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Author(s): Rehman Sobhan and Binayak Sen

Reviewed work(s):

Source: *The Bangladesh Development Studies*, Vol. 17, No. 3 (September 1989), pp. 21-66

Published by: [Bangladesh Institute of Development Studies](#)

Stable URL: <http://www.jstor.org/stable/40795356>

Accessed: 17/01/2013 23:04

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Trends in the Repayment Performance to the DFIs : Implications for the Development of Entrepreneurship in Bangladesh

by
REHMAN SOBHAN
BINAYAK SEN*

The paper analyses the repayment trends of the two DFIs (BSB and BSRS) over the last decade which is current to 30th June, 1987. Based on data generated through a survey of 511 Industrial projects located in the private sector, the paper provides an adequate basis for evaluating the overall impact of the various policy measures (including legal actions) enacted by successive regimes to expedite the process of loan recovery. The study points to the all pervasive nature of default and proceeds to analyse further the societal implications of the default, the failure of the legal system to enforce recovery and the weaknesses of entrepreneurship. The study stressed the need for reviewing prevailing industrial policy which has failed to transform recalcitrant borrowers into a growth-seeking entrepreneurial class and suggests various remedial measures for immediate policy action.

I.

Introduction : Background to the Paper

The poor loan repayment performance of the private borrowers from the Development Finance Institutions (DFIs) has become an issue of major concern since the massive infusion of public resources to the private sector in the second half of 1970's and early 1980's. These borrowers have shown an inordinately poor capacity for repayment and regeneration of reinvestible surpluses from the projects commissioned from the DFI lending programmes. The present crisis faced by the DFIs was identified first by an earlier BIDS paper¹ and has since been reiterated in the Qadir committee report, in the Institutional Review and Portfolio Audit (IRPA) carried out by the firm of M/S Price Waterhouse on behalf of the Asian Development Bank and finally in the A.F.A. Hosain Commission report. These studies have provided a comprehensive review of the issues and constraints in the process of industrial loan recovery.

The intense pressure from the donors following the IRPA and Memorandum of Understanding (MOU) between the donors and the Government of Bangladesh in

*The authors are former Director General and Research Fellow, respectively at the Bangladesh Institute of Development Studies, Dhaka. They wish to acknowledge gratefully the valuable assistance provided by Mr. Muhammed Iqbal, Research Officer, BIDS, Mr. M. Towaheeduzzaman, Principal Officer, BSRS and Mr. Tapan Kumar Saha, Manager, BSB in the course of collecting primary data for this study.

¹R. Sobhan and S.A. Mahmood, "Repayment of Loans to the Specialised Financial Institutions in Bangladesh: Issues and Constraints", *The Bangladesh Development Studies*, Vol. IX, No. 1, Winter 1981.

March 1985 had led to an escalation in efforts by the DFIs to improve loan recovery. It is therefore appropriate to see how far the DFIs have been able to improve their recovery performance as a consequence of commitments made by the Government of Bangladesh (GOB) to the donors through the MOU and the more visible efforts at enforcing recovery from recalcitrant loanees during the last three financial years.

The data base of the above mentioned studies was restricted to a period up to the 30th June, 1984. In view of the present state of our information on repayment an up-dating of data for the Fiscal Year (FY) 1984/85, 1985/86 and 1986/87 may provide some insights not only on the current trends in repayment but also the relative effectiveness of the 'action programme' of loan recovery launched by the GOB since the FY 1983/84.

The share of delinquent loans in the DFI assets portfolio increased to a point where the viability of the DFIs was put into question. By 1983/84 within the framework of MOU its principal donor signatories, World Bank, Asian Development Bank (ADB) and KFW Bank of Federal Republic of Germany (FRG) moved to freeze the credit pipe line and suspend new loan commitments to the two DFIs, BSB and BSRS until a minimum level of recovery, reckoned to be 50% of the overdues was realised. The GOB made repeated requests in subsequent meetings with the Bangladesh Aid Group for a withdrawal of the freeze on the DFI credit pipe line by committing that the Government will be 'firm to ensure that borrowers who are in a position to repay their obligations cannot continue to create a situation of indiscipline'.²

Measures initiated by the GOB for improvement of DFI management included, *inter alia*, the decision to strengthen the legal framework to take effective action against the defaulters. In the Memorandum for the Bangladesh Aid Group it was stated that 'special courts have been set up to deal with the cases of defaulters expeditiously with a view to attaining substantial improvement in loan recovery; and in order to ensure that only genuine enterprises get accommodation by the DFIs, sponsor's contribution of the project cost has been raised. It is expected that measures already taken will substantially improve the loan recovery system and portfolio management of DFIs, thus stimulating private sector investment'.³

Whilst it has been noted that in case of agricultural credit 'the overdues resulted from low jute and food crop prices'⁴, apparently no tangible reasons could be cited with regard to the industrial sector. At that time the Government was providing additional concessions to industrial borrowers through the Exchange Rate Fluctuation Adjustment Scheme (EFAS) thus giving recognition to the putative claims of the loanees that their additional liability was due to the depreciation of the taka. Notwithstanding the EFAS and related concessions involving the writing off penal interest dues the rate of loan recovery consistently remained well below the expectations of the donors and indeed reflected no significant improvement compared to rates prevailing at the time of the MOU.

²Memorandum for the Bangladesh Aid Group (1985-86), April II, 1985, p. 5.

³*Ibid*, p. 37.

⁴*Report on the 13th Annual Meeting of the Bangladesh Aid Group* held in Paris on April 14-15, 1986, p. 58.

⁵*Ibid*, p. 58.

In the Paris meeting of the Bangladesh Aid Group held in 1986, GOB once again assured the external donors of its intention to improve the recovery position of DFIs 'through different stages leading to application of harsh provision of law in some cases and on the basis of an action plan'.⁵ To what extent such legal actions and related efforts of the GOB were conducive to greater loan recovery may only be captured through a comprehensive review of repayment performance for the last three financial years. Although the present study does not aspire to isolate the specific impact of the GOB efforts to improve recovery, it expects to analyse the end result of such a programme of action in terms of its impact on loan recovery rates and the degree of accumulation of overdue bank loans.

Objective of the Study

The scope of the paper is to provide a review of the repayment trends of the DFIs over the last decade which is current to 30th June 1987. This will serve as an adequate basis for evaluating the overall impact of the various policy measures enacted by the present regime to expedite the process of loan recovery.

Sources of Data

The present paper will mainly draw upon data available from the loan accounting and law departments of BSB and BSRS. The sample encompasses those projects which were initially selected for the earlier BIDS studies. Thus the information on the sample projects assembled for the present report forms a stable basis for comparison with previous findings and can be used also for future monitoring of loan recovery. Altogether data regarding a sample of 511 projects have been collected. Of these the number of projects financed by BSB and BSRS are 349 and 162 respectively. One may note that the size of the sample finally surveyed for the purposes of the present study is quite significant in relation to the total number of DFI sponsored projects. Approximately 47% of the projects (including both private and public sectors) financed by BSB and BSRS have been covered by the sample. The weight of the sample would be larger if we exclude the public sector projects, since our sample projects include only the private sector projects.

Methodology of the Study

The present study on repayment to the DFIs does not attempt to make any methodological refinements. It rests upon the same analytical framework developed for the other BIDS studies on repayment.⁶

The repayment performance (RP) of each project has been measured in terms of two indicators. The first indicator has been defined as the percentages of cumulative current dues, including both principal and interests, for 1984/85 and 1985/86 which has been recovered by cash collection. This can be seen in the

⁶(a) R. Sobhan and S.A. Mahmood, "Repayment of Loans to the Specialised Financial Institutions in Bangladesh: Issues and Constraints", *The Bangladesh Development Studies*, Vol. IX, No. 1, Winter 1981. (b) R. Sobhan and A. Ahsan, Repayment Performance of the DFI Sponsored Industries in Bangladesh, BIDS, August 1985.

following equation:

$$RP_1 = \frac{CP}{CD} \times 100$$

RP_1

CP

CD

= Repayment performance

= Total cash payment of each year

= The aggregate current dues in each year

Being restricted only to the measurement of current dues, however, this indicator does not adequately record the actual amount of the default. To the extent that the liquidity crisis faced by the DFIs mainly originates from the accumulation of heavy overdues, a second RP indicator (RP_2) has been constructed. This takes into account both the *current dues and overdues* and can be calculated from the following equation:

$$RP_2 = \frac{CP}{TRA} \times 100$$

RP_2

CP

TRA

= Repayment performance

= Total cash payment of each year

= Total recoverable amount (Current + Over-dues)

This indicator has been calculated for each individual project for both 1984/85 and 1985/86.

It may be noted that in calculating the RP indicators the repayment figures have been adjusted from the official figures in order to discount repayment reported in the form of rescheduling/rephasements of overdue loans by the banks. Officially, the bank considers rescheduling/rephasements made by them as a part of loan recovery. Thus official figures reported by the DFIs overstate the actual recovery made. In our adjustment we have discounted the rephased amount, i.e., we subtract it from the recovery and add this amount to year end overdues which then reflect the actual extent of the default. The adjusted figures bring out a considerable divergence between the official overdues reported by the BSB and the actual overdues based on our adjustment. Our calculation shows that for the BSB sample projects the official figure of overdues stood at Tk. 1090.04 million in 1984/85 and Tk. 1261.88 million in 1985/86. However in reality the amount of overdues was substantially higher in those years, the figures being respectively Tk. 1129.60 million and Tk. 1485.33 million.

Structure of the Paper

The paper is divided into 5 sections. The first section has dealt with the objectives, scope and methodology of the paper. The second section will briefly review the trends of loan recovery by the DFIs over time. In the third section we shall analyse the repayment pattern of the sample projects in general and in respect to specific lending institutions. It will focus upon the sectoral breakdown of overdues and the possible impact which the policy of rescheduling/rephasements might have had on the pattern of repayment. The fourth section aspires to capture the degree of

effectiveness of various legal measures initiated by the DFIs against the defaulters. The final section presents the summary and conclusions for the paper.

II.

Repayment Trends Over Time

In the present section we shall review the repayment performance of private sector borrowers of DFIs. To this end, any attempt to assemble a time-series data of repayment may be of some worth in capturing some of the determinants of the acute liquidity crisis faced by the DFIs during the last five years.

In Table I we have gathered data on the rate of repayment by private sector borrower over the last ten years (1976/77-1986/87) both for the BSB and BSRS. The rate of repayment represents cash recovery as a percentage of the total recoverable amount. Table I shows that not only was the rate of repayment very poor during the last decade, but it also manifests a deteriorating trend. This is true for both the DFIs. For instance, in the case of the BSB the rate of recovery during the FY 1986/87 falls clearly below the level of 1981/82 and stands much below the level of 1977/78. If in 1977/78 the rate of recovery for BSB was assessed at the level of 22.27%, it has declined almost monotonically to a level of 13.39% by 1986/87. Similarly, in the case of BSRS, the rate of repayment has remained restricted to a meagre level of 8% during the last decade. It also follows from Table I that BSB sponsored projects have displayed a better repayment performance when compared to the projects financed by BSRS. This, in part, explains the relatively greater magnitude of accumulated overdues in case of the BSRS *vis-a-vis* that of BSB.

If we look at the aggregate repayment scenario, it appears that the rate of repayment for both the DFIs has fallen from a level of 14.62% in 1977/78 to 10.40% in 1986/87. The total overdues of the two DFIs accumulated over the last decade now stands at Tk. 9409.85 million.

However, it is important to realise that private sector projects are mainly responsible for the present liquidity crisis faced by the DFIs. The weight of the private sector in total overdues amounts to 90% in case of BSRS (see Table III), the figure for BSB would be still larger (about 93% in 1986/87). This is mainly due to the prevalence of private sector borrowers among the DFI sponsored projects, augmented by the massive denationalisation/disinvestment programme launched by the GOB since 1976/77 and large scale financing of private sector projects by the DFIs. To what extent the rapid and large-scale privatisation programme has contributed to the declining trend in the rate of loan recovery is subject to a special study which is beyond the scope of the present paper. But the data assembled in Table I suggests that there exists a strong correlation between the declining trend in repayment (as compared to mid-seventies) and escalation of the process of privatisation. In any case, the magnitude of overdues accumulated in the private sector has reached an unprecedented level in case of both the DFIs (about taka 504 crores in case of BSRS and taka 371 crores in case of BSB). It is difficult to overlook this fact, specially at a time when the very existence of the DFIs as viable financial institution is being threatened.

