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PRIVATIZATION IN BANGLADESH

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I. Introduction

1. The People's Republic of Bangladesh has been engaged in an extensive privatization programme for over more than a decade and a half. This programme has passed through several stages. It has involved both transfer of ownership and assets from the public to the private sector on the one hand, and deregulation and liberalisation of the economy on the other. This programme is still being pursued and in policy terms, the private sector has, in recent years, been assigned the key role in economic development.

2. Two features make the Bangladesh case study particularly interesting. Firstly, the privatization policy in Bangladesh predates similar moves in other countries. This allows evaluation of the impact of such measures over a much longer time period than is generally possible in other countries. Secondly, Bangladesh's privatization policy was locally-conceived¹, taking account of the exigencies of the economic and political situation facing policy makers in that country. This marks it out from the World Bank/IMF induced privatization programmes of the 1980's typical of other developing countries. (Bangladesh started disinvestment process on a limited scale in 1972 and intensified its privatization programme from the mid 1970's). Both these factors suggest that there may be useful lessons to be drawn from a detailed examination of the Bangladeshi experience. This paper, therefore, begins by analysing the performance of denationalized financial and non-financial enterprises, and then examines how far privatisation and the associated liberalisation measures in Bangladesh have succeeded in meeting the development objectives established by government.

3. Bangladesh started its career with a large public enterprise sector. It dates back to its liberation. After liberation in December 1971, because of the adoption of socialism² as one of the state principles and also on pragmatic reasons³, Bangladesh has built up a large public enterprise sector. In the non-financial sector, this comprises (i) abandoned industrial enterprises of former Pakistani owners, (ii) nationalised industries, previously under Bangladeshi ownership in the jute, textile and sugar sectors; (iii) some industrial units left by Indian nationals in 1965 (known as Vested Property), and (iv) enterprises set up and promoted by former East Pakistan Industrial Development Corporation (EPIDC). In the financial sector, in 1972, the government through the Bank Nationalisation Order, nationalised 12 banks with 1175 branches (excluding foreign banks) and organised them into six nationalised commercial banks. Similarly, 64 insurance companies, including 12 Bangladeshi-owned insurance companies, were nationalised. These last mentioned acquisitions were organised into four holding companies, two in each of the general and life insurance sectors. Later in 1976, these

insurance companies were reorganised into two insurance corporations i.e, one for general and one for life insurance. In 1972, 92% of total industrial assets were owned by the government in modern industry sector. This did not include about 450 small abandoned enterprises, having value of fixed assets below TK. 1.5 million (about US \$ 0.19 million) at 1972 prices, taken over by the government for sale/disinvestment. The nationalised banking sector also accounted for 90% of banking activities in the country. In the foreign trade sector, 90% of foreign trade was handled by the Trading Corporation of Bangladesh (a state monopoly). The scale of the public enterprises strong hold on formal sector of industrial activity can further be understood by the fact that five major public industrial corporations , namely (i), the Bangladesh Jute Mills Corporation , (ii) The Bangladesh Textile Mills Corporation, (iii) the Bangladesh Steel and Engineering Corporation (iv) the Bangladesh Chemical Industries Corporation and (v) the Bangladesh Sugar and Food Industries Corporation accounted for 75% of total industrial production and employment.

4. Over the years since 1971, it has been found that, in general, the performance of non-financial public enterprises has been unsatisfactory. In May, 1988, for example, it was revealed by the government that the accumulated losses of the public sector corporations would amount to over TK. 6 billion (nearly 193 million U.S. dollar). These enterprises have been incurring operating deficits in almost every year since nationalisation and as a result these enterprises have been placing a growing net financial burden on the government. This has, over time, led to successful pressure for privatisation and liberalisation of the economy with the aim of reducing the financial burden and giving more room to the private sector. Even during the period 1971-75 when the Bangladesh government still publicly maintained an overall economic orientation which could be described as socialist, the authorities had already realized the need for a shift of emphasis from the public sector to the private sector. They first permitted the emergence of private sector industrial activity in small and cottage industries setting a private sector investment ceiling of TK. 2.5 million per company. This was subsequently raised to TK. 30 million (US \$ 3.75 million) in 1974 in policy changes which also allowed for collaboration of foreign investors with domestic private and public sectors. The government further undertook a programme of divesting about 450 "abandoned enterprises" referred to above.

5. Since the change of political regime in 1975, there has now been an even more ardent policy change towards narrowing the size of the public sector and expanding the size of the private sector by disinvesting and denationalising large number of industrial units (medium and large) and some commercial banks. The first policy thrust came with the Industrial Policy of December 1975 and the momentum continued with the New Industrial Policy of

1982 and the Revised Industrial Policy of 1986. In fact decision for gradual disinvestment of smaller public enterprises was taken under Industrial Policy of 1975 to provide immediate investment opportunity to the private sector. Amendments to President's Order 16 and President's Order 27 were made to facilitate the process⁴. In pursuance of the New Industrial Policy of June 1982, it was decided to return jute and textile mills to their former Bangladeshi owners. "In fact as of March 2, 1983, 28 jute mills and 22 textile mills have been returned or resold to the original sponsors", (The Second Five Year Plan 1980-85, 1983, p.105). Moreover, in July 1983, a gazette notification was issued containing government's decision to implement a number of the recommendations contained in the Report of the Committee for Reorganisation of the Public Statutory Corporations, the report being published in May 1982⁵. The decisions regarding disinvestment were as follow:

- The Parjatan Corporation would disinvest all its commercial enterprises such as hotels and restaurants.
- 49% of shares of several of the presently nationalised commercial banks, namely, Janata, Pubali, Agrani and Sonali Banks would be offered to the public.
- Bangladesh Forest Industries Development Corporation would disinvest all enterprises of a commercial nature.
- Bangladesh Inland Water Transport Corporation would disinvest all its uneconomical vessels.
- Bangladesh Sugar and Food Industries Corporation would disinvest all its food and allied enterprises, and would retain only sugar mills.
- Bangladesh Steel and Engineering Corporation would disinvest all its enterprises excluding a few major enterprises.

The Revised Industrial Policy of 1986 further reaffirmed and enlarged the scope of divestment irrespective of whether firms were abandoned, nationalised, vested or set up by corporations. Another strategy of privatization was to sell shares of public industrial enterprises through public stock exchange placements and offering of shares instead of selling to individual buyer or establishment.

6. Supporting the programme of divestment, several other measures were undertaken to reform trade, industrial, financial, import and export policies. The Industrial Policy of December, 1975 raised the investment ceiling further to TK. 100 million (US \$ 6.67 million) per project for both domestic and foreign investment. In 1978, the ceiling on investment was totally withdrawn and a moratorium on nationalisation was declared. The Board of Investment headed by the President of the Republic was set up and started functioning in January, 1989 to provide a "one stop" service for domestic and foreign investors⁶. Investment procedures have subsequently been simplified. Sanction of project without referral to the Investment Board can

be accorded by the Director General Industries and commercial banks up to TK. 30 million and by the development finance institutions TK. 60 million. Foreign investments were also guaranteed by the Act⁷. Now, therefore, there is no limit on private sector investment and the private sector is only excluded from certain "key and strategic areas" like, (i) arms, ammunition and sensitive defence equipment, (ii) generation, transmission and distribution of electricity, (iii) forest plantation and extraction within the bounds of reserved forests, (iv) telecommunications (excluding distribution and services), (v) air transport (excluding cargo) and railways, (vi) atomic energy, and (vii) security printing (i.e. currency notes) and minting⁸. Other policy measures with respect to liberalisation included recommissioning of Dhaka Stock Exchange in 1976, setting up of the Investment Corporation of Bangladesh, and creation of some other specialised institutions like, Industrial Development Leasing Company, Saudi-Bangladesh Industrial and Agricultural Company, etc. In recent years, tariff structures have been rationalised and average tariff rates were reduced from 24% to 11% in 1986. Import policy was liberalised by narrowing down the negative and restricted list. Exporters were allowed access to some previously banned items for boosting export production⁹. An Export Processing Zone was set up and is currently operating in the port city of Chittagong. Another zone is being created near Dhaka. This is with the view of attracting both domestic and foreign capital, the policy being a key component of the strategy to boost exports¹⁰. All these measures were taken to give the private sector the key role in economic development and to liberalise the economy as a whole.

7. Developments in the financial sector mirrored those in the non-financial sector. Private insurance companies were again allowed to carry on both life and general insurance business. As a result, there are now 17 insurance companies (2 for life and 15 for general) excluding foreign companies operating in the private sector. In another important policy decision of 1980, private commercial banks were allowed. Pursuant to this policy, the government, in 1983, started denationalisation of commercial banks. While, in 1975, there was no commercial bank in the private sector (except 3 foreign private banks), the country has now 11 private commercial banks including 3 denationalized banks. In addition, there are 7 foreign commercial banks currently operating in Bangladesh. In the nationalised sector, there are still 3 commercial banks with the intention of selling 49% of their shares.

8. Specific institutional arrangements were made to deal with this disinvestment/denationalisation programme. In the financial sector, the Ministry of Finance and Bangladesh Bank (central bank) are involved in the privatization of banking institutions. The policy decisions come from Ministry of Finance. Bangladesh Bank is then given the responsibility of carrying out the policy decisions. It determines the value of property, assets, liabilities and

shares of the bank for which the policy of disinvestment has been taken. It then arranges advertisement and sale of shares. In the Industrial Sector, there is a Disinvestment Board headed by the Minister of Industries. It is the highest and final decision making body on disinvestment. There is, in addition, an Executive Committee of the Disinvestment Board headed by the Secretary of Industries; a Scrutiny Committee to verify the title and nationality in the case of claims by former owners/share-holders; a Working Group on Disinvestment with the responsibility of examining the valuation of property, assets and shares of partly or fully abandoned enterprises and making recommendations to the Disinvestment Board, and a Tender Committee to open and examine the validity of tenders. These institutions are involved in the disinvestment process of industrial units under different sector corporations. For disinvestment of industrial units placed under Director General, Department of Industries, a Sub-Committee on Disinvestment has been created¹¹.

9. In the academic literature, the term privatization often takes on a number of very different meanings. In Bangladesh, however, there are two distinct aspects which are of policy relevance. These are: (a) disinvestment/denationalisation of public enterprises (both financial and non-financial) and (b) economic liberalisation in terms of different macro-economic policies and reforms in the public enterprise sector, and opening up industrial and financial activities (previously restricted) to private sectors. Again, disinvestment/denationalisation has taken place in the form of 100% transfer of ownership and partial transfer in the form of disposal of 49% shares of ownership (majority control remaining with government).

10. By the 31st July 1989, government had disinvested (i.e., outright sale through public tenders) a total of 489 industrial enterprises (big, medium and small), and denationalized (i.e., returned to former owners) 33 jute mills and 29 textile mills. In the industrial sector, while the share of public enterprises, in 1972, was 92% of total fixed assets, it had come down to 40% by the end of fiscal year 1988. The sale price of disinvested industrial units amounted to TK. 1732.92 million of which TK. 1211.40 million has so far been realised in instalments. In addition, 49% of shares of 11 enterprises remaining in state ownership, have already been sold to the members of the public through stock exchange market and an amount of TK. 197.5 million was earned. Meanwhile, three out of six nationalised banks (namely, Pubali Bank, Uttara Bank and Rupali Bank) have also been handed over to the private sector.

11. In recent years, the government policy in Bangladesh has been to assign to the private sector the key role in economic development and the privatisation programme in Bangladesh forms a part of this broader policy. Bangladesh is a developing country having a population of 114.2 million (in mid 1990) with a per capita income of US \$ 170 in 1988-89 (GNP data

are contained in appendix III and IV). It has been suggested that realistically the agricultural sector can absorb around 60% of total labour force. If true, this implies that the remainder should be engaged in non-agricultural activities. The industrial sector, however, at present employs only 9.5% of the total labour force. The expansion of the industrial sector would, therefore, appear to be essential to generate direct and indirect employment opportunities. It is expected to induce growth in investment, employment and investible surpluses. The objective, in addition to achieving operational efficiency in the enterprises concerned, is to make greater room for private initiatives. At first sight, the result in this respect appears to have been encouraging. A favourable atmosphere for private sector investment would indeed appear to have been created. If we take the example of the volume of investment over the years, we find that the private annual investment in Bangladesh, according to plan documents, at 1972/73 constant prices stands at TK. 878 million during First Plan (1973-78), rising to TK. 2105 million during Two Year Plan (1978-80), TK. 3544 million during Second Plan (1980-85) and TK. 4730 million during the first four years of the Third Plan (1985-90)¹². In the financial sector too, the growth of banks and insurance companies is remarkable. While there was no private bank and insurance company (except few foreign ones) during 1971-75, now there are 11 commercial banks (including 3 denationalized banks) and 17 insurance companies (excluding foreign owned) in the private sector.

12. The basic issue in this research paper is to find out to what extent privatization in Bangladesh has resulted in improved performance of (i) disinvested/denationalized industrial enterprises against criteria like production, sales, profits and employment, (ii) of denationalized banks in respect of financial sector against criteria like deposits and advances, expansion of branches, foreign exchange business, credit provided to agricultural sector, credit provided to private sector, income/expenditure ratio and (iii) to see what contribution they are making to meeting Bangladesh's overall development objectives.

13. Subsidiary issues to be considered will include :

- (a) [if no significant improvement] what are the reasons and what factors, other than the change of ownership, are important for improved performance of enterprises.
- (b) Two further issues will be taken into consideration: (i) impact of asset sales on government revenue and (ii) implications of concentration of wealth for industrial development.

14. In the development process now going on in Bangladesh, this study will hopefully help the policy makers in assessing the present position and take measures for the future in respect

of the extent of the role of the public sector vis-a-vis the private sector.

15. The rest of the paper is arranged as follows: Section II contains the theoretical background of privatization, Section III deals with methodology and data sources, Section IV evaluates and updates the existing research on the post-privatization performance of industrial enterprises, Section V describes the performance of denationalized commercial banks and Section VI contains conclusions and policy recommendations.

End Notes

1. Nellis, J. and Kikeri, S. (1989) mentioned that, besides Bangladesh, countries like Chile, Malaysia, Mexico and Thailand "have conducted or are in the process of conducting privatization programs without World Bank assistance", (p. 671).
2. The political party, Awami League, which won the general election of 1970 in the then Pakistan and gave leadership during liberation war against Pakistan came to power of newly emerged Bangladesh. It had in its political manifesto the programme of nationalisation of large-scale industries including jute and private banks in order to have equitable distribution of wealth and social justice. The armed liberation war, on the other hand, gave birth to armed left-wing political cadre and heightened the expectations of the people, particularly of industrial workers. Moreover, the liberation war was firmly supported by the Soviet block. These factors prompted the then party in power to adopt socialism (meaning social ownership of the means of production) as one of the state principles side by side with multi-party system of parliamentary government. For details, see Islam, N. (1979).
3. Circumstances prevailing in 1972 also necessitated the creation of a large public enterprise sector. There were already 40 public enterprises in Bangladesh at liberation (appendix I). There were industrial enterprises which constituted about 72% of private industrial assets were abandoned by their former Pakistani owners. Similar was the abandoned assets of Pakistani owners in construction, inland water transport, banking, insurance and foreign trade. Moreover, there were industrial enterprises set up and managed by former East Pakistan Industrial Development Corporation. The government had no other alternative at that time but to take over and manage these enterprises. For details, see Sobhan, R. and Ahmad, M. (1980).
4. The Abandoned Properties Ordinance of January 2, 1972 and the Bangladesh Industrial Enterprises (Nationalisation) Order of March 26, 1972 are commonly known as President's Order (P.O.) 16 and President's Order (P.O.) 27 respectively.
5. These decisions were contained in the Bangladesh Gazette, Extra-Ordinary, Published by Authority, Sunday, July 24, 1983.

6. Within one year of its inception, by the 31st December, 1989, the Board of Investment sanctioned 35 industrial projects of local investors and 11 joint ventures with foreigners with total investment of TK. 684.09 million and TK. 2195.98 million respectively. For details, see Bangladesh Economic Survey 1989/90, (Dhaka: Ministry of Finance).
7. The Foreign Private Investment (Promotion and Protection) Act, 1980 was passed to guarantee and promote foreign private investment either directly or in collaboration with local entrepreneurs.
8. For a detail description of investment policies in Bangladesh, see Guide to Investment in Bangladesh, published by the Department of Industries, Dhaka, 1987.
9. The World Bank (1989) discusses in detail the reforms in trade, import and export policies. Appreciating policy reforms, it recommends further liberalisation.
10. Of late, government has decided to allow 100% foreign-owned industrial enterprises outside Export processing Zone. Even, foreigners will be accorded citizenship in Bangladesh if any of them invests US\$ 0.5 million in industrial projects or keep US\$ 1 million with any financial institution in Bangladesh provided it is not taken away from Bangladesh. See Bangladesh Economic Survey 1989/90 (Dhaka: Ministry of Finance).
11. These committees are composed of both bureaucrats (career civil servants) and technocrats (engineers and chartered accountants), most of whom are drawn from Ministry of Industries, Ministry of Finance, Department of Industries, Rajdhani Unnayan Kartipakha (formerly known as Dhaka improvement Trust) and representatives from Bangladesh Federation of Chambers of Commerce and Industries.
12. Private investment figures are taken from the Third Five Year Plan 1985-90, (Dhaka: Planning Commission, 1985) and the Fourth Five Year Plan 1990-95, Draft, (Dhaka: Planning Commission, 1990).

II. Theoretical Background

16. Privatization has been defined by different writers in different ways. The broadest notion of the term implies any reform that increases the unhindered play of market forces in the economy. In its narrowest sense, it simply implies "a transfer of ownership and control from the public to the private sector with particular reference to asset sales" (Hemming and Mansoor, 1988, p.1). In between, there are several notions of privatization. Kay and Thompson (1986) thought of it as denationalisation, deregulation and contracting out. Paul Cook and Kirkpatrick (1988) define privatization to cover three sets of meaning, namely, (i) denationalisation/divestiture, (ii) liberalisation or deregulation and (iii) franchising or contracting out and leasing¹. D. A. Heald (1984) defines privatization as an "umbrella term" to mean denationalisation, charging, contracting and liberalization. Divestiture, in addition to above mentioned categories, in the World Bank literature also includes both formal and informal liquidation². Ramanadham, V. V., (1989) suggests that "The concept of privatisation is, in fact, far wider. It is to be understood, not merely in the structural sense of who owns an enterprise, but in the substantive sense of how far the operations of an enterprise are brought within the discipline of market forces. Privatisation covers a wide continuum of possibilities, between denationalisation at one end and market discipline at the other", (Ramanadham, V.V., 1989, p. 4).

