	11.4
JAPAN	1519	105	10.8	157	11.3
CANADA	964	66	6.8	81	5.8
GERMANY	644	44	4.6	56	4.0
UK	573	40	4.1	33	2.4
NETHELANDS	464	32	3.3	39	2.8
SCANDINVIA	651	45	4.6	55	4.0
OTHER DAC	563	39	4.0	33	2.4
SOCIALIST	483	33	3.4	35	2.5
OPEC	856	59	6.1	67	4.8
MULTILATERAL	4617	318	32.8	663	47.9
IDA	2104	145	14.9	285	20.6
UN	850	59	6.0	73	5.3
EC	450	31	3.2	37	2.7
ADB	613	42	4.4	176	12.7
OTHER ML	600	41	4.3	92	6.6
OTHER AID	615	42	4.4	8	0.6
TOTAL DISB	14090	972	100	1385	100

-126-

DISBURSEMENT OF AID TO BANGLADESH
MOST RECENT AID, TOTAL 1984-86
BY TYPE OF AID: FOOD, COMM, PROJ; BY DONOR
($ IN MILLION)

	TOTAL		FOOD		COMM		PROJECT	
	$	%	$	%	$	%	$	%
BILATERAL	1424	53.7	310	66.0	525	62.0	589	44.1
DAC	1250	47.1	290	61.7	523	61.7	437	32.7
USA	353	13.3	151	32.1	89	10.5	112	8.4
JAPAN	283	10.7	24	5.1	182	21.5	77	5.8
CANADA	163	6.1	72	15.3	55	6.5	36	2.7
GERMANY	91	3.4	9	1.9	44	5.2	38	2.8
UK	77	2.9	5	1.1	28	3.3	44	3.3
NETHERLANDS	106	4.0	6	1.3	67	7.9	33	2.5
SCANDINVIA	91	3.4	3	0.6	52	6.1	36	2.7
OTHER DAC	86	3.2	20	4.3	6	0.7	61	4.6
SOCIALIST	64	2.4	4	0.9	0	0	60	4.5
OPEC	110	4.1	16	3.4	2	0.2	92	6.9
MULTILATERAL	1210	45.6	161	34.2	321	37.9	729	54.6
IDA	540	20.4	0	0	173	20.4	367	27.5
UK	165	6.2	114	24.2	2	0.2	49	3.7
EC	83	3.1	47	10.0	26	3.1	10	0.7
ADB	295	11.1	0	0	71	8.4	223	16.7
OTHER ML	127	4.8	0	0	49	5.8	83	6.0
OTHER AID	18	0.7	0	0	0	0	18	1.3
TOTAL DISB	2653	100.0	470	100.0	847	100.0	1336	100.0

APPENDIX 6

World Bank (IDA)
Structural Adjustment Policies
for Bangladesh, 1986/87 - 1988/89

Affecting Private Sector Development

Source:

Bangladesh Policy Framework Paper
Confidential Document
January 15, 1987

Table 1. Bangladesh: Summary and Time Frame for Structural Adjustment Policies, 1986/87-1988/89

	Objectives and Targets	Strategies and Measures		Timing of Measures
I. Agriculture and Food Policy				
Public expenditure in agriculture	Improve operation and maintenance of existing and new agricultural infrastructure.	Complete study on Operations and Maintenance (O&M) needs in irrigation, water management and flood control.	*	1986/87
		Implement reccommendations of study.		
		Incorporate specific agricultural O&M needs in budget on the basis of the study.		1987/88 onward
	Expand private irrigation facilities.	Ensure continued unsubsidized private sector role in distribution of minor irrigation equipment. Bangladesh Agricultural Development Corporation (BADC) to improve its distribution and GOB to ensure adequate credit to creditworthy borrowers.		Ongoing
Institutional reforms	Greater private sector involvement in the distribution of agricultural inputs and equipment to farmers.	Undertake comprehensive study to review the functions, operational role and organization of BADC.		1986/87
		Reform Bangladesh Rural Development Board activities to revitalize cooperatives.		Ongoing
Food policy	Improve public domestic procurement and distribution operation. Phase out subsidies, except for Food for Work and targeted distribution programs.	Implementation of action program based on the recommendations of the National Committee on Rationing as approved by GOB.	*	1987/88
Fertilizer pricing	Eliminate economic subsidy for wholesale fertilizer prices.	Elimination of economic subsidy on fertilizers at the wholesale level.		1986/87
		Quarterly reviews of fertilizer prices. Price adjustments at least twice each fiscal year to ensure that economic subsidy remains zero.	*	Ongoing
Agricultural support programs	Improve efficiency of research extension and water distribution.	Management training and reorganization in extension and research services and in Irrigation Management Program (IMP).		Ongoing

* Supported under ongoing IDA policy credits.

