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Politics, Society and Financial Sector Reform in Bangladesh

Anis chowdhury

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Anis Chowdhury is affiliated with the University of Western Sydney, Australia.

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A. C.

ABSTRACT

This paper examines the financial sector reform experience of Bangladesh. It finds that while there have been some improvements in competition and efficiency, loan defaults still remain a significant problem. It also finds urban bias in loan allocation and shift of resources away from the rural sector. The main obstruction in the area of loan recovery is political interference. It provides a principal-agent explanation of the behaviour of politicians. The paper concludes that effective implementation of an optimal policy mix depends on complex political and institutional factors—both formal and informal. It agues that without moral norms that guide transactions among social agents, donor agency-engineered formal institutional reforms become meaningless. The paper emphasizes the role of civil society organizations in creating and maintaining ethical social behaviour, especially when state agents themselves are involved in fraudulent activities. In the absence of generalized morality and in a society where transactions are still guided predominantly by relationships, perhaps market-oriented policy reform may increase transactions cost.

I INTRODUCTION

> … ethical elements enter in some measure into every contract; without them, no market could function. There is an element of trust in every transaction; … It is not adequate to argue that there are enforcement mechanisms, such as police and the courts; these are themselves services bought and sold, and it has to be asked why they will in fact do what they have contracted to do.
>
> Arrow (1973:24)

Financial sector reform is part of the reform agenda of the so-called 'Washington consensus'. This has been one of the conditionalities of the IMF/World Bank structural adjustment programme. This paper, by using the example of Bangladesh, highlights the fact that while conditionalities may be effective in bringing about some changes in formal institutions, the outcome of any reform depends on much more complex factors imbedded in societal politics and culture guided by informal institutions hitherto ignored in the neoclassical literature. The problem of finding an optimal policy-mix is a technical issue which is much easier, especially for late industrializing countries who do not have to re-invent the wheel. Contrary to the belief of neoclassical economics, the implementation of an optimal policy-mix and their outcomes are not an automatic matter; they depend on political and institutional factors—both formal and informal. The experience with the financial sector reform programme in Bangladesh brings out the fact that without ethical norms that guide transactions among social agents, state-engineered rules become meaningless. The paper begins with a brief account of developments leading to the paradigm of financial sector reform.

II FINANCIAL SECTOR REFORM: A PARADIGM SHIFT

The early development economists saw underdevelopment as primarily a result of market failure. Thus, the policy prescription was to impose *economic* regulation on the financial market in the form of interest rate ceilings, a situation often referred to as 'financial repression'.[1] However, this policy stance came under severe criticisms with the publication of two seminal works by McKinnon (1973) and Shaw (1973). The Shaw-

McKinnon contributions generated a new orthodoxy: financial 'deepening' or development is an essential ingredient of the process of capital accumulation as reflected in savings and investment ratios and their productivity. This in turn contributes to economic growth. Financial deepening is best facilitated by a competitive financial system in which interest rates are market determined and in which there is an absence (or at least insignificance) of administratively-driven selective credit allocation. The policy message that follows from this paradigm is clear. Both financial and real sector development require a comprehensive package of financial liberalization that frees up interest rates to their market-clearing levels and eliminates administratively-determined selective credit allocation.[2]

The hypothesis of financial liberalization appeared to exert quite a considerable influence on policy developments in industrializing nations. As Hanna (1994: 1) notes:

> Theories of the link between financial performance and economic growth, particularly as advanced by McKinnon (1973) and Shaw (1973), have been the basis for a series of financial reforms around the world, most prominently in the Southern Cone of Latin America, but also in Turkey, parts of Africa and East Asia...

The enthusiasm that greeted the financial liberalization hypothesis has turned to be overly optimistic and somewhat naive. To begin with, the empirical foundation of the Shaw-McKinnon paradigm appears less robust than was anticipated—for example, the evidence on the interest rate-savings link is quite ambivalent (see Hossain and Chowdhury 1996; Islam and Chowdhury 1997). A recent study by Bandiera *et al.* (1998: 21) concluded, 'it would be unwise to rely on an increase in savings as the channel through which financial liberalization can be expected to increase growth'. Furthermore, the disastrous results of financial reform in the 1970s in the Southern Cone countries highlighted the need to avoid severe macro-imbalances as a precondition for realizing the beneficial effects of financial liberalization and to pay more careful attention to the sequencing of reforms—see Edwards (1984) for a review. Advocates of the early version of the financial liberalization hypothesis have themselves modified their position and have lent support to a more nuanced version of this view—see McKinnon (1982, 1984, 1988).

However, the recent financial crisis in Southeast Asia has made it clear that too much attention was given to the allocative aspects of the financial system and too little to prudential, organizational and protective regulation—an issue of central significance when one takes account of market failures that characterize financial systems (Stiglitz and Weiss 1981; Stiglitz 1989). The events in Southeast Asia and financial crises in liberalizing countries have exposed the limitations of both the naive view of financial liberalization and its nuanced version. In particular, they indicate that financial liberalization increases the fragility of the banking sector. The problem becomes more acute in the absence of a proper prudential regulatory framework. The problem is compounded by increased capital flows (see Cole and Slade 1999).

TABLE 1
TYPES OF FINANCIAL REGULATION:
OBJECTIVES AND KEY POLICY INSTRUMENTS

Type of regulation	Objectives	Examples of key policy instruments
Macroeconomic	to maintain control over aggregate economic activity maintain external and internal balance	reserve requirements, direct credit and deposit ceilings, interest rate controls, restrictions on foreign capital
Allocative	to influence the allocation of financial resources in favour of priority activities	selective credit allocation, compulsory investment requirements, preferential interest rates
Structural	to control the possible abuse of monopoly power by dominant firms	entry and merger controls, geographic and functional restrictions
Prudential	to preserve the safety and soundness of individual financial institutions and sustain public confidence in systemic stability	authorization criteria, minimum capital requirements, limits on the concentration of risks, reporting requirements
Organizational	to ensure smooth functioning and integrity of financial markets and information exchanges	disclosure of market information, minimum technical standards, rule of market-making and participation
Protective	to provide protection to users of financial services, esp. consumers and non-professional investors	information disclosure to consumers, compensation funds, ombudsmen to investigate and resolve disputes

Source: Adapted from Vittas (1992: 63).

It is now generally agreed that inappropriate regulations and supervisory standards in a country not only retard its long-run economic growth but also increase the likelihood of a financial crisis that could spread beyond the country's own border. Table 1—which draws heavily on Vittas (1992)—provides a simple framework that allows one to locate the importance of prudential and related regulations in the efficient management of financial systems.

Table 1 makes it clear that the liberalization/repression debate has focused primarily on the allocative aspects of the financial system. This in turn reflects the stylized fact that in developing countries, prudential, organizational and protective regulations were hardly considered, largely because information problems were given insufficient attention.