TABLE I
TRENDS IN RATE OF LOAN REPAYMENT* FROM PRIVATE SECTOR BORROWERS
(BSB & BSRS)

(figures represent percentages)

Year	BSB	BSRS	BSB+BSRS
1976/77	n.a.	6.92	n.a.
1977/78	22.27	3.95	14.62
1978/79	20.08	5.68	13.25
1979/80	15.25	7.41	11.60
1980/81	19.77	9.35	14.46
1981/82	20.07	6.46	12.88
1982/83	13.51	5.59	15.81
1983/84	14.48	6.57	10.21
1984/85	11.68	4.27	7.50
1985/86	11.14	4.82	7.63
1986/87	13.39	8.07	10.40

* Rate of repayment represents cash recovery as percentage of Total Recoverable Amount.

Source : Computed from unpublished data (BSB & BSRS).

TABLE II (a)
COLLECTION PERFORMANCE OF LOAN PORTFOLIO BY PRIVATE SECTOR
(BSB)

(in mln. Tk.)

	1	2	3	4	5
Fiscal Year	Overdues at the Beginning of Year	Current Dues	TRA (1+2)	Cash Recovery	Rate of Loan Recovery (%)
1977/78	106	141	247	55	22.27
1978/79	157	97	254	51	20.08
1979/80	175	166	341	52	15.25
1980/81	260	256	516	102	19.77
1981/82	379	479	857	172	20.07
1982/83	625	670	1295	175	13.51
1983/84	1091	822	1913	277	14.48
1984/85	1546	1014	2560	299	11.68
1985/86	2135	1322	3457	385	11.14
1986/87	2627	1653	4280	573	13.39

Source : Computed from unpublished data (BSB).

TABLE II (b)
COLLECTION PERFORMANCE OF LOAN PORTFOLIO BY PRIVATE SECTOR
(BSRS)

(in mln. Tk.)

	1	2	3	4	5
Fiscal Year	Overdues at the Beginning of Year	Current Dues	TRA (1+2)	Cash Recovery	Rate of Loan Recovery (%)
1974/75	40	31	71	6	8.45
1975/76	65	26	91	7	7.69
1976/77	84	46	130	9	6.92
1977/78	121	56	177	7	3.95
1978/79	170	59	229	13	5.68
1979/80	216	81	297	22	7.41
1980/81	275	260	535	50	9.35
1981/82	485	475	960	62	6.46
1982/83	898	622	1520	85	5.59
1983/84	1435	816	2251	148	6.57
1984/85	2103	1201	3304	141	4.27
1985/86	3163	1154	4317	208	4.82
1986/87	4109	1369	5478	442	8.07

Source : Computed from unpublished data (BSRS).

Even then one may argue that the magnitude of defaults, however great it may be, is restricted only to a section of wilful defaulters to whom the word 'entrepreneurs' can hardly be applicable. Previous BIDS studies have pointed out that poor repayment performances do not differentiate between the size of the enterprises, its location, sectoral bias, status of implementation or occupational background of the 'entrepreneurial' class as a whole.⁷ However, it is argued in some quarters that during the last three years vigorous actions have been taken against the defaulters and 'entrepreneurs' have been provided sufficient incentives to persuade them to improve their repayment performance. With a view to test this hypothesis, we have analysed the repayment performance of individual projects captured by our sample. Results of the analysis are reported in Section III.

III.

Repayment Trends in General (Sample Projects)

Before we proceed to look at the repayment performance in relation to the respective DFIs, we will first attempt to capture the aggregate repayment scenario

⁷(a) *Op. cit.* R. Sobhan and S.A. Mahmood, *Repayment of Loans*, (b) *Op. cit.* R. Sobhan and A. Ahsan, *Repayment Performance*, (c) R. Sobhan and B. Sen, *The Social Background of Entrepreneurship in Bangladesh : An Occupational Profile of Borrowers from the DFIs*, BIDS, Research Report No. 71, January, 1988.

TABLE III
AGGREGATE REPAYMENT SCENARIO FOR FY 1986/87
(BSB & BSRS)

	1	BSRS		3	BSB*		Both DFIs		9
		Public	Private	Total	Public	Private	Public	Private	
1. Total Overdues at the Beginning of FY 86/87	531.835	4108.517		4640.352	46	2627	577.835	6735.517	7313.352
2. Total Falling Due in 1986/87	146.203	1368.960		1515.163	62	1653	208.203	3201.96	3230.163
3. Total Recoverable Amount in FY 1986/87 (1+2)	678.038	5477.477		6155.515	108	4280	786.038	9757.477	10543.515
4. Total Cash Recovery	77.053	441.611		518.664	42	573	119.053	1014.611	1133.664
5. Total Overdues at the End of FY 1986/87	600.985	5635.866		5636.851	66	3707	666.985	8742.866	9409.851
6. Rate of Repayment (4÷3)	11.36	8.06		8.43	39	13.39	15.15	10.40	10.75

* Figures for BSB are rounded up.

Source : BSB & BSRS.

for the total number of sample projects. Because of differences in the sectoral classification list made by the DFIs, certain adjustments have been made for the sake of aggregation and comparability. Sectors such as Electrical products (including Machinery and Spares), Rubber, Forest and Wood are bracketed into a single category of 'Miscellaneous' sectors. It may be mentioned that the weight of these sectors in the total sample is negligible.

Tables IV and V represent the current repayment position (RP_1) for DFI sponsored projects (BSB and BSRS combined together) for 1984/85 and 1985/86 respectively. We find that in 1984/85 out of 511 projects in the sample only 41 projects (8.01%) have repaid their entire current dues as against 171 projects (33.46%) which have repaid nothing against their current dues to the DFIs. The situation has marginally improved in 1985/86, whereby the above figures stand at 11.16% and 31.31% respectively. This observation retains its validity even if we consider the proportion of loanees who have repaid less than 50% of their current dues (65.55% in 1984/85 as against 62.42% in 1985/86).

However as we have noted earlier repayment indicators based on the measurement of current dues do not consider the factor of accumulated overdues. From Tables VI and VII one can observe that in terms of the second repayment (RP_2) indicator, the proportion of the loanees who have repaid their entire dues is negligible (3.13% in 1984/85 and 3.94% in 1985/86). This indicates that inferences drawn from the measurement of current dues may be rather illusory. It may be noted that the proportion of loanees who have repaid less than 50% of what has been due from them is also substantially higher according to the RP_2 measure when compared to the RP_1 indicator (78.08% *vis-a-vis* 65.55% for 1984/85 and 74.19% as against 62.42% for 1985/86). Yet another aspect of the repayment trend in general is that out of 511 projects in our sample only a very few appear to present a reasonably acceptable repayment performance [$CP/TRA > 75\%$]. That the weight of this category of loanees has improved by 1.76% in 1985/86 when compared to 1984/85 is hardly encouraging, because only a very small percentages of loanees fall in this group (5.67% in 1984/85 and 7.43% in 1985/86).

This gloomy picture of repayments in case of private sector projects confirms the persistence of a very high incidence and scale of default by DFI borrowers. Not unjustifiably it casts serious doubts on the effectiveness of the present policy measures pursued by GOB under pressure from external donor agencies and directed towards expediting the process of loan recovery.

Repayment Trends by Lending Institutions (Sample Projects)

In this section we attempt to analyse whether any discernible behavioural pattern of repayments can be discerned from the respective lending operations of the two DFIs. To this end a disaggregation of RP indicators (both RP_1 and RP_2) has been carried out and assembled separately for BSB and BSRS in Tables VIII through XV.

As is seen from the tables, whilst the repayment performance for both DFIs does not leave much to choose between them, on balance the BSRS projects appear to have a poorer record than those of BSB. If we look at the two extremes of the repayment spectrum of 1985/86 it would appear that only 1.23% of BSRS

TABLE IV
SECTOR-WISE DEGREE OF REPAYMENT (CP/CD) 1984/85 (BSB & BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	47 (51.65)	9 (9.59)	6 (6.59)	11 (12.08)	3 (3.3)	5 (5.49)	7 (7.7)	3 (3.3)	91 (100.00)
Food	58 (37.71)	19 (12.42)	24 (15.64)	8 (5.23)	7 (4.58)	3 (1.96)	7 (4.56)	27 (17.65)	153 (100.00)
Jute	12 (38.7)	5 (10.13)	2 (6.45)	6 (19.35)	2 (66.45)	-	2 (6.46)	2 (6.45)	31 (100.00)
Service	15 (20.55)	6 (8.21)	7 (9.59)	8 (10.96)	5 (6.85)	6 (8.22)	10 (13.70)	16 (21.92)	73 (100.00)
Chemical + Pharma.	9 (26.47)	5 (14.71)	1 (2.94)	3 (8.82)	1 (2.94)	-	2 (5.88)	13 (38.24)	34 (100.00)
Paper	3 (16.67)	-	4 (22.22)	1 (5.56)	-	-	2 (11.11)	8 (44.44)	18 (100.00)
Textile	12 (21.43)	2 (3.57)	9 (16.07)	11 (19.64)	8 (14.29)	1 (1.79)	6 (10.71)	7 (12.50)	56 (100.00)
Leather	1 (11.11)	2 (22.22)	1 (11.11)	-	1 (11.11)	-	3 (33.34)	1 (11.11)	9 (100.00)
Metal	7 (43.75)	-	4 (25.00)	-	1 (6.25)	-	1 (6.25)	3 (18.75)	16 (100.00)
Non-metal	2 (25.00)	2 (25.00)	-	1 (12.5)	-	-	-	3 (37.5)	8 (100.00)
Misc.	5 (22.73)	2 (9.09)	3 (13.64)	2 (9.09)	2 (9.09)	-	1 (4.55)	7 (31.81)	22 (100.00)
Total	171 (33.46)	52 (10.18)	61 (11.94)	51 (9.98)	22 (5.87)	15 (2.94)	41 (8.02)	90 (17.61)	511 (100.00)

Source : Sample Survey, BIDS.

TABLE V
SECTOR-WISE DEGREE OF REPAYMENT (CP/CD) 1985/86 (BSB & BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	43 (47.25)	5 (5.49)	5 (5.49)	13 (14.3)	6 (6.59)	1 (1.1)	12 (13.09)	6 (6.59)	91 (100.00)
Food	62 (40.52)	21 (13.73)	17 (11.11)	13 (8.5)	7 (4.58)	1 (4.56)	7 (16.34)	25 (16.34)	153 (100.00)
Jute	7 (22.58)	6 (19.35)	9 (29.03)	4 (12.9)	1 (3.23)	-	1 (3.23)	3 (9.68)	31 (100.00)
Service	10 (13.7)	9 (12.33)	6 (8.22)	8 (10.96)	6 (8.22)	5 (6.85)	14 (19.18)	15 (20.55)	73 (100.00)
Chemical +	5 (14.71)	6 (17.65)	2 (5.88)	4 (11.76)	1 (2.94)	1 (1.94)	5 (14.71)	10 (29.41)	34 (100.00)
Pharma.	6 (33.33)	1 (5.56)	-	-	2 (11.11)	1 (5.56)	3 (16.67)	5 (27.77)	18 (100.00)
Paper	14 (25.00)	2 (3.57)	6 (10.71)	8 (14.29)	7 (12.5)	5 (8.93)	7 (12.50)	7 (12.5)	56 (100.00)
Textile	1 (11.11)	-	1 (11.11)	-	4 (44.45)	-	2 (22.22)	1 (11.11)	9 (100.00)
Leather	5 (31.25)	1 (6.25)	2 (12.5)	-	1 (6.25)	-	3 (18.30)	4 (25.00)	16 (100.00)
Metal	3 (37.5)	2 (25.00)	1 (12.5)	-	-	-	1 (12.5)	1 (12.5)	8 (100.00)
Non-metal									
Misc.	4 (18.18)	5 (22.73)	2 (9.09)	-	3 (13.63)	-	2 (9.10)	6 (27.27)	22 (100.00)
Total	160 (31.31)	58 (11.35)	51 (9.98)	50 (9.78)	38 (7.44)	14 (2.74)	57 (11.16)	83 (16.24)	511 (100.00)

Source : Sample Survey, BIDS.

