A Study on the Repayment Performance of the Public Financial Institutions in Bangladesh

Problems of Repayment to the DFIs in Bangladesh
Results of a field survey of selected enterprises

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A Study on the Repayment Performance of the Public Financial Institutions in Bangladesh: Undertaken for the National Commission on Money Banking and Credit

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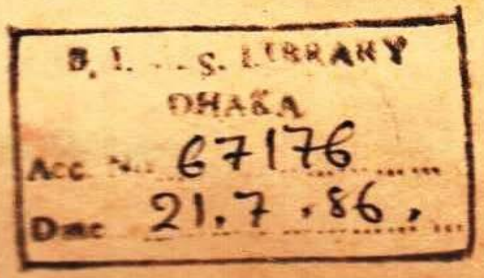

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The repayment crisis

The problems of loan repayment to the Development Finance Institutions (DFI) has commanded and continues to attract much public attention. Baangladesh Institute of Development Studies has already completed two studies reviewing the repayment performance to the DFIs[1] and another study on the role of exchange rate depreciation in effecting repayment[2]. The BIDS studies, whilst initiating enquiry into the problems of repayment have become part of the wider concern of the Government of Bangladesh (GOB) and particular aid donors with extended exposure in the DFIs on the issue of repayment.

It has already been observed that the inordinately poor recovery performance of the DFIs and its deterioration in the last few years has created a crisis for financing private investment in Bangladesh[3]. The DFIs are not in a position to generate resources for reinvestment because of poor recovery against loans. The donors have witheld new commitments on the DFIs unless compliance is reported by GOB on conditions laid down in the Memorandum of Understanding (MOU) on 2 March, 1985, which seeks a dramatic improvement in the performance of the DFIs in recovery of loans as well as major institutional and policy changes relating to the DFIs.

From the perspective of the borrowers, aspirant private entreprenurs are facing a serious constraint in generating investment resources. This is already placing in some jeopardy the ambitious targets set in the

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1. a) Rehman Sobhan and S.A. Mahmood; Repayment of Loans to Specialised Financial Institutes: Issues and Constrains BIDS Research Report, July 1982.

   b) Rehman Sobhan and Ahmad Ahsan, Repayment Performance of the DFI

Third Five Year Plan, for private investment. The Second Plan sanctioned Tk. 3,386 crores for industrial investment in the private sector. In practise however only one third of the sanctioned investment estimated at Tk. 1124 crore was reported to have been realised[1]. This was attributed to 'Low disbursement of loans by the two DFIs as they experienced severe liquidity problems due to problem of recovery of old loans and consequent freezing foreign of foreign loans in the final year of the Plan[2]'. In practise the TFYP reported a contraction in disbursements for industrial investment by the DFIs from Tk. 153 crores in 1980/81 to Tk. 114 crores in 1984/85.

Since under prevailing methods of estimation private investment is derived as a coefficient of DFI disbursement of loans, these estimates of Private Investment may be even lower if we reckon that the share of DFI loans in investment is even higher than is conceived by the plan document[3].

The implications of this deceleration in DFI disbursements leading to a slow down in private industrial investment and the continuing impase in donor commitments to the DFI raise grave doubts about the even more ambitious private industrial investment targets for the TFYP. The plan envisages private investment of Tk. 3200 crore in manufacturing for 1985-90 which comes to an average of Tk. 640 crore a year. With an estimated debt equity ratio of 70:30 envisaged for the SFYP this implies DFI disbursements in the range of Tk. 448 crores a year. This implies a four fold increase from the Tk. 114 crores disbursed by the DFIs in 1984-85. This puts a heavy premium on the need to either resolve the problems of repayment to the DFIs or to review national policy towards private investment.

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1. The Third Five Year Plan, 1985-90 (P. VII-4) Planning Commission

Absence of studies on the private sector

The important and growing role assigned to the private sector since 1975 by successive policymakers in Bangladesh and the consequential problem of large scale default to the DFIs would appear to warrant intensive and regular review and analysis of the performance of the private sector. Whilst there is some reporting on private investment and operations to the Directorate of Industry and to the Bangladesh Bureau of Statistics (BBS) through the Census of Manufacturing Industries (CMI) this information is rarely current and often unreliable. As a result there is considerable uncertainity as to the number of private industries in operation and of estimates of private investment[1]. Information on operational performance is negligible. A limited amount of information is made available to the DFIs by their borrowers. But this information is sporadic and often of questionable value. Our investigations at both BSB and BSRS found no regular reporting by borrowing enterprises which had gone into operation, as to their performance or even their annual balance sheets. Some episodic reporting was available in individual files of borrowers. This information was not collated or analysed so that the DFI management has no systematic or regular record of the operational performance of their borrowers. It would thus not be an exaggeration to say that neither the policymakers nor the DFIs have any information on what is going on in the private sector which can be used as a meaningful input into either the policymaking process or in the formulation of lending strategy. All that is availible on this subject is the Portfolio Audit based on brief visits to some DFI enterprises by M/S Price Waterhouse which classifies borrowers by their capacity to service their loans[2]. But they provide no detailed information or analysis of the state of the enterprises though they make some useful suggestions about the problems facing different borrowers and sectors.

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1. See paper by Dr. W. Abraham, on Industrial Statistics, prepared for Trade and Industrial

The lacuuae in information has become particularly critical since a wealth of information is availible on the performance of public enterprise. Since vital policy decisions are being made supposedly on these performance records of public enterprise a corresponding body of information and analysis remains essential on the performance of the private sector and particularly those who have been borrowing and defaulting from the DFIs.

What information exists by way of studies or documentation on the loan repayment question and other aspects of private sector industries have had to confine themselves to material collected from the DFI's and other relevant public bodies. This information was available at an aggregate level, or after painstaking effort, on single enterprise level. But in all cases the information was based on what the DFI's and other public agencies had received from the borrowers. Operational data collected at the enterprise level, however, remained difficult if not impossible to obtain. There was thus no direct information from entrepreneurs to ascertain their perception of problems associated with repayment of their loans from the DFIs.

The present study based on a survey of private borrowers from the DFI is an effort to overcome these gaps. This emphasis on the private sector owes largely to the fact that the bulk of the lending and hence the default now lies with private borrowers. Moreover as we have observed, unlike the public sector, little is known about their operational performance to contribute to an understanding of their problems. This study thus seeks to review the repayment problem by relating repayment to operational performance based on both qualitative and quantitative

The roots of the crisis

Our study attempts to focus on the problems of repayment from the perspective of the borrowers. The excercise presumes that at the root of poor repayment lies the actual operational performance of the borrowing enterprise. To the extent that an enterprise has chosen its investment project unwisely without consideration of its prospective market regime, state of competition and access to raw materials and credit and the available infrastructure, it may be expected to face difficulties. These problems are likely to be compounded by delays in loan sanction and utilisation, again owing to the poor administration and slow decision making process and poor project management of the borrowers. The problems may be aggravated by unanticipated policy changes or deterioration in the public infrastructure and institutional base for the project. The labour situation, itself a part of the wider socio-political environment, may constrain performance. However at the end much will depend on the managerial experience, skills and resourcefulness of the entrepreneurs to cope with the societal environment which has tended to influence performance.

Object of the study

To this end we hoped to review and evaluate the performance of selected DFI borrowers, relating it to a variety of identified variables and to then relate the operational performance to the repayment record. It was presumed that such a first hand investigation would give us some insights into the repayment crisis. This would enable policymakers to place the problem in relation to DFIs in some perspective to the problems as discerned from the borrowers end. It would then suggest a wider perspective for national policy towards private industrial investment than one which merely focusses on the organisational status and

II. THE SURVEY AND SAMPLE

Coverage

Perhaps the absence of concrete and direct information, from the enterprises has not been without reason as may be indicated by our experience of the difficulties of data collection for this study. This may be seen by reviewing our sample and tracing the point of departure from the original intentions of our study.

Initially our sample target had been set for 120 industries choosen on the basis of a stratified sample. We had tried in the sample to obtain appropriate representation of the following factors:

(i) Sectors

(ii) Sizes of industries

(iii) Location - based on urban and non-urban locations and also on a regional basis

(iv) The two financing DFI's - BSB and BSRS

(v) Repayment performance.

The sample was initially randomly selected after careful stratification of the entire population of DFI sponsored industries whose investment sanction proposal was recorded in our computer.

To ensure maximum possible co-operation from our respondents, we mailed our questionnaires, covered by a strong supporting letter from the National Commission on Money, Banking and Credit asking for the cooperation of the respondents. The legal authority of the Commission to call for information was made explicit.

Problems of data collection

compulsions made for a rather elaborate questionnaire. This to a considerable extent became counter productive as respondents found it difficult to invest the time and attention needed to adequately respond to such a questionnaire.

The questionnaires were mailed directly from the offices of the National Commission to 120 potential respondents. We received altogether 5 replies to our mailed questionnaires which may be a reflection either on the impact of the Commission on the business community and/or the efficacy of indirect approachs to generating information. Of the 5 responses we could effectively use only 3, as the others were too incompetently answered for us to use them.

Given the poor and tardy response to the questionnaires we decided to take our own initiative in establishing direct contact with borrowers to whom the questionnaire had been mailed. To this end three survey teams were put into the field. Given the time involved in such direct contacts, a reduced sample of 50 industries in Dhaka, 20 industries in Chittagong and 10 industries in Khulna were choosen.

Of the direct contacts finally made by our field teams, useable responses were obtained, after much effort, from 34 industries in Dhaka and 5 industries in Khulna. Chittagong failed entirely to respond because, as we ascertained from interviewees in our sample, there was a collective decision by the industrialists not to respond to the questionnaire circulated on behalf of the Commission. However, negligence, and lack of persistence from our field staff there may have played its part. In the case of Dhaka and Khulna the 39 responses collected were the fruit of several visits of our field researchers, several hours of discussion, and review of availible records of the entreprises.

Whilst there have been important exceptions, the general level of

information about their affairs. Both responses tend to derive from prolonged experience at keeping the revenue authorities and creditors either uninformed or misinformed as to the real state of affairs in the enterprises.

Our final sample thus came to 42 industries: 34 from Dhaka, 5 from Khulna, and 3 from mail responses. But the overall responses to quantitative questions about operational performance even from this small sample has been exceedingly restrained. Thus on the basis of actual responses to questions asked the sample size has been even lower. Thus only 15 industries gave information on both gross profits earned and the extent of capacity utilization. On the higher level, sample sizes of industries responding to related pairs of quantitative questions rose to only 22 or 23 industries. On no single question did the sample generate responses from more than 29 industries.

Thus it is clear that where we have sought quantitative operational answers to repayment performance any conclusion will have to be only suggestive for further research. However, it should also be noted that our conclusions on the quantitative relationships between repayment and operational variables were derived only after the results were tested for statistical reliability.

