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# **Development of Non Bank Financial Institutions to Strengthen the Financial System of Bangladesh**

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## **Abstract**

Non-bank financial institutions (NBFIs) represent one of the most important parts of a financial system. In Bangladesh, NBFIs are new in the financial system as compared to banking financial institutions (BFIs). Starting from the IPDC in 1981, a total of 25 NBFIs are now working in the country. As on June 30, 2001 the total amount of paid up capital and reserve of 24 NBFIs stood Tk.6901.8 million (BB, 2002). The NBFIs sector in Bangladesh consisting primarily of the development financial institutions, leasing enterprises, investment companies, merchant bankers etc. The financing modes of the NBFIs are long term in nature. Traditionally our banking financial institutions are involved in term lending activities, which are mostly unfamiliar products for them. Inefficiency of BFIs in long-term loan management has already led an enormous volume of outstanding loan in our country. At this backdrop, in order to ensure flow of term loans and to meet the credit gap, NBFIs have immense importance in the economy. In addition, non-bank financial sector is important to increase the mobilization of term savings and for the sake of providing support services to the capital market. The focus of this paper is to highlight the necessity and importance of NBFIs to strengthen the financial system for rapid economic development of the country.

## **1. Introduction**

Building a sound financial system is an immense necessity for the economic development of a country. The main task of the financial system is to mobilize funds from the surplus budget unit to deficit budget unit. Financial system provides a strong mechanism for collection and allocation of financial resources among the various alternatives. However, in a developing country like Bangladesh it is very hard to reach in a sound financial system due to the lack of

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requisite institutions, expertise and resources. Many legal and regulatory frameworks are needed to ensure discipline in the financial system. For these reasons, careful assessment of the financial system is necessary to determine about which features of the financial system are basic and which features are secondary and the types of institutions that are essential in the process.

Actually, financial system is decomposed of into two basic types of institutions. One is the banking financial institutions (BFIs) and the other is the non-banking financial institutions (NBFIs). These two financial institutions are different in respect of their activities and treatment of the assets and liabilities in the financial market. For a well functioning financial market along with the BFIs, NBFIs have an important role to uplift the economic activity. These two financial sectors can simultaneously build up and strengthen the financial system of the country.

This paper analyses the importance and roles of NBFIs in developing economy of Bangladesh. Our study is confined to 25 NBFIs who got license from Bangladesh Bank up to 2001 under the Financial Institution Act-1993 and Financial Institutions regulations –1994. The NBFIs sector in Bangladesh consisting primarily of the development financial institutions, leasing and investment companies, insurance industries, and the corporate debt market account for only around 4% of the financial system. Development of the NBFIs in a sustainable basis contributes to the speed and efficiency of the financial system.

The necessity for the development of NBFIs could be best judged with the following issues. Firstly, the NBFIs are markedly different from the banking institutions and with different phenomena. These two kinds of financial institutions are complementary rather than substitute organs in the financial system. Existence of banking and non banking financial institutions, money market and capital market keep the financial sector complete and enhance the overall growth of the economy. Secondly, there is a maturity mismatch in the sources and uses of funds

in our financial system, which leads inefficiency in the financial system. Commercial banks by their definition are unsuited for long term lending. Inefficiency of BFIs in long-term loan management has already leded an enormous volume of outstanding loan in our economy. However, with the present status, expertise and efficiency, the NCBs are barely able to serve the future investment demand of the country. Private commercial banks are less experienced and less equipped in this regard and they would not take the load or be able to take future challenges of term lending of the country. At this backdrop, in order to ensure flow of term loans and to meet the credit gap, development of NBFIs is a compelling necessity for the economy. Thirdly, sophisticated and well-developed capital market is considered as the hallmark for a market economy worldwide. Although our country is moving toward a full market based economy, capital markets are still in infancy. This is due to lack of requisite institutions those are needed in the system. In the last twenty years there has been a tremendous growth worldwide of non-bank financial institutions to provide support services to the capital market. These range from broker dealer to investment banker. The health of the capital market is largely relied upon the health of the banking and non-banking financial institutions. The key players are the non-bank financial institutions in the development of the capital market.

