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THE DISMAL PERFORMANCE OF NON-FINANCIAL STATE-OWNED CORPORATIONS IN BANGLADESH

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ABSTRACT

This essay provides an analysis of the financial performance of non-financial state-owned corporations in Bangladesh which are in financially decrepit conditions. The causes of the poor performance of these state-owned corporations are identified. Their financial losses, poor performance, inefficiency and subsidization create pressure on the national exchequer, weaken the country's financial sector and reduce the competitiveness of the country's private sector. Feasible policy options to overcome the dismal performance of state-owned corporations in Bangladesh are discussed.

Introduction

This essay evaluates the financial performance of state-owned corporations in Bangladesh. First, it delineates the role of state-owned corporations in Bangladesh's economy and briefly reviews the literature on such corporations. Next, it describes the methodology and the data source. Then, the overall financial performance of state-owned corporations is provided followed by a description of the probable causes of their dismal performance. It is argued next that their poor financial performance puts pressure on the national exchequer, weakens the financial system, and reduces the competitiveness of the country's private sector. The essay concludes by discussing feasible policy options to overcome the dismal performance of state-owned corporations in Bangladesh and identifies further research issues.

The Non-Financial State-Owned Corporations of Bangladesh

The state-owned corporations constitute an important part of the country's economy. Although as a share of total activity the private sector's share has steadily increased and continues to grow and while state-owned corporations' activity as a share of total activity has declined and continues to shrink, they retain an important role in the country's economy.

The non-financial state-owned corporations operate not just as natural monopolies and undertake activities with externalities but also function in several crucial segments of the economy, particularly in manufacturing, infrastructure, energy, and transport. There are 38 autonomous non-financial state-owned corporations in Bangladesh. They consist of six manufacturing corporations; five utilities in power, electricity, natural gas, and water and sewerage; six corporations in transport and communication; three corporations in trade and commerce; two corporations in agriculture and fisheries; four corporations in construction and real estate; and 12 corporations in various services. Table 1 provides the list of these corporations in Bangladesh. These corporations are classified into various sectors in accordance with Bangladesh Standard Industrial Classification set by Bangladesh Bureau of Statistics.

The value added to economic activity by non-financial state-owned corporations in Bangladesh was Taka 33.1 billion (US$719 million) in 1997-98, which is equal to nearly 1.7 percent of its Gross Domestic Product. In 1997-98, the combined total assets of state-owned corporations stood at Taka 680 billion (US$14.8 billion). The annual aggregated *net losses* of state-owned corporations were about Taka 6.5 billion (US$141 million) in 1997-98 and nearly Taka 4.5 billion (US$90 million) in 1998-99, which are equivalent respectively to 0.3 percent and 0.2 percent of the country's GDP in those years. Even though these losses would appear to be small compared to firms in advanced economies, for a country with a GDP of US$40 billion and an annual per capita income of approximately US$330 in 1998-99, these are rather large numbers.

Table 2 provides the evolution of employment in state-owned corporations. The table shows that the number of employees has been decreasing over time. Whereas state-owned corporations employed nearly 321,900 persons in 1990/91, they employed 244,000 persons in 1998/99. Although the number of people employed by state-owned corporations is only 0.4 percent of the country's total labor force, it is nearly 2 percent of the civilian urban labor force and over 22 percent of the country's public sector employment.

The Emergence of State-Owned Corporations

After the independence of Bangladesh from Pakistan in 1971, state-owned corporations were set up. The state became the *de facto* owners of firms that were abandoned by the former Pakistani owners who fled the country. The authorities nationalized these firms as well as firms owned by indigenous Bengalis in jute, textile, and other manufacturing industries. They also nationalized the entire financial system, import trade, raw jute export trade and most of inland water transport. As a result, approximately 90 percent of industrial fixed assets passed into state ownership (Sobhan and Ahmad 1982; Sobhan and Ahsan 1984 [1982]).