TABLE VI
SECTOR-WISE DEGREE OF REPAYMENT (CP/TRA) 1984/85 (BSB & BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	46 (50.55)	19 (20.88)	13 (14.29)	2 (2.2)	3 (3.3)	4 (4.4)	2 (1.18)	2 (2.2)	91 (100.00)
Food	55 (35.95)	49 (32.03)	15 (9.8)	6 (3.92)	3 (1.86)	2 (1.31)	2 (1.31)	21 (13.72)	153 (100.00)
Jute	11 (35.48)	8 (25.81)	4 (12.9)	4 (12.9)	1 (3.23)	1 (3.23)	2 (6.45)	-	31 (100.00)
Service	15 (20.55)	19 (26.03)	9 (12.33)	5 (6.85)	3 (4.11)	4 (5.48)	5 (6.85)	13 (17.8)	73 (100.00)
Chemical+ Pharma.	10 (29.41)	7 (20.59)	6 (17.65)	-	1 (2.94)	-	2 (5.88)	8 (23.53)	34 (100.00)
Paper	4 (22.22)	3 (16.67)	3 (16.66)	1 (5.56)	-	1 (5.66)	-	6 (33.33)	18 (100.00)
Textile	13 (23.21)	11 (19.64)	17 (30.36)	7 (12.5)	3 (5.56)	1 (1.79)	-	4 (7.14)	56 (100.00)
Leather	1 (11.11)	3 (33.34)	1 (11.11)	1 (11.11)	1 (11.11)	-	1 (11.11)	1 (11.11)	9 (100.00)
Metal	7 (43.75)	4 (25.00)	-	-	2 (12.5)	-	1 (6.25)	2 (12.5)	16 (100.00)
Non-metal	2 (25.00)	3 (37.5)	1 (12.5)	-	-	-	-	2 (25.00)	8 (100.00)
Misc.	5 (22.72)	4 (18.18)	4 (18.18)	1 (4.55)	-	-	1 (4.55)	7 (31.82)	22 (100.00)
Total	169 (33.07)	130 (25.44)	73 (14.29)	27 (5.28)	17 (3.32)	13 (2.54)	16 (3.13)	66 (12.92)	511 (100.00)

Source : Sample Survey, BIDS.

TABLE VII
SECTOR-WISE DEGREE OF REPAYMENT (CP/TR) 1985/86 (BSB & BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	43 (47.25)	14 (15.38)	16 (17.58)	5 (15.49)	4 (4.4)	2 (2.2)	3 (3.3)	4 (4.4)	91 (100.00)
Food	59 (38.56)	45 (29.41)	16 (10.46)	4 (2.61)	2 (1.31)	4 (2.31)	2 (1.31)	21 (13.73)	153 (100.00)
Jute	6 (19.35)	13 (41.94)	7 (22.58)	-	2 (6.45)	-	1 (3.23)	2 (6.45)	31 (100.00)
Service	11 (15.07)	19 (26.03)	6 (8.22)	5 (6.85)	8 (10.96)	5 (6.84)	4 (5.48)	15 (50.55)	73 (100.00)
Chemical+	3 (8.82)	10 (29.41)	3 (8.82)	1 (2.95)	3 (8.82)	2 (5.89)	3 (8.82)	9 (26.47)	34 (100.00)
Pharma.	6 (33.33)	1 (5.56)	2 (11.11)	1 (5.56)	1 (5.56)	1 (5.55)	1 (5.55)	5 (27.78)	18 (100.00)
Paper	14 (25.00)	9 (6.07)	11 (19.64)	12 (21.42)	1 (1.79)	1 (1.79)	1 (1.79)	7 (12.5)	56 (100.00)
Textile	1 (11.11)	1 (11.11)	3 (33.34)	-	2 (22.22)	-	1 (11.11)	1 (11.11)	9 (100.00)
Leather	4 (25.00)	3 (18.75)	1 (6.25)	-	-	1 (6.25)	4 (25.0)	3 (18.75)	16 (100.00)
Metal	3 (37.5)	3 (37.5)	1 (12.5)	1 (12.5)	-	-	-	-	8 (100.00)
Non-metal	5 (22.73)	5 (22.73)	-	2 (9.09)	2 (9.09)	2 (9.09)	-	6 (27.27)	22 (100.00)
Misc.	155 (30.33)	123 (24.07)	66 (12.92)	31 (6.07)	25 (4.89)	18 (3.52)	20 (3.91)	73 (14.29)	511 (100.00)
Total									

Source : Sample Survey, BIDS.

TABLE VIII
SECTOR-WISE DEGREE OF REPAYMENT (CP/TR) 1984/85 (BSB)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Food	36 (38.29)	20 (21.28)	10 (10.64)	5 (5.32)	2 (2.13)	2 (2.13)	2 (2.13)	17 (18.08)	94 (100.00)
Transport	24 (47.06)	8 (15.69)	9 (17.65)	1 (1.96)	3 (5.88)	3 (5.88)	1 (1.96)	2 (3.92)	51 (100.00)
Service	12 (19.05)	17 (26.98)	8 (12.7)	5 (7.94)	3 (4.76)	3 (4.76)	4 (6.35)	11 (17.46)	63 (100.00)
Jute	5 (29.41)	5 (29.41)	3 (17.65)	3 (17.65)	-	-	1 (5.88)	-	17 (100.00)
Chemical+	4 (18.18)	4 (18.18)	5 (22.73)	-	1 (4.55)	-	2 (9.09)	6 (27.27)	22 (100.00)
Pharma.	4 (26.66)	1 (6.67)	2 (13.33)	1 (6.67)	-	1 (6.67)	-	66 (40.00)	15 (100.00)
Paper	8 (18.6)	8 (18.6)	14 (32.56)	6 (13.95)	2 (4.65)	1 (2.33)	-	4 (9.3)	43 (100.00)
Textile	2 (22.23)	3 (33.33)	-	-	1 (11.11)	-	1 (11.11)	2 (22.22)	9 (100.00)
Metal	1 (16.67)	2 (33.33)	1 (16.67)	-	-	-	-	2 (33.33)	6 (100.00)
Non-metal	2 (15.39)	2 (15.38)	4 (30.77)	1 (7.69)	-	-	1 (7.69)	3 (23.08)	13 (100.00)
Elec. Products & M/C Spares	2 (28.57)	2 (28.57)	-	-	-	-	-	3 (42.86)	7 (100.00)
Forest	1 (50.00)	-	-	-	-	-	-	1 (50.00)	2 (100.00)
Rubber	1 (14.28)	2 (28.57)	-	1 (14.28)	1 (14.29)	-	1 (14.29)	1 (14.29)	7 (100.00)
Tannery	102 (29.23)	74 (21.2)	56 (16.05)	23 (6.59)	13 (3.72)	10 (2.87)	13 (3.72)	58 (16.62)	349 (100.00)
Total									

Source : Sample Survey, BIDS.

projects have liquidated their current dues and overdues in full as against 5.16% in the case of BSB projects. On the other hand as many as 32.10% of the BSRS projects have not repaid their dues at all compared to 29.51% in case of BSB. Again whilst 70.48% of BSB projects have repaid less than 50% of dues this same group includes as many as 79.63% of the BSRS projects (See Tables IX and XI).

The poorer performance by BSRS projects also becomes evident when we compare 1984/85 repayment data with the figures available for 1985/86. The proportion of loanees who appear to present a reasonably acceptable repayment performance [i.e. $CP/TRA \geq 75\%$] went up by 2.58% in case of BSB during 1985/86 when compared to the previous year. On the contrary the weight of this group in the BSRS sample has remained virtually stagnant at the level of 3.70%. Whilst during the same period the share of the loanees who repaid their entire dues has risen from 3.72% to 5.16% in case of BSB, the reverse is the case for the BSRS sample projects, and the weight of this group appears to have dropped from 1.85% to 1.23%.

However, one should register a note of caution whilst analysing the relative performance in loan recovery by the two DFIs. For instance, in case of BSB, as one can observe from Tables VIII and IX, the proportion of loanees who have abstained from repaying any part of their dues remains virtually stable during these years (29.23% in 1984/85 and 29.51% in 1985/86). If we take only this criterion into account, it would appear that BSRS projects have performed better than those of BSB. The share of absolute defaulters who abstained from any repayment has declined from 41.36% to 32.10% in the case of BSRS. This seemingly erratic behaviour in repayment performance measured in terms of different indicators implies that none of the DFIs could launch an effective programme of loan recovery. Whilst some success has been achieved in arresting the number of defaulters falling into the zero repayment group, the rate of loan recovery is indeed very low for both the DFIs.

Data presented in Table XVI shows that the frequency distribution of the different magnitude of defaults among the loanees of DFIs followed a consistent pattern during the last five years. Although the size of the sample varies in different BIDS surveys (from 400 to 511 projects), the sample size is quite significant. Moreover repayment indicators were calculated on a single methodological basis which facilitates intertemporal comparison. Table XVI indicates that the proportion of loanees who have repaid their entire annual liabilities (i.e., when $RP = 100\%$) remains restricted to the boundary of 3 to 6%. This is also true for other fractile groups of repayment indicators.

It is equally disturbing to note that the proportion of loanees in the zero repayment group has increased from a level of 27.5% in 1980/81 to 30.3% in 1985/86. On the other hand, the proportion of loanees who have repaid their full dues has declined from 5.9% to 3.9% between 1981/82 and 1985/86. Both the above mentioned indicators confirms the deteriorating pattern of repayment noted earlier (See, Section II). Table XVI also points out that the incidence of default is all pervasive in nature: about 96% of the DFI loanees are defaulters.

TABLE IX
SECTOR-WISE DEGREE OF REPAYMENT (CP/TRA) 1985/86 (BSB)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Food	36 (38.3)	26 (27.66)	9 (9.57)	2 (2.13)	2 (2.13)	3 (3.19)	2 (2.13)	14 (14.89)	94 (100.00)
Transport	25 (49.02)	6 (11.77)	9 (17.65)	2 (3.92)	3 (5.88)	-	3 (5.88)	3 (5.88)	51 (100.00)
Service	9 (14.29)	15 (23.81)	6 (9.52)	5 (7.94)	8 (12.7)	5 (7.94)	4 (6.34)	11 (17.46)	63 (100.00)
Jute	5 (29.41)	6 (35.3)	5 (29.41)	-	-	-	1 (5.88)	-	17 (100.00)
Chemical+	2 (9.09)	6 (27.27)	2 (9.09)	1 (4.55)	2 (9.09)	1 (4.55)	3 (13.64)	5 (22.72)	22 (100.00)
Pharma.	5 (33.33)	1 (6.66)	1 (6.67)	1 (6.67)	1 (6.67)	1 (6.67)	1 (6.67)	4 (26.66)	15 (100.00)
Paper	10 (23.25)	8 (18.6)	7 (16.28)	11 (25.58)	1 (2.33)	1 (2.33)	1 (2.33)	4 (9.3)	43 (100.00)
Textile	2 (22.23)	1 (11.11)	1 (11.11)	-	-	1 (11.11)	2 (22.22)	2 (22.22)	9 (100.00)
Metal	3 (50.00)	1 (16.66)	1 (16.67)	1 (16.67)	-	-	-	-	6 (100.00)
Non-metal	3 (23.08)	2 (15.39)	-	2 (15.39)	2 (15.38)	2 (15.38)	-	2 (15.38)	13 (100.00)
Elec. Products & M/C Spares	2 (28.57)	2 (28.57)	-	-	-	-	-	3 (42.86)	7 (100.00)
Forest	-	1 (50.00)	-	-	-	-	-	1 (50.00)	2 (100.00)
Rubber	1 (14.29)	-	2 (28.56)	-	2 (28.57)	-	1 (14.29)	1 (14.29)	7 (100.00)
Tannery	103 (29.51)	75 (21.49)	43 (12.32)	25 (7.16)	21 (6.02)	14 (4.01)	18 (5.16)	50 (14.33)	349 (100.00)
Total									

Source : Sample Survey, BIDS.