Although NBFIs have immense necessity and greater importance in the financial system of Bangladesh, they are severely suffering from some problems including the fund problem in terms of both availability and cost. Initiatives from all concerns are necessary to eradicate the fund constraints to ensure easy flow of fund. The existing regulatory and legal frameworks for NBFIs are not adequate in a greater extent as compared to BFIs. In some cases the types of regulation for the NBFIs are analogous with the BFIs that create some problems. It should be framed separately for NBFIs in terms of deposit and non-deposit takers and on the basis of their

activities. Again, judicial and legal reforms are also necessary to build up such organizations. However, Bangladesh Bank has taken several initiatives in recent years to improve the suitability of the regulatory framework.

Another important feature is that deposit mobilization and credit participation by NBFIs are not taken into account while formulating the monetary and credit policy of the country. The term deposits mobilized by the NBFIs are not yet included in the money supply of the country which have eventually impact on the monetary policy.

The focus of this paper is to highlight the necessity and importance of NBFIs along with BFIs to strengthen the financial system of overall economic development of the country. We also put insight into the problems and future prospects of NBFIs. Earlier Saha et al. (1999) and Chowdhury (1999) analyzed and highlighted problems and prospects of NBFIs on the basis of the performances of 18 NBFIs up to 1997. The problems those were highlighted by the authors are still prevailing. The growth of NBFIs in terms of assets and liabilities and diversified areas of business has significantly increased within this short period of time after inception. In this paper an attempt has been made to highlight different features of NBFIs to identify their importance in financial system of Bangladesh. Special emphasis has been given to the complementary role of NBFIs with BFIs for efficiency of financial system, contribution in term lending with special discussion on leasing, role in capital market development, problems in availability of fund, impact of NBFIs' Deposit Mobilization on the Monetary Policy etc. However, other aspects like product innovation, development pace, new area of venture, initiatives taken by government and Bangladesh Bank for the development of NBFIs, and comparison with world situation have been discussed in different places. These issues are mainly concerned with the development of NBFIs as well as their role in strengthening financial system of Bangladesh.” This paper studies the

activities of the NBFIs on the basis of the secondary data obtained from different sources like NBFIs, Bangladesh Bank, World Bank, Ministry of Finance, daily news papers, etc. We have faced difficulties in analyzing data due to inconsistency and insufficiency. The periodical publications of different NBFIs are not complete and also they do not follow unique system of data reporting.

## **2. Bank vs. Non Bank Finance- Conceptual Debate**

Economy of Bangladesh is particularly jeopardized by the banking financial institutions. The banking financial system in Bangladesh comprises of 4 nationalized commercial banks (NCBs), 29 private local commercial banks, 13 foreign commercial banks, and 5 nationalized specialized banks with a total of 6156 branches (BB, 2002). Adjacent to the present free market economy and globalization concept, privatization of banking sector is getting preference, and performance and confidence of private banks are increasing day by day. The four NCBs control 52.7 percent of total bank deposit on June, 2001 from 54.5 percent at the end of the previous year and accounted for 45.5 percent of total bank credit at the end of 2000/2001 from 47.6 percent of the previous financial year (BB, 2002, p.33). However, a substantial portion of loans is non-performing. Given the situation, Bangladesh economy particularly is passing a transitional<sup>+</sup> period to restructure the financial sector. The overall scenario is that private banking financial Institutions (PBFIs) are likely to emerge slowly to capture the market shares of the NCBs. However, a quick and complete restructuring is needed to get the benefits of the market-based economy. The state-owned banking sector is compelled to follow the government directions strictly in doing their business as well as is acting as a source of government's deficit financing.