At that time it was widely believed by the authorities and the planners that corporations under state ownership would contribute to national development by substituting for the lack of indigenous entrepreneurs, by generating economic and financial surplus, and by creating the basis for a more equitable society. Although the state-owned corporations were given some non-commercial objectives, the generation of financial surplus from state-owned corporations was the primary objective because it could potentially contribute to the country's economic growth, industrialization, capital accumulation and development. As a result, the authorities mandated that state-owned corporations should achieve commercial success as measured by their contribution to the national exchequer.

Privatization

In *the first wave of privatization* in the early 1980s, the authorities restituted some nationalized firms and units to their original Bengali owners. In *the second and subsequent waves* of privatization since the early 1990s, the authorities selected the firms and units to be privatized on the basis of many different criteria, such as the need to raise cash for the exchequer, sector-specific liberalization policy, firm and unit performance, the availability of interested and potential buyers for firms and units, and so forth.

Literature Review

It is quite useful to relate this essay to the literature on state-owned corporations in Bangladesh. Sobhan and Ahmad (1982) discuss the problems of state-owned corporations in the early 1970s from the vantage point of central planners. Ahmad (1987) extends this treatment of state-owned corporations to late 1970s. Islam (1975) and Yusuf (1985) give useful summaries of nationalization and the evolution of the state-owned corporations in Bangladesh. Mahmood (1989) provides an in-depth analysis of the financial and the operating performances of selected state-owned corporations in the manufacturing sector. However, that study covers from 1972 to 1985. Akram (1999) discusses some aspects of the inefficiency of state-owned corporations. The literature on state-owned corporations in Bangladesh identifies a number of causes of the poor performance of state-owned corporations but financial analysis of the state-owned corporations have been rarely undertaken.

Methodology and Data

The objective of this essay is to fill a critical gap in the literature by providing an analysis of the financial performance of non-financial state-owned corporations in Bangladesh by examining key variables and financial ratios.

Only limited information on the financial condition of state-owned corporations in Bangladesh is available from public sources. Detailed financial data and financial statements are not available in the public domain.

For this study, the author collected detailed financial data, particularly financial statements, on state-owned corporations, from the Monitoring Cell of the Ministry of Finance of the Government of Bangladesh, various line Ministries, and state-owned corporations as part of the author's fieldwork in Bangladesh during December 1998. The authorization to obtain the data for research purposes was granted by the then Chairman of the Public Accounts Committee of Bangladesh Parliament (1996-2001). Financial data, consisting of primarily financial statements of the main state-owned corporations, were collected.

The authorities keep the financial data of state-owned corporations in a uniform format as part of a project whose objective is the surveillance of the financial conditions of the autonomous non-financial state-owned corporations. However, these data are neither published nor made available to the public in any form. Stated-owned corporations maintain balance sheets, profit and loss statements, and fund flow statements on an annual basis; these are only available to the authorities for internal use. The financial statements are subject to audits by the Office of Auditor General. These audits are subject to review and scrutiny of the Public Accounts Committee of Bangladesh Parliament. The annual reports of the parliament's Public Accounts Committee are available in the public domain.

An Analysis

The aggregated financial condition of the state-owned corporations is described below based on consolidated accounting data obtained for this essay.

Table 3 and Table 4 provide the key consolidated accounting data on non-financial state-owned corporations. The data in these tables should be interpreted carefully since each item (row) is the aggregation of the data for all state-owned corporations. Each line item is the sum of that variable for all state-owned corporations.

The data in Table 3 show the profit and loss of the state-owned corporations from 1990/91 to 1998/99. It shows that these corporations have produced an operating surplus every year from the 1990/91 to 1998/99 period with the exception of 1996/97. The operating surplus turns into negative income before taxes because of the burden of interest payments. Income before taxes was in the negative for all years save 1993/94. The profit distribution line shows the profits of state-owned corporations. Total profit distribution from these enterprises is quite meager. The income tax payments line shows the tax payments to the exchequer. This comes primarily from a few state monopolies, particularly the petroleum distribution and natural gas companies. Consolidated after-tax retained income has been negative consistently throughout these years.