TABLE X
SECTOR-WISE DEGREE OF REPAYMENT (CP/TRA) 1984/85 (BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	22 (55.00)	11 (27.5)	4 (10.00)	1 (2.5)	-	1 (2.5)	1 (2.5)	-	40 (100.00)
Jute	6 (42.86)	3 (21.43)	1 (7.15)	1 (7.14)	1 (7.14)	1 (7.15)	1 (7.14)	-	14 (100.00)
Textile	5 (38.46)	3 (23.00)	3 (23.08)	1 (7.69)	1 (7.69)	-	-	-	13 (100.00)
Service	3 (30.00)	2 (20.00)	1 (10.00)	-	-	1 (10.00)	1 (10.00)	2 (20.00)	10 (100.00)
Food	19 (32.2)	29 (49.16)	5 (8.48)	1 (1.69)	1 (1.69)	-	-	4 (6.78)	59 (100.00)
Chemical+ Pharma.	6 (50.00)	3 (25.00)	1 (8.33)	-	-	-	-	2 (16.67)	12 (100.00)
Paper	-	2 (66.67)	1 (33.33)	-	-	-	-	-	3 (100.00)
Metal	5 (71.42)	1 (14.29)	-	-	1 (14.29)	-	-	-	7 (100.00)
Leather	-	1 (50.00)	1 (50.00)	-	-	-	-	-	2 (100.00)
Non-metal	1 (50.00)	1 (50.00)	-	-	-	-	-	-	2 (100.00)
Total	67 (41.36)	56 (34.57)	17 (10.49)	4 (2.47)	4 (2.47)	3 (1.85)	3 (1.85)	8 (4.94)	162 (100.00)

Source : Sample Survey, BIDS.

TABLE XI
SECTOR-WISE DEGREE OF REPAYMENT (CP/TRA) 1985/86 (BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	18 (45.00)	8 (20.00)	7 (17.5)	3 (7.5)	1 (2.5)	2 (5.00)	-	1 (2.5)	40 (100.00)
Jute	1 (7.14)	7 (50.00)	2 (14.28)	-	2 (14.29)	-	-	2 (14.29)	14 (100.00)
Textile	4 (30.77)	1 (7.69)	4 (30.77)	1 (7.69)	-	-	-	3 (23.08)	13 (100.00)
Service	2 (20.00)	4 (40.00)	-	-	-	-	-	4 (40.00)	10 (100.00)
Food	23 (38.98)	19 (32.2)	7 (11.87)	2 (3.39)	-	1 (1.69)	-	7 (11.87)	59 (100.00)
Chemical + Pharma.	1 (8.34)	4 (33.34)	1 (8.33)	-	1 (8.33)	1 (8.33)	-	4 (33.33)	12 (100.00)
Paper	1 (33.34)	-	1 (33.33)	-	-	-	-	1 (33.33)	3 (100.00)
Metal	2 (28.57)	2 (28.57)	-	-	-	-	2 (28.57)	1 (14.29)	7 (100.00)
Leather	-	1 (50.00)	1 (50.00)	-	-	-	-	-	2 (100.00)
Non-metal	-	2 (100.00)	-	-	-	-	-	-	2 (100.00)
Total	52 (32.1)	48 (29.63)	23 (14.2)	6 (3.7)	4 (2.47)	4 (2.47)	2 (1.23)	23 (14.2)	162 (100.00)

Source : Sample Survey, BIDS.

TABLE XII
SECTOR-WISE DEGREE OF REPAYMENT (CP/CD) 1984/85 (BSB)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Food	37 (39.36)	7 (7.44)	13 (13.83)	7 (7.45)	5 (5.32)	3 (3.19)	5 (5.32)	17 (18.09)	94 (100.00)
Transport	24 (47.06)	5 (9.8)	4 (7.84)	5 (9.8)	3 (5.88)	4 (7.85)	4 (11.77)	2 (3.92)	51 (100.00)
Service	12 (19.05)	6 (9.52)	7 (11.11)	8 (12.7)	4 (6.35)	5 (7.94)	9 (14.28)	12 (19.05)	63 (100.00)
Jute	5 (29.41)	4 (23.53)	2 (11.77)	3 (13.65)	2 (11.76)	-	1 (5.88)	-	17 (100.00)
Chemical+ Pharma.	3 (13.6)	3 (13.6)	1 (4.55)	3 (13.63)	1 (4.55)	-	2 (9.09)	9 (40.9)	22 (100.00)
Paper	3 (20)	-	2 (13.33)	1 (6.67)	-	-	2 (13.33)	7 (46.67)	15 (100.00)
Textile	7 (16.28)	1 (2.33)	8 (18.6)	11 (25.58)	7 (16.27)	1 (2.33)	4 (9.31)	4 (9.3)	43 (100.00)
Metal	2 (22.23)	-	3 (33.33)	-	1 (11.11)	-	1 (11.11)	2 (22.22)	9 (100.00)
Non-metal	1 (16.66)	1 (16.67)	-	1 (16.67)	-	-	-	3 (50.00)	6 (100.00)
Elec. Products & M/C Spares	2 (15.38)	1 (7.7)	2 (15.38)	2 (15.38)	2 (15.38)	-	1 (7.7)	3 (23.08)	13 (100.00)
Forest	2 (28.58)	1 (14.29)	1 (14.29)	-	-	-	-	3 (42.86)	7 (100.00)
Rubber	1 (50.00)	-	-	-	-	-	-	1 (50.00)	2 (100.00)
Tannery	1 (14.28)	2 (28.57)	-	-	1 (14.28)	-	2 (28.58)	1 (14.29)	7 (100.00)
Total	100 (28.66)	31 (8.88)	43 (12.32)	41 (11.74)	26 (7.45)	13 (3.72)	31 (8.89)	64 (18.34)	349 (100.00)

Source : Sample Survey, BIDS.

TABLE XIII
SECTOR-WISE DEGREE OF REPAYMENT (CP/CD) 1985/86 (BSB)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Food	38 (40.43)	7 (7.45)	10 (10.63)	9 (9.57)	4 (4.26)	1 (1.06)	5 (5.32)	20 (21.28)	94 (100.00)
Transport	25 (49.02)	2 (3.92)	2 (3.92)	7 (13.73)	5 (9.8)	1 (1.96)	5 (9.81)	4 (7.84)	51 (100.00)
Service	8 (12.7)	7 (11.11)	5 (7.94)	7 (11.11)	6 (9.53)	5 (7.94)	14 (22.21)	11 (17.46)	63 (100.00)
Jute	4 (23.53)	2 (11.77)	6 (35.29)	2 (11.77)	1 (5.88)	-	1 (5.88)	1 (5.88)	17 (100.00)
Chemical+ Pharma.	2 (9.09)	4 (18.18)	1 (4.55)	3 (13.63)	1 (4.55)	-	5 (22.73)	6 (27.27)	22 (100.00)
Paper	5 (33.33)	1 (6.67)	-	-	2 (13.33)	-	3 (20.00)	4 (26.67)	15 (100.00)
Textile	9 (20.93)	1 (2.33)	6 (13.95)	7 (16.28)	7 (16.28)	2 (4.65)	7 (16.28)	4 (9.30)	43 (100.00)
Metal	2 (22.23)	-	1 (11.11)	-	1 (11.11)	-	3 (33.33)	2 (22.22)	9 (100.00)
Non-metal	32 (50.00)	-	1 (16.66)	-	-	-	1 (16.67)	1 (16.67)	6 (100.00)
Elec. Products & M/C Spares	3 (23.08)	1 (7.69)	2 (15.38)	-	3 (23.08)	-	2 (15.38)	2 (15.38)	13 (100.00)
Forest	1 (14.28)	3 (42.86)	-	-	-	-	-	3 (42.86)	7 (100.00)
Rubber	-	1 (50.00)	-	-	-	-	-	1 (50.00)	2 (100.00)
Tannery	1 (14.28)	-	-	-	3 (42.86)	-	2 (28.57)	1 (14.29)	7 (100.00)
Total	101 (28.94)	29 (8.31)	34 (9.74)	35 (10.03)	33 (9.46)	9 (2.58)	48 (13.75)	60 (17.19)	349 (100.00)

Source : Sample Survey, BIDS.

TABLE XIV
SECTOR-WISE DEGREE OF REPAYMENT (CP/CD) 1984/85 (BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	23 (57.5)	4 (10.00)	2 (5.00)	6 (15.00)	-	1 (2.5)	3 (7.5)	1 (2.5)	40 (100.00)
Jute	7 (50.00)	1 (7.14)	-	3 (21.43)	-	-	1 (7.14)	2 (14.29)	14 (100.00)
Textile	5 (38.47)	1 (7.69)	1 (7.69)	-	1 (7.69)	-	2 (15.38)	3 (23.08)	13 (100.00)
Food	21 (35.59)	12 (20.34)	11 (18.65)	1 (1.69)	2 (3.39)	-	2 (3.38)	10 (16.96)	59 (100.00)
Chemical+ Pharma. Paper	6 (50.00)	2 (16.67)	-	-	-	-	-	4 (33.33)	12 (100.00)
	-	-	2 (66.67)	-	-	-	-	1 (33.33)	3 (100.00)
Metal	5 (71.42)	-	1 (14.29)	-	-	-	-	1 (14.29)	7 (100.00)
Leather	-	-	1 (50.00)	-	-	-	1 (50.00)	-	2 (100.00)
Service	3 (30.00)	-	-	-	1 (10.00)	1 (10.00)	1 (10.00)	4 (40.00)	10 (100.00)
Non-Metal	1 (50.00)	1 (50.00)	-	-	-	-	-	-	2 (100.00)
Total	71 (43.84)	21 (12.96)	18 (11.11)	10 (6.17)	4 (2.47)	2 (1.23)	10 (6.17)	26 (16.05)	162 (100.00)

Source : Sample Survey, BIDS.

TABLE XV
SECTOR-WISE DEGREE OF REPAYMENT (CP/CD) 1985/86 (BSRS)

RP	0%	01-<10%	10-<25%	25-<50%	50-<75%	75-<100%	100%	n.a.	Total
Sectors									
Transport	18 (45.00)	3 (7.5)	3 (7.5)	6 (15.00)	1 (2.5)	-	7 (17.50)	2 (5.00)	40 (100.00)
Jute	3 (21.43)	4 (28.57)	3 (21.42)	2 (14.29)	-	-	-	2 (14.29)	14 (100.00)
Textile	5 (36.46)	1 (7.69)	-	1 (7.69)	-	3 (23.08)	-	3 (23.08)	13 (100.00)
Food	24 (40.68)	14 (23.73)	7 (11.86)	4 (6.78)	3 (5.08)	-	2 (3.40)	5 (8.47)	59 (100.00)
Chemical+ Pharma.	3 (25.00)	2 (16.67)	1 (8.33)	1 (8.33)	-	1 (8.33)	-	4 (33.34)	12 (100.00)
Paper	1 (33.34)	-	-	-	-	1 (33.33)	-	1 (33.33)	3 (100.00)
Metal	3 (42.86)	1 (14.28)	1 (14.29)	-	-	-	-	2 (28.57)	7 (100.00)
Leather	-	-	1 (50.00)	-	1 (50.00)	-	-	-	2 (100.00)
Service	2 (20.00)	2 (20.00)	1 (10.00)	1 (10.00)	-	-	-	4 (40.00)	10 (100.00)
Non-metal	-	2 (100.00)	-	-	-	-	-	-	2 (100.00)
Total	59 (36.41)	29 (17.9)	17 (10.49)	15 (9.26)	5 (3.09)	5 (3.09)	9 (5.56)	23 (14.2)	162 (100.00)

Source : Sample Survey, BIDS.

TABLE XVI
 FREQUENCY DISTRIBUTION OF DIFFERENT MAGNITUDE OF DEFAULTS
 AMONG THE LOANEES OF DFIs
 (BSB & BSRS)

(figures represent percentages)

Fiscal Year	Weight of Loanees by Different RP* Groups			
	RP=0	RP<50	RP<75	RP=100
1980/81	27.5	78.7	n.a.	5.9
1983/84	6.8	81.4	9.2	3.5
1984/85	33.0	78.1	5.7	3.1
1985/86	30.3	73.4	7.4	3.9

*Repayment Indicator (RP) represents cash recovery as percentage of total recoverable amount.
 Source : Sample Survey, BIDS.

Overdues Classified by Lending Institutions (Sample Projects)

We turn now to the sectoral breakdown of aggregate adjusted overdues for the sample projects reported as on 30th June 1985 and 30th June 1986 for both BSB and BSRS separately.

