CREDIT MANAGEMENT IN COMMERCIAL BANKS: A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTORS IN BANGLADESH

~~M.Phil.~~
Ph.D

THESIS SUBMITTED TO THE UNIVERSITY OF DHAKA
FOR THE AWARD OF THE DEGREE OF
DOCTOR OF PHILOSOPHY

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DEPARTMENT OF MANAGEMENT
FACULTY OF COMMERCE
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PREFACE

The pace of banking is gaining momentum in Bangladesh since its emergence as a new nation in the year 1971. A correct knowledge of bank credit is therefore, much desired in these days. The Bangladesh Bank as the Central Bank of the country was established under the Acting President's Order No. 2 of 1971 known as the Bangladesh Bank (Temporary) Order, 1971. Since then, all the commercial banks were functioning under the guidelines issued by Bangladesh Bank from time to time. On March 26, 1972 the Bangladesh Bank's (Nationalisation) order came into force. The working of the nationalised commercial banks became target of a criticism from different quarters and a demand was made out for establishing private sector banks. In view of the situation, government took the decision of disinvesting some of the nationalised banks. Keeping the scenario in mind, this study has been designed.

A comparative study of the working of both public and private banks has been attempted covering almost all the aspects of credit management in the light of how effectively they are complying with the guidelines of Bangladesh Bank and the instruction issued from time to time by the Ministry of Finance. The study has further analysed the actual functioning of a commercial bank's credit so that one can see how the elaborate credit machinery of a bank works with its interlocking and interdependent cogs.

The literature on credit management is skimpy in Bangladesh even today. However, whatever materials are available have been collected for analyses. At the moment private sector banks are at work in the country. The government has already disinvested 2 out of the 6 nationalised commercial banks and a process of converting 3 more into limited companies with 51 per cent of the shares being held by the government has already started. A big controversy is going on over the issue. However, the focus of attention of the present study has been kept limited to credit management only covering 2 private sector and 2 public sector banks.

Before embarking upon final interpretation, persons having insight into the working of banking industry have been consulted. Dr. Mahabub Hossain,

Director General, BIDS (Bangladesh Institute of Development Studies) made a strenuous effort to go through the draft and made comments from time to time. In fact, it would not have been possible to complete the thesis without his ungrudging help. The researcher finds no words of expression to thank him for his sincere interests in the thesis. The researcher is deeply indebted to him. Utmost precautions have been resorted to in the process of analyses concerning the reliability of data, computational checks, validation and comparison of results. In statistical analyses and validity of results Mr. Jagadish Chandra Sukladas, Associate Professor of the Department of Accounting, Dhaka University, was of much help.

The researcher expresses his debt of gratitude to all the authors whose works he has freely consulted and quoted. The researcher is grateful to his reverend guides Professor M. Habibullah and Professor Shahid Uddin Ahmed without whose constructive criticism and mature guidance this study would not have been possible to be completed. In the collection of data and in analysing the same, the researcher received valuable ideas and assistance from a number of practical bankers such as Dr. Risto Harma of World Bank, Mr. A.S.M. Fakhrul Ahsan, Deputy Governor, Bangladesh Bank; Mr. L.R. Sarker, former Managing Director of Sonali Bank; Mr. Khondaker Ibrahim Khalid, former General Manger, Agrani Bank; Mr. G.H.M. Hedayet Ullah Bhuyan, Senior Vice-President, The City Bank Ltd.; Professor Herbet J. Davis, of George Washington University, U.S.A.; made valuable comments on the draft. The researcher is grateful to all of them. His wife Siratul Ferdous was the stream of inspiration at all times. His father Al-haj A.N. Md. Hashem and his father-in-law Al-haj Md. Abu Taiab both wanted to see him obtained the degree. He is indebted to the Department of Management, University of Dhaka to enrol his name as a student of the Ph. D. programme.

Finally, the researcher expresses his sincere thanks to Mr. Ashabul Hoque, Steno-typist, Bangladesh Institute of Development Studies who took the pain of typing the entire thesis.

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IFTEKHAR UDDIN AHMED

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ABSTRACT

The study presents an enquiry into the distinguishing features of lending activities of commercial banks belonging to public and private sectors. This is a critical attempt to highlight the lending practices in the banking industry of both public and private sectors. The study revealed the following major findings:

First, sudden reduction in the target of credit set by the Central Bank is against the norms of fund for socio-economic benefits. Second, refinance policy of the Central Bank is a highly erratic inducement to the commercial banks. Third, imposition of penal interest in agriculture has been found to be erratic and that too with different rules in different banks. Fourth, the working of the commercial court has proved to be ineffective in the matter of prompt disposal of cases. Fifth, the Banking Companies Ordinance, 1991 has found to be silent about recovery of credit. Sixth, private sector banks have been found to play very insignificant role of financing in the priority sectors. Seventh, recovery rate is found to be unsatisfactory in the public sector banks. Eighth, credit programming is found unorganised and unsystematic in private banks. Ninth, public sector banks are found slow in disposing loan cases. Tenth, officials of public sector banks are found to be more formal. Eleventh, private banks are found to attach more importance on the bank-borrower relationship than going for thorough examination of documents and papers submitted by the loan-seeking clients for obtaining sanction of credit. Twelfth, public sector banks are found to be indifferent in the follow-up and supervision of loans granted. Thirteenth, due to lack of accountability to the assigned tasks irregularities are found to be high in public sector banks in sanctioning of loan and accomplishing documentation formalities. Fourteenth, misuse of delegated loan sanctioning power has been found to be more in the private sector banks.

On the whole, private sector banks encourage economic activity in the urban areas neglecting the villages which are reported to constitute the heart of the country while the public sector banks have played substantial, though

not adequate, contribution towards broad-based economic development through resource mobilisation and by dispersal of fund in the form of different sizes of credit -- big, medium and small.

In view of the findings of the study, private banks should extend credit to the priority sectors for socio-economic benefits and balanced development of the country. The commercial banks of both public and private sectors should build up their own resources instead of relying on the Central Bank to avail of the refinance facility. In agricultural sector, rate of interest must be uniform in all the banks of both public and private sectors. Public sector banks should strengthen post-sanction monitoring activities and pursue a strong follow-up programme after disbursal in order to raise the rate of recovery. Private banks should have their written credit plan. Public sector banks should quickly dispose of cases. In the private sector banks assessment of borrowers credit-worthiness should be done more carefully. Private banks should be frequently audited by the Central Bank in order to prevent misuse of power by the managers and credit dealing officers. A Central Credit Information Bureau should be set up in the Central Bank to gather and supply data on credit and borrowers.

CHAPTER – I

INTRODUCTION

1.1 Statement of the Problem

The overall economic upliftment of a developing country like Bangladesh largely depends on the balanced growth and continued progress of almost all the sectors like agriculture, industry, export and at the same time creation of opportunities for employment and income-oriented activities. In an agrarian economy like ours agricultural sector accounts for almost 40 per cent of the GDP (Gross Domestic Product). The industrial sector, both large and small scale, is a relatively minor sector of the Bangladesh economy. It accounts for 10 to 11 per cent of the GDP. On the other hand, our balance of payment position reveals that we have been making payment far in excess of export earnings.

Due to the increased pressure of population on the highly skewed land and the sluggish growth of agricultural production, the landlessness has been growing to an unlimited extent. Finding no employment on the land, the landless and the small farmers try to make out a way of living by engaging themselves in trading and service activities. Owing to lack of resources, the non-agricultural poor and low middle class group has to depend on the money-lenders for working capital, apart from friends and relatives. Usually the interest paid to the substantial money-lenders constitute a proportion of the potential income. Provision of institutional credit at reasonable terms and conditions could support the growth of small entrepreneurs and improve the economic conditions of the country.

Institutional finance is being provided to support the progress of the various sectors of the economy. BKB (Bangladesh Krishi Bank) and the cooperatives provide the bulk of the institutional credit to the farmers. Financial institutions like Bangladesh Shilpa Rin Sangstha (BSRS) and Bangladesh Shilpa Bank (BSB) provide long-term credit. Small scale industries get financial facilities from Bangladesh Small and Cottage Industries Corporation

(BSCIC). More than 80 per cent of the working capital requirement of trade, commerce and industry is met by commercial banks.

The strength of a bank lies in its quality of credit and the failure of a bank arises because of the erosion in the quality.[1] Credit has accelerated the speed of the machinery of commerce.[2] Bangladesh is in the midst of gigantic efforts to speed up the process of economic growth.[3] Therefore, significance of credit in promoting and sustaining economic growth in a developing country like Bangladesh can hardly be over-emphasised.[4] Credit is needed for many purposes and is employed by almost all sectors of the economy.[5] The demand for institutional credit in Bangladesh is much in excess of what can be supplied by the banking sector.[6] Its proper utilisation helps in productive purposes.

Commercial banks are reported to often violate the credit policy of the Central Bank. Banks have the tendency to avoid careful assessment of the credit-worthiness of the loan-seeking clients. Consequent upon which there are a lot of cases turned bad and irrecoverable. On the other hand, formalities observed in granting loans are very lengthy and time consuming. Inadequate and defective documentation renders the advance vulnerable leaving very little recourse in the event of default. In the absence of proper follow-up and constant persuasion overdues are mounting in the banks and rate or recovery

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[1] Vaghul, N., Management of Commercial Banks, *Paper presented at the 16th SEANZA Central Banking Course*, October 13-December 18, 1986, Dhaka, Bangladesh, p. 6.

[2] Garg, K.N., *Money, Banking, Trade and Finance*, Kitab Mahal, Allahabad, 1977, p. 263.

[3] Habibullah, M., *Employee-Centered Supervision and Productivity in the Jute Industry*, changed version of author's doctoral dissertation, Bureau of Business Research, University of Dhaka, 1970, p. 6.

[4] Fakhrul Ahsan, A.S.M., An Evaluation of the Monetary and Credit Policy and Operation in Bangladesh, *Journal of the Institute of Bankers*, Bangladesh, Vol. 7, June 1978, pp. 48-66.

[5] *op. cit.*, pp. 48-66.

[6] Beg, M.A. Banking Development in Bangladesh, *paper presented at the 16th SEANZA Central Banking Course*, October 13-December 18, 1986, Dhaka, Bangladesh, p. 10.

is declining. These problems are considered to be responsible for the low repayment and low recovery of banks in Bangladesh.

The type of credits allowed by the private commercial banks are basically urban biased. The same thing is also present in the credit management and dispensation aspects of the Nationalised Commercial Banks (NCBs). The only difference between the two is that the overwhelming control of the bureaucracies over the NCBs with respect to financial and portfolio management which as per commercial wisdom are required to be within the decision purview of the provision directly related to work itself. This phenomenon of policy control over the NCBs force them to provide loans to various sectors of the economy like industry, agriculture, livestock and fishery and trading in both urban and rural areas as per the priorities set by the government and at the subsidized rate in some of the above-mentioned sectors. Such policy control is reported to be absent in private sector commercial banks.

The comparison of the credit management of NCBs and private commercial banks were taken to be the main theme of this study. Now, the question may be evoked as to the nature of such comparison and the purpose of the same. The reason is two-fold: one is to put appropriate colour to the commercial banks i.e. bring it to its commercial form and feature and the second is to compare the difference between the NCBs and the newly created commercial banks in the private sector with respect to the credit management in which basically the monies are lent out by the banks in different sectors of the economy having pay back period limited to the short-term loan activities.

1.2 Objectives of the Study

The main objective of the study is to unveil the comparative situation of commercial banks belonging to public and private sectors with regard to credit management in the context of Bangladesh. The focus of attention has been on the following issues:

(1) An attempt would be made to see the role of the Central Bank in the matter of credit control and evaluate the credit policy of the Central Bank.

(2) The study would shed light on the evolution of Interest Rate Policy.

(3) A critical appraisal of the Banking Companies Ordinance, 1991 would be made in the study.

(4) A historical background of credit and the pattern and performance of banks' credit delivery would be shown in the study.

(5) The study would present an analysis of the survey findings of the bankers and borrowers perception as regards management of banks' credit delivery.

(6) The study would examine cases in order to find the extent of irregularities their causes and consequences and also suggest measures for policy decisions.

1.3 Scope and Coverage of the Study

The study on the subject entitled "Credit Management in Commercial Banks: A Comparative Study of Public and Private Sectors in Bangladesh" is divided into seven chapters.

Chapter 1 deals with the nature of introduction wherein the problem relating to credit delivery has been stated. There is great demand for institutional credit in almost all the sectors of the economy. Accordingly, credit is being provided by a number of credit giving agencies including commercial banks. But the crux of the problem is that the rate of recovery is disproportionately low. The main reasons for being poor rate of recovery has been attempted to examine and analyse its peripheral causes. The main objectives, scope and coverage of the study and sources of data and the design of the survey have also been presented in this chapter.

Chapter 2 deals with the review of literature. Research findings of international scholars in the field of credit - their verbatim quotations and excerpts have been critically reviewed at the beginning of this chapter. Such critical appraisal has been made by dividing the whole theme of credit management in four major issues. In the next stage, research findings and investigation results of the Bangladeshi researchers, bankers and writers have been arranged in an orderly manner with a view to find the gap in the area of credit management. Relative merits and demerits of public versus private sector commercial banks have also been brought to light particularly at the end of this chapter.

Chapter 3 is devoted to show the mechanism followed by the Central Bank as the controller of credit. An evaluation of the credit policy of the Central Bank has also been attempted in this chapter. Moreover, evolution of Interest Rate Policies and their effect of changes have been discussed. Banking companies Ordinance, 1991 has also been critically reviewed with special reference to the Banking Companies Ordinance, 1962.

Chapter 4 presents an inquiry into the historical background of credit delivery and the performance of bank in the area of credit management. This chapter is based on secondary data published by the Ministry of Finance, Government of Bangladesh.

Chapter 5 shows an analysis of the survey findings of bankers and borrowers perception. The purpose of this chapter is to examine and analyse the opinions of bankers and borrowers regarding various aspects of credit management. Such opinions were gathered through structured questionnaires. The questions were open-ended. This chapter is designed and presented on the basis of analyses of the respondents' answers.

Chapter 6 examines selected number of cases and makes an indepth analysis of the nature and extent of irregularities. The introduction of the chapter is followed by case by case analysis and at the concluding section of the chapter comparable irregularities of both public and private sectors have been shown in the form of tabular presentation followed by an analytical exposure of the table so shown.

Chapter 7 is the summary and conclusion of the study. This chapter reveals the findings of the study and makes recommendations with a concluding note.

The study concentrated on the lending functions of the commercial banks in Bangladesh and covered a period of 3 calender years stretching from 1983 to 1985. In some cases, however, relevant development in other years were also discussed. Particular attention was given to bring out a comparative result of credit management in commercial banks of both public and private sectors in Bangladesh.

1.4 Sources of Data and the Design of the Survey

The data for the study have been collected through field surveys of bank officials, clientele of the banks, from published and unpublished materials and through case studies.

In order to collect primary data two sets of questionnaires were developed. One set was used for interviewing the managers and various executives of the banks.[7] The other set was used for interviewing the borrowers to gather information regarding the credit practices prevailing in Bangladesh.[8]

Collection of secondary data relating to the banks' credit situation was made available from Bangladesh Bank Research and Statistics Division, Ministry of Finance (Finance Division), Government of Bangladesh, Planning Commission, IMF Reports, World Bank Reports, ADB Reports etc. Data relating to credit were also collected from the Planning and Research Division of all the banks under study. Annual reports of the banks under study for 1983, 1984 and 1985 were consulted for information relating to credit management.

A total number of 88 cases of selected defaulters were studied to get an insight into the nature of default and the extent of managerial competence in terms of planning, organising, directing and controlling enterprise activities, indispensable for effective loan utilisation. The investigation was conducted with reference to records of irregularities or lack of managerial know-how as identified by inspectors of the banks' head office team.

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[7] Vide Appendix - C.

[8] Vide Appendix - D.

The managerial skill of handling credit of commercial banks in both public and private sectors differ considerably. Careful efforts have been exercised in bringing this difference into limelight particularly in choosing the banks from both the sector in order to make the study representative of country's credit profile. However, in taking samples for investigation covering all the commercial banks, problems galore. Therefore, 2 commercial banks from the public and 2 from private sector have been taken as population of the study according to the magnitude of advance.[9]

In view of the limited resources and time at the disposal, all the branches of the population could not be investigated. It was decided to allocate a sample of 12 branches in Dhaka City on equal proportion to each of the 4 banks. Branches have been chosen of large, medium and small sizes in terms of advance, and purposive sampling was also done with a view to interview the managers and loan officers because they are directly handling the borrowers and in fact, they are at the helms of loan affairs particularly in initiating a new loan case as well as disbursement and even in some cases manager give the final sanction of a proposal without referring it to the higher authority. So, 2 persons from each branch of the sample banks were interviewed.

In the next stage, 4 Managing Directors of the concerned banks were interviewed besides 2 General Managers and 2 Senior Vice-Presidents and 2 Deputy General Managers and 2 Vice-Presidents at the head office level of the sample banks. Apart from which 4 senior personnels were interviewed from Bangladesh Bank viz., Deputy Governor, General Manager (Banking Control Department), General Manager (Audit and Inspection), Deputy General Manager (Audit and Inspection) to ascertain their views on credit. These officials are connected with the framing and controlling of credit policy for commercial banks as well as to look and report on their compliance.

From the banking sector a total of 40 persons were interviewed. On the contrary, 15 exporters, 15 importers, 15 wholesalers and 15 industrialists who

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[9]Vide Appendix - A (Table - A.6).

(Dhaka being the metropolitan city of the country with heavy concentration of head offices of all banks and head offices of most of the borrowing clients being loanee here, the selection of branches from the Dhaka city was assumed to be justified.)

have been financed with working capital, were taken for interview on the same norm of large, medium and small determined in terms of the size of loan enjoyed in Dhaka Zone numbering equally from both the sectors i.e. 30 from public sector and 30 from private sector. Distribution of sample borrowers as big, medium and small of each sector was done in such a manner so as to avoid fraction. In all, 100 units were interviewed.

1.5 Hypotheses to be Tested in the Study

The following hypotheses have been developed to be tested in the study:

(1) Central Bank follows a prudent credit control policy for both public and private sector commercial banks.

(2) Credit programming is more objectively done in public sector banks than in the banks belonging to private sector.

(3) Assessment of credit-worthiness of loan-seeking client is more efficient in the public sector banks than in the banks belonging to private sector.

(4) Private sector banks are more flexible and efficient in disbursement and recovery of loan than the public sector banks.

(5) Public sector banks can cater to the needs of the priority sectors for national development than the private sector banks.

(6) Analysis of the managerial quality of the entrepreneurs is more accurate in the public sector banks than that of private banks.

(7) Procedures of collecting information about the credit-worthiness of the borrowers are better in private sector banks than in the public sector banks.

(8) Quality of service in the area of credit management is better in the private sector banks than in the public sector banks.

(9) Credit policy of the Central Bank is more carefully followed by the public sector banks than the private banks.

(10) Lending functions of public sector banks are not adequately supervised as has been done in the private banks. Rather they stress on the security which is more lightly taken into consideration by the private banks.

CHAPTER – II

REVIEW OF LITERATURES IN THE FIELD OF CREDIT MANAGEMENT

in fact

We are, indeed, in the midst of something of a renaissance of research on the various aspects of credit management. Here, we shall try to survey the previous studies and identify the gaps in order to help sharpening the focus of the study. Due to space constraint it is not possible to discuss all the studies on credit management. An attempt has been made to focus on those studies which have particular relevance to our present study by dividing the theme into a number of major issues.

Central Bank's Credit Control Mechanism

One of the principal functions of the Central Bank is the control of the volume of credit on sound lines according to the needs of business. The stability of the monetary standard of the country is ensured on a consistent monitoring basis. Several procedures are followed by the Central Bank to implement these objectives which can be categorised broadly as:

- Quantitative
- Qualitative
- Selective

Quantitative Methods

The Central Bank uses this method to keep a check on the flow or quantity of bank credit in three different ways.

i) Bank Rate Policy
ii) Open Market Operations
iii) Variation of the Reserve Ratio

Bank rate policy is the core or the heart of the Central Bank's function. It involves regulating the rate minimum possible for discounting first class bills of exchange or advancing loans on securities. The German Central Bank earned its immensely respectable heavyweight influence in the world financial market by strictly adhering to what it considered the appropriate rate unswayed by the many external pressures.

An adverse balance of trade causes a country to export its gold as a compensatory measure. In this situation the bank rate is set at a higher mark to stabilise the foreign exchange. A high bank rate is an invitation for the foreign investor to keep funds in the country in expectation of higher returns. With computers playing such a big role in transferring funds in today's money market, investors or their brokers are also very interested in bringing more funds from other sources to reap the benefit of the high bank rate. This movement of money into the country counters the outflow. The currency of that state rises in value or, the exchange rate becomes favourable, with its increased demand. Borrowing, however, registers a downfall because of this very high interest rate. Commercial activities decline. Consequently there is fall of income and prices. On the other hand, the low prices encourage export, while discouraging imports. A favourable balance of trade will be achieved which would not have occurred if the rate had been lowered instead.[10]

In open market operations, the Central Bank regulates the flow of credit from the commercial banks through purchase and sale of securities. When the Central Bank feels that commercial banks are running after easy money and jeopardising the stability of the economy, it sells securities in the market. The buyers draw cheques from their banks which reduces the cash reserves of the commercial banks, compelling them to cut down on doubtful loans.

Conversely, when the Central Bank finds credit is insufficient, it purchases securities from the open market. As the Central Bank buys the securities, the money received by the sellers are deposited in the commercial banks. This will increase their cash reserve enabling them to give out greater amount of loans and with less stringent requirements.[11]

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[10] For an extended discussion see *Central Banking*, Dekock, M.H., Granada Publishing Limited, London, 4th Edition, 1974, pp. 118-237.

[11] For an exponential view see *Money, Banking and the Economy*, John A, Cochran, Macmillan Publishing Co. Inc., New York, 5th edition, 1983, pp. 249-370.

Variation of the reserve ratio is adopted when it is difficult for the Central Bank to carry out the regulating task in the open market. There may not be adequate securities to buy and sell, or it may not be profitable for the Central Bank to purchase securities at higher prices and sell them at lower prices. Within certain legal limits the Central Bank is entitled to alter the reserve ratio of the commercial banks, which are creating problems, to control credit flow. If the reserve ratio is raised, the commercial banks confront the necessity of keeping higher cash reserves with the Central Bank to maintain their existing level of deposits. When the minimum reserve ratio is lowered, it brings more cash in the hands of the commercial banks and enable them to expand credit.

Qualitative Methods

There are three variety of steps which are enforced occasionally by the Central Bank in order to channel the flow of credit for the actual and full benefit of the country. The three steps are:

i) Credit Rationing
ii) Direct Action
iii) Moral Suasion

Credit rationing comes into action only in the circumstances where a Central Bank is covertly or outright encouraging the sanctioning of risky or unfeasible loans. The Central Bank may ration that bank, or such banks' credit and refuse to rediscount bills of exchange totally. Specific instructions are given to these commercial banks about credit policies they are to follow, strictly limiting their indiscriminate loan sanctioning authority.[12]

Direct action means when the Central Bank has to deal directly with a particular commercial bank. This may involve sanctioning or disapproving a loan application, and/or ensure close monitoring of the investment policies of that individual bank. If the bank is evasive in regard to discarding unsound

[12]For a detailed discussion see *Modern Banking*, Vaish, M.C., Oxford & IBH Publishing Co., 66 Janapath, New Delhi, 1978, pp. 142-143.

banking practices, various degrees and nature of penalties are employed by the Central Bank to bring the offender to book.[13]

Moral suasion is another method of the Central Bank to control the volume of credit. It must be emphasised that direct action is applied in very rare cases. In general, commercial banks follow Central Bank rules and recommendations as far as possible, since such measures are made in today's highly competition-charged environment in the interest of the banking business as well as to cater to the needs of the national economy. If any commercial bank gives indication of restlessness by anticipating short term profits, the Central Bank's counsel, cajoling and frank discussion ensures the eventual goal of solid banking policies and practices. This persuasive method of credit control is known as moral suasion and it is widely practised by the modern Central Banks.

Selective Methods

As the nomenclature reveals, the two methods that can be used are concerned primarily with credit financing in some definite sector of the economy. Naturally, these sectors are of vital importance to merit such selective control measures. Again, volume of credit flow is not the criterion for these methods but the strategic direction which is the ultimate aim.[14] It is evident that the qualitative methods do not apply here. The two methods which do apply are:

Regulation of the Margin Requirements
Regulation of Consumers' Credit

Regulation of the margin requirements is employed by fixing the percentage or level of the loan which can be taken against the collateral or security.[15]

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[13] Raymond P. Kent, *Money and Banking*, Rinehart & Company Inc., New York, 1957, p. 524.

[14] For an interesting analysis see Mukherjee Promode Kumar, *Modern Banking*, 2nd revised edition. The World Press Private Limited, 37A College Street, Calcutta 700073, 1976, pp. 92-95.

[15] For example, if Taka 9,000 is borrowed against a security of Tk. 10,000; the margin is Tk. 1,000 or 10% of the value of the security. If the central bank raises the level to 30%, the loanee now receives Tk. 7,000 against a collateral worth or valued at Tk. 10,000.

Through regulation of consumers' credit the Central Bank exercises control of the credit flow by fixing the minimum down payments and/or the number of instalments.[16]

Basu concluded from an experiment that to be effective against boom or slump the credit control instrument at the disposal of the Central Bank should be applied quite early because delay in this matter is fatal.[17]

Role of Commercial Banks in Respect of Credit Delivery

The commercial banks follow certain principles in the delivery of credit. Researchers and practitioners have tried to evaluate those principles to be applied in the choice of decisions by efficient yet in an adaptable manner. In the limited space alloted here we shall try to shed light on those studies quite relevant to this study. The purpose is to get an insight into the dynamics of credit management.

The functions of credit management was conceived by Theodore N. Beckman of the Ohio State University as (i) to maximise investments, (ii) to minimise bad-debt losses, (iii) the efficient utilisation of invested funds and (iv) to cooperate with other internal and external departments.[18] In order to manage the lendable resources commercial banks perform a number of functions. of which the following are important:

a) Formulation of Credit Policy;
b) Appraisal of Borrowers' Credit-worthiness;

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[16] Suppose, a colour TV costing Tk. 13,000 may be bought by a purchaser with a down payment of Tk. 4,000, by signing relevant documents and the payment of the rest on a monthly instalment basis of Tk. 900. But if the down payment is increased to Tk. 6,700 and/or the monthly payments increased to a higher figure to be paid in fewer instalments, the demand of that particular brand of colour TV will drop and the number of customers shrink. As a result the manufacturer may very well reduce production. If the central bank wants to encourage the durable consumers' goods sector then such instalment payment and similar schemes are excellent devices to stimulate this side of the national economy.

[17] Basu, C.R., *Central Banking in a Planned Economy,* The Indian Experiment 2nd edition, Tata Megraw-Hill publishing company limited, New Delhi, 1977, p. 341.

[18] Beckman, Theodore N., and Bartels Robert, *Credit and Collections in Theory and Practice* (6th ed. New York: Mcgraw-Hill Book Co., Inc., 1955) pp. 68-70.

c) Analysis of Financial Statements;

d) Supervision, Follow-up and Recovery

Formulation of Credit Policy

Dang investigated into the problem related to credit decisions. His findings are quite revealing. He found that credit decisions are based on an evaluation of financial, managerial and economic factors[19] and not on whims.

According to Jesser and Mott, a credit policy[20] should include among other things:

a) Legal Considerations;

b) Delegation of Authority;

c) Types of Credit Extension;

d) Pricing;

e) Loan Standards;

g) Credit Granting Procedures.

Jesser emphasized the need of a credit policy. This emphasis has been reinforced by the findings of Jain who studied the functions of banking in the Indian context. His study pointed out that there must have an internal policy of each bank as to the disbursement and recovery of loans and advances. He further commented that a loan if not repaid in time, becomes a dead asset.[21]

Edwards put a vivid analysis of credit and examined the cost of credit and its effect on liquidity. He suggested for the preservation of a sound credit manual explaining its contents therein.[22]

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[19] For an exponential view of the financial statement analysis, see Dang, A.K., *Bank Credit in India,* Classical Publishing Company, New Delhi, pp. 84-100.

[20] Jesser Deward A. and Mott Hubert C., Establishing Credit Policy - Criteria and Concepts, *The Bankers Hand Book,* New York, 1915, p. 542.

[21] Jain, J.P., *Indian Banking Analysed,* The Banking Experts, New Delhi, 1949, p. 5.

[22] Edwards Herbert, *Credit Management,* Coles Business Books, Canada, 1980, p. 99.

Sometimes borrowers are not able to borrow as much as they would like at market rates of interest and when these rejected offers are present, it is said to constitute credit rationing.[23] Azzi and Cox argued that credit rationing not only depends on interest rates but also on the amount of collateral offered and on the borrwers' equity. Quoting other writers, they discussed both equilibrium and disequilibrium credit rationing.