Lastly, with regard to the responses from our sample industries it is important to note that we received practically no response to questions relating to information on repayment by the sample industries. Excepting for 2 industries, all other respondents left this part unfilled. While such behaviour does not directly imply a poor repayment performance, carelessness or a reluctance to discuss this issue may be inferred. In many cases, however, our investigators directly experienced attitudes ranging from cavalier non-challance to nervousness from their respondents [illegible] in many cases failed to find any

III. THE RESULTS OF THE SURVEY

A. Structure of the analysis

The structure of this study generally follows that of our questionnaire. We have tried to follow industries from the stage of setting up or implementation of projects (Section B), where problems with project identification, financing, the escalation of costs, and machinery procurement problems are discussed. The operational stage (Section C) is discussed in three parts. In the first part (Section C) we try to associate repayment performance with information on profits and capacity utilization. In the second part (Section D) we discuss the responses of entrepreneurs to their problems associated with raw materials, infrastructure, marketing, working capital, DFI's and labour and management. The last part (Section E) reports on various other aspects of the operational performance of these units.

In the next section (Part IV) looks at the perception of the entrepreneurs on (i) the repayment problems in general (ii) economic policy of the government with respect to repayment performance of their industries and (iii) their efforts to improve repayment performance. Part V summarises the paper suggests policy conclusions derived from this study as well as earlier studies undertaken so far[1].

Repayment and performance

Throughout the paper we classify the respondent industries by their repayment performance so that we may look at the responses against their repayment behaviour. This repayment behaviour is measured as Cash payment in the last year, generally 1984-85, as a percentage of total recoverable amount (TRA)[2]. Whilst the cash payment is only for the last year, this

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1. Op.cit. Sobhan and Ahsan, Working Papers No. 1 & 2.

2. $RP = \frac{CP}{TRA} \times 100$ where

RP = Repayment performance in percentage

percentage does capture the whole time series of repayment performance through its affect on the TRA. If repayment in earlier year had been good then the TRA, which included cumulative overdues over the years, would be lower and consequently the ratio of CP/TRA = RP would be correspondingly higher. On the other hand if repayment in earlier years had been poor then resulting overdues would have resulted in a large TRA and the RP would be correspondingly lower given the same levels of CP.

We have grouped our sample industries in 6 categories of RP ranging from very poor repayers: 0% to 5%, 5% to 10% and 10% to 25%, to those whose RP is between 25% and 50%; and lastly to relatively better repayers, whose RP's are between 50% and 80%,and higher than 80%. Throughout this paper, unless mentioned otherwise, when we refer to poor repayers we will refer to those projects whose RP is less than 25%, while better or good repayers will be projects whose RP exceeds 50%.

B. The Setting Up of A Project

(i) Project identification

The implementation of a project starts with the identification of the project by the entrepreneur. By identification we mean choosing the sector, size of the industry alongwith the technology which would be used in the industry. Choice of the location may also have been a variable here. It may be supposed that to a significant extent the future success or failure of a project depends on correct choices at this stage.

Table 1.1 reports our results. The 42 industries in our sample, ranked by repayment performance, are shown in the first column. The next column shows the numbers which responded to our question. We see that 20 industries (47.6%) responded to questions about problems with project

Lack of information on market (11 projects, or 55% of those responding) and lack of access to expert advice (10 projects, 50%) can seen to be the most serious problems with regard to project identification. Seven projects, (35%) reported that their inexperience with industrial projects was a problem. Misleading expert advice, meaning that they were misled by experts, were cited by another 5 projects. It may be noted that the problems identified by projects were not exclusive of one another.

If we associate these problems with repayment performance we note that while 4 out of the 15 poor repayers (RP less than 25%) cited "no background in industry as a problem, 2 of the 4 better repayers (RP more than 50%) also cited this problem. Similarly while 7 projects out of 15, or 46.7% of poor repayers, referred to lack of market data, 3 out of 4 better repayers also referred to this. Similarly in the case of lack of access to expert advice, a third of the poor repayers referred to this while again 3 out of the 4 good repayers also referred to this problem. In the last case however all the 5 industries which cited misleading expert advice as a problem were poor repayers. Thus it seems that while we could not find any clear association with RP and lack of background in industry, lack of information on markets, lack of expert advice, misleading expert advice all appear to be clearly related to bad repayment performance. On the other hand in general, lack of market information and expert guidance seems to have been a problems with industries in the project identification stage.

(ii) Project Financing

If we look at the problems of project financing then delay in loan processing at the disbursement stage of the loan (23 out of 33 industries responding - or 69.6%) appeared to be the major problem [Table 1.2]. Over

of collateral was a problem for only 2 industries. For poor repayers, delay in loan disbursement (15 units) loan processing (11 units) and inadequate equity (6 units) were problems in that order. But this was also the case with good repayers so that no clear conclusion may be drawn from the evidence. Indeed, relatively speaking, a lack of adequate equity seems to have been a greater problem with poor repayers than tardy loan processing in the DFIs.

As may be expected, earnings from trade were given as the source of entrepreneurial finance for industry for the majority of industries. 16 out of 26 units (61.5%) indicated trade as a source of investment (Table 3). Liquidation of property, particularly land (8 units, 30.7%), was the next major source of finance. Liquidation of houses was cited by 5 industries. Borrowing against homestead or other property was also a source of equity for 5 (19.2%) industries.

Liquidation of other assets and loans against personal guarantees were source for 3 industries. But significantly only 3 industries (11.5%) from our sample said that profits from previous industries were a source of finance. What this may imply is that (i) financing of new industries rarely comes from industrial profits. Thus "ploughing back" of investment profits from industry into new industries has not usually taken place at least within our sample. Whether this has wider connotations for its implications for expanded reproduction through an industrial entrepreneurial class branching out into new industries with profits derived from their old industries deserves fuller study from a more comprehensive survey of investment behavior.

Trading profits or liquidation of property thus emerges as the fi-

from a more tenuous financial base. However it is noteworthy that all 3 industries which stated previous industrial profits as a source were also poor repayers.

(iii) Escalation of costs

In terms of understanding repayment difficulties the escalation of costs during project implementation may be important. Table 1.4 reports on asset wise cost escalation. Altogether 25 industries (59.5% of the sample) reported cost escalation. In general escalation in costs of construction materials (16 units, 66.7%) and imported machinery (14 units, 58.3%) were most frequently cited as factors where cost escalation took place. Twelve industries, half of those responding, also cited depreciation in the value of the Taka as a source of cost escalation.

If we analyse repayment performance in relation to cost escalation in the price of imported machinery (10 poorly repaying units) this seems to have been a more important cause cited by poor repayers than cost escalation in construction materials (7 units with poor RP). For the better repayers construction material cost escalation was most important (5 units) followed by a depreciation (4 units) and imported Machinery (3 units) as sources for cost escalation. The fact that imported machinery was relatively the most importance source of cost escalation for poor repayers may indicate that the bad repayers were less efficient in negotiating with foreign equippment suppliers in protecting themselves against cost escalation.

If we look at how the extent of cost escalation as a percentage of

escalation between 25% and 50%. However all 3 of the good repayers and if we include the lone unit whose RP was between 25% and 50%, then all 4 better repaying units reported escalation of costs between 25% and 50%. In other words better repayers had also suffered from high cost escalation. Thus while we do see that only poor repayers suffered from very high cost escalation, the problem has also affected good repayers.

As many as 32 units responded to questions about causes of cost escalation. In a mutually exclusive listing of causes, most industries, 12 units or 38% of the sample, cited time overrun in loan processing as the cause. Time overrun in machinery installation was cited as the next important factor: 10 industries or 31.3% cited this as the most important cause. Time overrun in construction (8 units) and delay in machinery arrival (6 units) were also referred to. One unit, a good repayer, cited unilateral mark up by the seller of equipment as a cause while another unit said change in specification of equipment was the main cause for cost escalation. This last unit had a poor repayment performance. Poor repayers cited time overrun in machinery installation (7 industries) and in loan processing (7 units) as the principal causes. If we allow for the fact that entrepreneurs' reference to loan processing delays carries a subjective preference in shifting the responsibility, then overrun in machinery installation - possibly the result of unpreparedness and mismanagement - may have been the more important factor[1]. Time overrun in constructing the plant was also cited as an important cause by many poor repayers (6 units). In the case of better repayers 3 units stated that delay in the arrival of machinery after placing the order was the cause in addition to another 3 units which cited delay in loan processing.

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1. This is not to say that delay in loan processing is not a factor. Loan

(iv) Procurement of equipment

An important aspect of the implementation stage of industrial projects is the procurement of machinery. Disputes over choices about source, origin and type of machinery between the entrepreneurs, DFI's and agents of suppliers often create delays. In the such case wrong choices may weaken the operational basis of the project considerably. Here uneconomic and inefficient choice of machinery may also undermine the viability of a project.

However, no hypothesis relating repayment performance and source of machinery could be validated from our findings. In general a clear majority of 34 projects had imported at least part of their machineries from the Developed countries in the West Japan and other Far Eastern Countries followed closely as the source of machinery for 26 projects (these numbers are not exclusive)[1]. India was the source of machineries, though not exclusively, for 6 projects.

There is thus no clear association of the source of supply with the repayment performance. However if we consider the responses against our entire sample of 42 projects, then we see that there is a slight tendency for better paying projects to have imported more of their equipment from Western sources- 5 projects out of 6 or 83.3% of our sample, while for poorly repaying projects 21 projects out of 31 in our sample, i.e. 67.7%, imported machinery from developed countries. On the other side poorly repaying projects have procured relatively more of their machinery from the Far East (58%) than better repaying projects (50%). It can be observed that in the case of 6 projects which imported some part of the machinery from India, 5 were poor repayers. Thus it may be indicated, through not conclusively established that better repayers appear to have shown a

greater tendency to import from the Western developed countries, while the poor repayers showed a relatively stronger preference for obtaining machineries from the Far East and India. However, all groups of repayers showed that the Western developed countries were their principal source machinery.

When our respondents where asked about the availability of alternative source and types of machineries, 32 industries of the 35 which responded (88.6%) said that no such alternatives were available (Table 1.8). Only 3 industries said that cheaper and/or more capital saving technology was available. Better productivity was cited as the reason by all these 3 units as their reason for prefering more expensive and/or capital intensive technology when alternatives were available (Table 1.8A). Quality control (by 2 units) and the need to avoid labour trouble (by 1 unit) were also cited. Only one industry (poor repayer) said that local supply was available when he instead opted for importing machinery.

(v) Modes of procurement of equipment

The procedure followed in selecting machinery for a project is one area which entrepreneurs feel to be a problem. The vested interests of he officials involved, of the entrepreneur himself or the persuasiveness of local agents of suppliers together creates a dispute where often the outcome, the order of the machinery, appears to be economically irrational. Understandably most of industries, 25 units, (Table 1.9) said that consultation with the loan agency, BSB or BSRS, was made when machinery was selected. Discussion with agents of suppliers and direct correspondence with the suppliers themselves were done by equal numbers of industries (11 units). Aid tying, where their machinery was tied to the loan source took place in the case of 3 firms. Consultancy firms were also cited by [illegible] of advice when selecting machinery.

"direct correspondence with repayers", 73% were poor repayers. Where import of machinery was tied to loans, 3 out of the 4 units, (75%) were poor repayers. In the case of consultation with BSB and BSRS, the poor repaying units had a relatively low share 72% (18 units out of 25 units). Thus it appear that for poor repayers, relatively speaking, discussion with local agents of suppliers was more important in procuring machinery than direct correspondence with suppliers, or consultation with the loan agency. If we assume that local agents of supplier had their own interests in mind and that reliance on local agents reflected the borrowers inadequacy in negotiating machinery procurement, we may understand why these projects would later face repayment problems.