17. While privatization has different meanings and forms, in Bangladesh it has taken the general form of disinvestment/denationalisation and liberalisation in terms of policy measures. In the context of Bangladesh, in the industrial sector, "disinvestment refers to the process of selling off abandoned units through public tender, while denationalisation refers to the return of the units to their Bangladeshi former owners on administratively determined grounds" (Sobhan and Ahsan, 1984, p. 7). In the banking sector, the government terminology of divestiture is "denationalisation" to cover the sale of shares and assets. In order to interpret data and policies regarding privatization in Bangladesh, these definitions will be adopted in this study.

18. Liberalisation or deregulation occupies an important position as a mode of privatization. This is intended to increase competition and to promote efficient markets.. The measures refer to removal of statutory restrictions that prevent the entry of private sector rivals, liberalisation of tariffs and other policy measures. The issue of liberalisation occupies an important position in the sense that most of the inefficiencies of the enterprise, either public or private, are thought to be "less a function of ownership than of government regulation and market

structure", (Nicholas van de Walle, 1989, p.607). Indeed some writers like Brittan (1986) and Nicholas van de Walle (1989) termed privatization as an "ideological substitute" for liberalization. Sometimes, it works as complement to denationalisation/disinvestment. Again, denationalisation and deregulation are treated as policy substitutes. On the other hand, to some authors, denationalisation to be effective in meeting government's objectives, may have to be accompanied by a tightening of the regulatory framework which apparently appears to be paradoxical. But this regulation is not necessarily anti-competitive - sometimes it is designed to maintain freedom of entry. For example, it is viewed that "an incumbent firm with market power usually has at its disposal a variety of instruments of strategic entry deterrence, and that incentives for predatory behaviour are likely to exist. Unless this sort of conduct (and the threat of it) are checked by suitable measures, market "liberalisation" in the legal sense can be quite ineffective", (Vickers, J. and Yarrow, G., 1988, p.119). Whatever is the place of liberalisation or deregulation in the gamut of privatization literature, in practice "the government's true intent in privatizing a public enterprise can probably be gauged by examining its recent record or public actions in the near future, with regard to deregulation", (Van de Walle, N., 1989, p.607). As indicated earlier, in Bangladesh, there has been a considerable liberalisation/deregulation to assign private sector the key role in economic development. This is evident from the industrial, financial and trade policies pursued by the government.

19. The case for privatization is normally argued on the grounds of increased efficiency and productivity, failures of the government, regulation and market structure. It is also argued in terms of fiscal impact and ideological considerations. The argument of a positive relationship between private ownership and increased industrial productivity is associated with Public Choice and Property Rights schools of thought. Increased efficiency arises, it is argued, from less political interference, commercial and financial market discipline, replacement of disinterested bureaucrats from supervision, higher salaries in the private firms and most importantly, the common interests of both the owners and the managers given simple set of objectives and incentives.

20. The privatization programme is now-a-days closely associated with the policies of structural adjustment prescribed for many countries by the World Bank and the IMF. In the context of overall reforms in public enterprises, privatization, according to the World Bank is one of several means to increase the efficiency of both government and business.³ Efficiency is, however, a subjective issue and associated with Pareto Optimality which postulates that efficient allocation of resources is best achieved through price mechanism. The latter is based on the assumptions of the absence of externalities and uncertainties and also

on the assumption that policies which leave somebody better off but nobody worse off represents a Pareto improvement in social welfare and initial endowments and resulting market power – undisturbed by the Pareto criterion – are often extremely unequally distributed. So allocative efficiency is hard to achieve without consideration of the market structure.

21. Generally, the arguments of the World Bank for privatization rest on three considerations: (i) better performance, (ii) public sector too large to manage and (iii) easing financial burden. "Better performance is the strongest argument for privatisation", (World Bank, 1988, p.181). It is argued that if a state-owned enterprise is privatized, the performance will improve through increase in efficiency and productivity. The second argument is to reduce the "over-extended" size of the public sector in the LDCs which is based on observed "scarcities of financial resources, skilled manpower and organisational capacity", (World Bank, 1981, p.5). On the third argument the World Bank (1983) says, "Selling state-owned enterprises is another way of easing their administrative and financial burden on the state", (World Bank, 1983, p.85). The World Bank Report of 1988 dealt exclusively with the issue of public finance. It identified factors like direct transfers to public enterprises, inter agency arrears, government guarantees of state-owned enterprise debts and direct foreign borrowing by the public enterprises which, it argued contribute significantly to the financial and fiscal crisis of the state. On the basis of this study, it recommended major policy reforms in public sector enterprises involving liquidation and divestiture of state-owned enterprises.

22. But there are some conflicting studies on the relationship between public sector and macroeconomic performance. Some studies, for example, fail to find conclusive evidence of an inverse relationship between the size of the public sector and the macroeconomic performance. Nunnenkamp (1986) did not find any statistically significant cross country relationship between the relative importance of the public enterprise sector in the LDCs and those countries' macroeconomic performance. He used macroeconomic indicators like, growth in employment, gross fixed investment, the level of industrialisation and real growth in GDP. Kirkpatrick (1986) studying a sample of 23 LDCs in the 1970's came to the conclusion that a statistically insignificant inverse relationship existed "between the share of public enterprise output in GDP, and growth in income". On the crowding out hypothesis, a study was made by Blejer and Khan (1984). Studying cross-section data for 24 countries over the period 1971-79, their findings sustained the crowding out hypothesis at an aggregate level but found opposite results in some cases at dis-aggregated level. On aggregate level too, they found a very small substitution co-efficient between public and private investment which was not significantly different from zero. Such evidence has led others to conclude, therefore, that "the size of the public sector per se does not have a significant bearing on the performance of the

sector or the economy. What matters is the effectiveness with which resources allocated to the public sector are utilised", (Cook, P. and Kirkpatrick, C., 1988, p.10). They think that "apparent inefficiencies in the public enterprise sector's performance" should be considered as the second motivation for privatization.

23. A second group of studies found public sector enterprises contributing significantly to overall deficits leading to macroeconomic stabilization problems, inflation and balance of payments deficits. Gantt and Dutto (1968) studying 64 state-owned corporations in 26 countries for an average of 7 years each came to the conclusion that they failed to generate resources for their own investment needs, placing instead a net financial burden on their parent governments. Kim (1981) made a study comparing the financial performance of privately and publicly owned enterprises within the manufacturing sector for the period 1970-75 in Tanzania. He found that public enterprises failed to cover current expenditure and depreciation. In contrast, the privately owned enterprises in his study registered net operating surpluses during five out of six years. Funkhouser and MacAvoy (1979) studied the performance of a large number of private and public enterprises in Indonesia for the year 1971. He found that private enterprises outperformed public enterprises and mean differences were statistically significant. R.P. Short (1984) made a cross country study on macro-economic performance of public enterprises in 62 countries including 12 developed countries in mid 1970's. In the developed countries, the deficit was found to be 1.75% of GDP and in developing countries, it was 4% of GDP. Short comes to the conclusion "that the overall deficits of public enterprises are extremely large in many countries. As a result, public enterprises make sizable demands on government budgets, bank credit and foreign borrowing. The precise effects of these demands will vary from country to country depending on economic circumstances. However, their large size strongly suggests that, in many countries, public enterprises have been a major cause of stabilization problems and as a result, have contributed significantly to inflation and balance of payment difficulties", (Short, R.P., 1984, p.180). In Bangladesh, available information suggests that most of the public enterprises are placing a heavy demand on "government budgets, bank credit and foreign borrowing". In recent years, state-owned enterprises claimed about 30-40% of the annual development programme outlay, 75% of total net domestic credit and accounted for nearly 70% of foreign borrowings. Losses have been sustained by most of the public enterprises in almost every year. By May, 1988, the accumulated loss of the sector corporations, revealed in the discussion of Bangladesh Parliament, stood at TK. 6 billion (The Daily New Nation, Dhaka, May 26, 1988).

24. The case for privatization stems from the case for competition - what is sometimes described as "rationality through markets". Just as the case for state intervention emerged on

the grounds of market failure, the case for "rationality through markets" sprang up from the alleged failures of government intervention. "In the D.Cs", wrote Brett, E.A (1988), "the crisis of the seventies, together with the problems of inflation and the apparent rigidities and centralisation of the nationalised industries, has led to a fundamental re-evaluation of the role of Keynesian interventionism and of the monopoly power exercised by the public corporations. In the LDCs, the same problems emerged in far more severe forms leading to an even more dramatic revision of the orthodox paradigm", (Brett, E.A.,1988, p.49). The LDCs have been experiencing severe weaknesses in the forms of chronic fiscal deficit , balance of payments deficit, wide ranging controls over private enterprises, mounting losses, under-utilisation of resources and industrial capacity, inefficiencies and often corruption in the public enterprises. Accordingly, often under the influence of IBRD , IMF and donors, there has been a policy shift towards a more neo-classical market-oriented view of the development process and policies and an increasing role for markets and the price mechanism in LDCs.

25.The neo-classical theory bases many of its efficiency outcomes on the assumption of a competitive market structure. Ownership is a secondary consideration. In general, however, the market structure of LDCs is not a competitive one. "LDC markets are typically more oligopolistic in structure than DC markets" (Kirkpatrick, Lee and Nixon, 1984, p.75). This led many writers to believe that even the privatization in an environment of non-competition and regulation will not improve the performance. Therefore, "in the context of privatisation debate, the neo-classical analysis translates into policy prescriptions directed towards a reduction in the size of the public sector, the removal of government regulation and controls, the fostering of competition, and a greater reliance on the market and price mechanism for the allocation of resources" (Cook and Kirkpatrick, 1988, p.9).

26. Thus, we find that while ownership is an important factor for better performance (in terms of efficiency) of an enterprise, other considerations have to be taken account of in the whole package in order to have positive results from privatization. Against this theoretical background, we shall make an objective analysis of privatization programme in Bangladesh and assess the contribution it has made to meeting the country's overall development objectives.

End Notes

1. Cook, P. and Kirkpatrick, C. (1988), Privatisation in Less Developed Countries, pp.3-4.
2. "Formal liquidation involves the winding up of an enterprise as an entity and the sale of its assets. Many financially troubled SOEs are not liquidated in a formal sense but put into a form of mothballing; they suspend all or most operations but retain a legal and economic life", (Berg, E. and Shirley, M.M.,1987, p.1).
3. Shirley, M. (1988).

III. Methodology and Sources of Data

27. In developing this paper, a systematic analytical scheme has been followed to cover the following:

- extent and performance of public sector enterprises in Bangladesh,;
- circumstances, policies and procedures involved in the privatization programme of Bangladesh;
- profile of disinvested/denationalised industrial enterprises and banking institutions;
- critical evaluation and updating of existing research works on the post- privatization performance of disinvested/denationalised industrial units on criteria such as production, sales, profits/losses and the level of employment;
- extension of this analysis to evaluate performance of denationalised commercial banks in respect of the financial sector, where much less research has hitherto been attempted in the Bangladesh context, against some criteria like expansion of bank branches, advances and deposits, credit extended to agriculture and private sectors ;
- some indications of the social impact of the transfer of assets to the private sector;
- some recommendations which may help policy makers.

28. An empirical approach based mainly on secondary data and information was adopted, making an extensive use of data published by Bangladesh Bureau of Statistics, Bangladesh Bank (central bank), Ministry of Industries, Ministry of Finance, Department of Industries. Publications of the government and relevant agencies (World Bank, Bangladesh Bank, Bangladesh Institute of Development Studies, Bangladesh Institute of Bank Management) like Five Year Plans of Bangladesh, Economic Surveys made by Ministry of Finance, Economic Trends and Annual Reports published by the Bangladesh Bank, Research Papers of Bangladesh Institute of Development Studies and World Bank country reports were perused to collect necessary data and literature relating both to the theoretical perspective of privatization and the performance experience of several countries in general and that of Bangladesh in particular have been consulted and the relevant information has been used in the analysis.

29. One particular feature of this study which is worth emphasising is that the performance of privatized enterprises is evaluated against a wider range of criteria than is commonly used by the advocates of privatization. In the industrial sector, for example, we examine the performance of privatized enterprises against criteria like production, sales, and employment as well as the more conventional profit/loss criteria. In other words, this study's performance

indicators cover a broad spectrum of economic criteria as well as narrower financial performance criteria. In the financial sector, criteria like deposits and advances, expansion of the bank branches (urban/rural), credit extended to the agriculture sector, credit extended to the private sector, foreign exchange business in exports and imports, and income/expenditure ratios have been used. Productivity criteria like income/expenditure per employee and per branch, deposits/advances per employee and per branch have not been discussed extensively as there are some recent studies using these measures. These studies will be mentioned in Section V. It is also important to note that advances made by commercial banks in Bangladesh to priority sectors like agriculture and private sectors on the one hand and expansion of bank branches to rural areas for savings mobilisation fall within the domain of social banking. The denationalised banks under study have to handle these sorts of social banking as per instruction of the central bank (Bangladesh Bank). Therefore, criteria on social banking have also been chosen for making comparison between denationalised banks and the commercial banks still in the public sector. Each criteria, however, carries the same weight. The same weight has been assigned due to the fact that deposits and advances are two cardinal elements in banking business. The former represents savings of the society and the latter is the tool of financing and promoting different economic activities. On the other hand, agriculture and private sectors deserve priority as the former is the dominant sector and the latter has been assigned the key role in economic development of the country. Therefore, every criteria is equally important.

30. The time period, in general, has been chosen between 1972 and 1988. Bangladesh came into existence in December, 1971. The year 1972 is the first year of liberation. Efforts have been made to collect up-to-date data. Most of the data used in this paper have got their publications by the end of 1989 so that the latest data relate to the year 1988. On evaluating and updating the existing research on post-privatized performance (1976-83) of industrial enterprises, some consolidated data have been used covering the period 1984-88. In most of the cases time series data have been used. But, in some cases where time series data are not available, two years (the year of denationalisation and the year of comparison i.e., 1988) have been selected for comparison. In any way, this does not affect our results as the external environment is the same for both groups of banks (i.e, if for argument sake the two time periods are abnormal years, this abnormality does apply to both nationalised and denationalised banks). It may be mentioned that some available data beyond 1988 are also suitably used to provide latest information on the subject.

31. One methodological problem to be mentioned is that the structure, conduct and performance of financial and industrial enterprises are quite different. This methodological problem will be overcome by using different sets of criteria as mentioned earlier, in evaluating performance of financial and non-financial enterprises. Again, it may be questioned whether it is justified to evaluate an enterprise on same set of criteria before and after privatization. After all, profit is the basic objective of a private enterprise. But, the proponents of privatization claim that the programme will help economic development through increase in incomes (including retained earnings of entrepreneurs), production and employment. This is possible, they claim, under private ownership through improved efficiency and competition. A rise in profitability does not necessarily imply an improvement in the efficiency of an enterprise. It may result from improved bargaining power of the enterprise. Meeks, G.(1977) wrote, "in a world of imperfect competition, oligopoly and monopoly, it can not be maintained that an improvement in efficiency is necessary for a rise in profitability, and so the existence of the former can not be inferred from evidence of the latter: profit gains could arise from improved bargaining power - at the expense of trading partners", (Meeks, G., 1977, p.14). Therefore, in assessing profitability and other performance criteria, an attempt will be made methodologically to take into account other "environmental" factors which may also have influenced these measures.

IV. Evaluation and Updating of Existing Research on the Post-privatization Performance of Industrial Enterprises

32. The rationale for state intervention leading to the growth of public enterprises in Bangladesh has undergone a considerable change since the period of union with Pakistan. The basic motive for creation of public enterprises during the Pakistan period (before 1971) was based on natural monopoly, prevention of market imperfection, economic growth and the need to pump-prime the private sector. During the Mujib regime (1971-75), which resembles what Kalecki termed an "intermediate regime"¹, the motive for establishing public enterprises was "containment of private economic power and promotion of economic growth with social ownership of the means of production", (Ahmad, M. 1982, p.18). The period was characterised by entrepreneurial substitution and aimed at achieving economic growth primarily through social ownership of the means of production². Subsequently, with the policy of assigning private sector the key role in economic development, the policy objectives reverted to entrepreneurial support, promotion of private ownership and competition, and containment of market imperfections but using a policy of privatization and liberalisation. In a recent study, M. H. Rashid classified public enterprises in Bangladesh according to what he called the "implicit intervention motive". 48 public enterprises were classified under broad motives of market imperfections and development objectives (See appendix II). Of these 48 public enterprises, we are dealing in this paper with only six industrial manufacturing corporations: Bangladesh Jute Mills Corporation (BJMC), Bangladesh Textile Mills Corporation (BTMC), Bangladesh Sugar and Food Industries Corporation (BSFIC), Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Steel and Engineering Corporation (BSEC) and Bangladesh Forest Industries Development Corporation (BFIDC). The remaining public enterprises listed by Rashid cover natural monopoly, social good, merit good, specialised financial institutions and development institutions and etc. where divestiture has not taken place.

33. As indicated earlier (para 31), the structure, conduct and performance of the manufacturing sector differs from that of the financial sector. From the point of view of industrial environmental and also from a management point of view privatisation in industrial sector is much more difficult than in banking sector. It is easier to evaluate assets of banks and assess the capability of new owners to manage them, but this is more difficult in the industrial sector. Many of the industrial units taken for divestment were established in the 1950's and 1960's which mean that they have antiquated machinery and equipment giving rise to valuation problem. Other problems to be overcome are: (a) New owners might not be industrial entrepreneurs. In Bangladesh many new owners were previously traders and in many

cases this lack of manufacturing experience subsequently gave rise to management problem. (b) Resistance to privatization by workers and trade unions is more evident in the industrial sector than in the banking sector. (c) An industrial enterprise requires foreign exchange for importing spares and raw materials which is subject to government allocation and/or dependent to some extent on its own contribution to exports. (d) There is a tendency for industrial entrepreneurs to have outstanding bank loans either for fixed or working capital which is not generally true for a banking institution.

