ROOT CAUSES OF INDISCIPLINE IN INDUSTRIAL CREDIT MANAGEMENT IN COMMERCIAL BANKS OF BANGLADESH

THESIS submitted in partial fulfillment of the Requirements for the Degree of Doctor of Philosophy (Ph. D.) of the University of Dhaka

Submitted by

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Solemn Affirmation

I solemnly hereby declare that the dessertation titled 'Root Causes of Indiscipline in Industrial Credit Management in Commercial Banks of Bangladesh' has been prepared by me for the degree of Doctor of Philosophy in 'Business Administration' of Dhaka University, Bangladesh under the supervision of Professor Dr. M. Shamsul Haque of Institute of Business Administration of the said university. To conduct the study, I have gone through many literature relating to loan default in commercial banks of Bangladesh, for which references have been cited at appropriate places. This study is my original work. It has not been submitted earlier in part or full for any degree, diploma to any other university or institute.

12/9/02

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Certificate

Certified that the thesis titled 'Root causes of Indiscipline in Industrial Credit Management in Commercial Banks of Bangladesh' submitted by Muhammad Asaduzzaman to the Institute of Business Administration, University of Dhaka for the award of Doctor of Philosophy in 'Business Administration' is his original work which is conducted under my supervision. The thesis has not been submitted previously in part or full for the award to any candidate of any degree, diploma or felloship of any university or institution.

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Muhammad Asaduzzaman

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1. Introduction.

Commercial Banks play a catalystic role in economic activities of a country and render important services to the business community and thus act for the development of the economy. Since the banking form an important sector of economic activities there was a growing demand for the regulations of the banking business by the state which ultimately cultiminate in a demand for socialization of banking.

Keeping this point in view, immediately after emergence of Bangladesh, the banks operating in the then East Pakistan (Now Bangladesh)(except those incorporated abroad) were nationalized. Since then the banking sector of the coutry had to suffer tremendously in a war revaged economy of the country. However, the commercial banks have started operations from the positions of disequilibrium and imbalances in their assets and liabilities because most of the banks operating in Bangladesh before independence had their Head Offices in Pakistan. The liabilities side outstripped the assets side due to heavy outflow of financial resources from Bangladesh to Pakistan.

In this circumstances, the Nationalized Commercial Banks of Bangladesh have been assigned economic as well as social responsibilities of the country. Since then the nationalized commercial banks have grown both in quantitative and qualitative in the operations of the banking system. Not only the branches have been increased but they have also extended services into new areas like agriculture, small business, retarded area, self employed persons of small means, growth of entrepreneurship and developing skill. The nationalized commercial banks has been gradual shift from security oriented to development oriented banking in the country in line with socio-economic objectives on nationalization, the bakks have also social objectives to finance in certain sectors which may not always be commercially profitable. The performance of NCB's in respect of mobilization of deposits were running well. But their performances in financing trade, Agriculture and Industry was not well in respect of recovery and recycling of funds. The government machinery and elites of the country thought that due to only nationalization of banks red tapision developed and banks failed its due role in financing trade, agriculture and industry. In this circumstances, the government has denationalized two nationalized Banks, Pubali Bank Limited and Uttara Bank Limited in 1985.

Nationalized Commercial Banks play the role of partner's in development by mobilizing deposits and thereby employing find on agricultural credit, indutrials credit and general credit, implementation of import policy and export policy etc. They participate in all sectors as stated above. While in turn the private sector banks participate only in general credit and import and export credit.

1.2. Objectives.

In order to determine whether the commercial banks have been playing its due role for the development of the economy by employing funds in industry, this study has been carried out. In this context, I shall try to evaluate the activities of commercial banks in the light of financing in industry. To carry its business, problems faced by commercial bank will also be looked into. The degree of failure if any if its role in financing industrial projects which ultimately contribute to national economy will also be reviewed in this study.

1.3. Scope.

The contributions of commercial banks in economic development may be indentified by its participation in various fields of economic activity of the country. Since economic development is a process and it can't grow without many force to push it, how the forces of NCB's have pushed the economy to rise, this study will consider for those forces in reaching economic goals. An economy can't be said to develop by its trading sector only, industrial development, agricultural development are also required for balanced growth. The scope of this report is to deal with the participatory aspect of commercial banks in financing to industrial sector only.

1.4. Methodology.

The thesis is prepared depending mainly upon the case study method. The cases have been selected through sampling of the projects for the study. One good cases has been studied with one another bad case upto the sampling number to find out the root causes of indiscipline in industrial credit management by commercial banks.

1.5. Limitations.

In preparing the report, I felt that personnel of the organizations are very much conservative to supply data for such study. They originate data about their performance and contribute to economy but they did not maintain the same in proper way. As such, they depend on published data from other sources such as Bangladesh Banks, Bangladesh Bureau of Statistics. The officers of Sonali Bank and Janata Bank are reluctant to supply data to carry out such study. The officers of Agrani Bank are cordial to supply data for the purpose. For this reason, data collection was confined to Agrani Bank only. The dissertation is prepared depending on the data so collected from Agrani Bank. As the classification rate in all NCB's are more or less same, the management of industrial credit in NCB's may also be same in nature. This is why, the results of the finding may be same. Through this study probably suffers from some deficiency for which the real picture may be distorted to some extent. Yet the objective of the study certainly will reflect the problems and issues of industrial credit management of commercial banks of Bangladesh.

2. History of Banking and Bank credit in Bangladesh

2.1. History of Commercial Banking and Bank Credit in Bangladesh
2.2. Portfolio of Commercial Banks Credit.
2.3. Sources of fund for Industrial Credits and its deployment performance.
2.4. Trends in Repayment.
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2.1. History of Commercial Banking in Bangladesh

In general term of commercial bank may be defined[1] as financial institution which receives deposits from the people who are customers under assurance of keeping the money in safe custody and to pay back the same on demand. It extends loans to the individuals and organizations in order to facilitate business, trade and commerce of the country. Bank as a service industry is essentially managing the affairs of money, substitutes of money and everything which is related to money and people. It may, therefore, be said to be the most important financial organization of a country with which rests, to a great extent, the financial administration and national economic development of states[2]. Banks are playing a positive role in achieving the desired objective set-forth before the nation. Like any other basic sphere of modern socio-economic activities, banking too is a potent and purposeful monetary based media that nurses and nourishes the socio-economic growth of a developing country[3]. As such, the role it plays in present day commerce, trade and industry undoubtedly constitutes an integral organ of overall development. The banking has a process of growth. To appraise its contributions to national economy, history of pattern of banking development needs to evaluate like patterns of economic development. Keeping this point in view, some words about development of banking in this region of Indian sub-continent are given hereunder :

At the time of independence of India in 1947, the areas which constitutes Pakistan had 631 branches of scheduled Bank of which 487 were located in West Pakistan alone. The share of erstwhile East Pakistan (now Bangladesh) was only 144[4].

It may be mentioned that at the initial stage. Pakistan had no Central Bank to control its monetary functions. However, State Bank of Pakistan with the status of Central Bank came into being with effect from 1st July, 1948 with the promulgation of state bank order on 12th May, 1948[5]. And since then, banking and credit facilities started expanding in Pakistan. With this expansion of banking network few banks viz; Commerce Bank Limited, Habib Bank Ltd., Eastern Mercantile Bank Limited, Eastern Banking Corporation Limited, United Bank Ltd., Union Bank Limited and National Bank of Pakistan were established[6].

Bangladesh which was a part of Pakistan upto 25th March, 1971 came into being as a sovereign state and naturally inherited the banking system of Pakistan. Bangladesh had to start its economic activities from the very scratch because of the damage caused by the nine months war of Liberation. As such the banking sector of the country had also suffered tremendously. So immediately after independence, there existed a wide range disequilibrium and dislocations in the banking sector of newly born state. In this situation, the branch of State Bank of Pakistan in erstwhile East Pakistan was turned into Bangladesh Bank by the Bangladesh Bank Order 1972 vide President Order No. 127[7]. The Bangladesh Bank had to start with the existing offices of the State Bank and its officers and staff available in Bangladesh. Since then Bangladesh Bank assumed the control of scheduled banks of newly born Bangladesh for restoration of monetary discipline in the war ravaged country. In war scratch economy like Bangladesh, Commercial

Banks play undoubtedly a significant roleto build up it economy. It also renders most important services to the community and play a vital role in the development of the economy of the country. Since banking sector belongs to the total economic activities of the country there is a growing demand and necessity for the regulations of the banking business by the state centrally which ultimately culminated in a demand for socialization of banking[8].

In respect of Nationalization of Commercial Bank in Bangladesh Mr. Habiullah Bahar in his articles "Development of Banking in Bangladesh since nationalization[9] has opined that Bangladesh from the very initial stage was surrounded by many unavoidable circumstances for which the act of nationalization's become imperative in the country.
These were :

a) In the wake of independence the owners and top management of the Pakistani Bank comprising the bulk of the banking system had left the country while the two local banks were also riddled with problems. To mitigate the situation, the act of nationalization of the banks was urgently felt.

b) In the matter of financing foreign trade, there arose legal complications. So, it became imperative to reorganize the banks into distinct new banks.

c) The foremost consideration of ensuring equitable distribution of wealth, economic power and opportunities in the country called for the change in the ownership pattern of the Commercial Banks. To attain the above objectives and under compilling circumstances, the Bangladesh Banks (Nationalization) Order, was promulgated on 26th March,1972. By promulgating Bangladesh Bank (Nationalization) Order on 26th March,1972, the Government of Bangladesh Nationalized all Commercial Banks excepting 3 foreign Banks.

After liberation, Bangladesh got 1094 branches of 15 scheduled banks of which 10 banks with 929 branches were Pakistani and 3 Banks with 4 branches were foreign and only 2 Banks with 151 branches were Bangladeshi. Just after liberation total deposits of all the 15 scheduled banks including foreign banks were roughly Tk.350 crores of which Pakistani Banks were having a total deposit of over Tk. 270 crores with advances of almost similar amount. The total deposit of the two Bangladeshi Banks was over Tk. 20 crores of the total scheduled banks 12 were nationalized and control of these banks were vested on six newly established banks. The government made this reorganization with a view to making each of them economically viable[10].

The reorganization of the Banks are shown below[11]:

		Name of the Old Bank.	Name after Nationalization.
1.	i)	National Bank of Pakistan	Sonali Bank
	ii)	Bank of Bhawalpur Ltd.	
	iii)	Premier Bank Ltd.	
2.	i)	Habib Bank Ltd.	Agrani Bank
	ii)	Commerce Bank Ltd.	
3.	i)	United Bank Ltd.	Janata Bank
	ii)	Union Bank Ltd.	
4.	i)	Muslim Commercial Bank Ltd.	Rupali Bank
	ii)	Standard Bank Ltd.	
	iii)	Australasia Bank Ltd.	
5.	i)	Eastern Mercantile Bank Ltd.	Pubali Bank
6.	i)	Eastern Banking Corporation Ltd.	Uttara Bank

Subsequently out of these six Nationalized Commercial Banks (NCB), final transfer of Pubali Bank and Uttara Bank to the private sector has been completed with effect from January,1985. Now the total number of Nationalized Commercial Banks in Bangladesh stand at 4 viz; (i) Sonali Bank, (ii) Agrani bank, (iii) Janata Bank and (iv) Rupali Bank.

In this circumstances, the names of the scheduled banks[12] may be arranged in the following manner. The operational activities of commercial banks (including private sector banks incorporated in Bangladesh) along with the financial institution in the country are required to justify through a thread-bare study.

A. Nationalized Banks:
   1. Sonali Bank
   2. Janata Bank
   3. Agrani Bank
   4. Rupali Bank Ltd.

B. Specialized Banks:
   1. Bangladesh Krishi Bank
   2. Rajshahi Krishi Unnayan Bank
   3. Bangladesh Shilpa Rin Sangstha
   4. Bangladesh Shilpa Bank
   5. Bank of Small Industries and Commerce Bank Ltd.
   6. Bangladesh Samabaya Bank Ltd.
   7. Grameen Bank.

C. Local Private Commercial Bank:

1. Pubali Bank Ltd.
2. Uttara Bank Ltd.
3. National bank Ltd.
4. The City Bank Ltd.
5. United Commercial Bank Ltd.
6. Arab Bangladesh Bank Ltd.
7. International Finance Investment and Commerce Bank Ltd.
8. Islami Bank Bangladesh Ltd.
9. Al-Baraka Bank Bangladesh Ltd.
10. Eastern Bank Ltd.
11. National Credit and Commerce Bank Ltd.
12. Prime Bank Ltd.
13. South East Bank Ltd.
14. Dhaka Bank Ltd.
15. Al-Arafa Islami Bank Ltd.
16. Social Investment Bank Ltd.
17. Dutch-Bangla Bank Ltd.
18. Mercantile Bank Ltd.
19. Standard Bank Ltd.
20. One Bank Ltd.
21. Export Import Bank of Bangladesh Ltd.
22. Bangladesh Commerce Bank Ltd.
23. Mutual Trust Bank Ltd.
24. First Security Bank Ltd.
25. The Premier Bank Ltd.
26. Bank Asia Ltd.
27. The Trust Bank Ltd.

D. Financial Institutions:

1. Investment Corporation of Bangladesh.
2. Bangladesh House Building Finance Corporation.
3. Saudi Bangladesh Industrial and Agricultural Investment Company Ltd.
4. Industrial Development and Leasing Company of Bangladesh Ltd.
5. Industrial Promotion and Development Company of Bangladesh
6. United Leasing Company Ltd. and so on.

The act of nationalization is a means to an end and it is resorted to restructure the economy for attaining certain predetermined objectives. As nationalized organization, the Bank belongs to the people and it implies that it stands for meeting the banking needs of the broad mass of the society. So it is a major deviation from the traditional banking and a new direction towards attitude and banking operations. However, the main objectives[13] of bank nationalization in Bangladesh were:

1) To establish social control over the financial resources of the country.
2) To mobilize domestic resources for their better deployment to the priority sectors of the economy.
3) To help fostering balanced and regional economic development of the country, and lastly
4) To provide absolute security of the depositors, best possible services to the customers and render other facilities to the public.

In the early eighties, it has been observed that the nationalized commercial banks have not only failed to achieve its targets rather the credit portfolio was distorted, services deteriorated and no competitions were in the market. To bring back the competition in the banking sector, denationalization policy was taken by the govt. Consequent upon this two nationalized banks namely Pubali Bank and Uttara Bank were denationalized. The Government released 49% share capital of Rupali Bank to the public to augment the banks management in the country.

It may be pointed out here that with the nationalization of banking in Bangladesh, bank extended its operational areas beyond its commercial activities to agriculture, industry, small business, retarded areas, self-employed persons of small mass etc. And with this end in view, the nationalized commercial banks also spread over its branches to rural areas upto union & village level. The NCB's have already opened 3624 branches and employed 64399 persons upto December 2000[14] and side by side the private banks have opened 1261 branches and employed 25576 persons upto December,2000[15].

History of Bank Credit in Bangladesh:

Credit plays an important role in economic development as it increases purchasing power of the users and provides means to acquire capital goods and services which are essentially needed for economic activities of development nature. Credit also provides the means of subsistence and survival of those who live below subsistence level, thus making the credit as a developmental tool. So the use of credit must be lined with development process and programs[16]. A bank not only mobilize deposits but also extend credit to its clients. While a bank allocate its fund for various purposes and sectors it can do a lot for improving resource allocation, production and distribution of goods and services in the country[17].

Before liberation of Bangladesh, the commercial banks of the then East Pakistan used to extend banking services to a class of people. At the time the amount of credit was at Tk. 350 crores out of its deposit of similar amount[18]. Now the volume of credit stood at Tk. 63172.26 crore out of deposit Tk. 77120.06 crores as on December, 2000.

It may also be mentioned here that deployment of credit in the then East Pakistan (Now Bangladesh) was only in trading sector. Industrial and Agricultural financing were neglected. After liberation of 1971, new avenues were opened for financing in industrial and agricultural sectors. Now the pattern and volume of financing in trade, agriculture and industry as on 31st December,2000 was as follows[19].

Table - 1

Pattern of Financing in Trade Agriculture and Industry:

(Tk. In Crore)

As on 31st December	Agriculture	Industry	General Credits (Trade)	Total
1995	6148.67 17.63%	9839.28 28.22%	18880.57 54.15%	34868.52 100%
1996	6513.39 16.46% (5.60)	10605.75 26.80% (7.23)	22449.35 56.74% (15.89)	39568.49 100% (11.88)
1997	6642.20 15.17% (1.94)	12252.05 27.98% (13.44)	24889.15 56.85% (9.80)	43783.40 100% (9.63)
1998	7482.35 14.69% (11.23)	15037.65 29.52% (18.52)	28422.05 55.79% (12.43)	50942.05 100% (14.05)
1999	8159.95 14.47% (8.30)	15560.55 27.59% (3.36)	32677.72 57.94% (13.02)	56398.22 100% (9.67)
2000	8990.19 14.23% (9.23)	16732.74 26.49% (7.01)	37449.33 59.28% (12.74)	63172.26 100% (10.72)

Source: Scheduled banks statistics various issues. Figure in parenthesis represent rate of growth in percent over the preceding year.

Distribution of Advances:

Since credit plays a vital role in economic development of a country. NCBs contributed much in the sector. From Table - 2, it reveals that NCBs average growth rate of credit is 10.50% whereas private bank growth rate is 14.86%.

Table – 2

Distribution of advances by category of banks

(Taka In Crore)

As on 31st December	Nationalized Commercial Banks	Specialized Banks	Foreign Banks	Private Banks (Including Islamic Banks)	Islamic Banks	All Banks
1995	18257.64 52.36%	5991.46 17.18%	1855.95 5.32%	8763.47 25.41%	N.A.	34868.52 100%
1996	20862.55 52.73%(18.49%)	6536.88 16.52% (8.34%)	2041.45 5.16% (9.09)	10127.61 25.60% (13.47)	N.A.	39568.49 100% (11.88)
1997	23488.15 53.65%(11.18%)	6720.11 15.35% (2.73%)	2378.18 5.43% (14.16)	11196.96 25.57% (9.55)	N.A.	43783.40 100% (9.63)
1998	26027.67 51.09% (9.76%)	9131.51 17.93%	2751.61 5.40%	13031.26 25.58% (14.08)	2468.75 4.85%	50942.05 100%

		(26.41%)	(13.57)			(14.05)
1999	27866.03 49.41% (6.60%)	9736.69 17.26% (6.22%)	3026.55 5.37% (9.08)	15768.95 27.96% (17.36)	3285.46 5.83% (24.86)	56398.22 100% (9.67)
2000	29795.40 47.17% (6.48%)	10206.06 16.16% (4.60%)	3502.59 5.54% (13.50)	19668.21 31.13% (19.83)	4297.05 6.80% (23.54)	63172.26 100% (10.72)

Source : Scheduled Banks statistics, various issues. Figure in parenthesis represent growth rates in percent over the figure of preceding year.

More increase of advances without consideration of purpose and sectors for which advance have been given cannot truly reflect the real performance of a bank. Keeping this point in view, I can inter from Table-3 where Advances classified by economic purposes have been depicted.

Table – 3

Economic purpose-wise classification of advances

(Taka In Crore)

As on 31st December	Agriculture	Industry	Construction	Transport & Communication	Trade	Working Capital Financing	Others	Total
1995	6148.67 17.63%	9839.28 28.22%	1883.91 5.40%	854.14 1.56%	10316.41 29.49%	3261.69 9.35%	2564.42 8.24%	34868.52 100%
1996	6513.39 14.46%	10605.75 26.80%	2116.73 5.35%	585.43 1.48%	11446.26 28.93%	4643.01 11.73%	3657.90 9.24%	39568.49 100%
1997	6642.20 15.17%	12252.05 27.98%	2452.81 5.66%	645.72 1.50%	12695.89 29.00%	5005.19 11.43%	4080.54 9.32%	43783.40 100%
1998	7482.35 14.69%	15037.65 29.52%	2728.86 5.36%	716.82 1.41%	14470.30 28.41%	5321.28 10.45%	5184.79 10.18%	50942.05 100%
1999	8159.95 14.47%	15560.55 27.59%	3201.35 5.68%	795.53 1.41%	15947.60 28.28%	5450.54 9.66%	7282.70 12.91%	56398.22 100%
2000	8990.19 14.23%	16732.74 26.49%	3573.42 5.66%	897.66 1.42%	19368.22 30.66%	5568.29 8.81%	8041.74 12.75%	63172.26 100%
Average	15.10%	27.77%	5.52%	1.46%	29.15%	10.24%	10.44%	

Source : Scheduled Banks statistics, various issues. Figure in parenthesis represent growth rates in percent over the figure of preceding year.

The Commercial Banks are providing its loan to construction sector is about 5.52%. Transport and communication 1.46%, Trade sector is about 29.15% and others is about 10.44%. These two sectors are trading in nature. The main functions of commercials banks were to provide short term credit to trade sector and to earn profit. With the independence of Bangladesh and nationalization of commercial banks at the dawn of independence, the functions of commercial banks shifted from earning profit to development orientation. The trends are still continuing though the private banks are still allowed to operate in free market condition.

It has been inferred from Table-3 that on an average 15.10% of the loan of all banks are given to Agriculture Sector as against 27.77% in the industrial sector. Mentionable that commercial banks are playing a role in providing loan to Agriculture sector which constitute 35% of Gross National Product of the country.

Advances Distributed by Areas:

It is beyond the question that the banks play pivotal role in economic development of a country. For iniform and smooth development of an economy balancing between urban and rural sector is an utmost important factor. In our country, commercial banks both nationalized and private are more or less engaged in this task. But it will be observed that private banks are very much cautious in opening branches in the rural areas. On the other hand NCBs are having a larges number of branches in rural areas and they are mobilizing deposits from that areas. But their deployment of funds specially in the trading sector in rural areas are not satisfactory. The rural advances in 2000 were only 17.56% in comparison with urban advances of 82.44%(-). Divisionwise urban/rural classification of advances are given in the following table – 4.

Table - 4

Divisionwise Urban/Rural Classification of Advances.

(Taka In Crore)

As on 31st December	Chittagong Division			Dhaka Division			Khulna Division			Rajshahi Division		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
1995	5430.21 15.57%	979.61 2.81%	6409.82 18.38%	18622.97 53.41%	2220.31 6.37%	20843.28 59.78%	2154.35 6.18%	738.66 2.12%	2893.01 8.30%	1270.94 3.64%	2306.75 6.62%	3577.69 10.26%
1996	6076.51 15.36%	1039.74 2.63%	7116.25 17.98%	21657.47 54.73%	2443.35 6.17%	24100.82 60.91%	2265.67 5.73%	794.82 2.01%	3060.49 7.73%	1464.77 3.70%	2541.57 6.42%	4006.34 10.13%
1997	6817.20 15.57%	1061.01 2.42%	7878.21 17.99%	24437.29 55.81%	2510.08 5.73%	26947.37 61.55%	2531.19 5.78%	823.34 1.88%	3354.53 7.66%	1595.39 3.64%	2642.96 6.04%	4238.35 9.68%
1998	73.81.96 14.49%	1328.81 2.61%	8710.77 17.10%	29569.57 58.05%	2985.29 5.86%	32554.86 63.91%	2862.80 5.62%	967.65 1.90%	3830.45 7.52%	1706.49 3.35%	2500.80 4.91%	4207.29 8.26%
1999	8429.30 14.95%	1464.61 2.60%	9893.91 17.54%	32407.06 57.46%	3329.33 5.90%	35736.39 6.36%	3130.05 5.55%	1070.01 1.90%	4200.06 7.45%	1982.05 3.5%	2685.30 4.76%	4667.35 8.28%
2000	8769.40 13.88%	1387.99 2.20%	10157.39 16.08%	38020.00 60.18%	3221.33 5.10%	41241.33 65.28%	3505.81 5.55%	1058.94 1.68%	4564.75 7.23%	2518.95 3.99%	2502.24 3.96%	5021.19 7.95%
Average	14.97%	2.55%	17.51%	56.61%	5.86%	62.47%	5.74%	1.92%	7.65%	3.64%	5.45%	9.09%

As on 31st December	Barisal Division			Sylhet Division			All Division		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
1995	227.97 0.65%	319.68 0.92%	547.65 1.57%	263.99 0.73%	333.08 0.95%	597.07 1.71%	27970.43 80.22%	6898.09 19.78%	34868.52 100%
1996	259.14 0.65%	365.88 0.92%	625.02 1.57%	298.89 0.76%	360.68 0.91%	659.57 1.67%	32022.45 80.93%	7546.04 19.06%	39568.49 100%
1997	284.51 0.65%	396.65 0.91%	681.16 1.56%	325.12 0.74%	358.66 0.82%	683.78 1.56%	35990.70 82.20%	7792.70 17.80%	43783.40 100%
1998	343.02 0.67%	497.93 0.98%	840.95 1.65%	361.87 0.71%	435.86 0.86%	797.73 1.57%	42225.71 82.89%	8716.34 17.11%	50942.05 100%
1999	397.40 0.70%	554.97 0.98%	952.37 1.69%	460.76 0.82%	487.38 0.86%	948.14 1.68%	46806.62 82.99%	9591.60 17.01%	56398.22 100%
2000	579.56 0.92%	536.18 0.85%	1115.74 1.77%	542.68 0.86%	529.18 0.89%	1071.86 1.70%	53936.40 85.38%	9235.86 14.62%	63172.26 100%
Average	0.71%	0.93%	1.64%	0.77%	0.87%	1.65%	82.44%	17.56%	

Source : Scheduled Banks statistics, various issues. Figure in parenthesis represent growth rates in percent over the figure of preceding year.

Financing for Agricultural Development:

For any credit program it is essentially required are adequate institutional arrangements through which the programs are to be implemented. If the institutional framework is not quantitatively and qualitatively adequate, the program may not be successful no matter how well designed and good ideas are incorporated therein. It is all the more important and pertinent in the case of rural financing and agricultural credit because of the fact that such program covers wide areas involving vast majority of people of the country. As such, agencies for rural finance and agricultural credit have to be initially designed and staffed keeping in view on the socio-economic situation prevailing in the country.

The agencies for rural finance has to be arranged for catering to the needs of the people in respect of (i) rural development, (ii) agricultural development, (iii) development of co-operative movement and (iv) rural/agricultural financing. Sometimes institutional arrangement may have to be made keeping in view the special need of a particular class of people in respect of economic, professional and regional status. It is heartening to see that in Bangladesh there are ample institutional arrangement to cater the needs of most of our people. May be that these institutions are not in a position to play the desired role quantitatively and qualitatively. The deficiencies can be removed over times once the institutions are there.

In the field of rural finance and agricultural credit the following institutions are engaged with varied degree of involvement. These are Bangladesh Bank (Central bank of the country) as the central authority in the matter of money and credit management. Bangladesh Krishi bank & Rajshahi Krishi Unnyan Bank as specialized banks to work throughout the country to meet the rural and agriculture finance. Bangladesh Rural Development Board for promoting rural development through credit, social program and promoting the cause of co-operatives. Bangladesh Samabaya bank Limited which acts as the apex Co-operative Bank, Grameen bank for providing credit to the landless rural poor for any income-generating activity, Commercial Banks who among other banking transactions play a vital role in the dispensation of agricultural and rural finance.

The involvement of Commercial Bank in agricultural financing is a new phenomenon in the history of rural finance in Bangladesh. Until early 1977 the involvement of commercial banks in agricultural financing was insignificant. The very establishment of Commercial Banks was by the urban people and for the urban people. The commercial banks are generally meant for meeting the financial needs of the urban industrial and commercial magnates who were in some cases, owners of such banks. As such the commercial banks did not play a positive role in the development of rural economy of the country.

In the early 60's the then State Bank of Pakistan thought of having bank branches in rural areas and it was mandatory for banks to open rural branches at a proportionate rate of opening urban branches. But these branches were mainly used for mobilizing rural deposits which amount was spent in urban advances. As such, no positive headway was made in rural finance and the banks were hesitant in providing credit to farmers and disadvantaged group.

However, with the introduction of special Agricultural Credit Program (SACP) in February,1977, the Commercial Banks were directly involved in rural financing. The SACAP is target oriented program and specific amount was earmarked for each bank to be disbursed in agricultural credit. A very simplified procedures were involved with no collateral provision. Wide coverage in respect of target group people was arranged under which small, marginal and landless farmers were eligible for credit. This is now the commercial banks were involved in agricultural credit and their performance is more or less satisfactory in this field - 5.

The table will show the disbursement and recovery trend by commercial banks in agricultural field:

Table - 5

Participation of Commercial Bank in Rural Finance

(Taka In Crore)

Year	Program/Target	Disbursement	Due of Recovery	Recovery	Percentage of Recovery
1	2	3	4	5	6=5 as % of 4
1981-82	453.74	423.84	648.30	314.34	48.49
1982-83	617.20	678.55	817.27	342.33	41.89
1983-84	850.00	1005.30	1238.22	517.57	41.80
1984-85	1150.00	1152.84	1515.00	583.90	38.54
1985-86	1276.50	631.72	2375.19	607.15	25.56
1986-87	1075.00	667.28	2683.54	1107.56	41.27
1987-88	1050.00	656.31	2528.16	595.78	23.57
1988-89	1250.00	807.62	3044.66	577.96	18.98
1989-90	1350.00	686.78	3986.27	701.94	17.61
1990-91	1310.00	595.60	4556.65	625.32	13.72
1991-92	1322.10	794.59	4170.15	662.11	15.88
1992-93	1474.41	841.85	4719.93	869.23	18.42
1993-94	1643.08	1100.79	5141.86	979.12	19.04
1994-95	2161.72	1605.44	5632.01	1124.11	19.96
1995-96	2434.27	1635.81	6193.50	1340.02	21.64
1996-97	2394.22	1672.43	6972.24	1646.38	23.61
1997-98	2525.83	1814.53	7274.72	1779.21	24.46
1998-99	3472.93	3245.36	7459.06	2039.65	27.34
1999-00	3610.54	3473.88	10094.59	3349.13	33.18

Source : Agricultural Credit Department, Bangladesh Bank.

Now that a good network of branches of commercial banks have been opened even in remote corners of the country and these branches can very usefully be utilized for the purpose. What is required is appropriate policy and procedures so that these institutions can work peacefully and with perfection. One aspect of rural credit by commercial banks that is quite important for achieving a viable rural finance system is adequate mobilization of domestic resources in rural areas. The performance of commercial banks are shown in the table - 6.

Table - 6

Agricultural Credit

Percentage of Recovery Overdue.

Year	NCB	Specialized Banks	Private Banks including Islamic Banks	BSBL and BRDB
1981-82	31.30	67.82	0	36.43
1982-83	30.02	49.64	0	45.24
1983-84	32.37	49.94	0	37.70
1984-85	30.02	44.21	0	36.89
1985-86	21.36	30.57	14.02	21.55
1986-87	43.51	41.39	26.70	38.75
1987-88	17.42	27.20	16.43	21.49
1988-89	13.81	21.76	11.71	20.78
1989-90	12.63	21.17	10.83	14.01
1990-91	11.80	16.49	5.84	6.49
1991-92	18.91	18.24	8.75	2.15
1992-93	19.08	22.47	16.65	2.66
1993-94	19.59	23.51	7.12	2.69
1994-95	20.17	23.73	N.A	5.95
1995-96	21.62	23.22	0	8.25
1996-97	24.08	25.81	79.96	11.45
1997-98	21.28	28.46	92.35	12.20
1998-99	18.71	36.62	85.72	8.45
1999-00	21.38	39.40	61.53	25.90

In this way, the commercial banks have been contributing towards agricultural finance thereby doing something positively in different major rural sectors of the economy.

Source : Agricultural Credit Department, Bangladesh Bank.

Commercial banks financing in industries.

Industries comprises of cottage industry, small, medium and large industries. The clear cut distinction of these groups of industries are defined in different industrial policies. Cottage industries are very vital sector in consideration of the socio-economic structure of the country. Bangladesh is basically an agricultural country and there is excessive pressures of populations on agriculture associated with seasonal and disguised unemployment. The industries are neglected for years together in our country. It ushered a new era that NCBs have come forward to take the responsibility to develop this sector. Since 1981, out of 4(four) NCBs, Sonali Bank, Janata Bank and Agrani Bank have started to handle this sector though these functions are not within their commercial out look. Size-wise break-down of the loan cases sanctioned by all banks are given in the table - 7.

Table – 7.

Financing in Industries

(Taka In Lacs)

Economic Purpose	1995		1996		1997		1998		1999		2000	
	No.	Amnt.	No.	Amnt	No.	Amnt	No.	Amnt.	No.	Amnt.	No.	Amnt.
Large and Medium Industries	80335	931332 94.65%	69630	1017559 95.94% (8.47)	73411	1162718 94.90% (12.48)	69641	1425738 94.81% (18.45)	120074	1556055 95.11% (8.37)	127602	1673274 95.29% (7.00)
Small and Cottage Industries	66429	52596 5.35%	63141	43016 4.06% (-22.27)	59158	62487 5.10% (31.16)	76217	78027 5.19% (19.92)	57151	800025 4.89% (2.49)	58505	82698 4.71% (3.23)
		983928		1060575		1225205		1503765		1636080		1755972

Source: Scheduled Banks tatistic, various issues.

Economic classification of projects approved under the credit shows that major portion of the loans sanctioned comprised of investments in textile industries, food and allied products and engineering industries. The distribution among the major economic groups of industries is given in the table - 8.

Table - 8

Industrial Financing

(Taka In Lacs)

Sl.#	Sectors	1995	1996	1997	1998	1999	2000
1	Food Staff	152530 15.50%	176699 (13.68) 16.66%	163803 (-7.87) 13.37%	5312 (-2938.64) 11.10%	170885 (96.89) 10.98%	187174 (8.70) 11.19%
2	Beverage and Tobacco Industries	15096 1.53%	24774 (39.07) 2.34%	84671 (70.74) 6.91%	4058 (-1986.52) 8.47%	34799 (88.34) 2.24%	23512 (-48.00) 1.41%
3	Jute,Cotton & Wearing Apparels Industries.	428961 43.60%	476470 (9.97) 44.93%	548508 (13.13) 44.77%	7421 (-7291.29) 15.49%	753676 (99.02) 48.44%	790156 (4.62) 47.22%
4	Leather and Leather Products	43395 4.41%	52274 (21.49) 5.21%	65363 (15.44) 5.33%	120 (-54369.17) 0.25%	81534 (99.85) 5.24%	95749 (14.85) 5.72%
5	Paper, Paper Products and Printing	44594 4.53%	35265 (-26.45) 3.33%	40441 (12.80) 3.30%	5847 (-591.65) 12.20%	59507 (90.17) 3.82%	77749 (23.46) 4.65%
6	Manufacturing of wood and wood products including pulp	4851 0.49%	6263 (22.55) 0.59%	6355 (1.45) 0.52%	71 (-8850.70) 0.15%	6460 (98.90) 0.42%	7201 (10.29) 0.43%
7	Manufacturing of Chemical, Chemical Products, Petroleum, Plastic Products & Rubber Procts.	79767 8.13%	79735 (-0.29) 7.52%	86352 (7.66) 7.04%	1908 (-4425.79) 3.98%	138288 (98.62) 8.89%	191918 (27.94) 11.47%
8	Manufacturing of Non-Metalic Mineral Products	30244 3.07%	39480 (23.39) 3.72%	45524 (13.28) 3.72%	429 (-10511.66) 0.90%	42088 (98.98) 2.70%	46000 (8.50) 2.75%
9	Engineering, Basic Metal and Metal Products	131694 13.38%	123599 (-6.55) 11.65%	176449 (29.95) 14.40%	6358 (-2675.23) 13.27%	188793 (96.63) 12.13%	171117 (-10.33) 10.23%
10	Small Scale & Cottage Inds	52596 5.35%	43016 (-22.27) 4.06%	62487 (31.16) 5.10%	16397 (-281.09) 34.22%	80025 (79.51) 0.05%	82698 (3.23) 4.94%
		983928	1060575 (7.23)	1225205 (13.44)	47921 (-2456.72)	1556055 (96.92)	1673274 (7.01)

Source : Scheduled Banks statistics, various issues. Figure in parenthesis represent growth rates in percent over the figure of preceding year.

Besides this, the NCB's are participating in financing from their own sources of fund as well as from the funds available from foreign credit lines. The distribution of industrial credits from different credit lines is given in Table - 9.

Table - 9

Distribution of Industrial Credit from different credit lines.

(Taka In Crore)

SL.#	ECONOMIC GROUP	NO.OF PROJECTS	AMOUNT IN TK.CRORE	% OF TOTAL
1	IDA CREDIT NO.1065	540	47.5	2.48
2	BANK'S OWN SOURCE	1267	1626.30	85.03
3	CREDIT GUARANTEE SCHEME	25	7.30	0.38
4	EXIM BANK CREDIT	139	50.60	2.65
5	BSCIC CONSORTIUM	54	6.00	0.31
6	SPECIAL CREDIT PROGRAM	2785	38.10	1.99
7	BSCIC SUBCONTRACTING	14	1.20	0.06
8	SMALL ENGINEERING IND.(BSCIC)	9	7.60	0.40
9	ENTREPRENURE DEV.PROGRAM	1	0.05	0
10	ADB CREDIT NO. 773	14	5.30	0.28
11	OPEC CREDIT NO.393-P	58	26.90	1.41
12	MICRO ENTERPRIZE LOAN SCHEME	526	1.10	0.06
13	GENERAL RURAL IND.CREDIT	1809	47.40	2.48
14	OTHERS	18437	47.20	2.48
	TOTAL:	25676	1912.55	100

Source: Compiled from a Traing material on Financing Small Enterprises BIBM-1999

Performance of commercial banks credit:

The banks and financial institutions in Bangladesh used to operate under the rigid regulations. The regulations covered interest rates on deposits and advances, direction of credits to public sector enterprises and targeted sectors/areas by the Government. At time, the legal administrative framework could not stand on the way of undue influence making inroads into the decision making process resulting in misdirection of credit, partial waiver of dues and even complete write-off. Classification of bank advances made by Bangladesh Bank was mainly based on subjective evaluation of their auditors.

To diagnose the malaise and identify ways and means for recovery, a National Commission on Money, Banking and Credit was set up by Government in 1986. They completed a major study, which identified a number of problems/issues in the banking sector and formulated a set of recommendations aimed at their solutions. Subsequently, a World Bank team made an in-depth study of the financial sector and suggested reforms among others to the end of (a) Fixation of interest rates on deposits and advances, (b) classification of overdue loans (c) restructuring of capital of Nationalized Commercial Banks and Private Commercial Banks and (d) market orientation of banking transactions.[28]

Largely based on findings and recommendations of the commission, the Government agreed to adopt and pursue a reform program for the financial sector of the country from 1990.

Major objectives of the Financial Sector Reforms were to (1) remove gradually the distortions in the interest rates structure with a view to improving the allocation of resources, (ii) Improve loan recovery process, (iii) Establish appropriate accounting policies and modes of recapitalization and (iv) expand and strengthen capital market.

On the backdrop of bringing about a pertinent G.D.P growth and to make the economy self-reliant and volatile, lending and investment has already been allowed to soar high. Growth pattern of bank loan during the period 1987-88 and 1999-2000 is shown below:

Table - 10

Growth Pattern of Bank Loan

(Tk. In Crore)

Year	Advances	Bills	Total Bank loan	Growth %	Remarks
1987-88	13341.50	469.00	13810.50	18.93	
1988-89	15886.73	477.05	16363.78	18.49	
1989-90	19032.44	546.59	19579.03	19.49	
1990-91	21245.65	640.84	21886.49	11.78	
1991-92	21585.84	679.78	22283.61	1.81	
1992-93	23192.39	762.81	23955.20	7.50	
1993-94	23922.70	762.41	24685.11	3.05	
1994-95	32979.46	931.41	33910.87	37.37	
1995-96	37166.04	1091.33	38257.37	12.82	
1996-97	41764.56	1227.23	42991.79	12.38	
1997-98	47989.72	1862.48	49852.20	15.96	
1998-99	53983.58	1653.33	55636.91	11.60	
1999-2000	59361.74	2191.20	61552.94	10.63	

Source : Scheduled Banks statistics, various issues.

The total bank loan recorded a substantial growth of 18.93 percent of Taka 13810.50 crores during 1987-88 compared to the preceding year. The trend continued to gain ground until the intervention poised by FSRP during 1990-91 when it experienced a wane followed by a shocking shed to the tune of only 1.81 percent to Tk 22,283.61 crores in June 1991.The reason for such a shortfall had been attributable to heavy amount of overdue loans. To ease the ever increasing and aggravated burden of overdue and stuck-up advances a cautious step had been adopted in loan disbursement . This attitude triggered off the loan growth by 7.50 percent to Tk 23,955.20 crores during 1992-1993 compared to 3.05 percent to Tk. 24685.11 crores in 1993-1994. Growth rate of

2.3 Sources of fund for industrial credits and its deployment performance:

The commercial banks extend lending to different sectors from the funds collected through different types of deposit accounts. At present the banks both nationalized and private banks collected deposits from the public members in the following types of accounts.

1. Current deposit accounts
2. Savings deposit accounts
3. Fixed deposit accounts
4. Special Notice Time Deposit accounts
5. Deposit Pension Scheme accounts.
6. School Banking Savings accounts
7. Call deposit accounts

Source:(Annual Report, Agrani Bank)

The deposit so collected by the above mentioned accounts are classified in the following manner for deployment of fund for short term and long term lending.

	Demand Deposit	**Time Deposit**
Current Deposit	100%	----
Savings Deposit	80%	20%
Fixed Deposit a/c	----	100%
SNTD	----	100%
DPS	----	100%

Source : Instructions of Bangladesh Bank.

However , The banks maintain a statutory liquidity requirement according to banking co,s ordinance before going to finance of bank funds . The present structure of statutory liquidity requirement is given below:

(1)	Cash Reserve Requirements (Deposit with Bangladesh Bank Current account and Cash in vault's)	5% of total deposits
(2)	Statutory Liquidity Reserve in Bond, Treasury bill etc)	15% of total deposits
(3)	Loanable funds	80% of total deposits
		100%

Largely based on findings and recommendations of the commission, the Government agreed to adopt and pursue a reform program for the financial sector of the country from 1990.

Major objectives of the Financial Sector Reforms were to (1) remove gradually the distortions in the interest rates structure with a view to improving the allocation of resources, (ii) Improve loan recovery process, (iii) Establish appropriate accounting policies and modes of recapitalization and (iv) expand and strengthen capital market.

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1997-98	47989.72	1862.48	49852.20	15.96	
1998-99	53983.58	1653.33	55636.91	11.60	
1999-2000	59361.74	2191.20	61552.94	10.63	

Source : Scheduled Banks statistics, various issues.

The total bank loan recorded a substantial growth of 18.93 percent of Taka 13810.50 crores during 1987-88 compared to the preceding year. The trend continued to gain ground until the intervention poised by FSRP during 1990-91 when it experienced a wane followed by a shocking shed to the tune of only 1.81 percent to Tk 22,283.61 crores in June 1991.The reason for such a shortfall had been attributable to heavy amount of overdue loans. To ease the ever increasing and aggravated burden of overdue and stuck-up advances a cautious step had been adopted in loan disbursement . This attitude triggered off the loan growth by 7.50 percent to Tk 23,955.20 crores during 1992-1993 compared to 3.05 percent to Tk. 24685.11 crores in 1993-1994. Growth rate of bank credit jumped to 37.37 percent in 1994-95 from 3.05 percent in the year 1993-94. Thereafter, it maintains a steady growth rate of credit from 10 percent to 12 percent upto 1999-2000. Despite establishment of Financial Loan Court (Artha Rin Adalat) and adoption of other measures as to attaining speedy recovery of loans., the success to that end is not up to the mark.

Disbursement of loans extended to most vital sectors like Agriculture, Industry and housing totaled only to Tk 726.92 crores , Tk 259.83 crores and Tk 152.89 crores respectively during 1987-88 but in June 1994, it stood to Tk.1100.79 crores, Tk 1388.17 crores and Tk 181.90 crores respectively. Of these amounts Tk 2011.59 crores, Tk.347.62 crores and Tk 151.00 crores remained overdue respectively during 1987-88. The outstanding loans in agriculture sector alone till June,1993 amounted to Tk 5692.84 crores. In June,1994 the sector leaves an amount of Tk 6222.00 crores as outstanding . The outstanding loan stood at Tk.899.19 crore, 16732.74 crore and 3573.43 crore in Agriculture, Industry and Housing respectively in the year 1999-2000.

Table - 11

SECTORWISE DISBURSEMENT, OUTSTANDING AND OVERDUE LOANS

(Tk. In Crore)

Year	Disbursement			Outstanding			Overdue		
	Agriculture	Industry	Housing	Agriculture	Industry	Housing	Agriculture	Industry	Housing
1987-88	726.92	259.83	152.89	3863.49	700.38	1292.77	2011.59	347.63	151.00
1988-89	889.88	272.24	116.62	4711.66	1582.68	1592.35	2450.80 (52.02)	365.52 (23.09)	184.21
1989-90	721.59	261.54	39.57	5381.29	1588.27	1899.32	3418.86 (63.53)	696.49 (43.85)	264.97 (13.95)
1990-91	641.30	425.33	6.38	5703.45	1795.81	2048.13	4048.23 (70.98)	860.93 (47.94)	313.43 (15.30)
1991-92	802.32	669.96	1.31	5369.56	2403.62	2103.54	3747.50 (69.79)	1047.03 (43.56)	328.00 (15.59)
1992-93	841.85	719.11	27.00	5692.84	2215.67	2303.90	3854.36 (67.71)	1223.25 (55.21)	345.00 (14.97
1993-94	1100.79	1388.17	181.90	6222.00	2261.34	1690.97	4202.72 (67.56)	1263.69 (55.88)	180.66 (10.68)
1994-95	2889.43	2564.42	0	5894.91	9029.16	1942.89	3069.48 (52.07)	4478.46 (49.60)	225.38 (11.60)
1995-96	133.04	1576.59	173.84	6513.39	10605.75	2116.73	3388.27 (52.02)	2448.86 (23.09)	244.91 (11.57)
1996-97	128.81	1646.30	335.88	6642.20	12252.05	2452.61	4219.79 (63.53)	5372.52 (43.85)	342.14 (13.95)
1997-98	840.15	2785.60	276.25	7482.35	15037.65	2728.86	5310.97 (70.98)	7209.05 (47.94)	417.52 (15.30)
1998-99	677.60	522.90	472.49	8159.95	15560.55	3201.35	5694.83 (69.79)	6778.18 (43.56)	499.09 (15.59)
1999-2000	830.24	1172.19	371.85	8990.19	16732.74	3573.42	6087.26 (67.71)	9238.15 (55.21)	534.95 (14.97)

Source : Scheduled Banks statistics, various issues.

<u>NOTES</u>: Housing includes dwelling as well as industrial building and contains figures of HBFC also.

Outstanding loan excluding staff loan as on 1989 totaled Tk 15329.51 crores of which 27.07% i.e. Tk 4150.08 crores remained classified Tk 17,710.99 crores was outstanding leaving a 26.24% thereof as classified to Tk 4,446.62 crores as of 1990 against Tk 19,278.47 crores having 26.14% classified to Tk 5,039.24 crores as on 1991 and 21,437.93 crores i.e. 30.70% to Tk 6,581.35 crores classified as on 1992. The total loan as of December, 1993 was Tk 24,491.80 crores where 34.89% i.e. Tk 8544.88 crores was classified whereas in 1994 although the loan expanded by 5.44% to Tk 25,824.06 crores, it left 27.04% to Tk 6,983.02 crores as classified. The total classified loans also reached to 37.49% and 39.18% in the year 1997 and 1998 respectively. In spite of strict measures adopted by the banks and financial institutions among others, for rapid recovery trend of stuck-up loans still exhibits on an average an erratic pattern having an upward drift in the year 1997 and 1998.

The cumulative effect of the ever growing outstanding and overdue stints of bank credits casting up therewith the unusual colossal enhancement of cost of fund had already ushered in serious setback not only in the banking spheres but also in the economy of the country as a whole and it has long been opportune to device ways and means to bring forth retardation to this worsening conditions.

The position of overdue amount of loan has assumed such as unfavorable stature in every nook and corner of the economic sector that it hardly gets an opportunity to come out of it.

2.2. Portfolio of credits:

Bank generally deploy its fund to get some return from it. For this purpose, bank develop different credit products and offer these products to the customers. The bank devises its products based on economic sectors, namely agriculture, industry and trade etc. The bank, which offers its credit products to the different customers, can be grouped namely in agriculture, industry and trade sectors. The sectors can be classified as under:

1. Industrial credit
2. Agricultural credit
3. General credit

Total amount of outstanding loan as on 31-12-2000 was Tk 63172.26 crore. Out of these, Industrial, Agriculture and General credit was Tk 16732.74, Tk 8990.19 and Tk 37449.33 crore respectively. Therefore, the ratio of the loans are as under:

Industrial credit-	26.49%
Agricultural credit	14.23%
General credit	59.28%
	100%

2.3 Sources of fund for industrial credits and its deployment performance:

The commercial banks extend lending to different sectors from the funds collected through different types of deposit accounts. At present the banks both nationalized and private banks collected deposits from the public members in the following types of accounts.

1. Current deposit accounts
2. Savings deposit accounts
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4. Special Notice Time Deposit accounts
5. Deposit Pension Scheme accounts.
6. School Banking Savings accounts
7. Call deposit accounts

Source:(Annual Report, Agrani Bank)

The deposit so collected by the above mentioned accounts are classified in the following manner for deployment of fund for short term and long term lending.

	Demand Deposit	**Time Deposit**
Current Deposit	100%	----
Savings Deposit	80%	20%
Fixed Deposit a/c	----	100%
SNTD	----	100%
DPS	----	100%

Source : Instructions of Bangladesh Bank.

However , The banks maintain a statutory liquidity requirement according to banking co,s ordinance before going to finance of bank funds . The present structure of statutory liquidity requirement is given below:

(1) Cash Reserve Requirements (Deposit with Bangladesh Bank Current account and Cash in vault's)	5% of total deposits
(2) Statutory Liquidity Reserve in Bond, Treasury bill etc)	15% of total deposits
(3) Loanable funds	80% of total deposits
	100%

Besides this, different credit lines are available to finance in industrial sectors. Some of credit lines, which are now extending credits to industrial sectors, are given below:

1. IDA credit no 1065 BD
2. BSCIC consortium
3. Special Credit Program
4. BSCIC sub-contracting
5. Financing Small Engineering Projects (BSCIC)
6. EXIM Bank Credit
7. OPEC credit no. 393-p
8. ADB credit no 793-Ban (SF)
9. ADB credit no. 891-Ban (SF)

Source (21)

1.4 Deployment performance of fund in industrial credit

The fund deployment performance of Sonali Bank, Janata Bank and Agrani Bank is given in the table-12, table-13 and table-14 respectively.

Table - 12

Industrial credit recovery performance of Sonali Bank

Taka in Crore

Performance	Industrial Credit	Small & Cottage Industrial Credit (SCI)	SCI Credit as % of Industrial Credit
Sanction	1858.56	523.08	28.14
Disbursement	1258.57	456.68	36.14
Recoverable	1121.85	556.68	49.62
Recovered	427.84	220.12	51.44
Overdue	694.01	336.56	48.49
Outstanding	2260.00	685.39	30.32

Source: (22)

While analyzing the data of Sonali Bank as given in table 12, it has been observed that Sonali Bank sanctioned Tk. 1858.56 crore as industrial credit. Out of these amount of Tk.1858.56, the bank has allocated Tk. 523.08 crore for small and cottage industries which is about 28.14% of total industrial credit. Disbursement rate of IC and SCI are 67.72% and 87.31% respectively. Recovered against recoverable amount Tk. 38.14% and 39.54% respectively. Both disbursement and recovery are unsatisfactory. As it is far beyond the international standard.

Table-13

In respect of sanction & disbursement of Industrial Credit of Janata Bank is the second highest in the banking sector, the summarised postion of Industrial Credit Performance of Janata Bank is given below :-

STATEMENT SHOWING THE POSITION OF PROJECT FINANCE UNDER VARIOUS SCHEDMES AS ON 28/02/99 OF JANATA BANK

(TK. IN LAC)

Sl. No.	Name of the schemes	Allocation	Sanction		Disbursement		Interest accrued	Amount Due for Recovery	Amount Recovered	Amount Overdue	Outstanding		% of Recovery
			No.of Project	Amount	No.of Project	Amount					No.of Project	Amount	
1	SIDA	80.00	5	73.37	5	72.26	128.49	200.75	167.39	33.36	1	33.36	83%
2	ITALIAN CREDIT	31.97	2	6.92	2	6.92	10.42	17.34	14.13	3.21	1	3.21	81%
3	US-AID		8	48.41	8	48.88	80.76	129.64	129.64	0.00	0	0.00	100%
4	JANATA BANK OWN RESOURCE		8	161.94	8	162.00	291.39	455.14	322.43	132.71	2	130.96	71%
5	C.F.E. TK. 1.00 CRORE	210.00	15	112.87	15	110.68	293.26	403.24	226.94	176.30	2	176.90	56%
6	C.F.E. TK. 1.50 CRORE	66.00	6	36.81	6	35.77	106.98	142.75	59.96	82.79	4	82.79	42%
7	C.F.E. TK. 2.50 CRORE	100.00	4	58.59	4	58.22	78.16	136.38	96.64	39.74	2	39.74	71%
8	C.F.E. TK. 3.00 CRORE	175.00	9	113.77	9	113.91	305.49	419.40	262.30	157.10	7	157.10	63%
9	SALT CRUSHING PROGRAM	10.50	5	10.50	5	9.95	12.88	21.81	9.87	11.94	4	12.96	45%
10	IDA CREDIT 353-BD	USD 3 MILLION	8	105.31	8	99.47	156.19	255.66	255.66	0.00	0	0.00	100%
11	IDA CREDIT 825-BD	USD 7	94	497.56	94	473.53	621.08	1095.95	716.89	379.06	32	377.74	65%
	IDA CREDIT 825-BD (JUTE,CANE,BAMBOO & HANDICRAFT PRODUCT)	MILLION	381	15.46	381	15.27	31.76	47.03	12.43	34.60	256	34.60	26%
12	IDA CREDIT 1065-BD	USD 9 MILLION	232	1771.20	232	1691.30	2698.15	4365.84	2072.97	2292.87	126	2316.48	47%
13	SAUDI GRANT	USD 4 MILLION	37	880.91	37	849.53	2342.38	3186.80	749.35	2437.45	27	2442.62	24%
14	EXIM BANK	IRS 60 MILLION	20	483.38	20	489.94	1293.62	1695.98	446.51	1249.47	14	1337.03	26%
15	JANATA BANK OWN FINANCE PRGM-I		171	4392.43	142	3010.14	2431.85	5361.37	2842.04	2519.33	81	2599.95	53%
16	ABD 891 BAN(SF)		10	1876.78	9	1464.75	1764.34	1733.03	977.48	755.55	8	2251.62	56%
17	JANATA BANK OWN FINANCE PRGM-II		313	95174.42	205	44093.12	15567.02	14763.25	9638.43	5124.82	172	50021.71	65%
	SUB-TOTAL:		1328	105820.63	1190	52805.61	28214.22	34431.36	19001.06	15430.30	739	62018.77	55%
18	NORAD CREDIT	83.43	1789	118.48	1748	99.06	106.18	199.53	139.02	60.51	653	66.22	70%
19	SPECIAL CREDIT PROGRAM	4025.00	1644	1376.97	1610	1319.57	1443.86	2591.95	1465.46	1126.49	756	1297.97	57%
	GRAND TOTAL:		4761	107316.08	4548	54224.24	29764.26	37222.84	20605.54	16617.30	2148	63382.96	55%

Source: Industrial Credit Department, Janata Bank

In analysing the above table it is opbserved that recovery aganst disbursement is 46.11% and outsanding as against disbursement is 401.05% while clearly indicates that recovery performance is not able to balances the disbursement amount.

The deployment performance of

TABLE- 14

STATEMENT SHOWING THE OVERALL POSITION OF DIFFERENT CREDIT PROGRAMS OF AGRANI BANK
(FROM 50 THOUSAND TO 3 CRORE)

(AS ON 31-03-99)(TK. IN LAC)

Sl. No.	Name of Credit Program	Sanctioning		Disbursement		Rate of Disb.(%)	Recoverable Amount of	Recovery		Overdue		Outstanding	
		No.	Amount	No.	Amount			Amount	Rate (%)	No.	Amount	No.	Amount
1	IDA CREDIT	145	1733.46	145	1617.74	93.32	4230.74	1445.64	34.17	145	2785.4	145	2985.82
2	ENTERPRENEURSHIP DEV.	1	3.25	1	3.25	100.00	5.28	1.20	22.73	1	4.08	1	4.08
3	ADB CREDIT	14	507.24	14	463.32	91.44	553.12	173.01	31.28	14	447.43	14	648.03
4	EXIM BANK CREDIT	43	1587.88	43	1453.25	91.52	4177.42	276.46	6.64	43	3928.1	43	4036.42
5	OPEC CREDIT	53	2456.61	53	2147.37	87.41	3041.22	1199.15	39.43	53	1849	53	2670.79
6	BANKS OWN FUND	30	65.05	30	49.12	75.51	74.47	38.53	51.74	30	35.94	30	39.38
7	BANKS OWN FUND	464	23746.96	464	18429.74	77.61	20862.37	8552.94	41.00	464	12461	464	22028.14
8	MICRO ENTERPRISE	70	35.00	70	27.20	77.71	23.02	14.19	61.64	70	8.88	70	20.34
9	GENERAL RURAL CREDIT	8	57.50	8	43.00	74.78	81.98	14.02	17.10	8	67.96	8	73.96
10	BSCIC CONSORTIUM	34	332.86	34	330.07	99.16	976.48	604.27	61.88	34	372.21	34	375.00
11	BSCIC SUB-CONTRACTING	14	126.51	14	101.51	80.24	163.60	70.17	42.89	14	93.43	14	97.30
12	SPECIAL CREDIT	1394	2873.29	1394	2468.04	85.90	4045.17	1703.67	42.12	1394	2342.3	1394	2802.89
13	CREDIT GUARANTEE	35	914.09	35	735.46	80.46	383.12	64.86	16.93	35	320.66	35	895.15
14	SMALL ENGINEERING CREI	2	463.88	2	463.88	100.00	995.40	96.01	9.65	2	899.39	2	948.97
	TOTAL:	2307	34903.58	2307	28333.45	81.18	39613.39	14254.12	9.65	2307	25616	2307	37626.27

In analyzing the above table, it is observed that disbursement against sanctiond amount is 81.18% and average recovery is about 34.94% only. From this, it is assumed that classification rate of industrial credit is about 65% which is alarming.

Source : Industrial Development Finance Division, Agrani Bank

2.4. Trends in repayment performance Industrial Credit in Commercial Bank.

The figures regarding repayments, classified and outstanding as collected from Sonali Bank, Janata Bank & Agrani Bank have been adjusted in order to find out the actual performance of industrial credit operations by commercial banks. However, Sonali Bank and Janata Bank authority are reluctant to supply such type of data. As a result, analysis of Sonali Bank and Janata Bank have been left and analysis was confind to Agrani Bank. However, Agrani Bank authority is kind enough to supply sufficient available data on the subject. In the foregoing analysis, Agrani Bank's data is used to findout a result of the study.

Agrani Bank's position in respect of recovery as against recoverable amount for the year 1998, 1999 & 2000 is 35.74%, 36.04% & 38.80% respectively. The growth trend of recovery over the years is 1.50%. This alarming situation for a commercial bank which employs its huge fund in long term financing.

Recovery as against disbursement is 25.91%, 32.26% & 37.37% respectively classification status of the Bank's Industrial Credit is about 44.33% in 2000. The classification increases from 35.64% in 1998 to 43.58% in 1999 I.e. increased by 7.94% and again it is increased by 0.75% to 44.33 in 2000. While we look into the sectoral performance of recovery as aganst disbursement for the 2000, it is observed that the highest recovery is about 99.45% in the Forest and Allied Industries Sector, the lowest recovery is in the Cyramic Industries Sector i.e. 16.06%. The classification as against outstanding stood at 80.43%. If it is looked into the cold storage sector, it is seen that recovery as against disbursement is 17.05% in the year 2000. But its classification status is about 35.33%. The recovery rate is slow as well as classification status is about 35.33% only. From this it can be inferred that loan of this sector is rescheduled to reduce classification status or

Table-15

Statement Showing the Sector-Wise Credit Position of Agrani Bank
(From 50 Thousand to 3 Crore)

(As on 31-3-99)(Tk. In Lac)

Sl.#	Name of Sector	Sanctioning		Disbursement		Rate of Disb.(%)	Recoverable Amnt.of Loan	Recovery		Overdue		Outstanding	
		No.	Amount	No.	Amount			Amount	Rate (%)	No.	Amount	No.	Amount
1	Engineering	409	4078.30	409	3199.15	78.44	5469.35	1428.29	26.11	409	4041.89	409	4698.16
2	Electronics	16	118.68	16	126.93	90.34	169.25	107.33	63.30	16	62.12	16	63.53
3	Weaving(Jute)	2	2.00	2	1.00	50.00	1.68	0.33	19.84	2	1.35	2	1.35
4	Weaving(Tex.)	218	3809.59	218	3127.37	82.09	7817.20	1303.27	16.68	218	6580.75	218	7024.48
5	Computer Data Entry	8	73.60	8	57.85	78.60	54.84	45.35	82.70	8	9.49	8	37.17
6	Composite (NITT)	8	990.78	8	533.17	84.09	713.54	182.38	25.56	8	531.23	8	1061.94
7	Dyeing and Finishing	51	2101.81	51	1885.73	89.72	1729.71	622.62	36.00	51	1134.19	51	2453.12
8	Packaging	31	785.93	31	609.39	77.54	1196.32	264.92	22.14	31	931.40	31	1066.58
9	Food and Allied	304	2124.35	304	1797.88	84.63	2820.60	1186.15	42.05	304	1658.78	304	2130.03
10	Forest and Allied	145	277.27	145	235.42	84.91	473.07	203.78	43.08	145	269.29	145	292.88
11	Ice Mill	37	470.26	37	417.81	88.85	909.32	194.98	21.44	37	714.34	37	839.77
12	Rice Mill	107	314.64	107	263.93	83.88	603.70	267.61	44.33	107	336.09	107	364.69
13	Rubber	17	164.46	17	114.92	69.88	210.54	61.22	29.08	17	149.32	17	178.70
14	Knitt-Dye	2	492.32	2	424.92	86.31	117.20	53.77	45.88	2	63.43	2	671.35
15	Knitting	50	1291.57	50	1102.38	85.35	922.94	490.91	53.19	50	437.04	50	1060.44
16	Knitting(Sweater)	32	2618.27	32	1805.96	68.98	1496.03	639.26	42.73	32	863.01	32	1888.37
17	Printing	93	464.42	93	404.54	87.11	548.02	248.55	45.35	93	299.47	93	427.95
18	Fishery	12	273.59	12	177.63	64.93	113.10	32.40	28.65	12	80.70	12	196.21
19	Miscelleneous	169	1497.06	169	1295.07	86.51	1464.56	539.37	36.83	169	964.36	169	1664.31
20	Ceramic	5	742.32	5	665.88	89.70	574.04	80.83	14.08	5	493.21	5	978.71
21	Cold Storage	8	1068.54	8	1009.64	94.49	628.12	266.28	42.39	8	361.84	8	1239.10
22	Spinning (Tex.)	14	828.22	14	724.64	87.49	1097.89	490.51	44.68	14	607.38	14	821.81
23	Chemicals	172	2781.30	172	2157.73	77.58	2929.37	1006.02	34.34	172	1934.10	172	2918.38
24	Dairy & Poultry	204	1708.74	204	1304.05	76.32	1265.52	294.94	23.31	204	977.40	204	1617.22
25	Leather	24	560.07	24	306.81	54.78	359.81	146.78	40.79	24	213.03	24	375.29
26	Readymade Garments	169	5265.49	169	4303.60	81.73	5927.67	4095.97	69.10	169	1900.55	169	3554.73
	Total:	2307	34903.58	2307	28333.45	81.18	39613.39	14254.12	69.10	2307	25615.76	2307	37626.27

Source: Industrial Development Finance Division, Agrani Bank

Table-16

2.5. Sectoral Repayment Performance

Agrani Bank

(Taka In Lac)

Sl.#	Name of Sector	Sanctioned Amount		Disbursed Amount		Recoverable Amount		Recovered Amount		Classified Amount		Outstanding	
		1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
1	Textile except RMG	31585.31	32228.77	22243.27	25414.26	16282.30	21602.59	4337.14	6104.80	11945.16	15521.30	32434.64	36576.57
2	Readymade Garments	20493.80	21138.38	15674.73	15903.72	10353.86	13998.36	6141.74	7691.49	4212.12	6687.09	16885.37	18662.67
3	Jute Spinning & Weavin	1175.93	1003.79	915.54	913.56	291.63	382.58	174.16	370.24	117.47	67.98	1080.40	1054.80
4	Agrobased Ind.	2807.88	3251.06	2192.11	2721.76	2641.51	3805.82	798.10	1130.72	1843.41	2761.21	2966.65	3605.45
5	Cold Storage	11362.54	11627.75	9090.79	9967.77	3137.94	5307.44	1082.54	1431.03	2055.40	3956.36	11836.12	14107.27
6	Pharmaceuticals & Chemicals	15195.20	12556.67	12610.61	11459.62	8550.91	11329.93	1550.79	2188.63	7000.12	9150.89	18293.71	17671.10
7	Forest & Allied	286.70	271.07	234.89	231.58	483.59	476.07	209.91	220.92	273.68	255.15	300.47	279.96
8	Cement Inds.	0.00	2228.65	0.00	1345.77	0.00	304.25	0.00	304.25	0.00	0.00	0.00	1513.63
9	Cyramics	1320.72	617.95	1277.92	617.95	684.35	575.78	128.20	64.00	556.15	511.78	1386.73	817.00
10	Paper Inds.	157.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
11	Leather & L.goods	5835.64	4855.48	3149.11	3044.73	2790.20	3046.04	1965.39	1991.79	824.81	1143.94	2644.13	2661.61
12	Printing & Packaging	1255.90	1262.97	1027.67	1033.32	1717.62	1792.17	506.40	565.93	1211.22	1270.79	1475.17	1536.73
13	Engg.& Electronics	8810.96	8382.68	7214.61	7237.11	6283.22	7807.70	1896.88	3029.85	4386.34	5079.79	9641.52	9644.94
14	Food & Allied	2117.44	1951.40	1761.99	1745.45	2864.25	2812.18	1108.16	1228.84	1756.09	1727.73	2309.41	2208.24
15	Others.	2838.46	3714.54	2495.17	2246.87	1825.39	2829.87	799.04	1095.19	1026.35	1811.48	3139.32	4273.04
	Total:	105244.26	105091.16	79888.41	83883.47	57906.77	76070.78	20698.45	27417.68	37208.32	49945.49	104393.64	114613.01

Source: Industrial Development Finance Division, Agrani Bank.

Table-17

Sector-wise recovered, outstanding and overdue in relation to amount sanctioned and disbursed.

Sl.#	Name of Sector	Recovery as % of sanction			Revoery as % of disbursement			Outstanding as % of sanction			Outstanding as % of disbursement			Classified as % of Outstanding		
		1998	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999	2000
1	Textile except RMG	13.73	18.94	25.14	19.50	24.02	34.27	102.69	113.49	111.97	145.82	143.92	152.62	36.83	42.44	36.72
2	Readymade Garments	29.97	36.38	33.64	39.18	48.36	47.69	82.39	88.29	79.52	107.72	117.35	112.73	24.95	35.83	35.94
3	Jute Spinning & Weaving	14.81	36.68	52.88	19.02	40.53	58.10	91.88	105.08	100.28	118.01	115.46	110.19	10.87	6.45	6.75
4	Agrobased Ind.	28.42	34.78	37.18	3.41	41.54	44.74	105.65	110.90	116.67	135.33	132.47	140.42	62.14	76.58	74.67
5	Cold Storage	9.52	12.31	14.03	11.91	14.36	17.05	104.17	121.32	117.49	130.20	141.53	142.75	17.37	28.04	35.33
6	Pharmaceuticals & Chemicals	10.21	17.43	18.47	12.30	19.10	21.97	120.39	140.73	137.09	145.07	154.20	163.04	38.27	51.78	70.51
7	Forest & Allied	73.22	81.50	85.06	89.37	95.40	99.45	104.80	103.28	98.67	127.92	120.89	115.57	91.08	91.14	90.78
8	Cement Inds.	0.00	13.65	8.91	0.00	22.61	24.42	0.00	67.92	37.40	0.00	112.47	102.57	0.00	0.00	0
9	Cyramics	9.71	10.36	15.89	10.03	10.36	16.06	105.00	132.21	130.59	108.51	132.21	132.04	40.11	62.64	80.43
10	Paper Inds.	0.00	0.00	19.07	0.00	0.00	19.06	0.00	0.00	152.60	0.00	0.00	152.60	0.00	0.00	30.85
11	Leather & L.goods	33.68	41.02	43.15	62.41	65.42	69.11	45.31	54.82	56.03	83.96	87.42	89.74	31.19	42.98	55.17
12	Printing & Packaging	40.32	44.81	47.30	49.28	54.77	57.89	117.46	121.68	122.33	143.55	148.72	149.70	82.11	78.82	88.48
13	Engg.& Electronics	21.53	36.14	36.06	26.29	41.87	50.49	109.43	115.06	95.28	133.64	115.05	133.42	45.49	52.67	54.37
14	Food & Allied	52.33	62.97	71.72	62.89	70.40	79.62	109.07	113.16	102.89	132.31	126.51	114.21	76.04	78.24	79.91
15	Others.	28.15	29.48	17.49	32.02	32.72	39.79	110.60	115.04	55.84	125.82	127.67	127.05	32.69	42.39	54.09

Source: Industrial Development Finance Division. Agrani Bank

Table-18

Repayment Performance of Projects (AB)

(Tk. In Lac)

		1998	1999	2000
1	Total dues	104393.64	114613.01	119836.35
2	Total Recoverable Amount	57906.77	76070.78	84449.31
3	Total Recovered	20698.45	27417.68	32772.71
4	Total Recovered as % of total dues.	19.83	23.92	27.35
5	Total Recovered as % of total Recoverable Amount.	35.74	36.04	38.80

Source : Industrial Development Finance Division Agrani Bank.

Table-19

Amount Recovered, Outstanding and Overdue in Relation to Amount sanctioned and disbursed.

(Tk. In Lac)

		1998	1999	2000
1	Sanction	105244.30	105091.16	121610.85
2	Disbursement	79888.41	84983.47	87619.76
3	Due for Recovery	57906.77	76070.78	84449.35
4	Recovery	20698.45	27417.68	32742.71
5	Outstanding	104393.64	114613.01	119836.37
6	Classified	37208.32	49946.09	53126.39
7	Recovery as % of sanction	19.67%	26.09%	26.92%
8	Recovery as % of disbursement	25.91%	32.26%	37.37%
9	Outstanding as % of sanction	99.19%	109.06%	98.57%
10	Outstanding as % of disbursement	130.67%	134.87%	136.77%
11	Classified as % of Outstanding	35.64%	43.58%	44.33%

Source: Industrial Development Finance Division Agrani Bank.

LITERATURE REVIEW:

It will be observed that to review literature on industrial credit management a little in depth study has been done in Bangladesh relating to success and failure of industrial credit operations by commercial banks. What has been done is that some studies have been carried out as regard to default culture in banking sector as a whole.

Commercial Banks generally employ its fund on short term basis which is mobilized through different types of deposit accounts. Since these deposits are withdrawable on demand, this is why commercial banks deploy this fund on short term basis to get quick return to meet up its depositors interest, payment of staff salary and other expenses.

In Bangladesh, to finance in industrial sector, Development Financial Institutions (DFI) were established at the dawn of independence of Bangladesh. But these institutions were not able to cope with the growing demands of industrial credit of the country.

To cope with these demands, the Government of Bangladesh entrusted commercial banks with the responsibility of financing industrial sectors. As a result, the Nationalized Commercial Banks (NCB) started functioning to finance in industrial sector in the early eighties. This is a new phenomenon for Nationalized Commercial Banks (NCB) of Bangladesh.

Md. Nurul Alam and Syeeda Bilquis Jahan in their studies on Default Culture in Banking Sector of Bangladesh (23) opined that loan default is a universal phenomenon associated with all types of business enterprises. Loan default in case of banks has special significance because extending of credit is almost the exclusive business of banking institutions. Naturally magnitude of loan default largely determine the destiny of a bank, so its importance is absolute for the very existence of a bank. The writers have also opined that the current magnitude of loan default is quite enormous in the context of Bangladesh. Even the loan default has threatened the existence of the banking system at this moment, though this problem of loan default is not unique in Bangladesh. Most of the developing economics have been experiencing large scale loan default in the banking sector. Developed economics are also not exceptions in this field. In the recent period Japan which is the vanguard of economic development at the moment, has been experiencing wide spread bank loan default following economic depression.

Although upswings and downswings of economic developments had impacts on the performances of the banks on the whole the reasons for wide-scale loan defaults perceived in the banking sectors both in the public and private banks were inherent in the characteristics operational mechanism of the banks in the case of Bangladesh.

The historical background of the banking in the region of Bangladesh and the stages of developments leading to opening up of the economy in general and the banking system in particular to the market mechanism may enumerate its impact on the overall economy of Bangladesh.

- After the emergence of Bangladesh, all the banks except the foreign banks were nationalized. The commercial banks were merged into six larger banks namely, Sonali, Janata, Agrani, Rupali, Pubali and Uttara Bank. With the exodus of Pakistanis who manned the top and upper middle echelon of management, a sudden vacuum emerged in the effective top management of the nationalized banks. As a result, the banks which were nationalized had been put in the hands who had little experience of running banks. On the other hand, it lost the privilege of enjoying the surveillance of the owners having matured ideas and visions. Instead, it was instructed and guided by the bureaucrats who had no experience to run any sort of financial institutions not to speak of banks. Further, these bureaucrats were entrusted with the responsibility of running the banks without asking them to take up banking as their career. So, they took up the job casually and of course with no professional zeal and earnestness. Bureaucrats continued to move in and out of banking orbit off and on and thus contributed rather negatively towards the proper upliftment of the banking system.

- Further, the banks were called to extend liberal credits to revitalize war-torn and damaged industries and business establishments. The basic concept centering around the commercial considerations were set aside and the social considerations to provide services prioritized from the angle of national development by the political government, became the key for decision making. That the money lying with the banks belonged to the depositors and not to the national exchequer as also the doctrine that the prime responsibility of the banks is to protect the interests of the depositors had not been considered as the watchword for running the banks.

- As the banks departed from following the standard norms and practices, the state of affairs of the banks became vulnerable leading to large scale loan defaults. The loans taken by the public sector bodies like Bangladesh Jute Mills Corporation, Bangladesh Textile Mills Corporation and other state owned enterprises were stuck-up at these institutions used bank loans mostly for loss-financing. On the other hand, as the banks were 100 percent owned by the Government, the bank managements whose hiring and firing authority was the government itself, had to take the dictation of the Government in making further loans to the defaulting public sector enterprises. As a result, non-performing assets swelled up with the passage of time. Further, the top management of the banks neither possessed the maturity nor had the courage to pursue and make the Government to understand the actual business of the banks.

- Since most of the public sector credit sanctions were at the instance of the Government and in some cases had the guarantees provided by the Government, these loans were not classified in the earlier period. This, in fact, gave a wrong signal in the sense that these were not treated as non-performing assets and as such the banks appeared to have on worry about these non-performing assets. Although Bangladesh Bank tried to point out these weaknesses in the banking thread, its voices were not paid heed to in proper spirit and action. As a result the situation continued to worsen.

- Considering the backwardness of agriculture as also the high importance of agriculture in the overall economy, drive was made as the instance of Government to launch Tk. 100 crore special agricultural credit program in 1977. It was a crash program to disburse credit to the cultivators as crop loan. As the NCBs (National Commercial Bank) were drawn in a big way for agricultural loan for the first time, in fact, it paved the way for large scale default culture in this respect mainly because of lack of experience in dealing with agricultural credit by the NCBs.

- During early 1980s the role of banks in the private sector was felt as an important factor to invigorate the economy. A good number of new private bank were allowed to function. Banks following Islamic tenets also started functioning. Most notable developments was de-nationalization of two of the six NCBs, namely, Uttara and Pubali. A few more foreign banks were also allowed to operate in the capital and port cities. The situation of two de-nationalized banks needs to be specially noted. These banks carried with it the legacy of dictated loan profile. These banks differed from other banks in the private sector in that the new private banks were in a position to start afresh with their lending activities whereas the denationalized banks were plagued with classified loans inherited from the era of nationalization.

- During mid 1980s when the private banks started to expand its lending activities, these banks experienced somewhat new situation. The sponsor directors were specially interested to use their influences for taking the loans for their own business houses or for enterprises owned by their relatives or accomplices. Though the executives were free from the dictates of the bureaucrats, but had to show their allegiance to their new masters. There were instances that they frequently violated standard banking practices and set rules of Bangladesh Bank to satisfy the interests of the sponsor directors. In some cases these were done in so subtle a way that it was very difficult to unearth the foul play of the directors and the executives of the private banks.

- Following the recommendations of the National Commission on Money, Banking and Credit, 1984 as also the suggestions of the World Bank, widescale reforms in the financial sector, namely, FSRP (Financial Sector Reform Project) was put in place in early 1990s. Reform measures in the area of bank supervision including loan classification, provisioning, capital adequacy, MIS, legal framework, foreign exchange regime, introduction of indirect monetary instruments (BB Bills), interest rates both on deposits and lending were taken. The most important features of the reforms were making the central bank a supervisory body which called for withdrawal of administrative control on the banking system. As a result, the scheduled banks were left to run by their own judgement in the spirit of market economy.

Mr. Nurul Alam & Syeda Bilquis Jahan has also described the management of loan portfolio in the following manner:- (24)

- Management of loan portfolio is the most vital function of the banks. Bank performances in terms of returns to investments ultimately centers around how well a bank distributes its risks in its loan portfolio. In terms of banking regulation the scheduled banks are required to maintain a certain percentage of its time and demand liabilities (current rate 20 percent) usually in approved securities and in cash as liquid assets. These assets are mostly low yielding government securities but are featured with reasonable level of liquidity. Naturally, the prospect of making good profit by the banks lie in placing the remaining fund in loan portfolios where the banks are in a position to charge higher interests. It may be of interest to note that prior to introduction of FSRP, the banks were to follow an administered interest rate structure both for deposit and lending prescribed by the central bank. However, the central bank used to have no prescription as to in which sector the bank should deploy its funds.

- The assets held in the investment portfolio by the banks are usually the giltedged securities which fetch low yields but are very secured. As such, there occurred almost no cases of default. The classification of assets as also provisioning thereof in cases of banks thus centered around loans and advances only.

- Traditionally all the banks have separate credit department which deals in sanctioning, disbursements, monitoring and recovery of loans of various types. Recently, some of the large banks like NCBs have separate departments which deals in recovery of loans. Banks have separate set of rules enshrined in the manual to process and finalize credit proposals. However, it is commonly reported that many important decisions with regard to sanctioning of loans and disbursements thereto were made not on the strength of the factual position as revealed in the processing by the departments. Rather, they acted on the dictation of the high ups in case of NCBs and the signals of the sponsors in case of the private banks.

