

Impact of Structural Adjustment Policies An Assessment Using Participatory Techniques

1. INTRODUCTION

This exercise aims at better understanding of the impact of Structural Adjustment Policies (SAP) promoted by World Bank and implemented by the Government of Bangladesh since the early 1980s using participatory techniques. A special focus of this study was to capture the voices of those who are usually excluded from the processes of decision-making. An attempt has been made here to throw light on:

- how macro policies interact with the micro stakeholders
- differential access to market, information and productive resources by individuals and groups;
- gender bias, if any, in the policy package;
- community's perception about the outcomes of the macro interventions at the micro level.
- As a forward looking exercise, the study also tries to identify possible areas of practical changes in policies which could be made for improvement of standard of living of the people in general and the poor in particular. This study covers only three sectors: trade and industry, finance and agriculture .

While conducting this study a several attempts at validating the initial findings were made to understand more realistically the outcomes of various macro policy interventions. The process of investigation has always been flexible and down to earth.

2. OBJECTIVES:

The specific objectives of the study related to individual sector were :

2.1 Trade and Industry

- i) Understanding the impact of trade liberalization focusing particularly on (a) increase in competition (for export as well as for import substituting industries), (b) increase in consumer welfare resulting from lower import prices and (c) reallocation of resources from inefficient, import-substituting activities to efficient, export (or import substituting) activities.

- ii) Understanding the impact of privatization focusing on (a) reducing burden on government fiscal situation (which would flow from the elimination of State Owned Enterprises' losses), (b) improving efficiency of the enterprises and (c) promoting greater investment and higher growth in the medium-term.

2.2 Financial Sector

Understanding the impact of liberalization of interest rate on competition in banking sector, efficiency in resource allocation and access to bank finance

2.3 Agriculture

Understanding the (a) impact of decontrolling of agricultural input delivery system; (b) liberalization of import of agricultural equipments and inputs (c) selective intervention in the food market for price stabilization.

3. Methodology and Limitations:

A number of well-known participatory tools have been used in this study. They include Participatory Rural Appraisal (PRA), Focus Group Discussion (FGD) and Long Interviews. The methods used were mostly qualitative and process-oriented in nature. The collected data have been analyzed using standard qualitative techniques like categorization, ranking, tabulation, graphical presentation etc. At times quantitative information too have been used, though mostly to complement the former. The detailed methodology of investigating each sector has been given separately.

3.1 Trade and Industry

3.1.1 The Process

The SAPRI exercise makes a special attempt to incorporate the voices of those who have traditionally been generally excluded from decision making in particular while formulating SAP related policies. The participatory research methods have been applied throughout this study with an expectation that the analysis and assessment of the respondents' about the changes they have already experienced under the adjustment programme and the likely changes they might come across in the future can be adequately reflected here. Among various participatory tools and techniques, Participatory Rapid Appraisal (PRA), Focus Group Discussion (FGD) and Individual

Interviews have been used in this study to generate the data, which are mostly qualitative in nature. The study mainly concentrates on the processes rather than quantitative figures in its field research activities. The data have then been analyzed using standard qualitative techniques including categorization, ranking, tabulation, graphical presentation etc. In some places quantitative information too have been collected and presented here in this report. But the major objective of selective use of quantitative data has been to catch the trend and as well as to cross check the qualitative findings. Table 3.1.1 below presents a summary of the methods, respondents and locations of the study.

**Table 3.1.1: Participatory Investigation: Trade and Industry
Methods, Instruments, Type of Participants and Data**

Methods Used	Type of Participants/ Sources	Location/ Level	Data Collection Instruments/Tools	Type of Data
◆ FGD	<ul style="list-style-type: none"> • Large Entrepreneurs • Small Entrepreneurs • Businessmen • Male Industrial Worker (including retrenched worker) • Female Industrial Worker (including retrenched worker) • Rural Entrepreneurs • Rural Households (both poor & non-poor) • Farmers & Agricultural Labourers • Employees and Workers of Privatized Jute Mills 	<ul style="list-style-type: none"> ▪ Dhaka ▪ Khulna ▪ Narayanganj ▪ Gazipur ▪ Narshingdi ▪ Joypurhat 	<ul style="list-style-type: none"> ▪ Checklist ▪ Workshop Guide ▪ Note Taking ▪ Audio Recording 	<ul style="list-style-type: none"> ▪ Mostly Qualitative ▪ Partly Quantitative
◆ In-depth Interview	<ul style="list-style-type: none"> • Present and Former Chamber Leaders • Representative of Small Enterprises • Labour Leaders • Jute Mill Owner • Policy Makers 	<ul style="list-style-type: none"> ▪ Dhaka ▪ Khulna 	<ul style="list-style-type: none"> ▪ Checklist ▪ Interview Guide ▪ Note Taking ▪ Audio Recording 	<ul style="list-style-type: none"> ▪ Mostly Qualitative ▪ Partly Quantitative
◆ Review of Documents	<ul style="list-style-type: none"> • Published and Un-published Documents of World Bank, Government and Other Sources 	<ul style="list-style-type: none"> ▪ Organization 	<ul style="list-style-type: none"> ▪ Content Analysis 	<ul style="list-style-type: none"> ▪ Qualitative ▪ Quantitative

3.1.2 Sample Locations and the Respondents

To assess the impact of trade liberalization and jute sector privatization, a wide range of respondents from different stakeholder groups including entrepreneurs (both large and small), traders, workers (both male and female), labour leaders, rural consumers and policy makers have been covered from different parts of the country. A total of 12 PRA/FGD sessions and 17 individual interviews have been conducted in Dhaka, Narayanganj, Narshindi, Gazipur, Joypurhat and Khulna. Table 3.1.2 below represents the names of the groups, numbers of the participants, and the places of focus group discussions and individual interviews for the present study.

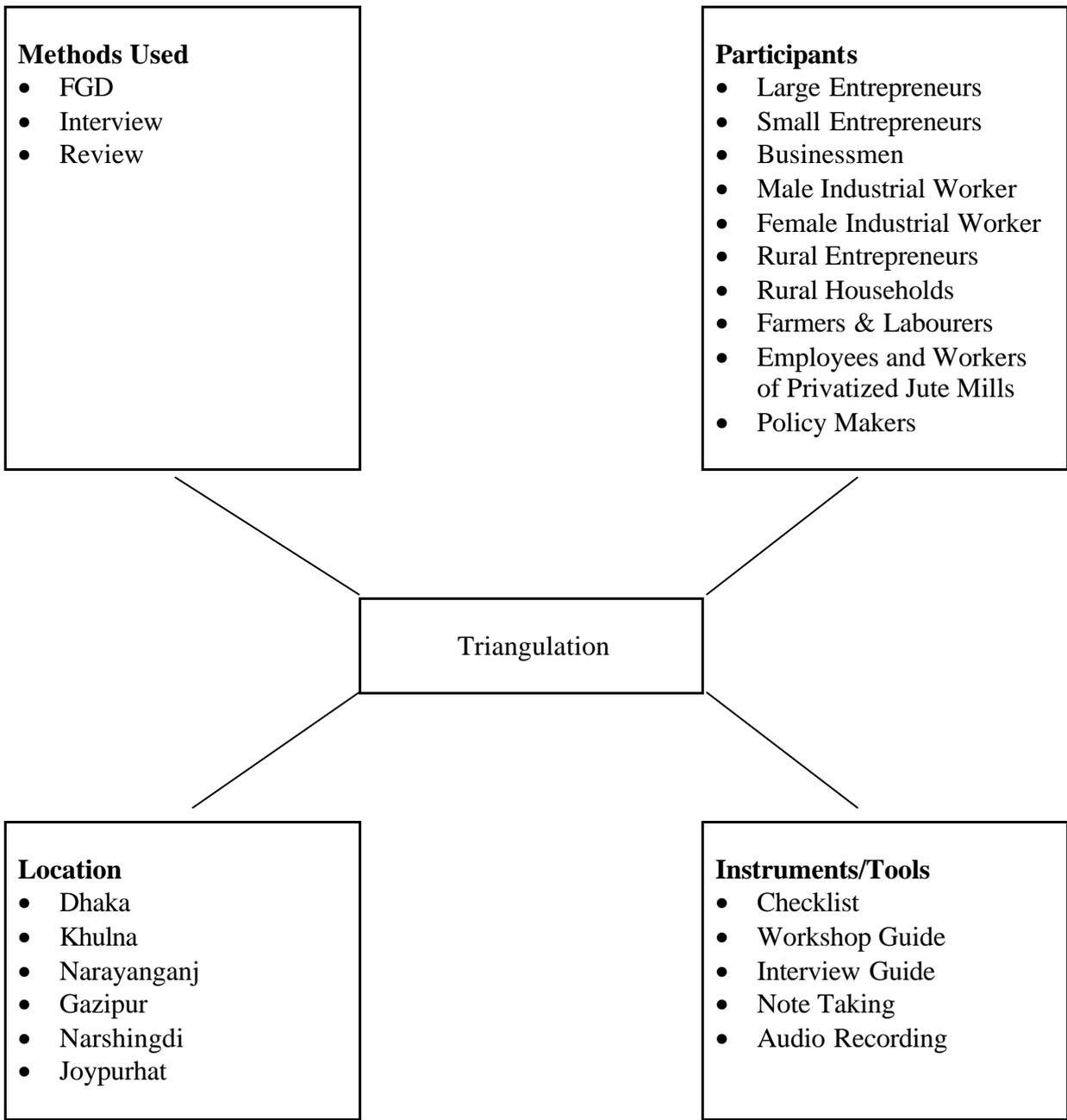
3.1.3 Triangulation

Triangulation is an important way of cross checking the validity of the field findings. The study has employed different study methods and instruments. It has interviewed various groups of the respondents. And the data collection has taken place in various parts of the country. Through this process, the study method itself completed the triangulation which made us possible to come up with some robust conclusion about the issues in concern. Table 3.1.3 presents the triangulation of the study.

Table 3.1.2: Participatory Investigation: Trade and Industry Participants and Places of PRA/FGD Sessions and Interviews

Name of the Participants/Groups	No. of Participants	Places
Federation of Bangladesh Chamber of Commerce and Industries (FBCCI)	26	Motijheel, Dhaka
Bangladesh Electrical Association	9	Nowabpur, Dhaka
Bangladesh Hardware and Machineries Marchants Association	5	Nowabpur, Dhaka
Bangladesh Engineering Industries Owner Association	7	Tipu Sultan Road, Dhaka
Owners and Employees of Hand and Power looms in Shekher Char	9	Shekher Char, Narshingdi
Dhaka Chamber of Commerce and Industries (DCCI)	8	Motijheel, Dhaka
Female Industrial Workers of Tongi	13	Tongi, Dhaka
Khulna Chamber of Commerce and Industries	8	Khulna
Rural Households (both poor & non-poor) of Joypurhat	19	Joypurhat
Farmers & Agricultural Labourers of Joypurhat	18	Joypurhat
Employees and Workers of Taj Jute Mill of Katchpur	9	Katchpur, Narayanganj
Employees and Workers of Ajax and Sonali Jute Mills of Khulna	39	Phulbari Gate, Khulna
Interviews	17	Dhaka and Khulna
Total	187	-

**Table 3.1.3: Participatory Investigation: Trade and Industry
Participants and Places of PRA/FGD Sessions and Interviews
Triangulation in Data Collection Procedures**



3.1.4 Issues Addressed

The following issues have been addressed to assess the impact of trade liberalization and privatization and find ways how the formulation and implementation of the policy regimes could be made people centered:

Trade Liberalization

- Pace of Trade Liberalization in Bangladesh
- Sequencing of Complementary Policy Reforms
- Competitiveness and efficiency in the Local Manufacturing Industries
- Inflow of Foreign Goods in the Local Market
- Increase in Exports
- Profitability in Trade and Business
- Employment in the Local Manufacturing Industries
- Impact of Devaluation in Trade and Industry
- State of Small Enterprises
- State of State Owned Enterprises
- Role of Trade Unions
- Alternative Opportunities
- Support Services and the Business Environment
- Pre-Shipment Inspection
- Consumers Satisfaction
- Trade Liberalization and Poverty
- Trade Liberalization and Women
- Trade Liberalization and Environment
- Trade Liberalization and Corruption

Privatization

- The Rationale of Privatization of Jute Mills
- The Process of Privatization of Jute Mills
- Efficiency in the Privatized Mills
- Profitability in the Privatized Mills
- Alternative Opportunities
- Employment Situation
- Privatization and Poverty
- Privatization and Women

- Privatization and Environment
- Privatization and Corruption

3.1.5 Data Collection Strategy

While conducting focus group discussions and interviews, the following strategies have been followed very carefully throughout the progress of the study. These are:

- (i) Each of the groups and individuals were asked questions mainly with respect to their own interest. They were also asked to express their opinion on each of the issues in concern on the basis of their own experience.
- (ii) Questions were formulated in the way that it gave them clear idea about the issues on which they are asked to express their opinion. However, questions were asked very carefully so that respondents are not guided in any direction.

Some of the general questions on which the specific questions were formulated for each of the issues are as follows:

1. Were objectives as outlined in World Bank and government documents achieved ? Are claims of success/failure correct ?
2. For whom were these policies beneficial. neutral, or negative and what characterised these individuals/groups/communities?
3. Did expected negative impacts correct themselves (e.g. did people who lose jobs/income find new employment/income)?
4. What have been the secondary (or other unanticipated) effects — economic, social, environmental, etc. (e.g. on productive capacity, health, social infrastructure, gender division of labor, use of non-renewable resources)?
5. What were the economic, social and political factors (both national and global) that shaped the selection of policies to begin with and how did these intervening factors — for example, the nature of gender roles within the household or high concentrations of wealth — contribute to the success or failure of policies overall and/or for specific groups and sectors?
6. In the final analysis, were these objectives the correct ones and were outcomes desirable? Did they or do they have the potential for alleviating poverty and generating broad-based prosperity?

3.1.6 Specifying Hypothesis and selecting Variables

On the basis of the review of literature and available documents and initial discussion with the relevant people, the following hypothesis have been generated (see Table 3.1.4) for each of the broad issues. The variables that have been selected to test the hypothesis are also shown in the same Table.

**Table 3.1.4: Participatory Investigation: Trade and Industry
Specifying Hypotheses and Selecting Variables**

Broad Issues	Hypotheses	Variables/Indicators
◆ Pace of Trade Liberalization	• Trade liberalization has been fast in Bangladesh	- Changes in tariff rates - Removal of QRs - Removal of export taxes - Exchange rate policy - Comparison with the experience of neighbouring countries
◆ Sequencing of Complementary Policy Reforms	• Other contemporary policy reforms have largely been unfulfilled	- Other economic policy reforms - Judicial and administrative reforms
◆ Inflow of Foreign Goods in the Domestic Markets	• Domestic markets are now flooded with foreign goods	- Number of imported goods - Availability of imported goods - Availability of competing domestic goods
◆ Competitiveness and Efficiency in the local manufacturing industries	• Local manufacturing industries have been hurt by trade liberalization	- Input cost - Output price - Business support services - Price of imported goods - Market share
◆ State of Small Enterprises	• Small enterprises are the worst affected ones and many of them have been forced to close down	- Input cost - Output price - Business support services - Price of imported goods - Market share
◆ Increase in Export	• Export of few items have been increased	- Input cost - Output price - Business support services - Market share in the international market
◆ Level of Employment.	• Level of employment has been adversely affected by trade liberalization	- New employment - Losing employment due to retrenchment - Losing employment due to closing down of industrial units - Self employment opportunities

(Table Contd.)

Table 3.1.4 (Contd.)

Broad Issues	Hypotheses	Variables/Indicators
◆ Consumers' Satisfaction	• Consumers satisfaction has increased	- Availability of both local and foreign goods - Choices - Prices - Quality - Self assessment
◆ Trade Liberalization and Poverty	• Poverty situation has not improved	- Retrenchment - Alternative Employment - Self employment opportunities - Livelihood of retrenched workers
◆ Trade Liberalization and Women	• The situation of women has not improved	- Women employment - Retrenchment - Alternative employment - Self employment - Livelihood
◆ Trade Liberalization and Environment	• Quality of environment has deteriorated	- Pollution control - Waste management - Pollutants treatment - Expansion of pollutants industry
◆ Trade Liberalization and Corruption	• Level of corruption has not reduced	- Corruption in customs clearance - Corruption in policy making - Enforcement of existing rules and regulations - Tax avoidance
◆ The Rationale and the process of Privatization of Jute Mills	• Process of privatization was not properly implemented	- Policy - Pricing - Implementation - Monitoring
◆ Efficiency in the Privatized Mill	• Privatized mills have not been able to increase efficiency after being privatized	- Capacity utilization - Input use - Per unit production - Quality of production - New product - New technology - New machine - Management efficiency

(Table Contd.)

Table 3.1.4 (Contd.)

Broad Issues	Hypotheses	Variables/Indicators
◆ Profitability in the Privatized Mills	• Privatized mills have not been able to make profits	- Input cost - Output price - Demand of product in the international market - Alternative use of labours, machines and spaces
◆ Employment Situation in the Privatized Mills	• Privatization has made adverse impact on employment	- Job cut - Job loss - Alternative employment - Self employment
◆ Privatization and Poverty	• Poverty situation has deteriorated	- Wage of the workers of privatized mills - Payment of retrenched workers - Alternative employment of workers who have either been retrenched or lost their job - Livelihood of the workers
◆ Privatization and Women	• Women are the worst affected group	- Retrenched women - Wage of women workers - Alternative employment - Livelihood
◆ Privatization and Environment	• Privatization has made adverse impact on environment	- Raw materials - Output - Process
◆ Privatization and Corruption	• Corruption has not reduced	- Process of privatization - Management - Input purchase - Output sale - Use of Bank loan - Maintenance of existing resources (both cash & kind)

3.1.7 Limitations of the Study

As in any other conventional method, the participatory research methods that have been used in this study also have some limitations. The areas and the groups and the individuals covered in this study may not fully represent the whole range of stakeholder groups. However, care has been taken in facilitating PRA/FGD sessions and carrying out interviews in manners so that the perceptions of the

respondents on the issues addressed could be adequately captured. No leading questions were asked. The researchers remained neutral during the group sessions.

3.2 Finance

3.2.1 Methodology

Evaluating the impact of interest rate liberalization in terms of changes at borrower level is a direct approach but much of the impact also depends on what happens at the intermediate level. The nature of these secondary changes has much to do with what might be expected at the final stage (World Bank, 1993¹). Because of this consideration, participatory rural appraisal (PRA) approach adopted in this study made a provision for recording subjective evaluation of different categories of stakeholders in the financial sector reform – policymakers, policy implementing agencies and finally a cross-section of general mass of people who are the ultimate beneficiaries in different capacities. In this context it needs to be stressed here that interest rate issues cannot be considered in isolation because success in interest rate liberalization can occur only when relevant other issues are taken care of realistically. The nature of the problems that banks especially the public banks face should be taken into consideration and corrective measures taken beforehand. Several severe constraints are there: the government is compelled to borrow from the public banks, NCBs cannot strictly follow commercial principles in banking operations; the real sector has to perform in an adverse environment and bank personnel are not technically and professionally competent enough to adopt free market policies. Because of these considerations, the study methodology had rather a strong bend to an examination of meso-economic issues in a somewhat wider context

The opinion poll was conducted at three stages: the policymakers including senior officials of the central bank and the commercial banks and some of those who were associated with policy formulation and/or implementers of interest rate liberalization in one way or other were interviewed individually through a structured checklist designed to pick up their essential points of arguments on different aspects of liberalization issues. The respondents in this group were also urged upon to make open discussions as part of the interview and to place their personal judgement on the overall aspects and put forth recommendations, if they had any, for the refinement of future policies.

The second category of respondents were chosen from among the stakeholders in trade and industries sector. Specifically, the office bearers of the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI), the Dhaka Chamber of Commerce and Industries (DCCI) and the Metropolitan Chamber of Commerce and Industries (MCCI) were consulted through individual and group interviews. They were requested to put their observations on interest liberalization as representatives of trade and business houses and to make an assessment of the success of the steps so

¹ Lionel Demery, "Analyzing the mesoeconomic effects of structural adjustment" in L. Demery et. al (ed) Understanding the Social Effects of Policy Reform, pp. 15-32.

far implemented in this area. Since the FBCCI, DCCI and MCCI represent the interests largely of the urban big business, there might be some bias in their judgement about the overall business community.

To complement judgement of business community, the third category of stakeholders namely a cross-section of rural households in two villages - Sailgun in Joypurhat district of Rajshahi division and Dehergati in Barisal district - was thoroughly surveyed as a case study. The case study inquired into the socio-economic status of the people of the selected villages and the level and nature of their economic activities apart from interest rate issues. Data were reported by a total of 124 households among the families surveyed in two villages. The households were classified into four major categories: large and medium households, small households, marginal households and landless households. Among other things of relevance for other issues of this report, the impact of interest rate liberalization was particularly gleaned through structured checklists and free discussions. The criterion about the selection of households as respondents in the interest rate liberalization issue was based on their economic status plus their position with respect to the availing of bank loans. Each of the four groups as mentioned above was again subdivided into three subgroups – those who availed bank loans, those who have not or have been knocked out, and those who did not apply for bank loans. Apart from these specific questions, all of them were asked about their perception and judgement on general conditions in the formal and informal financial markets, and to put forth recommendations for improving their access to bank loans. The emphasis in the survey was on drawing two pictures before and after the interest liberalization in order to compare and contrast the impact.