C. Operational Performance

1. Quantitative Measures: Profit Rates and Repayment

Repayment performance may be supposed to be most directly related to profitability, among all variables. In our questionaire we asked for information about both gross profits [generally speaking, revenues left after operational costs had been met] and net profits [revenues left after operational and overhead costs including debt servicing had been met]. These profit figures were sought on a yearly basis to cover several years. As repayments by firms are supposed to be made out of gross profits, and because responses about net profits were less satisfactory, we have taken gross profits as the indicator of repayment ability. Furthermore as gross profit in absolute terms were not a very meaningful efficiency criterion, we have taken average annual gross profits as a percentage of average

If we look at Table 2.1 to see the distribution of the 23 units in this sample, we see that 17 units (73.9%) showed positive gross profits. Of these 9 units (39% of the total) had high profit rates (GPR > 20%). The profits of another 4 units (17%) had profit rates between 5% and 20%. Four units showed positive GPR but earned less than 5%. Thus in general most of our units have been profitable, and some quite highly so.

In contrast 6 units have reported losses and only 1 showed losses to be more that 20%. The losses of the other 5 units were less than 20% of their sales.

On the whole the average GPR for the entire sample was 19.8%. However as Table 2.1 shows there is no clear relationship between GPR and RP. Of the 17 industries which showed positive profits/sales (GPR more than 0) 13 were poor repayers [RP less than 25%]. That is, many profitable industries showed poor repayments. This may be seen in the case of the 3 most profitable industries (GPR more than 30%). Two such industries repaid less than 10% of the recoverable amount. Similarly of 6 industries whose GPR ranged between 20% and 30%, 4 were poor repayers. Thus two thirds of the 9 highly profitable industries were poor repayers. Again all 4 industries who showed a positive GPR of between 5% and 20% were poor repayers. On the other side, of the 6 industries in our sample who showed negative GPR 2 industries were good repayers. Thus where most of the highly profitable industries have been poor repayers and some loss making industries have repaid well there seems to be no evidence that a higher profit margin has contributed to better repayment. This is also seen from the very low correlation coefficient R = 0.0036 (statistically insignificant) between RPP and GPR.

better record in repaying their dues. This is seen from the following correlation co-efficient $r_{AGP\ RPP} = 0.25^{1}$ (P=0.8)

This is plausible in the sense that ultimately firms have to repay from the amounts of gross profits they make. Thus even if firms were making high profits as a percentage of sales, the absolute level may have been insufficient to repay their dues. On the other hand firms having a low profit- sales ratio may have had a high volume of profits enabling them to repay their dues.

Thus appears that one of the reasons that poor repayment has occurred is because the volume of profits earned by particular enterprises have not been high enough. To check this hypotheses we compared the gross profits of individual firms for each year for which they provided information with their total repayment dues or the total recoverable amount (TRA) consisting of current dues and overdues for that year. While comparable data was found for only 13 industries in our sample, the results seemed to bear out the hypotheses. Of these 12 firms, 8 firms showed that their RP was less than 10% and all these 8 firms showed that their volume of gross profits was less than their total repayment dues for all the years they supplied information. There were 2 firms which showed that gross profits was more than TRA in some years and less than the TRA for other years. The RP of these firms were correspondingly better: 19% and 20.2% respectively. On the other hand 2 firms showed that gross profits exceeded TRA for all years and their repayment was consistently better (RP = 44%,

repayers seemed to be faced with the prospect of turning their gross profits into losses if they serviced their debts.

Thus the volume of gross profits emerges as a determinant of the repayment performance. The volume of gross profits would depend on both the profits to sales ratio and also the volume of sales. From our results it appears that the volume of sales has been more important in contributing to a high volume of profits than the profit to sales ratio:

$r_{\text{Average profits, Average sales}} = 0.63$ (P=0.00)

$r_{\text{average profits, average profit sales ratio}} = 0.29$ (P=0.08)

Thus how high the volume of gross profits that a firm will earn appears to be depend on how large its sales are. The importance of marketing the product in determing absolute gross profits emerges here.

We tried in this part to see how the repayment performance of industries was associated with the two major operational variables: (i) financial gross profit rates and the level of gross profits (ii) a physical variable, capacity utilization (ACPU, LYCPU). We observed no relationship between gross profit rate and repayment performance. However we saw that repayment performance was positively associated with absolute volume of profits. It appeared that a low volume of profits was linked to poor repayment. On the other hand we saw that the volume of profits itself was related to the level of sales. The volume of sales that is the ability to produce the product and market it becomes important for good repayment performance.

(ii) Capacity Utilization and Repayment

There is significant evidence that high capacity utilisation is asso-

is positively related with both these variables. However before we relate ACPU and RP we may review capacity utilisation of the 26 industries in this sample. More than one third, 10 industries (38.5%), show that their ACPU was more than 50%. Of these only 2 industries (7.7%) utilized more than 80% of their installed capacity. Another 10 industries (again 38.5%) showed very poor capacity utilization: less than 25%. Altogether 16 industries (61.1%) showed ACPU to be less than 50%. Thus in general our sample industries show poor capacity utilization, where for the entire sample, the ACPU is 37.1%. This pattern is consistent with the overall situation for industries in Bangladesh.

As we have mentioned, however, RP improves with CPU. This is seen in the coefficient correlation

RP R = 0.41
and (P = 0.01)
ACPU

which is positive and statistically significant (at nearly 99% confidence level) (Table 2.2). If we look at the table, among the 19 poor repayers, 13 units (68.4%) had an ACPU of less than 50%, and of these 9 units (47.4%) had an ACPU of less than 25%. On the other hand of the 3 good repayers, 2 units had an ACPU of more than 50%. Both these units repaid more than 80% of their TRA's.

The positive association between repayment and capacity utilization is even stronger when we consider capacity utilization in the last year. Thus in case of LYCPU (Table 2.3), the correlation coefficient is positive (R = 0.52 and statistically significant at the 99% probability level). It may be seen from the Table that of the 17 poor repayers, 10 units (58.8%) had a LYCPU of less than 50% and of these 7 units (41.2%) had a capacity utilization of less than 25% in the last year. Thus most of the poorly repaying units had poor capacity utilization in the last year. On the

However, if we consider capacity utilization as an indicator of an effort to operate an industry seriously and well, then we have found significant evidence that successful physical operation of a plant tends to be associated with better repayment performance.

It is interesting to note that no significant relationship could be established between profit rates, and capacity utilization (Table 2.3 and 2.4) R : 0.04
GPR
ACPU (P=0.43)

R = -0.06
GPR
LYCPU(P=0.41)

What this may mean is that higher production levels and capacity utilization has not implied an improved financial performance in the sense of marketing products at profitable prices. On the other hand better capacity utilization may have implied a greater commitment to industry and/or to an effort to repay loans, if necessary, with funds from sources which may have been external to the project.

Another interesting aspect of operational performance is that there is a weak but positive association between the relative time spent by the project on the application/processing stage with gross profit rates and capacity utilization. The correlation figures are presented below:

APS = Time spent on the application processing as a percentage of total time spent to implement project =

$$= \frac{\text{Time spent between loan Application and LC Opening}}{\text{Total time for implementation}} \times 100$$

Average APS for the entire sample is 53.2%

R = 0.25 R = 0.31 R = 0.18
APS (P=0.18) APS (P=0.11) with (P=0.23)

fit rate and better capacity utilization. On the basis of this evidence it is possible to observe that better project appraisal and planning may affect the operational performance of projects positively. It may be noted that there is no evidence of any direct relationship between APS and repayment performance (R=0.06).

D. Operational Performance: Entrepreneur's Perception of Problems.

We asked our entrepreneurs to indicate, within 6 broad groups their problems in operating their industries. The groups so indicated were raw materials, infrastructure, marketing, working capitals, role of the DFI's and labour and management.

Not surprisingly most industries, 37 units (88.1% of our sample) referred to problems with DFIs (Table 3.1 to Table 3.6). If we leave this aside then problems with raw materials. (34 units, 80.9%), infrastructure (33 units, 78.5%), marketing (33 units, 78.6%), working capital (31 units, 73.8%) and labour and management (28 units, 66.6%) were other operational problems cited in order of the number of units referring to these problems.

We have tried to identify among these problems those which were more important to poor repayers. Considering the broad groups and many sub-groups of causes we have tried to identify issues of importance in the following manner: find the percentage of poor repayers in each group and then to compare them. For instance, if any one problem was stated by 5 units of which 3 were poor repayers, and another problem was also cited by 5 units of which 2 were bad repayers then we have considered the first problem to be relatively more important for poor repayers.

Again of we leave aside the problems with DFI's where subjectiveness in perception may to some extent be assumed then problems with marketing and labour and management emerge as the more important problems facing most poor repayers.

(i) Problems with raw materials

Let us now review operational problem within each group. In the case of raw materials (Table 3.1) high cost of raw materials were cited by most industries (19 units or 56% of those referring to raw material problem). Lack of spare parts was also noted by half of the projects in this group.

For poor repayers however, inadequate import licence was cited as the relatively greater problem as all the 6 units who cited this were poor repayers.

(ii) Infrastructure problems

In the case of infrastructural problems (Table 3.2) erratic power supply was the problem facing most industries (25 units, 75.8% of sub-group sample). For poor repayers lack of transport (all 3 units were poor repayers) was also a problem.

(iii) Marketing problems

In the case of marketing (Table 3.3) high costs of production (7 units), competition from imports (6 units) and excess capacity (5 units) were all cited by an almost equal number of units. For poor repayers however, competition from imports (all 6 units) and excess capacity (4 units out of 5) were also deemed important.

(iv) Problems with working capital

In the case of problems in obtaining working capital (Table 3.4)

(v) Terms of borrowing

High interest on term loans was a problem facing most industries (24 units, 65% of this group) with respect to the DFIs (Table 3.5). Problems in rescheduling loans were also cited (17 units). For the relatively poor repayers, lack of followup by DFI's was an important problem (82% of units citing this were poor repayers).

(vi) Labour and management problems

In the last group of operational problems, labour and management, (Table 3.6) unavailability of skilled labour was a problem with most industries (10 units, 35.7% of the total). Labour disputes (7 units 25%) and poor management (7 units, 25%) were also cited. Relatively, poor management was a greater poroblem for poor repayers (86% of those citing this were poor repayers).

(vi) Perceptions of official policy

Our respondent industries also gave their comments on government policies in relation to their operational problems. Inadequate liscencing, inadequate financing, insufficient protection and high taxes on the import of inputs and raw materials were identified by respondents. Altogether 38 units gave their comments and the findings are presented in Table 3.7. Most of the industries in the sample, 24 units (63.2%), said that inadequate financing was the problem, while a noteworthy 44.7% (17 units) said that government policy did not provide adequate protection from imports. Some 13 units (34.2%) said that high taxes on the imports of inputs, in

While inadequate financing was a problem in general, poor repayers seemed to object more to it than better repayers. While 62% of the 29 poor repayers referred to this, the corresponding proportion among better repayers was 33.3% (2 of the 3 units). Higher taxes on imports of inputs was also causing more problems to poor repayers (37.9%) than to the better repayers (33.3%). The proportion of better repayers referring to insufficient protection against imports in general (66.7%) and inadequate import liscenses (50%) was greater than the proportion of poor repayers (41.4% and 27.6% respectively).