- The scheduled banks have separate inspection departments which independently carry out regular periodic and sometimes special inspection of the loan portfolios. Corrective measures are initiated on the basis of findings of the inspection team. While carrying out inspection drills, special attention is given on the observation and comments made by the

Bangladesh Bank inspection team. It may be specially mentioned that the initial classification of the assets of the individual banks are performed by the bank officials themselves. Bangladesh Bank conducts its inspection mainly based on the findings of the inspection of the individual scheduled bank. One of the important factors is that the inspection department of the banks are manned by officials drawn from the various other departments. Conversely, these officers are transferable to any other departments.

- In addition to audit and inspection department, almost every bank has a vigilance team directly attached with the top most executive. The main function of the vigilance team is to attend the urgent cases of irregularities committed by the bank officials. Major lapses leading to big losses for the banks are investigated on an urgent basis by the vigilance team. However, in most of these cases following up investigations are carried out by the audit and inspection department after the vigilance team submits the reports.

- The board of directors which is the apex body of the individual banks is supposed to have the ultimate say in the matter of decisions on the loan cases. The boards of course, are helped by the briefs prepared by the credit department and okayed by the top executives. The modern tools like LRA (Lending Risk Analysis), information gathered through CIB (Credit Information Bureau) of Bangladesh Bank are of immense help in taking the decisions regarding sanctioning of credit by different banks. However, as the dictations either of the high ups of the existing Governments as also the sponsors of the private banks still have roles to play, it is difficult to have loan portfolio free of potential loan default culture. If the executives are to function under pressure, the ways to flout the system of credit dispensing can always be found out. In fact, this is still happening although on a lower scale.

- Until recently utmost emphasis was laid on the collaterals offered by the prospective loans in determining whether to sanction a loan case or not. The view was that in case the loan defaults the banks could readily fall bank upon the recourse through the disposal of the securities under lien. it immediately diverted the attention of the credit managers from properly analyzing such issues as the feasibility of the scheme, its cash flow status, repayments potentiality and the future business prospects. Rather they were happy with the assets available as collateral security. Another vital factor about the conduct of the persons behind the business was also overlooked. In fact, the transactions dealt, the past behavior of the loanee concerned, the nature of the business, the competition status of the product, probable gestation period and all such important relevant factors should have formed the basis for determining whether a particular case for loan should have been entertained or not. The collateral should have played only a minor role as a matter of last resort. The FSRP recommendations in this regard have rightly indicated steps towards this direction.

- Indirect facilities in which cases the funds do not flow out may appear to indicate no worry with regards to requirement of making provision. Mainly because of the fact that no fund has gone out of the banks, any financial loss emanating out of these transactions is not usually apprehended. However, there are good number of instances that the banks had to bear considerable financial losses as the beneficiaries of the indirect facilities did not perform the way they were supposed to. It is perceived that provisions are required even for the unclassified loans and advances. But no general provisions are made in respect of the indirect facilities. These appear to be inconsistent.

- If there are some defaults of minor nature, the account may be classified. However, the borrower may make good of the default by regularizing arrear installment payments and all other deficiencies at latter stage. In such event loan accounts are declassified and these accounts again come to usual unclassified status.

- In order to help the genuine problems faced by the borrowers in maintaining the repayment schedule, the banks allow rescheduling of the repayments as per agreed terms and conditions. However, the central bank advises the banks not to accede to request for rescheduling for more than three occasions in a single loan case. It is important to note that in the event of proper rescheduling allowed by the banks, the classification status is changed and the loans again become classified.

- In order to make bank supervision attain international standard a rigorous discipline framework for the banking system in respect of classification and provisioning program has been put in place. This program is expected to be completed by 31-12-98 which is the reference date of the final phase. The classification standard at the end of the program makes any loan overdue for 3 months or more subject to adverse classification and any loan overdue for 12 months or more become subject to loss classification. The frequency of classification is quarterly. The provisioning requirements is as under:

Classification-wise Required as Percentage of Classification

Category of Classification	Provision Required as Percentage of Classification	
	Prior to New Program	As per New Program
Unclassified	1%	1%
Substandard	10%	20%
Doubtful	50%	50%
Bad/Loss	100%	100%

- In view of considerable slowdown of economic developments in Bangladesh during mid nineties, the banks faced insurmountable difficulties to follow the time frame to achieve the tougher discipline as targeted to attain the international standard in respect of classification and provisioning. So, recently pragmatic approach has been adopted by Bangladesh Bank by allowing the banks more time to reach the international standard.

Prof. Muzaffer Ahmed, examined the three different political economy models to see which one explain the Bangladesh situation well. Prof. Ahmed's explanation of default culture enumerated in the following manner :- (25)

- A specter is haunting Bangladesh Economy for at least a decade if not more. The specter of the loan default culture that has manifested in the banking sector. it is known that the taken over business units were in a disadvantageous position with the burden of loans taken by owners previous to take over which was augmented through a practice of controlling input supply prices and output sales prices. These together caused heavy dependence for working capital of State Owned Enterprises (SOE) on Nationalized Commercial Bank (NCB) for finance, the amount of which increased over the years due to cumulated loss and borrowing for investment purpose.

- A new phenomenon emerged when private sectors started to assert itself with narrowing down of the boundaries of public sector and opening up of private financial institutions with open or hidden interlocking system as well as shift of balance of political patronage from labour and peasants to briefcase holding entrepreneurs. They proved what Henry Heartfelt told New York lawyers in 1974; "They are smart and almost strangulated the banking system to death." Money has been drained away by the 'smart' insiders of political and financial houses while the genuine savers and investors were uniformed onlookers. But unlike the United States the game has not been made public and not much action has yet been taken to resist it. The so-called business houses, stockholders, emerging entrepreneurs of sorts including importers and influence peddlers, real estate builders, computer system suppliers, leasing companies, insurance agents, underwriters, as well as politically influential quarters including union leaders etc. have been able to keep the banking industry off the turf.

- In our culture, banks are imported institutions and they generally acted as passive intermediaries which did not even try to control financial pressures generated from time to time from smart insiders, bureaucratic controllers and political patrons. The emergence of politically assertive banker community which acquired a financial window for themselves under the tutelage of donors, indeed made any kind of disciplinary action almost impossible including public disclosure of the names of defaulters and the nature of misdemeanour on their part. This default is not something which has happened because of changing business climate but default in our case is something which is germane in what Stanley Kochanek has called 'patronclient' business culture in the context of nondemocratic donor directed sponsored capitalist transition in Bangladesh. This paper is designed to look into the politics of banking and political economy of banking including the regulatory functions.

- In their studies for preaching monetarism, Milton Friedman and Anna P. Schwartz wrote the Monetary History of the United States without paying any attention to the banking system which creates money. His work assumed that banking is a neutral actor which responds positively to market signals and thus the culprit must be the government who manipulates the system by pushing buttons in discretionary ways. In recent years, Friedman and Schwartz's Monetary History has been accused of purposefully selecting or manipulating monetary statistics to suit their conclusions. But one should not forget the finding of House Banking and Finance Committee of the House of Representatives of U.S. Congress of the USA that bankers and banks through their lawful, doubtful and unlawful conduct have single most influence on the economy.

- One may recall the story of Thomas Bertam Lance, President Carter's one-time Director of OMB, whose doubtful dealing involving Culhoun First National Bank, National Bank of Georgia, Manufacturers Hanover in New York, Citibank, Many Hanny, National Bank of Chicago and Continental Illinois of Chicago showed how dubious dealings in the free capitalist economy played fraud with the system ignoring all market signals. Friedman and Schwartz made us ignore the fact that over and over again back scratching amongst bankers and milking the bank by resourceful bankers have been the two most important reasons of bank failures in the USA as elsewhere in the developed world and also two most pregnant reasons for deviations in secondary money supply and money demand. These deviant behaviour, sub-optional as per market signal, influence money supply, price level, consumption and investment and thus the direction of economic activity, the remedy for which lies in public disclosure and public interest legal proceedings and public interest regulations. These are absent in the developing economies including Bangladesh.

- Bangladesh unfortunately does not have a band of investigative journalists who help to unearth the excesses of black money breeders; on the other hand, some journalists, like other professionals, have themselves become party to loan default game and the media is being increasingly owned and influenced by groups who are directly or indirectly linked to default culture.

- This possibly a convenient place to recall the theories related to political economy of institutions and policies. Though it existed in the literature for a very long time, but contributions to the literature on public policy has been phenomenal since 1970. Even then public policy analysis is yet to emerge as a theoretically coherent field of study largely because many sub-fields exist and they address different questions from different perspectives. The cost of theoretical pluralism is that central issues related to emergence of dominant social groups and their role in the domain of joint goods remain largely unexplained. Recently there has occurred what Fukayama called "end of intellectual history" with the triuph of market over other systems. But markets explain largely the case of private goods and partly those of joint goods but fall far short in the case of common pool goods and collective goods. Even then heroic attempts are being made to extend market theories in these areas. Banking service is a case of joint goods where exclusion is feasible but consumption has to be broad based for it to be viable in the first place.

- There are three broad paradigms found in the writings related to political economy of decision making with respect to goods and services other than purely private ones. These have been termed as rational actor theory liked by market-minded personalities; the pluralist incrementalist theory where fragmented elite constrained by mass action work through interest groups and these non-market actions involving transaction cost become a significant factor and finally the organizational bargaining theory where goal conflicts of groups are resolved sequentially through a process involving give and take.

- Banks are a type of organization where savers put their surplus for storage and the acceptors of surplus found that these could be used initially to finance trade and later investment. Such extension of credit along with costs and risks was accomplished privately between sellers and buyers during the days of manufacturers guild and was gradually institutionalized with the rise of Financial Houses like the Medicine as the ethical issues of interest were sorted out. The private property rights and also related to contracts helped the emergence of financial houses who tended to cover their risks very well as is implied in the Shakespearean drama 'The Merchant of Venice'. The bank of issue, other than the royal mint, came much later in the late seventeenth century. The bank of issue with its monopoly has survived because of its usefulness to the government as a captive organization.

- Adam Smith in his wisdom found in the banks the virtue of facilitating production and exchange by providing credit, the risk of which may not be accepted by ultimate user. Smith believed that only legitimate function for banks is to purchase and retire real bills so that money would flow out to start a transaction in time dictated by invisible hand of the perfectly functioning market system and flow back when the purpose of the transaction was achieved. He could never think of default in its pure state. Notice that bank of issue 'prints' money but does not accept deposit and its existence is needed by 'users' who as a group in their self interest sustain its survival. Bank of Issue has become an organ of monetary policy and other banks that provide loan can accept deposit.

- The banks thus, perform intermediary function and can remain viable so long as joint but several interests on both sides are served adequately. This change has brought forth the involvement of two groups, i.e. savers and borrowers, in an organization controlled by few and which in turn must function within the limits of law prescribed and interpreted by the government which in turn is a coalition of socially dominant groups. Only if the decision makers at the bank and/or in the government act neutrally (i.e., function as per dictates of perfectly functioning market system), the interests of savers and borrowers could be jointly maximized. As there exists collusion amongst groups in the banks and borrowers, borrowers and the government, banks and the government, such neutrality has been compromised increasing the risk of saver causing hurt to them which in some developed economies is protected through an additional institutional mechanism e.g., insurance, inspection, judiciary, etc.

- In terms of Sharkanshu-Ramey-Dye model what is in fact suggested is that initiation and agenda building, information processing, as well as analysis and consideration for decision making are neither performed by a neutral body nor are there representation of 'savers' with those money the banks and interest groups play their game. In the absence of 'neutral' evaluation, the feedback to the system fail to protect the joint interest of individual savers as they fail to respond as a group to demand a voice in decision making. The only remedy left for them is exist which may, in extreme causes, even elude them. Remember BCI and BCC or Bearing. However, it can be argued that banks and investors, being interested in the capability of the system for providing output, has to find a suitable blend of demands and supports. Kind and Britton pointed out that if demands become excessive in relation to support, the system runs into trouble. This is the basic story of our DFIs- their problems and their survival.

- The underlying conception of the systematic model is that the decision makers and users are rational individuals who have objective functions for formulating strategies for optimization in the context of multiplicity of objectives and many alternate strategies for which probabilities are computable to take care of uncertainties and decision is made in terms of demonstrably preferred goals. Unless the strategy incorporates the interest of surplus suppliers properly and unless the uncertainties properly reflect the output probabilities of different strategies, intentionally or unintentionally, the banks are subjected to default by investors as has been demonstrated by Raiffa while discussing the use of Baysian statistics for decision making. The critique of the rational actor systems model has rightly pointed out that such a model is ideally applicable to a single decision maker. The single decision in the context of banks indicate single objective function that satisfies both savers, investors and presumably neutral bankers so that decision makers, single or multiple, work in unison. This model is alleged to be static and rigid because it neglects the problem inherent in aggregating micro-level decision making upto a macro system level. The problem has been assumed away by asserting that at the stages of information processing as well as analysis and decision making, the actors inclusive of elected directors or full time officials function to optimize the efficiency of the process and at the implementation stage the managerial hierarchy work to promote efficiency at their respective levels, given the unified objective functions are not only several but complex and the hierarchy of management is uneven and not functional enough to protect efficiency, not to speak of promoting it. The behaviour of employee unions in the NCBs and allegedly of the owner-Directors are cases in point.

- In this context one may recall Barybrooke and Lindholm who assert that it is impossible to meaningfully define the objective functions and strategies for achieving objectives under conditions of uncertainty, lack of information and conflicting interest as information processing for consensual purposes become costly and one settles for limited objective of operation. In Bangladesh, when private sector got licence to enter the banking sector, they acted like the dictum a la Wildavsky that "they did not know what was the limit of what they want until hell broke out". This is out by the case studies of loan defaults in those institutions.

- Even if we accept bounded rationality where optimal position is non-achievable in a joint good situation, one may argue like Simon that satisficing solution may be achievable. But this assertion does not answer the problem related to collective action as shown by Arrow's classic problem i.e. it is impossible to arrive at a collective policy decision which fairly represents rational choice of the majority. In the context of our bank, savers and tax payers choices have been ignored; government was either carried away by the sweeps of externally imposed reforms or became irrational together with the central bank, and hence it was the choice of dominant minority of insiders who asserted through exclusion of other interests for limitation of agenda, circumventing analysis or debates. Thus 'other' individuals were prevented from making rational choice or decision due to non-disclosure of reality and as shown by Ricker-Ordeshook-varde Doel, the working decisions of our financial institutions reflected the preference of dominant minority in the cybernetic process. This is what indeed happened in our banking system with respect to granting of credit, monitoring of credit use and recovery of credit.

- Wildavsky further, pointed out that to build coalition for a particular action or policy it is often essential to disguise long term consequences so as to agree on short term tactical objectives. The dominant minority in the banking system successfully won their tactical objectives when the long term consequences of their action was suppressed or disguised.

- It should, be remembered that Adam Smith's Merchant Bank and Sir John Steuart's Deposit Bank were different in nature and the intermediation required government permission but beyond this safe keepers and borrowers could pursue their divergent interest independently and the intermediation responded to impulse of money market. The production system and the exchange system have become more round about so has the banking system. The government regulations over the bank of issue and the banking industry to ensure fair operation have expanded. Further, in developing countries, the government's direct involvement in production or in promotion of private and joint goods and services required emergence of development finance institutions parallel to similar international organizations and this has made the picture complex. The optimizing process has not become a general equilibrium game in a competitive market situation when the policy direction is creation of a 'state subsidized new entrepreneurial class' and 'political supportive groups'. How much of this being achieved with minimum cost to the economy and the silent members of the society is certainly questionable. The cost of loan default has pointed out that the game played was not for a dynamic general equilibrium in the context of growth to maximize the welfare of many but a game of partial dis-equilibrium maximizing short term interest of the few.

- Having said this, we may examine the pluralist incrementalist model to see how much it can enlighten us about the crisis in our banking system. We know that capital and deposits represent two forms of liability and former is an insignificant part compared to the latter but the depositors have no voice in the operation of the banking system except the option of entry and exist, while the owners of capital have all the powers presumably within the limits of law and often beyond the limits of law in a developing economy, particularly where governance don't seek micro level based macro allocative efficiency. This is parallel to the system that Dahl described in the context of democracy where great body of citizens do not use or can not use their political resources while a small group of men within the political stratum use this political process beyond optimum at a maximal level. The imbalance is obvious. This small group of men, within and beyond rules, negotiate their ability to exercise authority in a complex system of personalities and power centres as has been observed by Neustad. Thus the organizational process can be described as a system of partisan adjustments and in this process decision making is based on getting agreement of personalities that matter and not to achieve optimal or satisficing solution. Because of this, analysis of means and ends is well nigh impossible and consequences of implementation agreement reached among parties are ignored. Hence only option left is incremental adjustment as has been spelt out by Lindholm. The top management of DFIs and NCBs as well as PCBs that I interacted with basically gave the impression of adjusting decisions according to pressures and dictates with a concern for personal security and possible advancement in career. Thus, the decision making process in our banking industry well suits the description of fragmented incrementalism.

- It is interesting to note that studies by David, Dempster and Wildavsky with respect to budgetary process in developed industrial economies also clearly fitted into a predictive model of disjoined incrementalism in response to pressures by groups. Budget mobilizes and allocates resources, so is the case with banking industry. Hence, the similarity is no accident. However, in budgetary process of the developed country, the disjoined incrementalism was a cautionary response to lack of information about external forces and behaviour of pressure groups. In the case of banks in Bangladesh, it was not caution but opportunism to maximize access to resources by pressure groups and to minimize dis-utilities of decision making on the part of the officials that created the ground for following the strategy of disjoined incrementalism. Goodwin and Cohen finds utility in incrementalism if applied for approximating optimizing or satisficing position, as in the real world it is almost impossible to anticipate effects of policy action, including allocative and distributive policies. This proposition is correct provided the actors in the system are generally neutral and sensitive to adverse marginal impacts of interventions. The revealed behaviour in the Bangladesh banking industry don't seem to satisfy these two conditions and thus, has precipitated crisis. However, it is not our purpose to examine the debate on incrementalism at this point suffice it to recall Galbraith that in market economy which is dominated by few big houses, incrementalism basically responds to their manipulation and never reflects social preference.

- The third set of political economy theory relates to bargaining traints of organization theory. It may be recalled that classical micro-economic theory of the firm has always put emphasis on a single firm's market responsive rational behaviour for maximizing private returns. Herbert Simon, a political scientist, in the course of his discourses on organization, pointed out that there exists a process of bargaining within and between organization in deciding on policy choices and action plans so as to respond adequately given their practices, organizational ethos and choices. These don't necessarily ensure maximum returns in response to the external market conditions which is only one of the factors amongst many. Cyrt and Marsh articulated this approach by pointing our that all organization face multiplicity of goals at the individual level and these are reconciled through an internal bargaining process involving primarily the dominant actors. In the bargaining process possession of different aspects of information received from the organizational environment plays on important role, particularly with respect to coping with future prospects and uncertainty. The goal conflicts are resolved sequentially approaching a satisficing solution in the context of institutional culture which is most often influenced by dominant actors.

- In the context of Bangladesh banking industry, what was found is that depositors, who were also the large number of stakenholders, play no role in defining organizational goal and they are made to accept what is simplistically defined as payment of interest. They cannot define the goals with respect to use of funds, even their own fund multiplied by deposit multiplier. The government and central bank play the role of remote indicative controller or general economic interests, but in practice the persons representing the government and the central bank seem to enter into informal arrangements to satisfy at least minimal personal goals. Such characterized organizational ethos provide the decision makers in private banks an opportunity to maximize the personal gains of a few, in foreign banks to optimize their global gains and in public banks to serve personal-cum-politico-bureaucratic interest. This deduction is inductively derived from studies carried out by management students in various institutes about how the banking institutions functioning putting emphasis not on majority but on the behaviour of a few. The national banking institutions face constrained rationality, and they attempt to cope with uncertainty incredibly through ad-hoc initiatives and accommodation and in a limited way they learn from experience. It is to be noticed that this approach in theory does not help us to explain policy innovation and banks in Bangladesh have shown little innovation, if at all. Further, the approach doesn't adequately provide a structure of the state in the organizations in policy making and in this sense, of organizational response. The dominant forces react to satisfy or safeguard their goals in a given or changing environment through ad-hoc accommodation of interests.

- The seminal study on debt default in Bangladesh has been carried out by a team led by Rehman Sobhan. The study has, however, limited its scope to Development Finance Institutions. In an attempt to look at the social background of the borrowers from DFI, the study used the data available from application forms and did not supplement it by an indepth interview of a structured random sample of entrepreneurs. The conclusion that Rehman Sobhan and Binayak Sen arrives at is that the borrowers are relatively new first generation entrants after the liberation of the country without useful experience of running a modern enterprise for any significant length of time. The borrower groups could be broadly classified as industrialist-cum-traders, traders, civil or military bureaucrats and professionals, and service providers. They accounted for 34.2%, 34.3%, 16.44% & 12.12% respectively. The large scale lending to private entrepreneurs started in the second half of the 1970s and in the 1980s. The basis for entry as an entrepreneur was mostly connected with some one in the corridor of power or in the broad decision making process. Not only that these new class of entrepreneurs lacked in experience, the credit worthiness measured in terms of loan-asset ratio indicated high degree of pervasive dependence on DFI loanable fund which is ultimately guaranteed by tax payers through the government. In this context, it was noticed that in nearly two-thirds of these family controlled or friends controlled business, the age of the managing director was forty or less and nearly tow-thirds of the entrepreneurs had five years or less working experience.

- The study, besides noting high capital intensity and low employment generation potential of the new units financed by DFIs, noted that private units had a high degree of dependence on term borrowing and likelihood or inflating the total investment was indeed high in those cases. Their projects also had high import contents. The authors suggest that low stake in total capital, and ability to recoup own capital through over invoicing of machinery and materials don't provide much incentive to complete projects in time and to maximize capital utilization.

- The study further noted information gap about private sector. The study pointed out that at the stage of project identification, there was absence of market information and analysis and marketing strategy for getting a share of existent or expanding market. At the approval stage, there was delay and after approval there was considerable delay in disbursement party due to failure on the part of new entrants to meet the minimal conditions for loan and partly due to involved bureaucratic processes in the banks. As a result the costing of the project often became unrealistic despite the hidden padding and the change of creating a surplus out of loan was diminished. The study found that repayment performance was good for the units where capacity of production was utilized better and that better capacity utilization indicated commitment to the enterprise but there is no direct relationship between capacity utilization and gross profit made i.e., capacity to produce was not matched by capacity to market profitably. The non-repayment by profitable units was significant and this indicated willful default. The entrepreneurs complained about difficulties in dealing with DFI and difficulties in obtaining fund and high cost of raw materials, working capital, efficient labour and marketing, particularly in the face of competition from imports. All these indicate inappropriate appraisal of projects at the time of approval due to negligence or pressure from influential quarters.

- The study by Rehman Sobhan found that as of end of 1980/81, only about 6% of firm paid their debt liabilities to the two DFIs fully, 27.5% enterprises paid less than 10% of what was due and 78.6% firms had substantial overdue loan. The study further concluded that no sector stood out as having a noticeably good or bad record of debt repayments. In terms of size, of the smallest borrower a small percentage were defaulting absolutely and the percentage of defaulting units increased with the size of loan. However, there was negligible reduction in the rate with large borrowers. The authors concluded that no definite trend could be discerned with respect to repayment and rise of loan default except that firms under operation has a better record of repayment compared to units under construction even though the former failed to maintain a satisfactory record of debit servicing. After 1981-82 and till 1984-85, the general repayment performance fell and repayment by private sector was markedly worse. By 1985, it was found that concentration of overdue loan in these two DFIs was with 45 top defaulting projects i.e. few influential private business houses. By 1987 loan recovery situation did not improve. One conclusion that emerged from the study was that the economic factors did not meaningfully explain the default phenomenon. Recent data do not show any significant improvement in these respects.

The perpetuation of default has been largely due to the following political economy of operation of DFIs in Bangladesh.

1. The failure on the part of DFIs to initiate and build their own agenda due to overriding governmental control and sector specific loan by donor agencies.

to priority development sectors. The banking system according to the reports failed to achieve either and in addition they have been plagued by poor loan recovery and doubtful debts.

The reports pointed out that the central bank was able to ensure stable monetary environment, reasonable level of savings mobilization through banking system and increasing flow of funds to priority sectors but heavy reliance on refinancing by banks on the central bank and credit ceiling for control purposes and relative inflexibility of interest rates eliminating competition within financial system have made achievement of macro monitory policy objectives costly. Even though the central bank controlled monetary expansion through impositions of credit regulations and adherence to reserve requirement, the central bank perused a policy of directing credit to priority sectors through preferential credit management system. This resulted in rapid increase in refinancing even though it was not possible to ensure use of sanctioned priority credits in priority areas. This required central bank to subordinate refinancing to monetary consideration and thus lending to priority areas by bands had become burdensome, and needed to be discouraged. In addition rigid application of credit ceiling often resulted in non-accommodation of new borrowers as the defaulters loans needed rescheduling on an accelerated basis which limited the capacity of banks to extend loans. Further credit ceiling was thought to encourage default as probability of renewed loan was diminishing. Refinancing amount adjusted against reserve of the banks with central bank also created liquidity crisis at times. The refinancing of loans for priority areas, it is alleged, discriminated against non-priority areas and thus allocative efficiency is often not achieved with respect to use of financial resources. These observations by Hussain Commission and the reports necessitated the cenral bank to move away form direct control on credit management to flexibly managed indirect monetary controls e.g., rediscount facility, special issue of securities and issue of market-yield related debenture or treasury bills. Having done all these, it is clear from available data of banking operations that the default has not actually reduced and allocative efficiency has not in fact been better achieved.

Another area of financial sector reform was movement away from comprehensive system of controls on the level and structure of interest rates to limit cost of bank credit and to make controls flexible within limits and to allow banks to compete and respond to market forces. Thus, it was hoped that the reforms would reduce high real rates of interest on deposits and make deposit and lending rates responsive to savings mobilization and investment portfolio needs. The spread between deposit and lending rates, determined by bankers themselves, was expected to make them earn better profitability and thus ensure reasonable level of reliance on equity as competition would force them to be quality conscious. The central bank now prescribes a floor rate of savings deposit and for lending a ceiling which supposedly reflect cost of fund and cost of intermediation and risk. This floor ceiling combination was expected to introduce flexibility, market sensitivity and desired structural changes. These reforms have been adopted and implemented. The depositors now get less interest while investors continue to pay on average high interest on loan. However, it is doubtful whether such interest rate deregulation has reduced inefficiency as institutional dereliction related to bureaucratic deviations, political platitudes and ownership privileges in the banking and business sectors were not responsive to interest rate changes. This simply means professionalisation and autonomy of management was not ensured by the privatization, monetary policy change and changes in interest rate policy. Hence there has not been any significant change in the default rate or provisioning rate as is seen from the data on scheduled banks.

In the context of financial sector reform, the intervention in credit allocation through preferential lending program, margin requirements and minimum allocation to selected sectors were reviewed. The preferential lending program and minimum portfolio holding problem forced the NCBs to bear most of the cost i.e., cost of such interventions. In the changed context, it is desirable to make the cost transparent and for the government to foot the bill. The margin requirement inflicts and cost on the businessman and this also is needed to be transparent and market responsive as well as risk-responsive. The political economy of banking has made us hear more about margin and less about socially desired lending, as a result margin requirement has been simplified while preferential lending makes appearance reasonably with the political need for it and minimum portfolio requirement were most often not met by the banks particularly the PCBs.

As the government moved toward privatization of manufacturing and commercial units on a large scale by late 70s and early 80s as well as toward trade liberalization, it was policy wise consistent to ensure emergence of private sector financial institutions to create a complete enabling environment for capitalistic transformation in the modern sector of the economy with an attendant hope of rapid growth in private investment and consequent growth in GDP. This, however, has eluded the policy makers so far. As liberalization necessitated deregulation, in the interest to protect the viability of the banking system and safety of depositors' interest the reform required provisioning for adequate capital as the last line of defense against default. The 1991 Bank Companies Act requires that 6% of demand and time liabilities must be kept as capital. This is a reformulated version of reserve requirement of traditional banking theory. However, in Bangladesh this instrument of bank regulation ws not used partly because NCBs were not given adequate equity capital to begin with and as it was always assumed the NCBs can fall back on the government for accommodation in crisis time. What is more, this aspect was also ignored in the case of PCBs and FCBs as well. PCBs started with large authorized capital, but small paid up capital which in turn was borrowed from NCBs where most of the promoters remain defaulters. The FCBs in the normal sense not being registered as an autonomous company, did not have any equity capital.

The other aspect for prudent management of loan portfolio required the banks to make classification of loan and make provision for doubtful and bad loans according to period of overdue loan. The banks were barred to calculate interest income on such loan. The information available shows that NCBs (4) as well as PCBs (8) and FCBs (5) suffer from capital shortfall as well as provisioning shortfall even when the basis of classification itself is in doubt. Qualitatively speaking informed quarters cast more doubt about PCBs than NCBs. The other requirement of prudent regulation was to set limit on insider lending which is not being followed strictly by PCBs.

The effect seem to be that quite a few directors of PCBs have resorted to 'benami' loans and willfully defaulted so as to classify their loan as doubtful. This should have liquidity effect but when banks have excess liquidity, it did not matter. It certainly adversely affected profitability of banks and distorted the balance sheets. On the other hand, income effect and extra legal access to financial asset of a group of bank directors and their clients and people with connection and access to power (in the case of NCBs) have led to stagnating economic activity, emergence of black moneyed class and misallocation of resources. This has been documented in Dr. Kamal Siddiqui's tale of the emergence of the new moneyed class in the Dhaka City. Because of relaxed supervision by the central bank due to political muscle of the large defaulters, there does not seem to have been any meaningful achievement of allocative efficiency in the financial sector of Bangladesh as can be seen from sectoral loan allocation scenarios. This was openly admitted by the former Finance Minister in various forum. Thus neither ownership reform nor regulatory reform has given the desired result largely because a system is as good as the people (who matter) are.

Before we leave this section, it may be useful to recall that bank statistics published by Bangladesh Bank show that sine the beginning of the financial sector reform the growth of branches have stagnated, per branch real credit also stagnated, proportion of rural and agricultural credit to total credit has declined, profitability and productivity of banks have declined due to large scale need for provisioning for classified advances and for meeting capital adequacy requirement. This has happened when monetization ratio in the economy has been steadily increasing. Even though on aggregate, PCBs show higher profitability and productivity compared to NCBs and FCBs show even better profitability and productivity compared to PCBs, one has to adjust all these against the borrower-mix and when adjusted figures for sectoral advances, size of deposit, urban rural operation, the adjusted profitability and productivity of PCBs are in fact, worse than NCBs.

In this connection it is interesting to recall that financial sector reforms in Argentina, Chile, Columbia, Brazil, Mexico and Uruguay ended with financial distress. The proponents of financial reform, however, point out that proper sequencing of economic liberalization, adequate financial infrastructure, presence of commensurate legal structure, observable and distinguishable information about borrowers, and active supervision besides professionalization of banking services which is not managed and/or controlled excessively by private or public owners are necessary prerequisites for a successful financial liberalization oriented reform policy. Mere macro-economic stability cannot ensure efficiency bsed growth oriented financial sector performance. Because it is in the ultimate analysis the state of the real sector supported by proper institutional mechanism that would ensure disciplined reasonably default free financial sector.

Unfortunate Bangladesh, despite pressure from and support accorded by donors, have not able to create professional management in PCBs or to stop deterioration of non-activation of whatever professionalism is there on the NCBs because of influence peddling in this very important conduit for asset. One can recall in this context Andrew Sheng that the banking is after all a process of political economy in which interplay of gains and losses among different groups determine the outcome of any reform measure. This insight is important to understand way the absolute amount of default and the absolute amount of classified loan has increased over time and not declined in Bangladesh.

It is of interest to note that the report n banks by the Banking Division of the Ministry of Finance of the Government of the people's Republic of Bangladesh, does not provide much information on loan default though this is an acclaimed policy concern of the government. Latest available information indicate that even after rescheduling, the extent of overdue loan in agricultural sector in 1983-84 was 67.58% while it was 52.06% in 1987-88; similarly, for industrial sector it was 55.88% in 1983-84 and 49.63% in 1987-88. In terms of actual taka loan overdue the amount has increased over three and a half times in the case of industry and by two times in the case of agriculture. Further, as on 31 December, 1993, classified loans in the case of Agriculture, term loan, working capital, working capital for jute industry, jute trading and jute export in the case of PCBs were 43.65, 32.69, 41.88, 7.06, 48.29 and 14.90 percent of corresponding total loan advanced. The corresponding figure for NCBs were 84.17, 34.98, 3.77, 34.66, 17.87 and 17.11 percent respectively. So far as agriculture sector loan is concerned, because of its rural network NCBs provide the overwhelming part of this loan. For FCBs, the corresponding percentages are 59.38, 3.57, Nil, 10.29, Nil and 53.79 respectively. Comparing the sectors in case of term loan, working capital, working capital for jute sector, loan for jute trade and jute export, PCBs have consistently performed worse than NCBs. Even in the case of jute export, the performance of FCBs are worse than NCBs. The foreign banks which provide loan to plantation sector (tea), the performance is not qualitatively anything to be satisfied about.

In terms of other export, other commercial lending, urban housing, small industries, other programs and miscellaneous sector, the classified loan by PCBs were 36.48, 47.87, 39.14, 27.05, 23.52 and 57.07 percent respectively. The figures for NCBs for the corresponding date were 22.56, 37.52, 33.11, 74.11, 74.14 and 28.70 percent. Thus except for small industries and programs primarily implemented through NCBs, the performance of PCBs in terms of classified loan is no better. Speaking in aggregates the classified loan of NCBs on 31st December, 1991 was 32.02% and of PCBs 44.67% and of FCBs 13.18%.

Earlier we have mentioned that agricultural loan has remained unpaid by loanees and that NCBs are the primary sources of agricultural credit. In this context it may be of interest to look into the loan recovery position of BKB. It appears from available data that between 1989-90 and 1993-94 on average amount recovered of overdue amount is about 24% and percent of overdue outstanding loan on average is about 57% and the ratio of classified to unclassified loan during 1990-91 and 1993-94 on average was 62%.

At this stage it is also desirable to look into rural banking by NCBs and BKB-RAKUB. The rural branches did not grow spontaneously but as an expression of government policy to increase credit flow in the rural areas, to provide treasury function of the government and to mobilize rural savings. However, the expansion did not take the question of operational viability in locating the rural branches. Though studies tend to suggest that rural branches are not inherently in viable but have been made nonviable which is now cited as the prime case of reducing rural branches of NCBs. The rural branches do not provide complete banking services, concentrate more on deposit mobilization and less on development of savings as a result of which their income generation capacity was reduced and surplus is diverted to urban areas. BKB-RAKUB concentrates on credit expansion without resource mobilization for which their branches borrowed money from head offices which in turn reduced their profitability. The high default ratio in the rural branches is also adversely affecting viability of rural banking itself. The default has been caused by politiciation of credit, influence peddling, lack of proper appraisal, supervision and monitoring as well as supply of subsidized credit to which the intended beneficiary had little access. The governmental interference including waiver of credit and pressure for granting credit without verification have been cited as prime causes of large default in rural and agricultural credit. Studies how that loss incurred by rural branches of NCBs are not cost-inefficient compared to profit earning branches but it is the low income generation, high classified credit incidence and higher transaction cost for finance that transform rural bank branches into a loss incurring unit. Thus, it is not the rural operation that is at fault but it is the external pressure by the gainers, who have access to power and influence on rural branches that make rural banking non-profitable. Thus, political economy of rural banking requires legal reform and operational autonomy as well as improvement before the branches are closed down as per dictates of FSRP.

An investigation into the causes of default in the opinion of financing bankers showed that lack of willingness to pay coupled with diversion of fund, willful negligence and belief that relied may be available in future were the most important cause of loan default (17.3%), followed by changes in initial assumptions about cost and prices (30.6%), operational problems (20.3%), natural calamity (8.5%) and, other (3.3%). In the opinion of the recipient of loan who defaulted the important reasons for default were unanticipated complication (25%), power failure (18%), unfair taxation (16%), lack of working capital and raw material including inability to utilize production capacity (15%), improper appraisal, financing and implementation of project (13%).

An investigation was made to examine differences in efficiency of PCB and NCB. The pattern of cost shows marked similarity but manpower expenses and operating expenses as a percentage of total costs were significantly lower in PCBs. PCBs manpower cost per employee is higher. These costs in terms of per taka of deposit or advances seem to be higher for NCBs. Share of interest expenses as a percentage of earning is less for PCBs. Similarly earnings show broad similarity. Nearly four-fifths of their earnings come from interest received from loans and advances, however, NCBs earn significantly higher amount from foreign exchange business. The cost of finance indicates that NCBs pay less as interest charges than PCBs. PCBs on average incur less cost for providing services compared to NCBs. PCBs earn more by advancing larger portion of loanable fund for short term while NCBs block loanable fund in longer term loans. PCBs on average have higher proportion of bad loan per branch as a percentage of outstanding loan compared to NCBs. Thus the indicators don't show higher operative efficiency on the part of PCBs, the presumed risen d'etre for privatization.

In this context it may be of interest to interest to recall the response of donor countries in the contest of international debt crisis which engulfed the third world. In the 60s financial transfers from industrialized countries to developing countries were largely the contribution of ODA and in 70s a major shift in this regard occurred consequent to sudden surplus generated by oil price hike and these deposits with commercial banks in industrialized countries prompted them to play the crucial role of recycling these surpluses for the benefit of the developed economies while providing loan to the developing countries. In the 80s such commercial lending became uncertain due to debt crisis which was choking economic growth in the third world and threatening the stability of international financial system. Besides, major outright default by some countries, there emerged a conflict between creditors and debtors and unless the credit worthiness of debtor nations were established, confidence of the depositors and investors in international finance and capital market could be eroded.

Compare this with our situation. Unless the major defaulters are brought to book and soundness of financial institutions are ensured, the confidence of depositors and productive well intentioned borrower in the domestic financial system would be eroded. It is known that new bank lending has slowed down like it did in the 80s when international commercial bank lending to developing countries significantly slowed down. The domestic recession in the face of slow growth in industrialized countries is a marginal problem and high interest rate as described by the Finance Minister don't seem to be the major problem either. It requires a new strategic planning decisions on the part of financial institutions including banks to identify right opportunities and right client in the domestic market which is hampered by influence peddling, insider borrowing, non-growth of professionalism and risk avoiding attitude on the part of bankers. Like international debt problem there is no single or quick solution because economic variables are interlaced with political variables in both cases. It not only requires frugal fiscal policy management but also proper information flow for credit ratings of borrowers. This requires prudent regulation and supervision to improve the balance sheet of financial institutions including capital adequacy and reserve adequacy against loss or default. The banking institutions individually and collectively must improve their ability to gather, assess and evaluate borrower and sector risk on a continuous basis. It is indeed important to note that information and research in the Bangladesh Banking system on borrowers, depositors and sectors are highly deficient.

As global debt crisis became a central piece of US diplomacy in the 80s, the debt default crisis has become a central piece of concern of Bangladesh government. The difference is US diplomacy was positive to ensure adequate resources for IMF, to persuade the banks though central banks of developed countries to revive, reschedule and stretch the time for repayment to the economic feasible level and to use trade concessions, direct credit, guarantee and insurance for saving a political relationship from going sour. The Bangladesh Government's liberalized trade policy has not helped the borrowers in genuine difficulty, rescheduling along with remission of interest has not improved credit rating of the defaulters and banks have generally not been helped to consolidate their position through professional application of innovative banking norms.

The global debt crisis of the 80s showed the decision process within banks require quality information. The debt default crisis in Bangladesh merely points out that use of so-called information to justify decision need be avoided even in the face of influence peddling. The information requirement in the 90s and beyond is bound to be more stringent than currently practiced because of increasing complexity created by technology explosion and differing liberalization policies in other countries. Earlier practice of depending on other lending institutions and often on borrowers for information and assessment of proposal need to be substituted through research and information analysis to enhance self-confidence. Bankers must build a sector, location and borrower risk system analysis and ensure maximum openness of the information system that feeds the exposure setting process. The organizational analysis, and borrower behaviour analysis are as important as market analysis and econometric modeling for allocative and productive efficiency.

Several factors deterred the revival of commercial bank lending to the third world during the height of debt crisis. Similar is the case with loan default in Bangladesh. The breakdown of disciplines within the system- NCBs, PCBs and DFIs alike- has contributed to slowing down of restoration of its health. market variable, such as interest rate has not helped much. It did not stimulate savings rate and the banks seem to be reluctant to use interest rate as market variable. Instead it is being used as income variable and risk coverage variable. There is absence of short term monetary derivatives including absence of repurchase market. In other words, the money and capital market is not developed and organized enough to make the market variable work. Banks, NCBs and DFLs have become genuinely concerned about politicisation of loan which make them dependent on the central banks.

Recalling that during debt crisis the US Congress passed International Lending Supervision Act on 1983, it is necessary for Bangladesh central band, Ministry and the parliament to exercise their review function requiring bands to face up to the causes and consequences of sub-standard lending, to ensure that bank supervision go beyond the current focus on data consolidation, capital adequacy and provisioning in order to devise instrumentalities of lending including desirability and feasibility of putting some limits on the rate of growth of lending and to make disclosure a stringent requirement which should include information on dealing with all long term borrowers, particularly where there is sectoral, individual, group and locational concentration.

New Institutional Economics view financial institutions as a collective of contracts to protect property rights. There are two sets of contracts involved in intermediation by financial institutions. One set involves civil contracts between depositors and the financial institutions and such contracts between borrowers and financial institutions, presumably protect property rights through the warranty of solvency and conditions precedent. The second set of contract, generally not explicit, is the social contract between state and the financial institutions as well as between the depositors and the borrowers. This social contract requires protection of property rights through regulatory mechanism and judicial system. Where judicial system is not developed and legal history of protecting citizens rights are breached, there exists opportunities for cheating, shirking, opportunism, etc. Bangladesh inherited colonial contractual laws, along with customary laws and informal legal system. There has been lack of objective standards, reliable enforcement and reassuring conflict resolution procedures. These increase the high transaction cost, high information cost and high lending risk.

Bank loan default has occurred primarily because of the breakdown of contractual obligations on the part of the borrower and non-enforcement of social contract by the state. The move to restructure banking through privatization has not been able to remedy the situation. The lack of suitable enforcement is often due to conflict of optimization of interest between institution and management, between borrower and institution, between institution and government. This conflict of interest has led to deliberate breaches of contract. These deliberate illegal behaviours have resulted in private gain at public cost. In the case of PCBs, as the rules of the game is not all the way clear, bank management who work under the same set of directors for years together, can help the directors to make use of the resources of the bank to gain monopolistic or oligopolistic positions in the decision making process within the bank as well as in broader civil society; and thus, create conditions for break of civil contract because of inequitable strength. Similar situation can exist in NCBs where bureaucracy and politicians play the role similar to the PCB director. The instances of this is not far to seek when we find some defaulting loanees lead the chambers.

Nobel Laureate Gary S. Becker in his analysis of crime and punishment showed that the criminal engage in maximizing private benefit at the expense of society if the probability of offense being detected and punished is such that loss due to punishment is less than gain from the offense. The same is true of loan default. No big defaulter has suffered any punishment instead they are using their ill-gotten resources not only to monopolize internal decision making but also to influence external environment in their favour. The state so far has not moved adequately to minimize social losses by sharpening the definition of crime in this sector nor by increasing cost for avoidance of detection and punishment. Thus the golden rule of business decision based on Baysian probability and statistics exquisitely presented by Raiffa and Schleiffer explain much of the urban center newly emerged entrepreneurial class loan default. In the case of NCB and DFI, state has borne much of the cost of loan default and in the case of PCB this cost has been borne by the state through very melliable taxation laws applicable both at PCB end and also at defaulters end. It is indeed surprising that such an explosive political issue has gone suppressed by the governments and well managed by the big loan defaulters. The free media did not play the game in the interest of the people. Government recognized the financial illness but is unwilling to take strong remedial action. This supports the proposition of the political economy that the willingness of the government to take action against big loan defaulter is inversely proportional to their proximity to the defaulters themselves. The second proposition of political economy is that as long as the defaults are privileged to finance a significant part of the budget of dominant political coalition, less is the cost of avoidance, detection and punishment. The rise of business class in our Parliament and significant rise of Chamber under the leadership of many defaulters bear the testimony in our country of the verity of these propositions.

Micheal Maron has written a highly readable treatise entitled the Politics of Banking in which he has elaborately given evidence of the connections between government and powerful private interest. He has elaborated on the theme how the capacity of the government to engage in economic management is contrasted by politics of complicity and influence controlled by few. Unfortunately this control of money and banking rest on private system of power rather than on democratic norms of broad public interest. The competition and credit control in the financial sector is the product of negotiations within the enclosed elite. The reform does nothing to reverse the entrenched Cartels.

Bangladesh context of business, banking and loan default has been vividly examined by Stanely A. Kochanek. According to him, Bangladesh remains a highly traditional individualistic and stomized society in which weak, poorly organized, fictionalized social forces confront an equally weak, poorly organized fictionalized state. Even though since liberation there has been explosion of groups in business, politics, state services, voluntary organizations, professional bodies, each of which claim to represent emerging social forces. Only a handful of individuals are capable of controlling the decision making process. Due to organizational breakdown in all spheres due to internal conflict, and as there always exist disgruntled individuals, it is a few who form cartels of influence. Further, expectation of actual or perceived charismatic leadership has helped emergence of a group who seems to appear in all important decision making cartels. Thus the organizations are used by these members to secur private benefit at public cost. This is made possible due to existence of soft state, weak regulation, and a degree of mutual give and take within and between cartels which is manifested in consumption and subterfuge. The loan default is possibly the classic example of cartel ridden patron client dominant socio-economic system currently prevalent in Bangladesh society, polity, and economy. Patron-client politics result is highly particularistic evolution of public policy to suit the needs of few individuals who have thrust themselves through not so transparent and clean means; loans from DFIs and NCBs to these groups of influence holder is virtually treated defacto grants; the national budget is riddled with special benefits to these groups; import policy is often selectively changed and administrative efficiency hs lost all meaning. Thus, policy lacks clarity and certainty. The policy towards loan default is no exception.

The way out lies in evolution and entrenchment of responsive and participative governance from grass roots upwards which can be instrumental in decartelizing the decision making process. And for this collective action by individuals for common purpose which would pursue efficiency goals by resolving uncertainty and restore clarity is a necessity. For its success the power/control in hierarchial relation or tradition entrenched relation need be replaced as far as possible by trust and reciprocity relation in a structured market where government takes on itself the task of removing imperfections due to indivisibilities, externalities, imperfect access to information, knowledge and resources. The loan default as a case show that we have many miles to go but go we must for which stakeholder (i.e. depositors), job holders and share holders need be equal party in agenda building, information collation and processing and decision making. Our banking industry management needs to consider such institutional alternative.

The DCCI Research Cell for the discussion meeting on 'Problems of Banking and Finance in Bangladesh and its remedies' organized by the Dhaka Chamber of Commerce and Industry (DCCI) on 16th April, 1988 enumerates problems in industrial financing in the following manner :- (26)

INDUSTRIAL FINANCING OPERATION:

The institutional framework for Universal Banking through the newly set up Nationalized Commercial Banks (NCBs) and for industrial financing through the State Owned Development Financing Institutions (DFIs) were initiated soon after their reorganization in 1972, under new policy strategies which limited the scope of investment and role of the private sector as also obviated the need for capital market institutional framework. The role of ICP, NIT and EPF stood suspended and redundant. The Stock Exchange was closed. The DFIs assumed a new role for financing of BMRE projects under sector corporations and small scale industrial ventures in limited specified areas as outlined in the Industrial Investment Schedule within limited amount of TK. 2.5 million. The DFIs were being provided credit lines by Government of Bangladesh from its own limited resources and measure foreign exchange funds. There were also very few sponsors in the private sector due to nationalization of industries even those owned by a few Bangalis who had earlier set up them against lots of odds during pre-liberation period. On the other hand the DFIs were very poorly equipped with professionals as only a very few Bangalis were employed by Government of Pakistan. There were also lack of resource information in the areas of project feasibility study in the hands of the DFIs as well as other Government agencies and entrepreneurs. As a result, the initial progress of DFI activities were extremely limited in the private sector.

The momentum in industrial financing activities started gaining grounds with the gradual liberalization of industrial policy by raising the ceiling for investments and expanding the areas/sectors of investments, re-establishment of ICB with combined functions of ICP/NIT, reopening of stock exchange, denationalization of industries set up by Bangladeshis and funding of DFIs by World Bank/ADB/KFW/FMO and other national and multilateral/regional agencies. These steps reinforced the confidence of the entrepreneur class whatever the nation could have.

The DFIs – namely BSB, BSRS, ICB & BKB, in order to fulfill the target set out by Government of Bangladesh as contained in the Five Year Plans and Industrial Investment Schedules, launched lending/investment programs at an unprecedented speed. By 1983 World Bank/ADB identified symptoms of over-dues in the portfolio of BSB/BSRS and decided to suspend sanctioning of further loans to them and instituted technical study by engaging Price-Water House for evaluation. Based on their report, Government of Bangladesh signed agreement in 1985 with World Bank/ADB effecting finally the suspension of loan to DFIs and specifically strangulating BSRS by forbiding it to sanction any new loans to new industries. Being unable to meet resource requirements from own resources by Government of Bangladesh, the DFIs virtually became ineffective and mainly got engaged in recovery of over-dues. The World Bank/ADB dispatched several evaluation teams over the years and finally decided to open industrial credit lines through the windows of public and private sector Commercial Banks who had hardly any experience in Long Term Lending process that is considered still more risky for investment. However, the World Bank/ADB could persuade only a few Commercial Banks who also fell in deep crises due to inexperience in the filed and are facing over-dues crises. Though Government of Bangladesh/other agencies have often tried to find remedies for the crises, no effective steps had ever been taken to identify the reasons for the massive default and sickness of industries so that appropriate financing strategies may be developed alongside corrective measures for a sustained development efforts in future. Instead successive Governments have taken offensive position against the entrepreneurial class and caused harm to their morale at the ultimate cost of the nation.

WHO IS AT FAULT ?

The crises with the industrial sickness and resultant over-dues with the banks have arisen due to several contributing factors, though burden has been laid on the entrepreneurs and some bankers. Government of Bangladesh set up a number of Committees/Commissions for recommending measures for rehabilitation of sick industries and also undertook Financial Sector Reform Project (FSRP) under the auspices of the World Bank. But none of them has specifically dwelt on the contributory factors for industrial sickness and default and gone in depth for ascertaining the real issues. A brief recounting of the contributory factors would be helpful for cognizance and appropriate action plans :

a) INSTITUTIONAL WEAKNESS:

- As discussed, the institutional framework set up during the pre-liberation period had undergone break-down and restructuring PICIC, IDBP, ICP & NIT were created with World Bank financial support and human resources development. These institutions, graduated over the years and attained maturity in project appraisal and implementation in a phased manner. No lopsided industrial financing was considered. The top and senior executives were selected mainly on professional basis and no military/civil servants were drafted to run the banks. The Board of Directors nominated by Government had reasonable financial/economic/administrative backgrounds. Due to varying pay-scales and perquisites the DFIs/Banks had opportunity in recruiting right man for the right job. After liberation, the DFIs/NCBs faced crises in professional manpower as only a very few Bengali professionals were engaged by the Pakistani Rulers. The gap in professional cadres further widened due to nationalization with national uniform pay-scales and substantial reduction in pay and perquisites, as a result a large number of professionals left the country. Due to limitation in service regulations, the DFIs/NCBs would not be able to recruit professionals in lateral grades in filling up vacant positions as and when required. As a result the DFIs/NCBs had to recruit fresh inexperienced, university graduates such as Engineers, Economists, MBAs, M.Com who failed to provide necessary quality in project appraisal and analysis. The officers also organized Officers' Union for blockading any efforts in promoting them on merit instead of seniority which handicapped the management ability. The requirement of passing Banking Examinations had also to be withdrawn due to pressure from the officers. More hierarchies had to be created for their rapid promotion. These crises created unprecedented institutional weakness resulting in impaired project appraisals.

b) ENTREPRENEURAL WEAKNESS:

- The pre-liberation weak back-ground of Banglali business community was accentuated by the process of nationalization of industries including those owned by Bangali entrepreneurs, statization of trade and commerce and socialization of the economy. There were extremely limited scope of capital formation and gaining experience in various trading/contracting/ business activities which are necessary prelude to industrial investment and management. The nationalization had scared away whatever entrepreneurial ability the country had. The opening of the industrial sector during the late seventies and substantial funding of the DFIs offered vast opportunities to the half-backed entrepreneurs and unemployed but innovative youth class who were attracted and patronized largely by political crony-ism. These new comers may be condemned now, but their adventures were perhaps unavoidable under the circumstances. These first generation entrepreneurs needed support and nurturing by the DFIs who often became hard-liners in helping overcome their deficiencies. Countries especially our neighbouring ones, who had shown sympathy and played supportive roles in developing entrepreneurs, had done a great job in their industrialization efforts.

c) PRE-DETERMINED INDUSTRIAL INVESTMENT SCHEDULE:

- In an effort to centrally plan and develop industries, a guided industrial investment schedule was offered to the prospective industrial entrepreneurs. The DFIs/NCBs were entrusted to provide financial support to those who would conform to the scheduled sectors/capacity and investment requirements as desired by Government of Bangladesh. This pre-determined prospect of investment was based on the judgement by the Government of Bangladesh and its fiscal and monetary policies where the DFIs/NCBs and the entrepreneurs had no say or command. It was a guided investment plan by Government of Bangladesh who assumed to know where industries would be profitable under what circumstances. The DFIs/ NCBs were dumb models for project appraisal which had to be approved by their Boards as well as by the Board of Investments (BOI). Neither the DFIs/NCBs nor the sponsors were able to deviate, even if desirable, from the Investment Schedule. Sponsors were trapped in the game and were misguided. These proved disastrous to them. Who should be held responsible for the lure. An impartial investigation in the steps by successive Governments would reveal the truth.

d) INDUCEMENT EFFECT:

- Apart from the misleading Industrial Investment Schedule, the Government of Bangladesh also induced businessmen in sponsoring various industrial sectors/sub-sectors by offering Tax-Holiday, fiscal incentives, subsidies, persuasion and propagation through media services and meetings with Chambers of Commerce & Industries across the country by Ministers, officials, bankers and politicians. A large number were induced and misguided towards the doors of DFIs/NCBs by these overtures.

e) FLOW OF CAPITAL:

- The Government of Bangladesh and the DFIs launched industrial financing programs amidst abundant capital resources provided by World Bank, ADB, USAID, CDC, CIDA, KWF, FMO, Japan, Saudi Arabia and may other agencies. Such funds were mostly interest free or grants. The Government of Bangladesh encouraged people to set up industries for saving foreign exchange, earning foreign exchange and employment generation as agriculture sector was already over-employed. The DFIs shortened the processing and sanctioning procedure and competed amongst themselves with number of units and amount of loans for attracting political attention. The debt-equity ratio was substantially increased by political decision from traditional concept of 50:50 to 70:30 and in case of agro-based ones, this was further relaxed to 80:20. This relaxation increased the degree of financing by DFIs/NCBs and reduced the equity requirement. In case of a public limited company, 50% of the 30-20% equity requirement was also being met from ICB/Consortium as bridging loan. Thus the effective debt financing was raised to 90% of project cost in which case a sponsor's stake was very measure.

f) DELAY IN IMPLEMENTATION:

- The DFIs/NCBs used to prepare implementation schedule based on their theoretical conception and guidelines by the suppliers of machinery only. The real life situation such as availability of construction materials, electrical/gas connection on time, shipment/arrival of machinery in piece-meal or shortage thereof or missing from ports, delay in arrival of erectors due to delay in permission from Government of Bangladesh or by suppliers due to delay in obtaining permission etc. often led to delay in implementation period, increasing the interest during construction and falling of installment due before start-up of production, requiring DFIs/ NCBs asking for repayment/down-payment for rescheduling before commencement of production.

g) WORKING CAPITAL:

- During the seventies and eighties, mainly DFIs provided long term loan to industrial projects and ICB consortium provided equity support by way of bridging loans carrying interest as term loan. The projects were required to approach the commercial banks (only NCBs were in existence then) for working capital requirements as ascertained by the DFIs in the Project Appraisal Reports (PAR). The NCBs were, in general, reluctant to provide working capital to new projects as they considered them risky. They even used to reject the assessment of working capital by DFIs though they were mostly approved by Board of Investment (BOI) or Boards of DFIs owned by the Government of Bangladesh. Even if they would agree to provide working capital, they would initially offer to provide too inadequate amount against the required/ assessed amount and that too against substantially higher collateral security which most of the entrepreneurs failed to provide though working capital was supposed to be given on pledge/hypothecation. Negotiation would often take months/years before a reasonable solution could be arrived at. As per a study by BSB (Annual Report 1990), more that 80% projects suffered due to absence/inadequate working capital. It may be mentioned that this problem was recognized by the Government of Bangladesh which appointed committees/commissions on various occasions. Realizing the problem Government of Bangladesh amended the provisions of BSB/BSRS charter limiting working capital loans to 20% of the loan amounts to any project. They have however not yet been able to provide working capital to any significant level due to shortage of funds and absence of manpower as well as branch network.

h) INTEREST RATE:

- The DFIs provided long term loans at 14-15% interest though Bank-Rate was below 10%. It may be mentioned that during the pre-liberation period the spread would not exceed 2% over

Bank Rate/Borrowing Rate as the case may be Foreign Exchange loans were provided by Government of Bangladesh to DFIs at 10-11% interest though it received them from World Bank/ADB or other sources as interest free loans or as grants. The loans were repayable over 30-40 years with 10-15 years grace period. But DFIs relent to projects at 14-15% interest with repayment term of 10-12 years only which was not matching with original terms of loans.

- It may be recalled that in view of devastation of the economy during war of liberation damage to private sector by nationalization and revision of economic policy from socialistic to private capitalism the World Bank/ADB and other donor agencies/countries provided interest free loans or grants as the economy would not be able to bear the burden of general loans. The soft loans and grants were supposed to have been passed on to the DFIs and through them to the sub-borrowers i.e. industrial units as matching loans. Instead the government earned 10-11% interest on the loans at the cost of the industries. An examination of BSB/BSRS accounts would sure reflect that government had extracted huge benefits through this mechanism though the lending agencies/countries had not desire so.

i) EXCHANGE RATE FLUCTUATION:

- The foreign exchange loan from DFIs burdened the projects with huge liability both in principal and interest accounts. Since late seventies, exchange rate of taka against dollar has been depreciating at about 100% for each loan period of 10-12 years with compounding impact on repayment liability. In the mid eighties a scheme of Exchange rate Fluctuation Absorption Scheme (EFAS) was designed by GOB/DFIs on payment of a premium of 2.5% which was on top of 14-15% interest. This huge burden was thus placed on the sub-borrowers who had no idea or conception of exchange rate fluctuation. Neither the DFIs nor GOB had ever projected such fluctuations in the project feasibility studies. This burden was unduly thrust upon the innocent sponsors.

j) LOSS OF MARKET:

- In may cases the projects could not secure markets as envisaged in the PAR by the DFIs or sponsors for various reasons beyond the control of the sponsors. Most of the projects lost markets due to international event, GATT/WTO agreements, change in technology causing reduction in cost of new products, fiscal change, labour/political unrest at production or port level etc. Abrupt policy change in favour of faster course of trade and tariff liberalization in the name of free market economy have exposed may industries to an uneven competition from imported/smuggled goods as well as dumping without reciprocal liberalization in the neighbouring countries.

k) FISCAL ANOMALY:

- Fiscal anomalies in import duty and other charges such as development surcharges etc. between imported raw materials and finished goods made raw materials more expensive than the finished goods made out of it. Various interest groups were responsible for such situation. A large number of projects suffered and lost market and had to close down. Though such situation has partly been corrected by government of Bangladesh after long persuasion the maladies suffered by projects have not been remedied for losses of such period.

l) DFI/NCB ACCOUNTING PARCTICES:

- The accounting practices of the DFIs/NCBs are responsible for fattening of the over-dues amounts. Though interest rate is applicable on per annum basis, they calculate on quarterly basis and compound four times in a year. Calculation of interest at simple rate per annum i.e. once in a year on closing balance or average balance will reduce the over-dues by about 20%.

m) GOB POLICY CHANGE:

- During the late seventies Government of Bangladesh (GOB) encouraged setting up of modern automatic rice-mills for processing GOB procured paddy for higher recovery of rice and extraction of oil from rice bran that would be available from such mills. But within a few years the GOB procurement started falling as production increased and price of rice stabilized. As a result the automatic rice mills started facing raw materials shortages from GOB. Most of them also failed to obtain working capital from NCBs for lack of collateral or lack of feasibility and fell sick.

n) MISCELLANEOUS:

- Many projects suffered or got stuck-up due to death of principal sponsor, dispute amongst sponsors, technical problem in machinery, technological obsolesence and labour dispute etc.

3. Statement of the Problem

3.1. The Research Problem
3.2. Study Objectives
3.3. Research Hypotheses
3.4. Research Questions
3.5. Methodology of the study
3.6. Rationale and benefits of the study

3.1. The research problem:

Industrial credit operation by commercial banks in Bangladesh has been a new phenomenon. Though a large amount of loanable fund has already been deployed in industrial financing, the recovery rate is only 35%(cumulative) which is very alarming. Further examination, including literature search, revealed that little was also known about modern operational system of industrial credits, credit pricing and capital structure determination system in industrial credits by commercial banks.

3.2. Study Objectives:

Broad Objectives

- To improve industrial credit management system for commercial banks of Bangladesh.

Specific Objectives

- To improve credit management system of commercial banks with special reference to industrial credit projects.
- To evaluate the effectiveness of existing methods and tools used for industrial credit management.
- To identify the root causes of indiscipline and default culture in industrial projects.
- To develop an appropriate model for improvement of industrial credit management in commercial banks of Bangladesh.

3.3. Research Hypotheses/Issues:

- Current industrial credit management practices in commercial banks of Bangladesh is ineffective.
- Credit pricing mechanism is faulty.
- High debt to equity ratio in industrial credit increase project risks.

2.4. Research Questions:

The above objectives led to the formulation of the following questions;

1) On operational system of industrial credit in commercial banks:
   - What is the existing operational systems followed by commercial banks in extending industrial credits ?
   - What is the standard system of industrial credit operation ?

2) On credit pricing mechanism:
   - How to set price on industrial credit products?
   - What items are covered in pricing industrial credit products offered by commercial banks?

- What problems are faced in fixing the price for industrial credit?

3) On capital structure of the borrower for sanctioning credits:

- How the capital structure of a borrower is determined before financing ?
- What criteria is being followed regarding fixation of debt-equity ratio?
- What was the impact of debt equity ratio regarding profitability and repayment of loans to banks?

3.5. Methodology: Sample size determination.

Industrial credit operation by commercial banks in Bangladesh is a new phenomenon. Commercial banks of Bangladesh, however, without having any experience about industrial credit operation, has come forward to finance in this sector. The commercial banks have so far financed over 20 lac borrowers upto 30th June, 2000 out of which 28000 projects ranging amount from Tk.50 thousand to Tk.5.0 crore each financed in industrial sectors. The sample size has been determined taking the formula of normal distribution of sample for 10000 and above in the following manner:

A. Quantitative Analysis.(27)

Assumption:

a) Total commercial bank credits in three different sectors viz. Industrial Credit, Agricultural Credit and General Credits outlayed for about 20 lac borrowers.

b) The sample percentage is normally distributed.

The desired sample size 'n' would be $n=z^2 pq/d^2$

Where z=the standard normal deviate, usually set at 1.96, which corresponds to 95% confidence limit.

p= proportion in the target population estimated to have a particular characteristic. Here it is 0.5

$q=1-p=0.5$

d=degree of accuracy. Here it is 0.05

Therefore, the sample size $n=(1.96)^2 * 0.5*0.5/.(0.05)^2 = 380$

If z is 2.00, then sample size would be 400

Therefore, 400 would be quite adequate size.[38]

B. Ratio Estimation.

Total credit sample is grouped as under :

a) Industrial Credit
b) Agricultural Credit
c) General Credit

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B. Ratio Estimation.

Total credit sample is grouped as under :

a) Industrial Credit
b) Agricultural Credit
c) General Credit

Total amount of outstanding loan as on 30-06-2000 was Tk. 63172 crore. Out of this, Industrial, Agricultural and General Credit were of Tk. 16733, Tk. 8990 & Tk.37449 crore respectively. Therefore, the required sample size of these sectors would proportionately be as under:

a)	Industrial Credit (26.49%)	-	106
b)	Agricultural Credit (14.23%	-	57
c)	General Credit (59.28%)	-	237
	Total:		400

Therefore, 110 would be adequate size for industrial credits.

C. Sample Area.

1) From the selected industrially concentrated 4 divisional head quarters viz. Dhaka, Chittagong, Rajshahi & Khulna, samples decision from each divisional head quarters would be drawn through Simple Random Sampling Method (Without replacement). Sample size would be determined according to ratio of industrial credit volume in these four divisions.

2) The drawn sample would be sanctioned limit balance of between Tk.50.00 lacs to Tk.5.00 crore (SMEs: Small and Medium Enterprizes).

D. Qualitative Analysis.

To gain insights into default culture developed amongst the industrial credit borrowers, qualitative techniques are used alongwith quantitative techniques in an interrelated, complementary manner. It will help to evaluate the factors of credit indiscipline relating to the objectives of the study. The qualitative techniques will be measured by using the variables used for the purpose.

E. Stages of Study.

Stage-1

110 files studied in the following manner :

- 110 files divided into 55 good borrowers files and 55 bad borrowers files.
- 1 good borrower file studied with another 1 bad borrower file.
- In this way 55 good borrowers files and 55 bad borrowers files will be selected and studied.

Stage-2

Finding information from the study materials of the files.

- Questionnaire prepared for case study of the files.

Stage-3

Conducts study of the files with the questionnaire.

Stage-4

Prepared comparative statement showing the results of good borrowers file and bad borrowers file.

Stage-5

Analysis of comparative results showing the problems and issues and thereby findings root causes of indiscipline.

Stage-6

Developed a model for Industrial Credit Management for commercial banks based on findings of root causes of credit indiscipline.

4. Industrial Credit Policy and Administration.

4.1. Introduction
4.2. Industrial Credit policy
4.3. Industrial credit appraisal
4.4. Sanctioning
4.5. Implementation
4.6. Monitoring and recovery procedure
4.7. Case study on project appraisal, sanction, implementation and monitoring thereof; Financing to a knitting, dyeing, finishing and knit garments.
4.8. Definition of important terms used in industrial credit operation.

4. Industrial Credit Policy of Commercial Banks:

4.1. Introduction:

Commercial bank mobilizes short-term deposit and thereby employ its fund for short term credit. Generally it does not employ its fund for longer period. Development Financing Institutions are (DFI) entrusted with this responsibility of financing for longer period in fixed asset acquisition. But in Bangladesh huge demand is being created for term financing for establishment of the industries. Naturally the DFI's can not cope with this demand of credit needs of the industrial sectors. As a result, the commercial banks were entrusted to finance in the sectors in late 70's with the funds provided through different donor sources. The banks also come forward to finance from their own sources. Now a days, the commercial banks are extending credit in these sectors upto 20% of its loanable funds .

4.2 Industrial credit policy of the commercial banks:

The industrial credits of commercial bank is governed by the industrial policy of the government. The government so far declared 3 industrial policies in the year 1986, 1991 and 1999 respectively. Besides this, the fund provided by the donor agencies are governed by their own policies and procedures for financing in industrial sectors. These are also treated as policy for industrial financing by commercial banks.

The salient features of these policies followed by the commercial banks for financing in the industrial sectors are enumerated as under:

Salient Features of Industrial Policy of 1986:

1. In order to make institutional financing viable and continuous the following measures, among others, will be adopted.

2. Special Assistance Fund (SAF) will be established by the BSB out of:
   Loans, gifts, grants, donations, benefactions from the Government and other sources made specifically for utilization as venture capital;
   Repayments or recoveries in respect of loans, advances, etc. made out of the fund;
   Income or profits from investments made out of the fund.

   This fund shall be utilized mainly to provide concessional loans to projects:

   a) Based on local innovation and invention of products and processes;
   b) Utilizing locally manufactured capital goods;
   c) For production of capital machinery and other non-traditional items.

BSB shall work out the modalities for creation and administration of this fund.

2. Provision of working capital by DFIs:
The DFIs to projects of innovative nature shall extend Working capital/loan and those based on indigenous capital machinery.

3. Repayment of Term Loans:
It shall be the obligation of the borrowers to make repayment of loans strictly as per contract schedule. In the case of default of repayment, the lending institutions will take prompt and appropriate measures for realization of the outstanding dues. No new industry will be sanctioned to any defaulters.

4. Interest accruing on the loans disbursed during the period of construction of projects will be calculated and shown separately and will be realized at a simple rate of interest in five annual installments after the expiry of the period of construction to be predetermined by the concerned financial institution (after the usual grace period).

6. The repayment of foreign and local currency loans will start after 42 months of opening of L/C or 24 months after the unit goes into commercial production whichever is earlier.

7. In order to absorb the burden of exchange fluctuation, the Finance Division introduced 'the Exchange Rate Fluctuation Burden Absorption Scheme' (EFAS). Under this scheme the borrowers of DFIs are protected from fluctuation of exchange rate by payment of fixed premium. This EFAS coverage may be extended to all other institutional credits as long as the scheme remains in operation. Finance Division will determine the modalities.

Sanctioning Procedure For the public sector

For projects included in the public sector, the existing sanctioning procedure will continue to be followed.

For the private sector

(a) No formal permission of the Government will be required to set up industries outside Reserved List but within the indicative Investment Schedule provided the entrepreneurs import machinery's with their own resources such as Wage Earners' Scheme, Supplier's Credit (subject to clearance by the Hard Terms Loan Committee), Pay as You Earn Scheme, non-repatriable Foreign Exchange. However, the entrepreneurs/financial institutions shall be required to seek Government permission through department of industries for setting up of industries in the discouraged list. This will be subject to review from time to time.

(b) Projects with imported raw materials content of more than 50% in value shall be referred to the Investment Board if not financed from own resources. Import of raw materials/spares will be guided by Annual Import Policy.

(c) Each entrepreneur shall register its industry with the Department of Industries and regularly furnish all information about the project /industry.

(d) For BMR of existing industries with own resources such as WES, Suppliers Credit (subject to clearance by the Hard Terms Loan Committee), PAYE, Non-repatriable Foreign Exchange etc. no formal permission will be required. However, the industries undertaking BMR shall furnish necessary information to the department of industries.

Projects with assistance from DFIs and commercial Banks.

The Development Finance Institutions, the Commercial Banks and other approved Financial Institutions may finally sanction projects, which may cost upto the limits given in the policy. Projects which either exceed the financial powers of the DFIs, the Commercial Banks and other approved Financial Institutions or involve imported raw materials content of more than 50% in value will be refereed to the Investment Board for approval.

Large projects and projects involving Foreign Investment.

Projects, costs of which exceed the financial powers of the Investment Board as well as all projects involving foreign investment (Repatriable foreign exchange); shall be referred to the Standing Committee of the National Committee for Industrial Development.

Decentralization of sanctioning powers

In order to facilitate speedy sanctions, the sanctioning powers of the various authorities/bodies have been appropriately decentralized.

Time limit for sanction:

(i) The Department of Industries/BSCIC will appraise and finalize decision regarding sanction of projects falling within their competence in two month's time from the date, applications are received.

(ii) The financing institutions will complete appraisal and finalize decision regarding sanction of projects within their competence in three month's time from the date of applications are received;

(iii) For projects needing the approval of the Investment Board/the standing Committee, the financing institutions will complete their appraisal and place them before the Investment Board/the Standing Committee through Department of Industries within four months. The Investment Board/the Standing Committee will dispose of such cases within one month;

(iv) All the financing institutions will adopt uniform and simplified project application forms.

Loan disbursement:

(i) First disbursement of loan, other than foreign currency loan, will be made within two months of sanction subject to fulfillment of usual conditions. For foreign currency loan where applicable , disbursement will be according to project schedule;

(ii) The total amount of sanctions by the financing institutions will not at any time exceed the fund/credit available with them by more than 25%.

(iii) Even when funds are not available, the financing institutions will continue with the appraisal of projects, get acceptable projects duly approved by their respective Boards and keep them ready for final approval and disbursement.

Provision for Working Capital

While sanctioning a project, financial Institutions and Commercial Banks shall make arrangement for requisite working capital to the industries.

Debt-Equity Ratio and Interest Rate

(i) The debt-equity ratio for projects and interest rate shall be as follows:

Debt –Equity Ratio	Rate of Interest			
	Developed Areas	Less Developed Areas	Least Developed Areas	For industries using domestically produced capital goods
60 :40	12%	12%	11%	10%
70 : 30	13%	13%	12%	11%
80 : 20	--	13.5%	12.5%	11.5%

(ii) For small and cottage industries, irrespective of debt-equity ratio and areas, the rate of interest will be 10%.

(iii) During tax holiday period tax exemption on dividend income shall be allowed to shareholders of (1) Publicly Traded Industrial Companies and (2) Public Limited Industrial Companies provided 50% of Dividend income is invested in (a) the same company or (b) in a new industry or (c) in shares of a new Public Limited Company.

(iv) All income arising from export of handicrafts shall be exempted from income tax;

(v) There shall be no security charge for self-financed power transformer. Usual security charge will, however, have to be paid for use of energy.

Special Incentives for Less/Least Developed Areas

The following fiscal incentives and other facilities will be provided for industrialization of the less developed Areas:

(i) The import permit/L.C authorization fee for capital machinery and spares will not be required;

(ii) The special fund created by the Government to subsidize cost of fuels used by industrial units in the less/least developed areas.

(iii) Necessary infrastructures will be built progressively in Less Developed Areas/Least Developed Areas;

(iv) The DFIs and Commercial Banks will reserve appropriate funds as directed by the Bangladesh Bank both in local and foreign currency for investment in the less/least developed areas.

Salient Features of Industrial Policy-1992

The Industrial Policy, 1991 (revised in 1992) is based on the philosophy of market economy. The objectives of the policy are to:

- develop the industrial sector in order to increase its contribution to the gross domestic product, income, resources and employment;
- expand industries by putting more emphasis on development of the private sector and in this respect to make the role of the government 'promotional' rather than 'regulatory';
- encourage domestic and foreign investment in overall industrial development;
- develop export-oriented, export-linkage and efficient import-substitute industries;
- encourage specifically the development of small and cottage industries;
- expedite development of labor intensive industries through acquisition and improvement of appropriate technology;
- encourage the development of industries based on indigenous raw materials and indigenous technology;
- motivate investment in the intermediate and basic industries;
- confine the role of the Government particularly in establishing strategic and heavy industries and to improve efficiency of the public sector;
- create possible opportunities for revitalizing and rehabilitating sick industries;
- make effective arrangements for improving standards and controlling quality of products; and
- take appropriate measures for preventing environmental pollution and maintaining ecological balance.

Besides this, the financing system by the DFIs and commercial banks will be the same.

The following are the prime objectives of the Industrial Policy 1999:

- To expand the production base of the economy by accelerating the level of industrial investment.

- To promote the private sector to lead the growth of industrial production and investment.

- To focus the role of the government as a facilitator in creating an enabling environment for expanding private investment.

- To permit public undertaking only in those industrial activities where public sector involvement is essential to facilitate the growth of the private sector and/or where there are overriding social concerns to be accommodated.

- To attract foreign direct investment in both export and domestic market oriented industries to make up for the deficient domestic investment resources, and to acquire involving technology and gain access to export markets.

- To ensure rapid growth of industrial employment by encouraging investment in labour intensive manufacturing industries including investment in efficient small and cottage industries.

- To generate female employment in higher skill categories through special emphasis on skill development.

- To raise industrial productivity and to move progressively to higher value added products through skill and technology upgradation.

- To enhance operational efficiency in all remaining public manufacturing enterprises through appropriate management restructuring and pursuit of market oriented policies.

- To diversify and rapidly increase export of manufacturers.

- To encourage the competitive strength of import substituting industries for catering to a growing domestic market.

- To ensure a process of industrialization which is environmentally sound and consistent with the resource endowment of the economy.

- To encourage balanced industrial development throughout the country by introducing suitable measures and incentives.

- To effectively utilize the existing production capacity.

- To coordinate with trade and fiscal policies.

- To develop indigenous technology and to expand production based on domestic raw materials.

- To rehabilitate deserving sick industries.

Board Strategies of Industrial Policy-1999.

- All regulatory barriers will be removed within the quickest possible time to facilitate easy and rapid flow of domestic private and foreign direct investment. Appropriate legal framework will be put in place to protect both investor and consumer rights to ensure proper market operation and, consequently, for lowering cost of doing business.

- There will be no discrimination between domestic and foreign investment. Due emphasis will be given to promotion of regional and sub-regional cooperation.

- Existing public sector enterprises will be progressively privatized and public industrial investment will be limited to only those cases where there is special need to complement private investment or where there is an overriding social and national objective to be achieved.

- The capital market will be developed and strengthened to mobilize domestic savings and to attract foreign investment.

- Development of the infrastructure including port facilities, energy, transport and communication and human resource development will receive high priority. Private investment including "Build, Operate and Own" (BOO) and "Build, Operate and Transfer" (BOT) methods will be particularly encouraged in these sectors.

- Intensive Industrial Zones development will be undertaken together with a balanced geographical dispersal of the zones in areas with growing potential for the utilization of local resources as more infrastructural and other facilities are put in place.

- Consistent with the charter of World Trade Organization (WTO), protection to domestic industries from external competition will be rationalized.

- To retain the competitive edge of domestic products, wage increases will be linked to productivity trends, and appropriate labour laws will be put in place to ensure congenial industrial relations.

- The industrial investment will be encouraged through tariff rationalization and appropriate fiscal measures. The import and export policies will also be made supportive of consistent with the Industrial Policy.

- In order to develop small and cottage industries, special incentives and infrastructural facilities will be provided.

- Infrastructural, financial and technical facilities will be provided to encourage establishment and expansion of agro-based and agro-supportive industries.

- Measures will be taken to encourage research and development (R&D) and promote development, acquisition and transfer of appropriate technology. At the same time, market responsive institutional framework for overall technology development will be created.

- The growth of value adding linkage industries including subcontracting industries will be encouraged.

- To ensure productivity growth, emphasis will be given on human resource development through providing better access to education, skill specific training and market information. Progressive infusion of new technology leading to increasingly efficient corporate structure will be encouraged.

- Measures will be taken so that industrial development in the country may take advantage of the emerging regional cooperation.

- Foreign Direct Investment (FDI) will be targeted as an important vehicle of technology transfer, skill development and promotion of management and marketing know-how.

- Special incentives and support will be provided for the development of export oriented industries.