Table 1. Bangladesh: Summary and Time Frame for Structural Adjustment Policies, 1986/87-1988/89 (continued)

	Objectives and Targets	Strategies and Measures	Timing of Measures
II. Industrial and Trade Policy			
Investment sanctioning	Liberalize and simplify investment procedures.	Expand number of sectors in which investment is unrestricted.	1986/87
		Increase authority of financial institutions to approve investments.	
Tariff reform	Improve efficiency in traded goods sector.	Rationalize import regime	Ongoing
		Reduce and narrow the band of net effective level of protection for textile and steel on the basis of TIP study.	1986/87-1988/89
Import Restrictions	Facilitate imports of raw materials, intermediate goods, and capital goods to encourage industrial production.	Review restrictive and banned lists with a view to reducing them substantially.	Ongoing
		Phase out requirement that barter facilities must be fully used before imports under any other financing source are allowed.	1986/87
		Allow commercial firms to import on the same basis as industrial firms; except for some limited exceptions.	1987/88

110

Table 1. Bangladesh: Summary and Time Frame for Structural Adjustment Policies, 1986/87-1988/89 (continued)

	Objectives and Targets	Strategies and Measures	Timing of Measures
Public Sector Enterprises (PSEs)	Improve efficiency by enhancing enterprise autonomy, clarifying accountability and improving evaluation.	Implement Public Enterprise Management Ordinance (promulgated June 1986).	Ongoing
		Develop system of performance evaluation and implement in two pilot enterprises.	1986/87
		Extend to five additional PSEs.	1987/88
	Restructuring of jute mills	Adopt measures to better utilize existing capacity; invest in improved technical efficiency; and progressively reduce excess capacity.	Ongoing
Industrial export promotion	Provide free trade status for exporters.	Remove restrictions on all required imports for direct and indirect exporters.	1986/87
		Ensure duty-free status for exporters by establishing Duty Exemption/Drawback Office.	1986/87
		Grant additional autonomy and provide additional infrastructure for Export Processing Zone.	1986/87
	Ensure improved export credit finance.	Prepare and implement plan to strengthen provision and guaranteeing of export credit.	1987/88
	Promote backward linkages.	Extend coverage of back-to-back letters of credit to all products and all indirect exporters.	1987/88

Table 1. Bangladesh: Summary and Time Frame for Structural Adjustment Policies, 1986/87-1988/89 (continued)

	Objectives and Targets	Strategies and Measures		Timing of Measures
III. External Sector Policy				
Exchange rate management	Strengthen the balance of payments position.	Exchange rate management will remain flexible to improve competitiveness and promote export diversification.		Ongoing
	Unification of dual exchange markets.	Steadily increase the proportion of external transactions conducted in the secondary exchange market.		1986/87-1988/89
External debt management	Limit debt service obligations to sustainable levels.	Limit nonconcessional borrowing to exceptional circumstances.		Ongoing
IV. Monetary Policy and Financial Sector Reforms				
Monetary policy	Support economic growth while steadily reducing the rate of inflation.	Growth of broad money to be consistent with targeted growth in nominal GDP.		Ongoing
	Encourage savings and efficient allocation of resources.	Maintain positive real interest rates.		Ongoing
Financial sector reforms	Significant improvement in credit recovery.	Setting of annual overall recovery targets subject to close monitoring. Improvement of information system on defaulters.	*	1986/87 onward
		Expansion of credit passbook system for agricultural crop loans.	*	1986/87
		Establishment of a comprehensive data base on credit recoveries and a new credit information system at the Bangladesh Bank; and creation of a high-level committee comprising the Cabinet Secretary, Governor of Bangladesh Bank, Finance Secretary, Agriculture Secretary, and the Home Secretary to take policy decisions on agricultural and industrial credit reforms.		1986/87

* Supported under ongoing IDA policy credits.