Although Table 1 has set up the different types of financial regulation as seemingly mutually exclusive categories, in reality the different regulations have effects that cut across their designated domain. Thus, global credit controls that stem from macroeconomic objectives also fulfil a prudential function to the extent that they restrain banks from imprudent expansion of credit. Furthermore, as Barth, Capiro and Levine (1998) point out there is relatively little empirical evidence to support any advice regarding specific and comprehensive regulatory and supervisory reforms. This is because detailed cross-country comparisons of financial regulatory and supervisory systems for developing countries do not yet exist. However, based on their preliminary study of 50 countries and other studies, Barth, Capiro and Levine (1998: 6) suggest the following initial steps that could be taken to reduce significantly the likelihood of banking crises:

- Develop and improve legal systems and information disclosure;
- Impose rate ceilings on bank deposits;
- Establish limits either on the rate at which banks can expand credit or on the rate of increase in their exposure to certain sectors, such as real estate;
- Require greater diversification of bank portfolios;
- Reduce the restrictions on the range of activities in which banks can engage.

Barth, Capiro and Levine maintain that it is not possible to determine *apriori* which combinations are most appropriate for individual countries that are at different stages of development. Despite this caveat, it would be fair to maintain that the central purpose of prudential and organizational regulation is to deal with market failure associated with moral hazard, while protective regulation focuses on the need to design a 'fair' financial system that protects the interests of users of financial services.

III FINANCIAL SECTOR REFORM IN BANGLADESH: AN OVERVIEW

Until the early 1980s, Bangladesh had a highly repressed financial sector. Banks and other financial institutions were fully owned by the government. There was no active capital market. As the country ostensibly embraced the ideal of socialist development, the rudimentary Dhaka Stock Exchange—a symbol of capitalism—that existed during the pre-1971 Pakistan period, was closed down. Foreign currencies were strictly regulated and the exchange rate was grossly overvalued.

Financial sector reform was part of the process of liberalization that began with the change of regime in 1975 which resulted in the abandonment of 'socialism' as a state principle. The liberalization process began with the privatization of state-owned enterprises in 1976 in the backdrop of a significant deterioration of the economic condition. The liberalization of the financial sector followed in 1982 with privatization of two nationalized commercial banks (NCBs) and permitting private commercial banks (PCBs) to operate. The country entered into the IMF/World Bank adjustment programmes in the early 1980s, and the process of privatization/liberalization gained momentum under the influence of the World Bank and the IMF. The financial sector reform agenda was formally launched in 1984 with the appointment of the National Commission on Money, Banking and Credit (NCMBC). The Commission submitted its report in 1986 and in response government launched the Financial Sector Reforms Programme (FSRP) in 1990 under a financial sector adjustment credit of the International Development Agency (IDA). The USAID also undertook several technical assistance programmes in order to redress the difficulties faced by the financial sector. The government also formed a high-powered Banking Reform Committee (BRC) in 1996 which reported in 1997 with recommendations concerning setting up and operation of commercial banks. The main issues addressed by the FSRP included:

- Interest rate liberalization;
- Loan classification and provisioning;

- Capital adequacy;
- Introduction of instruments for indirect monetary management;
- Legal reforms;
- Strengthening of central bank;
- Strengthening of bank supervision;
- Improving operational efficiency of commercial banks; and
- Reforms in foreign exchange regime.

Let us now examine the outcomes of each of the above programmes.

3.1 Interest rate liberalization

The Bangladesh Bank (central bank) introduced a flexible market-oriented interest rate policy in January 1990 abolishing the earlier system of centrally administered interest rate structure and providing for sector specific concessional refinance facilities. Under the new policy, interest rate bands were prescribed for different categories of loans, advances and deposits within which banks were free to fix their own rates. Lending rate bands were determined on the basis of shadow rates[3] and deposit rate bands were determined taking into consideration the expected rate of inflation so that the real rate remains positive.[4] For lending rates below a shadow rate, government paid subsidies to the banks, thus making subsidies transparent. The interest bands were dropped in 1992 except for three sectors—exports, agriculture and small and cottage industries. The Bangladesh Bank now fixes only the minimum deposit floor rates for savings and fixed deposits, and banks are free to fix the interest rate for lending on the basis of commercial and financial consideration. Banks also are allowed to charge differential interest rates on the basis of risks attached to borrowers and term loans on the basis of maturity periods. Interest rate subsidies are applicable only in the case of small and cottage industries sector. However, following the most recent budget for the fiscal year 2000-2001, the NCBs have decided to lower lending rates to 10 per cent for 15 'thrust' sectors, such as physical infrastructure, IT, textiles, oil and gas and agro-based business. This has been possible despite a huge proportion of loans being classified on account of state owned industries (SOEs) due to government decision to offset default loans by giving them Tk 18 billion worth of interest bearing bonds.

3.2 Loan classification and provisioning

In the past, no hard and fast rule was followed in determining the classified loans, and there was no uniform system with regard to interest suspense. The classification norms were first fixed by Circular No. 34 of Banking Control Division (BCD) in 1989. Loans are now classified into four categories—unclassified, substandard, doubtful and bad loans. Initially, loans over due by six months and more were classified. However, with a view to bringing the classification criteria in line with the international norms, the time limit has been reduced to three months from December 1998. When the classification and provisioning procedure was first introduced, it resulted in a huge shortfall in respect of provisioning. The nationalized commercial banks (NCBs) were given interest-bearing bonds by the government for meeting the shortfall, and the private commercial banks (PCBs) were allowed time to cover the shortfall.

3.3 Capital adequacy

Initially a 5 per cent of total deposits was required to be kept as capital. This rate was subsequently raised to 6 per cent of total liabilities. This requirement was brought to the international standard in 1996 to ensure that banks do not remain under capitalized, a minimum of 8 per cent of risk weighted assets has replaced the previous system that was based on liabilities. The huge shortfall in capital adequacy of the NCBs was met by massive infusion of capital by the government in the form of cash and bonds.[5] The PCBs were given time to meet the shortfall.

3.4 Introduction of instruments for indirect monetary management

To facilitate indirect monetary control, Bangladesh Bank Bills of different duration (30-day and 91-day) were introduced in 1995. Banks, financial institutions, corporate bodies and individuals are allowed to purchase these bills through tender.

3.5 Legal reforms

A variety of legislation concerning the financial sector was enacted. They include (a) the Money Loan Court Act (1990), (b) the Bank Companies Act (1991), (c) the Financial Institutions Act (1993) and (d) the Securities and Exchange Commission Act (1993), (e) the Depository Bill (1999), and (f)

Bank Deposit Insurance Act (1999). Subsequently, the Bank Companies Act, the Money Loan Court Act, the Securities and Exchange Commission Act and the Negotiable Instruments Act of 1881 were amended in light of the experience of their application. Furthermore, as the Insolvency Act (1920), and the Insolvency Act, Dhaka (1909) were found to be totally inadequate to deal with the problem of bankruptcy[6], a new Bankruptcy Act was passed in 1997.