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<sup>+</sup>There are many evidences that the banking sector in Bangladesh is in transition. For the fact the privatization process is going on and getting preference among all economic agenda. The number of private banks and their market share in deposit and credit are increasing (BB, 2002, pp-33-34)

On the other hand, PBFIs are being confined with short-term finance because of the fear that the loan will be bad. In this situation, some unsolved questions arise in this area which include how much the economy should rely on bank versus non-bank financing ?.

In a conference on “Building Sound Finance in Emerging Market Economies” held at IMF headquarter in Washington D.C on June 10-11, 1993, a group of participants viewed that bank lending would be unprofitable and misguided in the transitional (Caprio et.al. 1994) period because of the risk of the environment and absence of skilled manpower. They also argued that development of the capital market would get preference if privatization were thought as the key part of the economic development. The participants also added fuel to the debate by proposing a technologically sophisticated and expensive payment network to facilitate the non-bank finance.

However, anyone can envisage the need of both bank and non-bank financial institutions for economic development. Banks are the principal sources of working capital and provide highly liquid investment in which firms’ can store receipts. On the other hand, NBF sector is necessary to increase the mobilization of term savings and enhance availability of equity and term finance for the private sector as well as support services for the capital market. Bank funds provide liquidity, which ultimately facilitate trade in commodities and in financial assets. Moreover banks act as the lender of the first resort of other financial institutions, which ensures its importance in the financial system.

In recent years, the dominance of banks as financial intermediaries in some developed countries has been reduced somewhat with the emergence of the non bank financial intermediaries and with the development of the corporate debt market that gives firms direct access to individual savings. Development of the government securities promotes the development of the money market. Secondary market for equity maximizes the wealth of the capitalist system and

individuals demand for liquidity satisfied. Given this situation the matter is that with the banks, how far the non banks could simultaneously build up to bring the efficiency of the financial system.

The history of the economic development of different countries of the world suggests that financial development of the country start from banking financial institutions followed by the non banking financial institutions. But in the later stage, the contribution of non-banking financial institutions becomes more eminent than the BFIs. Actually both types of institutions are needed and competitions within and between banks and non-banks could enhance economic development and improve their expertise.

### **3. The Phenomenon of Long Term Financing and the Analysis of NBFIs Performance in Term Financing**

One important arena of NBFIs is the deployment of funds in the long term financing. By definition, banking financial institutions should not involve in the long term financing and they are the institutions related to the money market instruments and allowed to make only fully collateral short term lending. Bank business is based on the depositors' money. Lending long is risky because it creates least accountability to the borrowers. Borrowing short and lending long by the BFIs create a mismatch in the financial system and hamper the macroeconomic stability. Time lag between lending and borrowing of the commercial banks has leaded a maturity mismatch as there is about 10 months average maturity gap between the deposit fund and loan portfolio (BB, FID). Again the interest rate charged by banks does not cover the total cost of funds. Before 1990, there was direct monetary control and the central bank administered the interest rate for both deposit and credit. After that although interest rates were not controlled by the central bank, commercial banks did not have such professionally –expert personnel to assess



the lending risk. Banking sector in Bangladesh felt a lack of basic expertise, which was needed for the market-oriented approaches. In the same way performance of the two public Development Financial Institutions ( DFIs) namely BSB and BSRS are very unsatisfactory as their non-performing loan is over 50% for the last several years. These issue demanded for a sustainable basis for long term financing which is a major part of the NBFIs business by nature.

However, in Bangladesh, the BFIs are still the principal sources of long term financing, accounted to about 70-80% term loan disbursement (BB, FID). Before 80s, there was no alternative mode of long term lending other than the BFIs. So BFIs were in a tremendous pressure to provide long term financing for industrialization of the country. After 80s, there was consensus among the government policymakers and international bodies to search an alternative source. Subsequently, NBFIs have started to emerge in the financial system of Bangladesh.