112

Table 1. Bangladesh: Summary and Time Frame for Structural Adjustment Policies, 1986/87-1988/89 (continued)

	Objectives and Targets	Strategies and Measures	Timing of Measures
Financial sector reforms (continued)	Strengthen rural credit institutions.	Complete study by Bangladesh Bank on agricultural credit institutions' capability to collect.	1986/87
		Implement recommendations of study	Ongoing
	Reform credit guarantee system.	Establishment of Agricultural and Rural Guarantee * Fund (ARGF) with participation of Bangladesh Bank, the banks and Government.	1986/87-1987/88
	Encourage development and deepening of financial sector over the medium term.	Based upon Banking Commission recommendations (July 1986) and the follow-up study in November 1986, identify and implement medium-term reform programs.	1986/87-1988/89
V. Public Resource Mobilization			
Revenue	Steadily raise government revenue to 10.5 percent of GDP.	Implement improved tax administration and required increases in rates.	By 1988/89
Tax system reform	Move away from a heavy dependence on trade-related taxes toward domestic output/consumption based taxes.	Undertake a detailed technical study of (a) the tax system; (b) scope for improving tax administration, and achieve higher rates of collection.	1986/87
Fees and charges	Improve cost recovery in energy sector.	Raise gas prices and rationalize gas price structure.	1986/87-1988/89
		Adjust power tariffs in light of recommendations of tariff study (September 1986).	1986/87-1988/89
		Implement program for reduction of technical losses in power sector.	Ongoing

* Supported under ongoing IDA policy credits.

113

Table 1. Bangladesh: Summary and Time Frame for Structural Adjustment Policies, 1986/87-1988/89 (concluded)

	Objectives and Targets	Strategies and Measures		Timing of Measures
Fees and charges (continued)	Improve cost recovery in transport sector.	Undertake a study of cost recovery and financing of road transportation.		1986/87
	Improve cost recovery in health sector.	Undertake a study of cost recovery and financing of health care services.		1986/87-1987/88
VI. Public Expenditure Policies				
Budget deficit	Reduce bank financing of budget deficit.	Tailor expenditure to level of available resources.		Ongoing
Planning and implementation	Improve efficiency of expenditure.	Undertake a study to identify key constraints affecting efficiency of public administration in key ministries.	*	Study 1986/87 Implement 1987/88
	Improve budget execution and review.	Review and improve accounting and fiscal reporting		Ongoing
	Develop multiyear budgeting system.	Extend and strengthen system of "Shadow ADP," introduced on pilot basis.	*	Ongoing
	Improve project implementation.	Review and revise contract award procedures. Prepare new manual of procedures. Design and implement training program.	*	1986/87
Operations and Maintenance	Ensure adequate allocation of funds for O&M.	Identify specific O&M needs for each sector at time of budget preparation, taking into account the requirements of completed projects.		1986/87 onward
		Undertake studies on key sectors: (a) flood control, drainage and irrigation; (b) highways; (c) education.	*	1986/87

* Supported under ongoing IDA policy credits.

- 114

APPENDIX 7

World Bank (IDA)

Bangladesh Projects
(As of February 1987)

IDA Loans to Bangladesh
As of February 1987

Project/Date	Original Loan $ Million	Disbursements $ Million
Drainage and Flood Control, Dec. 78	19	19
Vocational Training, May 79	25	16
Small Scale Drain, Flood Control, Oct. 79	25	20
Second Highway, Dec. 79	10	9
Second Chittagong Water Supply, Apr. 80	20	17
Fertilizer Ind. Rebab., May 80	29	23
Jute Industry Rehab., May 80	20	14
Mangrove Aforestatien, June 80	11	7
Fourth Education (Primary), June 80	40	31
Ninth Imports Program. Oct. 80	65	57
Second Shilpa Bank, Mar. 81	50	26
Fourth Technical Assist., Mar. 81	15	13
Tenth Imports Program, Dec. 81	100	94
Eleventh Imports Program, Dec. 82	110	105
Twelfth Imports Program, May 84	140	137
Chittagong Port, June 84	7	7
Rural Electrification, June, 84	8	9
2nd Textile Industries Rehab., July 84	22	26
Third Small Scale Ind., Oct. 80	35	23
Bakhrabad Gas Dev., Feb. 81	85	70
Fertilizer Transport, Feb. 81	25	12
Hand Tubewells, Jul. 81	18	11
Agricultural Credit, June, 81	40	27
2nd Drainage and Flood Control, Jan. 82	27	14
Chittagong Urea Fertilizer, Feb. 82	15	12
Textile Ind. Rehab., Feb. 82	30	06
2nd Extension and Research, Mar. 82	27	10
Chittagong Port, May 82	60	5
Ashuganj Thermal Power, June 82	92	48
Rural Electrification, June 82	40	25
2nd Deep Tubewells, Aug. 82	68	17
First Highway, Dec. 82	6	6
Business Mgt. Educ. and Trng., Mar. 83	8	4
3rd Telecommunications, Mar. 83	35	14
Training, Pers. Mgt., May 83	12	5
Energy Eff. and Refinery Rehab., May 83	28	24
Second Rural Development, Sep. 83	100	19
2nd Agri. Training, Aug. 83	8	2
Sugar Rehab., Aug. 83	20	5
Petroleum Exploration, Sept. 83	23	13