3.6 Strengthening of central bank

With a view to strengthening the Bangladesh Bank (BB), a full-fledged new department, called the Monetary Management and Technical Unit has been assigned with the responsibility of formulating monetary, credit and reserve money programmes, interest and exchange rate policies. The Unit also monitors the developments in the fields of money and banking. A separate department has been set up to oversee the activities of the non-bank financial institutions. A Credit Information Bureau (CIB) has been set up to provide ready information on default borrowers to the banks. The following steps were taken to strengthen the institutional capability of the BB:

i) the BB has been empowered to issue licences, monitor and supervise the activities of the non-bank financial institutions under the Financial Institutions Act (1993);

ii) the appointments of chief executives of PCBs have been made subject to the approval of the BB, and the BB has been given the power to remove directors/board of directors of PCBs under the Bank Companies Act (1991);

iii) the appointments of chairmen, managing directors and directors of NCBs and government owned financial institutions have been made subject to the approval of the BB, and the BB has been given the authority to recommend the removal of members of the board of directors of NCBs;

iv) approval of the BB is made necessary in cases of large loan exposures of the banks and other financial institutions, and

v) the BB has been empowered to impose penalty without resorting to court proceedings.

3.7 Strengthening of bank supervision

A number of measures have been introduced for improving the supervision of financial institutions. Off-site supervision has been introduced and an unit has been set up for the purpose in the Department of Banking Operation and Development. A manual for off-site supervision has also been prepared. The on-site supervision has been strengthened. A Large Loan Review Cell and an Early Warning System have been introduced within the BB as part of prudential supervision. A separate cell has been set up to oversee the activities of non-bank financial institutions. A large number of BB officials have been trained both domestically and abroad in the areas of bank operations and supervisions. Evaluations of financial performance of scheduled banks are being made through 'CAMEL' rating. The BB has introduced a Memorandum of Understandings (MOU) for banks and all problem banks directors are required to sign the MOU in respect of seeking to redress the specific problems facing banks.

3.8 Improving operational efficiency of commercial banks

A significant step in improving the operational efficiency of commercial banks involves the change in the way chairmen and managing directors (MDs) are appointed to the NCBs. To begin with the practice of appointing party loyalists to these key posts has been discontinued. A committee headed by the Finance Minister has been authorized to appoint MDs on contract basis through open advertisement. Furthermore, as mentioned earlier, these appointments are to be cleared by the BB. These measures are designed to ensure that persons of high integrity and proven record are appointed to these posts. Under the FSRP the following measures have been introduced for improving operational efficiency of banks:

i) a performance planning system (PIS) under which NCB branch managers are required to develop a small number of clearly defined and quantifiable goals for the year;

ii) a new loan ledger (NLL) system that requires NCBs to keep account-by-account records which were not available in the past;

iii) a new management information system (MIS) that contains an executive summary and critical management summary information;

iv) computerization;

v) staff training;

vi) a new lending risk analysis (LRA) system to enhance credit risk analysis and credit discipline, and

vii) a large loan reports system (LLRS) for monitoring large loans closely on a regular basis.

3.9 Reforms in foreign exchange regime

Since the mid-1970s an active secondary foreign exchange market has been operating under the Wage-Earners' Scheme under which the remittances of expatriate Bangladeshis are transacted for financing a list of imports. The official and secondary rates were unified in 1992. The current account was made fully convertible in March 1994 and a flexible exchange rate (crawling peg) policy pursued in relation to a basket of currencies. Banks are free to determine their own rates of dollar and other cross-rates. Substantial relaxations have also been made to facilitate the easy flow of foreign capital in the securities market. Foreigners can invest any amount in both primary and secondary market and repatriate the capital along with capital gains without any restrictions through the normal banking channel. However, after the speculative attack on the stock market in 1995, some restrictions have been placed on the duration of investment to prevent quick withdrawals.

IV AN ECONOMIC EVALUATION

4.1 Loan defaults

The most crippling problem of the financial sector in Bangladesh is loan defaults. In 1989 classified loans stood at 29 per cent of all outstanding loans. By the end of 1998, it rose to over 39 per cent. More importantly, the share of portfolio as classified bad has increased steadily as the loans previously classified as sub-standard or doubtful have not been recovered (Hassan 1997: 57). About 72 per cent of total classified loans were categorized as bad as on 30 June 1997. The proportion of classified loans attributable to NCBs was about 66 per cent in 1997 and shows a rising trend (Bhattacharya 1998: 135). To some extent, however, this reflects the dominance of NCBs (over 50 per cent of total advances as opposed to about 25 per cent for PCBs). However, the loan default rate has been found to be slightly higher for the PCBs—35.3 per cent as opposed to 34.5 per cent for NCBs (Bhattacharya 1998: 135). Estimates by Hassan (1997) show that performing loans are 74 per cent for NCBs while that for PCBs are 68 per cent. Hassan (1997) also reports that in the private sector 50 per cent of unrealized loans were overdue as opposed to 36 per cent in the public sector as of December 1995. The private sector accounted for 89.5 per cent of all unrealized loans and 92.2 per cent of the loans overdue to the commercial banks. The recent data show that until January 2000, the state-owned enterprises (SOEs) had Tk 44.371 billion outstanding loans to NCBs and of this 47 per cent are classified.[7]

TABLE 2
NOTICE ISSUES FOR RECOVERY OF OVERDUE LOANS OF BANK DIRECTORS
(AS OF 31 DECEMBER 1998)

	1996		1997		1998		Total	
	No. of directors	Loan amount	No. of directors	Loan amount	No. of directors	Loan amount	No. of directors	Loan amount
1	2	3	4	5	6	7	8=2+4+6	9=3+5+7
Adjusted/ rescheduled	00	00	37	547.8	03	06.2	40	554.0
Court's stay order	01	56.1	24	1174.4	06	1220.7	31	2451.2
Directorship vacated/ resigned	00	00	04	84.7	00	00	04	84.7
Total	01	56.1	65	1806.9	09	1226.9	75	3089.9

Note: Loan amount in million taka.
Source: Ministry of Finance report, obtained by the author.

There has been substantial effort in recovering loans. A task force has been formed to accelerate loan recovery. As part of the loan recovery drive, actions were taken against 75 bank directors for violating banking rules by the middle of 1998 and courts have given stay orders in case of 31 directors (see Table 2). Between January-July 1997 a total of Tk 27,980 million was recovered from defaulters of 15 banks, which is over 21 per cent of the matching total overdue balance as on July 1997. During the same period loans of Tk 11,600 million were rescheduled. Estimates by Hassan (1997) show that the incidence of non-repayment has declined in most sectors. In the agricultural sector, the non-payment of unclassified loans fluctuated between 27 and 41 per cent. There have been slight increases in non-payment in the case of loans to commercial and small industries sectors. There has been a significant improvement in the case of term loans, generally found to be the worst defaulters, with only 48 per cent performing in 1989. The performance loans have increased to 81 per cent in 1994.