E. Operational Problems: Various Aspects

Aside from the direct quantitative relationship between operational variables and the perception of entrepreneurs about the problems they faced we also tried to collect information related to various aspects of operational performance. Information on incidence and causes of lay off, problems with the import of spare parts, labour organisations and problems of management were requested and to some extent obtained. These findings are presented below.

(i) Layoffs

More than $\frac{1}{3}$rd of the industries in our sample - i.e. 16 units out of 42 (38%) - said that their plants had been laid off at least once. There is no evidence however that bad repayers had been more affected by lay offs then better repayers. Out of 25 units which repaid less than 10% of the TRA, 11 units (44%) reported lay offs while among the 5 good repayers as many as 3 units (50%) said that their plant had been laid off at least once (Table 4.1).

repayers cited this cause. Lack of raw materials (6 poor repaying units) and power failure (4 poor repaying units) were also causes.

(ii) Import constraints

More than half , or 10 units out of 18 units (55.6%) which responded of our sample said they imported spare parts under the wage earner's scheme (Table 4.3), while 8 units said they did not do so. Again there was no trend manifested in relation to repayment performance.

Of the 19 units which responded to "reasons for shortage of spare parts", most (11 units, 57.9%) said financial constraints were the reason (Table 4.4). Another 6 units (31.6%) said that inadequate import liscence was the cause. One unit, a poor repayer, said that poor management was responsible. For poor repayers also this order of importance for import problems seems to hold.

(iii) Labour problems

18 units (46.2%) out of the 39 units which responded to this question (Table 4.5) have registered Trade Unions. Formally elected Collective Bargaining Agents (CBA) were also present in 11 units (28.2%). Of the responding units, 6 units (15.3%) faced labour problems while 2 units (5%) reported labour violence. It is interesting to note that more poor repayers/ relative to better repayers reportered having CBAs.Four units out of the 6 units reporting labour problems were poor repayers. From this evidence one may be tempted to deduce that the presence of a CBA in an enterprise tends to be associated with labour problems and this in turn leads to poor repayment

5 good repayers reported trade unions, only 1 unit had a CBA, and again only 1 unit reported labour problems. Again this would indicate that absence of a CBA is conducive to better repayment performance. The significance of this proposition is of sufficient importance to warrant an independent study based on a much wider coverage which can attempt to trace the relationship if any between trade unions, CBAs, labour problems, production and surplus generation in enterprises both public and private.

Management Problems

We saw earlier (Section V-B) that proportionately more poorer repaying firms cited poor management as one of their operational problems. Since this is a self-assessment presumably more firms face management problems than are willing to so admit. Whilst an analysis of a firms management capacity merits independent and more expert review we sought to apply a rather cruder measure on the basis of availible evidence. This was done by estimating the management labour ratio for the different repayment groups. The presumption was that a high management labour ratio may have contributed to improved performance and hence repayment. Needless to say such a ratio is a most inadequate indicator of management capabilities and could indeed imply poor management capability. In Table 4.6, we see that in general, the average numbers of directors and managing staff per unit seems to be very high. On average for the 35 units which supplied the information, there were 4.3 directors per unit, 41 staff members per unit, whilst the average number of labour per unit came to 170.7. Thus on average the management to labour ratio came to 1:4.17, which means there was one member of the management for every 4 labourers. Interestingly the group of the best repayers (3 units whose repayment was > 80%) and the group of 15 of the worst units repayers (RP < 5%) both had a higher management to labour ratio (1:3 and 1:1.82) than the average. The other

number of management staff is no compensation for good quality management and may under some circumstances impose high establishment cost on an enterprise which eats into its repayment capacity.

Balancing and modernisation and extension

As a final interesting aspect of the operational aspects of industries we also tried to collect information regarding Balancing, Modernisation, Replacement and Extension (BMRE) investment of our sample industries. Investments on BMRE would indicate that in general the operational performance of industries have been successful enough to encourage and provide for further investment in the plant for expansion and diversification. Normally this would mean that better repayers would invest in BMRE. On the other hand the owners of poorly performing enterprises may also invest in BMRE given the need to modernise or replace their machineries in order to improve operational performance. In either case investment on BMRE would signify a committment to the operational performance of the industry by the entrepreneur.

Of the 34 industries which responded to our question, 13 industries, or more than one third (38.2%), reported investing for BMRE. Of these industries 9 units were poor repayers, which is 36% of the sample of poor industries (25 units) which responded to our question. On the other hand of the 5 good repayers 2 units (40%) reported investing for BMRE. Thus it appears that the proportion of good repayers reporting investment in BMRE was only slightly higher than the proportion of bad repayers who

IV. ENTREPRENEURS PERCEPTIONS

A. Problems in Repayment

Whilst hitherto we have looked at the repayment problem from its various aspects, the problems of repayment as perceived by the entrepreneurs themselves still remained undiscussed. In this section we report on responses by the entrepreneurs about their view of the problems involved in repaying loans. The problems were broadly grouped as operational, high taxes, accumulation of interest on loans, escalation of foreign currency loan value due to depreciation in the external value of the taka and problems of repayment due to delay in project implementation. Accumulation of interest on loans was cited by most of the 29 projects (70.7%) of the 41 project who responded (Table 5.1). Escalation in the value of foreign currency loan was stated as a problem by 22 projects (53.6%). Delay in setting up the project was also cited as a cause of poor repayment by 18 projects (44.0%). Surprisingly only 15 projects or just over $\frac{1}{3}$rd of the sample (36.6%) said operational problems affected repayments. Eleven projects referred to other causes.

But if we look at the proportion of poor repayers under each head of problems then we see that all 4 industries citing high taxes as a problem were also poor repayers. In other words high taxes did not affect repayment for good repayers. Considering the small number referring to this factor we should not place much importance on it. Thus operational problems seemed to be the most important cause for poor repayment for poor repayers. As many as 14 units out of the 15 units citing this problem (i.e. 93.0%) were poor repayers. It is perhaps not very surprising that poor repayers faced operational problems. On the other hand none of the

portion - 75.9%, of this group. Similarly depreciation of the Taka, though cited by 15 projects, was the concern of 68.2% of the poor repayers.

Thus we see that operational problems, delay in setting up projects and high taxes were particularly important problems for repayments by poor repayers while accumulation of interest and taka depreciation were cited as contributing to poor repayments in general.

B. Government Policy on the Repayment Problems and Suggested Changes

In an open ended question entrepreneurs were asked to comment on government policy about the repayments problem and what changes in that policy they would recommend. The response of the entrepreneurs were many and varied as may be seen from the number of column heads of Table 5.2. Altogether 30 units responded of which 3 units were good repayers (50% of our total sample), 23 units were poor repayers (74.2% of the 31 poorly repaying units which we had in our total sample) while 4 units repayed between 25% and 50% of the TRA.

Lowering the interest rates on the term loans by the DFI's was the most common recommendation. Half of the responding sample, 15 units, cited this. Of these 12 units were poor repayers which means 60.9% of the total sample of poorly repaying units (23 units) felt that interest rates should be lowered. On the other hand, only one of the 3 better repaying units felt that interest should be lowered. Stabilizing the exchange rate of the taka was recommended by 6 units (20%). Of these 5 were poor repayers while 1 unit was a good repayer (33.3%). Greater support for export industries, regular electric power supply, at lower rates, more instalments for repay-

loans and more working capital loans should be provided were the next most cited recommendations (4 units, 13.3%). Lower customs duties, support in marketing products by the government, price support, and interestingly, clearer policy formulation and execution by the government was recommend by 3 units. Greater protection, cancellation of interest on overdues (2 units each), and provision of subsidy, withdrawal of loan default cases, more liscences for spare parts, special consideration for disinvested industries and simple rules for machinery procurement were other recommendation by 1 unit each.

Recommendations by poor repayers in particular were directed towards support for exporting industries and stabilization of the exchange rate (both by 5 units or 21.7% of the poor repayers). Support for exporters was recommended only by poor repayers. More working capital loans, more instalments for repayment, discrimination between sincere and insincere repayers and conversion of foreign currency loans to local currency loans were all cited by 4 poorly repaying units. All these recommendation are distinctive by the fact that none of the better repayers recommended these. Regular power supply was also recommended by 4 poor repayers, but this was also the recommendation of 1 good repayer. Three poorly repaying industries each recommended lower customs duties and price support. In contrast none of the better repayers did so. While lower interest on working capital was also recommended by 2 units it was not exclusive to poor repayers - one better repaying unit also recommended this.

To summarise, if we leave aside lowering of the rate of interest on term loans which was a universal demand, stabilizing the foreign exchange value of the Taka, lower interest rate on working capital loans, greater support for exporting industries, regular power supply, more instalments

loans to local currency loans and that government should carefully discriminate between sincere but unsuccessful defaulters and wilful defaulters.

Steps taken by entrepreneurs to improve performance

In an open question entrepreneurs were asked to discribe the steps they had taken to improve repayment performance. Not very surprisingly only 14 industries responded (33.3% of our total sample, Table 5.3). Of these 10 units fell into our classification of poor repayers, which meant that less than one third of the poor repayers felt it necessary to respond to this (10 units out of the 31 poorly repaying units in our sample). It may not be incorrect to suppose that this reflects the level of seriousness with which poor repayers consider the problem of repayment.

Of those reporting on actions taken to improve repayment, the must common responses (5 units or more than $\frac{1}{3}$rd of the sample) were that they were undertaking sales promotion drives and increasing their investment of working capital.

Four units said that they were trying to rephase their loans which is not really an answer we were looking for as it does not imply any effort to improve their (the units) own performance. Otherwise however, undertaking BMRE and diversifying their product lines thereby increasing capacity utilization appeared to be the next most common responses (3 units each). Interestingly 3 units also said they intended to start repaying.

Other responses cited were related to decrease in operational costs,

V. SUMMARY

Scope of the paper

This paper has attempted to bridge an important information gap regarding the repayment problems of private sector industries financed by the two premier DFI's - BSB and BSRS. This was done in two ways; (i) to relate the repayment problem to operational performance of the DFI's and (ii) to indicate the perceptions of the entrepreneurs with regard to the problems of repayment and government policy in general.

The findings are based on a survey work of private sector industries. The difficulties faced in undertaking such a excercise, the restricted nature of the sample and consequently the tentative nature of the conclusions has been discussed earlier (Section II).

The operation of the project in relation to its repayment performance was followed, in this paper, from its earliest stage: the setting up of a project. The results of our survey are summarised below.

Problems in project initiation

(i) In the project identification stage, the lack of market information was found to be the most common problem. It was also found later that marketing was also one of the most common problems faced by industries in their operational stage. For poor repayers another serious problem at this stage was "misleading expert advice". This would suggest that uninformed investment advice could lead to investment problems. Thus in general (i) comprehensive market studies for industrial projects and (ii) a well staffed investment advisory body would lead to improvement in the operation of industries.