Appraisal of Borrowers' Credit-worthiness

The importance of making fuller use of the methods of credit appraisal was stressed in the researches carried out by experts like Radhaswamy, Joshi and Rao Gangadhara and Rao Subba. Radhaswamy suggested that the principles of good lending should be: (i) safety; (ii) liquidity; (iii) profitability; (iv) purpose of the loan; (v) diversification of loan. In order to make a good advance, banker has to ensure the following:

1. The Character of the Borrower.
2. Collection of Credit Information.
3. Nature of the Proposition.
4. Security.
5. Capacity of the Borrower to Utilise the Credit.
6. The Size of Loan which could be Profitably Utilized.
7. Source of Repayment.[24],[25]

In a recent study Joshi observed that banks hold public money in trust. In his view fund may be disbursed and not distributed. He stressed on the quality of lending[26] by properly assessing the credit-worthiness of the borrower.

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[23]Azzi Corry F. and Cox James C., A Theory and Test of Credit Rationing Comment, *The American Economic Review*, Vol. 66, No. 5, Dec. 1976, pp. 911-917.

[24]Radhaswamy M., *Practical Banking*, S. Chand & Company Ltd., Ram Nagar, New Delhi, 1979, pp. 205-206.

[25]Right from acceptance of a loan proposal till sanctioning through necessary processing including documentation have been detailed in *Bankers Book of Instructions* under chapter code 5000-5200 excluding rural credit compiled and produced by Agrani Bank, Head Office, Dhaka, March, 1979.

[26]Joshi, P.N., Banking scene during 1979, *The Journal of the Indian Institute of Bankers*, Vol. 50, No. 4, Oct.-Dec., 1979, pp. 208-217.

Investigation of Rao Gangadhara and Rao Subba revealed that the banker should study the project thoroughly before allowing credit in order to see whether the project is technically sound, commercially feasible, financially profitable, managerially competent and economically and socially viable to meet its financial obligations.[27] These suggestions were further corroborated by Holden. He remarked that in addition to ensuring legal capacity of the borrower, the banker must see the purpose of the advance, the source of repayment, the profitability of the transaction and the security offered.[28]

According to Prather while the three "Cs" of credit (viz.; character, capital and capacity) are important in credit analysis, the three "Ps" which are purpose, protection and payment are equally important to credit administration.[29]

Researchers analysed the various aspects and nature of commercial credit. Their analyses were based on the assumptions that commercial credit from the viewpoint of purpose and payment should be short-term, self-liquidating credit to finance the manufacture, storage or shipment of commodities, credit to supply working capital over varying periods of time, loans to finance the acquisition of capital assets.[30]

In one of the early studies in American setting, Clair stressed on the turnover of the parties account. He remarked that when the banker grants a loan, quite apart from the question of securities, the banker wants to know volume of transaction in connection with which the loan is required, and he desires to be assured that at the end of a short period, the fund for repayment

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[27] Rao Gangadhara M. & Rao Subba P., Project Evaluation: Banker's Approach, *The Journal of the Indian Institute of Bankers*, Vol. 50, No. 2, April-June 1979, pp. 77-81.

[28] Holden, Milnes J., *The Law and Practice of Banking, Vol. 11, Securities for Bankers Advances*, Pitman publishing, London, 1977, p. 1.

[29] Prather, Charles L., *Money and Banking*, Business Publications Inc., 1969, 9th ed., pp. 274-280.

[30] For an extended discussion and analysis see Douglas A. Hayes, *Bank Lending Policies:* Domestic and International, 2nd ed. (Ann Arbor: University of Michigan Business Studies, Vol. 1, No. 3, 1977): Hubert V. Prochnow and Roy A. Boulke, *Practical Bank Credit* (New York: Harper & Row, 1963); *The Bankers' Hand Book* (Homewood, 111: Dow Janes-Irwin, Inc., 1978 and *Commercial Loan Analysis*, (Washington, D.C. American Bankers Association, 1971.

of that loan will be forthcoming, when the securities can be returned to the pledgor.[31]

In another early study Cannon examined and found that the department of credit must be manned by most faithful, reliable, intelligent, tactful men, who must be capable of infinite pains of inexhaustible patience and of absolute loyalty.[32]

Analysis of Financial Statements

The study of Compton revealed that gathering as much financial data as possible regarding a corporate borrower is an integral part of identifying the projected source of repayment.[33]

Gross and Hempel showed that the essence of loan development lies in a willingness first to examine carefully every request for credit and try conscientiously to make it "bankable" and second to search actively for opportunities to promote the growth of the community and the individual business therein with sound credit.[34]

Hutchinson and Dyer critically examined and found that careful interpretation of parties balance sheet acts as an aid to the lending proposal for the bankers. They remarked that it is an additional advantage for a banker to have a workable knowledge about balance sheet.[35]

The study of Flynn suggests that there is the necessity of a centralised credit information agency to provide relevant information about the borrowers. In this regard, he remarked that the bank itself can act as the store-house of information. He stressed on the need of bringing out literature on credit

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[31]Clair, Oswald St. *The Physiology of Credit and of Money,* London, P.S. King & Son Ltd. Orchard House, West Minister, S.W.Z. 1991, pp. 153-154.

[32]Cannon, J.G. Bank Credits, *Bankers Magazine,* New York, Vol. LXX, May, 1905, pp. 587-590.

[33]Compton Eric N., *Inside Commercial Banking* John Wiley & Sons, Inc., New York, 1983, p. 103.

[34]Cross Howard D. and Hempel George H. *Management Policies for Commercial Banks,* Prentice-Hall, Inc., Englewood Cliffs, New Jersey, 1980, p. 227.

[35]For an articulate view with critical case analysis vide *Interpretation of Balance Sheets* by Hutchinson, H.H. and Dyer, L.S. Fifth edition, The Institute of Bankers, London.

information.[36] His findings has been supported by Crane to the effect that such agencies could play a good role in the investigation of the credit risk.[37]

In selecting a borrowing-client Cannon in his study revealed that the bank man should see the circumstances under which the borrower started business life. He suggested that it should be seen whether the borrower's money was made by his own efforts or came to him through the assistance of friends and relatives or through inheritance. What has come by dint of hard work is less likely to be squandered through reckless management than funds acquired without effort.[38]

Supervision, Follow-up and Recovery

Increased supervision reduce the number of defaults to a considerable extent. Ettinger revealed in his study that minimum requirement for successful collection work are: (1) knowledge of why accounts have become delinquents; (2) a method of watching accounts to detect delinquents; (3) an efficient follow-up system and (4) knowledge of collection techniques.[39] His findings got the support in the Tandon Committee Report of Reserve Bank of India.[40]

Davis found that a useful technique often used by a number of excellent banks oblige the responsible loan officer to supervise and workout of his problem loans by which he is less likely to show lack of interest in his assignment. According to his findings this technique would improve in achieving desired result in streamlining the defaulted loan cases to a considerable extent.[41]

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[36] Flynn, S.R. Twentieth Century Credit System, *Proceedings*, Thirteenth Annual Convention, Michigan Bankers Association, 1901, pp. 135.

[37] Crane, F.W., Commercial paper purchased from Brokers, *Proceedings*, Thirty Sixth Annual Convention, Illinois Bankers Association, 1916, p. 135.

[38] Cannon, J.G., Credit Man, Creditor, *Bankers Magazine*, New York, Vol. 53, July 1896, pp. 37-41.

[39] Ettinger, B., *Credit and Collections*, Prentice-Hall Inc., 1956, p. 281.

[40] Reserve Bank of India constituted the *Tandon Committee* which submitted its report in 1975 enunciating guidelines for follow-up of the bank credit.

[41] Davis, Steven I., *Excellence in Banking*, A profile of superior management, based on insight into Citibank, Deutche Bank, Morgan and 13 other selected banks. The macmillan Press Ltd., London, 1985, p. 110.

Relative Merits and Demerits of Public versus Private Sector Commercial Banks

Merits of Public Sector Commercial Banks

Peoples in the village are organised in groups to carry on various commercial activities from poultry farming to entrepreneurship like setting up a woman's tailoring establishment. Percentage of recovery of loans is found to be the highest.[42] This is in particular reference to the Grameen Bank Project which offers loan without collateral.

Small sector business and industries receive loans usually against their immovable property like land or machines.

By serving the middle class wage earners, traders, manufacturers and others, these banks utilise the aggregate transactions into the main stream of national investments.

The small investors are greatly attracted by fixed deposits, savings certificates, etcetera. The volume of credit flow is rendered substantial by the numerous nature of these account holders. Local economic activities are generated by ploughing back these deposits.

Large industrial projects with collaboration from other countries or World Bank or Asian Development Bank or UN funding agencies and other sources are undertaken with export objectives or participation in the global market. Employment at such enterprises, once operational, is high both in terms of quality and quantity.

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[42] Ahmed Salahuddin, Strategy for Rural Development, *Management Development,* Vol. 13, No. 1, January-March, 1984, pp. 20-23.

Demerits of Public Sector Commercial Banks

Recovery of loans by public bank in agriculture is not conducive to healthy growth either of the banking or the agriculture sector. In fact, loan dispensation itself often perpetuates a monopoly market where certain vested interests are served only, while genuine agriculturists like those with entrepreneurial flair have to seek succour elsewhere say from private financial institutions.

Recovery of industrial and commercial loans are just as dismal. There is dearth of project feasibility study before granting of loans. There is also woefully inadequate follow up of what is done with the loan. It is reported that some use the loan money for quick returns instead of the purpose for which the loan was taken. Some play it safe and the money goes into bonds, fixed deposits etc. with little attention to payment. This occurs with the connivance of what Mahmood[43] terms "anti-national elements".

Misappropriation of funds occur as the bureaucratic maze actually creates loopholes for fraud and corruption. Genuine banking practices cannot flourish where demand cannot be satisfied according to set guidelines. Unethical behaviour is also based on low morale due to lack of incentives. A high official in a private bank, for example may have full time access to a driver and a car but in the public sector such privileges are handed out grudgingly and often subject to harsh criticism by those least concerned.

Employees belong to the public sector feel that their job is more or less second. Most of them do not work sincerely because they understand that chances of being promoted or rewarded are very scanty for their sincerity in work. Hence, they carry on routinely, often with boredom and sometimes rude behaviour. Employee insubordination is a common phenomenon, particularly where the hierarchy is seen to be enjoying great privileges.

[43] Mahmood Khaled, Editorial, *The Economy*, 1st Issue, February, 1987.

With greater emphasis on privatisation, there is insufficient competitive spirit which is detrimental to the growth of public sector banking. In pre-Bangladesh days despite the flourishing of private banks, the public banks were full of zeal and the environment was neat and tidy. These days while the top officials enjoy a posh office environment, slovenliness in the government offices are on the increase.

Centralised control system makes the securing of loans time-consuming and provides opportunities for undue pressures to be applied.

Merits of Private Commercial Banks

The very physical environment of a private bank invites confidence to the extent that the customer is also treated with deference and courtesy. The general lackadaisical attitude and behaviour in a public bank is missing. Here the customer is king.

With power delegated to build up deposits, various banking services like loan cases are carried out with promptitude. This is possible because of the presence of technical experts for appraisal of any viable project. The employees are motivated with plenty of opportunity to be rewarded for their efficiency by such means as training, monetary incentives, promotions and other benefits.

Computer facilities enable customers who wish to invest in equities, preference shares or plain stocks and shares to use the banks as brokers. Chasing a high interest rate their funds can be transferred instantly to earn that quick profit.

Demerits of Private Commercial Banks

Private banks are more interested with the moneyed people: the very rich. Consequently, they are mostly urban-oriented, despite the presence of many rich people in the country-side. Neglect of the small account holder verges on the point where it seriously affects their image. They loom before the public as part of the greedy exploitative establishment.

Profit maximisation is the key objective of the private banks. The Central Bank of any country always controls them with necessary caution particularly in regard to granting them credit handling privileges.

Large business concerns, manufacturers, traders and other millionaires make up the cream of the clientele. This means such banks have to keep a hand, however, disguised in politics or the corridors of power. At times this can be their undoing, if they let their guard slip. The current future over BCCI (Bank of Credit and Commerce International) world wide is such a phenomenon. Scapegoats flash in front of the public while the real perpetrators fade from the limelight.

Studies in Bangladesh

So far we have focused upon the studies carried out mostly in the western economies and one of the neighbouring countries like India. This section reviews the important studies conducted in Bangladesh in this area. The purpose is to shed light on the actual position of credit management in Bangladesh.

In Bangladesh little research has been done on credit management. Although the government has been and is still interested in the issue. Due to lack of inspiration researchers probably did not pay enough attention to this important field. Here we shall present the findings of some studies having direct or indirect bearing on credit management.

Rahim studied the performance of the banking system of Bangladesh.[44] The findings of his study revealed that credit control policy is not released from Bangladesh Bank, the Central Bank of the country, in a coherent form as the import policy, export policy or the annual budgetary declarations. He found that the credit programmes that have been in operation have not been

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[44]Rahim, A.M.A., The performance of the Banking System, 1971-77, *Journal of the Institute of Bankers, Bangladesh*, Vol. 6, December, 1977, pp. 23-59.

successful with respect to sectoral budgeting of credit which is at all absent in the private sector banks.[45]

Saha and Islam observed and suggested that the management of the commercial banks fund must be conducted in a more profitable and safe manner.[46],[47] They found that the measures followed by the banks are not adequate for the safety of funds invested.

In a study Hye came out with the findings that the financial statements submitted by the borrower are required to be more carefully evaluated, interpreted and analysed by a lending banker to ascertain the credit-worthiness of a concern. He emphasized on the sound appraisal of a loan proposal.[48]

Khaled investigated into the Management Information System (MIS). Prime objective of MIS is decision making in the banks. His study indicated that each of the banks collects heaps of information through a large number of statements and returns. One statement is often missing which is the complete list of all statements and returns. This is a notional judgement, he remarked, to find any basis for such classification. He suggested to create Management Information Division (MID) in each bank. MID shall have the expertise to store and analyse information, make projection and present information in order to make right decision.[49]

Chowdhury observed that there is no credit agency in Bangladesh which assists banks by giving reports on parties. Chowdhury also supported the

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[45] Op. cit., p. 38.

[46] Saha, Sujit Ranjan, Credit planning at Micro level in Banks, *Bank Parikrama,* Vol. VIII, Sept. & Dec. 1983, No. 3 & 4, pp. 39-42.

[47] Islam, Kazi Faqrul, Modern Concept of Credit Analysis, *Bank Review,* Vol. 5, No. 2, March, 1985, pp. 32-38.

[48] Hye, Md. Abdul, The Lending Banker and the Financial Statements, *Bank Review,* No. 3, Vol. 4, Sept. 1984, pp. 9-18.

[49] Khaled, K.I., Management Information System in the Nationalised Banks, *Journal of the Institute of Bankers, Bangladesh,* Vol. 14, Dec. 1981, pp. 53-60.

establishment of a Credit Information Bureau in the head offices of every commercial bank for gathering information about the loan-seeking clients.[50]

Khan undertook a study in commercial banks. His study is quite revealing. He found that bank borrowers contact is almost absent in Bangladesh which is an essential task for developing good rapport. He suggested to develop this trait of a banker so as to achieve good results in the assessment of the borrowers' credit-worthiness besides ensuring effective utilisation of loan money.[51]

Hakim examined and reported that before advancing any loan, banks have to be fully satisfied that the money being advanced would be repaid by the borrower in time.[52]

Studies made by Taheruddin reveals that a judicious public/private sector mix in our country is not only feasible but also desirable from long run view of the economy.[53]

Abdus Shahid and Taheruddin in their respective studies asserted on the need of imparting training on credit and also hold seminar and workshop for better dissemination of knowledge and acquaintance with latest techniques and ideas on banking including credit management.[54],[55]

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[50]Chowdhury, L.R., *A Handbook of Banks Advances,* Fair Corporation, 139, Azimpur Road, Dhaka-5, 1983, p. 82.

[51]Khan Azizur Rahman, Contribution of *Commercial Banks to Rural Economic Development,* Bureau of Business Research, University of Dhaka, October 1980, p. 86, 6.17.

[52]Hakim, M.A., Commercial Bank Lending Vis-a-Vis Analysis of Financial Statements, Journal of the Institute of Bankers, Bangladesh, Vol. 2, December 1975, pp. 15-21.

[53]Taheruddin Mahammad, complementarity of public and private sectors in Industrial Development of Bangladesh, *Journal of the Institute of Bankers, Bangladesh,* Vol. 13, June, 1981, pp. 6-13.

[54]Abdus Shahid, A.T.M., Nationalised Commercial Banks and their Obligations, *Journal of the Institute of Bankers, Bangladesh,* Vol. 13, June, 1981, pp. 49-53.

[55]Taheruddin Muhammad, some issues of Bank Management in Bangladesh, *Bank Parikrama,* Vol. VI, Nos. 3 & 4, September & December, 1981, pp. 13-18.

Study made by Bangladesh bank Corroborated the study of Khan by giving suggestions to the effect that the loan officer must have a good familiarity with the borrower, close official contact and constant persuasion besides an official touch in order to pursue a sound and effective follow-up programme.[56]

Experience gained from South Korea and the Philippine after survey and investigation, a study team of Bangladesh Bank reported and recommended that banks should spread the risk by broad-basing their advances by lending to a large number of borrowers instead of allowing to a few by making large advance. They also recommended supervised credit replacing the present system of security oriented credit.[57]

There are published materials evidencing that Tk. 200 crore is lying in the hands of 9 Bangladeshi families. Chance of repayment is very little. Bangladesh Bank has classified these groups as bad borrowers. These groups have direct or indirect links with the highest organ of the government, taking advantage of which they, very often, arrange to exercise influence through various means so as to get loans.[58] Private banks allowed credit facilities to some of the Directors far beyond the limit fixed by Bangladesh Bank which is a clear violation of the Central Banks policy guideline.[59] The National Commission on Money, Banking and Credit found it extremely difficult to make an accurate estimate of overdues of the Nationalised Commercial Banks (NCBs). However, partial and rough estimate made by the commission placed the overdues of the NCBs at 20 per cent of their total loan port-folio.[60]

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[56] Bangladesh Bank Agricultural Credit Project, *Study Materials on Agricultural Credit Administration in Bangladesh*, May, 1970, p. 142.

[57] Bangladesh Bank, *Report on the Agricultural Credit System in South Korea and Philippines*, July-August, 1978.

[58] Rahman, Matiur and Azizul Haque, Syed, *Dhanik Gosthir Lutpater Kahini*, 3/1, Naya Paltan, Dhaka, April, 1987.

[59] op. cit.

[60] Government of Bangladesh, *Report of the National Commission on Money, Banking and Credit 1986*, Ministry of Finance Division, Dhaka.

Report of the Commission on Money, Banking and Credit, 1986

Major issues in the context of credit dealt with by the Commission on Money, Banking and Credit, 1986 are as follows:

Central Credit Information Bureau

In order to enable the lending institutions to have necessary credit data, a central credit information bureau is required to be set up in the Bangladesh Bank. When the information is properly computerised, a banker will be able to get information about a borrower at any time, including the type of facilities, balances outstanding and status of accounts in different banks and financial institutions. With a view to ensuring proper identification of the borrowers each of them may be given a unique registration number.

Problem of Overdues in the Financial Institutions

One of the most serious problems the financial institutions of Bangladesh are faced with is that of overdue loans. The proportion of overdue advances is particularly high in the case of Development Financing Institutions (DFIs). At the end of June, 1985, overdue advances amounted to 60 per cent of total loans and advances of the Bangladesh Shilpa Rin Sangstha (BSRS) and 62 per cent in the case of Bangladesh Shilpa Bank (BSB). The estimation of overdues in the case of the Bangladesh Krishi Bank (BKB) presents a very difficult task due to definitional problem.

The estimate of overdues in the loan-portfolio of this institution ranges from 30 to 70 per cent. Still more difficult is the problem of estimation of overdues in the case of Nationalised Commercial Banks (NCBs) as these banks lend mostly under the Cash Credit System and Overdraft Arrangement. When such arrangements are increased to cover interest charges, it is difficult to determine whether this is an increase in working capital finance or in overdues. A rough estimate places the overdues of the NCBs at 20 per cent of their loan port-folio.

Seen and analysed by the Commission in a wider perspective, the problem of overdues has arisen from a host of economic, political, legal and administrative factors. The administrative short-comings are found in the government, in the lending institutions and also in the judiciary.

Agricultural and Rural Credit

The problems of rural credit are very complex in nature. Not only is the total quantum of credit low in relation to the requirements, very little of it flows to the poor and disadvantaged groups, who are the most numerous in rural society. Whatever amount of credit is disbursed does not produce the desired results. The different agencies that are operating in this field follow different approaches, different terms and conditions for loans and have varying degree of managerial competency. The overall management and coordination of the system is weak. Due to lack of timely recovery, mounting overdues and failure to mobilise deposits, the overall viability of the system is found to be in serious doubt. Recurrent natural disasters to which the country is prone, often produce an adverse impact on the credit environment, which is usually met by ad hoc measures. If a viable and expanding system of rural and agricultural credit is to be ensured, all these problems need to be seriously addressed to and appropriate solutions found for them.

Provision Against Classified Advances

NCBs are required to strictly follow the loan classification of Bangladesh Bank and made adequate provision for bad and doubtful debts. Provision should be made against advances classified as 'doubtful' and 'loss' by the Bangladesh Bank inspectors at the scale prescribed by the Bangladesh Bank in respect of both public and private sectors.

Laws Relating to Recovery

Survey made by the Commission revealed that the existing laws are quite inadequate for realisation of loans from the defaulting borrowers. Further, legal procedures are complicated and time consuming. Appropriate ammendments to the existing laws relating to banks' credit must be effected in the following areas:

- Amendment to the civil procedure code is required to be made for realisation of bank's dues.

- In the case of mortgage suits by banks special provision is necessary for effective disposal of mortgaged properties.

- Stamp duty on mortgage deeds in favour of banks be minimised to create legal mortgage instead of equitable mortgage which has given rise to many irregularities.

- The existing period of limitation under law is necessary to be extended or waived for banks for the purpose of realisation of loans.

- Before application is filed for setting aside an exparte decree court should insist on cash security or bank guarantee for admitting such application.

- There should be exchange of information about the clients, accounts and credit between banks and financial institutions so that defaulters do not have access to fresh finance.

- Applicants for loans must make full disclosure of their liabilities to other institutions.

Commercial Courts

Commercial Courts should have special constitution and simplified procedure. The existing commercial courts are few in number, they are overburdened with work as they have to deal with other civil and criminal cases and they are presided over by junior judges who often have little experience of commercial matters.

The senior officials of the government owned banks and financial institutions held that they were handicapped in the recovery of their loans by not being able to appoint competent lawyers of their own to conduct bank cases. Suggestion made by the Commission for efficient credit management having specific relevance to the areas of the present study runs as follows:

- A Central Credit Information Bureau may be established in the Bangladesh Bank to facilitate flow of credit information.

- Each borrower should be given a unique registration number for the purpose of identification.

- The overdue loans should be properly defined and guidelines by the Bangladesh Bank for estimation of overdue loans in general should be developed.

- A fund may be set up in the Bangladesh Bank fed by appropriations out of its profits to help meet the resource problem of sick industries.

- Announcements should preferably be made jointly by the government, the Bangladesh Bank and the concerned financial institutions that they have a firm commitment to ensure full repayment of the overdue amount of term loans.

- Any announcement regarding credit concessions in respect of calamity stricken areas is to be made only by the Bangladesh Bank.

- Legal system should be made adequate and quick in order to deal with the problem of overdues.

- There must be improved delegation of loan approval authority to bank branches.

- Fifteen per cent of the total lendable funds of each private bank should be utilised as credit for agriculture and other rural economic activities.

- Special law for recovery of bank loans on the line to the Banking Companies (Recovery of Loans) Ordinance, 1979 promulgated in Pakistan may be enacted in Bangladesh.

- The existing Commercial Courts should be given exclusive jurisdiction to deal with the cases filed by or against banks.

- Before a person becomes a Director or a Chairman in a banking company, he has to declare to the Bangladesh Bank that he has no outstanding overdues obligations to any bank or financial institution. If after becoming Director/Chairman he fails to repay his loans or advances or any instalment, he shall vacate the office of the Director after lapse of a certain period.

- Section 24 of the Banking Companies Ordinance, 1962 needs to be amended in the line of Section 20 of the Banking Regulations Act., 1949 of India or section 24 of the Banking Companies Ordinance, 1962 of Pakistan to make clear provision of law in regard to imposing restrictions on loans and advances to the Directors of private banks or to any company where such Directors have interest.

- An amendment may be made to the effect that no loans/advances or any part thereof given to Directors shall be remitted without previous approval of the Bangladesh Bank and any remission made without such approval, shall be void and of no effect.

- Law does not place any ceiling on the advances that could be given to a single borrower. Banking Companies Ordinance, 1962 may be suitably amended in this regard.

- Amendments of Section 25 of the Banking Companies Ordinance, 1962 may be made to properly regulate and control the loans and advances given by banking companies.

- A provision should be incorporated in the Banking Companies Ordinance, 1962 to oblige the branch of a bank to lend a certain percentage of its deposits within its command area over a specified period.

CHAPTER – III

BANK CREDIT AND THE ROLE OF THE CENTRAL BANK

3.1 Introduction

The banking sector in any country is an integral part of the economic growth. It plays as pivotal a role as the commercial and the industrial sector. In fact, it is often the foundation on which the business or the manufacturing unit bases its initial development or subsequent branching out into wider markets. Sometimes a financial institution may be entwined with the functioning enterprise from 'cradle' to running condition.

A healthy banking environment means an effective central bank. The most successful central banks in this world are those which are legally devoted to price stability and not subject to political pressures. The German Bundesbank,[61] for example, has the responsibility to ensure 'high employment, balanced foreign trade, constant and reasonable economic growth'. A central bank monitors the credit flow of the commercial banks according to the needs of the country's economy and the objectives of the development programme. In order to accomplish this task Central Bank has to work within the framework of an Ordinance which was until recently known as Banking Companies Ordinance, 1962.

3.2 Major Provisions of the Banking Companies Ordinance, 1962 in the Area of Credit

Major provisions laid down in the Banking Companies Ordinance, 1962 in the matter of controlling credit reads as follows:

Restriction on Loans and Advances

According to Section 24, banking companies are not allowed to make loans or advances against the security of its own shares; or grant unsecured loans

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[61] A reporter, The Worried Man at the Bundesbank, *The Economist,* 4-10 May, 1981, pp. 75-76.

or advances to or on the guarantee of any of its Directors; any of the family members of any of its Directors; any firm or private company in which the banking company or any of the persons is interested as Director, proprietor or partner; or any public limited company in which the banking company or any of the persons as aforesaid is substantially interested.

Sub-section 2 of Section 24, however, permits that loans and advances may be allowed to the aforesaid persons with the approval of the majority of the Directors of that banking company, excluding the Director concerned.

Power of Central Bank to Control Advances by Banking Companies

According to section 25:

(1) Whenever the Central Bank is satisfied that it is expedient in the public interest so to do, it may determine the policy in relation to advances to be followed by banking companies generally or by any banking company in particular.

(2) The Central Bank may give directions to banking companies either generally or to any banking company or group of banking companies in particular: (a) as to the credit ceilings to be maintained, credit targets to be achieved for different purposes, sectors and regions, the purposes for which advances may or may not be made, the margins to be maintained in respect of advances, the rates of interest, charges to be applied on advances and the maximum or minimum profit sharing ratios; and (b) prohibiting the giving of credit to any borrower or group of borrowers on the basis of interest for any purpose whatsoever.

(3) If any default is made by a banking company in complying with the policy determined under Sub-section (1) or direction given under Sub-section (2), every Director and other officer of the banking company and any other person who is knowingly a party to such default shall be liable to a penalty of an amount which may extend to two thousand taka and, where the default is a continuing one, of a further amount which may extend to

five hundred taka for every day after the first during which the default continues.

(4) The Central Bank, for the purposes of securing implementation of any special credit schemes or observance of credit ceiling by a banking company, may order banking companies or any individual bank, to make special deposits with it for such amount and on such terms and conditions as may be laid down by the Central Bank.

(5) The amount deposited with the Central Bank or any part thereof may be released by it to the banking company which deposited it as and when the Central Bank deems fit either unconditionally or on such conditions as the Central Bank may determine from time to time.

(b) Any penalty imposed shall be payable on demand made by the Central Bank and, in the event of failure by the Director, officer or other person concerned to pay on such demand, shall be recoverable as arrear of land revenue.

Power of the Central Bank to Collect and Furnish Credit Information

According to Section 25-A, Sub-section -

(1) Banking companies are required to furnish to the Central Bank credit information in such manner as the Central Bank may specify, and the Central Bank, either of its own motion or at the request of any banking company, make such information available to any banking company on payment of such fee as the Central Bank may fix from time to time.