### **3.1 Term Financing by NBFIs**

Term loan provided by the financial system of Bangladesh is about US\$ 250-300 million per year, equivalent to around 1.5% of our GDP, while the public and private investment amounts to about 16% of GDP (FIDP working paper, 1999). Without smooth long term lending system, industrial development of the country is not possible. Analysis of the operational activities of the NBFIs shows that many of them have strong participation in lease financing. However, though leasing is considered as an alternative mode of long term lending, NBFIs contribution to total long term financing is still very small in amount. As on December 31, 2001 total financing of 25 licensed NBFIs stood Tk. 2,1240.7 million (NBFIs-FRs). According to the statistics of BB, 2.85 percent of the outstanding amounts of loans//leases was found classified as bad debt as on June 30, 2001 (BB, 2002)

### **3.2 NBFIs Performance in Leasing**

We discuss NBFIs performance in leasing specially in this section because of its some imposing features though leasing are analyzed under the head of long term financing in this paper for many times. One important feature is that the leasing industries in Bangladesh have grown significantly within the last 10 years. Competition among the leasing industries has been intensified and this competition in leasing business does not come only from the NBFIs but also from BFIs. Many commercial banks and other financial institutions like ICB (Investment Corporation of Bangladesh) are participating in the leasing business. The commercial banks are doing lease business as EZARA under Section 7 DA(4) of the Bank Companies Act 1991. Commercial banks are also taking advantage of their low costs of fund than the leasing companies. In this situation, leasing companies have an argument that if banks are allowed to do lease business, so they should be permitted to do banking in a limited scale. This type of agreement may not be considered as good because it would create difficulties in the smooth functioning of these two sectors.

Table 2 shows the expansion of the leasing companies in lease market over the period of 1999 to 2001. During the period the number of participation of the completely local and private owned companies has increased substantially from 3 to 8, whereas the joint venture between domestic and foreign government/companies remained stagnant in 10. The total number of participation of NBFIs in leasing market has increased to 19 in the year 2001, which was 16 in 2000 and 13 in 1999. The increasing number of participation in the leasing market has made the market more competitive in last few years.

An analysis of the financial position of various NBFIs shows that about 70% of the lease asset of NBFIs is captured by 7 NBFIs namely IDLC, ULCL, PLC, UFIL, GSPFCL, IPDC, and ILFS.

Table 3 shows the efficiency of asset return in terms of Return on Asset (ROA) and Return on Equity (ROE) ratios of 15 NBFIs. These 15 NBFIs are selected on the basis of the higher lease asset share among NBFIs as evident from their financial statements. In some cases half yearly data have been used due to unavailability of calendar year data. However, sufficient attention has been given to the reliability of data and its sources. Industrial averages have been calculated from the sample because these 15 NBFIs capture major market share in leasing asset (about 97%) in this sector.

From the table 3 we find that in the year 2000 and 2001 all major leasing companies have ROE greater than the industry average. In terms of ROA, though some of them have the ratio lower than the market average but many of them have done very well. NBFIs like ULCL, UFIL, ILFS, GSPFCL were in better position in respect of ROA and ROE among the major companies. Higher ROA and ROE of major leasing industries suggest higher return on their investment and shows a strong performance in their business as well as their expansion and contribution in the economy of Bangladesh.

### **Product diversification**

The imposing picture of the lease industry in Bangladesh over a short period of time built up the confidence that it could grow with our expected level. Leasing should not be confined with some selected sectors. It should come with a view to financing small and medium scale enterprises, especially taking into considerations into the manufacturing enterprises, forward and backward linkage industries etc. The leasing companies have a changing role with the liberalization of capital and money market, with a vision to increase investment and production of the economy. Particularly, leasing sector in Bangladesh has identified the areas capital machinery, heavy construction equipment, transport vehicles, information technology (IT), energy and power

sector, air conditioning plants and equipment, tractors, trailers, power tillers, consumer durables etc. as the potential for financing (Chowdhury A, 2001). However, leasing companies in Bangladesh are confined with the less risky investment. Leasing should be expanded to more risky and higher return investment like venture capital, energy resource etc. In Japan, leasing in computers and office machinery captures more than two third of the market. In Bangladesh, leasing companies can come forward to expand the IT sector, and thereby can play a significant role in the development of the economy.