(ii) Delay in the disbursement of sanctioned loans was another problem

(iii) Increases in the prices of construction material and in the price of imported machinery were seen to be the main factors causing escalation in the costs of the projects during implementation. For poor repayers, the second factor was more important. While escalation in costs was a problem in general, poor repayers in our sample faced sharp escalation of costs. Delay in loan processing and for poor repayers particularly, delay in machinery installation, led to cost escalation.

(iv) Our sample projects showed a bias towards procuring machinery from the developed countries, as opposed to developing countries. Though amongst the developing countries, those of East Asia were most significant as sources of supply. There was some suggestion that poor repayers tended to import relatively more from the Far Eastern countries.

(v) Almost all the industries said that cheaper and or more labour intensive technology or machinery was not available when they ordered their machinery. Thus a perception of technological rigidity in the choice of equipment appears manifest amongst entrepreneurs. There was evidence to suggest that poor repayers relied more on local agents of the foreign suppliers of machineries than the better repayers who often corresponded directly with the suppliers.

There is thus a general evidence of inexperience, unpreparedness and poorer management in the case of poor repayers. This is manifested in confessions about being misled by 'experts', weaker financial basis, inefficient negotiations in machinery procurement leading to cost escalation, delay in machinery installation and greater reliance on local agents in procuring machinery.

available evidence indicates that in most such cases the volume of gross profits tended to be inadequate to cover the TRA due on the loans. Borrowers appear to have responded to this situation by either not servicing their debt or doing it at well below the due rate thereby cumulatively increasing the TRA every year. The element of wilful default thus appears to the extent that few borrowers were willing to service their debts by bringing in cash from outside the cashflow of the project itself.

(ii) In the case of our physical variable, capacity utilization, we found that better capacity utilization was associated with better repayment performance. This suggests that improved capacity utilization signified a committment to the improved performance of the industry. On the other hand as there was no relationship between capacity utilization and gross profit rates, it seems that an ability to produce well at the plant level was not matched by the financial ability to market their produce at profitable prices. The problem of marketing thus surfaces here. Alternatively the financial record may not always reflect an accurate statement of financial performance.

(iii) There was a weak suggestion that both profitability and capacity utilization were related to the dominance of the loan processing stage in the total time taken for implementation. If this dominance indicates the extent of care and attention paid to project appraisal, then our evidence is that of improved operational performance, measured both financially (high profit rate) and physically (better capacity utilization). Thus a recommendation for careful project appraisal is borne out by our evidence.

Perception of problems by the entrepreneurs

(i) Difficulties with the DFIs was cited as the most common problem for

in clearing working capital loans by commercial banks and lack of skilled labour were the most common specific problems for all industries.

(iii) For poor repayers competition from imports, poor management of industries (specifically cited) transportation problems, inadequate import liscence were problems in addition or in particular.

(iv) Inadequate financing, lack of protection from imports, high taxes on input imports and inadequate import liscencing, problems associated with government policy was said to affect repayment. For poor repayers, inadequate financing was particularly important. This reflects their shaky financial basis.

(v) Lack of raw materials, power failures and problems in marketing led to lay-off in quite a few industries ($\frac{1}{3}$rd) in our sample; there was however no evidence that this affected repayments.

(vi) There was rather clear evidence that better repayers managed their labour force better than poor repayers. There were more organised CBAs, more cases of disputes and violence in poorly repaying industries.

(vii) The accumulation of interest on loans and the depreciation in the value of the Taka were problems causing poor repayments in general for all the industries. For poor repayers however operational problems, in particular, and delay in implementing the projects were identified as special factors contributing to poor repayment.

s, and stabilizing the exchange rate of the Taka. Poorly repayi
stries however had a range of recommendation ranging from more suppo
export oriented industries, regular power supply, greater number
yment instalments and government support for marketing products. P
yers also asked the government to differentiate between sincere
ulting repayers and wilful defaulters.

orts to improve repayment performance

Not surprisingly very few industries in our sample ($\frac{1}{3}$rd) bothered
cuss what steps they were taking to improve repayment performance.
also consider the fact that almost none of our sample industries pr
us with repayment accounts from their side, this attitude may ref
seriously the sample units considered the repayment problem.

Those who responded said that increasing sales, working capi
vesting in BMRE, diversifying and increasing capacity utilization
ys in which they were seeking to improve their repayments performanc

The problems of repayment to the DFIs has posed a series of critical questions to policymakers which will need to be resolved if the industrialisation process is to be sustained. As it stands earlier studies have confirmed a massive and pervasive default, largely of private borrowers, on loan obligations to the DFIs.

The ongoing default has invoked the attention and concern of the donors to the point where principal donors to the DFIs have significantly curtailed disbursements until evidence of remedial action by GOB on the default issue is at hand. This impasse which was formalised in the Memorandum of Understanding (MOU) between the principal donors and GOB as far back as 2 March 1985, has not been resolved even though a full year has lapsed.[1]

It has been suggested earlier[2] and bears repetition that the M.O.U. was always likely to run into difficulties to the extent that it directed its attention to the DFIs as the source of the problem and placed the onus of remedial action on them. It was suggested then and is confirmed from our survey findings that whilst much improvement in the organisation and workings of the DFIs are called for they remain an expression of a more substantive societal and economic problems. The societal problem has been discussed elsewhere[3] and indeed impinges on the economic problem. Our present study has attempted to address the economic problem which stems from the incapacity of the borrowing entreprises to generate sufficient surpluses from the projects set up with borrowed funds.

Action against defaulters

The Price Waterhouse report has suggested that there remain a large number of borrowers who are indeed operating their enterprises at a profit but are still not servicing their loans. The DFIs have as a consequence compiled a list of deliberate defaulters. This list of defaulters with BSB and BSRS indicates that borrowers have a capacity to service their debts but are unwilling to do so. This capacity may be reflected in the balance sheets of the concerned enterprise or indeed in their consumption and investment behaviour external to the entreprise. The DFIs have initiated actions under law against some of these defaulters. It is not clear how many of these have actually been proceeded against so it is difficult to gauge the operational significance of the defaulters list.

To the extent that there are borrowers who can be categorised as wilful defaulters it would be presumed that they be made liable to instanteous action in the way of repossession of their industry and/or other collateral against which loans from the DFIs have been obtained. Other studies undertaken for the Commission have addressed themselves to the adequacy of the legal cover available to the DFIs to recover their dues and to possible rectifications in the law to so empower them. However beyond the law remains the will to apply such measures and to enforce the outcome of the law. Such decisions have in the societal context of Bangladesh been more difficult to take within a general climate of lax discipline in enforcing state authority. It thus becomes difficult to differentiate between inadequacy in the law and reluctance to enforce it in trying to understand why efforts in recovery of defaulted loans have yielded such modest results.

In the last year, presumably as a consequence of the commitments under the MOU, the DFIs have been pursuaded to more stringently use the ... available to them. Legal steps initiated against 230

borrowers have the capacity to service their loans. Whether this capacity comes from within the borrowing enterprise or from the more diversified commercial involvements of the borrower is not always apparent. The complete absence of informaion on the financial circumstances of borrowers outside of their DFI sponsored operations makes such an estimation virtually unrealisable. It is thus not possible to know if DFI resources have been diverted to income earning activities other than those promoted by the DFIs which may have a somewhat better cash flow than the productive entreprise set up through loans.

Capacity for debt servicing

In any case at an aggregative level there is no evidence that current rates of recovery have improved in the DFIs in the last year. It is thus possible that effective loan enforcement is a necessary but not sufficient condition for ensuring prompt and adequate repayment by borrowers. Our study suggests that on the basis of the records of some entreprises some at least of the defaulting entreprises can demonstrate that gross profits become net losses after servicing their debt. This suggests that unless evidence of availability of resources outside the project come to hand the present project will deliver little unless their own records are doctored to show lower gross profits than those actually earned.

The problem of default thus has to satisfactorily resolve the determinants of a deliberate default. A failure to generate adequate profits to service debt and retain cash in hand may under some circumstances reflect a deliberate default. Legal action will under these circumstances possibly realise some of the debt but may damage the viability

more serious problem. There is abundant evidence from our studies of a large category of borrowers from DFIs who are not generating sufficient surpluses, measured as gross profits, which can sustain their repayment obligations to the DFIs. As these obligations accumulate they are compounded by the accretion of interest and penal interest. The inadequacy of the surplus (section V) is indicated by the fact that the gross profits of 8 enterprises out of 12 enterprises providing us with data fell below their debt service obligations to the DFIs. In such circumstances policymakers will have to decide between liquidating the enterprise or of addressing themselves to the policy and management regime needed to make such projects more viable.

Establishing Borrowers Accountability

The failure to generate sufficient surpluses reflects in the final analysis the misjudgement of the entrepreneurs in the choice of their investment as to the marketability of the output and the policy environment within which they operate. These are in turn compounded by the borowers lack of experience and inadequacies as a manager, in selecting equipment, commissioning it and operating it efficiently. Whilst our field study captures some acknowledgement by the respondents of their managerial inadequacies in most part there is a tendency on the part of borrowers to blame the government for their operational problems. We have registered their complaints on delays in committing and disbursing the loan, for such problems as lack of credit, lack of raw materials, inadequate power supply and foreign competition.

In actual practise these are all known problems to entreprencurs not just in Bangladesh but many developing countries. Even in Pakistan times [illegible] afflicted aspirant entrepreneurs. Whilst delays in loan

others. This suggests that such delays were attributable not just to red tape but more serious time and attention invested by both borrower and DFI as to the feasibility of the project.

The large number of projects sanctioned after proforma review of their economic worth and commercial viability, may indeed reflect the misjudgement of the DFI. But in any financial system in the world the burden of this misjudgement is borne by the borrower. It is not for him to blame DFIs for sanctioning loans in crowded industries. The borowers are supposed to have made their own market studies which not only take into account current installed capacity but also new capacities being created by DFI and other lending agencies as well as possible competition from imports, legal or illegal. Such studies are expected to examine future trends in market demand. All such exercises would be taken as routine for any investor risking their own equity.

The logic of default

It is only when potential investors see the government is bearing the bulk of the risk, and the borrower has to stake only limited equity, that they become less inclined to discharge their traditional entrepreneurial responsibility. This attitude suggests that a number of first generation entrepreneurs, with either limited capital at their disposal and/or an unwillingness to risk what capital they have, look to the government to finance all investment, including the equity component. This equity cover may come from the Investment Corporation of Bangladesh or by the expedient of overinvoicing their imported equipment or by overstating construction and land purchase costs.

domestic investment is treated as a secondary interest, since the entrepreneurs real equity stake is negligible and their income already assured. The compulsion to make a correct investment choice would thus be subordinated to the need to secure the largest DFI loan possible. This ofcourse may, ab initio, overcapitalise the project. Where in fact part of the capital is kept outside and cannot generate returns at home, the earnings/capital ratio falls to the point where losses become inescapable. In such a situation bankruptcy would follow. Where however borrowers can avoid bankruptcy by declining to service their loans and can get away with this because of lax law enforcement, bankruptcy can be avoided. Here we have the spectacle observed in this study of accumulating gross profits and default in debt servicing, adding up to notional net losses which are covered by failure to meet debt service obligations.