Data and information collected from the field surveys were checked with almost identical information set collected from the local bank branches. The questions put to the bank managers were intended for collecting data and information about the status of decentralization of banking operations as was expected implicitly in the liberalization measures as well as the trend of deposit and loans in their operational jurisdiction. Specifically, it was expected that as a result of decentralization, better management and innovation, banks would improve service quality, make timely loans to a wide range of activities and borrowers and gradually push into informal segment of the financial market. Different components of the PRA and the categories of respondents were as placed below.

- Individual interviews.
- Focused Group Discussions (FGD).
- Field survey in two villages in Rajshahi and Barisal divisions.
- Interviews with the managers of the local bank branches.
- Collection of data/information/comments through structured and open checklists.
- Review of literature and secondary source data.

3.2.2 Hypothesis

The hypotheses set up for testing in this study were based on the objectives set out in the PSL of the GOB as stated above.

- ◆ As a result of liberalization interest rate will fall to market-clearing levels with better allocation of resources;
- Competition will intensify with higher savings and investment in the first place, and employment and growth in the second round. They are likely to improve poverty situation indirectly;
- As a result of competition financial intermediation will be efficient releasing forces to integrate segmented markets.
- The range and types of financial products will expand with higher outreach in terms of wider geographical, customer and project coverage.

However, the emphasis in this report is on the impact of the reforms on competition and accessibility to institutional credit

3.2.3 Respondents

- Selected senior officials of the central bank.
- Some senior and mid-level executives of the nationalized commercial banks.
- Some top executives of private and foreign banks.
- Members and office bearers of FBCCI, DCCI and MCCI.
- Members and office-bearers of the Bangladesh Engineering Industry Owners' Association.
- Representatives of Benarasi Saree Weavers' Association.

3.3 Agriculture

3.3.1 In Quest of a Methodological Resolution to Some Controversial Issues

Empirically research encounters a number of controversial issues raised by the practitioners of different approaches. Some of the hotly-debated issues centre, on: the relative strengths and weaknesses of quantitative and qualitative approaches; generalization based on case study results to universe; compatibility and integration of different research approaches; compatibility and integration of participatory and conventional approaches, etc. Recognizing the basic differences between participatory and conventional approaches including both quantitative and qualitative ones, the emerging consensus tends to suggest the conjunctive use of various methods to best seize the benefit of relative strengths of various approaches, because each of the approaches has strengths in some respects and weaknesses in others. The field research can be improved by integrating various approaches and not by eliminating others. The basic point is not whether to do or not, rather how best

to do it; not to lose by eliminating others, but gain by generating and seizing synergies through methodological integration (Box 3.3.1). This study essentially builds on a participatory research approach which is focused on the following methodological features.

3.3.1.1 It is Based on Methodological Integration

The methodology designed for the present study seeks to make the best use of the dominant research approaches and their research tools and techniques in such a manner that a complete picture can be presented by interpreting the data and information generated through various methods, tools and techniques conjunctively applied. A powerful inference is possible when several methods produce the same results.

3.3.1.2 It is Neither Biased to Qualitative, Nor to Quantitative Approaches

The present methodology is essentially a participative one, although it has used both quantitative and qualitative methods to collect some relevant information to fill the data gap. However, it may appear to be more qualitative in some respects and quantitative in others. In fact participatory approach like the present one has both quantitative and qualitative elements in terms of both methods, techniques and data (hard and soft). Participatory Poverty Assessment (PPA) is a case in point which has both qualitative and quantitative information. The participatory tools and techniques itself produce both qualitative and quantitative data and information (Robb 1999: 4). Therefore, it would be myopic to dub this methodology in either of the ways simply by highlighting one aspect or element in isolation. It needs to be pointed out that as the overwhelming part of the entire corpus of the data has been generated through the participatory processes, the basic methodological character is therefore participatory and nothing else.

3.3.1.3 Theoretical/Analytical Generalization instead of Statistical one

The results produced need not be used to generalize inferences which are usually done in the methodology based on probabilistic sampling. The very purpose of any case study-based research is not to produce generalization in statistical terms, i.e., as a sample of one "... the prospective generalization of case study findings lies in their generalization to theoretical and analytical concerns" (Bryman 1988: 18). "In analytical generalization, the investigation is striving to generalize a particular set of results to some broader theory" (Yin 1984: 39) (see Box 3.3.2). The analytical generalization is "analogous to the way a scientist generalizes from experimental results to theory" (ibid: 39). As the methodology of the present investigation is based on case study design as its research strategy, the results of which would certainly yield analytical generalizations.

3.3.1.4 More Robust Results from Multiple Case Designs

The results emanating from multiple-case studies are likely to yield more robust results than single-case study. The present study builds on multiple-case studies on three villages — two

thoroughly and one partially (similar to control one). Multiple-case designs may, however, yield similar results (a literal replication) or produce contrary results but for predictable reasons (a theoretical replication) (ibid: 49).

3.3.2 The Conceptual Framework

As far as the Bangladesh agriculture is concerned, the SAP-led measures seek to achieve, among others, production efficiency to reach full production potential; efficiency and equity of foodgrain marketing; to expand private sector role in irrigation to reduce the public sector involved in these activities; to improve the effectiveness of the financial sector; to improve the efficiency of agricultural programmes; to improve operation and maintenance of existing and new agricultural infrastructure; to increase the scale and efficiency of public investment in agriculture and water resource management; to ensure greater private sector involvement in distribution of agricultural inputs and equipment to farmers, etc. All these programme objectives must have been geared to achieving a vibrant, self-supporting, socially just and environmentally regenerating agriculture which is known as sustainable agriculture for Bangladesh. Any development programme designed and implemented on the piecemeal basis is unlikely to reach the goal. It is therefore needed to have a broader policy objective and goal consistent with the Bangladesh agriculture focused to a new orientation based on people-centred development, regenerative environment and autonomous production processes for the better understanding and assessment of the past development programmes such as the SAP for Bangladesh.

A conceptual framework rooted in sustainable development is used as an underlying guide to designing the methodology for this study (Box 3.3.3). The conceptual framework is based on the following building blocks.

- i. Incorporation of natural process into agricultural production process;
- ii. A more equitable access to production resources and opportunities towards more socially-just forms of agriculture;
- iii. A greater productive use of local knowledge and practices;
- iv. To ensure long-term sustainability of current production levels;
- v. A reduction in the use of external and non-renewable inputs which are environmentally degrading and ecologically damaging;
- vi. A greater productive use of the biological and genetic potential of plant and animal species;
- vii. An increase in self-reliance among farmers and rural people;
- viii. To conserve soil, water, energy and biological resources with an emphasis on integrated farm management.

3.3.3 The Research Design

3.3.3.1 The Research Strategy

There are various strategies for doing social research such as experiments, surveys, histories, analysis of archival information and case study. Each strategy has its own strengths and weaknesses. The selection of one strategy is however guided by several considerations such as the type of research questions, the control an investigator has over actual behaviour and the focus on contemporary as opposed to historical phenomena. Case study as a research strategy is generally preferred "when "how" or "why" questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context" (Yin 1984: 13). Case study has been preferred as a research strategy for conducting the present study because it uniquely contributes a lot to our knowledge of individual, organizational, social and political phenomena. This strategy is more suitable for understanding complex social phenomena.

Instead of single-, multiple-case studies have been done on two villages (actually three villages — two villages in depth and one partially). Multiple-case studies have some distinct advantages in comparison to single-case study. "The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust" (ibid: 48).

3.3.3.2 Scope of the Investigation

Under the SAP, a number of measures have been implemented for the development of the Bangladesh agriculture encompassing input market, product market, credit market, etc. Major thrust of the SAP has however been on the agricultural input markets, namely fertilizers, and irrigation devices. Other inputs such as power tiller, pesticides, and seeds have also been covered under the SAP package, albeit to a lesser extent (Table 3.3.1). The present study focuses on mechanized irrigation and chemical fertilizer. Various aspects of these two input markets have been investigated in depth (Exhibits 3.3.1 and 3.3.2). Other impact areas which have been covered under the present investigation include public domestic procurement, banking service, and pesticides. Besides, several cross-cutting issues have been investigated to capture the medium and long-term impact of the SAP on the rural society of Bangladesh; namely the markets (labour, land, and credit), food security, poverty and income distribution, gender equity, environment and corruption.

3.3.3.3 Specifying Hypotheses and Selecting Variables

For investigating each of the broad areas mentioned above, several conceptual hypotheses have been specified and variables related to the concepts have also been identified. Table 3.3.2 presents the details of the hypotheses and variables for this investigation. All the conceptual hypotheses have been verbalized in positive sense expected to see the positive outcome of the SAP-led measures.

3.3.3.4 Decision Rules or Criteria for Testing Hypotheses

Decision rule is needed for taking decision on the hypotheses formulated for this investigation (Kothari 1998: 226).

The formulated hypotheses have been tested on the basis of the following decision rules:

- i. A hypotheses would be accepted if the both the villages (IIV and MIV) have supportive evidences for it.
- ii. A hypothesis would be rejected if both or either of the two villages have enough evidences to disprove it.
- iii. A hypothesis would be accepted if the majority of the participant groups have supportive evidences for it.
- iv. In case of contradiction between the statements, the users' view would stand.
- v. In case of contradiction between the statements, the poor's view would stand.

3.3.3.5 Impact Assessment Design

The field research for this study has been designed into a longitudinal study mode. Under this study, the field research takes a 'before and after' longitudinal research design asking all the participant groups the same question, 'have there been any changes in variables measured over a period of time?'. This study uses two reference periods to measure/compare changes — 'at present' and 'before SAP'. 'Before SAP' represents 10-12 years before from now. These two periods of time with this time spacing may however be viewed as flawed in one sense because the SAP went into effect not in a particular year, rather its implementation spanned over a decade or so conforming by and large to the entire eighties. It extends forward from the late seventies (1978) through the early nineties (1992). SAP ran through 'step-by-step liberalization' (Ahmed 2000: 53) and it followed a "quiet liquidation technique" (Humphrey 1990: 127) over a fairly longer period of time. Therefore, the late seventies would have been a correct reference point of time but if used it would have caused other problems such as farmers/informants would have faced problems regarding the recall of their experiences because in that case the informants would have been required to travel more than 20 years back in their memory world. Strictly speaking, although that would have been flawless in respect of the timing of the events but it would have taxed the informants' memory and patience causing a deterioration in the quality of data. Because the degree of the precision of data is inversely proportional to the length of the memory recall. In view of this hazard, '10-12 years before' seems more practicable for a number of reasons. First, it is factually reconcilable the terminal year of the implementation phase of the SAP if marked by the liberalization of fertilizer import in 1992 is not too far off the assumed cut-off point of the reform phase as set in 1988/1990 (10-12 years before) used for

the present investigation. Second, the present research design lays emphasis not on the absolute value of certain indicators, rather its direction of changes reflecting the feeling of the participants/informants which is unlikely to be affected that much by that variation in the length of memory recall. Third, it has been convenient to communicate with the participants/informants in a much better way about their experiences with the events 10-12 years before rather than those 20 years back. Fourth, the participants from the relatively young generation have been the participants of the research process with their experiences, about relatively recent past events/phenomena, otherwise (if the cut-off point would have been set in the farthest past) it would have been very difficult to find out adequate number of older participants in the villages with the experiences about the events occurred 20 years before.

3.3.3.6 Sampling Issues

3.3.3.6.1 Selecting Study Areas

Two study areas have been selected for the field research in two regions of the country. Two cases were studied in the two villages which were selected purposefully at four different stages following different sets of criteria (Table 3.3.3)

Regions: At the first stage, two regions of the country have been identified — northwest region and south-central region — on the basis of the abundance of water supply. Northwest region is the second richest region of the country in respect of groundwater availability next to northeast region (Table 3.3.4). Although this region has medium level of water availability per hectare of cultivable land it surpasses all other regions regarding easy accessibility of groundwater by STWs. On the other hand, south central region is endowed with the largest reserve of surface water and the per acre water availability is also at the top in the country. With this resource endowment, the key motivation that led to the selection of these two regions is to find the answer to the question why mechanized irrigation has developed in one region (northwest) but not in that region (south-central) where the surface water-based irrigation potential is the highest. Similarly, why does one region rich in groundwater have relatively developed agriculture but the other does not despite her plenty surface water? The field investigation in these two regions was expected to provide answers to these questions.

District: Two districts in the two selected regions — Joypurhat in the northwest region and Barisal in the south-central region. Joypurhat represents an *extreme* case in the sense that it has got the very high level of irrigation coverage in the country (Table 3.3.5). In terms of the proportion of net-cultivable area (NCA), Joypurhat tops the list at 94 percent irrigation coverage in *rabi* season. Barisal has a low level of irrigation coverage running at 26 percent of NCA in *rabi* season. This district is also known to have major irrigation projects for a fairly longer time (eg, Barisal Irrigation Project).

Upazila: At the third stage, two *Upazilas* were identified — Kalai in Joypurhat and Babuganj in Barisal district. In Joypurhat district, Kalai is one of the rare *Upazilas* not only in the district but also

in the country where almost all the cultivable land has been brought under irrigation (99% of NCA in *rabi* season) (Table 3.3.6). Babuganj in Barisal district has as low as 17 percent of its cultivable land irrigated, one of lowest in the district.

In terms of irrigation devices, Kalai is one of the intensively irrigated *Upazilas* in the district — 13 STWs and 10 DTWs per 100 hectare of land (Table 3.3.7). On the other hand, Babuganj has the lowest intensity of LLPs in the district (8 per 100 hectare of NCA) (Table 3.3.8).

Union and village: The village Sailgun (southwest) in Matrai Union and Dehergati (middle) Dehergati Union were selected at the last stage in Kalai and Babuganj *Upazilas* respectively. Efforts were made to search among the Unions and villages with a combination of maximum possible varying types of command areas and associated farmers according to the command area continuum presented in Exhibit 3.3.3. Most of the types were found in Sailgun but Dehergati had a limited diversity of command areas. It was, however, ensured that the selected villages have had experiences with irrigation both under the public and private ownership in order that farmers/participants can conduct their comparative assessment on their past and present experiences. The villages of Sailgun and Dehergati have been designated as the 'intensively irrigated village' (IIV) and the 'moderately irrigated village' (MIV) respectively throughout the report. Sometimes the acronyms and village names have been used interchangeably in the report, however.

3.3.3.7 Criteria for Judging the Quality of Research Design

There are various sets of criteria available to judge the quality of a research design regardless of whether it is a case-study design or others. There are four tests to judge the quality of a research design and they are (Yin 1984: 36): (i) construct validity establishing correct operational measures for the concepts being studied; (ii) internal validity establishing a causal relationship, whereby certain conditions are shown to lead to other conditions; (iii) external validity establishing the domain to which a study's findings can be generalized; and (iv) reliability showing that the operations of a study — such as the data collection procedure — can be repeated, with the same results.

Yin (1984: 36) suggests several tactics for dealing with these tests. The research design for the present study applied some of the tactics to ensure the quality of the present research design. For example, multiple sources of evidence were used and the chain of evidence has been established for satisfying the criterion of construct validity. Efforts have been made to do 'pattern matching' and 'explanation building' for data analysis as dictated by internal validity. For the generalization of the findings, a requirement for external validity, 'replication logic' needs to be followed which demands that a theory be tested through replications of the findings in a second or even a third case studies in areas where the theory has specified that the same results should occur. This is however beyond the scope of the present endeavour for obvious reasons. For the fourth test, namely reliability, a 'case

study data base' has been developed to facilitate the tracking of the data collection processes followed under the inquiry.

3.3.3.8 Criteria for Establishing the Trustworthiness of Participatory Process

The participatory practitioners also express their concerns about the genuineness of the process and the quality of its data. Pretty (1994) has developed a framework of 12 criteria for establishing the trustworthiness of a participatory process (Box 3.3.4). Out of the 12 criteria, the present participatory process was carried out following six criteria at most, namely prolonged and/or intense engagement between the various actors; triangulation by multiple sources, methods and investigators; analysis and expression of difference; negative case analysis; participant checking, and contextual descriptions. 'Participant checking' of the findings would however be carried out later. Negative case analysis has been conducted in a control village (Dehergati-east). Triangulation, the most widely recommended criterion by the PRA experts, has been thoroughly carried out by integrating it into research design (Exhibit 3.3.4). The triangulation of the present participatory exercise encompasses five dimensions — methods; sources/informants; instruments/tools/techniques; spatial coverage, and data.

Apart from the above-mentioned criteria for establishing the trustworthiness of the participatory process, the field investigation also observed various principles of participatory process including a defined methodology and systemic learning process emphasizing visualizations to democratize and deepen analysis; multiple perspectives seeking diversity, rather than characterizing complexity in terms of average values; group learning process recognizing that the complexity of the world will only be revealed through group inquiry and interaction and so on (Box 3.3.5).

3.3.3.9 Gathering Data

i. Data Gathering Scheme

Exhibit 3.3.5 shows various components of the data gathering scheme for the present investigation such as approaches applied, types of informants/sources consulted, locations/levels covered and, data collection instruments/tools/techniques used. The data gathering scheme ranged from various participatory methods including PRA (PRRA), FGD and Topic Focused Discussion to conventional methods such as qualitative and quantitative.

Range of informants: The range of informants included non-poor farmers, poor farmers, agricultural labourers, female agricultural labourers, poor female farmers, and irrigation equipment owners at the community level. The participants at the peri-urban and urban levels included fertilizer traders, irrigation equipment traders and mechanics. BADC executives, agricultural extension workers, local administration, fertilizer traders association, etc. represented various organizations/institutions.

Sources of data: Data have been collected from different sources at four levels, namely community, market, public sector institutions, and private sector organizations (Table 3.3.9). Public sector institutions include banks and financial institutions and government departments such as BADC, DOF, and DAE, apart from local administration. Bangladesh Fertilizer Association (BFA) representing private sector organizations participated in the present investigation. Markets included agricultural inputs (fertilizer, irrigation, etc.) and repairing service markets at the local, *Upazila* and district levels. The sources of data at the community level ranged from various occupational/economic classes to households

Data collection tools and techniques: Recording formats, checklists, interview guides, etc were mainly used in the participatory process. Questionnaire was administered for conducting household level village census. Content analysis, checklists and interview guides were used to collect mainly qualitative data.

Various PRA tools were also used in the PRA exercises such as participatory mapping, card sorting, ranking, matrix scoring, pie chart, etc (Table 3.3.10).

ii. Participants Selection Criteria:

Special attention was paid to selecting the participants from the right category of people at the community level. Participatory exercises were designed and conducted in such a manner that the collected data must represent the perspectives of specific participant groups, namely non-poor farmers, poor farmers, agriculture workers, etc. Appropriate types of the participants were selected by identifying first the characteristics of all the households. A household-level census was conducted for this purpose. Farmers were selected on the basis of their landholding. Farmers owning land up to 2.49 acres were designated as poor farmers and those above it were termed as non-poor farmers. Apart from this criterion, it was ensured that the poor farmers groups did not include rich farmers having less land through the prior consultation with the cross-section of the villagers. The participants were, however, selected randomly out of a particular category of farmers subject to their availability in the villages for the participatory exercises arranged for the same farmer group. The participants for the separate exercises held for other category of participants such as agricultural labourers, female agricultural labourers were also selected randomly out of the respective categories of participants.

However, no specific criteria were followed to select the informants/participants beyond the community level.

iii. Recording of Data

Various instruments and devices were used to record various types of data. Recording formats, flip charts, cards, etc were used to record data at the PRA sessions. Verbal data generated through Focus Group Discussions were tape-recorded. Data from individual interviews were either recorded on information sheets or tape-recorded. Usually interviews with key informants were tape-recorded. No problem was encountered in tape recording the interviews.

iv. Cross-checking and Filling the Data Gap

Fieldwork was conducted in two rounds — first in March, 2000 and the second one in May, 2000. The need for the field exercise after the first one arose to cross-check some data and fill some data gap. The repeat field visit improved the quality of data to a large extent.

v. Forming the Facilitators Teams

Two facilitator teams of five members each were formed for simultaneously conducting fieldwork — one for Joypurhat and the other for Barisal districts (Table 3.3.11). Although most of the co-facilitators were of less experience, some others including the principal facilitators had been well-experienced about the participatory research methods and the grassroots-level field exercises in the rural areas. The principal facilitators took the lead in staging consultations with various informant groups. Two teams had been at the fields to simultaneously conduct the fieldwork.

vi. Training for the Facilitators

A 15-day long training course was conducted for the facilitators in Dhaka. At the training session, the facilitators were imparted training in various subjects such as the background, objective of the study, theoretical aspects of the research problem, data gathering tools and techniques, participatory research methods, behavioral issues, etc. The training was exclusively classroom based and it did not have any component of field-level training before the fieldwork took off because of the urgency to complete the fieldwork before the Eid festival in March, 2000.

vii. Participants

A total of 304 participants contributed to the data gathering process of the study areas out of which 208 had been from the villages (68%) and 96 from the urban and peri-urban areas (32%) (Tables 3.3.12 and 3.3.13). Out of the 208 participants of the villages, male participants constituted 80 percent and the female 20 percent. By economic classes, the poor participants accounted for 51 percent as against 33 percent and 16 percent for the non-poor and the unidentified participants respectively at the community level. Table 3.3.14 shows a detailed breakdown of the participants across various data gathering exercises held in the study villages. The list of all the participants along with their address, occupation, economic status are shown in Table 3.3.15.