If we look at the bottom of Tables XVII and XVIII, we can note that the amount of overdues has grown over time in case of both the DFIs. In 1984/85 BSB sponsored projects have recorded overdues of Tk. 1129.59 million at the years end, whilst the figure went up to a total of Tk. 1458.33 million in 1985/86. It is implicit in these figures that the amount of overdues has escalated by about 29% in just one year. In comparison to BSB, the projects financed by BSRS have contributed to a further build up of overdues at the years end. The rate of growth of overdues is also relatively high for BSRS (40% *vis-a-vis* 29%). The total amount of overdues measured as against our BSRS sample stood at Tk. 1677.36 million and Tk. 2342.88 million in 1984/85 and 1985/86 respectively.

We have combined the above mentioned figures in Table XIX to present an aggregate picture of the burden of overdues on the DFIs. As can be seen from the table, the amount of overdues was approximately Tk. 2807 million in 1984/85. By 30th June, 1986 the overdues had reached a level of Tk. 3801 million implying a yearly increase of 35%.

In the present paper whilst we have not specifically intended to analyse the pattern of sectoral repayments, it may be of some worth to briefly review the shifts that are taking place in the sectoral breakdown of overdues over time. To this end we have presented in Table XX a summary of the changing composition of overdues classified by sectors for the FY 1983/84, 1984/85 and 1985/86.

TABLE XVII
OVERDUES CLASSIFIED BY SECTORS
(FOR SAMPLE PROJECTS OF BSB)

(in thousand taka)

Sl. No.	Name of the Sectors	Amount of Overdues	
		As on 30.6.85	As on 30.6.86
1.	Food	309378	439913
2.	Textile	135473	171732
3.	Service	62361	74764
4.	Chemical & Pharmaceutical	117523	129712
5.	Paper	74694	84134
6.	Transport	124366	131610
7.	Metal	5179	6472
8.	Leather	27652	29018
9.	Non-metal	7988	7901
10.	Jute	236241	339826
11.	Forest & Wood	1670	3563
12.	Electrical goods & spares	22636	33898
13.	Rubber	4428	5784
	Total	1129589	1458327

Source : Sample Survey, BIDS.

Table XX shows that an overwhelming portion of the overdues belong to five sectors. These are - Food, Textile, Chemical & Pharmaceutical, Transport and Jute sectors. When considered together the share of these sectors increases from a level of 75.68% in 1983/84 to 86.88% in 1984/85 and still rises further to 87.27% by 1985/86. One can observe differences in the degree of concentration of overdues among these sectors. The Jute and the Food sectors account for more than half of the accumulated overdues. For instance, the weight of the Jute sector has increased from 20.72% in 1983/84 to 27.22% in 1985/86. The same applies for the Food sector, in which case the respective figures are 19.12% and 27.95%.

On the other hand, the weightage of the Textile and Chemical & Pharmaceutical sectors has fallen appreciably during the same period. The share of the Textile sector has declined from 18.16% in 1983/84 to a level of 9.19% in 1985/86. The respective figures for the Chemical and Pharmaceutical sector are 11.60% and 9.94%. The weight of the Transport sector records a slight decline in 1985/86 when compared to 1984/85, but remains higher than it is in 1983/84 (13.06% as against 11.08%).

TABLE XVIII
OVERDUES CLASSIFIED BY SECTORS
(FOR SAMPLE PROJECT OF BSRS)

(in thousand taka)

Sl. No.	Name of the Sectors	Amount of Overdues	
		As on 30.6.85	As on 30.6.86
1.	Food	420685	622523
2.	Textile	120081	177501
3.	Service	58477	94618
4.	Chemical & Pharmaceutical	192681	248093
5.	Paper	28595	30492
6.	Transport	310722	364765
7.	Metal	29072	47370
8.	Leather	30447	37345
9.	Non-metal	14931	25286
10.	Jute	471670	694890
	Total	1677361	2342883

Source : Sample Survey, BIDS.

However the sectoral breakdown of overdues may not entirely be acceptable as a sufficient indicator of repayment performance. A high amount of overdues in any one sector may simply be explained by the high amount of loans initially sanctioned and due in that sector. Moreover the policy of rescheduling/rephasements pursued by the DFIs had an obvious impact on the total amount of overdues accumulated in one or another sector.

Impact of Rescheduling/Rephasements

It has been noted earlier that rescheduling/rephasements are usually treated by the DFIs as a part of loan recovery. Thus official figures provided by the DFIs tend to inflate the actual amount of loan recovery made. It is disturbing to note that the effect of this understatement of overdues has accumulated over the years. To illustrate the extent of understatement of overdues we present the following figures for rephasements calculated for BSB projects covered by our sample. In 1984/85 the rephased amount stood at a level of Tk. 39.56 million, while in 1985/86 it has gone up sharply to Tk. 196.45 million.

From Table XXI one can see that the entrepreneurs engaged in Jute, Textile, Chemical and Pharmaceutical and Food sectors have been the major beneficiaries of the rescheduling/rephasements. The share of the jute sector in the total rephased

TABLE XIX
OVERDUES CLASSIFIED BY SECTORS
(FOR SAMPLE PROJECTS OF BSB & BSRS)

(in thousand taka)

Sl. No.	Name of the Sectors	Amount of Overdues	
		As on 30.6.85	As on 30.6.86
1.	Food	730063	1062436
2.	Textile	255554	349233
3.	Service	120838	169382
4.	Chemical & Pharmaceutical	310204	377805
5.	Paper	103289	114626
6.	Transport	435088	496375
7.	Metal	34251	53842
8.	Leather	58099	66363
9.	Non-metal	22919	33187
10.	Jute	707911	1034716
11.	Misc.*	28734	43245
	Total	2806 950	3801 210

* Miscellaneous sector includes rubber, wood and electrical goods.

Source : Sample Survey, BIDS.

amount has remained fairly stable during the last three years (about 21%). While in 1984/85 the major share of rephasements was enjoyed by the Chemical and Pharmaceutical sector, in 1985/86 the textile sector emerges as the most important beneficiary of the loan rephasements.

Rephasement and Losses in the Jute Sector

Although it is difficult to discern any consistent bias in the sectoral distribution of the rephasements, amongst the privately owned mills, the Jute and Textile sectors have been more conspicuously benefitted by the policy of rescheduling/rephasements as can be seen from Table XXI. With regard to the Textile sector one hardly finds any specific reason to account for its large share in the rephasements in 1985/86. In the case of the Jute sector, however, it is usually argued that the jute mills have incurred huge losses during 1984/85 and 1985/86. In 1984/85 the jute mills claimed to have suffered from the high price of raw jute in the internal market, while in 1985/86 they incurred losses due to the very low prices of jute and jute goods in the export market. On a closer scrutiny it would appear that the extent of losses stated by the DFI sponsored jute mills (including denationalised ones) in

TABLE XX
 SECTORAL COMPOSITION OF OVERDUES
 (BSB & BSRS)

(in percentages)

Sl. No.	Name of the Sectors*	Breakdown of Overdues by Sectors		
		As on 30.6.84	As on 30.6.85	As on 30.6.86
1.	Food	19.12	26.01	27.95
2.	Textile	13.16	9.10	9.19
3.	Service	4.40	4.30	4.46
4.	Chemical & Pharmaceutical	11.60	11.05	9.94
5.	Paper	8.42	3.68	3.01
6.	Transport	11.08	15.50	13.06
7.	Metal	4.36	1.22	1.42
8.	Leather	1.15	2.07	1.75
9.	Non-metal	3.39	0.83	0.87
10.	Jute	20.72	25.22	27.22
11.	Misc.*	2.60	1.02	1.13
	Total	100.00	100.00	100.00

*'Petrochemical' sector is included in 'Non-metal' and Sector like 'Rubber', 'Wood', 'electrical goods' have been merged with 'Miscellaneous sectors' for the sake of comparability.

Source : Sample Survey, BIDS.

the private sector is unduly exaggerated. To that end a recent BIDS study on the private sector jute spinning mills has noted that 'there has been a disagreement between the Bangladesh Bank and Jute Spinners Association regarding the loss per unit of production. The Association claimed a figure of about taka 8500 per MT while the Bank sources put it at taka 2700 per MT'.⁸

While assessing the amount of loss per unit of production the central issue apparently lies in the relative magnitude of overstatement of purchase price of raw jute in 1984/85. On an average the purchase price of jute is believed to have been overstated by a margin of about 24% by the private millowners.⁹ In reality, the extent of overstatement would be much higher. Firstly, there are considerable variations in the statement regarding purchase price of raw jute amongst different private millowners. Secondly, the amount of 'losses' would largely depend on the month for which the grower's level price of jute is to be taken into consideration.

⁸Atiq Rahman, *The Jute Spinning Industry in Bangladesh: The Problems and Prospects*, Research Report No. 56, March 1987, p. 28.

⁹*Ibid*, p. 29.

TABLE XXI
SECTORAL BREAKDOWN OF OVERDUES REPHASED/RESCHEDULED
 (FOR SAMPLE PROJECTS OF BSB)

(in thousand taka)

Name of the Sectors	Amount of Overdues Rephased/Rescheduled	
	1984/85	1985/86
Food	1206	53826
Textile	2617	54412
Service	3017	11320
Chemical & Pharmaceutical	12208	51
Paper	—	117
Transport	6928	26708
Non-metal	—	1855
Petro Chemical	1073	784
Jute	8615	42841
Electrical Machineries & Spares	3893	4538
Total	39557	196452

Source : Sample Survey, BIDS.

The average purchase price of raw jute which is stated by the private millowners stands at a level of Tk. 18,456 per MT, i.e., about 683 Tk/md. Bangladesh Bureau of Statistics data show that the peak price in the raw jute market has been observed during the month of February and the price was about 591 Tk./md. Now it is well known that 50% of the raw jute production is marketed within the period of July-September.¹⁰ In 1984/85, the average market price of raw jute during the month of September was about 414 Tk/md. If one takes this price into consideration it would appear that the amount of losses shown by the private millowners has been overstated by 65% when compared to the actual purchasing cost. In view of the fact that in 1984/85 export prices of raw jute and jute goods were relatively high due to excess foreign demand, one would expect that not all private sector mills were running at a loss and some of them may even have earned profits.

In contrast to this, public sector mills might have incurred losses because they are liable to buy raw jute from private jute traders at a time when the domestic price is very high. It may be noted that about 70-80% of domestic jute procurement is under the control of private jute traders-cum-millowners. Under the circumstances

¹⁰S.H. Rahman, *Analysis of Seasonal Jute Price Behaviour*, Jute Policy Studies 1, August 1985, p. 3 (mimeo).

BJMC and BJC could not possibly avoid the risk of high costs of production during 1984/85.

The Costs of Improving Loan Repayment

Another disquieting aspect of the policy of rescheduling and rephasesments is the growth in the volume of loans rescheduled/rephased in the defaulters' favour over the years. For instance, in FY 1985/86, BSB has rephased an amount of taka 52 crores of overdues. By the end of FY 1986/87, the volume of rephased loans has increased to a level of taka 82 crores (See, Table XXII). As regards BSRS, the growth was even more spectacular. Prior to FY 1983/84, BSRS had rephased a very marginal amount of overdues (if at all). However, by the end of FY 1986/87, an amount of Tk. 60 crores has been rescheduled in favour of the private sector. If one compares these values with the amounts recovered during the FY 1986/87 (See, Table III), it will be revealed that to recover an amount of Taka 44 crores, BSRS had to rephase another 60 crores of taka from the overdues account of the loanees. Similarly, BSB had to resort to a massive rephasesments involving Taka 82 crores of overdues so as to induce the delinquent defaulters to repay about Taka 57 crores. Obviously, such a trade-off between 'rephasesments' and 'repayment' can not continue for an indefinite period. Such a policy would eventually lead to a more acute liquidity crisis for the DFIs in the near future. One of the ways by dint of which the DFIs are trying to evade such a dire consequence is the escalation of the recovery of loans through the implementation of various legal measures against the wilful defaulters. We will now turn to this issue.

IV.

Loan Recovery through Legal Actions

During the last three years GOB has repeatedly voiced its commitments to initiate vigorous legal actions against the defaulters. This has been recorded both in the MOU 1985 and in a number of reports prepared by the GOB for the Bangladesh Aid Consortium. It was expected that the legal measures pursued by the DFIs would result in a strengthening of financial discipline and greater loan recovery. Legal actions were initiated at a time when the usual economic measures of incentives and disincentives extended by the DFIs failed to produce any significant sign of improvement in the rate of loan recovery. Moreover, the situation was further aggravated by the decision of major donor agencies to continue with their freeze of new credit commitments to the DFIs for onward lending. Under the circumstances the GOB felt the compulsion to announce an 'action programme' of loan recovery in June 1985.