Within this perspective we presume that the serious investor/borrower anticipates their operational environment and then demonstrate the capacity to manage the entreprise efficiently to generate profits within this environment. These profits are then used to service debt in time and to reinvest the surplus in new enterprises. Estimates of profitability on which the investment is justified take into account the rates of interest on capital which are part of capital costs, rising raw material prices, and even depreciation in the external value of the currency. In Bangladesh, particularly for those investors who have come into the field as in the mid-70's, after the major devaluations of 1972 and 1975, our studies[1] indicate that exchange rate depreciation was neither so large nor so clearly related to default. It would thus be appropriate to associate failure to generate profits by borrowers to poor investment choice, planning and management.

of repayment is systemic in origin. The compulsion to build up an entrepreneurial class contributed to the laxity in loan approval administration and recovery by the DFIs. The environment was hardly favourable to enforcement of discipline. To this end we would need to look to systemic reforms in both policy towards the private sector and in the capacity of the state to enforce its own writ against those with power, influence and access to the decision makers.

However systemic changes remain speculative as to their timing and outcome. In the meantime large numbers of units have defaulted in their obligations and this default is being compounded. If repayment performance is to be improved our study suggests that the operational performance of the entreprises must improve to the point where surpluses can be generated. Such improvements may be facilitated by more efficient loan disbursement and more regularity in power supply as indicated by our respondents.

It will however be more difficult for any government to improve the market regime for any project where imports constitute the main source of market erosion. Presumably quantitative restrictions can provide some advantage to the affected enterprise. However official restrictions on imports can and indeed are being constantly undercut by smuggled imports. This itself is part of the same laxity in administration which has in the first place created the repayment crisis. But as long as there is a demand for imports originating in the high incomes and elavated tastes of an affluent class and this is reinforced by lack of price competitiveness of the local product, market forces will continue to strain the resources of any administration. We would therefore have to ensure that domestic produ-

Where in fact the domestic market is itself constrained both by over capacity and a small and slow growing market there is little that can be done to improve the prospects for investors who have misread the behavior of the market. Here one would either have to close the enterprise down as would happen if the normal sanctions on private entrepreneurs were to apply or the state would have to intervene to both manage demand and restructure the product lines of the enterprise. This takes us into very complex issues of public policy which are beyond the scope of this paper. But the bottom line would again involve a more enhanced role for the state.

Where market failure owes to temporary factors however public policy would have to decide whether the banks would underwrite the financial crisis of the enterprise or should let them go under. Obviously the prospect of growing unemployment and wasted productive capacity would suggest some form of underwriting by the DFI and NCBs.

To the extent that poverty of the people and our resources preclude the enforcement of such conventional sanctions as factory closures, any market induced solution to failures of management will be very difficult for any government to sustain without resort to intervention. In such situations policymakers will have to decide whether keeping enterprises afloat will be synonymous with keeping particular entrepreneurs afloat. This implies either subsidies to such entreprenuers or rescue operations by the banks. It is one thing to rescue a public enterprise on the grounds that it is public property, and quite another to rescue private individuals who have already been singled out for public favours by getting priviliged access to DFI loans. At best 1000 households out of a population of 100 million are so privilidged.

framework which defines policy towards the public and private sector.

Till such time as such fundamental issues of state policy are sorted out a special managing agency house may be created to restructure and run the taken over enterprises. This organisation should be drawn from the best entrepreneur/managers availible in Bangladesh, whether in the public or private sector. They should be paid the top market wage in the country and a commission from the surplus of the enterprise. They should be given a *carte blanche* to restructure, hire, fire and sell off components of the enterprises, constitute management boards with professionals hired on market terms and advise on the final disposition of the enterprises. Government should lay down broad policy guidelines, relative to employment policy, market regime and utilisation of the surplus but would in no way interfere with the management of the enterprises. The Managing Agency would seek approval of its work programme and budget from the designated controlling ministry of the government and would be judged at years end by its ability to deliver against its commitments. In between there should be no government interference in its management which should be guided by commercial considerations. The above ideas are merely indicative and would merit more detailed analysis and discussion before it can be developed into a full fledged policy.

In conclusion it must be recognised that any policy intervention to improve repayment performance to the DFIs assumes a capacity to excercise discipline in public life guided by principles rather than personal interest. It will assume the supremacy of

Table 1.1

Reasons For Problem's With Project Identification
(No.of Projects/Units

No.of Units in sample	No.of units responding	No background in industry 1	Lack of relevant data on size & nature of market 2	Lack of access to expert advice 3	Misleading expert advice 4	Others 5
17	7(41.2)[1]	2(28.6)[2]	5(71.4)	2(28.6)	3(42.8)	1(14.3)
8	5(62.5)	1(20.0)	1(20.0)	2(40.0)	1(20.0)	1(20.0)
6	3(50.0)	1(33.3)	1(33.3)	1(33.3)	1(33.3)	
5	1(20.0)	1(100.0)	1(100.0)	1(100.0)		
3	2(66.6)	1(50.0)	2(100.0)	1(50.0)		
3	2(66.6)	1(50.0)	1(50.0)	2(100.0)		
42	20(47.1)	7(35.0)	11(55.0)	10(50.0)	5(25.0)	2(10.0)

Figures in brackets besides number of units responding are percentage figures of total samples in each group. This is for all Tables.

Figures in brackets besides number of units responding under each item (column heads) are percentages of the sample for each particular question (Table). This is for all tables.

Table 1.2

Reasons for Problems With Financing
(No.of Units)

	TOTAL UNITS	Lack of adequate equity	Lack of collateral	Delay in loan processing in processing stage	Delay in loan processing in disbursement stage
5	14(82.4)	3(21.4)	1(7.14)	7(50.0)	9(64.2)
1-10	7(87.5)	2(28.5)		3(42.8)	4(57.1)
1-25	3(50.0)	1(33.3)	1(33.30)	1(33.3)	2(66.6)
1-50	4(80.0)			2(50.0)	3(75.0)
1-80	2(66.6)	1(50.0)		2(100)	2(100)
1+	3(100)	1(33.3)		2(66.6)	2(100)
L	33(78.6)	8(24.24)	2(6.06)	17(51.5)	23(69.6)

Table 1.3

Source of Finance
(No.of Units)

	No. of units Respon-ding	Profits from previous business		Liquidation of property			Personal borrowing against			
		Industry	Trade	Land	House	Other assets	Home/ land	Jewe-llery	Personal guarantee	Others property
	3	4	5	6	7	8	9	10	11	
5	10(58.8)	1(10.0)	6(60.0)	6.(60.0)	4(40.0)	1(10.0)	3(30.0)	2(20.0)	2(20.0)	
10	5(62.5)	1(20.0)	1(20.0)	2(40.0)	1(20.0)	1(20.0)			1(20.0)	
-25	4(66.6)	1(25.0)	4(25.0)				1(25.0)	1(25.0)	1(25.0)	
-50	2(40.0)		1(50.0)				1(50.0)			
-80	3(100)		3(100)			1(33.3)			1(33.3)	
-	2(66.6)		1(50.0)					1(50.0)		
	26(61.9)	3(11.5)	16(61.6)	8(30.7)	5(19.2)	3(11.5)	5(19.2)	1(3.8)	3(11.5)	5(19.2)

Table 1.4

Asset-wise Cost Escalation (No.of Units)

oups	No. of Units Responding	Imported Machinery 1	Local machinery 2	Construction Material 3	Depreciation of Taka 4	Others 5
0 - 5	9(52.9)	6(66.67)	2(22.22)	5(55.56)	3(33.33)	2(22.22)
5.01 - 10	6(75.0)	2(33.33)	1(16.67)	3(50.00)	2(33.33)	
10.01 - 25	3(50.0)	2(66.67)		1(33.33)	2(66.67)	
25.01 - 50	2(40.0)	1(50.0)		2(100)	1(50)	
50.01 - 80	2(33.3)	1(100)		2(200)	2(200)	
80.01 +	3(100)	2(66.67)		3(100)	2(66.67)	1(33.33)
AL	25(57.1)	14(58.33)	3(12.5)	16(66.67)	12(50)	3(12.5)

Table 1.5

Repayment Performance and Amount of Cost Escalation (No.of Units)

	No.of Units Responding	Amount of Cost Escalation as % of Original Cost Estimate				
		0	0.01-10.00	10.01-25.00	25.01-50.00	50.01 +
	6(100)		3(50)		2(33.3)	1(16.7)
0	3(100)	1(33.3)		1(33.3)		1(33.3)
25	2(100)	1(50)		1(50)		
50	1(100)				1(100)	
80	1(100)				1(100)	
	2(100)				2(100)	
	15(100)	**2(13.3)**	**3(20)**	**2(13.3)**	**6(40)**	**2(13.3)**

Table 1.6

Causes For Cost Escalation
(No.of Units)

	TOTAL	Change of design specification of equipment	Unilateral mark-up by supplier after order	Time over run in income processing	Time over run in construction	Time over run between LC open & arrival machinery	Time over run in machinery installation
		1	2	3	4	5	6
	14(100)	1(7.1)		3(21.4)	3(21.4)	2(14.3)	5(35.7)
- 10	6(100)			2(33.3)	1(16.7)	1(16.7)	2(33.3)
- 25	4(100)			2(50)	2(50)		
- 50	3(100)			1(33.3)	1(33.3)		1(33.3)
- 80	3(100)		1(33.3)	1(33.3)		1(33.3)	
+	2(100)			2(28.6)	1(14.3)	2(28.6)	2(28.6)
L	32(100)	1(3.1)	1(3.1)	12(37.5)	8(25.0)	6(18.8)	10(31.3)

Table 1.7

SOURCE OF MACHINERY & REPAYMENT PERFORMANCE
(No.of responses)

RP Group(%)	Responses	Western developed	Socialist	India	Far East	Others
0 - 5	24	11(45.8)	-	2(83.0)	10(41.7)	1(4.2)
5-10	13	8(61.54)		2(15.38)	3(23.08)	
10-25	9	2(22.22)		1(11.11)	5(55.56)	1(11.11)
25-50	13	5(61.54)			5(38.46)	
50-80	5	2(40.00)		1(20.0)	2(40.0)	
80+	4	3(75.0)			1(25.0)	
Total	68	34(50.0)		6(8.82)	26(38.24)	2(2.94)

Table 1.8

AVAILABILITY OF ALTERNATIVE SOURCES AND TYPES OF MACHINERY
(No.of Responses)

RP Groups (%)	No.of Responses	No.of works in which		
		Domestic supply was available	Cheoper,and/or more capital saving technology was available	No.such alternative was available
0 - 5	13	1(7.69)	-	12(92.31)
5-10	8	-	-	8(100.0)
10-25	5	-	-	5(100.0)
25-50	4	-	2(50.0)	2(50.0)
50-80	3	-	-	3(100.0)
80+	2	-	1(50.0)	1(50.0)
Total	35	1(2.78)	3(8.33)	31(88.89)

Table 1.8b

REASONS FOR PREFERING MORE EXPENSIVE AND/OR
CAPITAL INTENSIVE TECHNOLOGY
(No.of Responses)

Factors	No.of Responses
1. Better Productivity	3
2. Quality control	2
3. To avoid labour problem & management	1
4. Due to aid tying	-
5. Aggressive salesmenship by	-
6. Offer of after sales service	-
7. Others	-
Total	