34. In spite of all these obstacles, the government in Bangladesh had privatized 551

Table 1. Disinvested/Denationalized Industrial Enterprises

| Period | Units Under Corporations | Units Under D.G Industries | Units Under Vested Property | Total |
|-----------|--------------------------|----------------------------|-----------------------------|-------|
| 1972-75 | - | 138 | 21 | 159 |
| 1976-82* | 112 | 92 | 32 | 236 |
| 1982-89** | 113 | 39 | 4 | 156 |
| Total | 225 | 269 | 57 | 551 |

Source: Ministry of Industries, Dhaka, Bangladesh.

Notes : * Till March 1982,

** Covers period up to 31st July 1989.

industrial enterprises (table 1) by the 31st July 1989 of which 225 industrial enterprises belonged to the six industrial corporations mentioned above. These privatized industrial units constitute nearly 60% of the 381 units previously vested with six sector corporations before divestment had started in respect of these corporations. The rest includes 269 units managed directly by the Director General of Industries and 57 units falling under the Vested Property Cell (unit) of the government. Out of 225 privatized industrial units under the six sector corporations, 33 jute mills and 29 textile mills were returned to their former owners/share holders on administratively determined grounds (this privatization option is known as denationalisation in government terminology). The remaining 489 industrial enterprises privatized which were previously under the corporations, Director General of Industries and vested property were disinvested through outright sale by public tenders. This does not include the disinvested commercial enterprises, hotels, restaurants, shops and godowns (warehouses), which were not manufacturing units, placed under the district authorities. Moreover, 49% shares of 11 state-owned industrial enterprises were successfully sold by June 1989 through public offering. It can also be seen from the table that 159 small and medium scale type of industrial units were disinvested during 1972-75 i.e., even under a socialist oriented government.

35. The period 1976-82 and that of 1982-89 coincide with two successor political regimes which pursued an explicit policy of assigning private sector the key role in economic development. Disinvestment/denationalization of industrial enterprises under sector corporations

was started in 1976. During 1976-82 and 1982-89, a total of 236 and 156 industrial enterprises respectively were disinvested/denationalized. These periods also demonstrate different stages of privatization in Bangladesh. Apart from investment ceilings during these phases as mentioned earlier (para 4 and 6), there were differences in the size and value of enterprises disinvested/denationalized. The three periods may be characterised by the divestiture of small (1972-75), medium (1972-82) and large scale (1982-89) industries respectively³.

36. In 1984, two Bangladeshi scholars, Rehman Sobhan and Ahmad Ahsan, published research on the performance of some of the industrial enterprises which have been privatized (disinvested and denationalized) by that stage⁴. Their period of study was 1976-83 and they dealt with the enterprises privatized under six corporations. These corporations did not manage enterprises with assets below TK. 1.5 million and taken together the six corporations managed 381 units in 1976. To test the hypothesis that private enterprises are likely to operate more efficiently and profitably, Sobhan and Ahsan studied the performance of 217 privatized industries (though data for a good number of enterprises were not available) in respect of the criteria adopted to measure operational performance which included data on production, sales and profitability. They also used employment position as another performance criteria. Given the limited objective of their paper and "faced with inadequacy of available data", they left out other considerations (the influence of important environmental factors such as inadequacy of foreign exchange for spares and raw materials, industrial unrest, depressed external demand, the age of plant and machinery, etc.).

37. The findings of the study made by Rehman Sobhan and Ahmad Ahsan are summarised in table 2. In a sample of 35 industrial units they found that production of 19 (54%) enterprises had risen, that of 11 (31%) enterprises had fallen and 5 (14%)⁵ enterprises were found layed off (temporarily closed due to industrial unrest or otherwise).

Table 2. Findings on the Performance of privatized Industrial Enterprises

| Activities | Number of Units | Rise | Fall | Layed off |
|---------------|--------------------|--------|--------|-----------|
| Production | 35 | 19 | 11 | 5 |
| % | (100) | (54.3) | (31.4) | (14.3) |
| Nominal Sales | 43 | 29 | 9 | 5 |
| % | (100) | (67.4) | (20.9) | (11.6) |
| Real Sales | 43 | 23 | 15 | 5 |
| % | (100) | (53.5) | (34.9) | (11.6) |
| Profit | 24 | 8* | 11^ | 5 |
| % | (100) | (33.3) | (45.9) | (20.8) |
| Employment | 31 | % - | (12.5) | - |

Source: Compiled from Sobhan, R. and Ahsan, A. (1984)

Notes : * 2 units raised profits, 4 units turned losses into profits and 2 units reduced losses;

^ 7 units increased losses and 4 units turned profits into losses.

In another sample of 43 units, it was found that the average annual sales performance of 29 (67%) enterprises improved, that of 9 (21%) enterprises declined and 5 (12%) units were found laid off. In terms of annual real sales performance of this sample, 23 (53%) enterprises recorded a rise while 15 (35%) industrial units recorded a fall. The remaining 5 (12%) were laid off. Against criterion of profit/loss performance, in a sample of 24 industrial units, the study found that 2 (8%) units increased profits, 2 (8%) enterprises reduced the losses, 4 (17%) units turned losses into profits. On the other hand, in 7 (29%) enterprises losses increased and in 4 (17%) enterprises profits were turned into losses. The remaining 5 (21%) units were laid off. Here, decline in profitability happened in 67% cases including laid off enterprises as against improvement in 33% cases. In a sample of 31 divested industrial enterprises, they found near 13% decline in total employment for the period under consideration. On the basis these findings, the authors came to the conclusion "that the trends in the improvements in production and sales are mixed whilst the capacity to improve the financial performance of enterprises is if anything more negative than positive. Furthermore, however these trends are interpreted it is clear that they have been accompanied by a decline in employment levels; a decline which is significant when we consider regular employment. In a labour surplus economy like ours this aspect needless to say merits some concern", (Rehman, S. and Ahsan, A., 1984, p.36).

38. Although the work of Rehman Sobhan and Ahmad Ahsan (1984) is important and the conclusions carefully drawn, the study has nevertheless some important limitations. What we see from table 2 is that in over half the cases surveyed, production and real sales increased; in just under half the cases (45%), production and real sales fell; in roughly 67% of cases, financial performance deteriorated (profits down or firms laid off), and overall employment dropped by 12.5%. At first sight, this implies that post-privatization performance is not particularly good in the industrial sector though of course such conclusions have to be qualified and measured against what would have happened in the absence of privatization. For example, would production, sales, profit and employment indicators for the poorer performance firms in particular sectors have dropped anyway because of other "environmental factors" - such as economic downturn, decline in export market prospects etc. It is a major limitation of the Sobhan-Ahsan study - and many other studies of post-privatization performance - that they do not attempt the (admittedly difficult) task of constructing a convincing "without privatization" counterfactual which takes account of such environmental factors and therefore provides a more appropriate benchmark for post privatization comparison. Equally, many of the protagonists in the privatization debate fail to adequately qualify their conclusions (as this study tries to do) by systematic reference to such considerations, and by utilisation of a broader range of performance indicators in addition to

profit and loss.

39. Importantly again, the samples in the study of Sobhan and Ahsan are small and do not contain sufficient data for strong conclusions to be drawn. Moreover, it is not explained in their study whether the varying firm-totals reported in respect of different criteria reflect different firms and samples of different size or are all drawn from same 43 firm sample (the different totals simply reflecting different response rates to particular questions). In addition, the data includes the performance of jute mills which are strongly influenced by changes in external demand. External demand for jute has always been found to fluctuate and a declining trend in exporting raw jute and jute products has been observed over the years. This is due to severe competition among jute producing and exporting countries and huge influx of synthetics on to the world jute market and clearly has a major independent effect on the performance of firms whether they are in the private or the public sector. Furthermore, the poor performance of some of the privatized enterprises may be attributed to foreign exchange constraints for importing spares and industrial raw materials, interruption and inadequate supply of energy, the psychological problems of workers and personnel in adjusting to private sector norms, industrial unrest and strikes leading to lay off, accumulated liabilities and debt servicing, the antiquated plant and machinery and the lack of experience of the new entrepreneurs in running industrial enterprises. Needless to say, some of these problems are also common to state-owned enterprises. These factors which account for the overall performance of industrial enterprises confirm the World Bank's view that "the key factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed", (World Bank, 1983, p.50). These environmental factors have not been taken into consideration by the study authors (this paper is considering these factors taking recent data).

40. It is, however, difficult to quantify precisely the impact of these environmental factors on overall performance of industrial enterprises. The Bangladesh Economic Survey of 1987-88 and that of 1988-89 have given us an indication as to the production loss due to certain environmental factors in the case of Bangladesh Jute Mills Corporation on the one hand and

Table 3. Production loss of Bangladesh Jute Mills Corporation (BJMC)

| <i>Year</i> | <i>1985-86</i> | <i>1986-87</i> | <i>1987-88</i> | <i>1988-89</i> |
|---|----------------|----------------|----------------|----------------|
| <i>Quantity (in '000 metric tons)</i> | <i>86.3</i> | <i>42.6</i> | <i>37.2</i> | <i>35</i> |
| <i>Loss as percentage of production targets</i> | <i>21.5</i> | <i>10.6</i> | <i>9.3</i> | <i>8.75</i> |

Source: Compiled from Bangladesh Economic Survey 1987/88 through 1988/89.

Note : Targets and Production figures are not shown.

loss in disinvested industrial enterprises in the jute and textile sector⁶. It has been estimated (table 3) that Bangladesh Jute Mills Corporation has sustained a loss of production to the tune of 86.3 thousand metric tons in 1985-86, 42.6 thousand metric tons in 1986-87, 37.2 thousand metric tons in 1987-88 and an estimated 35 thousand metric tons in 1988-89 due to factors like power failure, political unrest, labour dispute, strike, frequent quality change in the production process, non-utilisation of read space production of lighter fabrics and etc. These losses constitute about 21%, 11%, 9% and 9% in 1985-86, 1986-87, 1987-88 and 1988-89 respectively.

41. When we extend this analysis to mills now operating in the private sector, we can form an idea of their poor performance. In the case of 39 jute mills now in the private sector, of which 37 mills are disinvested/denationalized, from table 4 it can be seen that the actual

*Table 4. Production Loss of 39 private Sector Jute Mills
(Quantity in thousand metric tons)*

| Year | Target | Actual Production | Loss | Loss in % |
|---------|--------|-------------------|------|-----------|
| 1987-88 | 215 | 197.6 | 17.4 | 8.10 |
| 1988-89 | 216 | 190 | 26 | 12.04 |

Source: Compiled from Bangladesh Economic Survey 1987/88 through 1988/89.

production was 197.6 thousand metric tons against a target production of 215 thousand metric tons in 1987-88 (production targets are based on measured capacity). The actual production in 1988-89 was 190 thousand metric tons against the target of 216 thousand metric tons. Thus, the production loss constitutes 17.4 thousand metric tons (8%) and 26 thousand metric tons (12%) in 1987-88 and 1988-89 respectively. Similar environmental factors also affected the exports of jute products which can be seen from table 5.

*Table 5. Export Loss of 39 Private Sector Jute Mills
(Quantity in thousand metric tons)*

| Year | Target | Actual Exports | Loss | Loss in % |
|---------|--------|----------------|-------|-----------|
| 1987-88 | 205 | 174.25 | 30.75 | 15 |
| 1988-89 | 205 | 160.30 | 44.70 | 21.81 |

Source: Compiled from Bangladesh Economic Survey 1987/88 through 1988/89.

The export target of these privatised mills was 205 thousand metric tons both in 1987-88 and 1988-89, but the actual export of jute goods was 174.25 thousand metric tons in 1987-88 and an estimated 160.30 thousand metric tons in 1988-89. The targets both in production and export could not be achieved due to political unrest, frequent strikes, floods, power failure, lay off on the supply side and dull international market for jute goods on the demand side.

42. In the case of privatised textile mills, we have data for a sample of 20 mills for cotton yarn and a sample of only 8 mills for cloth. It is seen from table 6 that the production capacity of these 20 mills is estimated to be 30 million kilo gram (kg) of yarn. But the mills produced 24.9 million kg. in 1987-88 and an estimated 26.6 million kg. in 1988-89. Thus, it would appear that production fell short of capacity (also target) by 5.1 million kg. (17%) and 3.4 million kg. (11.34%) in 1987-88 and 1988-89 respectively due to these environmental factors. In cloth production data available for 8 mills show that production

Table 6. Production Loss of Privatised Textile Mills

| Year | Mills | Item | Target | Actual Production | Loss | Loss in % |
|---------|-------|-----------------------------|--------|-------------------|-------|-----------|
| 1987-88 | 20 | Yarn (in million kg.) | 30 | 24.90 | 5.10 | 17 |
| | 8 | Cloth (in million metre) | 23.01 | 22.58 | 0.43 | 1.86 |
| 1988-89 | 20 | Yarn (in million kg.) | 30 | 26.6 | 3.4 | 11.34 |
| | 9 | Cloth | 25.88 | 26.76* | 0.88* | 3.40* |

Source: Compiled from Bangladesh Economic Survey 1987-88 through 1988-89,

Note : * indicates higher production than the target.

fell short of the target of 23.01 million metre by 0.43 million metre (i.e., 1.86%) in 1987-88. In 1988-89, however, the estimated production of cloth for 9 textile mills was 26.76 million metre as against target of 25.88 million metre which shows 3.4% increase over target production⁷.

43. As already mentioned, the neo-classical theory relates efficiency outcomes to market structure in general and competition in particular. In this respect if we consider the public sector industrial corporations in Bangladesh, we observe certain improvements in their financial performance due to broadening the base of ownership through sales of industrial enterprises, shares, transforming public enterprises into public limited companies, deregulation and liberalisation of policies, with greater autonomy being granted to public corporations and individual enterprises. In 1986, the Public Enterprise (Management and Co-ordination) Ordinance was passed to ensure legal autonomy to public enterprises. in line with this policy, a system of reporting and evaluation of autonomous (public) bodies, known as SABRE, was introduced in 1987; significant pricing adjustments were made; the capital and debt structure of public enterprises were restructured by conversion of debt to equity and substantial infusion of additional equity. For example, during the Third Five Year Plan (1985-90), annual development programme loans of TK. 8314.1 million have been converted into equity, loans amounting to TK. 18.2 million have been converted into grants and there has been a cash infusion of TK. 3397.1 million for 15 non-financial public organisations⁸. However, there is still scope for broadening this base to augment the competitive process and thereby bring about a more competitive market structure. So far as data is available, public industrial

enterprises in Bangladesh taken as a whole have not been performing well. Rather the deficits have been accumulating. But, due to privatization and liberalisation policies, there has been an environmental change in market structure which in turn has affected the conduct and performance of industrial enterprises including those in the public sector. If we consider that privatization around 1980's was yielding some results, we find that public sector industrial corporations have also been showing an improvement against some financial indicators - in some cases narrowing losses and some cases yielding positive results.

44. Table 7 shows that for the six industrial corporations (with some cyclical and sectoral variations) the overall net profit/ net worth ratio (profits after tax deductions/ capital after depreciation) improved from (-) 14.94% in 1984-85 to (-) 0.88% in 1987-88,

Table 7. Financial Indicators of Public Sector Corporations (Ratio in %).

| Years | | Enterprises | | | | | | Total | Total Excl BJMC |
|---------|-----|-------------|--------|-------|--------|-------|-------|--------|--------------------|
| | | BJMC | BTMC | BSEC | BSFIC | BFIDC | BCIC | | |
| 1984/85 | * | -133.09 | 1.96 | -3.04 | -13.88 | 7.22 | 11.1 | -14.94 | 1.71 |
| | ** | -40.59 | 16.8 | -0.76 | -9.72 | 5.93 | 87.45 | 0.51 | 11.19 |
| | *** | -19.48 | 16 | -0.91 | -14.95 | 11.27 | 15.28 | 0.32 | 8.83 |
| 1985/86 | * | -150.48 | -25.17 | -1.78 | -14.47 | 3.03 | 2.38 | -16.02 | 6.06 |
| | ** | -25.71 | -1.78 | 0.1 | -11.94 | 2.9 | 24.84 | -2.57 | 4.52 |
| | *** | -21.61 | 2.43 | 0.14 | -11.86 | 5.62 | 14.26 | 2.41 | 4.39 |
| 1986/87 | * | -40.2 | -10.28 | -0.95 | -13.37 | 1.38 | -1.65 | -6.62 | 4.39 |
| | ** | -3.92 | 6.44 | -0.26 | -9.23 | 1.34 | 16.13 | 3.2 | 5.09 |
| | *** | -3.33 | 9.95 | 0.36 | 6.67 | 2.66 | 11.6 | 3.1 | 5.12 |
| 1987/88 | * | -29.79 | 9.99 | -0.68 | -1.5 | 6.52 | -3.32 | -0.88 | -2.83 |
| | ** | -0.3 | 5.96 | 0.79 | 0.75 | 3.12 | 34.39 | 6.12 | 8.45 |
| | *** | 0.28 | 8.23 | 0.73 | 0.53 | 9.77 | 11.85 | 4.99 | 6.56 |

Source : Mid-Term Review of the Third Five Year Plan (1985-90),
(Dhaka: Planning Commission), February 1989.

Note : * Net Profit/Net Worth Ratio,
** Gross Profit/Capital Employed Ratio,
*** Gross Profit/Sales Ratio

the gross profit/capital ratio improved from 0.51% to 6.12%, the gross profit/sales ratio improved from 0.32% to 4.99% over the same period. It can be seen from the table that when we exclude BJMC the adjusted column shows all ratios to be positive and larger in value except the net profit/net worth ratio of 1987-88. The reason for a negative net profit/net worth ratio in that year can be explained by production and marketing loss due to unprecedented floods in Bangladesh in 1987 - 1988. The positive and larger ratios in the column for 'total excluding BJMC' suggest strongly that it is the decaying performance of the jute sector which is contributing mainly to net losses and deficits in overall performance of manufacturing industrial sector of Bangladesh economy⁹.