By the end of FY 1986/87, loan recovery through 'legal actions' became a widely publicised affair. Auction notices concerning the defaulting projects appeared almost periodically on the front pages of major daily newspapers. The issue was frequently addressed by various political leaders both in and outside the parliament. The measures taken up by the GOB also attracted the attention of external donors. For instance, in a document published in March 1987, the World Bank observed

TABLE XXII
AMOUNT OF LOAN RESCHEDULED/REPHASED DURING 1985/86
AND 1986/87 (BSB & BSRS)

(Taka in million)

		BSB		BSRS	
		FY 1985/86	FY 1986/87	FY 1985/86	FY 1986/87
(a)	Principal Overdues	140.96	438.85	65.402	396.272
(b)	Interest Overdues	376.71	387.96	35.219	205.098
(c)	Total	517.67	826.81*	100.621	601.370

* Includes Tk. 151.88 mln. (principal Tk. 135.13 mln. and interest Tk. 16.75 mln.) being the subsidy of the Govt. on account of Jute mills adjusted against the debt service liability of the bank to the Govt.

Source : BSB & BSRS.

that 'over recent months, the Government has taken important preliminary steps towards restoring discipline in financial markets'. Key elements of such an 'action programme' included, among others, measures enhancing the legal powers of the DFIs' and, 'applying a variety of pressure on defaulters'. As a part of their illustration of such an 'action programme' the Bank noted that, 'in mid-1986 requests to take over twenty defaulters' projects were approved expeditiously and action has already been taken against most of them.'¹¹

In the present section, operating within the limitations of the data source, we have attempted to analyse whether, and to what extent, the various legal measures initiated by the DFIs had any impact upon the overall rate of loan recovery.

Table XXIII provides an overview of various legal actions taken by the DFIs against defaulters by indicating the magnitudes of different indicators as of 30th June 1987. It appears from Table XXIII that the DFIs have filed legal cases against numerous defaulters. Almost 50% of total projects financed by the DFIs have been subject to legal action. However only 22% of the project related cases were declared as settled, where both the parties arrived at a mutual settlement as regards the terms and conditions of repayment of overdues. Of these 'settled' cases the actual number of decrees obtained in favour of the DFIs from the courts represents only an insignificant part of the total number of such 'settled' cases. The modest impact of the legal system owes to a number of reasons.

Firstly, the filing of suits against the defaulters is usually viewed by the DFIs as a means of putting pressure on the latter, so that special efforts are made towards

¹¹World Bank, *Bangladesh: Promoting Higher Growth and Human Development*, Vol. 1, March 1987, p. 80.

TABLE XXIII
SCENARIO OF LEGAL ACTIONS AGAINST DEFAULTERS OF DFIs DURING FY
1986/87

(Figures are rounded up; Taka in million)

		Position As of 30.6.87		
Indicators		BSB	BSRS	BSB+BSRS
1.	Total No. of Suits	374	74	448
2.	Number of Cases Pending	305	61	366
3.	Number of Cases Settled During FY 86/87	69	13	82
4.	Total Amount Claimed, taka	1369	2323	3692
	-for pending cases	1142	1413	2556
	-for settled cases	227	910	1137
5.	Total Cash Recovery	111	62	173
	-for settled cases	n.a.	41	n.a.
6.	Cash Recovery as % of Total Claimed Amount	8.11	2.67	4.69
7.	Cash Recovery as % of Claimed Amount (for settled cases)	n.a.	4.51	n.a.

Source : Law Departments, BSB & BSRS (unpublished data).

ab initio reaching a mutual settlement between the DFI and the defaulter as quickly as possible. Usually for a case to be settled through a decree of the court takes no less than 3 to 5 years. In recent months a legal framework is gradually being worked out with a view to expediting the processing of the cases. Even then, one may argue that the philosophy of the DFIs would remain largely unchanged. They would continue to prefer to come to a temporary settlement with delinquent borrowers rather than have to 'take-over' the defaulting projects. This attitude of the DFIs is conditioned by the overall policy pursued by the regime to foster the growth of a capitalist class. Indeed in the prevailing climate of disinvestment the DFIs would have been embarrassed to resume control of such assets. This is precisely what happened with the cases under article-34. Article-34 provides the legal power to the DFIs to take over the management and administration of the defaulting industrial concern, and the DFIs may sell-off or realise any property pledged, hypothecated or assigned by the industrial concern to secure its liability

to the Bank. Clause (5) of article-34 clearly states that such a take over 'shall not be called in question in or before any court'.¹²

It seems that proper enactment of article-34 alone in case of wilful defaulters with a high magnitude of defaults would have provided an effective basis for increasing the rate of loan recovery. Contrary to expectations, the cases filed under article-34 from inception upto the 30th June 1987 are strikingly small in number—20 for BSRS and 15 for BSB. Usually the decision by the DFIs to apply article-34 requires a prior clearance of the Government (a provision not stipulated in the Order). It is generally held that the clearance to the DFIs is traditionally associated with 'long delays' in the decision making process for initiating legal action. A closer look at the outcome of the final disposal of cases filed under article-34 reveals that a 'genuine' resumption of control over an enterprise tends to be a rather rare action. For instance, out of 15 BSB cases filed under article-34 (where projects were initially taken over by the bank) 5 projects were returned subsequently to the original owner-defaulters through various negotiations. In another 4 cases projects were transferred to other DFI loanees. Among the remaining cases 4 projects have been sold to people who are not BSB loanees. However, the extent to which either DFI loanees or outside buyers of such DFI auctioned projects are in debt to some other financial institutions remains undefined. The remaining two cases are still pending disposal by the DFIs.

The Returns from Legal Action by the DFIs

It would be interesting to review the trends in repayment for the projects under article-34 after they have been returned to their original owners. This would give us some indication about the effectiveness of 'negotiations' made on the part of the DFIs with the defaulters on the eve of such transfers. It was expected that, once a defaulter had experienced the threat of having his enterprise 'taken over' by the DFIs, there would be a presumption that urgent measures to liquidate the debt by the defaulter to effect repayment would be in order. Such a redirection of effort was expected to realise a significant improvement in the debt service record compared to the earlier dismal record of debt collection by the DFIs.

With a view to test this hypothesis, we have assembled in Table XXIV evidence on those BSRS projects for which compromises had been worked out under article-34. It follows from this table that, the rate of loan recovery in these projects, estimated at 4.26%, can at best be termed as poor when measured against the claimed amount. This rate is even lower than the average rate of recovery observed for the BSRS over the recent period which is about 8%. However, the above measurement as against the 'claimed amount' may not be an accurate indicator of the loan recovery through legal actions. Thus when a case is being filed in court by the DFI the 'claimed amount' includes not only the amount which is 'overdue', but also the 'principal amount not due'. We have found that at the time of filing of a suit, the weight of 'overdues' in the 'claimed amount', on an average, comes to

¹²See, for instance, article-34 of *BSB Order - 1972*, p. 20-21.

TABLE XXIV
RECOVERY OF LOANS IN CASE OF THOSE PROJECTS FOR WHICH
'COMPROMISES' WERE WORKED OUT (BSRS)

(all figures are in million taka)

Type of Cases*	Claimed Amount	Amount Recovered
A. Cases under Article-33		
I	16.14	—
II	18.77	—
III	5.13	0.85
IV	2.42	1.40
Sub-Total	42.46	2.25
B. Cases under Article-34		
V	35.23	1.50
VI	215.08	3.10
VII	294.88	5.50
VIII	44.77	1.00
IX	14.06	4.30
X	4.90	2.00
XI	45.63	3.50
XII	58.71	3.00
XIII	59.58	5.50
XIV	42.57	7.48
XV	49.91	—
Sub-Total	865.32	36.88
C. Cases under Article-35		
XVI	2.27	1.00
Total (A+B+C)	910.05	40.13

*Code numbers were used for the sake of confidentiality.

Source : Law Department, BSRS (unpublished data).

approximately 85%.¹³ Even if we calculate the rate of recovery as against 'the amount of overdues' (instead of calculating it on the basis of 'claimed amount') the picture remains bleak. In this case, the rate of recovery through legal actions is at the level of 5%, i.e., well below the aggregate level of repayment observed for the DFIs.

The above analysis suggests that the rate of loan recovery measured as against the 'claimed amount' can be justified as an explicit indicator of effectiveness of legal actions against the defaulters at an acceptable statistical risk. Bearing this in mind, we now turn to analyse the aggregate trends in loan repayment in the year subsequent to the initiation of legal actions by the DFIs.

¹³Calculated from 'the statement of cases filed/action initiated by the BSRS' (as of 1st July 1987), Law Department, BSRS.

Data assembled in Table XXIII suggest that the total amount claimed from the defaulters of both the DFIs has reached a level of Taka 3692 million. As these claims relate only to the private sector projects, it would be logical to compare the 'claimed amount' to total private sector 'overdues'. For BSRS, the ratio of 'claimed amount' to total private sector overdues is about 1:2.2 (the ratio for BSB would be about 1:2.5). This suggests that potentially the recovery through legal actions, if enacted properly, can serve as an effective means of liquidating at least half of the accumulated overdues. In reality, the progress has been very modest. As many as 82% of the cases are pending in case of both the DFIs. This also largely explains why cash recovery accounts for only 4.7% of the total amount claimed by the DFIs. The rate of recovery is also poor for the settled cases. For instance, in case of BSRS, the rate of recovery from 'settled' cases is assessed at the level of 4.5%. As regards BSB, the data for 'settled' cases were lacking, but other evidence suggests that the rate of recovery through legal action is relatively higher in case of BSB when compared with BSRS. For instance the volume of cash recovery through legal actions is higher for BSB in comparison to BSRS (111 million taka *vis-a-vis* 62 mln. taka). BSB has shown a relatively higher rate of recovery of 8.11% (measured as against total claimed amount) compared to 2.67% registered with BSRS.

The data presented in Table XXIII, for what it is worth, suggest that legal actions initiated by the DFIs could not induce an improvement in the repayment rate of the defaulters. Cash recovery as a percentage of the total claimed amount indicates that the repayment rate through legal actions remains poor, and may even be lower than the average rate of repayment observed for the DFIs (as was the case for BSRS). Moreover, cash recovery through legal actions represents a minor part of the total cash recovery by the DFIs. For instance, total cash recovery by the two DFIs was about Tk. 1133 million during FY 1986/87, of which only Tk. 173 million was recovered through legal actions. This indicates that, at the present level of implementation of the 'action programme' against the defaulters, only 15% of the total cash recovery can be attributed to these 'massive' legal actions.

While analysing the legal measures adopted by the DFIs, another point of interest relates to the question of cash returns from the direct auction of the project assets. Although the number of such auction cases are very small, the results obtained are illustrative of some finer aspects of the issue of defaults. From the data pieced together in Table XXV it follows that the amount of actual cash recovery after the project assets were sold out represents a meagre 7.5% of the total value claimed. The rate of recovery through auction seems to be higher in case of 'small' projects than in case of the 'large' projects. Such a poor rate of cash recovery through auction of the projects may indicate that many of these assets were overvalued. In a number of cases second-hand machines and vessels were being shown in the books as new, in other cases, fictitious assets were pledged as owners' equity. Under the circumstances, it was not unusual for defaulting borrowers, under threat of prosecution, to invite the DFIs to take over the projects. However it is also possible that there is a 'buyers' market for the liquidation of a DFI defaulters assets which compels the DFIs to accept whatever low bid price comes to hand rather than face the prospect of having to manage a wasting asset. The tendency of the

TABLE XXV
LOAN RECOVERY THROUGH DIRECT AUCTION OF THE PROJECTS DURING FY
1986/87

(in million taka)

Projects*	Amount Claimed	Amount of Cash Recovery through Auction of the Project	Rate of Loan Recovery
A. BSRS :			
I	114.52	1.90	1.66
II	60.76	3.50	5.76
III	44.57	5.20	11.67
IV	19.52	3.20	16.39
B. BSB :			
V	12.49	5.06	40.51
Total	251.86	18.86	7.49

*Code numbers were used for the sake of confidentiality.

Source : Law Department, BSB + BSRS (unpublished data).