While the above is the overall picture, the situation seems to have improved in the case of new loans. The Ministry of Finance estimates show that the percentage of classified loans to total outstanding loans during 1 January 1996 to 21 December 1998 was only 9.36 per cent. The breakdown reveals that about 12.5 per cent of NCBs loans were classified, as opposed to about 5 per cent of PCB loans during this period. The proportion of classified loans of specialized banks was nearly 16 per cent for the same period. Nonetheless, the overall quality of loan portfolio of banks still remains unhealthy with over 41 per cent of all loans (amounting to Tk 240 billion) being classified as of 31 December 1999.[8] Although in most cases the Financial Courts ruled in favour of banks, actual collections of defaulted loans have been very limited, as the action had to return to the regular court system.[9]

4.2 Interest rates

An important objective of the financial sector reform is to make the real interest rate positive. To this end, both deposit and lending rates were adjusted upward in 1980-81 by 2-3 per cent, but the real deposit rate still remained negative until the mid-1980s (Table 3). Although the spread between the deposit and lending rates shows a slight tendency to rise, it remained more or less stable. What is worth noting here is that the PCBs have maintained higher deposit rates than NCBs in their effort to attract more funds (Table 4). This should be viewed with caution as banks have to charge higher lending rates which might invite risky borrowers (Stiglitz and Weiss 1981).[10] This becomes all the more serious when insider lending is still rife within the PCBs. The directors of banks have found ingenious ways of giving loans to themselves by using fictitious names and accounts. Furthermore, the tendency to charge higher deposit rates indicates that the high capital adequacy requirement is not deterring the banks.[11] The Banking Reform Committee (BRC) did in fact raise the issue of violation of capital adequacy requirement and Bhattacharya (1998) found evidence of such violations by PCBs. The monitoring of this requirement is not straightforward due to valuation problems (see Caprio and Honohan 2000). Thus, following the recent analysis of Hellmann, Murdock and Stiglitz (2000) and the suggestion of Barth, Capiro and Levine (1998), perhaps the current system of setting deposit rate floor should be replaced with a deposit rate ceiling by the BB.

TABLE 3
INTEREST RATES AND INFLATION RATES

Year	Deposit rate	Lending rate	Inflation
1975-76	4.23	11.62	-23.75
1976-77	4.32	11.03	-3.28
1977-78	4.22	10.66	30.51
1978-79	4.27	11.12	12.99
1979-80	4.31	11.04	13.03
1980-81	6.98	13.07	10.51
1981-82	7.29	13.53	12.58
1982-83	7.36	13.35	4.90
1983-84	8.11	13.75	16.62
1984-85	8.13	14.50	14.70
1985-86	8.54	14.66	10.00
1986-87	8.59	14.70	10.91
1987-88	8.69	14.66	7.38
1988-89	8.88	14.68	7.63
1989-90	9.06	14.83	4.96
1990-91	9.11	14.99	9.46
1991-92	8.11	15.12	4.32
1992-93	6.51	14.39	0.08
1993-94	5.34	12.78	4.14
1994-95	4.86	12.22	9.09
1995-96	6.11	13.41	5.73
1996-97	6.67	13.69	1.47
1997-98	7.07	14.02	4.37

Notes: Rate of interest on scheduled banks (weighted average as at end quarter); inflation as measured by national income deflator.

Source: Bangladesh Bank, *Economic Trends* (November 1994 and May 1999).

TABLE 4
INTEREST RATES OF SELECTED BANKS

	Nationalized		Partially privatized		Privatized					
	Sonali		Rupali		City		National		Uttara	
Category	1994	1995	1994	1995	1994	1995	1994	1997	1994	1997
Savings deposit:										
Rural	4.50	7.75	4.50	7.50	6.00	8.00	6.00	7.25	5.00	7.75
Urban	4.50	7.75	4.50	7.50	6.00	8.00	6.00	7.25	5.00	7.75
Lending rates:										
Agriculture	11.00-12.50	13.50-13.75	12.50	13.75	11.50-14.00	11.50-14.00	11.00-14.00	13.00	13.50-14.00	14.00
Large & medium	10.50	14.50	11.50	14.50	14.00	15.50	14.50	15.00	13.50	15.00
Working capital	12.50	15.50	11.50-12.50	15.50-16.00	11.00-14.00	11.50-16.00	14.50	15.50	14.50	15.50-16.50
Exports	8.50	10.00	8.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Commercial	12.50	16.00	12.50	16.00	14.50	14.00-16.50	14.50	16.00	14.50	16.50
Small industry	9.00	11.00	8.50	11.00	12.00	12.00	12.00	12.00	12.00	12.00
Others	12.50	12.00-18.00	12.50	15.00-18.00	14.00-14.50	14.50-18.5	14.50	16.50	13.00-14.50	15.50-16.50

Notes: Interest rates are at different dates of the year.

Uttara and Pubali Banks are two banks sold to their previous Bangladeshi owners and started functioning as private banks from 5 November and 16 July 1984, respectively.

Rupali Bank, which was formerly Muslim Commercial Bank before independence was privatized only partially. Its sale was stalled amid growing opposition from the union and allegation of undervaluation by the government which apparently wanted to sell to its cronies.

National Bank is the first private sector bank to start in Bangladesh.

Sonali Bank is the largest bank.

Sources: Bangladesh Bank *Economic Trends* (November 1994, May 1999).

4.3 Privatization, competition and efficiency

The privatization programme began in the early 1980s. The government started the programme first by selling two nationalized banks (Pubali and Uttara) to their former owners. Since the former owners were Bangladeshis, there was no major legal hurdle to divestment and it was politically acceptable, too. To make it politically more acceptable, a portion of shares were reserved for employees and a small part for the government. The Pubali Bank started its operation as a private bank from 16 July 1984 and the Uttara Bank from 5 November 1984. Government's effort to privatize the Rupali Bank faced substantial political resistance from both unions and opposition parties. There was also accusation of under-valuation and underhand plans to sell it to cronies of the existing regime. At the end, it could only be divested partially.

There are now three nationalized banks, one partially nationalized bank and twenty-seven domestic private banks[12] and thirteen foreign banks. In addition, there are five specialized development banks and micro finance institutions such as the Grameen Bank. The NCBs still dominate the banking sector. However, their market share is declining. In the mid-1980s, the NCBs had a share of 69 per cent in total deposits and 56 per cent in total advances. By mid 1998, their share in total deposits declined to about 60 per cent and to about 51 per cent of total advances. This shows that competition has been more aggressive in deposit markets where PCBs are offering higher returns. The PCBs have increased their market share of deposits from 20 per cent to over 27 per cent between 1986-1998, indicating that the decline (9 per cent) in NCBs' share of deposit markets has entirely been captured by PCBs. However, competition has also meant that the interest income as a proportion of total revenue of the PCBs has declined secularly from over 85 per cent in 1983 to about 73 per cent in 1995 and income from commission and brokerage has remained stable (Appendix Table A).