Table 3 also shows that the overall losses of state-owned corporations require substantial financing. Their financing requirements are met by a combination of net long-term borrowings, equity injections, and finance deficits. Net long-term borrowing is the net increase in state-owned corporations' long-term borrowing in a given financial year. Equity injection is the value of new and additional equity capital provided by the state to the state-owned corporations in that year. Finance deficit includes inter-corporate arrears, arrears to the state, and changes in domestic bank debt (including arrears) incurred in that year. As the table shows, financing needs were quite high in the early 1990s. It reduced somewhat in the mid-1990s but again went up in the late 1990s.

Table 4 provides the evolution of the total assets of state-owned corporations. It also gives the ratio of operating surplus to total assets. Not only is it low, it seems to have declined further since the mid-1990s. The state-owned corporations have high debt-equity ratio. Throughout the 1990s the debt-equity ratio was quite high, although it has declined from its highest levels in early 1990s.

Table 5 reveals the evolution of the financial ratios of state-owned corporations from 1985/86 to 1997/98. These ratios calculated by first calibrating the financial ratios for each corporations for a given a year and then obtaining the average for all corporations for that year. The table exhibits the evolution of the cross-sectional means and standard deviations of key financial ratios for all corporations from 1985/86 to 1996/97. It shows that these corporations remain highly leveraged as quantified by their average total debt ratio. Their average liquidity, as measured by average net working capital to asset ratio, average current ratio, and average cash ratio, remains low. Average net working capital to asset remains has not changed much, but average current ratio and average cash ratio have both been declining through these years. Average efficiency ratios, as measured by average total asset turnover ratio and average networking capital turnover ratio, show declines. Their average profitability ratios, as manifested in average profit margin ratio and average return on assets ratio, is quite low and has often been negative.

Table 6 furnishes the state-owned corporations' rate of return as measured by the ratio of operating surplus to total assets and the benchmark interest rate set by the central bank between 1990/91 to 1998/99. The difference between the rate of return and the benchmark interest rate is negative. The negative premium is a reflection of the overall poor performance of the state-owned corporations. It should be added that some of the state-owned corporations are operationally viable firms but they face the heavy burden of fixed costs and high interest payments as shown earlier in the aggregated data on state-owned corporations in Table 3.

These tables taken together reveal that the overall financial condition of state-owned corporations in Bangladesh is quite fragile. The causes of their dismal performance, its consequences, and possible remedies are explored in the following sections.

The Causes of Dismal Financial Performance

There are two basic problems of state-owned corporations in Bangladesh: (a) agency and monitoring problems, and (b) soft-budget constraints.

Agency and Monitoring Problems

The problem of inefficient and poor monitoring of state-owned corporations arises from the lack of a body of fixed shareholders. The public owns the state-owned corporations. The authorities are entrusted to monitor these corporations on behalf of the public. However, the mechanisms and institutions for monitoring their performance are inappropriate for inducing commercial goals.

The multiple non-commercial objectives of the authorities can often conflict with the commercial goals that the management of a profit-maximizing firm would set. The management of a state-owned corporation finds itself accountable to and monitored by a shifting coalition of interest groups, consisting of politicians, bureaucrats, businesspersons, labor unions, and a plethora of stakeholders. Fuzzy objectives and inefficient monitoring can either create a discretionary zone for enterprising managers or contribute to managerial atrophy. State-owned corporations are given multiple and fuzzy objectives, such as ensuring employment, creating necessary infrastructure for economic development, supplying wage goods for the poor, helping to maintain price line, and so forth. The authorities and the manager tend to shift away from commercial goals. Conflicting and non-commercial objectives give the principals and the agents the scope for commercial non-performance.

The state ownership of state-owned corporations has created severe corporate governance problems. Incumbent state-appointed management continues to run without any fear of reprisals and credible threats of ousters or takeovers. The management and the leadership of state-owned corporations are selected by the authorities. Often the people appointed to these positions in the state-owned corporations have no business experience. Their incentives are not aligned with the commercial interests of the owners of state-owned corporations, that is, the general public.