45. The World Bank (1989) also found an improvement in the seven industrial corporations

they surveyed: the overall profit to sales ratio from (-) 11.2% in 1981-82 to 4.99% in 1982-83, 7.1% in 1983-84, 1.7% in 1984-85, 1.1% in 1985-86, 6.3% in 1986-87 and 6.4% in 1987-88¹⁰. Taking 1973-74 equals to 100, the World Bank (1989) calculated a production index and found that production index of manufacturing both public and private rose to 151 in 1987-88 as against 136 in 1982-83 (The World Bank, 1989, p.130).

46. In developing the industrial analysis further, we have consolidated production figures for 39 jute mills of the Bangladesh Jute Mills Association (an organisation of private sector jute mills) of which 35 mills are denationalized. We have also compiled data for 19 denationalized textile mills for cotton yarn and 8 textile mills for cloth. These are summarised in table 8.

Table 8. Production of Privatised Jute and Textile Mills

| Year | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1989-90* |
|--|---------|---------|---------|---------|----------|
| 39 Jute Mills (metric tons) | 183589 | 210548 | 197644 | 185783 | 207065 |
| 19 Textile Mills (yarn in million kg.) | 18.99 | 14.43 | 22.78 | 21.17 | 29.42 |
| 8 Textile Mills (cloth in million metres) | 17.86 | 14.55 | 22.58 | 21.06 | 23.28 |

Source: Compiled from Bangladesh Economic Survey 1987/88 through 1989/90.

Note : (i) The Surveys contain production data of different samples for different years. To make data representative and consistent, samples of 39 jute mills, 19 textile mills for yarn and 8 textile mills for cloth have been chosen;

(ii) * implies year for which estimated data are used.

We see from table 8 that production of privatised mills fluctuated significantly over the period 1985-86 to 1988-89 suggesting that firm conclusions about the trends in production can not be drawn. The data presented here is consistent, however, with findings that production is affected by external factors including political unrest and natural calamities. In 1988 for example, many mills were closed for 20 to 45 days due to unprecedented floods in Bangladesh. While jute is affected by external demand, textile is affected by internal demand (about 2% of textile products are exported and the rest is consumed locally). Since 80% of the population live on agriculture, poor harvests lead to sluggish demand for manufactures. Exact quantification is not possible on each of the factors. Nevertheless, this gives an idea of factors other than the ownership which might affect performance of an enterprise.

47. Similar conclusions were reached by the World Bank (1989) in the following words, "This exercise, however, has had mixed results: a number of privatized enterprises were closed down and several others have faced continuing problems, in part due to the weak demand for jute and textiles and accumulated liabilities and debt servicing", (World Bank, 1989, p.20). This proves that at least in some cases losses are not the results of ownership, but of general market conditions and inadequate management.

48. Again we have also analysed consolidated figures for different categories of mills both privatised and non-privatised from 1983 to 1987 which give further information on the level of employment during the denationalized period. The data are summarised in table 9. From the table it can be seen that while employment in cotton, sugar, matches and engineering sectors increased by 21.5%, 8.5%, 9.6% and 10.3% respectively over the period 1983-87,

Table 9. Employment During Denationalized Period (Workers)

| Year | Jute Mills | Cotton Mills | Sugar Mills | Match Factories | Engineering | Total |
|------------|------------|--------------|-------------|-----------------|-------------|--------|
| 1983 | 303995 | 190697* | 25477 | 11850 | 53703 | 585722 |
| 1987 | 256407 | 231655 | 27649 | 12994 | 59249 | 587954 |
| Growth (%) | -15.65 | 21.47 | 8.52 | 9.65 | 10.32 | 0.38 |

Source: Statistical Year Book, 1989, p.115, published by Bangladesh Bureau of Statistics.

* Indicates the figures for 1984.

the jute sector recorded a drastic cut of 15.65% even after privatization. It follows, therefore, that figures showing overall growth of employment of only 0.38% over the period 1983-87 conceal substantial sectoral variations in employment performance.

49. Privatization is also advocated on the consideration that the revenues earned from the sale of public enterprises can be utilised in other development activities. In the Bangladesh situation, however, if we analyse the net revenue earned through disinvestment, we find that the impact is not of so much significance, particularly when we contrast it with slow rate of increase in employment and progress towards achieving the other policy objectives of the privatization policy reviewed above. The position of revenue earnings through sales of all disinvested units is shown in table 10.

Table 10. Position of Sales Price as on 31st September, 1989

| Items | Amount (Taka in million) |
|---|--------------------------|
| 1. Total sales price of fixed assets | 1733.00 |
| 2. Sales price of stock, stores finished goods & work-in-process | 282.60 |
| 3. Sale of 49% share of 11 enterprises | 197.50 |
| Total Revenue Earned | 2213.10 |
| Government assumed liabilities | 1070.00 |
| Net Revenue Earned | 1143.10 |

Source : Ministry of Industries, Dhaka, Bangladesh.

From the table, we find that the total sale price of privatized assets is TK. 2213.10 million. However, if we compare this with the revised annual development programme outlay of 1987-88 amounting to TK. 46506 million, it constitutes only 4.75% of the annual development programme at current prices. If we compare it with the revised annual development outlay

for 1988-89 (amounting to TK. 53150 million) it constitutes 4.16%. Moreover, from the table it can be seen that the government has assumed liabilities amounting to TK. 1070 million (less than 50%)¹¹. If we deduct this from the gross sales price, net revenue stands at only TK. 1143.10 million. Comparing (on the same basis as above) the net sales price with the development budgets for 1987-88 and 1988-89, the shares drop to 2.45% and 2.15% respectively. In addition, according to sources in the Ministry of Industries, out of the total sales price of the privatized assets, an amount of TK. 521.60 million still remains to be paid by the purchasers. According to the same source, the government has already paid out TK. 602.40 million as a part of its assumed liabilities. Although this may demonstrate the sincerity of the government's commitment to the private sector, it also means that the revenue benefits of the privatization programme have been significantly less than the government at one time hoped for.

50. Moreover, as in other countries, doubts have been raised about the pricing of the assets privatized. It is held that there was a large underpricing of divestment of industrial enterprises in Bangladesh. Similar view is also held about British privatization¹². We have seen that the total sales price of fixed assets of 489 industrial enterprises amounted to Tk. 1733 million. However, Rehman Sobhan and Ahmad Ahsan (1984) estimated the net value of the 162 disinvested enterprises they looked at to be TK. 8500.5 million alone. If it is true that substantial underpricing took place, the net value of all disinvested and denationalized industrial enterprises suggests a real transfer of several thousand millions of Taka from public to private ownership which they argue may have "serious long term implications"¹³. The stand of the government on this point is that it follows certain principles of valuation. Officially, fixed assets, land and reality are valued at the prescribed rates of Dhaka Improvement Trust, Chittagong Development Authority, Khulna Development Authority, Roads and Highways etc. and sometimes by local inspection and verification. Here again in Bangladesh, there is no technical assistance from the World Bank which is available in other developing countries (The Working Group on Disinvestment performs this function). Current assets are valued at book value. These prices are normally taken as the minimum floor price for tender. In principle, enterprises are sold at the highest bid price or minimum floor price, whichever is higher. Because of the non-accessibility to documents pertaining to valuation of abandoned industrial enterprises, however, it is not possible in this study to comment accurately how far privatization was underpriced in Bangladesh or to arbitrate between competing points of view.

End Notes

1. Different writers have tried to develop Kalecki model in their own context. Kalecki himself developed the concept of intermediate regime in his essay on "Social and Economic Aspects of Intermediate Regime". For our purpose, it implies a regime which is dominated by rich peasants and lower middle class (petty bourgeoisie). During such regime the state sector is dominant and is thought to be the main engine of economic development. For detail, see Sobhan, R. and Ahmad, M. (1980).

2. For an elaborate discussion of genesis and rationale of public enterprises in Bangladesh, see Sobhan, R. and Ahmad, M. (1980) and Ahmad, M. (1982).
3. In Bangladeshi standards, generally industrial enterprises having fixed assets up to TK. 2.5 million, between TK. 2.5 - 10 million, and above TK. 10 million are known as small, medium and large scale industries. A good number of industries during third phase were sold for above TK. 10 million. In one fiscal year alone i.e., 1982-83, the average sale price of an industrial unit was about TK. 32.65 million (less than US \$ 2 million). For details, see Sobhan, R. and Ahsan, A. (1984).
4. Sobhan, R. and Ahsan, A. (1984), Disinvestment and Denationalization: Profile and Performance, (Dhaka: BIDS).
5. Percentage figures are rounded up so far the study of Rehman Sobhan and Ahmad Ahsan is concerned.
6. The estimates of production loss due to environmental factors have been calculated by sample surveys and examining the records of industrial enterprises and corporations.
7. This analysis has been made to show the extent how the environmental factors, some of which are uncontrollable, affect the production and therefore, the performance of enterprises. Data in this para have been drawn from Bangladesh Economic Survey 1987-88, pp. 134 - 137 and that of 1988-89, pp. 116 - 120. The production targets of 8 privatized textile mills in the year 1987-88 and that of 9 textile mills in the year 1988-89 have been taken by averaging the total production capacity of 21 privatized mills quoted in the Bangladesh Economic Survey of 1987-88 through 1988-89. Nevertheless, this gives an idea of how factors other than the ownership might affect the performance of enterprises.
8. See Mid-Term Review of the Third Five Year Plan (1985-90), (Dhaka: Planning Commission), February 1989.
9. Jute, once called the golden fibre of Bangladesh, used to contribute about 54% of export earnings of the then Pakistan (when Bangladesh was a part of it) during 1960's is now losing against synthetics and unhealthy competition from other producing countries.
10. The World Bank (1989), Bangladesh: Promoting Higher Growth and Human Development. A World Bank Country Study, p.108.
11. Some critics say that the assumption of liabilities reflects part of the cost of asset transfer (for "sweeteners"). But available official records suggest that this has been done to relieve new investors of accumulated overdue liabilities. With such liabilities, the enterprises could not be sold as the purchase prices would exceed new installation of similar kind of project.
12. Vickers, J. and Yarrow, G (1988) discuss the issue of selling state assets in Britain and dealt with the controversy of underpricing of shares in many cases including British Telecom, British Airways, British Petroleum, British Gas, the Trustee Savings Bank and others, pp. 171 - 194.
13. It has long term implications on the following points: (i) from the point of view of social justice and concentration of wealth which may aggravate income distribution, (ii) there is no longer public accountability for these assets as was the case under public ownership and (iii) if concentration of wealth does not generate productive forces i.e., employment, investible surplus, etc., this is a loss to the economy.

V. Performance Evaluation of Denationalised Commercial Banks

51. In Bangladesh, there are four categories of banks. These are (i) nationalised commercial banks, (ii) private commercial banks, (iii) foreign commercial banks and (iv) specialised banks. The present position of commercial banks in Bangladesh is as follows¹:

(a) Nationalised Commercial Banks

1. Agrani Bank
2. Janata Bank
3. Sonali Bank

(b) Private Commercial Banks

1. Arab-Bangladesh Bank Ltd.
2. Al-Baraka Bank Bangladesh Ltd.
3. Bank of Small Industries and Commerce Bangladesh Ltd.
4. International Finance Investment and Commerce Bank Ltd.
5. Islami Bank Bangladesh Ltd.
6. National Bank Ltd.
7. Pubali Bank Ltd.
8. Rupali Bank Ltd.
9. The City Bank Ltd.
10. United Commercial Bank Ltd.
11. Uttara Bank Ltd.

(c) Foreign Commercial Banks

1. American Express Bank Ltd.
2. ANZ Grindlays Bank
3. Banque Indosuez
4. Bank of Credit and Commerce International (Overseas) Ltd.
5. Habib Bank Ltd.
6. State Bank of India
7. The Standard Chartered Bank

Some specialised banks like, Bangladesh Krishi Bank, Bangladesh Shilpa Bank and Rajshahi Krishi Unnayan Bank perform some of the functions of the commercial banks.

52. As already mentioned, In 1972, six nationalised commercial banks were organised namely, Agrani Bank, Janata Bank, Pubali Bank, Rupali Bank, Sonali Bank and Uttara Bank. Consequent upon the government's policy of allowing an increasing role to the private sector, private commercial banks were allowed after 1981-82. In pursuance of this policy, out of six

nationalised commercial banks, Pubali Bank, Uttara Bank and Rupali Bank were denationalised in June 1983, September 1983 and December 1986 respectively. This is also the third phase of privatisation in Bangladesh. While 95% of the shares of the Pubali Bank and the Uttara Bank have been handed over to the private owners, 51% of the shares in the Rupali Bank have been retained by the government. The government has one director on both of the Pubali Bank and the Uttara bank's 15 member board of directors. In the case of Rupali Bank, it nominates four directors on the 8 member board of directors and also its Chairman. During the nationalised period the authorised capital of each of these three banks was TK. 50 million. This was enhanced to TK. 160 million for Pubali Bank, TK. 200 million for Uttara Bank and TK. 1000 million for Rupali Bank at the time of denationalisation. During the nationalised period the paid up capital of any of these banks did not exceed TK. 20 million. Now a significant improvement has occurred in the position of paid up capital. In December 1988, the paid up capital of Pubali Bank, Uttara Bank and Rupali Bank stood at TK. 158.8 million, TK. 92.4 million and TK. 272.45 million respectively². Measured in terms of 1983-84 prices (the year of denationalisation), the paid up capital of Pubali Bank, Uttara Bank and Rupali Bank now stands at TK. 102.34 million, TK. 59.54 million and TK. 175.27 million respectively.

53. Some research work has been done on the performance of commercial banks in Bangladesh (S.A.Shakoor, 1989; Bhuiyan and Aktarudin, 1989; Habibullah Bahar, 1989 and Taufic Ahmad Chowdhury, 1988). But, these studies mostly dealt with the profitability and productivity measures (output per unit of input). S.A. Shakoor (1989) showed that the productivity of selected commercial banks (not denationalised ones) was better than that of the nationalised commercial banks. In contrast, Bhuiyan and Aktaruddin (1989) analysed productivity "with respect to both working fund and deposit per Taka spent on Employee" in two denationalised banks, namely, Pubali Bank and Uttara Bank, and found that productivity was declining during both nationalised and denationalised period. They also found that the average productivity was lower during the denationalised period. Habibullah Bahar (1989) analysing the performance of commercial banks in general comes to the conclusion that private foreign banks and private banks earned more profits than the nationalised commercial banks. He also found that "social banking and profitability move in opposite direction", (Bahar, H., 1989, p. 95). Taufic Ahmad Chowdhury (1988) found that the profitability and the productivity of the commercial banks of Bangladesh as a whole declined from the level existing before the denationalisation and privatization had started. But no research has yet been done on the performance of denationalised banks vis-a-vis the nationalised banks on both commercial and social profitability. Moreover, productivity should not be the sole measure of the performance of a commercial bank. Improved productivity implies that a certain quantity of output is

obtained by using a lower quantity of inputs. It is not easy to quantify the variables of a service industry like banking as one can do in the case of manufacturing. Here, the output is not homogeneous. Sometimes, it is also confusing to identify the output variables in banking business. Deposit, capital and investment, for example, may be taken as output in some circumstances and as inputs in other circumstances. In fact, productivity analysis highlights basically the income-expenditure position of a bank which may be one important criteria of value judgement but does not give an overall idea of performance of banks before and after privatization. In this section we are going to investigate whether the performance of three denationalised banks has improved if we compare them with other banks still in the public sector taking their position before and after denationalisation via-a-vis the nationalised banks. In the paras that follow we are going to evaluate it.

54. In terms of expansion of bank branches it is seen from table 11 that the total number of

Table 11. Number of Bank Branches in Bangladesh

| Name of Banks | 1983 | | | 1988 | | | Growth Rate 83-88 (%) | | |
|---------------|----------------|---------------|---------------|--------------|---------------|---------------|-----------------------|-------|-------|
| | Urban | Rural | Total | Urban | Rural | Total | Urban | Rural | Total |
| A. NCBs | 887 x 62.33 | 1922 79.19 | 2809 72.96 | 944 63.14 | 2053 80.04 | 2997 73.82 | 6.43 | 6.82 | 6.69 |
| Sonali | 325 | 881 | 1206 | 355 | 913 | 1268 | 9.23 | 3.63 | 5.14 |
| Janata | 295 | 531 | 826 | 305 | 568 | 873 | 3.39 | 6.97 | 5.69 |
| Agrani | 267 | 510 | 777 | 284 | 527 | 856 | 6.37 | 3.33 | 10.17 |
| B. DCBs | 536 x 37.67 | 505 20.81 | 1041 27.04 | 551 36.86 | 512 19.96 | 1063 26.18 | 2.80 | 1.39 | 2.11 |
| Uttara | 132 x 9.27 | 50 2.06 | 182 4.73 | 135 9.03 | 51 1.98 | 186 4.58 | 2.27 | 2.00 | 2.20 |
| Pubali | 181 x 12.72 | 196 8.07 | 377 9.79 | 185 12.38 | 179 6.98 | 364 8.96 | 2.21 | -8.67 | -3.45 |
| Rupali | 223 x 15.68 | 259 10.68 | 482* 12.52 | 231 15.45 | 282 11.00 | 513 12.64 | 3.59 | 8.88 | 6.43 |
| Total (A+B) | 1423 | 2427 | 3850 | 1495 | 2565 | 4060 | 5.06 | 5.69 | 5.45 |

Source : Bangladesh Bank, Dhaka.