Table 5 presents net profit per employee of banks. As can be seen, foreign banks have the best performance record, although they are not directly comparable with private domestic banks as they have better technology and serve niche markets. Private domestic banks perform better than NCBs. These findings are consistent with Hassan (1995, 1997) who used multiple performance indicators to show that domestic and foreign banks have better operational efficiency and are more productive than NCBs and the denationalized banks (DNCBs). Deposits and loans per employee in the

PCBs (domestic and foreign) are almost twice that in NCBs. Private banks also offer more products. The gross intermediation margins of the NCBs have been consistently lower than those of private banks, and declining. As a result, the private banks were found to be most profitable. An examination of the cost structure of NCBs and PCBs show that wages and salaries dominate (about 27 per cent) NCBs' expenditure, whereas it is interest payments that dominate in the case of PCBs (Appendix Table B).

TABLE 5
NET PROFIT PER EMPLOYEE (MILLION TAKA)

Year	Nationalized banks	Private banks	Foreign banks
1980	0.003		0.034
1981	0.002		0.083
1982	0.004		0.112
1983	0.005		0.113
1984	0.008	0.007	0.144
1985	0.006	0.012	0.171
1986	0.005	0.013	0.134
1987	0.003	0.016	0.199
1988	0.001	0.017	0.186
1989	0.0009	0.009	0.058
1990	-0.008	-0.001	0.210
1991	-0.006	-0.007	0.321
1992	-0.023	-0.004	0.464
1993	0.005	-0.005	0.658
1994	0.012	0.009	0.769
1995	0.037	0.038	0.980
1996	0.010	0.065	0.972
1997	0.036	0.091	1.200

Sources: Bangladesh Bank, *Economic Trends* (November 1994 and May 1999).

It is now revealed that the 'government skipped the essential task of properly evaluating asset values and restructuring of finances' in privatizing the banks (Hassan 1997: 66). There were no major management changes and the privatized banks remain over-staffed. As a result, the performance of these banks has not improved in any significant manner.

One interesting point to note is that both NCBs and PCBs had net losses during the period 1990-1993. This was basically due to loan classification and provisioning. With the loan classification, banks were not allowed to accrue interests on overdue loans and had to make large provisions for bad and doubtful loans. This had significant impact on banks interest income and capital.

Credit to the public sector has declined significantly from about 37 per cent in 1983 to around 11 per cent in 1997 with a commensurate rise in credit to the private sector (Appendix Table C). This may be regarded as a healthy sign, but an examination of lending by banks reveals a rising trend in credit to real estate, construction and commerce which are vulnerable to economic fluctuations (Appendix Table D). Thus, banks are perhaps exposing themselves to more risky investment. Furthermore, while the demand of state owned enterprises (SOEs) has been declining since 1994 to some extent, the autonomous bodies such as water and electricity boards are showing a sign of increasing demand for credit to the public sector.

V A SOCIAL EVALUATION

One of the arguments in favour of financial repression is that it allows government to direct credit to socially desirable sectors. Left to the market mechanism, credit may not flow to sectors which are perceived to have low private returns. Thus, financial liberalization may result in diversion of funds from rural and agricultural sectors and small cottage industries, with serious implications for poverty and inequality.

Table 6 presents the rural shares of bank advances and deposits. It shows that there has been a secular decline in the share of rural advances. This is despite the fact that the share of rural deposits has secularly gone up. Thus, there is a clear indication of transfer of funds from rural to urban sectors. Table 7 presents the share of agricultural sector, and it shows a similar trend. Commensurate with these findings we also find that there is a decline in rural branches while the number of urban branches increased by nearly 8 per cent during 1998.[13] These findings are in line with the those of the Ministry of Finance as reported in Hassan (1997).

TABLE 6
SHARE OF RURAL SECTOR IN TOTAL BANK DEPOSITS AND ADVANCES (PERCENTAGE)

Year	Deposits	Advances
1984	0.17	0.258
1985	0.17	0.283
1986	0.183	0.263
1987	0.186	0.233
1988	0.197	0.240
1989	NA	NA
1990	0.214	0.219
1991	0.215	0.199
1992	0.218	0.190
1993	0.221	0.199
1994	0.220	0.197
1995	0.227	0.197
1996	0.227	0.186
1997	0.231	0.178
1998	0.227	0.165

Sources: *Statistical Yearbook of Bangladesh* (1990, 1998) and Bangladesh Bank, *Scheduled Banks Statistics* (July-Sept. 1998).

TABLE 7
SHARE OF CREDIT TO AGRICULTURE (PERCENTAGE)

Year	Agriculture 1	Agriculture 2
1983	0.254	0.309
1984	0.287	0.279
1985	0.366	0.301
1986	0.374	0.308
1987	0.323	0.258
1988	0.317	0.243
1989	NA	0.247
1990	0.211	0.218
1991	0.188	0.192
1992	0.178	0.179
1993	0.187	0.178
1994	0.179	0.168
1995	0.173	0.159
1996	0.161	0.150
1997		0.152
1998		0.146

Notes: Agriculture 1: Based on bank advances by main economic purposes
Agriculture 2: Based on bank credit by sectors (private and public).

Sources: *Statistical Yearbook of Bangladesh* (1990, 1998) and Bangladesh Bank, *Scheduled Banks Statistics* (July-September 1998).

The shift of resources from rural to urban sector may be consistent with the classical two-sector growth model with surplus labour. However, this may have serious implications for poverty and inequality in a country where nearly 57 per cent of rural population live below the poverty line and income inequality of households shows a rapidly rising trend.[14] Wodon (1999) shows that rural growth is more poverty-reducing than urban growth, because rural growth increases inequality less than urban growth. Estimates by Sen (1998) and Ravallion and Sen (1996) show that there has been a rise in rural poverty measured by the headcount index, as well as a rapid divergence in rural-urban incidence of poverty during the period 1991-92 and 1995-96. During the same period the rural poverty gap has risen from 14.6 per cent to 15.8 per cent. At the same time, the national Gini coefficient has risen from 0.380 in the early 1980s to 0.432 in 1995-96. The rural Gini has increased from 0.350 to 0.384 during the same period. The Gini has jumped dramatically since 1991-92, a period coincided with FSRP.

The cause of unsustainable rise in urban population, especially in the capital city and slums, may lie in this shift of resources away from rural and agricultural sector. The urban migration of population may have caused the dramatic rise in urban Gini coefficient from 0.398 in 1991-92 to 0.444 in 1995-96. Thus, one may also doubt whether the urban bias will at the end contribute to overall growth of the economy. To begin with, the rising inequality and poverty are likely to lead to a loss of support for the reform programme. Furthermore, there is a growing body of literature which shows that the rise in inequality and poverty is detrimental to growth as they may lead to social unrest and civil commotion. Tony Addison's (1999) work is particularly interesting, and shows that there is a clear link between financial sector policies and social conflicts.