While the immediate causes of poor performance are due to factors such as pricing, lack of incentives, and excess workers, the underlying reason is state ownership. Inadequate and inefficient monitoring of state-owned corporations arises from the lack of a controlling ownership that can claim the potential surplus generated from it. The corporate governance structure induced by state-ownership in Bangladesh is inimical to commercially-motivated and result-oriented operation of state-owned corporations. State-owned corporations are without *de facto* monitoring even though *de jure* procedures and processes for monitoring them do exist. While excessive labor due to patronage contributes to poor performance, it is by no means the *sole* cause of poor performance of state-owned corporations. Lax entrepreneurship, rampant corruption, and non-existent or weak *ex ante* monitoring are key factors that are responsible for their decrepit financial results. The dissipated ownership of state-owned corporations makes it quite difficult to impose a cost-efficient monitoring of and high-powered incentives for the managers of state-owned corporation to put in the effort to maximize corporate value and profits and enhance performance.

Soft-Budget Constraint

The authorities have failed to impose tight budget constraints on state-owned corporations. As a result, the operations of state-owned corporations in Bangladesh show considerable deficits due to high operating costs, low revenues, and inefficiency of sunken public investment in capacity. The exchequer and the state-owned financial institutions have provided money to state-owned corporations irrespective of their performance. The management of state-owned corporations does not face any pecuniary consequence for bad decisions. They do not face any credible threats for non-performance. The threat of takeover or bankruptcy as an *ex ante* performance and monitoring instrument is non-existent. Barriers to exit have insulated the management of state-owned corporations. Due to the high leverage and outstanding debt of state-owned corporations, the authorities and the state-owned banks want to preserve state-owned corporations even if they are beyond redemption. The state-owned financial institutions continue to supply working capital to state-owned corporations despite chronically weak results. In a functioning capitalist economy, debt can be a disciplining instrument because the threat of the loss of control can compel management to act and restructure. However, in Bangladesh, continued state-directed credit, equity injection and finance deficits have created perverse incentives for managers of state-owned corporations. The state-owned corporations that are in conditions beyond redemption are not rapidly liquidated. Continued direct subsidies, imprudent bank lending through the nationalized commercial banks and state-owned development financial institutions, and write-off of bad debts by the authorities have perpetuated state-owned corporations' soft budget constraints.

The Consequences of Dismal Financial Performance

The persistent financial losses and dismal financial performance of state-owned corporations in Bangladesh take a substantial direct and indirect toll on the economy. The huge losses of state-owned corporations are a financial drain on the exchequer. The negative and low rates of return on capital and resources deployed in state-owned corporations have high social opportunity costs associated with them. Because of persistent losses and low rates of return, the authorities have been compelled to inject equity and provide substantial credit to state-owned corporations in order to continue to run corporations that are losing money year in, year out. State-owned corporations' inefficiency, ineptitude, and financial failures have substantial negative spillover effects on the economy. Indirect adverse effects of the poor financial performance and inefficiency of state-owned corporations are arguably no less important than the direct costs.

The inefficiency of state-owned corporations reduces economic growth and the pace of development in Bangladesh in many ways. First, state-owned corporations' sub-optimal and excess employment raises the state's wage bill. This, in turn, exerts upward pressure on other public sector remuneration as well as private sector compensation. Second, since the state-owned corporations lose money, these losses create budgetary pressure on the exchequer and contribute to the country's fiscal deficits. The increase of state-owned spending due to exchequer's subsidization of state-owned corporations can raise fiscal deficits and increase public debts, raising real interest rates and reducing investment. It can create a burden of public indebtedness that is difficult for the exchequer and the taxpayers to bear. Third, financing the losses of state-owned corporations causes the diversion of public resources from public investment in infrastructure, social services, the provision of public goods, and other essential public tasks. It leads to overall misallocation of scarce resources, thereby, harming the country's growth potential and its development goals. Fourth, state-owned corporations' inefficiency has detrimental effects on the private sector. It can lead to delays, inappropriate investment, use of inappropriate technology, escalation of costs, and credit expansions. Fifth, state-owned corporations' overdue debts and large amount of outstanding debt reduce the asset quality of nationalized commercial banks, development financial institutions and the whole financial sector.