DFIs to endorce their legal claims with some tardiness, where indeed they were inclined or permitted to do so thus appears more understandable. In any case, such a short-fall in loan recovery as against the claimed amount points to a flight of capital from the industrial projects to other non-industrial investments. Our analysis of loan recovery through legal actions does not pretend to be an exhaustive investigation into this critical issue. However, available information does suggest that the spate of efforts by the DFI to effect recovery of the dues through various legal measures was more rhetorical in their effect than effective in their outcome.

The Costs of Recovery

Yet another interesting outcome of the 'recovery strategy' indicates that the amount of recovery realised through legal action during the FY 1986/87 is less than the amount of overdues rebated during the same period. Although the data is available only for BSB, other evidence suggests that such a tendency is applicable also in case of BSRS. From Table XXVI, we see that, while the amount of recovery through legal actions during FY 1986/87 was only Tk. 111 million, the amount actually rebated is at least Tk. 180 million. The value of the amount 'written-off' is largely underestimated because of non-availability of data regarding the quantum of EFAS benefits allotted for the FY 1986/87. Even allowing for this underestimation, it would appear that 'subsidisation' of the private sector overrides the actual cash recovery through legal actions by the least Tk. 70 crores during the last fiscal year.

As regards the amount recovered from the loanees through the 'usual' provision of repayment, we have already noted in the previous section that, repayment of some part of the overdues has become interlinked with 'non-repayment' of the other part of the overdues. Rephasement and Rescheduling of the major portion of overdues thus induces the reluctant defaulters to meet some of their debt-servicing

liabilities. Data presented in Table XXVI however suggest that such a policy of rephasing/rescheduling cannot sustain itself. If in order to recover an amount of Taka 62 crores of overdues from the defaulters, the DFI had to rebate Tk. 18 crores and reschedule another Tk. 79 crores of overdues in the defaulters' favour the 'cost' of recovery may well be exceeding its benefits by an appreciable margin.

V.

The Persistence of the Default

The situation as of 30th June 1987 relating to loan recoveries by the DFIs from defaulting loanees in the private sector remains disturbing. FY 1986/87 represented a period of maximum effort by the DFIs to enforce recovery. Driven on by sanctions imposed by the external donors under the MOU to demonstrate their seriousness of purpose in enforcing recovery the DFIs invoked a variety of legal instruments to enforce recovery. The number of cases filed for loan recovery and decrees obtained in 1986/87 were something of a record. The support of the A.F.A. Hosain committee report, designed to sort out the wheat from the chaff amongst the defaulters was invoked by the DFIs to once and for all define a basis for accommodation with their clients.

Our study does not go into the details of these initiatives but merely seeks to measure their outcome in terms of loan recoveries effected by the DFIs. The results are far from encouraging. Our researches show that for private sector borrowers, the actual cash recovery effected against the Total Recoverable Amount (TRA) for 1986/87 by the BSRS demonstrated some small improvement compared to the record of the last 5 years, but still amounted to only 8%. In the case of BSB, where recovery efforts were if anything more vigorous and visible than for BSRS, cash recovery against the TRA in 1986/87 remains low at a level of 13.39%. Figures for both DFIs are a long way yet from the target of 50% set by the MOU. The prospective donors to the DFIs thus remain far from impressed at the progress registered so far in effecting recoveries and their loan disbursements to the DFIs remained suspended for the second full year since the signing of the MOU.

As with our earlier studies of DFI lending the repayment record remained pervasive for all sectors and categories of borrowers. We have seen that out of 511 borrowers studied by us for 1985/86 only 4% effected a 100% repayment of their dues. The record for 1986/87 suggests that the crisis of repayment would persist and remain endemic to the private sector.

The depth and extent of the default remains less visible to the public eye and possibly even to the policymakers because of the practise of rescheduling and rephasing of the overdues. This tendency was evident even in the early years when the default was first visible.¹⁴ The initial exercises in debt rescheduling may have remained unobserved within the ledgers of the DFIs had recovery picked up in later years. Thus in a current year the TRA may be shown to be lower because of a cosmetic policy of excluding such rephasements from the published records.

¹⁴*Op. cit.* R. Sobhan and S.A. Mahmood, *Repayment of Loans*.

TABLE XXVI
**‘COST’ OF LOAN RECOVERY FROM THE PRIVATE SECTOR (BSB) DURING FY
 1986/87**

(figures are in million taka)

Indicators	BSB
A. ‘Cost’ of Recovery	
1. Amount of overdues rescheduled/rephased	789.00
2. Amount of overdues rebated	151.88
3. Amount of loan written off* (as of 30.3.87)	28.76
4. Amount ‘Subsidised’ (2 + 3)	180.64
5. ‘Cost’ of Recovery (1 + 4)	969.64
B. Amount of Loan Recovered	
6. Recovery through legal actions	111.00
7. Repayment by loanees	462.00
8. Total recovery (6 + 7)	573.00

*Excludes the amount of EFAS benefit phased out for the year concerned.

Source : BSB (Computed on the basis of data contained in Tables 2 (a), 3 and 23).

This creates a misleading impression in the record that the actual rate of cash recovery against this notionally reduced amount has improved in the recent period. But the problem with such exercises in debt rescheduling is that repayment obligations of persistently unsettled obligations, resurface in later years to swell the liabilities under the TRA. Thus unless the rescheduling can be stepped up the actual recovery rates further deteriorate and the total liabilities accumulate. As on 30-6-87 overdues of the two DFIs which was owed by the private sector stood at Tk. 8743 million. This escalation in the overdues may be appreciated if we note that overdues in 1980/81 from private sector DFI borrowers stood at Tk. 899 million, a ten fold increase.

The Implications of Debt Rescheduling

The policy of rescheduling debts has itself been part of a conscious strategy by GOB to be flexible in their approach to defaulters. In 1986/87 alone Tk. 1428 million was thus rescheduled by both the DFIs. If we add to this the amount of overdues rebated/written off, subsidised or written down under the EFAS scheme, a not inconsiderable concession, the extent of the concessions to private borrowers

become quite sizeable.¹⁵ In the case of BSB it was estimated that even excluding EFAS write offs they had to forego Tk. 970 million due to them to recover Tk. 573 million. Even if we reckon that this sum may be recovered in the years ahead there is no assurance of this. Given the earlier track record further such generous inducements to recalcitrant borrowers may not be ruled out in the future if any further recovery is to be effected.

The current record would appear to suggest that a strong effort to enforce recovery through recourse to law can at best have only a marginal impact. The machinery of law is not geared to effect expeditious recovery. This knowledge had in earlier days presumably inhibited recourse to law by the DFIs to enforce recovery of their overdues. The efforts by the DFIs to step up legal measures in 1986/87 yielded modest dividends so that at the end of FY 1986/87 in the case of BSB, 305 out of 374 recovery suits remained pending. When indeed claims were settled these yielded very low cash recoveries against the claimed amount. Where decrees were awarded to the DFIs to actually take possession of defaulting enterprises cash recovery from the auction of enterprises remained insignificant.

Under the circumstances, the resort to the strongest legal actions of the DFIs appears at best to be designed to force hardened defaulters to come to the conference table and make some token settlement against their outstanding dues. The time, energy and resources invested by the DFIs in the law courts, not to mention the political costs of such initiative, remains incommensurate with the actual recoveries.

Thus the compulsion on the part of the DFIs remains strong to reschedule loans in exchange for miniscule payments of amounts long overdue from defaulters. The correlation of political forces and legislative support does not as yet appear to be favourable to efforts at loan recovery. The DFIs would appear to have little inclination or capacity to actually run enterprises taken over by them from defaulters, whether by mutual arrangement or through court decrees. Given the prevailing climate favouring privatisation of the economy, an activist DFI thus finds itself engaged in a no-win contest with the defaulters where the final outcome remains overwhelmingly favourable to the deliberate defaulters.

Implications of the Failure of the Legal System to Enforce Recovery

The lessons learnt from the experiences of the last financial year cannot be without concern to the DFIs and the GOB. In 1986/87 an undoubtedly serious effort to enforce debt recovery was initiated by the DFIs. The available machinery of law was fully deployed and defaulters were left in no doubt as to the intent of the DFIs. At the end of this heroic effort however precious little was recovered from the defaulters. The DFIs had to make further concessions to ensure some recovery and at the end gave away more than they recovered. The law proved to be a blunt edged weapon in the service of the DFIs. The recovery and sale of assets have proved the most futile of all exercises so that even the effective sanction of law has held little hope of improving recovery.

¹⁵R. Sobhan and A. Ahsan, "The Effect of Exchange Rate Depreciation on the Loan Repayment Performance of Industries in Bangladesh", *The Bangladesh Development Studies*, Vol. XV, No. 4, December 1987.

The defaulters have thus seen the DFIs at their most active and feel they have little to fear. They realise that, *in extremis*, when a court decree is likely to go against them after protracted litigation, they need only offer a small cash payment, as a token of good faith to ensure that their debts will be rescheduled. This means that another round of defaults can now be resumed with at worst, the prospect of yet another round of token payments, 5 years hence. Thus the prospect of cash recovery rates for the DFIs remaining as low as they have been in recent years, may turn out to be the inevitable consequence of a policy of concessions designed to compound the accumulated defaults of the last half decade.

Societal Implications of the Default

This perpetuation of the default cannot be without consequence for the rest of the society. Defaults in the nationalised commercial banks have remained high¹⁶ and continue to accumulate. In recent years a Tk. 1000 million credit to handloom weavers with collateral issued against identity cards supplied to the weavers by the Ministry of Textiles, has ended in massive default and a virtual *impasse* in commercial lending to the handloom sector. A growing default by the agricultural sector against lending by the Krishi Bank was followed by draconian measures to enforce credit recovery. This appears to have ended in a reverse cash flow out of the agricultural sector. This may indeed have contributed to the recession in the national economy during 1986/87 due to failure of effective demand in the agrarian sector due to negative cash flow. Inevitably questions arise over the inequity of a policy which enforces loan recovery from a relatively more impoverished agricultural sector whilst compounding the default in the most affluent sections of society.

The climate for default for the rest of the economy would appear to have been set by the private borrowers from the BSRS and the BSB. They have effectively gotten away, due to debt write-offs, with some Tk. 900 crores in overdues but go on enjoying the fruits of their default in the way of a luxurious life style. Their personal assets remain untouched and other business enterprises remain active.

The price for this default is thus being paid by potential new borrowers, who are denied access to funds from the DFIs through the recycling of cash recoveries from the initial borrowers. Since no major institutional financiers from abroad will come in to extend new loans till this default is moderated, lending from the DFIs will remain much below its earlier levels. The GOB has to go on servicing its debt to institutional lenders such as the World Bank since it has assumed sovereign risk in contracting the original loans. This means that the people of Bangladesh will have to generate the surplus to repay these loans. It would thus appear that some 1000 households who have already received around Tk. 1000 crores from public resources remain in debt to the people of Bangladesh and may continue to compound this debt over the years. It must be recognised that the crisis of default is thus not just a problem of a few borrowers but is a systemic crisis where an entire class has contributed to the perpetuation of this problem. This class obviously

¹⁶Rehman Sobhan and M.N.E. Fatemi, Role and Problem of Public Financial Institutions in Recovery of Loans: Case Studies of Nationalised Commercial Banks, BIDS, August 1985.

generates enough influence on the decision making process to believe that no effective sanctions can be imposed on them to enforce recovery. In this process the capacity to differentiate between debtors with genuine problems and deliberate defaulters, between efficient and inefficient entrepreneurs, has effectively been eroded.

This arrangement is tolerable as long as we accept that public institutions will no longer be expected to underwrite industrial expansion in the years ahead. Such expansion will have to largely be financed from private savings derived from surpluses generated by the bigger entrepreneurs themselves. This means that DFIs will effectively function as debt recovery institutions with only a limited capacity for new lending. To the extent that our entrepreneurs continue to remain inhibited about risking their capital in industrial investments and external sponsors remain reluctant to make new commitments to the DFIs, thus further constraining their onward lending capacity, the process of industrialisation in Bangladesh is likely to remain depressed.

Reviewing Industrial Policy

A period of inactivity in the area of new investment in itself may be no bad thing for the industrial sector. It would permit ongoing projects to be completed and capacity in existing projects to be brought to full utilisation. It would also provide time for a full review of the outcome of the investment programmes funded by the DFIs over the last decade. This would review capacities created, their utilisation, efficiency of resource use, profitability, autonomous growth potential, future market trends and prospective areas for new investment. A new investment schedule could be prepared on the basis of this exercise to guide the DFIs funding strategies over the next 2 years.