IDA Loans to Bangladesh (Continued)
As of February 1987

Project/Date	Original Loan $ Million	Disbursements $ Million
Fifth Technical Assistance, Feb. 84	25	2
2nd Agri. Research, May 84	25	2
Water Development Board, May 84	42	5
2nd Textile Ind. Rehab., July 84	23	0
Technical Education, July 84	36	6
Muhuri Irrigation, July 84	10	6
Fertilizer Ind. Rehab., July 84	5	3
Second Primary Education, May 85	78	13
Second Gas Development, May 85	110	6
Flood Rehabilitation, May 85	30	24
3rd Flood Contr. and Drainage, May 85	48	4
2nd Rural Electrification, Dec. 85	79	3
Second Forestry, Dec. 85	28	2
Power Transmission and Distr., Feb. 86	56	4
3rd Pop. and Family Health, Feb. 86	28	5
Shrimp Culture, Feb. 86	22	2
Thirteenth Imports Program, Feb. 86	200	133
3rd Dhaka Water Supply, Jan. 87	30	0

APPENDIX 8

Asian Development Bank (ADB)
Bangladesh Projects

(As of March 1987)

I. LOANS FROM ORDINARY CAPITAL RESOURCES
(As of 31 March 1987)

Guarantor/Borrower[1]	Loan No.	Project	Amount (US$ Million)	Term (Years) Incl. Grace Period	Interest (%)	Date Approved
BANGLADESH						
People's Rep. of Bangladesh	130	Bangladesh Shilpa Bank[2]	$ 6.600	15 (3)[3]	6.875	14 June 1973
People's Rep. of Bangladesh	142	Bangladesh West Zone Power[2]	1.200	20 (4)	7.50	17 Oct. 1973
People's Rep. of Bangladesh	144	Chittagong Port[2]	3.600	25 (5)	7.50	18 Oct. 1973
			11.400			