- An integrated and comprehensive management information system (MIS) will be put in place in the Ministry of Industries, which will be made accessible at Divisional and District levels.

- These strategies and measures emanating from the Industrial Policy 1999 will be implemented through an interactive process between the government, industry and others.

- To build industrial production capacity, long term credit will be made available and to assist commercial production of innovative industrial products, venture capital fund will be created.

- Together with expansion of regional and sub-regional cooperation, joint venture with the neighbouring countries/region will be encouraged.

- Acquisition and dissemination of technology will be pursued through Technology Dissemination Cell of the Ministry of Science and Technology, trade and industries associations and Bangladesh missions abroad.

- For rapid, firm and economical resolution of trade disputes, administrative judicial system will provide positive support.

- Prime Minister's Council of Private Enterprise will be established for providing prompt advise in matters relating to trade and industry.

<u>Definition and Classification of Industry</u>

- "Industry" is broadly defined to include both manufacturing industry and service industry.

- "Manufacturing Industry" includes all production, processing and assembling activities as well as repairing and reconditioning of processed goods.

- "Service Industry" includes those service-oriented activities which involve significant use of equipment or fixed assets. The list of service activities which are currently declared "industries" is given in the policy document.

- "Large Industry" is defined to include all industrial enterprise employing 100 or more workers and/or having a capital of over Taka 300 million.

- "Medium Industry" will cover enterprises employing between 50 and 99 workers and /or with a fixed capital investment between Taka 100 million and Taka 300 million.

- "Small Industry" will mean enterprises employing fewer than 50 workers excluding the cottage units and/or with a fixed capital investment of less than taka 100 million.

- "Cottage Industries" covers household based units operated mainly with family labour.

- "Reserved Industries" are those which are earmarked exclusively for public investment through executive order.

- "Thrust Sectors" are those industrial activities which are identified or so declared by the Government for the purpose of targeting special incentives and supportive measures.

- The definition of "Industry" may be modified consistent with contemporaneous need.

<u>Small and Cottage Industries:</u>

- Bangladesh Small and Cottage Industries Corporation (BSCIC) as the relevant promotional body will remain responsible for overseeing and extending support to the small and cottage industries (SCIs). The BSCIC will do the following :
  - Arrange special credit line;
  - Allocate plots in the BSCIC Estates;
  - Organize entrepreneur-ship development programs with emphasis on women, unemployed youth, skilled artisans, returnee migrant workers and landless people;
  - Oversee extension of infrastructural facilities to SCIs;
  - Support market development programs for SCIs products;
  - Register the units and monitor the performance of the sub-sector.

- The BSCIC will continue its efforts in creating infrastructural facilities in the growth centres similar to those available in the BSCIC Estates. In the regions, where there are no Industrial Estates, the relevant authorities will, on the recommendation of BSCIC, provide infrastructural facilities to the small and cottage industries on a priority basis.

- Efforts will be undertaken to develop linkages of the SCIs units with the corporate sector, particularly by encouraging sub-contracting arrangements. To promote sub-contracting, banks and financial institutions will make provisions for special funds. The sub-contracting industries shall enjoy incentives and facilities similar to those provided to the SCIs sector irrespective of their location.

- The Small Industry Credit Guarantee Scheme will be made more extensive and effective through joint collaboration of Bangladesh Small and Cottage Industries Corporation, Bangladesh Bank and public/private insurance companies.

- BSCIC Industrial Estates will accord priority to foreign investors in setting up units in their estates.

Financing Policies against fund received through foreign credit lines:
Besides this, the commercial banks have been participating in industrial financing from the funds received from different donor and international agencies. The commercial banks of Bangladesh have so far received funds from the following credit lines:

1. IDA credit
2. ADB credit
3. EXIM bank credit
4. OPEC credit

The salient features of this credit lines are as under:

IDA credit:
1. Name of Credit Line: IDA Credit no.1065 BD
2. Amount of Fund: SDR 26,700,000
3. Objectives of the credit: The purpose of the project is to assist in the development of small-scale and cottage industry in the borrower's territory and consists of the following

parts:

Part A:

A program to provide credit to small-scale and cottage industries by participating commercial banks with refinance by Bangladesh Bank.

Part B:

Strengthening of managerial, technical, marketing and other general and specific sub-sector services for small-scale and cottage industries through provision of funds, specialist services, staff, training, equipment and facilities as required to:

(i) Improve BSCIC's extension services by implementing sub-sector reorganization, a subcontracting exchange, district-level extension programs and about 10 pilot projects.

(ii) Establish ,under the Institute of Leather Technology, a program to provide common facilities and technical services to small and medium-scale tanneries.

(iii) Establish a Light industry and handicraft Export Development Program, in the Export Promotion Bureau; and

(iv) Assist the IRDP and selected TCCAs in promoting agro-related activities.

Part C:

Strengthening of Bangladesh bank, participating commercial banks and Bangladesh Institute of Bank Management (BIBM) staff and operational systems through:

(i) Development of Bangladesh Bank operating procedures and training of staff of small-scale refinance unit;

(ii) Training of staff to upgrade small-scale and cottage industry appraisal and supervision capabilities of participating credit institutions; and

(iii) Improvement of the small-scale and cottage industry training program of the BIBM.

Operating Policies:

A. Eligible Investment Projects shall be those which involve the creation, expansion or balancing of financially viable small-scale and cottage industries

(Including the acquisition of land, building, equipment and financing of contingencies and permanent working capital thereof) which except as the association may otherwise agree:

1. Have fixed costs per job not exceeding Tk 50,000 with the exception of cargo transport enterprises.

2. Utilize raw materials and inputs of local origin or involving prior local processing of not less than 60% of the total value thereof, with the exception of :

   a) Metal Industries;
   b) Cargo transport enterprise and
   c) Export industries, which need only to provide evidence that they would be net foreign exchange earners.

B. <u>Sub-loan size</u>

Sub-loans of upto Tk.500,000 not to exceed 80% of the costs of an Investment Project.

Sub-loans above Tk 500,000 upto a maximum of Tk 3,000,000 per sub-loan, not to exceed 70% of the costs of an Investment Project.

C. <u>Allocations</u>

Bangladesh Bank would ensure the following allocations of the proceeds of the Credit for purposes of part A of the project.

1. A maximum of 60% for financing Investment projects of Small-Scale and cottage industries with fixed assets above Tk 1 million after a sub-loan.

2. Up to 15% for cargo transport ; additional amounts would be available subject to prior authorization by the association.
3. A minimum of US$ 1 million equivalent for Investment Projects by exporters of handicraft and light industrial products and related Small-scale and cottage industries.

4. A minimum of US$ 1 million equivalent for Investment for rural enterprises through eligible TCCAs.

D. <u>Interest rates, charges and spreads for direct sub-loans</u>:

   1. Borrower's charge to Bangladesh Bank
      - Sub-loans of upto Tk 500,000 3%

- Sub-loan of Tk 500,001 –Tk 1,500,000 4%
- Sub-loans of Tk 1,500,001-Tk 3,000,000 5%

2. Bangladesh Bank spread –2% for all direct Sub-loans.

3. Spreads to participating Commercial Banks (without Bangladesh Bank Credit Guarantee).

- Sub-loans of up to Tk 500,000 8%
- Sub-loans of Tk 500,001-1,500,000 7%
- Sub-loans of Tk 1,500,001-Tk3,000,000 6%

4. Minimum on-lending rates to Small-scale and cottage industries-13%

E. Interest rates, charges and spreads for sub-loans through TCCA and Village <u>Co-operative Societies</u>:

1.	Borrower's charge to Bangladesh Bank	2%
2.	Bangladesh Bank Spread	1%
3.	Spread for participating commercial banks without BB credit Guarantee	4%
4.	Spread to TCCA	3%
5.	Spread to Village Level Cooperative Society/Specialized cooperative	3%
6.	Minimum on-lending rate to small –Scale and Cottage Industries	13%

F. <u>Repayment periods will be as follows</u>:

1. By BB to borrower –upto 15 years inclusive of up to 5 years grace.
2. By participating commercial banks to BB – up to 12 years inclusive of upto 3 years grace.

By small-scale and cottage industries to participating commercial banks upto 12 years inclusive of up to 3 years grace.

G. Foreign Exchange risk to be borne by borrower.

H. The terms for on lending , refinancing and sub-loans above set forth may be amended from time to time as mutually agreed between the borrower and the association.

<u>Exprot Import Bank of India (Exim Bank) Credit for Bangladesh.</u>

A credit line of total Indian Rs 40.00 crore has been arranged with Export Import Bank of India, better known as Exim Bank, Bombay, India. Four nationalized commercial banks namely Agrani, Sonali, Janata and Krishi Bank and two financial institutions namely Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sanghstha shall handle the credit line. Out of the total credit of Indian Rs 40.00 crore, an amount of Indian Rs 10.00 crore has been allocated to Bangladesh Shilpa Rin Sanghstha and Indian Rs 6.00 crore each has been allocated to other 5 banks/ institutions.

2.The credit line has been made available to Bangladesh to finance the import of capital goods and machinery only from India. The import of capital goods and machinery under this credit arrangement shall be permitted for the purpose of setting up of industrial and other project, both in the private and in the public sector subject to provisions in the industrial investment schedule (IIS) of the Government of Bangladesh.

3.The credit may be utilized either for setting up new project/enterprise or balancing, modernization, replacement and expansion (BMRE) of an existing project/enterprise.

4.Loan, out of the credit arrangement, shall be sanctioned for a project subject to its technical feasibility and economic viability. In addition to financing the foreign currency loan required for imported goods/machinery, local currency loan may also be considered for the project.

5.Debt-equity ratio of the total project cost shall be determined primarily on the merit of the project concerned, but the ratio shall not be less than the provisions of the new Industrial Policy and the revised investment schedule of the Government i.e., 75:25 for the projects to be set up in developed areas and 80:20 for the projects to be set up in the less developed area of the country. Equity, represents the amount that an entrepreneur is required to invest in the proposed project. Debt represents the balance amount (for the project) to be provided by the bank through sanction of loan.

6.The credit arrangement as such does not provide for any upper ceiling (maximum amount) of loan for financing an eligible project. However, the provisions of the new industrial policy (NIP) and the industrial investment schedule (IIS) of the Government shall govern it. Accordingly, a project whose imported raw material content is more than 20% or the capital investment Excluding value of land, building and working capital of which exceeds Tk.30.00 Lac will require approval of the Investment Board.

7.Other salient features of the credit line are as under:-

(i) Only such capital goods/machinery from India can be imported under this credit agreement as approved by the Exim Bank.

(ii) Import is permissible only through Letter of Credit (L/C) from India on FOB, FOR or C&F terms. The quotation should be Indian currency. At the time of opening Letter of Credit, the importer (sponsor of the project) has to make down-payment of 7.5% of the contract or L/C value at IP rate to be remitted to the beneficiary /supplier as provided in the credit agreement. This down-payment shall be in addition to the margin to be provided by the importer at the time of opening the L/C. The amount of margin shall be indicated in the financing plan of the project on sanction of loan for the same.

(iii) No import shall be less than (valued) Indian Rs 1.00 Lac. In other words , no project in which the imported cost of capital goods/machinery is less than Indian Rs 1.00 Lac is eligible for finance under this credit line.

(iv) Import value exceeding Indian Rs 3.00 Lac needs prior approval of Exim Bank, without which it will not be eligible for finance under this credit agreement.

(v) Interest shall be charged at the rate of 4% p.a. above the bank rate (which is 10.5% now) but not less than 14.5% p.a. in case of project located in the developed area. For project located in less developed area or export oriented, the rate of interest shall be 3% p.a. above the bank rate but not less than 13.5% p.a. Penal interest shall also be charged in case of such advance becoming irregular, according to the rules and at the rate as applicable from time to time.

(vi) The credit arrangement with Exim Bank provides for utilization of the loan amount (i.e.Indian Rs 6.00 crore) within September ,1985. All Letter of Credit for imported of capital goods/machinery under this credit arrangement should,therefore, be opened within March,1985.

8.The importer may opt to obtain cover against the risk of exchange fluctuation (for the foreign currency part of the loan) under the provisions of the scheme introduced by the Government in this respect.

9.Service charge is to be paid by the entrepreneur at the rate of 1% on the amount of loan sanctioned under the credit arrangement.

10.Loan availed for setting up an industrial project shall be secured against legal mortgage of the fixed-assets of the project and hypothecation of machinery/capital assets. Loan(if) granted for working capital for such project shall be secured against hypothecation of inventory concurrently with the security of mortgage on the fixed assets of the project.

For financing other than industrial project (such as commercial vehicle, tractor, crane etc) suitable collateral security is to be furnished by the entrepreneur.

11. Installment for repayment of loan availed under this credit arrangement shall be determined on the basis of the size of the loan and debt-service coverage i.e. repayment shall not, however, exceed 10 years from the date of (first) disbursement of loan.

12. Application for loan under this credit arrangement is to be made on our printed form. For this purpose, an applicant has to purchase a set of loan application forms at a cost of Tk 50.00. Each set consists of 4 applications, two copies of the application are to be submitted to Head Office, one copy to be retained at the branch and the other by the applicant.

While forwarding to Head Office the loan application (in duplicate), the branch must enclose a credit-report about the applicant.

Sale proceeds of the loan applications at the rate of Tk 50.00 per set as above are to be credited by the branch in its Miscellaneous earning account.

Bank branches at district levels shall handle project loans sanctioned under the credit arrangement. The Small Scale Industries Department (SSID) shall deal with the loan proposals at Head office. All correspondences in this respect should be addressed to the Deputy General Manger in charge of the said department.

Asian Development Bank Credit for Rural and Agro-based Industries Project(30)

Asian Development Bank has agreed to make available a credit line in various currencies equivalent to SDR 18,560,000 (eighteen million five hundred and sixty thousand Special Drawing Rights). The salient features of the credit line are as under:-

1.1 Executing Banks:

Agrani Bank and Rupali Bank have been designated as the executing banks for utilization of the credit.

1.2 Allocation of the Credit Amount:

The proceeds of the loan will be disbursed to executing banks on first come first serve basis. However,the maximum amount to be allocated to either bank shall not exceed US$ 15.00 million.

1.3 Utilization Period:

The proceeds of the loan shall have to be utilized as early as possible but in no case the utilization period shall exceed 2(two) years.

1.4 Eligible Projects:

The credit amount under this program shall be available for financing the specific development project in Small and Medium Scale Agro-based industries and small scale rural industries. The projects, which have already availed Asian Development Bank loan from BSB, BSRS and BKB, will not normally be eligible for finance under this credit.

1.5 Use of proceeds of the loan:

The proceeds of the loan shall be used only for financing the reasonable foreign currency cost of the goods and services required for the eligible projects. The portion of foreign currency cost required for procurement of raw materials and components forming working capital requirement is also eligible for finance under the credit. The local currency component of the project may be considered by the bank from its own source on the basis of overall global liquidity of the bank.

1.6 Procurement of goods and services for eligible projects:

All the goods and services to be financed out of the proceeds of the loan shall be procured in accordance with the following procedures:-

(i) A reasonable number of quotations not less than 3(three) in any case for all purchase of goods and services is to be obtained where the estimated cost of such goods and services is equivalent to US $ 2,50,000 or less.

(ii) Where the estimated cost of such goods and services is more than US$ 2,50,000 the procurement is to be made on the basis of international tendering.

(iii) The goods and services are to be procured from the member countries of Asian Development Bank. However, recognized a reputed supplier(s) of Bangladesh will also be eligible to offer quotations as per procedure prescribed in this respect.

In such cases they will receive the finance from the proceeds of the loan on the same basis applicable in case of foreign suppliers.

1.7 Size of the eligible projects:

The total cost of the eligible individual project will not exceed US$ 10,00,000 provided the foreign exchange component does not exceed US$ 4,00,000.

1.8 Debt-equity

The debt-equity ratio of the total project cost shall be determined on the merit of the individual project, but in no case, the ratio shall less than 75:25. In other words, the borrowers shall be required to contribute minimum equity (borrowers' own investment) of 25% of the total estimated cost of the project. The borrowers shall have to indicate the source(s) of equity fund prior to approval of the loan and shall hold such fund duly earmarked for the purpose of the project in the form of tangible assets acceptable to the bank prior to the disbursement of the loan.

1.9 Rate of interest :

The rate of interest on the loan under the credit line will be 14.5% per annum. However, in case of export oriented projects and projects to be located in least developed areas, the rate of interest may be 13.5% per annum. Penal interest shall also be charged according to the rules and at the rate as applicable from time to time in case of advances becoming irregular. Besides, the borrowers shall also have to pay additional 1% per annum on the outstanding loan as commission in case the project is covered under Industrial Credit Guarantee Scheme of Bangladesh Bank.

1.10 Exchange premium:

The borrowers shall compulsory have to avail the protection under "EFAS, 1983". To cover the risk of exchange fluctuation under the aforesaid scheme, the borrowers shall have to pay premium @2.5% per annum on the foreign currency portion of the loan.

1.11 Sanctioning Authority:

Project involving a total loan equivalent to US$ 50,000 or less and where the capital outlay of the project is equivalent to US$ 1,50,000 or less can be sanctioned by the Head Office of the bank without prior approval of Asian Development Bank. Project involving an amount exceeding either of the above limit shall require prior approval of ADB.

1.12 Disbursement of loan:

Disbursement of loan shall be made in phases as disbursement schedule to be incorporated in the individual loan agreement. However, before disbursement of any amount it must be ensured that the documentation and other terms and conditions as sanction advice and procedure of the bank are completed.

1.13 Repayment period of loan:

The maximum repayment period of the loan under this credit program shall be 10(ten) years including a maximum grace period of 3(three) years from the date of approval of the loan account. However, the actual repayment period shall be determined on the basis of size of the loan and repayment capacity of the project. The loan will be repaid in equal half-yearly installments to be determined on the basis of debt-service coverage of the project.

1.14 Eligible branches to handle the credit:

Branches designated to handle project-loan are eligible to handle the project loan under this credit program. The designated branches must supervise the loans closely and ensure maintenance of a minimum recovery standard of 80% of the due/overdue of total loan portfolio. However, the branches, which have not been included in the list of designated branches, may also receive loan application under this credit program and forward the same through the designated branch of their respective district.

2. Project-loan application:

Application for loan under this credit program is to be obtained in our printed form better known as "Application for Industrial finance" duly filled in and supported by required papers/comments. The application so received and complete in all respect is to be forwarded to the concerned department, Head Office, through the concerned Zonal Office and Circle General Manager's Office with specific views/comments. Printed application forms are available with the Establishment and Common Services Division, Head Office, Dhaka.

Since the credit amount will be available to the executing banks on first come first serve basis, the concerned branch manager must take necessary action promptly and prudently for receiving loan application form the eligible intending borrowers and forward the same to Head Office so that bank can utilize the maximum amount available under the credit program.

OPEC FID assistance for the growth of Small & Cottage Industries (31)

1.1 Eligible projects under the scheme:

Under this scheme credit can be extended to small and cottage industries within purview of Industrial policy and industrial investment schedule. In this case, small industries to be defined as those industries whose maximum investment is about Tk 1.50 crore including Tk 1.00 crore in machineries. Cottage Industries to be defined as those industries which will be governed by the family members and without using electricity.

1.2 Limit of the credit:

The loan limit or the ceiling of lending will not exceed eighty percent (80%) of the total project cost both for Small-Scale Industries project and Cottage Industries projects.

The financing of total cost of each project will be on the following basis: -

Fifty percent (50%) of total investment, being average foreign exchange requirement /estimate will be financed by OPEC FID: A ceiling in the amount of US Dollar two hundred and fifty thousand (US$250,000) will be financed from OPEC fund contribution for each loan for Small Scale Industries and US Dollar one thousand four hundred (US$ 1400) for Cottage Industries.

Minimum equity participation in the total cost of the project by the borrower will be twenty percent (20%) both for Small Scale Industries and Cottage Industries.

Agrani Bank's participation in the total cost of the project will be an amount of not less than thirty percent (30%) both for Small Scale Industries and Cottage Industries.

(2) Interest Rate:

Rate of interest will be determined in accordance with the equity participation of the borrower within the guideline of the fiscal and industrial policy. Service charges to be included in the interest on the amounted provided from the own sources of the bank. The borrowers shall have to pay premium @2.5% per annum on the foreign currency portion of the loan.

(3) Maturity period/repayment:

The respective maturity periods for loans extended pursuant to the Loan Agreement shall be determined after taking into consideration of the borrower's repayment capacity but shall not (in no particular case) exceed 10 (ten) years including grace period.

(4) Security and documentation:

The loan shall be secured by way of mortgage of the fixed assets & hypothecation/charge on floating assets of the project (both existing and future).All other general terms and conditions relating to documentation of the project loan as per banking norms shall be followed. In case the factory is situated in a rented premises collateral security in the form of mortgage may be obtained covering the loan amount.

(5) Procurement of goods:

The goods and services i.e., plant, machinery, equipment, raw materials etc. will be procured from both the local and foreign sources on competitive price quotations. The procurement procedures will be guided by the OPEC FID guidelines.

(6) Sectoral Allocation:

Out of the total loan fund ninety percent (90%) of the total allocation will be reserved for the small-scale industries and ten percent (10%) allocation will be made available for cottage industries.

(7) Beneficiary of the scheme:

The hundred percent (100%) private sector SCI entrepreneurs/projects with Bangladeshi Nationality in the country will be the beneficiary of the loan scheme.

Only new entrepreneurs/enterprises on the SCI sectors are eligible for financing under the proposed loan fund. No second loan under this credit will be allowed to the loanee's.

(8) Size of the project:

The maximum size of the loan shall be fixed as per definition of the small-scale industries outlined by the government. That is, the maximum size of the project will be taken fifteen million (TK 15.00 million) inclusive of all costs keeping the cost of machinery and equipment within taka ten million (TK 10.00 million).

(9) Role of Bangladesh Small and Cottage Industries Corporation (BSCIC):

(a) Identify feasible and profitable industrial projects for investment.

(b) On selecting efficient and enterprising entrepreneurs ,motivate for taking bank loan for establishment of industrial projects.

(c) To help the selected entrepreneurs for filling up the loan application forms as supplied by the bank.

(d) Evaluate the selected project and scrutinize the documents submitted by the applicant and arrangement to be made for submission of the same in nearby bank branches.

(e)Arrangement to be made for training of the entrepreneurs.

(f) To extend services for the development and extension of the projects.

(g) To assist the bank for proper utilization of the loan.

Loan Classification Policy:(32)

Before 1990, loan was classified on subjective basis. No clear-cut policy was found to classify loans of commercial banks. As a result, anomalies was surmounted in this portfolio of commercial banks. Thereafter, the Central Banks of Bangladesh proclaimed classification policy of loan portfolio of commercial banks. This is popularly known as BCD-34 dated 16th November, 1989 circular. The classification policy differentiates loan portfolio of commercial banks into good loan and bad loans. This two type of loans are known in commercial banks as unclassified and classified loans. The salient features of classification of loans and provision thereof in the following manner:

1. Loan Classification Schedule:

Classification schedule	Base for Balance of classification	Schedule date of completion	When to start classification	Remarks
1. Initial Classification	31st December	31st August	Closing of a/c's as on 31st Dec'89	-
2. Second Classification.	31st December 1990	31st March 1991	After closing of Books of a/c's as on 31st Dec'90	(1) The new rules for unrealized interest shall be applicable in 1990. (2) If any loan is classified as sub-standard.

					Doubtful & Bad in 1989 & 1990 interest recoverable on A/cs is to be suspended
				(3)	Crediting of unrealized interest into income A/c is strictly prohibited.
3. Third Classification.	31st December 1991	31st March 1992	After closing of Books of A/Cs as on 31st Dec'91		
4. Fourth Classification.	31st December 1992	28th Feb' 1993	After closing of Books of a/c's as on 31st Dec'92		The revised process of submission of the CL statement will be effective from 1993 taking into consideration of the information for the year ended as on 31st Dec'1992.

2. <u>Reference Date</u>:

1. 31st December, 1989 is the first reference date.
2. 31st December of every year will be the subsequent reference date.
3. Calculations of provisioning is to be made on the outstanding loan Balance on reference date.
4. Any date can be taken as of reference date if management deems so.
5. Bank can start classification from 1st December every year. In such case, the Bank should assume that the loan shall not be repaid within this period i.e. from 1st December to 31st December.

6. If the management advice the branches to start classification from 1st December and if any repayment is made within 31st December, classification to be rearranged and appropriate decisions is to be taken.

3. Importance of Classification:

1. Classification of a loan does in no way lessen the borrower's responsibility to pay the full amount due.
2. Amount payable = Principal + Interest suspended (Whether or not entered on the loan ledger)
3. If a claim is made for reducing of liability due to classification and provisioning in any court, this circular me be presented to the court.
4. This circular may be accepted by the court as evidence.
5. Responsibilities for repayment of outstanding loan is not diminished by loan classification, the making of provisions, or the suspension of interest.

4. Basis of Loan Classification:

	BASIS	CRITERIA	REMARKS
1.	Overdue	Loans which are overdue by one year or more	
2.	Required payment	If a loan has been renewed or rescheduled at least three times and any of the required payments have not been made when fall due.	
3.	Limit overdrawn	For an advance of a continuing nature, even if the loan is not overdue as much as one year but the limit stands overdrawn by more than 50% for period of 45 continuous days proceeding the reference date for the classification.	
4.	Legal Actions	Legal action has been initiated by a bank on a loan, that loan must be classified (Without considering other factors).	
5.	Qualitative Judgement	More than normal risk due to adverse financial condition viz:	The borrower has no

capacity

to repay the

(1) arising from loss of a part of borrower's loan

consequent

capital upon the

qualita-

tive change of

(2) Poor financial performance of the value and thus

borrower (Borrower's cash flow is the loan will

be

insufficient to service debt requirements) classified.

(3) Due to insufficiency of security (value of security is less than the amount of the loan outstanding.

(4) Other factors.

5. <u>Definition of Overdue:</u>

Overdue (For all Loans) = Reference Date – Date of Expiry.

5.1 <u>Continuous Loan:</u>

OVERDUE		COUNTING DURING RENEWAL
Public Sector	Private Sector	
Overdue = Reference date – (Date of expiry + 6 months)	Initial classification = Overdue + 3 months.	(A) <u>Higher Authority</u>. Submitted for renewal but decision yet to be received.
	Second classification = Overdue + 2 months.	(B) <u>Branch Manager</u>. -If decision taken for renewal, the loan will not be treated as overdue. -If decision not taken for renewal, the loan will be treated as overdue.
	Continuing classification = overdue + 1 month.	Exceptions The loan need not be treated as overdue if <u>the following two conditions are met</u>. (a) All interest on the loan been paid as due, and (b) The bank has eligible security equal or in excess of the amount due of the repayable loan.

5.2 Term Loan:

{ Fixed Term Loans (Including Short, Medium and Long Term Loans with fixed repayment schedule}

Private Sector	Installment	Overdue	Length of Overdue
Agricultural Loans (Mid & Long Term) and Other Term Loans.	Installment = Principal + Interest.	If not paid in normal due date + 3 months.	{Reference date – Time of repayment schedule}
Public Sector			**Example**
Fixed Term Loan	Installment = Principal + Interest.	If not paid in normal due date + 6 months.	Principal at Reference Date = ৳120,000 Half yearly Installment = ৳20,000 If Principal paid = ৳90,000 Overdue loan = ৳30,000 Installment Overdue = $\frac{30,000}{20,000} = 1.5$ Length of Overdue = 1.5 X 6 (Half yearly) = 9 months.

5.3 Agricultural Credit (Crop Loan and Short Term Loan) excluding Mid and Long Term Loan.

1. Agricultural Loans will be considered overdue if repayment is not made within the final date prescribed by the Bank.

2. If there is no such date, the length of overdue is to be counted from the expiration date of the credit agreement.

5.4 Demand Loan:

Overdue	Length of Overdue	Example
Date of formal notification to the loanee + 1 month.	Reference date – Date of loan becoming due for repayment.	Reference Date = 31-12-89 Formal notification = 31-12-89 Due date of repayment = 28-2-89 Length of Overdue = 31-12-89 (Ref.date) Minus 28-2-89 (Due date for repayment) = 10 months.

6. Types of Classification:

Types of Classification		Terms
6.1 Classification as substandard.	(A)	If the full amount of advance or part thereof + Interest thereon remain overdue for 1 year and more but less than 3 years.
	(B)	Continuous Loan. If the loan is not overdue as much as one year but the limit stands withdrawn by more than 50% for period of 45 continuous days preceding the reference date for the classification.
	(C)	If a loan has been renewed or rescheduled at least 3 times but is not overdue and of the required payments for the required period

have not been made when they fall due.

6.2 Classification as Doubtful.

(A) If the full amount of advance or part thereof + interest thereon remains overdue 3 years and more but less than 5 years.

(B) Continuous Loan.

A loan classified as substandard though the loan is not overdue as much as one year but the limit stands overdrawn by more than 50% for a period of 45 days preceding the reference date and remained substandard for two years or more.

(C) A loan classified as substandard though the loan has been renewed or rescheduled for three times but is not overdue and any of the required period have not been made when they fall due and remained substandard for two years or more.

(D) Legal Action has been initiated.

(E) Qualitative criteria based on judgement.

6.3 Classification as Bad or Loss.

(A) If the full amount of advance or part thereof + interest thereon remains overdue for five years or more.

(B) Continuous Loan.

A loan classified as Doubtful though the loan is not overdue as much as one year but the limit stands withdrawn by more than 50% for a period of 45 days prece ding the reference date and remained Doubtful for two years or more.

(C) A loan classified as doubtful though the loan has been renewed or rescheduled for three times but is not overdue and of the required payments for the required period have not been made when they fall due and remained doubtful for two years or more.

(D) Legal Action has been initiated but no decision has been obtained within 5 years of initiation of action than the loan is classified as bad.

(E) Qualitative criteria based on judgement.

7. Definition of Required Period.

12 months prior to the reference date or the time between the date of renewal or rescheduling and the reference date whichever is less.

8. Definition of Required Payment.

Definitions	Example
(A) Fixed Term Loans. For Fixed Term Loans required payments are defined as the amounts specified in the rescheduled agreement over the required period.	----------
(B) Continuous Loan. (i) For continuing credits the required payments defined as a condition. (ii) The credit summation of the loan A/c during the required period, converted to an annual rate, must be equal to or greater than the maximum balance outstanding over the required period.	The required period is 7 months (i.e. 7 months since renewal) Credit summation Tk. = 1.7 lac The maximum balance outstanding is Tk.4.50 lacs. The credit summation at the annual rate = $\frac{12}{7} \times 1.7$ = 2.9 lac So the maximum outstanding loan balance = Tk.4.50 lacs. Annualized credit summation = Tk. 2.9 lacs This is less than the maximum balance outstanding and so the loan is considered as sub-standard.

9. Eligible Securities.

Eligible Securities	Exception
(1) Goods with a ready market that are physically held under the control of the Bank in its godown/warehouse. (2) Gold/Gold Ornaments physically held by the Bank. (3) Fixed and other deposits on which lien is marked. - Govt. bonds held by the bank - Certificate of deposit retained by the bank. (4) Guarantees/Counter guarantees given directly and formally by either the Government of Bangladesh or the Bangladesh Bank to repay a loan or advance if the borrower at default.	(A) A guarantee given by a Sector Corporation is not deemed a direct government guarantee and not an eligible security. (B) To be eligible the guarantee must not be expired.

10. Provisions.

Basis of Provisions	Rate of Provisions	Special Provisions
1) Provisions on substandard = Outstanding Balance – (Interest suspense A/c + value of eligible securities). 2) Provisions on Doubtful and Bad &Loss = Outstanding Balance – (Interest off set in Intt. S/A + Intt. on outstanding bal. if any) Assuming eligible securities are realizable before the expiration of the credit as overdue for 3 years and as such the item has been excluded as base for doubtful or bad loans.	(1) Substandard 10% (2) Doubtful 50% (3) Bad 100%	(1) Mid & Long Term Agriculture Loans - Substandard 10% - Doubtful 50% - Bad 100% (2) All bad agricultural loans - 100% (3) All other agricultural loans (unclassified substandard & doubtful) - 5% (4) General Provisions = Outstanding Balance on loans – (Substandard, Doubtful & Bad + Short Term Agricultural Loans) - 1%

11. Interest on Classified Advances:

11.1 Unrealized Interest.

Existing situation	Closing of the books of A/Cs as on 31-12-89	Subsequent Doings
1) At present unrealized interest (Including service charges and penalty fees) is partly entered in the loan ledgers and partly maintained in separate registers. 2) Debits maintained in the separate registers are only entered into the ledgers after initiation of legal action. 3) Some of the amounts of unrealized interest carried in the loan ledgers are offset by a contra entry in the interest suspense A/C. 4) Any unrealized interest for 1989 not taken into income will be kept in the loan ledger and balanced with an entry into interest suspense A/c.	1) At the closing of the books on 31-12-89 all off the ledger dues will be entered into the ledger. 2) Al such entries will be balanced with an entry into interest suspense. 3) The interest charged during 1989 taken into income a/c in 1989 will follow the rules prevailed prior to circular No.BCD/34 dated 16th November, 1989.	Vouchers Firstly (When classification done) Dr. = Loan A/c Cr. = Intt. Susp. A/c. Secondly (When realized) Dr. = Party/Cash Cr. = Loan A/c. Dr. = Intt.Susp. A/c. Cr. = Income A/c.

11.2 Terms of Interest Suspense:

1. All unpaid due or overdue interest since 1-1-90 should be entered into Interest Suspense Account on all loans that are classified as sub-standard, doubtful or Bad Loans.

2. Where legal suit is pending, interest will be treated according to existing laws/rules.

3. Unpaid interest should be taken into Interest Suspense A/c for the full accounting year for the loans that are classified as of the start of the accounting year, i.e. 31-12-89 for the first classification.

4. If a loan is classified and subsequently declassified, any unpaid interest accrued during the period of classification must remain suspended.

5. For a loan classified subsequent to the initial classification, all unpaid interest for the prior year must be suspended. Thus interest is suspended if the loan is classified at either the start of the year or at the end of the year.

6. To take interest as income, it must be collected or the loan must remain unclassified at the beginning and end of the period.

7. If a Bank classifies loans more frequently than once a year than this rule applies to the period between classifications.

8. If a loan is, thus, classified sub-standard on 31st December, classified back to standard or performing on July 1 next year and remains unclassified on the following December 31, then interest is suspended for the first half of the year.

9. If the bank classified only on December 31, then all interest for the year must be suspended.

10. The banks will maintain adequate records showing the total interest in suspense for each loan and the charges of interest in suspense with the exception of Short Term Agricultural loans for which the treatment is outlined in 9(f) below.

11. For Short Term Agricultural loans all interest is treated at present, i.e. interest will be suspended against all balances two or more years overdue in accordance with standing instructions.

11.3 Treatment of Interest Suspense A/c and application thereof.

In a given period for a classified loan repayments are first applied against existing amount of interest in suspense. If repayments cover all such suspended interest then remaining amounts are applied to currently due interest and so forth in the order given below :-

i) To interest in suspense.
ii) To interest currently due or overdue, oldest amounts first.
iii) To overdue principal, oldest amount first.
iv) To principal currently due.

12. Declassification:

The loans so declassified, may again be reclassified under following conditions:-

1) For loans classified on a qualitative basis, if the conditions change, then the loans may be reclassified appropriately.

2) For fixed term loans the classification will change the changes in the overdue period as defined above.

3) Also if a loan has been rescheduled three or more times and has been classified and subsequently meets its repayment schedule as due without delay for 12 months, it is to be considered sub-standard.

4) For continuing advances, a classification of sub-standard, based on being 50% over the limit for 45 days will be withdrawn when the condition is corrected for a period of more than 30 days.

5) If classification is based on being renewed three times or more and the turn over being less than 100% of the maximum outstanding, the classification will be withdrawn whenever that condition is met.

6) Loans of a continuing nature which are classified on the basis of the length of time, they are overdue can not be reclassified except by renewed and meeting the turnover criteria as given in this circular.

7) Finally, reclassification requires that the turnover criterion should be met regardless of the number of previous renewals.

13. Provisions and interest suspension for reclassified loans.

1) Interest suspense is treated as described above.

2) If the loan is reclassified to a lesser overdue category, then suspense of interest continues.

3) If the loan is reclassified to substandard, then interest suspense ceases but application of payments must follow the above schedule.

4) As payments are credited against suspended interest, it will have the effect of writing back that portion of suspended interest income.

14. PROVISIONS:

Provisions are adjusted according to the changes in provision required to meet the rules of this circular.

Interest Waiver Policy. (33)

The commercial banks are directed by the government to rehabilitate the industries/enterprises by rescheduling of loan installments and if necessary by waiver of interest. The bank normally follows the policies given by the government from time to time to do these jobs. The job relating to interest waiver is done by the banks in two ways. Firstly (i) The Board of Directors of the commercial banks approve the interest waiver after observing the necessary formalities in accordance with the guidelines given by the government and secondly (ii) On recommendation from the sick industries cell constituted by the government, the banks board approves the waiver of interest. For waiver of interest of sick industries the bank gets bond from the government as compensation of 50% of waiverable amount.

The following formalities are being followed by the banks for waiver of interest.

(i) The borrower shall have to apply by depositing 10% of outstanding amount as down payment.

(ii) Considering the merits of the case 75% of general interest and 100% penal interest may be waived.

(iii) The residual amount after interest waiver is to be rescheduled for payment by giving appropriate time.

In case of sick industries, the project is to be firstly identified as sick on the basis of declaration of the sick industries cell of the government of Bangladesh. The sick industries cell thereafter may recommend for waiver of interest in various ways. Examples are given as under :-

(i) The borrower shall have to apply by depositing 5% down payment on principal amount.

(ii) The rest 95% of general interest and 100% penal interest is considered to be waived.

(iii) Lastly the residual amount is to be paid within 3 years without interest.

4.3. Industrial Credit Appraisal.

4.3.1. Its Meaning and Purpose:

An appraisal is a process through which an examination or cross examination of different elements of a scheme in respect of its viability is made before finally accepting the same. Every sound project having inherent potentialities can bring safety for the financier, profit for the entrepreneur and income for the country.

4.3.2. Broad Aspects of Appraisal:

While making appraisal of an industrial credit proposal, a banker is to consider the following five broad aspects:

i) Management Aspect.
ii) Technical Aspect.
iii) Economic Aspect.
iv) Financial Aspect.
v) Marketing Aspect.

(i) Management Aspect:

Management aspect of an industrial credit proposal involves study of the following :-

a) Educational and Technical qualification of the sponsors.
b) Experience in the line of project.
c) Training.
d) Credit worthiness.
e) Capacity, character and conduct.
f) Risk taking ability.

(ii) Technical Aspect:

Technical Aspect is generally appraised on the following points:-

a) Location of land and its valuation.
b) Basis of Information regarding land.
c) Land improvement cost.
d) Manufacturing process.
e) Production capacity of Machine.
f) Building and other Civil works.
g) Machinery & equipment (Imported & Local).
h) Accepted quotations (Imported & Local).
i) Availability of spares & accessories.
j) Raw Materials and Packing Materials.
k) Utilities
l) Technical know-how
m) Direct labour requirement.

(iii) Economic Aspect:

The economic appraisal of the project involves study of :-

a) Social desirability of the project.
b) Contribution of GDP.
c) Value added to economy
d) Employment generation
e) Scope for foreign exchange earnings.

Financial Appraisal:

Financial appraisal is the vital item for industrial project feasibility study. This gives such an items which ultimately helps the banker for taking decision for financing. The following items are generally considered for financial analysis.

a) Estimate of total cost of the project including initial working capital.

b) Cost of financing pattern.
c) Debt-Equity Ratio.
d) Assessment of working capital requirement.
e) Estimate of cost of raw materials, utilities, administrative, general selling and financial expanses.
f) Preparation of production and sales schedule.
g) Estimation of cost of goods sold.
h) Preparation of income statement/fund flow statement/projected balance sheet.
i) Calculation of benefit cost ratio/pay back period/break-even sales and point/IRR/ Sensitivity test.
j) Preparation of loan amortization schedule etc.

After preparation of the above, some financial ratios, debt equity/debt service coverage/ fixed asset coverage ratio etc. are to be calculated to test liquidity, solvency, profitability and overall performances of the project.

(v) Marketing Aspect:

Marketing aspect of project feasibility involves the followings :

Market Demand:

- Existing demand.
- Projected demand.

Supply position:

- Existing supply
- Projected supply

Demand gap:

Existing

Projected

Major competitors:

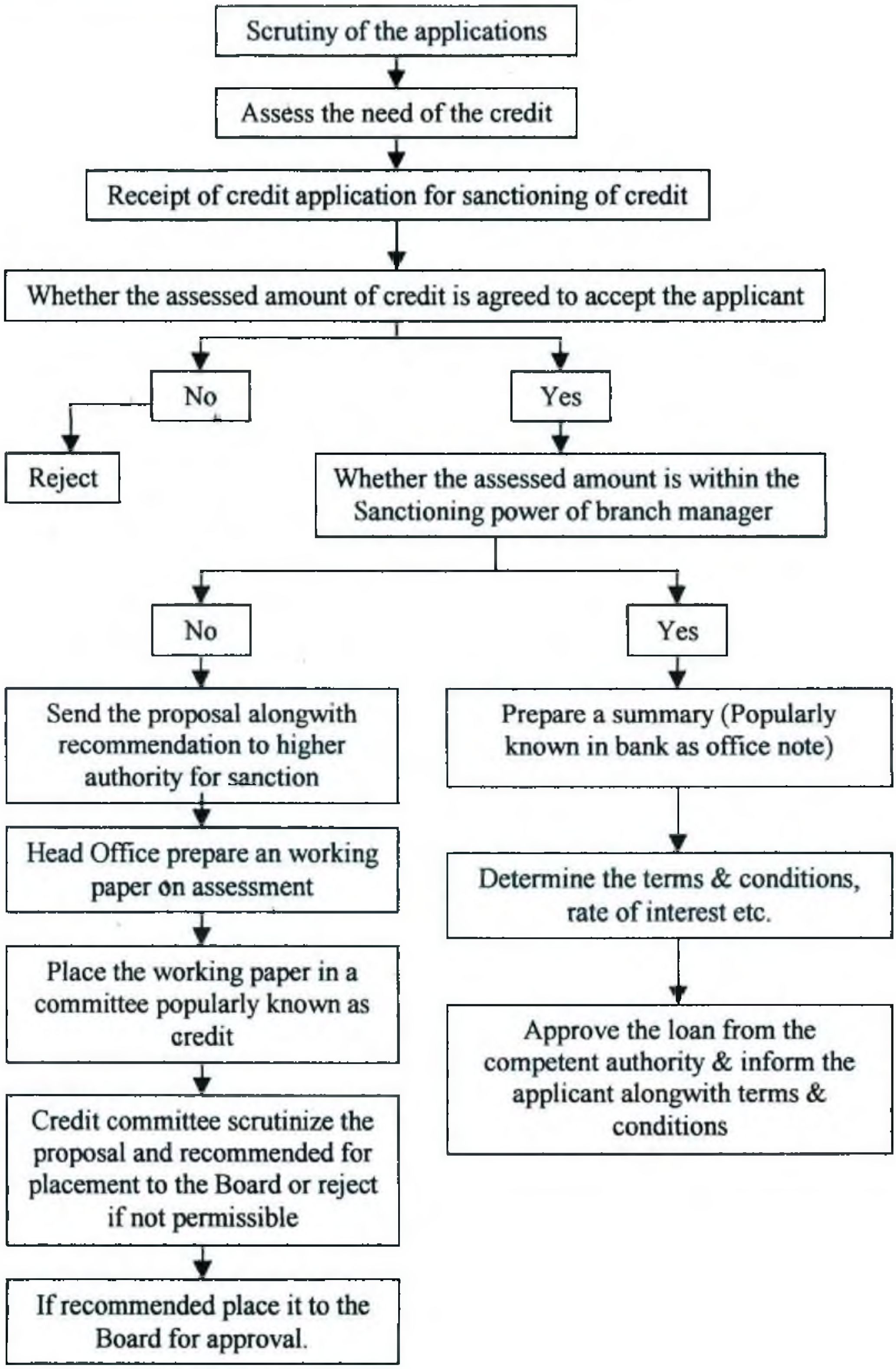
Channel of distribution

Pricing of finished goods

Availability and price of raw materials.

4.4. <u>Formal Sanctioning</u>:

When a project is found viable then the loan is sanctioned formally. The sanctioning procedure as following by commercial banks is given hereunder:



Disbursement:

1) The Branch after receiving sanction letter from controlling office in turn will convey sanction terms to the sponsors.

2) Duplicate copy of sanction advice to be retained at branch record duly accepted and signed by the sponsors.

3) Documents to be executed and mortgage to be created and charge to be created (in case of limited company) with the Joint Stock Company within 21 days from the date of execution of documents.

4) Equity deposit account to be opened in Current Account Ledger and calculated equity to be established/deposited by the sponsors.

5) No drawing before executions of documents including creation of mortgage/ charges and deposit/ establishment of equity.

6) Obtain Head Office approval before first drawing.

7) Final lay out plan approved by Head Office before starting construction work.
   - Equity to be established first.
   - Loan amount to be disbursed in three phases.
   - Phase-wise disbursement to be made after inspection and confirmation to the effect that amount of previous phase has been invested properly.

4.5. Implementation:

Success of any project depends on its timely implementation. Time over run causes cost over run. If implementation of the project is delayed the whole assessment may be spoiled. As such the sponsors and the Bank should be vigilant for timely implementation of the project.

A provisional repayment schedule is prepared and advised to the sponsors along with the sanctioning advice. After completion of disbursement a fresh repayment schedule is prepared and sponsors are advised accordingly. The branch pursue the borrower for recovery of the loan installment as per repayment schedule.

4.6. Monitoring and recovery procedures:

Branch continues monitoring till the loan is adjusted. Now-a-days Bangladesh Bank is giving utmost importance to the proper monitoring and supervision of loan.

Due to lack of supervision non-performing loans are increasing and as such supervision activities should be geared up for timely recovery of loans. Supervision are generally carried out by the branch level.

However, no clear-cut policies regarding monitoring of credit is found. What the banks are doing done that they are contacting with the borrower and requesting them to pay back the loan installment/loan amount in time. The borrowers are replying to the bankers intelligently that they will repay the loan. Sometimes the banker are writing letters to the borrower to repay the loan. But the borrowers generally do not pay any heed to repay the loan. The bankers are writing these letters reminding the borrowers to repay the loan only for the sake their services as a plea of saying that they are about to perform their jobs. In fact, the credit analysis is not being done for finding the root causes of non-repaying loan and take actions according to the problems identified on analysis of credit.

Credit decision making:

A case study has been done showing the appraisal of our industrial project and decision making thereon in the following pages.

4.7. Case study on project appraisal, sanction, implementation and monitoring thereof. Financing to a knitting, dyeing, finishing and knit garments.(34)

1. Background:

M/s. Bright Cotton is a composite industrial unit to produce circular knitting, dyeing, finishing and knit garments. The unit is established at Sirajddoula Road, Narayanganj on a rented premises having an area of 24000 Sft. The sponsors made a lease agreement with the lessor and submitted the same to the bank. Detailed particulars of the project are given hereunder :

2.	Name of the Branch received the credit proposal.	:	Court Road Branch, Narayanganj.
3.	Date of receiving credit proposal	:	Branch Office : 03-09-94 District Office : 30-10-94 Head Office : 02-11-94
4.	Type of proposal (New/BMRE) and proposed loan Amount.	:	New, Loan Amount Tk.480.00 lac
5.	Date of opening of account in branch, average balance and	:	23-07-93 Average Balance Tk.93,300.00

present balance. Present Balance Tk.51,95,895.83 (Balance on the date of submission of loan application).

6. Name of proposed products : Printing fabrics, dyeing, finishing, and knit garments.

7. Particulars of Sponsors :

Name, Father's Name and Address.	Age.	Position.	Share.	Education & Experience
Mozammel Hoque S/o. Late Alhaj Aminuddin Ahmed 95/1, New Khanpur,Narayanganj.	48 Yrs.	Proprietor	100%	B.A. Possess 25 yrs experience Jute Industry and export of garments.

8. Particulars of Assets and Liabilities of the Sponsors:

a) Assets:

Assets:		Tk. In Lac.
Land	:	00.00
Building	:	60.00
Cash	:	63.00
Investment	:	159.00
Others	:	60.00
		342.00

The Branch valued these assets at Tk. 171.50 lac.

b) Liabilities:

Name of the Organization.	Name of the Financing Institute.	Type of Cr. & Amount.	Present Outstanding.
1. M/s.Liberty Garments.	IFIC Bank Narayanganj.	Term Loan	Tk. 60.00 lac.
2. M/s.Amin Jute Export	Agrani Bank Court Road Br., Narayanganj.	Cash Credit	Tk. 15.00 lac.
		Hypothecation. Cash Credit	Tk.150.00 lac.

9. Name of Sister Concerns and their performances.

		Turnover/Sales
a)	M/s. Liberty Garments Industries Ltd.	Tk. 970.00 lac.

b) M/s. Amin Jute Exports. Tk. 200.00 lac.

10. Description of Project Land and Building:

- The project will be established on a rented premises having an area of 24000 Sft.
- The sponsors made a lease agreement for 15 years with the owners of the building.

11. Description of Machinery:

- The sponsors proposed to import machinery for Tk.600.32 lacs. The machinery is to be imported from Germany, Tarrif Brand Circular Knitting machine of Germany is also included in the list of machinery.

12. Marketing:

- The garments product is to be exported and washing facilities also to be extended to the local garments industries.

13. Raw Materials:

- The raw materials of the project which is mainly cotton yarn is to be imported by opening back-to-back letter of credit.

14. Cost of the Project: (Taka In Lac)

	As per Sponsors proposal.	According to Bank's assessment.
Land	0	0
Building	10.00	Rented Premises
Machinery (Import)	600.32	600.00
Local Machinery	0	40.00
Furniture Fixture	4.00	2.00
Preliminary Expenses	46.00	30.00
Working Capital Requirement.	0	15.00
	--------	--------
	660.32	687.00

15. Means of Finance:

	Sponsor's proposal.	Bank's assessment.
Bank Loan	480.00	412.20
Equity	180.32	274.80
	----------	------------

660.32	687.00

The sponsor did not include any local machinery and working capital in the project cost. The Bank has included Tk. 55.00 lac to show the actual project cost and to find out actual financial result only but not for sanction purpose.

Debt Equity Ratio : 73:27 60:40

16. Collateral Security:

The sponsor offered the following property as collateral security:

Flat No. 13B
Delta – Dalia Bhavan
36, Kamal Ataturk Avenue
Banani, Dhaka.
Area : 2290 Squarefeet
Value : Tk. 50.95 lacs.

The branch assessed the value of the flat at Tk. 50.95 lacs.

17. Financial Analysis:

a) LRA:

Supply Risk	:	Average
Sales Risk	:	High
Performance Risk	:	Average
Resilience Risk	:	Average
Management Competence Risk	:	Low
Management Integrity Risk	:	Average
Security Control Risk	:	High
Security Cover Risk	:	High
Business Risk	:	Acceptable
Security Risk	:	Marginal
Overall quality	:	Acceptable.

b) Operating Result:

Debt Service Coverage Ratio:	1st Yr.	2nd Yrs.	3rd Yrs.
	1.35	1.78	2.45

18. Recommendation of the Branch:

The export oriented garments industry was identified as profitable industry. The demand of this type of garments in foreign markets are huge and the government is also encouraging to establish such industry. Though the collateral security is weaker in comparison with the loan amount applied for, considering the goodwill of the sponsor and national interest the loan may be sanctioned.

19. Recommendation of the District Office:

On the strength of the branch recommendation and to encourage the country's industrialization under the industrial policy of the govt., they recommended for sanction.

20. Head Office Observation:

i) This is a sole proprietorship firm. As the cost of the project is Tk. 7.00 Crore, so the ownership of this type of big project should be private limited company.

ii) The sponsor is an old client of the Bank's Court Road Branch, Narayangaj. He is engaged in jute export business for long time.

iii) The proposed project is a composite knit garment unit with washing plant. The project will be able to produce 624 Metric Ton of Knit Fabrics, Dyeing and Finishing. It will also be able to export Knit Garments.

iv) The project will import tariff brand machine from Germany with a view to produce quality fabrics.

v) The products will be exported through 8(Eight) buying Houses/Agents.

vi) The sponsors proposed to give a mortgage of a flat at Banani, Dhaka valued at Tk. 50.95 lacs. He was also availing credit facilities from the branch for the last 15 years. By this time he tried to acquire experience in garments business.

21. Opinion of Head Office:

The concerned department of Head Office recommended to sanction the loan at 60:40 Debt - equity ratio together with proposed collateral for Tk. 50.95 Lacs.

22. Present Condition:

i) The project loan for Tk. 484.84 lacs including long term loan for Tk. 456.31 lacs and working capital in the form of cash credit hypothecation for Tk. 28.53 lac was sanctioned with the repayment period of 8 years including 6(six) months implementation and 12 months grace period. The completion date of implementation was 6-2-96. But the implementation of the project was completed on 6-9-99 i.e. it took 4 years 1 month of which 3 years 7 months were higher than actual time scheduled. The sponsor informed that due to delay in getting gas and electricity connection and change in importable machinery, the implementation was delayed.

ii) The ownership of the company changed from proprietorship to Private Limited Company on 30-12-2000.

iii) The present outstanding amount stood at Tk. 655.77 lacs as against disbursement of Tk. 507.76.

iv) The sponsor also claimed that due to non-availability of working capital, he did not run the factory smoothly and as a result he become defaulter. He also filed a suit in the court of law claiming Tk. 10,11,59,000.00 as demurrage and appealed to the court to proclaim permanent injunction on the bank so that bank cannot declare him as defaulter.

23. Observation :

i) The project feasibility study was not done as per norms.

ii) Marketing study was not properly done.

iii) The factory established in a rented premises but sufficient collateral was not taken to cover the loan.

iv) Implementation of the project was not monitored.

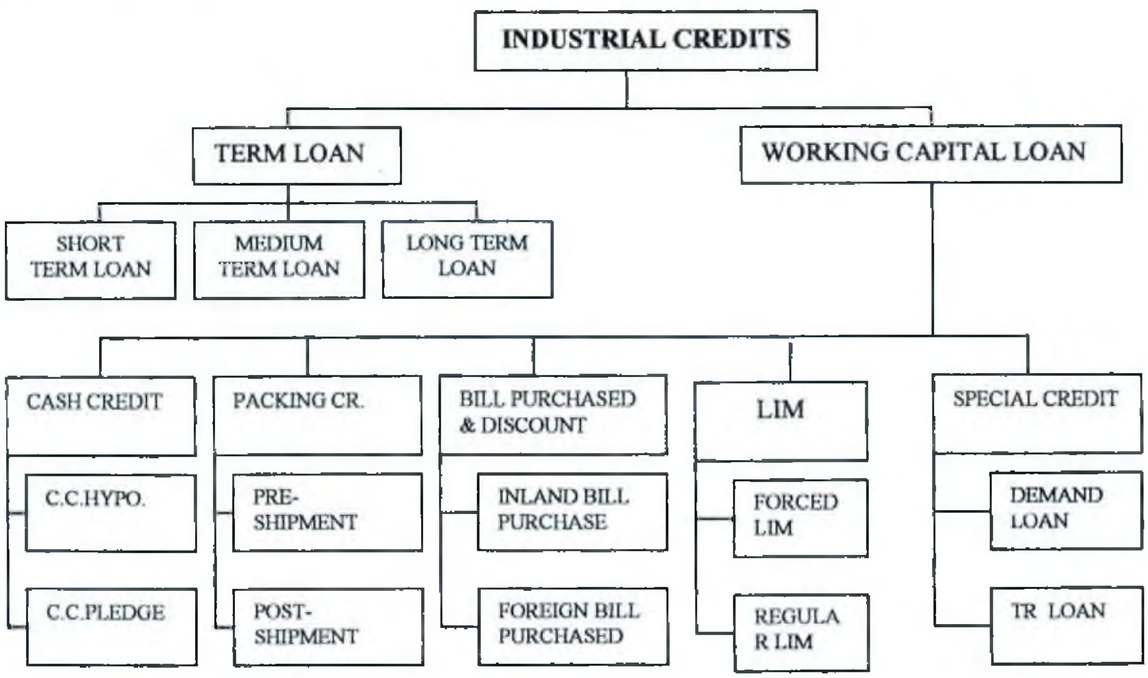
v) Due to inefficient appraisal and poor monitoring of implementation, the project took a long period for completion.

vi) Moreover, after completion of implementation of the project, the bank did not assess the working capital requirement and provide with the same. This is why the cost of the project overrun and it became a white elephant.

4.8. Definitions of Important Terms used in Industrial Credit Operations.

Generally bank loans are repayable on demand. But now a days, the commercial banks are allowed to employ their funds as term loans to industries for fixed capital requirements. Industries are also being provided with working capital loans to run their production as well. They require term loan for purchase of machineries, development of land, construction of building and factory sheds as well as procurement of raw materials and also meet up their overhead expenditures etc. This loan help the entrepreneurs to establish new industries and for balancing, modernization, replacement and expansion of existing industries and thereby increase their income contributing to GDP, creating employment generation, earning and savings foreign exchange. The borrowers make the repayment from the additional income earned by them through investment. The securities of these loans are the fixed assets of the borrower acquired by these loans. This loan is repayable by installments as per schedule of repayment.

With a view to attaining this stated objectives, the bank normally employ its to different sectors, e.g. Industry, Agriculture and Trade to produce different types of products. In industrial sector, the types of advances accommodated through industrial credit are enumerated below :



Term Loan :(35)

When a loan is granted for a fixed period exceeding one year and is repayable according to a schedule of repayment, as against on demand and at a time, it is known as a 'Term Loan'. When the period exceeds one year but not, say 5to 7 years, it is commonly known as medium term loan; while a loan with longer repayment schedule is known as long term loan. A term loan is generally granted for fixed capital requirements, although such loans for working capital are not unknown and are supposed to be repaid out of future earnings of the fixed assets in particular and of the borrower in general. It therefore requires a proper appraisal of various factors connected with the project than an ordinary commercial loan.

Working Capital Loan: (36)

Working capital loan refers to the money which is required to finance current assets. Gross working capital is total current assets represented by cash, accounts receivables and stocks. Working capital is required by the project for purchase and conversion of raw materials into finished products, for financing outstanding in respect of goods sold and for providing necessary cashfor meeting the day-to-day requirements.

In order to arrive at the amount of working capital needed the following factors are taken into consideration.

1) The period which will elapse before the factory going on production to produce the saleable products.

2) The amount required to finance production during such period.

3) The period of credit allowed to and by the business, and the probable amount of debts outstanding, both by and to the company after production has started.

4) The estimated turnover having regard to periodical fluctuation.

5) The estimated outlay on wages and expenses after production has started.

6) The average stocks required.

A bank generally makes advances as working capital loans in the following forms:

- Cash credit
- Packing credit
- Bills purchased and discounting
- LIM (Loan on Imported Merchandise)
- Special Loan

Cash Credit (37)

Cash credit is an arrangement by which a banker allows his customer to borrow money upto a certain limit against either a bond of credit by one or more sureties, or certain other securities. This is the most favorite mode of borrowing by large commercial and industrial concerns. One of the advantages of cash credit is that a customer need not borrow at once the whole of the amount he is likely to require but can draw such amounts as and when required. He can put back any surplus amount, which he may find with him for the time being. The banker granting cash credit facilities has to estimate amount of his customer's requirements, in case the actual drawings fall below the estimate, the bank may lose interest on the funds remaining idle. Cash Credits are of two types. One is cash credit pledge and another is cash credit hypothecation.

Cash Credit: Pledge.

Pledge may be defined as the transfer of possession of property (goods and produce) or documents of the title to goods by a debtor to his creditor as security for the payment of a debt or the fulfillment of some obligations by the transferor. The essence of a pledge is that possession passes to the pledge but legal ownership remains with the pledgor. In case of pledge, the goods or documents of title to goods are transferred to the bank who may retain them and upon the default by the debtor may, in some circumstances, sell them to pay off the debt after giving the debtor a reasonable notice.

The delivery of goods may be actual or constructive, e.g., the delivery by the pledge to the pledgor the key of the warehouse containing the goods pledged. One important feature of a pledge is that there is a contract (expressed or implied) and delivery of possession.

Cash Credit Hypothecation:

Hypothecation means the charging of property to secure a debt while the possession of the property remains with the debtor. Sometimes a pledge is impossible. For instance, the goods may be lying in the showroom of retailer or in the case of a cotton factory, cotton may be lying in the open compound of the factory. In such a case the banker cannot acquire possession of the goods. However, they may be made available as security by hypothecation. A letter of hypothecation gives the bank the right to sell his goods for the best price if the loan is not repaid.

Hypothecation resembles pledge in many ways, apart from the one basic principle between them that in both ownership and possession remains with the borrower. The term is used mainly in relation to produce and similar goods, which are often charged to a banker by means of letter of hypothecation.

It may, however, be noted that while produce and goods are often hypothecated to a bank in as much as the possession of the goods remains with the debtor although they are charged to the bank, the documents of title to goods, e.g., bills of loading are customarily deposited with the bank and are thus pledged by the debtor.

Packing Credit: (38)

Packing Credit is a short-term advance granted by a bank to an exporter against valid export Letter of credit/firm contract for buying, processing. manufacturing, packing and shipping of the goods meant for export. Such facility is allowed to an exporter just at a time when he has the foreign buyer's order by way of confirmed export letter of credit or a firm contract. When the order is executed, the packing credit gets paid out of the proceeds of the bill drawn on foreign buyer.

It is of two types:

- Pre-shipment credit
- Post-shipment credit

Pre-shipment credit:

When an exporter seeks financial assistance before loading the goods on ship, it is called pre-shipment finance. Such credit includes advances, which are given as working capital for the purpose of buying, procuring, processing, packing and transporting goods for export to foreign countries (Back-to-back L/c is one form of pre-shipment credit).

Post-shipment credit:

The advance made against the shipping documents falls under the category of 'Post-shipment Finance', i.e. finance provided after the goods have been shipped. The need for post-shipment finance arises because exporters who sell goods abroad have to wait for a long time before payment is received from overseas buyers. The actual period of waiting depends on the payment terms. In the meantime, the exporter needs funds to carry on his normal export activities. Banks are the main source for the exporters to seek the finance.

Banks generally finance the exporters at the post-shipment stage on verification of the credit worthiness and financial soundness of both the buyers and sellers. Post-shipment credit ordinarily seeks the following shape:

(i) Negotiation of documents under letter of credit.
(ii) Purchase of foreign bill under D.P and D.A bills.
(iii) Advance against foreign bills under collection.

Bill purchased and discounting :

Purchase and discounting of bills of exchange is a form of employment of bank funds. Such bill of exchange arise out of commercial transactions both in inland trade and foreign trade. When bill of exchange arise out of inland trade purchased and discounting is called inland bill purchased and discounting (IBP). While on the other when bill of exchange arise out of foreign trade purchased and discounting is called foreign bill purchased and discounting (FBP).

When the drawer of a bill encloses with the bill, the documents of title to goods, such as, bill of lading, railway receipt, steamer receipt, to be delivered to the drawee of the bill, as the case may be, the bill is called a documentary bill. In the absence of such documents it is termed as a clean bill.

LIM(Loan on Imported Merchandise) (40)

Bank sometimes extends credit facilities to the importer for clearance and storage of imported goods which is termed as 'Loan on Imported Merchandise(LIM)'. LIM is two types, i.e., Regular LIM and Forced LIM.

Regular LIM:

On arrival of goods and lodgment of import documents, importer may request the bank for clearance of goods from the port(custom) and keep the same to the bank godown.This type of LIM is called regular LIM.

Forced LIM:

Sometimes, importer does not come to retire import documents against payment within the specified period. In that case, bank is forced to clear the goods from the port and keep the same to bank godown to protect bank's interest. The clearance of goods are done to prevent pilferage, theft, accumulation of demurrage etc. and to safeguard bank money which was already paid against the letter of credit.

Demand Loan:(41)

Payment of import bills against back to back letter of credit must be made on or before maturity even when :-

i) Export has not been made; or
ii) Export proceeds have not been realized; or
iii) Realized export proceed not value addition requirement is not adequate to cover import payment.

The importer has to arrange fund for remittance against import bills of above cases, failing which force loan would be created for payment against matured import bills. The loan is termed as demand loan.

Trust receipt or Trust letters:(40)

At times some of the customers seek the facility for release of goods of documents of title to goods pledged for advances for one or more of the following reasons, namely:

1) To dry up the goods or carry out any process required to keep them in good condition or to pack them for purpose of transport.

2) To ship or rail or transport the pledged goods that have been sold; or

3) To take delivery of the consignments from Railways or shipping company etc, in respect of goods covered by documents of title to goods which stand pledged to the bank. Such facilities can be a trust receipt.

4) However, this type of trust letter facility can be extended only to customers of long standing with undoubted integrity and honesty and only for a period not beyond a week at the most.

5. Portfolio Analysis of Industrial Credits.

5.1. Introduction
5.2. Industrial Credit Portfolio
5.3. Industrial Credit Portfolio Profitability
5.4. Profitable Portfolio and Unprofitable Portfolio
5.5. Causes of low profile in Industrial Credit Portfolio
5.6. Risk Associated with Industrial Credit Portfolio

5. Portfolio Analysis of Industrial Credits:

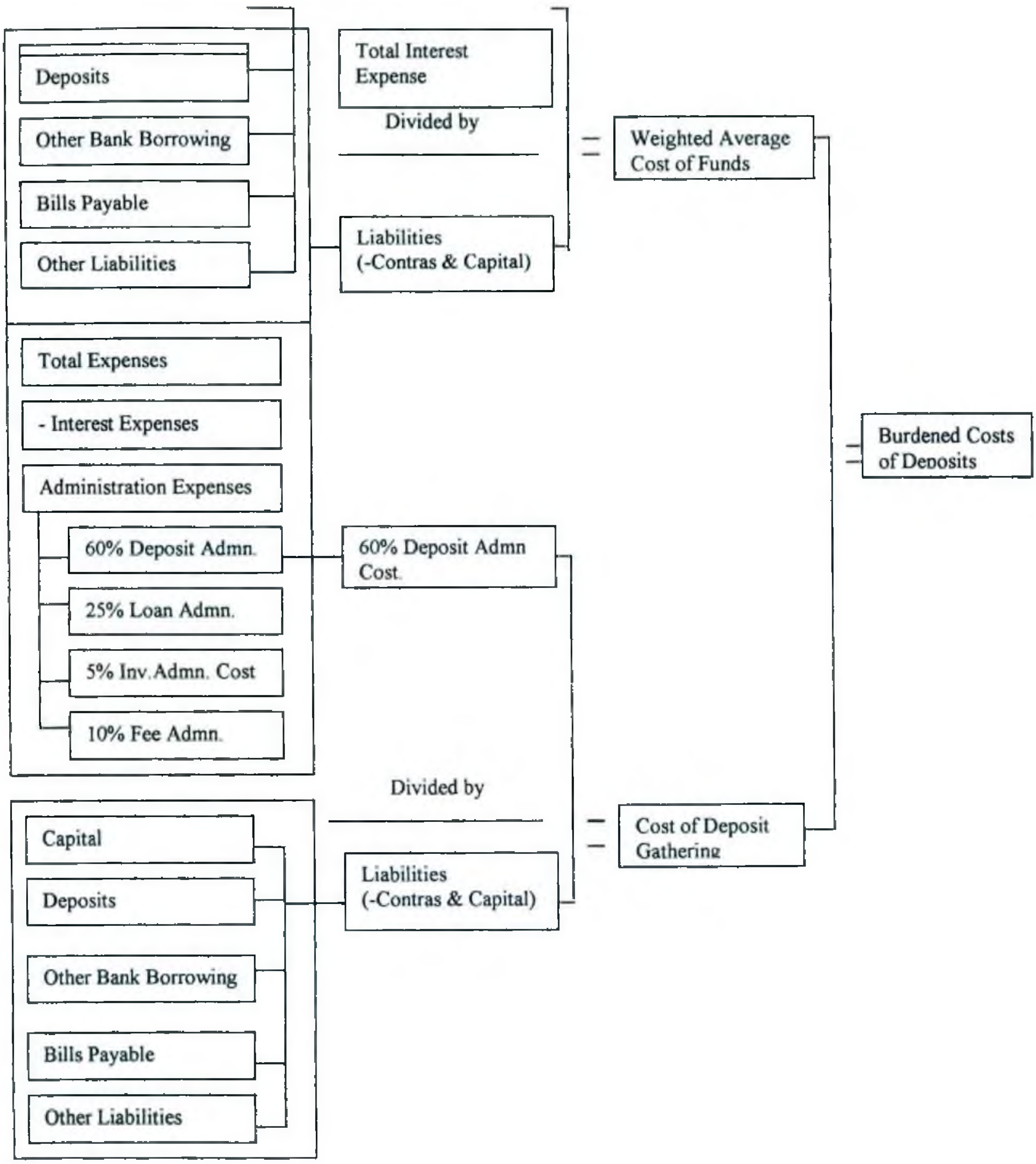
5.1. Introduction.

Bank generally deploys its fund to get some return from it. Credit portfolio analysis is essential for inferring decision for maximization of profit. To ascertain the quality of credit, portfolio analysis is done for inferring decisions for further employment of funds in certain portfolio. But it is unfortunate that the bank at present has no mechanism to analyze credit portfolio profitability.

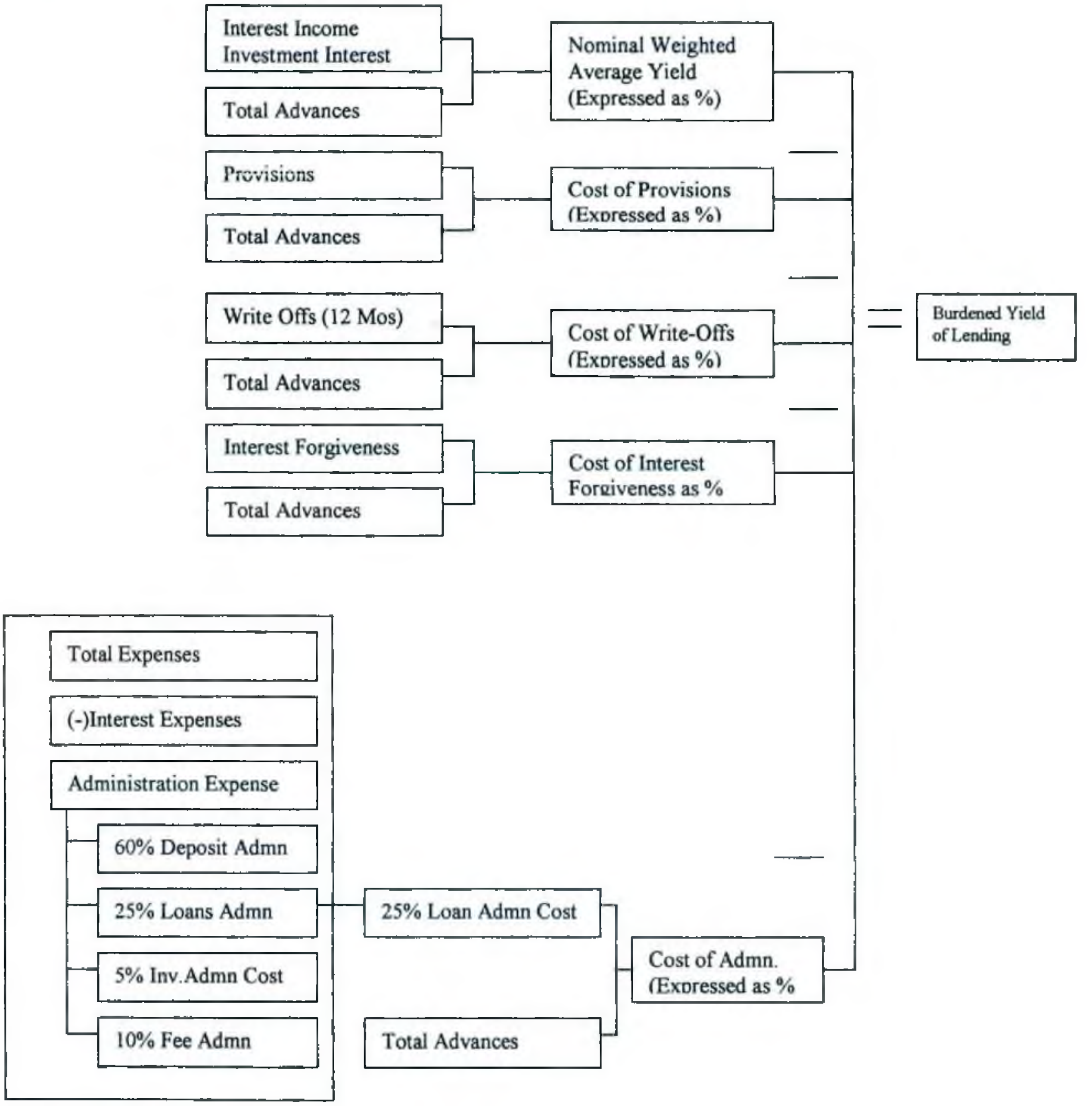
While analyzing the credit portfolio profitability cost of fund, loan servicing cost, interest income, interest loss on non-performing loans, nominal weighted average yield, write-off, provision of advances, provision requirement against classified advances have been calculated by using some formulas.

It may be mentioned here that data sources has been used from Central Accounts Division, Agrani Bank, Head Office, Dhaka.

Formula used for calculation of cost of fund:



Burdened Yield on Lending Formula:



- Loan servicing cost has been calculated by allocating 30% administrative cost to loan administrative cost.

- Interest income has been calculated by using formula,
  Interest Income = (Interest rate + subsidy) multiply
  to total loan for the sector.

- Formula used to calculate interest loss as under.
  Interest loss on Non-performing loan = Total of classified amount (Sub/Doubtful/Loss)
  multiplied by interest rate.

- Nominal weighted average yield has been calculated by using formula,
  Nominal Weighted Average Yield = Interest income – Interest loss on Non-performing loan
  divided by total loans (sectorwise).

- Cost of interest waiver has been calculated by the formula,
  Interest waiver divided by Total advances.

- Cost of write off calculated by the formula,
  Write off divided by total advances.

- Total write off calculated by adding interest waiver with write off.

- Cost of total write off calculated by the formula,
  Total write off divided by total advanced.

- Expenses has been calculated by using the formula,
  Cost of fund plus loan servicing cost.

- Profit on lending calculated by the formula,
  Income minus Expenses.

- Formula used to calculate Break-Even yield on lending in the following way;
  Break-Even Yield = Cost of fund + cost of provision + cost of write off
  + cost of loan servicing.

- Administrative expenses allocated to as 60% deposit administrative cost, 25% loan administrative cost, 5% investment administrative cost and 10% fee administrative cost on the basis of expenses trend for the year 1998, 1999 and 2000.

- Figures as on 31-12-2000 collected from the records of the concerned department of Agrani Bank have been taken into consideration for calculation purpose.

- Cost of write off and cost of interest waiver has been shown separately. As per accounting practice, write off done by the management is set-a-side from the income. And if the amount is collected later on it is to be taken into income account directly. On the other hand since interest waiver is done as per direction of the government, there is no scope to recover/collect the amount. This is why these two items have been shown separately.

While analyzing the credit portfolio profitability, it has been observed that the banks income inflow under credit portfolio is done in the following heads of a/c's. (1) Loan a/c's (2) Overdraft (3) Cash Credit (4) Rural Credit (5) Industrial Credit (6) Packing Credit (7) PAD (Payment Against Document) (8) FBP (Foreign Bill Purchased) (9) IBP (Inland Bill Purchased).

In true sense, the accounting system now being followed by the bank relating to inflow of income through the above heads of a/c's under the credit portfolio is not able to reflect the actual result of profitability because of its shortcomings. For this reason, income & interest loss under the credit portfolio have been forecast and considered for analysis. However, the main objectives of credit portfolio analysis is to find out more profitable sectors from where maximum earning may be ensured.

5.2 <u>Industrial Credit Portfolio</u>

Bank generally deploy its funds in almost all sectors of the economy. Total credit sample may broadly be grouped as under:

(a) Industrial Credit
(b) Agricultural Credit
(c) General Credit

Industrial Credit Portfolio may be grouped in the following sectors:

1) Textile Industry except Readymade Garments
2) Readymade Garments
3) Jute spinning and weaving

1) Agro-based Industries
2) Cold Storage
3) Pharmaceuticals & Chemicals
4) Forest and Allied Industries
5) Cement Industries
6) Cyramics
11) Paper Industry
12) Leather and Leather Goods
13) Printing and Packaging
14) Engineering and Electronics
15) Food and Allied Industries
16) Others.

5.3. Industrial Credit Portfolio Profitability:

Industrial credit portfolio profitability has been done by using the formula as devised and stated above. The detailed of calculations has been given in the appendix –1. The excerpts of industrial credit portfolio profitability at a glance is given in the following pages.

CREDIT PORTFOLIO PROFITABILITY AT A GLANCE

Sl #	Sector	Intt. Rate	Cost of Fund	Spread	Nominal weighted Average Yield	Break-Even Yield	Profit(+)/ Loss(-)
1	Textile Except readymade garments	10%	7.10%	2.90%	5.33%	29.75%	(-)24.42%
2	Readymade Garments	13%	7.10%	5.90%	6.74%	34.27%	(-)27.53%
3	Jute Spinning & weaving	13%	7.10%	5.90%	12.11%	18.76%	(-)6.70%
4	Agrobased Industries	10%	7.10%	2.90%	2.53%	45.17%	(-)42.64%
5	Cold Storage	13%	7.10%	5.90%	8.41%	29.57%	(-)21.16%
6	Pharmaceuticals & Chemicals	13%	7.10%	5.90%	3.83%	43.20%	(-)39.37%
7	Forest & Allied Ind.	13%	7.10%	5.90%	1.11%	67.01%	(-)65.90%
8	Cement Industries	13%	7.10%	5.90%	13.00%	16.62%	(-)3.62%
9	Ceramics	13%	7.10%	5.90%	2.47%	44.29%	(-)41.82%
10	Paper Industries	13%	7.10%	5.90%	9.00%	27.39%	(-)18.40%
11	Leather &Leather goods	10%	7.10%	2.90%	4.59%	38.60%	(-)34.01%
12	Printing & Packaging	13%	7.10%	5.90%	1.55%	41.58%	(-) 40.03%
13	Engineering & Electronics	10%	7.10%	2.90%	4.57%	37.33%	(-)32.76%
14	Food & Allied Ind.	13%	7.10%	5.90%	3.10%	39.03%	(-)35.93%
15	Others	13%	7.10%	5.90%	5.80%	34.22%	(-)28.42%

5.4. PROFITABLE CREDIT PORTFOLIO AND UNPROFITABLE CREDIT PORTFOLIO.

In analysing the Industrial credit portfolio, it has been observed that there is no profitable industrial credit portfolio in the bank. All the portfolio of Industrial credit is unprofitable causes of unprofitable portfolio is given in the following pages.