Feasible Policy Options

The financial performance of state-owned corporations in Bangladesh is poor and their financial condition is fragile. The objective of the authorities could be to try to replicate and buildup on the modicum of success of the country's private sector in fields such as micro-finance, non-government organizations, and readymade garment textile sector in the management of its industrial assets. There are several feasible options that the authorities may undertake. These are discussed below.

Liquidation

The liquidation of non-viable corporations is absolutely essential because these are a drag on the national exchequer. The liquidation of such corporations would not only reduce the burden to the exchequer but also release assets, such as prime industrial property and other resources, for better reallocation. Rapid and efficient reallocation of assets is a hallmark of a dynamic and growth-oriented economic system. Non-viable state-owned corporations should be closed down and liquidated. The question is not whether such state corporations should be liquidated. The focus of policy discussion should be the mode and the pace of the liquidation of these corporations.

Restructuring

Financial performance of some state-owned corporations may be improved through restructuring. The objective of restructuring of potentially viable state-owned corporations would be to improve performance by restoring solvency and profitability. Both financial and operational restructuring would be required. Financial restructuring would aim to improve a corporation's balance sheet by raising additional capital, by receiving infusion of cash, by reducing liabilities through renegotiations with its creditors, or by boosting the value of its assets. Operational restructuring can aim to improve corporate liquidity, turnover, and profitability. Measures to improve corporate performance can include renewed attention to business strategy; improvement of cash, inventory, and cost management, accounting and surveillance systems; better procurement systems, investment and credit assessment and approval technique. Restructuring the corporation can reduce operating costs.

Restructuring would require eliminating administration, changing the staffing model, and reducing the number of excess workers and managers. However, the past experience of various "balancing, modernization, restructuring and expansion" programs indicates the limits of restructuring firms under state-ownership in Bangladesh. Such programs may not be sufficient to bring about change and improve financial performance. Hence, the challenge for policy makers is to improve the financial performance by restructuring those corporations that shall remain under state-control.

Privatization

Change of ownership from the state to the private sector may be necessary for many corporations. However, it should noted that not all state-owned corporations would be ready for privatization at this time because of the limited size of domestic capital market, lack of interest among the foreign direct investors, state monopoly control and regulation of some sectors and so forth. For those corporations and firms that are deemed fit for privatization, the challenge is not merely to transfer ownership of a corporation from the state to the private sector but rather to ensure a transparent and fair process and increase corporations' economic efficiency. The record of privatization in Bangladesh is a mixed one. The role of the state in the Bangladesh economy has changed over time. In order to carry out successful privatization of some of the remaining state-owned corporations, the authorities need to have a clear and well-defined strategy based on high-payoff identified priorities. The authorities may want to draw upon the lessons of privatization programs abroad as well as the country's own privatization experience to determine what practices are appropriate for the current circumstances in Bangladesh. One of the lesson of the past privatization is that credit from the banking sector to privatized corporations should be clearly tied to their performance and be based on timely repayment of loans.

Reallocation Program and Assistance

Liquidation, restructuring, and privatization of corporations will lead to the termination of many employees. The authorities need to create programs of severance payment for laid off workers, retraining and redeployment for unemployed workers and their families. The creation of these programs would reduce workers', trade unions', and civil organizations' opposition to liquidation, restructuring, and privatization of state-owned corporations. It would also benefit private sector development by providing trained and skilled workers.

Political Commitment to Policy Reforms

The authorities do need to explain to the public the rationale for liquidating, restructuring, and privatizing state-owned corporations and they have to be committed to policy changes. Policy changes have to be conducted with integrity and transparency to avoid abuse, corruption, and favoritism. Because liquidation, restructuring and privatization of state-owned corporations are political decisions, these policy measures need the support of not just the various "stakeholders" but also the general public. The weakness of state institutions and institutional capacity also hampers policy reforms. Exit, restructuring, and privatization of corporations in Bangladesh have been slow because of the limited institutional capacity of the authorities and relevant agencies.