Table 1.9

PROCEDURE FOLLOWED IN SELECTING MACHINERY
(No.of Responses)

No.of Responses	Discussion with ag-. ents/local supplier	Direct correspon- dence with supplier	Consultation with loan agency i.e. BSB,BSRS	Import of Machinery tied to foreign aid	Discussion with a consultancy firm	Others
25	7(28.0)	5(20.0)	12(48.0)	-	-	1(4.0)
9	1(11.11)	1(11.11)	3(33.33)	2(22.22)	-	2(22.22)
9	1(11.11)	2(22.22)	3(33.33)	1(11.11)	2(22.22)	-
6	1(16.67)	1(16.67)	3(50.00)	-	1(16.67)	-
5	1(20.0)	1(20.0)	2(40.0)	1(20.0)	-	-
3	-	1(33.33)	2(66.67)	-	-	-
57	11(19.30)	11(19.30)	25(43.86)	4(7.02)	3(5.26)	3(5.26)

Table 2.1

Repayment Performance (RPP) with Gross Profit/Sales (GPR) (No. of Units)

GPR(%)

2-20	-20-10	-10 to 0	0-5	5-10	10-20	20-30	30+	Total
1(11.1)	1(11.1)	0	3(33.3)	1(11.1)	1(11.1)	1(11.1)	1(11.1)	9(39.13)
0(0.0)	0(0.0)	1(25.0)	0(0.0)	1(25.0)	0(0.0)	1(25.0)	1(25.0)	4(17.4)
0(0.0)	1(25.0)	0(0.0)	0(0.0)	0(0.0)	1(25.0)	2(50.0)	0(0.0)	4(17.4)
0(0.0)	1(50.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)	1(50.0)	0.(0.0)	2(8.7)
0(0.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)	1(50.0)	1(50.0)	2(8.7)
0(0.0)	1(50.0)	0(0.0)	1(50.0)	0(0.0)	0(0.0)	0(0.0)	0(0.0)	2(8.7)
1(4.3)	4(17.4)	1(4.3)	4(17.4)	2(8.7)	2(8.7)	6(26.1)	3(13.0)	23(100.0

Co-efficient of correlation
r = 0.0036
(P = 0.49)

Table 2.2

Repayment Performance , with Average Capacity Utilization(ACU)
(No.of Units)

	ACU (%)					
RP (%)	0-10	10-25	25-50	50-80	80+	Row Total
1. 0-5	2(18.2)	5(45.5)	2(18.2)	1(9.1)	1(9.1)	11(42.3)
2. 5-10	1(25.0)	1(25.0)	1(25.0)	1(25.0)	0(0.0)	4(15.4)
3. 10-25	0(0.0)	0(0.0)	1(25.0)	3(75.0)	0(0.0)	4(15.4)
4. 25-50	0(0.0)	0(0.0)	2(50.0)	2(50.0)	0(0.0)	4(15.4)
5. 50-80	0(0.0)	1(100.0)	0(0.0)	0(0.0)	0(0.0)	1(3.8)
6. 80+	0(0.0)	0(0.0)	0(0.0)	1(50.0)	1(50.0)	2(7.7)
Total	**3(11.1)**	**7(26.9)**	**6(23.1)**	**1(30.8)**	**2(7.7)**	**26(100.0)**

Co-efficient of correlation
r = 0.41
(P = 0.014)

Table 2.3

Repayment Performance (RPP) with Capacity Utilization in Last Year Production(CYLYP)
(No.of Units)

	CULYP(%)					
RPP(%)	0-10	10-25	25-50	50-80	80+	Row total
1. 0-5	2(20.0)	4(40.0)	2(20.0)	1(10.0)	1(10.0)	10(41.7)
2. 5-10	1(25.0)	0(0.0)	1(25.0)	2(50.0)	0(0.0)	4(16.7)
3. 10-25	0(0.0)	0(0.0)	0(0.0)	3(100.0)	0(0.0)	3(12.5)
4. 25-50	0(0.0)	0(0.0)	1(25.0)	2(50.0)	1(25.0)	4(16.7)
5. 50-80	0(0.0)	0(0.0)	1(100.0)	0(0.0)	0(0.0)	1(4.2)
6. 80+	0(0.0)	0(0.0)	0(0.0)	0(0.0)	2(100.0)	2(8.3)
Total	**3(12.5)**	**4(16.7)**	**5(20.8)**	**8(33.3)**	**4(16.7)**	**24(100.0)**

Co-efficient of correlation
r = 0.52
(P = 0.004)

Table 2.4

Gross Profit/Sales(GPR) with Average Capacity Utilization(ACU) (No.of Units)

GPR (%)	ACU(%) 0-10	10-25	25-50	50-80	80+	Row total
-20 to -10	0(0.0)	1(33.3)	0(0.0)	2(66.7)	0(0.0)	3(18.8)
-10 to 0	0(0.0)	0(0.0)	0(0.0)	1(100.0)	0(0.0)	1(6.3)
0 - 5	0(0.0)	0(0.0)	1(33.3)	1(33.3)	1(33.3)	3(18.8)
5 - 10	0(0.0)	0(0.0)	1(50.0)	0(0.0)	1(50.0)	2(12.5)
10-20	0(0.0)	0(0.0)	0(0.0)	1(100.0)	0(0.0)	1(6.3)
20-30	0(0.0)	0(0.0)	1(33.3)	2(66.7)	0(0.0)	3(18.8)
30+	1(33.3)	0(0.0)	2(66.7)	0(0.0)	0(0.0)	3(18.8)
Total	**1(6.3)**	**1(6.3)**	**5(31.3)**	**7(43.8)**	**2(12.5)**	**16(100.0)**

co-efficient of correlation
r = 0.04
(P = 0.43

Table 2.5

Gross Profit/Sales(GPR) with Capacity Utilization in Last Year(CULY)

GPR (%)	CULY (%) 0-10	25-50	50-80	80+	Row total
L - 20	1(100.0)	0(0.0)	0(0.0)	0(0.0)	1(6.7)
-20to -10	0(0.0)	0(0.0)	0(0.0)	2(100.0)	2(13.3)
-10 to 0	0(0.0)	0(0.0)	1(100.0)	0(0.0)	1(6.7)
0-5	0(0.0)	1(33.3)	1(33.3)	1(33.3)	3(20.0)
5-10	0(0.0)	0(0.0)	1(50.0)	1(50.0)	2(13.3)
10-20	0(0.0)	0(0.0)	1(100.0)	0(0.0)	1(6.7)
20-30	0(0.0)	0(0.0)	2(100.0)	0(0.0)	2(13.3)
30+	1(33.3)	1(33.3)	1(33.3)	0(0.0)	3(20.0)
Total	**2(13.3)**	**2(13.3)**	**7(46.6)**	**4(26.6)**	**15(100.0)**

Table 3.1

Operational Problem - Raw Materials and Spare Parts
(No. of units)

RP Groups (%)	No. of Units responding	Shortage of spare parts	Inadequate import liscence	High costs of raw materials	Other
0 - 5	13 (76.6)	6 (46.2)	3 (23.1)	7 (53.9)	2 (15.4)
5.01 - 10	7 (83.3)	4 (57.1)	2 (28.6)	4 (57.1)	2 (28.6)
10.1 - 25	4 (66.6)	3 (75.0)	1 (25.0)	3 (75.0)	
25.01 - 50	4 (80.0)	1 (25.0)		2 (50.0)	
50.01 - 80	3 (100.0)	3 (100.0)		1 (33.3)	1 (33.3)
80.01 +	3 (100.0)			2 (66.7)	1 (33.3)
TOTAL	34 (80.9)	17 (50)	6 (17.6)	19 (55.9)	6 (17.6)
100 x $\frac{\text{Poor Repayer}}{\text{TOTAL}}$	70.6	76.5	100	73.7	66.7

Table 3.2

Operational Problems - Infrastructure
(No. of Units)

RP Groups (%)	No. of Units responding	Erratic power source	Internal transport problems	Stepping	Lack of spare parts	Others
0 - 5	14 (82.4)	10 (71.4)	2 (14.3)		2 (14.3)	
5.01 - 10	6 (75.0)	5 (83.3)		1 (16.7)	2 (33.3)	
10.1 - 25	4 (66.6)	3 (75.0)	1 (25.0)		1 (25.0)	1(25.0)
25.01 - 50	4 (80.0)	4 (100.0)			1 (25.0)	
50.01 - 80	2 (66.6)	2 (100.0)			2 (100.0)	
80.01 +	3 (100.0)	1 (33.3)			1 (33.3)	
TOTAL	33 (78.6)	25 (75.8)	3 (9.1)	1 (3.0)	9 (27.3)	1(3.0)
100 X $\frac{\text{Poor Repayer}}{\text{TOTAL}}$	72.7	72.0	100	100	55.5	100

Table 3.3

Operational Problems - Marketing
(No. of units)

RP Groups (%)	No. of units responding	High cost of production	Competition from imports	Over capacity	Others
0 - 5	13 (76.5)	4 (30.8)	2 (15.4)	4 (30.8)	4 (30.8)
5.01 - 10	7 (87.5)	1 (14.3)	3 (42.9)		3 (42.9)
10.01 - 25	5 (83.3)		1 (20.0)		2 (40.0)
25.01 - 50	4 (80.0)	1 (25.0)			2 (50.0)
50.01 - 80	2 (66.6)			1 (50.0)	1 (50.0)
80.01 +	2 (66.6)	1 (50.0)			2 (100.0)
TOTAL	33 (78.6)	7 (21.2)	6 (18.2)	5 (15.2)	14 (42.4)
$100 \times \frac{\text{Poor Repayer}}{\text{TOTAL}}$	75.7	71.4	100.0	80.0	64.3

Table 3.4

Operational Problems - Working Capital
(No. of Units)

RP Groups (%)	No. of units responding	Lack of collateral	Overdraft	Delay in issuing of NOC by DFIs	Banks delay in taking decisions	Time taken for allocation	Other
0 - 5	13 (76.5)	3 (23.1)	3 (23.1)	3 (23.1)	5(38.5)	1(7.7)	
5.01 - 10	6 (75.0)	2 (33.3)	1 (16.7)	2 (33.3)	4(66.7)	2(33.3)	1(1
10.01 - 25	2 (33.3)						
25.01 - 50	5 (100.0)	2 (40.0)	2 (40.0)	1 (20.0)	1(20.0)	1(20.0)	
50.01 - 80	3 (100.0)		2 (66.7)	2 (66.7)	1(33.3)		
80.01 +	1 (33.3)						
TOTAL	31 (73.8)	7 (22.6)	8 (25.8)	8 (25.8)	11(35.5)	4(12.9)	
100 x Poor Repayer / TOTAL	67.7	71.4	50.0	62.5	81.8	75.0	

Table 3.5

Operational Problems - DFIs
(No. of Units)