5.5. CAUSES OF LOW PROFILE IN INDUSTRIAL CREDIT PORTFOLIO

Sectors	Indicators	Rate	Causes
1.Textile except ready -made garments	1.Portfolio	32%	1.Nominal weighted average yield indicates interest loss is high
	2.Interest Rate	10%	2.Classification is too high.
	3.Spread	2.90%	3.Interest forgiveness in this sector is high.
	4.Nominal Weighted Average Yield	5.33%	
	5.Profit(+)/Loss(-)	(-)24.42%	4.There is no banker's write-off in this sector.
	6. Classification	36.73%	
	7. Interest Forgiveness	7.88%	5.Loss is too high.
	8.Provision	14.72%	
2.Readymade Garments	1.Portfolio	16%	1.High provision indicates that all classified amount is under Bad and Loss category
	2.Interest Rate	13%	
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	6.74%	2.The provisioning amount neutralizes the spread though it is moderate which leads nominal weighted avera yield at 6.73
	5.Profit(+)/Loss(-)	(-)27.53%	
	6. Classification	48.13%	
	7. Interest Forgiveness	7.88%	
	8.Provision	19.24%	
3.Jute Spinning & Wea-ving	1.Portfolio	1%	1.Nominal weighted average is above spread
	2.Interest Rate	13%	
	3.Spread	5.90%	2. Loss is comparatively lower.
	4.Nominal Weighted Average Yield	12.11%	3.Lower profit & higher nominal weighted average indicate that the portfolio management is poor.
	5.Profit(+)/Loss(-)	(-)6.70%	
	6. Classification	6.75%	
	7. Interest Forgiveness	9.43%	
	8.Provision	2.18%	

4.Agrobased Industries	1.Portfolio	4%	1.Classification is too high.
	2.Interest Rate	10%	2.This is why loss is too high.
	3.Spread	2.90%	
	4.Nominal Weighted Average Yield	2.53%	
	5.Profit(+)/Loss(-)	(-)42.64%	
	6. Classification	74.66%	
	7. Interest Forgiveness	8.55%	
	8.Provision	29.47%	
5.Cold Storage	1.Portfolio	12%	1. Though nominal weighted average is moderate , higher classified amount neutralizes the profit of the sector
	2.Interest Rate	13%	
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	8.41%	
	5.Profit(+)/Loss(-)	(-)21.16%	
	6. Classification	35.33%	
	7. Interest Forgiveness	7.69%	
	8.Provision	14.73%	
6.Pharmaceuticals & Chemicals	1.Portfolio	10%	1.Spread is moderate.
	2.Interest Rate	13%	2. Nominal weighted yield is low.
	3.Spread	5.90%	3. High classified loan neutralizes all other things.
	4.Nominal Weighted Average Yield	3.83%	
	5.Profit(+)/Loss(-)	(-)39.37%	
	6. Classification	70.51%	
	7. Interest Forgiveness	7.71%	
	8.Provision	28.34%	
7.Forest & Allied Industries	1.Portfolio	1%	1. It is presumed that almost all classified amount is under Bad/ /Loss category.
	2.Interest Rate	13%	2. Spread is not moderate.
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	1.11%	
	5.Profit(+)/Loss(-)	(-)65.90%	
	6. Classification	90.71%	
	7. Interest Forgiveness	35.32%	
	8.Provision	24.54%	

8.Cement Industries	1.Portfolio	2%	1. Nominal weighted average yield is moderate.
	2.Interest Rate	13%	2. Spread is also moderate.
	3.Spread	5.90%	3. Provision carries losses.
	4.Nominal Weighted Average Yield	13.00%	
	5.Profit(+)/Loss(-)	(-)3.62%	
	6. Classification	0	
	7. Interest Forgiveness	9.04%	
	8.Provision	0.43%	
9.Ceramics Industries	1.Portfolio	1%	1. The rate of classification is very high.
	2.Interest Rate	13%	2.Spread is moderate.
	3.Spread	5.90%	3. Provision carries losses.
	4.Nominal Weighted Average Yield	2.47%	
	5.Profit(+)/Loss(-)	(-)41.82%	
	6. Classification	80.42%	
	7. Interest Forgiveness	11.20%	
	8.Provision	24.94	
10.Paper Industries	1.Portfolio	5%	1. Spread and nominal weighted average yield are moderate.
	2.Interest Rate	13%	2. High classification leads to losses of this sector.
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	9.00%	
	5.Profit(+)/Loss(-)	(-)18.40%	
	6. Classification	30.86%	
	7. Interest Forgiveness	8.50%	
	8.Provision	11.74%	
11.Leather and Leather Goods Industries.	1.Portfolio	2%	1. Classification rate is high.
	2.Interest Rate	10%	2.Provision is also very high.
	3.Spread	2.90%	3.Higher classification and lower nominal weighted average yields leads to loss.
	4.Nominal Weighted Average Yield	4.59%	
	5.Profit(+)/Loss(-)	(-)34.01%	
	6. Classification	55.16%	
	7. Interest Forgiveness	7.09%	
	8.Provision	24.38%	

12.Printing & Packaging	1.Portfolio	1%	1. The loosing portfolio of the bank. 2.The only sector where the nominal weighted average is very low.
	2.Interest Rate	13.00%	
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	1.55%	
	5.Profit(+)/Loss(-)	(-)40.03%	
	6. Classification	88.52%	
	7. Interest Forgiveness	6.13%	
	8.Provision	28.30%	
13.Engineering & Electronics	1.Portfolio	8%	1. Spread and nominal weighted average is lower while on the other higher classification rate leads to loss of the portfolio.
	2.Interest Rate	10%	
	3.Spread	2.90%	
	4.Nominal Weighted Average Yield	4.57%	
	5.Profit(+)/Loss(-)	(-)32.76%	
	6. Classification	54.37%	
	7. Interest Forgiveness	7.78%	
	8.Provision	22.38%	
14.Food and Allied Industries	1.Portfolio	1%	1. Higher classification leads to loss in this sector.
	2.Interest Rate	13.00%	
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	3.10%	
	5.Profit(+)/Loss(-)	(-)35.93%	
	6. Classification	76.18%	
	7. Interest Forgiveness	5.89%	
	8.Provision	25.99%	
15.Others	1.Portfolio	4%	1.Higher classification leads to loss in this sector.
	2.Interest Rate	13%	
	3.Spread	5.90%	
	4.Nominal Weighted Average Yield	5.80%	
	5.Profit(+)/Loss(-)	(-)28.42%	
	6. Classification	54.09%	
	7. Interest Forgiveness	8.75%	
	8.Provision	18.32%	

5.6. RISK ASSOCIATED WITH THE CREDIT PORTFOLIO

0 Break-Even yield is very high though cost of fund is at 7.10%

0 While considering the total cost allocations in credit portfolio, it is observed that Cost of Fund is high.

0 Cost of Provision is also abnormal.

0 Though Cost of Interest Forgiveness and Loan Servicing Cost is lower in comparison with the Cost of Fund and Cost of Provision, the Industrial portfolio of the Bank is at risk.

The result of credit portfolio analysis can be concluded in the following manner.

0 Agrani Bank is employing its fund to 15 industrial sectors in the economy.

0 All these sectors are unprofitable.

0 Pricing policy of the bank is not scientific.

0 Interest rate on Industrial Credit portfolio is also not moderate.

0 The management should adopt a specific policy for determining spread and pricing on credit to cope with the existing situation.

Risk analysis and management of bank loan portfolios[38]:

A bank credit portfolio manager faces a higher magnitude of different risk/reward decisions than his counterpart working in the equity markets. For example, most bank loans provide a fixed return to the lender over a fixed period that is dependent on interest rates and the borrower's ability to pay. A good loan will be repaid in time and in full. It is hoped that the bank's cost of funds will be low and permit attractive returns. If the borrower's business excels, the bank will not participate in upside growth (except for a various pleasure in the firm's success). However, if business fails it result in loan defaults, the lender shares much perhaps most of the pain. Limited upside risk and unlimited downside risks of bank lending were the cause of innumerable problems in the late 1980's.

One solution is to price 'riskier' loans differently from 'safe' loans. However, recurring over capacity in the banking industry has made this difficult or nearly impossible. If bank wants to add to its book, it must be willing to compete with the low-bid banker who usually has the least understanding of risk. There is an inevitable organizational bias toward optimism.

Traditional credit analysis has always focused on the borrower's financial risk more than the firm's sensitivity to macroeconomic events. The result is that compensating for pricing is difficult and perhaps unrealistic. In the best scenario, the bank portfolio with high spreads, low cost of funds and minimal defaults. In the worst case, the portfolio and the bank are under water. As the 1980s demonstrated, the worst case was often the most likely scenario. But clearly, banks took risks that were not priced appropriately. Even loans supported by superior credit analysis often defaulted because of damaging macroeconomic events and pricing pressure caused over capacity. Given that loans cannot be priced to adequately compensate for risk, it is appropriate to minimize risk through diversification.

6. Credit Pricing Mechanism

6.1. Introduction
6.2. The existing credit pricing practices in Commercial Banks
6.3. Loan Pricing Methodology-bse Rate
6.4. Loan Pricing Methodology-risk adjustment
6.5. RElationship Pricing
6.6. Other Pricing Factors
6.7. Profitability Analysis Consideration

6. Credit Pricing Mechanism

6.1. Introduction

In Bangladesh, the central bank of the country i.e. Bangladesh Bank generally used to determine the cost of credit and accordingly also directed the commercial banks to apply the same on deposits and loans. In otherwords it could be said that the commercial banks in Bangladesh did not know how to fix up cost on credits. These practices continued upto 1989. In 1990, when government took liberal policy for bank management, the central bank devised a strategy to determine a band of interest rate and advised the commercial banks to set their own prices on deposits and loans within the band price.

Due to inexperience of the commercial bank officials in this line, they were not able to fix up deposit and loan prices at their own. What they started to do was to fix a rate within a band hypothetically. In true sense they used to choose a mid point or a nearby point within a band without considering any basis for calculation.

However, the financial sector reform project consultants started to set prices of individual banks considering the profitability of banks only. They started to fix the prices on deposits and loans by adjusting from one to another products considering overall profitability of the respective bank.

6.2. The Existing Credit Pricing Practices in Commercial Banks.

The existing cost of fund calculation and interest rate on the banking loan products are given below:

The existing calculation procedure of cost of fund of the bank is given hereunder. The data of 2000, are used for calculation.

A. Ratio of fund cost:

$$\frac{\text{Fund expenses}}{\text{Fund employed}} = \frac{646.54}{9448.31} = 6.84\%$$

B. Ratio of operating cost
(Including classified advances)

Operating Expenses = 195.04 =1.92%

Fund employed 10178.96

C. Ratio of Operating Cost (Excluding classified advances) = Operating expenses / Fund Deployed = 195.04 / 7205.47 = 2.71%

D. Ratio of Operating cost (Excluding classified advances) Less SLR = Operating Expenses / Fund deployed = 195.04 / 6757.27 = 2.89%

A. Total Cost of Fund:

a. (Earning assets including classified advances) = 8.76%
b. (Earning assets excluding classified advances)=9.55%
c. (Earning assets excluding advances &less SLR)= 9.73%

While analyzing the pricing mechanism of credit portfolio in Agrani bank, it has been observed that the bank did not follow any method or system to fix its price. Even the method followed in calculating the cost of fund of the bank was not practised in fixing price on any other product.

However, the pricing on loan products of Agrani Bank has been reviewed by calculating the cost of fund in a standard method by taking the following component into account. Here, for example, calculation of cost of fund has been done by taking data relating to particular heads on a specific date say, 31-12-2000 which is as under :

Cost of Fund Items (31.12.2000)

		Taka In Crore
1.	Capital	2 48.42
2.	Reserves	76.89
3.	Deposits	10052.85
4.	Other Bank's borrowing	0
5.	Bills Payable	148.89
6.	Other Liabilities	1799.99
7.	Total Liabilities	12000.99
8.	Contras (1019.66 + 254.99)	1272.65
9.	Liabilities	10728.34
10.	Total Expenditure	841.20
11.	Interest Expenditure	640.03
12.	Administrative Expenditure	201.17

	(Total Expenditure – Intt. Exp.)	
13.	Administrative cost of deposits (60% of Admin Expenditure)	120.70
14.	Loan Admn. Cost	80.47

Calculation procedure of cost of fund:

$$\text{(1) Weighted average cost of fund} = \frac{\text{Total Interest Expenses}}{\text{Total Liabilities minus contras \&capital}} = \frac{640.03}{10728.34} = 5.97\%$$

$$\text{(2) Cost of deposit gathering} = \frac{\text{Administrative cost of deposit}}{\text{Total liabilities minus contras and capital}} = \frac{120.70}{10728.34} = 1.13\%$$

Burdened cost of deposit
(Called Cost of fund) = Weighted average cost of fund + Cost of deposit gathering
= 5.97% + 1.13%
= 7.10%

Now the existing interest rate on different loan products of Agrani Bank are checked with the items for fixing price on loan products of the bank. It may be mentioned here that Risk Premium, spread income has been calculated by back calculation taking existing interest rate.

<u>Calculation of cost of lending of Agrani Bank Loan Products</u>:

Assumption: i) Cost of fund as calculated has been taken and put into column No.3.

ii) 25% loan administrative cost has been calculated from the figure as on 31-12-2001 of Agrani Bank and allocated to loan products according to ratio of loans.

iii) Percentage of risk premium has been taken as 5% which is considered international standard.

iv) Spread income has been calculated by deducting cost of fund, loan administrative cost, risk premium from the existing interest rate.

SL No	Sectors	Cost of fund	Loan Admin Cost	Risk Premium	Spread Income	Interest Rate
1	2	3	4	5	6	7=3+4+5+6
1.	Agriculture	7.10	0.03	5.00	0.87	13.00
2.	Long &Mid term credit	7.10	0.08	5.00	0.82	13.00
3	Working capital (Jute)	7.10	0.05	5.00	1.85	14.00
4.	Working capital other than jute	7.10	0.14	5.00	1.75	14.00
5	Jute Trade	7.10	0.01	5.00	3.89	16.00
6	Jute &Jute goods export	7.10	0.01	5.00	(-)2.11	10.00
7	Other Exports	7.10	0.01	5.00	(-)2.11	10.00
8.	Other Com.Loan	7.10	0.12	5.00	3.78	16.00
9	Urban Housing	7.10	0.05	5.00	3.85	16.00
10.	Special credit Program	7.10	0.04	5.00	(-)1.14	11.00
11.	Others	7.10	0.11	5.00	4.66	16.00

It may be mentioned that although the provision for Tk 1179.83 crore is required to cover up the risks of bad debt classified advances, the actual provision was made for Tk 513.75 crore causing provision shortfall Tk 666.08 crore. If this shortfall is considered as risk premium the bad debts risk premium would be 8.65%. Then the cost of lending would be as under:-

SL No	Sectors	Cost of fund	Loan Admin Cost	Risk premium	Cost of lending	Spread Income	Interest Rate
1	2	3	4	5	6	7	8
1.	Agriculture	7.10	0.03	8.65	15.78	(-)2.78	13.00
2.	Long term&Mid term credit	7.10	0.09	8.65	15.84	(-)2.84	13.00
3.	Working capital jute	7.10	0.06	8.65	15.81	(-)1.81	14.00
4.	Working capital other than jute	7.10	0.16	8.65	15.91	(-)1.91	14.00
5	Jute trade	7.10	0.01	8.65	15.76	0.24	16.00
6	Jute &jute goods export	7.10	0.01	8.65	15.76	(-)5.76	10.00
7	Other exports	7.10	0.01	8.65	15.76	(-)5.76	10.00
8	Other Commercial Loan	7.10	0.14	8.65	15.89	0.11	16.00
9.	Urban housing	7.10	0.06	8.65	15.81	0.81	16.00
10.	Special credit program	7.10	0.05	8.65	15.80	(-)4.80	11.00
11	Others	7.10	0.13	8.65	15.88	0.12	16.00

<u>Procedures for checking the existing interest rate calculation</u>.

1) Total loan amount as on 31-12-2000 is Tk. 7701.26 crore. Out of which classified amount is Tk. 2936.85 crore. Provision required for Tk. 1179.83 crore to cover up the risks of classified advances. But the actual provision was made for Tk. 513.75 crore. Here provision shortfall is Tk. 666.08 crore.

2) The income from loan as on 31-12-2000 is Tk. 595.01 crore. Total income of the bank for the year Tk. 897.86 crore, capital shortage is Tk.177.33 crore. Cost of fund is 7.10%. Loan administrative cost is Tk. 80.47 crore.

3) Sector-wise loan administrative cost, risk premium etc. are calculated by using the following formula.

a) Sector-wise Provision Shortfall =

$$\frac{\text{Total Provision Shortfall}}{\text{Total Classified Advances}} \times \text{Sector-wise classified advances}$$

b) Sector-wise Bad Debt Risk =

$$\frac{\text{Sector-wise Provision Shortfall}}{\text{Sector-wise Unclassified Advances}} \times 100$$

c) Loan Administrative Cost =

$$\text{Total Administrative Cost} \times 25\%$$

d) Sector-wise loan Administrative Cost =

$$\frac{\text{Loan Administrative Cost}}{\text{Total Loan}} \times \text{Sector-wise Loan}$$

e) Rate of Loan Administrative Cost (Sector-wise). =

$$\frac{\text{Sector-wise loan Administrative Cost}}{\text{Sector-wise Unclassified Advances}} \times 100$$

f) Capital Shortage Recoverable from Loan Income. =

$$\frac{\text{Total Capital Shortage}}{\text{Total Income}} \times \text{Income from Loan.}$$

g) Sector-wise Capital Shortage =

$$\frac{\text{Capital Shortage Recoverable from Loan Income}}{\text{Total Loan}} \times \text{Sector-wise Loan}$$

h) Rate of Capital Shortage Sector-wise =

$$\frac{\text{Sector-wise Capital Shortage}}{\text{Sector-wise Unclassified Advances}} \times 100$$

Calculation of Bad debt risk premium:

(Tk. in crore)

Sl. No.	Sectors of Advances	Loan Amount	Classified Loan	Unclassified Amount	Sector-wise Provision Shortfall *	Risk Premium
1	Agriculture	341.94	131.17	210.77	29.27 29.50	14.03 14.00
2	LT & MT Ind.Credit	934.93	358.64	576.29	80.86 44.03	14.03 7.64
3	Working Capital (Jute)	633.04	242.83	390.21	54.75 10.99	14.03 2.82
4	Working capital other than Jute	1638.83	628.66	1010.17	141.74 169.78	14.03 16.81
5	Jute Trade	151.70	58.19	93.51	13.12 17.65	14.03 18.87
6	Jute and Jute goods Exports	94.73	36.34	58.39	8.19 2.79	14.03 4.78
7	Other Exports	166.35	63.81	102.54	14.39 28.38	14.03 27.68
8	Other Commercial Loan	1399.32	536.78	862.54	121.63 115.37	14.03 13.38
9	Urban Housing	588.38	225.70	362.68	50.89 35.30	14.03 9.73
10	Special Credit program	460.54	176.66	283.88	39.84 100.05	14.03 35.24
11	Others	1291.50	495.42	796.08	111.70 112.24	14.03 14.10
		7701.26	2954.20	4747.06	666.08	

* Calculated according to ratio of advance.

Sl. No.	Sectors of Advances	Cost of Fund	Loan Administrative Cost %	Risk Premium %	Cost Lending %	Spread Income %	Interest Rate %
1	Agriculture	7.10	3.57	14.00	24.67	(11.67)	13.00
2	LT & MT Ind.Credit	7.10	9.77	7.64	24.51	(11.51)	13.00
3	Working Capital (Jute)	7.10	6.61	2.82	16.53	(2.53)	14.00
4	Working capital other than Jute	7.10	17.12	16.81	41.03	(27.03)	14.00
5	Jute Trade	7.10	1.58	18.87	27.55	(11.55)	16.00
6	Jute and Jute goods Exports	7.10	0.98	4.78	12.86	(2.86)	10.00
7	Other Exports	7.10	1.74	27.68	36.52	(26.52)	10.00
8	Other Commercial Loan	7.10	14.62	13.38	35.10	(19.10)	16.00
9	Urban Housing	7.10	6.14	9.73	22.97	(6.97)	16.00
10	Special Credit program	7.10	4.81	35.24	47.15	(36.15)	11.00
11	Others	7.10	13.49	14.10	34.67	(18.67)	16.00

Calculation of cost of lending and spread income based on capital shortage.

Sl. No.	Sectors of Advances	Cost of Fund	Loan Administrative Cost	Risk Premium	Capital Shortage	Cost Lending	Spread Income	Interest Rate
1	Agriculture	7.10	3.57	14.03	2.48	27.18	(14.18)	13.00
2	LT & MT Ind.Credit	7.10	9.77	14.03	2.48	33.38	(20.38)	13.00
3	Working Capital (Jute)	7.10	6.61	14.03	2.48	30.22	(16.22)	14.00
4	Working capital other than Jute	7.10	17.12	14.03	2.48	40.73	(26.73)	14.00
5	Jute Trade	7.10	1.58	14.03	2.48	25.19	(9.19)	16.00
6	Jute and Jute goods Exports	7.10	0.98	14.03	2.48	24.59	(14.59)	10.00
7	Other Exports	7.10	1.74	14.03	2.48	25.35	(15.35)	10.00
8	Other Commercial Loan	7.10	14.62	14.03	2.48	38.23	(22.23)	16.00
9	Urban Housing	7.10	6.14	14.03	2.48	29.75	(13.75)	16.00
10	Special Credit program	7.10	4.81	14.03	2.48	28.42	(17.42)	11.00
11	Others	7.10	13.49	14.03	2.48	37.10	(21.10)	16.00

Based on what has been accomplished in the above scenario, does'nt it make sense for a commercial bank to use this type of loan pricing techniques. Actually the commercial banks have been pricing of their products by adding or subtracting some points with the figures in a technique as inherited from the Pakistani banking. This technique was followed upto 1990. Thereafter Financial Sector Reform Program (FSRP) started to fix up the pricing of loan products considering the profitability of the banks which is being followed till now i.e. no scientific or economic method to pricing its loan products has been devised.

However, the Financial Sector Reform Project (FSRP) worked on the methodology of pricing of loan products of commercial banks of Bangladesh. The methodology of pricing on loan products, as the FSRP prescribed are enumerated below:

6.3. Loan Pricing Methodology-Base Rate:

A loan pricing methodology must past three tests; specifically, it must

- Accurately reflect the bank's total cost of fund.
- Be risk based, with higher prices charged to higher risk customers and lower prices charged to lower risk customers.
- Realistically capture the bank's cost of servicing.
- Maintain sufficient spread to make profit to support its growth and maintain its capital ratio.

The current pricing methodology , which is still subject to hyper basically done, is lacking in all the above four areas. Historically advances in all sectors have been unprofitable.

- The true cost of funds is not identified.
- Profits requirements to maintain capital ratios are not considered.
- The full cost of loan and deposit servicing is not considered.
- No differentiation for sector or customer risk.

The scientific loan pricing methodology will enable the bank to improve the bank's pricing in all the areas.

- Cost funds will be based on marginal cost of funds that covers the true cost of funding new loans.
- Cost of protecting capital requirements will be included.

- Costs of servicing the loan and deposit will be recognized.

- Different risk in lending to different sectors and customers will be recognized.

The loan pricing methodology incorporates four steps:

Cost of Funds	Cost of Capital	Cost of Loan Administration	Cost of Bad Debts
• Marginal Cost of Funds. The cost of funding a new loan is to a large extent the cost of deposit that must be generated to fund the loan. • Deposit Servicing Costs There is an administrative cost associated with raising all deposits. Determining the exact cost is complex but we will suggest some rules of thumb for establishing average costs. • Reserve Adjustments Presently the Bank is required to maintain 5% of deposits in an interest –free reserves account	• Minimum Profit. The bank must earn and retain sufficient profit to support new growth . The capital ratio must be obtained and maintained. • Dividends Dividends are paid from after-tax profits and reduce the profit available for retention. • Additional Profits Additional profits to meet shareholders/owners objectives above capital appreciation from retained earnings. • Taxes Taxes must be paid before any profits are available for retention or distribution.	• Loan Servicing Cost. There is an administrative cost associated with all loans Determining the exact cost includes among other considerations, the size and type of the loan ,and whether it is secured or unsecured . Lacking data on which to analyze true costs, rules of thumb for establishing average costs will be suggested.	• Cost of Funding Deposits have to be raised to fund classified loans that have not been provided for. • Risk of Loss Risk of loss differs from industry to industry and customer to customer NCB's is permitted to establish different rates for different sectors. Using past loss experience, present loan performance and the bank's assessment of the future health and viability of a sector, an average cost of bad loans for a sector can be determined.

6.4. Loan Pricing Methodology: Risk adjustment.

- The cost of funding a new loan is to a large extent, the cost of raising the deposit that will be used to fund the loan.

- If the funds are to be raised for the loan this is what they will cost. If the funds have already been raised the bank must let pass an opportunity to invest those funds in a risk-free asset.

- If the funds were raised in the form of savings accounts say at 3% it would not be sensible to consider this as the cost of funds as the bank could invest the funds in risk-free government bonds or buy another bank's fixed deposit.

- In fact, the true cost of loanable funds can be considered to be the rate at which the bank can invest any savings deposits, and current account deposits, free of risk.

The easiest way to raise new funds is usually by issuing short-term fixed deposits. The rate can be adjusted frequently to attract or divert deposits depending on loan funding requirements.

Frequent roll-over of short term deposits allows cost of funds to be adjusted in line with market pressures. As normally assets are at variable rates this helps to minimize interest mismatches.

Recommendation is that the six month fixed deposit rate be used as the marginal cost of funds. Ideally if loans are to be made at fixed rates for say one to three years the loan should be funded by a fixed deposit of a similar term and the marginal cost of funds adjusted accordingly.

6.5 Relationship Pricing:

There are both fixed and variable costs to servicing a deposit.

- Fixed costs are those the bank incurs when it opens for business for each morning.

- Variable costs vary with the volume of business, the more accounts the bank opens the more the variable costs increase.

- Over time fixed costs can also vary. As volume increases new branches will have to be opened and new equipment including computers purchased.

- To remain profitable the bank must recover its full costs, that is , the fixed costs added to the variable costs. These equate to the total of the bank non-interest expenses. (salaries, premises and other controllable expenses)

- Determining the exact cost of servicing a deposit, or for that matter a loan, is very complex. It recommended that the average cost of servicing deposits is used.

- The average cost of a deposit can be determined by taking the total non-interest expense, minus fee income and proportioning it between deposits and loans as follows:

  - Deposits--------------60%
  - Advances------------40%

- The average deposit servicing cost is recovered by allocating them equally to total earning loans.

- Banks having very high fee income in relation to non-interest costs may use this method of identifying servicing costs and lowering their lending rates to enable them to gain market share. Alternatively the management feel that this method does not pass on to the borrower enough of the servicing costs they may adjust it according to their judgement.

- The structure of the NCB's balance sheets required that two additional factors be considered.

  - Classified loans in some cases exceeding 30% of net loans, reduce the amount of earning loans from which deposit servicing costs can be recovered. The deposit servicing costs have thus to be recovered from the non-classified loans (excluding segregated non-classified loans that are not earning such as jute loans). Good customers have to pay the deposit costs for classified borrowers.

  - All the NCB's hold a substantial amount of Government issued or guaranteed bonds. These include capital deficit bonds, jute sector adjustments bonds plus Government guaranteed bonds purchased by the NCBs at the request of the Government. All these bonds have to be funded by deposits thus their share of deposit servicing costs should be allocated to them. In most cases the interest paid by these bonds is less than, or very close to the average cost of deposits. There is therefore insufficient margin to allow deposit servicing cost to be allocated to them. The Government has the choice of recognizing the full costs of the NCBs in funding these bonds, and adjusting the rate, or, requiring the NCBs to accept low yields on these bonds, passing all the deposit servicing costs on to borrowing customers. It will be assumed all deposit servicing costs have to be recovered from borrowing customers.

6.6. Other Pricing Factors:

Cost Reserves:

- The bank is presently required to maintain a non-interest bearing reserve on all deposit balances including fixed deposits. Consequently the effective cost of a deposit is increased as ,only a portion of any fixed deposit can be used to create an earning asset. The reserves that have to be held as government securities earn interest and may be ignored for the calculation of the cost of funds.

- Currently the non-interest bearing reserve is 5% of all deposits, though this may vary from time-to-time and by deposit type.

- The actual adjustment should be more than 5% to reflect the inherent difficulties of reserve management (It is recommended that 5.5% be used)
- The reserve adjustment formulae is

Description:(Fixed Deposit Price) / (1.00 minus Reserve adjustment) minus Fix.dep price

Example:

	[6%	/	(1.00-.055)%]	minus	6%
=	[6%	/	0.945%]	minus	6%
=			6.35%	minus	6%
=					0.35%

Calculation of cost of funds per loan :

Marginal cost of funds = Six month fixed deposit rate =			=6.25%
Deposit Servicing Costs= 60% of (	Non-interest cost minus fee income) divided by total earning advances	= say 60%of Tk70Cr (non interest costs minus fees) / Tk 2000Cr(Total net advances Tk 3000-non earning loans Tk1000Cr)	= 2.00%
Reserve costs	= [Fixed deposit price divided by (1.0 minus Reserve adjustment] minus fixed deposit price	= 6.25 / (1.00-.055) = 6.25 / .945	= .35%
	COST OF FUNDS PER LOAN		=8.60%

Capital Requirements

- All the scheduled banks are required to maintain a minimum amount of capital. Presently, the amount of capital required, the capital ratio is stated as a percentage of deposits. It probable that this will change to a risk based asset capital ratio. Under a risk based capital ratio different categories of assets, both on and off balance sheet are deemed to result in different risks. The amount of capital required to support an asset will vary depending on the risk. The higher the risk the more the capital required.

- Whatever the method established for calculating minimum capital requirements, the need to increase capital as the banks balance sheets grows will remain. Unless the bank is to be recapitalized every few years, the after tax, post dividends profits retained by the bank must be sufficient to increase capital in line, with assets growth.

- For loan rate-setting purposes how the base capital ratio is calculated is not material. We will concentrate on the need to retain sufficient profit to maintain the capital ratio once it has been established. To do this we need to calculate the profit target for the bank and translate that into a cost of capital per advance.

- The profit target for the bank is usually established by senior management and the Board of Directors and is stated as return (%) on equity. Four factors that the directors will consider when setting this objective are:

  - Minimum Profit (Capital Adequacy)
  - Taxes
  - Dividends (Market Factors)
  - Additional Profits (Expansion, Acquisitions)

Minimum Profit:

- Capital growth expressed as a percentage must be at least equal to growth of advances, gross advances excluding provision and interest in suspense).

- A profit equal to the required growth in capital must be earned and retained. For example:

  An advance portfolio of Tk 3000cr assuming a capital ratio of 7% requires Tk 210 cr of capital.

  A 10% growth in the advances will increase the portfolio of Tk3300 cr.

  The increased portfolio of Tk 3300 cr assuming a capital ratio of 7% requires Tk231Cr of capital.

  A profit of Tk 210 Cr (New capital required Tk 231 Cr minus old capital requirement of Tk 210 Cr) has to be earned and retained.

Tk 21 Cr expressed as a percentage of Tk210 Cr (old capital requirement)is 10%.

MINIMUM TARGET RETURN ON EQUITY MUST NOT BE LESS THAN THE EXPECTED PERCENTAGE GROWTH IN ADVANCES.

- The target set as the minimum profit is allocated equally to all loans. Problems arise when a bank has substantial classified loans thereby reducing the amount of earning loans from which the minimum profit can be generated.

Dividends

- Allowances for dividend payments will not be included in the calculation of advances , interest rates as the NCB's by definition do not have traced shares and are not required to make dividend payments. Management and Directors should however be aware of the factors that have to be considered if shares are issued to the public at a later date.(Other payments on shares or debt instruments also will be ignored)

- Where a bank has issued shares to the general public, the investors purchasing those shares will be seeking capital appreciation, cash dividends, adequate marketability, and safety, superior to that offered by government securities or other public companies.

- The dividend policy of the bank will thus be to maximize share price while maintaining the safety of the assets. The share price , among other things, is dependent on profitability and size and reliability of dividends paid.

- If the bank wishes to raise new capital it will have to offer a better investment opportunity than the competitors. The desires and expectations of the shareholders will become a market force that will establish an expected return on equity for banks.

- Dividend payments can thus have a significant impact on the banks future capital position. Dividends however can only be paid after sufficient profits have been retained for growth and tax has been paid. As it is difficult to reduce the rate of dividends, careful consideration of future capital requirements is needed before a dividend payment as announced.

Additional Profits:

- The NCB's have to concentrate on obtaining and maintaining minimum capital requirements including deficits caused by unfunded provision requirements. At this time they neither need to or are in a position to, build up excess capital for acquisitions or other shareholder objectives. The cost of additional profits for these purposes will not be included in the calculation of the cost of capital.

- Management and directors however should consider setting a profit target that will fund the provision deficits or negative retained earnings being carried by the NCB's.

Taxes:

- Sooner or later the NCBs will have to resume paying taxes. Management and directors have to be aware of the effect this has on setting profit and return on equity targets.

- Taxes must be paid before dividends can be paid or profits retained. The adjustment necessary to target profits required just to maintain minimum capital requirements, let alone pay dividends, can be substantial.

- A 50% tax rate doubles the profit that has to be earned to maintain the capital ratio. Using the previous example:

  An advance portfolio of Tk 3000 Cr assuming a capital ratio of 7% requires Tk 210 Cr of capital.

  A 10% growth advances will increase the portfolio to Tk 3300Cr.

  The increase portfolio of Tk 3300 Cr assuming a capital ratio of 7% requires 231 Cr of Capital.

  A profit of Tk 21 Cr (additional capital required equals Tk 231 Cr minus old capital requirement tk 210 Cr) has to be earned and returned.

  Tk 21 cr expressed as a percentage of Tk 210 Cr (old capital requirement) is 10%.

  To obtain an after tax profit of Tk 21 Cr with a 50% tax rate , the pre tax profit must be Tk 42 Cr, a 20% return on equity.

- The tax adjustment formulae, assuming a tax rate of 50%, is:

Description	[1/ (1- the tax rate)]
Example	[1/ (1- .50)]
	=1/.5
	=2 times

Calculation of cost of capital per loan can then be calculated:

Minimum profit=Profit required to= Say 10% growth in Tk3000Cr= Tk 21 Cr (minimum profit)= 1.0%

Maintain minimum capital requirements	net advance portfolio will require additional Tk21Cr of capital	Tk 2000Cr(Tk3000 net advances portfolio minus Tk 2000 Cr non-earning loans)

Dividends	Not presently paid	= 0.0%

Additional Profits =	Cost per loan of earning an additional Tk10Cr	= Additional profit required/= Net(less int-in-susp.and provision) advances minus non-earning loans	Tk10 Cr (additional profit)= 0.5% Tk2000 Cr (Tk3000 Net advances portfolio minus Tk1000 Cr Non-earning loans)

AFTER TAX COST OF CAPITAL PER LOAN		=1.50%
Tax adjustment = [1 / (1- the tax rate)] = 1/ (1minus.65)	= 2.85 multiplier or an additional	=2.78%
BEFOR TAX COST OF CAPITAL PER LOAN		=4.28%

Loan servicing costs

- Similar to deposit servicing costs loan-servicing costs determining the exact cost is very complex. The costs vary considerably between different types of loans.

  - It takes as much time to administer a small loan as it does a large loan
  - Secured loans have higher administrative costs than unsecured loans.

- Banks cannot differentiate between customers based on servicing costs
  - Bangladesh Bank does not allow a rate differential in any one sector based on servicing cost
  - Sectors where unsecured loans may be granted are limited by Bangladesh Bank regulations

- In sectors where average loan size is small, such as crop loans and self-employment loans, and servicing cost is high, it is politically difficult to charge a rate that would fully recover servicing costs.

- The banks do not charge fees for considering loan applications or servicing loans thus all generation and servicing costs have to be recovered in the interest rate.

  - It is recommended that the average cost of servicing a loan be used. As stated earlier this can be taken as 40% of the total non-interest expense minus fee income.

  - As with deposit servicing costs banks having very high fee income in relation to non-interest costs may use this method of identifying servicing costs and lowering their lending rates to enable them to gain market share. Alternatively if management feel that this method does not pass on to the borrower enough of the servicing costs they may adjust according to their judgement.

  - The average loan servicing costs are recovered by allocating them equally to total net earning loans. Though politically sensitive it is recommended that in sectors where the average loan is less than Tk 20,000 the loan servicing cost be increased by 2%.

  - The size of the loan and the security do effect the risk. recommendations on how these factors can at least be partially considered will be made in the following pages.

Calculation of cost of loan servicing per loan:

Loan servicing costs= 40% of (Non-interest cost minus = <u>Say 40% of Tk 70Cr(non interest costs minus fees)</u>= 1.50%
fee income divided by total earning advances) Tk2000 Cr (Total net advances Tk3000 minus non-earning loans Tk1000 Cr)

COST OF LOAN SERVICING PER LOAN= 1.50%

<u>Cost of funding classified and non-earning loans</u>:

- Theoretically it should not be necessary to increase lending rates to cover the cost of funding classified loans
  - Classified loans that have been provided for can be considered for rate setting purposes as written-off and thus do not require funding.

- There is the expectation that classified loans not provided for and the interest there on will eventually be recovered.

- In the case of the NCBs this is not the case
    - Provision required may not have been made, it may have been used for other purposes or it may have been made to the creation of a deficit retained earnings account carried as "Other Assets"
    - Required provision is a factor of the passage of time and does not reflect the likelihood of recovering the unclassified portion.
    - Even when principal is recovered the interest thereon is frequently forgiven.

- The funding cost of the classified debts thus must to be obtained from other sources. This can be either the owners or the earning loans. It will be assumed that it has to be generated from earning loans.

- The NCBs also carry non-classified loans that generate no income such as the segregated jute loans. It has to be assumed that the funding cost of these loans also has to be borne by the earning loans.

Calculation of carrying non-earning loans per loan:

- This calculation should be done for each industry the bank lends to. However Bangladesh Bank requires the rates to be set by sector not by industry. The banks have no option but to calculate the cost of carrying non-earning loans on a sector-by-sector basis.

- The example below is for illustrative purposes only and relates to the total loan portfolio. Calculations will be done on a sector basis in the model provided.

Carrying cost of non-earning loans	= Classified loans for which no provision is held plus non-classified loans funded at the marginal cost of funds divided by net earning loans	= Say Tk800 Cr (Non earning loans Tk 1000 Cr, out of total net advances Tk 3000 Cr less provision of Tk 200Cr) @ 6.25% Tk 2000 Cr (Total net advances Tk3000 minus non earning loans Tk1000Cr	= 2.50%

COST OF CARRYING NON-EARNING LOANS PER LOAN = 2.50%

Cost of loan losses

- This section will suggest a method for calculating an allowance for future loan losses. It was recommended under Cost of Capital the "additional profits" are used to make up existing provision deficiencies.
- The cost loan losses is the most difficult to define and to some extent must be subjective.
- Cost of loan losses will normally be established for each industry the bank ends to by considering past loan losses and current payment records adjusted for the future health and viability of the industry and the economy in general. The NCBs cannot do this.

  - The bank has not set rate on a sector basis . Each sector may contain many different types of industry in any sector some industries may flourish while other has problems.

  - The bank must be cognizant of past loan losses but these cannot be the sole basis for calculating a rate to cover future losses. If the bank continues to accrue losses similar to those of the past it will not survive.

    - Accurate current payment history for an industry or a sector is not easily available.
    - The NCBs have neither the data nor the skills necessary for judging the future viability of an industry.
    - The classification statement may not reflect the correct position.

- The bank cannot adjust the sector rate based on loss experience in an individual industry but it can adjust the rate of an individual customer based on the risks it perceives for the industry in which the customer operates.

- It is recommended that the cost of loan losses is based on the following three factors:

  - Expected additional provision required for loans already classified

  - Average provision required for the last three years (This can be extended to five years as under-writing criteria improves and loan losses reduce)

- Management's best judgement of the future viability of a sector.

Calculation of cost of loan losses per loan:

<u>This must be done for each sector:</u>

Expected addition = Provision on 50% of substandard requirements	Additional provision loans plus 75% of doubtful loans not provided for averaged over five year's divided by net earning loans	= Say unprovided for = substandard loans equal Tk300 Cr and unprovided for doub-full loans equal Tk200cr	This figure to be adjusted by managements best judgement of the future viability of the sector. Say to 3%.	=2.00%
Average loan loss= provision over the last three years	Additional provision required in each of the previous years-divided by three divided by net earning loans	=Say provision for last three year's total Tk 60 Cr	= Tk 60Cr /3 Tk 2000 Cr (Total net advances Tk 3000 minus non earning loans Tk 1000 Cr	=1.00%

COST OF LOSSES PER LOAN=3.00%

Calculation of cost of bad loans per loan

Cost of carrying non-earning loans per loan	= 2.50%
Cost of losses per loan	= 3.00%
COST OF BAD BEBTS PER LOAN	= 5.50%

The cost per loan for each element are added together to give a base rate <u>for each sector. This rate will form the basis for setting the average rate.</u>

Calculation of fully loaded interest rate.

<u>ELEMENT</u>	<u>RATE</u>
Cost of funds per loan	8.60%
After tax cost of capital per loan (excluding "additional Profits")	1.00%
Cost of loan servicing per loan	1.50%
	11.10%
Deduct allowance for capital having no interest expenses.	
(Actual Capital 7% X Marginal C of F 6.25%)	0.45%
INTEREST RATE BEFORE COST OF BAD LOANS,ADDITIONAL PROFITS AND TAX	10.65%
Additional Profits (Rate per Tk. 10 cr. of additional profit required)	0.50%
Cost of bad debt per loan	3.00%
INTEREST RATE BEFORE TAX	14.15%
Cost of tax at 65%	2.85%

FULLY LOADED INTEREST RATE 17.00%

While analyzing the loan pricing mechanism of Agrani Bank, I observe that the bank did not follow any loan pricing techniques for determination of price of its loan products. What they were doing was that they were doing the things hyper basically. They have no base even for determination of its products pricing. However, we can check the impact on profit with the existing pricing in the following manner by using the formula.

Burdened Yield on Lending

Minus

Burdened Cost of Deposits

=

Profit on Lending

Yield on Lending Items.

	Item.	Taka In Crore.
1.	Interest Income	595.01
2.	Investment Income	162.45
3.	Interest Income on Loans	432.56
4.	Total Loans	7701.26
5.	Total Provision Required	1179.83
6.	Interest Waiver	94.52
7.	25% Loan Administrative Cost	50.29

Calculation of Burdened Yield on Lending:

a) Nominal weighted average yield $= \dfrac{\text{Interest Income - Investment Income}}{\text{Total Loans}}$

$$= \frac{595.01 - 162.45}{7701.26}$$

$$= \frac{432.56}{7701.26} = 5.62\%$$

b) Cost of Provisions $= \dfrac{\text{Provisions}}{\text{Total Loans}}$

$$= \frac{1179.83}{7701.20} = 15.31\%$$

c) Cost of Interest Waiver $= \dfrac{\text{Interest Waiver}}{\text{Total Loans}}$

$$= \frac{126.52}{7701.26} = 1.64\%$$

d) Loan Administrative Cost $= \dfrac{\text{25\% Loan Admn.Cost}}{\text{Total Loans}}$

$$= \frac{50.29}{7701.26} = 0.65\%$$

Burdened Yield on Lending = Nominal weighted average yield;
- Cost of Provisions
- Cost of Interest waiver
- 25% Loan Administrative cost

= 5.62 – 15.31 – 1.64 – 0.65
= (-) 11.98%

Cost of Fund = 7.10%

<u>Calculation of profit on lending</u>.

Profit on lending = Burdened yield on lending minus Burdened cost of deposit.
= (-) 11.98% - 7.10%

Therefore,Profit on lending = (-) 19.08%

Break – Even Yield:

Formula used to Calculate Break-Even to Yield.

Break-Even Yield = Cost of Fund + Cost of Provision + Cost of Interest forgiveness + 25% Loan Admn.Cost.

Break-Even Yield Items:

a)	Cost of Fund	-	7.10%
b)	Cost of Provisions	-	15.31%
c)	Cost of Interest Waiver	-	1.64%
d)	Cost of 25% Loan Admn.Cost	-	0.65%
e)	Profit on Lending	-	(-) 9.73%
f)	Nominal Weighted Average Yield	-	5.62%

Calculations:

The rate at which Break-Even Yield = 7.10% + 15.31% + 1.64% + 0.65% = 24.70%

Checking the Break-Even Yield Rate:

Nominal weighted average yield = Break-Even Yield + Profit on Lending

5.62%= 24.70% + (-) 19.08%

5.62%= 5.62%

So the minimum price on lending should be 24.70%.

But the average loan price of the commercial banks is as under:

1)	Agricultural Credit	-	13.00%
2)	Large & Medium Industry	-	13.00%
3)	Working Capital Jute	-	14.00%
4)	Working Capital other than Jute	-	14.00%
5)	Jute Trading	-	16.00%
6)	Jute and Jute goods exports	-	10.00%
7)	Other Exports	-	10.00%
8)	Other Commercial Lending	-	16.00%
9)	Urban Housing	-	16.00%
10)	Special Programs	-	11.00%
	a) Small & Cottage Industries		
	b) Other Special Programs		
11)	Others	-	16.00%
	Weighted average interest rate	-	14.41%

The present price is (24.70% - 14.41%)= 10.29% lesser than the required price.

Is it possible to fix loan price at 24.70% to maintain break-even yield? Certainly not, as because the borrowers will not bear the cost of the bad borrower. What the Financial Sector Reform Project (FSRP) did was that they have calculated the interest rate on loan in the following manner:

Cost of funds per loan	=	8.60%
After tax cost of capital per loan (Excluding additional profits)	=	1.00%
Cost of loan servicing per loan	=	1.50%
		11.10%
Deduct allowance for capital having no interest expenses (Actual capital 7% X Marginal cost of fund 6.25%)	=	0.45%
Interest rate before cost of bad loans, additional profits and Tax	=	10.65%
Additional profits (Rate per Tk. 10.00 crore of additional profit required)	=	0.50%
Cost of bad debt per loan	=	3.0%
Interest rate before tax	=	14.15%
Cost of Tax at 65%	=	2.85%
Fully loaded interest Rate	=	17.00%

The FSRP calculated cost of bad debts by using cost of provisions of previous three years dividing by net earning loans. This shows that cost of bad debts is 3.00% while analysing the calculations of provisions. I observe that provisions on substandard loans calculated by deducting suspense account and value of eligible securities from the outstanding loans and provision made 10% of this balance. But for calculation of provision on Doubtful and Bad and Loss loans no deduction of eligible securities was done from outstanding balance assuming that eligible securities are realized before the expiration of the credit as overdue for 3 years and as such the item has been excluded as bad for doubtful or bad loans.

In true fact, in Bangladesh no eligible securities was disposed off for realization of Doubtful and Bad loans. If we analyze the data of loans and advances of Agrani Bank as on 31-12-2000, the following information will be found out :

Total advances	=	Tk. 7701.26 crore
Total classified advances	=	Tk. 2936.85 crore
Total unclassified advances	=	Tk. 4764.41 crore
Classified to total advances	=	Tk. 38.14%

Category of classified advances : Substandard = 120.94 crore

Doubtful	=	151.76 crore
Bad and Loss	=	2664.15 crore
		2936.85 crore

Out of these classified amount provision requirement is Tk. 1179.83 crore. But provision available with the bank is Tk. 513.75 crore. Here provision shortfall is Tk. 666.08 crore. However, eligible securities are available for Tk. 945.16 crore. When provision requirement was calculated eligible securities portion was deducted from the substandard amount. But the same was not deducted from doubtful and band and loss category of classified amount. We therefore, can deduct of the same from doubtful and bad and loss amounting to (151.76 + 2664.15) = 2815.91 crore according to ratio of classification.

Doubtful	=	151.76 – 50.99
- I.S.A.	=	100.82 – 47.28
	=	53.54
Bad/Loss	=	2664.15 – 894.22
	=	1769.93
- I.S.A.	=	876.17
		893.76

Provision requirement.

Substandard	=	12.09 crore
Doubtful	=	26.77 crore
Bad and Loss	=	893.76 crore
		932.62 crore
Provision available	=	513.29 crore
Provision shortfall	=	419.33 crore

The above noted figure is also not suitable for calculation of pricing of loan products in Bangladesh. However, the commercial banks of Bangladesh should adopt a five year plan to price its products to neutralize its shortfall in the following manner.

To pricing its products, cost of fund, loan administration cost, cost of bad debt (risk premium), capital shortage premium, cost of tax and a moderate spread income which will be able netralize risk premium and capital shortage over the next five years to be adopted. The formula may be adopted in the following manner :

Loan Price = Cost of fund + loan administrative cost + risk premium (cost of bad bebt)

+ capital shortage premium + cost of tax + spread income.

An example of calculation of loan pricing as under :-

Cost of fund = 7.10%

Loan administrative cost per loan = $\frac{\text{Loan admn. cost}}{\text{Total loans}} \times 100 = \frac{80.47}{7701.26} \times 100$

= 1.04%

Cost of bad debt (Risk premium) = $\frac{\text{Provision shortfall/5}}{\text{Total loans}} \times 100$

= 1.73%

Capital shortage premium per year = $\frac{\text{Capital shortage/5}}{\text{Total loans}} \times 100$

= $\frac{177.33/5}{7701.26} \times 100$ = 0.46%

Moderate spread income = 3%

(Moderate spread income say 3% on total loans will be able to neutralize provision shortfall, capital shortage and will also be able to transfer some amount to reserve fund)

Cost of tax = $\frac{1}{(1 - 0.65)}$ = 2.85%

So, the interest rate on loan would be= 7.10% + 1.04% + 1.73% + 0.46% + 3% + 2.85%

= 15.77%

The following mathematical formula may be used for calculation for loan pricing in commercial banks in Bangladesh.

CF = WACF + CDG Where WACF = Weighted average cost of fund.

LAC = LAC/TL CDG = Cost of deposit gathering.

RP = $\frac{PS/5}{TL}$ TL = Total Loan

PS = Provision shortfall

CSP = CS/5 CS = Capital shortfall

TL

SI	=	Calculate to neutralize shortfall of provision and capital
TR	=	1/(1 – Tax rate)
LP	=	CF + LAC + RP + CSP _ SL + TAX
Where	LP =	Loan Pricing on Loan Products.
	CF =	Cost of Fund
	LAC=	Loan Administrative Cost
	RP =	Risk Premium
	CSP=	Capital Shortage Premium
	SI =	Spread Income
	TR =	Tax Rate

When Bad debt will be declining then rate of loan pricing will also be at declining trend on the other. When capital adequacy will be met up, there spread income may be made competitive. If it is competitive, the loan price will also be competitive, that is a competitive lower price may be charged to employ more idle funds and earn more profit.

7. Capital Structure of Bank Financed Industrial Projects.

7. Capital Structure of Bank Financed Industrial Projects:(44)

7.1. Cost of the Project

To judge a project from the financial aspect, we need to know about the cost of the project, means of financing, equity portion of the project. The cost of project is the sum of the outlays on the following:

- Land and site development
- Buildings and civil works
- Plant and machinery
- Technical know-how fees and expenses on drawings etc., payable to technical collaborators.
- Expenses on foreign technicians and training of domestic technicians abroad
- Miscellaneous fixed assets
- Preliminary and capital issue expenses
- Pre-operative expenses
- Provision for contingencies
- Margin money for working capital

Land and site development

The items of cost covered here are: (i) cost of land including conveyance charges, (ii) premium payable on leasehold land and conveyance charges, (iii) cost of leveling and development, (iv) cost of laying approach roads and internal roads, (v) cost of fencing compound walls, and (vi) cost of gates.

Land except in urban/metropolitan areas, is not very expensive. Site development expenses however, tend to be high. They are worked out on the basis of the specific site development needs along the lines indicated above.

Building and Civil Works

These include (i) factory buildings for the main plant and equipment ,(ii) factory buildings for auxiliary services like steam supply , water supply, laboratory, workshop, etc., (iii) administrative buildings,(iv) godowns, warehouses and open yard facilities (v) miscellaneous non-factory buildings like canteen, guest house, time office, excise house, etc., (vi) quarters for essential staff, (vii) silos, tanks wells, chest basin, cisterns, hoopers, bins and other structures which are necessary for installation of plant and equipment, (viii) garages, (ix) sewers, drainage, etc., (x) civil engineering works, and (xi) architects fees.

The cost of buildings and civil works would depend on the kinds of structures required. This is usually based on the production process requirement. Once the kinds of structures required specified, cost estimates be based on plinth areas and rates for various types of structures. Buildings and Civil works cost, it may be noted, tends to vary with the location.

Plant and Machinery

The major cost item in most of the projects covers; (i) imported machinery, (ii) indigenous machinery, (iii) machinery stores and spares, and (iv) foundation and installation charges.

The cost of imported machinery is the sum of (i) FOB value, (ii) shipping, freight, and insurance cost, (iii) import duty, and (iv) clearing, loading, unloading, and transportation charges to factory site.

The cost of indigenous machinery consists of (i) FOR cost, (ii) sales tax, octroi, and other taxes, if any, and (iii) railway freight and transport charges to site .

Technical Know-how and Engineering Fees

The technical know-how and engineering fees payable to foreign/domestic technical collaborators indicated here.

Expenses on Foreign Technicians and training of domestic Technicians Abroad.

Foreign technicians may be required in Bangladesh during project implementation and trial runs. Expenses on their travel, boarding, lodging and their salary and allowances must be shown.

Expenses on Bangladeshi technicians who require foreign training must also be included. The basis of calculating training-related expenses must be indicated.

Miscellaneous Fixed Assets

These include (i) furniture, (ii) office machinery and equipment, (iii) miscellaneous tools and equipment including erection tools, (iv) cars, trucks etc., (v) railway siding, (iv) equipment for power, (vii) equipment and piping for supply and treatment of water, including installation cost, (viii) equipment and piping for distribution of steam, air etc., including installation cost, (ix) laboratory equipment, (x) workshop equipment, (xi) fire fighting equipment, (xii)effluent collection, treatment and disposal arrangement, and (xiii) miscellaneous fixed assets.

Miscellaneous fixed assets required for a project must be carefully and meticulously specified and their cost must be properly estimated. Often there is a tendency to do slipshod work in this respect- this should be avoided. It may be noted that for units located in ill-developed areas expenses on fixed assets for providing infrastructural facilities like water supply, power connection, and transportation may be high.

Preliminary and Capital Issue Expenses:

The items included here are : (i) brokerage and commission on capital issue, (ii) other capital issue expenses (legal, advertisement, printing, stationery, etc), (iii) expenses on company floatation, and (iv) cost of preparing feasibility report/ project report and conducting market and other surveys.

Preliminary expenses may be 2 to 3 percent of the cost of project. These expenses up-to 2.5 per cent of the project cost can be amortized in ten equal annual installments.

Pre-operative Expenses

These are expenses incurred on the following till the date of commencement of commercial production:(i) establishment , (ii) rent , rates and taxes,(iii) travelling expenses, (iv)miscellaneous expenses, (v) interest and commitment charges on borrowings, (vi) insurance, (vii) mortgages expenses, (viii) interest on deferred payments, and (xi) start-up expenses.

Pre-operative expenses incurred up to point of time the plant and machinery are to set up may be capitalized by apportioning them to fixed assets on some acceptable basis. Pre-operative expenses from the point of time the plant and machinery are set up are treated as revenue expenditure. The firm may, however, treat them as deferred expenditure and write them off over a period of time.

Provision for Contingencies:

This represents a provision to meet any unforeseen expenses or expenses ignored advertendly from the estimates. This provision is not meant for meeting price escalations which can be anticipated at the time of estimating the project cost. Such escalations must be built into the cost estimates of the items concerned.

To estimate the provision for contingencies the following procedure may be adopted: (i) Project elements are divided into 'firm' cost items and 'non firm' cost items. Firm cost items are those, which have, been already acquired or for which definite arrangements have been entered into. All other items may be regarded as non-firm cost items, (ii) Provision for contingency is set equal to 5 to 10 per cent on non-firm cost items.

7.2. Means of Financing:

To meet the cost of project the following sources of finance may be tapped:

- Equity Capital
- Preference capital
- Secured debentures
- Debenture capital
- Term loans
- Deferred credit
- Capital subsidy and development loans
- Unsecured loans and deposits

Equity Capital:

This is the contribution made by the owners of business, the equity shareholders, who enjoys the rewards and bear the risks of ownership. However, their liability is limited to their capital contribution.

From the point of view of the issuing firm, equity capital offers two important advantages; (i) It represents permanent capital. Hence there is no liability for repayment. (ii) It does not involve any fixed obligation for payment of dividends.

The disadvantages of raising funds by way of equity capital are: (i) the cost of equity capital is high because equity dividends are not tax-deductible expenses. (ii) The cost of issuing equity capital is high.

Preference Capital:

A hybrid form of financing , preference capital partakes some characteristics of equity capital and some attributes of debt capital. It is similar to equity because preference dividend like equity dividend is not a tax-deductible payment. It resembles debt capital because the rate of preference dividend is fixed. Typically, when preference dividend is skipped it is payable in future because of the cumulative feature associated with most preference issues. The high cost associated with it and the near fixity of preference dividend payment render preference capital somewhat unattractive in general as a source of finance. It is, however, attractive when the promoters do not want a reduction in their share of equity and yet there is need for a wider net worth base (net worth consists of equity and preference capital) to satisfy the requirements of financial institutions.

Secured Debentures:

Akin to promissory notes, debentures are instruments for raising loan-term debt capital. Secured debentures are protected by a charge on the properties of the issuing company. While the secured debentures of well-established company do not evoke interest in investing public. Financial institutions also prefer to grant term loans rather than to subscribe to debenture issue.

Term loans:

Term loans which represent secured borrowings are presently the most important source of finance for new projects. They carry a fixed rate of interest and are payable over a period of 6-10 years in equal annual or semi-annual installments. Term loans are provided by banks, development financial institutions. Commercial banks are participating in term finance to supplement the efforts of financial institutions.

Deferred Credits:

Many a time the suppliers of machinery provide deferred credit facility under which payment for the purchase of machinery can be made over a period of time. The interest rate on deferred credit and the period of payment vary rather widely. Normally, the supplier of machinery when he offers deferred credit facility insists that bank guarantee should be furnished by the buyer.

Unsecured Loans:

Unsecured loans are typically provided by the promoters to fill the gap between the promoters' contribution required by financial institutions and the equity capital subscribed to by the promoters. These loans are subsidiary to institutional loans. The rate of interest chargeable on these loans is less than the rate of interest on the institutional loans. Finally, these loans cannot be taken back without the prior approval of financial institutions.

7.3. Determination of debt-equity ratio:

Norms and requirements:

Industrial financing in Bangladesh by commercial banks has been started in the early eighties in a large scale. The commercial banks normally finances in projects for short term along with its other short term programs. Due to weakness of Development Financial Institutions (DFI) of Bangladesh, the Government persuaded Nationalized Commercial Banks(NCB) to participate in long-term financing. Initially, the commercial banks started to finance in these sectors from the funds arranged from different donor agencies like, OPEC, ADB, & IDB etc. Thereafter, the commercial banks of Bangladesh allocated some of its fund for industrial financing.

The Debt-Equity Ratio of the financing projects was determined by the donor agencies. As per directives of the Government, the commercial banks were also determined debt-equity ratio for the projects funded from their own sources. While analyzing the guidelines of the donor agencies, it has been observed that somewhere it is 80:20 and somewhere it is 70:30 or 60:40.But no basis of determining this debt-equity ratio is found. The same is the case with commercial banks own sources of financing. However, the commercial banks now require that promoters contribute at least 40 percent of the cost of the project, against 20 percent that they required previously. This requirement is relaxed under the following conditions:

(i) location in a notified backward area,
(ii) 100 percent export oriented industries,
(iii) Promotion by a technocrat.

When one of these conditions is satisfied, the required contribution by promoters is reduced to 20 percent. For large projects involving substantial outlays, however, a more liberal view is taken and the above norms for promoters are not rigidly applied.

Stock Exchange Stipulation:
A Company, which seeks listing on a stock exchange, is required to offer at least 49 percent of its equity portion of the project. This means that the share of the promoters in equity capital is sought to be restricted to 14.50 percent of the cost of the project.

This restrictions, however, is relaxed in certain cases:

(i) In a project with foreign collaboration the promoters can hold up-to 60 percent of the equity capital.

(ii) For Foreign exchange regulation Act, Companies listing conditions are based on mutual negotiations.

Difficulty in Raising External Finance:
A new company often finds it difficult to raise finances from the public either in the form of equity capital or in the form of debt capital. Investors, in general, are hesitant to subscribe to the equity capital of a new company because of uncertainty characterizing its profitability and lack of knowledge about the intentions of management. Such hesitancy or aversion seems to be based on the rather lackluster performance of the bulk of the equity issues of new companies. Investors seem to be equally averse to the debenture issues of new firms interest rate on straight debenture seems unattractive and conversion feature of a convertible debenture, which does not have a proven equity behind it, lacks appeal.

Designing the Capital Structure

The promoters of a new company normally try to obtain as much of debt finance externally as they can. Further, they are interested in making their contribution to the project in the form of equity capital in order to exercise control and derive the benefits of ownership.

Given the above considerations and guidelines, the promoters, however, cannot pursue the twin objectives of maximizing external debt finance and maximizing their share of equity capital. If they seek to maximize the external debt component in total financing, then 40 percent of equity that they can subscribe to, given the stipulation of the stock exchanges which says that at least 49 percent of equity should offered to public.

7.4. Case Study on Equity Capital:

A case has been studied to find out how to determine the equity of an Industrial Project. The cost of the project, Means of Finance, Debt-Equity Ratio has been depicted from the case in the following manner :-

Cost of the Project:

Item	Equity	Bank Loan	Total
Land	345000	0	345000
Land Development	0	0	0
Building	1426000	0	1426000
Machinery	1824000	6227000	8051000
Machinery Installation	50000	0	50000
Furniture	10000	0	10000
Interest during construction period	0	438000	438000
Preliminary expenses	10000	0	10000
Others	150000	0	100000
Total Fixed Cost	3815000	6665000	10480000
Initial Working Capital	54000	450000	504000
Total Cost of the Project	3869000	7115000	10984000

Means of Finance:

	Term Loan	Working Capital Loan	Total
Equity	3815000	54000	3869000
Bank Loan	6665000	450000	7115000
	10480000	504000	10984000

Debt Equity Ratio : 65:35

While analysing the cost of the project, it has been observed that land, building, 23% of machinery cost, Machinery installation cost, Furniture, Preliminary expenses and lump sum amount of Tk. 1,50,000.00 totaling Tk. 38,15,000.00 shown as equity of the project.

The sources of this equity fund shown as land value which already exist for Tk. 3,45,000.00 cash 10,00,000.00, electrical equipment Tk. 5,00,000.00, ornaments Tk.2,00,000.00 and others Tk. 17,70,000.00. The Bank did not examine the value of this fund and also did not think about how to invest the money as equity from the electrical equipment and ornaments. Keeping this point in view, it is interesting to note that the sponsors may over invoice the price of machinery, and over cost of land and building from where they can divert the money and use as equity fund for the project.

If it is happened, what would be the fate of the project? The project would be cost over-run and the sponsors participation in the project will be negligible. As a result, the project will not be able to generate sufficient money to repay the loan and ultimately it would be a defaulter one.

To overcome this situation, a developed and pragmatic equity model for the industrial project may help to improve the situation as prevailing now.

Equity Model for Industrial Project.

Equity is needed for every type of company. If the company is established by the sponsors with their own financing, then the equity of the company would be 100%. If it needs bank financing, then the question arises, how much debt is required against how much equity? Now-a-days, a hue and cry is learnt among the intellectual and financial institution that the industrial projects are being financed with lower equity. As a result, the sponsors loosing their interest to involve themselves in managing the industrial projects. Properly and ultimately the projects are becoming sick leading to turning it into a default. This view and contention is not true. A survey result shows that both the projects with higher and lower equity are more or less same in term of repayment of loan. However, a standard method is needed for determination of equity in appraising and financing industrial projects in Bangladesh. For designing an equity model, the company is to be divided into two groups.

1) "Public Limited Company" and
2) "Other Company" which includes private limited company, proprietorship company, partnership and others.

Other Company:
The borrower to be selected primarily considering his character, capital, capacity, collateral and condition of the market. If it is acceptable then risk factors such as Supplies risk, Sales risk, Performance risk, Resilience risk, Management integrity risk, Security control risk and Security cover risk is to be measured. If these factors are acceptable to the banker, then the equity should be determined depending on the viability of the project.

An example of determining debt equity is given below :-

Suppose a man came to a banker with an amount of Tk. 50.00 lac and approached him to give a loan for installation of a mini diagnostic centre in Dhaka. Now question arises how a banker will determine project cost for sanctioning the project loan. Then the banker would consider the indicator and other risk factors together with Tk. 50,00,000/= as offered by the sponsor. On analyzing of all the risk factors it is observed that the sponsor coming up with the above mentioned amount of Taka i.e. Tk.50,00,000/= may be accorded with a project loan with minimum equity on the basis of risk coverage as analyzed earlier. Now as per practices of the bank if the lowest equity offer i.e. 20% is given to the man then naturally Tk. 50,00,000/= will stand for 20% equity.

i.e. 20% = 50,00,000.00

$$1\% = \frac{50,00,000.00}{20\%}$$

$$80\% = \frac{50,00,000 \text{ X } 80\%}{20\%}$$

= Tk.2,00,00,000.00

So the loan amount will be Tk. 20,00,000

Thus the total project cost would be Tk.2,00,00,000 + 50,00,000
= Tk.2,50,00,000

And Debt equity would be 80:20

On the basis of the total project cost and present market value of different component items required for the project the item-wise cost and their means of finance have been estimated as under :

Cost of the Project:

		Equity.	Bank Loan.	Total.
1.	Land	7,73,150	0	7,73,150
2.	Land Development	0	0	0
3.	Building	10,00,000	21,38,350	31,38,350
4.	Machinery	13,91,050	1,66,61,650	1,80,52,700
5.	Machinery Installation	1,12,800	0	1,12,800
6.	Tax, Duty & Vat	9,82,300	0	9,82,300
7.	Furniture & Fixture	23,500	0	23,500
8.	Preliminary expenses	23,500	0	23,500
9.	Others	3,93,700	0	3,93,700
	Fixed Cost of the project	47,00,000	1,88,00,000	2,35,00,000
	Initial Working Capital	3,00,000	12,00,000	15,00,000
	Total Cost of the Project	50,00,000	2,00,00,000	2,50,00,000

Means of Finance:

	Term Loan.	Working Capital.	Total.
Equity	47,00,000	3,00,000	50,00,000
Bank Loan	1,88,00,000	12,00,000	2,00,00,000
Total:	2,35,00,000	15,00,000	2,50,00,000

Debt Equity Ratio = 80:20

A mathematical model for determination of Debt-Equity leading to ultimate determination of project cost is given hereunder.

Suppose an intending entrepreneur came to a banker with an amount of Tk. 50,00,000/= and approach for a loan to establish a diagnostic centre in Dhaka. Now the banker primarily analyses the risk factors and if all the risks are covered then he may considers the entrepreneur's approach for sanctioning a loan in his favour with a minimum equity which is presently as per norms and practices of the bank is not lower than 20%. If the entrepreneur is offered with this 20% equity then it naturally means that Tk. 50,00,000/= will stand for 20%.

Now let X = percentage of equity and Y = cash available with the sponsor. Then X=

Now let X = percentage of equity and Y = cash available with the sponsor. Then X=Y i.e. equity 20% will be equal to cash available Tk. 50,00,000/=.

Naturally loan amount will be equal to (100% - 20%) = 80%. This may be symbolized i.e. loan amount determined after deducting equity portion of the sponsor with the total 100%. Therefore, the model can be formulated in the following manner :

$$Z = \frac{Y(1-X)}{X}$$

Where X = Percentage of equity
Y = Cash available with the sponsor
Z = Loan amount

Now the project cost could be as say P (Project cost)
= X + Z
i.e. P = X + Z

Where P = Project cost
X = Equity
Z = Loan amount.

The loan amount can be splitted into fixed cost and working capital cost portions, i.e. P = X + (FC + WC).

If the availability of cash with the sponsors increases or considering other factors, the percentage of equity will vary from one percentage to another percentage. Thus the loan amount and project cost will also vary with the increase or decrease of cash or equity percentage.

The checking of above devised formula may be done by putting imaginary figures.

Case I, X = 20%
Y = Tk.50,00,000.00
Z = Loan amount ?

$$Z = \frac{Y(1-X)}{X} = \frac{50.00.000\ (1-.20)}{.20}$$

= Tk. 2,00,00,000.00

The project cost would be P = X + Z = 50,00,000 + 2,00,00,000

$$= Tk.2,50,00,000$$

If the branch manager determine the equity as 30% then loan amount would be as under :-

$$Z = \frac{Y(1 - X)}{X} = \frac{50,00,000(1 - .30)}{.30}$$

$$= \frac{50,00,000 \times .70}{.30}$$

$$= 1,16,66,666.67$$

The project cost would be $P = X + Z$

$$= 50,00,000 + 1,16,66,666.67$$

$$= 1,66,66,666.67$$

Debt – Equity Ratio = 70:30

The sponsors will be advised by the bank manager to establish its project within the cost as determined above.

8. Problems of Repayment: Results of Field Survey of Selected Industries.

8.1. The Survey and Sample
8.2. The Results of the Survey
8.3. Case Studies
8.4. Repayment Performance of Industrial Credit sanctioned against fund received from foreign credit line.
8.5. Repayment Performance of special credit program credit guarantee scheme
8.6. Loan Recovery through Legal Actions.
8.7. Determination of standard time for credit approval
8.8. Results of comparative case studies
8.9. Standard Credit Management Process and Deviations in Commercial Banks
8.10. Root Causes of Indiscipline

8. Problems of Repayment: Results of Field Survey of Selected Industries.

8.1. Introduction.

To gain insights into the root causes of indiscipline developed in Industrial Credit management in commercial banks of Bangladesh both quantitative and qualitative techniques are used to measure the targeted regarding non-payment of loans. Qualitative techniques are used along with quantitative techniques is all interrelated, complementary manner. It helps to evaluate the factors of credit indiscipline to the objectives of the study.

Quantitative Analysis:

In the sample, it has been tried to obtain appropriate representation of the following factors:

1) Location
2) Size
3) Sector
4) Debt-Equity
5) Security
6) Interest waiver
7) Operational status
8) Legal environment
9) Profitability
10) Pricing

According to methodology, 1 good borrower's file was simultaneously studied with another 1 bad borrower's file. While studying both the files, it has been observed that maintenance of the files are not scientific. The data preserved in the files are maintained haphazardly and sometimes the facts are hidden. As a result, it is faced within complete look of information about the borrowers performance viz-a-viz the reasons of their non-repayment of loans.

After setting the objectives as to studying the issue, 110 industries had been selected for purpose. Thereafter a questionnaire was prepared to collect datas in this regard. The nationalized commercial banks viz. Sonali Bank, Janata Bank, Agrani Bank and the banks in the private sector who are involved in industrial financing such as BASIC Bank Ltd., IFIC Bank Ltd. were contacted and also discussed with the concerned authority for the purpose of collecting data. But it is surprising to note that the bank authorities specially Sonali Bank, Janata Bank and BASIC Bank Ltd. were very much reluctant to supply datas.

Lastly it is decided to collect data from Agrani Bank as because the authority of the bank was kind enough to provide with data for research purpose only.

In respect of repayment of loans it is revealed that the entrepreneur initially remains busy for sanctioning the loan and afterward they become disinterested to repay the loans. At he same time bank has got no scientific mechanism for recovery of the loan. I also observe that the bank, in true sense, only sanction the loans perhaps as per directives received from somewhere. They find pleasure in sanctioning the same. As regards to implementation and maintenance and recovery of loans no module or systems were found in the files. However, data was collected from the working papers which the bank used for decision making in respect of sanctioning, rescheduling and interest waiver. Out of these 110 samples, 55 projects were good and 55 projects were bad. The good and bad projects were classified according to the status of classification. Among the good projects 38 projects are located in Dhaka Division, 1 in Khulna Division. Out of these projects for 8 projects there was no data. However, 47 industries were considered for the study. Among the bad projects 36 projects are in Dhaka Division, 4 in Khulna Division, 7 in Chittagong Division, 7 in Rajshahi Division and no data was available for 5 projects. However, 54 bad projects were considered for study.

The questionnaires so designed were distributed among the officers working in the industrial credit department of Agrani Bank. But it is unfortunate that the Officers' failed to understand the gravity of the questionnaire and as a result data collection was not possible in a structured way. Consequent upon this, it was decided that data should be collected by studying files. While studying files, it is observed that the bank used to take decision in respect of sanctioning, implementation, monitoring, rescheduling and interest waiver in three phases.

Firstly, the concerned department at Head Office received applications alongwith other information from the branches through its Zonal and Circle Offices and after receipt of information, they prepared a paper which is commonly known as working paper.

As regard to data incorporated in the working papers of the bank, it is important to note that a format is used for working paper. But the information status varies from industry to industry in the working paper. The bank authority sets information in the working paper according to their need without maintaining any uniformity as to type of data. However, inspite of variation of datas for the sample industries necessary information has been procured from the working paper as available upto December 31, 2000.

As stated above working paper thus prepared are placed before a committee commonly known as 'Management Advisory Committee' (MAC) or Credit Committee for scrutiny and discussion.

Secondly the committee analyze the facts and figures incorporated in the working paper in a meeting and conduct a threadbare discussion on the matter. After reaching on a consensus on the matter, the committee either recommends or rejects the proposal on the basis of its potentiality. If recommended for sanction by the committee then the concerned authority placed the proposal to the sanctioning authority for onward sanction. Here the sanctioning authority may be line management or the Board of Directors of the bank.

Thirdly, after getting approval from the concerned authority, the sanction advice in the form of letter incorporating terms and conditions are issued to the applicant for onward implementation. Fourthly, the sponsor then start to implement the project. On completion of implementation, the project starts operation and run the same on commercial basis. Then monitoring as to repayment of installment starts. If the entrepreneur fails to repay the installments, then the question arises of rescheduling and interest waiver.

8.2. The Survey and Sample.

	No. of Samples	No. of Population
Good	55	66
Bad	55	150
Total:	110	216

Sample 110 is to be drawn from 216 population

No. of Credit Line : 7
No. of Sector : 12

Total number of industrial project was 216 in 7 categories, out of which 66 were good and 150 were bad. Considering the population size in normal. Total sample size was 400 out of this industrial credit sample size is 110. Now we have to choose sample 110 out of 216, for that we have applied ratio analysis method.

Here total number of population N=216 and total number of sample size n=110 so required number of sample size in any project line would be = No. of population size in desired

project X $\frac{n}{N}$

e.g. : Suppose we want to find the sample size in project serial No.4, then the required

$$\text{sample} = \frac{19 \text{ X } 110}{216}$$

$$= 9.67$$

$$= 10$$

Ratio of project according to credit line

Sl.No.of Project	Total No. of Project	Sample Size		Sample as per Ratio of Total	Sample Size	
		Good	Bad		Good	Bad
1	1	0	1	1	0	1
2	4	0	4	2	0	2
3	8	1	7	4	1	3
4	19	5	14	10	5	5
5	181	60	121	91	45	46
6	1	0	1	1	0	1
7	2	0	2	1	0	1
	216	66	150	110	51	59

Name of Credit Line	No.of Project	Good Project	Bad Project
1. IDA Credit	1	Nil	1.Standard Sponge & Rubber Industries, Bogra.
2. ADB Credit	2	Nil	1.Fatullah Fabrics Industries Ltd. Fatullah, Narayanganj. 2.Dinajpur Charcoal & Auto Bricks, Dinajpur.
3. EXIM Bank Credit	4	1.Gouri Dyeing & Finishing, Rupganj, Dhaka.	1.Poly Fabrics Ltd., Dhaka. 2.East Asia Steel Mills Ltd.Dhaka. 3.Rajdhani Steel Products, Muktarpur, Munshiganj.
4. OPEC Credit	10	1.Crystal Embroderies Ltd., Dhaka 2. Sandiana Sweaters Ltd. Dhaka. 3. Sunrise Chemical Industries, Dhaka. 4. Nittex Industris Ltd., Dhaka. 5. Holy Fabrics, Narayanganj.	1.Tabani Beverage Co.Ltd.Bogra 2.Wonder Apparels Ltd.Dhaka. 3.Unik Wire Products Ltd.Dhaka 4.Shymrock Knitwear Ltd.Dhaka 5.Peoples Glass Industries Ltd. Gazipur.
5. Bank's Own Source	91	1.Zalani Shilpa Ltd. Faridpur 2.Sonargaon Textile Mills Ltd.,Dhaka. 3.HN Shoe Ltd. Dhaka 4.Zali Shilpa Ltd.(Garments),Dhaka 5.Shah Dyeing & Finishing Ltd.Dhaka. 6.M.Hossain Garments Ltd.,	1.MTB Holding, Dhaka. 2.Meghna Textile Mills Ltd. Dhaka. 3.Gulbahar Himagar Ltd. Chandpur. 4.August Apparels Ltd. Dhaka. 5.Vega Sweaters Ltd. Dhaka. 6.Anglo Asian Knit Fabrics Ltd. Dhaka. 7.JNG Fashions Fabrics Ltd. Dhaka. 8.Manden Knittex Ltd.,Dhaka. 9.Promiment Fashions Ltd. Dhaka.