II. LOANS FROM ASIAN DEVELOPMENT FUND
(As of 31 March 1987)

Guarantor/Borrower	Loan No.	Project	Amount (US$ Million)	Term (Years) Incl. Grace Period	Interest/ Service Charge[13] (%)	Date Approved
BANGLADESH						
People's Rep. of Bangladesh	129	Fisheries Development	3.200	25 (5)	2	14 June 1973
People's Rep. of Bangladesh	131	Bangladesh Shilpa Bank[2]	6.000	25 (5)	2	14 June 1973
People's Rep. of Bangladesh	141	Bangladesh West Zone Power[2]	9.250	40 (10)	1	17 Oct. 1973
People's Rep. of Bangladesh	143	Chittagong Port[2]	3.200	40 (10)	1	18 Oct. 1973
People's Rep. of Bangladesh	205	Bangladesh Shilpa Rin Sangstha	15.000	40 (10)[3]	1	5 Dec. 1974
People's Rep. of Bangladesh	212	Bangladesh West Zone Power (Supplementary)	4.550	40 (10)	1	19 Dec. 1974
People's Rep. of Bangladesh	213	Jute Seed	9.550	40 (10)	1	19 Dec. 1974
People's Rep. of Bangladesh	215	Railway	23.000	40 (10)	1	23 Dec. 1974
People's Rep. of Bangladesh	217	Ashuganj Fertilizer	30.000	40 (10)	1	20 Feb. 1975
People's Rep. of Bangladesh	240	Agricultural Credit	9.430	40 (10)	1	25 Nov. 1975
People's Rep. of Bangladesh	255	Greater Dacca Gas Distribution	12.200	40 (10)	1	23 Dec. 1975
People's Rep. of Bangladesh	282	Chittagong Fertilizer Technical Services	2.500	10 (2)	1	23 Nov. 1976
People's Rep. of Bangladesh	286	Second Bangladesh Shilpa Rin Sangstha	25.000	40 (10)[3]	1	16 Dec. 1976
People's Rep. of Bangladesh	293	Serajgonj Integrated Rural Development	26.000	40 (10)	1	23 Dec. 1976
People's Rep. of Bangladesh	298	Khulna-Mongla Road	15.000	40 (10)	1	10 May 1977
People's Rep. of Bangladesh	325	Chittagong Power Distribution	27.750	40 (10)	1	9 Dec. 1977
People's Rep. of Bangladesh	329	Aquaculture Development	18.000	40 (10)	1	13 Dec. 1977
People's Rep. of Bangladesh	333	Meghna-Dhonagoda Irrigation	24.000	40 (10)	1	15 Dec. 1977
People's Rep. of Bangladesh	368	Second Bangladesh Shilpa Bank	25.000	40 (10)[3]	1	29 Nov. 1978
People's Rep. of Bangladesh	373	Educational Equipment Development	6.000	40 (10)	1	5 Dec. 1978
People's Rep. of Bangladesh	374	Livestock Services Development and Training	12.400	40 (10)	1	5 Dec. 1978
People's Rep. of Bangladesh	378	Pabna Irrigation and Rural Development	38.000	40 (10)	1	12 Dec. 1978
People's Rep. of Bangladesh	381	Low-Lift Pump Maintenance Program	8.900	25 (8)	1	14 Dec. 1978
People's Rep. of Bangladesh	393	Foodgrain Storage	9.000	40 (10)	1	29 Mar. 1979
People's Rep. of Bangladesh	396	Ashuganj Fertilizer (Supplementary)	25.000	40 (10)	1	26 Apr. 1979
People's Rep. of Bangladesh	404	Chittagong Hill Tracts Development	28.500	40 (10)	1	28 June 1979
People's Rep. of Bangladesh	420	Fisheries Credit	10.800	40 (10)	1	13 Nov. 1979
People's Rep. of Bangladesh	431	Crop Intensification Program	11.800	25 (8)	1	29 Nov. 1979
People's Rep. of Bangladesh	449	Third Bangladesh Shilpa Rin Sangstha	30.000	40 (10)[3]	1	21 Dec. 1979
People's Rep. of Bangladesh	450	Geological Survey	6.200	40 (10)	1	7 Feb. 1980
People's Rep. of Bangladesh	460	Second Agricultural Credit	28.100	40 (10)	1	29 July 1980
People's Rep. of Bangladesh	463	Rubber Rehabilitation and Expansion	20.000	40 (10)	1	28 Aug. 1980
People's Rep. of Bangladesh	467	Tubewell	50.000	40 (10)	1	25 Sept. 1980
People's Rep. of Bangladesh	504	Public Health Program	15.600	25 (8)	1	22 Dec. 1980
People's Rep. of Bangladesh	506	Natural Gas Development	31.000	40 (10)	1	22 Dec. 1980
People's Rep. of Bangladesh	510	Community Schools	13.500	40 (10)	1	21 Apr. 1981
People's Rep. of Bangladesh	523	Power System Rehabilitation & Expansion	26.500	40 (10)	1	22 Sept. 1981
People's Rep. of Bangladesh	524	Second Crop Intensification Program	18.000	25 (8)	1	22 Sept. 1981
People's Rep. of Bangladesh	541	Chittagong Urea Fertilizer	72.000	40 (10)	1	17 Nov. 1981
People's Rep. of Bangladesh	555	Community Forestry	11.000	40 (10)	1	3 Dec. 1981
People's Rep. of Bangladesh	558	Small-Scale Irrigation Sector	50.000	40 (10)	1	10 Dec. 1981
People's Rep. of Bangladesh	571	District Towns Water Supply	14.400	40 (10)	1	17 June 1982
People's Rep. of Bangladesh	587	Ashuganj Thermal Power	35.000	40 (10)	1	21 Oct. 1982
People's Rep. of Bangladesh	590	South-East Bangladesh Gas Transmission and Distribution				
People's Rep. of Bangladesh	593	Bhola Irrigation	45.600	40 (10)	1	26 Oct. 1982
People's Rep. of Bangladesh	614	Second Tubewell	27.200	40 (10)	1	4 Nov. 1982
People's Rep. of Bangladesh	615	Northwest Rural Development	56.500	40 (10)	1	14 Dec 1982
People's Rep. of Bangladesh	626	Special Assistance for Selected Bank-Financed Projects	45.000	40 (10)	1	14 Dec. 1982
People's Rep. of Bangladesh	636	Power Transmission and Distribution	17.000	40 (10)	1	19 May 1983
People's Rep. of Bangladesh	657	Bangladesh Krishi Bank	82.000	40 (10)	1	13 Sept 1983
People's Rep. of Bangladesh	658	Third Crop Intensification Program	40.000	40 (10)	1	29 Nov. 1983
People's Rep. of Bangladesh	671	Ganges-Kobadak Rehabilitation	70.000	40 (10)	1	29 Nov 1983
People's Rep. of Bangladesh	672	Health and Family Planning Services	37.000	40 (10)	1	14 Dec. 1983
People's Rep. of Bangladesh	683	Sixth Power (Sector Loan)	27.500	40 (10)	1	14 Dec. 1983
People's Rep. of Bangladesh	684	Second Railway	120.000	40 (10)	1	14 June 1984
People's Rep. of Bangladesh	699	Secondary Science Education Sector	46.000	40 (10)	1	26 June 1984
People's Rep. of Bangladesh	714	Second Natural Gas Development	37.000	40 (10)	1	23 Oct. 1984
People's Rep. of Bangladesh	733	Second Livestock Development	103.800	40 (10)	1	6 Dec. 1984
People's Rep. of Bangladesh	751	Seventh Power	39.000	40 (10)	1	5 Feb. 1985
People's Rep. of Bangladesh	767	Feeder Roads Improvement	40.500	40 (10)	1	31 Oct. 1985
People's Rep. of Bangladesh	771	Fourth Crop Intensification Program	58.000	40 (10)	1	5 Dec. 1985
People's Rep. of Bangladesh	773	Rural and Agro-Based Industries Credit	39.000	40 (10)	1	17 Dec 1985
People's Rep. of Bangladesh	774	Chhatak Cement Plant Expansion	20.000	40 (10)	1	19 Dec. 1985
People's Rep. of Bangladesh	796	Chittagong Urea Fertilizer (Supplementary)	16.800	40 (10)	1	19 Dec 1985
			25.000	40 (10)	1	13 Nov 1986
People's Rep. of Bangladesh	819	Khulna Coastal Embankment Rehabilitation	16.900	40 (10)	1	11 Dec 1986
People's Rep. of Bangladesh	821	Second Aquaculture Development	42.810	40 (10)	1	16 Dec. 1986
			1,912.940			