Private Sector Development and Competition

Privatization may be implemented alongside policies that encourage entry, exit, and competition and prudentially regulate oligopolies and monopolies. If liquidation, restructuring and privatization of state-owned corporations are to be successful, certain conditions have to be met. If Bangladesh is to foster industrialization led by its private sector, it must ensure that an appropriate market and business environment is in place for the private sector to carry out successful restructuring of corporations upon their privatization. Properly implemented policies that extend and encourage the development of the functional segments of the country's private sector may contribute substantially to efficient deployment of resources, economic growth and social prosperity.

Areas of Further Research

The problems of state-owned corporations in Bangladesh need to be explored further in order to understand sector-specific and firm-specific issues. Future research on state-owned corporations would focus on economic, financial, managerial, and technical causes of their performance. The financial performance of state-owned corporations is a reflection of economic and social relations, political values, public policy and exogenous factors.

The following are many areas of further research: (a) the political, economic and institutional setting of state-owned corporations; (b) sector structure; (c) corporate governance and monitoring of state-owned corporations; (d) excess employment and patronage in state-owned corporations; (e) financing of state-owned corporations; (f) public-sector management; (g) liquidation of corporations; (g) restructuring of state-owned corporations; (h) institutional framework for privatization; (i) valuation, sale and privatization of state-owned corporations; (j) competition, market structure, and privatization; (k) regulatory framework; and (l) post-privatization outcomes. Research on these issues can help identify and resolve critical problems facing state-owned corporations in Bangladesh and may provide useful input to policy formulation and implementation.

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Table 1

Bangladesh's State-owned Corporations	
Sectors	**Corporations**
Manufacturing	Bangladesh Textile Mills Corporation (BTMC)
	Bangladesh Steel & Engineering Corporation (BSEC)
	Bangladesh Sugar & Food Corporation (BSFC)
	Bangladesh Chemical Industries Corporation (BCIC)
	Bangladesh Forest Industries Development Corporation (BFIDC)
	Bangladesh Jute Mills Corporation (BJMC)
Utilities (Power, Gas, and Water)	Bangladesh Oil, Gas, and Minerals Corporation (BOGMC)
	Bangladesh Power Development Board (BPDB)
	Dhaka Electric Supply Authority (DESA)
	Dhaka Water Supply Authority (DWASA)
	Chittagong Water Supply Authority (CWASA)
Transport and Communication	Bangladesh Shipping Corporation (BSC)
	Bangladesh Inland Water Transport Corporation (BIWTC)
	Bangladesh Biman Corporation (BIMAN)
	Bangladesh Road Transport Corporation (BRTC)
	Chittagong Port Authority (CPA)
	Mongla Port Authority (MPA)
Commerce	Bangladesh Petroleum Corporation (BPC)
	Bangladesh Jute Corporation (BJC)
	Trading Corporation of Bangladesh (TCB)
Agriculture	Bangladesh Agricultural Development Corporation (BADC)
	Bangladesh Fisheries Development Corporation (BFDC)
Construction	Rajdhani Development Authority (RAJUK)
	Chittagong Development Authority (CDA)
	Khulna Development Authority (KDA)
	Rajshahi Development Authority (RDA)
Services	Bangladesh Freedom Fighters Welfare Trust (BFFWT)
	Bangladesh Film Development Corporation (BFDC)
	Bangladesh Parjatan (Tourist) Corporation (BPRC)
	Bangladesh Civil Aviation Authority (BCAA)
	Bangladesh Small and Cottage Industries Corporation (BSCIC)
	Bangladesh Inland Water Transport Authority (BIWTA)
	Rural Electrification Board (REB)
	Bangladesh Export Processing Zone Authority (BEPZA)
	Bangladesh Handloom Board (BHB)
	Bangladesh Sericulture Board (BSB)
	Bangladesh Water Development Board (BWDB)
	Bangladesh Tea Board (BTB)

Source: Monitoring Cell, Ministry of Finance, Government of Bangladesh, various years