		Dhaka. 7.Sikder Food & Industries Co.Ltd. Narayanganj. 8.Jass Leather Inds.Ltd. Dhaka. 9.Ashmina Fabrics Ltd. Dhaka. 10.Quasem Lamps Ltd. Gazipur.	10.The National Engineers Ltd. Dhaka. 11.Bengal Carbide Ltd.Unit-2 or Olympic Dhaka. 12.Udayan Corporation,Dhaka

Name of Credit Line	No.of Project	Good Project	Bad Project
5.Bank's Own Source	91	11.Tairunnessa Memorial Medical Gazipur 12.Technoheavgen Industries Ltd., Dhaka. 13.Koli Cyramics Ltd. Gazipur 14.Gamatech Ltd. Chittagong. 15.M&H Co.Ltd. Dhaka 16.Hotel Super Star Ltd. Dhaka. 17.Purbachal Himagar Ltd. Kishoregonj. 18.Alumina Ltd.Dhaka 19.Shimulware Ltd. Dhaka. 20.Arch Ltd. Dhaka. 21.Max Super Apparels Ltd. Dhaka. 22.Sonar Cotton Mills Ltd. Chittagong. 23.Anmon Packages Ltd., Dhaka. 24.Moona Food Industries Ltd.Dhaka. 25.Dessin Knitwears Ltd. Dhaka 26.Lamia Fashions Ltd. Dhaka. 27.Bengal River Service Ltd. N.Gonj. 28.Rainbow Fabrics Ltd. N.Gonj. 29.Bright Cotton Mills Ltd. N.Gonj. 30.Crown Twisting Ind.Ltd. Munshiganj. 31.Sunflower Cold Storage Ltd. Munshiganj	13.Sulekha Chemicals Ltd. Dhaka. 14.Fortune Zippers Ltd. Dhaka. 15.Hamim Pvt. Ltd., Dhaka. 16.Zemini Textiles Ltd. Kishoregonj. 17.Khanpura Textile Ltd. Faridpur. 18.Rahil Knitwears Ltd. Dhaka 19.Lark Poultry Farm Ltd. Dhaka. 20.Farmland Heavy Engineering Ltd. Dhaka. 21.Knight Dyeing Industries Ltd. Dhaka. 22.Expodress Ltd. Dhaka. 23.Hasina Textile & Printing Mills, Dhaka. 24.Oasis Pvt. Ltd., Dhaka. 25.Saint Martin Fashions Ltd. Dhaka. 26.AFM Sweaters Ltd. Dhaka. 27.Paramount Tanneries,Dhaka. 28.Rainbow Dyeing & Finishing Mills, Dhaka. 29.Tartex Industries Ltd.Gazipur 30.Rahman Chemicals, Bogra 31.Shah Moghdumia Cold Storage Ltd. Pabna. 32.Rupali Seafood Ltd. Khulna 33.Jalabad Fish Processing Plant Ltd., Sylhet. 34.Sundarban Fish Processing Plant Ltd. Satkhira, Khulna. 35.Ahmed Food Industries Ltd. Noakhali. 36.Bangladesh China Chain Industries, Feni. 37.Kokil Textiles Mills Ltd. B.Baria

Name of Credit Line	No.of Project	Good Project	Bad Project
5.Bank's Own Source	91	32.Tedditoy Ind.Ltd. Gazipur. 33.Zahanabad Salt Industries Khulna. 34.Bangladesh Steel Re-rolling Mills Chittagong. 35.Chittagong Modern Ice and Cold Chittagong. 36.KDS Cotton Polythread Inds.Ltd. 37.Pacific Zeans Ltd. Chittagong. 38.Krishan Knitting Ltd. Chittagong. 39.Conception Seafood Ltd. Cox's Bazar Chittagong. 40.Bangladesh Electric Meter, Chittagong. 41.Bright Steel Warerope Mfg.Ltd. Chittagong.	38.Kurigram Textile Mills Kurigram. 39.Biswas Cold Storage Ltd. Natore 40.Bengal Polytex Ltd. Barisal. 41.Madina Nou Paribahan Chandpur. 42.Bengal Textiles Mills Ltd. Jessore. 43.Diamond Cement Industries Ltd. Chittagong.

Credit Guarantee Scheme: 1 Nafiu Food and Acquaculture Kishoreganj.

Small Engineering Credit: 1
1. BSCIC, Khulna.
2. BSCIC, Jessore

8.3. The results of the Survey.

The output of the analysis has been desired out from the information as incorporated in the questionnaire. Though this analysis we tried to find out the repayment performance in respect of location, size, sector, security, interest waiver, operational status, legal environment, profitability of the project and pricing also. Throughout these analysis the sampling projects had been selected on the basis of their classification status as Good projects and Bad projects.

The operational status of the project is discussed in two parts. In the first part the good projects under a sector is studied with bad projects of the same sector on the other hand, in the second part, we tried to find out management problem, capacity utilization, profits etc.

Repayment and Performance.

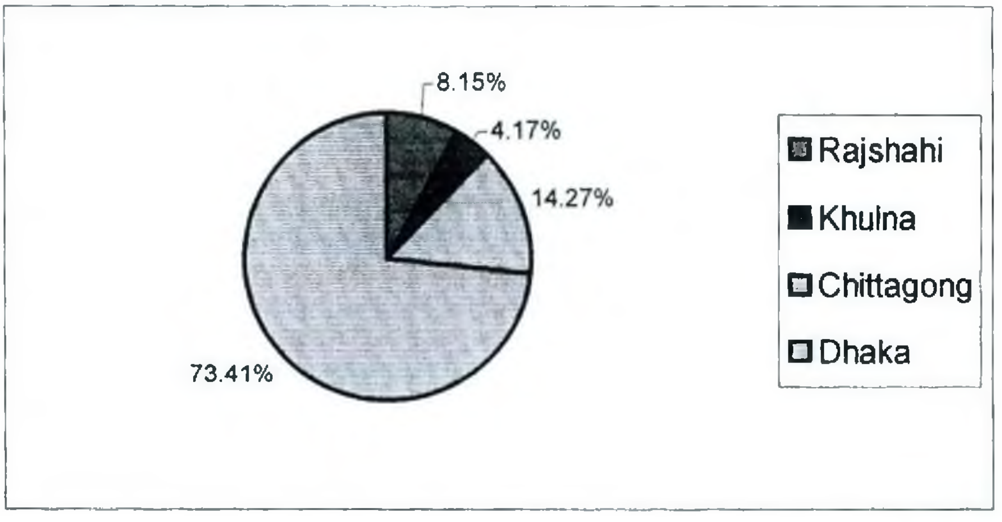
As regards repayment and performance of the projects, the sampling projects have been divided into two groups i.e. Good Projects and Bad Projects. This type of classification has been done on the basis of loan classification status of the bank. The classification procedures clearly identify the projects as good and bad. The repayment and performance of the projects have been shown against good and bad projects.

Repayment in Relation to Location.

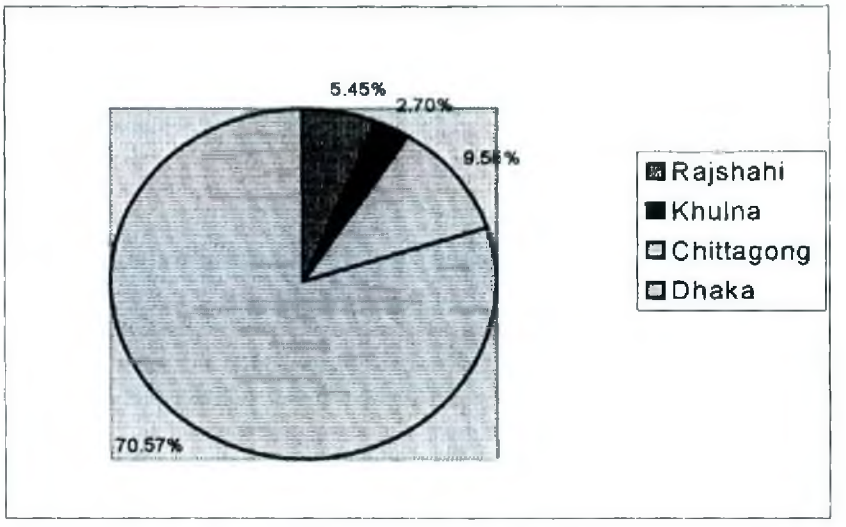
While analysing the sample projects, it has been observed that the bank has sanctioned Tk.18015.01 lacs in the four divisions viz. Dhaka, Chittagong, Khulna & Rajshahi. The share of Dhaka Division is 73.41%, Chittagong Division 14.27%, Khulna Division 4.17% & Rajshahi Division 8.15%. Out of these, the amount fallen due for recovery is 70.57%, 9.55%, 2.70% & 5.45% respectively. The recovery as against disbursement in Dhaka Division is 27.21%. Chittagong Division 15.63%, Khulna Division 12.31% & Rajshahi Division 9.35% respectively.

The average recovery is 23.81% which is much lower than cumulative national recovery about 35% in the industrial credit. The average outstanding is about 110.96% while that in Dhaka Division is 112.55%, Chittagong Division 112.51%, Khulna Division 75.97% and Rajshahi Division is 107.03%. The outstanding amount sometime reaches above 100%. It is probably due to charging of the interest by the banks in every quarter of a year though the repayment schedule is prepared on half-yearly basis including both principal and interest. The classified amount stands at 55.79%. This huge amount of classified loan is debarring the bank from earning income.

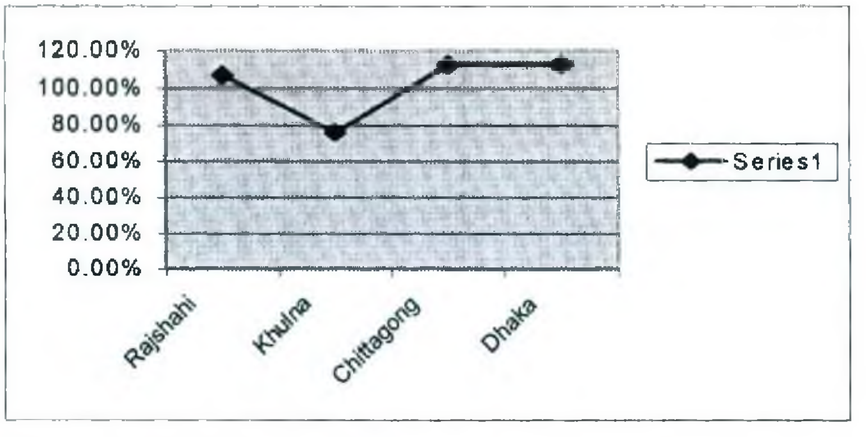
Share of loans in four divisions.



Overdue amount in four divisions

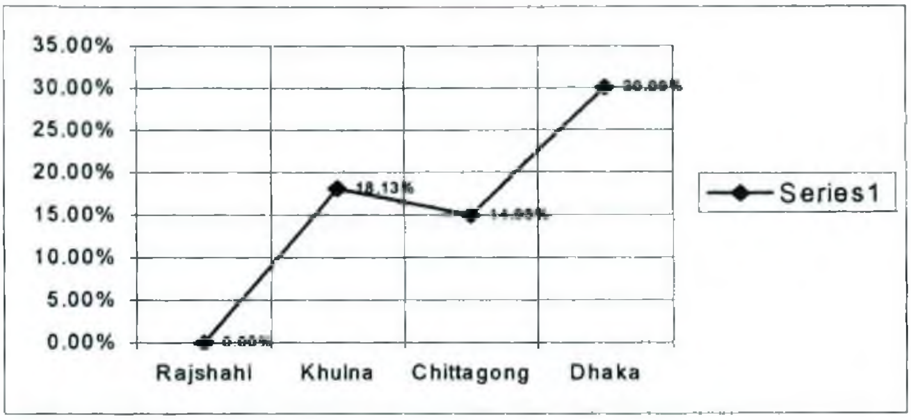


Outstanding amount in four divisions

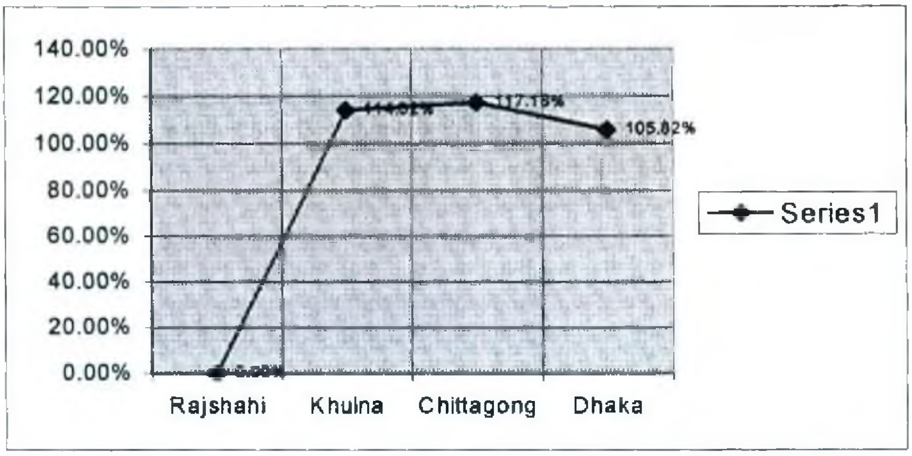


Now if we loan at the table showing repayment and performace of good projects, it will be observed that the rate of average recovery is 26.73% only. The recovery of Dhaka Division is about 30.09%, while that of Chittagong Division is 14.93%, Khulna Division is 18.13%. On the other hand there is no good projects in Rajshahi Division. The rate of outstanding in respect of good projects is about 108.33%. But the significant indication relating to good projects is that the classification of loans lowered to 36.55%.

Recovery of good projects in four divisions

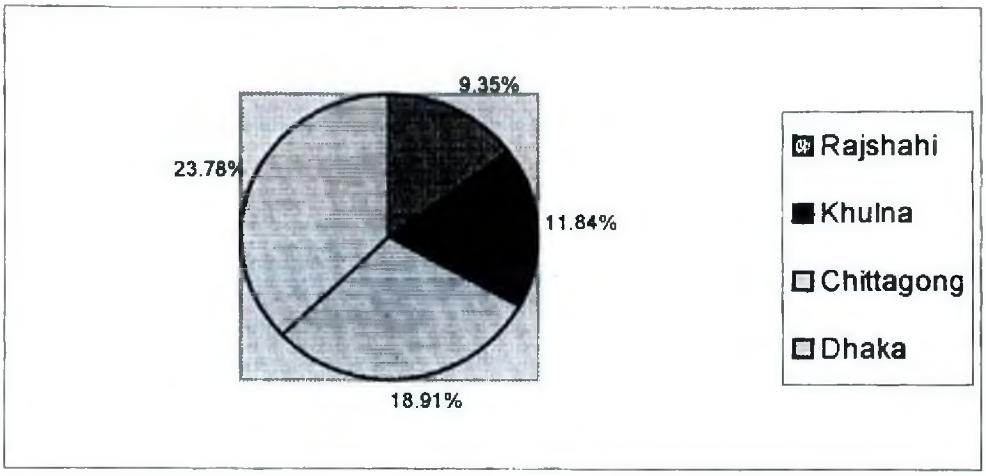


Outstanding as percentage of disbursed amount in good projects

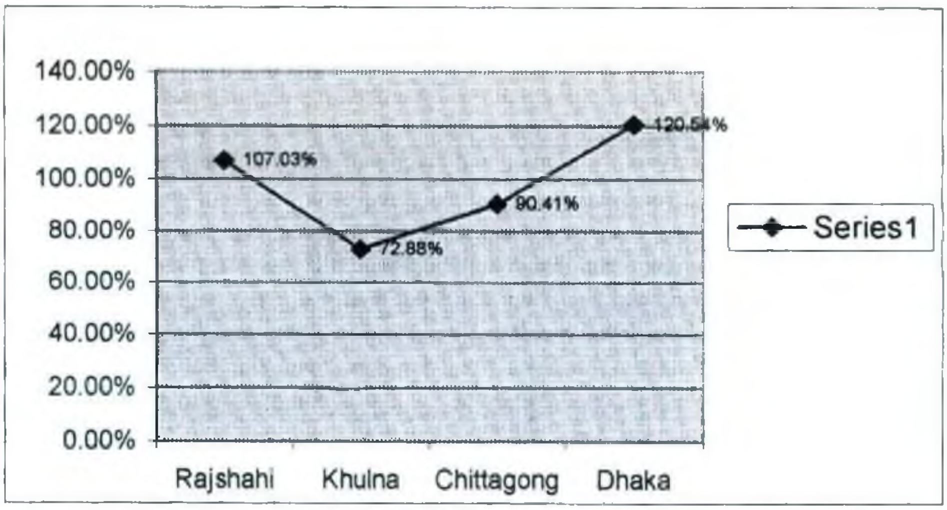


On the other hand the rate of average recovery of Bad Projects is 23.81% while that in Dhaka Division is 23.78%, Chittagong Division 18.91%, Khulna Division 11.84% and Rajshahi Division is 9.35%. It is interesting to note that the average recovery rate both in good and bad projects are almost same i.e. 26.73% and 23.81%. But the average classification rate under bad project is about 55.79%. But it classification of individual division is considered it is same. It may be mentioned here that 100% loan of Khulna Division is classified out of which only 11.84% has been recovered. So it is inferred that the recovery has shown against rescheduling of the loan cases.

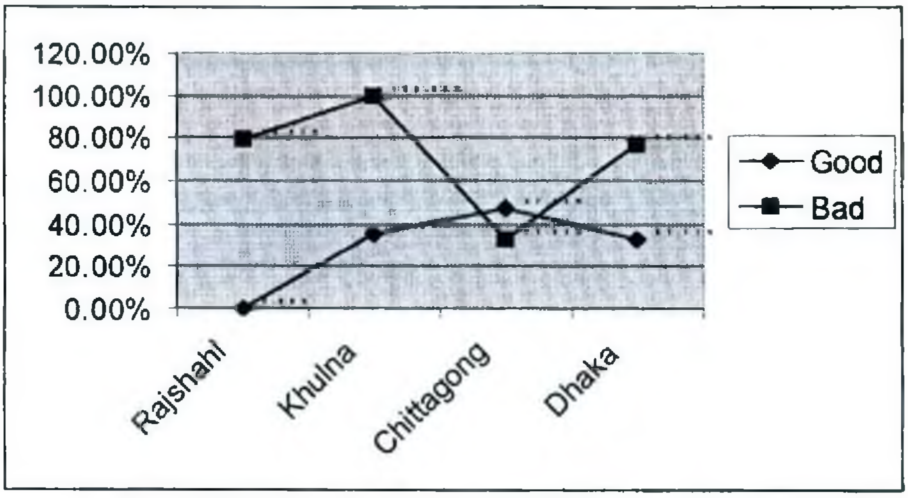
Recovery of bad projects in four divisions



Outstanding as percentage of disbursed amount in bad projects in four divisions



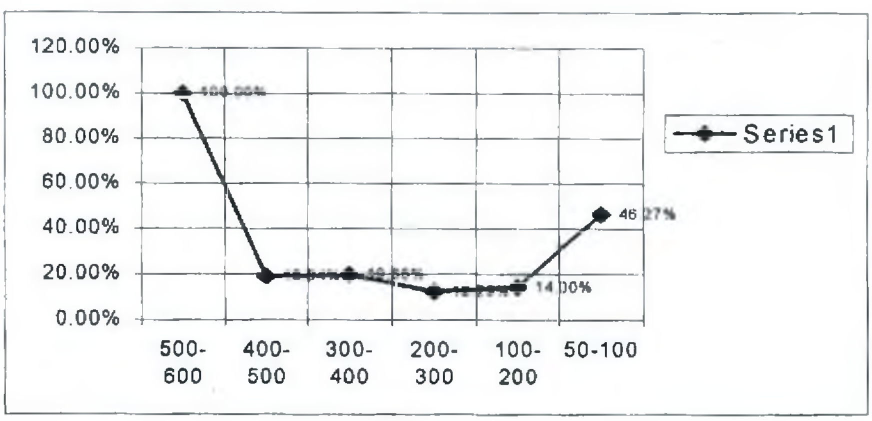
Classification of good and bad projects in four divisions



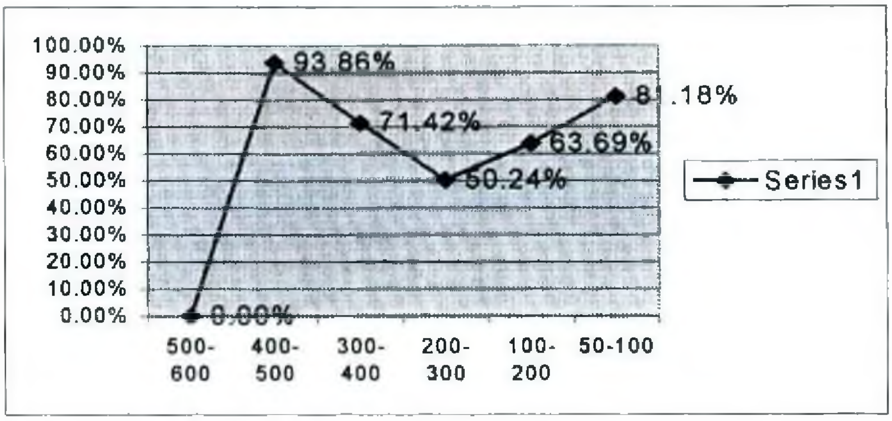
Loan size-wise Repayment and Performance.

With a view to analyze the recovery performance of industrial credit in respect of its size, loan have been grouped under 50-100 lacs, 100-200 lacs, 200-300 lacs, 300-400 lacs, 400-500 lacs and 500-600 lacs respectively. The recovery rate is considered against the amount disbursed. The recovery rates of loan grouped under 50-100 lacs, 100-200 lacs, 200-300 lacs, 300-400 lacs, 400-500 lacs and 500-600 lacs are 46.27%, 14.00%, 12.29%, 19.65%, 18.94% and 100% respectively.

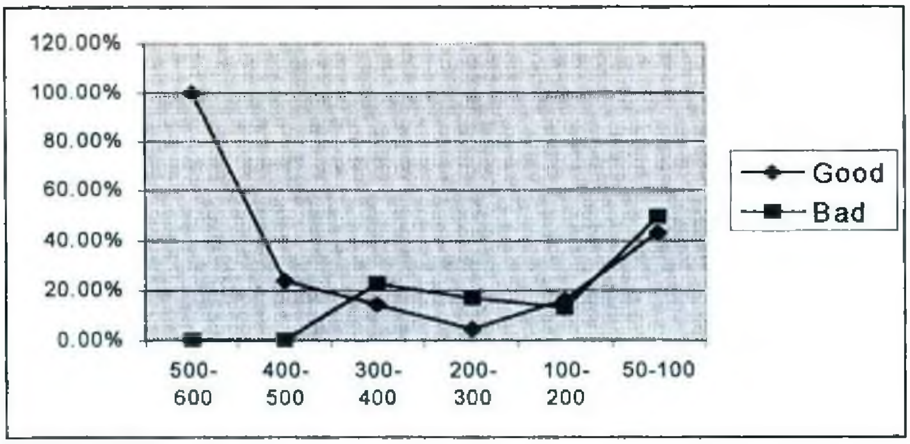
Loan sizewise recovery



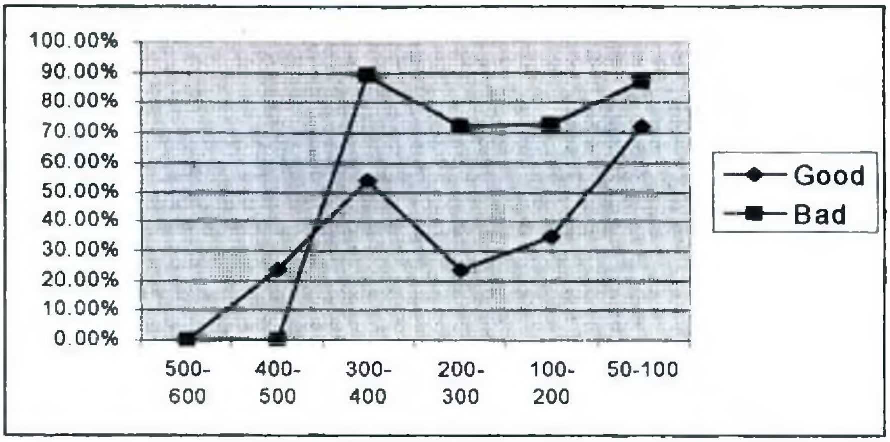
Loan sizewise classification status



Sizewise recovery of good and bad projects



Sizewise classification status of good and bad projects



It is marked that the rate of recovery of industrial credit ranked in between 500-600 lacs is 100% which is first in ranking amongst the all.

The rate of recovery against the loans ranging in between 50-100 lacs, 300-400 lacs, 400-500 lacs, 100-200 lacs & 200-300 lacs stand as second, third, fourth, fifth & sixth respectively.

While analyzing the data under review, it is observed that the comparatively bigger project's recovery is higher in comparison with smaller ones. Though the sample cases under the smaller projects is the second highest in respect of recovery, it is inferred that in both the cases the recovery rate increased to 100% and 46.27% by rescheduling of the projects. By analyzing the classification status of the projects it has been observed that the rate of classification of loan ranging in between 50-100 lacs is 81.18% against of which the rate of recovery is 46.27%. On the other side the 19.65% rate of recovery carries the classification status at 71.27%. The rates of classification as to the loan ranging from 100-200 lacs, 200-300 lacs and 400-500 lacs are 63.69%, 50.24% and 33.86% respectively. What does it mean by this picture of classification status? It means that the bank has shown its recovery rate from the date of its disbursement to the date of data collection i.e. 31-12-2000 by rescheduling and interest waiving of the loans.

In some cases, the recovery has shown by rescheduling the loan two to three times. When the loan is rescheduled for the first time, then it is declassified. And again it falls under the category of classification if the conditions imposed earlier for rescheduling are not fulfilled. It is therefore, may be inferred that the bank did not reschedule the loan on the basis of its viability. This is why the rate of classification is gradually increasing though some amount is also being recovered through rescheduling.

When the projects are segregated into good and bad as per criteria of classification it is observed that the good projects average recovery rate against disbursement is 28.18% and that of the bad projects is 21.87%. The comparative recovery position of good projects and bad projects are as under :-

(Tk. In Lac)

SIZE	GOOD	BAD
50-100	42.87	49.33
100-200	16.16	13.01
200-300	4.78	16.78
300-400	14.04	22.57
400-500	23.74	0
500-600	100	0

Source: Sample survey.

The classification status of the Good and Bad projects against outstanding position is as under :-

SIZE	GOOD	BAD
50-100	72.04	87.43
100-200	34.70	72.99
200-300	23.55	72.00
300-400	54.14	89.31
400-500	23.72	N.A.
500-600	0	N.A.
Average	31.87	75.57

Source: Sample survey.

The classification rate of bad projects is about 76.57% as against 31.87% of good projects. But the recovery rate of bad project 21.87% while that of good projects is 28.18%.

In Chittagong Division loan ranging from 50-100 lacs & 200-300 were disbursed while in Khulna Division only ranging from 50-100 lacs were disbursed. Loan as per sample under review was not found in Rajshahi Division. While peeping into the data, it is observed that the average recovery of good loans is about 32-30% and that of Bad Projects is 89.95%. The higher recovery of Bad Loans was only due to rescheduling of loans. Though recovery has shown higher than that of good loan sizewise recovery as percentage against disbursement, it has been observed that all the sizes of loan under review have been disbursed in Dhaka Division. In Chittagong Division rete of classification of the bad projects is higher than that of good projects which is 80%. It indicates that recovery has been made on rescheduling at a closing day of the year. That is why after opening of the new year the same has fallen under the category of classified loans.

Table-22

21L

31-12-2000 Tk. in Lac

Loan Size Wise Statement

Good Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recovered Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	1,643.35	1,546.13	2,970.00	662.80	1,019.76	1,415.56	40.33	42.87	86.14	91.56	72.04
100-200	971.30	970.45	714.00	156.86	291.12	838.89	16.15	16.16	86.37	86.44	34.70
200-300	737.05	737.05	329.33	35.21	294.12	1,248.69	4.78	4.78	169.42	169.42	23.55
300-400	1,063.26	1,057.13	1,222.68	148.46	1,074.19	1,984.01	13.96	14.04	186.60	187.68	54.14
400-500	4,687.77	4,239.19	1,962.48	1,006.20	1,029.40	4,339.79	21.46	23.74	92.58	102.37	23.72
500-600	556.92	556.92	556.92	556.92	-	-					
	9,106.87	7,755.41	2,566.45	3,708.59	9,826.94	26.57	28.18	120.45	#REF!	127.76	31.87

Bad Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	1,858.51	1,717.29	2,167.64	847.06	1,809.97	2,070.24	45.58	49.33	111.39	120.55	87.43
100-200	2,184.66	2,125.86	1,869.43	276.57	1,809.59	2,614.91	12.66	13.01	119.69	120.55	72.99
200-300	1,726.92	1,232.23	1,312.61	206.78	1,105.83	1,535.94	11.97	16.78	88.94	123.00	72.00
300-400	1,730.40	2,027.93	2,181.17	457.77	1,711.25	1,916.07	86.45	22.57	110.73	124.65	89.31
400-500	1,133.47	1,073.65	1,030.49		1,030.49	1,744.41				94.48	
500-600											
	8,633.96	8,176.96	8,561.34	1,788.18	7,467.13	9,881.57	20.71	21.87	114.45	12,085.00	76.57

Total

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	3,501.86	3,263.42	5,137.64	1,509.86	2,829.73	3,485.80	43.12	46.27	99.45	106.81	81.18
100-200	3,155.96	3,096.31	2,583.43	433.43	2,199.71	3,453.80	13.73	14.00	109.44	111.55	63.69
200-300	2,463.97	1,969.28	1,641.94	241.99	1,399.95	2,784.63	9.82	12.29	113.01	141.40	50.24
300-400	1,793.66	3,085.06	3,403.85	606.23	2,785.44	3,900.08	33.80	19.65	217.44	126.42	71.42
400-500	5,821.24	5,312.84	2,992.97	1,006.20	2,059.89	6,084.20	17.28	18.94	104.52	114.52	93.86
500-600	556.92	556.92	556.92	556.92	-	-	100.00	100.00	-	-	-
	17,293.61	17,283.83	16,316.75	4,354.83	11,274.72	19,708.51	25.18	25.19	124.42	124.43	52.40

Source: Sample Survey

Table-23

31-12-2000 Tk-in Lac

Loan Size Wise Statement

Dhaka Division (Good Project)

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	1,514.75	1,430.90	2,875.43	610.43	972.54	1,310.77	40.30	42.66	86.53	91.60	74.20
100-200	971.30	970.45	714.00	156.86	291.12	838.89	16.15	16.16	86.37	86.44	94.70
200-300	737.05	737.05	329.33	35.21	294.12	1,248.69	4.78	4.78	169.42	169.42	23.55
300-400	723.26	717.13	727.65	96.46	631.16	1,111.17	13.34	13.45	153.63	154.95	56.80
400-500	2,975.72	2,527.14	1,029.37	785.48	317.01	2,729.54	26.40	31.08	93.41	109.99	11.41
500-600	556.92	556.92	556.92	556.92	-	-	100.00	-	-	-	-
	7,479.00	**6,939.59**	**6,233.70**	**2,241.36**	**2,505.95**	**7,289.06**	**29.97**	**32.30**	**97.46**	105.04	94.36

Bad Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	992.59	992.59	1,622.79	655.49	1,275.69	1594.25	66.04	66.04		160.62	80.02
100-200	1,880.42	1,880.74	1,818.65	253.35	1,587.27	2,293.59	13.47	13.47		121.97	69.02
200-300	1,360.26	865.57	1,150.58	152.90	997.68	1,203.82	11.24	17.66	88.50	139.08	82.87
300-400	379.26	1,676.79	2,134.76	450.25	1,672.36	1,877.18	118.72	26.85	494.96	111.95	89.09
400-500	412.47	412.47	348.03	-	348.03	661.52	-	-	160.38	160.38	52.61
500-600	-	-	-	-	-	-	-	-	-	-	-
	5,025.00	5,828.16	7,074.81	1,511.99	5,881.03	7,630.36	30.90	25.94	151.84	130.92	-

Source: Sample Survey

Table-24

31-12-2000 Tk - in Lac

Loan Size Wise Statement

Chittagong Division Good Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	70.50	70.50	74.02	44.26	29.26	53.79	62.78	62.78	76.30	76.30	54.40
100-200											
200-300											
300-400	340.00	340.00	495.03	52.00	443.03	872.84	15.29	15.29	256.72	256.72	50.76
400-500	1,712.05	1,712.05	933.11	220.72	712.39	1,560.25	12.89	12.89	91.13	91.13	45.66
500-600											
	2,122.55	2,122.55	1,502.16	316.98	1,184.68	2,486.88	14.93	14.93	117.15	117.16	47.64

Bad Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	82.00	82.00	56.87	30.94	25.93	73.83	37.73	37.73	90.04	90.04	35.12
100-200											
200-300	366.66	366.66	162.03	53.88	108.15	332.12	14.69	14.69	90.58	90.58	32.56
300-400											
400-500											
500-600											
	448.66	448.66	218.90	84.82	134.08	405.95	18.91	18.91	90.48	90.48	33.03

Total

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding

Source: Sample Survey

Table-25

31-12-2000 Tk in Lac

Loansize Wise Statement

Khulna Division Good Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	58.10	44.73	19.55	8.11	17.96	51.00	13.96	18.13	87.78	114.02	35.22
100-200											
100-200											
200-300											
300-400											
400-500											
500-600	58.10	44.73	19.55	8.11	17.96	51.00	13.96	18.13	87.78		

Khulna Division Bad Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	692.92	551.78	467.49	65.33	402.16	9.43	11.84	58.04	72.88	100	
100-200											
200-300	..										
300-400	.										
400-500	.										
500-600	.										

Source: Sample survey

Table-26

31-12-2000 Tk in Lac

Loan Size Wise Statement

Rajshahi Division (Good Project) NIL

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100											
100-200											
200-300											
300-400											
400-500											
500-600											
	-	-	-	-	-						

Bad Project

Loan Size	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
50-100	91.00	90.92	201.49	95.30	106.19		104.73	104.81			
100-200	304.24	245.12	50.78	23.22	321.32	321.32	7.63	9.47	105.61	131.09	100.00
200-300											
300-400	351.14	351.14	46.41	7.52	38.89	38.89	2.14	2.14	11.08	11.08	100.00
400-500	721.00	661.14	46.41		682.46	1,082.89			150.19	163.78	59.33
500-600											
	1,467.38	1,348.32	345.09	126.04	1,148.86	1,443.10	8.59	9.35	98.35	107.03	79.61

Source: Sample Survey

31-12-2000

RECOVERY CLASSIFIED Tk in lac.

SIZE	DHAKA		CHITTAGONG		KHULNA		RAJSHAHI		DHAKA		CHITTAGONG		KHULNA		RAJSHAHI	
	Good	Bad	Good	Bad	Good	Bad	Good	Bad	Good	Bad	Good	Bad	Good	Bad	Good	Bad
50-100	42.66	66.04	62.78	37.73	18.13	11.84	0	0	74.20	80.02	54.40	25.12	35.22	100	0	0
100-200	16.16	13.47	0	0	0	0	0	0	34.70	69.02	0	0	0	0	0	0
200-300	4.78	17.66	0	14.69	0	0	0	0	23.55	82.88	0	32.56	0	0	0	0
300-400	13.45	28.85	15.29	0	0	0	0	0	56.80	89.09	50.76	0	0	0	0	0
400-500	31.08	0	12.89	0	0	0	0	0	11.41	52.61	45.66	0	0	0	0	0
500-600	100	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Av.	32.30	55.95	14.83	18.91					34.30	0	47.64	33.03				

Source: Sample survey.

Repayment and Performance: Sectoral Repayment.

The repayment of the sample projects by sectors is shown in Table- , where the total number of projects is rearranged by 15 sectors and by two groups such as good projects and bad projects. The good and bad projects are determined on the basis of classification rule that is being followed by commercial banks. Out of these 15 sectors, no data is available in 4 sectors viz. Jute Spinning and Weaving, Forest and allied industries, Cement Industries and Printing & Stationary.

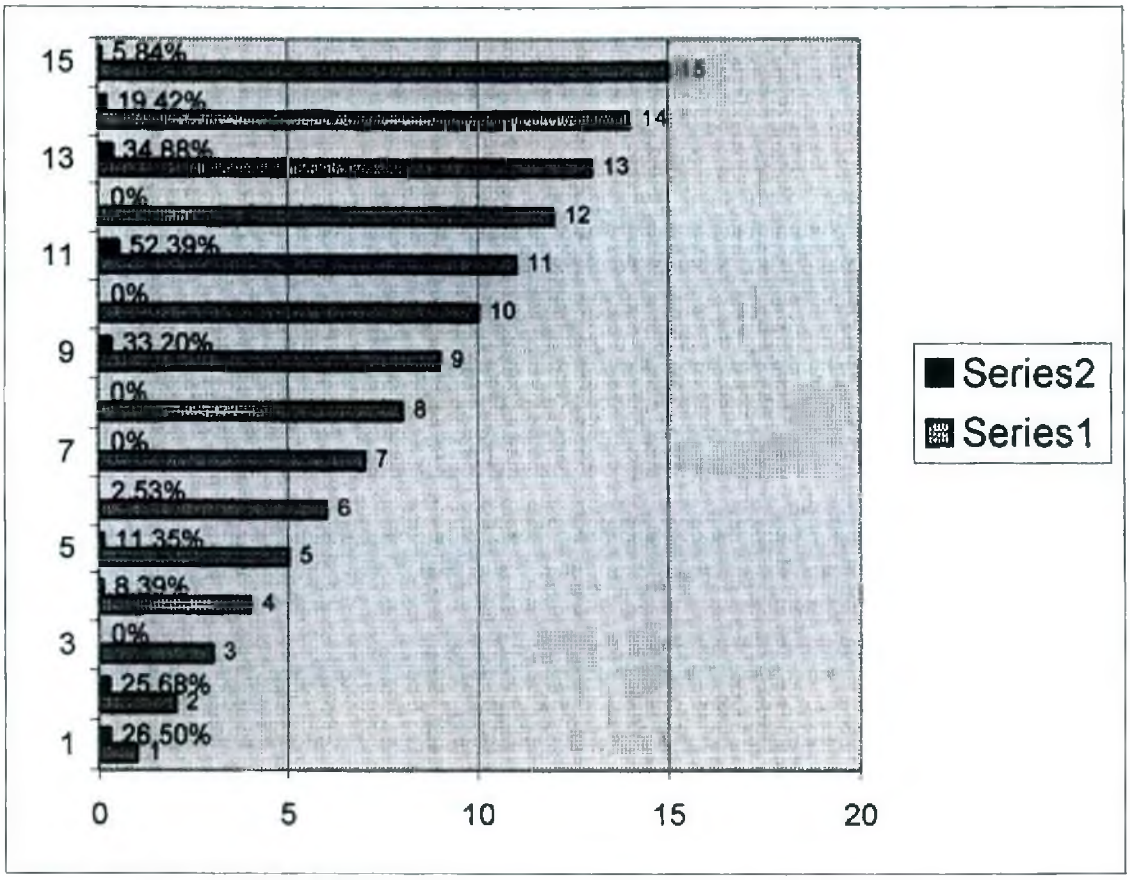
Due to this concentration of sample projects in few sectors, a direct review and ranking of sectors by repayment may not be appropriate. Keeping this point in mind, it has been attempted to make a rough ranking of sectors.

While analyzing the total sectors of the projects under sample survey, it is observed that the average recovery against recoverable amount is 30.16%. The recovery rate against disbursement is above 30% as found in three sectors i.e. Ceramics Industries, Leather and Leather goods Industries and Engineering & Electronics Industries sectors. The recovery rate in Ceramics Industries is 33.20%, while that of Leather and Leather goods Industries is 52.39% and in Engineering & Electronics Industries is 34.88%. The classification rates of these sectors are 100%, 55.32%, and 78.21% respectively. It means that the bank has rescheduled the loans in these sectors and shown the cumulative recovery in their books of accounts by taking the unrealized amount into the income account.

10% repayment performance is considered as very poor i.e. below the recovery rate. There are three sectors falls under this category i.e. Agro-based industries, Pharmaceuticals and Chemical Industries and others. The recovery rate in these sectors are 8.39%, 2.53% and 5.84% respectively. The classification rate in these sectors are 15.95%, 85.41% and 26.80% respectively showing that where the recovery is higher, classification status would be lower. But in sample cases, it is seen that the recovery rate is 8.39% against 15.5% of classification which gives contradictory result. In the case of Textile and Ready-made garments sector, it has been observed that the recovery rate against disbursement is 26.50% and 25.68%. The average recovery of industrial credits in Agrani Bank is about 31.16%. This recovery rate in these sectors are behind the average recovery. While considering the classification status of Textile and readymade garments, it is seen that 41.95% is classified in Textile Sector and 60.87% is classified in ready-made garments sector while outstanding as disbursement in these sectors are 123.31% and 104.74% respectively.

While reviewing the sector-wise recovery of loans, it has been observed that no sectors have repaid their loans upto satisfactory repayment performance. However, it is distinguished with poor repayment records. The very poor repayment records i.e. 0 to 10% in Pharmaceuticals, Agro-based Industries, and others (which is not specified). The poor repayment records i.e. from 11% to 25% in Cold Storage and Engineering & Electronics. The recovery rate from 25% to 50% may be termed as good in respect of recovery in the context of Bangladesh. These sectors include Ready-made Garments, Textile except readymade garments, Ceramics, Engineering & Electronics Industries. The above noted 50% rate of recovery is only applicable in case of Leather and Leather goods which is about 52.39% as against its 55.32% classification rate.

Repayment and performance: Sectorwise recovery against disbursement



1.Textile except RMG, 2. Readymade Garments, 3. Jute Spinning & Weaving, 4. Agrobased Industries, 5. Cold Storage, 6. Pharmaceuticals, 7. Forest and Allied Industries, 8. Cement Industries, 9. Cyramic Industries, 10. Paper Industries, 11. Leather & Leather goods, 12. Printing & Stationary, 13. Engineering & Electronics, 14. Food & Allied, 15. Others.

Table-28

Repayment Performance (31-12-2000)

Sector Wise Statement

Tk in Lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	4,493.32	4,390.18	2,410.59	1,163.44	2,270.77	5,413.38	25.89%	26.50%	120.48	123.31	41.95
2	Ready Made Garments	6,694.68	6,286.85	5,854.48	1,614.59	4,008.48	6,585.03	24.12%	25.68%	98.36	104.74	60.87
3	Jute Spinning & Weaving	-	-	-	-	-	-	-	-	-	-	-
4	Agrobased Industries	53.17	53.17	13.32	4.46	8.86	55.56	8.39%	8.39%	104.50	104.50	15.95
5	Cold Storage	2,058.04	1,939.10	1,270.65	220.14	1,344.27	2,618.19	10.70%	11.35%	127.22	135.02	51.34
6	Pharmaceuticals	819.49	793.20	384.87	20.14	364.73	427.04	2.46%	2.53%	52.11	53.84	85.41
7	Forest and Allied Industries	-	-	-	-	-	-	-	-	-	-	-
8	Cement Industries	-	-	-	-	-	-	-	-	-	-	-
9	Ceramics Industries	50.00	50.00	100.45	16.60	83.85	83.85	33.20%	33.20%	167.70	167.70	100.00
10	Paper Industries	-	-	-	-	-	-	-	-	-	-	-
11	Leather & Leather Goods	1,108.72	1,108.72	961.24	580.89	402.32	727.30	52.39%	52.39%	65.60	65.60	55.32
12	Printing & Stationary	-	-	-	-	-	-	-	-	-	-	-
13	Engineering & Electronics	1,211.55	1,211.55	2,073.70	422.60	1,650.60	2,104.94	34.88%	34.88%	173.74	173.74	78.42
14	Food & Allied	914.72	914.64	728.47	177.71	446.95	446.95	19.42%	19.42%	48.86	48.86	100.00
15	Others	1,108.72	1,095.35	406.82	63.94	349.40	1,303.80	5.77%	5.84%	117.60	119.03	26.80
	Total =	18,512.41	17,842.76	14,204.59	4,284.51	10,930.23	19,766.04	23.14	24.01	106.77	110.78	55.30

Source: Sample Survey

Table -29

Sector Wise Statement
Dhaka Division

31-12-2000 Taka in lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	3,013.13	2,909.99	2,212.48	1,056.82	1,842.34	4,137.09	35.07	36.32	137.30	142.17	44.53
2	Ready Made Garments	6,694.68	6,286.85	5,854.48	1,614.59	4,008.48	6,585.03	24.12	25.68	98.36	104.74	60.87
3	Jute Spinning & Weaving	-	-	-	-	-	-	-	-	-	-	-
4	Agrobased Industries	53.17	53.17	13.32	4.46	8.86	55.56	8.39	8.39	104.50	104.50	15.95
5	Cold Storage	666.14	666.14	375.38	143.04	232.34	881.86	21.47	21.47	132.38	132.38	26.35
6	Pharmaceuticals	819.49	793.20	384.87	20.14	364.73	427.04	2.46	2.54	52.11	53.84	85.41
7	Forest and Allied Industries	-	-	-	-	-	-	-	-	-	-	-
8	Cement Industries	-	-	-	-	-	-	-	-	-	-	-
9	Ceramics Industries	50.00	50.00	100.45	16.60	83.85	83.85	33.20	33.20	167.70	167.70	100.00
10	Paper Industries	-	-	-	-	-	-	-	-	-	-	-
11	Leather & Leather Goods	1,108.72	1,108.72	961.24	580.89	402.32	727.30	52.39	5,259.00	65.60	65.60	55.32
12	Printing & Stationary	-	-	-	-	-	-	-	-	-	-	-
13	Engineering & Electronics	428.05	428.05	769.65	176.00	593.65	593.65	41.12	41.12	138.69	138.69	100.00
14	Food & Allied	271.94	271.94	396.43	53.32	239.30	239.30	19.61	19.61	88.00	88.00	100.00
15	Others	617.48	617.48	283.99	17.37	266.62	835.35	2.81	2.81	135.28	135.28	31.92
	Total =	13,722.80	13,185.54	11,352.29	3,683.23	8,042.49	14,566.03	26.84	27.93	106.14	110.47	55.21

Source: Sample survey

Table-30

Sector Wise Statement
Dhaka Division (Good Project)

31-12-2000 Tk. in Lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	1,982.26	1,878.52	1,081.94	694.48	476.82	2,236.65	35.03	38.97	112.83	119.06	21.32
2	Ready Made Garments	3,182.04	2,774.21	2,037.94	723.97	1,091.41	2,778.53	22.75	26.10	87.32	100.16	39.28
3	Jute Spinning & Weaving	-	-	-	-	-	-	-	-	-	-	-
4	Agrobased Industries	-	-	-	-	-	-	-	-	-	-	-
5	Cold Storage	666.14	666.14	375.38	143.04	232.34	881.86	21.47	2,147.00	132.38	132.38	26.35
6	Pharmaceuticals	82.94	56.65	1.56	-	1.56	63.87	-	-	77.00	112.74	2.44
7	Forest and Allied Industries	-	-	-	-	-	-	-	-	-	-	-
8	Cement Industries	-	-	-	-	-	-	-	-	-	-	-
9	Ceramics Industries	50.00	50.00	100.45	16.60	83.85	83.85	33.20	33.20	167.70	167.70	100.00
10	Paper Industries	-	-	-	-	-	-	-	-	-	-	-
11	Leather & Leather Goods	556.92	556.92	556.92	556.92	-	-	100.00	100.00	-	-	-
12	Printing & Stationary	-	-	-	-	-	-	-	-	-	-	-
13	Engineering & Electronics	-	-	-	-	-	-	-	-	-	-	-
14	Food & Allied	209.00	209.00	118.21	14.40	103.81	194.60	6.88	6.88	93.11	903.11	53.35
15	Others	617.48	617.48	283.99	17.37	266.62	835.35	2.81	2.81	135.28	135.28	31.92
	Total =	7,346.78	6,808.92	4,556.39	2,166.78	2,256.41	7,074.71	29.49	31.09	96.30	103.90	31.91

source: Sample Survey

Table - 31

Sector Wise Statement
Dhaka Division (Bad Project)

31-12-2000 Tk. in Lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	1,030.87	1,030.87	1,130.54	362.34	1,365.52	1,900.44	35.15	35.15	184.35	184.35	71.85
2	Ready Made Garments	3,512.64	3,512.64	3,816.54	890.62	2,917.07	3,806.50	25.35	25.35	108.37	108.37	76.63
3	Jute Spinning & Weaving	-	-	-	-	-	-	-	-	-	-	-
4	Agrobased Industries	53.17	53.17	13.32	4.46	8.86	55.56	8.39	8.39	104.50	104.50	15.95
5	Cold Storage	-	-	-	-	-	-	-	-	49.31	49.31	100.00
6	Pharmaceuticals	736.55	736.55	383.31	20.14	363.17	363.17	2.73	2.73	-	-	-
7	Forest and Allied Industries	-	-	-	-	-	-	-	-	-	-	-
8	Cement Industries	-	-	-	-	-	-	-	-	-	-	-
9	Ceramics Industries	-	-	-	-	-	-	-	-	-	-	-
10	Paper Industries	-	-	-	-	-	-	-	-	-	-	-
11	Leather & Leather Goods	551.80	551.80	404.32	23.97	402.32	727.30	4.34	4.34	131.81	131.81	55.32
12	Printing & Stationary	-	-	-	-	-	-	-	-	-	-	-
13	Engineering & Electronics	428.05	428.05	769.65	176.00	593.65	593.65	41.12	41.12	138.69	138.69	100.00
14	Food & Allied	62.94	62.94	278.22	38.92	239.30	239.30	61.84	61.84	380.20	380.20	10.00
15	Others	-	-	-	-	-	-	-	-	-	-	-
	Total =	6,376.02	6,376.02	6,795.90	1,516.45	5,889.89	7,685.92	23.79	23.79	120.54	120.54	76.63

Source: Sample survey

Table - 32

224

Sector Wise Statement

Chittagong Division (Good Project)

31-12-2000

Taka in Lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	1,339.05	1,339.05	198.11	70.38	127.73	975.59	5.26	5.26	72.86	72.86	13.09
13	Engineering & Electronics	783.50	783.50	1,304.05	246.60	1,056.95	1,511.29	31.47	31.47	192.89	192.89	69.9[illegible]
		2,122.55	**2,122.55**	**1,502.16**	**316.98**	**1,184.68**	**2,486.88**	14.93	14.93	117.16	117.16	47.6[illegible]
	Ctg. Division (Bad Project)											
5	Cold Storage	366.66	366.66	162.03	53.88	108.15	332.12	14.69	14.69	90.58	90.58	32.5[illegible]
15	Others	82.00	82.00	56.87	30.94	25.93	73.83	37.73	37.73	90.04	90.04	35.1[illegible]
		448.66	**448.66**	**218.90**	**84.82**	**134.08**	**405.95**	18.91	18.91	90.48	90.48	33.0[illegible]
	Total											
1	Textile Except RMG	1,339.05	1,339.05	198.11	70.38	127.73	975.59	5.26	5.26	72.86	72.86	13.09
5	Cold Storage	366.66	366.66	162.02	53.88	108.15	332.12	14.69	14.69	90.58	90.58	32.56
13	Engineering & Electronics	783.50	783.50	1,304.05	246.60	1,056.95	1,511.29	31.47	31.47	192.89	192.89	69.94
15	Others	82.00	82.00	56.87	30.94	25.93	73.83	37.73	37.73	90.04	90.04	35.42
	Total =	7,631.63	7,631.63	5,106.30	1,174.46	3,930.35	8,604.66	15.63	15.63	112.51	112.51	47.76

Source: Sample survey

Table - 33

Sector Wise Statement
Khulna Division (Good Project)

31-12-2000

Taka in Lac.

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
15	Others (Salt)	58.10	44.73	19.55	8.11	17.96	51.00	13.96%	18.13	87.78	114.02	35.22
		58.10	**44.73**	**19.55**	**8.11**	**17.96**	**51.00**					

Khulna Division (Bad Project)

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	141.14	141.14	336.94	36.24	300.70	300.70	25.68%	25.68%	213.05	213.05	100
14	Food & Allied	551.78	551.78	130.55	29.09	101.46	101.46	5.27	5.27	18.39	18.39	100
		692.92	**692.92**	**467.49**	**65.33**	**402.16**	**402.16**	9.43%	9.43%	58.04	58.04	100

Total

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except RMG	141.14	141.14	336.94	36.24	300.70	300.70	25.68%	25.68%	213.05	213.05	
14	Food & Allied	551.78	551.78	130.55	29.09	101.46	101.46	5.27	5.27	18.39	18.39	
15	Others (Salt)	58.10	44.73	19.55	8.11	17.96	51.00	13.96%	18.13	87.78	114.02	35.22
	Total =	**751.02**	**737.65**	**487.04**	**73.44**	**420.12**	**453.16**	**9.78**	**0.06**	**60.34**	**61.43**	**92.47**

Source: Sample survey.

Table-34

Sector Wise Statement

Khulna Division (Good Project) 31-12-2000 Taka in lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
15	Others (Salt)	58.10	44.73	19.55	8.11	17.96	51.00	13.96%	18.13%	87.78%	114.02%	35.22%
		58.10	**44.73**	**19.55**	**8.11**	**17.96**	**51.00**					

Khulna Division (Bad Project)

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except	141.14	141.14	336.94	36.24	300.70	300.70	25.68%	25.68%	213.05%	213.05%	100%
14	Food & Allied	141.14	141.14	336.94	36.24	300.70	300.70	5.27%	5.27%	18.39%	18.39%	100%
		551.78	551.78	130.55	29.09	101.46	101.46	9.43%	9.43	58.04	58.04	100

Total

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
1	Textile Except	141.14	141.14	336.94	36.24	300.70	300.70	25.68%	25.68%	213.05%	213.05%	100%
14	Food & Allied	551.78	551.78	130.55	29.09	101.46	101.46	5.27%	5.27%	18.39%	18.39%	100%
15	Others (Salt)	58.10	44.73	19.55	8.11	17.96	51.00	13.96%	18.13%	87.78%	114.02%	35.22%
		751.02	**737.65**	**487.04**	**73.44**	**420.12**	**453.16**	**9.78**	**9.96**	**60.34**	**61.43**	**92.71**

Source: Sample survey

Table-35

Sector Wise Statement

Rajshahi Division (Good Project)

31-12-2000 Taka in lac

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
	NIL											
		-	-	-	-	-	-					

Rajshahi Division (Bad Project)

Sl. No.	Sector	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstanding
5	Cold Storage	1,025.24	906.30	733.24	23.22	1,003.78	1,404.21	2.26%	2.56	136.06	154.94	71.48
14	Food & Allied	91.00	90.92	201.49	95.30	106.19	106.19	104.73	104.82	116.69	116.79	100
15	Others (Fuel)	351.14	351.14	46.41	7.52	38.89	343.62	2.14%	2.14	97.86	97.86	11.32
		1,467.38	**1,348.36**	**981.14**	**126.04**	**1,148.86**	**1,854.02**	8.59%	9.35	126.35	137.56	61.96

Source: Sample Survey.

Division Wise Statement

	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstandin
Dhaka	13,225.40	13,946.90	12,712.54	3,794.64	8,542.62	15,697.42	28.69	27.21	118.69	112.55	54.42
Chittagong	2,571.21	2,571.21	1,721.06	401.80	1,318.76	2,892.83	15.63	15.63	112.51	112.51	45.59
Khulna	751.02	596.51	487.04	73.44	420.12	453.16	9.78	12.31	60.34	75.97	92.71
Rajshahi	1,467.38	1,348.36	981.14	126.04	1,148.86	1,443.10	8.59	9.35	98.35	107.03	79.61
Total	**18,015.01**	**18,462.98**	**15,901.78**	**4,395.92**	**11,430.36**	**20,486.51**	**24.40**	**23.81**	**113.72**	**110.96**	**55.79**

Division Wise Statement
Good Project

	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstandin
Dhaka	8,147.23	7,570.88	5,624.41	2,278.19	2,652.73	8,011.50	27.96	30.09	98.33	105.82	33.11
Chittagong	2,122.55	2,122.55	1,502.16	316.98	1,184.68	2,486.88	14.93	14.93	117.16	117.16	47.64
Khulna	58.10	44.73	19.55	8.11	17.96	51.00	13.96	18.13	87.78	114.02	35.22
Rajshahi	-	-	-	-	-		-	-	-	-	-
Total	**10,327.88**	**9,738.16**	**7,146.12**	**2,603.28**	**3,855.37**	**10,549.38**	**25.21**	**26.73**	**102.14**	**108.33**	**36.55**

Bad Project

	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount	Recovered as % of Sanctioned	Recovered as % of Disbursed	Outstanding as % of Sanctioned	Outstanding as % of Disbursed	Classified as % of Outstandin
Dhaka	5,078.17	6,376.02	7,088.13	1,516.45	5,889.89	7,685.92	27.96	23.78	151.35	120.54	76.63
Chittagong	448.66	448.66	218.90	84.82	134.08	405.95	14.93	18.91	90.41	90.41	33.03
Khulna	692.92	551.78	467.49	65.33	402.16	402.16	13.96	11.84	58.04	72.88	100.00
Rajshahi	1,467.38	1,348.36	918.14	126.04	1,148.86	1,443.10	-	9.35	98.35	107.03	79.61
Total	**7,687.13**	**8,724.82**	**8,692.66**	**1,792.64**	**7,574.99**	**9,937.13**	**23.32**	**20.55**	**129.27**	**113.89**	**76.23**
	18,015.01	18,462.98	15,838.78	4,395.92	11,430.36	20,486.51	24.40	23.81	113.72	110.96	55.79

GOOD PROJECT

Loan disbursed depending on security and recovery thereof.

(Tk.In Lac)

Debt Equity	Disbursed Amount	Outstanding	Recovery Rate	Security	Turns of security with O/S Loan
70:30	4414.80	3322.65	39.82%	3887.40	1.17
60:40	4108.97	4570.47	43.08%	4343.12	1.26
80:20	505.00	493.87	41.00%	241.73	0.49
[illegible]	45.39	42.88	0.01%	162.69	4.21
65:35	496.29	555.26	18.38%	577.11	1.16
52:48	340.00	872.84	0.00%	588.54	1.73
42:58	50.00	83.85	17.00%	0.00	0.00
45:55	70.50	53.79	60.00%	1700.00	24.11

BAD PROJECT

Loan disbursed depending on Primary Security and recovery thereof.

(Tk.In Lac)

Debt Equity	Disbursed Amount	Outstanding	Recovery Rate	Primary Security	Times of security with O/S Loan
80:20	1099.40	1387.85	34.15%	964.32	0.69
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68:32	200.78	338.55	9.26%	249.00	0.74
64:35	753.86	565.97	11.23%	250.48	0.44
56:44	49.50	117.73	10.41%	35.00	0.30
40:60	[illegible]	307.09	7.42%	[illegible]	0.16
23:77	18.00	28.10	51.01%	52.00	1.85

GOOD PROJECT

Recovery Rate Depending on Debt - Equity

(Tk.In Lac)

Debt Equity	Disbursed Amount	Recoverable Amount	Recovered Amount	Percentage of Recovery
80:20	505.00	429.41	176.29	41.00%
70:30	4414.80	2698.24	1387.99	51.00%
68:32	43.39	131.27	0.00	0.00%
65:35	496.29	496.29	91.21	18.35%
60:40	4108.97	2746.71	1037.24	38.00%
52:48	340.00	495.03	0.00	0.00%
45:55	70.50	74.02	44.26	60.00%
42:58	50.00	100.45	16.60	17.00%

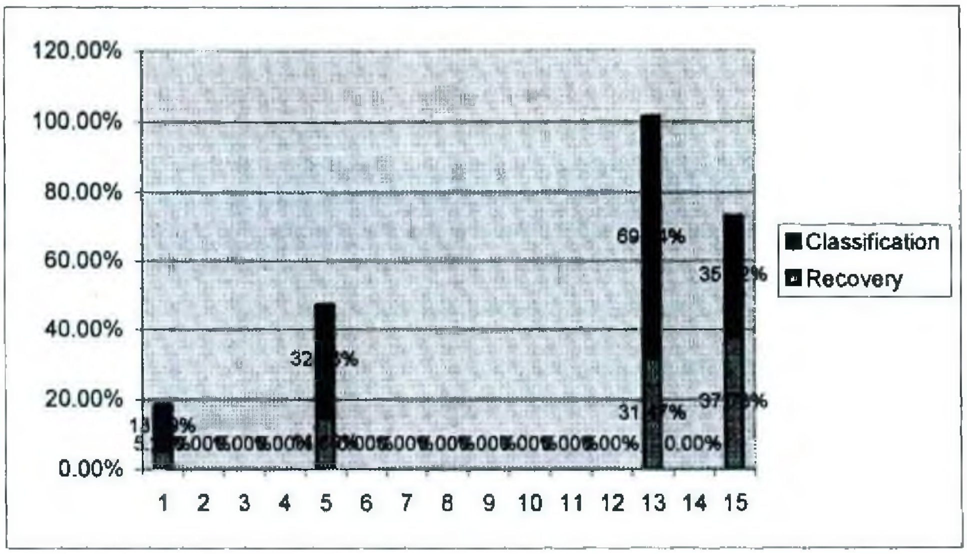
BAD PROJECT

Recovery Rate Depending on Debt - Equity

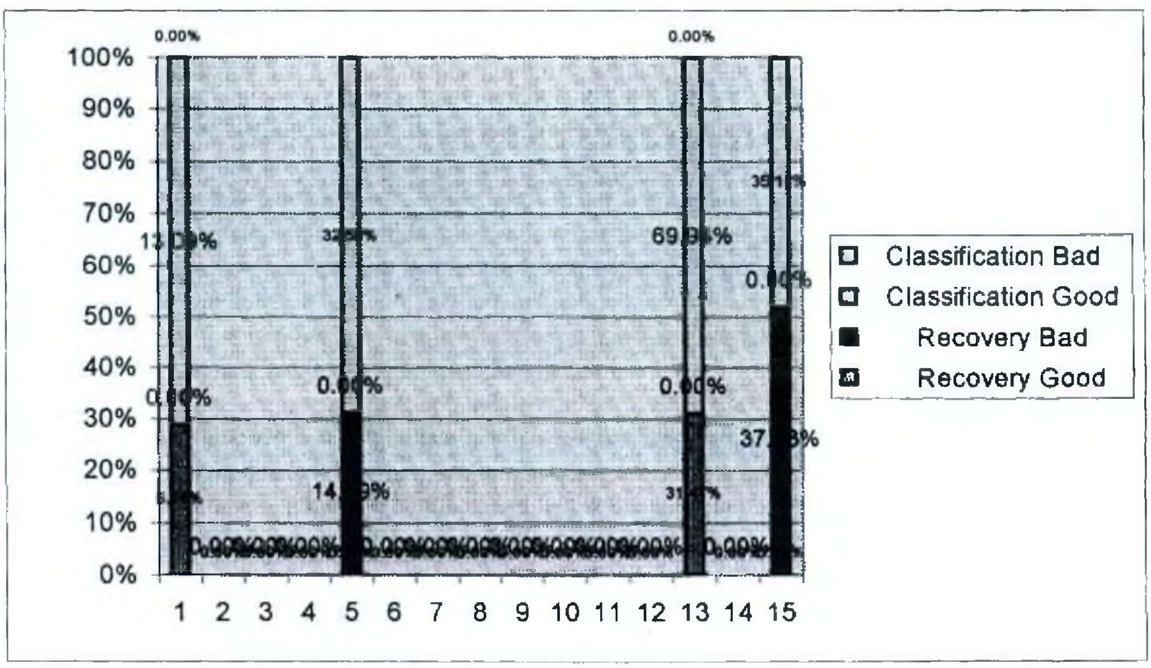
(Tk.In Lac)

Debt Equity	Disbursed Amount	Recoverable Amount	Recovered Amount	Percentage of Recovery
80:20	91.00	1209.89	686.23	56.72%
70:30	2389.68	5140.10	204.78	3.98%
65:35	437.69	46.41	0.57	1.23%
56:44	49.50	131.41	13.68	10.41%
52:48	192.17	342.70	0.00	0.00%
40:60	436.56	612.99	45.51	7.42%

Sectorwise recovery and classification in Rajshahi Division



Sectorwise recovery and classification of good and bad projects in Rajshahi Division



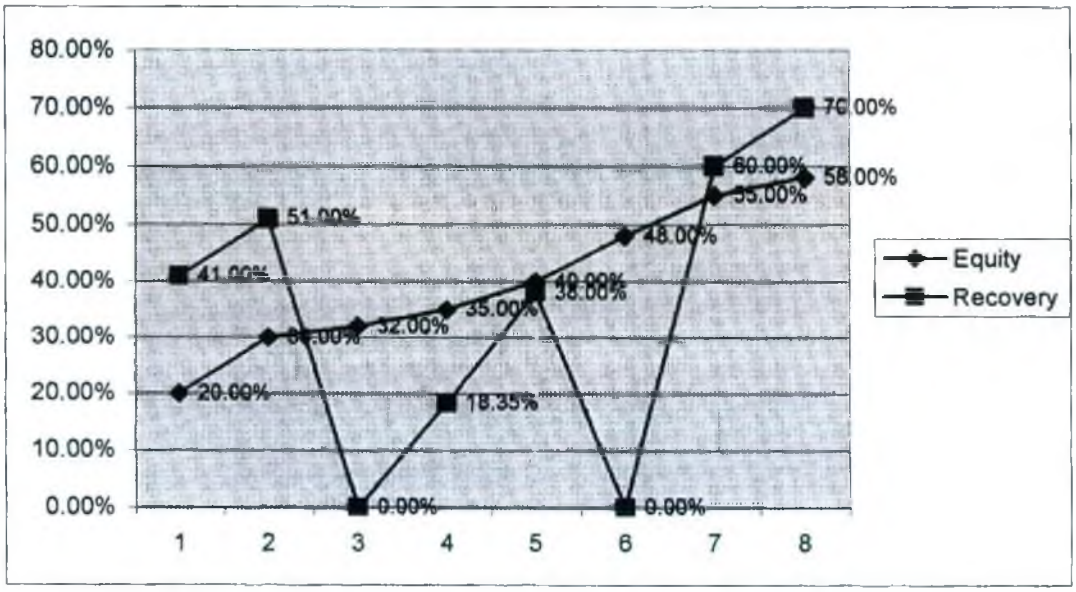
Repayment Performance Depending on Debt-Equity.

The survey sample divided into Good Projects and Bad Projects depending on the criteria of classification of loans. According to classification criteria, all the loans are analyzed which ultimately leads to the unclassified and classified loans. The unclassified loans are called Good loans and classified loans are bad loans.

While analyzing the repayment performance of goods loans depending on equity, it has been observed that the high equity i.e. 58% leads to recovery of 17% while on the other the lower equity i.e. 20% leads to recovery of 41%.

The graphical presentation of recovery depending on equity is depicted as under :

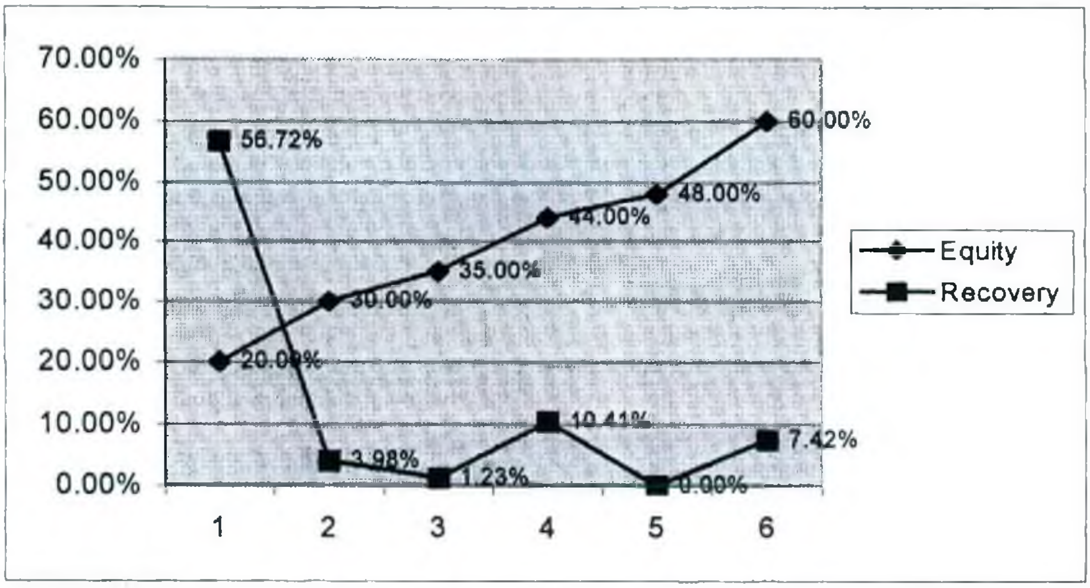
(Good Projects)



While considering the repayment performance of Bad Projects depending on equity, it is observed that high equity i.e. 60% leads to recovery of 7.42%. But the low equity i.e. 20% leads to recovery 56.72%, whereas the equity of 35% leads to recovery 1.23%.

The graphical presentation of recovery depending on equity is depicted as under :

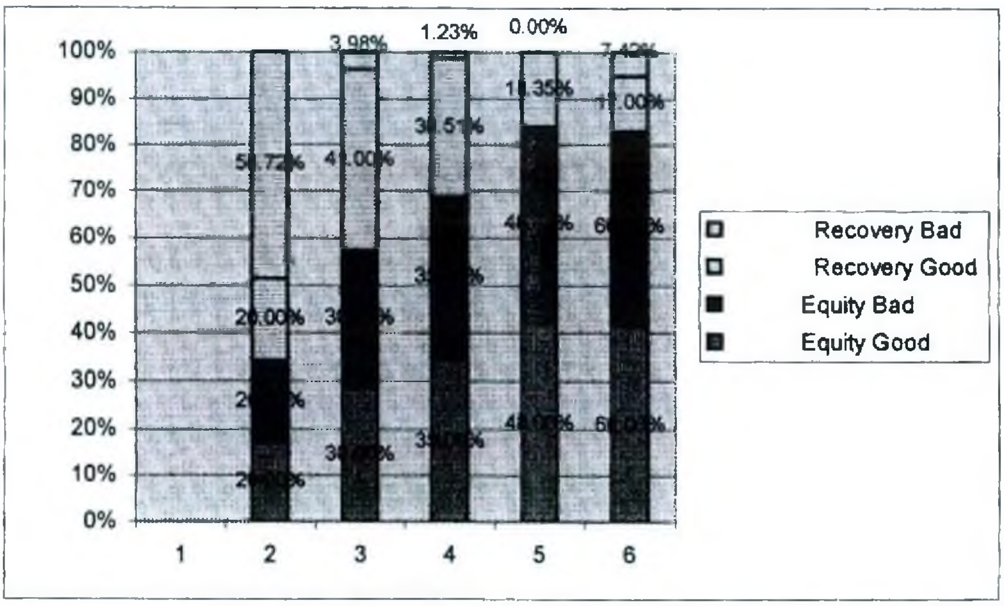
(Bad Projects)



These two figures indicates that not the equity but something-else leads to lower recovery of industrial credits.

The graphical presentation of recovery depending on equity is shown below :

(Good and Bad Projects)



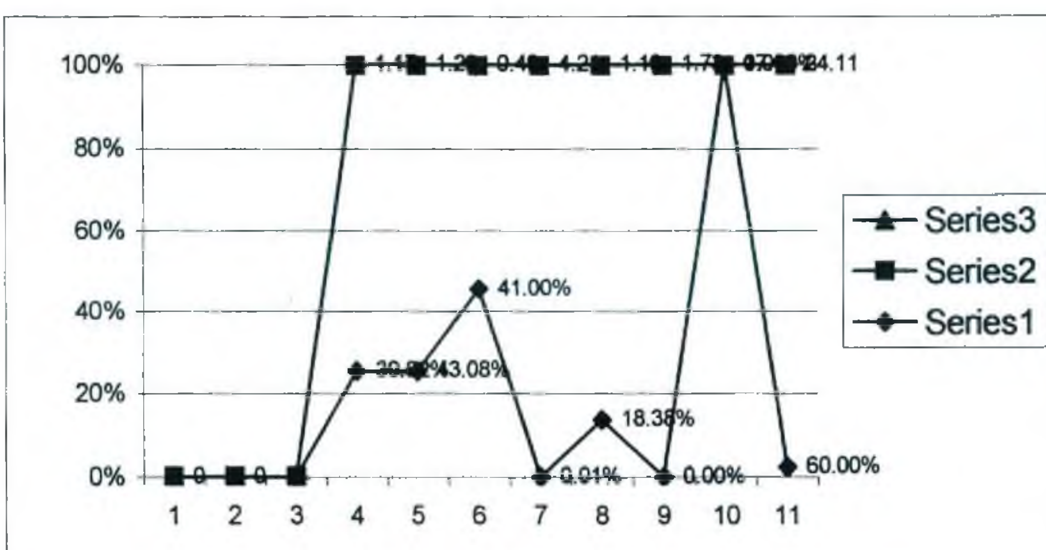
Repayment performance of Industrial credit depending on security against the loans.

The industrial credits are generally sanctioned for acquisition of land, construction of factory building and purchase of machinery both from home and abroad. These land, building, machinery and other fixed assets have been given to bank as security against sanctioned and disbursed loan which is termed as primary security. Besides this, the Bank may also ask for further security if the sanctioned amount is not covered with the primary security. This additional security is termed as collateral security. Now both primary and collateral securities termed as security.

It is known in the credit market that if the security coverage against the loan is higher or at least 1.5 times, then the recovery rate would be higher. If the borrower fails to repay the amount he will lose his property alongwith his equity provided in the industry.

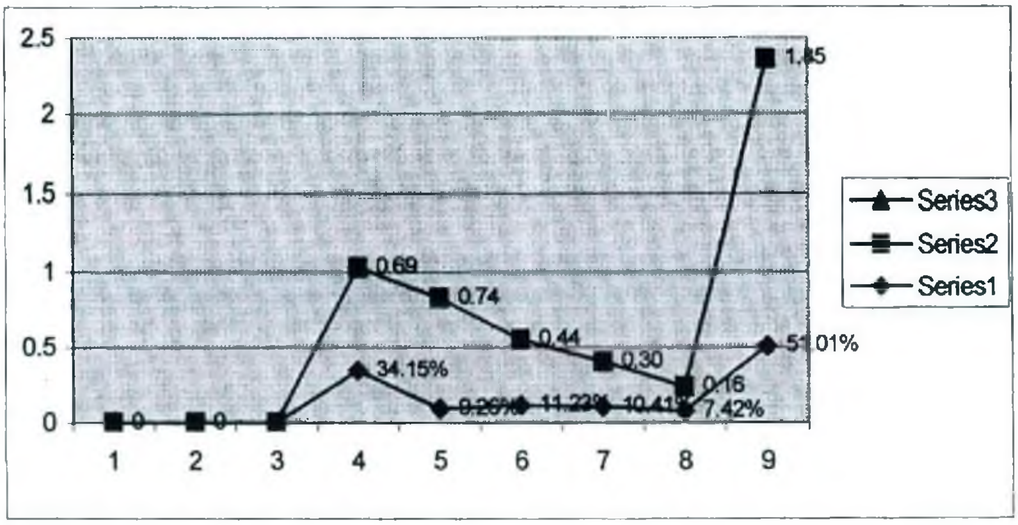
While analyzing the recovery rate of good projects depending on security, it has been observed that where the security is 24.11 times of loan amount then the recovery rate is about 60%. When the security is 4.21 times with the disbursed loan, then the recovery rate is 0.01%. It is interesting to note that the security coverage is also not the factor as to repayment of loans under good projects.

Repayment performance of industrial credit depending on security and recovery thereof (Good Project):



As regards repayment of loans of Bad Projects, it has been observed that where the security is 1.85 times, the recovery rate is 51.01% and where the security is the rate of 1.26 times recovery is 81.77%. 0.74 times of security has also shown the rate of recovery as 9.26%. So in this case the security did not become any factor as to recovery of loans.

Repayment performance of industrial credit depending on security
and recovery thereof (Bad Project)

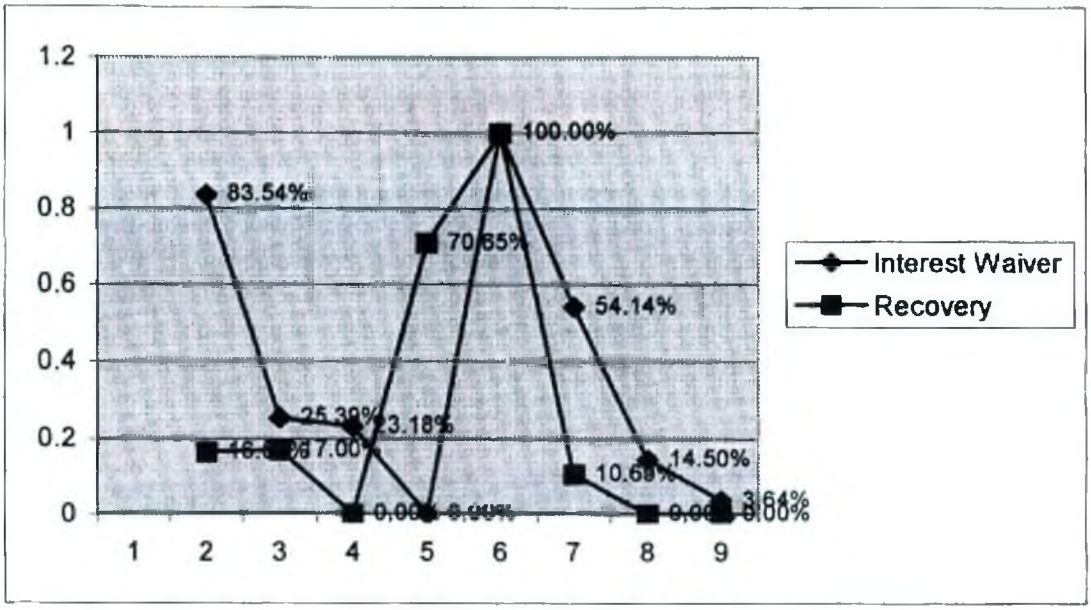


If we compare the times of security with equity then the recovery rate will not show any systematic result. Where the security is 1.85 times of loan amount then the recovery rate is 51.01% and equity is 77%. But in case of security of 1.26 times with loan amount, it will show the recovery rate as 81.77% against equity of 21%. On the other hand when the equity is 60%, then the recovery rate is 7.42% with security only of 0.16 times. From the foregoing as stated above, it is concluded that equity and security are not the factors regarding repayment of loans.

Repayments relating Interest Waiver.

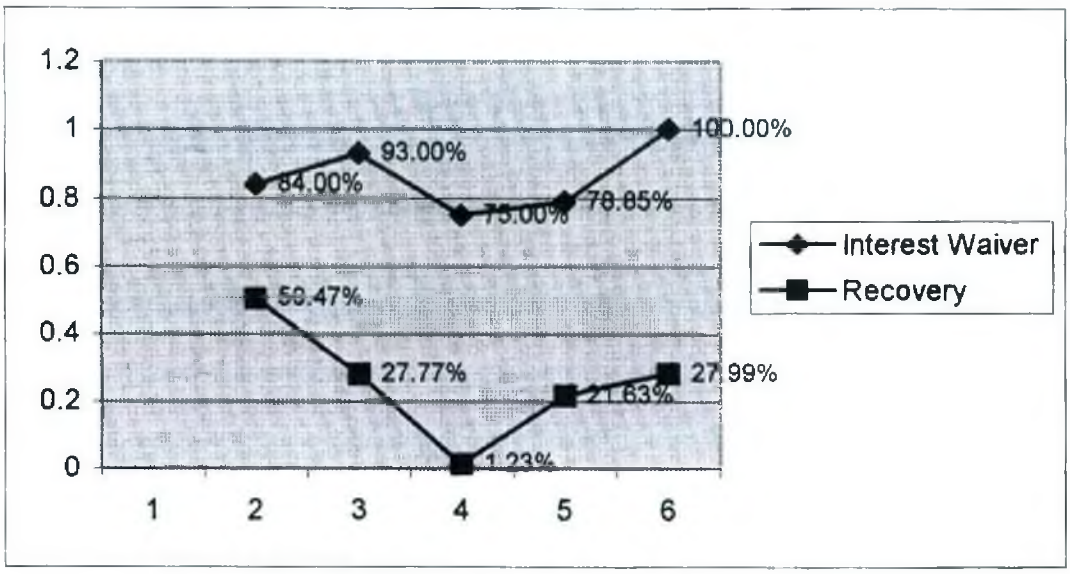
The sample under survey of good projects are considered for analysis where the interest has been waived from 20% to 100%. In instant case, it is seen that where 100% interest has been waived, the recovery rate is also about 100%. In case of interest waived upto 50.78%, the recovery rate is only 17%. Here, also Debt-equity is comparatively higher i.e. 58% as against recovery of 17%.