VI POLITICS AND REFORMS

Through the FSRP, Bangladesh has put in place all the 'right' legal and administrative frameworks. On paper, the financial system meets almost all the international and textbook standards. Therefore, can we conclude that the financial sector of Bangladesh is sound and safe? Unfortunately, the answer is no. This is because of political interference and the lack of political will to enforce the regulations. As a matter of fact, Bangladesh fits the description of political interference of banks as depicted in Caprio and

Honohan (2000). Concerns about the role of politicians have been raised at the highest level. The president of the country in a speech in July 1999 categorically said, '… political parties cannot continue without support from the big loan defaulters, just as they cannot continue without students, musclemen and terrorists' (*The Daily Star*, 12 July 1999: 1). The president summarized the problems of the banking sector in the following words,

> The main problems are financial mess, loan default culture, negative activities of trade unions, excess manpower, corruption and lack of ethics …. These loan defaulters have created a very dangerous situation in the banks and other financial institutions. They are very powerful and have political patronage.

Exactly a year on, the situation has not improved. Citing a survey, Professor Wahiduddin Mahmood, chairman of the Banking Reform Committee, noted that MPs, political leaders and union leaders influenced over 80 per cent of bank loans to the private sector. He further noted that in 46 per cent of the cases, ministers used their influence to compel banks to sanction loans to their favoured persons, while in 35 per cent of cases, MPs influenced the loan decisions of banks.[15]

The same has been echoed by one of the respected senior economists of the country, Professor Rehman Sobhan. In his words,

> The country's political institutions are being increasingly dominated by a section of the affluent elite who exercise considerable influence on major political parties and the parliament. This in turn influences bank boards and their management to condone default by repeatedly rescheduling defaulted loans. Since a number of defaulters are now sitting in parliament, they have the capacity to bring their concerns directly before our legislators. A recent incident in which a parliamentary committee intervened to argue for a defaulter and take the Finance Minister to task is a demonstration of the influence of defaulters on the political system.[16]

With the up-coming elections in mind, the government has caved in to the demands of a section of the business class and asked the Bangladesh Bank to relax its loan approval criteria. Under the previous system an individual or a company related to a company which has defaulted loans was to be disqualified for a fresh loan. A section of the business has convinced the government that this stricter rule was stifling some good companies. Under pressure from the government, the BB has relaxed the rule to allow fresh loans to such persons or companies who are related to a company whose loans are classified as substandard or doubtful. The Finance Minister has also asked the BB to revert back to the loan classification criteria from a three-months to a six-months repayment failure. The governor of the BB believes that these changes will defeat attempts to bring some discipline in the financial sector.[17]

So much for loan defaults which has plagued the banking sector. When it comes to the management of banks, the BB also lacks teeth, despite the fact that it has legal authority to appoint and remove chairmen, MDs and board of directors. This came to openly involving one private bank (United Commercial Bank Ltd.). An influential member (treasurer of the national executive and an MP) of the ruling Awami League (AL) was indicted in the murder of the chairman of the bank. He went into exile to avoid arrest, but came back when the Awami League won the last election. He wanted to regain control of the bank and there was violence. The Bangladesh Bank acted by appointing an outsider as administrator following armed take-over by the said AL leader, but he lasted only a day because the Supreme Court overturned BB action which was not liked by this influential personality.

The management and operation of NCBs are also severely affected by the trade union activities. The trade unions are affiliates of various political parties, especially of the three largest ones. Although the Industrial Relations Ordinance (1969) allows for a maximum of three registered unions in a bank[18], in practice there are 5-6 unions operating in each bank, including the Bangladesh Bank (Bhattacharya 1998). The leaders of trade unions and central bargaining agencies virtually run a parallel administration controlling postings, promotions and transfers of employees and officials. In one incident, the MD of a NCB (Agrani Bank) had to quit his job under pressure from the union when he wanted to implement a massive transfer plan for the mid-level officials.[19] The situation did not improve despite the warning of the World Bank which wanted a ban on union activities as a pre-condition for its financial and technical support to the reform programme. The government's response was to form a task force on union activities which recommended suspension of union activities in the banking sector and suggested to declare the banking sector an emergency service. Obviously the implementation of these recommendations requires a very strong political will and courage as the political parties will have to disassociate themselves from their affiliated unions.

Besides political interference, one can also find an expansionist tendency of the AL government. This is revealed by the rise in public sector borrowings from the banking system. Professor Mahmood noted that for the first time in the country's history, net credit to the public sector from the banking system has exceeded that to the private sector.[20] Besides the loss-making SOEs, this development relates to the 'populist' tradition of the Awami League government which is reflected in its declared number one objective of poverty reduction. It continues to maintain a large public sector, as a huge budget deficit (close to 7 per cent of GDP) in the 2000-2001 fiscal year shows, and shies away from restructuring (or divesting) SOEs as these are used for distributing state largesse through employment opportunities. In the last budget before the next election, it decided to increase agricultural credit and chose to borrow from the banking sector rather than widen the revenue base.

6.1 A principal-agent explanation of political behaviour

For the understanding of the above state of affairs, we invoke the 'principal-agent' framework that deals with problems associated with asymmetric information between an agent and a principal. In this case, there are two problems—the relation between the government and citizens (voters), and the relation between the government and donors. In both cases, government is the agent. Let us first deal with the second case—the government-donor relation where the government has a better knowledge of its intention of how to use the aid money. To solve this problem of asymmetric information, the donors can use conditionality to induce the government to undertake certain reforms. For them to be effective, aid and grants should come in tranches. In the case of Bangladesh we can at least say that 'formal' changes in the financial sector were the results of donor conditionalities. Thus, if we evaluate the conditionalities on the basis of 'input-output' criteria then they appear to be an effective tool to elicit conducive behaviour from the agent. However, judging by the 'outcome' criteria[21], conditionalities do not seem to have achieved much. There is an extensive literature which deals with the failure of conditionalities (see Drazen 2000 for a brief survey). One of the reasons for failure is that outcomes can be confounded by many factors and the agent can use them as excuses. More importantly, conditionalities cannot be applied to 'informal' institutional changes which are intangible, but are fundamental ingredients in outcomes as they influence transactions among social agents.

Next we turn to the relation between the government (agent) and voters (principal) where the government (politicians) has better information. The electorate choose representatives who do not have exactly the same preferences as they do over policies. Despite all the announcements in an election manifesto, the politicians (candidates for the agency) know better about their intention than the voters. One fundamental difference in this case from the government-donor relation is that there is more than one principal and hence no 'formal' contract between the two parties can be signed (Dixit 1996). The only way the voters can induce conducive behaviour from their representatives is through the threat of eviction. So, the party in power must earn reputation in a repeated game. Therefore, for the threat of eviction to be effective, we need to have at least an independent election commission.