The Central Bank shall, however, not disclose the names of the banking companies which supplied such information to the Central Bank. A banking company which proposes to enter into any financial arrangement which is in excess of the limit laid down in this behalf by the Central Bank from time to time shall, before entering into such financial arrangement obtain credit information on the borrower from the Central Bank.

(2) Any credit information furnished by the Central Bank to a banking company under Sub-section (1) shall be treated as confidential and shall not, except for purposes of this section or with the prior permission of the Central Bank, be published or otherwise disclosed.

(3) No Court, Tribunal or other authority, including an officer of Government, shall require the Central Bank or any banking company to disclose any information furnished to, or supplied by, the Central Bank under this section.

3.3 Central Bank's Credit Policy: A Critical Review

The major significant financial policies devised by the government to meet the overall goals can be divided roughly into three groups based on the direction of the primary objectives.

Ceilings of Credit and Prohibitions

These mostly control the flow of credit often having an allocation component. Ceilings on total lending by individual banks, lending to private and public sectors, lending to different loan-size classes, and lending for certain economic purposes are part of these policies. The allocation component counters probable impact of all round credit controls.

Instruments of Allocation

Lending targets and guidelines, margin requirements, refinance policies, government guarantees and linking of new urban and rural branches are constituents of allocation. Bank credit restrictions allied to refinance policy are effective too.

Policy of Interest Rate

Ceilings on (loan) interest rates are aimed principally at the welfare and subsidy objectives. Stimulation of investment is another reason for implementing an effective interest rate policy. Interest rate policies have a direct impact on credit sanction and the profitability of financial institutions.

Penalty rates of interest on overdue loans are indirect means of counteracting some of these secondary effects.

In various sectors, at different times, a number of policy instruments such as, targets, prohibitions and ceilings, margin requirements, refinance or counter finance, guarantees and urban-rural branch approval are used for the national economic interest.

As early as 1973 small loans and exports were classed as priority sectors. Each nationalised commercial bank had deposit-linked targets in 1976-77. The targets were 11.50 per cent of deposits (as on June 1976) to be allocated as small loans, 11.50 per cent were meant for the transport sector and 1 per cent of deposits for residential house building. Informal guidelines were set for more loans in less priority sectors at a controlled rate, initially at 12 per cent. The loan target for all category of credits in 1977-78 was increased to 2 per cent of the total demand and time liabilities of nationalised commercial banks and remained so for the next three years. A reduction of 1 per cent was effected again on 31st December, 1984. Such a reduction has been against the norms of dispersal of fund for socio-economic benefits. A similar target of 1 per cent of the total demand and time liabilities as on 30th December, 1983 was also set for the private sector banks from the following January for loan sanctions to small scale industries.

Targets for house building and transport were maintained at the same level, i.e. 1 per cent of total demand and time liabilities till 1986-87. A target of 1 per cent bank deposits for lending for non-traditional exports was introduced in 1979-80.

Government's establishing of minimum margin requirement in Bangladesh, as elsewhere in the world, is chiefly a means of controlling "Speculation and Hoarding" in specific commodities. When prices of essential commodities blaze upto exorbitant extent, these measures are activated. Essentials have varied from rice and paddy, sugar, oil and oil seeds, jute and jute goods, onions and chilies, salt to cotton yarn and textiles, synthetic yarn and textiles.

Margin requirements are generally operative on agricultural products particularly those in almost for the main daily consumption. Bangladesh Bank's use of margin requirement has been very effective in agricultural consumer goods whose short run price fluctuations adversely affect the socio-political scene. Such policies, however, can not be effective for a long duration as the speculative stock holding in the agricultural sector increases over time.

Refinance and Counter Finance

Bangladesh Bank which is our country's Central Bank, allocates loans to scheduled banks against such heads as refinance, counter finance and back-to-back finance. The percentage of refinance has varied between 30 per cent and 100 per cent. The commercial banks are free to refinance on a broad category of items. From the year 1980 rates of refinance are as follows:

Jute	30%
Tea	100%
Working Capital for Industrial Ventures	50%
Sugar	50%
Duty Draw Back Credit Scheme	50%
Non-traditional Exports	100%
Traditional Exports	50%
Tannery Units	100%
SEZ of Chittagong Hill Tracts Region	100%
Food and Fertilizers (BADC)	100%

Both food and jute are subject to annual fluctuations in production. Refinance attempts to provide credit for holding stocks in a deflationary situation. Speculative credit suggests that commercial banks shy away from lending credit in this volatile situation. A properly worked out buffer stocking policy would trade off sectoral effects and macro-economic effects and work-out a self supporting buffer-stock policy. Any subsidies should, go direct to the producer and not to private traders. But free market forces function best without alms or crutches in any form. If this can be called century of financial trade, it has shown decisively, there is no replacement for production effort.

Sugar production follows a seasonal pattern. Both lender banks and potential borrowers know that prices will move up and down over the year. The periphery of speculative credit does not indicate that banks will not provide credit in this situation. Refinance to Bangladesh Agricultural Development Corporation (BADC) consists of subsidies in the yearly budget. Delays in receipt of the subsidy or short-term liquidity problems are however met by providing 100 per cent refinance to banks for lending to BADC. This appears to be a more satisfactory method.

Credit for non-traditional exports are affected by the flow of information. Assessment as to whether this is the primary or even a major problem requires a prior examination of the foreign exchange markets and the policies which directly affect exports and imports. General agricultural or industrial policies which influence potential export sectors need appropriate policies so that any inefficiencies in loan markets can be weeded out. These problems occur for export products with which bankers are unfamiliar. Credit policies when used for an initial period can be useful in removing later inefficiencies.

For petroleum and jute goods, the state has generally forced banks to make loans to meet unexpected situations. Both refinance and credit ceilings have been wholly or partially adjusted as incentive. In the case of sugar mills, BADC (fertilizer) and food, a similar chain of forced lending, provision of refinance and ceiling adjustments has become a long run policy. In effect the last two are decided by negotiation. In such a situation, refinance policy is a highly erratic inducement. Implicit or explicit pressure can be applied at various points to maintain or expand lending. If and when such policies permit healthy business, then the bank's lending hand is a success. If dependence builds up, destroying the competitive and innovative spirit, then these subsidies; direct or disguised, derived from the productive earnings of others, are water down the drain.

Bangladesh Bank regulates the bank credit through two types of guarantee programmes. One is a liquidity guarantee and the other a loan guarantee. The liquidity guarantee is applicable to the normal lending programmes of the Bangladesh Krishi Bank and Bangladesh Shamabaya Bank. These two banks have been getting 100 per cent refinance from the Bangladesh Bank for their agricultural lending programmes. Moreover, this refinance is only available on their total outstanding loans net of overdues.

It is reported that Bangladesh Bank is likely to issue a directive to the commercial banks about its new decision of withdrawing its refinance facilities for the scheduled banks for their various credit operations. In the event of implementation of this policy, the banks will have to rely on their resources for their credit operations.

Bangladesh Bank is likely to introduce a new discount facility to help the banks over their temporary liquidity problems. The new facility will be operational for selective areas of credit operations.

The new decision of Bangladesh Bank will be in line with the goals and objectives of the financial sector reforms programme, which has received a greater attention now from the World Bank.

Evolution of Interest Rate Policy

Table 3.1 gives an overview of changes in interest rate ceilings on loans and advances. There were two major changes in loan interest ceilings. In may 1977, the nominal ceilings on almost all loans was lowered by one per cent; from 13 to 12 per cent on general borrowing and from 11.5 to 10.5 on exports. The rates on jute, jute goods and tea and rates charged by the specialised banks and cooperatives stayed more or less unaltered. The gap between the interest charged by these institutions and by others, leaving out Bangladesh Samabaya Bank was reduced. Bangladesh Samabaya Bank which makes medium to long-term loans maintained a higher ceiling rate of 13 per cent.

Table - 3.1

Interest Rates on Loans and Advances
(Scheduled Banks)

	Since July 1974	Since July 1976	Since May 1977	1978-79	October 1980	1981
General Borrowers (i.e. all those not separately specified)	12.0-13.0%	-	11.0-12.2%	-	15.5%	16.0%
Export Commodities (except jute, jute goods and tea)	12.0-13.0%	11.5%	10.5%	-	12.0%	-
Industry	12.0-13.0%	-	11.0-12.0%	-	14.0%	14.5%[1]
BSB General Lending	12.0-13.0%	-	11.5-13.0%	-	14.0%	-
Agriculture	12.0-13.0%	-	11.0-12.0%	-	12.0%	-
Jute, Jute Goods and Tea	10.5%	-	-	-	12.0%	-
BKB	11.0-11.5%	-	-	-	12.0%	-
Cooperative	12.0%	-	-	-	12.0%	-
Loans for Socio-economic purposes	12.0-12.0%	12.0%[3]	11.0%	11.0-11.5%	13.0%	-
Bangladesh Bank Rate	8.0%[2]	-	-	-	10.5%	-
Concenssional Discount Rate for lending to BKB and BSB (Gold Ornaments, fixed deposit, receipt commercial imports)						

(Contd.)

Table - 3.1 (Contd.)

	1982	1983	1984	1985	1986	1987
General Borrowers (i.e. all those not separately specified)	-	-	-	-	-	-
Export Commodities (except jute, jute goods and tea)	-	9%	-	-	-	-
Industry	-	-	-	-	14%	
BSB General Lending	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-
Jute, Jute Goods and Tea	-	-	-	-	-	-
BKB	-	-	-	-	-	-
Cooperative	-	-	-	-	-	-
Loans for Socio-economic purposes	-	-	-	-	-	-
Bangladesh Bank Rate (discount rate)	-	-	-	11.25%	10.75%	-
Concenssional Discount Rate for lending to BKB and BSB	-	-	-	-	-	-
Gold Ornaments	-	-	-	18%	-	-
Fixed Deposit Receipt	-	-	-	20%	-	-
Commercial Imports	-	-	-	18%	-	-

* Unchanged from previous period.

1. Except long term loans which remain at 14%
2. Effective June 1974
3. Effective September 1976

BKB: Bangladesh Krishi Bank
BSB: Bangladesh Samabaya Bank

Source: Resume of the Activities of the Financial Institutions in Bangladesh, 1973 to 1986-87.

Reduction in ceilings provides a stimulus to economic activity, primarily in commerce and trade. Credit ceilings have been in force since the International Monetary Fund (IMF) borrowing in 1974-75. These were increased from time to time. They were raised some months before the lowering of the interest rate ceilings. Credit ceilings were not any barrier.

There is naturally a distinction between interest ceilings and interest subsidies. Both may be motivated by a desire to provide subsidies, for example, the lower than average credit ceilings on jute, jute goods and tea and on other export goods that prevailed before October, 1980. Such ceilings can, however, have quite different effects on efficient credit use and allocation of loans. Interest ceilings may have negative results in both these cases. On the other hand, if commercial bank prove inefficient in sanctioning credit to specific sub-sectors or set of borrowers, an interest subsidy to the bank can remove this inefficiency. In such a situation an interest subsidy increases loans to the neglected sector and to borrowers with inadequate collateral. This may never happen. Fresh ground for any kind of subsidy is not conducive to a healthy competitive economy.

In February, 1979 the government introduced a system of penalty rates of interest on overdue loans. Scheduled banks were allowed under the system to charge a penalty rate of interest which could be incremented by 1 per cent every month until the total rate (normal plus penalty) became 20 per cent. Penalties decrease the incentive for lending to sectors where repayment of loans has been a problem. Loan overdues can create a liquidity problem in addition to reducing the expected return to the bank. As borrowers who are delaying payments are likely to be the more risky customers, it is logical to charge them a higher rate. The penalty rate does this without imposing a cost on good borrowers and is therefore an efficient mechanism.

The application of penalty rates, in agriculture, has been somewhat erratic, with different banks having different rules. Sonali Bank charges the full penalty while BKB limits itself to a maximum penalty rate of 2.5 per cent and Pubali to 1 per cent. It is also reported that in other economic sectors, banks often charge penalty rates only to the public sector borrowers and seldom to the private sector. This is quite consistent with the rationale given above, that is, this is resorted to if the public sector is more erratic and deficient in its repayment performance than the corresponding private sector borrowers.

In October, 1980 (vide Table 3.1) a set of changes differentiated loan interest ceilings according to economic sectors. Intra-sectoral rates were unified while different intersectoral ceilings were set for agriculture and industry. The lowest ceiling was on agricultural advances at 12 per cent and all others at 15.5 per cent. Loans for socio-economic objectives, however, had an overall interest rate ceiling of 13 per cent. Export credit (pre-shipment, packing and post-shipment) was another exception at 12 per cent. It should be noted that interest ceilings on export commodities have always been rather low. Now garments accrue for nearly half of our total exports. The rise in the ceiling rate of export commodities is consistent with intrasectoral unification of ceilings.

The alteration in the interest rate structure was planned mostly as a resource mobilisation step. The increase in the relative return of an asset competing with speculative stocking activities, it was expected, would shift assets out of the later, reducing inflationary expectations and causing more efficient use of credit. For interest rate policy, the predominant goals were macro-economic, the effects on credit allocations were almost as vital.

The interest rate policy influences industrial viability too. Entrepreneurs note that due to application of higher rate of interest for capital goods and machineries, the industrial ventures function frequently at inadequate levels because of the fact that capital assets, high cost, depress the marginal efficiency of the enterprise. The profit potential suffers specially in the event of foreign exchange collapse. The industries find it very difficult to cope up with such situations. This is what happened immediately after the liberation of the country when most of the industries with the inherited interest burden found it very hard to recouperate even with the induction of new resources and ultimately had to take recourse to Exchange Fluctuation Absorption Scheme (EFAS) benefit offered by the government. Though the above situation is the result of liberation struggle, nevertheless, in the face of growing deterioration of BDT (Bangladesh Taka), the policy of interest rate, if not formulated in keeping with the trend of monetary value of local currency and compared to the corresponding foreign currency, the industries requiring to import machineries from outside or to pay F.C. (Foreign Currency) components of the loans in equivalent taka at the time of repayment undergoes difficulties in meeting their debt obligations. Industries which are capital-intensive and whose IRR (Internal Rate of Returns) are lower, are likely to face problems in their profit generation, debt obligation and long-term survival.

The differential interest rate ceilings is a cross-subsidisation scheme from general creditors to farmers, exporters, small loanees and industrial borrowers, quite misleading. A true cross-subsidisation scheme involves an interest tax (or a tax per loan) on all bank lending to general borrowers and a appropriate interest subsidy (or subsidy per loan) on the favoured borrowers and provides proper inducement for channelling credit into the desired sector. The differential credit ceilings cause loans to veer away from agriculture and exports, even from industry into general lending. Credit within each sector would shift to those with sufficient collateral and away from those with little collateral.[62]

Bangladesh Bank has recently envisaged an interest rate policy within eleven lending categories, (vide Table - 3.2). According to this policy each bank will fix a single rate for each category within the bank set by the Bangladesh Bank. The new interest rate policy squeezes the areas which were used to get benefit of the subsidized rate of interest. Preferential programmes and associated refinance facilities for priority sectors are replaced by Bangladesh Bank "Rediscount Window Facility" at the bank rate. The rediscount facility is meant to assist the borrowing banks to maintain adequate short term liquidity and not to provide permanent source of fund.

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[62]For an interesting analysis see *Evaluation of Financial Policy: Credit Allocation in Bangladesh,* Virmani, Arvind, 1984, World Bank Staff Working Paper No. 672, pp. 24-69.

Table - 3.2
Interest Band and Interest Rate Determined by Different Sectors of the Economy
(Applicable Since 1.1.1990)

	Agri-culture (16.0)	Large & Medium Industries (13.0-17.0)	Working Capital for Jute Industries (9.0)	Working Capital for other Industries excl. Jute (12.0-15.0)	Jute Trade (16.0)	Export of Jute and Jute Products (8.0-11.0)	Other Exports (8.0-11.0)	Other Commercial undertaking (16.0 maximum)	House Bldg. Urban (12.0-15.0)	Special Programme: Small Scale Industries (10.0)	Special Programme: Other Special Programmes (8.0-13.0)	Others (12.0-20.0)
Nationalised Banks:												
Sonali Bank	16.0	14.6	9.0	13.6	16.0	9.0	9.0	18.0	13.6	10.0	8.0-10.0	16.0-18.0
Janata Bank	16.0	14.6	9.0	13.6	16.0	9.0	9.0	18.0	13.6	10.0	8.0-10.0	16.0-18.0
Agrani Bank	16.0	14.6	9.0	13.6	16.0	9.0	9.0	18.0	13.6	10.0	8.0-10.0	16.0-18.0
Rupali Bank	16.0	14.5	9.0	15.0	16.0	10.0	10.0	18.0	15.0	10.0	13.0	18.0
Private Banks:												
Pubali Bank	16.0	14.5	9.0	15.0	16.0	11.0	11.0	18.0	15.6	10.0	13.0	18.0
Uttara Bank	16.0	14.5	9.0	15.0	16.0	11.0	11.0	18.0	15.6	10.0	13.0	18.0
N.B.L.	16.0	14.5	9.0	15.0	16.0	10.0	10.0	18.0	15.6	10.0	13.0	18.0
I.F.I.C.	16.0	14.5	9.0	15.0	16.0	11.0	11.0	18.0	15.0	10.0	13.0	18.0
Arab Bangladesh Bank Limited	16.0	14.5	9.0	15.0	16.0	10.0	10.0	18.0	15.0	10.0	13.0	18.0
City Bank Ltd.	16.5	14.8	9.0	15.0	16.0	11.0	11.0	18.0	15.0	10.0	13.0	18.0
U.C.B.L.	16.5	14.5	9.0	15.0	16.0	10.5	10.5	18.0	15.0	10.0	13.0	18.0
Basic	16.0	17.0	9.0	15.0	16.0	11.0	11.0	17.5	15.0	10.0	13.0	20.0
Overseas Bank:												
B.C.C.I.	16.0	16.0	9.0	15.0	16.0	11.0	11.0	17.0	15.0	10.0	13.0	20.0
American Express	16.0	15.0	9.0	14.5	16.0	11.0	11.0	18.0	15.0	10.0	13.0	19.0
Grindleys	16.0	15.0	9.0	14.5	16.0	11.0	11.0	18.0	15.0	10.0	13.0	19.0
Bank Indesoez	16.0	16.0	9.0	14.0	16.0	11.0	11.0	18.0	15.0	10.0	13.0	19.0
Standard Chartered Bank	16.0	16.0	9.0	14.5	16.0	11.0	11.0	18.0	15.0	10.0	13.0	19.0
Habib Bank Ltd.	16.0	16.0	9.0	15.0	16.0	11.0	11.0	18.0	15.0	10.0	13.0	18.0
State Bank of India Ltd.	-	16.0	-	15.0	-	11.0	-	18.0	15.0	-	13.0	19.0
Specialised Banks:												
B.K.	16.0	14.0-16.0	-	14.0-15.0	-	-	10.0-11.0	16.0	-	10.0	13.0	16.0-18.0
B.S.B.	16.0	13.0	9.0	13.0	16.0	9.0	9.0	18.0	14.0	10.0	8.5	12.0

Source: Resume of the Activities of The Financial Institutions in Bangladesh, 1989/90, p. 26.
(-) indicate nil.

In order to strengthen credit discipline and improve the recovery position of loans and advances by the commercial banks, Bangladesh Bank introduced a new system of loan classification, the suspension of interest due and making provisions against losses due to default of payment of principal as well as interest etc. This new system now in vogue is applicable for all scheduled commercial banks except Bangladesh Krishi Bank, Rajshahi Krishi Bank and Bangladesh Shilpa Bank. For application of the conditions relating to the quality of loans, overdue loans etc. bank loans have been classified under 3 categories. The rates of provision for each category are as follows:

Loan Category	Provision
1. Substandard	10%
2. Doubtful	50%
3. Bad Debt	100%

Interest accrued on loans under each classified category will be recorded in Interest Suspension Account. If any loan under any classified category is declassified, unrealised interest on such loan during classification will be recorded in the Interest Suspension Account. To consider interest as income, it will have to be realised and at the beginning and end of the year such loan should have to be under non-classified category.

The researcher contacted the peshkar of one commercial court located at Dhaka and collected the following information:

As on 30th September, 1988 the number of final pending cases were 57. In September, 1988 two new cases were added. The total number of pending stood at 59 out of which 35 were selected for hearing, out of 35 cases, 3 cases were on contest and 5 cases were disposed of ex-parte. 10 plaintiffs and 17 defendants applied for extension of time.

It appears that the honourable judge remains pre-occupied with his normal duties and responsibilities. Handling of overdue loans is an added responsibility that has been imposed on him without any meaningful logistic support to pay adequate attention to the issue.

From the discussion with the peshkar, it appeared that the commercial court is loosing its effectiveness by several kinds of activities. Such as:

1. International misdelivery of summons
2. Manipulation of the concerned loanees for delaying the settlement of the cases submitted to the court.

In order to expedite the recovery of outstanding loans advanced by the banks a Loan's Court Law has been introduced. Under this law, court will be established in the districts according to needs. Cases related to realisation of loan will have to be lodged with these banks and the settled there. Any person aggrieved by any judgement/decree passed by such court can within 70 days passing such decree, appeal to the High Court Division, by depositing 50 per cent of the decreed amount.

3.4 Problems Faced by the Central Bank

Central Bank had since long been facing difficulties in controlling the credit within the framework of the Banking Companies Ordinance, 1962 to the extent that number of defaults were rising day by day, recovery rate was declining and on the otherhand overdue amount of credit was increasing.

The poor would receive fewer loans than they would in the absence of effective credit ceilings. Though adverse inter-sectoral flows may be held up in part by forced lending through specification of targets, this has its built-in drawbacks. The common obstacles being ineffectiveness against adverse distributional effects and the fundability problem.

In order to get rid of the situation mentioned above, the Banking Companies Ordinance, 1991 has been promulgated recently and ratified by the Bangladesh Parliament with slight amendment of the Banking Companies Ordinance, 1962 which was in force, since long.

3.5 Banking Companies Ordinance, 1991

This ordinance strengthens the hand of Bangladesh Bank in controlling the role of commercial banks' performance of various aspects including allocation of loan and advances of all categories. By setting certain specific time limits as well as spelling out a system of definite punishment for being parochial or nepotist, the ordinance has provided the Bangladesh Bank with potent instruments for prompt action in a field notorious for laxity and where litigation may be a labyrinth of adysseyian duration.

In this ordinance, for instance, two amendments have been added in the section (No. 27) on 'Restrictions on Advances and Loans'. Here credit sanction to any individual or firm has been limited to 15% of the total capital and reserves of that bank. If the collateral or security is such as can be easily disposed off in the market, the margin may be increased to 25%. However, no ordinance can have an impact without implementation of the law strictly, swiftly and neutrally. Just enacting a law is not the end of the job. Under this ordinance a scheduled bank is to include in a regular monthly report, information of any loan or advance made to a public or private sector enterprise or organisation where that bank's or any of its Director's interest is involved in any manner whatsoever. This also includes any public firm with which the bank or one of its Directors is connected as a representative or a guarantor. If the Central Bank can ensure compliance with these regulations then only can monitoring be effective. The Bangladesh Bank, as empowered by the ordinance can prohibit any future loan or advance if it finds that a particular loan or advance made by a commercial bank on investigation turns out to be an action where the interest of the shareholders of that banking company is being jeopardised. As for the faulty or doubtful loan or advance already made, the Central Bank has the full authority to ask that bank to make secure that loan or advance in terms of realisation or collection.

Section 28 of the ordinance: 'Restrictions of Loan Exemptions' gives Bangladesh Bank the power to restrict the granting of certain loan exemptions by a scheduled bank without its prior permission. The categories where the commercial bank must consult the Central Bank are:

i) any loan or advance made to that bank's Director or his/her family;

ii) any firm where this bank's Director is involved as a guarantor or member of the board of Directors or management agency;

iii) any individual with whom a Director of that bank is connected as a guarantor or shareholder.

Any individual found violating this section of the ordinance, that is, granting exemption without permission of the Bangladesh Bank will be committing an illegal act and consequently will be subject to a maximum of 3 years imprisonment or a thirty thousand taka fine or both.

Another empowerment (37th Section) enables the Bangladesh Bank ('Power to Publish Information') to publish in a consolidated form or, in any manner the Central Bank deems pertinent, information about any loan or advance that has fallen due: 30 days after the last date.

3.6 A Critical Evaluation of the Ordinance

The ordinance is concerned directly with the Central Bank's authority and its exercise. It does not offer concrete steps for alleviating the actual problems concerned with loan sanctioning and recovery of loans or advances. No reformation of the procedures of the commercial banks are suggested or laid down. Cash flow analysis is a financial performance technique all bankers are familiar with, but its usage is a rare occurrence in this region. The salient features of this technique, whose implementation requires preparation of a cash flow budget, is that it allows the bank concerned to monitor such activities as the client's credit facilities or abilities, the end-use of the loan fund, keep account of repayments and provides insight into the client's business performance. In other words, it permits identification of the defaulter before the problem can burgeon to unmanageable proportions. The conventional system of analysing just the profitability is as vulnerable to exploitation or giving a false picture as the requirement in certain cases of a certain amount of bank deposit.

Monitoring the end-use of credit enables the lending bank to ensure that the credit allocated is used for the purpose for which it was granted. The publication of some defaulters list recently by the Bangladesh Bank came under criticism by the vested interests. This only galvanized the reformists and the hands of those who seek to establish a sound banking system in our country. It revealed before the general public and the banking community itself the true picture of the sad state of affairs. The commercial and manufacturing sectors have come up, however, with some valid points. One is that they often have to face lengthy red tape. According to them, loans become overdue even before the party being able to set up the enterprise properly and then have it functioned profitably.

Permission to import the necessary raw materials or machinery parts or other essential permits are delayed in the quagmire of red tape. No measures have been announced to overcome these frustrating bottlenecks. Clamour has been set up for concerned agencies to intervene and rescue the sick enterprises. It is certainly in the national interest that these enterprises be made healthy so they can repay the loans and become an asset to the economy. In the jute sector moratorium has been granted to the borrowers for 3 years and repayment allowed over a period of 10 years, that is, extended repayment schedule.

The ordinance has unfortunately no provision to bring to book the deliberate defaulters. Usually these peoples borrow from several banks and/or financial institutions. It is reported that a bank has found an applicant's papers to be valid but, upon confidential inquiry it was revealed that the party is enjoying finance simultaneously from other banks with relatively unsatisfactory transactions.

A department can be set up by the Bangladesh Bank to monitor sick industries to extend necessary help to such industries and commercial ventures. It can pool all the relevant data to supply credit information among banks. These steps, however, would be very effective to reduce the number of deliberate defaulters. Now, in these circumstances courts are the only way out. Commercial courts have been set up for speedy foreclosure so that the security or collateral may be disposed off and a realistic settlement could be worked out. In practice, these defaulters engage lawyers to indulge in delaying tactics. Setting a time limit for the prompt disposal of such cases would enable the banks to plough back their invested funds instead of posing threat to banks' fiduciary discipline.

An ordinance that empowers a Central Bank is a laudable measure. It must be from the common global malaise. In trying to keep down unemployment subsidies, import restrictions and other obstacles to a free market are allowed to operate as is done even in Germany, Japan and the U.S.A. These must be eased gradually so as not to cause any untoward situation. The best way is to let prosperity spread its wings in the emerging private sector financial institutions. As in Japan, Germany and the U.S.A. the protective measures or barriers to an open market will fall one by one before the onslaught of market forces -- just another name for consumer power or awareness.

CHAPTER – IV

PATTERNS AND PERFORMANCE OF BANK FINANCING

4.1 Introduction

Immediately after liberation the banking sector in Bangladesh was passing through uncertainties. The banks suffered from dislocation since almost all of their head offices were in Pakistan. Ad hoc directives were issued by the Ministry of Finance as the guidelines for the functioning of Bangladesh Bank before the promulgation of the Bangladesh Bank order, 1972. At the initial stage the government took steps for reorganising the nationalised banks and the Bangladesh Bank on the active initiative and advice of the latter as the new Central Bank of the country. The main essence of the credit policy was based on regulating the amount of temporary accommodation provided to the banks, mainly during the busy season. The long-term credit control measures are aimed at bringing about directional changes in credit flows and the regulation of cost of credit to the different sectors. As a matter of short-term control, the loan accommodation to the commercial banks by the Bangladesh Bank is regulated by the net liquidity ratio.

For the purpose of rehabilitating the war damaged economy, credit facilities were allowed by the commercial banks on easy terms to retail traders, small businessmen, particularly to those who were affected by the war of liberation. Loans were allowed to private individuals for business and construction or repair of houses against security of real estate. In view of the liquidity crisis, scheduled banks were facing difficulties to expand credit until they were liberally provided substantial accommodation from Bangladesh Bank.