Notes : NCBs imply nationalised commercial banks,

DCBs means denationalised commercial banks,

: x indicates percentage share of row total (A+B),

: * relates to 1986.

bank branches grew from 3850 in 1983 to 4060 in 1988. The branches of three nationalised commercial banks increased from 2809 in 1983 to 2997 in 1988 and that of three denationalised commercial banks increased from 1041 in 1983 to 1063 in 1988. Thus, the growth rate of all branches (rural and urban) for three nationalised banks, namely, Sonali Bank, Janata Bank and Agrani Bank is 6.7% but that of three denationalised banks, namely, Uttara Bank, Pubali Bank and Rupali Bank is only 2.1% over the period 1983-88. The three

denationalised banks also lag behind in the expansion of both rural and urban branches. While the growth rate of rural branches was 6.8% for nationalised banks, the denationalised banks grew at only 1.4%. From the table we also see that while the urban branches of three nationalised commercial banks grew at 6.4%, the corresponding growth of three denationalised banks is 2.8% for the period under study. Individually, the Rupali Bank showed a significant growth rate of bank branches including expansion of rural bank branches (8.9%). The Pubali Bank showed a decline in number of branches (-3.4%) including a sharp decline in rural branches (-8.7%). The position of Uttara Bank remains more or less the same. In terms of percentage shares, it can be seen from the table that the total share of nationalised commercial banks increased from 73% in 1983 to 73.8% in 1988 and that of denationalised commercial banks decreased from 27% in 1983 to 26.2% in 1988. In both cases of urban and rural branch expansion, the denationalised commercial banks recorded a marginal decline. It may be mentioned that officially 148 rural branches (Rupali - 71, Pubali - 57 and Uttara - 20) of three denationalised banks were handed over to the Bangladesh Krishi Bank (a specialised agricultural bank) at the time of denationalisation. Thus, the percentage shares of three denationalised banks would have been higher (28.8% instead of 26.2%) if they could retain these 148 branches. This indicates in the Bangladesh context that: (i) banks are still to some extent operating under regulatory situation and/or (ii) understanding the motive of private commercial banks, government desires to withdraw gradually the social banking functions from or put less pressure on denationalised commercial banks by reducing rural branches.

55. On deposits (table 12) we find that the average growth rate of 3 denationalised commercial banks improved from 18.6% in the nationalised period to 19% in the denationalised period.

Table 12 Annual Average Growth Rate of Deposits of Six Banks

| Period | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | |
|-----------------------------|---------------------------------|--------|-----------------|---------|-------------------------------|--------|--------|---------|
| | Uttara | Pubali | Rupali | Overall | Sonali | Agrani | Janata | Overall |
| Nationalised (1973-83) | 11.85 | 18.32 | 23.83 23.74* | 18.55 | 25.79 | 24.53 | 22.41 | 23.98 |
| Denationalised (1984-88) | 26.23 | 14.18 | 19.71 14.17* | 19.07 | 17.92 | 21.10 | 18.36 | 18.71 |

Source: Annual Reports of Banks and Resume of the Activities of Banks and Financial Institutions in Bangladesh 1984/85 through 1988/89

* In the nationalised period, it implies period of 1973-86 and in the denationalised period it implies 1987 and 1988.

Note : Data on deposits are shown in appendix VI and Yearly growth of deposits are shown in appendix VII.

The growth rate of 3 nationalised banks, on the other hand, decreased from 24% to 18.7% for the period under consideration. When we consider the growth rate of deposits of three nationalised banks, we find a decline in every case. Considered individually, however, the

three denationalised banks show mixed results. The outstanding performance of Uttara Bank over compensates the two other denationalised banks. The Uttara Bank recorded a sharp increase from 11.8% in the nationalised period to 26.2% during denationalised period. The Pubali Bank and the Rupali Bank recorded a similar decline by 4.1%. Again, when we compare the performance of Rupali Bank till 1986, the year of denationalisation, and during 1987 and 1988, it is seen from the table 12 that the growth rate decreased from 23.7% to 14.2% during the period under consideration. The better performance of Uttara Bank is explained, according to central bank sources, by the adoption of performance-related management techniques in respect of employees at the branch level. Although the overall growth rate of deposits of 3 denationalised commercial banks show an increase, the conclusive evidence of better performance can not be drawn due to poor performance of two out of three denationalised commercial banks.

56. On rural deposits, we have data for the year of denationalisation and the year 1988 for these six banks. Data are contained in the following table (table 13):

Table 13. Rural Deposits of Six Banks (Take in million)

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Grand Total |
|-------|---------------------------------|------------------|--------------------|-------------------|-------------------------------|-------------------|-------------------|--------------------|------------------|
| | Uttara | Pubali | Rupali | Total | Sonali | Agrani | Janata | Total | |
| 1983 | 181.6 (1.56) | 798.9 (6.88) | 288.72* (21.43) | 346.77 (29.88) | 343.89 (30.49) | 228.44 (18.82) | 241.39 (20.80) | 813.72 (70.12) | 1160.49 (100) |
| 1988 | 701.0 (2.26) | 1958.7 (6.31) | 3477 (11.20) | 613.67 (19.77) | 11373.4 (36.64) | 6372.4 (20.53) | 7155.4 (23.05) | 24901.2 (80.23) | 31037.9 (100) |

Source: Bangladesh Bank

Notes : Figures in parentheses indicate percentage share to grand total column.

* Relate to December, 1986 (at the time of denationalisation).

From the table it can be seen that while the share of 3 denationalised banks in total rural deposits was 29.9% in 1983, it came down to 19.8% in 1988. On the other hand, the share in rural deposits of 3 nationalised commercial banks increased from 70.1% in 1983 to 80.2% in 1988. This is explained by wide network of rural branches of nationalised commercial banks. Measured individually, the share in rural deposits of Uttara Bank increased from 1.6% to 2.3%, while the share of Pubali Bank and Rupali Bank decreased from 6.9% to 6.3% and from 21.4% to 11.2% respectively over the period 1983-1988. The fall in the share of denationalised commercial banks in rural deposits is consistent with the hypothesis that profitability and social banking go in opposite directions and that public sector banks are more responsive to government policy.

57. On bank advances, from the following table 14 we find that the overall growth rate of both denationalised commercial banks and the nationalised commercial banks declined in the denationalised period as compared with nationalised period. However, the decline was less

(0.9%) in the case of denationalised banks than in the case of 3 nationalised banks (9.9%). On individual performance, the results are varied and conflicting. In the denationalised sector, while the growth rate of advances of Uttara Bank increased from 14% in the nationalised period to 19.8% in the denationalised period, Pubali Bank recorded a sharp fall from 20.9% to 12.3% for the period under consideration and Rupali Bank recorded a sharp fall from 22.5% during 1973-86 to 15.7% during 1987-88. In the nationalised sector, while the Agrani

Table 14. Annual Average Growth Rate of Advances of Six Banks

| Period | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | |
|-----------------------------|---------------------------------|--------|------------------|---------|-------------------------------|--------|--------|---------|
| | Uttara | Pubali | Rupali | Overall | Sonali | Agrani | Janata | Overall |
| Nationalised (1973-83) | 14.04 | 20.94 | 21.93 22.53* | 18.65 | 32.13 | 22.13 | 24.84 | 26.69 |
| Denationalised (1984-88) | 19.77 | 12.34 | 21.12 15.70** | 17.71 | 16.20 | 24.57 | 12.95 | 16.75 |

Source: Annual Reports of Banks and Resume of the Activities of Financial Institutions in Bangladesh 1984/85 through 1988/89, published by Ministry of Finance, Dhaka.

Notes: * average growth rate for the period 1973-86, ** relates to 1987 and 1988. Data on advances are shown in appendix VIII and those of yearly growth in appendix IX.

Bank recorded an increase from 22.1% to 24.6%, the Sonali Bank and Janata Bank registered a sharp fall from 32.1% to 16.2% and from 24.8% to 12.9% respectively during the period under consideration. Here again, the superiority of one category of banks over the other can not be established.

58. When we compare the percentage share of both urban and rural advances of denationalised commercial banks between nationalised and denationalised period for which data are available (i.e., only for two years: the year of denationalisation and the year 1988) it can be seen from table 15 that there has been a policy shift by these banks from rural to urban advances. Table 15 shows that while in 1983, the total share of urban advances was 87% in their total

Table 15. Bank Advances of Denationalised Commercial Banks (Taka in million)

| Banks | 1983 | | | 1988 | | |
|--------|---------|--------|---------|---------|--------|---------|
| | Urban | Rural | Total | Urban | Rural | Total |
| Uttara | 1657.2 | 105.6 | 1762.8 | 4355.1 | 269.6 | 4624.7 |
| (%) | 94.01 | 5.99 | 100.00 | 94.17 | 5.83 | 100.00 |
| Pubali | 2231.4 | 429.2 | 2660.6 | 5470.1 | 665.5 | 6135.6 |
| (%) | 83.87 | 16.13 | 100.00 | 89.15 | 10.85 | 100.00 |
| Rupali | 6697.9 | 1041.3 | 7739.2 | 9192.8 | 1300.7 | 10493.5 |
| (%) | 86.55 | 13.45 | 100.00 | 87.60 | 12.40 | 100.00 |
| Total | 10586.5 | 1576.1 | 12162.6 | 19018.0 | 2235.8 | 21253.8 |
| (%) | 87.04 | 12.96 | 100 | 89.48 | 10.52 | 100 |

Source: Compiled from Annual Reports of Concerned Banks,

Note : % indicates percentage share of the total in each row.

advances, it increased to 89.5% in December, 1988. Measured individually, Rupali Bank increased urban advances from 86.5% in December, 1986 to 87.6% in December, 1988. In the case of Pubali Bank, the share of urban advances in its total credit disbursement rose from 83.9% in December 1983 to 89.1% in December 1988. The urban share of its total advances of Uttara Bank grew from 94% to 94.2% for the period under consideration. This is a clear indication that the denationalised commercial banks like other private banks are reluctant to go for rural financing which is traditionally thought to be risky and less remunerative. Rural advances and more specifically credit to the agricultural sector are risky and less remunerative in the sense that recovery is very poor. This often due to poor harvests, and indeed sometimes loans are written off in line with government decisions particularly in times of natural calamities for which banks are not compensated by the government.

59. On the criteria of **credit disbursed to agriculture**, from table 16 we find that the amount

Table 16. Disbursement of Agricultural Credit (Taka in million)

| Years | Nationalised Commercial Banks | | | | Denationalised Commercial Banks | | | | Total |
|---------|-------------------------------|--------|--------|-----------|---------------------------------|--------|--------|-----------|--------|
| | Sonali | Janata | Agrani | Sub-Total | Pubali | Rupali | Uttara | Sub-Total | |
| 1980-81 | 880 | 228.2 | 80.5 | 1188.7 | 80.5 | 64.3 | 26.9 | 171.7 | 1360.4 |
| (%) | 64.69 | 16.77 | 5.92 | 87.38 | 5.92 | 4.73 | 1.98 | 12.62 | 100.00 |
| 1981-82 | 776.5 | 291.4 | 95.8 | 1163.7 | 92.4 | 61.9 | 24.2 | 178.5 | 1342.2 |
| (%) | 57.85 | 21.71 | 7.14 | 86.70 | 6.88 | 4.61 | 1.80 | 13.30 | 100.00 |
| 1982-83 | 1316.3 | 557.9 | 307.8 | 2182 | 156 | 164.8 | 45.1 | 365.9 | 2547.9 |
| (%) | 51.66 | 21.90 | 12.08 | 85.64 | 6.12 | 6.47 | 1.77 | 14.36 | 100.00 |
| 1983-84 | 2178.3 | 865.5 | 483.6 | 3527.4 | 179.2 | 178 | 24.3 | 381.5 | 3908.9 |
| (%) | 55.73 | 22.14 | 12.37 | 90.24 | 4.58 | 4.55 | 0.62 | 9.76 | 100.00 |
| 1984-85 | 3113.1 | 822.3 | 675.1 | 4610.5 | 212.3 | 242.7 | 2.6 | 457.6 | 5068.1 |
| (%) | 61.43 | 16.23 | 13.32 | 90.97 | 4.19 | 4.79 | 0.05 | 9.03 | 100.00 |
| 1985-86 | 1908.2 | 252.8 | 243 | 2404 | 36 | 86.7 | 0 | 122.7 | 2526.7 |
| (%) | 75.52 | 10.01 | 9.62 | 95.14 | 1.42 | 3.43 | 0.00 | 4.86 | 100.00 |
| 1986-87 | 1320.2 | 323.4 | 310.3 | 1953.9 | 34.6 | 94.7 | 0 | 129.3 | 2083.2 |
| (%) | 63.37 | 15.52 | 14.90 | 93.79 | 1.66 | 4.55 | 0.00 | 6.21 | 100.00 |
| 1987-88 | 1670.7 | 408.7 | 383.4 | 2462.8 | 33.6 | 134.8 | 0 | 168.4 | 2631.2 |
| (%) | 63.50 | 15.53 | 14.57 | 93.60 | 1.28 | 5.12 | 0.00 | 6.40 | 100.00 |

Source : Compiled from different issues of Resumes of the Activities of Financial Institutions in Bangladesh, published by Ministry of Finance from 1981/82 to 1988/89

Note : Emphasis on the distribution of agricultural credit through commercial banks started since 1976/77. Data, however, are available from 1980/81.

of agricultural credit disbursed by three denationalised commercial banks declined gradually following privatization. It can be seen from table 16 that the total agricultural credit disbursed by six nationalised commercial banks was TK. 1360.4 million in 1980-81 and TK. 2631.2 million in 1987-88. The share of three denationalised commercial banks in agricultural credit was TK. 171.7 million and TK. 168.4 million implying 12.63% in 1980-81 and 6.4% in 1987-88. It is evident from the table that the percentage share of three denationalised commercial banks, although rising during nationalised period, gradually fell thereafter. Again, while these

show an improvement during 1986-87 and 1987-88, it does not match the pre-denationalised period. Measured individually, during denationalised period, while the share of Rupali Bank Ltd. shows an upward trend, the share of Pubali Bank Ltd. and Uttara Bank Ltd. declined sharply. The share of Uttara Bank Ltd. shows a gradual decline from 1.98% in 1980-81 to 0.05% in 1984-85 and ultimately vanished. This is a matter of concern for a predominantly agricultural country like Bangladesh. On the other hand, the percentage share in agricultural credit of three nationalised banks grew from 87.4% in 1980-81 to 90.2% in 1983-84 (the year of denationalisation of Pubali and Uttara Bank) which again rose to 93.6% in 1987-88.

60. On the criteria of foreign exchange business (exports and imports), from table 17 it can be seen that

Table 17. Annual Average Growth of Foreign Exchange Business in Exports and Imports (%)

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-----------|---------------------------------|--------|--------|-----------|-------------------------------|--------|--------|-----------|-------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1973-83* | 17.40 | 24.33 | 54.92 | 21.84 | 54.27 | 41.36 | 26.09 | 29.86 | 26.61 |
| 1984-88** | 19.43 | 13.71 | 26.40 | 19.42 | 10.01 | 21.19 | 14.28 | 12.48 | 13.48 |

Source: Compiled from Annual Reports of banks and Resume of the Activities of Banks and Financial Institutions in Bangladesh

Notes: * Nationalised period

** Denationalised period

Data on foreign exchange business are shown in appendix X and those of yearly growth are in appendix XI.

the overall rate of growth of denationalised commercial banks (19.4%) is greater than that of nationalised commercial banks (14.3%) during denationalised period. In both cases, however, the growth rate in foreign exchange business is lower in the denationalised period in comparison with the nationalised period. But, while there was a sharp decline of foreign exchange business in the case of nationalised banks from 29.8% during 1973-83 to 12.5% during 1984-88, a smaller decline was evident in the case of denationalised banks from 21.8% to 19.4% for the period under consideration. Given the fact that the foreign exchange business depends on the overall foreign trade of the country and that 8 other private commercial banks and 7 other foreign commercial banks are competing with these banks, the higher growth of foreign exchange business of denationalised commercial banks than that of nationalised commercial banks is a plus point for denationalised commercial banks.

61. The performance of 3 denationalised commercial banks can again be judged by analysing their **income/expenditure ratio** i.e, income per taka of expenditure. The ratios are contained in table 18. From the table we find that the overall income/expenditure ratio of 3 denationalised banks declined fractionally from 1.08 in 1983 to 1.07 in 1988 implying

Table 18. Income/Expenditure Ratio of 3 denationalised commercial banks

| Period | Pubali Bank | | | Uttara Bank | | | Rupali Bank | | | |
|--------|-------------|-------|------|-------------|-------|------|-------------|--------|------|------|
| | I | E | R | I | E | R | I | E | R | AR |
| 1983 | 528.0 | 522.6 | 1.01 | 554.7 | 504.1 | 1.10 | 626.0 | 540.8 | 1.15 | 1.08 |
| 1988 | 1028.5 | 964.6 | 1.06 | 801.1 | 763.4 | 1.04 | 1489.1 | 1321.5 | 1.12 | 1.07 |

Source: Resume of the Activities of the Banks and Financial Institutions 1988-89, Ministry of Finance, Dhaka.

Note: I and E stand for gross income and gross expenditure in million taka respectively, while R stands for income/expenditure ratio and AR for the average income/expenditure ratio of three denationalised banks.

overall a slight increase in expenditure proportionate to income. The table further shows that the aggregate figures conceal individual performance variations. Taken individually, it can be seen that the income/expenditure ratio of Pubali Bank has increased from 1.01 in 1983 to 1.06 in 1988. On the other hand, the income/expenditure ratio of Uttara Bank and Rupali Bank has fallen. This ratio was 1.10 in 1983 and came down to 1.04 in 1988 in the case of Uttara Bank. Rupali Bank recorded a fall from 1.15 in 1983 to 1.12 in 1988. In 1986, when the Rupali Bank was privatized, its income/expenditure ratio was 1.12 implying no change after denationalisation in 1988.

62. On the criterion of credit disbursed to the private sector, sources close to the Bangladesh Bank reveal that there has not been any significant policy change by the denationalised commercial banks as a whole except the Uttara Bank where a significant change in the share of advances to the private sector has taken place. It is known that while the share of private sector advances was 44% in 1983, it rose to 81% of this bank's total advances in 1988. The share of two other denationalised commercial banks, namely, Pubali Bank and Rupali Bank in their total disbursed credit remained more or less at the same level as existed in their pre-denationalised period. On the other hand, in line with the government policy of boosting private sector, there has been a significant increase in the share of private sector advances by the remaining 3 nationalised banks. This view is also confirmed from table 19.