Repayment performance depending on interest waiver(Good Projects)



While analyzing the Bad Projects relating to repayment against interest waiver, it is observed that........................

Repayment performance depending on interest waiver(Bad Projects)



Repayment performance of industrial credit relating through rescheduling.

While analysing the sample under suervey of god projects to find out the relationship of recovery with rescheduling, I observe that three times rescheduling indicates recovery of 34.88%, one to two times rescheduling shows recovery of 10%. If we compare the recovery trends in terms of debt equity and times of rescheduling, it is observed that lower equity leads to higher recovery, while on the other, higher equity leads to lower recovery.

While analyzing the data of bad projects in relation to recovery through rescheduling, I observe the same result as found in good projects regarding recovery through rescheduling. In true fact, this is not recovery at all rather this is the book transfer to balance the loan account after rescheduling of the same.

Relationship of Recovery with Rescheduling

GOOD PROJECT

(Tk.In Lac)

Debt Equity	Disbursed Amount	Frequency of Rescheduling	Securitties Held	% of Recovery
80:20	381.64	Three	143.50	34.88%
70:30	2859.40	One to three	3482.88	28.53%
60:30	3779.22	One to three	4242.13	29.22%
65:35	965.58	One to three	2352.11	18.38%
52:48	340.00	Two	588.54	0.00%
42:58	50.00	One	200.00	16.53%

Relationship of Recovery with Rescheduling

GOOD PROJECT (Tk. In Lac)

Debt Equity	Disbursed Amount	Frequency of Rescheduling	Securities held	% Recovery
80:20	1008.40	Two-Three	861.32	29.76%
75:35	264.69	Two	309.65	72.11%
70:30	1500.60	Two-Three	2566.36	13.44%
65:35	776.98	Two-Three	504.37	24.70%
60:40	1510.88	Two	1827.13	20.37%

Source: Sample Survey.

8.3. CASE STUDY

To find out in sight into the root causes of indiscipline developed in industrial credit management in commercial banks, case study method was adopted to measure the sampling borrowers as to non-payment of loans. As regards selection of borrowers, random sampling method was followed. The sector through which the industrial credits were outlayed considered for case study. In cash sector, one good borrower and one bad borrower was selected for study. Sectorwise borrowers so selected at random are given in the following manner :-

Sl.#	Name of Sector	Good Project	Bad Project
1	Textile except Readymade Garments	1.1. Rainbow Fabrics (Pvt.) Ltd.	1.2. Khanpara Textile
2	Readymade Garments	2.1. Lamia Fashions Ltd.	2.2. Knight deying
3	Jute Spinning and Weaving	3.1. NA	3.2. NA
4	Agro-based Industries	4.1. Nafien Food Industries Ltd.	4.2. Lark Poultry Farm
5	Cold Storage	5.1. Purbachal Himagar Ltd.	5.2. Shah Mokhdumia Cold Storage
6	Pharmaceuticals	6.1. Sunrise Chemicals	6.2. Rahman Chemicals
7	Forest and Allied Industries	7.1. NA	7.2. NA
8	Cement Industries	8.1. NA	8.2. Diamond Cement
9	Cyramic Industries	9.1. Koly Cyramics	9.2. BFC
10	Paper Industries	10.1. NA	10.2. NA
11	Leather Industries	11.1. Jass Leather	11.2. Paramount Tanneries
12	Printing Industries	12.1. Anmon Packages	12.2. NA
13	Engg.& Electronics	13.1. Bangladesh Electricity Meter	13.2. Farmland Heavy Engg.
14	Food & Allied	14.1. Conception Sea Food.	14.2. Ahmed Food Ind.
15	Others	15.1. Teddytoy Ind.	15.2. Dinajpur Charcoal.

Case-I : Case study on Textile Industries.

Good Project

M/s. Rainbow Fabrics (Pvt.) Ltd.

1. Background.

M/s. Rainbow Fabrics (Pvt.) Ltd. is a fabrics dyeing and finishing industry. The industry is established in the year 1985 at Dapa, Indrakpur, Narayanganj on bank loan. Three persons were the sponsor directors of the company. There were no shareholders of the company at the time of establishment. Thereafter, the company changes its directors with the consent of the Registrar of joint stock company though the bank created charges on its properties against the loan sanctioned and disbursed lateron. But no permission was taken from the resume though it was statutory for the purpose.

2. Credit Information of the Project.

The bank sanctioned Tk. 90,21,000.00 as project loan, out of which Tk.84,41,000.00 was sanctioned as term loan and Tk. 5,80,000.00 as working capital loan in the form of cash credit hypothecation.

The cash credit hypothecation was adjusted. But the term loan was not adjusted in time. The detail particulars of the project cost, means of finance and loan information is given below:

2.1. Cost of the Project:

Description	Equity	Bank Loan	Total
Land	5,70,000	-	5,70,000
Land development	30,000	-	30,000
Building	6,78,000	9,00,000	15,78,000
Machinery	12,41,000	73,80,000	86,21,000
Machinery Installation	1,00,000	-	1,00,000
Furniture & Fixture	75,000	-	75,000
Interest during construction period (IDCP)	6,11,000	-	6,11,000
Preliminary Expenses	25,000	-	25,000
Others.	1,25,000	1,61,000	2,86,000
Total Fixed Cost	34,55,000	84,41,000	1,18,96,000
Initial Working Capital	2,97,000	5,80,000	4,77,000
Total cost of the Project	37,52,000	90,21,000	1,27,73,000

2.2. Means of Finance:

	Term Loan		Working Capital Loan	Total
	Foreign	Local		
Equity	-	-	-	37,52,000
Bank Loan	-	84,41,000	5,80,000	90,21,000
Total:	-	84,41,000	5,80,000	1,27,73,000

Debt – Equity Ratio : 71:29

2.3. Particulars of credit as on 31-12-2000.

Nature of Loan	Sanctioned Amount and Date	Disbursement Amount	Recoverable Amount	Recovered Amount	Outstanding	Outg. %	Date
Term Loan	84.41	83.61	278.08	184.00	94.00	99.08	12-5-90
Cash Credit hypothecation	5.80	Adjusted					

3. Security of Loan.

The security of the loan was covered by the project land of 54 decimals valuing at Tk. 6.00 lac, building and machinery at Tk. 105.70 lac totaling Tk. 111.70 lac against sanctioned loan amount of Tk. 90,21,000.00 at the time of disbursement. No collateral that is additional security was taken at the time of disbursement. The present value of land shown as Tk. 10.80 lac and building and machinery shown as Tk. 79.20 lac in the year 2000. Though the book value of building and machinery may be reduced more than the value shown after depreciation. The classified loan as on 31-12-2000 was Tk. 94.08 lac. In true sense, the classified loan amounting to Tk. 94.08 lac was not covered by the available security of Tk. 90.00 lac. However, personal properties of the directors declared as Tk. 119.10 lac against their personal land for Tk. 62.22 lac building Tk. 45.84 lac and investment Tk. 11.04 lac. The present value of these personal properties calculated as Tk. 258.25 lac. These properties may be attached for recovery of loan as per existing law of the land in force. If we take into account of the existing securities and personal properties, the present value would be at Tk. (90.00 + 258.25) = 348.25 lac. This is shown that the loan fully covered by securities. In this situation the bank allowed the company the following facilities.

4. Facilities given to the borrower.

Interest for about 40% of general interest and 100% penal interest amounting to Tk. 15,53,713.00 waived in the year 1993 and allowed the company to make repayment of the residual amount after interest waiver within 6 months from the date of intimation of decision.

The borrower has failed to make repayment and again applied for interest waiver with the extension of repayment time. The bank has regretted the interest waiver proposal but extended time for repayment upto 1996. The borrower has also failed to repay the outstanding amount and again applied for the followings.

5. Application of the sponsors.

- Change of directors and company management.
- Interest waiver for 100%.
- Rescheduling of the residual amount after interest waiver for 3 years without interest.

6. Credit analysis for interest waiver.

(A) Credit Information:

(a)	Principal amount of loan & other charges	:	1,21,81,285.92
(b)	Interest charged before expiry	:	72,65,356.00
(c)	Interest charged after expiry	:	68,71,019.00
(d)	Interest not charged but due	:	11,87,230.00
(e)	Penal Interest charged	:	3,03,391.00
(f)	Total (a+b+c+d+e)	:	2,78,08,281.92
(g)	Paid before application	:	1,71,63,875.33
(h)	Recoverable before application	:	1,06,88,406.59
(i)	Down Payment made (12% approx.)	:	12,36,000.00
(j)	Recoverable Amount after down payment	:	94,08,406.59

(B) Amount of Provision:

(a)	Provision	:	57,21,920.00
(b)	Interest kept in separate Register	:	11,87,230.00
(c)	Interest Suspense A/C.	:	3,03,391.00
	Total Provision	:	72,12,541.00

(C)	Total interest excluding penal interest	:	1,53,23,605.00
(D)	Cost of Fund	:	94,99,929.00
(E)	The amount may be waived after retaining cost of fund and its rate(38%).	:	58,23,676.00

(F)	The amount may be waived without providing fund from general provision & its rate(45%)		:	69,09,150.00
(G)	Proposed interest waiverable:			
	(a)	50% of general interest charged after expiry	:	34,35,509.00
	(b)	100% of Penal interest charged	:	3,03,391.00
	(c)	100% of interest not charged but due for recovery	:	11,87,230.00
		Total (a+b+c)	:	49,26,130.00

(H) Head of A/Cs from where waive-able interest to be adjusted:

(a)	Interest Separate Account	:	3,03,391.00
(b)	Interest kept in Separate Account	:	11,87,230.00
(c)	Provision A/C from Head Office	:	34,35,509.00
			49,26,130.00

7. Liabilities of Sister concern:
According CIB (Credit Information Bureau) report, it is observed that the sister concern has classified liabilities of Tk.519.00 lac with other banks.

8. Facilities given to this borrower previously.
(a) Interest waived in the year 1993 for about 40% of general interest and 100% penal interest amounting to Tk.15,53,713.00 and allowed to make repayment within 6 months.

(b) The borrower has failed to make repayment and again applied for interest waiver with extension of timing.

(c) The Bank has regretted to interest waiver proposal but extended time upto 1996.

9. Observation:
(a) Interest waived and rescheduled on this account for two times. But the borrower failed to repay the outstanding amount.

(b) Management of the company has been changed three times without approval from the Bank though it is statutory.

(c) Project has been closed for about 2 years and 6 months.

(d) There are six directors at the time of sanction and the management changed several times without approval from bank .... no. of directors are 4(four). Out of these four directors, one director has classified liabilities for about Tk. 519.00 lacs with other banks.

(e) The personal properties of the six directors were Tk. 119.10 lac, three directors resigned and one included. With the inclusion of one director, the personal properties stand at the Tk.258.25 lac which is about Tk. 139.15 lacs higher than the previous directors.

(f) In this situation, the Bank authority interest waived for three times and rescheduled the residue amount for two years for payment.

(g) The bank authority did not file any suit in the cover of law to recover the classified loan though 16 years clasped after sanction of the loan.

10. <u>Conclusion:</u>

(a) From the above, it is observed that the Bank did not analyze the credit before interest waiver.

(b) The Bank waived interest for two times but the borrower failed to make repayment of the amount. As because, the credit was not analyzed and the bank did not find any ways and means regarding repayment of loans.

(c) The Bank did not take any action regarding change of management without approval of the bank.

(d) In time, it is commented that the bank has no interest waiver plan, reschedule plan, and recovery plan. They are doing it as per directives from elsewhere.

Case-2:

M/s. Khanpura Textile Mills Ltd.

Bad Project.

1. Background.

M/s. Khanpura Textile Mills Ltd. is a grey fabrics producing textile industry established in 1980 at Damurkandi, Faridpur in the district of Faridpur on bank loan. There were 7 directors at the time of sanction of loan. Thereafter, directors were changed three times but no permission was taken from the bank. In third stage, 3 directors were resigned and reduced the directors to 4 persons. We learnt from the file that the directors were changed and resigned due to their internal conflicts. The bank did not take any actions against the borrower company to project its loan upto December, 2000.

2. Sanction of loan.

The bank sanctioned project loan for Tk. 68,17,000.00 of which term loan for Tk. 44,07,000.00 and working capital loan for Tk. 24,10,000.00 in the form of cash credit hypothecation at the time of sanction in the year 1980. Thereafter, working capital loan enhanced to Tk. 60,00,000.00 from Tk. 24,10,000.00. The bank has also created demand loan for Tk. 71,32,000.00 on several occasions. The expiry of all loans is within 1990 to 1994. The particulars of loan are given in detail in the following manner :-

3. Credit information.

3.1. Project cost.

(Tk. In Lac)

Nature of Credits	Date of sanction & Amount	Disbursement Amount	Recoverable Amount	Recovered Amount	Classified Amount	Date of Expiry
Term Loan	60.85	60.85	147.74	0	147.74	19.05-90
Cash Credit Hypo.	60.00	60.00	121.45	0	121.45	30-12-90
Demand Loan(IFBC)	71.32	71.32	73.51	0	73.51	30-06-94
Total:	192.17	192.17	342.70	0	342.70	

3.2. Means of Finance:

	Term Loan		Working Capital Loan	Total
	Foreign	Local		
Equity	-	-	-	61,74,000
Bank Loan	-	44,07,000	24,10,000	68,17,000
Total:	-	44,07,000	24,10,000	1,29,91,000

Debt – Equity Ratio : 52:48

3.3. Particulars of credit as on 31-12-2000.

4. Securities against loans.

Project land of 321.50 decimals building and machinery valuing of Tk. 59.54 lacs were taken security in the 1980. Thereafter, a piece of land for 40 decimals at Dhakshinkhan, Dhaka and a building on it valuing at Tk. 67.75 lac was taken as collateral security. Thus the total value of security stood at Tk. 127.29 lacs against sanctioned loan amount of Tk. 68,17,000.00. No declaration of personal properties of the directors are found in the credit file of the borrower company.

5. Repayment of loan.

It is observed that the borrower did not repay the installment of term loan. The company did not repay any amount against demand loan. They only repaid the interest amount of cash credit hypothecation loan. Thus the classified amount of loan stood at Tk. 342.70 lacs as on 31-12-2000.

6. Facilities provided in favour of the borrower.

- In the year 1995, the bank waived interest for Tk.99,87,428.00 which is about 75% of general interest.

- The residual amount after interest waiver for Tk. 2,41,79,973.54 rescheduled for 5 years effective from 30-06-1995 to 30-12-1999.

- This facilities were allowed by the bank at the time of approval of change of management at the latest in 1995 with a condition that the previous owner shall deposit Tk. 42.00 lacs as down payment and will clear all dues before effecting the transfer. Failing which the new owners shall deposit the same. Both the parties failed to comply with the terms.

7. Application of the sponsor.

In 1996, the sponsors again applied for the followings :-

a) 100% interest waiver.

b) Rescheduling of the residual amount after interest waiver for 10 years.

c) Acceptance of change of management.

8. Decision of the bank management.

The bank again provided the following facilities in favour of the project in the year 1997.

- Interest waiver facilities allowed in the year 1995 which was void due to non-compliance of the terms that is kept valid.
- The bank considered the period from 30-06-94 to the date of decision as interim period and decided not to charge any interest from this date to the date of receipt of new decision.
- No working capital to be given the new sponsors and they will provide the same.
- Deduction to be made from the every export documents/sale proceeds proportionately.
- Not to release the mortgaged property till realization of the outstanding amount.

9. Observation.

- The loan was sanctioned in the year 1980.
- The sponsors made repayment interest on working capital loan only. No installment payment was done in project loan.
- Though the loan amount exceeds against security value long before the bank did not take any actions or legal actions against the company to recover the loans.
- The bank management waived interest for two-times, but the sponsors failed to comply with the terms of interest waiver and rescheduling of the loan.
- The loan was lying outstanding for about 20 years but no recovery thereagainst.
- Management of the company changed by three times according to their will but no permission was taken from the bank. This is why the loan leads of default.

Case No. 3 Case study on Readymade Garments.

Lamia Fashions Ltd.
Good Project

1. Background.

M/s. Lamia Fashions (Pvt.) Ltd is a garment manufacturing industry established on a rented premises at Kachukhet, Dhaka Cantonment, Dhaka in the year 1984 on bank loan. There were 4 (four) sponsor director at the time of establishment and they are still remain. Among the four directors, one director has liabilities with other banks which is unclassified as per credit information bureau report.

2. Sanctioning of loan.

The project was favoured with a sanction of loan Tk. 86.81 lac of which Tk.73.81 lac as term loan and Tk. 13.00 lac as working capital loan in the form of cash credit hypothecation, primary security of Tk. 84.38 lac and collateral security of Tk. 72.61 lac totaling Tk. 156.91 lacs. The debt equity ratio was 70:30. The detailed particulars of loan is given below :

2.1. Cost of the project.

Description	Equity	Bank Loan	Total
Land	Rented Premises.		
Land development			
Building			
Machinery	27.53	73.81	101.34
Machinery Installation	1.75	-	1.75
Furniture & Fixture	2.00	-	2.00
Interest during construction period (IDCP)	-	3.32	3.32
Preliminary Expenses	1.00	-	1.00
Others.	-	-	-
Total Fixed Cost	32.28	77.13	109.41
Initial Working Capital	5.63	13.13	18.63
Total cost of the Project	37.91	90.13	128.04

2.2. Means of Finance:

	Term Loan Foreign	Term Loan Local	Working Capital Loan	Total
Equity	-	-	-	37.91
Bank Loan	-	73.81	13.00	86.81
Total:	-	73.81	13.00	124.72

Debt – Equity Ratio : 70:30

3. Securities.

The project was established on a rented premises, so there is only machinery and other furniture available as primary security valuing at Tk. 84.38 lac at the time of sanction of loan. Due to establishment of the factory on rented premises, the bank obtained collateral security of land 7.50 katha and 7021 sft building on it valuing at Tk. 37.50 lac and 35.11 lac respectively totalling Tk. 72.61 lac to cover up the loan sanction. The present value of the primary security shown as Tk. 87.82 lac and collateral Tk. 87.61 lac totaling Tk. 175.43 lacs.

4. Present position of credits.

The present of credits as on 31-12-2000 is given below :

(Tk. In Lac)

Nature of Credits	Date of sanction & Amount	Disbursement Amount	Recoverable Amount	Recovered Amount	Classified Amount	Date of Expiry
Term Loan	27-04-94 73.81	73.81	100.52	5.88	94.64	
Working Capital	27-04-94 13.00	12.70	23.66	5.89	17.97	
Demand Loan(23 Nos.)	20-01-97 to 15-09-98 290.09	290.09	378.67	41.99	336.67	
Total:	376.90	385.89	502.85	53.76	449.08	

While going through the above figure, we observe that the total loan is classified and liabilities raised to Tk. 449.08 lacs. We like to mention here that the bank opened 23 Nos. of back-to-back letter of credit amounting to Tk. 290.09 lacs. The entire amount become classified due to failure of export in time. The bank was compelled to create demand loan to make payment of back-to-back letter of credit. The borrower has failed to re-export the products or repay the loan in time.

In this connection, I like to mention here that the bank opened a huge number of letter of credits (23 Nos.) without considering the production capacity of the industry. In this circumstances, the sponsor applied for the following facilities.

5. Application of the Sponsor

The borrower requested the Bank to provide the following facilities for regularization of the credit.

(i) Rescheduling of overdue installment of project loan, cash credit hypo. (working capital loan) and demand loan.

(ii) 100% waiver of charged interest and accrued but not charged interest.

(iii) Extension of project loan period for more 10 years for repayment.

(iv) Transfer the residual amount after interest waiver of demand loan & cash credit hypo loan into blocked account and charged interest thereon at Bank Rate and allow for making repayment within 5 years on half-yearly installment.

(v) Make provision to deduct certain amount from the export proceeds for adjustment of loans and if this amount do not cover the installment, make provision to adjust the loan from the other sources of the borrower.

6. Facilities extended to the borrower.

The Board of Directors of the Bank approved the following facilities in 97 to the borrower :-

(a) Extended the repayment period of project loan from 22-08-99 to 30-06-2002.

(b) Working capital loan (CC.Hypo. Loan) renewed for one year upto 30-04-99 for adjustment purpose only.

(c) Interest on grace period, interest during construction period, general interest, principal amount of term loan balances as on 31-12-97 to be merged and be treated as principal. The simple interest as applicate to be charged on this principal amount. The amount to be scheduled on 9(nine) equal installments starting from 30-06-98 to 30-06-2002.

(d) If the borrower fail to comply with the above terms and conditions, compound interest to be charged on the entire amount.

7. Observation.

(a) On 27-04-94 the Bank sanctioned Tk. 86.81 lac (Term loan Tk.73.81 + working capital loan Tk.13.00 lac) as project loan in favour of the project.

(b) The project started commercial operation from 07-11-94.

(c) In 1997, the repayment period extended from 5 years to 7 years 10 months and 8 day and rescheduled the installments.

(d) Cash credit hypothecation loan (Working capital loan) renewed for 1 (one) year upto 30-04-99 for adjustment purpose only.

(e) The borrower has failed to make payment of any installment of rescheduled amount and cash credit hypothecation loan.

(f) After allowing rescheduling and renewal facilities as 1997, 23(twenty three) demand loan have created from 20-01-97 to 15-09-98. The outstanding amount of these demand loans is Tk.336.67 as on 31-12-2000.

(g) The security value (Primary & Collateral) was at Tk.156.99 lac at the time of sanction of loan. The present value of these loans is Tk.175.43 lacs. The outstanding amount is Tk.449.08 lac against the security of Tk.175.43 lacs.

(h) The recoverable amount is Tk.502.85 lac, recovered Tk.53.76 lacs and classified outstanding amount is Tk.449.08 lac.

(i) The borrower did not deposit the required down payment of 10%. But deposited Tk.21,61,375.00 as down payment against the ledger balance of Tk.432.27 lacs which is about 5%. The committed to deposit the rest amount of down payment within 30 days, after getting decision of interest waiver and rescheduling of loans.

(j) The borrower applied for 100% interest waiver, and extension of time for 10 years for making payment of residual principal amount.

(k) The Branch, Zone and Circle Offices recommended to waiver of interest after keeping the cost of fund and the residual interest to be rescheduled for 5 years at Bank Rate.

(l) If the borrower intends to start the factory and operate business, he will be allowed to open back-to-back letter of credit on case to case basis.

8. Remarks.

The bank regularized the loan by interest waiver and rescheduling of loan.

Case No.4

M/s. Knight Dyeing Industries Ltd.

Bad Project

1. Background.

M/s. Knight Dyeing Industries Ltd. is a private limited company established in the year 1993 at Goodnail, Narayanganj. It was initially a joint venture project of Bangladeshi sponsor and Dr. Refield Verse Trust AG of Switzerland. Thereafter, the foreign sponsor left the project, the Bangladeshi sponsor implemented the same on bank loan of Tk. 522.65 lacs. The cost of the project reduced to Tk. 325.18 lacs from Tk. 522.65 lacs and thereafter when the sponsor failed to provide equity the bank enhanced the loan amount by Tk. 54.08 lac to Tk. 379.26 lac. The project completed its implementation by the same year i.e. 1995. The bank has also sanctioned Tk. 100.00 lac as cash credit hypothecation on 11-09-97, demand loan for Tk. 586.92 lacs from 09-10-96 to 04-11-98, Packing Credit for Tk. 37.97 lacs from 06-06-96 to 30-06-98. The total loan stand at Tk. 1104.15 lacs.

The sponsor have also established three sister concerns viz. M/s.Knight Garments Ltd., M/s. Topstich Ltd. and M/s. Danligh Ltd. The sponsors did not take any project loan the financing bank of knight dyeing industries ltd. for establishment of the same. The loan particulars of loan of the sister concerns are as under :

i) M/s. Knight Garments Ltd.

Cash Credit Hypothecation Limit for Tk.25.00 lac, Demand Loan for Tk.323.37 lac and Packing Credit for Tk. 23.00 lacs totaling Tk.371.37 lacs was sanctioned in favour of the project from 16-08-94 to 21-07-99.

ii) M/s. Topstitch Ltd.

Demand Loan Tk.174.97 lac, Packing Credit for Tk.11.90 lac totaling Tk.186.87 lacs was sanctioned in favour of the project on different dates from 15-10-95 to 27-10-98.

iii) M/s. Danlish Ltd.

Demand Loan for Tk.14.40 lacs sanctioned from 10-09-96 to 20-12-98.

iv) Total sanctioned loan stand at Tk.1676.79 for the main project and its three sister concerns.

2. Credit Information.

(a) M/s. Knight Dyeing Industries Ltd. (31-12-2000).

(Tk. In Lac)

Nature of Loan	Sanctioned Amount & Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amnt.	Expiry Date	Classification Status
Term Loan	379.26 25-04-94	364.76	402.44	0.12	402.32	595.46	28-2-00	BL
Cash Credit Hypo.	100.00 11-09-97	100.00	127.01	0	127.01	127.01		BL
Packing Credit	37.97 06-06-96	37.97	46.37	9.37	36.99	36.99		BL
Demand Loan	586.92 9-10-96 to 04-11-98	586.92	718.04	160.96	557.09	557.09		BL
Total:	1104.15	1089.65	1293.86	170.45	1123.41	1316.55		

(b) Sister Concern.

b.1 M/s. Khight Garments Ltd.

(Tk. In Lac)

Nature of Loan	Sanctioned Amount & Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amnt.	Expiry Date	Classification Status
Cash Credit Hypo.	25.00 21-07-93	25.00	47.36	19.53	27.83	27.83	30-6-94	BL
Demand Loan	323.37 07-02-95 to 26-12-97	323.37	491.61	129.48	362.13	362.13		BL
Packing Credit	23.00 03-08-94 to 16-08-94	23.00	31.37	20.45	10.45	10.45		BL
Total:	371.37	371.37	570.34	169.46	400.41	400.41		

b.2 M/s. Topstitch Ltd.

(Tk. In Lac)

Nature of Loan	Sanctioned Amount & Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amnt	Expiry Date	Classification Status
Demand Loan	174.97 13-03-96 to 27-10-98	174.97	238.76	92.37	146.39	146.39		BL
Packing Credit	11.90 15-10-95 to 21-01-96	11.90	13.39	11.24	2.15	2.15		BL
Total:	186.87	186.87	252.15	103.61	148.54	148.54		

b.3 M/s. Danlish Fashion.

(Tk. In Lac)

Nature of Loan	Sanctioned Amount & Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amnt.	Expiry Date	Classification Status
Demand Loan	14.40 18-09-96 to 20-12-98	14.40	18.81	6.73	11.68	11.68		
Total:	14.40	14.40	18.81	6.73	11.68	11.68		

Loan Information in total of Project Loan and its Sister concern.

Description	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding
M/s.Knight Dyeing Inds.Ltd.	1104.15	1089.65	1293.86	170.45	1123.41	1316.55
M/s.Knight Garments Ltd.	371.37	371.37	570.34	169.46	400.41	400.41
M/s.Topstitch Ltd.	186.87	186.87	252.15	103.61	148.54	148.54
M/s.Danlish Ltd.	14.40	14.40	18.41	6.73	11.68	11.68
Total:	1676.79	1662.29	2134.76	450.25	1684.04	1877.18

3. Securities against the loan.

The securities obtained in the form of primary security i.e. land, building and machinery at the time of sanction was at Tk. 618.94 lacs and collateral security valued at Tk. 62.50 lacs totaling Tk. 681.44 lacs. The present value of this security is at Tk. 542.67 lacs (as on 31-12-2000.)

No other collateral security and or primary security was found against demand loan and packing credit loan of huge amount.

In this situation, the sponsors applied for regularization of loan in the following manner:

4. Application of the sponsors.

- 100% interest waiver.
- Rescheduling of all loans for 10 years.
- Further allowing of back-to-back credit facilities.

5. Steps taken by the bank management for regularization of loan.

On receipt of application for regularization of loan from the sponsors, the bank management formed a technical committee to inspect the four projects and submission of a report about the projects. The committee on inspection submitted a report. The main features of the report was as under :

The Bank authority had taken a step to regularize the loan of this group. With this end in view, an inspection team was formed and they submit a report. The outcome of the report is as under :-

(i) The Machineries of the project was found in the factory. But some machine were changed but the sponsor did not inform the bank.

(ii) The repairs and maintenance works of the machines were not done.

(iii) Gas connection line and Electricity connection were disconnected.

(iv) The projects were leased to a company M/s. Textile Builders and Service.

(v) The inspectors were unable to locate the goods under stock-lot created against demand loan.

(vi) The factory were run previously on an average at the rate of 16.08% of available capacity.

(vii) With the utilization of this capacity, the factory authority shall not be able to service its debt even 100% interest is waived.

(viii) If the capacity utilization can raid to 60% to 65%, there debt service coverage ratio would be positive.

(ix) No effective monitoring of loan was done by the branch.

(x) Back-to-Back Letter of Credit opened beyond its production capacity and as a result, the sponsors failed to produce finished goods and ship the same in time. So huge demand loans are created.

8. <u>Observation</u>.

(1) Only 8% machines are workable in the project and its sister concern.
The rest 92% machines are lying idle in the factory.

(2) Due to lying idle in the factory, the machine life are decaying and the
Machines may be inactive within a short period of time.

(3) The Machine may be operated by over-handling the same with changing
some motors and spare parts.

(4) Gas connection and electricity connection may be restored by making payment of arrears electric and gas bills.

(5) The Machines may get more 10 years life if it is over-haulted by changing some parts. It would need some money not less than Tk.10,00 lac.

(6) The sponsor have shown their availability to pay down payment @ 10% on outstanding amount.

(7) To make it workable the utilization production capacity to be raised to 60% to 65% from the present average utilization of 16.08%. If this done, there the debt service coverage would be 1.12 & 1.21 times.

Case No. 5

Case study on Agro-based Industries

Nafiu Food Industries Ltd.
Good project

Nafiu Food Industries Ltd was shrimp culture project. The loan was sanctioned under credit guarantee scheme in the year 1994. The sponsors did not about to avail the loan due to raise of objection by the local branch manager of the bank. Thereafter, the project was given up by the sponsors. But it is in the statement list of the bank. This is why it is being shown as good project. Since the .... is not implemented, it is neither a good project nor a bad project. So the case analysis on this project has been given up.

Case No. 6

M/s. Lark Poultry Farm (Pvt.) Ltd.
Bad Project.

1. Background.
M/s. Lark Poultry Farm is an egg and pullet producing farm established in the year 1995 at Kaliakoir, Gazipur. There are 6(six) sponsor directors of the company at the time of sanction of loan. The annual production capacity of the farm is about 29.93 lacs of egg and 9750 pullet per year.

2. Sanction of loan.
The bank sanctioned Tk. 57.70 lacs as project loan of which Tk. 54.70 lac sanctioned as term loan and Tk. 2.94 lacs as working capital loan. The expiry date of term is 7-9-2002. The detailed cost of the project and means of finance is given here under :-

2.1. Cost of the project. (Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	10.50	0	10.50
Land Development	0	0	0
Building	17.40	14.08	31.48
Machinery	5.63	33.00	38.63
Machinery Installation	0.40	0	0.40
Furniture & Fixture	0.20	0	0.20
IDCP	0	4.53	4.53
Preliminary Expenses	0.50	0	0.50
Others	0.06	3.15	3.21
Fixed Cost	34.69	54.76	89.45
Initial Working Capital	1.26	2.94	4.20
Total Cost of the Project	35.95	57.70	93.65

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	34.69	1.26	35.95
Bank Loan	0	54.76	2.94	57.70
	0	89.45	4.20	93.65

Debt – Equity: 62:38

3. Securities against the loan.
The bank obtained primary security in the form of project land, building, machinery, furniture & fixture amounting to Tk. 83.66 lacs. Besides this, collateral security as 6.50 decimal land at Gazipur, 284 decimal land at Bhaluka, Mymensing, valued at Tk. 5.32 lacs totaling Tk. 88.98 lac against loan amount of Tk. 57.70 lacs. However, the credit information against this is given in the following manner.

4. Credit Information:

(Tk. In Lac.)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry Date
Term Loan	50.23 7-5-95	50.23 7-9-95	9.91	1.05	8.86	55.56	7-9-02
Total:	50.23	50.23	9.91	1.05	8.86	55.56	

a) It may be mentioned here that the loan disbursed as cooling capital for Tk.2.94 lac has already been adjusted alongwith interest for Tk. 3.41 lacs.

b) The recoverable amount is Tk.9.91 lacs. The borrower failed to repay the amount in time. The repayment period of the loan along with implementation and grace period is 5 years.

Since a little longer time is required to implement the project, the borrower applied for extension of time for repayment of loan.

5. Borrowers Application.

- Rescheduling of Installment of credits by extending repayment period.

Arguments in favour of Extension of Repayment Period.

- In project profile, there is no Bruader and Pullet shed, the borrowers have built the same for the interest of the project.

- Besides this, Office-cum-Godown, Machine Room, Fencing Boundary, Guard Room have been built.

- As a result they required 5 months extra time for implementation of the project.

This is why they need rescheduling extending repayment period.

6. Observation:

(i) The project authority did not be able to implement the project within the scheduled time. They need extra 5(five) months time to implement the project.

(ii) The project profile was defective. The Bank has also failed to identify the defective issues in the profile.

(iii) As a result the project implemented beyond its schedule and cost is overrun.

(iv) Due to cost overrun, they are unable to repay the installment of loan in due time.

(v) They have given required 10% down payment for rescheduling of loan.

Case study on Cold Storage

Case No. 7

Good Project

M/s. Purbachal Ltd.

1. Background.

M/s. Purbachal Ltd. is a cold storage industry established at Sreeramdi, Pakundia, Kishoreganj in the year 1994 on bank loan. This is private limited company. The following persons were the sponsor directors at the time of sanction of loan.

Name, Address & Share of the Sponsors.

1.	Advocate Abdul Hamid S/o.Late Hazee Toibuddin Ahmed Khorom Patty, Solakia Kishoreganj.	-Chairman	-13%
2.	Md.Abdur Razzaque S/o.Alhaj Md.Abdul Matin 31/2, Maddya Paikpara Mirpur, Dhaka.	- Managing Director	-34%
3.	A.K.M.Shamsul Hoque S/O. Late Md. Shamsul Hoque Chy. Multipurpose, Kisoreganj.	- Director	- 13%
4.	Kazi Asgar Ali	- Director	- 13%
5.	Md. Abdus Sattar Rafiq	- Director	- 15%
6.	Mrs. Ayesha Siddiqua	- Director	- 7%
7.	Nazmun Nahar Shirin	- Director	- 5%
			100%

Thereafter, the management was changed in two times with the approval of the Bank. Now the Board of Directors of the Company reorganized in the following way:

(a)	Md. Abdur Razzaque, Managing Director	-	73%
(b)	Md. Abdus Sattar Rafique, Ex-Director	-	15%
(c)	Mrs. Ayesha Siddiqua, Chairman	-	7%
(d)	Mrs. Nazmun Nahar Shirin, Director	-	5%
			100%

2. Sanction of loan.

The bank sanctioned Tk.3,14,55,000.00 as project loan. Out of which Tk. 3,04,80,000.00 as term loan and Tk. 9,75,000.00 as working capital loan was sanctioned. The details of cost of the project and means of finance is given hereunder :-

2.1. Cost of the Project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	8.08	0	8.08
Land Development	4.00	0	4.00
Building	49.48	136.20	185.64
Machinery	31.10	68.60	99.70
Machinery Installation	3.71	0	3.71
Furniture & Fixture	1.10	0	1.10
IDCP	0	33.53	33.53
Preliminary Expenses	2.00	0	2.00
Others	33.15	100.00	133.15
Fixed Cost	132.62	338.33	470.95
Initial Working Capital	4.18	9.75	13.93
Cost of the Project	136.80	348.08	484.88

2.2. Means of Finance.

	Term Loan.	Working Capital Loan.	Total.
Equity	-	-	1,36,80,000
Bank Loan	3,04,80,000	9,75,000	3,14,55,000
Total:	3,04,80,000	9,75,000	4,51,35,000

(Excluding IDCP)

Debt Equity = 70:30

3. Securities against loan.

The bank obtained both primary security and collateral to cover the loan against risk. The details of security is given as under :-

(Tk. In Lac)

Nature of Security.	Description.	Value at the time of taken.	Present Value.	Depre. Rate
Primary Security:	Land (2.02 acre)	8.08	8.08	0
	Building	349.03	340.30	2.50%
	Machinery	64.87	51.90	20%
	Others	22.06	17.65	20%
	Total:	444.04	417.93	
Collateral	Land & Building	42.88	42.88	
	Total:	486.92	460.81	

Besides this, the Ex-Chairman of the project has given to Bank for mortgage of the following properties. Land & Building : Tk. 7.80 lac.

4. Credit information of the project as on 31-12-2000.

The project started storing of potato in cold storage after implementation in the year 1995. The sponsors failed to repay the amount due to burst of ammonia compressor by accident. As a result, the project becomes inoperative. Thereafter, the loan was rescheduled in the year 1999 and falls under the regular category and becomes good project in the banks statement. The details of credit information is given here under:

(Tk. In Lac)

Nature of Credit	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amnt.
Term Loan	295.71 3-9-94 & 18/3/95	275.33	94.54	4.05	90.49	384.90
C.C. Hypo.	9.75 9-7-94	9.75	9.83	9.83	0	0
C.C Pledge	75.00 31-3-98	75.00	81.60	81.60	0	0
C.C Hypo.	200.00 13-3-99	133.77	0	0	0	139.55
	580.46	493.85	185.97	95.48	90.49	524.45

5. Application of the Sponsors.

(a) Rescheduling of Project loan for 15 years from 1-1-2001 with half-yearly installments.

(b) IDCP & cumulative interest of Project Loan transferred to a Blocked A/C and rescheduling for 15 years with half-yearly installments.

(c) Transferring of share of Advocate Abdul Hamid to Mohammad Abdur Razzaque and acceptance of his resignation.

6. Present Position of the Cold Storage.

- Civil Work.
  The Cold Storage has no sorting shed and pre-cooling chamber. The quality of insulating material does not maintenance at satisfactory level.

- Machinery.
  The Engineer of the Bank reported that the quality of Ammonia Leakage and Cooling unit in storage room is not at satisfactory level. The quality of the machine to be balanced.

- Management.
  The overall management of the project is not satisfactory. Besides this, there is a management for maintenance of stores and machine. The management of the project to be upgraded.

- Observation.
  In 1994, Term Loan for Tk.304.80 lac and short term loan for Tk.314.55 lac sanctioned as project loan.

- Thereafter, the amount of term loan reduced to Tk.305.46 lacs due to change in specification of civil works.

- Besides this, working capital loan for Tk.100.00 lac was sanctioned in 1999 season. The loan was not adjusted due to shortfall created for falling prices.

- The borrower has failed to repay the installment in time. However, a change has given to the borrower to repay the 1st installment amount with the second installment.

- In 1996, the management of the company has changed with the prior approval of the Bank.

- Now the company has again approached to change its management by accepting resignation of its chairman Advocate Abdul Hamid and inclusion of Mrs. Ayesha Siddiqa Parul and Mr. Abdus Sattar Rafiq as it new director.

- The company has also approached to reschedule its time for 15 years and transfer all the interests into a blocked account with a moratorium period of 15 years for repayment.

- The potato was damaged which was stored against cash credit pledge in 1999. The damaged potato was cleared and recovered Tk.60.93 lacs and the rest of Tk.89.70 lacs kept in outstanding account.

- No decision ahs been taken for this outstanding amount of Tk.89.70 lacs.

- The Managing Director of the Project is a blind man. The other directors of the company are participating actively in company affairs.

7. Observation:

(i) The Chairman of the company is a renowned politician of the country. Now he has resigned from the company and relinquished all the duties and responsibilities of company. It is presumed that the loan was sanctioned keeping in front of this political chairman.

(ii) The initial working capital was very low to storage a 4500 Metric Ton capacity cold storage. As a result, either the company has failed to fill up all chambers of the cold storage with this amount or stored the cold storage with rented potato from the farmers.

(iii) The construction of the project was not standard resulting of which stored potato was damaged in 1999. The company lose a huge amount of Tk.89.70 lacs.

Case No. 8

Shah Mokhdunia Cold Storage Ltd.

Bad Project

1. Background.

M/s. Shah Mokhdunia Cold Storage Ltd. established in the year 1994 at Shahjadpur, Serajganj on bank loan. There were 6(six) sponsors directors at the time of sanctioning of loan and they still remain as director. The storage capacity of the cold storage was 6000 metric ton. Later the sponsors increased it to 8000 metric ton. But from where the cost for the increasing the capacity portion was not traced even in analysis of cost of the project.

2. Sanction of loan.

The bank sanctioned Tk. 564.48 lacs as project loan of which Tk. 464.48 lac as term loan and Tk. 100.00 lac as working capital loan. The details of cost of the project and means of finance is given here under :

2.1. Cost of the project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	12.00	0	12.00
Land Development	9.00	0	9.00
Building	20.89	125.00	145.89
Machinery	23.03	71.37	94.40
Machinery Installation	3.70	0	3.70
Furniture & Fixture	1.10	0	1.10
IDCP	0	31.80	31.80
Preliminary Expenses	2.00	0	2.00
Others	52.21	92.79	145.00
Fixed Cost	123.93	320.96	444.89
Initial working capital	3.80	8.80	12.60
Total cost of the project	127.73	329.76	457.49

Before completion of the project, the Bank authority allowed BMR Loan. Then the cost of the project stands as under :

Fixed Cost	257.90	464.48	722.38
Working Capital	3.80	100.00	103.80
Total Cost of the Project	261.70	564.48	826.18

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	0	0	261.70
Bank Loan	0	464.48	100.00	564.48
		464.48	100.00	826.18

4. Position of the project.

- In the year 1999, the authority of the company swiping 12,377 bags Potato whose costs amounting to Tk.44,64 lacs. resulting of which C.C.pledge was not adjusted.
- In the year the Bank sanctioned Tk.15.00 lacs as T.R. to make up the shortfall.

The details of credit information in given as under :

(Tk. In Lac)

Nature of Credit	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amnt.
Project Loan	464.48	464.48	545.36	0	545.36	945.79
C.C Pledge'97	36.52	36.52	66.41	0	66.41	66.41
C.C Hypo.'99	205.00	205.00	52.38	0	52.38	52.38
T.R. 99	15.00	0	0	0	18.31	18.31
	721.00	706.00	664.15	0	682.46	1082.89

5. Application of the Sponsors.

(i) Segregate the loan into principal and interest.

(ii) Both principal and interest to be transferred into blocked account and reschedule the same for 12 years.

(iii) Sanction of C.C. Pledge as per rule.

(iv) For carrying of Potato sanction Tk. 30.00 lac as C.C Hypothecation.

Case No.9

Case study on Pharmaceuticals and Chemical Industries

M/s. Rahman Chemicals

Bad Project

1. Background.

M/s. Rahman chemicals is a pharmaceutical industry established at Barbakpur, Bogra Sadar, Bogra. It is started to produce initially sodium silicate. It is a proprietorship company. Mr. Md. Abdur Rashid is a sole proprietor of the company.

2. Sanction of loan.

The bank sanctioned project loan for Tk. 3,00,000 in the year 1989 with a 6(six) months grace period and 6(six) months implementation period with 10(ten) half-yearly equal installments. The expiry date of loan was 04-01-1995. Thereafter, working capital in the form of cash credit pledge for Tk. 35,00,000 and cash credit hypothecation for Tk. 15.00 lacs extended to the borrower in the yer 1993. But the sponsor did not avail the cash credit pledge. The detailed cost of the project, means of finance and present outstanding position is given hereunder :-

2.1. Cost of the Project.

Item	Equity	Bank Loan	Total
Land	5,80,000	0	5,80,000
Land Development	0	0	0
Building	11,94,000	0	11,94,000
Machinery	29,06,000	3,00,000	32,06,000
Machinery Installation	15,000	0	15,000
Furniture & Fixture	5,000	0	5,000
IDCP	0	25,000	25,000
Preliminary Expenses	10,000	0	10,000
Others	2,11,000	0	2,11,000
Fixed Cost	49,21,000	3,25,000	52,46,000
Initial Working Capital	9,50,000	14,00,000	23,50,000
Total cost of the project	58,71,000	17,25,000	75,96,000

2.2. Means of Finance.

	Term Loan.	Working Capital Loan.	Total.
Equity	-	-	58,71,000
Bank Loan	3,00,000	14,00,000	17,00,000
	3,00,000	14,00,000	75,71,000

Debt Equity = 23:77

2.3. Present position of credit.

(Tk. In Lac)

	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amnt.	Expiry Date
Project Loan	3.00 (26-11-89)	3.00	5.64	3.19	2.45	2.45	4-1-95
Working Capital: C.C Pledge	35.00 (14-04-93)	0	0	0	0	0	0
C.C Hypo.	15.00	14.62	33.40	7.75	25.65	25.65	31-3-94
	53.00	17.62	39.04	10.94	28.10	28.10	

3. Securities against the loan.

The bank covered its sanctioned loan against the securities obtained. The primary securities comprising of project land and machines valued at Tk. 37,86,000 and collateral securities valued at Tk. 26,00,000. This valuation was done at the time of sanctioning of loan. The present value of both primary security and collateral security stand Tk. 30,76,000.

In this situation, when security value still exceeds liabilities, the sick industries cell of the government declared the project sick on getting application from the sponsors.

4. Recommendations of sick industries cell.

(i) Penal Interest 100% and unrecovered interest 100% waived.
(ii) The residual amount to be repaid within 2 years.
(iii) 5% down payment on principal amount to be obtained.

5. Arguments in favour of interest waiver.

The sick cell of the government has declared the industry as sick. The cell recommended for interest waiver within the .... of interest waiver of the government. The bank will get 50% of its interest waiver.

6. The detail particulars of credit (project and cash credit hypothecation was as under:

Nature of Security.	Description.	Value at the time of taken.	Present Value.
Primary	Land & Machineries	37,86,000	3,00,000
Security	Building	11,94,000	7,76,000
Collateral	Land	16,53,000	18,00,000
	Building	9,47,000	2,00,000
		75,80,000	30,76,000

7. Banks argument in favour of interest waiver.

The sick industries cell of the government has declared the industry as sick. The cell recommended for interest waiver within the principle set by the government. On implementation of the recommendation, the bank will get 50% of its interest waiver. Since the bank failed to recover the outstanding loan, this interest waiver is beneficial to the bank as it will recover principal and 50% of its interest.

8. Observation.

- The sick industries cell declared the industries as sick.
- The force sale value of the securities against the outstanding loan may not help to recover the outstanding loan.
- The bank did not file any suit in the court of law to recover the loan, though a long time clasped after the expiry of the loan.
- The industry did not run well since its inception.

9. Concluding remarks.

- The project feasibility study was not done.
- Sponsor selection was not appropriate.
- Monitoring of credits was not done at all by the bank.

Case No. 10

Case study on cement industries

M/s. Diamond Cement Ltd.
Bad Project.

1. Background.

M/s. Diamond Cement Industries is a clinker based cement industries established in the year 1994 at Patia, Isanagar, Chittagong. There were 7(seven) persons included as sponsor directors at the time of sanctioning of sanctioning loan. During sanctioning of loan, project feasibility was done but soil testing was not done at the time of feasibility study.

2. Sanction of loan.

The Board of Directors of the Bank approved Tk.1255.00 as term loan in favour of the Project on 08-06-94 against total cost of project Tk.2019.30 lac. The division of the project cost is as under :-

Description.	Bank Loan.	Equity.	Total.
Fixed Cost	1005.00	449.65	1454.65
Working Capital	250.00	93.55	343.55
IDCP	221.10	-	221.10
	1476.10	543.20	2019.30

Thereafter, the sponsors applied to the Bank for Enhancement of Project Loan for Tk.989.17 lacs showing the cost of the project for Tk. 3721.50 lacs from Tk. 2019.30 lac. The details of the cost of the project is given as under :-

Description	Bank Loan			Equity			Total		
	Approved	Enhanced	Total	Approved	Enhanced	Total	Approved	Enhanced	Total
Fixed Cost	1005.00	836.32	1841.32	449.65	339.48	789.13	1454.65	1175.80	2630.45
Working Capital Loan	250.00	152.85	402.85	93.55	79.10	172.65	343.55	231.95	575.50
Intt. during construction period	221.10	294.45	515.55	0	0	0	221.10	294.45	515.55
Total Cost of the Project	1476.10	1283.62	2759.72	543.20	418.58	961.78	2019.30	1702.20	3721.50

3. Means of Finance.

Bank Loan	Approved	Enhanced	Total
Term Loan	1005.00	300.00	1305.00
Working Capital Loan	250.00	150.00	400.00
Interest During Construction Period	221.10	0	221.10
Total Loan	1476.10	450.00	1926.10
Equity	543.20	816.90	1360.10

Debt – Equity:	73:27	36:34	59:41

4. Justification for Enhancement of Loan.

(i) Project Land: Project land increased by 173 decimals from 567 decimals to 740 decimals. The investment in this sector increased by Tk.20.76 lacs from Tk.68.04 lacs to Tk.88.80 lacs.

(i) Land Development: The investment cost in this sector increased by Tk.28.00 lacs from Tk.22.87 lacs to Tk.50.87 lacs. This amount has been spent from the equity sources.

(iii) Building and Other Civil Works. The total invest cost was determined for Tk.449.91 lacs. Now the expenditure increased by Tk.639.95 lacs to Tk.1089.86 lacs. The expenditure in this sector is about Tk.810.13 lacs out of which equity Tk.544.13 and Bank Loan is Tk. 266.00 lacs.

(iv) Imported Machinery. The cost approved in this head of expenditure is Tk.758.70 lacs including Tk.36.00 lacs. Tk.745.90 lacs has already been invested including Bank loan Tk.674.43 lacs and Tk.71.47 lacs as equity.

(v) Local Machinery. The expenditure increased by Tk.81.13 lacs from Tk.28.00 lacs to Tk.109.13 lacs. The sponsor have already spent Tk.12.07 lacs in this head of expenditure which is entirely their eqauity.

(vi) Tax and Duties. The expenditure increased by Tk. 22.60 lacs from 101.18 lacs to Tk.123.78 lacs. The equity position of Tk.122.47 lacs has already spent.

(vii) Internal Freight. The internal freight has increased by Tk.24.04 lacs from Tk.4.00 lacs to Tk.28.04 lacs. This expenditure has already been increased.

(viii) Furniture & Fixture. The expenditure increased by Tk.7.50 lacs from 2.50 lacs to Tk.10.00 lacs. No investment has been made in this head of expenditure.

(ix) Machinery Installation and Security Deposit. The expenditure in this head of investment has increased by Tk.131.22 lacs from Tk.14.45 lacs to Tk.145.67 lacs. No investment has been made in this head of account.

(x) Preliminary Expenses. The preliminary expenses increased by Tk.84.56 lacs from Tk. 5.00 lacs to Tk. 89.56 lacs. The equity portion of Tk.68.62 lacs has already invested.

(xi) Lending Risk Analysis.

Supply risk	:	High
Sales risk	:	Low
Performance risk	:	Average
Reselience risk	:	Average
Management Competence risk	:	Average
Management Integrity risk	:	Average
Business Risk	:	Average
Security Control risk	:	High
Security Cover risk	:	High
Security risk	:	High
Overall risk	:	Acceptable

5. Securities against loan.

The bank obtained both primary security and collateral security amounting to Tk. 1445.79 lacs and Tk. 925.76 lacs totaling Tk. 2371.55. The bank also obtained collateral security for 125.50 to cover up its enhancement of loan. The details of security particulars are given below:

Security Information.

Primary Security	Approved.	Proposed.
	(Tk. In Lac)	
Project Land (Including Development).	90.91	139.67
Building & Other Civil Works.	449.91	1089.86
Machinery.	902.47	1132.02
Furniture & Fixture	2.50	10.00
Total:	1445.79	2371.55

Collateral Security.

(a) Collateral Security for Tk.125.50 lacs to be obtained.

(b) For excess amount of working capital for Tk. 150.00 lacs, Collateral to be obtained as per rules.

a. Personal Properties of the Sponsors.

Besides collateral securities, the bank obtained a declaration from the directors of the company. The particulars of the personal properties were as under :

Land	:	Tk. 656.50 Lacs.
Building	:	Tk. 197.40 Lacs.
Cash	:	Tk. 678.00 Lacs.
Investment	:	Tk.1548.70 Lacs.
Other Properties	:	Tk.1195.00 Lacs.
		Tk.4275.00 Lacs.

7. Observation.

- The loan was sanctioned after doing feasibility study of the projects.
- The soil test was not done at the time of studying feasibility of the projects and as a result the expenses relating to soil test was not included.
- Due to inefficient feasibility study, the sponsors needed further financing and it took longer time for implementation of the project.
- During the period of implementation, the expiry time of its implementation as fixed at the first time of sanction ends and the project loan shown as classified and ultimately its becomes bad projects though its implementation was not completed at that time.

Case No.11

Case Study on Cyramic Industries.

Koly Cyramics Industries
Good Project

1. Background.

M/s. Koly Cyramics Industries Ltd. is private limited company established in the year 1988 at Tongi, Gazipur. It produces cup, plate and bowl of cyramics. There were 3 directors and shareholders of the company. All of them are family members. The project established on bank loan.

2. Sanctioning of Loan.

The bank sanctioned Tk. 50.00 lacs of which term loan for Tk. 42.00 lacs and working capital loan in the form of cash credit hypothecation for Tk. 8.00 lacs. The cost of the project, means of finance and debt equity ratio is given below :

2.1. Cost of the Project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	10,75,000	0	10,75,000
Land Development	0	0	0
Building	25,26,000	12,00,000	37,26,000
Machinery	25,10,000	10,00,000	35,10,000
Machinery Installation	1,50,000	0	1,50,000
Furniture & Fixture	25,000	25,000	50,000
IDCP	0	1,90,000	1,90,000
Preliminary Expenses	10,000	0	10,000
Others	6,56,000	20,00,000	26,56,000
Fixed Cost	69,52,000	43,90,000	113,42,000
Initial Working Capital	3,30,000	8,00,000	11,30,000
Total Cost of the Project	72,82,000	51,90,000	124,72,000

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	0	0	72,82,000
Bank Loan	0	42,00,000	8,00,000	50,00,000
	0	42,00,000	8,00,000	1,22,82,000

Debt – Equity: 42:58

2.3. Credit Information.

(Tk. In Lac)

Nature of Credit	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amnt.	Expiry Date
Term Loan	42.00 19-12-88	42.00	82.84	9.50	73.34	73.34	31/12/98
Working Capital (CC Hypo.)	8.00 19-12-88	8.00	17.61	7.10	10.51	10.51	5/5/91
	50.00	50.00	100.45	16.60	83.85	83.85	

3. Security against loan.

In this case no Primary Security and Collateral Security was shown separately. The total security is shown as under :-

(a) Project Land :
(b) 10 Katha Land at Aouchpara, Mouza, Gazipur: | Tk.200.00 lac
(c) 1.77 Katha Land at Gulshan :
(d) 5.52 decimal land at Aouchpara Mouza, Gazipur:

Initially, the loan was sanctioned for 5 years including 6 months implementation period and 6 months grace period, the expiry date was 1993. Thereafter, in 1994, the outstanding loan amount for Tk. 55.84 lacs rescheduled for further 5 years. The expiry date was 31-12-1998. But the sponsor failed to comply with the terms and thereby again applied for the followings:

4. Application of the sponsors.

- Interest waiver.
- Rescheduling of loan.

5. Analysis of the credit for interest waiver.

	Description.	Term Loan.	W.C.Loan.	Total.
(a)	Principal	55,83,944	7,79,700	63,63,644
(b)	General Intt.charged	26,66,842	8,62,664	35,29,506
(c)	Other charges	33,145	1,18,007	1,51,152
(d)	Repayment, down payment	9,50,000	7,10,000	16,60,000
(e)	Present Outstanding	73,33,931	10,50,371	83,84,302
(f)	Proposed Intt.waiver @50% of (b)	13,33,421	4,31,331	17,64,752
(g)	Total Intt. waiver	13,33,421	4,31,331	17,64,752
(h)	The residual after intt.waiver.	60,00,510	6,19,040	66,19,550
(ii)	Amount of Installment.	2,50,021.25	25,793.33	,75,814.58

If the management considers waiver of 50% general interest charged, then the waiver-able interest and the residual amount will be as under. Out of deposited amount Tk. 16.60 lac, the amount of Tk. 9.50 lac deposited from 01-01-96 to 04-08-97 as down payment.

6. Observation.

(a) The Bank sanctioned Tk. 50.00 lac as term loan and working capital loan in 1988. The expiry date of term loan was 06-06-94 and working capital loan was 05-05-91.

(b) The sponsor applied on 15-02-95 for waiver of 80% interest and rescheduling of residual amount for 5 years without interest. The applicant did not deposit required 10% down payment with the application rather be requested the Bank treat the deposited amount of Tk. 9.50 lac from 15-02-95 to 19-06-97 as down payment. The Bank's credit and investment committee advised to submit the application after depositing 10% down payment.

(c) Thereafter, the chairman of the credit and investment committee signed that the amount deposited from 15-02-95 to 19-06-97 case be treated as down payment. On the strength of this position, the interest waiver application placed to the credit & investment committee again for re-consideration.

(d) On 05-10-97, the committee again rejected to consider the application of interest waiver on the place that required down payment did not deposit into the account.

(e) At last, the committed recommended the case for placement to the Board for consideration.

The Board of Directors of the Bank waived 50% of charged general interest for Tk.17,64,752.00 and rescheduled the rest amount of 66,19,550.00 for payment within 2(two) year without interest.

Case No.12

Case study on Leather Industries

Jass Leather Industries Ltd.
Good Project

1. Background.

M/s. Jass Leather Industries Ltd. is private limited shoes making company established at Della, Demra, Dhaka in the year 1995. There were seven directors at the time of establishment. They are still continuing their directorship. The project was established on bank loan alongwith sponsors equity.

2. Sanctioning of loan.

The bank sanctioned loan for Tk. 364.19 lac of which term loan for Tk. 308.35 lac and working capital in the form of cash credit hypothecation of Tk. 55.84 lac in the year 1995. The detailed particulars of cost of the project, means of finance and debt equity ratio is given hereunder :

2.1. Cost of the Project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	13.64	0	13.64
Land Development	0	0	0
Building	75.32	26.90	97.22
Machinery	91.12	255.88	347.00
Machinery Installation	14.71	0	14.71
Furniture & Fixture	4.00	0	4.00
IDCP	0	30.57	30.57
Preliminary Expenses	3.00	0	3.57
Others	0	0	0
Fixed Cost	201.79	308.35	510.14
Initial Working Capital	23.93	55.84	79.77
Total Cost of the Project	225.72	364.19	589.91

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	201.79	23.93	225.72
Bank Loan	0	308.35	55.84	364.19
	0	510.14	79.77	589.91

Debt – Equity: 60:40

3. Security Covering the Loan.

The detailed particulars of the securities is given below :

Name of security	Description	Value at the Time of taken	Present value
Primary Security:	Project Land 45 decimal.	13.64	40.91
	Building.	97.22	60.72
	Machinery & Furniture Fixture.	365.71	234.05
	Sub-Total:	476.57	335.68
Collateral Security:	Land 325 Decimal	83.67	113.75
	Total:	560.64	449.43
Proposed Collateral Security:	Land 555.75 Decimal at Sounna Mouza Demra	0	127.82
		560.24	577.25

4. Credit position as on 31-12-2000:

The loan so sanctioned in different forms in different time alongwith recovered amount is given below :

(Tk. In Lac.)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Intt. Charged	Intt. Accrued but not charged	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry
Term Loan	277.78 24-1-95	270.88	177.60	26.55	217.58	14.88	202.70	452.58	3/7/03
LIM	52.30	51.81	22.89	22.57	97.33	9.48	87.85	87.85	-
CC Hypo.	16.84	30.61	10.19	4.82	45.62	0	45.62	45.62	19/1/99
CC Pledge	39.00	31.01	6.10	4.35	41.46	10.08	31.38	31.38	3/1/99
P.C	19.30	19.30	3.05	5.86	28.21	1.00	27.21	27.21	-
Total:	405.22	403.67	219.83	64.15	430.20	35.44	394.76	644.64	-

While analyzing the outstanding amount of loan alongwith the present value of security for Tk.577.25 lac, I observe that outstanding amount has already exceeds security value. In this situation, the bank did not take any step to liquidate this money.

5. Application of the sponsors.

a) Rescheduling of Term Loan by extending repayment period.

b) Segregation of LIM A/C. into principal and interest, merge the principal with principal of term loan and interest with the interest account of term loan.

c) Thereby segregate the principal account and interest amount and transfer all the interest amount into a blocked account and then reschedule.

6. Facilities already provided to the sponsor:

a) The repayment period of term loan extended upto 31-12-2005 from 3-7-2003.

b) Rescheduling of the term loan by transferring LIM account with project loan account.

c) Renewal of Packing Credit for 1(one) year for adjustment purpose only.

7. Observation:

(i) The bank sanctioned Tk.277.78 lacs as project loan and Tk.55.84 lacs as cash credit hypothecation loan in the year 1995.

(ii) According to the term of the loan, Implementation period was fixed for 12 months from the date of 1st disbursement and 12 months were allowed as grace period. The total repayment period was fixed for 8(eight) years.

(iii) Thereafter, after completion of the project, the bank made a repayment schedule of the loan on 26-5-98. The expiry date fixed for repayment was 3-7-2003.

(iv) The borrower failed to comply with the terms as stipulated in the sanction.

(v) The borrower also failed to make repayment of the rest amount of down payment of 12.63 lacs as scheduled.

(vi) The total outstanding amount of the loan stand at Tk.644.64 lacs as on 31-12-2000. Out of this amount Tk.394.76 lacs classified as Bad & Loss. The total recovery of these accounts is Tk. 35.44 lacs.

(vii) For sanctioning of further working capital loan, the borrower proposed to give mortgage of landed property measuring 555.75 decimal at Sounna Mouza, Demra, Dhaka. The value of this property estimated at Tk.127.82 lacs by the bank.

(viii) The bank allowed this facilities but the borrower failed to comply with.

Case No.13

Paramount Tanneries

Bad Project

1. Background.

M/s. Paramount Tanneries is a partnership co. established in the year 1988 on bank loan. It produces wet Blue Leather. There were 2(two) partners at the time of establishment of the company.

2. Sanctioning of loan.

The bank sanctioned project loan for Tk. 4,23,14,000.00 in the form of term loan for Tk.2,63,14,000.00, cash credit pledge Tk.85,00,000.00 and cash credit hypothecation for Tk.75,00,000.00. The detailed particulars of cost of the project, means of finance, debt equity ratio is given hereunder :

2.1. Cost of the project.

(Tk. In Lac)

Item	Equity		Bank Loan		Total		Total
	Existing	Ext.	Existing	Ext.	Ext.	Existing	
Project Land	29.00	0	0	0	29.00	0	29.00
Land Development	0	0	0	0	0	0	0
Building	0	28.75	0	36.46	0	65.21	65.21
Machinery	9.00	46.65	0	221.65	9.00	268.33	277.33
Machinery Installation	0	0.50	0	0	0	0.50	0.50
Furniture & Fixture	0	0.50	0	0	0	0.50	0.50
IDCP	0	0	0	36.00	0	36.00	36.00
Preliminary Expenses	0	0.20	0	0	0	0.20	0.20
Others	0	0.87	0	5.00	0	5.87	5.87
Fixed Cost	38.00	77.47	0	299.14	38.00	376.61	414.65
Initial Working Capital	0	15.20	110.00	50.00	110.00	65.20	175.20
Total Cost of the Project	38.00	92.67	110.00	349.14	148.00	441.81	589.81

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	0	0	13067000
Bank Loan	0	26314000	16000000	42114000
	0	26314000	16000000	55381000

Debt – Equity: 79:21

3. Securities against loan.

The bank obtained both primary and collateral security to over the loan. Securities information is as under :

(Tk. In Lac)

Name of security	Description	Value at the Time of taken	Present value
Primary Security:	Project Land 28.5 decimals:	29.00	0
	Building:	64.62	0
	Machinery:	225.87	0
	Furniture,Fixture:	0.50	0
		319.99	0
Collateral Security:	17 Katha 5 hattak Land & Semipucca Building on it at Hazaribagh.	135.13	
	12 Katha Land & 6000 Sqft.Buldg. on it.	126.00	
	Proposal 228.03 Katha Land at Uttar Khan.	90.59	
		351.72	0

4. Present position of credit:

The outstanding loan alongwith classification amount is given below :

(Tk. In Lac.)

Nature of Loan	Credit Limit	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount
ADB portion	200.00	200.00	112.37	0	112.37	312.37
Bank Portion	63.14	21.58	12.89	0	12.89	40.47
CC Hypo.	75.00	75.00	37.26	0	37.26	112.26
CC Hypo. (Eid Adv.)	30.00	30.00	21.00	21.97	0	22.40
Total:	368.14	332.58	184.49	21.97	162.52	497.51

While analyzing the securities against loan, I observe that the outstanding loan amount for Tk.497.51 lacs exceeds security value of Tk.351.72 lacs. In this situation, the bank did not take any step to recover the loan, rather the borrower applied to the bank for the followings :

5. Application of the borrower:

(ii) Interest waiver.

(iii) Rescheduling of entire loan.

(iv) Sanction of :

- CC Hypo. — Tk. 350.00 lacs.
- CC Pledge — Tk. 65.00 lacs. @ 25% margin.
- LC Limit(Revolving) — Tk. 30.00 lacs @ 10% margin.
- PC Limit — Tk. 100.00 lacs @10% margin.

6. Facilities provided to the Borrower:

(i) The Bank advised the borrower to convert the partnership Co. into a Private Ltd. Co.

(ii) After converting into Private Limited Company, 5 new directors inclusion advice was given by the Bank.

(iii) The Bank also advised the borrower to include one Bank's representative to its Board of Directors.

(iv) The borrower failed to comply with the above.

(v) Besides, the borrower did not comply with the terms of sanction advice regarding construction of 23,500 Sft. building rather the borrower constructed 11500 Sft.

(vi) Though the borrower did not comply into terms as stipulated in the sanction advice, the bank considers the following:-

(a) Segregation of principal and interest of the project loan & C.C.Hypo loan.

(b) No interest waiver will be considered at this stage.

(c) From July'95 all liabilities to be adjusted by depositing Tk.10.00 lac every month.

(vii) Eid Advance and others loans existing outstanding amount to be adjusted before availing the following loans :-

(i)	C.C.Pledge	Tk.50.00 lacs.
(ii)	C.C.Hypo.	Tk. 200.00 lacs.
(iii)	P.C. (Revolving)	Tk. 100.00 lacs
(iv)	Letter of Credit (Revolving)	Tk. 30.00 lacs.

7. Observation.

(i) The bank did not study the feasibility of the project properly.

(ii) Working capital need was not assessed and not sanction in time.

(iii) Production and sales monitoring was not done by the bank properly.

This is why the loan leads to default.

Case No.14

Case study on Printing Industries

Anmon Packages
Good Project

1. Background.

M/s. Anmon Packages Private Limited is printing industry established in the year 1994 at Shimrail, Siddirganj, Narayanganj. Initially the project was as sole proprietorship time. Thereafter, the firm has been converted into a private limited company with the shareholders of family members. The project produces 450 M.T. corrogated sheet cartoon per year.

2. Sanctioning of Loan.

The bank sanctioned project loan for Tk.56.38 lac in 1994, out of which Tk. 47.25 lacs as term loan and Tk. 9.13 lac as working capital in the term of cash credit hypothecation. Thereafter, the bank renewed and enhanced cash credit hypothecation loan to Tk. 10.00 lacs from Tk. 7.00 lacs and cash credit pledge for Tk. 15.00 lacs was also sanctioned in favour of the borrower. Working capotal loan in the form of cash credit hypothecation and cash credit pledge were being renewed and enhanced from the very beginning of the project starts commercial production. The detailed particulars of the cost of project means of finance, debt equity ratio and the present positon of the loan is given hereunder.

2.1. Cost of the project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Project Land	9.07	0	9.07
Land Development	0	0	0
Building	5.23	11.02	16.25
Machinery	14.29	31.33	45.62
Machinery Installation	1.06	0	1.06
Furniture & Fixture	1.00	0	1.00
IDCP	0	2.13	2.13
Preliminary Expenses	1.00	0	1.00
Others	2.00	4.90	6.90
Fixed Cost	33.65	49.38	83.03
Initial Working Capital	3.52	7.00	10.52
Total Cost of the Project	31.17	56.38	93.55

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	33.65	3.52	37.17
Bank Loan	0	47.25	7.00	54.25
	0	80.90	10.52	91.42

Debt-Equity: 60:40

2.3. Present position of credit (31-12-2000):

(Tk. In Lac.)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount
Term Loan	47.25 5-9-94	47.25	67.78	42.55	25.23	25.23
CC Hypo.	10.00 18-8-99	10.00	13.18	0	13.18	13.18
CC Pledge	15.00 18-8-99	15.00	14.79	0	14.79	14.79
Total:	72.25	72.25	95.75	42.55	53.20	53.20

3. Security against the loan.

The bank obtained both primary security valued at Tk. 79.90 lac and collateral security valued at Tk. 13.56 lac totaling Tk. 93.46 lac. The present value of these securities is Tk. 60.96 which is also higher than the outstanding amount. In this situation, the borrower applied for waiver of interest.

4. Application of the borrower.

(i) Waiver of 100% interest.

(ii) The borrower committed to repay the loan if waived interest within 90 days.

5. Arguments in favour of interest waiver.

The borrower applied for interest waiver without showing any valid reason rather be mentioned that due to some unavoidable circumstances, the borrower needs interest waiver. The branch manager, district manager and circle office recommended to waiver of interest.

6. Facilities provided.

The bank allowed waiver of interest after retaining cost of fund of the loan which is 20.17% of general interest amounting to Tk. 4,94,549.00.

7. Observation.

i) The project is running.

ii) The products are selling and earning profit by the sponsors.

iii) He was repaying the loan but on all a sudden he applied for waiver of 100% interest.

iv) The branch manager, district manager and circle manager of the bank recommended to waiver of interest.

v) In this situation, I infer that the borrower influenced by the interest waiver policy of the government.

Case No.15

Case study on Engineering and Electronics Industry

Bangladesh Electricity Meter Company Ltd.

1. Background.

The Bangladesh Electricity Meter Company Ltd. (BEMCO) is a electric meter producing company established in the year 1988 with the financial assistance of American Express Bank Ltd. This was a joint venture project of Landis and Gear company, Switzerland, Batrack C.I. England and local sponsor. There were 8(eight) directors of the company at the time of taken over of the project by the bank.

2. Sanctioning of loan.

The project was taken over by Agrani Bank in the year 1989 by paying Tk. 200.00 lacs to American Express Bank Ltd. Then Agrani Bank sanctioned Tk. 40.00 lac working capital. Agrani Bank has also created demand loan for Tk. 133.00 lac in the year 1991. The detailed particulars of cost of the project, means of finance, debt equity ratio is given as under.

2.1. Cost of the project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	2.00	0	2.00
Land Development	0	0	0
Building	7.65	30.89	38.54
Machinery	28.98	42.11	71.09
Machinery Installation	0.50	0	0.50
Furniture & Fixture	0.50	0	0.50
IDCP	5.44	0	5.44
Preliminary Expenses	0.10	0	0.10
Others	0	2.00	2.00
Fixed Cost	45.17	75.00	120.17
Initial Working Capital	34.04	86.04	123.44
Total Cost of the Project	82.21	261.40	243.61

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	2.75	42.42	37.04	82.29
Bank Loan	35.51	34.49	86.40	161.40
	38.26	76.91	123.44	243.61

Debt – Equity: 68:32

3. Securities against the loan.

The bank obtained project land, building, machinery and furniture, fixture as primary security valued at Tk. 620.00 lac and a building at Dhaka by name Salatin House valued at Tk. 320.00 lac totaling Tk. 940.00 lac. The present value of these securities are at Tk. 1900.00 lacs.

4. Present position.

(Tk. In Lac.)

Nature of Credit	Limit	Recoverable Installment	Recovered alongwith down payment	Classified Amount	Outg. Amount	Expiry
Principal with rate of Intt.	254.92	127.23 No.4	23.21	104.02	289.60	
Interest without Interiff Blocked A/c.(Payable)	70.34	21.88 No.5	14.19	7.69	38.30	
Interest Blocked (Waiverable)	280.62	0	0	0	280.62	
	605.88	149.11	37.40	111.71	608.52	

While analyzing present outstanding of loan, it has been observed that the security value exceeds the outstanding amount.

5. Interest Waiver.

The bank has sanctioned interest waiver for three times.

First time in 1994 the bank waived interest for Tk.139.50 lac and rescheduled the residual amount Tk. 445.15 lac for five years. The borrower has failed to comply with the terms.

In second time in 1996, the bank again waived interest Tk. 237.97 lac extending from Tk.139.50 lac. The residual amount Tk. 346.67 lac rescheduled for 5 years. In this time, the borrower has failed to comply with the terms.

In the third time in 1997, the bank again waived interest raising from previous waiver amount from Tk. 237.97 lac to 280.62 lac. The residual principal for Tk. 254.92 lac rescheduled for 5 years with Bank rate and interest amount for Tk. 70.34 lac transferred to interest free blocked account.

6. Observation.

1) The liabilities was purchased from American Express Bank Ltd.

2) Thereafter, the bank sanctioned Tk. 200.00 lac, term loan, working capital for Tk. 40.00 lac. and demand loan for Tk. 133.00 lacs.

3) The borrower has failed to run the company smoothly.

4) The bank has also waived interest for three time amounting to Tk. 280.62 lacs.

5) Interest amount Tk. 70.34 lac has been transferred to interest free blocked a/c.

With the availing of huge facilities from the bank, the project has failed to repay the loan. The project has become a white elephant by this time. The bank did not file a suit in the court of law to recover the loan.

Case No.16

Case study on Engineering and Electronics

Farmland Heavy Engineering Ltd.

Bad Project

1. Background.

M/s. Farmland Heavy Engineering Ltd. established in the year 1986 at Savar, Dhaka on bank loan with a view to produce power, filler, assembling of diesel transport machinery. The project could not start functioning from the very beginning of its inception. There were 7(seven) shareholders of the company at the time of establishment. Out of 7(seven) shareholders, four shareholders were elected director of the company.

2. Sanctioning of loan.

The bank sanctioned Tk. 161.40 lac project loan, out of which Tk. 70.00 lac as term loan and Tk. 86.40 lac as working capital loan in the form of cash credit hypothecation. The detailed particulars of cost of the project, means of finance, debt equity is given below:

2.1. Cost of the project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	2.00	0	2.00
Land Development	0	0	0
Building	7.65	30.89	38.54
Machinery	28.98	42.11	71.09
Machinery Installation	0.50	0	0.50
Furniture & Fixture	0.50	0	0.50
IDCP	5.44	0	5.44
Preliminary Expenses	0.10	0	0.10
Others	0	2.00	2.00
Fixed Cost	45.17	75.00	120.17
Initial Working Capital	34.04	86.04	123.44
Total Cost of the Project	82.21	261.40	243.61

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	2.75	42.42	37.04	82.29
Bank Loan	35.51	34.49	86.40	161.40
	38.26	76.91	123.44	243.61

Debt – Equity: 68:32

3. Securities.

The bank obtained securities in the form of primary security covering project land, building, machinery valued at Tk. 60.79 lac at the time of disbursement of the loan. Now the volume of this securities stood at Tk. 29.42 lacs.

4. Present position of credit:

(Tk. In Lac.)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry
Term Loan	75.00 6-12-86	55.58	185.79	26.80	158.99	158.99	26/6/92
CC Pledge	60.48 6-12-86	12.49	34.39	5.27	29.12	29.12	30/6/89
Other Charges	0	5.40	5.40	0	5.40	5.40	-
Total:	135.48	73.47	225.58	32.07	193.51	193.51	-

While analyzing securities in comparison with outstanding loan, I observe that outstanding liabilities exceeds four times against security value.

5. Present Status of the Project:

The project did not start ifs production. From its startup point, it was closed. The sick industries cell of the Government declared the industry as sick.

6. Application of the Borrower.

- Released of personal guarantee of Mr. Kazi Nuruddin Jahangir and Mrs. Nilufar Jahangir.
- Interest waiver 100%.

7. Facilities provided to the Borrower:

- The bank waived 55.35% interest on outstanding amount.
- The residual amount after waiver of interest allowed to keep in interest free account with a condition to repay it on yearly installments by two installment.
- Failing which suit to be filed without any reference.
- The bank release the personal guarantee of two directors.

8. Observation:

1) The project loan was sanctioned in 1986.
2) The loan disbursed in the same year.
3) The project did not start its operation and even it was completed or not that was doubtful.
4) The project was sick at the time of its berth.
5) The sick industries cell of the project declared the project sick.
6) In this situation, the bank waived interest. But the borrower failed to avail the facilities.
7) They did not file any suit in the court of law or any after actions to recover the bank money.

Case No.17

Case study on Food and Allied Industries

Conception Sea Foods Ltd.
Good Project

1. Background.
M/s. Conception Sea Food Industries Ltd. is a fish processing industries processed frozen shrimp, fish and frogleg. It is established in the year 1984 at Cox's Bazar, Chittagong. There were 5 (five) directors at the time of establishment and still they are continuing as director of the company.

2. Credit Information:

2.1. Cost of the Project:

Item	Equity	Bank Loan	Total
Land	80,000	0	80,000
Land Development	40,000	0	40,000
Building	5,07,000	9,13,000	14,20,000
Machinery	5,91,000	32,04,000	37,95,000
Machinery Installation	30,000	0	30,000
Furniture & Fixture	10,000	0	10,000
IDCP	6,00,000	0	6,00,000
Preliminary Expenses	10,000	0	10,000
Other Expenditure	2,95,000	83,000	3,78,000
Fixed Cost	21,63,000	42,00,000	63,63,000
Initial Working Capital	7,58,000	20,00,000	27,58,000
Total Cost of the Project	29,21,000	62,00,000	91,21,000

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	0	0	29,21,000
Bank Loan	0	42,00,000	20,00,000	62,00,000
	0	42,00,000	20,00,000	91,21,000

Debt – Equity: 68:32

2. Brief Facts of Credit Sanctioning & Rescheduling:

- The project loan for Tk. 42.00 lac was sanctioned in 1984.
- The expiry date of this loan was 30-12-89.
- In 1992, CC Pledge, CC Hypothecation and PC Limit for the excess over limit of Tk. 215.04 lacs transferred into a blocked account with interest at Bank rate.
- Thereafter, in 1998, Tk. 79.83 lacs and Tk.17.56 lacs from CC Pledge account and CC Hypothecation account respectively have been transferred to bclied account will interest at Bank rate.
- On 20-09-99, the liabilities of interest bearing blocked account transferred into a interest free blocked account amounting to Tk. 269.71 lacs with a repayment period 29-09-2002.