Table 2

Total Employment in State-owned Corporations, 1990/91-1998/99									
	90/91	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**97/98**	**98/99**
Employment (thousands)	321.9	313.3	292.5	269.0	256.9	258.4	253.4	242.3	244.0

Source: Ministry of Finance, Government of Bangladesh, various years; IMF, various years

Table 3

Consolidated Accounts of Non-Financial State-owned Corporations, 1990/91-1998/99									
In billion Taka									
	90/91	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**97/98**	**98/99**
Operating Revenue 1/	105.2	123.8	144.6	143.5	156.1	163.8	169.1	194.2	214.9
Operating Expenditure	97.0	117.0	138.9	132.4	152.1	161.8	176.2	192.9	211.7
Wages and Salaries	11.8	12.9	15.2	14.6	14.6	15.6	15.4	16.9	18.2
Purchase of Goods and Services	74.4	92.5	111.4	102.9	119.2	134.1	145.7	160.7	177.3
Depreciation	10.8	11.6	12.3	14.9	18.3	12.1	15.1	15.3	16.2
Operating Surplus	8.2	6.8	5.7	11.1	4.0	2.0	(7.1)	1.3	3.2
Non-operating Income	1.0	(2.3)	(2.3)	1.0	(0.2)	5.3	2.8	2.9	2.3
Interest Payments	10.8	11.0	12.1	7.7	8.0	7.5	8.4	9.2	9.3
Income before Taxes	(1.6)	(6.5)	(8.7)	4.4	(4.2)	(0.2)	(12.7)	(5.0)	(3.8)
Profit Distribution	2.6	3.6	4.1	4.9	2.2	2.3	1.7	3.3	4.3
Dividends	2.5	3.5	4.0	4.8	2.0	2.1	1.5	3.1	4.0
Profit Sharing	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Income Tax	3.9	5.3	4.9	5.5	2.1	1.5	1.0	1.3	1.6
After-tax retained Income	(8.1)	(15.4)	(17.7)	(6.0)	(8.4)	(4.0)	(15.4)	(9.6)	(9.7)
Gross Savings 2/	2.7	(3.8)	(5.4)	8.9	9.9	8.1	(0.3)	5.7	6.5
Gross Fixed Capital Formation	41.3	32.2	27.6	22.9	24.3	26.2	24.8	37.7	48.4
Financing	38.6	36.0	33.0	14.0	14.4	18.1	24.9	31.8	41.8
Net Long-term Borrowing	11.1	18.3	7.1	4.9	1.2	9.4	4.5	2.2	9.0
Drawings	17.9	27.4	18.7	15.9	14.7	21.2	14.9	15.9	21.3
Repayment	6.7	9.1	1.6	11.0	13.5	11.8	10.4	13.7	12.3
Equity Injection	4.6	4.1	6.3	9.1	9.1	6.8	10.8	13.4	20.0
Finance Deficit 3/	22.9	13.6	19.6	-	4.1	1.9	9.6	16.2	12.8
Ratio									
Op. Surplus/Op. Revenue	7.6	5.5	3.9	7.7	2.5	1.2	(4.2)	0.7	1.5
Notes									
1/ Does not include changes in inventories									
2/ Defined as after-tax retained income plus depreciation									
3/ Includes arreas to Government and changes in domestic bank debt (including arreas)									

Source: Author's calculations; Ministry of Finance, Government of Bangladesh, various years; IMF, various years

Table 4

Consolidated Accounts of Non-Financial State-owned corporations, 1990/91-1998/99									
In billion Taka									
	90/91	**91/92**	**92/93**	**93/94**	**94/95**	**95/96**	**96/97**	**97/98**	**98/99**
Total Assets	418.3	497.7	528.3	602.8	631.8	631.1	634.0	680.0	777.3
Equity	98.5	128.5	117.6	197.8	212.4	214.6	231.3	238.6	251.8
Debt	319.8	369.2	410.7	405.0	418.7	419.4	448.7	469.9	525.5
Ratios									
Op. Surplus/Total Assets	2.0	1.4	1.1	1.8	0.6	0.3	(1.0)	0.2	0.4
Debt-Equity Ratio	3.2	2.9	3.5	2.0	2.0	2.0	1.9	2.0	2.1