Against the backdrop of heavy inflationary build-up in the economy, the main objectives of credit policy pursued by the Bangladesh Bank were: (a) to contain the rapid expansion of aggregate credit, (b) to direct and ensure the flow of available credit to the priority sectors of the economy and (c) to check the use of bank credit for hoarding and speculative purposes. Credit restraint continued until the close of FY1975-76 by which time the role of inflation in the economy declined substantially. Since then credit policy and operation have been considerably relaxed and made multidimensional in order to promote greater economic activity and better utilisation of the productive resources of the country. The level of aggregate bank credit therefore, started registering an increasing trend. Bank credit was also made available to the transport and housing sectors as also for fisheries and rural electrification. Necessary steps have also been taken to ensure reasonable flow of bank credit to the weaker sections of the community particularly to the self-employed persons. Measures have been initiated to ensure a larger share of credit for the retarded areas. Agricultural credit is also being channelled liberally and in a big way in all areas of the country through the nationalised commercial banks.

In view of the criticism from different quarters about the performance of nationalised commercial banks, government took the decision to allow commercial banks in the private sector. The government also decided to disinvest some of the NCBs. The objective was to ensure healthy competition among the banking sector. In 1982, the first private bank started operation in Bangladesh. Since then 10 private commercial banks are operating in the market. Private banks perform almost all the functions of a commercial bank like that of their public sector counterpart. They have, however, started financing in the priority sectors on a very moderate scale.

4.2 Growth Pattern of Loans and Advances

Public sector banks comprising Sonali, Janata and Agrani have allowed total loans and advances of Tk. 66,889 crores in different sectors from 1975-76 to 1989-90 (Table 4.1). There is a steady increase in the disbursement of loans and advances over the years in public sector banks. Private banks also showed a trend of increased disbursement of loans and advances.

Private banks being the recent phenomena in the financial market of the country virtually, started their operation in 1982. It may be observed that private banks showed a steep increase in the volume of loans and advances.

Table 4.1

Trend of Loans and Advances of Public and Private Sector Commercial Banks from 1975-76 to 1989-90

Year	Public Sector[1] (Tk in Crore)	Private Sector[2] (Tk in Crore)	Public Sector as % of Total	Private Sector as % of Total
1974-76	1,248	-	100	-
1977-78	2,156	-	100	-
1979-80	3,640	-	100	-
1981-82	5,785	-	100	-
1983-84	8,398	339	96	4
1985-86	11,896	807	94	6
1987-88	14,227	1,613	90	10
1989-90	19,539	2,568	88	12
Total	66,889	5,327	93	7
Rate of Income (1983-90) (Per Cent)	15	40	-	-

Source: Data collected from Resume of the Activities of the Financial Institutions for the period under study.

(-) indicates nil.

1. Public sector includes Sonali, Janata and Agrani Bank.

2. Private sector includes National Bank Ltd., United Commercial Bank Ltd., and The City Bank Ltd.,

The rate of increase in the volume of loans and advances during 1983-90 period was about 40 per cent per year for the private sector banks compared to 15 per cent for the public sector banks. This is possibly due to their aggressive attitude to expand the volume of business in the form of investment of their lendable resources.

We may, as such, conclude that the aggregate bank credit increased to a considerable extent in both the sector which indicate demand of credit in the market.

4.3 Sectoral Distribution of Credit

Loans and advances allowed by commercial banks of both public and private sectors have been classified in major sectors like (a) agriculture, hunting, forestry and fishing; (b) manufacturing; (c) wholesale, retail trade, restaurants and hotels; (d) financing insurance, real estate and business services; (e) transport, storage and communications; and (f) others. A sectoral allocation of commercial banks' loans is shown in Table 4.2.

Table 4.2

Sector-wise Distribution of Loans and Advances by NCBs and Private Commercial Banks from 1976 to 1990

(Taka in Crore)

Sectors	NCBs[1]				Private Commercial Banks[2]			
	1976-80	1981-85	1986-90	Total	1982-84	1985-87	1988-90	Total
Agriculture, Hunting, Forestry and Fishing	367 (6)	2868 (15)	6,883 (15)	10,118 (14)	1 (0.20)	6 (0.30)	21 (0.40)	28 (0.40)
Manufacturing	1510 (25)	4007 (20)	1,1925 (27)	17,442 (25)	152 (30)	595 (29)	1300 (30)	2047 (30)
Wholesale, Retail Trade, Restaurants and Hotels	1112 (19)	3691 (19)	100,552 (23)	14,855 (21)	164 (33)	739 (36)	1210 (28)	2113 (31)
Financing Insurance, Real Estate and Business Services	201 (3)	1013 (5)	2,108 (4)	3,322 (5)	41 (8)	123 (6)	359 (9)	523 (8)
Transport, Storage and Communications	144 (2)	243 (1)	405 (1)	792 (1)	6 (1)	34 (2)	86 (2)	126 (2)
Others**	2662 (45)	8000 (40)	13,248 (30)	23,910 (34)	132 (27)	557 (27)	1318 (31)	2007 (29)
Total	5998 (100)	19,824 (100)	44,624 (100)	70,439 (100)	496 (100)	2054 (100)	4294 (100)	6844 (100)

Source: Data collected from resume of the activities of the financial institutions for the period under study.

* Figures in the parentheses indicate percentages.

1. NCBs (Nationalised Commercial Banks) include Sonali, Janata and Agrani Bank
2. Private Commercial Banks include National Bank Ltd., Arab Bangladesh Bank Ltd. United Commercial Bank Ltd. and The City Bank Ltd.

** Petroleum, gas and electricity, small loan, foreign bills, government food procurement etc.

It may be interesting to get a detail analysis of such loans and advances by sectors. Agriculture being identified as the major priority sector of the country is not getting due importance from the commercial banks in terms of providing finance to this sector. This is more true in case of private commercial banks. NCBs over the last 15 years from 1976 to 1990 allowed Tk. 10,118 crores out of their total loan portfolio of Tk. 70,439 crores that is only 14 per cent of the total loans and advances. In 1976-80 percentage of loan to this sector was 6 per cent, in 1981-85 it was raised to 15 per cent and in 1986-90 it decreased to 14 per cent. The agricultural sector now contributed nearly 40 per cent to gross national products. Then in relation to its contribution, agriculture receive proportionately a meagre amount of credit from the commercial banks. Also, most of our farmers are poor. Since the government has declared poverty alleviation as our major development objective agriculture should receive higher priority in the allocation of credit.

Private sector commercial banks allowed even less than 0.5 per cent of their total loans to agricultural sector. From 1982-84 to 1988-90 private commercial banks allowed a very negligible portion of their investible fund to this sector. This is perhaps due to their inclination to remain centered in the more profitable short term trading activities.

Manufacturing is another important sector where finance is provided by the commercial banks. It is seen from Table 4.2 that commercial banks belonging to public and private sectors are equally prone to financing in the area of manufacturing. During investigation of the study it was reported that entrepreneurs often seek financial assistance to the commercial banks in the form of working capital for their manufacturing plant. Table 4.2 shows that public sector banks out of their total loans and advances, 25 per cent allowed in the manufacturing sector. On the other hand, private banks disbursed 30 per cent of their total loans to manufacturing activities.

A large proportion of the commercial bank loans went for trading activities. This is a sector which earns quick profit, and hence the banks may consider it safe to lend to this sector. About 21 per cent of the total credit extended by the nationalized banks went for trading compared to 31 per cent for the private banks.

Commercial banks also provide finance to other areas like petroleum, gas and electricity, small loan, foreign bills, government food procurement etc. As shown in Table 4.2 NCBs extended loans and advances in these areas 34 per cent of their total loan port folio from 1976 to 1990. On the other hand, private banks under study allowed 29 per cent of their total loans to different areas classified under others' head during 1982-90.

The above analysis are indicative of the following:

(a) Sectoral financing pattern shows that larger amount of finance were provided in manufacturing and wholesale, retail trade, restaurants and hotels.

(b) Insignificant amount of loans have been provided to agricultural sector although it has been identified as the priority sector of the country and account for almost 40 per cent of the GDP of the country.

(c) Considering the accommodation and dwelling problem of both urban and rural people, housing and real estate business can be developed through increased and proper financing in this sector.

(d) Some sectors received fund assistances in large amount while other sectors received insignificantly low amount of loan.

(e) Reluctance to risk fund in priority areas like agriculture, export of non-traditional items and preference to achieve more profit through financing working capital for manufacturing, wholesale and retail trade business etc. was evident in the case of private sector commercial banks.

4.4 Sub-sectoral Distribution of Credit

In line with the policy of the government to support the preferred sectors especially small and cottage industries including artisans through a simplified and decentralised system NCBs introduced various credit programmes. Arrangements are made by the NCBs for disbursal of credit facilities to the retarded areas to generate income-oriented activities. Priority areas related with the infrastructural development of the country like rural electrification, irrigation farming etc., are also covered by the NCBs.

Janata Bank, the second largest commercial bank in the public sector represent the major credit financing activities. A reading of Table 4.3 shows the type of use of fund by the bank for the year 1989. The dispersion of fund to various economic activities as shown in the table is no doubt a good sign provided that adequate measures are adopted for the safety of funds invested.

It is evident from the table that major projects covered by the bank include fishery, irrigation, weaving, rural housing, farming, salt production, shrimp culture, tea and other activities. An average recovery rate of 64 per cent of the loans shown in the table implies an optimistic rate of recovery through proper dispensation of credit in the rural areas. Among activities in which a substantial amount of loan was disbursed, the recovery rate was found to be fairly satisfactory for sugarcane cultivation (99 per cent) tea cultivation (100 per cent), Northern Rural Development Project (78 per cent) and Small Farmer Development Programme (69 per cent). But the recovery rate is very poor for weavers' credit and salt production. This is indicative of the point that non-farm producers are not necessarily better borrowers. The findings also suggests that if economic activities are supervised or producers are provided support in marketing of the products, the financial institutions could achieve a better success in recovering the loans.

Agrani Bank is again one of the largest nationalised commercial banks in Bangladesh. Table 4.4 represents sub-sector wise position of credit of Agrani Bank during 1989. It is evident from the table that the bank employed its fund its fund to some of the major sub-sectors of the economy like food, textile, ready-made garments, forestry, rubber, leather, chemical, poultry, ice plant etc. In 1989 the bank disbursed Tk. 107 crores out of which recovery was Tk. 24 crores. An average recovery 28 per cent which is not at all a good sign.

Table 4.3

Janata Bank
Sub-sectoral Credit for the Year 1989

(Taka in Crore)

Sub-sectors	Cumulative Disbursement	Amount Recovered	Total Outstanding	Amount Overdue	Percentage of Recovery
Special Agricultural Credit Programme	236.08	224.26	132.42	109.61	67
Fishery Programme	4.24	4.16	5.09	5.01	45
Irrigation Equipments	7.56	4.16	8.47	6.38	44
Weavers Credit	27.93	13.23	43.03	39.30	25
Land Mortgage Loan	7.74	2.25	8.99	5.66	28
Rural Housing	6.26	0.74	6.74	0.70	56
Swanirvar Rin Karmasuchi	9.86	6.84	6.25	5.09	57
Rural Finance Project	2.41	2.08	1.15	1.10	65
Small Farmers Project	2.11	2.29	1.02	0.84	73
Sugarcane Loan (Through Mills)	75.69	64.73	20.30	0.50	99
Small Farmers Development Programme	2.28	2.38	0.70	0.63	69
IDA Credit No. 1147-BD	11.24	4.95	18.59	13.28	27
NRDP	20.86	14.94	7.82	4.31	78
Salt Production	4.90	1.78	7.04	7.04	20
Shrimp Culture	5.49	4.38	3.07	2.90	60
Tea	34.97	38.61	1.84	-	100
Diversified Activities (IDA 1147-BD)	1.18	0.47	1.81	1.26	27
Others	4.83	4.62	3.88	3.34	66
Total	**465.63**	**396.87**	**278.21**	**206.95**	**64**

(-) indicate nil.

Source: Resume of the Activities of the Financial Institutions in Bangladesh, 1989-90, p. 120.

Table 4.4

Agrani Bank
Sub-sector-wise Position of Credit during 1989

(Taka in Crore)

Name of the Sub-sector	Disbursement	Recovery	Overdue	Outstanding	Percentage of Recovery
Food and Allied Industries	11.00	3.00	7.00	16.00	29
Poultry	1.00	0.10	1.00	2.00	28
Textile	35.00	4.00	21.00	50.00	24
Rice Mill	1.00	0.50	2.00	2.00	50
Ready-made Garments	16.00	7.30	13.00	20.00	41
Forestry	2.00	0.43	1.00	2.00	29
Rubber	1.00	0.03	1.00	1.00	34
Leather	1.00	0.12	1.00	1.00	37
Chemical	4.00	0.51	1.00	5.00	15
Printing & Packing	2.00	1.05	1.00	3.00	34
Engineering	19.00	2.12	8.00	25.00	19
Ice Plant	3.00	0.70	2.00	4.00	30
Others	11.00	4.14	4.00	9.00	34
Total	**1 107.00**	**24.00**	**63.00**	**140.00**	**28**

Source: Resume of the Activities of the Financial Institutions, 1989-90, p. 43.

Similarly, overdue and outstanding position of sub-sectoral financing of the bank represents a dismal picture. As stated elsewhere, bankers lack of initiative and drive to get the money ploughed back is the main cause of high overdue and poor recovery. Facts and data support that there are reasons to believe this truth that inspite of employing funds to profitable sectors, rate of recovery is poor and overdue is high simply because of the absence of proper monitoring.

As opposed to NCBs, Table 4.5 shows sector-wise break-up of outstanding loans and advances of Arab Bangladesh Bank Limited, the first private commercial bank in Bangladesh and virtually one of the leading private sector banks in the country.

A reading of the above table shows that financing were not done in view of the emerging need of the country's economy. It is apparent from the table that financing in the export sector was only 5 per cent compared to import and trading which are 16 per cent and 30 per cent respectively.

On perusal and analysis of sub-sectoral distribution of credit the salient features found are as follows:

i) It is evident that nationalised commercial banks through their extensive branch network provide finance to various economic activities of the country.

ii) Financing for the projects directed towards income generation are supported by the public sector banks.

iii) Arrangements of credit facilities are made by the NCBs for the allocation and dispersal of fund to the priority sectors and retarded areas as identified by the government.

iv) Activities are supported through providing financing in the form of credit facilities with a view to address the acute unemployment crisis and alleviate the problems of poverty.

Table 4.5

Arab Bangladesh Bank Limited
Sector-wise Break-up of Outstanding Loans and Advances for the Year, 1989

(Taka in Crore)

Purpose	Amount Disbursed	Percentage of Disbursement
i) Term Loan		
Small Scale Industries	4	1
Ship Scrapping	0.43	0.12
Housing Sector	22	6
Transport Sector	3	0.91
Contract Work	9	2
Other including Industrial Sector	20	5
i) Export Finance	19	5
ii) Import Finance	61	16
iii) Post Impost Finance	25	6
iv) Bills Purchased/Disbursed	19	5
v) Working Capital for Trading/ Industrial Purpose:		
Manufacturing/Industrial Units	37	10
Trade/Trading House	113	30
Contract Work	17	4
Others	11	3
Total	366	100

Source: Resume of the Activities of the Financial Institutions, 1989-90, p. 120.

v) Private banks, on the other hand, a recent phenomenon of policy decision of the government are yet to assume their corporate character. They are still inclined to trading and commercial financing in order to maximise profit.

vi) The proportion of fund utilised by the private banks for financing export is not encouraging.

vii) Private banks are found to be reluctant to finance in the priority sectors as set by the government including agriculture.

4.5 Agricultural Versus Non-agricultural Credit

In the initial years, the commercial banks were reluctant to participate in agricultural finance for obvious reasons and practical difficulties. But in view of the great importance attached to agricultural production, the nationalised commercial banks have been inducted to the field as a deliberate policy. The total quantum of bank credit to agriculture has, therefore, been increasing progressively. Year-wise allocation and recovery of agricultural credit provided by NCBs and other credit giving agencies is shown in Table 4.6.

From the table it is apparent that maximum utilisation of fund was in 1985 that is 100 per cent but the percentage of recovery was not appreciable. Subsequently, in 1987, 1988 and 1989 although the disbursement was moderate yet the recovery was excellent that is 96 per cent, 166 per cent and 91 per cent respectively. This is probably due to pressure from the donor agencies like World Bank, Asian Development Bank, International Development Agency, International Finance for Agricultural Development etc.

On the contrary, we have seen the performance of Janata Bank and Agrani Bank as not very satisfactory in the sub-sectoral distribution of credit. Although, the banks employed funds in promoting economic activities of the country, nevertheless, percentage of recovery is not satisfactory that is 23 per cent in case of Agrani Bank and 66 per cent in Janata Bank. As we have seen elsewhere, agricultural financing by private banks are very negligible

Table 4.6

Target, Distribution and Recovery position of Agricultural Credit of Commercial Banks and Other Credit Giving Agencies (1980-1989)

(Taka in Crore)

Year (End June)	Target	Disbursement	Percentage of Disbursement as against Target	Recovery	Percentage of Recovery as Against Disbursement
1980	407	268	66	142	53
1981	548	352	64	207	59
1982	654	424	64	314	74
1983	817	671	82	338	50
1984	1115	1007	90	518	51
1985	1150	1150	100	584	51
1986	1275	632	49	607	96
1987	1075	667	62	1107	166
1988	1050	656	62	596	91
1989	1250	808	64	578	72

Source: Data collected from Resume of the Activities of the Financial Institutions, 1989-90, p. 23.

that means private banks have just started moving towards agricultural financing and have not yet attained figure like that of NCBs. It is found from the above analysis that whatever amount of financing is made; but to ensure highest recovery proper surveillance of the bank fund is of utmost necessity.

4.6 Recovery and Outstanding Position of Loans and Advances

An attempt has been made to show the recovery and outstanding position of loans of both public and private sector commercial banks.

Agrani Bank, one of the largest nationalised commercial banks in Bangladesh. Table 4.7 shows disbursement, recovery and outstanding position of Agrani Bank from 1976-77 to 1989-90.

Table 4.7

Agrani Bank
Disbursement, Recovery and Outstanding Loan
for the Year 1976-77 to 1989-90

(Taka in Crore)

Year	Disbursement	Recovery	Outstanding
1976-77	5	2	5
1977-78	12	5	12
1978-79	7	6	13
1979-80	9	6	18
1980-81	8	7	22
1981-82	10	8	27
1982-83	31	13	50
1983-84	48	26	81
1984-85	68	29	130
1985-86	24	36	149
1986-87	31	110	99
1987-88	38	25	126
1988-89	55	26	172
1989-90 (up to 28.02.90)	24	29	192

Source: Resume of the Activities of the Financial Institutions, 1989-90, p. 48.

The noticeable features are:

(a) In 1984-85 disbursement and outstanding were considerably high but, on the other hand recovery was not satisfactory. The highest recovery was found to be in 1986-87 which was Tk. 110 crores. This was probably due to pressure from the banks head office. The average recovery is however, Tk. 23 crores. This more or less reflects the entire public sector since Agrani Bank being one of the largest public sector commercial banks.

(b) The borrowers are also reported to have shown not that much interest to repay the bank loan on timely basis particularly when and before the loan instalments fall due. This is because of the lack of being dunned by the bankers.

(c) During the investigation, some of the entrepreneurs reported that they could not run the project for some obvious reasons like payment of higher tax, fall of demand for the product in the market, non-availability of raw materials to produce things etc. As a result they could not pay back the money taken from the bank as loan. In other words, it is the failure of the bank in the assessment of the borrowers' credit-worthiness.

Recovery rate of agricultural financing by nationalised commercial banks is good. Private commercial banks are still very shy to finance in this sector. Their amount of financing so far, is not comparable with NCBs and other credit giving agencies.

Rural Financing on various small projects by NCBs are directed towards income generating activities. Such projects create job opportunities for the unemployed. Rate of recovery is not encouraging. Private commercial banks started functioning since 1982 and are gradually expanding their business network from urban to rural areas.

Data provide evidence that private commercial banks extend credit facilities for working capital of the manufacturing process, in short-term trading activities like wholesale, retail, export and import and also in other trading areas like that of their public sector counterparts. This reflects their profit motive. However, rate of recovery was found to be higher in private banks than the NCBs particularly in the short-term business financing. This is probably due to private banks' proper persuasion and close contact with the borrowers after sanctioning the loan.

Conclusions

The evaluation in the preceding pages on the pattern and performance of bank financing as regards growth, sectoral and sub-sectoral distribution, recovery and outstanding position of credit through institutional facilities in both public and private sectors reveals the following:

i) There is a wide demand for credit in almost all the sectors of the economy.

ii) In line with the suggestions of the National Commission Money, Banking and Credit, 1986, private commercial banks should be obligated to extend loans to agricultural sector at least 15 per cent of their total lendable resources.

iii) Nationalised commercial banks are required to strengthen supervision and follow-up activities in order to raise the recovery rate and productivity of loans.

iv) Private banks are required to expand their business network to rural areas and extend loans to priority sectors.

v) Public sector commercial banks are to ascertain more carefully the entrepreneurial capability of the borrowers before financing any project.

CHAPTER – V

THE PERCEPTION OF BANKERS AND BORROWERS REGARDING CREDIT OPERATIONS

4.1 Introduction

A bank is a dealer in credit. It mobilises resources mainly in the form of deposit from peoples who can not themselve use their own fund for increasing their income. This task of utilising borrowers' fund which in fact, constitutes the scarce resource a nation, has been entrusted by the society in a free market economy to banking institutions. A bank optimises its contribution to the economic development of a country by providing required amount of fund in the form of loan. Fund is the lifeblood of any institution or enterprise engaged in productive activities. Since, a bank acts as a trustee of the depositors money, it can not afford to keep it, fund idle nor it is expected to give away the fund as gift or charity. Therefore, a manager has got to follow a selective policy. Since, the amount of loan sought by the clients particularly in a capital-starved developing economy like Bangladesh is much more compared to the fund at its disposal. It is the obligation of bank management to examine and analyse the loan applications thoroughly, carefully and intelligently so that it can be sure that right amount of loan goes to the right clients who have competence to utilise the loan money in right kind of productive activities. This analysis is a necessity in order to assess the credit-worthiness or loan-getting qualifications of the loan-seeking parties.

An attempt has been made to obtain the views of bankers and borrowers about the procedures and practice followed by the bank in sanctioning, disbursement collection of of loan. 40 bankers who are directly related with the sanctioning, disbursement and overall monitoring of credit in the bank and 60 clients who actually got the loan were interviewed with the help of two separate checklists. Their views have been tabulated and analysed, in some cases using different statistical tools.

In order to test the different hypotheses and comparing different characteristics of the bank executives and the borrowers of the banks both in public and private sectors, the following statistical tools were used for interpretations:

1. In order to test the real difference of the average advances extended by the banks in both public and private sectors t-test, according to the following definition was used:

$$t = \frac{\bar{X}_1 - \bar{X}_2}{s\sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

where t = test statistic

$\bar{X}_2$= Average Advances of the private sector Bank.

n_1= Number of observations for the public sector.

n_1= Number of observations for the private sector.

$$S = \sqrt{\frac{(n_1 - 1)\ s_1^2 + (n_2 - 1)\ s_2^2}{n_1 + n_2 - 2}}$$

s_1^2 = Variance of the public sector observations.

s_2^2 = Variance of private sector observations.

Similar test was applied for testing the equality of the average outstanding and average recovery of sample banks belonging to public and private sectors.

2. In order to test the association between the different qualitative characteristics of the banks belonging to public and private sectors X^2 tests were used. The test statistic were as follows:

$$X^2 = \Sigma \frac{(E)^2}{E}$$

where O = Observed frequency

E = Expected frequency

3. In order to test the rank differences of the different characteristics in the present study, Spearman's rank correlation co-efficient were used. The rank correlatives co-efficient, Rs, were defined as

$$Rs = 1 - \frac{6 \sum_{i=1}^{n} D_1^2}{n(n-1)^2}$$

where D = Rank difference
n = No. of observative

In order to test the significance of rank correlation t-test was used. The test were defined as follows:

$$t = \frac{Rs \quad n-2}{\sqrt{1 - Rs^2}}$$

Given below is a brief description of the perception of bankers and borrowers regarding credit operations of the commercial banks in Bangladesh of both public and private sectors.

5.2 Credit Planning and Policy

Planning is a projected course of action. Every organisation that wants growth and a healthy mode of operations must lay emphasis on planning and policy. To accomplish a goal most effectively, adequate planning and policy is necessary. As a matter of fact, without planning and policy there would be nothing to organise, actuate and control for effective management.

The commercial banks follow the credit policy formulated by Bangladesh Bank and they try to remain attached within the periphery of such policy. This study obtained the opinion of loan giving agencies also among other things.

As many as 40 managers and executives who have been granted loan giving authority and those who were engaged in framing the credit policy, were interviewed. As stated in the methodology, these institutional samples were requested to indicate whether they have any credit planning. The answer was as follows:

	Yes	No
Central Bank	100%	-
Public Sector Commercial Banks	100%	-
Private Sector Commercial Banks	50%	50%

The answer given by the respondents of Central Bank is obvious because the Central Bank every year issues guidelines to the commercial banks after careful consideration of the ADP (Annual Development Programme) of the government. The public sector banks have to prepare annual credit plans to comply with the directives of the Central Bank. As public sector institutions they can not afford to disobey the directives of the Central Bank. Therefore, they must have some kind of credit plan. The private sector banks though under obligation to abide by the guidelines of the Central Bank, are often reported to be reluctant to prepare any written credit plan. They have some kind of notional figures based on intuition. In case of private banks 50 per cent respondents reported that they do not always adhere to the guidelines issued by the Central Bank. Instances have been reported to loan having been granted to some of the influential directors of the private banks without the knowledge of their less vocal colleagues in the Board.[63] However, the overall credit programme of a commercial bank has been divided in the following 3 areas in order to facilitate the study as shown in Table 5.1 and it is found that the private sector banks are more inclined to remain confined in the area of trading activities and other types of credit avoiding priority sectors of the government which are covered by NCBs (Nationalised Commercial Banks). It is apparent that credit policies of NCBs cover all types of economic activities.

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[63] Matiur Rahman and Syed Azizul Hoque, *Dhanik Goshthir Lutpater Kahini*, Shuchana, 3/1, Naya Paltan, Dhaka, April, 1987, pp. 116-129.

Table 5.1

Distribution of Respondents According to the Preparation of Credit Planning and Policy

(Figures showing percentage of total)

Areas of Credit Planning and Policy	Public Sector				Private Sector			
	* A Bank	* B Bank	Bangla-desh Bank	Sub-Total	* X Bank	* Y Bank	Sub-Total	Total
Business Credit	40	40	20	100	50	50	100	100
Priority Sectors	40	40	20	100	-	-	-	-
Other Types of Credit	40	40	20	100	50	50	100	100

(-) indicates nil.

Note: * Names have been disguised for obvious reasons.

Business Credit = Cash Credit, Overdraft etc.

Priority Sectors = Agriculture, Small Scale Industry and Export of Non-traditional Items

Other types of Credit = Garments, Real Estate etc.

It is clear from the table that private sector banks do not have any credit planning so far as priority sector is concerned. This is due to their relative indifference to the so-called priority sector in which area the return is much less as loans have to be given at concessional rate of interest. For example, in the jute sector, loans have to be given at 9 per cent rate of interest which does not cover the cost of fund. In all other respects, there is hardly any difference between public and private sector banks. Under the instruction of the Central Bank, 2 per cent of the total loanable funds are required to go to the priority sector but private sector banks do not obey this instruction also. This is apparent from the resume of the financial institutions published by the Ministry of Finance and the Annual Report of Bangladesh Bank.

5.3 Forms of Credit

Bank executives were asked to mention the various forms of loans which are allowed by the loan seeking clients. The replies may be seen below:

(Figures showing percentage of total)

Forms of Credit	Sector	
	Public N = 18	Private N = 18
Short-term Loans		
Overdraft : (a) Secured	89	94
(b) Unsecured	17	22
Cash Credit: (a) Hypothecation	89	94
(b) Pledge	83	89
Demand Loan (a) Secured	72	78
(b) Unsecured	11	17
LIM (Loan against imported merchandise)	83	89
Trust Receipt Loan	11	17
Packing Credit	56	72
IBP (Inland Bill Purchased)	50	56
FBP (Foreign Bill Purchased)	44	56
PAD (Payment against Documents)	56	83
Others (small loan)	67.66	44
Intermediate/Long-term Loans		
House Building	89	22
Transportation	50	17
Others (Agricultural)	67	6

[36 executives and managers responded]

It is observed that bank executives and managers of both public and private sectors always prefer secured type of credit as it is less risky. Replies as to the unwillingness to grant credit to clients without security were due to apprehension of loan diversion. The attitude of the banks is flexible and liberal too. The loan granting managers are guided by integrity considerations. They know the parties thoroughly well. Their past records are beyond doubt and well-known in the business circle. Managers are ready to accommodate parties if they are confident about the repayment of the loan. However, there is one difference between a public sector bank in the matter of readiness to help a client. The managers of public sector banks are relatively more ready in extending credit to small parties compared to the managers of private bank. This arise mainly out of two kinds of considerations viz., (i) abiding by the guidelines of the Central Bank and (ii) sympathy for the small clients who can carry on their business successfully, thereby, create employment opportunities for the people, if loans are readily available.