The details of this account are given below :

(Tk. In Lac)

Nature of Loan	Sanctioned Amount	Disbursement Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry Date
Project Loan	42.00	43.39	131.27	88.41	42.86	42.86	31/10/2004
Blocked Account	312.43	269.71	269.71	69.45	200.26	200.26	29/9/2002
CC Pledge	825.00	825.00	881.62	190.45	691.16	691.16	30/6/2001
CC Hypo.	75.00	75.00	80.71	6.05	74.66	74.66	30/6/2001
Special Short Term Loan	40.00	40.00	56.83	25.40	31.43	31.43	31/12/2003
	1294.43	1253.10	1420.14	379.76	1040.37	1040.37	

CC Pledge Limit of Tk. 825.00 lacs enhanced to Tk. 925.00 lacs and renewed upto 30-06-2002, CC Hypo. Limit of Tk. 75.00 lacs renewed only.

The detailed particulars of cost of the project, means of finance, debt equity ratio is given hereunder:

3. <u>Securities against loan</u>.

The bank obtained collateral security to cover up its loan. The particulars of security is given as under :

(Tk. In Lac)

Name of security	Description	Value at the Time of taken	Present value	Force Sale Value
Primary Security:	-	-	-	-
Collateral Security:	Land	276.29	536.00	500.00
	Total:	276.29	536.00	500.00

4. <u>Sick Industry Declaration</u>:

The sick industries cell of the government declared the industry as sick.

5. <u>Recommendation of the Sick Industry Cell</u>.

The sick industries cell of the government recommended the following for interest waiver.

(i) Interest waiver on Penal Interest 100%, Project Loan 100%, 90% Unrealized Interest on Blocked Account.

(ii) The residue amount after interest waiver to be repaid within 3(three) years as per repayment schedule determined by the Bank.

(iii) 5% Down payment on principal legal expenses and other expenses to be paid within 60(sixty) days from the date of receipt of the advice.

6. <u>Down Payment</u>:

The borrower deposited Tk.12.57 lacs as 5% down payment on Project Loan and Blocked Account from 22-03-2001 to 27-03-2001 and requested to implement the recommendation of the side cell.

8. Loan Liability Analysis :

Sl.#	Description	Project Loan	Blocked Account	CC Pledge	CC Hypo.	Total
a	Principal/Drawings	43,38,634.16	3,12,42,856,37	8,25,00,000.00	75,00,000	12,55,81,490.53
b	General Intt.charged (i)Drawing the period (ii)After Expiry	87,79,925.76	32,94,759.00	56,62,084.00	5,71,297.00	1,83,08,065.76
c	Penal Intt. not charged	0	0	0	0	0
d	Other charges	0	0	0	0	0
e	Legal charges	0	0	0	0	0
f	Total Liabilities	1,31,18,559.93	3,45,37,615.37	8,81,62,074.00	80,71,297.00	14,38,89,556.29
g	Repayment (Before down payment)	88,32,244.92	1,45,11,970.37	1,90,45,978.00	6,04,950.00	4,49,95,093.29
h	Present Liabilities	42,86,315.00	2,00,25,645.00	6,91,16,156.00	74,66,347.00	10,08,94,466.00

Total Provision : NIL

7. Observation :

Project Loan :

- The loan was sanctioned in 1984 for Tk. 42.00 lacs.
- The expiry date of this loan ws 31-07-90.

- Due to failure of the borrower to repay the loan, the rescheduled the loan by extending 3 years repayment period upto 31-07-93.

- Thereafter, the repayment period has again extended for 11 months from 31-07-93 to 30-06-94.

- Though it is rescheduled for two times, the borrower has failed to repay the loan.

- For the third time, the loan was rescheduled by extending its time upto 30-12-2001. In this time, balances as on 31-12-94 for Tk.56.33 lacs treated as principal and interest allowed on this principal at Bank rate.

- For the fourth time, the loan was rescheduled by extending its repayment period upto 31-10-2004.

Blocked Account:

- Excess over limit drawn for Tk. 215.04 lacs in 07-11-92 transferred to interest bearing blocked account.

- Out of this amount principal shortage was Tk. 117.77 lacs and interest shortage was Tk. 97.27 lacs.

- The bank charged interest on this account at Bank rate from 25-11-92 to 30-06-94 for Tk. 21.81 lacs.

- The borrower repaid Tk. 58.13 lacs during this period. The outstanding balance in blocked account was Tk. 178.72 lacs.

- During this time, the bank converted this interest bearing (Bank rate) account into non-interest bearing account. The borrower repaid Tk. 3.00 lacs during this period. As a result, the outstanding balance stand at Tk. 175.72 lacs.

Thereafter, in 1997-98, Tk. 79.83 lacs & Tk. 17.56 lacs totaling Tk. 97.39 against excess over limit of CC hypo. & D.P. shortage of CC pledge transferred to interest bearing blocked account. After repayment, the balance stand at Tk. 93.99 lacs.

On 20-9-99, this balance transferred to non-interest bearing block project was loan account which is unitedly stand at Tk. (175.72+93.99)= 269.71 lacs. The Bank authority also instructed to deduct 10%

from every Export proceeds and adjust this blocked account balances failing which this facilities shall stand cancelled automatically.

After merging the accounts, the borrower adjusted Tk. 69.45 lacs and the balance stand at Tk. (269.71 – 69.45) = 200.26 lacs, the break-up of which is as under :-

(a) The amount taken to blocked account Tk. (215.09 + 97.39) = 312.43 lacs.

(b) Interest charged on this blocked account Tk. (21.81 + 11.13) = 32.99 lacs.

(c) Total outstanding in the blocked account Tk. 345.37 lacs.

(d) To repayment Tk. 145.11 lacs.

(e) Present outstanding in the blocked account Tk. 200.26 lacs.

It may be mentioned here that as per existing rule, the amount to deposited into loan account to be credited first in interest account and if there is any residual amount, the same will be credited in principal account. According to this rule, the amount so deposited credited into interest account. As a result, the borrower shall not be allowed to interest waiver.

Working Capital Loan :

Two accounts viz, CC hypo. account & CC pledge account were operated under the working capital loan account these accounts were renewed on yearly basis.

The branch office and district office of the bank informed that there were no unrealized interest in the accounts. So there is no scope to interest waiver in this accounts.

In this situation, the sick industries cell recommended for interest waiver as described in Para-5.

Case No.18

Ahmed Food Industries Ltd
Bad Project

1. Background.
M/s. Ahmed Food Industries Ltd. is biscuit producing private limited company established in the year 1983 at Chowmuhani, Noakhali in the year 1983. There were 2(two) directors of the company at the time of sanction and still they are continuing.

2. Sanction of Loan :

- Term Loan for Tk. 22.94 lacs was sanctioned on 26-06-83. The expiry date of the loan was 30-12-90.

- Working capital for Tk. 15.00 lacs in the form of cash credit hypothecation was sanctioned on 28-06-87. The loan was expired on 31-05-88.

- Thereafter, again a cash credit hypothecation loan for Tk. 25.00 lacs was sanctioned on 22-08-94. The expiry date of this loan was 31-03-95.

3. Credit Information:

(Tk. In Lac)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry
Project Loan	22.94 26-06-83	22.94	117.47	28.83	88.64	88.64	30/12/90
Cash Credit Hypo.	15.00 28-06-87	15.00	100.06	7.42	92.64	92.64	31/05/88
Cash Credit Pledge.	25.00 22-08-94	25.00	60.69	2.67	58.02	58.02	31/03/95
Total:	62.94	62.94	278.22	38.92	239.30	239.30	

4. Security Information:

(Tk. In Lac)

Name of security	Description	Value at the Time of taken	Present value
Primary Security:	Raw Materials & Machinery.	15.00	0
Collateral Security:	Land	129.50	129.20
		124.50	129.20

5. Causes of the Industry become sick and present condition:

The borrower shall not be able to run the project profitably after starting commercial production and as a result it become sick. The project is now closed.

The sick industries cell of the government declared the project sick.

6. Recommendation of the Sick Industries Cell.

(a) 100% interest waiver on Penal Interest (if any) and unrealized general interest.

(b) The residual amount after interest waiver shall be repaid within 3(three) years.

(c) Application for interest waiver to be submitted after depositing 5% down payment on principal amount, legal expenses and other expenses.

(d) The suit filed by the Bank to be suspended on the strength of Sulenama and suit to be withdrawn after full adjustment of residual amount as per schedule.

7. Information about Suit Filed:

(a) Date of suit filed : 9/7/97

(b) Claim in Suit : Tk. 1,35,84,062.00

(c) Present status of suit : Under trial.

8. Break-up of Loan (Term Loan & Working Capital Loan jointly) :

(1)	Disbursed Amount of Principal	:	Tk. 62,94,000.00
(2)	Legal Charges	:	Tk. 53,732.35
(3)	Other Charges	:	Tk. 4,36,141.90
(4)	Total Principal Amount	:	Tk. 67,83,874.25
(5)	General Interest Charged	:	Tk. 1,06,08,939.80
(6)	Interest accrued but not charged	:	Tk. 1,06,07,940.00
(7)	Total General Interest	:	Tk. 2,12,16,879.80
(8)	Penal Interest	:	Tk. 1,38,145.00
(9)	Tkotal Recoverable Amount	:	Tk. 2,81,38,899.05
(10)	Repayment made before application for interest waiver	:	
	Principal	:	Tk. 5,40,874.25
	Interest	:	Tk. 33,52,291.25
	Total	:	Tk. 38,93,165.50
(11)	Unrealized General Intt.(7-10)	:	Tk. 1,78,64,588.57
(12)	Total Recoverable Amount before application (9-10)	:	Tk. 2,42,45,733.55
(13)	Down Payment(10% on principal)	:	Tk. 2,91,000.00
(14)	Recoverable Amount after Down Payment	:	Tk. 2,39,54,733.55
(15)	Proposed Waiverable Interest :		
	(a) 100% unrealized general Intt(10)	:	Tk. 1,78,64,588.55
	(b) 100% Penal Interest (8)	:	Tk. 1,38,145.00
	Total	:	Tk. 1,80,01,733.55

9. Cost of Fund :

Principal (With other charges	:	Tk. 67,83,874.25
10% Simple Interest	:	Tk.1,22,10,973.75
		Tk.1,89,94,848.00

10. Amount of Provision :

(i)	Classification Status	:	Bad & Loss.
(ii)	General Provision	:	NIL
(iii)	Interest in Intt. Suspense A/C.	:	Tk. 61,41,397.70
(iv)	Interest accrued but not charged	:	Tk.1,06,07,940.00
(v)	Penal Interest	:	
	Total	:	Tk.1,67,49,337.70

9. Adjustment of Interest if Waived as per Sick Cell Recommendation:

Nature of Interest	Amount of Interest Waived	Adjustment		
		Interest kept in separate Khata	Interest in Suspense A/C	Bank's General Book
Unrealized General Intt.	1,78,60,588.55 (100%)	1,06,07,940.00	61,41,397.70	11,15,250.85
Penal Interest	1,38,145.00 (100%)	0	0	1,38,145.00
	1,80,02,733.55	1,06,07,940.00	61,41,397.70	12,53,395.85

The bank shall have to period if the proposed interest waiver is materialized.

12. Waiverable Interest and Repayable Interest on Implementation of Sick Industries Cell implementation.

Nature of Credit	Total Outstanding	Total Repayment	Net Outstanding	Proposed waiverable Amnt.	Residual Amnt. after Intt. Waiver
Principal	62,94,000.00	3,42,000.00	59,52,000.00	0	59,52,000.00
Legal charges	53,732.35	0	0	0	0
Other charges	4,36,141.90	4,36,141.90	0	0	0
Intt.charged	1,06,08,939.80	33,52,291.25	72,56,648.55	72,56,648.55	72,56,648.55
Intt.accrued but not charged	1,06,07,940.00	0	1,06,07,940.00	1,06,07,940.00	0
Penal Intt.	1,38,145.00	0	1,38,145.00	1,38,145.00	0
	2,81,38,899.05	41,84,165.50	2,39,54,733.55	1,80,02,733.55	59,52,000.00

13. Observation :

(i) The sick industries cell declared the project sick and they recommended to interest waiver.

(ii) The borrower has only made payment of Tk. 41,84,165.50.

(iii) If the bank waived interest according to recommendations of sick industries cell, Tk. 12,53,395.85 to be provided from the banks general provision. The bank will realize Tk. 59,52,000.00 and bond will be on given 50% of interest waived amount to Tk. 90,01,366.77. In this way total realizable amount would be Tk.(59,52,000.00 + 90,01,366.77) = 1,49,53,366.77.

(iv) The cost of fund against this account is Tk. 1,89,94,848.00.

(v) The net loss of the bank would be (1,89,94,848.00 – 1,49,53,366.77) = Tk.40,41,481.23.

Case No. 19 Case study on 'other' projects

M/s Teddytoy Industries Ltd.
Good Project

1. Background.
M/s. Tedditoy industries was first established in the year 1992 to produce toys. Thereafter the product line has been changed to garments and starts functioning. There were 4(four) directors at the time of establishment of the project. In the year 1993, one director has been resigned and the management of the company reorganized. Now the project is running as garment industry.

2. Sanctioning.
The bank sanctioned Tk. 76.50 lacs including working capital loan for Tk. 7.50 lacs in the form of cash credit hypothecation for producing toy industries. Thereafter, the management of the company changed its product line to garments and on approaching from the borrower to the bank, the bank enhanced the project loan amount upto Tk. 151.32 lacs in the year 1993. At time of enhancement of project loan, no appraisal was found in the file. However, the cost of the project for the first sanction, means finance, debt equity ratio and the present position of credit is given hereunder:

2.1. Cost of the project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	2.22	0	2.22
Land Development	0	0	0
Building	19.95	20.00	39.95
Machinery	17.08	46.00	63.04
Machinery Installation	1.55	0	1.55
Furniture & Fixture	1.00	0	1.00
IDCP	0	4.49	4.49
Preliminary Expenses	2.00	0	2.00
Others	4.81	3.00	7.81
Fixed Cost	48.61	73.49	122.10
Initial Working Capital	4.91	7.50	12.41
Total Cost of the Project	53.52	80.99	134.51

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	0	0	53.52
Bank Loan	0	69.00	7.50	76.50
	0	69.00	7.50	130.02

Debt – Equity: 70:30

2.3. Present position of the credit.

(Tk. In Lac.)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry Date
Term Loan							
Cash Credit Hypo.							
Total:							

3. Securities against the loan.

The bank obtained the both primary and collateral security to cover up its loan. The detailed particulars of its loan is given hereunder :

Tk. In Lac

Name of security	Description	Value at the Time of taken	Present value
Primary Security:	Land measuring 14.02 decimals at BSCIC Industrial Estate, Gazipur.	2.22	2.22
	Building		
	Machinery	75.13	74.17
	Furniture	127.47	101.53
	Others	3.00	2.48
		7.74	2.29
Collateral Security:	Not taken	0	0
	Total	215.56	182.69

4. Rescheduling.

The loan of the project was rescheduled for two time and every time, the borrower failed to repay the loan.

5. Other Information.

Meanwhile the borrower imported machinery from India on lease financing from a leasing company and on loan from Muslim Commercial Banks. The value of this machinery is about Tk. 56.35 lac.

6. Observation

i) The project was sanctioned for toy industries for Tk. 76.50 lacs.

ii) Thereafter, the product line was changed and enhanced the loan amount to Tk. 151.32 lac.

iii) The borrower also obtained loan from leasing company and other commercial bank amounting to Tk.56.35 lacs.

iv) The loan was rescheduled for two times.

v) The securities for Tk. 182.69 lacs is available against loan outstanding amount for Tk.388.21 lacs.

vi) The bank did not file any suit or take any other step to recover loan.

In concluding, I observe that the bank shown the loan as unclassified and good loan on rescheduling. Actually the performance of the loan is very bad.

Case No. 20 Case study on 'other' projects

Dinajpur Charcoal and Automatic Bricks (Pvt.) Ltd.

Bad Project

1. Background.

M/s. Dinajpur Charcola and Automatic Bricks (Pvt.) Ltd. is brick producing automatic industry established at Basherhat, North Sadipur, Dinajpur in the year 1988. There were four directors at the time of establishment and they are still continuing their directorship.

2. Sanctioning.

The bank sanctioned project loan for Tk. 73.68 lac out of which Tk. 69.18 lac as term loand and Tk. 4.50 lacs as working capital in favour of M/s. Dinajpur charcoal and bricks in the year 1988. The sponsor spent Tk. 37.68 lac against term loan of Tk. 69.18 lac for installation of charcoal plant. As a result, they fall short of fund for establishment of brick plant. The sponsor again submit application for enhancement of term loan. The bank accorded to the request of the sponsor and enhanced the loan amount by Tk. 4.50 lac to Tk. 73.68 lac in 1991.

The detailed of cost of the project, means of finance and present position of the credit is given hereunder:

2.2. Cost of the project.

(Tk. In Lac)

Item	Equity	Bank Loan	Total
Land	3,45,000	0	3,45,000
Land Development	0	0	0
Building	14,26,000	62,27,000	76,53,000
Machinery	18,24,000	0	18,24,000
Machinery Installation	50,000	0	50,000
Furniture & Fixture	10,000	0	10,000
IDCP	0	4,38,000	4,38,000
Preliminary Expenses	0	0	10,000
Others	1,50,000	0	1,50,000
Fixed Cost	38,15,000	66,65,000	1,04,80,000
Initial Working Capital	54,000	4,50,000	5,04,000
Total Cost of the Project	38,69,000	71,15,000	1,09,84,000
Enhanced Amount	38,69,000	75,65,000	1,14,34,000

2.2. Means of Finance.

Description	Term Loan		Working Capital Loan	Total
	F.Currency	L.Currency		
Equity	0	38,15,000	54,000	38,69,000
Bank Loan	0	71,15,000	4,50,000	75,65,000
	0	1,09,30,000	5,04,000	1,14,34,000

Debt – Equity: 66:34

2.3. Present position of the credit.

(Tk. In Lac.)

Nature of Loan	Sanctioned Amnt.& Date	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outg. Amount	Expiry Date
Term Loan	37.68 21-11-88	38.00	75.50	11.62	63.88	63.68	4-6-00
Cash Credit Hypo.	15.00 6-5-92	15.00	39.86	0.05	39.81	39.81	31-3-93
Total:	52.68	53.00	115.36	11.67	103.69	103.69	

3. Securities against the loan.

The bank obtained the following securities to cover the sanctioned loan.

Tk. In Lac

Name of security	Description	Value at the Time of taken	Present value
Primary Security:	Machinery and others	35.90	16.41
Collateral Security:	Land & Building	43.48	15.00
	Total	79.38	31.41

Causes of variation of the value of collateral security.

The branch and district office informed that due damage of semi pucca construction of land he value declined.

4. Declaration of sick industries cell.

The sick industries cell of the government Bangladesh declared the industry as sick in the year 1998.

5. Recommendations of the sick industries cell.

(i) Waiver of 100% penal interest and 100% unrealized interest.

(ii) The residual amount after interest waiver to be repaid with three years.

(iii) 5% down payment to be obtained on principal, legal charges and other expenditures.

6. Break-up of outstanding lone.

(i)	Principal Amount disbursed	:	52,99,834.00
(ii)	Legal charges	:	-
(iii)	Other charges including EFAS Premium.	:	6,87,613.96
	Total principal	:	59,87,447.96
(iv)	Interest charged	:	31,80,258.00
(v)	Interest not yet charged but kept separate book.	:	23,68,063.00
	Total General Interest	:	55,48,321.00
(vi)	Total outstanding amount to be received	:	1,15,35,768.96
(vii)	Total repayment before application:		
	Principal	:	5,56,720.00
	Interest	:	6,10,434.00
			11,67,154.00
(viii)	Unrealized general interest	:	49,37,887.00
(ix)	Outstanding before application	:	1,03,68,614.96
	Minimum down payment	:	2,98,00.00

(x)	Outstanding after down payment	:	1,00,70,614.96
(xi)	Proposed interest waiver:		
	Unrealized interest 100%	:	49,37,887.00
	Penal Interest	:	-

			49,37,887.00
(xii)	The residue after interest waiver	:	51,32,727.96
(xiii)	Amount rescheduling including cost of fund	:	98,66,410.00

7. Observation.

i) The project identified as sick industry by sick industries cell by the govt.

ii) The sick industries recommended to interest waiver upto 100% unrealized interest.

iii) The borrower repaid only Tk. 11.67 lac.

iv) The present value of the securities are insufficient to recover the outstanding.

v) As per policy of the sick industry rehabilitation program, on interest waiver, the bank will get 50% of waiver amounting to Tk. 24,68,943.50 from the govt.

vi) The total recovered amout will be 51,32,727.96 + 11,67,000.00 + 24,68,943.50 = 87,68,671.46.

vii) The recoverable amount including cost of fund is Tk.98,66,410.00 and the bank is being recovered Tk. 87,68,671.46. The net loss could be Tk.10,97,738.54.

In concluding, it may be opined that the bank management failed to exercise the set procedures to monitor the loan.

8.1 Repayment performance of industrial credit sanctioned against fund received from foreign credit line.

The commercial bank is not meant for long term financing due to heavy demand of Bangladesh economy and failure of Development Financial Institutions (DFI) of the country, the donor agencies specially World Bank, ADB, and IDA advised the government in the early eighties to involve commercial banks in long term finance. Since then commercial banks are participating in long term financing. The donor agencies provideD fund to the commercial banks to implement the programs. The different programs under different credit line viz IDA credit, Exim Bank credit, ADB credit, and OPEC credit started functioning in Agrani Bank.

The bank received Tk. 6561.05 lac under 4(Four) credit programs and sanctioned the same amount in different projects. The disbursement rate is about 93.20% against sanctioned amount.

The recovery as against disbursement is 66.84% while outstanding as against disbursement is 189.04%. The rate of classification as against outstanding is 78.83% which as against outstanding amount is very alarming.

It is very interesting to mention here that the bank is repaying it installment to the donor agencies under credit line regularly. But the recovery from the borrower is very alarming. consequent upon this the credit line was transferred to own sources of the bank. The fund so received from the donor agencies was at subsidized rate viz-a-viz the same disbursed as loan to the borrower was also at subsidized rate. The lending rate of the commercial bank for long term financing fixes a little higher than the prescribed rate of the foreign credit line.

Now I can infer from the table No , that Tk. 4557.33 lac including interest being made payment against drawing of Tk.4977.29 lac. The repayment rate against due for payment is 100% while on the other, the bank is able to recover from its borrower about 66.84%. The rest 33.16% has been transferred to own sources of the bank which is costly. This anomaly has been created due bad management of the credit portfolio by the commercial banks.

Creditline-wise statement 31-12-2000

(Tk. In Lac)

Sl.#	Credit Line	Sanction	Disbursed	Recoverable	Recovered Amount	Classified Amount	Outstanding Amount
1	IDA Credit	1780.33	1662.70	4318.32	1753.55	2565.24	2873.88
2	Exim Bank	1893.24	1785.78	4447.01	589.49	3981.15	5514.78
3	ADB Credit	501.76	476.94	822.69	321.43	502.83	611.35
4	OPEC Credit	2405.72	2208.05	3492.92	1435.06	2090.46	2594.58
		6581.05	6133.47	13080.94	4099.53	9139.68	11594.59

Recovery as %

Sl.#	Credit Line	Recov.as % of Sanc.	Recov.as % of Disb.	Outg.as % of Sanc.	Outg.as % of Disb.	Classified as % Outg.
1	IDA Credit	98.50	105.46	161.42	172.84	89.26
2	Exim Bank	31.14	33.01	291.29	308.82	72.20
3	ADB Credit	64.06	67.39	121.84	128.18	82.25
4	OPEC Credit	59.65	64.99	107.85	117.51	80.57
		62.29	66.84	176.18	189.04	78.83

Repayment status of Foriegn Credit Line

(Tk. In Lac)

Sl.#	Credit Line	Sanctioned Amount	Drawings Eqv.Tk.	Repayment		Total Repayment	To be paid
				Principal	Interest		
1	Exim Bank	IRS 600	1239.79	831.00	470.00	1301.00	Fully paid in 1995
2	IDA Credit	USD 55.40	1633.95	1582.11	51.84	1633.95	Fully paid in 1997
3	ADB Credit	USD 12.26	425.55	201.58	99.17	300.75	263.54 (Due for paynt. 1/3/05)
4	OPEC Credit	USD 43.14	1678.00	1244.39	77.29	1321.63	442.62 (Due for paynt. 1/4/02)
			4977.29	3910.92	646.41	4557.33	706.16

8.5. Repayment performance of a special credit program: Credit Guarantee Scheme.

Credit guarantee scheme was introduced in the year 1994 with a view to provide loan to the educated youths of the country who have not sufficient collateral. The sponsors who have only equity in the form of cash or land and building were illegible for loan under the scheme. The scheme was divided in the following manner :-

Sponsors equity	=	20%
Bank's participation against guarantee	=	20%
Bank's guarantee in favour of the govermt	=	60%

All kinds of industries specially agro-based industries were eligible for loan. The sponsors were approached mainly for agro-based industries such as poultry, dairy, fishery and others. But the performance of these industries regarding repayment is not satisfactory.

I like to mention here that upto 31st December, 2000 there were 34 projects sanctioned. The total sanctioned amount was Tk.982.26 lacs. Out of these amount of Tk. 772.06 lacs was disbursed. The recoverable amount stood at 933.40. The recovered amount is Tk. 113.40 lacs only. The recovery rate against recoverable amount is about 12.45%. On the other, the recovery against disbursed amount is about 12.71%. Legal actions have been taken against 50% of the projects. Only 7 projects i.e. 20.59% are running with poor repayment rate. Almost all of these are classified. In fact, the total program is frustated.

Performance of projects sanctioned under credit guarantee scheme as on 31-12-2000

Name of Scheme	Sanctioned Amount	Disbursed Amount	Recoverable Amount	Recovered Amount	Classified Amount	Outstanding Amount
Credit Guarantee Scheme	892.26	772.06	933.60	113.40	820.67	973.05

1.	Disbursement as % of sanction	=	86.53%
2.	Recovery against Recoverable amount	=	12.15%
3.	Recovery against Disbursed amount	=	12.71%
4.	Classified as % of outstanding amount	=	84.34%

8.6. Loan Recovers through legal Action:

The Banks and financial institutions had to file cases before the setting up of Artha Rin Adalat in 1990 in the sub-judge courts, Commercial Courts, Assistant Judge Courts and Certificate Courts as per Public Demands Recovery Act.1913, Bank usually file suits as a last resort when the loanees deliberately avoid repayment. After filing suits in the above courts, summons used to be issued in the names of borrower and this process would take about one year. Then the defendants would file written statements mentioning different points to the plaintiff and this process would also take about six months.

The concerned court used to fix date after date for hearing purposes. Thus a long time is needed for completion of hearing of the cases; finally judgment used to be delivered. In order to avoid this situation and to endure speedy trial and disposal of loan cases Government passed Artha Rin Adalat Act in 1990.

Performance of the Financial Loan Court in the disposal of cases along with the extent of realizing overdue loans is exhibited as follows.

Suit Position in Financial Loan Court:

(Taka In Crore)

Particulars\ Year	Dec'95	Dec'96	Dec'97	Dec'98	Dec'99	Dec'2000
1. Suit Filed:						
a) No.	6440	6607	7131	7292	7406	7929
b) Amount	554.00	656.09	813.78	1033.17	1153.03	1375.05
2. Decreed:						
a) No.	4678 (72.64%)	4990 (75.53%)	5193 (72.82%)	5347 (73.33%)	5507 (74.36%)	5875 (74.10%)
b) Amount	281.19(50.76%)	316.26(48.20%)	364.16(44.75%)	437.16(42.31%)	517.97(44.92%)	632.59(43.96%)
3. Execution Suit:						
a) No.	3480 (54.04%)	4038 (61.12%)	4322 (60.61%)	4649 (63.75%)	4815 (65.01%)	5015(63.25)
b) Amount	263.38(47.54%)	300.98(45.87%)	319.88(39.31%)	432.65(41.88%)	474.22(41.12%)	604.49(43.96%)
4. Recovered: Fully.						
a) No.	985 (15.30%)	1283 (19.42%)	1449 (20.32%)	1617 (22.17%)	799 (24.29%)	2054 (25.90%)
b) Amount	21.74 (3.92%)	25.24 (3.84%)	28.27 (3.47%)	29.45 (2.85%)	38.24 (3.32%)	51.41 (3.74%)
Partially:						
a) No.	2890 (44.88%)	3588(54.31%)	4440(62.26%)	5081(69.68%)	5178(69.92%)	5967(75.26%)
b) Amount	22.14 (4.00%)	29.01 (4.42%)	34.76 (4.27%)	43.77 (4.24%)	44.60 (3.87%)	58.56 (4.26%)
Total Amount Recovered	43.88	54.25	63.03	73.22	82.84	109.97
Percentage of Recovery	(7.92%)	(8.27%)	(7.75%)	(7.09%)	(7.18%)	(8.00%)
5. Total Legal Expenditure	0	1.01	1.05	1.14	1.15	1.16

Aging of Suit Filed – 31/12/2000

(Taka In Crore)

Sl. No.	Classification	No.of Suit Filed	Percentage of total	Amount Claimed	Percentage of total
1.	10 Years and above	1788	24.63%	42.32	4.31%
2.	7 Years and above but below 10 years.	1161	15.99%	163.16	16.62%
3.	5 Years and above but below 7 years.	1586	21.85%	115.95	11.81%
4.	3 Years and above but below 5 years.	1898	26.14%	212.84	21.67%
5.	Below 3 years.	827	11.39%	447.71	45.59%
		7260	100%	981.97	100%

Upto December,2000 total number of 7929 cases for realization of Tk.1375.05 crore was instituted by the Bank with the Financial Loan Court. Of the total cases, the Bank got decrees of 5875 cases against which execution suit was filed for 5015 cases of the total cases only 2054 cases were settled by recovery of loans.

From December 1995, to December 2000, the settlement of loan recovery cases by Financial Loan Court (Artha Rin Adalat) increased from 15.30% to 25.90%^ by reducing recovery from 3.92% to 3.74%.

The partial recovery increased from 4.00% in 1995 to 4.26% in 2000. It is assumed that the value of the security against these loan cases was not covered to realize the principal amount as well as suit claim amount by disposing off the security. This is why the settlement of these cases was delayed after getting verdict from the court.

The Bank is able to file execution suit for 54.04% in 1995 which is increased to 63.25% in December, 2000. The amount of filing execution suit reduced 43.96% in December, 2000 from 47.54% in December, 1995.

The overall recovery of these cases increased from 7.42% in 1995 to only 8.00% in December, 2000. The legal expenses is only 0.15% as against weighted average spread income of 4.88%. This legal expenses is very nominal in loans administration cost.

While analysing the aging table of suit, it has been observed that there was 10 years and above old cases also exist in the bank's file. 24.63% of cases was 10 years and above old as against 4.31% of recoverable amount. 45.59% of recoverable amount is waiting for verdict from the court in 3 years old. Due to long delay in getting the verdict from the court, the interest accrued and increased to huge amount resulting of which the bank fail, to recover the amount by settling the security held by the bank. As a result, the bank faces loss due to this court cases.

In this situation, sometimes the court's fives verdict by waiving the uncharged interest on the loan account. This type of verdict also cases for loss to the bank. If the security covers the outstanding value, the Bank will not be able to recover the amount due to verdict of the court by waiving interest.

However, the settlement of cases in relation to recovery gives ample evidence to that along with the Financial Loan Court is performing its duly in settling the suits compared to number of suits instituted with limited success, its function in overall recovery is not at all satisfactory.

In relation to filing of suit, aging recovery and overall suit performing banks, five cases studies have been increased in the following pages.

8.7. Determination of standard time.

Examine and revise Bank's existing time standards for credit approval

1. The existing time required for credit approval at Industrial Development Finance Division, Head Office, Dhaka has been calculated in the following manner :

   i) Five designated branches handling industrial credit have been selected for study.

   ii) The designated branches were Laldighi East Branch, Chittagong, Principal Branch, Dhaka, Sir Iqbal Road Branch, Khulna, Ramna Branch, Dhaka and Amin Court Branch, Dhaka.

   iii) Three (3) cases have been selected at radom from each braches i.e. 15 cases wsere considered for determining the time standard for credit approval.

   iv) The time required at each step to complete the piece of job has been considered. The piece of job described as under.

      a) Time taken at Branch
      b) Time taken at Zonal Office
      c) Time taken at IDFD

         (i) For placement to CMC

(ii) Note preparation
(iii) Board Memo placement

d) Time taken for Board Memo advice
e) Time taken issuance of sanction advice

2. The average time has been calculated as 285 days (Annexure-A)

3. The existing time fixed by the competent authority has also been considered for the study

4. Thereafter, comparison was made with the existing time required with that of fixed standard time. Comparison of existing time required with that of calculated time is given as under :

Sl.#	Stages	Description of works to be done	Time Fixed	Actual Time Taken
1	At receiving Branch	Receiving the loan proposal scrutiny of papers and documents, visiting project site, submission of proposal to Zonal Office.	10 days from the date of receipt	34 days
2	At Zonal Office	Examining the proposal forwarding to H.O.(IDFD)	10 days from the date of receipt	6 days
3	At Head Office (IDFD)	• Examining and scrutiny loan proposal • Collection of necessary information • Preparation of short prefeasibility report for presentation before the CMC • Placement before the Board/ sanctioning authority for sanction	Within 5 days from the date of receipt. Within next 15 days. Within next 10 days. Within next 10 days.	20 days 75 days 7 days

The above calculation worksheet may be seen at annexure – B.

5 . In analyzing the above table, it is observed that the division can't follow the standard fixed time due to some unavoidable circumstances created in our social culture.

6. In view of the above, it is not possible to minimize the time standard at this moment. So the division (IDFD) can follow the fixed time standard as shown above table.

7. In future, further step may be taken for improvement of the same.

Annexure 'A'

Summary of Worksheet Results

	Average time in days
Laldighi East, Chittagong	151
Principal Branch, Dhaka	191
Sir Iqbal Road Branch, Khulna	220
Ramna Branch, Dhaka	178
Amin Court Branch, Dhaka	117
Total:	857

Average time - 285 days.

Annexure 'B'

Summary of Worksheet Results on Standard Format

		Average time in days
Laldighi East, Chittagong		128
Principal Branch, Dhaka		174
Sir Iqbal Road Branch, Khulna		269
Ramna Branch, Dhaka		117
Amin Court Branch, Dhaka		93
	Total:	781

Average time - 156 days.

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1. At branch - 34 days
2. At Zonal Office - 6 days
3. Head Office (IDFD) - 95 days

Worksheet for Determination of Standard Time for Handling of Industrial Credit Proposal

Laldighi East Branch, Chittagong

Sl.#		Case - 1	Case - 2	Case - 3
1	Time taken at branch	62	34	41
2	Time taken at Zonal Office			
3	Time taken at Circle Office			
4	Time taken at IDFD i) For placement to CMC ii) Note preparation iii) Board Memo placement	 15 85 3	 24 5 20	 20 71 5
5	Time taken at M.D's Secretariate			
6	Time taken at Board Division			
7	Time taken for receiving of Board Memo advice	26	7	3
8	Time taken for issuance of sanction advice	4	24	4
		195	114	144
	Total time = 453 days Average time = 151 days			

Worksheet for Determination of Standard Time for Handling of Industrial Credit Proposal

Principal Branch, Dhaka

Sl.#		Case - 1	Case - 2	Case - 3
1	Time taken at branch	24	202	8
2	Time taken at Zonal Office			
3	Time taken at Circle Office			
4	Time taken at IDFD a) For placement to CMC b) Note preparation c) Board Memo placement	 7 78 1	 12 176 4	 4 5 1
5	Time taken at M.D's Secretariate			
6	Time taken at Board Division			
7	Time taken for receiving of Board Memo advice	11	6	10
8	Time taken for issuance of sanction advice	4	20	1
		125	420	29
	Total time = 574 days Average time = 191 days			

Worksheet for Determination of Standard Time for Handling of Industrial Credit Proposal

Sir Iqbal Road Branch, Khulna

Sl.#		Case - 1	Case - 2	Case - 3
1	Time taken at branch	39	1	1
2	Time taken at Zonal Office	22	2	7
3	Time taken at Circle Office			
4	Time taken at IDFD a) For placement to CMC b) Note preparation c) Board Memo placement	 48 58 3	 28 230 8	 36 69 -
5	Time taken at M.D's Secretariate			
6	Time taken at Board Division			
7	Time taken for receiving of Board Memo advice	26	29	-
8	Time taken for issuance of sanction advice	18	15	22
		214	313	135
	Total time = 662 days Average time = 220 days			

Worksheet for Determination of Standard Time for Handling of Industrial Credit Proposal

Ramna Branch, Dhaka

Sl.#		Case - 1	Case - 2	Case - 3
1	Time taken at branch	21	5	17
2	Time taken at Zonal Office	5	1	12
3	Time taken at Circle Office			
4	Time taken at IDFD j) For placement to CMC iv) Note preparation v) Board Memo placement	 29 63 16	 21 54 1	 15 71 21
5	Time taken at M.D's Secretariate			
6	Time taken at Board Division			
7	Time taken for receiving of Board Memo advice	9	31	51
8	Time taken for issuance of sanction advice	8	7	92
		135	120	279
	Total time = 534 days Average time = 178 days			

Worksheet for Determination of Standard Time for Handling of Industrial Credit Proposal

Amin Court Branch. Dhaka

Sl.#		Case - 1	Case - 2	Case - 3
1	Time taken at branch	52	5	1
2	Time taken at Zonal Office	2	1	1
3	Time taken at Circle Office			
4	Time taken at IDFD k) For placement to CMC vi) Note preparation vii) Board Memo placement	 10 112 -	 30 24 11	 1 25 2
5	Time taken at M.D's Secretariate			
6	Time taken at Board Division			
7	Time taken for receiving of Board Memo advice	19	4	31
8	Time taken for issuance of sanction advice	13	4	4
		208	79	65
	Total time = 352 days Average time = 117 days			

Laldighi East Branch, Chittagong

Sl. No	Stages	Description of works to be done	Time Fixed	Time taken			Average days require
				Case No.1	Case No.2	Case No.3	
1	At receiving branch	Receiving the loan proposal, scrutiny of papers and documents, visiting project site, submission of proposal to Zonal Office.	10 days from the date of receipt.	62 days	34 days	41 days	46 days
2	At Zonal Office	Examining the proposal, forwarding to H.O.(IDFD).	10 days from he date of receipt.				
3	At Head Office (IDFD)	a) Examining and scrutiny loan proposal. b) Collection of necessary information. c) Preparation of short prefeasibility report for presentation before the case.	Within 5 days from the date of receipt. Within next 15 days. Within next 10 days.	100 days (15+85)	29 days (24+5)	91 days (20+71)	73 days (20+54)
		d) Placement before the Board/ sanctioning authority for sanction	Within next 10 days.	3 days	20 days	5 days	9 days
				165 days	83 days	137 days	
		Total days = 385 days Average days required = 128 days					

Principal Branch, Dhaka

Sl. No	Stages	Description of works to be done	Time Fixed	Time taken Case No.1	Case No.2	Case No.3	Average days require
1	At receiving branch	Receiving the loan proposal, scrutiny of papers and documents, visiting project site, submission of proposal to Zonal Office.	10 days from the date of receipt.	24 days	202 days	8 days	78 days
2	At Zonal Office	Examining the proposal, forwarding to H.O.(IDFD).	10 days from he date of receipt.				
3	At Head Office (IDFD)	e) Examining and scrutiny loan proposal. f) Collection of necessary information. g) Preparation of short prefeasibility report for presentation before the case.	Within 5 days from the date of receipt. Within next 15 days. Within next 10 days.	85 days (7+78)	188 days (12+176)	5 days (4+5)	94 days (8+86)
		h) Placement before the Board/ sanctioning authority for sanction	Within next 10 days.	1 days	4 days	1 day	2 days
				110 days	394 days	18 days	
		Total days = 522 days Average days required = 174 days					

Sir Iqbal Road Branch, Khulna

Sl. No	Stages	Description of works to be done	Time Fixed	Time taken			Average days require
				Case No.1	Case No.2	Case No.3	
1	At receiving branch	Receiving the loan proposal, scrutiny of papers and documents, visiting project site, submission of proposal to Zonal Office.	10 days from the date of receipt.	39 days	1 day	1 day	14 days
2	At Zonal Office	Examining the proposal, forwarding to H.O.(IDFD).	10 days from he date of receipt.	22 days	2 days	7 days	10 days
3	At Head Office (IDFD)	i) Examining and scrutiny loan proposal. j) Collection of necessary information. k) Preparation of short prefeasibility report for presentation before the case.	Within 5 days from the date of receipt. Within next 15 days. Within next 10 days.	106 days (48+54)	258 days (28+230)	105 days (20+71)	156 days (37+119)
		l) Placement before the Board/ sanctioning authority for sanction	Within next 10 days.	3 days	8 days	1 day	4 days
				170 days	524 days	114 days	
		Total days = 808 days Average days required = 269 days					

Ramna Branch, Dhaka

Sl. No	Stages	Description of works to be done	Time Fixed	Time taken			Average days require
				Case No.1	Case No.2	Case No.3	
1	At receiving branch	Receiving the loan proposal, scrutiny of papers and documents, visiting project site, submission of proposal to Zonal Office.	10 days from the date of receipt.	21 days	5 days	17 days	14 days
2	At Zonal Office	Examining the proposal, forwarding to H.O.(IDFD).	10 days from he date of receipt.	5 days	1 day	12 days	6 days
3	At Head Office (IDFD)	m) Examining and scrutiny loan proposal. n) Collection of necessary information. o) Preparation of short prefeasibility report for presentation before the case.	Within 5 days from the date of receipt. Within next 15 days. Within next 10 days.	92 days (29+63)	75 days (21+54)	86 days (15+71)	84 days (22+63)
		p) Placement before the Board/ sanctioning authority for sanction	Within next 10 days.	16 days	1 day	21 days	13 days
				134 days	82 days	136 days	
		Total days = 352 days Average days required = 117 days					

Amin Court Branch, Dhaka

Sl. No	Stages	Description of works to be done	Time Fixed	Time taken			Average days require
				Case No.1	Case No.2	Case No.3	
1	At receiving branch	Receiving the loan proposal, scrutiny of papers and documents, visiting project site, submission of proposal to Zonal Office.	10 days from the date of receipt.	52 days	5 days	1 day	19 days
2	At Zonal Office	Examining the proposal, forwarding to H.O.(IDFD).	10 days from he date of receipt.	2 days	1 day	1 day	1 day
3	At Head Office (IDFD)	q) Examining and scrutiny loan proposal. r) Collection of necessary information. s) Preparation of short prefeasibility report for presentation before the case.	Within 5 days from the date of receipt. Within next 15 days. Within next 10 days.	122 days (10+112)	54 days (30+24)	26 days (1+25)	67 days (14+54)
		t) Placement before the Board/ sanctioning authority for sanction	Within next 10 days.	1 day	11 days	2 days	5 days
				177 days	71 days	30 days	
		Total days = 278 days Average days required = 93 days					

8.8. Results of comparative case studies.

The results of comparative case studies are given in the following manner. Results in both the cases i.e. good and bad projects are more or less same which are enumerated below:

1. The bank did not analyze the credit before interest waiver.

1. The bank waived interest two or three times but the borrower failed to make repayment of the amount after interest waiver.

2. The borrower changed the directors of the company without approval of the bank but the bank failed to take any action against the borrower.

3. The bank has no interest waiver plan, reschedule and recovery plan. They are doing it as per directives from elsewhere.

4. The outstanding loan amount exceeds the security value but the bank did not take any actions to recover the loan.

5. In export oriented industries specially in garments industies permission for opening a number of letter of credits even upto the maximum of 23 L/cs are given without considering production capacity.

6. In export oriented industries cash credit hypothecation facilities were given alongwith Back-to-back L/c and P/c, though it is not allowed and clearly over financed.

7. The loan is rescheduled for two/three times without considering the life of the machine.

8. Most of the projects are implemented by taking more time as beyond the time given by the banks.

9. Initiative for loan recovery through legal action is not effective.

10. In most cases cost of the project are overrun. Due to cost overrun, the borrower will not be able to repay the installment. Bank did not consider this issue at all at the time of rescheduling.

11. Monitoring of credits ws not done at all in almost all cases.

12. The bank sometimes waived interest without taking any down payment though it statutory.

13. In most cases, valuation of collateral securities was not assessed.

14. The bank was not able to take decision with a long time of 10 to 15 years of outstanding classified loans.

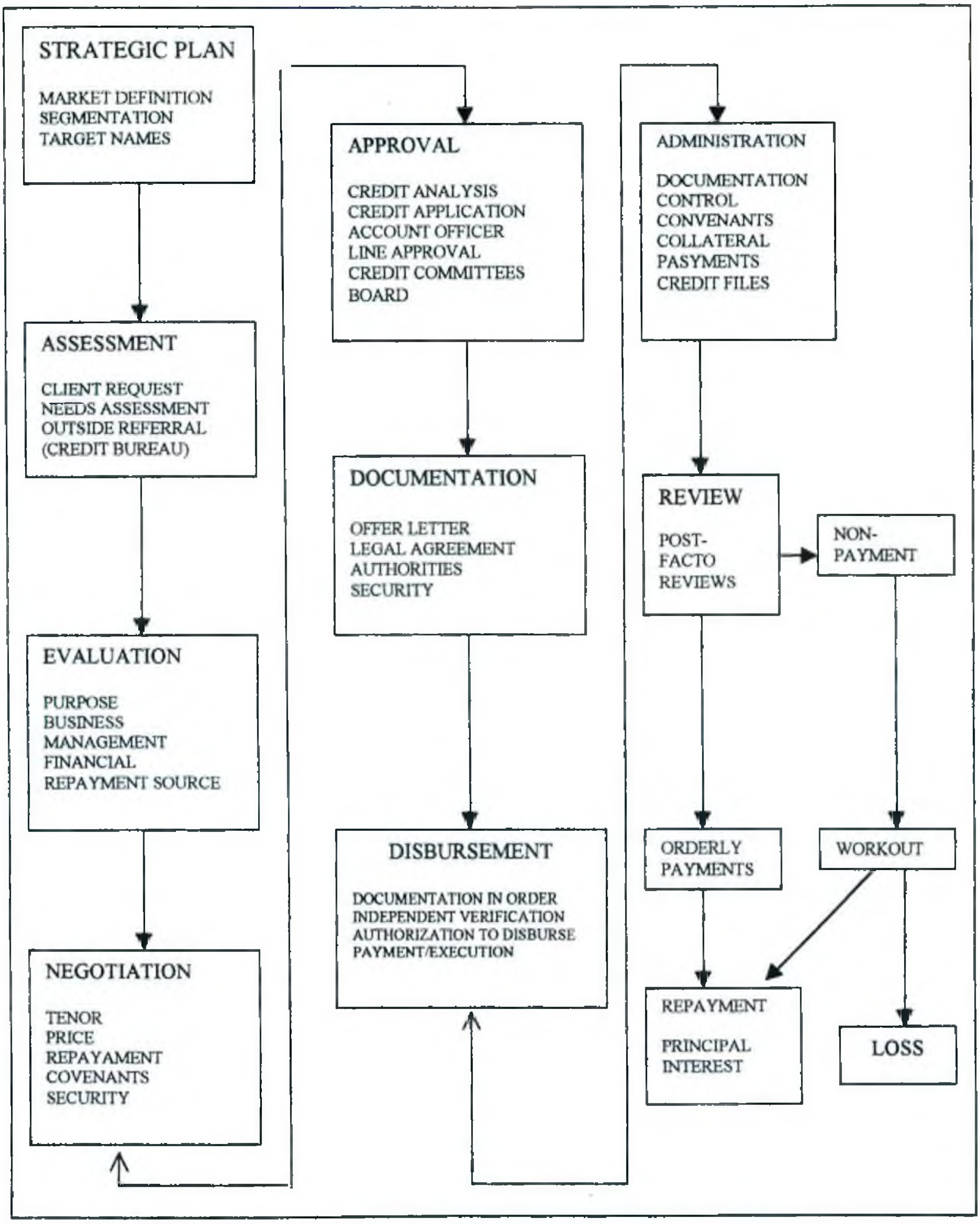
15. The bank regularized the loan by rescheduling and interest waiver to show the portfolio as good. But this good loans lateron become bad after closing the books of account of the bank as on 31st December.

While analyzing the above findings, I infer that the projects termed as good by the bank are not really good. These projects have been intentionally made good by rescheduling and interest waiver without observing the standard norms of industrial credit management.

The generic deliations with standard norms are given in the following pages.

8.9. Standard Credit Management Process and its Deviations in Commercial Banks.

Banks Would Contain The Following Major Elements In Credit Management



Deviations – Strategic Plan

STRATEGIC PLAN Market Definition Segmentation Target Names	• Strategic plans do not exist - Lack of focus - Reactive approach taken - To clients - To central bank directives • A/c MGT concept lacking - Call memoranda not written

Deviations – Assessment

ASSESSMENT Credit request Needs Assessment Competitive Position Outside Referral (Credit Bureau)	• Loan policies and procedures - Do not exist or are dated • Needs assessment weak • No central liability system • Credit bureau usage spotty - CIB Outputs dated

Deviations - Evaluation

EVALUATION	
Purpose Business Management Financials Repayment Source	• Financially not always received • LRA Implementation slow • Credit extended to existing Defaulters

Deviations - Negotiation

NEGOTIATION	
Tenor Price Repayment Covenants Security	• Customer, finance ministry and /or central bank drive process • No differentiation by risk/price • Financial covenants not widely used • Collateral is largely worthless - Much pledged inventory has not been sold - Warehouse and insurance charges run

Deviations - Approval

APPROVAL
Credit Analysis Credit Application Account Officer Line Approval Credit Committees Board

- Extremely bureaucratic approval procedures.

  - Process has become labor and paper intensive

- Low taka amount of delegation.
- Widespread unwillingness to exercise powers.
- Multiple credit application forms used
- Inordinate amount of top-down pressure to lend.

DEVIATIONS – APPROVAL – CONT.

APPROVAL
~~Credit Analysis~~ Credit Application Account Officer Line Approval Credit Committees Board * One NCB is exception

- Nostro Account openings
  - Poorly handled
  - Board approval not required
  - No country risk assessment
  - No credit applications
- Domestic and foreign interbank activity.
  - Poorly handled *
  - No credit applications
  - Counterparty banking license out required.
  - Boards not involved
- Powerless credit committees

Deviations - Documentation

DOCUMENTATION	
Offer Letter Legal Agreement Authorities Security	• Financial covenants - Not widely used • Personal networth statements on guarantors not obtained. - Guarantees not secured. • Inordinate number of disbursements made without all legal documents in place.

Deviations - Disbursement

DISBURSEMENT	
Documentation In Order Independent Verification Authorization To Disburse Payment/Execution.	• Independent document verification totally lacking • Over-limits are not properly approved - Discipline lacking

Deviations – Administration

ADMINISTRATION	
Documentation Control Covenants Collateral Payments Credit Files	• No NCB has a centralized loan Administration function. • Credit file data is not centralized within a bank or branch. • Credit file standards are almost non existent

Deviations – Review

REVIEW	
Post-Facto Reviews	• No annual loan review process is in place. • Audit (Including credit compliance) Functions report to line managers. • Classifications are almost entirely cash default driven.

Deviations – Orderly Payments

ORDERLY PAYMENTS

- Past due amounts are not Notified to audit.
- Past due amounts are not reported promptly.
- Firm policies do not exist regarding disbursement into existing default situations.

Deviations - Repayment

REPAYMENT

Principal Interest

- Three renewals policy understates Actual money defaults.
- Principal and interest not debited to current accounts.

Deviations - Workout

WORKOUT

- Given magnitude of credit problems, insufficient direct management attention.
    - Boards, MD's and GM's not directly involved.
- Bureaucratic and weak workout efforts
    - Large number of personnel involved.
    - Strategies by account not developed
    - Remote control of workout process
- Workout in centives either lacing or insufficient.

Deviations - Loss

LOSS

- Loan losses are extraordinarily high
- Bureaucratic and weak workout efforts.
- Provisions significantly understated
- Pre-1971 non-performing loans still on the books

9.1. Credit Policy Analysis:

Bangladesh, the bankers at operational level i.e. people working at branch level and the people remaining engaged with policy formalities in connection with credit and lending of the bank at Head Office are exercising their services with some misconception. As a result, the objectives of these two are being overlapped and ultimately giving hybrid result. Therefore a clear understanding is immediately needed for matching up of concepts of these two groups of people working in the two arena. With a view to differentiate between these two concepts, special emphasis has been given on Bank's lending policy for analysis of the same within lending environment of Bangladesh. At first, it is needed to know what a policy is ?

A policy defines the area in which decision is to be made, but practically it does not give the decision. Policies spell out the procedures for sanction, general direction and areas to be covered. Literally a policy is a verbal or written overall guide line on setting up boundaries that supply the general limits and direction in which action will take place.

Credit Policy And Bank's Lending Policy:

Credit policy sets out the objectives of credit program of the government declared for a specific period. Within this policy framework, the credit institutions of the country will frame their own lending policy and will help the government to implement the objectives.

Bank's lending policy enumerates to conduct its lending business in an orderly and safe manner so that its loan portfolio remains balanced from the stand points of size, type, maturity and security and promises reasonable and steady earnings. This calls for a clear cut and definite lending policy spelling out detailed guidelines with regard to size of the loan port-folio and its composition, maturities of loan, acceptable security and credit worthiness, liquidation of loans, compensating balances, limits of lending authority, loan territory and similar other matters. Such a policy provides a direction to the use of funds, controls of the size and making of loan portfolio and influences credit decision of bank.

Keeping this point in view as stated above, a differentiation between these two policies can be drawn in the following manner:

CREDIT POLICY	BANK'S LENDING POLICY
1. It is national policy declared by the government.	1. Bank's own policy framed by the bank authority.
2. It gives sectoral outlines.	2. It gives balanced port-folio from the stand point of size, maturity & security.
3. It emphasizes national economic considerations.	3. It also emphasizes national economic considerations but also considers steady earnings.
4. It declares credit restrictions for some sectors for the interest of the economy.	4. It obeys the restrictions as imposed.
5. It gives price (Interest) of the credit within a band.	5. It determines price of credit (Interest) within the bank and implement.

However, most of the bank managers uses credit restrictions treating it as bank's lending policy mis-conceptionally.

Contents Of Bank's Lending Policy:

Bank's lending policy should be broad based and definite including all the important dimensions of lending business of bank so that loan officers may not face any problem in evaluating credit worthiness of the loan applicant and taking loan decisions. Bank should adopt specific guidelines in respect of size of loan portfolio, credit worthiness acceptable security and maturities thereof liquidation of loans, interest rates and limitations of lending authority. However, policy regarding margin requirement must be made within due directives received from time to time by the central bank (Bangladesh Bank).

Bank's Lending Criteria.

In order to minimize risks in lending, a bank should extend loans only to deserving parties whose credit character, capacity, and integrity are beyond re-approach. For that matter, criteria of evaluating credit character and capacity to generate income should be outlined in the policy statement. The policy statement contains the guidelines of measuring the liquidity for judging the borrowers liquidity position. It can state that study of past three years to be judged. Besides, nature and composition of current assets and current liabilities should also be looked into. Furthermore, for judging borrower's capacity to generate income and repay the loan, the policy statement can set the specific tools such as profitability ratios, cash budget, working capital requirement etc. could be used for the purpose. More statements relating to ways and means of evaluating credit worthiness of borrower's may not be sufficient unless credit norms are spelt out very significantly.

Principles Of Sound Bank Lending:

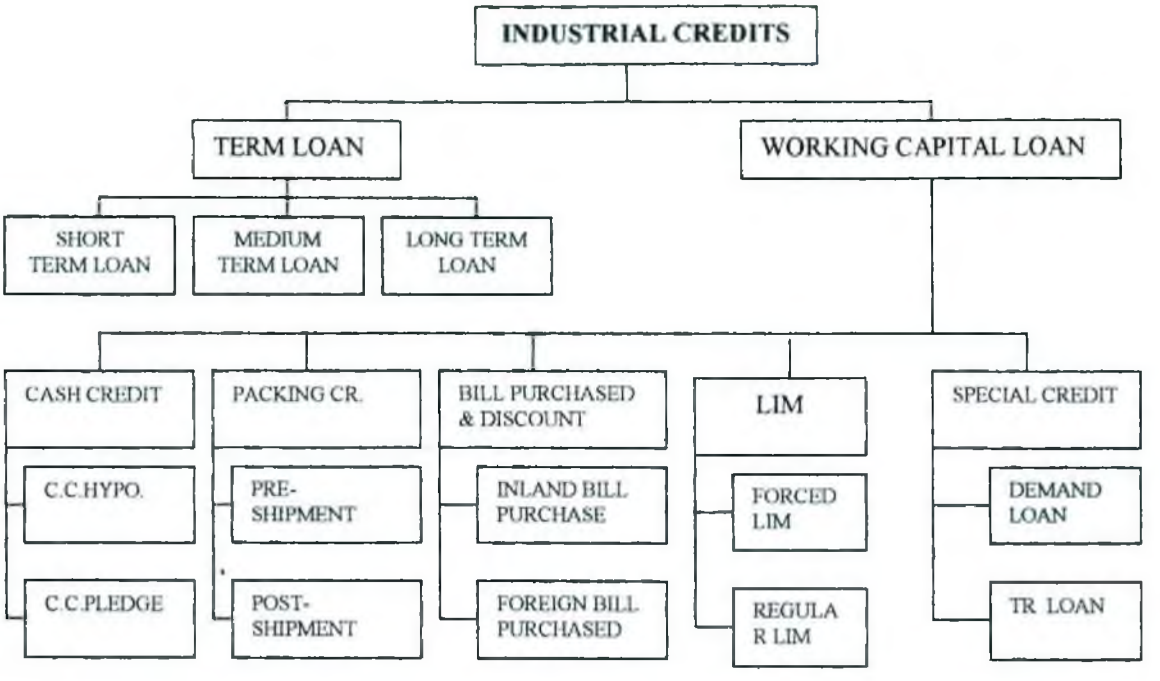
Lending is most profitable business of commercial bank but at the same time it is highly risky also. Industrial Credit always accompany credit risk arising out of borrowers default in repaying the money. A banker should, therefore, manage loan business in a profitable and safe manner. He should take all precautions to minimize the probable risks which may be associated with loan. In considering loan proposal the banker must keep in mind certain general principles of lending. As a matter of fact, these principles help a banker to establish some credit standards by which they can judge loan applications of particular borrowers. Some of these principles are incompatible e.g. liquidity and profitability and a prudent banker strikes a satisfactory compromise between these two. However, a banker should judge general principles in the following points :-

(i) Safety
(ii) Liquidity
(iii) Diversification of funds
(iv) Profitability
(v) National Interest.

Lending Policy Of Commercial Bank:

A bank has social obligation of meeting diverse credit needs of different sections of the community but it cannot afford to lend the fund of its depositors and owners indiscriminately and incur losses. It has to conduct its lending business in an orderly and safe manner so that its loan portfolio remains balanced from the stand points of size, type, maturity and security, and reasonable promises.

In Bangladesh, Bank's lending policies are found in distorted/disorganized manner. As a result, the branch Manager/Loan Officers are faced with difficulties to take lending decisions. Probably absence of well organized bank's lending policy in a manual form leads to indiscipline in credit operations. To overcome this hazardous situation, a bank may initiate to prepare a manual in consultation with a model prepared and annexed here containing lending policy. For preparation of a manual forms of industrial credits may be classified in the following manner :



Keeping these points in view as stated above, credit need assessment procedure for each of the forms containing marketing study mechanism, financial study, supervision and follow-up mechanism may be designed and credit manual be prepared for the credit officers working at desk.

In view of the above, the existing system of bank's lending policy may be reviewed and may take initiatives to find out the root causes of problems regarding credit operations in Bangladesh. Thereafter a credit manual detailing of bank's lending policy and credit appraisal system credit application form filling-up procedure, credit administration, credit recovery strategy can be prepared. The manual may be beneficial to the operational level officers which can ultimately lead to restoration of credit discipline in the country.

A model of industrial credit operations manual is given in the appendix-2.

9.2. Operational Indicipline Analysis.

The industries may be classified into two categories (i) Import substituted industries (ii) Export oriented industries. Import substituted industries may get loan from the Bank for establishment of the industry as well as to meet up its working capital requirements. Term loan is generally provided to establish the industry. It is generally sanctioned for a term of period. It may be 3 years, 5 years, 8 years or above, Loan repayment schedule is made on half-yearly basis, quarterly basis and in some cases it is yearly basis.

While on the other, the working capital loan is sanctioned in the form of cash credit hypothecation, cash credit pledge and LIM.

If the raw material is purchased from foreign countries, then it is essential to the LIM form of credit.

As for example, one entrepreneur willing to procure raw materials from foreign countries, than he will have to open a letter of credit for import of the same. The foreign supplier will send the goods against the undertaking in the form of letter of credit. The goods will come to the port by ship/ air/truck etc. The industrialist if needed will be allowed to LIM and cash credit facilities. The relative vouchers passing in this respect will be in the following manner.

Dr. = LIM A/C.
Cr. = Foreign Bank A/C.

On payment against LIM account, the goods will be retired from the custom and transported and stored the goods in the godowns of the bank. The entries to be passed in the following manner:

Dr. = Cash Credit Pledge
Cr. = LIM Account

The pledged goods shall be kept under the control and supervision of the bank.

The entrepreneur after taking withdrawal from cash credit hypothecation account, he will deposit the same in the cash credit pledge account for taking delivery of raw materials for use in work-in process (W-I-P). The accounting entry in the books of accounts of the bank will be as under :

Dr. = Cash Credit Hypothecation
Cr. = Cash Credit Pledge.

After manufacturing the finished goods, it is placed again in the same pledged godown. On payment pledged goods are sold and the same is deposited into cash credit hypothecation account. A case study of working capital assessment, sanction and operation of the same is narrated hereunder:

Givenchy Spinning Mills Ltd.

Assumptions for assessment of working capital.

1. Two alternate systems were considered for assessment of working capital.

1.1. Bangladesh Bank outlined the procedures for assessment of working capital as under :

- Daily production hour is 24 hours in 3 shifts.
- Yearly working days 300 days.

2.1. The practical situation of spinning mills as under :-

- Daily production hour = 24 hour in 3 shifts.
- Yearly working days = 350 days.
- The closing day per year considered on Eid & Puja only.

Because a big spinning mill is started once cannot be closed down off and on. It takes time for starting of machine as well as closing of the same. Both starting and closing of machine may wastage labour and money as well.

2. The r.p.m. of the pricing frame has been assumed as 17000 of the rated capacity. The production of 30% counts yarn was running at the time of inspection. At that time the r.p.m. of the ring frame was found as 15000 and this 15000 r.p.m. was considered as the rated capacity and the achievable capacity was calculated as 90%. Accordingly, combed and carded yarns achievable capacity would be 73% [(15000 /17000 X 0.92 X 0.90) and 67% (14000/17000) X 0.90 X 0.90]. The average production capacity would be 70%.
3. The project will produce combed yarn by 8 comber with 22 ring frame and the rest 26 ring frame and with 2 rotor frame, the project to produce carded yarn.
4. The price of raw materials has been taken from the invoice of the latter of credit opened recently by the borrower4, and the present market price is considered for the packing materials.
5. Salaries & wages of officers, clerks and labours, utility cost (gas, fuel & lubricants), Insurance, Rent and other expenditures calculated as supplied by the borrowers.
6. Repairs and maintenance cost is considered as per practice of Bangladesh.
7. Stores and spares was not considered as because the same was supplied by the seller alongwith the machinery.
8. The exchange rate was 1USD = Tk. 42.60

Givenchy Spinning Mills Ltd.

Working Capital Assessment

(FIG. IN TK.000)

Particulars	According to Bangladesh Bank Norms		According to Borrowers Proposal	
	Tide up period	Amount	Tide up period	Amount
a. Imported Raw materials	90 days	104550	180 days	209100
b. Local Raw materials	30 days	426	30 days	426
c. Manufacturing overhead:				
(i) Wages	-	-	30 days	1218
(ii) Salary	-	-	30 days	132
(iii) Utility Cost	-	-	30 days	1154
d. Work in Process	3 days	3939	3 days	3895
e. Finished goods inventory	10 days	13130	10 days	12986
f. Bills Receivables	15 days	19695	45 days	58437
g. Cash in Hand	-	-	30 days	1844
		141740		289192

Givenchy Spinning Mills Ltd.

Cost Of Production

(FIG. IN TK.000)

Cost Particulars	Calculation have been done based on normal practice Considering 300 working days per annum	Calculation have been done based on Actual Situation Considering 350 working days per annum
a. Raw Materials:		
(i) Imported	348500	406583
(ii) Local	4262	4972
b. Factory wages and salary	14621	14621
c. Store and Spares	0	0
d. Repair and Maintenance	3800	3920
e. Utility Cost	12385	13849
f. Carriage Inward	1800	1900
g. Rent, Tax & Insurance	2250	2250
h. Depreciation	47017	47017
i. Other Manufacturing Overhead	1630	1714
	436265	**496826**

Givenchy Spinning Mills Ltd.

General Administrative & Selling Expenses

(Fig. In Tk.000)

Cost Particulars	Calculation have been done based on normal practice Considering 300 working days per annum.	Calculation have been done based on Actual Situation Considering 350 working days per annum.
a. Directors Remuneration	480	480
b. General & Administrative Salary	1584	1584
c. Postage,Telephone,Telegram, Telex & Fax	276	276
d. Printing & Stationery	180	180
e. Traveling & Conveyance	240	240
f. Entertainment	420	420
g. Carriage Outward	840	840
h. Selling Expenses	780	780
i. Depreciation	405	405
j. Audit & Legal Expenses	30	30
k. Other Administrative Expenses	300	300
	5535	5535

GIVENCHY SPINNING MILLS LTD.

1. Speed of Ring Frame:

During the visit of the mill on 11-11-96 it has been shown that Ring frame was running nearly at the rate of 15000 r.m.p. At that time 30/1 combed yarn was producing in the machine. So RPM of Ring frame spindle can be considered 15000 for 30/1 combed yarn and 14000 for 30/1 & 24/1 carded yarn.

2. Speed of Rotor Spindle:

During this visit it was also found that the Rotor Spindle was running at 52100 r.p.m. for both 10/1 and 20/1 carded yarn.

3. Spin plan for the proposed production of 30/1, 24/1, 20/1 & 10/1 cotton yarn.

3.1.(a) Ring Frame Production. (Rated Capacity)

30/1 Combed yarn	:	22 Frame	:	11565 lbs/day
30/1 Combed yarn	:	16 Frame	:	6376 lbs/day
24/1 Combed yarn	:	10 Frame	:	5568 lbs/day

(b) Rotor Frame Production :

20/1 Rotor yarn	:	1 Frame	:	1109 lbs/day
10/1 Rotor yarn	:	1 Frame	:	3138 lbs/day

---

48 Ring & 2 Rotor Frame: 27756 lbs/day

3.2. Required Simplex Production:

30/1 Carded yarn	:	11565 lbs/day
30/1 Carded yarn	:	6440 lbs/day
24/1 Carded yarn	:	5824 lbs/day
		23945 lbs/day

3.3. Required D/F Production:

30/1 Carded yarn	:	11799 lbs/day
30/1 Carded yarn	:	6505 lbs/day
24/1 Carded yarn	:	5680 lbs/day
		23984 lbs/day

3.4. Required Comber Production:

For 30/1 Combed Yarn : 11858 lbs.

Comber Production : 1492 lbs/day/Frame

Total Comber Production : 1492 X 8 = 11936 lbs/day

The above Spin plan proves that the existing comber production can feed 22 Ring Frames of 30/1 Combed Yarn.

4. Production Per Day:

Count	Production Per Day (24 hours)
30/1 Combed Yarn	11565 lbs
30/1 Combed Yarn	6376 lbs
24/1 Combed Yarn	5568 lbs
20/1 Combed Yarn	1109 lbs
10/1 Combed Yarn	3138 lbs
	27756 lbs

5. Raw Cotton Requirement (32796 lbs Per Day)

Count.	Production	Wastage%	Raw Cotton Requirement
30/1 Combed	11565 lbs	24%	14340 lbs
30/1 Carded	6376 lbs	14%	7268 lbs
24/1 Carded	5568 lbs	14%	6347 lbs
20/1 Carded	1109 lbs	14%	1264 lbs
10/1 Carded	3138 lbs	14%	3577 lbs
	27756 lbs		32796 lbs

6. Total Wastage and Reusable Wastage Per Day.

Total Wastage	-	5040 lbs
Usable	-	2420 lbs

7. Actual Raw Cotton Requirement Per Day.

Usable wastage 2456 lbs will be used with the mixing of 20/1 & 10/1 Rotor Yarn. That is the same amount of raw cotton will be deducted from the requirement. So the actual raw cotton requirement will be as follows :

Count	Staple Length of Cotton.	Origin.	Amount Reqd/day.
30/1 Combed	1-7/8", 1-7/16"	USA/CIS	14340 lbs
30/1 Carded	1-7/16", 1-1/8"	CIS/TANZANIA/SUDAN etc.	7268 lbs
24/1 Carded	1-7/16", 1-1/8"	CIS/TANZANIA/SUDAN etc.	6347 lbs
20/1 Carded	1/8/1"	CIS/TANZANIA/SUDAN etc.	632 lbs
10/1 Carded	1/8/1"	CIS/TANZANIA/SUDAN etc.	1788 lbs
			30375 lbs

8. Rate of Cotton to be procured by the borrower through Bank:

Type.		Origin.	Staple Length.	Rate.
Pima		USA	1-7/16"	US$. 1.47/lb
Pervyi		CIS	1-1/8"	US$. 0.82/lb
Pervyi		CIS	1-7/16"	US$. 1.20/lb
Tazex	RGD	Tanzania	1/8/1"	US$. 0.87/lb
Pervyi		CIS	1/8/1"	US$. 0.89/lb
Tazex	RGD	Tanzania	1/8/1"	US$. 1.03/lb

9. Imported Raw Materials:

9.1. Cost of Raw Cotton.

Average rate of raw cotton proposed by the borrower is US$.0.95/lbs

Total value of Cotton required per day

	=	30375 lbs X 0.95 X 42.60
	=	Tk. 1229276/=
Add.5% other charges	=	Tk. 61464/=
Total Cost of Cotton	=	1290740/=
US$	=	Tk. 42.60

9.2. Local Raw Materials:

Packing & other Raw Materials:

CONE	:	Tk. 1.00	per 1.5 kg	=	Tk. 8393/=
Carton	:	Tk. 10.00	per 50 kg	=	Tk. 2518/=
Poly bag	:	Tk. 0.25	per 1.5 kg	=	Tk. 2098/=
Others	:	Tk. 0.10/lb	-	=	Tk. 2775/=
			Total	=	Tk.15784/=

10. Total Raw Materials Cost Per Day at rated Capacity:

Imported	Tk. 1290740/=	(Ref. 9.1)
Local	Tk. 15784/=	(Ref. 9.2)
Total	Tk. 1306594/=	

11. Raw Material Costing at Actual Capacity Utilization:

11.1. For 300 Working Days Per Annum :

Particulars.	Cost at Rated Capacity.	Capacity Utilization.	Raw Materials Cost at actual Capacity Utilization.
(i) Imported R/M	387222	90%	348500
(ii) Local R/M	4735	90%	4262
	386503		352762

11.2. For 350 Working Days Per Annum:

(i) Imported R/M	451759	90%	406583
(ii) Local R/M	5524	90%	4972
	----------		----------
	386503		411556

11.3. Utility Cost:

(i) Gas Bill	Tk. 1250000/=	(@ Tk. /cft or cft)
(ii) Fuel & Lub.Oil	Tk. 300000/=	(Lump Sum estimated at
	Tk.15,50,000/=	the present usage)

The Bank sanctioned Tk. 10.00 crore cash credit pledge, Tk. 3.00 crore as cash credit hypothecation, Letter of Credit Limit Tk. 2.00 crore.

While analyzing the working capital limit as sanctioned by the Bank, it has been observed that the bank did not consider any basis for sanctioning of the same. As a result, the borrower may not be able to run the industry smoothly and ultimately will fail to repay the installment of loan as well as to pay the interest of the working capital. On the other hand, if it is not in the proper way, the borrower may divert the money or may fall short of the working capital to run the production smoothly. The form of credit should be as under :

1.	Imported Raw Materials	90 days	94095 (After deducting 10% Margin)	L.C Limit
2.	Imported Raw Materials Local Raw Materials (After deducting 10% margin)		94095 385 ------------ 94480	Cash Credit Pledge-1
3.	Work-In-Process	3 Days	3939	T.R.
4.	Finished Goods		13130	Pledge-2

Production Process related with the working capital would be as under :

Raw Material	Work-In-Process	Finished Goods.
Dr. = T.R (Raw Material)	Dr. = Pledge-2	Dr. = Cash
Cr. = Cash Credit Pledge	Cr. T.R	Cr. = Pledge

If it is considered according practical situation, the working capital limit would be as under :

(Tk. In '000')

1.	Imported Raw Material	180 Days	18,81,90 (Deduct 10% margin)	L/C Limit.
2.	Imported Local Raw		18,81,90	Pledge –1+Transfer

of goods

	Materials (Deduct 10% margin)		383	imported against L/c.

			18,85,73	
3.	Salary, Wages, Expenditure Bills Receivable, Cash		4,39,50 (Deduct 30% Margin)	Cash Credit Hypo.
4.	Work-In-Process	3 days	3895	T.R
5.	Finished Goods		12986	Pledge-2

Working Capital Operational Procedure of Export Oriented Garment Industries.

A portion of working capital of export oriented garment industries is financed in the form of back-to-back letter of credit. Export oriented industries are allowed to open back-to-back letter of credit against Export Letter of Credit (Export LC) for import of raw materials required to manufacture finished goods for export to the extent of permissible limit as per rules.

Back-to-Back Letter of Credit:

Sometimes beneficiary/seller of a credit himself is unable to supply goods specified in the LC and required to purchase/procure from another supplier by opening second credit. Second Credit may be a back to back credit or counter credit. In counter credit, the seller requests his bank to open second credit as a counter to the first credit (Mother LC).

Thus Back to Back LC means one credit backs another credit. The back to back letter of credit is a new credit in favour of another beneficiary. Here the seller as beneficiary of the first credit offers the same as security to the advising bank or his banker for issuance of the second credit. The second credit is known as back to back credit.

Back to Back LC is an independent LC, thought it is opened on the strength of another LC. Thus the beneficiary of the first credit as applicant of the second credit remains responsible for reimbursement of back to back LC whether payment against first credit is made or not.

The back to back LC is opened in conformity to the terms and conditions as stipulated in the master LC except the value, shipment period and validity of the same.

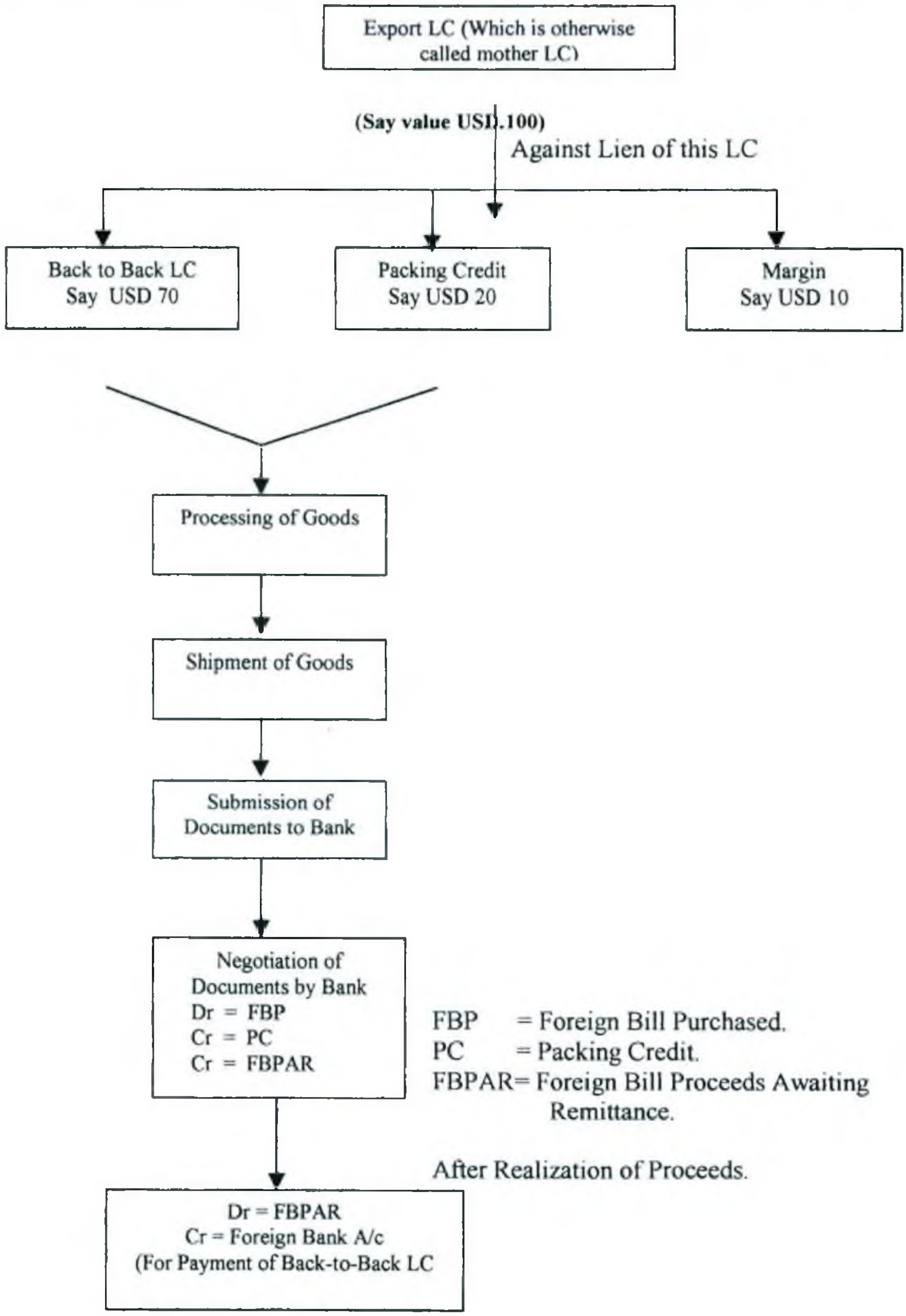
In our regulation, Authorized Dealers open back to back LCs against LCs received by export oriented industrial unit operating under bonded ware house system, subject to observance of domestic value addition requirement (stated in terms of permissible limit of C&F value of imported inputes as percentage of FOB export value of output) prescribed by the Ministry of Commerce from time to time.

No back to back LC is to be opened against Barter/STA LC without Bangladesh Bank permission.

In our country, export oriented Garment Industry operating under bonded ware house system are availing back-to-back facilities. Most of our back to back LCs are opened on their account.

Therefore our discussions are based on account of Garment Industry in Bangladesh.