Source: Author’s calculations; Ministry of Finance, Government of Bangladesh, various years; IMF, various years

Table 5

Evolution of Average Financial Ratios of State-owned corporations in Bangladesh 1985-86 to 1996-97													
Mean (Standard Deviation in paranthesis)	**85-86**	**86-87**	**87-88**	**88-89**	**89-90**	**90-91**	**91-92**	**92-93**	**93-94**	**94-95**	**95-96**	**96-97**	**97-98**
Leverage Ratio													
Total Debt	0.7	0.7	0.9	0.7	0.8	0.8	0.8	1.0	0.8	0.8	0.8	0.7	0.8
	(0.4)	(0.5)	(1.4)	(0.6)	(0.6)	(0.7)	(0.7)	(1.3)	(0.9)	(1.0)	(0.9)	(0.8)	(0.9)
Liquidity Ratios													
Net Working Capital to Asset	0.2	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1
	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.5)	(0.5)	(0.5)	(0.4)	(0.3)	(0.3)
Current Ratio	9.3	8.7	8.1	5.0	5.6	5.7	5.0	4.8	6.4	6.5	5.9	5.5	4.6
	(21.9)	(26.8)	(26.3)	(7.2)	(9.0)	(9.3)	(10.2)	(7.8)	(16.4)	(16.0)	(9.1)	(8.7)	(7.4)
Cash Ratio	8.0	7.3	7.1	4.2	4.6	5.0	4.5	4.3	6.0	6.0	5.4	5.0	3.7
	(21.0)	(26.8)	(26.2)	(6.7)	(8.1)	(8.8)	(10.2)	(7.7)	(16.7)	(16.0)	(9.0)	(8.5)	(6.4)
Efficiency Ratios													
Total Asset Turnover	na	0.6	0.6	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
	na	(0.8)	(0.7)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)	(0.4)	(0.5)	(0.6)
Net Working Capital Turnover	3.1	1.2	3.5	0.4	2.0	2.7	1.8	0.7	1.7	7.3	1.5	1.6	1.3
	(0.8)	(5.7)	(9.9)	(8.2)	(6.9)	(6.6)	(7.4)	(4.5)	(6.8)	(27.1)	(5.9)	(6.6)	(5.1)
Profitability Ratio													
Profit Margin (in percent)	4.3	6.7	8.2	3.5	4.5	1.6	-1.1	-2.8	-1.3	3.8	0.4	1.8	-2.6
	(13.5)	(19.2)	(19.9)	(28.6)	(25.8)	(28.6)	(30.6)	(29.7)	(35.0)	(32.0)	(40.8)	(34.9)	(34.3)
Return to Asset (in percent)	na	1.8	2.3	2.4	1.9	-0.4	-0.4	-1.1	-1.1	1.1	0.1	-0.1	-1.8
	na	(9.1)	(7.6)	(9.0)	(10.0)	(10.0)	(9.7)	(12.1)	(12.0)	(12.2)	(10.6)	(9.5)	(11.1)

Source: Author's calculations; Monitoring Cell, Ministry of Finance, Government of Bangladesh, various years

Table 6

Comparison of state-owned corporations' rates of return and benchmark interest rate	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99
Op. Surplus/Total Assets (%)	2.0	1.4	1.1	1.8	0.6	0.3	(1.0)	0.2	0.4
Bangladesh Bank Rate (%)	9.3	8.5	6.5	5.5	5.5	6.5	7.5	8.0	8.0
Diff. b/w Op Surplus/Total Assets & int. rate (%)	(7.3)	(7.1)	(5.4)	(3.7)	(4.9)	(6.2)	(8.5)	(7.8)	(7.6)

Source: Author's calculations; Ministry of Finance, Government of Bangladesh, various years; Bangladesh Bank, various years; IMF, various years

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