5.4 Procedure of Granting Loans

Normally, the commercial banks insist on submission of documents such as Income-tax Certificate, Profit & Loss Account, Balance Sheet, Title Deeds, Partnership Deed, Memorandum of Association, Articles of Association, Resolution etc. as detailed in the Appendix Table A.7. It may be noted that in Bangladesh several forms of business exist. In the case of one man business, the documents insisted are: Profit & Loss Account, Income-tax Clearance Certificate, Lease Deeds or Title Deeds of properties mortgaged. Obtaining income-tax clearance certificate is not a problem though it may need some bribe. However, obtaining of non-encumbrance certificate from the office of the Sub Registrar involves some difficulties. Here also, one has to spend some hush-money if he wants the non-encumbrance certificate on a timely basis. The bank manager can not be blamed if he refuses to extend credit to a party who fails to submit non-encumbrance certificate. At one time loans were given against moveable properties like gold ornaments. The practice has been stopped because of the expenditure involved in determining the quantity and quality of gold contained in the jewelleries. Loans against personal security based on individual's status and profession in the society has also been stopped though at one time such loans were granted liberally. It seems a credibility gap has been developed between the banks and the loan seeking clients. The real difficulty is that the real state like farm land or homestead properties in most cases are jointly owned. Obtaining the signature of all the owners is a really hard job because of the lack of sincerity, honesty, belief and fellow-feeling among the co-sharer.

However, if the loan-seeking party is a real businessman having reputation for honesty, sincerity and integrity, it may be possible for him to arrange a 3rd party who will stand as a guarantor of the loan advanced to him. This practice is still present and banks do extend credit to desirable credit-seeker on 3rd party guarantee.

In the case of partnership, in which as many as 20 individuals may be doing business. Partners are jointly and severally liable for any act of the firm. The liability of a partner is limited. The bank can realise the money from one individual out of the 20 partners by suing him, if necessary. The investigation revealed that the loan granting managers ask the loan-seeking partnership firm to submit documents like, (i) Partnership Deed, (ii) Income-tax Clearance Certificate, (iii) Profit & Loss Account, (iv) Balance Sheet, Title or Lease Deed as collateral security, valuation certificate, non-encumbrance certificate, up to date rent receipt, khatian etc.

Getting income-tax clearance certificate is not that difficult if the firm is regular in the payment of income-tax. Partnership deed is examined to see whether the partnership deed permits taking of loan.

In case of limited companies, the bankers demand documents like Profit & loss Account, Balance Sheet, Memorandum of Association, Articles of Association, Income-tax Clearance Certificate, Resolution of the Directors. Limited companies are relatively bigger organisations. They are relatively better organised with regular offices equipped with personnel and staff. Therefore, it is not a problem for them to secure the required documents. Obtaining loan for them is not a difficult job if the bank manager is satisfied about the integrity of the company. The bank manager is supposed to have a profile of the limited companies under his jurisdiction. The profile, at times, classifies the limited companies as desirable clients. It is, therefore, clear that bank managers have to read carefully and examine the contents of the documents intelligently to detect if there is any clause which might be used by these loan-seeking clients as excuse for evading payments of the loan. However, particular attention is given on the ability of the firm to absorb the loan. This becomes evident from the trends of the profit earned or loss sustained by the clients over the few years. The manager has to be smart in assessing the prevailing social, political and economic conditions prevailing in the country. Very often, the government announces special loan exemptions or moratorium which the banks particularly in the public sector have to obey. The NCBs sustained huge loss in 1987 and 1988 because of the events beyond human control.

5.5 Perceptions Regarding Actual Practice

The survey has brought out a few interesting features as shown in Table 5.2 (a) one can see that no text book mechanism can be followed, (b) simple guess work of the bank manager may guide him in extending credit to loan-seeking clients if found acceptable after his guess work test. Finally, the main instrument guiding the bank manager in deciding a loan application is past experience of the bank with the client. From the data available in Table 5.2, X^2 test was applied in order to ascertain whether types of analyses of statements and documents have got any relationship with the sectors i.e. public and private. Calculated value of X^2 is equal to 5.86 which is greater than tabulated value of X^2 which is equal to 3.841 with 1 d.f. at 5 per cent level of significance, data provide evidence as to the existence of a relationship of both the sector banks with that of the types of analyses as mentioned in Table 5.2

The general impression of the researcher is that bank managers can make sound decisions if he is sincere and intelligent and exercise his judgement in guessing out, in observing the emerging situations and in the analysing whatever documents are available. The following table is interesting and self-explanatory.

There is a close association between the banks belonging to both public and private sectors and that of the methods applied by the bank executives and managers in order to judge borrowers' character, capital and capacity, which means, bank managers and executives of both the sectors apply almost

Table 5.2

Types of Analyses of Financial Statements and Documents Submitted by the Borrower

(Figures showing percentage of total)

Areas of Credit Planning and Policy	Public Sector			Private Sector			Total
	A Bank	B Bank	Sub-Total	X Bank	Y Bank	Sub-Total	
To Textbook Mechanism is followed	22	33	27	11	22	16	22
Simply Guessing through Observation	44	22	34	11	22	16	25
Experience is Utilised	34	45	39	78	56	68	53
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Table 5.3

Methods Applied by Bank Executives and Managers to Judge Borrowers Character, Capital and Capacity

(Figures showing percentage of total)

Methods Followed	Public Sector			Private Sector			Total
	X Bank	Y Bank	Sub-Total	A Bank	B Bank	Sub-Total	
Daily Turnover of Account	45	45	44	56	34	44	44
Stock Report	22	33	28	11	22	17	22
Financial Statement of the Borrowers Business	22	22	22	11	22	17	20
Personal Contact	11	-	6	22	22	22	14
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**

(-) indicates nil.

similar methods to judge the borrowers' character, capital and capacity. Statistically, calculated value of X^2 is equal to 1.33 is less than the tabulated value of X^2 with 3 d.f. at 5 per cent level of significance which is equal to 7.815, data provide sufficient evidence to hold the view as correct.

However, credit management becomes better and more effective if the manager has been exposed to the rules and regulations related to loan granting, is interested in accomodating the party and is capable of developing satisfactory rapport with the local business community.

5.6 Collection of Information Regarding Borrowers

Quality of decision in every kind of organisation depends on the quality of data, on the basis of which the decision is made. The quality of data is again depend on the methods and techniques employed in the collection, classification, analysis and interpretation of the information collected. The loan granting managers covered by the study have been found to use the following tools for information gathering.

Tools Used	Percentage Reported	
	Public Sector	Private Sector
Credit Report Form	100	100
Confidential opinion obtained from other banks	83	66
Turnover of Account	100	50
Related papers submitted alongwith loan application	100	100

5.7 Establishment of an Agency for Supplying Information about Loan-seeking Clients

Loan granting task, in the opinion of the samples, will be facilitated if an organisation is created to collect, classify and preserve information firm-wise and activity-wise. It may be noted that some academic researchers have suggested the creation of a credit bureau. India is reported to have benefitted by the creation of credit information collecting agencies in line with the practice followed by Dun & Bradstreet Inc. of United States of America. Executives and managers were requested to express their opinion relating to the establishment of an agency for supplying financial information about the bank customer as shown in Table 5.4.

Table 5.4

Supporting the Establishment of an Agency for Supplying Financial Information of Bank Customers

(Figures showing percentage of total)

Sectors	Supported	Not Supported
Public Sector	64	18
Private Sector	36	82
TOTAL	**100**	**100**

Since the calculated value of X^2 is 6.40 is greater than the tabulated value at 5 per cent level of significance with 1 d.f. which is 3.841, data provide evidence to support the establishment of an agency for supplying financial information of bank customers which has a close relationship and necessary for both public and private sector banks.

5.8 Training of Bank Executives and Managers in the Area of Credit Administration

The key element in credit management is training of the manager for skill formation. Loan application processing requires technical skill. When fresh graduates are recruited as officers, they need foundation training for familiarising the recruiters with the objectives and goals of the banks with the methods and procedures followed in arriving at a loan granting decision and also to refuse a loan tactfully without hurting the client's feeling and sentiment.

Table 5.5 shows that majority of the officers have been trained in the art of credit management.

Table 5.5

Training of Bank Executives and Managers in the Area of Credit Administration

(Figures showing percentage of total)

Training	Public Sector			Private Sector			Total
	X Bank	Y Bank	Sub-Total	A Bank	B Bank	Sub-Total	
Yes	67	56	62	78	89	83	72
No	33	44	38	22	11	17	28
	100	100	100	100	100	100	100

It may be noted that in Bangladesh every NCB has its own training institution. Most of the private sector banks have also started their training institutes. The sponsors of the banks seem to have realised the importance of training. The government also appears to be determined to provide trained manpower to public and private sector enterprises including banks. Bangladesh Management Development Centre has been playing a good role in providing training to bank officers and executives. Training is also provided at the Institute of Bank Management under the guidance of Bangladesh Bank. Bangladesh Bank has also its own training institute.

5.9 Sanction and Disbursement of Credit

A sound credit management is one which takes particular interest in sanctioning and disbursing of loans with a minimum possible time. When a party seeks a loan it has definite plans of activity when the loan would be required to be spent. If the loan is not granted on a timely basis the very purpose of the loan gets defeated. Belated disbursement of loan has a tendency of misdirecting the loan money to unapproved, unproductive and undesirable channels. The efficacy of commercial bank in the matter of time taken for the loan granting and loan disbursement is shown in Table 5.6

Table 5.6

Time Taken in Disposing a Loan Case

(Figures showing percentage of total)

Time (in days)	Public Sector			Private Sector			Total
	X Bank	Y Bank	Sub-Total	A Bank	B Bank	Sub-Total	
1 - 10	-	-	-	67	56	61	30
11 - 20	-	-	-	33	44	39	30
21 - 30	11	22	16	-	-	-	8
31 - 40	78	56	68	-	-	-	34
41 - 50	11	22	16	-	-	-	8
	100	**100**	**100**	**100**	**100**	**100**	**100**

(-) indicates nil.

It appears that a public sector bank takes four times more compared to a private bank. Data collected from the banks of both public and private sector provides sufficient evidence of significant difference in decision making for the disposal of loan case. Under the assumption that the time requirement is equal, the collected data indicate evidence that test statistic, t which is equal to 49.5 provide clear evidence of significant differences in both public and private sector.

The reasons for taking more time by a public sector bank, on further probing, was due to the relatively more insistence on formalities, lack of sense of urgency, go-slow policy and civil service nature security of the job. The situation is different in the case of a private bank. Customer complaints are taken by the management seriously and higher degree of discipline, punctuality and regularity is observed. However, it is interesting to have a look on the Table 5.7 put below as the respondent bank executives and managers described the reasons for being a loan case pending.

Table 5.7

Respondent Bank Executives and Managers Describing the Reasons for Pending of Loan Cases

(Figures showing percentage of total)

Reasons for Pending	Public Sector			Private Sector			Total
	X Bank	Y Bank	Sub-Total	A Bank	B Bank	Sub-Total	
Board is not quick in the disposal of loan cases submitted to it	34	22	28	11	22	16	22
Examination of project viability takes time	11	11	11	11	12	12	11
Borrowers always do not submit the required documents along with their loan applications	22	11	17	45	33	38	28
Since loans require govt. clearance which is not readily obtainable	11	22	16	11	11	12	14
Most loan applications require some kind of further queries for additional information	22	34	28	22	22	22	25
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**

5.10 Follow-up and Recovery

In Bangladesh, the banking sector has earned bad reputation for its unsatisfactory loan recovery performance. In this study, an attempt has been made to unearth the causes of poor recovery and swelling up stuck-up loans. The managers themselves, on being requested have attributed the poor performance to the following factors as shown in Table 5.8.

Table 5.8

Rank of Factors Mentioned by the Executives and Managers For Turning an Advance Stuck-up

Factors	Percentage Reported	
	Public Sector R^1	Private Sector R^2
Weak scanning/appraisal procedure of the bank	2	4
Lack of skill of appraisal	[illegible]	1
Weak contact with the borrower after disbursement	4	3
Sanction of loan under influence	9	2
Borrower characteristics (rather than project characteristics)	1	6
Excessive loan	5	5
Government policy	6	7
Quick shift of policy	7	8
Lack of accountability	8	8
legal inadequacy	10	10

H_o : P = 0, Rs = 0.48

H_A : P = 0, t = 1.55*

* Since the calculated value of t which is equal to 1.55 is less than the tabulated t which is equal to 2.262 at 5 per cent level of significance. There is no indication of relationship of the ranks given by the executives and managers of both the sector banks.

The salient features of the above table are:

(a) Improper and half-hearted examination of loan applications and accompanying documents is a serious cause which in the opinion of the researcher, can be improved if the managers are properly trained and if they are properly motivated to perform the job entrusted to them. The researcher further thinks that accountability and answerability have not been explained to the officers seriously, sincerely and in the right spirit.

(b) To management of the commercial banks should know their subordinates thoroughly, their education, training and level of skill possessed by them should be clearly understood by the top manager otherwise delegation of financial authority can not become meaningful.

(c) There is a gap in the understanding of the managers about their jobs. In the assessment of the researcher, many of the managers do not have clear understanding of their accountability, their job descriptions and obligations not being explained in an unambiguous language. Therefore, they can not understand the significance of low rate of loan recovery.

(d) A manager should have full authority to act within the framework of his jurisdiction. Authority and responsibility, according to management experts, should go hand in hand. If a manager is given responsibility to recover the principal loan alongwith interest, he should have autonomy in making decision as to whether a particular loan application fulfils his criteria of loan eligibility. If he is forced to sanction loan under pressure of the union or verbal order of his boss or telephone from high official of the government and influential political leaders who may become minister in charge of banking industry tomorrow, he can not work as a real and sincere manager. Unfortunately, in Bangladesh, the situation is not clean. This aspect has been amply demonstrated by the studies conducted for the National Commission on Money, Banking and Credit, 1986, resource personnel in the University, in Bangladesh Institute of

Development Studies, in Bangladesh Management Development Centre and in Bangladesh Institute of Bank Management.

(e) More attention is given on borrower characteristics compared to the characteristics of the project. The loan money will be used for the project. Therefore, project viability should be thoroughly examined from as many angles as possible. For example, the location of the project, transport link, availability of raw materials; facility for importation of raw materials from outside source, availing of different kinds of manpower needed for the projects and their willingness and commitment to work for the project by living in the project area, the technical feasibility of building construction and arranging of building materials at reasonable cost, the facility of importing and installing machineries and equipments, the demand for the product or service produced in the project, their quality in relation to that of competing products, government policy about import substitution and export expansion, total domestic market, export potential and incentives available for export and also ease of raising the required long-term and short-term financial resources etc. should be taken into account. Apparently, appraisal of economic viability, social profitability and technical feasibility should deserve special consideration but experience has shown that projects are not fully and accurately examined and evaluated. The party sponsoring the projects gets priority over the project's potential contribution. The result of inadequate appraisal or non-appraisal or manipulation of accounting data to show a higher rate of IRR (Internal Rate of Return) results in liberal grant or extension of loan to persons with weak projects. This facilitates loan diversion, under-utilisation, leakage of resources through theft and pilferage becomes prominents, as a result, loans become stuck-up.[64] This will be apparent from the Salahuddin Commission's Report and also studies conducted at Bangladesh Institute of Development Studies under the leadership of Rehman Sobhan.

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[64]For an elaborate treatment of the nature of project appraisal, causes of industrial sickness see Draft Report of the House of Consultants Ltd., (HCL) *An Analysis of the Causes of Industrial Sickness and Suggestions for Remedies*, Part III, Dhaka, December, 1988, p. 3.

It may be noted that there started a shift or change in the industrial ownership policy of the government since 1975. Today the Government of Bangladesh is largely committed to development of privatisation. During the last few years a large number of nationalised industrial units have been sold at nominal price. Loan of banks has become stuck-up in the industrial units, public corporations, public utilities and other government backed institutions running into crores. Stuck-up loan of disinvested industrial units is also substantial. The agreements under which the units were disinvested have not clearly explained that who will be responsible for the payment of the loan. The disinvested units have also formed association of their own. The association is now pressing the government for the writing off the loan or long-term moratorium coupled with fresh loan. The government, at times, has granted their prayers. The practice has emboldened the entrepreneurs to demand fresh exemptions on the plea of sick industry. If one reads the confidential book-let written by one of the former Managing Directors as a mark of warning to his executives to become cautious about stuck-up loan, one may be convinced that credit management has lost its efficacy substantially due to shift in government policy, instability of government thinking and legal flaws for which establishment of commercial courts have not reportedly produced good results.

When asked for suggestions about the measures to be adopted for ensuring better repayment respondent bank managers and officers put forward the views which have been tabulated below. 42 per cent and 26 per cent respondents of the public sector banks stressed on the constant persuasion and enforcement of law to raise the rate of recovery. Others talked about giving incentive to recovery officers, allowing credit holiday and occasional interest exemption. 42 per cent respondents of the private sector emphasised the need of constant persuasion and others attached importance to incentive, credit holiday and interest exemption.

5.11 Documents Demanded by the Bank Managers

The sample borrowers were asked to mention the documents demanded from them by their bank managers at the time of submitting an application for the loan. The information has been tabulated in Table A.8 in Appendix. It is

Table 5.9

Suggested Measures for Ensuring Better Repayment

(Figures showing percentage of total)

Suggested Measures for better repayment	Public Sector X Bank	Public Sector Y Bank	Public Sector Sub-Total	Private Sector A Bank	Private Sector B Bank	Private Sector Sub-Total	Total
Constant Persuasion	44	36	42	44	38	42	40
Incentive to Recovery Officers	10	13	11	11	12	10	10
Credit Holiday	10	13	11	11	25	17	14
Occasional Interest Exemption	10	13	10	12	12	13	16
Enforcement of Law	26	25	26	22	13	18	20
TOTAL	100	100	100	100	100	100	100

evident that the bank managers insist submission of documents like: (a) Profit & Loss Account and Balance Sheet of the past year, (b) Cash flow statement of the previous year, (c) Feasibility report in case of new enterprises, (d) Income-tax clearance certificate from the office of the Commissioner of Income-taxes, (e) Title deeds of the lease-hold or free-hold properties in case of collateral security is sought, (f) Partnership Deed in case of partnership firm (8) Management of Association and resolution of the Directors in case of limited companies, (h) Other documents like insurance cover note, stock report, charge documents like demand promissory note, letter of lien, letter of arrangement and letter of disbursement, 3rd party guarantee, if necessary, are also demanded.

From the income statement, the bankers obtain profit percentage of the last year and X-ray of the financial health from the last year's balance sheet. The managers seem to be liberal because they demand financial statement of one year only. In some countries, financial statement of several years is demanded to ascertain the trend of the operating result. Preparation of cash flow statement is an indication of enlightened entrepreneurship. The loan-seeking samples reported that they have become accustomed to it because they know this will be necessary whenever they approach a bank for a loan. The loan-seeking clients did not express any dissatisfaction for being asked to submit cash flow statement, feasibility report, as already noted, is required when a newly started enterprises applies for a loan to be utilised as working capital. This loan is needed for purchase of raw materials and spare parts, payment of wages and salaries, clearing electricity bills and meeting other day to day expenses. In Bangladesh, there are specialised financial institutions such as Bangladesh Shilpa Bank which have established to provide long-term capital need for the erection of the factory, purchase and installation of machineries, office equipments and other items of expenses of long-term nature. The commercial banks are expected to cater mainly to the working capital needs so that production flow can go on smoothly without being interrupted.

5.12 Borrowers' View as to How the Bankers Judge Their Loan Proposals

On being asked as to how the bankers judge the loan proposals, the sample loanees supplied information which have been categorised as (a) Time taken in Loan (b) Processing Adequacy of Loan (c) Problems in Repayment and Recovery of the Loan and also supported by the data put in Table 5.10 and 5.11 respectively.

(a) *Time Taken in Loan Processing:*

When requested about the time taken in the processing of a loan application, 50 per cent of the sample loanees of the public sector banks reported that on and around 35 days are required for the disposal of a loan case. On the other hand, 63 per cent sample loanees of the private sector banks reported that on and around 9 days are required for the disposal of a loan case. It seems that private sector banks are more prompt in processing loan applications for which the period of time required is four times more in the case of public sector bank. This is one of the reasons of the growing popularity

Table 5.10

Time Taken in Loan Availability

Days	Percentage of the Reporting Samples	
	Public Sector N = 30	Private Sector N = 30
1 - 7	9	63
8 - 14	13	7
15 - 21	10	7
22 - 28	13	6
29 - 35	50	14
36 - 42	5	3
TOTAL	**100**	**100**

Table 5.11

Adequacy of Loan to the Borrowers

Factors	Percentage Reported	
	Public Sector (N = 30)	Private Sector (N = 30)
Got the actual amount sought	78	89
Got more than what was sought	-	-
Got less than what was sought	22	11
TOTAL	100	100

(-) indicates nil.

of the private sector banks in the country. Business community as a whole, have developed some positive attitude towards the privatisation programme of the government in the banking sector.

(b) *Adequacy of Loan:*

Productive utilisation of loan is more relatively achieved if the required quantity of loan is available when it is needed for production or distribution purpose. The sample loanees were requested to indicate whether their applications for loan are usually granted in full. The answers were tabulated in Table 5.11.

The interview was conducted at a time when there was no liquidity crisis in the banking sector. The banks had enough liquidity. They were rather happy if credit-worthy clients came forward for loan. Private sector banks because of their aggressive deposit mobilisation drive collected as much deposit as they could not use properly. They even requested the Central Bank to raise its reserve ratio. In case of reliable and trustworthy but competent clients they, at times, exhorted the clients to take more loans and use them properly.

A lesser amount of loan than wanted was granted when the bank manager found that the party was not making proper use of the loan in the past or in the assessment of the manager, the party did not have adequate competence to estimate its actual credit requirement for the coming period.

In the developing countries, traders and industrialists in general do not have prior experience in the case of industrial unit's estimation of credit requirement which is a very crucial job because of the non-availability of required materials in the market. Money value is being eroded every year. Therefore, credit needed for the production of say, 1000 units in 1988 will surely be more in 1989 because of the rising rate of inflation. Since, most of the loan-seeking clients in Bangladesh do not have adequate quantity of experience and knowledge of credit requirements, sound credit management demands that bank managers 'educate' the clients about the techniques and methods of estimating credit requirements. It has been seen that some of the sample managers have understood this aspect of sound credit management policy.

(c) *Problems in Repayment and Recovery of the Loan:*

Commercial banks grant short-term credit normally for a period of 3 months. The period is extended if the party wants it and clears accrued interest regularly. Unfortunately, in Bangladesh, there are are loanees who follow a short-sighted, imprudent and unprogressive policy. They are not prompt in the repayment of the loan. Some of them diverted the loan to unapproved purposes and some do not have the intention to repay the loan at all. Again there are clients, who advise their accountants to manipulate items of gains and losses in such a way that the Profit & Loss Account shows loss although in reality the firms may be making huge amount of profit. These are some of the reasons for which huge amount of bank loans have become stuck-up. Their business units have been turned as 'Sick'. These cases of unethical practices have been admitted by about 34 per cent of the samples.

Further, 26 per cent of the sample loanees reported that due to lawlessness prevailing in the country in various forms like hijacking, frequent strikes and lock-out, natural calamities like floods, cyclones and droughts, inflationary effect on the economy, importation of foreign products and peoples' psychological maina to purchase and run after foreign goods and commodities, their business is greatly hampered. By investing the money taken from bank as loan they did not get the return with profit as they expected causing irregularities in the repayment schedule of the loan.

They also reported that in order to obtain licence for undergoing business, extra monies are required to be spent in the concerned office. As a result, cost of their goods becomes higher and they can not afford to sell the goods in the market at a competitive price. Consequent upon which the goods remain unsold at their end and they cannot repay the bank money which is swelling with the application of compound interest by the bank.

About 13 per cent respondent loanees belonging to public sector banks reported that they are not likely to repay the loan money on time or very soon because they want to take retaliation on the bankers for unnecessary harassment and killing their valuable time by way of asking for papers on different times and showing bureaucratic attitude.

5.13 Loan Granting Manager in the Eye of Borrowers

It is interesting to note here that indepth discussion with the samples revealed that loan-getting becomes smooth, often, if a "friendly" relation is developed between the bank managers and the loan-seeking clients. The practice of taking bribe have been admitted by about 42 per cent of the sample loanees. These loanees appear to be smart enough to show the bribe as business promotion expenses. They seem to believe that this is a fact of life.

In the eye of the loan-seekers, an ideal manager is one who is frank enough to discuss the terms and conditions and settle it amicably to the benefit of both.

The qualities that an ideal and efficient credit executive in the eye of borrowers belonging to public and private sector are shown in Table 5.12.

Table 5.12

Qualities of an Ideal and Efficient Credit Executive

(Figures showing percentage of total)

Qualities	Public Sector			Private Sector			Total
	X Bank	Y Bank	Sub-Total	A Bank	B Bank	Sub-Total	
Politeness	33	20	27	27	27	27	27
Promptness	20	47	33	47	40	43	38
Knowledge in Work	40	26	33	13	13	13	23
Helping Attitude	7	7	7	13	20	17	12
TOTAL	100	100	100	100	100	100	100

Here, private sector respondent borrowers attached much importance on promptness and politeness while respondents from public sector stress on the knowledge of work as well as promptness of the concerned executive. The above analysis reveals that private sector respondent borrowers like promptness of service.

The reasons attributed by the respondent borrowers of public and private sectors for being prompt and efficient of a credit personnel are shown in Table 5.13. It is apparent from the table that higher salary, good job environment in case of private banks are the factors for their good services and demonstration of efficiency. On the other hand, long experience, training and job security have been identified as the factors for being efficient in case of public sector bank personnels specially engaged in credit dealing.

Table 5.13

Reasons for being Efficient of Credit Personnels in Private Banks

(Figures showing percentage of total)

Reasons for Being Prompt and Efficient	Public Sector			Private Sector			Total
	X Bank	Y Bank	Sub-Total	A Bank	B Bank	Sub-Total	
Well Experienced	22	25	23	13	27	20	21
Well Trained	22	17	20	13	13	13	17
Well Paid	33	33	33	40	40	40	37
Job Environment	17	17	17	27	13	20	18
Job Security	6	8	7	7	7	7	7
TOTAL	100	100	100	100	100	100	100

CHAPTER – VI

CASE STUDIES: AN INSIGHT INTO THE REAL STATE OF AFFAIRS IN THE AREA OF CREDIT MANAGEMENT

Introduction

Case study is one of the recognised tools of research in business. Under this method, each case is studied indepth and then a common thread is developed out of the cases. This chapter is devoted to case studies of selected defaulter loanees vis-a-vis irregularities committed by executives and branch managers as revealed through examination of their books. As mentioned in the methodology chapter, 88 borrowers, whose loans and advances have been declared to be stuck-up by the respective banks under study, have been taken for analyses.

The purpose of the chapter is to identify the reasons for which borrowers become defaulters and the banks are obliged to declare the loans as stuck-up or non-recoverable. Out of 88 cases 22 have already been declared doubtful by Bangladesh Bank after examination of the loan cases by the inspecting staff of Bangladesh Bank.

What has happened to the loan given to a particular borrower has been described in the Appendix - B and then case-wise analysis has been made here in order to get an insight into the situation of each case. The objective was to ascertain whether there were any causes common to the cases and how the tradition of loans becoming stuck-up can be prevented in future.

The following Table shows the number of cases studied according to the nature from both the sectors.

There are 25 cases of overdraft from private sector. All of them have been at the end turned out to be cases of bad loans. Though the degree of irregularities are different, the consequences are more or less the same.

Table - 6.1

Distribution of Sample Cases According to Nature

Nature of Cases	Public	Private	Total
Overdraft	19	25	44
Cash Credit (Hypothecation & Pledge)	-	29	29
Loan	2	8	10
Letter of Guarantee	-	5	5
TOTAL	**21**	**67**	**88**

(-) indicates nil

From the private sector 29 cases have been examined relating to cash credit. The study was made on the basis of the available documents, interviews with the borrowers and the policy view-points of the individual cases.

Eight loan cases from private sector, which were found to be irregular, were considered for analyses in this report. Most of the irregularities related to unauthorised sanction, irregular and inadequate documentation and non-conformity to the observance of credit norms by lender and the borrower.

There were 5 outstanding letter of guarantees in the private sector which were still alive after their expiries at different dates. Except two of them, all the others were issued against 100 per cent margin.

On the other hand, cases drawn from the public sector banks are grouped serially like the private sector banks to enable for easy comparison and study.