APPENDIX 9

United nations (UN)
Bangladesh Projects

(As of January 1987)

Ref: cpndx3

I N D E X

AGENCY-WISE

I N D E X

AGENCY-WISE

123

Ref: cpndx3

I N D E X

AGENCY-WISE

x3

I N D E X

AGENCY-WISE

Ref: cpndx3

I N D E X

AGENCY-WISE

APPENDIX 10

List of Interviews

PEDS STUDY

March, April 1987

PRIVATE SECTOR

Organization & Name	Telephone
1. Federation of Bangladesh Chambers of Commerce & Industry (FBCCI) 60 Motijheel C.A. Dhaka.	
M.A. Kashem, President & 20 other members	250566, 282880
2. Metropolitan Chamber of Commerce & Industry (MCCI) Chamber Building 122-124 Motijheel C.A. Dhaka.	
Habibullah Khan, President	239399, 238340
H.R. Khan, Vice President	253624, 235168
C.K. Hyder, Secretary & 10 Committee members.	
3. Dhaka Stock Exchange (DSE) 9F Motijheel Commercial Area, Dhaka	231935, 234979 239882
M. Akbar Ali, Vice-Chairman M.A. Quayum, General Secretary & 4 other members	
4. Chittagong Chambers of Commerce & Industry Agrabad Commercial Area, P.O. Box No.481, Chittagong	502325, 505098 504447-8
Ali Ahmad, Ex. Committee Member Amir Khasru Mahmud Chowdhury, Ex. Committee Member M. Hoque Chowdhury, Secretary & other officials	
5. American Business Council, Dhaka George Pecht (Amman & Whitney) Peter Schofield (Am. Express) Mr. Mahbub Jamil (Singer), 39 Dilkhusha C/A Mr. Shawkat Anwar (Squibb)	411761
6. Rahman Rahman Huq & Co 52, Motijheel C.A. Dhaka Saifur Rahman	259669
7. Organon (Bangladesh) Ltd. Alico Building, Motijheel C.A. Dhaka	233136, 232751
K. Ali Arshad, Managing Director	
8. Pfizer Laboratories (bangladesh) Ltd. 6/3 Segun bagicha, Dhaka,	253344, 257190
S.H. Kabir, Managing Director	