3.3.3.10 Limitations of the Study

A. At the Preparatory Level

1. Lack of proper interaction among other SAPRI researchers

Although some of them were consulted before the fieldwork, few others were not available at that time. However, their comments and suggestions on the research methodology were gathered later on to overcome the gap, and efforts were made to make the best use of them through repeat fieldwork in one study area.

B. At the Data Gathering Level

1. Data gap at the community level

Required data and information could not be collected on all issues from the two study areas. Extra effort was made to fill the data gap from Kalai Upazila, Joypurhat by sending the PRA team in the second round (in May) both to collect missing data and information, and also to cross-check and verify some conflicting and puzzling information collected in the first round (in March).

2. Data gap at the organization level

Investigation at the institution level could not be conducted as intensively as planned mainly because the key persons of various government organizations/offices had been unwilling to give time and participate in the discussion. Besides, they were found scared to discuss the government policies.

3. Data gap at the policy-makers level

The consultations with the policymakers such as the elected representatives holding different government portfolios and public servants at the highest level of government machinery could not be hold to gather their viewpoints and perceptions. This might be covered at the later stage, however.

4. Unavailability of experienced PRA practitioners

Two PRA teams were formed for concurrently conducting fieldwork at the two areas. Two teams consisting of five members each were formed for the participatory investigation. But it was very difficult to find 10 PRA practitioners at a time for a shorter duration of contract. Although two experienced facilitators led the two teams, all other team members had varying levels of PRA exposures. An intensive in-house training was conducted for the teams to overcome the deficiency, but an in-house training is quite inadequate for this type of fieldwork which needs a longer field experience apart from having appropriate attitude,

motivation and commitment. This inadequacy could be minimized by the active engagement by the researcher for a fairly longer time at both the study locations.

5. Fieldwork was carried out during the peak season in villages

PRA teams moved to the field towards the end of February and the teams came back on the middle of March. This time constitutes the busiest time in the rural area because this was a transplantation time when farmers remained very busy with the transplantation work. Therefore, PRA teams had to work hard to mobilize the participants for PRA sessions, FGDs, etc, and make them a success. As this study had to address a wide range of research issues for investigation, the villagers were motivated to share their time in this busy time. Although participants participated in several PRA sessions and FGDs, their tight work schedule may have had some negative effect on the quality of the data.

6. Pre-testing of data gathering instruments was not conducted

The identifying of variables, designing of data gathering tools and instruments, holding of training sessions, etc claimed a fairly longer time. As a result, there had been no time left for carrying out another field exercise for testing tools and instruments. Therefore, whatever problems encountered by the team members while gathering data, were dealt with instantly in the field.

Box.3.3.1: Methodological Diversity and Integration

I. Difference between qualitative and quantitative methods

"Perhaps nothing better captures the difference between quantitative and qualitative methods than the different logics that undergird sampling approaches. Qualitative inquiry typically focuses in depth on relatively small samples, even single cases (n=1), selected *purposefully*. Quantitative methods typically depend on larger samples selected randomly. Not only are the techniques for sampling different, but the very logic of each approach is unique because the purpose of each strategy is different.

The logic and power of probability sampling depends on selecting a truly random and statistically representative sample that will permit generalization from the sample to a larger population. The purpose is *generalization*.

The logic and power of purposeful sampling lies in selecting *information-rich cases* for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research, thus the term *purposeful* sampling... The purpose of purposeful sampling is to select information-rich cases whose study will illuminate the questions under study". (Patton 1990: 169)

II. Difference between theoretical and statistical generalizations

"It is important to recognize that generalizing from cases to populations does not follow a purely statistical logic in field research". (Silverman 1997:160)

"The analogy to samples and universes is incorrect when dealing with case studies. This is because survey research relies on *statistical generalization* whereas case studies rely on *analytic generalization*".(Yin 1983 quoted in Bryman 1988:18)

III. The primacy of methodological integration

"The weaknesses of any single method, qualitative or quantitative, are balanced by the strengths of other methods." (Willams et al. 1988 quoted in Deacon et al. 1999: 114)

"The qualitative and quantitative approach are never substitutes for one another. This is so because, necessarily, they observe different realities, or different aspects of the same reality. This distinctness must be honored. *One cannot draw quantitative conclusions from qualitative work*."(McCracken 1988:18) (emphasis added)

"The polarization of the debate between the qualitative and the quantitative has centred on the capacity of the data, as collected by one or the other method, to describe, understand and explain social phenomena. A growing number of researchers have adopted a more *eclectic* position from which they claim that no method *per se* has the monopoly on inference. They argue that quantitative and qualitative approaches should not be considered antagonistic, but rather as complementary".(Pedersen 1992:43 in Scrimshaw and Gleason 1992) (emphasis added)

"When several methods produce the same results, you can be a lot more sure in the validity of the findings". (Bernard 1995-227)

IV. Integration of participatory and conventional approaches

General: "Both survey and participatory assessment practitioners need to understand the limitations of various data sets, appreciate the biases in their own research methods, and know when alternative methods can compensate for some of these limitations". (Robb 1999:41)

Specific: "By combining the PPA [participatory poverty assessment] with the household survey information, the final poverty assessment is able to fully analyze the various dimensions of poverty and make more informed and appropriate policy recommendations" (ibid: 6).

Box.3.3.2: How Case Studies can be Generalized to Theory

A common complaint about case studies is that it is difficult to generalize from one case to another. Thus, analysts fall into the trap of trying to select a "representative" case or set of cases. Yet no set of cases, no matter how large, is likely to deal satisfactorily with the complaint.

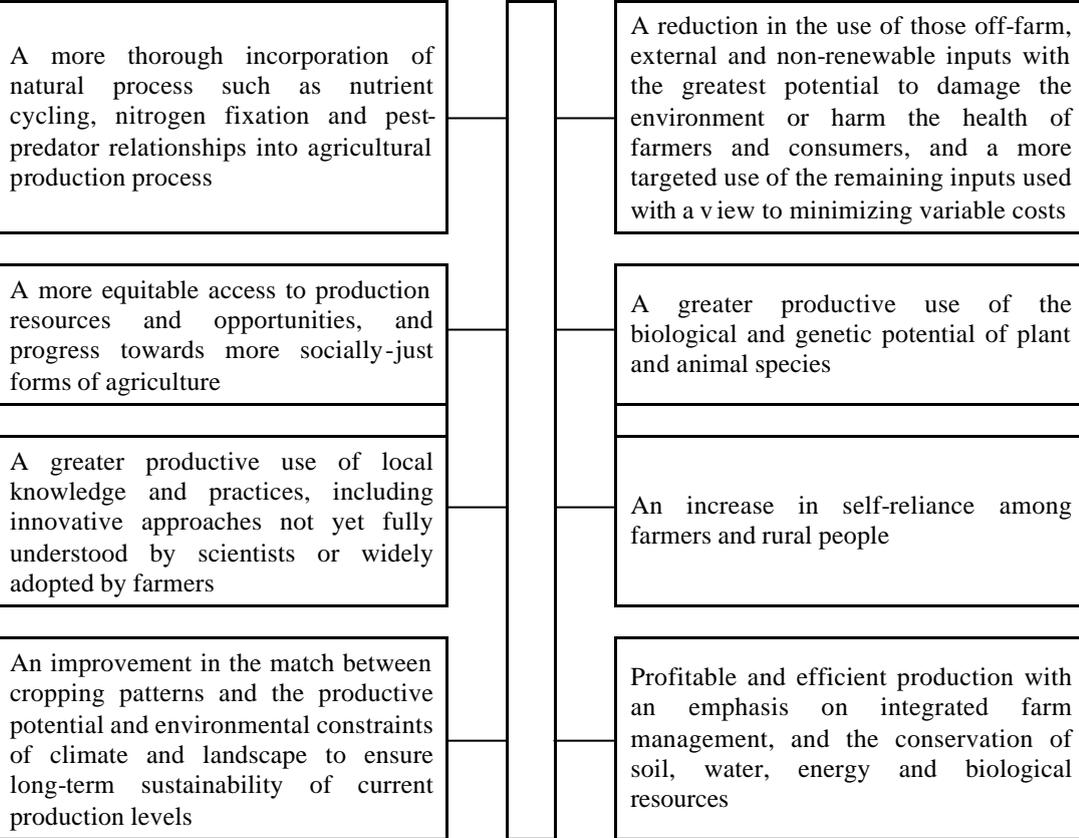
The problem lies in the very notion of generalizing to other case studies. Instead, an analyst should try to generalize findings to "theory", analogous to the way a scientist generalizes from experimental results to theory. (Note that the scientist does not attempt to select "representative" experiments.)

This approach is well illustrated by Jane Jacobs in her famous book, *The Death and Life of Great American Cities* (1961). The book is based mostly on experiences from New York City, cover broader theoretical issues in urban planning, such as the role of sidewalks, the role of neighbourhood parks, the need for primary mixed uses, the need for small blocks, and the processes of slumming and unslumming. In the aggregate, these issues in fact represent the building of a theory of urban planning.

Jacob's book created heated controversy in the planning profession. As a partial result, new empirical inquiries were made in other locales, to examine one or another facet of her rich and provocative ideas. Her *theory*, in essence, became the vehicle for examining other cases, and the theory still stands as a significant contribution to the field of urban planning.

Source: Yin (1984:39)

Box.3.3.3: Building Blocks of the Conceptual Framework for Understanding the Sustainable Growth of the Bangladesh Agriculture



Source: Pretty (1995: 9)

Box 3.3.4: Criteria for Establishing the Trustworthiness of Participatory Process

1. **Prolonged and/or Intense Engagement Between the Various Actors.** For building trust and rapport, learning the particulars of the context, and keeping the investigator(s) open to multiple influences. Trust takes a long time to build, but can be destroyed overnight. It is increased by confirming that participants will have an input into, and so influence, the learning process.
2. **Persistent and Critical Observation.** For understanding both a phenomenon and its context. Observation increases the depth of understanding and breadth of realities encountered.
3. **Parallel Investigations and Team Communications.** If sub-groups of the same team proceed with investigations in parallel using the same methodology, and come up with the same or similar findings, then these findings are trustworthy. This requires regular formal meetings and agreed group norms of behavior.
4. **Triangulation by Multiple Sources, Methods and Investigators.** For cross-checking information and increase the range of people's realities encountered, including multiple copies of one type of source or different copies of the same information; comparing the results from a range of methods; and having teams with a diversity of personal, professional and disciplinary backgrounds.
5. **Analysis and Expression of Difference.** For ensuring that a wide range of different actors are involved in the analysis, and that their perspectives are accurately represented. These perspectives will not be resolved to a single consensus position.
6. **Negative Case Analysis.** For sequential revision of hypotheses as insight grows, so as to revise until one set of hypotheses accounts for all known cases.
7. **Participant Checking.** For testing the data, interpretations and conclusions with people with whom the original information was constructed and analyzed. Participants have the opportunity to investigate discrepancies and challenge findings, to volunteer additional information, and to hear a summary of what investigators have learned and constructed. Without participant checks, investigators can make no claims that they are representing participants' views.
8. **Peer or Colleague Checking.** Periodical reviews with peers or colleagues not directly involved in the learning process, so as to expose investigators to searching questions.
9. **Reports with Working Hypotheses, Contextual Descriptions and Visualizations.** These are 'thick' descriptions of complex reality, with working hypotheses, visualizations and quotations capturing peoples' personal perspectives and experiences.
10. **Reflexive Journals.** These are diaries individuals keep on a daily basis to record a variety of information about themselves and sequential changes in methodology.
11. **Inquiry Audit.** The team should be able to provide sufficient information for a disinterested person to examine the processes and product in such a way as to confirm that the findings are not figments of their imaginations.
12. **Impact on Stakeholders' Capacity to Know and Act.** *For demonstrating that the investigation has had an impact, including participants having a heightened sense of their own realities, as well as an increased appreciation of those of other people. The report could also prompt action on the part of readers who have not been directly involved*

Source: Bass et al. (1995: 69)

Box 3.3.5: Principles of Participatory Learning and Action

A Defined Methodology and Systemic Learning Process - the focus is on cumulative learning by all the participants and, given the nature of those approaches as systems of inquiry and interaction, their use has to be participative. The emphasis on visualizations democratizes and deepens analysis.

Multiple Perspectives - a central objective is to seek diversity, rather than characterise complexity in terms of average values. The assumption is that different individuals and groups make different evaluations of situations, which lead to different actions. All views of activity or purpose are heavy with interpretation, bias and prejudice, and this implies that there are multiple possible descriptions of any real-world activity.

Group Learning Process - all involve the recognition that the complexity of the world will only be revealed through group inquiry and interaction. This implies three possible mixes of investigators, namely those from different disciplines, from different sectors, and from outsiders (professionals) and insiders (local people).

Counter Specific - the approaches are flexible enough to be adapted to suit each new set of conditions and actors, and so there are multiple variants.

Facilitating Experts and Stakeholders - the methodology is concerned with the transformation of existing activities to try to bring about changes which people in the situation regard as improvements. The role of the 'expert' is best thought of as helping people in their situation carry out their own study and so achieve something.

Leading to Sustained Action - the learning process leads to debate about change, and debate changes the perceptions of the actors and their readiness to contemplate action. Action is agreed, and implementable changes will therefore represent an accommodation between the different conflicting views. The debate and/or analysis both defines changes which would bring about improvement and seeks to motivate people to take action to implement the defined changes. This action includes local institution building or strengthening, so increasing the capacity of people to initiate on their own.

Source: Bass et al. (1995: 66)

Exhibit 3.3.1: Major SAP-led Measures with Regard to Irrigation Equipment in Bangladesh

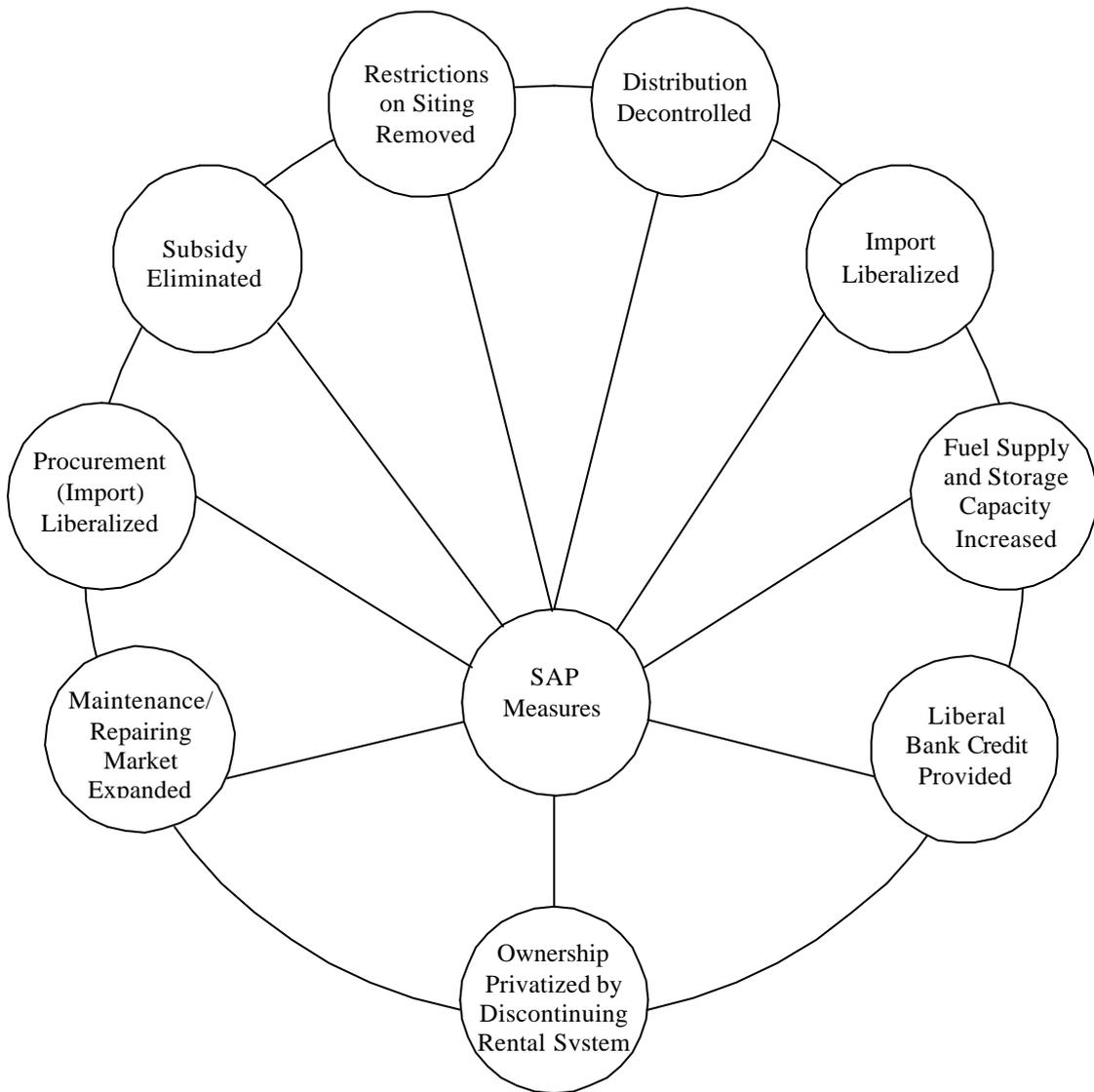
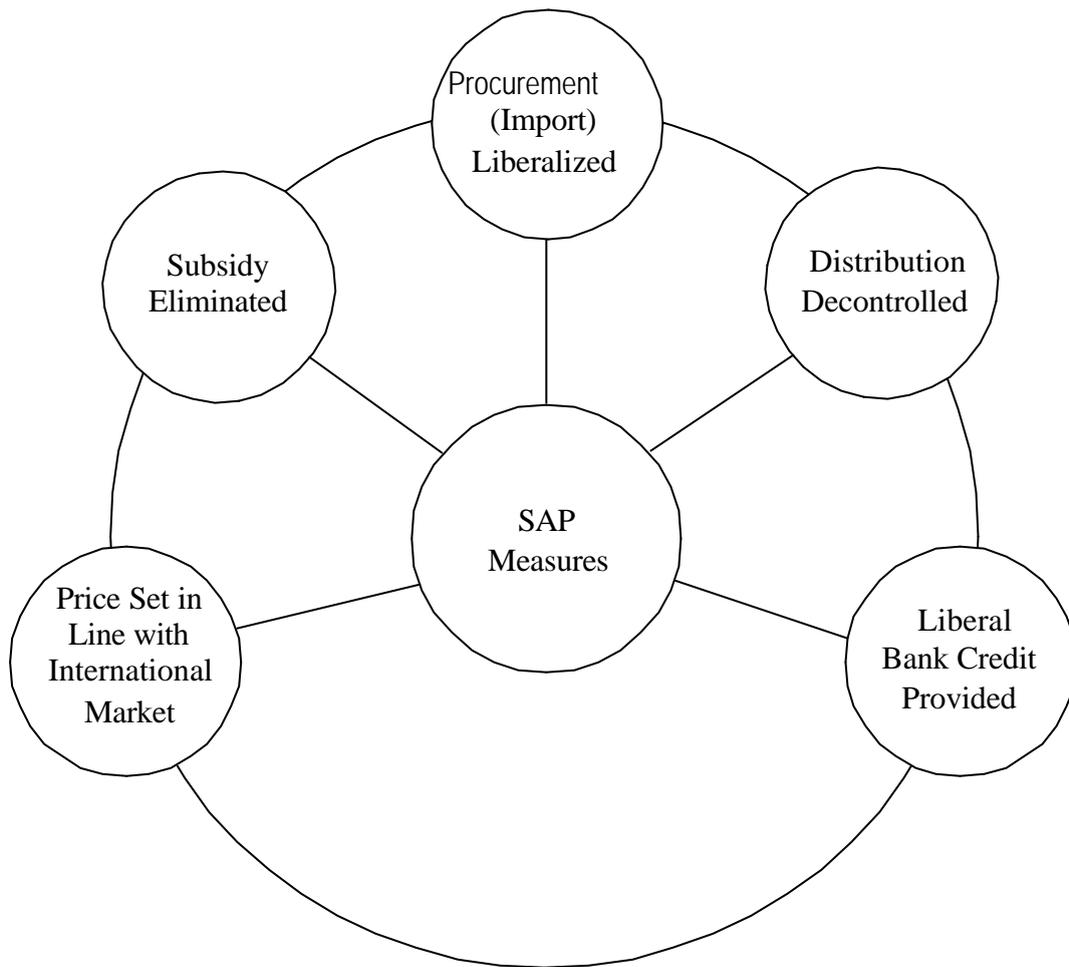
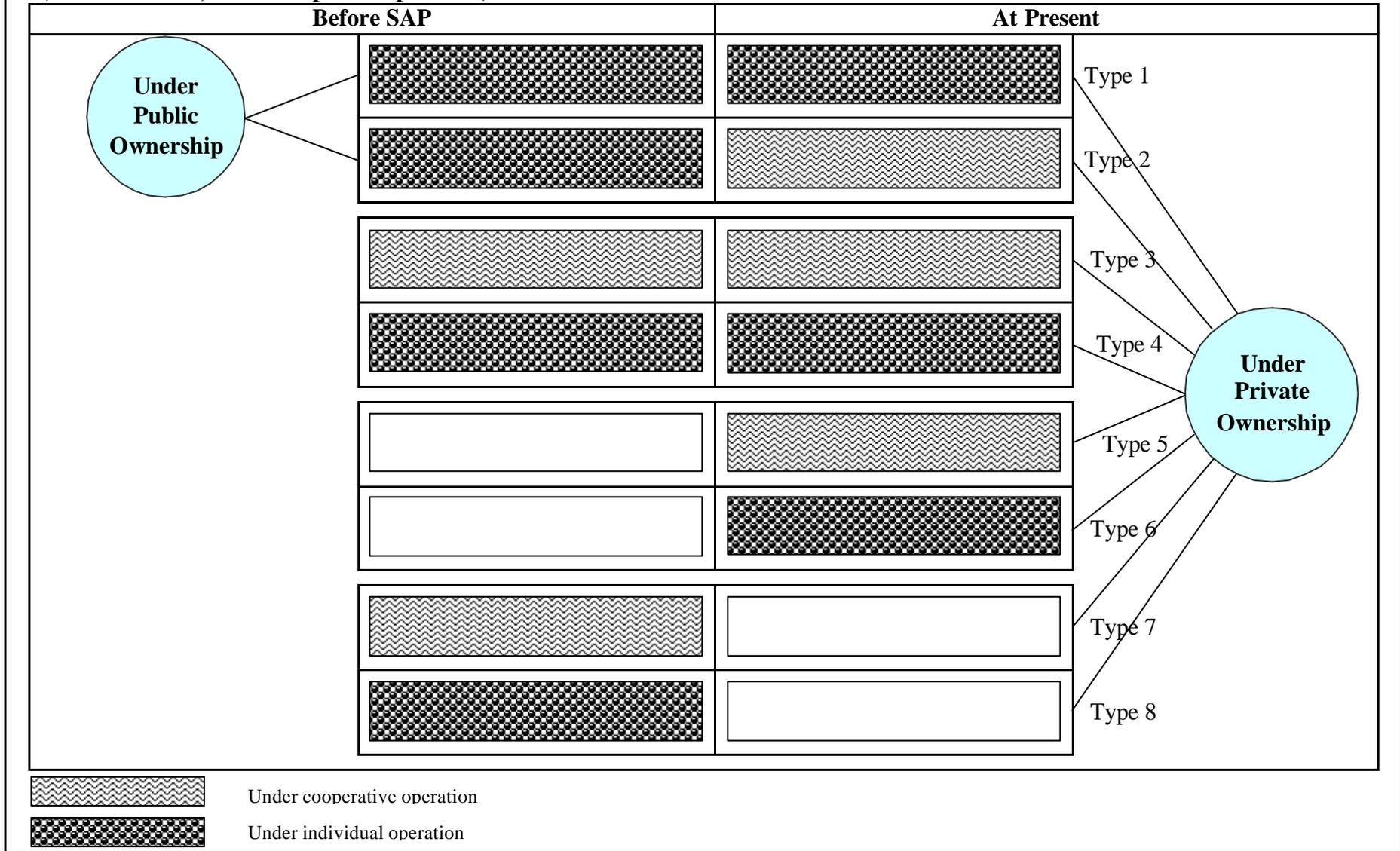