Case Studies

This section presents section-wise analysis of the case materials. From the description of the cases put in the Appendix-B, it became apparent that there were valid reasons for the loans being bad and doubtful in most cases.

The type and nature of irregularities are more varied in terms of numbers in the case of loans given by private sector banks compared to the public sector banks. But further analyses show that irregularities of loans given by public sector banks are serious with regard to the percentage of irregularities committed by the banks.

Overdraft: (OD) Private Sector

Case No. 1

The concerned branch manager did not exercise due care and diligence to ensure proper analysis of the customer and to provide for necessary security in the event of default. No mention-worthy transaction took place in the account that may justify in putting such a big amount to a client without ensuring a tangible charge on reasonable assets. The manager either overacted or neglected the interest of the bank or went to the extent of serving his personal interest at the cost of bank.

Case No. 2

This is a stuck-up case. It appears that the manager exercised his judgement on the goodwill of the business on the eve of sanctioning the advance. This resulted in securing the loan against hypothecation of stock-in-trade. The available records revealed that the customer judgement on the part of the manager was erratic. The manager did not ensure adequate security for recovery of the loan on the event of default. While talking to the branch manager it was learnt that he was under influence of bank's Director in accommodating this case. Since the partially secured loans are normally sanctioned on the customers eligibility as judged by the managers, any effort to jingle out of the subsequent complications arising out of a bad decision can not be construed to be the fault of a no-man. The manager has to bear the brunt of the consequences. This case in the ultimate analysis is the result of the branch manager's incompetent decision.

Case No. 3

The customer had been getting the facility for quite a long time without having to providing any reasonable tangible security. It was very alarming to see that the manager went to the extent of allowing the customer an amount of Tk. 37 lacs without any security other than a set of charge document only. This type of privileges to the customer tantamounts to sheer indifference, and ill judgement on the part of the manager not to speak of the possibility of his illegal gratification. It is very fortunate that the amount of outstanding due was a little over Tk. 10 lacs. This could have been much more in the case if the loanee would have wished.

Case No. 4

A case having a partial security, started well and ended with an outstanding overdue of Tk. 2,38,667. The manager's personal interest can not be entirely overlooked for reasons of his not caring for guarding the bank's interest by way of going for tangible collateral security. This type of privileges to the customers breeds attitudes of default since the security in the form of charge document at the end turned out to be mere bundles of paper having no effective legal claim.

Case No. 5

In this case the branch secured its loan by equitable mortgage of land and building valuing about Tk. 32 lacs. The initial sanctioning of the limit appears to have been made guarding the interest of the branch. But the subsequent developments indicate that the customer gradually turned into a wilful defaulter at the strength of a he-man in the bank i.e. the introducer of the account. The above conclusion has been derived for the reason that inspite of the repeated defaults by the customer, the branch allowed him further drawings in contravention of the sound banking principles. The unwarranted influences and support from within the bank may be the main reason for this type of default.

Case No. 6

The branch manager did not bother to take even a partial security against the advance. This is a gross violation of the sound credit norms under the existing credit delivery mechanism. This type of actions on the part of the manager breeds indiscipline and chaos in the credit environment.

Case No. 7

There was no formal sanction for the advance so allowed. Besides, except a set of charge document, no tangible security was kept. The records and other documents available in this case reveal that no proper analysis of the customer and of the business was made prior to giving the advance. It appears that a mere personal contact may have prompted in taking such an un-banking decision. In any case, the indifference and incompetence of the branch manager surface up above everything.

Case No. 8

In this case no formal sanction was obtained before giving the advance. It appears at the outset that the drawal by the customer being very small, no measures for security against the advance was taken. However, the track record of the transactions revealed that the customer did not have an even business with the bank in the form of the drawals and the deposits in the accounts. In spite of this trend, the branch manager failed to see through the subsequent possibilities of default.

Case No. 9

The available records suggest that no effective step was taken by the branch manager to recover the money. Like the earlier cases, no formal sanction was obtained neither any tangible security was held by the branch except a set of charge document to secure the loan against eventual default. Another, specific feature of this case is inspite of a big amount of debit balance in the account the customer was allowed further drawals without liquidating his earlier dues on time. While discussing with the concerned manager it was recorded that the customer upon verbal persuasion informed the branch that due to a business mishap he lost a considerable portion of his investment including the loan taken from the bank and promised to liquidate his liabilities at the earliest without specifying any date. When contacted with the customer it was learnt that the money taken from the bank was diverted to purchase a plot of land in Chittagong. However, the indifference and casual contact of the branch manager and his personal ambition at the cost of the bank may have resulted this bad loan.

Case No. 10

No security was found to have taken against this case. Inspite of a frequent operation in the account, the case ultimately ended up being a bad advance, the causative flaw being absence of any security. The branch manager did not undertake any effective step to recover the loan. The possibility of its recovery, as far as the records are concerned, rests on the will of the customer.

Case No. 11

This advance is also not backed by any security. It is reported that the customer due to a business loss could not liquidate the bank dues on time. The available records suggest that no effective persuasion was done to get the loans back for want of legal documents and security against this advance. The manager by not obtaining any security has not only violated the credit norm but also showed extreme influence to financial discipline by not analysing the customer before risking advance without any security back-up. This is indicative of his incompetence as a manager of a financial concern.

Case No. 12

Not tangible security except a set of charge document was held from the customer. From the transaction records, it appears that the borrower was allowed frequent drawals inspite of not adequately repaying his earlier dues fully and in time. The track record of the account operation reveals that the concerned officials of the bank did not exercise minimum post-sanction supervisory role consequent upon which the advance turned bad. A minimum of monitoring on the customer could have signalled the possible setbacks.

Case No. 13

The advance was duly sanctioned by the Head Office against security in the form of government treasury bond. Though the transaction was moderate, the branch allowed overdrawings which togetherwith the accrued interest swelled the outstanding amount beyond the amount of original security. From the records it was evident that the borrower was not sincere in repaying instalment when fell due. Branch failed to read this attitude of the borrower. Moreover, when the borrower saw that his outstanding amount exceeded the amount of security he has provided for, he took the policy of evading the repayment. This is a clear case of wilful loan default.

Case No. 14

In this case no sanction and security drawals have been obtained. Though the account is highly operative one, there is possibility of the loan being stuck-up unless and until adequate security is obtained. Moreover, in absence of the formal sanction the recourse to legal action in the event of default will not be possible.

Case No. 14A

The advance was not duly sanctioned by the appropriate authority. Moreover, the security of the loan has not been properly processed so as to valuate the property for determination of the maximum allowable drawals to the customer. Upon examination of the available documents, it is understood that the customer intentionally abstained from perfecting the documents against the security. The initiative of the manager in this regard was clearly lagging. The biasness of the manager towards the party is reflected in allowing the party substantial overdrawings which at one time amounted to Tk. 27 lacs. The only recourse left is to file a suit in the court with the available documents in order to get the money realised. From the documentary evidences, it is obvious that the amount if realised after lengthy and strenuous legal proceedings will not equal to the amount of outstanding due from the customer.

Case No. 15

The security against the advance fails to cover the outstanding due from the customer which is nearly double. The customer was allowed disproportionate privileges in comparison to the deposits in the account and the volume of business for the branch. It is reported that the customer is intentionally avoiding liquidating the dues which have far exceeded his security. The persuasion in this regard by the branch manager is perceptibly absent. Even after a lapse of considerable time no legal action has been initiated by the branch.

Case No. 16

The account was introduced by a close acquaintant of the then Managing Director of the Bank. The account, as appears from the track record of the transactions, was very brisk at the initial stage and then gradually slowed down. The trend of the account's transaction was indicative of a subsequent mishap for the branch against the backdrop of absence of formal sanction and tangible security except a set of charge document. The manager conceivably failed to apprehend the imminent omen. However, the influence of the party in the management tier of the bank discouraged the manager to guard against possible default. This does not absolve the manager's responsibility for the subsequent loan default by the customer since the manager could have at least served a legal notice to the client and also take persuasive step for the loan recovery.

Case No. 17

This is a unique case of influence, personal relationship with the high-ups in the bank and also gross violation of the sound credit principles. It has been learnt from the concerned manager that the loanee was a close friend of the Managing Director who took the advantage of this relationship for availing OD facilities without having to give any security against the advance. Moreover, the manager dare not press for such things in consideration of the clients association with his superiors.

Case No. 18

This is a secured case with sufficient back up of the advance in the form of Fixed Deposit Receipt (FDR). However, due to lack of proper attention and care a wrong Demand Promissory (DP) note was obtained from the client which is a very silly mistake on the part of a credit handling officer. In the event of the parties lack of transaction with a bank, the bank could have taken recourse to the FDR for its loan recovery without lingering the case for uncertain period.

Case No. 19

It is apparent from the records, form of indirect bribery to a government official for securing deposits/funds. Moreover, the loanee had not to furnish any security against the advance. The advance was, so far the evidence speaks, allowed with the ulterior motive to get deposits from the party without caring for the recovery of the loan in question.

Case No. 20

The client was allowed the advance before the completion of all the legal documents in gross violation of the existing procedures in this regard. It is clear that the manager acted on his own discretion rather than following the normal practice.

The concerned manager did not take any effective steps either to recover the amount or to regularise the case by completing all the necessary documentations to secure the advance.

Case No. 21

The few related documents which were obtained were found to be legally defective having no value for recourse to the loan. The manager acted on his personal discretion and have been lethargic for not taking any appropriate and effective steps either to recover the loan or to regularise the documents.

Case No. 22

The concerned branch manager was not sincere in evaluating the clients character, capital and capacity as was subsequently revealed to have been linked with cash defalcation incidents. Besides, the concerned credit officer overacted by way of sanctioning the advance beyond his delegated financial power. Moreover, the client was accommodated clean over drafts before sanction of the limit in violation of the Bangladesh Bank's instruction. The authority even extended its favour to allow the client overdrawings beyond the limit on several occasions. All these conclusively speak of the authority's personal business towards the party.

Case No. 23

The case is a gross violation of the Bangladesh Bank's instruction and also the normal credit practice. The interest of the bank was not considered before allowing the advance. The charge forms which were obtained from the party were incomplete, thus reflecting the manager's indifference towards exercising minimum caution required to document papers pertaining to the loan.

Case No. 24

The documentation against this advance was incomplete and defective. In violation of the normal credit procedure the client was allowed OD limit against hypothecation of stock. The concerned manager was heartily indifferent to secure the interest of the bank and also defied the Central Bank's guideline in allowing the advance.

Case No. 25

This is a case of outrageous violation of Central Bank's instruction, misuse of financial power, defiance of clear instruction of the bank's head office and utter negligence to the responsibilities entrusted upon the branch manager. The available records and evidences speaks of the manager's personal interest in allowing the advance in question.

Cash Credit (CC): Private Sector

Case No. 1

The papers related to the sanctioning of the credit was not adequate. Besides, the compliance to the Head Office circular was not taken into consideration. The branch manager was not serious in obtaining necessary documents to ensure safeguards of the bank's interest in the event of a default. The concerned manager did not undertake any serious steps to recover the outstanding dues from the customer.

Case No. 2

This is a case of irregularities in papers and documents while sanctioning the credit. Besides, the transaction was not operated as per the terms of sanction of the limit. Inspite of the long overdue of the amount, the lack of initiative to recover the dues on the part of the manager is clearly perceptive. From the records, it is conclusive that the manager did not on any occasion took the steps to regularise the documents. The case if pursued to the court may have very little legal back-up.

Case No. 3

This case has a very strong security back-up the form of FDR (Fixed Deposit Receipt), while sanctioning the credit, the documentations were not complied with as per normal practice. Even the account also did not operate as per terms of the sanction. The lack of initiative on the part of the branch manager either to regularise the documents or to pursue the customer to liquidate the liability or to take recourse to the deposited FDRs are lacking.

Case No. 4

Adequate documentation is lacking in this case. The operation of the account was also not as per terms of the sanction. Inspite of the expiry of the case, the branch manager did not take steps either to recover the dues, or to regularise the case with necessary papers to ensure covering the risk of the defaults.

Case No. 5

This is also a case of faulty and inadequate documentation. The study of the case revealed that the customer received sufficient patronage from the branch for his business. Inspite of quite a good time gap, the manager failed to regularise the irregularities and take steps to recover the dues.

Case No. 6

This is another case of irregular and faulty documentation. The available security fails to cover the risk of the default equivalent to sanctioned limit. The indifference of the manager resulted in such laxity in sanctioning the advance without adequate cover of the credit and also failure to take effective steps for recovery of the dues.

Case No. 7

While sanctioning the credit, required formalities were not observed resulting to which defective and irregular documentation leading to legal vulnerability of the advance in case of defaults.

Case No. 8

The concerned manager went out of the way to allow privilege without the required head office approval and also in defiance of his personal financial authority. On the examination of the available documents it was clearly evident that such a big amount of C.C. without a security cover was a result of the amalgamation of the manager's personal interest with that of the customers.

Case No. 9

This is also a case of default which resulted out of inadequate and irregular documentation. Despite the lapse of a considerable time since the initiation of the case, no effective persuasions were undertaken by the manager either to regularise the case or to recover the dues.

Case No. 10

The advance was sanctioned with insufficient and defective documentation. The limit was enhanced by the branch not commensurate with the customer's financial behaviour who did never adjust the liability in full on any occasion. The security in the form of stock and mortgage besides being defective were not sufficient to secure the advance in the event of default. The branch manager did not take any effective steps to regularise the document and also to recover the outstanding dues. When contacted with the customer, it was reported that the business depression incapacitated him to liquidate his liabilities.

Case No. 11

The existing documents against the advance do not cover the full risk of the limit. Some of the important documents like valuation certificate and municipal certificates were not found in the record. The manager did not take initiative to recover the dues.

Case No. 12

This is an operative account with very moderate turnover. Though the advance was secured against hypothecation of C.I. (Corrugated Iron) Sheet duly insured it was found upon inspection of the shop that the customer did not have any stock of C.I. Sheet in his depot. So, it was a misrepresentation of fact. Thus, the manager either neglected to physically verify the stock-in-trade or was biased towards the party for which that could not be unearthed.

Case No. 13

This is an inoperative account. The customer was reported to be one of the earlier account holders who took the advantage of the circumstances associated with opening of a branch in a new place by helping to get some depositors for the branch. In an effort to mobilise quicker deposits for the branch, the manager overlooked the customer's credit-worthiness which ultimately resulted a bad loan. It was reported that the manager failed to recover the money for non-traceability of the borrower.

Case No. 14

It is learnt from the manager that for reasons of retaining a big customer, the branch allowed facilities of advance in mild contravention of the credit practice. This is evident by way of absence of non-insurance of the hypothecated stock as per the terms of the sanction letter.

Case No. 15

The manager allowed overdrawings against the sanctioned limit in anticipation of adjustment within a very short but unspecified time exposing the advance to uncertainty.

Case No. 16

Inspite of full coverage of the advance by way of security, the account was not found regular to the extent of non-renewal of the limit on the date of inspections. However, the manager is aware of the present stage of the account and is confident that the outstanding will be liquidated without any complication. The transaction of the account is supportive to the manager's conviction.

Case No. 17

The party, as per the circumstantial analysis had a good connection with the top brasses of the government. This finding was supported verbally by the branch manager. The security against the advance is also insufficient.

Case No. 18

This advance was not formally sanctioned by the competent authority which is a gross violation of the existing credit norm. However, on query it was learnt from the branch manager that the party is a reliable one and the dues were expected to be adjusted shortly.

Case No. 19

This was a highly vulnerable advance since no effective security was held by the branch except a set of charge document. The manager reported that the borrower was a locally influential person and had very good links with the high-ups in the local administration. On further enquiry, it was also learnt that the loanee had taken advantage of political connection to defy any approaches for recovery. The only recourse left was to proceed with the court.

Case No. 20

The sanction of this advance conforms to the existing credit principle. However, the operation of the account was very poor and the adjustments of the advances at different times were not liquidated on a single occasion implying either the indifference of the borrower or the depression of the clients business. However, on investigation it came to light that the account's poor turnover went hand in hand to the indifference of the manager to the extent of poor monitoring of the case.

Case No. 21

This is an example of the privileges that the Directors of the private banks enjoy on very soft and lenient terms. In this particular case a C.C. limit of Tk. 49.76 lacs was allowed against hypothecation of machineries adjustable from the proceeds of export bills. This had no further security. In the event of possible defaults there shall remain very little recourse to recovery.

Case No. 22

This advance inspite of being secured by equitable mortgages of land and building became stuck-up. On searching the records, it was evident that the symptoms like poor operation of the accounts, non-adjustment of the drawings and non-traceability of the customer for a considerable period were not duly taken into notice by the manager. However, the branch manager at long last got on the feet and took a written promise from the customer towards liquidation of the liability at the soonest.

Case No. 23

The analysis of the case reveals that the borrower was a wilful defaulter and enjoying as many as 2 facilities from branches of the same bank. The operation of the account inspite of being substandard one the borrower was allowed advance

Case No. 24

The analysis of the case is reflective of the poor borrower appraisal by the branch manager. The borrower drew the entire sanctioned amount at one lump and showed a clean pair of heels. The available evidences point out that until effective and vigorous persuasion is undertaken the chance of ultimate default cannot be overruled.

Case No. 25

The advance was sanctioned on a very soft term i.e. against hypothecation of imported merchandise at 60 percent margin. Normally, this type of privileges are allowed to the regular and well reputed parties. The borrower appraisal was very poor which ultimately resulted in a poor show up. The present condition of the account does not promise easy recovery by the bank. The branch manager does not seem to recognize this state of the account in question which is unbecoming of a loan giving officer.

Case No. 26

Although the amount of advance was small the documentation was inadequate. On the event of subsequent non-operativeness of the account and also non-liquidation of the outstanding, the branch did not pursue the case to the desired end.

Case No. 27

The documentation as per the credit norms were not completed which made the advance highly fragile on the event of subsequent default. Inspite of very irregular and subnormal operations of the account with symptoms of being stuck-up, efforts on the part of manager to perfect the documents were clearly lagging. The possibility of the advance to be a bad loan runs very high.

Case No. 28

This case is more or less similar like the earlier one i.e. the documentations are inadequate, improper and persuasion for both regularising the documents and recovery of the outstanding is highly unsatisfactory. The circumstances and the documents which were considered for allowing the advance left behind practically no recourse for the bank to recover the money.

Case No. 29

Like most of the cases, the advance was allowed with inadequate documents vis-a-vis security. The persuasion, after the loan became overdue, were also highly unsatisfactory. The analysis of the case shows that the bank may have to write-off the amount from the books of the accounts.

Loan: Private Sector

Case No. 1

The loan was sanctioned without due financial approval from the higher authority. The inadequate documentation fails to cover the risk in the event of default. The bank will have little recourse in case of an eventuality in the form of wilful default by the customer or for any other problems leading to the loan stuck-up. The possibility of the loan recovery runs very low. The available records suggest that no effort to liquidate the liabilities were undertaken by the branch.

Case No. 2

In this case also, the required formalities needed to be observed before sanctioning the loan were not completed. Besides, the loan is not secured by perfect legal documents. Whatever documents were procured by the bank do not cover the risk of the loan money even though the amount is comparatively small. The available documents clearly indicate that the efforts of the bank for loan recovery would be of little use both financially and materially.

Case No. 3

Inspite of adequate cover at the time of initiation of the loan, the violation of overdrawings thereafter grossly undermine the strength of the advance to the extent of overdrawn amount. There was, of course, neglect of the Central Bank's instruction while allowing the loan against Fixed Deposit Receipt. This flaw did not undermine the security but nevertheless had broken the financial discipline. On going deeper into the case it could be deduced that the customer may not turn up any more to square of his liability. Further, the concerned branch also did not pursue loan recovery.

Case No. 4

This particular sanction is practically without any security since the concerned branch allowed the loan against Fixed Deposit Receipt which had not been discharged by owner. This tantamounts to taking laws into one's hand without having the power to tackle in the event of any mishap. This type of misuse of position by responsible executives dismantles the entire financial and banking discipline in favour of the few unscrupulous and greedy officials and businessmen. On further probe into this case, it was found that the concerned branch did not bother to pursue the loanee for either regularising the documents or to liquidate the loan.

Case No. 5

This is also a case of irregular sanction of the loan. This type of banking practice is in contravention to the established credit norms and may lead to further encroachment of the legal limit by the loan officer thereby creating bad instance for others to follow.

Case No. 6

This is a case of loan diversion and misuse of fund. Though the loan was duly sanctioned against adequate security for the construction of a house, the recipient, upon spot investigation was learnt to have diverted the money towards family consumption and other business priorities. Though, a little pucca structure was erected at the stated spot the non-use of the fund for construction of the house and also lack of supervision and monitoring on the part of the bank officials resulted in this unsavoury end. The concerned branch did not bother either to pursue for regular repayment or to take necessary steps to liquidate the outstanding by way of taking recourse to mortgaged property.

Case No. 7

This case has no legal recourse to fall back on for want of incompleteness of the mortgage deed by way of absence of the borrower's signature. This type of serious flaw in the loan security documents puts into doubt the ability of the sanctioning officer to handle the loan cases. The branch did not correct this deficiency of documentation after even a long time since the sanction of the loan. The concerned branch, inspite, of non-receipt of the instalments as per terms did not initiate any persuasive or legal actions either to regularise the loan or to recover the same.

Case No. 8

This case does not have any recourse except a set of lease agreement and other papers related to the property which were stated to be mortgaged to the bank. The official persuasion of the case and the recognition of the inherent deficiency of the documentations are not found to be on records at the branch indicating a gross indifference of the loan sanctioning activity.

Letter of Guarantee (LG): Private Sector

Case No. 1

In this case the guarantee was issued without obtaining any security from the party. This was a risk on the part of the branch to allow such facility at the cost of the branch. However, within the validity period of the guarantee no claim was found to have been lodged with the branch. The branch manager as on the date of probing into the matter did not reverse the liability so as to clean the state in favour of the bank.

Case No. 2

Upon analysis of the case, it was found that the party in whose favour the L.G. was issued, failed to do the required job for which a claim against the guarantee was lodged with the bank. Since, the bank had partial recourse to the claim, it could partly oblige the claimant to the extent of approximately 50 per cent of the total guaranteed amount by debiting the parties account after receiving due cooperation from the party. The branch, thereafter, did not initiate to encash the partial margin of the party to further free the bank from the part of the remaining portion of the liability. However, the mishap occurred due to the non-conformation to the principles of issuance of letter of guarantees.

Case No. 3-5

These 3 cases are identical in nature against which letter of guarantees were issued by keeping 100 per cent margin in the form of cash for two of them and in the form of Fixed Deposit Receipt for the other one. However, inspite of the expiry of the guarantee periods for each of them, the branch did not reverse the entries to offset the liabilities.

Loan: Public Sector

Case No. 1

The sanction of the loan was duly approved by the competent authority. The recipient of the loan being the wife of one of the senior officials of the same bank took the advantage of default without being pursued by the relevant authority. The matter was further worsened due to the shifting of the job of the loanee's husband to some other institution. This particular incident actually brought to light this dormant liability which was casually neglected by the bank officials for a long time. The attitude of favouritism shines up above everything demonstrating a bleak and gloomy aspect in a public-owned bank where it appears, as this small case cites, that public properties are everybody's properties where responsibility are difficult to be traced on a specific individual.

Case No. 2

The borrowers were allowed the loans with due approval of the competent authority. The reasons for stuck-up of the secured loans were due to migration of the loanees to Pakistan during the liberation war. The situation under which the loan turned to be bad is historically justifiable and there remain no reason as to why the appropriate authority delayed so long to write off the loans as per the normal practice.

Overdraft (OD): Public Sector

Case No. 1

This is a very old case i.e. having its initiation prior to the liberation of the country. As per the normal banking practice, this should have been written off long before because of its recipient being a non-local (Bihari) who left the country for Pakistan during liberation war.

Case No. 2

The sanction of this limit was done without observing the required formalities by the manager, thereby, putting at risk the interest of the bank. The manager further allowed overdrawings without regularising the earlier irregularities. The management appeared to take a lenient view of the case and hence no remedial measures were found to have been taken. Inspite of a considerable lapse of time, the matter was hung indefinitely reflecting indifference by the branch in liquidating the overdues.

Case No. 3

The loan was duly sanctioned against proper securities. The transaction in the account were not marked by any serious irregularities to apprehend any possible set back. The concerned manager under whose authority the OD was sanctioned impiously released the property documents from the custody of the bank in favour of the customer which left the bank without any recourse to recover the liability. The manager, thereafter, resigned from the service and was reported to have joined a private sector bank by obtaining due release from the authority who without taking into account the manager's superious antecedents released him.

Case No. 4

Although the cases (3 in total) were duly sanctioned, the loanees showed utter indifference to repay the monies taking advantage of the bank officials' lack of supervision and monitoring embedded in the trauma of inaction and indifference of the concerned officials.

Case No. 5

The facility was allowed to the customer in contravention to the existing convention. The records show that the manager wilfully gave this privilege without securing the interest of the bank. Consequent upon the advance given without collateral the loan got stuck-up without having any recourse to the bank for recovery. The inaction on the part of the manager in a case like this speaks of credit mismanagement.

Case No. 6–10

The nature of irregularities in these 5 cases are similar. All of the advances were unauthorisedly allowed without having the approval of the competent authority and also without keeping any security thereby exposing the bank to financial risk. As a consequence all the ODs were ultimately stuck-up without giving the bank any recourse for recovery. The concerned managers who could see very clearly, as per the records of the transaction and fates of the advances, perceptibly took no action to either regularise the advance nor recover the same.

Case No. 11–13

The approval for the advances against all these 3 cases were given by the competent authority. However, the documentations were not complete in any one of the cases. The limit against all of them expired long since. However, with a good possibility of recovery the concerned manager showed indifference to initiatives leading to regularising the incompleteness and also to recover the overdues.

Case No. 14–16

In case No. 14 and 15 the advances were secured by FDRs. However, subsequently the customers in connivance with the concerned managers managed to release their FDRs vis-a-vis the security against the advances without liquidating the outstanding liabilities in their accounts. These type of actions are wanton and unscrupulous violation of the credit discipline and warrants exemplary penalty to the responsible officers. The case No. 16 is not a very difficult advance. There were minor violation in the form of non-retention of margin against the FDR. In this case, due to lack of pursuasion, the advance became overdue and the liability got increased due to the charging of interest thereon.

Case No. 17

This is an outright advance given without conforming to the required credit norms, thereby, exposing the bank to the risk of financial loss.

Case No. 18

As per the records available in the branch, as many as, 6 advances were allowed without stamping and understamping the documents which makes the advances vulnerable to risk of default. The concerned managers were not alert in documentation which is a gross negligence to the fiduciary responsibility in this type of credit operation. Inspite of long overdues the branches, as per the record, did not take any effective measure either to regularise the documents or to recover the dues. In the final analysis it may be concluded that for reasons of the above shortcomings in the documentation, indifference to the assigned responsibilities, chances to recover the outstanding advances are remote.

Case No. 19

For lack of persuasion and monitoring by the branch manager, the advance constantly remained outstanding over time, blocking the bank's money without showing any prospect of being recovered. The interest, as per the normal procedure, were added on to the initial advance, thereby, inflating the outstanding figure to an extent not coverable by the FDR given as the security coverage. This type of interest by the bank creates a big portion of income which over the time remains in the books of accounts in the form of interest recoverable before being written-off.

Analysis of the Comparable Irregularities

A comparative position of comparable irregularities with regard to cases of similar nature is furnished in Table 6.2.

It would be apparent from the table that the public sector banks are indifferent to supervising and monitoring of their loan. This particular irregularity is found to the extent of 32 per cent in case of the private sector banks. It apparently proves that inspite of the number of irregularities found to be very high in the private sector banks, the officials of the private sector banks are more dedicated and dutiful to their entrusted responsibilities. The reasons for this type of attitudes may be found to be rooted in mainly two important reasons. There are, better compensation package in the private

Table - 6.2

Analyses of the Comparable Irregularities of Public and Private Sector Banks

Types of Irregularities	Percentage	
	Public Sector	Private Sector
There was no formal sanction	32	20
Inadequate documentation	63	36
Lack of supervision, monitoring and recovery drive	100	32
Misuse of power	11	40

sector banks and lower job security compared to public sector banks. In the public sector banks, service conditions have become almost like government service. The other reasons are basically offshoots of these two basic reasons. Lower job security implies loss of job in case of serious irregularities, misconduct and violations of rules and regulations as well as failure to discharge managerial responsibility entrusted. The story of job insecurity in the case of private banks has been overstated to justify higher remuneration by which they were allured from the public sector banks. As a matter of fact, service condition in both public and private sector bank has become such in which one in reality feels job ownership. The other comparable indices also show the efficiency performance of the responsibilities by the private sector banks compared to their public sector counterparts. For example in sanctioning of loan requirements, the private sector banks' percentage of total irregularities is 20 per cent as against about 32 per cent in public sector banks. Similarly, irregular documentation is found to be as high as 63 per cent in public sector banks as against only 36 per cent in the private sector. These two important irregularities are mostly associated with lack of accountability to the assigned jobs. One of the distinctive indices in this analysis is that with regard to the misuse and over-use of power by the banks' officials, the private sector banks have the index as high as 40 per cent against only about 11 per cent in the public sector banks. This practice of misusing and over-using delegated loan sanctioning limit by the managers of private banks is an indication that the managers are anxious to oblige their clients. One can take it as inefficiency or lack of effective supervision over the activities of branch managers.