#### **4. Development of the Capital Market and the NBFIs**

The essence of a market based financial system is the well-organized and efficient capital market. The stock market is the first and foremost forum in which individuals can trade risk and return, firms can raise capital and stockholders can maximize the value of their shares. At present, the worldwide capital market provides an excellent mechanism for mobilizing savings for industrialization. Through the efficient pricing of the shares in the market, the wealth of the company is maximized and individuals get prize for their sacrifice of present consumption. On the other hand, primary market gives the opportunity to the firms to generate capital from the public and also provides individuals participation in the firms' ownership. The development of the secondary market for equity does not contradict with the development of the banking sector. In many countries of the world especially the countries of the continental Europe and Japan have started their reforms based on bank-dominated system first. So a full pledged reform program of financial sector includes the development of both bank and non-bank financial institutions in the financial system so that the overall savings and investment activities improve significantly.

Non bank financial institutions are permitted to work as merchant banker. In this situation, they have to take a separate license from the Securities and Exchange Commissions (SEC). Merchant banking activities involves activities like a manager of the issue, underwriter, bridge financier and portfolio manager etc. NBFIs can venture in such types of risky businesses because of their particular types of sources of fund, which facilitate them to provide institutional support to the capital market. On the other hand, bank's money is the depositors money and so that they go for less risky short term financing. For this reason banks are subject to high regulations and NBFIs are little or no regulations around the world and thereby can go easily for risky investment such as merchant banking, venture capital etc.. NBFIs are not permitted to use 'bank' in their names and use companies. Their funding is not covered by the government protection. These distinct natures make the NBFIs separate from the BFIs and place a separate arena in the financial market place.

However, one may argue for the commercial banks involvement in the capital market as it follows the universal banking system, such as that of many continental European countries, Germany in particular. In the universal banking system, banks provide both commercial and investment banking services. The principal arguments are to lend from the equity and to provide economics of scale to the banking companies. But according to the some economists, the model might be practically inappropriate. Kundleberger, Blommestein Spencer, Sleenhere, Huvencer and Muldure are few of them. The weaknesses identified by them are first, it gives significant equity stake to the commercial bank and reach a certain proportion without approval from the central bank. Secondly, commercial banks feel lack of expertise and experience to assess the potential risk and return of the investment in the market. Commercial banking activities are less risky than the security operation and risky security business may affect the commercial banking

activities. Again Muldure (1992) got no evidence of economies of scale in the universal banking (Caprio et al. 1994).

So, capital market development needs the simultaneous development of associate institutions like NBFIs. NBFIs captures the second position in the world capital market in volume in the early 90s. NBFIs activities in this market involves investment and merchant banking , including the portfolio management, issue managing, underwriting and bridge financing, consultancy or advisory services, selling of financial data, corporate agents in merger and acquisition, investment counseling et. NBFIs are required to take a separate licensee from the SEC to do the activities related to the capital market. In our country, 7 NBFIs have got license from the SEC to do business. Among them, SABINCO is the largest portfolio investor and PFIL holds 46 investors accounts, the highest among all the merchant bankers working in the market. The NBFIs those are working as merchant banks, are also working as issue manager or underwriter of the issue. A careful analysis of the activities of 27 merchant bankers reveals that NBFIs are now in the leading position among the merchant banks (Roy, 2001).

## **5. Sources of Fund and FIDP**

The prime sources of NBFIs finance are loan from the other commercial banks, term deposits from the public, fund from capital market by issuing shares, debentures, bonds etc. and loan facilities from the international agencies like ADB, IDA, IFC etc. As on December 31,2001, 11 NBFIs have found to hold the lease deposit with a total amount of TK. 710.030 million(BB,FID). Due to various reasons, the deposit collection of the NBFIs is not satisfactory and it holds insignificant portion of the country's total deposit.