Exhibit 3.3.2: Major SAP-led Measures with Regard to Chemical Fertilizer



**Exhibit 3.3.3: Command Area Continuum
(Based on Time, Ownership and Operation)**



Box 3.3.4 : Triangulation of Participatory Investigation: Five Dimensions

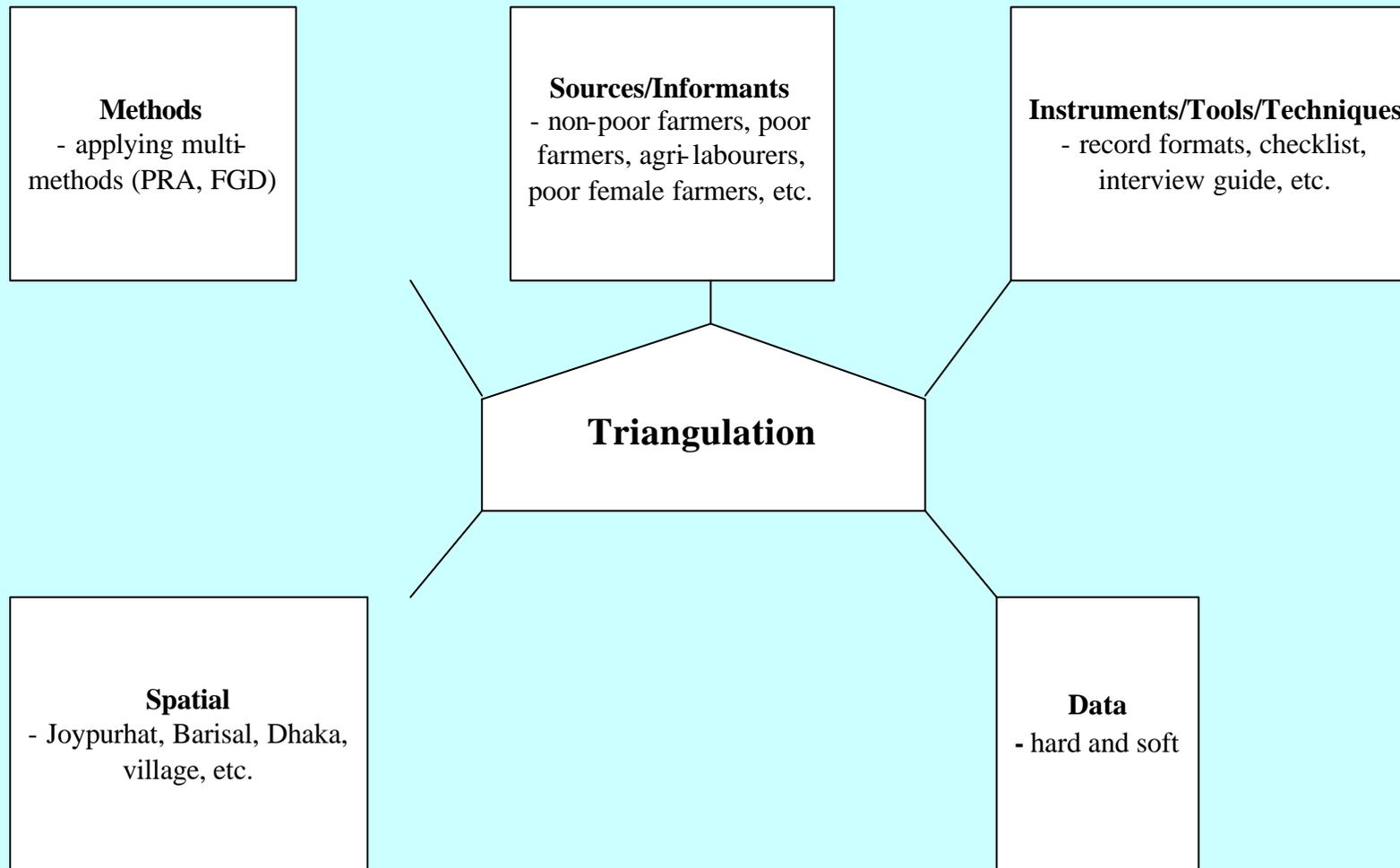


Exhibit 3.3.5: Data Gathering Scheme for Participatory Investigation

Intensity of Informants Participation	Approach	Type of Informants/Sources	Location/Levels	Data Collection Instruments/Tools/Techniques	Type of Data Generated	
High	Participatory Methods (group based)	PRA (PRRA)	<ul style="list-style-type: none"> • Non-poor farmers • Poor farmers • Agri-labourers • Female agri-labourers • Poor female farmers 	<ul style="list-style-type: none"> • Village 	<ul style="list-style-type: none"> • Recording formats 	<ul style="list-style-type: none"> • Hard data • Soft data
		FGD	<ul style="list-style-type: none"> • Non-poor farmers • Poor farmers • Agri-labourers • Female agri-labourers • Poor female farmers 	<ul style="list-style-type: none"> • Village 	<ul style="list-style-type: none"> • Checklists 	<ul style="list-style-type: none"> • Soft data
		Topic- Focussed Discussion	<ul style="list-style-type: none"> • Fertilizer traders • Fertilizer traders association • Block Supervisor (BS) • BADC executives 	<ul style="list-style-type: none"> • Urban • Peri-urban 	<ul style="list-style-type: none"> • Interview guides 	<ul style="list-style-type: none"> • Soft data
Low	Conventional Methods (individual based)	Qualitative	<ul style="list-style-type: none"> • Irrigation equipment owners/water sellers • Fertilizer traders • Irrigation equipment traders • Mechanics (irrigation equipment) • BCIC officials • Local administration (officials) 	<ul style="list-style-type: none"> • Village • Urban • Peri-urban 	<ul style="list-style-type: none"> • Checklists • Interview guides 	<ul style="list-style-type: none"> • Soft data
		a) Interview	<ul style="list-style-type: none"> • Official internal reviews/ reports • Unpublished data/ information 	<ul style="list-style-type: none"> • Organizations 	<ul style="list-style-type: none"> • Content analysis 	<ul style="list-style-type: none"> • Soft data
		b) Examining records	<ul style="list-style-type: none"> • Household census 	<ul style="list-style-type: none"> • Village 	<ul style="list-style-type: none"> • Questionnaire 	<ul style="list-style-type: none"> • Hard data

4. IMPACT ASSESSMENT: TRADE AND INDUSTRY

4.1 Introduction

Following the suggestion of the World Bank, the government of Bangladesh has been implementing various reform measures, commonly known as the Structural Adjustment Policies (SAP), since the early eighties for achieving faster development of the economy through structural changes in some sectors. The present study, conducted under the Structural Adjustment Participatory Review Initiative (SAPRI), a global exercise of a network of civil society organizations, the governments and the World Bank, tries to improve the understanding of the impact of structural adjustment policies and seek ways of incorporating the participation of civil society in such policy making in future. As a forward looking exercise, the study also attempts to identify the possible areas of practical changes in policies that need to be taken into consideration which may lead to significant improvement in the standard of living for the people in general and the poor in particular.

Two of the important components of SAP were: (i) trade liberalization and (ii) privatization. The major objectives of trade liberalization were, *inter alia*, (a) increase in competition (for export as well as import substituting industries), (b) increase in consumer welfare resulting from lower import prices and (c) reallocation of resources from inefficient, import-substituting activities to efficient, export (or import substituting) activities. Objectives of privatization included (a) reducing burden on government fiscal situation (which would flow from the elimination of State Owned Enterprise's losses), (b) improving efficiency of the enterprises and (c) promoting greater investment and higher growth in the medium-term. After nearly two decades of implementation of these policies, all parties involved wanted to know how far these objectives have been achieved. Hence this participatory investigation has been initiated.

The study focuses on two major policy changes under structural adjustment programmes mentioned just above - trade liberalization and privatization. Section 4.2 presents an overview of trade liberalization and privatization policies in Bangladesh. Section 4.3 and 4.4 explains the impact of trade liberalization and privatization on industrial development and employment respectively. Concluding remarks and recommendations are presented in section 4.5

4.2 Trade Policy Reform And Privatization In Bangladesh: An Overview

Trade Policy Reform: An Overview

As already mentioned, trade liberalization has been an important component of structural reform measures since mid-1980s. As compared with the earlier decades, Bangladesh has now more liberal trade policy regime. This is an outcome of substantial elimination of quantitative restrictions (QRs) and reduction of average rate as well as dispersion of import tariffs. In the early 1990s, QRs were eliminated rapidly and the top tariff rates reduced drastically. The maximum tariff rate was reduced from 350% in 1990-91 to 37.5% in 1999-00 while the average tariff rate (unweighted) fell from 89% to 17% over the same period (World Bank 1999). With zero tariff for many (more than 15%) of the items, tariff rates now ranges between 0 and 37.5%. While World Bank (1999) argues that ‘even with the significant decline in average tariffs that is mainly due to reduction in the top rates, the dispersion of tariffs – from 0 to 37.5% – has nevertheless remained high relative to the average rates’, entrepreneurs and traders express completely opposite view in this regard. They think that these import tariffs on finished goods are fairly low and as a result, local markets are being flooded with foreign goods and the local manufacturing industries are being hurt.

With the trade policy reform, government also introduced the unified exchange rate system by elimination the ‘Secondary Exchange Market System’ and adopted a moderately flexible exchange rate policy. In 1994, Bangladesh accepted the International Monetary Fund’s Article VIII obligations, thus committing to current account convertibility (World Bank 1999).

Privatization of Jute Manufacturing Industries: An Overview

Privatization of nationalized jute manufacturing industry has also been an important component of structural adjustment measures. The government of Bangladesh appropriated all abandoned jute mills and nationalized the ones owned by the Bangladeshi citizens immediately after independence under a general program of nationalization of large manufacturing industries. All jute mills were then operated by the Bangladesh Jute Mills Corporation (BJMC). Though these nationalized jute manufacturing enterprises were intended to function on commercial lines and earn an acceptable rate of return on government’s investment in them, they were in most of the cases producing losses. After nearly 10 years of such operation of the mills by the BJMC, the government initiated a process of privatization in 1982. During 1982-86, 35 of the 66 mills representing about 40% of the total jute manufacturing capacity were partially privatized with the government holding a minority share (World Bank 1992). The minority shares varied from 6% to 49% averaging about 43% of all privatized mills (ibid).

4.3 Impact Assessment: Trade Liberalization

4.3.1 Field Findings

All of the participants of the focus group discussions and interviews, except the government officials, are unanimously in the opinion that Bangladesh has liberalized its trade regime within a relatively short span of time keeping the majority of its entrepreneurs – both large and small – unprepared to cope with the changed circumstances. They have categorically pointed out that it is vitally important to prepare the economy before undertaking any reform measures. Preparation includes elements like favourable social condition, good working culture, technological preparedness, skill workforces, access to capital, availability of efficient technical experts etc. Without these preparations, it is very difficult for any particular reform measure to achieve its objectives alone. Bangladesh is the classic example, as the stakeholders have categorically mentioned, of this situation. It has liberalized its trade regime without such preparations in a relatively faster rate. The maximum tariff rate was reduced from 350% in 1990-91 to 37.5% in 1999-00. Other complementary policy reforms (e.g., deregulation, privatization, judicial and administrative reforms, business support services etc.) have also not fully taken place to support trade liberalization. Consequently, the objectives of trade liberalization have remained largely unfulfilled.

Citing the examples of the neighbouring countries, participants have pointed out that those countries have gone through a rigorous protective regime for a fairly longer time and opened their economy after they have successfully been able to develop a strong industrial base in the country. Moreover, they are still protecting their local industries through various non-tariff barriers. For example, the representative of BRB cables has mentioned that India imposes additional charges (in addition to its import duty) on imported cables which amounts to, according to his estimation, about 40% of total import value. Thus, with 30% import duty on this item, total charge comes about 70% of the total. Other charges include license fee, other taxes etc. If a cable producer of Bangladesh sells its product to India at the rate of Tk. 100, it will enter into the Indian market at Tk. 170. He also pointed out that the majority of the cable industries of India are located in Delhi. The distance between West Bengal and Delhi is about 2000 miles. A higher transportation cost is, therefore, involved to market those products markets of West Bengal. So, there is a prospect for in the the Bangladeshi cable producers to earn profit through exporting their products to the West Bengal province of India, however, because of the protective strategy of the Indian government, Indian importers are highly discouraged to buy it from Bangladesh. Wholesalers of West Bengal are compelled to buy cables from Delhi by the deliberate state policy of Indian government. Participants have, therefore, argued that Bangladesh should have followed the similar strategy before it has almost unconditionally opened its economy.

Moreover, tariff reduction in Bangladesh has taken place suddenly in many occasions. Tariff reduction on various goods has also taken place in the middle of the year. Some vested interest groups might be involved in those cases. As a result, businessmen lose their confidence on policies and face difficulties in doing business according to their plan. Changes in tariff rates should not have happened too fast and too frequently and also in the middle of the year. It should rather be determined for relatively longer period (4-5 years). This lack of tariff stability has affected the process of liberalization negatively.

Participants are also unanimously in the opinion that because of this trade liberalization, domestic markets of Bangladesh are now full of foreign goods many of which are actually harming the local manufacturing industries, particularly the small and cottage industries. Biscuits, cornflakes, chips, and similar other food items are now being imported quite widely into the country where as our producers could produce good quality biscuits and similar other food items within Bangladesh. Some of the participants have categorically mentioned that Bangladesh is the country of *khoi-muri-chira* (some kinds of traditional organic cereal), we can produce them cheaply and have them fresh, but, we are importing cornflakes instead. They have also cited that the local markets are now flooded with various imported items including many consumer goods (e.g., toothpaste, cosmetics etc.), fabrics, small electrical and engineering products etc., which were locally available earlier. Many substandard cheap items are also being imported without considering the quality of those products.

Most of the participants opined that local manufacturing industries, particularly the small and cottage industries have been adversely affected by the flooding of foreign goods into the local markets. They also informed that many of the small enterprises (including small engineering enterprises, rural industries, bakery & biscuit factories etc.) have been forced to close down due to heavy inflow of foreign goods. AB biscuit factory and General Food of Tongi, Gazipur, rural textile industries of shekher char, Narshindi, and small engineering industries of Tipu Sultan Road, Old Dhaka, are only a few among many of the enterprises which have been forced to close down due to liberalization. Level of industrial employment and self employment opportunities have also been adversely affected, as mentioned by the most of the participants, since the local manufacturing industries, particularly the small and cottage industries have been adversely affected by liberalization. Only exception is the consumers, who now have plenty of choices. Prices of many essential items are also now competitive and reasonable. However, they also think that government should take positive steps for industrial development of the country.

There is no mechanism to regulate the market either. Due to this reason, even the domestic capital has gone out of the country through informal trade. Goods are coming freely from outside both legally and illegally. We have not done much in popularizing our local

products in both the local and international markets. We could have popularized our *dhekichhata chira* (one kind of cereal) in the international market as an organic food item. Similarly, *gur* (molasses) can also be exported as an organic food item. On the contrary, we are importing cornflakes and sugar.

If we fail to develop our industries, create additional employment opportunities, we will not be able to alleviate poverty from our country. Prosperity never comes automatically without creating employment for the vast majority of the people, particularly the poor, women, and the disadvantaged ones. Trade liberalization in our country has not helped us develop our industries and create adequate employment opportunities. Rather, it has constrained the growth of the local enterprises, particularly, the small enterprises.

The following are some of the points that have been noted from the discussion with various stakeholder groups and individuals:

Pace of Trade Liberalization

- Almost all of the items, except a very few, are now allowed to import into the country.
- It needs time to cope with any changes. But in Bangladesh, entrepreneurs and business community have not been given sufficient time to adjust with the changes that have been taken place in the economy.

Inflow of Foreign Goods in the Domestic Markets

- Given the nature and extent of trade liberalization, domestic products will soon be wiped out from the local markets.
- Two to three water pump manufacturing industries should be enough to meet the demands of pumps in Bangladesh. However, now as many as 8 to 10 different brands of foreign pumps are available in our market. We the importers and the traders sometimes get lost among so many varieties of these items and do not quite understand which brands we should collect and sell.
- AB Biscuit Factory was running profitably before trade liberalization and its demand was also reasonably good in the local market. After liberalizing the imports of food and biscuits, many foreign brands of biscuits are now cheaply available in the local markets. As a result, the factory has now been closed for last 8 years and the payment of the workers has also largely been unpaid still now.
- General Food was also run profitably and the workers were paid regularly. The workers were told that they would be paid more as the factory gets bigger. But, because of availability of many foreign food items in the local markets, the General Food has been forced to close down.

Competitiveness and Efficiency in the local manufacturing industries

- Because of easy inflow of foreign goods into the local markets, many of our local manufacturing industries can not survive in the competition and are being compelled to close down.

- Liberalization is not beneficial for industrialization in a country like Bangladesh and as a result many of our local industries are being severely hurt by this policy measure.

Profitability in Trade and Business

- Since the tariff rate has been reduced substantially after liberalization, profit margin in our business has also decreased compared to what it was during pre-liberalization period.

Impact of Devaluation in Trade and Industry

- Devaluation is harmful for the importers. Although it is supposed to help the exporters, it is not the case in Bangladesh since production of most of the export items are largely dependent on imported raw materials.

Support Services and the Business Environment

- Lack of business support services and frequent changes of policies have been constraining domestic businesses.
- Political instability is also another problem in this regard.
- Terrorism and toll collection have also emerged as the major problems of doing business in our country.
- We do not observe any support from the government to promote local products in both the domestic and international markets.