Table 19. Growth Rate of Private Sector Advances

| Period | Denationalised Banks | Nationalised Banks |
|-----------------------------|----------------------|--------------------|
| Nationalised (1973-83) | 20.98 | 29.47 |
| Denationalised (1984-88) | 22.21 | 34.88 |

Source : Compiled from Resume of the Activities of Banks and Financial Institutions in Bangladesh 1987/88 through 1988/89.

It can be seen from the table that while the growth rate of advances to private sector increased slightly from 21% to 22.2% (i.e., by 1.2%) for the denationalised banks, the corresponding growth rate in the case of nationalised banks increased from 29.5% to 34.9% (i.e., by 5.4%). The increase is greater in the case of nationalised commercial banks.

63. The empirical findings described above are summarised in table 20 to provide an overview of the performance of the denationalised commercial banks vis-a-vis the banks still in the public sector.

Table 20. Performance of Denationalised and Nationalised Commercial Banks

| Criteria | Denationalised Banks | | Nationalised Banks | | Remarks |
|---------------------------------------|----------------------|-------|--------------------|-------|---|
| | NP | DP | NP | DP | |
| 1. Growth of Deposits | 18.55 | 19.07 | 23.98 | 18.71 | DCBs registered a marginal improvement while NCBs recorded a decline. |
| 2. Growth of Advances | 18.65 | 17.71 | 26.69 | 16.75 | Growth of advances decreased in both cases. But, NCBs recorded a sharp decline. |
| 3. Share (%) of Branches | 27.04 | 26.18 | 72.96 | 73.82 | Share of NCBs marginally increased while that of DCBs decreased. |
| 4. Share in Rural Deposits (%) | 29.88 | 19.77 | 70.12 | 80.23 | NCBs are leading. |
| 5. Urban Advances (%) share | 87.04 | 89.48 | - | - | Shift in policy towards urban business. |
| 6. Agr. Credit (%) share | 9.76 | 6.40 | 90.24 | 93.60 | Share of DCBs declined. |
| 7. Foreign exchange business (growth) | 21.84 | 19.42 | 29.86 | 12.48 | Growth in foreign exchange business of DCBs is higher than NCBs. |
| 8. Private sector Advances (growth) | 20.98 | 22.21 | 29.47 | 34.88 | Growth is higher in NCBs than in DCBs |
| 9. Income/Expenditure Ratio | 1.08 | 1.07 | - | - | Marginal decline. |

Notes: NCBs = Nationalised Commercial Banks, DCBs = Denationalised Commercial Banks.
NP = Nationalised period and DP = Denationalised period.

End Notes

1. Compiled from Statistical Year Book of Bangladesh 1989, (Dhaka: Bangladesh Bureau of Statistics) and Resume of the Activities of Banks and Financial Institutions in Bangladesh 1988/89, (Dhaka: Ministry of Finance).
2. Relevant figures are quoted from annual reports of concerned commercial banks, and Resume of the Activities of Banks and Financial Institutions in Bangladesh 1987/88 through 1988/89.

VI. Conclusions and Policy Recommendations

64. As has been demonstrated in previous sections, the overall results of the privatization programme in Bangladesh have been mixed, though once the adjustments and qualifications referred to in previous sections have been made, the verdict must also be that, the policy has had some notable successes.

65. In the industrial sector, while some privatized enterprises turned their losses into profits, some others continued to increase losses. But, the overall trend of production of disinvested/denationalised enterprises was found to fluctuate over the years and actual production in most cases fell short of the targets based on capacity. The export earnings of commodities, particularly jute goods, were found to be declining. The factors explaining such deterioration both in production and exports were found to be some things other than ownership. Depressed demand, both external and internal, industrial unrest and strikes, interruption and inadequate supply of energy, foreign exchange constraints for importing spares and industrial raw materials, antiquated plant and machinery, accumulated liabilities and debt servicing are some of the important factors which account for poor performance of privatized industrial enterprises. Despite the adverse impact of these wider industrial trends, many individual former public sector enterprises in the changed circumstances due to disinvestment, deregulation, autonomy granted to them, debt restructuring, infusion of capital, etc. have been showing some improvements against some financial indicators like, net profit/net worth ratio, gross profit/capital ratio, gross profit /sales ratio, etc.

66. So far as revenues accrued to public exchequer are concerned, however, we have seen that the net revenue earned from selling 489 industrial enterprises constitutes only 2.4% of annual development programme outlay in 1987-88 or 2.1% of the same in 1988-89 financial year. This is not a particularly significant contribution to the public exchequer especially when it is offset against the cost of foregoing other public policy objectives, e.g. employment. This has led to allegations that the industrial assets/shares were underpriced resulting in transfer of huge amount of assets and money from the public domain to individuals or families. On the distributional implications of this, public opinion is that there are around 200 families who now own and control the lions share of industrial enterprises and financial institutions in post-privatization Bangladesh. So far as knowledge goes, there has not been any study to date of whether this increased concentration of wealth and institutions has been contributing to the overall industrialisation of the country and increasing employment, exports, etc. Nevertheless, available information (as mentioned in para 11) does suggest that the growth

of private investment in Bangladesh has been increasing in real terms over the successive plan periods.

67. In the banking sector, the performance of the 3 denationalised commercial banks examined also shows mixed results both in respect of individual and group performance. On physical expansion of banks through their branches, we have seen that the denationalised commercial banks lagged behind their counterparts in the nationalised sector. In reality, however, if we could take into account 148 rural branches, which were handed over to Bangladesh Krishi Bank, the percentage share of the three denationalised banks would have been higher. On deposits, we have seen that the average growth rate has increased during denationalised period as compared with three nationalised commercial banks. In respect of advances, overall growth of the three denationalised banks was found greater than that of the three nationalised banks though both groups recorded a decline during denationalised period. The decline, however, is significantly less in the case of denationalised banks than that of the nationalised banks. On income/expenditure ratio, the denationalised banks showed a marginal decline by TK. 0.01. On foreign exchange business in exports and imports, it has been found that denationalised commercial banks were ahead of nationalised commercial banks after privatization had occurred. These criteria show a positive trend in performance of the three denationalised commercial banks vis-a-vis the nationalised banks.

68. On social banking criteria, like, rural deposits/advances, agricultural credit and advances extended to private sector the lead of nationalised commercial banks over the denationalised commercial banks is quite evident. Hence with privatisation some trade off between private and public policies may crop up.

69. The analysis, however, does not reveal an overall superiority of different banks under different ownership. Our exercise rather reveals that the performance is better on some account and worse on others. Individually, some banks did well against certain criteria and some banks fared badly. This simply confirms the World Bank's view that ownership is not the "key factor" in evaluating the performance of an enterprise. The question is how enterprises are managed and how they are affected by the other environmental factors which affect the structure, conduct and performance of an enterprise.

70. There are some additional factors, as well, which explain why denationalised commercial banks were unable to establish a more conclusive lead over nationalised commercial banks. First, after denationalisation the government withdrew the accounts of several ministries, sector corporations and other autonomous and semi autonomous bodies which were previously maintained with these banks. Secondly, they had to assume not only the assets but also

liabilities of the banks at the time of denationalisation. They inherited a large amount of bad loans which can not be recovered. This has weakened their capital base. Thirdly, they are still subject to the regulation of the Bangladesh Bank (central bank) in advancing loans to some priority sectors like agriculture and jute sector. The former is less remunerative and the latter is a loss-making sector with little prospect of loan recovery. Fourthly, there has been a heavy loss of experienced personnel to other newly set-up private sector commercial banks [listed in para 51(b)] resulting in the weakening of management¹. Thus, it will certainly take sometime for the denationalised commercial banks to establish a convincing lead in banking business.

71. Now the question is what would have happened if there had not been privatization in Bangladesh?

(a) In the public industrial sector, our analysis indicates that without privatization there would have been continuous losses which would have to have been financed by the government implying accumulated debts and widening government deficits resulting ultimately in a halt to the industrialisation programme. Further, there would no encouragement for the emergence of an entrepreneurial class even though this still remains scanty. The banking sector would have been further weakened by extending generous loans to the public sector with little or no prospect of recovery. This is not at all desirable for a country like Bangladesh where 80% of population live below poverty line and where every year about 1.3 million people are joining the labour force. Even with the present rate of economic growth and development, according to the Third Five Year Plan (1985-90) of Bangladesh, 11 million members of active labour force will remain unemployed by the end of 1990. A country like Bangladesh beset with chronic unemployment, rising inflation, natural calamities, unstable export markets, etc. can not afford to sustain loss-making public industrial enterprises for long.

(b) In the financial sector, before private banks were allowed and some banks were denationalised, there was stalemate. Every thing was done under the direction of the government directly or through the Bangladesh Bank. There was no competition among the nationalised banks. The government would decide (still decides in some cases) with whom (banks) the ministries, sector corporations, departments or directorates could maintain their accounts. Indeed, it was almost decided by the government to whom and to which sector loans would go and at what terms. Under a regulatory frame work characterised by such detailed government interferences, the financial sector as a whole broke down, the volume of bad debts multiplied, the scope for effective financial intermediation was squeezed and the growth of the financial sector was halted. This had very negative effects on country's trade, commerce and industry. Our exercise has indicated this trend and the resulting gradual shift

in policy towards privatization and liberalisation of the economy. Now the situation has changed to a great extent. A good number of banks and insurance companies have emerged and are working under relatively competitive situation with every one making profits. By comparison with both 1972 and 1983, deposits, advances, investments, finance of external trade and bank branches have increased manifoldly in real terms both by sub-sectors and for the banking sector as a whole². This confirms the view that in a deregulatory situation things may improve with regard to financial criteria though, it should be noted, not with regard to social banking criteria.

72. Within the limited objectives of this paper, it is somewhat difficult to draw significant policy conclusions that may guide the policy makers. However, the trend of analysis reveals that with mixed results emanating from privatization, it would be better to go for a step-by-step divestiture programme so far Bangladesh is concerned. Here, a developed entrepreneurial class is lacking. In the case of a significant number of enterprises, the purchasers failed to repay the purchase prices. By the 31st July, 1989, an amount of TK. 480.6 million was overdue from the purchasers of disinvested industrial enterprises. By an executive order, on record, the defaulting owners of 16 disinvested industrial enterprises were barred from getting any sort of industrial loans for two successive financial years, i.e., 1987-88 and 1988-89. There were conditions at the time of disinvestment that the privatized industrial enterprises would continue to enjoy all the facilities they would enjoy being in the nationalised sector in return for which for one year they could not cut employment, increase product prices or resort to lay off. Both parties allege from their own point of view that the terms of this agreement were violated. This indicates problems of administrative capability in monitoring implementation of privatisation policy on the one hand and limitations of entrepreneurs on the other. Moreover, there are enterprises like the fertilizer factory, shipbuilding, the cement factory and even one jute mill Adamjee Jute Mills, the biggest in Asia which employs nearly 50,000 workers (not to speak of enterprises, at this stage, like Biman Bangladesh Airlines, Bangladesh Shipping Corporation or Chittagong Steel Mills and many others characterised by large size, huge capital investment and of monopoly business) in respect of which privatization will require a substantial time period to be executed because of the sheer size and huge capital involved. These factors suggest that from now on the programme of privatization should emphasise "gradualism"³.

73. Further support for a gradualist approach comes from a comparison of the Bangladesh experience with that of other countries, such as Chile and Malaysia which like Bangladesh started privatization programmes without World Bank assistance. Chile, for example, also started their programme in 1973 (almost at the same time as Bangladesh). Chilean privatization

programme however passed through 4 stages in quick succession, but by moving too quickly hit serious problems which set back the programme. It sold public corporations to foreign investors and local conglomerates thereby resulting in concentration of economic power. This factor, together with bankruptcy in some privatized units, compelled the government in 1983 to take back into government control 14 out of 19 banks privatized in 1975⁴. In Malaysia on the other hand, the public policy of privatization is to transfer 30% of corporate wealth to "Bhumiputera" (sons of the soil i.e. local)⁵. Here, a private individual interested in buying a public asset can propose privatization and he then has the first right of refusal. There are committees on privatization and technical aspects, but there are no specific procedures on valuation and pricing. Guidelines issued in 1985 simply refer to a "need for proper valuation". This highly selective approach to policy indicates that privatization in Malaysia is favouring those who are already in command of assets (those fortunate few of the Bhumiputera). Bangladesh also passed through several stages in the privatization policy starting with divestiture of small industrial units then moving on gradually to large-scale industries and large financial institutions. Unlike Chile, however, Bangladesh sold enterprises only to domestic owners, and to a greater extent remained cautious about selling public assets to industrial and financial conglomerates. To date in Bangladesh, no denationalised bank has been taken back by the government on the grounds of bankruptcy or for other reasons. The programme does not also favour only a few members of a particular group of society. The programme in Bangladesh would, therefore, appear to have been more carefully thought out than is the case in other countries, and by proceeding cautiously has so far avoided some of the mistakes made by, for example, Chile and Malaysia in their rush to privatization.

74. Continuous evaluation and monitoring of the performance of privatised enterprises is necessary to make the programme a success. Factors explaining the success or failure of privatized enterprises should be identified and disclosed. The success stories should be publicised. Many institutions were created and many rules and procedures were framed to deal with privatization in Bangladesh. But, as far as is known, no specific institution was created to evaluate and monitor the performance of post-privatized enterprises⁶.

75. From the point of view of development planning, it has been suggested in some quarters that with an extensive privatization programme underway in Bangladesh, planning, particularly in respect of industry and finance, is no longer required or at least is required less. Our analysis indicates however that, on the contrary, planning is still vital in Bangladesh. The scope of planning will not only be limited to social sectors like health, education, welfare, public utilities, etc., but there remains a key planning role in the industrial and financial sectors too. The development of infra-structure, for example, will remain a key function of

the government. Foreign aid is also essential for industrialisation and government is instrumental in procuring aid either in cash or kind. The private sector remains excluded moreover from certain "key and strategic areas" where government will continue to need budget and development plans. There are still provisions in the Industrial and Investment Policies that government would still invest, if it were in the public interest, in the areas open to private sector if private investment is not forthcoming. In the manufacturing sector alone, government still owns about 40% of industrial assets. These make the continuation of government's planning role still more important.

76. Our study has emphasised throughout that mere change of ownership from public to private domain is not the "key factor" in determining the success of an enterprise. Other environmental factors affect the structure, conduct and performance of an enterprise. Conventionally, this is implicit in the recognition that privatization must form part of an overall programme of a pro-market reforms. It demands the firm commitment of the government in creating an overall conditions for the market to operate. In policy terms, the efforts of the Bangladesh government in this respect in recent years are note-worthy. But still, every thing is not in the right direction. For example, in Bangladesh, there are still three exchange rates - official, wage earners and black market. There are still quantitative control, licensing and restrictive controls on imports. Available government documents suggest that the government is aware of these contradictions and is working towards rationalising trade, tariffs and exchange rate policies. In the financial sector, the regulatory framework is still more visible than in the industrial sector. The central bank (Bangladesh Bank) monopolistically decides the interest rates on deposits and advances of the scheduled banks and dictates the direction of advances. In some cases, for example, in containing inflation, these measures may produce positive macro-economic results, but in others, these affect the efficiency of banking system as a whole. Given the limited objective of this paper, it is difficult to quantify exactly the impact of each of the central bank's policies of regulation. It is however, useful to note that a very large proportion of the advances made to some priority sectors (e.g., sometimes public sector, sometimes private sector and sometimes agricultural sector throughout the history of Bangladesh economy) prescribed by Bangladesh Bank have become bad loans i.e., recovery has become difficult/impossible. Sometimes, interest earnings have been written off. This occurred particularly in the case of public sector industrial enterprises at the time of denationalisation and more recently on agricultural loans. These have contributed to the weakness of capital base of the denationalised banks which inherited these bad loans. Such sort of regulatory policies hamper the success of the privatization programme. Thus, prudence and consistency suggest that an overhauling of policies is required and anomalies impeding the congenial growth of a competitive market structure be removed.

77. In the public industrial sector, our exercise reveals that an improvement in the overall financial performance is visible after some reforms in the public sector including divestiture. This implies that reforms in pursuit of the same objective (better performance of enterprises) be continued and strengthened. For example, the prevailing policy is that prices can only be changed up to 10% at the enterprise level which is insignificant. If the policy makers really mean that autonomy in decision making be granted to the management of the enterprise (Ordinance of 1986 ensures), the "enterprise nature" of a "public enterprise" demands from them real autonomy by which the management can take their own decisions based on economic and commercial principles.

78. One of the most sensitive issues in Bangladesh, from socio-politico-economic point of view is inequality in income and wealth distribution. It can not be denied that the basic issue in the autonomy and later, liberation movement of Bangladesh against Pakistan was economic disparity both between East and West and inter-classes. This was one of the factors which prompted the then government in 1972 to adopt socialism as one of the state principles and a process of socio-economic planning. The present policy makers are also aware of it. All plan documents in Bangladesh, even after the fall of socialist oriented government in 1975, to date bear testimony to the fact that poverty alleviation and for that matter, removal of income inequality by several means has been adopted as one of the basic objectives of development. In the privatization context, this encourages us to advocate a policy of "popular capitalism" (broadly distributed capital) instead of wholesale selling of state-owned enterprises to a limited number of individuals or a group of individuals. This can be done by public offering of shares through stock exchange market and other financial institutions. The capital market in Bangladesh is undeveloped by many standards. True, but our exercise has found that 49% shares of 11 public industrial enterprises and that of the Rupali Bank included in this study have been sold successfully through the prevailing capital market in Bangladesh. Although undeveloped, the capital market in Bangladesh, therefore, demonstrates its potential to sell shares of public sector enterprises to prospective savers among the population at large.