9. International Fertilizer Dev. Centre, Krishi Bhaban, Dilkusha C.A. Dhaka — 259642, 281508

Kenneth L. Moots

10. Siam's Superior (Hongkong) Ltd., Chittagong Export Processing zone, P.O. Box 2029 — 502189, 504990

T.C. Swamy, Vice-President

11. D.E.G. C/O IPDC, Dhaka — 239311-12

H. Mueller Eckhardt, Sr. Technical Advisor

12. Comilla Cooperative Kharkhana (Workshop)

13. Rupali Weaving & Garment Factory, Comilla 1E

14. Pannel Kerr Forster, (UNDP Service Sector Study)
Eric Green, Andrian Foster

15. Kurshed Husain, Manager Advisory Division
BSRS

16. Dr. Tom Timbers
Robert R. Nathnan Associates Inc. Wasnington

17. S.M. Kamal, Director — 256223
Pro Kaushali, Sangsad Ltd.
131 Motijheel C/A, Dhaka

18 Dr. Ing. K. Islam, Partner — 234714
Associated Resources Management Company
9/1 Motijheel C/A, Dhaka

19 J.H. Kempster, Chairman — 225298
Lever Brothers Bangladesh Ltd.
51 Kalurghat Industrial Area, Chittagong

20 M.K. Choudhury, Marketing Director — 503258
Glaxo Bangladesh Ltd, GPO Box 65, Dhaka.

21. Bengal Radio Ltd, — 500304
54 Dhanmondi R/A, Road 2A, Dhaka

Kazi Reza Hasan

PUBLIC SECTOR

22. Ministry of Industries (MOI), Shilpa Bhaban

Maudud Ahmed, Deputy Prime Minister	232170, 232127
K.M. Rabbani, Secretary	233232

23. Department of Industries (DOI), HBFC Building, Dhaka

Anisur Rahman,Director General	417418, 417701
S. M. Sekander Hussain, Director	417950

24. Bangladesh Small & Cottage
Industries Corporation (BSCIC)
137-138 Motijheel C.A. Dhaka. 239329

Mushfiqur Rahman - Chairman 239375

25. Bangladesh Export Processing
Zone Authority (BEPZA)
Shilpa Bhaban, Motijheel C.A. Dhaka 237067

Brig (Rtd) M.H. Rahman, Chairman

26. Trade & Industrial Policy Formulation
Project Authority (TIP)
Planning Commission Complex, Block 3, Dhaka

Dr. A.K.A. Mobin, Project Director 325207, 315301

27. Bangladesh Institute of Development Studies
(BIDS)
Adamjee Court, Motijheel C.A., Dhaka 256187

Professor Rehman Sobhan, Managing Director

28. Bangladesh Management Development Centre (BMDC)
4, Sobhanbagh, Mirpur Road, Dhaka 310627, 325086

M.M. Zaman, Director General

29. Bangladesh Industrial Technical
Assistance Centre (BITAC)
Tejgaon Industrial Area, Dhaka 600121-24

M. U. Bhuiyan, Director General

30. Institute of Business Administration (IBA) 500517
Dhaka University Campus

Dr. Alimullah Miyan, Director

31. Bangladesh Academy for Rural Development (BARD)
Kotbari, Comilla

Tipu Sultan, Director General

32. BSCIC Industrial Estate & Rural Industrial Service
Training Workshop, Comilla

Mustafizur Rahman, Deputy Manager
Mizanur Rahman, Extn. Officer & 3 other officers