Consumers' Satisfaction

- Consumers are now in a better off position than in the past as a result of trade liberalization. They are now able to buy many products in the same price or even at lower price than they bought 10 years back. This is happening due to substantial reduction of import tariffs.

Trade Liberalization and Corruption

- Many non-computer products are now being imported in the package of computer items since computer items has zero import tariff. Importers are doing it with support from customs officials. It is a kind of teamwork (illegal of course) of importers and government officials. Introducing zero import tariffs has facilitated corrupt practice of the importers as well as customs officials.

Level of Employment.

- There were 100 workers in the AB Biscuit Factory of which 80 were female. The factory has now been closed for last 8 years and about 80% of us are still remained unemployed.
- General Food of Tongi had 90 workers of which 80 were female. The workers were paid regularly but the factory were forced to close down because of easy import of food items from abroad. The workers are now mostly unemployed.

Trade Liberalization and Poverty Situation

- The situation with respect to their livelihoods has become worse after losing the jobs.
- Most of them didn't find any alternative employment opportunities.
- Many of them had to leave their old residences and move on to lower quality residences.
- Many of them had to stop sending their children to school.
- They had to compromise with the quality of food, clothes and necessary other expenditures after they have lost their jobs.
- Many of the workers now could not pay the rent of their houses regularly and as a result, conflict with the landlords and social tension have arisen.
- Social status has also been degraded due to the loss of job. People now don't trust each other. Earlier on, any worker could borrow money from their relatives and neighbours, but now, they find it very difficult to borrow even from their close relatives.

Trade Liberalization and the Situation of Women

- When an enterprise, private or public, retrenches its workers, females become the first victims, since they are unorganized and less vocal.
- Of the retrenched workers, the situation of the female workers is worse than their male counterparts.
- Female workers find themselves in a very difficult situation to get any alternative employment or income earning opportunities and consequently many of them are working as maidservants with hardly any freedom.
- Many of them also face a very tough situation (including torture) in their family as well.
- Families of some of the female workers have also been broken down due to loss of their jobs.
- Female workers are also in worse off situation with respect to using the money that they got at the time of retrenchment as compared with their male counterparts. Male worker could spend or invest that money on their own but the female workers had to give that money to their husbands. Many of them can't even ask where and how that money has been spent or invested. Some of their husbands have also fled away with that money. Some of their husbands have deserted them and married again with that money.

4.3.2 Voices of the people

The following boxes represent some of the voices of those who have either been benefited or affected by trade liberalization:

Box 4.1: Impact of Trade Liberalization: Voices of the People

'It is necessary to prepare the economy and the society before making any policy change. By preparation I mean to make necessary changes in social condition, working culture, technological preparedness, skilled workforce, access to capital market, administrative and judicial reform etc. Bangladesh has liberalized its trade regime without such preparation.' – An Entrepreneur.

'Due to liberalization without preparing industrial base in the country, many finished products are now coming into the local markets which our entrepreneurs can produce as well. As a result, many small industries (e.g., khadi of Comilla) are being wiped out from the market. Our producers can produce good quality biscuits. However, biscuits are being imported. Consequently, many of the local biscuit producing industries are being forced to close down.' – An Entrepreneur.

*'Ours is the country of *khoi-muri-chira*. We can produce them cheaply and easily and have them fresh. However, we are importing corn flacks which is not necessary at all.'* – An Entrepreneur.

*'As a small country, we should have been able to expand our export-oriented industries. But the government has not been able to provide necessary support for investment. Ministry of Industry is not doing anything substantial for industrial development in the country. Government should have taken initiative to popularize our indigenous products (e.g., organic food product like *khoi-muri-chira-gur* etc.) in the international market which didn't happen. As a result we are falling behind in export.'* – An Entrepreneur.

Box 4.2: Impact of Trade Liberalization: Voices of the People

‘We are now unemployed. We have tried hard but nobody is willing to provide us with employment at this age. Even when they come to know that we were workers of a closed industry, then they think that we are not good workers. We also do not find any self-employment opportunity, which we can carry on’. – *A Worker of AB Biscuit Factory of Tongi.*

‘We can now have many foreign goods cheaply. But government should take care of our own industries as well’. – *A Rural Consumer*

‘I was a labourer of AB Biscuit Industries of Tongi. The factory is now closed for last eight years. I am unemployed. I am not getting any other job and I do not find any self employment opportunity to carry on. Now I can not support educational expenses of my children. My elder daughter is a student of class VII. Her admission fee is Tk. 500 but I am unable to pay the fee. I could not send my only son to school. He is 11. He is now sent to a workshop to do something for the family. I am now in a sea of problems.’ – *A Female worker of AB Biscuit Factory.*

‘My husband tortured me physically after I had lost my job. He is unemployed. I have one child. I am now living in my brother’s house. I have invested the money that I received but the return is insufficient to maintain my family.’ – *A Female worker of a Textile of Tongi.*

‘In the competitive market, the entrepreneurs are less careful about the environment of the work place. There is no proper system of discharging industrial effluents in many industries. Workers have no voice in this regard as they are concerned to keep their employment sustained.’ – *A Labour Leader*

Box 4.3: Impact of Trade Liberalization: Voices of the People

‘Corruption has not reduced. Many items are now coming into the country under the package of computer since computer items have zero tariff’ – *An Entrepreneur*

‘My salary was Tk. 2,000. I was able to bear the necessary expenditures of my children. In fact, I was able to manage two private tutors for my children. One of my daughters is a student of class ten and the other one is the student of class five. I have lost my job. Now I find it very difficult to send my daughters to school. I don’t know what I should do now. I have tried my best to find another job but couldn’t find any. I will probably have to stop sending my daughters to school. My husband is a low paid worker. The wage he gets is not sufficient to maintain our family. So, I am now in a crisis after I have lost the job. Some of my old colleagues are even working as maidservant. Some of them are facing torture from their husbands. Families of some of them have also been broken down due to losing their jobs.’ – *A Female Worker*

Box 4.4: Impact of Trade Liberalization: Voices of the People

'Female workers are also in worse situation with respect to using the money that they got at the time of retrenchment as compared with their male counterparts. Male workers could spend or invest that money on their own but the female workers had to give that money to their husbands. Many of them can't even ask where and how that money was spent or invested. Some of their husbands have also fled away with that money. Some of their husbands have deserted them and married again with that money. Some of their husbands have left them saying that 'I married her only because of her job, now she has lost her job, I don't need her anymore'. How awful the situation can be for those who are the victims of such desertion.' - A Female Worker

'Hundreds and thousands of workers are now becoming unemployed due to closing down of both state owned and private industries but the government is virtually not doing anything for them. The workers who have lost their jobs are now living a sub-standard life. Many of them have been compelled to withdraw their children from schools. Their children have now become child labour, sex labour. They have become maidservants. They are now breaking the bricks on the streets. Should the government do anything for them?' - A Female Worker

4.4 Impact Assessment: Privatization of Jute Manufacturing Industries

4.4.1 Field Findings

All of the participants of the focus group discussions and interviews (i.e., the mill owners, labourers, and trade union leaders) have unanimously expressed the views that the government of Bangladesh has initiated the process of privatization of jute manufacturing industries in the country quite mechanically. They have pointed out that without preparing a clear-cut guideline for privatization and before preparing the private sector to take over the responsibility of jute sector the government has initiated its privatization policy. They have also added that privatization has been initiated before taking any measures in the mills to correct the inefficiencies that have been cropped up during the nationalized regime. As a result, the process has now been stalled and the objectives of privatization have not been achieved at all over the last one and a half decades. Most of the sick jute industries, which have already been privatized, have now turned into dead industries.

The participants have also pointed out that nationalization was also done mechanically immediately after liberation. All the jute mills at that time were nationalized irrespective of their nature of ownership – bengali or non-bengali. There were only a few bengali managers in the 77 jute mills of the country before liberation. Consequently, there were vacuums in the managerial positions of the mills and those positions were then filled up from mid level officials and even from clerks in some occasions. Many others at various levels were also then recruited politically without any prior expertise in the field. Many of them were employed against positions were not necessary. The number of officers and staffs therefore had been increased by

about 35 to 40% as compared with that of pre-liberation period. After the change of regime in 1975, the number of officers and staffs had again been raised by another 35% to 40% without necessity as compared with that of the previous regime. The main consideration for recruitment was political.

After nationalization, the higher authority, mill management and the CBA leaders (with only a few exceptions) started misappropriation of the funds and resources of the mills. This has obviously hampered the quality of the production and ultimately led the mills to a situation where the mills started incurring losses year after year. As the participants have pointed out, the mill authority had reported more raw jute than they had actually purchased in many occasions. To hide this fact, they intentionally had set fire to the jute godowns and reported that all the jute stocks were ablazed. In fact, since 1972 till to date, different regimes, instead of trying to bring positive changes to the mills, have actually paved the way of privatization showing gradual losses of those mills.

Workers and employees have reported that large scale corruption and looting have also taken place in the privatized jute mills and the owners of the mills have done it with help of their close associates (relatives) who have been employed by the owners and given the responsibilities of key positions of the mills. Corruption and looting has taken place at all levels. Workers and employees have categorically cited some examples in this regard. Suppose, the actual market price of raw jute is Tk. 300 per mound. The jute purchase officer, who is generally a pet of the owner, invoices it at Tk. 400. The owner takes away the difference instantly during the purchase of raw jute in this way. They do the same thing while purchasing the other raw materials, machine parts etc. They also mentioned that in 1985, the owner of Sonali Jute Mill bought a huge quantity of dated raw jute from another jute mill, situated in the opposite bank of the river named Sagar Jute Mill, but invoiced as the good quality raw jute. This, along with some other reasons including excessive manpower, dated machinery, changes in the demand of jute goods in both domestic and international markets etc. have led to the loss and ultimately closing down of the mills. Neither the government nor the mill owners have actually taken any favourable steps to revive the sector. Consequently, jute sector are now at the verge of collapse and the ultimate victims are its hundreds and thousands of its employees and workers who are now living a very measurable live as the study team has witnessed the fact in the areas of Katchpur of Narayanganj and Phulbari of Khulna.

The following are some of the points that have been noted from the discussion with various stakeholder groups and individuals:

The Rationale of Privatization of Jute Mills

- The mills were running at a loss due to over manpower and corrupt management.

- Instead of taking appropriate measures to run the profitably, the then government decided to privatize those mills.

The Process of Privatization of Jute Mills

- The process of privatization was not fair.
- There was no clear-cut policy to privatize them.
- Many corrupt and dishonest entrepreneurs had been able to buy jute mills
- Even in cases of the old entrepreneurs who had got their mills back, many of them have sold them again to the new and inexperienced owners.

Efficiency in the Privatized Mills

- Level of efficiency has not improved even after the privatization.
- The owners of the mills, particularly the new owners, have not taken any initiative to improve the level of efficiency of the mills, rather, have started colossal looting of the resources of their resources.
- The government has also not provided any support to increase the level of efficiency of the mills.
- Government doesn't have any enforcement of the policies, if any at all, to monitor how the mills are being run.

Profitability in the Privatized Mills

- Since the new owner had started looting of the mill, the question of profitability doesn't arise in this case.

Employment Situation in the Privatized Mills

- Level of employment has been reduced drastically.
- In the Sonali Jute Mill of Khulna, 1165 workers were terminated at a time in the first move after the new owner came in.

Alternative Opportunities

- It is really difficult for the workers, who have lost their job, to find respectable alternative employment.
- Some of them are doing odd job (e.g., rickshaw pulling, day labourer, etc.).

Privatization and Poverty

- While the mill was in operation, the employees and workers were living a reasonably good life. But, after they have lost their job, most of them have fallen into hardship.
- Many of them have even not been able to feed their children properly let alone sending them to school and giving them proper treatment.
- Some of them have already sold their assets whatever they accumulated over the years of their job.
- Some of them have also sold the land that they had got from their parents.
- Most of them are surviving on borrowed money with a hope that either the mill will be re-opened one day or they will get their payment duly.

Privatization and Women

- Not many women were employed in the mill and therefore no separate implications on women are actually found here.

Privatization and Corruption

- The process of privatization through which the mills had been privatized was itself corrupt.
- It was not done through open tender.
- Valuation of the mill was not done properly. It was sold at a very cheap price through unholy alliance between the owner and the policy makers.
- Whatever the price has been fixed, that has not even been paid properly.
- Many inexperienced and dishonest entrepreneurs had been able to buy mills giving bribe to the corrupt authority.
- Large scale corruption has been taken place in managing the mills even after it has been privatized.
- The owner himself over invoiced the price of jute, other raw materials, and the machineries, and showed loss in the balance sheet. Buying the raw jute at the rate of Tk. 300 per mound, the owner showed it at the rate of Tk. 400 and the difference has gone into his pocket instantly.

4.4.2 Voices of the people

The following boxes represent some of the voices of those who have either been benefited or affected by privatization of jute manufacturing industries:

Box 4.5: Impact of Privatization of Jute Mills: Voices of the People

‘I have been working in the Sonali Jute Mill since 1968. About 3,400 permanent and 1200 temporary labourers were employed in the jute mill at that time. Production target was also fully achieved at that time. Then after liberation, the mill has been nationalized in 1973. Many new employees had been employed at all levels of the mill in addition to the old ones. The management had become corrupt and weaker and as a result, misuse of resources had taken place to a greater extent. However, the mill was running quite well until 1980.

There was corruption in the purchase of raw jute. The officials responsible always over invoiced the price of raw jute. This, along with some other reasons including excessive manpower, has led to the loss of the mill. Instead of taking appropriate measures to run the mill profitably, the then government decided to privatize the mill back in 1982. The privatization had not taken place through open tender at that time. As a result, some dishonest entrepreneurs had been able to buy some of the mills at a very cheap price through unfair practices with help of some policy makers. The previous owner got the mill back in this case. After running the mill for a few years, the owner sold the mill again to a new owner in 1995. The new owner actually started the colossal looting in the mill immediately after his arrival. About 1165 workers were terminated at a time in the first move. The new owner did not pay anything to the terminated workers. Some of them have died without any treatment. Some of them are still living in the slums or on the streets after losing their jobs. They still have legal claim to their provident fund and other savings, which are not paid as yet and neither the government nor any other organizations are coming forward to help them out to get their legitimate payment.

The mill has been closed down for three times since the new owner came in. Firstly, it was closed for one year and twenty days, secondly, it was closed for three months, and lastly, it has been closed since July 1999 till date. From the very beginning, the intention of the present owner was not good. He didn't pay the workers properly. He hired *mastans* to punish the workers. Some CBA leaders were also bought by him. At the same time, there were some dedicated CBA leaders, who really tried to uphold the interest of the workers. Most of the workers are now jobless. It is really difficult for them to find alternative employment. - *A Worker of Sonali Jute Mill*.

Box 4.6: Impact of Privatization of Jute Mills: Voices of the People

‘The process of privatization was started mechanically in our country. Privatization of some mills has been done without solving the problems created in the mills during nationalized regime. Cutting off head should not be the solution of headache, rather, proper medicine should be given. Moreover, government has privatized the mill at a very cheap rate.’ – *A Labour Leader*

‘I was a mechanic of Ajax Jute Mill. I was living a reasonably good life while the mill was in operation. After the closing down of the mill, my wife got angry with me. She went to Dhaka to work in a garment industry. She does not keep contact with me as of now. I am here with three children. I now try to do whatever job is available. I pull rickshaw sometimes. I work as day labourers at times. And I pull cart sometimes. I am not able to send my children to school any more. ...’ – *A Mechanic of Ajax Jute Mill*

5. IMPACT ASSESSMENT: FINANCIAL SECTOR

5.1 Some Stakeholders Speak

Good fiscal performance of the government and improved financial performance of the state-owned enterprises are two preconditions for sound finance industry but these and other issues were not adequately looked into before launching the reform program" said one senior official of the central bank.

"Limited positive impact of the financial sector reforms that has been achieved so far is concentrated in large clientele group in the urban centers only and did not pervade expectedly into small customer segment and rural areas. Positive changes are confined mostly in foreign and new private banks. Though some new financial products like online service, ATM, new deposit options have started fledging out recently they are much less than expected and presently they hardly can influence wide segments of the rural and informal activities" observed the MD of a private bank.

"After the nationalization of banks the rationale for setting interest rate on cost-return basis was discarded and it has not returned fully yet despite the liberalization. The nationalized banks have to face some serious constraints to interest rate liberalization. They have to perform a number of public functions of socio-political considerations - maintenance of deposit pension scheme, distribution of stipend for the female students, conducting army pension scheme, acceptance of utility bills etc. - that prevent cost realization. In addition, there is neither the skill in the NCBs enough to use standard practice of calculating cost of funds and setting loan rates accordingly nor any seriousness among the top executives to institute them. At the beginning of the financial sector reforms some top executives of the NCBs did not happily appreciate the idea of change, and only passively accepted the recommendations of the appointed consultants without making useful contributions toward improvement and refinement of suggested policy interventions in the light of realistic conditions. Despite many limitations financial sector reforms have made some positive contributions, and it is time that innovative further additions be made to the foundation laid on the basis of the recommendations of foreign consultants. It is very much possible to make interest rate liberalization policy a success if those in-charge of taking it along were a little bit more committed, imaginative, sincere and honest," said one ex-MD of an NCB.

Over the past one decade Shamsuddin of the village North-South Shailgun in the Kalai Thana of Joypurhat district had been applying for loans and every time he failed because, according to his own assessment, he was excluded as he was poor and economically and socially weak.

Another senior Bangladesh Bank official identified the following results of financial sector reform:

- The objectives of interest rate liberalization have been partially achieved;
- nationalized commercial banks are still price leaders and others enjoy a free ride;
- Central bank's supervisory rules do not apply uniformly;

"Interest rate is high and only those who can force their way into nationalized banks get loans. Term loans are not coming as required by industry" complained one member of FBCCI.

"NCBs seriously lack in technical skill and professional expertise in the IT era. There is no alternative for them but to make up their weakness in human resources to compete with foreign banks" identified a General Manager of a foreign bank.

"The role and accountability of the boards of directors of the NCBs have been pushed into the back because of comprehensive government regulation of the activities of NCBs. The irony is that while government enforces authority on them, the boards have to shoulder the responsibility of what follows from this. The problems in the banking system in Bangladesh have been compounded by three strategic positions taken by the government as owners, client and controller of the NCBs. The banking system of Bangladesh is in such a precarious state that on the one hand doing something to fix the problem is likely to disrupt the banking system as a whole while on the other hand taking hands off the banks runs the risks of erosion of public confidence in the financial sector reforms and the rule of law in the banking system." (Report of the Banking Reform Committee headed by Professor Wahid Uddin Mahmud.

5.2 Background

Interest liberalization was one of the several components of financial sector adjustment program implemented by Bangladesh from the early 1990s with financial support of the IDA and the USAID. The implementation of program was behind the schedule by more than two years for different factors, and has been largely completed by the middle of 1996. Though main focus of this study is on an assessment of the success of interest rate liberalization by a comparison of the outcomes before and after the reform, it is argued that such an approach is fraught with limitations and gives an over-general assessment without going into the space between policy intervention at the top and the outcomes at the bottom. As such an important aspect of this report is an examination of the intervening space i.e., the institutions, organizations, management, operational procedures, internal control, monitoring and supervision of the financial institutions etc. Specifically, the respondents have pointed out poignantly the absence in the FSR of a consideration for extra-policy limitations or constraints in the form of governance failure and the state failure. Apparently, these two failures in

Bangladesh are exogenous to the interest rate liberalization policy but they exert significant influence on the operation of the policy steps and contribute to distortions in the outcomes. The space between the macropolicy and micro-impacts has remained largely gray in most evaluations as well as in the design of sequencing.

Financial Sector Credit (FSC) was the third in a series of sector adjustment credits of the IDA to Bangladesh after the Industrial Sector Credit and the Energy Sector Credit. The FSC was given to the government of Bangladesh (GOB) to support its financial sector reform as outlined in its Letter of Sectoral Policy (LSP)² to the IDA. The reforms consisted of steps aimed at significant improvements in the areas of interest rate policy, monetary policy, priority lending, central bank supervision and regulation of banks, strengthened NCBs, improved debt recovery environment and capital market development. Principal benefits to be reaped included improved credit allocation in response to flexible interest rates and less distorted market signals. The FSC was appraised in August 1989 and negotiated in March-April 1990. It was based on several exploratory studies – the report of the National Commission on Money, Banking and Credit initiated by the GOB in 1986, a World Bank sector report of December 1987 and a GOB task force report on NCB management issues of 1989.

The government in its LSP committed to continuing with the implementation of financial and structural policies consistent with the adjustment program. The government had also intended to maintain a favorable investment climate for the private sector, to direct monetary and credit policy toward providing adequate credit to it while restraining the overall expansion of domestic credit at levels consistent with balance of payments and inflation objectives. The financial sector reforms were expected to strengthen the competitiveness of the banking system, improve the allocation of financial resources and facilitate the collection of overdue loans and the recycling of funds. More specifically, the plan of the GOB was to achieve the objectives above by (i) gradually removing the distortions in the interest rate structure with a view to improving the allocation of resources; (ii) providing increased market oriented incentives for priority sector lending; (iii) making subsidies in these sectors more transparent; (iv) adopting appropriate monetary tools to control inflation; (v) establishing appropriate accounting policies including recapitalization, strengthened regulation and supervision, effective management policy, to put the banking system on a sound financial basis; (vi) improving debt recovery environment; and (vii) strengthening the capital markets.