There should, of course, be some supporting institutions for the satisfactory resolution of both principal-agent problems. Both voters and donors must be able to know what is happening for which there should be institutions to enhance accountability and transparency. The formal institutions that are needed for these purposes are an independent anti-corruption bureau, an independent judiciary and an independent auditor general's office.[22] These are supposed to work as 'checks and balance' on the power of the executive arm of the government. However, even if the desired formal institutions are in place, there is no guarantee that the voters can have effective control over their representatives' behaviour. As Ferejohn (1986) has shown, when the electorate are heterogeneous, the incumbent can play them off against each other, so that he/she is entirely uncontrolled by the electorate. The voters also cannot trust the challenger as he/she cannot offer a binding commitment. Thus, the distributive conflict among the voters may lead to an outcome where all of them suffer.

Bangladesh is far from having these formal institutions. Although the chief election commissioner is supposed to be appointed on the basis of an all-party consensus, the government has recently appointed the chief commissioner unilaterally. The chief commissioner's power is limited in practice as is reflected in many occasions. The successive governments in Bangladesh have skirted the notion of having an independent anti-corruption agency, and the agency is controlled by the Prime Minister's office. Referring to the present government's attitude to this issue, an influential local daily in its editorial has commented, 'One can expect two things to happen from such an obsessive insistence on keeping the bureau of anti-corruption under the Prime Minister's office: first, corruption which is basically the handmaiden of ruling party functionaries—in cohorts with public officials—will be indirectly encouraged. Secondly, such an anti-corruption bureau can be used as a weapon against political opponents with alternating frequencies'.[23] Critiques have also pointed out to the politicization of the judiciary and other government functionaries such as the police and the bureaucracy. The parliament has no opposition members since the opposition parties decided to walk out in protest against the partisan rulings of the speaker.[24]

The above discussion shows that the ability of societal actors to evoke governmental responsiveness or accountability in Bangladesh is almost nil. More importantly, the ruling elite does not just resist, ignore or fail to solve the country's political, social and economic problems, it often operates in defiance of widespread public demands as demonstrated by the recent enactment of Special Powers Act and the Public Safety (Special Provision) Act in the face of massive protests. Critiques believe that this act has been enacted keeping an eye on the looming election and for harassing the opposition.

One of the reasons for the resistance to criticism and social protest within the political space has been the qualitative shrinkage of the political sphere. This happened for a number of factors. First, since the independence of the country political parties have gone through many realignments which saw re-groupings of both left- and right-wing parties. Second and more importantly, with the end of the cold war and globalization, political platforms of both left and right have converged. As a result, the only competition between the parties is over 'who' will implement the policies, and it has become difficult to differentiate among political parties except for their leaders. There is a complete absence of vision and values in the political and economic debates which have degenerated in personal mud-slinging and stuck in the past.[25]

VII CONCLUDING REMARKS: MORAL CONSTRAINTS AND THE CIVIL SOCIETY

Following Sen's (e.g. 1998, 1999a, 1999b) work, one would have expected to see less of a failure of public policy in a democratic society with a free press. This is at least what the governor of the Bangladesh Bank, Dr Farashuddin Ahmed, hoped for a year ago: 'With public awareness growing, the banking sector would soon be able to restore a congenial atmosphere to contribute to the national economy'.[26] Despite a very vocal press and respected personalities, including the president of the country, pursuing the issue of loan defaults and political connections, the dismal and corrupt state of affairs in Bangladesh continues.

This shows that formal institutions do not matter as such unless they can induce changes in the way social agents behave. The behaviour of social actors is influenced more by informal institutions and hence they have to complement the formal institutions. For example, the formal legal system of punishing a criminal may fail if the society protects him/her. In a society where a person having wealth way above what his/her known source of income would allow him/her to accumulate is not ashamed, rather can command respect or buy influence through some rationalizing exercise of 'charity', the anti-corruption agency may find it very difficult to enforce whatever anti-corruption law is available to it.[27] The successful experience of the Grameen Bank shows that peer monitoring through shame, reprimand and encouragement has a superior outcome than the formal collateral requirement.

Unfortunately, it is more difficult to change informal institutions than formal ones, and there is no blueprint that may be followed to induce such changes. However, it seems that the failure of formal institutions can eat away ethical norms of the society, and may induce perverse social response. One example that springs to mind, is the taking of law and order into one's hand when the authority fails which eventually may encourage deviant behaviour. That is, the interaction between formal and informal institutions may be asymmetrical. While it may take a very long time for formal institutions to induce changes in social behaviour, their failure can cause social degeneration at a much faster rate. For that reason alone, we must emphasize strengthening formal institutions.

Although so far civil society has not been able to induce government accountability, the role of a living and watchful civil society should not be underestimated in creating and maintaining ethical social behaviour. This is all the more important when the state is wanting in this respect and its agents are themselves involved in various sorts of illegal or fraudulent activities. A civil society in the first place can unite the electorate to vote on the basis of aggregate performance of the government rather than narrow sectional interests so that politicians cannot play off one against the other. This has been done in many occasions in the past.[28] More recently, civil society groups played a significant role in deposing the dictatorial regime of Ershad in 1990. In the long run, civil groups should strive to create and maintain generalized morality, so that moral norms can act as a substitute for, or a reinforcement of, formal rules and control mechanisms, with the result that formal enforcement and punishment institutions become of secondary importance.

Based on the experience of the Asian financial crisis, long-time proponents of financial liberalization Cole and Slade (1999:111) concluded that if the financial sector is liberalized without adequate prudential regulation, financial institutions are likely to be 'captured by powerful political and/or business interests that operate the institution to serve their own interests rather than those of the creditors/depositors'. This is indeed the experience of Bangladesh. But the experience of Bangladesh also brings a new dimension to the issue of sequencing of reforms. The powerful business interests may either capture the regulator institutions or make them ineffective through their political connections. Thus, liberalization and formal institutional reforms do not necessarily reduce or eliminate transaction costs. Given the absence of a code of conduct based on the principle of abstract equality among individuals, the actual transaction costs are likely to be higher after the introduction of the reform programme (Platteau 1994). As Sen (1999b) has pointed out, the problems arise not from the existence of markets per se. They arise from an 'inadequate preparedness to make use of market transactions, unconstrained concealment of information, or unregulated use of activities that allow the powerful to capitalize on their asymmetric knowledge and command over resources … Indeed, the overall achievements of the market are deeply contingent on political and social arrangements' (Sen 1999b).[29]

NOTES

[1] See Hossain and Chowdhury (1998) for a survey of issues involved.

[2] See Islam and Chowdhury (2000) for a survey of issues involved.

[3] Calculated on the basis of cost of funds, returns on capital, risks and operating costs.

[4] 0.5-1 per cent above the inflation rate.

[5] The government recapitalized the NCBs to the extent of Taka 17.3 billion in 1992 and Taka 14.6 billion in 1993 (Hassan 1996).

[6] One of the problems was the time consuming nature of disposing the bankruptcy cases through the process of civil courts. Under the new Act, exclusive bankruptcy courts have been set up for the commercial areas of Dhaka and Chittagong.