79. Our exercise has also revealed that the privatization programme in Bangladesh was conceived of locally and was largely independent of World Bank/IMF induced privatisation programmes in other developing countries in the 1980's. During 1972-75 industrial units having fixed assets of TK. 1.5 million were sold to provide investment opportunities to private entrepreneurs. The Industrial Policy of 1975 spelled out more clearly the "gradual disinvestment of smaller public enterprises to provide immediate investment opportunities to the private sector", (Second Five Year Plan, p.104) and the need to increase the "efficiency of management of sector corporations". We have seen that subsequent Industrial Policies were more vocal on disinvestment. Thus, Bangladesh conceived of privatization for better economic,

financial and industrial performance, easing the financial burden on state budgets and increased efficiency well ahead of the World Bank and the IMF, and even before Mrs. Thatcher in 1979⁷. It also gave the lead in gradually shifting emphasis from public (social ownership of the means of production) to private sector in the economic development of the country. Although every country's experience is unique and perhaps can not be replicated, the privatisation experience in Bangladesh at least in so far as the gradual shift of emphasis to the private sector is concerned can perhaps be a useful lesson for other countries, such as those in Eastern Europe, contemplating a sudden switch from state control to substantial private sector. Such countries should note that experience has persuaded Bangladesh of the importance of retaining a well defined public enterprise sector which is subject to democratic control.

80. Finally, the central conclusion of this paper should again be emphasised: viz., that change of ownership alone is not the key factor in the pursuit of better performance of an enterprise. Other considerations and environmental factors affecting enterprise performance have also to be addressed as part of a comprehensive package of reform measures in order to achieve positive and consistent results from a privatization policy.

End Notes

1. According to an estimate now available, about 700 officers and staff from different nationalised commercial banks including Uttara, Pubali and Rupali joined other private commercial banks. Detail break up is not available. It is held that about 300 officers and staff (a good number of them were top ranking bankers) from these three banks joined the newly set up private commercial banks.
2. For instance, in 1973-74, the total deposits and advances of scheduled banks were TK.9132 million and TK.7371 million respectively. In 1988-89, deposits and advances at 1973-74 prices stand at TK.30713.62 million and TK.29639.36 million respectively. In 1983-84 prices, these figures stand at TK.109647.62 million and TK.105812.54 million respectively. These improvements also took place in the case of denationalised commercial banks. For details, please see Economic Trends, Vol. XV, No. 6, published by Bangladesh Bank. Also see appendix XII and XIII.
3. In a different context, Zaidi Sattar (1989) in his simulation analysis of macroeconomic impacts also suggested "a policy of gradualism" as "privatization could make things worse in the short-term before making them any better in the long-term", (Sattar, Z., 1989, p.1175).
4. For details, see Marshall, J. and Montt, F. (1988).
5. For details, see Ramanadham, V. V., ed. (1989).
6. In Bangladesh, private sector is now expected to play the key role in economic development. Recently, an institution called Private Investment Cell was created within the Planning Commission of Bangladesh to study and sort out the problems which the private investors are facing. But, no institution was created to evaluate and monitor the performance of privatized enterprises.
7. Economic reasons were more evident in the privatization programme of Bangladesh than mere political belief as the latter is said to be more pronounced in the case of U.K.

Appendix I. Public Enterprises in Bangladesh at Liberation (1971)

A. National Institutions with Headquarters in Pakistan

| Name in Pakistan | New Name in Bangladesh |
|--|---|
| 1. State Bank of Pakistan | Bangladesh Bank |
| 2. National Bank of Pakistan | Sonali Bank |
| 3. Pakistan Industrial and Investment Credit Corporation | Bangladesh Shilpa Rin Sangstha |
| 4. National Investment Trust | |
| 5. Investment Corporation of Pakistan | |
| 6. Equity Participation Fund | - Merged with Bangladesh Krishi Bank No change in name |
| 7. Agricultural Development Bank | |
| 8. House Building Finance Corporation | |
| 9. Pakistan Insurance Corporation | Not replicated in Bangladesh |
| 10. Security Printing Press | |
| 11. Pakistan International Airlines | Bangladesh Biman |
| 12. Radio Pakistan | Bangladesh Betar/Radio Bangladesh |
| 13. National Shipping Corporation of Pakistan | Bangladesh Shipping Corporation |
| 14. Pakistan Television Corporation | Television Corporation of Bangladesh Trading Corporation of Bangladesh Atomic Energy Commission |
| 15. Trading Corporation Of Pakistan | |
| 16. Atomic Energy Commission | |

B. National Institutions with Headquarters in Bangladesh

| | |
|---|------------------------|
| 17. Industrial Development Bank of Pakistan | Bangladesh Shilpa Bank |
|---|------------------------|

C. Institutions under the Provincial Government of East Pakistan

18. Industrial Development Corporation
19. Agricultural Development Corporation
20. Water and Power Development Board
21. Small Industries Corporation
22. Road Transport Corporation
23. Pakistan Eastern Railway
24. Inland Transport Authority
25. East Pakistan Shipping Corporation
26. Forest Industries Development Corporation
27. Fisheries Development Corporations
28. Film Development Corporation
29. Dacca Improvement Trust
30. Khulna Development Authority
31. Chittagong Development Authority
32. Water and Sewerage Authority, Dhaka
33. Water and Sewerage Authority, Chittagong
34. Jute Marketing Corporation
35. Jute Price Stabilisation Corporation
36. Chittagong Port Trust
37. Chalna Port Development Authority
38. Airport Development Authority
39. Jute Board
40. Tea Board

Source: Sobhan, R. and Ahmad, M. (1980), pp. 111-113.

Notes : The list does not include 19 government departments like post, telegraph and telephones, civil aviation, water, power, etc.

Appendix II

Public Enterprises in Bangladesh
Classified according to Implicit Intervention Motive

A. Market Imperfections :**(a) Natural Monopoly**

1. Bangladesh Railways
2. Bangladesh Biman (Bangladesh Airlines)
3. Chittagong Port Authority
4. Port of Chalna Authority
5. Bangladesh Oil, Gas and Mineral Corporation (Transmission and Distribution)
6. Civil Aviation Authority
7. Bangladesh Power Development Board

(b) Social Good

8. Dhaka Improvement Trust
9. Chittagong Development Authority
10. Khulna Development Authority
11. Dhaka Water and Sewerage authority.
12. Chittagong Water and Sewerage Authority
13. Rural Electrification Board

(c) Merit Good

14. Bangladesh Broadcasting Authority

B. Development Objectives**(a) Entrepreneurial Substitution**

15. Bangladesh Jute Mills Corporation
16. Bangladesh Textile Mills Corporation
17. Bangladesh Sugar and Food Industries Corporation
18. Bangladesh Chemical Industries Corporation
19. Bangladesh Steel and Engineering Corporation
20. Bangladesh Forest Industries Development Corporation
21. Bangladesh Oil, Gas and Mineral Corporation -(Generation)
22. Bangladesh Jute Corporation
23. Bangladesh Shipping Corporation
24. Trading Corporation of Bangladesh
25. Bangladesh Inland Water Transport Corporation
26. Bangladesh Text Book Board
27. Consumers Supply Company Ltd.
28. Jiban Bima Corporation (Life Insurance)
29. Sadharan Bima Corporation (General Insurance)
30. Bangladesh Road Transport Corporation
31. Sena Kalyan Sangstha
32. Bangladesh Freedom Fighters Welfare Trust
33. Bangladesh Water Development Board
34. Fisheries Development Corporation

(b) Other Development Purposes

35. Bangladesh Shilpa Bank (Industrial Bank)
36. Bangladesh Shilpa Rin Sangstha
37. Bangladesh Krishi Bank (Agricultural Bank)
38. Grameen Bank
39. House Building Finance Corporation
40. Bangladesh Film Development Corporation
41. Investment Corporation of Bangladesh
42. Bangladesh Tea Board
43. Bangladesh Handloom Board
44. Bangladesh Sericulture Board
45. Bangladesh Parjatan Corporation (Tourism)
46. Bangladesh Small and Cottage Industries Corporation
47. Export Promotion Zone
48. Bangladesh Inland Water Transport Authority

Source : Rashid, M.H., (1988).

Note : There may be some disagreement on the classification made. Nevertheless, it gives us a long list of public enterprises in Bangladesh.

Appendix III. Gross National Product of Bangladesh at Current Prices (Taka in million)

| Period | GDP at Market Prices | GDP at Current Factor Cost | GNP at Current Factor Cost | Per capita Income (Taka) |
|----------|----------------------------|----------------------------------|----------------------------------|--------------------------------|
| 1984-85 | 407157 | 385363 | 393981 | 3972 |
| 1985-86 | 466178 | 440662 | 452588 | 4450 |
| 1986-87 | 538335 | 508253 | 523801 | 5032 |
| 1987-88 | 594023 | 561328 | 581785 | 5458 |
| 1988-89* | 655963 | 618610 | 640005 | 5866 |

Source: Economic Trends, Vol.XV, No.6, (Dhaka: Bangladesh Bank).
Note : Data relating to 1988-89 are provisional.

Appendix IV. Gross National Product of Bangladesh at 1984-85 Constant Prices (Taka in million)

| Period | At Constant Market Prices | | At Constant Factor Cost | | GNP | | National Income Deflator |
|----------|---------------------------|-------------------|-------------------------|-------------------|--------|-------------------|--------------------------------|
| | GDP | GDP Growth (%) | GDP | GDP Growth (%) | GNP | GNP Growth (%) | |
| 1984-85 | 407157 | - | 385363 | - | 393981 | - | - |
| 1985-86 | 424300 | 4.21 | 401104 | 4.08 | 411946 | 4.56 | 110 |
| 1986-87 | 443329 | 4.48 | 418468 | 4.33 | 431318 | 4.70 | 121 |
| 1987-88 | 454531 | 2.52 | 429573 | 2.65 | 445189 | 3.22 | 131 |
| 1988-89* | 465584 | 2.43 | 439093 | 2.22 | 454267 | 2.04 | 141 |

Source: Economic Trends, Vol.XV, No.6, (Dhaka: Bangladesh Bank),
Note : Data relating to 1988-89 are provisional.

Appendix V.

The Average Exchange Rates in Bangladesh (Official and Wage Earners Scheme)

| Period | The Currencies | | | |
|-----------------|-------------------------|----------|----------------------|----------|
| | Taka per Pound Sterling | | Taka per U.S. Dollar | |
| | Official Rate | WES Rate | Official Rate | WES Rate |
| 1972-73 | 18.8001 | - | 7.8763 | - |
| 1973-74 | 18.8001 | - | 7.9664 | - |
| 1974-75 | 20.8064 | - | 8.8752 | - |
| 1975-76 | 29.3600 | - | 15.0541 | - |
| 1976-77 | 26.5077 | - | 15.4260 | - |
| 1977-78 | 27.6126 | 36.12 | 15.1168 | 19.86 |
| 1978-79 | 30.5002 | 38.54 | 15.2231 | 19.68 |
| 1979-80 | 34.4975 | 42.47 | 15.4900 | 19.21 |
| 1980-81 | 37.2535 | 45.69 | 16.2586 | 20.11 |
| 1981-82 | 36.7613 | 41.86 | 20.0652 | 22.79 |
| 1982-83 | 38.2688 | 38.83 | 23.7953 | 24.12 |
| 1983-84 | 36.2302 | 39.32 | 24.9437 | 27.16 |
| 1984-85 | 31.7647 | 35.97 | 25.9634 | 29.38 |
| 1985-86 | 43.0297 | 47.10 | 29.8861 | 32.74 |
| 1986-87 | 46.7059 | 50.42 | 30.6294 | 33.08 |
| 1987-88 | 54.7077 | 57.73 | 31.2422 | 32.94 |
| 1988-89 | 55.0685 | 56.43 | 32.1424 | 32.91 |
| 1990 (April) | 55.5208 | 56.64 | 33.8800 | 34.50 |

Source: Bangladesh Bank, Dhaka.

Notes: Wage earners's remittances from abroad can be sold and bought in the open markets. Rates are determined freely.

Official rates and WES rates are weighted averages and simple averages respectively for the related periods.

'-' = Nil.

Appendix VI

Deposits of Six Commercial Banks (Taka in million)

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-------|---------------------------------|--------|---------|-----------|-------------------------------|---------|---------|-----------|----------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1972 | 691.3 | 768.0 | 624.7 | 2084.0 | 1731.3 | 961.7 | 1576.9 | 4269.9 | 6353.9 |
| 1973 | 732.7 | 1020.4 | 899.5 | 2652.6 | 2102.6 | 1250.8 | 2335.5 | 5688.9 | 8341.5 |
| 1974 | 862.8 | 1122.2 | 1052.9 | 3037.9 | 2239.2 | 1366.0 | 2580.5 | 6185.7 | 9223.6 |
| 1975 | 996.5 | 1311.7 | 1110.0 | 3418.2 | 3329.3 | 1408.0 | 2921.1 | 7658.4 | 11076.6 |
| 1976 | 960.1 | 1721.7 | 1344.4 | 4026.2 | 3844.1 | 1815.9 | 4215.8 | 9875.8 | 13902.0 |
| 1977 | 1019.0 | 1980.5 | 1766.0 | 4765.5 | 4661.5 | 2481.9 | 4811.2 | 11954.6 | 16720.1 |
| 1978 | 1178.8 | 2313.9 | 2267.1 | 5759.8 | 5995.0 | 3182.9 | 5424.8 | 14602.7 | 20362.5 |
| 1979 | 1480.7 | 2890.1 | 2887.0 | 7257.8 | 8387.9 | 3801.5 | 6628.6 | 18818.0 | 26075.8 |
| 1980 | 1725.7 | 3561.6 | 3578.3 | 8865.6 | 10979.7 | 4694.2 | 7726.6 | 23400.5 | 32266.1 |
| 1981 | 1887.4 | 3867.7 | 3976.1 | 9731.2 | 11926.8 | 5713.6 | 8698.4 | 26338.8 | 36070.0 |
| 1982 | 2009.2 | 4034.3 | 4536.1 | 10579.6 | 15960.9 | 7065.7 | 9946.1 | 32972.7 | 43552.3 |
| 1983 | 2310.3 | 4747.4 | 6275.3 | 13333.0 | 20496.8 | 10266.4 | 13710.5 | 44473.7 | 57806.7 |
| 1984 | 2887.8 | 5409.1 | 8624.6 | 16921.5 | 27031.2 | 14412.9 | 18082.9 | 59527.0 | 76448.5 |
| 1985 | 3652.6 | 6149.6 | 9682.5 | 19484.7 | 34576.0 | 17423.0 | 20280.8 | 72279.8 | 91764.5 |
| 1986 | 4663.5 | 6968.5 | 11666.7 | 23298.7 | 38353.2 | 19667.7 | 22772.6 | 80793.5 | 104092.2 |
| 1987 | 6065.5 | 8068.4 | 13851.3 | 27985.2 | 39629.2 | 23810.9 | 27018.8 | 90458.9 | 118444.1 |
| 1988 | 7394.2 | 9210.9 | 15184.0 | 31789.1 | 45795.4 | 26258.3 | 31569.6 | 103623.3 | 135412.4 |

Source: Compiled from annual reports of banks and Resume of the Activities of Banks and Financial Institutions in Bangladesh 1984/85 through 1988/89, published by Ministry of Finance, Dhaka.

Appendix VII

Yearly Growth of Deposits

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-------|---------------------------------|--------|--------|-----------|-------------------------------|--------|--------|-----------|-------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1973 | 5.99 | 32.86 | 43.99 | 27.28 | 21.45 | 30.06 | 48.11 | 33.23 | 31.28 |
| 1974 | 17.76 | 9.98 | 17.05 | 14.53 | 6.50 | 9.21 | 10.49 | 8.73 | 10.57 |
| 1975 | 15.50 | 16.89 | 5.42 | 12.52 | 48.68 | 3.07 | 13.20 | 23.81 | 20.09 |
| 1976 | -3.65 | 31.26 | 21.12 | 17.79 | 15.46 | 28.97 | 44.32 | 28.95 | 25.51 |
| 1977 | 6.13 | 15.03 | 31.36 | 18.36 | 21.26 | 36.68 | 14.12 | 21.05 | 20.27 |
| 1978 | 15.68 | 16.83 | 28.37 | 20.86 | 28.61 | 28.24 | 12.75 | 22.15 | 21.78 |
| 1979 | 25.61 | 24.90 | 27.34 | 26.01 | 39.91 | 19.44 | 22.19 | 28.87 | 28.06 |
| 1980 | 16.55 | 23.23 | 23.95 | 22.15 | 30.90 | 23.48 | 16.56 | 24.35 | 23.74 |
| 1981 | 9.37 | 8.59 | 11.12 | 9.76 | 8.63 | 21.72 | 12.58 | 12.56 | 11.79 |
| 1982 | 6.45 | 4.31 | 14.08 | 8.72 | 33.82 | 23.66 | 14.34 | 25.19 | 20.74 |
| 1983 | 14.99 | 17.68 | 38.34 | 26.03 | 28.42 | 45.30 | 37.85 | 34.88 | 32.73 |
| 1984 | 25.00 | 13.94 | 37.44 | 26.91 | 31.88 | 40.39 | 31.89 | 33.85 | 32.25 |
| 1985 | 26.48 | 13.69 | 12.27 | 15.15 | 27.91 | 20.88 | 12.15 | 21.42 | 20.03 |
| 1986 | 27.68 | 13.32 | 20.49 | 19.57 | 10.92 | 12.88 | 12.29 | 11.78 | 13.43 |
| 1987 | 30.06 | 15.78 | 18.73 | 20.11 | 3.33 | 21.07 | 18.65 | 11.96 | 13.79 |
| 1988 | 21.91 | 14.16 | 9.62 | 13.59 | 15.56 | 10.28 | 16.84 | 14.55 | 14.33 |

Note: Calculated from appendix VI.

Appendix VIII.