Such a review of investment strategies should ideally have been initiated at the time of the signing of the MOU in March 1985 so that by July 1987 the new schedule would have been in place. Further delays in renewing investment financing in the industrial sector could have more serious consequences for the diversification of the industrial structure and the dynamics of industrial growth. Even at this late hour a major review of industrial policy and the role of the DFIs in implementing this policy would appear to be inescapable if the problems of default and its contingent implications are not to infect the economy for the next decade. Such a review would need to assess the underlying rationale of the present industrial policy and to then work out a viable programme to reactivate investment.

The industrial policy of the last decade was premised on the conviction of the GOB that there was a wealth of private entrepreneurial talent and resources waiting to be mobilised for the industrialisation of Bangladesh provided that appropriate public policies, lubricated by some public resources, could be forthcoming to support the process. This assumption has however not been sustained by contemporary experience. Entrepreneurial talent and resources, where they existed, were deployed in the area of rural and small industry, of low capital intensity, simple technologies and low external resource use. Substantial industrialisation in this area has taken place, largely self financed or financed from the informal credit market and largely outside the purview of the DFIs.

The Motivation of the Entrepreneurial Class

DFI resources thus went to a class of people with limited or non-existent entrepreneurial background,¹⁷ without resources or where such existed, a reluctance to stake this as risk capital for industrialisation. The role of risk taker and investor thus largely vested in the state through the DFIs meant that the state became the instrument for creating a new class of capitalist entrepreneurs rather than providing marginal assistance to an already extant class.

Instead of promoting an organic growth of such a class whereby small ventures with sufficient owner's equity staked in the venture could evolve through internal surplus generation into larger enterprises, the DFIs *ab initio* began to invest crores of takas in large capital intensive projects. The class to whom such loans were liberally made available would appear to have had neither the experience nor matching risk capital to sustain such ventures.¹⁸ Their principal commitment thus appears to have been to acquire control over capital provided by the state rather than to expand productive forces. Part of the DFI funding appears to have been invested abroad through the mechanism of overinvoicing machinery imports financed by the DFI loan.¹⁹ Part went into local real estate investments, financing a lavish life style quite incommensurate with the modest social origins of this class. Thus the actual capital invested in an industrial enterprise which was in any case more capital intensive than it need have been, was in practise worth less than the value entered into the books of the enterprise. This meant that such ventures were heavily overcapitalised. For many enterprises the debt-equity ratio even on the books was high. The 70/30 ratio demanded by the DFIs was in many cases further diluted by resort by the sponsors to equity finance/underwriting from the Investment Corporation of Bangladesh (ICB). Thus the debt-equity ratios have in some cases come down even to 90/10. If one allows for the mechanism of overinvoicing it is conceivable that a DFI loanee may have set up a project with a zero equity stake.

The Weaknesses of Entrepreneurship

This low level of capital staked in a venture reduced the compulsion on the part of the entrepreneurs to take pains over the choice of the project. Little effort was made to do serious market research to exercise economy in the use of capital, to allow for societal factors and policies in assessing the prospective returns from the project. Most project feasibility studies remained proforma exercises designed to provide a cosmetic justification for the sanction of a project. Many such ventures involved either collusion with DFI officials or external pressure from the official hierarchy to turn a blind eye to the manifest inadequacies of the project proposal and the obvious financial incapacity of the sponsors. The inappropriateness of the investment decision was frequently compounded by inordinate delays in project implementation, wrong choice of machinery and poor managerial skills. Where market and policy changes further vitiated the assumptions underlying the venture

¹⁷*Op. cit.*, R. Sobhan and B. Sen, *The Social Background of Entrepreneurship in Bangladesh*.

¹⁸*Ibid.*

¹⁹Discussions with entrepreneurs and financiers.

it was not surprising that the financial health of such ventures would be infirm. The massive dimensions of the default by most borrowers was thus inherent in the very nature of a policy where the state assumed the responsibility for building an entrepreneurial class rather than supporting its graduated growth.

Enforcing Sanctions Against Default

The fundamental weaknesses in the social base of this class were not compensated by a lax attitude to recovery. Thus default took place not just in enterprises which were intrinsically weak but where profits were being earned but the borrowers were disinclined to service their debts. The tendency for debts to remain uncollected removed the ultimate sanction on private investors, the threat of bankruptcy, loss of personal wealth and denial of access to new resources, by virtue of being an entrepreneur who was declared an insolvent. In Bangladesh a DFI defaulter continues to live in luxurious houses, retain a fleet of cars, travel abroad, sponsor new ventures including financial institutions, and to borrow, in the name of other enterprises, from public financial institutions. There is no financial sanction on him to service his debt. Once a case goes to court he is absolved from servicing the debt till the case is resolved. Even when the case is resolved at worst he can surrender the enterprise to the DFI. For those with little or no equity stake in the project and 25% of the loan value on private deposit abroad even this is hardly a sanction.

Unless both policy and laws are amended to make default and particularly deliberate default into a serious offense this laxity in the servicing of public debt will persist. As in many capitalist countries failure to service debt should in the first instance, once prospects for a negotiated recovery of the debt has been exhausted, lead to automatic sequestration of the enterprise and its moveable and immovable assets. Bankruptcy laws should be enacted, if such do not exist, which enables the creditor to have a debtor declared bankrupt if he cannot service his debt. Once declared bankrupt the creditor should be able to make a claim on all the assets of the sponsors of the enterprise, which should be seized for purposes of liquidation, to settle the outstanding debt.

Such a threat to the comfortable life style enjoyed at public expense by defaulters would have a salutary effect on this class and would go some way to bringing at least the deliberate defaulters to heel. It would also compel entrepreneurs to take their managerial responsibilities more seriously in terms of project choice, implementation and efficiency of operation.

Obviously there will remain a category of defaulters who have made a wrong investment choice. If prospective entrepreneurs are to be encouraged to take more case in their choice of projects then under the rules of the capitalist game they must have visible evidence of the costs and consequences of such wrong choices, so the treatment of such entrepreneurs need not be radically different from that of deliberate defaulters. However more flexibility in terms of time and scope for restructuring of the venture may be selectively encouraged.

Similarly in the case of enterprises, where default originates in a temporary market failure, there should be scope for exercising flexibility in terms of rescheduling the debt.

Redistributing Equity in Defaulting Enterprises

However whenever leniency is exercised it should not be costless. The DFIs should identify projects facing structural constraints whether in terms of equipment or capital structure and those which can become viable with some new infusion of credit. For such enterprises, where continuing support is to be given or debts rescheduled, it may be worth considering the idea of converting part of the debt into equity. This would reduce the debt liability of the enterprise and would serve the same purpose as a rescheduling or debt scaling down exercise. The enterprise may be given the opportunity to buy back all or part of the DFI's equity once the project starts generating a surplus. As long as the DFI has an equity stake it should have a *pro rata* representation on the Board of the enterprise.

As an option to the DFI acquiring equity in such enterprises it may be worth considering that public sector corporations be given the right to subscribe to all or part of the equity resumed by the DFI. For example equity in a private textile mill could be assumed by the Bangladesh Textile Mills Corporation or in a shipyard by the Steel and Engineering Corporation.

Again part of this equity may be vested in selected public institutions or professional corporate groups as for instance the Dhaka University Teachers' Association (DUTA) or the Dhaka Municipal Corporation. Since such groups would be hesitant to stake their capital on a potentially losing enterprise they would be given the right to pay for their share of the equity out of the future profits of the enterprise. A body such as DUTA would have to incorporate itself as a legal personality. This possibility is of course used only illustratively since the members of DUTA may in practice have no such inclination to become investors.

The underlying principle however remains that where public resources are being staked in a enterprise the public or groups within it should be made watchdogs of the public interest. In the case of a public sector project where public funds are invested, a public representative can always ask questions about it in Parliament or investigate its affairs through the House Public Accounts Committee. But five crore taka of public funds on loan through a DFI to a private borrower remains beyond public scrutiny, even if the enterprise is in default, closed or running at 5% capacity. Nor does it follow that only DFIs or civil servants should reflect the public interest since most professional or working class bodies can also be expected to take such responsibilities seriously. The assumption would be that where representatives of DUTA sit on the board of for example, a private carpet making factory, they will seek to not just protect the interests of DUTA as an equity holder but also that of the public at large. In turn the enterprise owner would no longer feel free to use DFI resources as they think fit but would be accountable before a new set of constituents.

Developing Management Capability in the Public Sector

The concept of divesting a defaulting DFI borrower of ownership would of course go one step further if the enterprise is to be taken over as part of a policy of sanctions against chronic defaulters. For this policy to establish its credibility it is not enough to auction it at 10% of its asset value. This very knowledge encourages

default and collusion amongst buyers. The government will thus have to acquire a capability for running such enterprises. It may be worth evaluating the case for setting up a special corporation to rehabilitate and run sick enterprises. A capability of this nature exists in India. The point of departure for such a corporation would be its purely commercial orientation. It will have to assemble a team of top level corporate executives hired on contract, compensated on market terms, with incentive bonuses linked to the improvement in performance of the sick enterprise. The management would only be accountable to their Board and would be measured only by their performance. They should have the right to hire, fire, buy or sell as vested with the original owner. Once such an enterprise has been turned around into a profitable enterprise all or part of its equity may be sold to the public preferably drawn from corporate bodies of low and middle income earners including peasant associations, workers cooperatives or trade unions.

Obviously this second option will have to be derived from the philosophical premise of the official industrial policy. A regime committed to privatisation may lay stress on private ownership of equity. But privatisation need not mean condoning default and any variety of sins committed in its name. Nor does it mean handing over public resources to a handful of families or business houses. There are 10 crore potential private owners of this property and as many of them as possible should be inducted into the ownership of divested private enterprises.

However in case of a regime which favours a more egalitarian investment strategy and is less willing to channel public wealth into private hands a more extended role for the public sector would have to be provided for. In this event not just the corporation for sick enterprises but all other public corporations would have to recast themselves to run on a commercial basis and function as entrepreneurs accountable for their performance only against publicly defined targets and not as extensions of the secretariat bureaucracy. The entire culture of public enterprise will thus have to be recast. This of course will demand corresponding changes in the political culture where the public sector will have to be defined as an instrument to generate surpluses and contribute to the growth of productive forces rather than to serve as the milch cow for competing vested interests as it appears to do today in Bangladesh and indeed many other developing countries.²⁰

Conclusion : Redefining the Role of the DFIs

In the final analysis the problems of default stem from a systemic crisis. The attempt to create within a short space of time a class of capitalists through liberal infusions of public wealth, underwritten by donors, lies at the root of the problem. Since such a class does not exist but can only evolve over a protracted period of time more and more aid financed public resources will be needed to keep this class viable. If this basic reality is recognised then policy will have to be redirected to moderating this headlong thrust to privatise the economy and place a cornucopia of public sources into unqualified private hands. Public resources will have to be

²⁰Rehman Sobhan, *Public Enterprise and the Nature of the State : The Case of South Asia*, Centre for Social Studies, Dhaka, 1984.

retained within public hands which will have to be strengthened and made more efficient. Where public resources are channelled into private hands its uses should be carefully and regularly be kept accountable to the public directly through diffusion of equity or indirectly via regular supervision. The first priority should be to place public resources with small enterprises already demonstrating a track record of entrepreneurship and a willingness to risk their own capital.

The prospect of thus transforming BSB into a Small Industries Bank advancing loans with a ceiling of say Tk. 25 lakhs and where the debt equity ratio would have to be at least 50/50, may be one way of ensuring a redirection of public resources to the smaller entrepreneurs. In such a restructuring of the DFIs BSRS could thus be left to service large industries mostly for Balancing and Modernisation and some new investments where the debt equity ratio will be at least 50-50. They may also fund the sick industries under the new corporation though it may be worth considering whether sick units already with BSB should be retained with them. However any move to recast the role of the DFIs would demand a firmness of purpose, a sense of political resolve and vesting of authority with able, honest, dedicated and professionally competent chief executives in the DFIs.

It remains to be seen whether such radical interventions to restructure private capital ownership and redirect public resources disbursed by the DFIs can provide an adequate antidote to the crisis of default. It is the system which created the climate where public funds could flow indiscriminately to borrowers of questionable credentials and default could be condoned and perpetuated. It may therefore require a systemic change to effect any durable redirection in the deployment of public resources for industrialisation, whether in the private or public sector.

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