NBFIs are facing some difficulties in raising their fund. They have to collect fund from the credit lines of the commercial banks at a very high rate of interest ranging up to 15%. Moreover, they have to provide high and expensive collateral securities like fixed deposits, and insurance guarantees etc to borrow fund from the commercial banks. Raising of fund from capital market has become a distant possibility due to absence of an efficient capital market in the country. Moreover, the capital market in Bangladesh is yet to recover from the market crash of 1996 and there is lack of sufficient investors' participation till now. Again, it is also high risky for taking long-term foreign currency loan because of exchange rate fluctuations and lack of absorptions scheme against fluctuation.

International Development Agency (IDA) prepared a long-term credit line under its Financial Institutions Development Project (FIDP) to the Government of Bangladesh (GoB). IDA funding is placed at USD 46.9 million. An important objective of this project is to develop the capability of the financial institutions to raise medium/long-term resources. The project has established Credit, Bridge, and Standby Facility (CBSF) to implement the financing program for private sector enterprises through financial institution. Bangladesh Bank is acting as the administrator of the FIDP/CBSF. The GoB has provided co-financing for the project an amount of US\$5.00 million, US\$3.00 million of which is earmarked for the credit component and US\$ 2.00 million for liquidity mechanism. The FIDP has already started working since early 2000 and it is hoped that it will help raising medium/long resources for NBFIs.

Bangladesh Bank has taken several steps to reduce the costs of the NBFIs. The Statutory Liquidity Ratio (SLR) of the financial institutions was reduced from 10.0 percent to 5.0 percent, of which 2.5 percent was to be kept as Cash Reserve Requirement (CRR) with the Bangladesh

Bank and remaining 2.5 percent would be kept in cash or other liquid assets. NBFIs that do not accept term deposits are required only to maintain the SLR at the rate of 2.5 percent (BB,2002).

## **6. Impact of NBFIs' Deposit Mobilization on the Monetary Policy**

Every year monetary and credit policy is formulated with a view to attaining some definite objectives. One of our observations is that NBFIs deposit and credit have not yet been accounted in the money supply. So the money supply was underestimated. In the same way, there is no account of the overall credit participation by NBFIs. NBFIs credit and deposit are increasing day by day and they should have to be accounted for effective monetary and credit management of the country.

## **7. Concluding Remarks**

Emergence of NBFIs has created a new avenue in our bank dominance traditional financial system. Traditionally banks are doing such businesses that they are not supposed to do. Long term lending of banks is mostly unfamiliar product for them, and has created a serious distortion in the financial market. Rather than gaining any benefit from such types of activities, the society is now carrying the load of overwhelming default loans. As leasing is considered as an alternative of long term financing many NBFIs have strong performance in leasing business. The performance of the NBFIs in leasing business suggests that the industry can be growing up in a sustainable basis. But leasing must not be confined with selected sectors. NBFIs have to be equipped with highly professional personnel and technological advancement to chase the future opportunities and competition as well.



Strong institutional support is necessary for the development of capital market which is the core of economic development in the market economic system. NBFIs around the world provide institutions support to the capital market. In Bangladesh, only 7 NBFIs are registered with the SEC and their activities in the capital market are very limited. So NBFIs should concentrate more on their activities in the capital market.

NBFIs are suffering from high cost and scarcity of funds. At present, with high cost of fund non-banks are forced to compete with the banks those have relatively low cost of fund. This situation somewhat hampers the growth and development of NBFIs. For rapid growth and development of this sector, fund problem should be solved on a priority basis. Opening of a refinancing window even for a limited period of time may be considered after a strategic evaluation. Banking has the multifaceted own activities so that for bringing more efficiency in their own efficiency as well as the efficiency of the financial system they should not be involved with the activities that the NBFIs can do. It is recommended that government and the central bank will take initiatives to ease the fund constraint of NBFIs so that they can minimize their cost of fund and to bring their cost of fund at a market level. NBFIs from their part shall be much more attentive in rigorous project analysis to perform the loans well.