33 Export Processing Zone, Chittagong 500106

Mahbubur Rahman, Manager 501436
Syed A. H. Lutful Karim, Deputy Secretary

AID AGENCIES, FINANCING INSTITUTION, NGO & PVO & OTHER AGENCIES

34. British High Commission
No. 7 Rd. 84, Gulshan, Dhaka

Anthony F Blake,Pauley,Dy.High Commissioner
& Econ. Counsellor 600133-7

35. Embassy of the Federal Republic of Germany
178 Rd. 55, Gulshan Avenue, Dhaka

Thomas Kessler, Econ. Counsellor

36. Danish International Development Agency (DANIDA)
No.1 Gulshan Rd. 51, Dhaka 600108,602935

Finn Nielsen, Counsellor
Erik S. Hansen, Counsellor

37. Royal Norwegian Development Cooperation (NORAD)
No.7, Rd. 36, Gulshan, Dhaka 603091, 602304

Lasse Nymoen, Asstt Resident Representative

38. Japanese Embassy
No.110, Rd. 27, Banani, Dhaka 608191, 608192

Takumi Ohashi, First Secretary

39. United Nations Development Programme (UNDP)
No.60 Rd. 11A, Dhanmondi R.A. Dhaka 310370

Maxine E. Olson, Asstt. Res. Representative

40. International Labour Organization (ILO)
39/A. RD. 4/A. Dhanmondi R.A. Dhaka 501902

Joseph C. Fazzio. Director

41. Asia Foundation
No.40/C Rd. No.11. Dhanmondi R.A. Dhaka 315922

Jon L. Summers. Representative
Michael K. Kobori. Assistant Representative

42. CARE International Bangladesh
No. 63. Rd. No.7/A. Dhanmondi R.A. Dhaka 412985

Virginia H.Ubik. Director

43. Canadian High Commission
No.16/A Rd. No.48. Gulshan. Dhaka 600181

Victor R. CArvell - Counsellor

44. USAID Small Scale Enterprise Project

Dean Papavassiliou. Advisor 236191

45. Rural Finance Project. Bangladesh Bank. Dhaka 231486. 234988

Forrest E. Cookson. Project Manager 235000
Dr. Zia U. Ahmed. Research Economist

46. Asian Development Bank (ADB)
Steel House. Kawran Bazar. Dhaka 325001-4

Jacques M. Ferreira. Program Officer

47. Grindlays Bank plc 412226
2 Dilkusha C.A. Dhaka

Ian Peterkin. General Manager

48. American Express Bank Ltd. 411023. 236125
ALICO Building 18-20 Motijheel C.A. Dhaka

Peter Schofield. First Vice-President

49. World Bank
22 New Eskaton. Dhaka 406853

Surinder Malek

50. Bangladesh Shilpa Bank (BSB) 238327
P.O. Box 975. 8 DIT Avenue. Dhaka

Dr. Mohiuddin Khan Alamgir. Managing Director

13V

51. Investment Corporation of Bangladesh (ICB) 233694
8 DIT Avenue, Dhaka

M. Sekander Ali, Managing Director

52. Uttara Bank Ltd.
94 Motijheel C. A. Dhaka 232144

Syedur Rahman, Managing Director 236104
M. Hossain, Sr. Vice President 232114
Q. Huda, Deputy Managing Director
A.M. Iftiker Rahman, Asstt. Managing Director 255261

53. Industrial Promotion & Development Co. Ltd. (IPDC) 239311
Chamber Building, 122/124, Motijheel C. A. Dhaka 233254

Rashidul Hassan, Managing Director

54. Micro Industries Development Assistance Society (MIDAS)
No.56, Rd. 7/A. Dhanmondi R.A. Dhaka

M. Mobashar Hussain, Executive Director 326558

55. Bangladesh Rural Advancement Commitee (BRAC)
66, Mohakhali C.A. Dhaka 601604

F.H. Abed, Executive Director

56. Grameen Bank 326619
2/G Shamoli, Dhaka

Dr. Md. Yunus, Managing Director

57. External Resource Division, (ERD) Pending
Ministry of Finance

58. Ministry of Finance, Investment & 403108
Capital Issue Division

Tawfiq Elahi Choudhury, Joint Secretary

59. Addl. Secretary, Ministry of Industries.

Mr. Nazem Ahmed Chowdhury

US GOVERNMENT

60. USAID Officials in Washington & Dhaka

61. US Embassy Officials in Dhaka

Doc.0578E
Ullah/MM/Judith: 4/27/87