Advances of Six Commercial Banks (Taka in million)

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-------|---------------------------------|--------|---------|-----------|-------------------------------|---------|---------|-----------|---------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1972 | 500.1 | 471.6 | 527.6 | 1499.3 | 853.7 | 765.6 | 1132.0 | 2751.3 | 4250.6 |
| 1973 | 648.3 | 568.2 | 671.7 | 1888.2 | 1289.3 | 1015.0 | 1564.4 | 3868.7 | 5756.9 |
| 1974 | 926.9 | 983.8 | 727.8 | 2638.5 | 1677.0 | 1207.9 | 2092.4 | 4977.3 | 7615.8 |
| 1975 | 1027.4 | 939.6 | 616.8 | 2583.8 | 2150.5 | 1262.5 | 2563.0 | 5976.0 | 8559.8 |
| 1976 | 951.4 | 1156.1 | 969.7 | 3077.2 | 2418.9 | 1524.2 | 3561.6 | 7504.7 | 10581.9 |
| 1977 | 1031.4 | 1483.9 | 1248.6 | 3763.9 | 3624.8 | 2061.9 | 4532.2 | 10218.9 | 13982.8 |
| 1978 | 1268.5 | 1762.2 | 1596.6 | 4627.3 | 4833.0 | 2509.1 | 5436.7 | 12778.8 | 17406.1 |
| 1979 | 1315.5 | 2138.6 | 2213.7 | 5667.8 | 6755.9 | 2953.5 | 6768.7 | 16478.1 | 22145.9 |
| 1980 | 1829.4 | 2508.5 | 2849.5 | 7187.4 | 9626.3 | 3609.9 | 7786.3 | 21022.5 | 28209.9 |
| 1981 | 2241.1 | 2968.8 | 3264.1 | 8474.0 | 11855.5 | 3941.3 | 8897.8 | 24694.6 | 33168.6 |
| 1982 | 2236.3 | 3078.7 | 3362.7 | 8677.7 | 16831.9 | 4635.5 | 11674.5 | 33141.9 | 41819.6 |
| 1983 | 1833.0 | 3397.8 | 4101.6 | 9332.4 | 17010.6 | 6623.6 | 12568.0 | 36202.2 | 45534.6 |
| 1984 | 2235.8 | 4333.5 | 6270.0 | 12839.3 | 22122.8 | 10313.4 | 15180.5 | 47616.7 | 60456.0 |
| 1985 | 2756.2 | 4725.7 | 7029.1 | 14511.0 | 27541.2 | 12837.8 | 16991.2 | 57370.2 | 71881.2 |
| 1986 | 3287.5 | 4901.3 | 7675.0 | 15863.8 | 29271.5 | 14661.1 | 17621.2 | 61553.8 | 77417.6 |
| 1987 | 4190.0 | 5095.1 | 9214.3 | 18499.4 | 29807.6 | 16499.8 | 18710.2 | 65017.6 | 83517.0 |
| 1988 | 4478.4 | 5984.5 | 10261.4 | 20724.3 | 35276.9 | 19130.4 | 22851.5 | 77258.8 | 97983.1 |

Source: Compiled from annual reports of banks, and Resume of the Activities of Banks and Financial Institutions in Bangladesh 1984/85 through 1988/89, published by Ministry of Finance, Dhaka, Bangladesh.

Appendix IX

Yearly Growth of Advances

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-------|---------------------------------|--------|--------|-----------|-------------------------------|--------|--------|-----------|-------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1973 | 29.63 | 20.48 | 27.31 | 25.94 | 51.02 | 32.58 | 38.20 | 40.61 | 35.44 |
| 1974 | 42.97 | 73.14 | 8.35 | 39.74 | 30.07 | 19.00 | 33.75 | 28.66 | 32.29 |
| 1975 | 10.84 | -4.49 | -15.25 | -2.07 | 28.23 | 4.52 | 22.49 | 20.07 | 12.40 |
| 1976 | -7.40 | 23.04 | 57.21 | 19.10 | 12.48 | 20.73 | 38.96 | 25.58 | 23.62 |
| 1977 | 8.41 | 28.35 | 28.76 | 22.32 | 49.85 | 35.28 | 27.25 | 36.17 | 32.14 |
| 1978 | 22.99 | 18.75 | 27.87 | 22.94 | 33.33 | 21.69 | 19.96 | 25.05 | 24.48 |
| 1979 | 3.71 | 21.36 | 38.65 | 22.49 | 39.79 | 17.71 | 24.50 | 28.95 | 27.23 |
| 1980 | 39.06 | 17.30 | 28.72 | 26.81 | 42.49 | 22.22 | 15.03 | 27.58 | 27.38 |
| 1981 | 22.50 | 18.35 | 14.55 | 17.90 | 23.16 | 9.18 | 14.28 | 17.47 | 17.58 |
| 1982 | -0.21 | 3.70 | 3.02 | 2.40 | 41.98 | 17.61 | 31.21 | 34.21 | 26.08 |
| 1983 | -18.03 | 10.36 | 21.97 | 7.54 | 1.06 | 42.89 | 7.65 | 9.23 | 8.88 |
| 1984 | 21.97 | 27.54 | 52.87 | 37.58 | 30.05 | 55.71 | 20.79 | 31.53 | 32.77 |
| 1985 | 23.28 | 9.05 | 12.11 | 13.02 | 24.49 | 24.48 | 11.93 | 20.48 | 18.90 |
| 1986 | 19.28 | 3.72 | 9.19 | 9.32 | 6.28 | 14.20 | 3.71 | 7.29 | 7.70 |
| 1987 | 27.45 | 3.95 | 20.06 | 16.61 | 1.83 | 12.54 | 6.18 | 5.63 | 7.88 |
| 1988 | 6.88 | 17.46 | 11.36 | 12.03 | 18.35 | 15.94 | 22.13 | 18.83 | 17.32 |

Note: Calculated from Appendix VIII.

Appendix X

Foreign Exchange Business in Exports and Imports (Taka in million)

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-------|---------------------------------|--------|--------|-----------|-------------------------------|---------|---------|-----------|----------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1972 | 780.0 | 608.7 | 111.8 | 1500.5 | 424.0 | 315.0 | 2688.0 | 3427.0 | 4927.5 |
| 1973 | 1175.1 | 812.2 | 483.0 | 2470.3 | 1307.1 | 893.7 | 2321.0 | 4521.8 | 6992.1 |
| 1974 | 1500.0 | 1610.9 | 977.9 | 4088.8 | 1557.4 | 1139.0 | 2331.0 | 5027.4 | 9116.2 |
| 1975 | 2270.0 | 2336.6 | 1190.8 | 5797.4 | 3975.9 | 989.5 | 2471.5 | 7436.9 | 13234.3 |
| 1976 | 2350.0 | 2401.3 | 1867.6 | 6618.9 | 5891.8 | 1679.5 | 4041.3 | 11612.6 | 18231.5 |
| 1977 | 3210.0 | 3418.0 | 1908.6 | 8536.6 | 6552.6 | 2906.9 | 5566.5 | 15026.0 | 23562.6 |
| 1978 | 1817.5 | 1985.7 | 3094.6 | 6897.8 | 10525.7 | 3103.0 | 6402.0 | 20030.7 | 26928.5 |
| 1979 | 1500.0 | 1483.8 | 2721.1 | 5704.9 | 14910.1 | 4109.6 | 9301.0 | 28320.7 | 34025.6 |
| 1980 | 2890.7 | 1556.5 | 3196.8 | 7644.0 | 18142.4 | 4154.5 | 15291.9 | 37568.8 | 45232.8 |
| 1981 | 4271.6 | 3652.4 | 4084.6 | 12008.6 | 17763.9 | 4254.4 | 16675.0 | 38693.3 | 50701.9 |
| 1982 | 2633.7 | 2683.5 | 3461.3 | 8778.5 | 22824.8 | 5461.1 | 34466.1 | 62752.0 | 71530.5 |
| 1983 | 2116.0 | 2680.0 | 3764.1 | 8560.1 | 23856.2 | 7810.1 | 18097.8 | 49764.1 | 58324.2 |
| 1984 | 2872.4 | 3967.0 | 8057.6 | 14897.0 | 24952.0 | 13335.9 | 31396.5 | 69684.4 | 84581.4 |
| 1985 | 3131.9 | 4619.2 | 7943.8 | 15694.9 | 29305.0 | 14292.3 | 24861.1 | 68458.4 | 84153.3 |
| 1986 | 4322.8 | 4265.9 | 6789.2 | 15377.9 | 31601.0 | 14100.6 | 21622.3 | 67323.9 | 82701.8 |
| 1987 | 4110.8 | 4450.0 | 9903.9 | 18464.7 | 35450.1 | 17548.6 | 25524.9 | 78523.6 | 96988.3 |
| 1988 | 4901.8 | 4780.0 | 8716.1 | 18397.9 | 38278.4 | 18408.4 | 29026.5 | 85713.3 | 104111.2 |

Source: Compiled from annual reports of banks, and Resume of the Activities of Banks and Financial Institutions in Bangladesh 1984/85 through 1988/89, published by Ministry of Finance, Dhaka, Bangladesh.

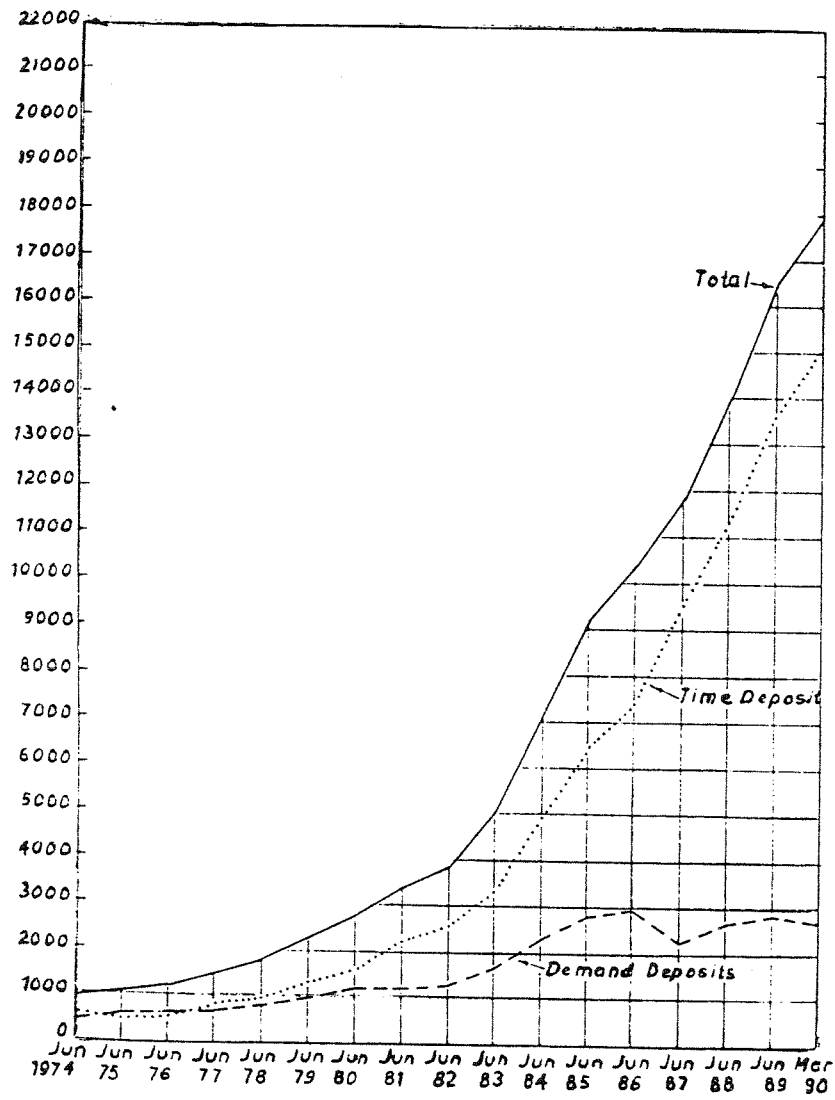
Appendix XI

Yearly Growth of Foreign Exchange Business in Exports and Imports

| Years | Denationalised Commercial Banks | | | | Nationalised Commercial Banks | | | | Total |
|-------|---------------------------------|--------|--------|-----------|-------------------------------|--------|--------|-----------|--------|
| | Uttara | Pubali | Rupali | Sub-Total | Sonali | Agrani | Janata | Sub-Total | |
| 1973 | 50.65 | 33.43 | 332.02 | 64.63 | 208.28 | 183.71 | -13.65 | 31.95 | 41.90 |
| 1974 | 27.65 | 98.34 | 102.46 | 65.52 | 19.15 | 27.45 | 0.43 | 11.18 | 30.38 |
| 1975 | 51.33 | 45.05 | 21.77 | 41.79 | 155.29 | -13.13 | 6.03 | 47.93 | 45.17 |
| 1976 | 3.52 | 2.77 | 56.84 | 14.17 | 48.19 | 69.73 | 63.52 | 56.15 | 37.76 |
| 1977 | 36.60 | 42.34 | 2.20 | 28.97 | 11.22 | 73.08 | 37.74 | 29.39 | 29.24 |
| 1978 | -43.38 | -41.90 | 62.14 | -19.20 | 60.63 | 6.75 | 15.01 | 33.31 | 14.28 |
| 1979 | -17.47 | -25.28 | -12.07 | -17.29 | 41.65 | 32.44 | 45.28 | 41.39 | 26.36 |
| 1980 | 92.71 | 4.90 | 17.48 | 33.99 | 21.68 | 1.09 | 64.41 | 32.73 | 32.94 |
| 1981 | 47.77 | 134.65 | 27.77 | 57.10 | -2.09 | 2.40 | 9.04 | 2.94 | 12.09 |
| 1982 | -38.34 | -26.53 | -15.26 | -26.90 | 28.49 | 28.36 | 106.69 | 62.18 | 41.08 |
| 1983 | -19.66 | -0.13 | 8.75 | -2.49 | 4.52 | 43.01 | -47.49 | -20.70 | -18.46 |
| 1984 | 35.75 | 48.02 | 114.06 | 74.03 | 4.59 | 70.75 | 73.48 | 40.03 | 45.02 |
| 1985 | 9.03 | 16.44 | -1.41 | 5.36 | 17.45 | 7.17 | -20.82 | -1.76 | -0.51 |
| 1986 | 38.02 | -7.65 | -14.53 | -2.02 | 7.83 | -1.34 | -13.03 | -1.66 | -1.72 |
| 1987 | -4.90 | 4.32 | 45.88 | 20.07 | 12.18 | 24.45 | 18.05 | 16.64 | 17.27 |
| 1988 | 19.24 | 7.42 | -11.99 | -0.36 | 7.98 | 4.90 | 13.72 | 9.16 | 7.34 |

Note: Calculated from appendix X.

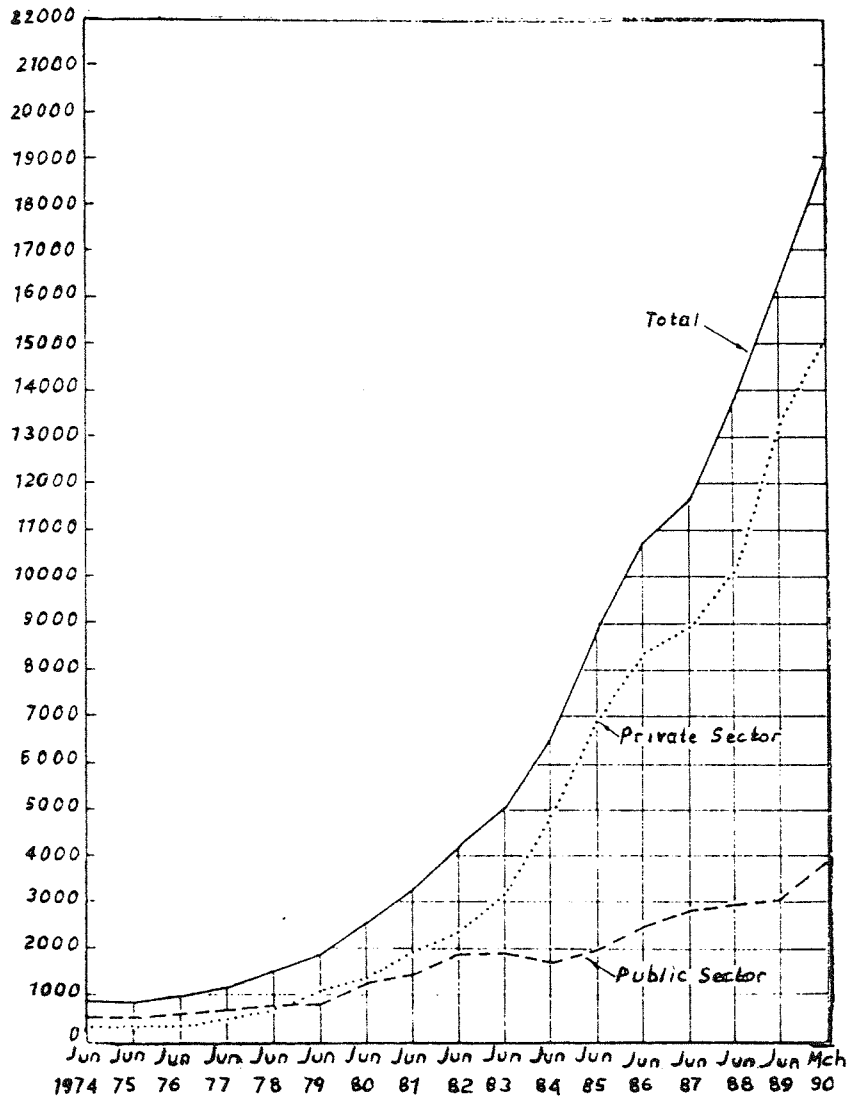
Appendix XII. Graph on Bank Deposits in Bangladesh (Taka in crore)



Source: Bangladesh Economic Survey 1989/90 (Dhaka: Ministry of Finance).

Notes : (i) Deposits of all banks in Bangladesh,
(ii) TK. 1 crore = TK. 10 million.

Appendix XIII. Graph on Bank Credit in Bangladesh (Taka in crore)



Source: Bangladesh Economic Survey 1989/90, (Dhaka: Ministry of Finance).

Notes : (i) Credit extended by all banks in Bangladesh,
(ii) TK. 1 crore = TK. 10 million.

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