The private banks are new and is not yet ripe to conclude as to whether the loans were given for genuine purposes and for promoting the interest of the bank.

This kind of misuse or over-use of delegated power is not that much prominent in the case of public sector banks due to bureaucratic and procedural methods that interlinks different level of officers and staffs for sanctioning a loan or an advance. Managers of public sector banks are more afraid of the internal auditors. Internal audit system exists in the case of private banks also. But here one who can enter into the job through strong backing can overcome the violation of delegated authority through the strength of the backing. Irregularities relating to secured loan are present both in the public and private sector banks. The position is almost same in case of cash credit, pure loans, letter of guarantees etc. From the average amount involved in each case of public and private sector bank, one can conclude that irregularities in the case of public sector banks are not likely to cause any serious problem for the banks but the amount in the case of private banks is so large that the irregularities are likely to cause havoc to the concerned bank. Therefore, one should be cautious in praising the performance of private banks. This is particularly so because irregularities of private banks described above in many cases relate to loans granted to sponsor Directors who are vocal.

There are cases, as revealed in the inspection report of Bangladesh Bank where one Director has obtained loans by over-exercising his ownership position even without the knowledge of his colleague in the Board. Such loans are not permitted under the banking law of the land. The survey has confirmed the inspection report of Bangladesh Bank Audit and Inspection Department that bank managers are unwilling to file certificate case even when loan remained overdue for 3 years or more.

Irregularities should be subject to proper disciplining; but nature of the discipline deserves careful consideration. If the irregularity is unintentional or due to lack of knowledge, it may be condoned with a warning to see that they do not happen in future but if the irregularity is intentional and committed for personal gain, it should not be condoned because condonation of a small irregularity may encourage commitment of bigger irregularity. As such, the private sector banks should pay more attention to supervision and monitoring of loan administration and professionally qualified managers and executives should be posted in key positions so that sponsor Directors cannot over-exercise their ownership right to get loan in violation of the prescribed rules and regulations. If irregularities of private banks continue to multiply and if the irregularities hamper the banks' liquidity position, government may be under social pressure to revise its privatisation policy in the banking sector.

The very presence of one stuck-up loan exceeding Tk. 1.00 crore should act as a kind of warning to the policy makers in the Ministry of Finance and in the Central Bank of the country.

CHAPTER – VII

SUMMARY AND CONCLUSIONS

7.1 Introduction

Bangladesh is a developing country with a per capita income of about US $ 180 only. It is also a country where due to extremely difficult short-term and long-term development problems, improvements in either the level or distribution of income is very difficult to achieve. The government is committed to rapid development of the economy covering all the sectors such as industry, trade, agriculture, fishery etc. It is in this regard that the institutional credit facilities assumed a grater and growing importance. The government has, in recent times adopted a new economic policy in which private enterprise has been emphasised. Private entrepreneurs are being assisted in a number of ways including provision of long term and short-term capital as loan through commercial banks and other financial institutions. Public sector has also been continuing to operate side by side private sector in the country's economic arena.

This study has focused on a very small area viz., "Credit management in commercial banks: A comparative study of public and private sectors in Bangladesh". The main objective of the study was to see that which sector banks are doing better with regard to management of credit. Due to inadequate time, resource and organisational constraint, all the public and private sector commercial banks could not be taken as samples. A list of public sector and private sector commercial banks was made out and 2 from each sector have been selected for investigation.

7.2 Summary of the Findings

The summary of the major findings of the study, as it follows from the analyses of the relevant data in previous chapters, are, incorporated below:

1. The target of credit set by the Central Bank in 1977-78 to be disbursed by the nationalised commercial banks (NCBs) was increased to 2 per cent of the total demand and time liabilities and remained so for the next three

years. A reduction of 1 per cent was effected on 31st December, 1984. Such a reduction has been against the norms of fund for socio-economic benefits. A similar target of 1 per cent was however set for the private sector banks on 30th December, 1983 for sanctions of loan to small scale industries.

2. The state has occasionally forced banks to extend credit facilities to meet unexpected situations in sugar mills, food and fertilizer, petroleum and jute goods. Provision of refinance and ceiling adjustments has become a long run policy of the Central Bank to maintain forced lending. Refinance policy is a highly erratic inducement. Instead, the commercial banks of both public and private sectors should be induced to build up their own resources in order to meet these sort of situations.

3. Imposition of penal interest in agriculture has been found to be erratic and that is again with different rules in different banks. Sonali bank charges the full penalty while Bangladesh Krishi Bank (BKB) limits itself to a maximum penalty rate of 2.5 per cent and Pubali to 1 per cent. Banks often charge penalty rates only to the public sector borrowers and seldom to the private sector. The rationale is that public sector borrowers are more deficient in repayment performance than the corresponding private sector borrowers.

4. The commercial courts set up by the government is found to prove ineffective. Judges remain pre-occupied with their normal duties and responsibilities. Handling of overdue loans is an added responsibility to them. Moreover, manipulation and persuasion of concerned borrowers for delaying the settlement of the case aggravated the loan recovery situation.

5. The Banking Companies Ordinance, 1991 has been found to be silent to lay down the provisions about recovery of credit. The ordinance has no provision to deal with the deliberate defaulters. The ordinance has been lagging to enact provisions for identifying borrowers enjoying finance

simultaneously from different banks with relatively poor transactions. There is no provision in the ordinance to oblige Bangladesh Bank, being the Central Bank of the country to monitor sick industries and make them commercially viable.

6. Credit facilities are extended by the NCBs for the allocation and dispersal of fund to the priority sectors and retarded areas as identified by the government. NCBs provide finance to various projects directed towards income generation. Private banks demonstrate a very shy performance of financing in the priority areas including agriculture. Being prompted by the profit motive their activities are more or less centering round short-term business. The proportion of fund employed by the private banks for financing export is found to be discouraging.

7. Recovery rate is found to be unsatisfactory in the public sector banks compared to that of their private sector counterparts. This has been revealed from the case studies as well as supported by the data published by the Ministry of Finance.

8. Credit programming was found to be done in public sector commercial banks. They prepare their Annual Credit Plan keeping in line with the policy of the Central Bank as to the amount of credit that will be granted to the sectors and sub-sectors of the economy. Private sector banks are reluctant to prepare any written credit plan. They prefer to rely on some notional figures based on intuition although occasionally, they prepare written credit plan.

9. Quick decision-making in the matter of disposal of applications for loan is the essence of credit management. This essence has been found to be realized more effectively in the private banks compared to nationalised banks, the average number of days taken to dispose of a loan petition being 9 days in the private banks and 35 days in the nationalised banks.

10. The reasons for taking more time in disposing a loan case by a public sector banks are insistence on formalities, go-slow policy, lack of sense of urgency and security of job. Private banks, on the other hand, entertain customer complaints seriously and take immediate steps in order to redress the problem of the customers.

11. Borrower characteristics is given more importance than project characteristics in private sector banks. Private banks are found to have the tendency to avoid the careful assessment of the credit-worthiness of the loan-seeking clients just on the plea of providing quick service.

12. Public sector banks are found to be indifferent in supervising and monitoring of their loan. Inspite of serious irregularities revealed from the case studies, private sector banks are more dedicated and dutiful to their entrusted responsibilities. The reasons may be attributed to better compensation package in the private sector banks and lower job security compared to public sector banks. Service conditions in public sector banks have become almost like government service.

13. Irregularities are found to be high in public sector banks in sanctioning of loan and completion of the documentation formalities. These two major irregularities are mainly associated with lack of accountability to the assigned jobs.

14. Manager of the private sector banks are found to misuse delegated loan sanctioning authority which is an indication that they are anxious to oblige their clients. This kind of misuse of delegated power is not that much prominent in the case of public sector banks due to bureaucratic and procedural methods that interlink different levels of officers and staffs for sanctioning an advance.

Conclusions

From the study, it is evident that commercial banks in the private sector are doing better in some areas of credit management like - (i) quick decision-making in the matter of disposal of loan applications, (ii) rendering prompt services to the clients, (iii) more or less correct determination of the borrowers' credit needs and (iv) supervision and monitoring of loans granted than the banks belonging to the public sector. Again, commercial banks in the public sector are doing better in certain areas of credit management like - (i) credit planning, (ii) assessment of credit-worthiness of loan-seeking clients of the entrepreneurs, (iii) compliance of Central Banks' guideline and (iv) extension of credit to the priority sectors including agriculture.

The overall conclusion drawn from this study is that banks belonging to any of the particular sector are not exclusively doing better than the other. However, considering the overall performances of both the sectors, the study indicated that the public sector is still doing better comparatively.

7.3 Policy Implications

There should be a target of credit set by the Central Bank to be disbursed equally by NCBs and private banks. Such target should be a certain percentage of their total demand and time liabilities and should remain more or less constant over the years. In order to make dispersal of fund for socio-economic benefits and balanced development of the economy the targeted amount of credit should be directed towards preferred sectors of the economy.

Refinance facility provided by the Central Bank to the commercial banks in order to meet forced lending should be totally discouraged. The commercial banks of both public and private sectors should be directed to build up their own resources.

Rate of interest in the agricultural sector should be uniform in all banks belonging to both public and private sectors. Penal interest should not be imposed in agriculture. Whatever penal interests have so far been calculated and imposed, should be waived in view of the country's present economic condition in the wake of frequent natural disasters. With a view to work out a realistic repayment schedule, borrowers of agricultural sector may be granted new loans with the directives to adjust old loans.

There should be more commercial courts in the country for quick disposal of overdue and stuck-up loan cases of both public and private sector commercial banks. Existing commercial courts should be more prompt and dynamic in disposing of the loan cases both public and private sector banks, awaiting settlement.

There should be some clear-cut pronouncement about the recovery in the Banking Companies Ordinance, 1991. The Ordinance should set a ceiling on the availing of credit facilities by sponsor Directors of private banks. The Ordinance should further specify a certain percentage of the total lendable resources of the public and private commercial banks for granting small loans with a view to develop small entrepreneurship.

The government has identified a few activities to be developed on a priority basis and public sector banks are required to accommodate loan applications of those priority sectors at concessional rate of interest. In line with the policy of the government and the suggestion of the World Bank, private banks should extend credit facilities to agriculture as well as to other priority areas like small and cottage industries, export of non-traditional items.

Since, managers and credit dealing officers in public sector banks after disbursement of the loan, loose track of the customers, they should be made obligated in legal and operational framework so as to ensure safety of the credit extended. They should be induced to build a post-sanction rapport with the borrowers which is more or less done by the private banks.

Banks of both the sectors should have their written Annual Credit Plan like annual budgetary declarations. This policy should have immediately been adopted by the private banks since they do not prepare any written credit plan.

Disposal of loan cases should be quick in public sector banks. Redundancy in observing formalities should be reduced. Public sector banks should shun the attitude of go-slow policy. Like that of their private sector counterparts they should extend helping attitude to the loan-seeking clients in order to help them getting loan in time and use the same properly.

Private sector banks should attach more importance on the project characteristics than the borrower characteristics. They should be more cautious and careful in identifying potential entrepreneurs. In the private sector banks assessment of credit-worthiness of loan-seeking clients should be given due importance.

Public sector banks should strengthen monitoring and supervision of loans granted. The possibility of linking up promotion prospect and incentive bonus with recovery of loans may be examined in case of public sector banks.

Bangladesh Bank should make frequent audit and inspection in the private banks and insist upon compliance of the audit report so as to prevent misuse of power by the manager and concerned officers of private banks.

A Central Credit Information Bureau should be set up in the Central Bank in order to facilitate flow of information regarding credit and maintaining computerised profile of borrowers of each bank belonging to both public and private sectors.

APPENDIX - A

STATISTICAL TABLES

Table - A.1

Distribution of Sample Executives and Officers of Different Levels of Administration

Sector	Banks	Top Level	Middle Level	Junior Level	Total
Public	X Bank	3 (34)	4 (44)	2 (22)	9 (100)
	Y Bank	3 (34)	4 (44)	2 (22)	9 (100)
	Central Bank	4 (100)	-	-	4 (100)
Private	A Bank	3 (34)	4 (44)	2 (22)	9 (100)
	B Bank	3 (34)	4 (44)	2 (22)	9 (100)
TOTAL		**16** **(40)**	**16** **(40)**	**8** **(20)**	**40** **(100)**

Note: Figures in the parenthesis indicate percentage
(-) indicate nil.

Table - A.2

Experience of the Sample Bankers in Banking Including Credit

Experience (in years)	Public Sector	Private Sector	Total
3 - 5 Years	4 (18)	4 (22)	8 (20)
5 - 10 Years	6 (27)	6 (33)	12 (30)
10 & above	12 (55)	8 (45)	20 (50)
TOTAL	**22** **(100)**	**18** **(100)**	**40** **(100)**

Note: Figures in the parenthesis indicate percentage.
Lower limit excluded.

Table - A.3

Sample Borrowers According to Their Business Experience

Business Experience (in years)	Public Sector	Private Sector	Total
3 - 5 years	6 (20)	5 (17)	11 (18)
5 - 10 years	15 (50)	15 (50)	30 (50)
10 & above	9 (30)	10 (33)	19 (32)
TOTAL	**30** **(100)**	**30** **(100)**	**60** **(100)**

Note: Figures in the Parenthesis indicate percentage.
Lower limit excluded.

Table - A.4

Sample Borrowers According to the Forms of Business

Forms of Business	Public Sector	Private Sector	Total
Sole Tradership	9 (30)	9 (30)	18 (30)
Partnership	6 (20)	6 (20)	12 (20)
Company	12 (40)	12 (40)	24 (40)
Corporation	3 (10)	3 (10)	6 (10)
TOTAL	**30 (100)**	**30 (100)**	**60 (100)**

Note: Figures in the parenthesis indicate percentage.

Table - A.5

Sample Borrowers According to the Nature of Business

Nature of Business	Public Sector	Private Sector	Total
General Trader	9 (30)	9 (30)	18 (30)
Manufacturer	6 (20)	6 (20)	12 (20)
Importer	9 (30)	9 (30)	18 (30)
Exporter	6 (20)	6 (20)	12 (20)
TOTAL	**30 (100)**	**30 (100)**	**60 (100)**

Table - A.6

Total Advance and Its Classification of Sample Banks from 1983 to 1986

(Taka in Crore)

	Year	Name of Bank	I	II	III	IV	V
	1983		1701,06,22,356	1128,20,68,395	365,67,24,730	207,18,29,231	-
	1984	X Bank	2212,28,02,901	1731,66,654,320	72,22,41,081	408,38,97,500	-
	1985		2754,11,83,377	2159,41,93,800	110,75,30,823	483,94,58,754	-
Public Sector	1986		2927,14,64,117	2243,70,59,635	210,94,96,832	472,49,07,650	-
	1983		410,15,53,971	395,84,84,854	8,55,90,217	5,74,78,900	-
	1984	Y Bank	626,99,69,663	617,39,62,135	6,97,45,930	2,62,61,598	-
	1985		702,91,06,035	696,13,41,151	4,81,55,676	1,96,09,208	-
	1986		767,49,73,123	762,41,58,646	3,84,95,335	1,23,19,142	-
	1983		65,78,75,345	65,61,56,240	14,73,013	2,46,091	-
	1984	A Bank	157,07,02,729	153,12,99,416	3,61,95,029	31,97,338	10,946
	1985		182,98,50,985	179,24,09,489	7,39,68,105	1,16,43,958	100,12,681
Private Sector	1986		423,73,71,023	229,18,58,265	11,39,13,424	3,01,69,334	14,30,000
	1983		9,45,02,430	9,45,02,430	-	-	-
	1984	B Bank	47,21,86,969	47,21,86,969	-	-	-
	1985		65,68,54,674	65,64,64,524	3,90,150	-	-
	1986		91,66,42,667	91,52,21,524	14,21,143	-	-

(Table Contd..)

(Table A.6 Contd.)

	Year	Name of Bank	VI	VII	VIII	IX	X
Public Sector	1983	X Bank	17,91,30,488	-	18,89,54,465	-	15,80,538
	1984		23,95,65,817	-	24,73,24,512	-	45,35,606
	1985		28,28,23,972	-	28,45,48,378	-	86,143
	1986		30,54,45,553	-	32,45,28,296	-	11,98,648
	1983	Y Bank	5,39,55,235	-	8,51,63,685	-	20,86,093
	1984		15,23,53,519	-	19,01,76,159	-	1,58,939
	1985		9,82,00,660	-	9,97,65,704	-	-
	1986		9,95,58,716	-	10,32,30,856	-	-
Private Sector	1983	A Bank	34,58,509	37,70,900	34,70,990	38,24,300	-
	1984		67,01,405	5,33,01,547	74,90,638	8,23,96,299	-
	1985		1,00,22,982	14,22,66,578	1,91,91,922	19,95,23,660	-
	1986		97,83,989	16,59,63,000	1,37,04,431	19,11,84,802	-
	1983	B Bank	13,77,069	26,13,208	16,02,372	25,53,000	-
	1984		41,97,168	22,35,713	42,08,612	44,14,708	-
	1985		53,47,244	26,26,960	61,48,017	31,99,543	-
	1986		33,28,671	20,96,760	41,72,867	32,71,801	-

Source: Annual Report of all the banks under study.

Note
i) Total advances including bills discounted and purchased.
ii) Debts considered good in respect of which the bank is fully secured.
iii) Debts considered good for which the bank holds no other security than the debtors personal security.
iv) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal securities of the debtors.
v) Debts considered doubtful or bad not provided for.
vi) Debts due by directors or officers of the bank or any of them either severally or jointly with any other person.
vii) Debts due by companies or firms in which the directors of the bank are interested as directors, partners or managing agents or, in the case of private companies, as member.
viii) Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the bank or any of them either severally or jointly with any other persons.
ix) Maximum total amount of advances including temporary advances granted during the year to companies or firms in which directors of the bank are interested as directors, partners or managing agents or, in the case of private companies, as members.
x) Due from Banking companies.
(-) indicates nil.

Table - A.7

Distribution of Executives and Managers Using Different Types of Statements and Documents at the Time of Granting Loans in Case of Different Forms of Business

Statements & Documents / Forms of Business	Public Sector				Private Sector				Time Period					
									Public Sector			Private Sector		
	Sole Tradership	Partnership	Corporation	Public Limited Company	Sole Tradership	Partnership	Corporation	Public Limited Company	1 - 2 Years	3 - 5 Years	More than 5 Yrs	1 - 2 Years	3 - 5 Years	More than 5 Yrs
Income Statement P&L a/c	12 (67)	14 (78)	16 (89)	17 (94)	10 (56)	13 (72)	14 (78)	16 (89)	5	6	-	4	3	-
Balance Sheet	3 (17)	9 (50)	14 (78)	16 (89)	2 (11)	4 (22)	3 (17)	7 (39)	3	7	-	2	3	-
Feasibility Reports	9 (50)	10 (56)	17 (94)	17 (94)	2 (11)	6 (33)	16 (89)	15 (83)	3	-	-	2	-	-
Cash Flow Statements	10 (56)	12 (67)	10 (56)	13 (72)	4 (22)	8 (44)	13 (72)	12 (67)	3	1	-	2	1	-
Income Tax Certificate or Clearance	12 (67)	11 (61)	9 (50)	10 (56)	8 (44)	5 (28)	8 (44)	9 (50)	3	-	-	1	-	-
Title Deeds	16 (89)	12 (67)	8 (44)	9 (50)	10 (56)	11 (61)	10 (56)	13 (72)	1	-	-	1	-	-
Lease Deeds	4 (22)	3 (17)	7 (39)	6 (33)	6 (33)	4 (22)	8 (44)	6 (33)	1	-	-	1	-	-
Memorandum of Association	-	6 (33)	5 (28)	4 (22)	-	-	14 (78)	12 (67)	2	-	-	1	-	-
Articles of Association	-	7 (39)	4 (22)	3 (17)	-	-	13 (72)	10 (56)	1	-	-	-	-	-
Partnership Deed	-	16 (89)	-	-	-	-	-	-	-	-	-	-	-	-
Others: Resolution	-	-	-	6 (33)	-	-	-	11 (61)	-	-	-	-	-	-
Charge Documents	9 (50)	6 (33)	-	-	16 (89)	12 (67)	13 (72)	11 (61)	-	-	-	-	-	-
Bi-laws)	-	-	-	1 (6)	-	-	-	-	-	-	-	-	-	-

Total Respondents = 60
Note: Figures in the parenthesis indicate percentage
(-) indicates nil

Table - A.8

Borrowers Submitting Various Types of Statements and Documents at the Time of Applying for Loans

Statements & Documents / Forms of Business	Public Sector				Private Sector			
	Sole Trader-ship	Part-nership	Company	Corpo-ration	Sole Trader-ship	Part-nership	Company	Corpora-tion
Income Statement P&L a/c	2 (22)	2 (83)	12 (100)	3 (100)	4 (44)	5 (83)	11 (92)	3 (100)
Balance Sheet	4 (44)	4 (67)	12 (100)	3 (100)	2 (22)	3 (50)	10 (83)	3 (100)
Feasibility Reports	3 (33)	3 (50)	10 (83)	3 (100)	2 (22)	2 (33)	8 (67)	3 (100)
Cash Flow Statements	1 (11)	2 (33)	10 (83)	-	2 (22)	1 (17)	9 (75)	3 (100)
Income Tax Certificate or Clearance	9 (100)	4 (67)	11 (92)	-	8 (82)	5 (83)	7 (58)	-
Title Deeds	2 (22)	-	10 (83)	-	3 (33)	4 (67)	10 (83)	-
Lease Deeds	3 (33)	-	6 (50)	-	1 (11)	1 (17)	4 (33)	-
Memorandum of Asso-ciation	-	-	10 (83)	-	-	-	12 (100)	-
Articles of Association	-	-	10 (83)	-	-	-	12 (100)	-
Partnership Deed	-	5 (83)	-	-	-	6 (100)	-	-
Others: Insurance Cove Note	4 (44)	3 (50)	6 (50)	-	2 (22)	3 (50)	10 (83)	-
Stock Report	9 (100)	2 (33)	7 (58)	-	6 (67)	4 (67)	5 (42)	-
Charge Documents	9 (100)	6 (100)	8 (67)	-	8 (89)	6 (100)	10 (83)	-

Total Respondents = 60

Note: Figures in the parenthesis indicate percentage
(-) indicates nil

APPENDIX – B

DESCRIPTION OF THE CASES

Overdraft: Private Sector

Case No. 1: Outstanding Tk. 12,01,985

Security
Not tangible security except a set of charge document was held by the branch.

Irregularity
There was no mention-worthy transaction in the account.

Case No. 2: Outstanding Tk. 5,40,890

Security
The advance was allowed against hypothecation of stock-in-trade and no other security except one set of charge document was obtained.

Irregularity
No transaction in the account.

Case No. 3: Outstanding Tk. 10,62,308

Security
No security was obtained by the branch except a set of charge document.

Irregularity
This is a stuck-up case having no transaction in the account.

Case No. 4: Outstanding Tk. 2,38,667

Security
Only one set of charge document is held by the branch.

Irregularity
No mention-worthy transaction was found in the account.

Case No. 5: Outstanding Tk.13,34,444

Security
Equitable mortgage of land and building valuing Tk. 32 lacs.

Irregularity
Allowing of drawing excess over limit.

Case No. 6: Outstanding Tk. 53,732

Security
No security.

Irregularity
There was no formal sanction and no transaction in the account.

Case No. 7: Outstanding Tk. 1,41,236

Security
There was no tangible security except a set of charge document.

Irregularity
There was no formal sanction for the advance so allowed.

Case No. 8: Outstanding Tk. 50,509

Security
No security.

Irregularity
There was no formal sanction.

Case No. 9: Outstanding Tk. 2,37,415

Security
No security.

Irregularity
There was no formal sanction.

Case No. 10: Outstanding Tk.1,00,805

Security
There was no tangible security except a set of charge document.

Irregularity
There was no formal sanction for the advance so allowed.

Case No. 11: Outstanding Tk. 3,31,221

Security
There was no security held by the branch.

Irregularity
The advance so allowed was never adjusted for a single instance.

Case No. 12: Outstanding Tk. 7,40,427

Security
No security was held by the branch against this advance except a set of charge document.

Irregularity
Charge documents were not even properly verified by any bank official.

Case No. 13: Outstanding Tk. 2,08,360

Security
Government Treasury Bond worth Tk. 1.70 lac.

Irregularity
Excess of limit was allowed violating the head office approval.

Case No. 14: Outstanding Tk. 5,00,000

Security
There was no security obtained by the branch against this advance.

Irregularity
There was no formal sanction for this advance.

Case No. 14A: Outstanding Tk. 11,33,970

Security
Equitable mortgage of 3rd party and self urban landed property.

Irregularities
i) Valuation and non-encumbrance certificates were not obtained.

ii) There was no formal sanction.

Case No. 15: Outstanding Tk. 14,62,671

Security
2 years special treasury bond worth Tk. 8.50 lac.

Irregularity
There was no formal sanction for this advance.

Case No. 16: Outstanding Tk. 3,13,178

Security
There was no security for this advance.

Irregularity
There was no formal sanction as well as no transaction in the account for a period of about 2 years.

Case No. 17: Outstanding Tk. 11,42,652

Security
There was no security.

Irregularity
There was no formal sanction.

Case No. 18: Outstanding Tk. 15,730

Security
Fixed Deposit Receipt for Tk. 22,000

Irregularities
i) Wrong Demand Promissory note was obtained.

ii) Limit expired.

Case No. 19: Outstanding Tk. 32,130

Security
There was no security for this advance.

Irregularity
The advance has been allowed to the above party who is in fact the Director (Administration) of a government organisation for getting fund of the organisation without obtaining any security.

Case No. 20: Outstanding Tk. 4,63030

Securities
i) Equitable mortgage of landed property worth Tk. 9.65 lac.

ii) Registered irrevocable General Power of Attorney in favour of the bank.

iii) Personal guarantee of Directors.

Irregularities

i) Deed of equitable mortgage has not been signed by the mortgagor i.e. equitable mortgage has not been created.

ii) The possession and ownership of the property has not been stressed by the branch as no report in this regard has been found on record.

iii) Registered irrevocable power of attorney has not been obtained.

iv) Charge on fixed and floating assets of the company has not yet been created with registration of Joint Stock Company.

v) DP note obtained in wrong form.

Case No. 21: Outstanding Tk. 51,540

Securities

i) Lien of bills drawn against work order No. 816/FD/10/3/86-80 dated 25.8.86 for Tk. 6,02,520.

ii) Equitable mortgage of property worth Tk. 6.00 lacs.

iii) Personal guarantee.

Irregularities

i) Hypothecation of bills has not been obtained.

ii) DP note obtained in wrong form

iii) The mortgaged property is in joint name but equitable mortgage deed has been executed by one person.

iv) Non-encumbrance certificate has not been obtained.

Case No. 22: Outstanding Tk. 35,351

Securities

FDRs for Tk. 5,21,000 and hypothecation of bricks.

Irregularity

i) Sanction of SOD limit against hypothecation of stock-in-trade is beyond normal banking practice.

ii) The sanction is beyond the delegated power.

iii) Before sanction of the formal limit clean overdraft for Tk. 39,040 has been found to have been allowed in the account on 3.4.84 violating Bangladesh Bank's instruction.

iv) Excess over limit has been allowed on a few occasions and drawing upto Tk. 10,65,426 was allowed on 24.2.86.

Case No. 23: Outstanding Tk. 15,305

Security
There was no security

Irregularities

i) No formal sanction has been found for this advance.

ii) Clean advance maximum to the tune of Tk. 20,155 was allowed violating Bangladesh Bank's instruction.

iii) Charge forms (i.e. DP note and letter of continuity) obtained without seal of the firm.

Case No. 24: Outstanding Tk. 10,962

Security
Hypothecation of stock of goods.

Irregularities

i) Sanction of SOD limit against hypothecation of stock in trade is beyond normal banking practice.

ii) Drawings have been allowed in the account irregularly since 8.12.85 without any formal sanction.

iii) Record of Insurance on stock ws not found.

iv) Stock report on bank's standard form was not found on record.

v) The advance is practically a clean one by the branch and was showing as secured overdraft.

Case No. 25: Outstanding Tk. 7,21,919

Security
Hypothecation of motor parts and FDRs for Tk. 5.00 lac in the joint names of the borrowers.