A modern and dynamic regulatory framework is required for the rapid and effective development of NBFIs. The NBFIs are now regulated by the Fiancial Institutions Act 1993 and Financial Institutions Regulations 1994. Some weaknesses of these regulations have been identified. NBFIs regulations should be the classification into deposit and non-deposit takers. Those NBFIs' activities are involved with the capital market that is those obtain funds through public offering of securities should be under the regulatory jurisdiction of the Security and Exchange Commission. Bangladesh Bank has formulated and declared policies for classifying and

provisioning of investment resources of NBFIs in June 2000. The classification rule has been formulated with a view to judging quality of investment funds, strengthening discipline in lending and recovery, securing peoples' deposit, having provisions for the loss of unrecoverable invested funds and imposing interest against bad investment. This classification procedure will definitely improve and promote the activities of NBFIs, but the procedure is always subject to improvement with the diversification of products of NBFIs.

Government of Bangladesh has already taken some important steps to patronize the sector including allowance and pension and insurance fund to invest in the capital market, reduction of stamp duties and taxes of issuing cost of bonds and imposition of 10% tax on interest income arising from national savings certificate. Government has already initiated to build a secondary bond market with IMF assistance. It will be better for NBF sector if the secondary bond market could be established on an urgent basis.

The NBFIs should publish their annual report following a unique system. It is good that BB have simplified the rules and procedures for submission of returns to BB. It is recommended that BB should include analysis of NBFIs sector in details in their periodical publications. In this way, accountability on the activities of NBFIs can be established with more efficiency to the stakeholders. NBFIs deposit and credit should be accounted in the money supply for effective monetary and credit management.

In sum, this paper mainly discusses and highlights some important aspects and areas of NBF sector of Bangladesh that could receive much attention from policymakers. There are many problems in the development process of NBFIs and consequently strengthening the financial system of Bangladesh. It is now well established that NBFIs can contribute much in strengthening the financial system as well as in the process of economic development of the

country. Since inception in 1986, NBFIs are some-what successful to draw attention of the people and establish its importance in the financial sector as well as in the economy of Bangladesh. It is hoped that in future NBFIs would be able to play more significant role in the development of economy of Bangladesh. Further research on the significance of their contribution in the economy is required.

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**Table 1: The ownership pattern of NBFIs, nature of activities and share percentages**

Ownership pattern	Name of NBFIs	% of Local	Share Foreign	Govt	Nature of activities
Govt. (100%)	1 IDCOL		-	100	Leasing, Project financing
Local-Private	2 PLC	100	-	-	Leasing
	3 UCL	100	-	-	Leasing, Investment Banking,
	4 PFIL	100	-	-	Leasing, Investment and Merchant Banking, Housing
	5 BLIL	100	-	-	Leasing, Merchant banking
	6 PLFSL	100	-	-	Leasing
	7 NHL	100	-	-	Housing
	8 MIDAS	100	-	-	Loan
	9 FLIL	100	-	-	Loan
	10 BFIL	100	-	-	Investment Banking
	11 IIDFCL	100	-	-	NA*
	12 Islamic Finance	100	-	-	NA*
	Joint venture	13 ULCL	28	60	12
14 IDLC		46.8	45	8.11	Leasing, Loan, Merchant Banking
15 SABIN CO		50	50	-	Loan, Investment and Merchant Banking
16 UFIL		25	25	50	Leasing, Merchant Banking
17 UAEBIC		40	60	-	Loan, Investment
18 ILFS		NA			Leasing, Loan
19 GSP-FCL		24	76	-	Leasing, Merchant Banking
20 BBFIL		70	30	-	Leasing, Loan
21 DBH		70	30	-	Housing
22 VANIK		70	30	-	Leasing, Investment and Merchant Banking, Housing finance
23 BIFL			NA		Leasing
24 IPDC		30	70	-	Leasing, Loan, Investment
25 FA		NA*			NA*