RP Groups (%)	No. of units responding	Accumulation of interest	Lack of follow-up	Non-cooperation with loan re-scheduling	Others
0 - 5	17 (100.0)	12 (70.6)	7 (41.2)	9 (52.9)	1 (5.9)
5.01 - 10	8 (100.0)	4 (50.0)	3 (37.5)	3 (37.5)	1 (12.5)
10.01 - 25	5 (83.3)	2 (40.0)	2 (40.0)	1 (20.0)	
25.01 - 50	4 (80.0)	3 (75.0)	1 (25.0)	2 (50.0)	
50.01 - 80	2 (66.6)	2 (100.0)	1 (50.0)	2 (100.0)	
80.01 +	1 (33.3)	1 (100.0)			
TOTAL	37 (88.1)	24 (64.9)	14 (37.8)	17 (45.9)	3 (8.1)
100 x Poor Repayer / TOTAL	81.1	75.0	85.7	76.5	66.7

Table 3.6

Operational problems - Management and Labour
(No.of Units)

RP GROUPS (%)	No.of Units Responding	Shortage of skilled labour	Labour disputes	Inadequate Management	Others
0-5	10(58.8)	2(20.0)	2(20.0)	2(20.0)	
5.01-10	6(75.0)	1(16.7)	1(16.7)	1(16.7)	1(16.7)
10.01-25	5(83.3)	3(60.0)	2(60.0)	3(60.0)	
25.01-50	3(60.0)	1(33.3)	1(33.3)		
50.01-80	2(66.6)	2(100.0)	1(50.0)	1(50.0)	
80.01+	2(66.6)	1(100.0)			
TOTAL	**28(66.6)**	**10(35.7)**	**7(25.0)**	**7(25.0)**	**1(3.6)**
	75.0	**60.0**	**71.4**	**85.7**	**100.0**

Table 3.7

Comments on Government Policy with Respect to Operational Performance
(No. of Units)

RP Groups (%)	No.of Units Responding	Inadequate Liscence for Imports	Inadequate Financing	Insufficient Protection	High taxes on Input Imports	Others
0 - 5	16(100)	3(18.7)	13(81.25)	5(31.25)	4(25.0)	3(18.75)
5.01-10	8(100)	3(37.5)	5(62.5)	4(50.0)	4(50.0)	1(12.5)
10.01-25	5(100)	2(40.0)		3(60.0)	3(60.0)	1(20.0)
25.01-50	3(100)		3(100)	1(33.3)		1(33.3)
50.01-80	3(100)	2(66.6)	1(33.3)	2(66.6)	1(33.3)	
80.01+	3(100)	1(33.3)	1(33.3)	2(66.6)	1(33.3)	1(33.3)
TOTAL	**38(100)**	**11(28.94)**	**24(63.15)**	**17(44.73)**	**13(34.2)**	**7(18.42)**
		72.7	66.6	70.6	84.7	71.4

Table 4.1

Incidence of lay-off and Repayment Performance
(No.of Units)

RP groups(%)	No.of observation	No. of firms where plant was layed off at least once
0 - 5	17	8
6 - 10	8	3
10-25	6	
25-50	5	2
51-80	3	2
80+	3	1
	42(100.0)	16(38.1)

Table 4.2

Causes for Lay-off (No. of Units)

RP groups(%)	No.of observa-tion	Labor dispute	Power failure	Lack of raw material	Breakdown of M/C	Lack of market	Others
0 - 5	10	-	1(10.0)	3(30.0)	-	3(30.0)	3(30.0)
5-10	9	-	3(33.3)	3(33.3)	2(22.2)	1(11.1)	-
10-25	1	-	-	-	1(12.5)	-	1(100.0)
25-50	8	2(25.0)	2(25.0)	2(25.0)	-	-	1(12.5)
50-80	-	-	-	-	-	-	-
80+	1	-	-	-	-	-	1(100.0)
	29(100)	2(6.9)	6(20.69)	8(27.6)	3(10.3)	4(13.8)	6(20.7)

Table 4.3

Imports of spare parts under wage Earners scheme
(No.of Units)

RP groups(%)	No.of Units responding	No.of firms reporting Yes	No.of firms reporting No.
0 - 5	10(100)	3(30.0)	7(70.00)
6 - 10	3(100)	3(100)	-
11-25	2(100)	2(100)	
26-50	1(100)	1(100)	
51-80	1(100)	1(100)	
80+	1(100)	-	1(100)
	18(100)	10(55.6)	8(44.4)

Table 4.4

Reasons For Shortage of Spare Parts
(No.of Units)

RP groups (%)	No.of units Responding	Inadequate licence	Inadequate plant Management	Financial constraint	Others
0 - 5	1(100)	-	- -	1(100)	-
5 - 10	8(100)	2(25.0)	1(12.50)	4(50.0)	1(12.50)
10 - 25	3(100)	1(33.3)	-	2(66.7)	-
25 - 50	3(100)	1(33.3)	-	2(66.7)1	-
50 - 80	2(100)	1(50.0)	-	1(50.0)	-
80+	2(100)	1(50.0)	-	1(50.0)	-

Table 4.5

Labor Organisations (No.of Units Reporting)

RP groups (%)	No.of Units reporting	No.. Re-porting: Trade Unions	CBA	Labor problem	Strike
0 - 5	17	5(29.4)	3(17.7)	2(11.8)	1(5.9)
5 - 10	7	4(57.1)	3(42.8)	-	-
10 - 25	6	2(33.3)	1(16.7)	2(33.3)	-
25 - 50	4	4(100.0)	3(75.0)	1(25.0)	1(25.0)
50 - 80	3	1(33.3)	-	-	-
80 +	2	2(100.0)	1(50.0)	1(50.0)	-
	39(100)	18(46.2)	11(28.2)	6(15.3)	2(5.1)

Table 4.6

Management and Labour (No.of Units)

RP groups (%)	Total No.of Director	Manage-ment	Total labour	No.of Units	Average Nos.of Directors	Average Nos of Manage-ment	Average No.of labour	Manage-ment: labour
0 - 5	62	342	924	15	4.1	22.9	61.6	1:3
5 - 10	35	294	1439	6	5.8	49.0	239.8	1:5
10 - 25	18	236	1385	5	3.6	47.2	277.0	1:5.8
25 - 50	15	375	1765	4	3.8	93.8	441.3	1:4.8
50 - 80	4	28	160	2	2.0	14.0	80.0	1:5.5
80 +	16	165	300	3	5.3	55.0	100.0	1:1.82
Total	**150**	**1440**	**5973**	**35**	**4.3**	**41.1**	**170.7**	**1:4.17**

Table 4.7

Investment For BMRE (No.of Units)

RP Groups(%)	No.of Units Responding	No.reporting Investment	Average Amounts (000 mn.Tk.)
0 - 5	13	4(30.7)	6472
5 - 10	6	@(33.3)	5550
10 - 25	6	3(50.0)	3087
25 - 50	4	2(50.0)	2591
50 - 80	3	1(33.3)	-
80 +	2	1(50.0)	4524
Total	34	13(38.2)	-

Table 5.1

General Problems in Repaying (No. of Units)

s	No. of Units Respon-ding	Opera-tional	High Taxes	Interest Accumu-lation	FC value Escalation	Initial delay in setting up project	Others
	17	7 (41.18)	2(11.76)	13 (76.47)	8 (47.05)	7 (41.18)	4 (23.53)
- 10	8	6 (75.00)	1(12.50)	7 (87.5)	5 (62.50)	5 (62.50)	4 (50.00)
- 25	5	1 (20)	1(20)	2 (40)	2 (40)	2 (40)	1 (20)
- 50	5	1 (20)	-	4 (80)	4 (80)	2 (40)	1 (20)
- 80	3	-	-	2 (66.67)	2 (66.67)	1 (33.33)	-
	3	-	-	1 (33.33)	1 (33.33)	1 (33.33)	1 (33.33)
l	41	15 (36.59)	4(9.76)	29 (70.73)	22 (53.65)	18 (43.90)	11 (26.83)
x Poor Repayers / TOTAL	73.2	93.3	100	75.9	68.2	77.8	81.8

Table 5.2

Comments on Govt. Policy & Suggested Changes
(No. of Units)

Policy Related			Export	Subsidy	Lower Taxes	Power supply regular lower rates	Greater market support	More working capital	Price support	Withdraw case
Clear. Policy Execu-tion	Protec-tion	Capa-city								
-	-	-	4(30.7)	1(7.69)	1(7.69)	3(23.0)	1(7.69)	2(15.38)	1(7.69)	1(7.69)
1(12.5)	1(12.5)	-	1(12.5)	-	-	-	-	2(25.0)	-	-
-	1(50.0)	1(50.0)	-	-	2(100)	1(50.0)	1(50.0)	-	2(100)	-
1(25.0)	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1(100)	1(100)	-	-	-
1(50)	-	-	-	-	-	-	-	-	-	-
3(10.0)	2(6.60)	1(3.33)	5(16.66)	1(3.33)	3(10.0)	5(16.66)	3(10.0)	4(13.33)	3(10.0)	1(3.33)

Table 5.2 (Contd.)

Comments on Government Policy
(No.of Units)

Lower DFI Interest	More Repayment Instal-ments	Lower rate of interest on W.C.	G.P.	Cancel interest on over-dues	Distinguish between sincere & insincere repayers	Stabilise the Exchange rates	Conversion of Foreign currency loan to local currency loan	Licence for Spare parts	Lower Fuel price	Consider-ation for disinves-ted In-dustry	Loan amounts should not be doubled	Import problems	Easi rule Mech Prom
8(61.5)	3(23.0)	1(7.69)	3(23.0)	-	2(15.3)	2(15.3)	2(15.3)	1(7.69)	-	1(7.69)	-	1(7.69)	-
2(25.0)	1(12.5)	2(25.0)	-	2(25.0)	2(25.0)	2(25.0)	2(25.0)	-	-	-	-	-	1(12
2(100)	-	-	-	-	-	1(50.0)	-	-	-	-	-	-	-
2(50.0)	1(25.0)	1(25.0)	-	-	-	-	-	-	-	-	1(25.0)	-	-
1(100)	-	1(100)	1(100)	-	-	1(100)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
15(50.0)	5(16.66)	5(16.66)	4(13.33)	2(6.66)	4(13.33)	6(20.0)	4(13.33)	1(3.33)	-	1(3.33)	1(3.33)	1(3.33)	1(

Table 5.3

Steps Taken to Improve Repayment Performance
(Number of Units)

BMB	Increasing Capacity	Increasing Capacity Utilization	Decrease costs	Diversify products	Policy tax Redep.	Greater Export clearance	Sales promotion	Rephasement of loans	Obtaining higher working capital	Start repaying	Improving Electric supply	Improvement Management
-	-	2(50.0)	1(25.0)	2(50.0)	1(25.0)	1(25.0)	4(100.0)	1(25.0)	4(100.0)	-	1(25.0)	-
3(60.0)	-	1(20.0)	-	1(20.0)	-	-	1(20.0)	-	1(20.0)	2(40.0)	-	1(20.0)
-	-	-	-	-	-	-	-	1(20.0)	-	-	-	-
1(100.)	-	-	-	-	-	-	-	1(100.0)	-	1(100.0)	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	1(33.33)	-	-	-	-	-	-	-	-	-	-	-
4(28.6)	1(7.14)	3(21.42)	1(7.14)	3(21.42)	1(7.14)	1(7.14)	5(35.71)	4(28.57)	5(35.71)	3(21.42)	1(7.14)	1(7.1