There was a vision for pushing reforms forward gradually but steadily toward a more competitive market-based system, indirect controls, a larger private sector role, increased

² The GOB requested the IDA for a loan of \$175 million vide FM/FD/BK-5/48/08 (Part-2), in a letter of M. A. Munim, Minister for Finance and Planning, GOB to Mr. Barber B. Connubial, President, IBRD on 8 May 1990.

autonomy, commercial orientation and management efficiency for government-controlled institutions. There was also an explicit statement by the GOB to carry forward other issues relevant for financial sector reforms as an integral part of future reform programs. The basic objective of interest rate policy was to allocate resources more efficiently through interest rates that reflect maturity, risk and administrative cost more adequately, allow for flexibility in meeting changing conditions, and encourage price competition. A technical assistance program to assist the NCBs to improve their capacity in formulating policies and procedures for setting interest rates was also envisaged. More importantly, the government recognized that supporting adjustments in trade and industrial policy, public enterprise management, tax regime as well as additional financial sector adjustment measures would be required over time to realize the potential benefits of these reforms more fully.

5.3 Study Results

Before presenting subjective evaluation of different categories of stakeholders separately their main points of argument are given below. The perception of the stakeholders about the impact was mixed with a general feeling that actual impact has remained far less than expected. Some of the them are:

- Interest rate liberalization succeeded partially in releasing competition for a small segment of the banking arena;
- The quality of financial intermediation has not improved, specially the spread between the loan and deposit rates has not declined either in nominal or real terms (chart 5.2 and table5.3);
- Though scope for intensifying competition has expanded financial market still remains ‘oligopolistic’ characterized by a price leadership of the public banks that are plagued with inefficiency due mainly to governance failure.
- The private banks take a ‘free ride’ on lending rate set high by the public banks and continue to operate in the safe haven of the financial sector;
- Expected decentralization of the bank operations/management has not been realized;
- Customer service quality has not improved, and new financial products are negligible;
- Diversification of loan outreach in terms of greater geographical and customer coverage has not taken place;
- Financial market in Bangladesh remains segmented as before partly because of inappropriate franchise policy and partly because of governance failure to provide safe business mileau;
- Public ownership of banks with frequent tacit government intervention in the management of public banks and flagrant politicization of the financial operations policies is a big stumbling block in the way of improving competition;
- The positive effects of the indirect monetary control instruments introduced as support for interest liberalization have been nullified by counteractive interventions;

- A regime of comprehensive and mutually reinforcing financial policies is yet to emerge in Bangladesh. Partial, incomplete and untimely implementation of declared policies continue to affect adversely the general environment and desired outcomes.
- Loans and deposit continue to remain insensitive to interest rate variations, and the structure remains unchanged with no interdependence as theoretically expected in a free market regime.
- Though central bank has ceased to dictate interest rates the government of Bangladesh continues to direct the rates.
- Heavy public borrowing for a couple of years by selling savings instruments at high rates of interest is viewed by the borrowers to be limiting the scope for financial intermediation and causing distortions in the market.
- Regional dispersal of bank loans has deteriorated. Since the early nineties there has occurred substantial transfer of resources from the countryside to the towns.
- Developments in respect of the borrower accessibility are not clear. While the borrowers complain of bureaucratic rigidity in bank's loan approval procedures and various hassles including demand for bribe, the bankers have outright rejected such allegations. Moreover, politically non-aligned borrowers complain of strong political strings still existing in the banking sector, and the bank personnel spoke of the various professional hazards they have to face.

5.3.1 Overall , Some Feeble Positive Signs are Around

- Powerful and defaulting borrowers' ability to go with impunity seems to have lessened somewhat. Loan appraisal procedures are gradually taking roots in the banks' operational norms.
- In the past two years, both disbursement and recovery of agricultural loans have improved somewhat.
- In the formal large business sector genuine and sound enterprises are gaining ground slowly through competition. Specifically, foreign banks have intensified competition and they are steadily moving into term finance for industries although their business still remains concentrated mainly in the urban centers.
- Some of the public banks have introduced new financial products on a limited scale.
- Though its impact is small but the trend is encouraging.

5.3.2 Perspective of Central Bank Official

Five senior officials of the Bangladesh Bank were interviewed face to face with semi-structured checklist with time for plenty of free discussion. However, all of them preferred remaining anonymous. They pointed out the following factors that constraint the operation of free play of the market forces.

◆ **The Objectives of Interest Rates Liberalization Have Been Partially Achieved.**

In their judgement the objectives of interest rate liberalization were achieved only partially and the positive impact could not pervade the economy or the financial system because of the countervailing forces in the economy. The forces that minimized the positive impact were structural constraints like borrowers' compulsion to remain tagged with particular banks because of their large loan obligations to banks. As such the prime consideration of the borrowers is not the rate of interest on loans but maintaining good relations with banks. Second, the cost of fund of nationalized commercial banks remains high because of their large loan loss provisions. They have hefty non-performing assets locked in a few hardened big borrowers who maintain good political connections and manage to go with impunity. As regards observed inconsistency in the movement of interest rates structure in Bangladesh, one of the executives said that interest or the cost of borrowing was not an important consideration of the business community in the country. He supported his hypothesis with the observation that those who have an intention and maneuverability to go with impunity for default of bank loans as has happened in most cases of big influential borrowers the cost of loan is of the secondary consideration for them. In fact, effective rates of interest for loans to them are virtually zero.

◆ **Bangladesh Bank Cannot Develop Skills Independently**

Bangladesh Bank cannot pursue policies for improving human skill in the central bank. Full financial power needed to do such things is not given even to the board of directors of the Bangladesh Bank. Referring to the experiences of a number of other countries they established the general proposition that so long as some banks remain within public ownership with direct control of the ministry of finance over their management and operations little organizational and operational improvement is possible. The argument that Bangladesh Bank cannot be given full autonomy because it does not have adequate skill to exercise larger autonomy is based upon a false notion. The fact is that the level of autonomy in this case constraints the level of expertise attainable in the Bangladesh Bank.

◆ **Uniform Supervisory Rules to be in Place**

There is no uniform environment for the private and nationalized commercial banks. The Bank Company Act 1991 makes room for such discrepancy in the central bank's oversight on two categories of banks. They mentioned that the provisions of supervision and capital adequacy norms are not the same for the nationalized commercial banks and the private banks. Since Bangladesh Bank does not enjoy policy or operational autonomy in full it cannot take hard steps without the concurrence of the ministry of finance against violation by banks of the regulatory norms. They claimed that if there were good laws in place and governance were in

shape it would be very much possible to fix the problems of the financial system within couples of years.

◆ **Some Progress has been Achieved**

Though nationalized commercial banks are partly responsible for the overall financial sector fragility, Bangladesh Bank has in recent years has made some progress with respect to control over the private banks. Referring to the state of the problem banks in the private sector they said that because of strong supervision of the Bangladesh Bank out of the seven problem banks in the private sector two have made substantial progress and they are likely to soon come out of the problem bank category. In the remaining problem banks in the private sector, a handful of large borrowers are at the root of their distress but they cannot be touched because of their strong political connection. Hence, it lies with the government to decide whether or not existing problem banks will be forced to improve their status. In order to ensure an even competition the control of the ministry of finance over their management, operations and other issues should be discontinued. Most important decisions are whether nationalized commercial banks will be reoriented on commercial principles with requisite authority and accountability by amending the laws, and whether Bangladesh Bank will be given more autonomy to exercise uniform supervision across the banking system. The main illness of the financial sector of Bangladesh lies with the nationalized commercial banks that are fulcrums of the problems.

◆ **Institutional Weakness of the NCBs is a Serious Constraint**

Referring to the institutional inadequacy of the commercial banks, one official said that under the financial sector reform loan evaluation procedures were prepared for the commercial banks to follow but there was no sufficient skilled manpower in the banks to apply them effectively in loan evaluation exercises. For example, there is an elaborate system of Lending Risk Analysis (LRA) in place but it was not followed strictly by the banks. Policy inadequacy was partially responsible for less than desirable results achieved. While listing the principal causes of deteriorating asset quality one of the senior officials of Bangladesh Bank identified deliberate default, corruption in the NCBs, political hurdles to the initiative of NCBs to recover loans and the lack of autonomy of the NCBs and the Bangladesh Bank.

◆ **Bangladesh Bank Needs to Expand its Research Agenda**

Apart from an appreciation of the need for skill accumulation in the central bank, adequate job-specific training to the employees and assignment of training-based job within a substantially improved operational framework, some of them said, there were two equally important tasks for the Bangladesh Bank to make a breakthrough in the discharge of its responsibilities. According to some of the central bank officials, the main preoccupation of the

Bangladesh Bank has been the formulation and execution of monetary policy but the question of supervision has assumed importance because of mass scale malpractice in the banks and violation of rules by them. The issue of supervision is important though it should ideally be carried out by a parallel organization. There are many instances in the world, they argued, where supervision activities are carried out by other organizations that maintain functional cooperation with the central bank. However, these gaps and conflicts of attitude can best be addressed by putting emphasis on monetary policy formulation and at the same time maintaining appropriate degree of operational cooperation. For these two tasks of the central bank, both sides of the statutory responsibility – good monetary policy and effective supervision - of the central bank of Bangladesh should be kept in mind.

◆ **Good fiscal performance of the government and improved financial performance of the public enterprises are two preconditions for sound finance industry**

One of the officials told in his personal judgement about the disarray in the existing financial situation in Bangladesh, and for that reason offered his recommendations for fixing the problems although they differed from those of his other colleagues. According to him, present financial malaise in Bangladesh derived from regimented economic and financial policies chosen in the past. It was a setting where market forces were not the main criteria for resource allocation, and in a regime of directed lending at prescribed rates of interest the issues of enforcing strict loan appraisal and accountability for the nationalized commercial banks were irrelevant. Besides this, government banks were the main source of public investment and local non-bank resources remained negligible for a long period of time. Non-financial public enterprises, the main beneficiaries of bank loans, did not do good enough to generate surplus needed for their operation and capacity creation. In this background, it was obviously unlikely that government could reduce its resource need drastically overnight unless there was a gross reduction in the size of government or alternative pool of resources (domestic tax and non-tax revenue, borrowing abroad) could be found. Since actual conditions have not changed substantially it is unlikely even now that government would be able and willing to renounce its prerogative for bank loans and control over their activities, and hence tangible gains in the financial sector reform seem only partially attainable.

There is a widely shared feeling that public ownership of some important banks of Bangladesh together with strong government grip on their activities is the principal reason why banking sector problems persist making competition and commercialization of financial activities pretty difficult. The result is that despite whatever commitments are made financial sector liberalization cannot be completed to the extent planned and warranted unless the realities in public finance improve. Therefore, financial sector liberalization and the emergence

of a market-based competitive system cannot be expected to succeed in a big way in this context.

◆ **Government Borrowing Affects Interest Rates**

He further said that heavy government borrowing through the sale of treasury bills to the banking system and savings instruments to the non-bank public at higher rates of interest cannot be reconciled with the requirement for competitive market. Government's avowed insistence on maintaining public ownership of banks, and influencing their policies and operations together with the reluctance to grant autonomy to the central bank derive partially from the compulsion to depend on the NCBs for resources in the absence of substantial improvement in public revenue and a wide and deep bond market.

◆ **Adjustment Program Should be Completed**

He recommended that adjustment program be completed, and the thrust should first come from the public finance. He had an observation that small countries like Bangladesh cannot afford to remain isolated from the world market but he held that for future policies one must take into consideration the developments in the world environment. Financial sector reform cannot be considered as an isolated policy option, and rather the fact is that it is only a mirror image of the problems in the real sector as well as of those of the government fiscal position. As a result, from the point of view of strategy financial sector reform should follow real sector reforms. He said that once real sector problems are fixed the financial sector correction would follow automatically or at best a few large strokes of reforms in it would be enough.

Central Bankers' Recommendations

The important steps they recommended for improving the operations in the financial system were:

- Amendment to the Bank Company Act 1991 (BCA) to create uniform business environment for all banks in Bangladesh and to empower the Bangladesh Bank to deal uniformly with regulatory issues.
- Introduction of best practices in management, internal control, audit and supervision to monitor compliance with discipline. This should also be accompanied by deregulation of government control over the activities of the NCBs and the Bangladesh Bank.
- Strong social mobilization against the willful defaulting bank borrowers.
- Some central bank officials felt that privatization of the nationalized banks and putting them under uniform regulatory supervision of the central bank might be a single stroke drastic solution to the financial sector sickness. However, they said that such a radical reform would be impossible in the existing socio-political reality.

5.3.3 Bankers' Community Other than the Central Bankers

An MD of a private bank who was formerly in one nationalized financial institution confided that the argument for outright privatization of the NCBs was only one-sided. The problems in the NCBs owe their origin not entirely to the ownership of banks but to the operations and management policy and capability. The situation can be changed fundamentally under a visionary leadership with suitable authority and incentives. Existing situation in the NCBs do not permit accumulation of requisite management skill because of government-influenced personnel policy. He felt that banking operations of the NCBs may be split into three segments – industrial, business and agricultural finance departments putting them under three independent experts under the same board of directors for the overall policy and management guidance. However, he agreed that such a reorganization is only a utopia in the present circumstances, and privatization of NCBs seems a compelling imperative.

5.3.4 Business and Industry on Interest Rates Liberalization

Individually and as representatives of business and industry the office bearers of **FBCCI, DCCI and MCCI** interviewed were concerned more with ancillary services and a reasonable degree of protection through import tariff than with finance stressing that without a viable economy reforms in banks alone cannot be expected to make a boost in economic growth. Complaining mostly of governance failure they said that interest rates were only a small part of the cost of business especially for working capital but they hung heavy in long term loans for setting up industries. Referring to many countries of the world they said that interest rates for loans were inordinately high in Bangladesh and that they should be lowered substantially to enable them to compete in the world market.

The office bearers of Bangladesh **Engineering Industries Owner's Association** complained that banks had given no loans for this sector. In the late eighties, the government gave a small loan of Tk. 15-17 crores for "Zinzira-Dholaikhal Project" but most of it was misappropriated by fake borrowers close to the political leadership. They claimed that there are as many as 15-20 thousand small engineering firms in the country and have the capacity to produce spare parts for most of the medium and large industries of the private and the public sectors. They said that under an agreement in 1986 with Bangladesh Small and Cottage Industries Corporation (BSIC), a government agency they used to supply most of the spares directly to the public industrial enterprises but now the agreement is no more valid. Public sector industries, they complained, buy their spare parts from abroad at higher price through subcontracting. They alleged against corrupt practices in allocating subcontracts and the margin appropriated by this newly created intermediaries. They further said that some subcontractors procured spare parts from the smugglers to the detriment of the interest of their business.

The office bearers of the **Weavers' Association** of Benrasi Saree Palli (an enclave of specialized saree producers) said that Bangladesh Krishi Bank has introduced successfully a new group lending program for them covering one fifth of its members. The loan operations are sound, delivery is timely, interest on loans is reasonable and recovery is also satisfactory.

Recommendations of Business and Industry

- Reduce interest rates for term lending;
- Do away with political strings in bank lending;
- Provide soft loans for weak but potential industries;
- Provide effective public services in R&D for industries with adequate physical facilities;
- Create a socio-political environment and administrative culture congenial for industrialization;
- Rationalize tariff structure;
- The Engineering Industries Owners' Association called for a separate site and other necessary physical facilities along with liberal credit for nourishment of this industry.

5.3.5 Rural Borrowers' Perspective

In the two villages surveyed both the number of borrowers and the quantity of bank loans for agricultural activities were found to have increased in the fiscal year 1998/99 but this does not reflect a secular trend attributable to financial sector reforms. After the flood of 1998 there was a strong drive for extending agricultural loans to the farmers in order to help them compensate for loss in production due to flood.

For the common people, there are basically three strong practical impediments to approaching banks for loans: lack of security, inability to bear transaction cost and to bear incidental expenses. For many of them, dealing with banks is full of bugs and entails painful botheration in terms of several days lost completing lengthy formalities for loans as well as hiring some agents who customarily help borrowers hook up with the bank officials. Others said they did not have assets enough for security against loans nor could they manage some influential persons to talk their cases up to the bank managers (**Box. 5.1**). There is a pervasive feeling among the ordinary rural people that bank loans are a special privilege for the powerful and few ordinary persons can expect to access bank without having established a mutually benefiting pecuniary deals.

Over a decade till 1999 outstanding deposits and loans of 20 sampled bank branches in the Rajshahi and Barisal Divisions increased by 183 percent and 372 percent respectively. During the same period the number of deposit accounts and loan accounts at those branches also increased by 54 percent and 80 percent respectively while the amounts applied for and sanctioned went up by 172 percent and 116 percent. These branches reported that they had

provided 15 percent of their loans to new borrowers and new activities. These numbers seem to present a picture of significant enlargement of banks' financial services with enhanced accessibility of the people to institutional credit. But this is in sharp contrast with the assessment of 17 borrowers/applicants who were selected as respondents to a questionnaire to record their evaluation/judgement. According to their replies, although bank loans have increased in terms of both amount and coverage bureaucratic hassles, traditional bribery and agent's commission still persist. They said that strong social connection and ability to pay bribe were the principal criteria for sanction of bank loans. It is interesting to note that all the nine large and medium borrowers surveyed are with banks for one and half decades in the past and got loans against all their applications but the newcomers have simply been snapped away. This speaks of widely shared view that only the strong and powerful have an upper hand in the finance industry.

◆ ***Reasons for Reluctance for Bank Loans***

In reply to a query why they did not apply for bank loans the rejectees listed the following factors:

1. Inability to provide requisite assets as security for loans;
2. Inability to provide high fees for loan forms and commissions for agents;
3. Several man-days lost trailing loan cases;
4. Bank loans are full of fusses;
5. Some bank discriminate against minority communities; and
6. They could not afford to bear the excessive transaction cost.

Box 5.1: Shamsuddin Speaks against one NCB at Kalai in Joypurhat District

Mr. Shamsuddin,40 is a typical small peasant of the village north-south Shailgun in the Kalai Thana of Joypurhat district and owns some 91 decimal of land including his home. He works in his own land and takes other's land for cultivation on crop-sharing terms. At times he works as a wage laborer in other's field. By nature, this middle-aged man looked simple, honest and straight forward. He applied for bank loan for the first time in 1992 to the Kalail branch of one NCB in Joypurhat but he was denied any loan. Over the past one decade he applied for loans and every time he failed because, according to his own assessment, he is poor, economically and socially weak.

The story in his own words

"I applied 3 or 4 times for loans in the past couples of years but got none. I first applied the year BNP won the elections. I had a passbook from Mr. Lokman, a member of the local Union Parishad and walked into the bank for a loan application form. In the course of our talk one of the bank employees said, "whom have you got this passbook from." I said, "from the member." They said there was a mistake in my passbook and asked me to have it corrected. I got my passbook okayed and asked for a loan form. They said, "there is no loan form any more. You better come in some other day." I approached one Mr. Saiful Islam of the bank and had a form from him and submitted it to the manager of the bank. They asked me to wait a few days. I went over seven days later but they said, 'there is no fund for loans'." Two years later I again applied for loan but the bank didn't give me any loans." I finally applied for loan again 4/5 months back this year. I placed my loan form along with a lot of some 25/30 people. I waited for some days and I was told that there was no fund left for new loans. I then looked for an agent who gave me word that he would try for me but finally I received no loans. If you appoint an agent you get loans easily within three-four days without having true documents for your security of loans. The bank usually charges Tk. 100 to Tk. 150 for every Tk. 1000 loan. Once you give them bribe, they don't bother about security against loans, and in some cases, I hear, they artificially inflate the value of your security. The manger said, 'why didn't you take loans after getting the passbook?' I said, I didn't need them. He said there would be no new loans. I knew that the bank people are not interested in small loans to small people because of the uncertainty of recovery and high cost, they say. The real reason is that their part of bribe is small in small loans. I came back home and several days later I came to know that some of my fellow applicants got loans. I don't know how. I heard from others that bank people are interested in sanctioning cash credit because thereby they can extort large sums. I have borrowed four thousand Taka from a neighbor, and he charges me 50 percent interest for a period of three months. I hope I would be able to repay the loan after I will have harvested my paddy in the field.

I ask the government to make arrangement such that no bribe and no middlemen are needed for bank loans. We want that bank managers talk to us directly and give us loans on time."

◆ Strong opposition of the Field Level Bankers

The above allegations of the borrowers were sharply turned down by the managers of the 20 local branches of banks who were interviewed. They specifically rejected the allegation of bribery saying it was baseless and outright false. Further, according to their written reply, there were virtually no cases of loan applicants rejected by banks, and a few cases that were delayed or turned down were because of incomplete/faulty documents. All but one applicant who are regular borrowers of banks said that they had to pay bribe for loans and in some cases the amounts sanctioned were trimmed for not giving money demanded. Side by side, all the applicants surveyed said that loan formalities have become more complicated than before. It is very difficult to establish the truth beyond doubt. However, it can be inferred from the common sense argument that all borrowers cannot lie and further that en masse rejection by bank managers of corruption charges sounds too honest to honor. However, the important point to

consider here is whether financial sector reform had anything to do with the boosting of corruption in the banks. Some of the members of the FBCCI and DCCI have outspokenly alleged that financial corruption especially with big loan cases of the public banks has increased.