Data Source –BB, NBFIs

\*NA- Not available

**Table 2, Participation Of the NBFIs in leasing market over the period of 1999 to 2001**

Particular	Number of companies		
	1999	2000	2001
Government owned	-	-	-
Completely local and privately owned	3	6	8
Joint venture(Bangladesh Government /company and foreign government /company)	10	10	10
Total	13	16	18

Source – annual reports of BB, Annual Reports of NBFIs

**Table 3, ROA and ROE of major leasing companies.**

Sl. No.	Name of the Financial Institution	2001		2000	
		ROA (%)	ROE (%)	ROA (%)	ROE (%)
1	ULCL	8.06	25.43	6.43	21.96
2	IDLC	4.51	19.46	3.47	18.63
3	IPDC	4.51	18.49	4.71	16.27
4	PLC	2.04	28.38	3.54	18.11
5	UFIL	13.52	36.91	7.72	22.94
6	UAEBIC	11.02	11.02	11.9	11.9
7	ILFS	5.71	21.01	9.35	26.99
8	GSP-FCL	8.61	23.12	13.15	35.18
9	PFIL	4.31	16.30	1.15	3.64
10	BBFIL	0.95	1.25	-5.47	-5.65
11	BLIL	15.89	35.71	4.87	10.28
12	VANIK	N/A	N/A	0.21	0.91
13	BIFCL	2.28	22.13	2.24	6.54
14	FLIL	0.09	0.20	3.14	9.19
15	BFIL	-1.19	-1.88	-0.47	-1.36
Industry Average		5.74	18.4	4.4	13.04

Data source- FID. BB. , Yearly and half yearly financial statements of NBFIs.

Return on Asset(ROA)=Net profit after tax/Total Asset

Return on equity(ROE)= Net profit after tax/shareholder's equity

## Appendix A

LIST OF THE FINANCIAL INSTITUTIONS		Acronyms
<b>Government-owned (1)</b>		
1. Infrastructure Development Company Limited		IDCOL
<b>Completely local and privately owned (11)</b>		
2. Phoenix Leasing Company Limited		PLC
3. Prime Finance and Investment Limited		PFIL
4. Bay Leasing and Investment Limited		BLIL
5. National Housing Finance and Investment Limited		NHL
6. Peoples Leasing and Financial Services Limited		PLFSL
7. Union Capital Limited		UCL
8. First Lease International Limited		FLIL
9. Midas Financing Limited		MIDAS
10. Bangladesh Finance and Investment Limited		BFIL
11. Industrial and Infrastructure Development Finance Company Limited		IIDFCL
12. Islamic Finance and Investment Limited		IFIL
<b><u>Established Under Joint venture (13)</u></b>		
<b>a) Bangladesh Government and Foreign Government (2)</b>		
13. The UAE-Bangladesh Investment Company Limited		UAEBIC
14. Saudi Bangladesh Industrial and Agricultural Investment Company Limited		SABINCO
<b>b) Bangladesh Government/Company and Foreign Government/Company(11)</b>		
15. Uttara Finance and Investment Limited		UFIL
16. United Leasing Company Limited		ULCL
17. Industrial Promotion and Development Company of Bangladesh Limited (IPDC)		IPDC
18. Industrial Development Leasing Company of Bangladesh Limited (IDLC)		IDLC
19. Vanik Bangladesh Limited		VANIK
20. International Leasing and Financial Services Limited		ILFS
21. GSP Finance Company (Bangladesh) Limited		GSP-FCL
22. Bangladesh Industrial Finance Company Limited		BIFCL
23. Bahrain Bangladesh Finance and Investment Company Limited		BBFIL
24. Delta Brac Housing Finance Corporation Limited		DBH
25. Fidelity Assets		FA