Irregularities

i) Sanction was beyond the delegated power.

ii) Sanction of SOD limit against hypothecation of stock of goods is beyond normal banking practice.

iii) FDRs bearing no. 14175/175 and 14176/176 for Tk. 1.00 lac each have been discharged by one of the owners although the same are in joint names.

iv) Excess over limit has been allowed on many occasions and maximum drawing upto Tk. 902,260 was allowed on 26.12.84.

v) Since initiation of the advance the liability in the accounts has not been adjusted for a single instance.

vi) The party has also been granted with a CC (Hypo) limit of Tk. 8.50 lacs under CC No. 266 and loan limit for Tk. 8.65 lacs under loan No. 30 inspite of clear instruction of head office not to allow various facilities to a borrower. Outstanding in the CC A/C was Tk. 8,02,401 and in the loan A/C is Tk. 8,16,367.

Cash Credit (CC): Private Sector

Case No. 1: Outstanding Tk. 4,45,938

Securities

i) Hypothecation of stock of paper board, GI wire and finished goods.

ii) Equitable mortgage of land and building valuing Tk. 8,50,000.

Irregularities

i) Equitable mortgage created without obtaining (a) mutation parcha, (b) CS, RS and SA khatian.

ii) Insurance obtained only covering fire risk.

iii) Stock report in banks standard form has never been obtained.

iv) Excess drawings allowed on many occasions and minimum excess over limit was Tk. 1,63,401 allowed on 7.8.86.

v) Valuation of the property mortgaged has not been assessed by any banks official as per head office circular.

Case No. 2: Outstanding Tk. 1,98,458

Security

Hypothecation of stock in trade worth Tk. 5.00 lacs.

Irregularities

i) Stock report has not been obtained at the time of renewal of the limit.

ii) The liability in the account had not been adjusted once in 60 days as per terms of the sanction.

Case No. 3: Outstanding Tk. 2,45,205

Security
Hypothecation of stock-in-trade (items to be hypothecated were not mentioned in the sanction advice).

Irregularities

i) Charge forms obtained without seal of the company.

ii) Liability in the account has not been adjusted once in 60 days as per terms of the sanction. However, branch holds FDR for Tk. 2.50 lac as additional security against this advance.

Case No. 4: Outstanding Tk. 4,98,360

Securities

i) Hypothecation of stock of sanitary goods;

ii) Equitable mortgage of land and building valuing Tk. 22.00 lacs.

Irregularities

i) Limit enhanced from Tk. 3.00 lac to Tk. 5.00 lacs but deed of mortgage has been executed for Tk. 2.00 lacs only.

ii) Stock report after 28.7.86 had not been obtained and the stocks were not verified by any bank official.

iii) Valuation certificate has not been obtained from competent person/ authority.

iv) Adjustments were not made as per terms of the sanction.

Case No. 5: Outstanding Tk. 7,56,602

Securities

i) Hypothecation of stock of cement;

ii) Equitable mortgage of land and building worth Tk. 12.00 lacs.

Irregularities

i) Limit sanctioned for Tk. 10.00 lac but charge forms obtained for Tk. 3.00 lacs.

ii) Stock report at the time of enhancement/renewal has not been obtained.

iii) Equitable mortgage created for Tk. 4.00 lacs and that too without obtaining municipal tax receipt.

iv) Stock is under-insured.

v) Deed of equitable mortgage executed without obtaining legal opinion.

vi) Excess over limit had been allowed on several occasions and maximum drawing allowed upto Tk. 10,99,922 on 16.9.86.

Case No. 6: Outstanding Tk. 1,21,152

Security
Hypothecation of plastic goods.

Irregularities
i) Advance sanctioned for Tk. 1.50 lac but charge forms obtained for Tk. 1.00 lac.

ii) Stock report at the time of enhancement of the limit had not been obtained.

iii) Hypothecated stock had not been duly insured under banks clause.

iv) Borrowers request letter for enhancement of the limit was not found on record.

v) Since initiation the liability in the account had not been adjusted for a single instance.

Case No. 7: Outstanding Tk. 2,69,490

Securities
i) Hypothecation of power transformer.

ii) Equitable mortgage of property worth Tk. 4.00 lac.

Irregularities
i) Limit was enhanced to Tk. 3.00 lacs but insurance cover obtained for Tk. 2.20 lacs only.

ii) Equitable mortgages was created for Tk. 2.00 lacs instead of Tk. 3.00 lacs.

iii) Memorandum of equitable mortgage had not been witnessed.

iv) Charge over fixed and floating assets had not been created and registered with the Registrar of Joint Stock Company as per normal banking practice.

Case No. 8: Outstanding Tk. 13,95,440

Securities

i) Hypothecation of plastic goods

ii) Equitable mortgage of land building worth Tk. 80.00 lacs.

Irregularities

i) Charge documents obtained for Tk. 10.00 lacs although drawing had been allowed upto Tk. 20.00 lacs, deed of mortgage had also been executed to Tk. 5.00 lac only.

ii) Excess over limit allowed on many occasions.

iii) Limit expired without adjustment of the liability.

Case No. 9: Outstanding Tk. 3,47,949

Securities

i) Hypothecation of stock of steel goods.

ii) Equitable mortgage of property.

Irregularities

i) Memorandum of equitable mortgage had not been executed although branch holds some title deeds.

ii) Excess drawings over the sanctioned limit had been allowed on several occasion and maximum of which was Tk. 4,79,515 on 1.2.86.

Case No. 10: Outstanding Tk. 2,44,995

Securities

i) Hypothecation of stock of cycle parts.

ii) Equitable mortgage of property

Irregularities

i) Deed of mortgage had not been executed although branch held three title deeds without other supporting papers.

ii) Limit was enhanced from Tk. 2.00 lac to Tk. 2.30 lacs when the A/C was running with a liability of Tk. 2,32,395.

iv) Hypothecated stock was under-insured by Tk. 55,000.

v) Limit sanctioned for Tk. 2.50 lacs but charge forms were obtained for Tk. 1.30 lacs.

Case No. 11: Outstanding Tk. 2,99,889

Securities

i) Hypothecation of stock of cycle parts.

ii) Equitable mortgage of property worth Tk. 6.00 lacs.

Irregularities

i) Drawing allowed after expiry of the limit after full adjustment of the liability on 24.7.86.

ii) Charge documents obtained for Tk. 2.00 lacs only.

iii) Equitable mortgage was created for Tk. 2.00 lacs.

iv) Valuation certificate and municipal tax receipt were not found on record.

Case No. 12: Outstanding Tk. 11,37,215

Security

The advance was allowed against hypothecation of stock and collaterally secured by Fixed Deposit Receipt.

Irregularity

No mentionable irregularity was found.

Case No. 13: Outstanding Tk. 1,15,346

Security

Hypothecation of tea duly insured.

Irregularity

The operation in the account was casual. From certain date the account got stuck-up.

Case No. 14: Outstanding Tk. 93,38,940

Securities

i) Hypothecation of stock-in-trade.

ii) Fixed Deposit Receipt for Tk. 75.00 lacs.

Irregularities

i) Stock of goods was not insured.

ii) Renewal was not obtained even after the expiry of the period.

Case No. 15: Outstanding Tk. 8,97,222

Securities

i) Lien of confirmed export letter of credit.

ii) Plant and Machinery.

Irregularity

Excess drawing over limit was allowed.

Case No. 16: Outstanding Tk. 14,83,735

Securities

i) Hypothecation and pledge of imported cotton yarn and cooler machineries duly insured.

ii) Equitable mortgage of property.

Irregularity

Renewals was not obtained even after the expiry of the period.

Case No. 17: Outstanding Tk. 18,26,935

Securities

i) Hypothecation of stock.

ii) Simple title deeds.

Irregularities

i) Title deeds were not executed in favour of the bank.

ii) The transaction in the account was casual.

Case No. 18: Outstanding Tk. 6,71,769

Securities

i) Hypothecation of Plant and Machineries.

ii) Equitable mortgage of property.

Irregularity

No repayment is forthcoming since the factory has not gone into operation.

Case No. 19: Outstanding Tk. 1,45,408

Security

No other security except a set of charge document was held by the branch.

Irregularity
The advance became overdue and classified as substandard.

Case No. 20: Outstanding Tk. 5,03,063

Security
i) Hypothecation of stock of C.I. Sheet duly insured.

ii) Collaterally secured by equitable mortgage of landed property and Fixed Deposit Receipt.

Irregularities
i) The transaction in the account was very poor.

ii) Adjustment for a single time was not found.

Case No. 21: Outstanding Tk. 43,35,015

Security
Hypothecation of stock of machineries.

Irregularity
The period of limit already expired.

Case No. 22: Outstanding Tk. 8,78,170

Security
Equitable mortgage of land and building.

Irregularity
The outstanding amount became stuck-up.

Case No. 23: Outstanding Tk. 10,27,781

Securities
i) Hypothecation of imported merchandise

ii) Equitable mortgage of landed property.

Irregularities
i) The advance became overdue and turned stuck-up.

ii) The party had no business in the address as per banks record.

iii) The party had another liability in some other name.

Case No. 24: Outstanding Tk. 3,03,250

Securities

i) Hypothecation of imported merchandise.

ii) Equitable mortgage of land and building.

Irregularity

After availing the limit amount, the party did not make any deposit toward partial adjustment.

Case No. 25: Outstanding Tk. 3,63,057

Security

Hypothecation of stock of imported merchandise at 60% margin.

Irregularity

There was no transaction in the account.

Case No. 26: Outstanding Tk. 17,081

Security

The advance was approved against the security of hypothecation of sanitary goods.

Irregularities

i) Advance was allowed without obtaining stock report and insurance.

ii) This is a clean, sticky and difficult advance.

iii) Letter of hypothecation was not held and D.P. note and letter of continuity had not been obtained properly.

iv) After 14.1.86 no official reminder had been issued to the borrower to square up the liability.

Case No. 27: Outstanding Tk. 88,507

Security

The limit was renewed against hypothecation of stock in trade and equitable registered mortgage of landed property.

Irregularities

i) Limit was renewed without mentioning the items to be hypothecated and value of the collateral security and the advance was released without obtaining stock report on bank's standard form.

ii) Since initiation the liability had not been adjusted for a single instance as per terms of the approval although time to time repayments were found.

iii) When the liability in the account was reduced for Tk. 28,507 on 5.7.86 an officer of the branch allowed drawings for Tk. 50,000 and Tk. 10,000 on 5.7.86 respectively against expired limit unauthorisedly and as a result the liability increased to Tk. 88,507 and the same amount was till continuing.

iv) Equitable mortgage deed had been executed on the basis of one original title deed and three certified copies of title deeds without original registration receipts.

v) Registration receipt of the mortgage deed was not found on record which was required to collect the original deed.

vi) Charge documents for Tk. 1,00,000 dated 1.1.1986 obtained without seal of the firm.

Case No. 28: Outstanding Tk. 1,32,968

Security
Branch-in-charge approved the limit against hypothecation of construction materials. Registered power of attorney against work order, Lien of FDR for Tk. 40,000 and registered mortgage of property.

Irregularities

i) This was a stuck-up difficult advance although the borrower had made one repayment for Tk. 6,000 on 15.7.86 after a gap of more than one year from the date of last transaction.

ii) Registered mortgage of property had not been made as per terms of the sanction. Branch holds a registered equitable mortgage deed executed on the basis of a certified copy of lease deed relating to a government property executed for a period of 30 years in favour of the father of the borrower. Government permission to mortgage the property was not found on record. Branch should not accept the leased property as collateral security rather they could ask for other free property for the aforesaid purpose.

iii) The advance was released without obtaining written acceptance of the General Power of Attorney in favour of the bank to collect bills under the work order by the work giving authority.

iv) The advance was allowed without obtaining borrower's declaration of stock of construction materials.

v) D.P. note obtained without borrower's signature on Revenue Stamp.

vi) Persuasion for recovery of the dues was unsatisfactory.

Case No. 29: Outstanding Tk. 57,518

Security
The limit was sanctioned against hypothecation of stock in trade.

Irregularities

i) The advance was released without obtaining stock report and insurance.

ii) The advance had turned difficult and sticky although few repayments are found, but the same cannot keep pace with the interest being charged at quarterly basis.

iii) Charge documents obtained without seal of the firm.

iv) Persuasion for recovery of the dues was highly unsatisfactory. After 4.12.85 no official reminder was found to have been issued to the borrower.

Loan: Private Sector

Case No. 1: Outstanding Tk. 2,11,171

Security
Loan sanction against Fixed Deposit Receipt for Tk. 70,000 share certificate for Tk. 1,37,500. Insurance policy for Tk. 12,000 and share allotment letter Tk. 25,000.

Irregularities

i) The sanction was unauthorised.

ii) Sanction of advance against share certificate was beyond delegated financial power.

iii) FDR for Tk. 20,000 of Agrani Bank, Rangpur was held as security without obtaining clearance from the Agrani Bank.

iv) Formalities in respect of creation of charge over share certificate had not been observed.

v) Insurance policy against which loan was sanctioned was not found on record and required formalities had not been observed.

vi) Drawing in the account were being allowed for time to time like overdraft account.

Case No. 2: Outstanding Tk. 15,742

Security

Loan was sanctioned against hypothecation of Flour Mills and equitable mortgage of landed property and personal guarantee recoverable at monthly instalment of Tk. 2,000.

Irregularities

i) Sanction of loan against hypothecation of flour mills was beyond normal banking practice.

ii) Equitable mortgage had not been created although branch helds title deed.

iii) Charge over the hypothecated materials had not been specifically created as list of machinery had not been furnished to the bank.

Case No. 3: Outstanding Tk. 16,446

Security

Loan was sanctioned against Fixed Deposit Receipt for Tk. 10,000 in the name of the loan recoverable at monthly instalment of Tk. 1,000.

Irregularities

i) Loan allowed against FDR without keeping 20% margin violating Bangladesh Bank's credit norm.

ii) Since initiation no repayment was found in the account.

iii) Excess amount over the face value of the FDR had been allowed.

Case No. 4: Outstanding Tk. 41,278

Security

Loan was sanctioned against Fixed Deposit Receipt for Tk. 1,30,000 in the name of the loanee, recoverable at monthly instalment of Tk. 2,000.

Irregularities

i) The sanction was irregular because the Branch-in-Charge had not been delegated any power to sanction any advance.

ii) The Fixed Deposit Receipt under lien had not been discharged by the owner of the same.

iii) Borrower's signature in Demand Promissory note had not been obtained on revenue stamp.

Case No. 5: Outstanding Tk. 9,600

Security
Loan was sanctioned against lien of Pratirakhha Sanchaya Patra (PSP) for Tk. 12,000.

Irregularities

i) The sanction was irregular since the branch-in-charge was not empowered to sanction any advance.

ii) Formalities in respect of advance against PSP's had not been observed.

Case No. 6: Outstanding Tk. 11,17,379

Security
The advance had been disbursed for House Building against the security of equitable mortgage of land and building.

Irregularities

i) Monthly instalment of Tk. 25,000 was not being regularly forthcoming, only a sum of Tk. 5,000 had so far been deposited by the borrower toward adjustment of the loan. Branch was advised to pursue the borrower vigorously for payment of overdue instalments by the inspecting team.

Case No. 7: Outstanding Tk. 5,60,144

Security
Equitable mortgage of property for construction of house.

Irregularity
Deed of equitable mortgage had not been signed by the borrower.

Case No. 8: Outstanding Tk. 1,00,000

Securities

i) Equitable mortgage of land

ii) personal Guarantee

Irregularity
Equity mortgage had not been created though branch holds lease agreement and other necessary papers.

Letter of Guarantee (LG): Private Sector

Sl. No.	L/G No.	Outstanding	Remarks
1.	7/83	Tk. 64,200	No step was taken to wash out the liability.
2.	10/83	Tk. 40,62,000	Margin in the form of FDR for Tk. 15.00 lac was retained by the branch. The original L/G was for Tk. 80.62 lac. As per claim of government and authority given by the party branch paid Tk. 40.00 lac to the government by debiting party's A/C. The payment was made through head office.
3.	13.84	Tk. 50,000	Branch retains 100% margin in the form of FDR. No step had been taken by the branch to reverse the liability. Branch was requested to issue registered letter to the beneficiary of the L/G and pursue the matter.
4.	11/85	Tk. 54,000	Branch retains 100% cash margin against this L/G. The validity of this L/G expired on 8.7.85.
5.	12/85	Tk. 31,200	Branch retains 100% cash margin against this L/G. Since the validity already expired on 10.7.85, branch was requested to wash out the liability after observing necessary formalities.

Loan: Public Sector

Case No. 1: Outstanding Tk. 4,126

Security
Personal guarantee of an ex-officer of the branch now serving in the Islamic Bank, Bangladesh, Dhaka.

Irregularity
The loan got stuck-up and now time barred.

Case No. 2:

The following pre-liberation time barred loans of non-local borrowers continued unadjusted. They reportedly left Bangladesh. Chance of recovery was remote. Write off proposal was submitted to head office. The advances were clean.

(a) Outstanding Tk. 18,509

(b) Outstanding Tk. 13,856

Overdraft: Public Sector

Case No. 1: Outstanding Tk. 2,297

The borrower was reportedly non-local. Write off personal was submitted. No persuasion was made by the branch with concerned division of head office for settlement of this long outstanding overdraft. There was security held by the branch against this advance.

Case No. 2: Outstanding Tk. 1,36,164

Security
Hypothecation of stock and equitable mortgage of urban property.

Irregularities

i) Overdraft was allowed by ex-Manager without having observed the required formalities violating the terms of approval.

ii) Excess over the limit amount to Tk. 37,908 was allowed on 9.5.84 by ex-Manager on deputation unauthorisedly which reduced to Tk. 1,19,238 on 31.7.84. Last deposit was Tk. 4,000. Amount increased to present level due to application of interest.

iii) Stock report was never held.

iv) Mortgage held incomplete. Legal opinion, rent receipts etc. were not held.

v) Insurance was not held.

Case No. 3: Outstanding Tk. 8,256

Security
Hypothecation of stock and equitable mortgage.

Irregularities
Overdraft got stuck-up. Property documents were released by ex-Manager, who resigned from the services of the bank while there was liability in the account.

Case No. 4A: Outstanding Tk. 26,881

Security
Branch held simply title deed of property.

Irregularity
Stuck-up overdraft. Steps were not taken to adjust the advance.

Case No. 4B: Outstanding Tk. 7,171

Security
Title deed of property.

Irregularity
Stuck-up overdraft. No persuasive measure was taken to liquidate the advance.

Case No. 4C: Outstanding Tk. 27,229

Security
Title deed of property

Irregularity
Stuck-up overdraft. No measure was taken to recover the advance.

Case No. 5: Outstanding Tk. 1,23,838

Security
The advance stands clean.

Irregularity
No steps were taken by the branch for adjustment and also to get the advance secured.

Case No. 6: Outstanding Tk. 18,535

Security
This was a clean overdraft.

Irregularity
No follow up made by the branch for adjustment.

Case No. 7: Outstanding Tk. 5,241

Security
This was a clean overdraft.

Irregularity
This was an unauthorised sanction. The overdraft since disbursement got stuck-up. Steps were not taken by the branch for adjustment.

Case No. 8: Outstanding Tk. 5,465

Security
Clean overdraft allowed by ex-Manager and Second Officer of the branch.

Irregularity
This was an unauthorised overdraft. The overdraft got stuck-up.

Case No. 9: Outstanding Tk. 4,682

Security
Clean overdraft allowed by ex-Manager and Second Officer.

Irregularity
The overdraft got stuck-up.

Case No. 10: Outstanding Tk. 5,080

Security
Clean overdraft was allowed by ex-Manager.

Irregularity
The overdraft got stuck-up. Proper persuasion was not made by the branch for adjustment.

Case No. 11: Outstanding Tk. 1,29,724

Security
Title deed and Fixed Deposit Receipt of Tk. 50,000

Irregularity
Up-to-date rent receipt and valuation certificate were not held. Operation in the account was not satisfactory.

Case No. 12: Outstanding Tk. 54,176

Security
Hypothecation of stock and equitable mortgage of property.

Irregularity
Mortgage was held incomplete and legal opinion was not held.

Case No. 13: Outstanding Tk. 1,15,140

Security
Fixed Deposit Receipt of Tk. 55,000 and hypothecation of stock and equitable mortgage.

Irregularity

i) Mortgage was held incomplete i.e. certified copy of deed held without registration receipt and up-to-date rent receipt was not held.

ii) The limit expired but the renewal proposal was not sent.

Case No. 14: Outstanding Tk. 8,210

Security
Fixed Deposit Receipt of Tk. 25,000.

Irregularity
Fixed Deposit Receipt was delivered on 17.7.84 by ex-Manager without having adjusted the liabilities as such the advance stands clean.

Case No. 15: Outstanding Tk. 3,560

Security
Pledge of Fixed Deposit Receipt.

Irregularity
Fixed Deposit Receipt was released by an officer of the branch without having adjusted the liabilities as such overdraft stands clean. Step was not taken by the branch to adjust the outstanding.

Case No. 16: Outstanding Tk. 8,175

Security
Pledge of Fixed Deposit Receipt of Tk. 8,000 without retaining any margin.

Irregularity
Charge forms were not obtained from the borrower.

Case No. 17: Outstanding Tk. 57,140

Security
This was clean overdraft.

Irregularity
No measure was taken to recover the outstanding amount.

Case No. 18:
Under-stamped/Un-stamped Charge forms were held from the following:

(a) Tk. 7,41,785 dated 12.12.82 under-stamped

(b) Tk. 78,325 dated 25.01.84 under-stamped

(c) Tk. 25,270 dated 11.12.84 un-stamped

(d) Tk. 1,00,630 dated 23.2.85 un-stamped

(e) Tk. 8,08,000 dated 24.2.85 un-stamped

(f) Tk. 1,71,555 dated 25.7.84 un-stamped

Case No. 19A: Outstanding Tk. 22,135

Security
Fixed Deposit Receipt of Tk. 20,000

Irregularities
i) The overdraft exceeded the face value of Fixed Deposit Receipt.

ii) No measures were taken to liquidate the overdraft.

Case No. 19B: Outstanding Tk. 25,270

Security
FDR of Tk. 25,000

Irregularities
i) The overdraft exceeded the face value of Fixed Deposit Receipt.

ii) No measures were taken to liquidate the overdraft.

Case No. 19C: Outstanding Tk. 21,532

Security
Fixed Deposit Receipt of Tk. 20,000

Irregularities
i) The overdraft exceeded the face value of Fixed Deposit Receipt.

ii) No measures were taken to liquidate the overdraft.

APPENDIX – C

QUESTIONNAIRE – 1
(FOR BANK EXECUTIVES)

CREDIT MANAGEMENT IN COMMERCIAL BANKS: A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTORS IN BANGLADESH
(Confidential)

1. Please give the following information:

(a) Name of the Bank: ______________________________

(b) Your position (use tick)

i) Top level ☐

ii) Middle level ☐

iii) Junior level ☐

(c) Length of experience in banking including the area of credit (use tick).

Upto 5 years ☐

5 years to 10 years ☐

More than 10 years ☐

(d) Have you received any training on bank credit? (use tick)

Yes ☐ No ☐

2. Does your bank have any credit planning and policy for every financial/calender year? (use tick)

Yes ☐ No ☐

3. What are the different forms of loans your bank are allowing to your customers? Short-term loans (upto 1 year)

i)	Overdraft :	(a)	Secured	☐
		(b)	Unsecured	☐
ii)	Cash Credit:	(a)	Secured	☐
		(b)	Unsecured	☐
iii)	Demand Loan:	(a)	Secured	☐
		(b)	Unsecured	☐
iv)	LIM loan against imported merchandise			☐
v)	Trust receipt loan			☐
vi)	Packing credit			☐
vii)	IBP (Inland Bill Purchased)			☐
viii)	FBP (Foreign Bill Purchased			☐
ix)	PAD (Payment against Documents)			☐
x)	Others (specify)			☐

Intermediate/Long-term loans (from 1 year to 5 years)

i) House Building

ii) Transportation

iii) Others (specify)

4. What types of statement is and/or documents are required to be submitted by the borrowers at the time of borrowing from your bank?

Types of Statements/Documents	Nature of Business					
	Sole Tradership	Partnership	Corporation	Public Limited Company	Individual	Years
1. Income Statement (P&L a/c)						
2. Balance Sheet						
3. Feasibility Reports						
4. Cash flow Statements						
5. Income Tax Certificate or Clearance						
6. Title Deeds						
7. Leasehold Deeds						
8. Memorandum of Association						
9. Articles of Association						
10. Partnership Deed						
11. Others (specify)						

5. How do you analyse financial statements of the borrowers?
i)

ii)

iii)

iv)

v)

6. How do you collect information about the character, capital and capacity of a borrower?

   i)

   ii)

   iii)

   iv)

   v)

7. Do you support the establishment of an agency for supplying financial information of bank customers?

   Yes ☐ No ☐

8. How much time do you take in disposing a loan case?

1 - 10 days	☐	31 - 40 days	☐
11 - 20 days	☐	41 - 50 days	☐
21 - 31 days	☐	50 & above	☐

9. How many loan cases are pending with you now? ____________________

   Causes of pending cases:

   a)

   b)

   c)

   d)

   e)

10. What is the total amount advances of your bank including bills discounted and purchased in the following years?

Year	Total Advances (in Taka)
1983	______
1984	______
1985	______
1986	______
1987	______
1988	

11. What is the total amount of your bank's overdue and recovery in the following years?

Year	Total Overdue (in Tk)	Total Recovery (in Tk)
1983	______	______
1984	______	______
1985	______	______
1986	______	______
1987	______	______
1988	______	______

12. (a) What in your opinion are the influencing factors for rendering advances stuck-up? Rank the following:

Factors	Ranks
1. Weak scanning/appraisal procedure the bank	
2. Lack of skill of appraisal	
3. Weak contact with the borrower after disbursement	
4. Sanction of loan under influence	
5. Borrower characteristics (rather than project characteristics)	
6. Excessive loan	
7. Government policy	
8. Quick shift of policy	
9. Lack of accountability	
10. Legal inadequacy	

(b) Can you suggest measures for ensuring better repayment?

(a)

(b)

(c)

(d)

(e)

13. How much of the total advances of your bank has given to the priority sectors in the year 1983, 1984 and 1985?

	1983 Tk	1984 Tk	1985 Tk
Total advances			
Advances in priority sectors			

14. What are the inadequacies of Banking Companies Ordinance, 1962 in the area of credit management? Please indicate

(a)

(b)

(c)

15.(a) How many commercial courts are now working in Bangladesh?

(b) How many cases were instituted by your bank in the commercial court in 1987 and out of those how many cases have been disposed of?

APPENDIX - D

QUESTIONNAIRE - 2
(FOR BORROWERS)

CREDIT MANAGEMENT IN COMMERCIAL BANKS: A COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTORS IN BANGLADESH
(Confidential)

1. Please give the following information: (use tick)

(a) Mention the type of business in which you are dealing

1. Forms of Business		2. Nature	
i) Sole tradership	☐	i) General trader	☐
ii) Partnership	☐	ii) Manufacturers	☐
iii) Company	☐	iii) Importer	☐
iv) Corporation	☐	iv) Exporter	☐

(b) Mention your business experience (use tick)

i) Less than 5 years ☐

ii) 5 years to 10 years ☐

iii) More than 10 years ☐

2. What statements and/or documents did you submit to the bank at the time of taking loan from banks? (use tick)

Types of Statements/Documents	Tick Marks
1. Income Statement (P&L a/c)	
2. Balance Sheet	
3. Feasibility Reports	
4. Cash flow Statements	
5. Income Tax Certificate or Clearance	
6. Title Deeds	
7. Leasehold Deeds	
8. Memorandum of Association	
9. Articles of Association	
10. Partnership Deed	
11. Others (specify)	

3. How, in your opinion, the banker judges your loan proposal? (use tick)

Factors	Tick Marks
1. Personal intimacy with the bank official(s)	
2. Good business prospect	
3. Nearness of business from the branch	
4. Length of time you passed as a customer	
5. Type of security	

4. How much time is taken by the bank in disposing a loan case? (use tick)

1 - 7 days	☐	22 - 28 days	☐
8 - 14 days	☐	29 - 35 days	☐
14 - 21 days	☐	36 - 42 days	☐

5. What is your view about the adequacy of loan granted by the bank in the year 1987? (use tick)

Adequacy of Loan	Tick Marks
1. Got the actual amount sought	
2. Got more than what was sought	
3. Got less than what was sought	

6. Do you face any difficulty in repayment of the loan taken from bank?

Yes ☐ No ☐

If your answer is 'Yes', please indicate the causes of difficulty

(a)

(b)

(c)

(d)

(e)

7. In your opinion, what are the qualities an ideal and efficient credit executive should have? Mention 5 (five) qualities:

   (a)

   (b)

   (c)

   (d)

   (e)

8. Do you think that credit personnels in private banks are more prompt and efficient than in the nationalised banks?

   Yes ☐ No ☐

   If yes, state the reasons:

   (a)

   (b)

   (c)

   (d)

   (e)

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