◆ **Recommendations of the Rural Respondents**

The following are the recommendations made by the majority respondents;

- stop bribery;
- simplify loan process;
- eliminate political touts/agents from bank premises;
- reduce interest rate;
- prioritize good borrowers;
- urge managers of banks to find good borrowers and follow up their activities at field levels; and
- punish the loan defaulters.

Bankers -Agent Collusion Increases Indebtedness of the Rural Poor

The story below (Box 5.2) is that of a process of gradual attrition of the ordinary rural borrowers.

Box 5.2: Accounting recycle of financial resources is a mechanism for increasing indebtedness of the borrowers

It has been found from discussions with some borrowers in the rural areas that in many cases borrowers who cannot repay bank loans on time are called in by banks' agents to sign a contract for a new loan that is a bit bigger than the old outstanding loan. The previous loan is shown in bank's loan ledger as having been repaid and in its place a new higher loan is shown as disbursed. Part of the difference between the new loan and the amount adjusted for repayment of the previous loans is given to the borrowers and the rest is shared by bank people and their agents. The motive for doing this, apart from pecuniary greed, is to report an improved recovery position of the branch in question and to avoid making provision against classified loans. This malpractice through corruption is ominous of an insidious disaster around the corner and bespeaks weak internal supervision of banks. On the one hand, borrower's indebtedness continuously goes up, and on the other prudential norms are violated and the economy uses liquidity substantially lower than what bank's books show. To this must be added an allegation of continuous rescheduling of repayment that weakens strong prudential supervision norms.

5.4 Findings from Secondary Source of Data

◆ ***Regional Dispersal of Bank Resource***

There has taken place a significant transfer of resources both within and across the divisions. The overall outstanding advances for the rural areas declined from 24 percent of the total bank loans in 1990 to 17.3 percent in 1999 (Table 5.4). Urban shares in deposits declined

from 79.6 percent in 1990 to 77.2 percent in 1999, and correspondingly the rural share in deposits increased from 20.4 percent to 22.8 percent over the same period (Table 5.5). Within the division the flow was from the rural to the urban centers and across the divisions the flow was from the periphery to the center (Table 5.7). The same phenomenon is supported by changed credit-deposit ratios for the rural and urban areas (Chart 5.1)

In this context it should be pointed out that inference from published data on credit should be qualified in some cases because as stated in the box below credit data do not always reflect the reality.

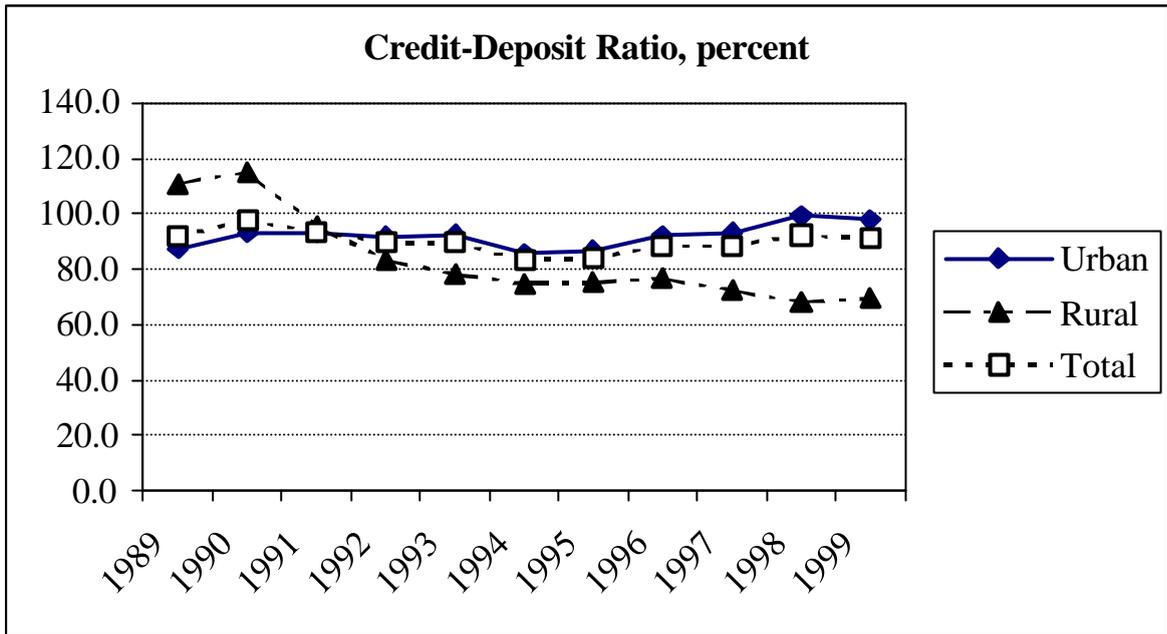
Box 5.3: Bangladesh Bank's credit data do not reflect the reality

One of the overriding objectives of the Bangladesh Bank, in so far as its annual reports say, is to provide adequate liquidity for the economy to support productive activities. Its different publications provide data on credit growth and monetary expansion but their credit data do not reflect the real situation in the economy. The fact is that Bangladesh Bank's published data over-report credit expansion. Bangladesh Bank does not collect data on credit disbursement and recovery on regular basis but reports outstanding position at the year end, and calculates credit growth over the year from the positions at two consecutive years' ends. There is no mechanism in the Bangladesh Bank for regular collection, compilation and publication of data on disbursement and recovery of loans. Since a large part of the loans of the banking system are classified in Bangladesh outstanding credit data include a large portion of accrued interest and give an overly inflated figure of credit growth over the year. A calculation below shows how reported credit growth rate becomes an exaggeration.

An illustration

Supposing the share of classified loans is 45 percent of the total assets of the banking system; the rate of interest on loans is 16 percent and the growth of outstanding credit is 14 percent in a particular year. In the absence of recovery of this 45 percent of loans, the growth of outstanding liability of the economy to the banking system due to the accrued interest alone is $0.45 \times 0.16 = 0.072$ or 7.2 percent. Net lending after allowing for recovery thus represents a growth of only 6.8 percent ($14.0 - 7.2 = 6.8$).

Chart 5.1. Trend of Credit-Deposit Ratio



◆ **Interest Rate Spread**

Though nominal spread increased from 5.8 percent in 1990 to 6.7 percent by September 1999 the real spread fluctuated between a negative of 2 percent and a positive of 5.2 percent due to variations in the inflation rates over the period (Chart 5.2 and 5.3 plus Table 5.3).

Chart 5.2: Trend of Nominal and Real Spread

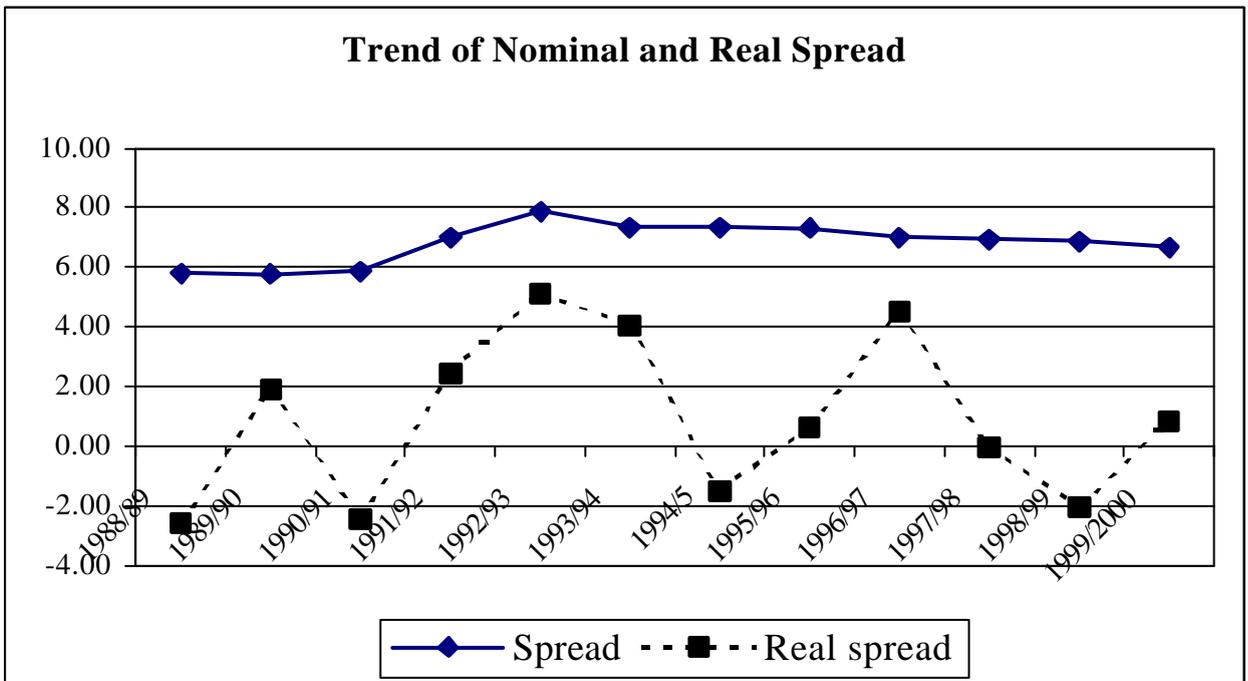
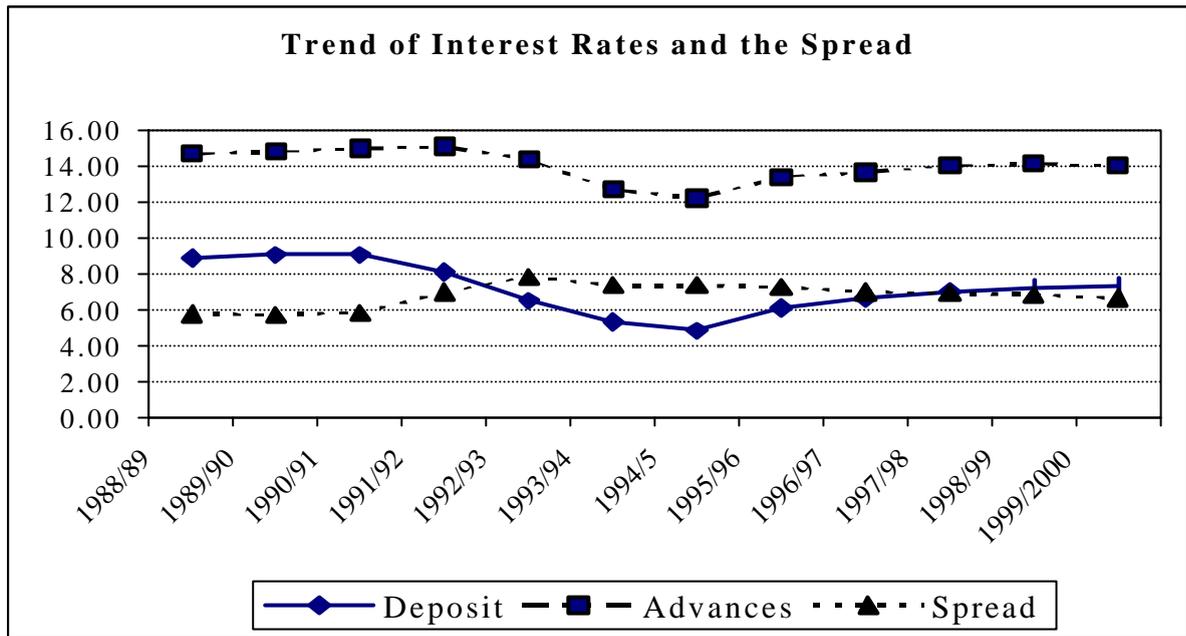


Chart 5.3: Trend of Deposit and Loan Rates



◆ **Growth of Deposit, Advances and Shares of Industrial Credit**

Both deposit and advances of the banking system increased steadily over the reform period: deposit going up from 27.6 percent of GDP in 1990 to 33.7 percent in 1999 and advances from 27 percent of GDP to 30.9 percent over the same period (Chart 5.5). The growth rates of real deposits and advances were down-trending (Chart 5.4) and the growth of urban deposit remained below the rural deposit growth rate (Chart 5.6). However, the share of industrial loans continued to trail 38 percent of total bank loans with downward fluctuations. (Table 5.1).

Chart 5.4 : Growth of Real Deposit and Real Advances

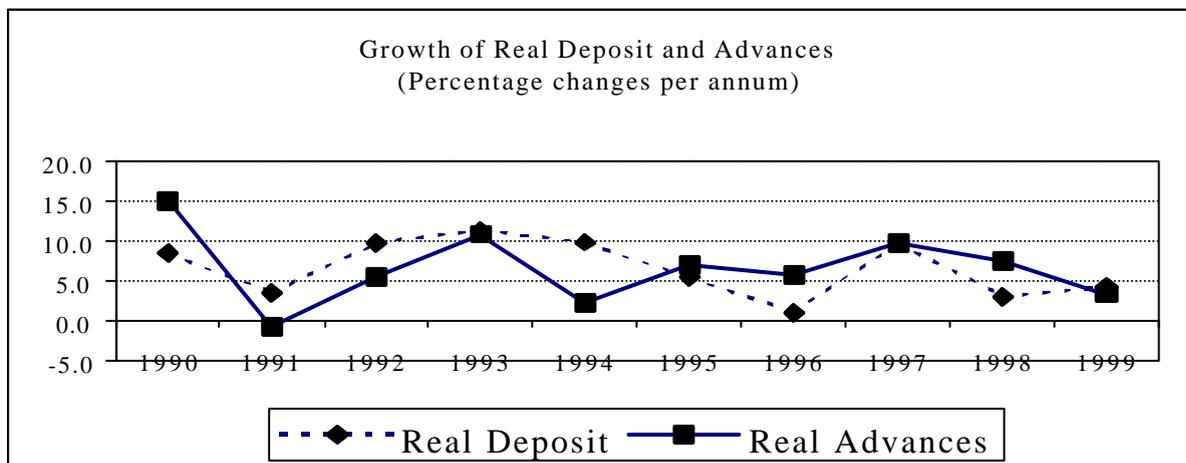


Chart 5.5: Deposit and Advances as % of GDP

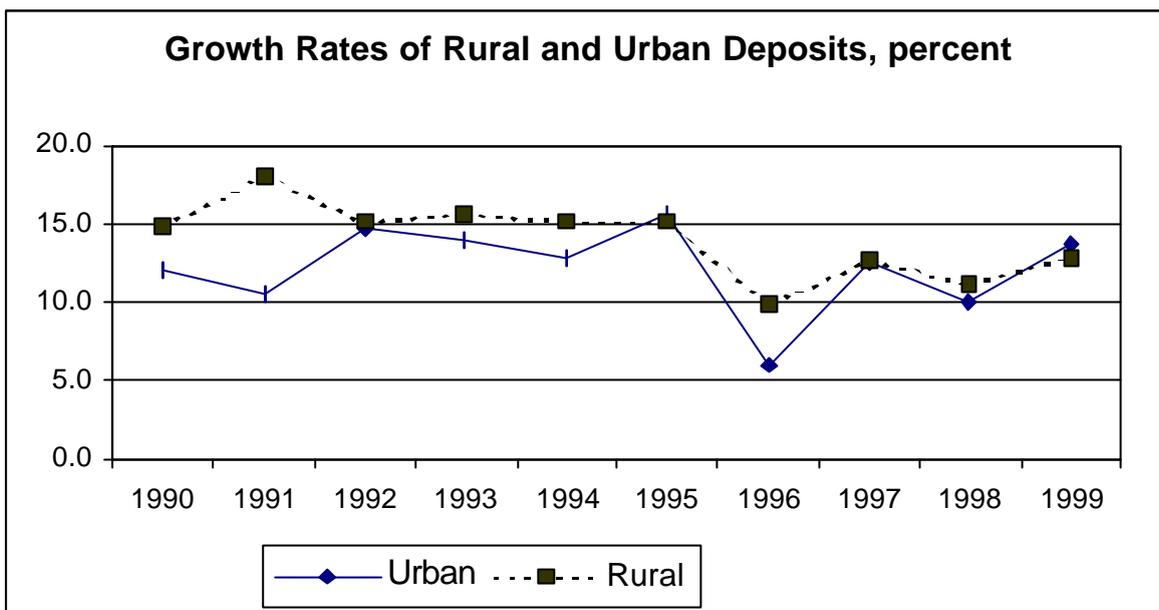
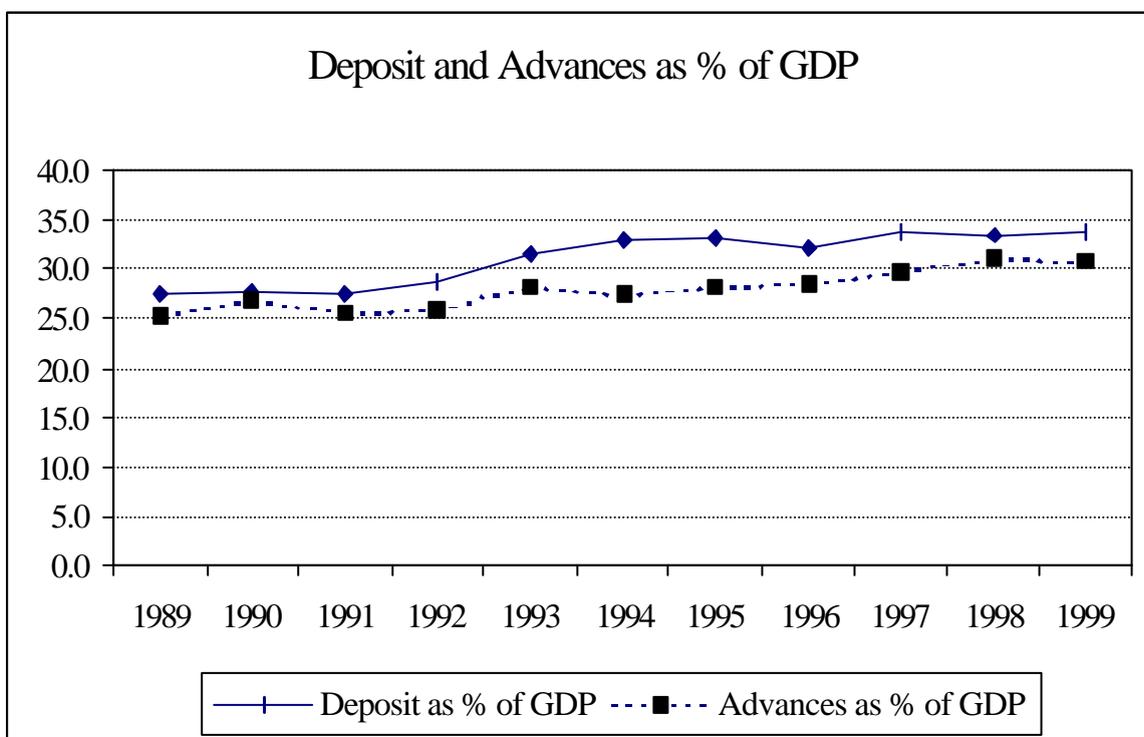


Chart 5.6: Growth of Rural and Urban Deposits



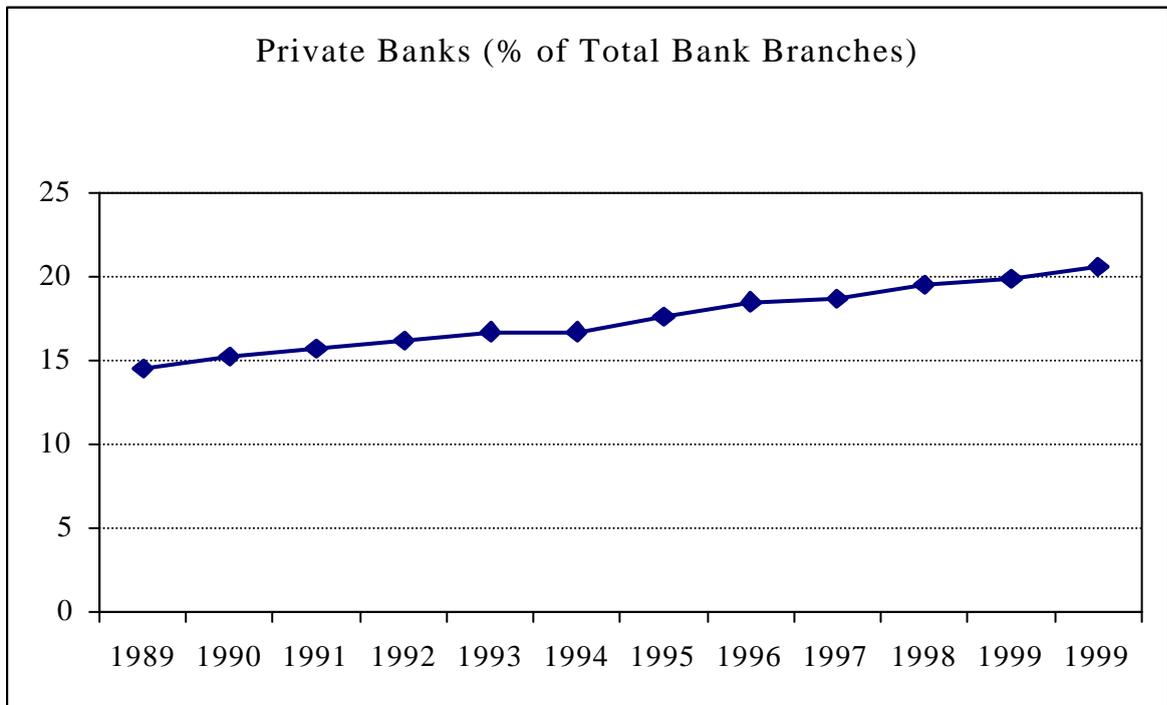
◆ *State of Competition of Banks in Bangladesh*

Three indicators are important for gauging changing positions of different types of banks in Bangladesh. They are: the shares in terms of the percentage of bank branches, deposit and advances. The number of private bank branches increased from 14.8 percent in 1990 to 19.4 percent in 1999 (Chart 5.7 and Table-5.10). Domestic private banks' share in deposit increased marginally from 26.1 percent of the total in 1990 to 27.5. percent in 1999. Over the same period their share in advances went up from 21 percent to 25.9 percent (Table5.6).