[7] *The Daily Star*, 9 June 2000 (internet version). As mentioned earlier, in the budget for fiscal year 2000-2001, the government has proposed to offset these default loans by giving NCBs interest-bearing bonds. While this solves the problem of undercapitalization, the SOEs are likely to continue haemorrhaging the NCBs. In the fiscal year 1999-2000, the loss of SOEs stood at Tk 31 billion.

[8] *The Daily Star*, June 2000 (internet version).

[9] The Act has been amended to set a maximum period of three years for settling default loans.

[10] Taslim (1995) has shown that in a country, like Bangladesh, where the supply of entrepreneurial skill is lacking, there is a rational tendency by maximizing agents to skim off loans (deliberate machinations) rather than using the loan in a business project. Here maximizing agents who are risk averse choose a certain outcome over an uncertain one.

[11] Capital requirements only become effective when they raise banks' costs sufficiently to impact on their willingness to pay high deposit rates (Hellmann, Murdock and Stiglitz 2000: 148).

[12] New private banks are coming into the market fairly regularly.

[13] Bangladesh Bank (*Scheduled Banks Statistics*, July-Sept. 1998)

[14] The incidence of poverty is based on headcount ratio using the basic needs method. See *Statistical Yearbook of Bangladesh* (1998: Tables 14.27 and 14.29). The poor rely on agriculture for two-thirds of their income (Dev, Parikh and Suryanarayana 1994: 273-74).

[15] *The Daily Star*, 29 May 2000 (internet version).

[16] *The Daily Star*, 7 June 2000 (internet version).

[17] *The Daily Star*, 6 July 2000 (internet version).

[18] For registration a trade union must have at least one-third of the employees of the enterprise enlisted as its members. But there is no mechanism to monitor this.

[19] He, however, gave only health reasons for his early retirement, and said that he put the plan on hold because such a major decision should be taken by the new MD. This happened within one week of announcing the plan (*The Financial Express*, 13 July 1999).

[20] *The Daily Star*, 29 May 2000 (internet version).

[21] Here outcome refers to the ultimate objective of reform, i.e. in the case, financial sector discipline.

[22] The independence mainly refers to operational independence.

[23] *The Daily Star*, 29 June 2000 (internet version).

[24] The AL did the same when in opposition.

[25] See Cizre-Sakallioglu and Yeldan (2000) for a similar appraisal of Turkey.

[26] *The Daily Star*, 12 July 1999: 6.

[27] See Platteau (1994) for an excellent exposition of the role of moral values for the success of markets.

[28] Two significant ones are 1954 provincial election in East Pakistan and the 1970 elections for the Pakistan National Assembly.

[29] Sen (1999b) maintains that the market mechanism achieves great success when the provision of basic education, essential medical facilities and command over elementary resources such as land are widely shared. The civil society organizations in Bangladesh are doing some excellent works in this area.

APPENDIX

TABLE A
SHARE OF INTERESTS, COMMISSIONS AND DIVIDENDS IN REVENUE

	Interests		Commissions		Dividends	
Year	NCBs	PCBs	NCBs	PCBs	NCBs	PCBs
1983	0.745189	0.854291	0.125767	0.128114	0.116117	0.008425
1984	0.718335	0.873072	0.111511	0.101981	0.15658	0.019813
1985	0.708816	0.838813	0.109146	0.112199	0.168031	0.03983
1986	0.757643	0.829072	0.086677	0.118021	0.135653	0.043757
1987	0.757283	0.820052	0.072908	0.127407	0.151889	0.03599
1988	0.677059	0.848384	0.076134	0.103462	0.223919	0.034791
1989	0.737567	0.837801	0.080882	0.113641	0.163887	0.03367
1990	0.741018	0.765153	0.080914	0.177278	0.163232	0.043058
1991	0.732387	0.723413	0.072121	0.182097	0.182775	0.080342
1992	0.73131	0.722176	0.068247	0.180842	0.132872	0.145111
1993	0.741353	0.723432	0.096154	0.182704	0.149948	0.075467
1994	0.794511	0.728032	0.058217	0.137036	0.106517	0.11917
1995	0.781416	0.731905	0.139044	0.132638	0.067594	0.111478

Sources: *Statistical Yearbook of Bangladesh* (1990, 1998).

TABLE B

SHARE OF WAGES AND INTERESTS IN TOTAL EXPENDITURE

	Wages and salaries		Interests	
Year	NCBs	PCBs	NCBs	PCBs
1983	0.257643	0.111846	0.680674	0.699087
1984	0.273461	0.110922	0.668587	0.703637
1985	0.237027	0.108663	0.559372	0.673561
1986	0.211149	0.135825	0.63584	0.683822
1987	0.189622	0.172952	0.677521	0.633481
1988	0.166478	0.180693	0.760784	0.633712
1989	0.18126	0.199159	0.752651	0.607354
1990	0.1704	0.201052	0.755864	0.61861
1991	0.129157	0.238739	0.801632	0.603129
1992	0.141461	0.206661	0.816949	0.62104
1993	0.141277	0.209829	0.777572	0.651458
1994	0.0645	0.164229	0.809642	0.738077
1995	0.267354	0.165599	0.594703	0.726043

Sources: *Statistical Yearbook of Bangladesh* (1990, 1998).

TABLE C
DISTRIBUTION OF CREDIT BY SECTORS

	Public			
Year	Total	SOEs	Autonomous bodies	Private
1983	0.374751	0.645905	0.020513	0.625209
1984	0.255149	0.595567	0.027783	0.744851
1985	0.244452	0.108037	0.007961	0.755548
1986	0.108103	0.524829	0.007138	0.394307
1987	0.946793	0.597529	0.002455	4.068266
1988	0.20243	0.76726	0.110397	0.79757
1989	NA	NA	NA	NA
1990	0.202359	0.786406	0.098035	0.797641
1991	0.204145	0.801234	0.107648	0.795855
1992	0.199897	0.809088	0.100529	0.800103
1993	0.193254	0.817207	0.106787	0.806746
1994	0.149961	0.750677	0.133388	0.850039
1995	0.141338	0.725988	0.186364	0.858662
1996	0.104295	0.670437	0.14691	0.895705
1997	0.113334	0.643484	0.170656	0.886666

Sources: *Statistical Yearbook of Bangladesh* (1990, 1998).

TABLE D
DISTRIBUTION OF CREDIT BY ECONOMIC PURPOSES

Year	Real estate	Construction	Commerce
1983	0.190421	0.021167	0.168541
1984	0.227876	0.02023	0.191066
1985	0.232836	0.029481	0.114722
1986	0.232631	0.034063	0.257153
1987	0.241437	0.043598	0.271567
1988	0.232746	0.042947	0.279543
1989	NA	NA	NA
1990	NA	NA	0.306112
1991	NA	0.044486	0.316199
1992	NA	0.049782	0.334172
1993	NA	0.0542	0.342054
1994	NA	0.055882	0.327028
1995	NA	0.058912	0.346541
1996	NA	0.055135	0.343349
1997	NA	0.058043	0.332766

Sources: *Statistical Yearbook of Bangladesh* (1990, 1998).

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