◆ *Relative Financial Health of the Banks*

Here again there are three important indicators: adversely classified loans, actual loan loss provision and actual capital as percentage of required capital adequacy norms in force. In terms of all the three measures the status of the NCBs has deteriorated over the decade of reforms. Classified loans of the NCBs increased from 29 percent in 1990 to 46 percent by 1999, actual provision against loan loss declined from 68 percent in 1990 to 36 percent by 1999, and their actual capital base remained more or less the same after some improvement in the three years from 1993/94 through 1996/97. Compared to this, actual loan loss provision of the domestic private banks did not slip as much as those of the NCBs although their actual capital base has improved substantially in the past two years (Tables5. 8, 5.9 and 5.10).

Chart 5.7: Share of Private Bank Branches



5.5 Debate on High -Low Interest Rate After the Liberalization

There are two important questions about interest rates in Bangladesh. What should their level be given the overall context? Whether they are likely to fall or rise after liberalization. The business community have complained that interest rates in Bangladesh especially those for term lending are high and adversely affect their competitive position. They alleged that doing business in Bangladesh has become already difficult owing to weak infrastructure, inadequate and at times adverse institutions and sudden exposure to the world competition through substantial tariff reduction. In this situation, high interest rates are another disadvantage for them. They said they expected lower interest rates would result from efficiency gains of the banks after the liberalization but this did not happen to the extent they anticipated.

On the other hand, the bankers community argued that since administered rates were deliberately kept low in the previous regime of directed lending interest rates are logically likely to go up temporarily when liberalization was introduced, and they would decline in the long run when banking system will be totally free from all controls. They also argued that the NCBs cannot take full advantage of the liberalization and respond fully to the markets forces because of some functions reposed to them. One retired MD of an NCB said categorically that so long government control over the policy and operations of the NCBs remains banks in Bangladesh would not be able to respond to market forces no matter whatever liberalization steps are taken.

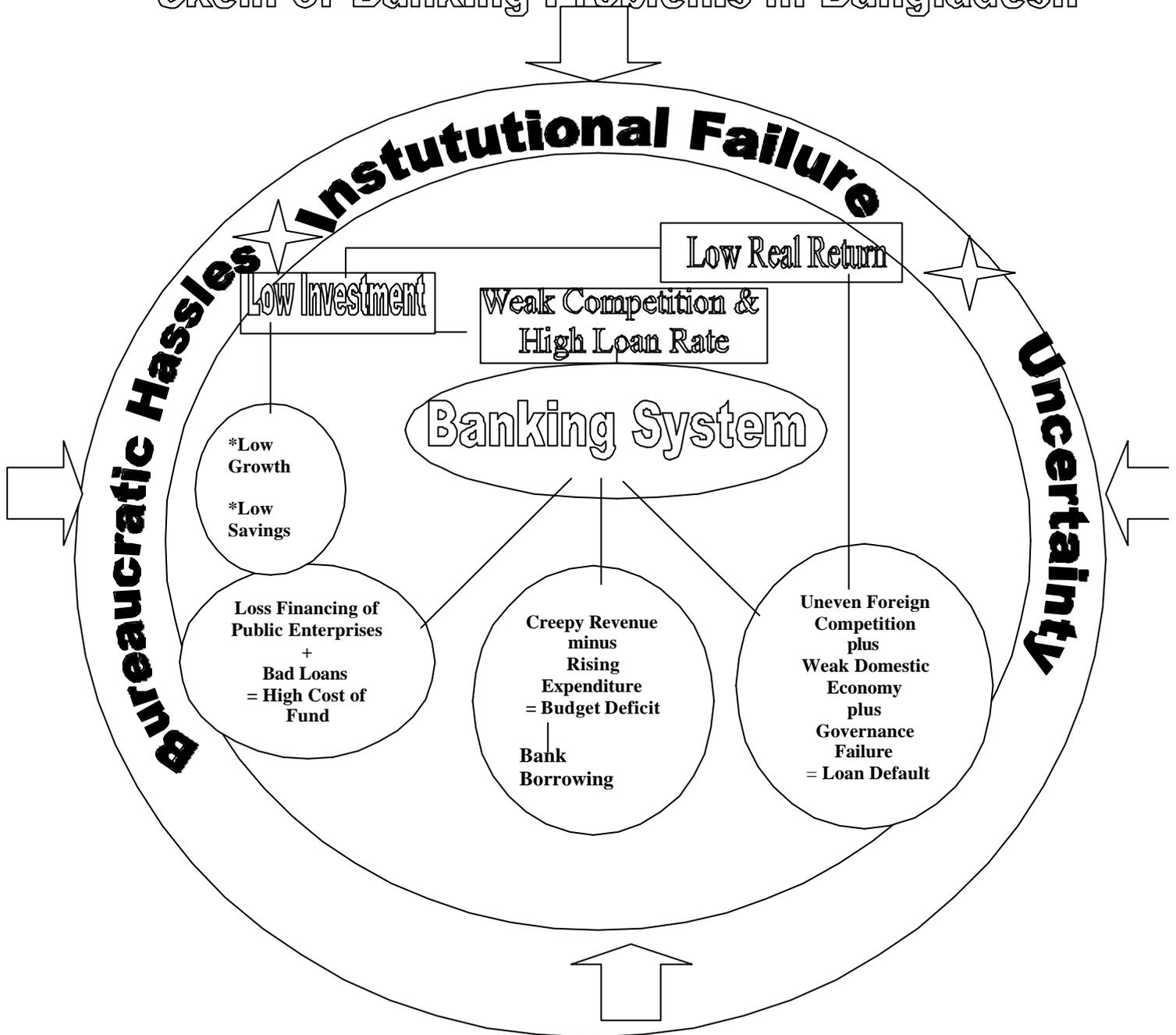
5.6 A Summing Up of Banking Issues in Bangladesh

Based on the observation of different stakeholders one can draw a picture of the state of banking industry in Bangladesh. Schematically shown below (Exhibit 5.1), the picture is that banking business is surrounded by a set of four principal constraints: governance failure, institutional failure, uncertainty and bureaucratic hassles. Given these mesoeconomic constraints, interest rates liberalization policy by itself cannot be expected to ensure competition and efficiency in the financial institutions.

The banking system in Bangladesh is found to have been cordoned by a constellation of a number of corrosive factors. Their combined effect may be displayed on a diagram below.

EXHIBIT 5.1

A Schematic Diagram Showing the Skein of Banking Problems in Bangladesh



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The above presumptions have been supported by the observations of the Banking Reform Committee reproduced in the Box 5.4 below.

Box 5. 4: Essence of the Banking Reform Committee (BRC)

- As at end June 1999, loan loss provision shortfall of the four NCBs stood at Tk. 36 billion while capital shortfall amounted to Tk. 7.9 billion totaling Tk. 43.9 billion.
- About 70 percent of the employees of the 4 NCBs are promotees and only 10 percent are recruited directly. Moreover, roughly one third of their employees are redundant.
- NCBs employees receive only one-tenth of salaries of the private bank employees.
- A total of 1300 branches out of 1800 new branches created in the period 1972-80 incurred losses.
- Employees' unions and some unauthorized officers' welfare associations indulge in anti-bank activities with political support.
- Out of total credit of Tk. 280 billion of the NCBs, the chance of recovery of Tk. 131.7 billion (47%) is quite low.
- The government replenished the eroded capital base of the NCBs in cash and by bond to the tune of Tk. 50.0 billion in the first half of the 1990s. Nonetheless, their shortfall of capital according to international capital adequacy norms worked out to be Tk. 44.0 billion by June 1999.
- Classified loans of the NCBs increased from 32 percent in 1992 to 47 percent in 1999. On the contrary, classified loans of the private and foreign banks declined from 45 percent and 13 percent in 1992 to 29 percent and 4 percent respectively in June 1999.
- The role and accountability of the boards of directors of the NCBs have been pushed into the back because of comprehensive regulation of the government in the overall activities of NCBs. The irony is that while government enforces authority on them, the boards have to shoulder the responsibility of what follows from this. The problems in the banking system in Bangladesh have been compounded by three strategic positions taken by the government as owners, client and controller of the NCBs. The banking system of Bangladesh is in such a precarious state that on the one hand doing something to fix the problem is likely to disrupt the banking system as whole while on the other hand taking hands off the banks runs the risks of erosion of public confidence in the financial sector reforms and the rule of law in the banking system.
- It appears from the experience of the financial sector reform in Bangladesh that steps taken so far were not adequate for solving the existing problems.
- Despite a number of amendments made to the legal framework it still remains fragile and inconsistent .
- Because of methodological and institutional weaknesses existing laws became inactive.
- The opposition of strong vested-interest groups is possibly the largest obstacle .
- Strong political commitment is needed.
- Weak supervision of the central bank is partially responsible for existing problems in the banking sector. Thus the question of central bank's autonomy is important.
- NCBs remain outside the purview of the central bank's supervision.
- Legal authority of the Bangladesh Bank in respect of the exercise of monetary authority is not clear.
- Bangladesh Bank will have to improve its policy analysis capability.
- Loan courts could not make useful contribution to stuck-up loan recovery.
- Despite detection of serious acts of corruption and defalcation of money no punitive measures were taken by any authority, nor is it clear which public agency is entrusted with the task of bringing the criminals to book.

5.7 A Lesson from FSR in Bangladesh

After taking into consideration all the aspects of financial sector reform one can attempt an objective evaluation in a fashion narrated in the box below.

Box-5.5: A lesson from Bangladesh's experience with interest rate liberalization

The outcomes of one decade of financial sector reform especially of the interest rate liberalization policy in Bangladesh tend to support a hypothesis that reform initiatives shambled firstly because of perceptual distortions of the overall reality in the country and secondly because of over-enthusiasm to replicate a policy-menu purported to be underlying hazily understood but widely publicized so-called "East Asian Miracle." The policy prescriptions seem to have suffered from what psychologists call false consensus effect (FCE). By FCE is meant a tendency to perceive one's responses as relatively common while seeing alternative responses as uncommon (Ross et al. 1977)³. FCE may crop up in judgement in either of the two ways: through unintentional perceptual distortions due to inadequate understanding of the phenomena or through a conscious self-preservation motive. The former one seems relevant for the present context of policies in Bangladesh. For several decades Mckinnon and Shaw thesis of financial repression in the developing world had enjoyed good days of popularity as financial policy analysis and design, and the empirical content of the so-called East-Asian Miracle episode had colored the minds of the policymakers. It was quite tempting to copy all of what was good for the East-Asian success story and to graft them in other environments. The policymakers were easily amazed by the stupendous success but often neglected to go into the differences of societal details. The theoretical world of Shaw-Mckinnon and the one in which some East Asian countries performed feature with a superstructure of good governance and appropriate institutions steered meticulously by a growth-focused political leadership. In stark contrast, many of the inputs critically important for creating conditions of competition like those in the miracle countries are absent in Bangladesh. Different stakeholders have supported this proposition. From this consensus an inference can be drawn that relevant meta-policy issues indispensable for the success of reforms were not fully looked into nor did the governments of Bangladesh try sincerely enough to make them present.

³Ross, L., Greene, D., and House, P. (1977): The "false consensus effect": An egocentric bias in social perception and attribution processes. *Journal of Experimental Social Psychology*, 13, 279-301.

Table 5.1 : Growth of Deposit, Advances and Share of Industrial Credit

Year/a	Growth of Real Deposit	Growth of Real Advances	Deposit as % of GDP	Advances as % of GDP	Share of Industrial Credit		
					Term Loans	Working Capital	Industries Total
1989	-	-	27.4	25.3	29.8	8.6	38.5
1990	8.4	14.9	27.6	27.0	27.6	9.7	37.3
1991	3.4	-0.8	27.3	25.6	26.7	8.5	35.2
1992	9.7	5.4	28.9	26.0	26.7	9.2	36.0
1993	11.3	10.8	31.6	28.3	27.5	8.8	36.3
1994	9.8	2.2	32.9	27.5	29.4	10.3	39.7
1995	5.3	6.9	33.3	28.2	27.4	8.5	35.9
1996	1.0	5.7	32.2	28.6	26.1	10.5	36.7
1997	9.7	9.6	33.6	29.8	26.8	11.8	38.6
1998	3.0	7.4	33.6	31.0	29.5	10.6	40.1
1999	4.2	3.3	33.7	30.9	28.4	10.8	39.2

a/ July-June

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.

Table 5.2 : Shares of Private, Public and Foreign Banks in Deposit, Advances and Branches

Year	Deposit			Advances			Share of Bank Branches		
	DPBs	FRBs	PCBs	DPBs	FRBs	PCBs	PRBs	FRBs	PCBs
1989	26.4	7.7	65.9	21.2	6.5	72.3	14.1	0.4	85.5
1990	27.9	7.2	64.9	20.4	6.0	73.6	14.8	0.4	84.8
1991	26.5	5.8	67.7	22.0	4.1	73.8	15.4	0.3	84.3
1992	25.2	5.2	69.6	23.2	4.1	72.7	15.9	0.3	83.8
1993	27.0	4.7	68.3	25.0	4.2	70.7	16.4	0.3	83.3
1994	26.6	4.5	68.9	25.0	4.2	70.8	16.4	0.3	83.3
1995	27.5	4.8	67.7	25.0	4.6	70.4	17.2	0.3	82.4
1996	27.2	5.4	67.5	24.8	5.1	70.1	18.2	0.4	81.5
1997	27.0	6.3	66.7	24.6	4.8	70.6	18.3	0.4	81.3
1998	26.7	6.8	66.5	25.0	5.5	69.5	19.0	0.5	80.5
1999	27.5	7.0	65.5	25.9	5.2	68.9	19.4	0.5	80.1

Note: DPBs = Domestic Private Banks; FRBs = Foreign Banks; PCBs = Public Banks.

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.

Table 5.3 : Interest Rate Structure in Bangladesh

Year	Deposit	Advances	Spread	CPI	Real spread	Bank Rate
1988/89	8.88	14.68	5.80	8.40	-2.60	10.75
1989/90	9.06	14.83	5.77	3.86	1.91	9.75
1990/91	9.11	14.99	5.88	8.31	-2.43	9.75
1991/92	8.11	15.12	7.01	4.56	2.45	8.50
1992/93	6.51	14.39	7.88	2.73	5.15	6.50
1993/94	5.34	12.70	7.36	3.28	4.08	5.50
1994/5	4.86	12.22	7.36	8.87	-1.51	5.50
1995/96	6.11	13.41	7.30	6.65	0.65	6.50
1996/97	6.67	13.69	7.02	2.52	4.50	7.50
1997/98	7.07	14.02	6.95	6.99	-0.04	8.00
1998/99	7.28	14.16	6.88	8.91	-2.03	8.00
1999/2000/a	7.37	14.06	6.69	5.88	0.81	7.00

a/ September 1999.

Source: Bangladesh Bank, Economic trends, various issues.

Table 5.4 : Regional Shares in Bank Loans

Divisions	1990			1999		
	Urban	Rural	Total	Urban	Rural	Total
Dhaka	51.2	7.9	59.1	58.1	6.0	64.1
Chittagong	13.6	3.7	17.3	14.2	2.6	16.9
Sylhet/ a	0.8	1.1	1.9	0.8	0.9	1.7
Rajshahi	3.9	7.7	11.6	3.5	4.9	8.3
Khulna	5.8	2.6	8.4	5.5	1.9	7.4
Barisal/ a	0.7	1.0	1.7	0.7	1.0	1.7
Bangladesh	76.0	24.0	100.0	82.7	17.3	100.0

a/ Bangladesh Bank started compiling data for two newly created two divisions, Barisal and Khulna from 1995. However, data for Barisal and Khulna divisions for 1990 have been computed here from the data of the districts that fell into the jurisdiction of new divisions.

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.

Table 5.5 : Regional Shares of Deposits (percent)

	1990			1999		
	Urban	Rural	Total	Urban	Rural	Total
Dhaka	50.1	4.9	55.0	49.7	6.2	55.9
Chittagong	15.7	5.6	21.2	14.2	6.3	20.6
Sylhet	3.4	2.7	6.1	3.8	2.9	6.6
Rajshahi	4.8	3.9	8.7	4.4	3.8	8.3
Khulna	4.4	2.2	6.6	3.9	2.3	6.2
Barisal	1.3	1.1	2.4	1.2	1.2	2.5
Bangladesh	79.6	20.4	100.0	77.2	22.8	100.0

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.

Table 5.6 : Shares in advance accounts (percent)

	NCBs	PCBs	FCBs	SBs	All Banks
Shares in advances (percent)					
1990	52.8	21.0	5.7	20.4	100.0
1999	50.8	25.9	5.2	18.1	100.0
Shares in deposits (percent)					
1990	62.4	26.1	7.1	4.4	100.0
1999	59.9	27.5	7.0	5.6	100.0

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.

Table 5.7 : Region-wise Credit-Deposit Ratios (percent)

	1990			1998		
	Urban	Rural	Total	Urban	Rural	Total
<i>Dhaka</i>	99.90	157.00	105.03	107.0	88.3	104.9
Chittagong	84.70	64.56	79.42	91.5	38.2	75.0
Sylhet	24.32	39.28	30.94	18.2	28.9	22.8
Rajshahi	79.43	193.92	130.77	71.2	116.5	92.1
Khulna	127.63	115.47	123.62	129.4	77.3	110.0
Barisal	54.56	91.20	71.53	49.9	72.6	61.3
Country Total	93.28	115.26	97.75	98.0	69.6	91.5

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.

Table 5.8 : Adversely Classified Loans (percent of total loans)

Year/a	NCBs	DPBs	FRBs	SBs	All Banks
1990	29	25	21	-	27
1992	32	31	13	-	31
1994	32	45	9	-	35
1996	33	41	5	-	33
1997	35	35	6	66	38
1998	40	33	3	63	39
1999	47	29	4	68	43
1999/b	46	27	4	68	41

a/ End-June position

b/ End-December

Note: NCBs = Nationalized Commercial Banks; DPBs = Domestic Private Banks; FRBs = Foreign Private Banks; SBs = Specialized Banks. Source: Kazmi and Bangladesh Bank.

Table 5.9 : Actual Loan Loss Provision (percent of required provision)

Year	NCBs	DPBs	FRBs	SBs	All Banks
1992	68	64	45	-	60
1994	67	45	58	-	54
1996	50	58	58	-	55
1997	47	53	120	92	58
1998	40	56	137	85	54
1999	36	57	129	84	51
1999/b	36	59	97	89	51

Source: Source: Kazmi and Bangladesh Bank.

Table 5.10 : Actual Capital (percent of capital as required by norms)

Year	NCBs	DPBs	FRBs	SBs	All Banks
1990	67	68	-	-	-
1992	57	89	112	-	69
1994	92	87	135	-	93
1996	70	89	123	77	83
1997	83	99	173	75	92
1998	65	114	188	86	91
1999	66	120	179	72	89

Source: Kazmi and Bangladesh Bank.

Table 5.11 : Number of Bank Branches (end June)

Year	Public Banks			Private Banks		All Banks	Share of Private Banks(%)
	NCBs	SBs	Total	PCBs	FCBs		
1989	3536	1124	4660	771	22	5453	14.1
1990	3560	1146	4706	824	22	5552	14.8
1991	3580	1165	1515	865	18	5628	15.7
1992	3596	1167	4763	902	18	5683	15.9
1993	3603	1169	4772	942	18	5732	16.4
1994	3612	1186	4798	943	18	5759	16.4
1995	3619	1168	4787	1000	19	5806	17.2
1996	3628	1151	4779	1065	23	5867	18.2
1997	3631	1170	4801	1081	25	5907	18.3
1998	3617	1173	4790	1133	29	5952	19.0
1999	3615	1176	4791	1160	32	5983	19.4

Source: Bangladesh Bank - Scheduled Bank Statistics, various issues.