The operating procedure of this system may be enumerated in the following manner :-



The abovementioned process flow chart indicates that the 100% export oriented garments industries need no financing from the Bank in any other form i.e. cash credit hypothecation and or cash credit pledge. While collecting data from the Bank for study, it has been observed that the bank allowed Back-to-Back L/c, P.C, Cash Credit hypothecation, demand loan etc. Allowing of this type of loan clearly indicates that the project was over financed or allowed financing irregularly.

A case study of such financing is given below :

The working capital of M/s. "Miaco" assessed and sanctioned loan in the following way :

Taka In Lac

A. Current Assets:

	Particulars.	Tied up Period	1st Year.	2nd Year.	3rd Year.
1.	Raw Materials	3 Months	91.75	98.00	104.00
2.	Utilities	1 Month 0.30	0.34	0.38	
3.	Stores and Stores	1 Month 0.15	0.23	0.38	
4.	Repairs and Maintenance	1 Month 0.17	0.23	0.32	
5.	Rent,Tax & Insurance	1 Month 0.25	0.29	0.33	
6.	Work-In-Process	1 Month 3.76	4.17	4.67	
7.	Receivables(C&M)	15 Days 6.22	7.00	7.46	
8.	Wages & Salaries	1 Month 2.87	3.16	3.47	
9.	Finished goods stock	15 Days 6.58	7.00	7.46	
10.	Others.	1 Month 0.10	0.15	0.20	
	Total:		111.75	120.57	128.59

B. Current Liabilities:

Taka In Lac

		1st Year.	2nd Year.	3rd Year.
1.	Back-to-Back LC	91.75	98.00	104.00
2.	Net Working Capital Requirement.	20.00	22.57	24.59
3.	Bank Loan	16.00	18.00	19.60

4.	Equity	4.00	4.57	4.99
	Debt Equity Ratio :	96:4	96:4	96:4

While analysing the above working capital, it has been observed that Back to Back LC for 91.75 lacs opened, Cash Credit Hypothecation Loan sanctioned 16.00 lacs. Now the borrower approached for Packing Credit limit for Tk. 20.00 lac showing the Export LC and the bank allowed the same. This is irregular and it would be over financed. The Bank will not be able to realize the amount by negotiating the bill. This need to develop a model for smooth operation of the credit.

9.3. Faulty Credit Pricing Mechanism Analysis.

Costing of Credit:

In Bangladesh, the central bank of Bangladesh, Bangladesh Bank determined the cost of credit and directed to commercial banks to apply the same on deposits and loans. Commercial banks of Bangladesh do not know how to fix up cost on credits. This practices continued till 1989. In 1990, when Government took liberal policy for bank management, the central bank devised a strategy to determine a band of interest rate and advised the commercial banks to set their own prices on deposits and loans within the band price.

Due to inexperience of commercial bank officials, they were not able to fix up deposit and loan prices at their own. What they have started to do is to fix a rate within a band hypothetically. In true sense they choose a mid point or a nearby point within a band without considering any basis or calculation.

However, the financial sector reform project consultants started to set prices of individual banks considering the profitability of banks only. They tried to fix prices on deposits and loan by adjusting from one to another products considering overall profitability of the bank.

As regards cost of fund, risk costs, bad debt costs and others were not considered for fixing the price of deposits and loan products.

Impact on profit on lending due to provisioning against bad loans profit on lending formula.

Burdened Yield
on Lending

Burdened Cost
of Deposits

Minus Profit on
Lending

Yield On Lending Items:

Items		Taka In Crore.	
1.	Interest Income	-	595.01
2.	Investment Income	-	162.45
3.	Interest Income Advances	-	432.56
4.	Total Advances	-	7701.26
5.	Total Provision Required	-	1179.83
6.	Interest Forgiveness	-	94.52
7.	25% Loan Admn. Cost	-	50.29

Source: Data collected from Central Accounts Report of Agrani Bank.

Calculation of Burdened Yield on Lending:

A) Nominal weighted average yield = Interest Income – Investment Income / Total Advances

= (595.01 – 162.45) / 7701.26 = 432.56 / 7701.26 = 5.62%

B) Cost of Provisions = Provisions / Total Advances = 1179.83 / 7701.20 = 15.31%

C) Cost of Interest Forgiveness = Interest Forgiveness / Total Advances = 126.52 / 7701.26 = 1.64%

25% Loan Admn.Cost 50.29

D) Loan Admn.Cost = ------------------= -------------- = 0.65

Total Advances 7701.26

Burdened yield on lending = Nominal Weighted Average Yield
- Cost of Provisions
- Cost of Interest Waiver
- 25% Loan Admn. Cost
= 5.62 – 15.31 – 1.64- 0.5
= (-) 11.98

Cost of Fund Items:

Item.			Taka In Crore.
1.	Capital	-	248.42
2.	Reserve	-	76.89
3.	Deposits	-	10052.85
4.	Other Bank Borrowings	-	0
5.	Bills Payable	-	148.89
6.	Other Liabilities	-	1799.24
7.	Total Liabilities	-	12000.99
8.	Contras (1019.66 + 254.99)	-	1272.65
9.	Liabilities (-Contras & Capital)	-	10728.34
10.	Total Expenses	-	841.20
11.	Interest Expenses	-	640.03
12.	Admn. Expenses (Total Exp.-Intt.Exp.)	-	201.17
13.	Admn.Cost to Deposit(60%)	-	120.70

Sources: CAD, HO.,Dhaka (One Banks Annual Report)

Calculation of Cost of Fund:

$$\text{Weighted Average Cost of Fund} = \frac{\text{Total Interest Expenses}}{\text{Liabilities (- Contras \& Capital)}}$$

$$= \frac{640.33}{10728.34} = 5.97\%$$

$$\text{Cost of Deposit Gathering} = \frac{\text{60\% Deposit Admn.Cost}}{\text{Liabilities (- Contras \& Capital)}}$$

$$= \frac{120.70}{10728.34} = 1.13\%$$

Burdened Cost of Deposits (Called Cost of Fund)	=	Weighted average Cost of Fund + Cost of Deposit Gathering
	=	5.97% + 1.13% = 7.10%

<u>Calculation of Profit on Lending</u>:

Profit on Lending = Burdened yield on lending minus burdened cost of deposits.
= (-) 11.98% - 7.10%
Therefore, profit on lending = (-) 19.08%

<u>Break – Even Yield:</u>

<u>Formula used to Calculate Break-Even to Yield.</u>

Break-Even Yield = Cost of Fund + Cost of Provision + Cost of Interest forgiveness + 25% Loan Admn.Cost.

<u>Break-Even Yield Items</u>:

a)	Cost of Fund	-	7.10%
b)	Cost of Provisions	-	15.31%
c)	Cost of Interest Waiver	-	1.64%
d)	Cost of 25% Loan Admn.Cost	-	0.65%
e)	Profit on Lending	-	(-) 9.73%
f)	Nominal Weighted Average Yield	-	5.62%

<u>Calculations:</u>
The rate at which Break-Even Yield = 7.10% + 15.31% + 1.64% + 0.65% = 24.70%

<u>Checking the Break-Even Yield Rate</u>:
Nominal weighted average yield = Break-Even Yield + Profit on Lending

5.62%= 24.70% + (-) 19.08%
5.62%= 5.62%

So the minimum price on lending should be 24.70%.

But the average loan price of the commercial banks is as under:

1)	Agricultural Credit	-	13.00%
2)	Large & Medium Industry	-	13.00%
3)	Working Capital Jute	-	14.00%
4)	Working Capital other than Jute	-	14.00%
5)	Jute Trading	-	16.00%
6)	Jute and Jute goods exports	-	10.00%
7)	Other Exports	-	10.00%
8)	Other Commercial Lending	-	16.00%
9)	Urban Housing	-	16.00%
10)	Special Programs	-	11.00%
	a. Small & Cottage Industries		
	b. Other Special Programs		
11)	Others	-	16.00%
	Weighted average interest rate	-	14.41%

The present price is (24.70% - 14.41%)= 10.29% lesser than the required price. This indicates that existing loan pricing mechanism is faulty.

8.4. Unsound Debt-Equity Analysis:

Now it is widely spoken that high equity of project shall have high recovery of debt. As because, when the sponsor involvement in project is much higher then it shall have to their involvement in management forcefully. Ultimately they will manage the projects according to their own strategy and the projects will run effectively. If it is run effectively they will be able to repay the loan in time. The results of field survey regarding recovery of loan depending on debt equity is given below :

GOOD PROJECT

Recovery Rate Depending on Debt – Equity.

(Tk. In Lac)

Debt-Equity	Disbursed Amount	Recoverable Amount	Recovered Amount	Percentage of Recovery
80:20	505.00	429.41	176.29	41%
70:30	4414.80	2698.24	1387.99	51%
68:32	43.39	131.27	0	0%
65:35	496.29	496.29	91.21	18.35%
60:40	4108.97	2746.71	1037.24	38%
52:48	340.00	495.03	0	0%
45:55	70.50	74.02	44.26	60%
42:58	50.00	100.45	16.00	17%

While analysing the above table it is observed that the high equity shall have the high recovery, this dictum is not true in Bangladesh. Debt-Equity 70:30 leads to high recovery @ 51% but while the debt equity is 42:58 i.e. high equity leads to recovery only at 17%. When we look into 80:20 debt equity i.e. the lowest equity participation in the project, the recovery is 41% which is the third highest in this analysis.

BAD PROJECT

Recovery Rate Depending on Debt-Equity **(Tk. In Lac)**

Debt - Equity	Disbursed Amount	Recoverable Amount	Recovered Amount	Percentage of Recovery
23:77	18.00	39.09	10.94	51.01%
40:60	436.56	612.99	45.51	7.42%
52:48	192.17	342.70	0	0
56:44	49.50	131.41	13.68	10.41%
64:36	753.86	611.48	45.51	7.44%
65:35	437.69	46.41	0.57	1.23%
66:34	49.50	131.41	13.68	10.41%
67:33	50.00	57.39	40.88	71.29R%
68:32	109.90	377.07	38.58	10.23%
70:30	2389.68	5140.10	204.78	3.98%
74:26	79.22	15.23	24.74	162.44%
75:25	185.47	180.65	147.72	81.77%
80:20	0	1209.89	686.23	56.72%

The survey sample was divided into good projects and bad projects equally. The sample size was 110. Out of these 55 projects were good and 55 were bad projects. The bad projects were classified on the basis of their performance regarding repayment of loan. Where the loan was non performing then these had been treated as Bad Projects or Loan. The performance of bad projects is given below :

While analysing the repayment performance of bad projects depending on equity, it has been observed that the high equity i.e. 77% leads to recovery of 51.01% while the lowest equity 20% leads to 56.72% recovery.

9.5. Faulty Credit Evaluation Analysis

While analysing the Industrial Credit appraisal system of the bank, it has been observed that the bank analyzed the credit proposal in the following manner :-

1) Management Aspect.
2) Technical Aspect.
3) Economic Aspect.
4) Financial Aspect.
5) Marketing Aspect.
   and
6) Lending Risk Analysis (LRA).

The details of the above points as used by the commercial banks are given below :-

- Management Aspect :

To analysis the management competence the bank generally obtain the bio-data of the sponsors. Wherein the particulars of the sponsors, i.e. Name, Father's Name, Present Address, Permanent Address, Educational Qualification, Present Occupation, Business experience, Professional efficiency (if any), Training received, Age and Other relevant points are taken.

- Technical Aspect :

  Manufacturing process to calculate cost is analyzed here.

- Economic Aspect :

  In economic report for sanctioning of Industrial Credit, employment generation, Foreign Exchange Earnings and Savings, Import substitution or Export Oriented and Projects contribution to GDP are looked into for feasibility study. Sources of raw materials for procurement and location of the unit are also considered for the study.

- Financial Aspect :

  The basic points are used for financial analysis in the following heads:

  * Cost of the Project
  * Means of Finance
  * Estimated Income Statement

- Cash Flow Statement, Estimated Balance Sheet, Working Capital Assessment.
- Financial Projections are also done in the following manner :
    - Assumed capacity of operation - % 1st Year / % 2nd Year / % 3rd Year
    - Raw Materials at the assumed-capacity of operations. % 1st Year / % 2nd Year / % 3rd Year
    - Operation time
    - Production period
    - Work-In-Process
    - Finished goods inventory maintenance
    - Net Present Value, Internal rate of Return.

Uses of LRA:

The bank use LRA technique as a supplementary tool along with the traditional approach for processing of credit proposal. The bank use the result of LRA in one paragraph in credit proposal form in the following manner :

Supply Risk	:	Average
Sale Risk	:	High
Performance Risk	:	Average
Resilience Risk	:	Average
Management Competence Risk	:	Low
Management Integrity Risk	:	Average
Security Control Risk	:	High
Security Cover Risk	:	High
Business Risk	:	Acceptable
Security Risk	:	Marginal
Overall Quality	:	Acceptable

What is LRA ?

LRA is a tool used for credit evaluation. It can be used for evaluation of a new loan proposal as well as the existing projects which are established with Bank credits. Lending Risk Analysis tool is used along with Financial Spread Sheet to reach a decision. Financial spread sheet contains the followings :-

1. Cash on Hand : All cash and cheques not yet banked i.e. petty cash, cash float (in transit).

2.	Cash in Bank	:	All cash held in bank i.e. Current Accounts, Savings Accounts, Fixed Accounts. Where it is indicated that balances with the bank are pledge as security (margin) and are not immediately available to the company they should be entered as "Other Non-current Assets".
3.	Securities (Marketable)	:	Shares or debt instruments of the Government or other companies that can be readily converted into cash i.e. treasury bonds, shares of companies quoted on the Stock Exchange (the customer's account should indicate that marketable securities are carried at the lower of cost or market).
4.	Receivable Trade	:	Amount due from customers for sales or services provided against payment to be received at later date.
5.	Less:Bad debt Allowance	:	The amount of any allowance made for bad or un-collectible accounts.
6.	Net Receivable	:	Gross receivable less bad debt allowance.
7.	Inventories	:	The amount of goods on hand, Depending on the nature of the business this can include; raw materials, work-in-process, finished goods and supplies.
8.	Blank Kept for	:	Enter the amount of any other current asset that it is desired to show separately.
9.	All Other Current Asset.	:	Amount of those current assets not shown separately i.e. security deposits if repayment can be obtained in under 12 months, any non trade receivable, excluding prepaid items which should be entered in "All other Non Current Assets".
10.	Total Current	:	Current Assets are possessions such as cash, items

	Assets		held for resale, and receivable which will generate cash within 12 months.
11.	Land & Building	:	Enter the amount of land and buildings owned. Land and buildings are valued at acquisition cost plus cost of permanent improvements to buildings. Leasehold improvements should also be included. While land and buildings are normally entered at historical cost, the fair market value may be different.
12.	Less Depreciation	:	The amount of accumulated depreciation, normally only applies to building and machinery and not to land. Depreciation is a method of spreading the cost of the asset over its useful life.
13.	Net Land & Building.	:	
14.	Machinery & Equipment.	:	Enter the amount of machinery & equipment, (Machinery & Equipment is valued at cost together with delivery and installation costs; plus cost of any substantial improvement that extents its life or increases its capacity).
15.	Less Depreciation	:	The amount of accumulated depreciation. Normally only applies to building and machinery and not to land.
16.	Net Machinery & Equipment.	:	Net machinery and equipment is not a good indicator of either the market value or the replacement value of these assets. Depreciation does not measure actual decline in asset value. There are a number of different method of calculating depreciation. The value of the asset will very depending on the method chosen. (N.B. Same procedures are to be followed for other fixed assets viz. Furniture, Vehicle etc.).

N.B. : In case of 'CAPITAL LEASES' both land & buildings and equipment & machinery should include as items owned under capital lease arrangements. A capital lease is normally no cancelable and has one or more of the following characteristics: 1. Leasee retains the assets at the end of the lease. 2.Lease is for the useful life of the assets. 3.The risks of ownership are with the leasee.

23.	Blank Kept For	:	Enter the amount of any other non-current asset that it is desired to show separately.
24.	Invest Subsidiaries	:	Enter the amount of stocks and bonds at cost owned of another company for the purpose of maintaining a business relationship or exercising control. Enter as investment in subsidiary if more than 50% of the voting shares are held.
25.	Investment Associated Co.	:	Enter as investment (at cost) in associated company if 50% or less of voting shares are held.
26.	All Other Non-Current Assets.	:	Enter the amount of all other non current assets i.e. prepayments, restricted cash, non trade receivables with an original maturity of over 12 months. Intangible assets such as patents, copyrights, trade marks and goodwill generally only have value if the company is an onward going concern. For analytical purposes they are not included as assets. Their total value is subtracted from net worth on the liabilities side of the Balance Sheet.
27.	Total Non Current Assets.	:	Current assets are generally possessions which are not for resale, but will be retained and used by the business, i.e. land, building, machinery, etc. Additionally assets that can not be considered as current assets because of their long term nature are included here, i.e. restricted cash or cash margin, investment for the purpose of control and any other long-term investment.

28.	Total Assets	:	Total of Line No. 10 and 27.
	Liabilities:		Liabilities represent claims against the assets of the company by outsiders. Liabilities are segregated into two categories; current liabilities and non-current liabilities.
29.	Overdraft/ Cash Credit.	:	Enter the amount of any current/Operating account which has a debit or negative (overdrawn) balance. Cash credit facilities should also be entered on this line.
30.	Loan From Bank (Under 1 year).	:	Enter the amount of loan/advances due to banks or other financial institutions that are payable within one year (including demand loans).
31.	Loan From Others (Short Term)	:	Enter the amount of loans due to parties other than financial institutions that are payable upon demand or within one year.
32.	Accounts Payable Trade.	:	Amount owed to suppliers of goods and services. Items purchased include inventory, supplies and capital items which have been obtained on open account with payment required in less than one year.
33.	Lon Term Debt (Maturing Under 1 Year).	:	The amount of principal due on long term debt/obligation (i.e. installments due on capital leases) which is due for repayment within twelve months.
34.	Provision for Tax	:	Enter the amount of any taxes due including VAT.
35.	Blank Kept For	:	Enter the any amount of current liabilities that it is desired to show separately.
36.	All Other Current Liabilities.	:	Enter the amount of current liabilities; i.e. accruals, dividend payable etc.
37.	Total Current Liabilities.	:	Current liabilities are claims that have to be satisfied within one year.

38.	Long Term Debt	:	Enter the amount of loans and notes payable to banks, individuals and other parties with maturities of more than 12 months. Amounts owed under a capital lease arrangement should be included under this categories.
39.	Debenture/Bonds	:	Enter the value of debt instruments which have been issued for the purpose of financing.
40.	Optional Line Kept	:	Subordinated debt should be shown separately here. At the event of winding up of a company subordinated debt is paid after all other creditors have been paid, but before shareholders are paid. Moreover, enter the amount of any other non-current liabilities that it is desired to show separately.
41.	All Other Non-Current Liabilities.	:	Amount of all other non-current liabilities i.e. deferred tax payments, minority/ interests. (In the case of consolidated Balance Sheets this represent portion of subsidiary owned by third parties).
42.	Total Non-Current Liabilities.	:	Non-current liabilities are those claims due after more than 12 months.
43.	Total Liabilities Owners' Equity.	:	Owners claims against the resources of the business.
44.	Capital (Paid up)	:	The par or stated value of the shares issued. The shares can be either common or preference shares.
45.	Paid in Surplus	:	Enter the amount received in excess of the par amount from the sale of shares.
46.	Reserves	:	Enter the amount of profit not allocated to specific reserves or retained earnings.
47.	Retained Earnings	:	The amount of cumulative undistributed profit or loss.

48.	Less Intangibles	:	Deduct the amount of intangible assets excluded from total assets.
49.	Net Worth	:	Net worth represents the owners' interest in the assets after liabilities have been subtracted.
50.	Total Liabilities & Net Worth.	:	Total Asset must be "Equal to" Total Liabilities and Net Worth. If not the figures are wrong.

<u>PROFIT & LOSS A/C</u>

The profit and loss account is a summary of the income and expenditure of a company together with the resulting net income (loss) for a given period of time.

51.	Sales (Net)	:	The revenue received from the sale of goods or services. Sales should be net of any discount or returns.
52.	WIP Opening Bal.	:	Enter opening balance of WIP.
53.	Materials used/ Goods Purchased.	:	The amount of material used or goods purchased. For trading companies only cost of goods purchased figure should be available. If the figure is not reported separately the following calculation can be used. All opening stock of raw materials/goods plus purchases minus all closing stock equals materials used/goods purchased. N.B : Different methods of accounting for inventory can have a direct effect5 on profit. It is necessary to endure that the bank is advised if there is a change in accounting policy.
54.	Labour	:	The amount of factory wages directly related to the cost of manufacturing the goods.
55.	Manufacturing Expenses.	:	The amount of any other expenses directly related to manufacturing the goods. i.e. factory rent, factory insurance etc.
56.	Depreciation on pant	:	Enter the total amount of depreciation, that

	& Machinery.		relates to manufacturing, expensed during the period; i.e. factory building, machinery etc.
57.	Less Ending WIP	:	Subtract the amount of WIP of current year.
58.	Cost of Production	:	
59.	Add Finished goods Opening Balance.	:	The Balance taken from previous year.
60.	Cost of Goods Available for Sale.	:	
61.	Less Finished goods Closing Balance.	:	Subtract the amount of unsold stock of finished goods of current year.
62.	Cost of Goods Sold	:	Total of Line No.58 and 59 and minus 61. It is the amount paid for the goods that was sold.
63.	Gross Profit.	:	Gross profit is net sales revenue les the cost of goods sold (It does not include operating expenses). This Gross Profit Margin must cover all other expenses of the company if the company is to make a net profit.
64.	General & Admn. Expenses.	:	Expenses which are associated with the general running of the company i.e. salaries, rent, supplies, insurance etc.
65.	Selling & Dist. Expenses.	:	The expenses associated with the company's efforts to develop sales; i.e. advertising, salesman's commission, sales supplies etc. Service companies will not differentiate between selling and administrative expenses. Some trading/manufacturing companies my also choose to report these figures on a combined basis.
66.	Interest	:	Enter the all interest paid amounts on any debt

instrument whether bank or other third party. While not theoretically correct for the purpose of FSS interest is being shown as an operating expenses.

67.	Depreciation & Write-Offs.	:	The total amount of depreciation, related to selling and administration, expensed during the period i.e. office building, office equipment. Amortization of goodwill or other intangibles should also be entered as write-off on this line.
68.	Total Operating Expenses.	:	Operating expenses are not directly attributable to production costs and consist of two types; selling and general & administration, Depreciation is normally included in general and administration expenses.
69.	Operating Profit	:	Operating profit is the Gross Profit Less Operating Expenses.
70.	Other Income	:	Amount of income that relates to secondary activities of the company i.e. rental income of manufacturing companies, dividend income, profit on sale of fixed assets etc.
71.	Other Expenses	:	Amount of expenses that relates to secondary activities of the Company; i.e. an uninsured casualty loss, loss caused by newly enacted law, loss on sale of fixed assets, capital issues expenses etc.
72.	Profit Before Tax	:	It is Operating Profit plus or minus income or expenses not related to the company's primary activities.
73.	Pro.For Taxes/ Income Tax.	:	Enter all the provision or income tax based on the reported profit.

74.	Net Profit After Tax	:	Net profit is profit less all income and capital gains taxes payable.
75.	Add Bal.of Profit B/F from previous year.	:	Enter from previous year balance sheet figures.
76.	Less Dividends	:	Enter only cash dividends of current year.
77.	Less Other Appropriated Items.	:	Enter any other appropriated items which is not covered earlier.
78.	Retained Earnings/ Un-appropriated Profit.	:	Ensure this agrees with customer's figure.
101.	Contingent Liabilities.	:	Contingent liabilities are those liabilities that any result in a payment in the future dependent on a particular occurrence. Example: Guarantees, litigation settlements etc. Contingent liabilities should be stated in the footnotes to the balance sheet.
102.	Working Capital	:	Working Capital is the excess of total current assets over current liabilities. It represents the amount that would remain if all current obligations were paid. The working capital figure is one of the primary indicators of short-term solvency.
103.	Dividend Paid	:	The amount paid out in cash during the current financial year. Normally it will be dividend declared for the prior financial year and should be obtainable from the profit and loss appropriation account.

CASH FLOW STATEMENT
OPERATING ACTIVITIES (LINE NO.103 TO 114);

Starts with net profit after tax of current year, Here all current assets and current liabilities are covered to calculate the net result. Rules for data entry are:

1) Increase in C.A (Other than cash and bank balance) will decrease the cash.
2) Decrease in C.A (Other than cash and bank balance) will increase the cash.
3) Increase in C.L. (Other than O/D. C/C and Short Term Loans which are part of financing activities) will increase in cash.
4) Decrease in C.L. will decrease in cash.

2. INVESTMENT ACTIVITIES (LINE NO. 115 TO 121)

All information related to sale out or procurement of non-current assets are covered here. The rules are :

1) Increase in non-current assets will decrease in cash.
2) Decrease in non-current assets will increase in cash.

3. FINANCING ACTIVITIES:

All information related to non-current liabilities & short term financing and equity are covered here. The rules are :

1) Increase in non-current liabilities and items related to short term financing and owners' equity will lead to increase in cash.
2) Decrease in above items will lead to decrease to cash.

N.B: Term of financing should match term of investment. Of internal funds generated 60% should go to fixed assets and 40% to working capital.

FUND FLOW STATEMENT

Bangladesh sheets tell us the position of the company at a point in time, fund flow statement describes the changes that have taken place between the current balance sheet and the previous one. It has two parts :

1) Increase (Decrease) in Working Capital.
2) Sources and (Uses) of Fund.

N.B : Details are given in the sheet. Changes in the working capital must equal long term changes in the balance sheet. Working Capital increases when long term sources exceed long term uses.

RATIOS

155. Current Ratio :

Computation:
Total Current Assets divided by Total Current Liabilities i.e.

Interpretation:
Rough indications of a company's ability to service its current obligations. Generally the higher the ratio, the greater the "Cushion" between current obligations and firm's ability to pay them. However, the composition and quality of current assets is a critical factor in analysis of an individual firm's liquidity.

Rule of thumb:
2:1 is considered good.

156. Quick Ratio :

Computation:
Cash and Securities plus net receivables divided by total current liabilities.

Interpretation:
It is a refinement of the current ratio and is a more conservative measure of liquidity. The ratio shows the degree to which a company's

current liabilities are covered by most liquid current assets.

Rule of thumb:
1:1 is acceptable. Less than 1:1 implies a dependency on inventory or other current assets to liquidate short term debt.

157. Receivables Turnover in Days. :

Computation:
365(No. of days in a year) divided by (sales

divided by net receivables) i.e. [3:65/(51/6)]

Interpretation:
The figure expresses the average time in days that receivables are outstanding for. The lower no of days the shorter the time between the sale and cash collection. The greater the no. of days outstanding the greater the probability of delinquencies. The Terms offered by a company to its customers must be known when considering this ratio. Care must also be taken with this ratio in that it compares receivables as shown at statement date with annual sales and does not take into consideration seasonal fluctuations.

Rule of thumb:
Should not be more than 1/3rd greater than company's term of sale.

158. Inventory Turnover In Days. :

Computation:
365(No. of days in a year) divided by (the cost of goods sold divided by inventory) i.e. [365/(62/7)].

Interpretation:
Indicates the no. of days units are in inventory. Low no. of days generally indicates better liquidity or superior merchandising. However, a long no. of days can indicate a shortage of inventory for sales, high inventory days can indicate poor liquidity, possible over stocking or obsolescence there is the problem that the ratio campers inventory one days (statement date) to annual cost of goods sold and does not take into account seasonal fluctuations.

Rule of thumb:
Compare with previous year.

159. Accounts Payable Turnover In Days. :

Computation:
365(No. of days in a year) divided by (the cost

of goods said divided by accounts payable). i.e. [365/(62/32)].

Interpretation:
Indicate the average length of time trade debt is outstanding. If no. of days is high the company may be expensing cash shortages, disputing invoices, taking extended terms, or simply expanding trade credit. The normal terms the company buys on must be known. There is the problem that the ratio compares accounts payable on one day (Statement date) to annual cost of goods sold and does not take into account seasonal fluctuations.

160. Sales to Working Capital. :

Computation:
Net sales divided by working capital. i.e. (51/102).

Interpretation:
Working capital reflects the ability of a company to finance current operations and is a measure of the margin of protection for current creditors. Relating working capital to sales indicate how efficiently working capital is employed. A low ratio can indicate inefficient use of working capital while a very high ratio usually indicates over trading. If working capital is negative ratio will be shown as "N.A".

Rule of thumb:
Increase in ratio indicates over-trading. Check for other signs i.e. decline in current and quick ratios.

161. Debt Equity Ratio :

Computation:
Total liabilities divided by tangible equity (Good will etc. deducted from equity). i.e. (43/49).

Interpretation:
Ratio shows the relationship between capital

contributed by the creditors and that contributed by the owners. The higher the ratio the less protection there is for creditors and the more difficult it will be for the company to increase debt. A low ratio indicates greater long term financial safety and the ability to borrower in the future.

Rule of thumb:
Not normally more than 1:1.

162. Sales to Fixed Assets. :

Computation:
Net sales divided by net fixed assets. (Fixed assets net of accumulated depreciation). i.e. [51/(13+16+19+22)]

Interpretation:
Ratio is a measure of the productive use of a company's operating fixed assets. Distortions may occur if fixed assets are largely depreciated or operations are labor intensive.

163. Debt Service Coverage. :

Computation:
After tax profit plus interest paid plus depreciation divided interest paid and plus principal. i.e. (74+66+104)/(66+33).

Interpretation:
Ratio indicates ability of company to generate cash to pay interest and principal repayments. It is also an indicator of a company's ability to assume additional debt. While it can be misleading to assume all cash flow is a valuable for debt service this ratio is a good measure of a company's ability to service long term debt. If a company is not paying the interest due on its loans this ratio will be misleading.

Rule of thumb:
Must be greater than one.

CREDIT SCORING SYSTEM

Z-SCORE

Should be applied to the manufacturing companies. The formula to calculate the Z-Score is as follows:

Z = .012 X1 + .014 X2 + .033 X3 + .006 X4 + .999 X5

Where.

X1 = Working Capital -:- Total Assets.

X2 = Retained Earnings -:- Total Assets.

X3 = Earnings Before Interest and Taxes -:- Total Assets.

X4 = Equity -:- Total Liabilities.

X5 = Sales -:- Total Assets.

Formula Notes:

- Variables X1 to X4 must be calculated as absolute percentages, i.e. where the result of the calculation of X1 is .052 it should be taken as 5.2. Thus X1=5.2 multiplied by the weighting factor of .012.
- Variable X5 uses the whole number. i.e. an X5 calculation of 1.5 gives an X5 of 1.5 multiplied by the weighting factor of .999.

Interpretation:

A score higher than 3 rates a good risk.
A score of under 3 indicates further investigation is necessary.
A score of under 1.81 evidences an inherent weakness and a probability of the company failing within two years.
A constant downward trend requires investigation even when this score is satisfactory.

Y – Score

Should be applied to all trading companies. The formula calculates 5 ratios and awards points to each according to the table below :

- Current Ratio (CR) = Current Assets -:- Current Liabilities.
- Quick Ratio (QR) = [Cash +Equivalent + Accounts Receivable] -:- Current Liabilities.
- Liquidity Ratio (LR)= [Cash + Equivalent -:- Current Liabilities.
- Asset Ratio (AR) = Total Asset -:- Total Liabilities.
- Return on Equity (ROE) = Net Profit for the Year -:- Ending Net Worth.

"Y" Credit Score Table

POINTS	CR	QR	LR	AR	ROE
4	2.00	1.00	0.40	2.75	0.10
3	1.67	0.75	0.30	2.00	0.075

2	1.33	0.50	0.20	1.67	0.05
1	1.00	0.25	0.10	1.33	0.025
0	LESS	LESS	LESS	LESS	LESS

Formula Notes:

- Cash include cash in hand, cash at bank and securities (marketable). it does not include restricted cash i.e. margins.
- Accounts receivable is after allowance for bad and doubtful debt and excludes receivable from directors, employees and special transactions.
- Net profit is after tax, but before payment of dividend. Profit for periods of less than a year must be annualized before ROE is calculated.

Interpretation:

A total score of less than 12 evidences an unusual degree of risk and a strong reliance on security.
Low scores indicate a close review of the components of working capital is required.
Again the trend is just as important as the actual score.

Comparing 'Y' and 'Z' Scores:

♦ If the two scores appear contradictory review each of the component ratios of the lower score. Identify the weak ratios and obtain explanation.

♦ If the 'Z' score is satisfactory and the 'Y' score is not review sales to total assets ratio. If sales to total assets ratio and sales to working capital ratio are high the company is probably overtrading.

Comparison of Traditional Credit Analysis Module and LRA Package

Traditional Analysis	LRA Package
1. Name of the project.	1. Name of the project.
2. Name of the applicant with mailing address.	2. Name of the applicant with mailing address.
3. Brief description of the project.	3. Not included.
4. Industrial classification and coverage under	4. Not included
5. Type of Project.	5. Not included
6. Location of the Project.	6. Not included
7. Estimated cost of the project. = Fixed Cost + Working Capital requirement Total cost of the project	7. Not included
8. (A) Rate of Interest. (B) Means of Finance i) Equity ii) Borrowing iii) Interest during construction period.	8. (A) Not included (B) Not included
9. Foreign Exchange Component a) Machinery b) Raw Material c) Spare & Accessories d) Others.	9. Not included

Traditional Analysis	LRA Package
10. Sources of Credit.	10. Not included.
11. Annual requirement of raw material at 100% capacity utilization. Amount Percentage a) Local b) Imported	11. Annual requirement of raw materials included for risk analysis.
12. Estimated operating results. Operating Years 1st Yr. 2nd Yr. 3rd Yr. Sales 60% 65% 70% Operating Profit Operating Profit to sales (%) Net profit to sales (%) Net Profit to equity (%) Return on Sales Return on Investment Debt Equity Ratio Debt Service Coverage (times) Internal Rate of Return Break-Even Capacity of operation Benefit cost Ratio Break-Even Sales.	12. Estimated operating result. Sales. Current Ratio Quick Ratio Recoverable turnover in days Inventory turnover in days Accounts payable turnover in days Sales to working capital Debt to Equity Sales to Fixed Assets Debt service coverage 7 Score: (Working capital/Total Assets) X 1.2 (Retained Earnings/Total Assets) X 1.4 (EBIT/Total liabilities) X 3.3 (Equity/Total liabilities X 0.6 (Sales X Total Assets) X .999 Total 7 Score. Current Ratio Quick Ratio Liquidity Ratio Asset Ratio Return on Equity Total.
13. Economic Aspects. i) Employment Generation ii) Fixed cost per job iii) Contribution to GDP.	
14. Marketing Aspects. Demand Gap 15. Observation.	

Analysis of Credit Evaluation System Under Traditional
System and Lending Risk Analysis.

1. Traditional System gives only analytical result and its has no marking for decision, while in the LRA has marking against each indicators which help to take decision.

2. In both the systems, there is no mechanism for checking of machinery prices. It is assumed that the sponsors overpriced their machinery and divert this fund to their equity. As a result, the cost of the project overrun and leads to indiscipline as well as default.

3. Though both the systems are more or less same, the LRA does not deal with cost of the project, means of finance, for which, probably the users are using these two systems simultaneously with misconception.

4. Though the LRA has some shortcomings, it is comparatively better in evaluating credit risky-ness in respect of sanctioning credits.

5. The LRA has given some guidelines for evaluation of credits but the traditional system has not given any framework or guideline for credit evaluation. The LRA guidelines are given hereunder :-

BUSINESS RISK

Business risk can be further divided into the following six sub-risk categories.

1. Supplies Risk: it indicates the risk of failure of the business due to disruption in the supply of inputs resulting from their price, quantity or quality. The inputs of supply risk are labor raw materials, machinery and equipment, power, premises, etc.

2. Sales Risk: Sales risk refers to the risk that the business suffers due to disruption to sales. Possible reasons of sales disruption are the squeeze of market size, increased competition, changes in regulations, losing of a single large customer, etc.

3. Performance Risk: Performance risk refers to the risk that the company's position is so weak that it will be unable to perform enough to repay the loan even under the given external conditions. It depends on competitive position, realistic business strategy, cash generating ability, etc.

4. Resilience Risk: Resilience risk represent the risk that the company fails

due to lack of resilience to unexpected external conditions. It depends on company's leverage, liquidity and strength of the owner/key personnel's connections.

5. Management Competence Risk : It refers to the risk that the company may fail due to the incompetent management. The competence of the management depends upon their ability and level of team work.

6. Management Integrity Risk: it is the risk that the company fails to repay the loans due to lack of management integrity. Management integrity depends upon the combination of management honesty and dependability.

SECURITY RISK

Likewise business risk, the security risk can be divided into the following two categories:

1. Security Control Risk: The risk relating to bank's failure in realizing the security. The risk of failure to realize the security depends on the difficulty with which the bank can both obtain a favorable judgement and take possession of security.

2. Security Cover Risk: Security cover risk refers to the risk that the realized value of security is less than the exposure. It depends on the speed of realization and liquidation value.

In analysing both the systems for credit evaluation, it is observed that there are defective in returning credit need.

6. For better utilization of the systems, both the systems may be blended and make an uniform format for credit evaluation.

7. A newly delivered credit evaluation format in the name of Lending Risk Analysis is given in the annexure.

9.6. Loan Recovery through Legal Action:

The Banks and financial institutions had to file cases before the setting up of Artha Rin Adalat in 1990 in the sub-judge courts, Commercial Courts, Assistant Judge Courts and Certificate Courts as per Public Demands Recovery Act.1913, Bank usually file suits as a last resort when the loan sees deliberately avoid repayment. After filing suits in the above courts, summons used to be issued in the names of borrower and this process would take about one year. Then the defendants would file written statements mentioning different points to the plaintiff and this process would also take about six months.

The concerned court used to fix date after date for hearing purposes. Thus a long time is needed for completion of hearing of the cases; finally judgment used to be delivered. In order to avoid this situation and to endure speedy trial and disposal of loan cases Government passed Artha Rin Adalat Act in 1990.

Performance of the Financial Loan Court in the disposal of cases along with the extent of realizing overdue loans is exhibited as follows.

Suit Position in Financial Loan Court

(Taka In Crore)

Particulars\ Year	Dec'95	Dec'96	Dec'97	Dec'98	Dec'99	Dec'2000
1. Suit Filed:						
a) No.	6440	6607	7131	7292	7406	7929
b) Amount	554.00	656.09	813.78	1033.17	1153.03	1375.05
2. Decreed:						
a) No.	4678 (72.64%)	4990 (75.53%)	5193 (72.82%)	5347 (73.33%)	5507 (74.36%)	5875 (74.10%)
b) Amount	281.19(50.76%)	316.26(48.20%)	364.16(44.75%)	437.16(42.31%)	517.97(44.92%)	632.59(43.96%)
3. Execution Suit:						
a) No.	3480 (54.04%)	4038 (61.12%)	4322 (60.61%)	4649 (63.75%)	4815 (65.01%)	5015(63.25)
b) Amount	263.38(47.54%)	300.98(45.87%)	319.88(39.31%)	432.65(41.88%)	474.22(41.12%)	604.49(43.96%)
4. Recovered: Fully:						
a) No.	985 (15.30%)	1283 (19.42%)	1449 (20.32%)	1617 (22.17%)	799 (24.29%)	2054 (25.90%)
b) Amount	21.74 (3.92%)	25.24 (3.84%)	28.27 (3.47%)	29.45 (2.85%)	38.24 (3.32%)	51.41 (3.74%)
Partially:						
a) No.	2890 (44.88%)	3588(54.31%)	4440(62.26%)	5081(69.68%)	5178(69.92%)	5967(75.26%)
b) Amount	22.14 (4.00%)	29.01 (4.42%)	34.76 (4.27%)	43.77 (4.24%)	44.60 (3.87%)	58.56 (4.26%)
Total Amount Recovered	43.88	54.25	63.03	73.22	82.84	109.97
Percentage of Recovery	(7.92%)	(8.27%)	(7.75%)	(7.09%)	(7.18%)	(8.00%)
5. Total Legal Expenditure	0	1.01	1.05	1.14	1.15	1.16

Source: Information collected from Law Department of Agrani Bank.

Aging of Suit Filed – 31/12/2000

(Taka In Crore)

Sl. No.	Classification	No.of Suit Filed	Percentage of total	Amount Claimed	Percentage of total
1.	10 Years and above	1788	24.63%	42.32	4.31%
2.	7 Years and above but below 10 years.	1161	15.99%	163.16	16.62%
3.	5 Years and above but below 7 years.	1586	21.85%	115.95	11.81%
4.	3 Years and above but below 5 years.	1898	26.14%	212.84	21.67%
5.	Below 3 years.	827	11.39%	447.71	45.59%
		7260	100%	981.97	100%

Source: Information collected from Law Department of Agrani Bank.

Upto December,2000 total number of 7929 cases for realization of Tk.1375.05 crore was instituted by the Bank with the Financial Loan Court of the total cases, the Bank got decrees of 5875 cases against which execution suit was filed for 5015 cases of the total cases only 2054 cases were settled by recovery of loans.

From December 1995, to December 2000, the settlement of loan recovery cases by Financial Loan Court (Artha Rin Adalat) increased from 15.30% to 25.90%^ by reducing recovery from 3.92% to 3.74%.

The partial recovery increased from 4.00% in 1995 to 4.26% in 2000. It is assumed that the value of the security against these loan cases was not covered to realize the principal amount as well as suit claim amount by disposing off the security. This is why the settlement of these cases was delayed after getting verdict from the court.

The Bank is able to file execution suit for 54.04% in 1995 which is increased to 63.25% in December, 2000. The amount of filing execution suit reduced 43.96% in December, 2000 from 47.54% in December, 1995.

The overall recovery of these cases increased from 7.42% in 1995 to only 8.00% in December, 2000. The legal expenses is only 0.15% as against weighted average spread income of 4.88%. This legal expenses is very nominal in loans administration cost.

While analysing the aging table of suit, it has been observed that there was 10 years and above old cases also exist in the bank's file. 24.63% of cases was 10 years and above old as against 4.31% of recoverable amount. 45.59% of recoverable amount is waiting for verdict from the court in 3 years old. Due to long delay in getting the verdict from the court, the interest accrued and increased to huge amount resulting of which the bank fail, to recover the amount by settling the security held by the bank. As a result, the bank faces loss due to this court cases.

In this situation, sometimes the court fives verdict by waiving the uncharged interest on the loan account. This type of verdict also cases for loss to the bank. If the security covers the outstanding value, the Bank will not be able to recover the amount due to verdict of the court by waiving interest.

However, the settlement of cases in relation to recovery gives ample evidence to construe that along with the Financial Loan Court is performing its duly in settling the suits compared to number of suits instituted with limited success, its function in overall recovery is not at all satisfactory.

In relation to filing of suit, aging recovery and overall suit performing banks, five cases studies have been increased in the following pages.

9.7. Lack of Central Liability System

While analysing the case studies, it has been observed that the loan proposals were not processed as per banking norms. Almost all the loan proposals of the principal branch, Dhaka of the Bank has been processed in the following manner :-

i) The intending borrower came to the Bank's Head Office, and approached the senior executives of the bank for an industrial loan.

ii) The senior executives advised the principal branch over phone to process the loan proposal.

iii) The branch simply open an account with minimum deposit i.e. Tk. 1000, or Tk.2000 or in some cases may be Tk. 50,000.

iv) After opening the accounts the intending borrowers submit loan proposal to the branch.

v) The branch without checking or appraising the proposals sent those to the concerned department of Head Office.

vi) The concerned department appraised the loan proposal keeping in line with the submitting loan proposals.

vii) Then the proposals submitted to the credit committee for scrutiny and recommendation or rejections.

viii) The credit committee in most cases recommended for sanction and advised to submit the same to the Board of Director's meeting for approval.

ix) The Board on scrutiny summarily sanctioned or rejected the loans.

x) All the industrial loans are sanctioned by the Board.

xi) The recovery responsibility is 100% vested on the branch.

xii) But the branch has done this job as per directives of the senior executives. They are not even give times to follow the normal banking norms for preparing loan proposals. But they are responsible to disburse the loan and recovery of the same.

xiii) Though the loan has been sanctioned by the Board, recovery responsibility lies with the branch.

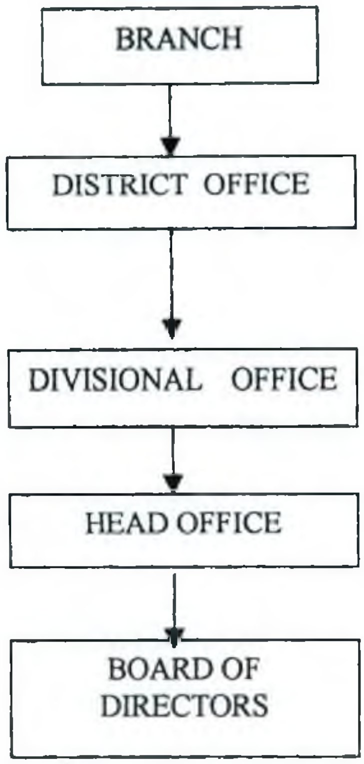
xiv) No other officer's who were associated with the sanction of the loan is responsible for recovery or punishable for non recovery of loan.

xv) Thus no central liability in recovery system exists in the banking arena of Bangladesh.

9.8. Extremely Bureaucratic Approval Procedure

The Industrial Credit sanctioning procedure is under Penta Management System i.e. Branch Office, District Office, Divisional Office, Head Office, and Board. To sanction industrial credit, the bank has a power structure which has been delegated by the Board of Directors.

The existing credit proposal processing system is given as under :-



Functions at the Branch Level.

i) Receiving application in quadruplicate.

ii) Entering particulars in the loan application received register giving serial no. thereon.

iii) Ascertain whether the proposal submitted are completed in all respect along with all the required papers.

iv) Obtain confidential opinion from other Bank/DFI's and outsiders opinion from respectable persons acceptable to the Bank.

v) Lawyers opinion regarding the title deed of the land proposed to be mortgaged.

vi) In respect of rented premises lease agreement with suitable clause for protection of Bank's interest to be obtained.

vii) Preparation of the credit report.

viii) The following jobs have to be done :-

a) Visit of the project site, examine the infrastructural facilities.

b) Examining the performance of the similar industry in the area.

c) Source of raw materials i.e. local/imported.

d) Demand-supply gap, marketing arrangement, competitions of the products-local/imported.

e) Social and economic desirability when considered to be acceptable, the proposal considered to be sanctioned if it is within the power of Branch Manager or to be forwarded with recommendation to the respective district office in triplicate keeping one copy with the branch.

Functions at the District Office Level.

i) Proposal so received are entered in the receiving register giving sl.no.

ii) Any shortfall of information/papers to be informed immediately.

iii) When the proposals are complete in all respect, are forwarded with recommendation to the respective Divisional Office in duplicate keeping one copy with the Divisional Office.

Functions at the Divisional Office.

i) Proposal so received to be entered in the receiving register giving sl.nos.

ii) Any shortfall of information/papers to be informed immediately.

iii) When the proposals are complete in all respect, to be forwarded with recommendation to the concerned Department at Head Office, keeping one copy with the Divisional Office.

Functions at Head Office.

i) Proposal so received to be entered in the receiving register giving serial no.

ii) The concerned department of Head Office, will scrutinize the proposal and asked for the information, if found any shortfall with the proposal.

iii) After getting the information, the project to be appraised in the following manner for testing its viability :-

a) Management Aspect.
b) Technical Aspect.
c) Economic Aspect.
d) Financial Aspect.
e) Marketing Aspect.

After getting the result of the appraisal, the proposal is referred to the Management Advisory Committee of the Bank. The decisions of the Management Advisory Committee referred to the Managing Director under whose supervision it is prepared and placed to be Board for final approval.

Next to the committee, the concerned credit department prepares office note for taking approval from the Managing Director for final action. On getting approval from the Managing Director, the department concerned prepares Board Memo and places it to the Board for approval. Ordinarily, the Board, does not go into the matters in great detail and acts largely on the recommendations of his subordinate offices who analyze the situation with great care. Thus the Board approves the proposal and gets it sanctioned. The approval of the Board are advised to subordinate offices for onward advise of sanction to the branch and other offices.

The above noted process for sanctioning of an industrial credit is very cumbersome and time consuming. This is extremely bureaucratic sanctioning procedure. This system should be easier.

9.9. <u>Absence of Scientific Credit Monitoring System and Recovery Process in Paper Intensive only.</u>

On scrutinizing the credit files and case studies – it has been observed that no clear-cut policies or method regarding recovery of credit 'exist' in the Bank. What the Banks are doing that they are contacting with the borrower and requesting them to pay back the loan installment in time. Sometimes the bankers are writing letters to the borrower to repay the loan. But they pay any heed to repay the loan. The Bankers are writing letters reminding the borrowers to repay the loan only to do their duties so that they can save their services by saying that they were about to perform their jobs. In fact the credit analysis is not being done for finding the root causes of non-repaying the loan and take actions according to the problems identified on analysis of credit. The bank sometimes asked the borrower to submit annual report (accounting information) to the bank. It is found that now-a-days, the borrower maintain three types of Annual Reports of which one is for the borrowers decision making purpose, the second one for income tax purpose and the third annual report is for Bank's purpose. Bank's copy of annual report shows the loss which do not cover the installment as well as interest amount included in the installment. The Bank does not have to do anything for this anomaly as because all these annual report are adjusted. There is no actual data of the project is under application in the bank's hand for supervision and follow-up the credits.

Though the borrower maintain three types of Annual Report, they maintain Raw materials purchase register, Production book, Salaries and Wages book, Utility Bills payment register, Sales book and other related books.

The borrower make entry of the real data in the above noted books. The bank is not efficient enough to collect data from that books and process the same for decision making purpose. A module is therefore needed for effective monitoring of credits.

A model of monitoring of industrial credit is given in appendix-3

10. Findings of the Study and Recommendations

10 Findings of the Study and Recommendations.

Findings of the study.

In the foregoing analysis of industrial credit portfolio of Agrani Bank, I observe that political influence is not the only factor for creating indiscipline in industrial credit management but the failure of bank management to develop an effective management model to run the portfolio is equally responsible for credit indiscipline. I also find that most of the sector of industrial credit financed by the bank is non-profitable. I can inter from the case studies that some common lapses occur at credit sanctioning and monitoring stages. Common irregularities occur at pre and post sanction level are :-

Presanction weaknesses.

1) Owners equity in the business is not looked into and its adequacy is not insisted upon in most of the cases.

2) Borrower's past experience in business and efficiency of company management are not verified and hence not given due consideration.

3) Borrower's business integrity, social status, business proficiency and even personal and business integrity are not reviewedd and considered.

4) Project feasibility are not analyzed and assessed on realistic objectives.

5) Maintenance of deposit and volume of transactions in the accounts in the bank branches are not considered.

6) Securities against loan are not considered.

7) Valuation of securities are mostly overvalued.

Approval stage weaknesses.

1) Adequacy of owners' equity is not assessed.

2) Credit need is not properly assessed.

3) Credit quantum in determined on the basis of borrowers persuation and influence and not on need assessment.

4) Loan condition leave scope for faulty documentation and inadequate security.

5) Behaviour of the borrower's through deposit account operations with the bank is not established.

Post sanction weaknesses.

1) Disbursement is not made on need assessment basis.

2) End-use of disbursed amount is not properly supervised.

3) Turnover in the loan account and borrower's turn up in the bank are not deeply followed upon.

4) Unplanned business expansion and diversion to other business as well as other fund diversion are not detected timely and borrowers are not restrained.

6) Stipulated monitoring and reporting are not done timely.

7) Major internal audit objections on the loans are not met.

Follow-up weaknesses.

1) Follow-up is not carried out from the beginning and in the event of default of first installment and/or on failure of periodical adjustment in case of revolving credits.

2) Senior management do not get fully involved in the recovery efforts until the credit is in crisis.

3) Persuasion through letter communication is stressed upon to keep the record in order instead of personal contact and follow-up from Branch, Zonal Office and Head Office.

4) Banker-customer relationship is not maintained at effective business level.

5) Instead of proper follow-up and more effective recovery steps tendency is to file suit with full knowledge that such action will not bring back the money, if ever, by a certain date.

Weaknesses in Suit-filed cases.

1) Suits are filed to avoid further recovery responsibility without considering legal prospects and security condition and forced sale value of assets pledged.

2) Proper follow-up with the concerned courts through paneled lawyer is not carried on.

3) Next steps after decree in suit are not taken promptly.

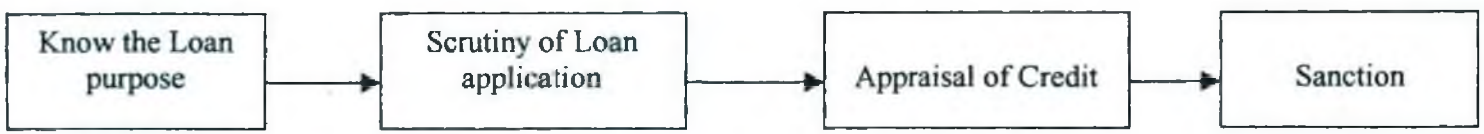
4) Steps for body-warrnats or other stringent legal steps may be permissible under the law are not taken in case of non-recovery after sale/non-sale of decretal property.

To overcome the problem as already cropped up in the industrial credit arena in the banking sector, a scientific management method is to be followed. The following management module may reduce the root causes of indicipline and discipline may be restored in industrial credit management in commercial banks.

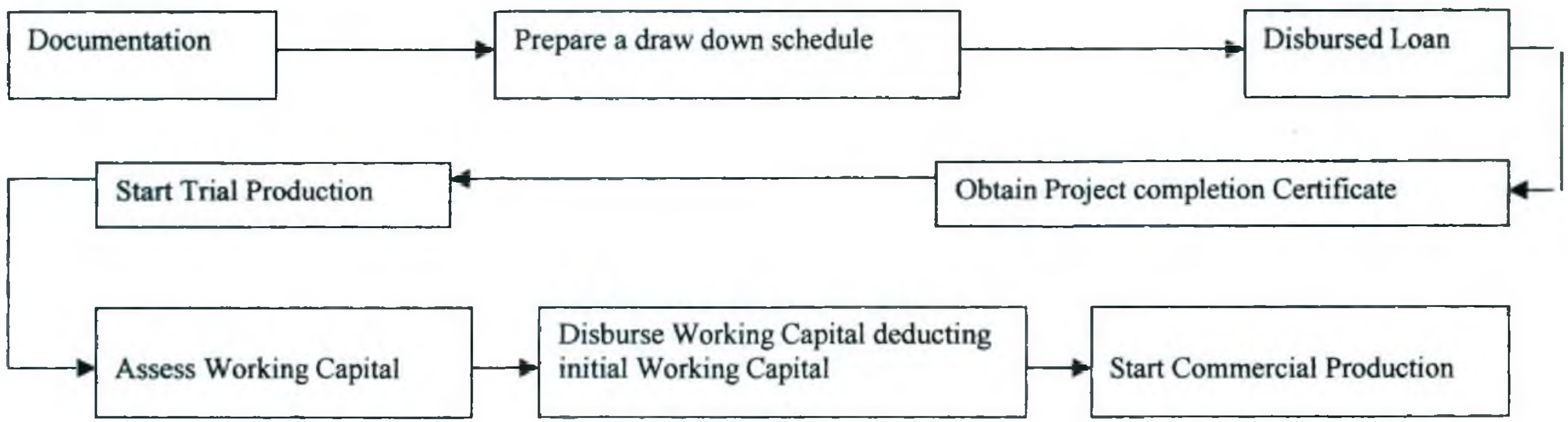
Industrial Credit Operations involve 4 (Four) Stages.

1st Stage	-	Sanction
2nd Stage	-	Implementation
3rd Stage	-	Monitoring
4th Stage	-	Repayment of Loans

Sanctioning stage involves to know loan purposes, obtaining loan applications, credit appraisal and then sanctioning.



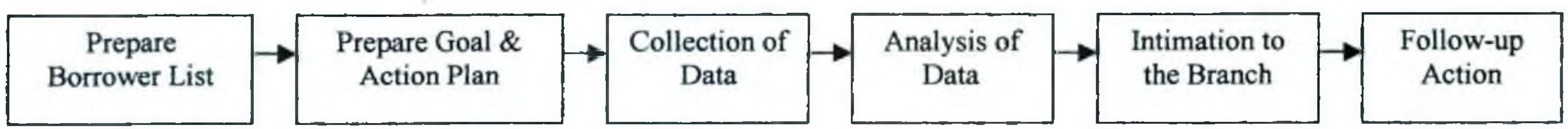
Implementation stage involves documentation and disbursement of project loan in four stages i.e. construction upto plinth level, construction upto lintel level, procurement of machinery by opening letter of credit, finishing and installation of machinery.



The Monitoring stage involves primarily in two stages i.e. Pre-implementation monitoring and post implementation stages.

Pre-Implementation stage of monitoring is to be followed the procedure of implementation step by step.

Post-Implementation stage of monitoring involves preparation of borrowers list, Goal and Action Plan, Collection of Data, Analysis of Data intimation to the Branch for compliance and follow-up of action.



Sanctioning Stage

Measures	Determinants	Analysis of Determinants.
Loan purpose	• Acquisition of Fixed Assets	• Land • Building • Construction and alteration of building • Purchase of Machinery • Vehicles
	• Working Capital Requirements	• Procurement of Raw Materials • Stores and Spares • Utility Bills • Finished Goods.
	• Interim (Bridge) Financing	• Determine Equity of the Project. • Analyse equity sources of the Project • It may be provided by the sponsors some portions. • Some portions may be needed to procure from the market by selling shares. • During implementation, to finance in equity i.e. upto the date of procurement of fund by selling shares, bank may finance in industrial credit, which is known as bridge financing.

Measures	Determinants	Analysis of Determinants.
Scrutiny of Loan application	• Select borrower	• Make an interview with the borrower - Interview should be on the following points - Types of business - Location of business - Line of business - Total sales - Work experience - Management of the business
	• Memorandum of Information	• The inquirer is given the memorandum of information.
Credit Appraisal	• Management aspect • Technical aspect • Economic aspect • Financial aspect • Marketing aspect • Lending Risk Analysis	• Appraise credit and assess risk of failure to repay in newly devised credit evaluation and risk analysis form-vide annexure

Measures	Determinants	Analysis of Determinants.
Sanction	• Study the result of credit evaluation and risk analysis. • Result may show positive or negative for financing	• If the result is negative, reject it directly. • If the result is positive, place it to the banks' Management Advisory Committee for recommendation of sanction. • After getting recommendation, place it to the concerned authority for sanction. • After getting approval from the authority advice the same to the sponsors. • Then starts implementation of the project.
Implementation	• Documentation	• Inform the sponsors regarding formalities of documentation. • Instruct Legal Department for opinion of mortgaged properties. • Prepare a deed in consultation with the legal department. • Obtain charge documents. • Execute mortgage deed with the appropriate authority and obtain a copy thereof.

Measures	Determinants	Analysis of Determinants.
Implementation	• Preparation of a draw-down schedule	• Segregate the amount required to civil-work and machinery from sanctioned amount. • Segregate equity and loan amount. • Find-out the ratio of equity and loan for civil work and machinery. • Prepare a draw-down schedule for civil work in the following manner: - 1st Phase – For completion of plinth level work. - 2nd Phase – For completion of lintal level work. - 3rd Phase – For completion root level work. - 4th Phase – For completion of finishing level work. • Draw-down will be allowed against machinery after completion of 3rd phase of civil work.

Measures	Determinants	Analysis of Determinants.
Implementation	• Disbursement of Loan	• Ensure documentation formalities are completed. • Ensure equity portions of the project cost are used. • Ensure obtaining of fund to be provided from sources other than the Bank, if any. • Then disbursement may be made payable to: - the customer - jointly to the customer and to a creditor of the customer - to a creditor of the customer.
	• Start trial production	• Ensure completion of civil work. • Ensure erection of machinery and examine its operation. • Arrange to disburse initial working capital • Start trial production
	• Obtain project completion certificate	• If trial production runs satisfactorily, then obtain project completion certificate

Measures	Determinants	Analysis of Determinants.
	• Assess working capital	• Assess working capital • Consider the production capacity of the machine and attainable capacity for the first year, second year, third year and so on. • Follow the norms as devised by central bank. • Get approval from the competent authority • Disburse working capital after deducting initial working capital which is disbursed at the time of starting trial production. • At the time of sanctioning and disbursing working capital, rules at page to be followed.

<table>
<tr><th>Measures</th><th>Determinants</th><th colspan="5">Analysis of Determinants.</th></tr>
<tr><td rowspan="9">Monitoring</td><td>• Prepare borrowers' list</td><td colspan="5">• Obtain borrowers name from the industrial credit ledger.
• Prepare a list of borrowers.</td></tr>
<tr><td rowspan="6">• Prepare Goal and Action Plan</td><td colspan="5">• Assign duties to a specific officer for monitoring in the following way:-</td></tr>
<tr><td>Action No.</td><td>Action Steps.</td><td>Respon-sibility.</td><td>Due Date.</td><td>Date of Comp.</td></tr>
<tr><td>1.</td><td>Prepare fact sheet on Huda Textile Mills Ltd.</td><td>Mr.X</td><td>20-1-00</td><td>20.1.00</td></tr>
<tr><td>2.</td><td>Inspect Huda Textile Mills Ltd.</td><td>Mr.X</td><td>21-1-00</td><td>21.1.00</td></tr>
<tr><td>3.</td><td>Prepare a report on Huda Textile Mills Ltd.</td><td>Mr.X</td><td>23-1-00</td><td>23.1.00</td></tr>
<tr><td>4.</td><td>Submit Report to the directing authiority.</td><td>Mr.X</td><td>29-1-00</td><td>29.1.00</td></tr>
<tr><td>• Collection of data</td><td colspan="5">• Collect data as per Goal and Action Plan.</td></tr>
<tr><td>• Analysis of data</td><td colspan="5">• Analyse data and find out an output for action.</td></tr>
</table>

Measures	Determinants	Analysis of Determinants.
Monitoring	• Intimation to the branch	• If output is positive, advise the branch to maintain the same and recover the loan. • The loan installment as per schedule • If the output is negative, then follow the following action for recovery of loans.
Recovery of default loans	Causes of default loans may be as under: • Non-trace of the borrower	• If it is not fictitious loan, address of the borrower may be obtained on careful examination of loan application form and sanction advice. • It is not uncommon that one borrower after taking loan from our bank in benamis has left the bank and has been carrying on business with some other bank or even with same bank at a different locality. So attempts should be made to discuss the problems of the loan with fellow bankers in the area some of whom might be able to give clues about the borrower. • After tracing out of address of the borrower, he should be pursued to repay his loan as stated above. • In some cases, addresses are available but the borrower does not come forward to repay the loans and remains in hiding, the Branch Manager should start criminal case against him. In some cases, the Manager's are to consult with the Legal Advisors of the Bank before proceeding case or legal action..

Measures	Determinants	Analysis of Determinants.
Recovery of default loans	Causes of default loans may be as under: • Non-trace of the borrower	• If the loan has been sanctioned on the basis of the guarantee of a guarantor, the guarantor should be prevailed upon to trace out the party. When persuation fails, a criminal case should be started against, the borrower and the guarantor. • On the basis of status of the borrower, i.e. individual proprietor, private limited company, the address of the borrower may be traced from the licensing authority i.e. Municipality, Registrar of Joint Stock Companies etc. and may proceed to realize the stuck-up advances.
	• Borrower having no property or the particulars of the property are not available to proceed against	• When no immovable property of the borrower is available, there are two ways to proceed for realization of stuck-up advances. • The bank may proceed against the moveable properties of the borrower and try to realize the money by selling out those moveable properties. • If that attempt also fails, the borrower can be proceeded against under the Insolvency Act in places where such Act applied, with proper advice of the legal Advisor of the bank. • If the borrower is a company under companies Act, the bank may give prayer to the court for voluntary liquidation of the company to realize its dues from company's Director.

Measures	Determinants	Analysis of Determinants.
	• Rescheduling of the loan of the borrower.	• In some cases, there is genuine came of business failure for which the borrower has been incapacitated to pay. The cases of business failure to be examined carefully and if the failure of business is genuine, he may be provided further loan to revive his business against further collateral security. In other cases, action should be taken to liquidate the loan by selling out the collateral and other properties of the borrower.
	• Local Influential Borrowers	• These type of borrower's are difficult for Branch Manager to pursue for realization of stuck-up loans. They try to influence over the Managers for loans etc. But the Manager should apply his tacts and strategy to realize loans. The Manager should study the activities of the borrower and try to hit his weak point in different levels of society from where he gains his status and image. Bringing the matter to the notice of the local administrative authority may good results may be yielded.
	• Death of a Borrower	• Many loans get stuck-up after a borrower's death, because of mis management in the family. In such cases, the bank should come to rescue of the family by reorganizing the borrower's business. One common problem which arises after the death of a borrower is about the share holding in the borrower's business by his successors. Sometimes, new companies have to be formed, some times, it is found that the borrowers successors do not have any experience in the business and the outsiders lie in que to take advantage on them. The bank has a responsibility to tend the borrower's business and his successors in such circumstances not only on humanitarian grounds but also for ensuring safety of the bank's money involved in the business.

Measures	Determinants	Analysis of Determinants.
	• Psychological Pressure on the Borrower	• There are many cases where the borrower has got stuck-up loans with our bank and is avoiding payment but at the same time doing his business in some other bank. In those cases, the Branch Manager/ the Zonal Officer should find out what the different kinds of businesses the borrower is having with other banks and send the same to Head Office GCR Division so that the Head Office may take up the matter with individual banks, Bangladesh Bank and Ministry of Finance simultaneously so that all financial accommodations of the borrower with any of the financial institutions in the country are stopped. • This will compel the borrower to come down to the bank and sort out his dues with the bank. Almost all the big borrowers are companies and it very often happens that when the particular company has some stuck-up loan with one bank, the Directors of the company go for forming another company in a different name and start carrying on business thus avoiding payment of dues with the former bank. These cases have to be dealt with slightly differently. We can exert different modes of pressure for compelling the borrower directors to come to a satisfactory agreement with us. Some of those are as follows: - Names of all the Directors should be notified to all banks so that no bank gives them any financial accommodation. - Their names can be notified to the Registrar of Joint Stock Companies intimating that they are defaulting borrowers of the bank. - Their names can be circulated to different national/regional non-govt. and government institutions saving s that they are our defaulting borrowers. This will exert a moral pressure on those institutions not to elect/appoint them in any responsible position in these social institutions. - Their names can be notified to different Licencing Authorities of the Government like CCI&E. Food Ministry, DG Industries etc. with a request to cancel their existing licences and refuse to issue new licences until the bank's loans are paid.

Measures	Determinants	Analysis of Determinants.
	• Suit Cases	• A civil suit is filed to recover the dues of the bank in cases where bank thinks that the pursuation to recover such money has failed. Normally, a civil suit is filed in the following circumstances: - The borrower has failed to repay anything against the dues and also has failed to respond to any notice of the bank to pay. - The borrower has continuously given false hopes to the bank that he is going to pay but has never paid. - Where some fraud/forgery has been committed and no avenue is open to negotiate with borrower for repayment of the loan. In such cases, bank also files criminal cases simultaneously.

CREDIT FEASIBILITY ANALYSIS

MANAGEMENT, TECHNICAL, ECONOMIC, FINANCIAL AND MARKETING ASPECT MUST BE EVALUATED BEFORE SANCTIONING OF INDUSTRIAL CREDIT

MEASURE	DETERMINANTS	ANALYSIS
Management	• **Sponsors** • Name, Address, Occupation, Qualification, Training received or Technical knowledge, Business Experience to be obtained. • Project location, bank borrowing (if any), Income Tax Registration to be obtained.	• **Review** • Credit Application Form and Project Profile.
Technical	**Location;** i.e. Land Valuation, Basis of Information regarding land, Land improvement cost, Manufacturing Process. Production capacity of Machine, Infrastructural facilities, Building and other Civil works.	• Review credit files and Project profile. • Consult Manufacturing Process
	Machinery & equipment(Imported and Local), Accepted quotations (Imported and Local) Availability of spares & accessories, Raw Materials and Packing Materials, Utilities, Technical know-how, Direct Labour requirement and Administrative staff.	• Other industries of the country (if any). • Study production capacity of the machine. • Considering production capacity, determine related issues.

MEASURE	DETERMINANTS	ANALYSIS
Marketing	Market outlook, Market Demand: - Existing Demand - Projected Demand Supply position: a) Existing supply b) Project supply Demand Gap: a) Existing b) Projected Major competitors. Channel of distribution. Pricing of Finished goods. Availability and Price of raw materials.	• Review credit application and project profile. • Study statistical year book on Manufacturing Industries. • Determine demand of the concerned products. • Determine price of finished goods considering the costing of the items needed for production of finished goods.
Economic	• Employment generation • Choice of Technique • Sources of procurement • Location of the unit - Developed area and - Less developed Area • Intermediate Goods consumed: - Raw Materials - Utilities - Depreciation & Maintenance - Printing and Stationary - Transportation charges - Misc. expenses. • Contribution to GDP.	• Analyse Machine capacity and employ people to run the Machine. • Calculate GDP contribution by deducting transactions from sales.

<table>
<tr><th>MEASURE</th><th>DETERMINANTS</th><th>ANALYSIS</th></tr>
<tr><td>Finance</td><td>Cost of the Project:
Fixed Cost + Working Capital required

• Fixed Cost.
- Land
- Land improvement
- Building
- Other civil works
- Imported Machinery
- Local Machinery
- Custom duty, Clearance Insurance and other charges.
- Internal Freight
- Furniture and Fixture
- Erection, Installation and Security deposit for Electric Power and Gas.

Development Cost :
- Interest during Construction period
- Preliminary and Start up Expenses

Contingencies :
- Machinery
- Building

<u>Means of Finance:</u>
<table><tr><th></th><th><u>Term Loan</u>.</th><th><u>W.C.Loan</u>.</th><th><u>Total</u>.</th></tr><tr><td>Equity</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Bank</td><td></td><td></td><td></td></tr><tr><td>Borrowing</td><td>-</td><td>-</td><td>-</td></tr></table></td><td>• Determine cost of the project considering market price of land, building materials and machinery and related costs.

• Find out Debt-Equity Ratio.</td></tr>
</table>

MEASURE	DETERMINANTS	ANALYSIS
	Working Capital Assessment: Raw Materials Salaries Wages Utilities Stores and Spares Work-In-Process Bills Receivable Finished Goods Prepayment for purchased Non-Manufacturing Expenses **Minus:** Supplies Credit Advance Payment received against order. • Cash Flow Statement - Sources of Fund - Application of Fund Cash Surplus (Deficit) for the year Opening Cash Balance Closing Cash Balance	• Assess working capital based on Machine capacity.
	Break-Even - Analysis: - Operating capacity assured (________ years) ________ % 1. Sales Revenue 2. Variable cost - Raw Materials - Direct Labour - Selling Expenses - Stores and Spares - Utilities.	• Calculate Break-Even Point at fales as well as at capacity of operation.

MEASURE	DETERMINANTS	ANALYSIS
	3. **Fixed Cost** : Depreciation & amortization Administrative Expenses Financial Expenses 4. **Annual Regulated Cost :** General Expenses Repairs and maintenance (Total Regulated Cost is distributed equally to fixed and variable cost) (i) Break-Even Sales $= \dfrac{FC}{\dfrac{Sales - VC}{Sales}}$ (ii) Break-Even Capacity of operation (%) - Of assumed capacity - Of installed capacity • Determine IRR • Cost – Benefit Analysis • Preparation of Amortization Schedule.	• Calculate IRR, Cost Benefit Ratio to make decision on Project Loan.

LENDING RISK ANALYSIS

LENDING EFFECTIVELY IS IMPORTANT TO THE ECONOMIC SUCCESS OF ANY COUNTRY

The lending process in a successful country.

	Assess risk of failure to repay	Decide whether to accept or reject loan	Set price	Obtain sanctioning documents and disburse loan	Monitor performance and ensure repayment	Results
	• All applications for credit are thoroughly analysed to assess the risk that the bank will not fully recover the loan.	• A loan is accepted only if the decision makers believe that it will be profitable to the bank. • Decision makers are monitored on how effectively they make lending decisions. Managers who give too many bad loans are transferred to different jobs.	• Interest rate is set to reflect risk (i.e. risky borrowers pay more)	• Legal system makes it easy to • register title documents • check their validity • Security documents subject to regular internal and external audits.	• Delinquent borrowers are pursued vigorously and impartially. • Delinquent loans rarely exceed 5% of assets. • If classified loans exceed approximately 10% of assets, regulators prevent bank from making any new loans.	• The banking system channels scarce financial resources into those opportunities with maximum return - profitable enterprises receive funding and grow - loss making enterprises are refused funding and go out of business. • The banks make profits and pay taxes • The economy grows • The people benefit
Typical timescale for a large loan	2-4 Weeks	1 Week	1 day-1 weeks	1 day-2 weeks		Loan disbursed 3-8 weeks after customer request.

DEFECTS IN THE LENDING PROCESS IN BANKS HINDER ECONOMIC DEVELOPMENT

The lending process in Bangladesh.

	Assess risk of failure to repay	Decide whether to accept or reject loan	Set price	Obtain sanctioning documents and disburse loan	Monitor performance and ensure repayment	Results
	• Loan analysis in the NCBs typically covers only 25% of the potential risks that are analysed by banks in the develope d world	• The NCBs accept many loans which are not commercially viable - some are accepted under direction from politicians - others are accepted voluntarily, but based on inadequate analysis • The decision process is very slow	• Set by govern ment based on political consider ations.	• Title deeds and land registry documents are regularly forged: *"All the land title deeds held as security by banks, together probably represent a land area greater than Bangladesh."* (Legal Officer)	• The legal system makes it impossible to repossess and sell many securities: *"This bank has not successfully repossessed and sold a single property in the last 20 years."* (Bank Officer) • Loan forgiveness program have effectively bankrupted the banks. • The banks fail to pursue the willful defaulters who account for an estimated 20% of loans.	• The country's scarce financial resources are not applied effectively - loss making enterprises receive funding and stay in business, allowing them to lose even more. - profitable enterprises are constrained by lack of funding. • The tax payers are obliged to subsidise heavily the banking system. • Bangladesh remains one of the poorest countries in the world.
Typical timescale for a large loan	3-10 weeks	7-20 weeks	1 days	1 day-20 weeks		Loan disbursed 10 weeks to 1 year after customer request

THE BANKS CAN MAKE SUBSTANTIAL IMPROVEMENTS WITH A FEW INTERNAL CHANGES TO THE LENDING PROCESS

	Assess risk of failure to repay	Decide whether to accept or reject loan	Set price	Obtain sanctioning documents and disburse loan	Monitor performance and ensure repayment
Recommended changes	• Implement improved methodology for analysing lending risk	• Use improved lending risk analysis for all decisions on voluntary loans. • Implement system to monitor the performance of directed and voluntary lending separately.	• Implement new pricing methodology to ensure that interest rates reflect risk (i.e. high risk borrowers pay more)	• Place less reliance on land as security. • Enforce follow up of the many branch audit reports that show security irregularities. • Lobby politicians to reform the land registry and laws related to security.	• Implement and enforce mechanism to pursue defaulters. • Ensure that politicians are aware of the cost of loan forgiveness programs.
Potential impact	• Substantially improves bank' ability to identify in advance those borrowers which are likely to default.	• Improves quality of bank's loan portfolio. • Allows bank to focus on running the voluntary part of their loan portfolio at a profit.	• Ensures that low risk borrowers are not penalised with the costs of lending to high risk borrowers.	• Improves control of risk.	• Effective pursuit of defaulters could convert an estimated 20% of lending from non-performing to performing. • Informing politicians of the costs of loan forgiveness programs will allow them to make informed trade-offs between costs and benefits of any future programs.

A GOOD CREDIT OFFICER'S WILL ASSIST IN MAKING THESE CHANGES

	Assess risk of failure to repay	Decide whether to accept or reject loan	Set price	Obtain sanctioning documents and disburse loan	Monitor performance and ensure repayment
Responsibility of the team.	• Design and help implement a new system to assess lending risk.	• Revise procedures for deciding whether to accept or reject a loan.	• Design new methodology for setting loan rates, and use methodology to produce new loan rate schedules.	• Revise sections of bank procedures manual which cover obtaining security documents and disbursing loans.	• Design and help implement a system to recover bad loans. • Revise bank procedures manual to specify at what stage the recovery procedures should be used on a non-performing loan.

BEFORE COMPLETING THE LENDING RISK ANALYSIS FORM, THE LENDING OFFICER MUST COLLECT AND ANALYSE THE RELEVANT DATA

Process for completing lending risk analysis form

Collect Data	Analyse Data	Complete lending risk analysis form
• Collect all data available from published sources • Visit company to - collect company specific data that is not published. - interview management to assess their ability and integrity. - view the security - form your own impressions of company operations.	• Prepare financial spreadsheet. • Analyse spreadsheet ratios. • Prepare supplementary questions for company management if necessary.	

Supplies risk ...

THE PRICE, QUANTITY OR QUALITY OF SUPPLIES MAY BE DISRUPTED

Measure	Examples of supply risks	Analysis
Price	• Increase to cost of supplies reduces margins -removal of price controls -imposition of import tariffs -adverse fluctuation of foreign exchange rates	• Review recent changes in government regulations, and determine likelihood and nature of any future changes which may affect supplies -discuss with industry experts in bank -discuss with industry participants • Obtain cost breakdown, and for each item on breakdown, assess risk that supplies of this item are disrupted.
Quantity	• Scarcity of supplies or unreliability of deliveries causes production loss -labour unrest -eratic power supply -imposition of price controls makes supplies scarce -supply of raw materials disrupted by transport difficulties -critical raw material only available from one supplier, who goes out of business.	
Quality	• Difficulty in obtaining right quality of supplies results in inferior product -shortage of necessary skilled labour -raw materials of right quality difficult to obtain.	

Sales risk ...

SALES MAY BE DISRUPTED BY CHANGES TO MARKET SIZE, INCREASES IN COMPETITION

Examples of sales risks	Analysis
• Sales drop because total market size drops - customers are switching to substitute products (e.g.polythese replaces jute for making sacks) - the market is seasonal (e.g. fruit, umbrellas, electric fans) - the market is cyclical (e.g. fridges, television, VCRs)	• Obtain industry turnover data for at least 3 years - search government statistics (e.g. "Monthly statistical Bulletin of Bangladesh" published by Bureau of Statistics; Export Promotion Board publications) - contact industry groups - obtain data for largest players and extrapolate for whole industry. • Determine if the product is obsolete, seasonal or cyclical (or none of these) • Predict growth or decline in market turnover over next few years.
• Sales drop as a result of increased competition - government removes a monopoly - existing competitors become more aggressive - new competitors are able to enter market easily ..low capital investment required ..low skills required ..low regulatory barriers	• Analyse financial data for at least two major competitors • Determine how company differentiates itself from its competitors - better quality - lower price - more responsive - better distribtion - etc. • Analyse barriers to entry

Sales risk...

CHANGES IN REGULATIONS OR THE LOSS OF A SINGLE LARGE CUSTOMER

Examples of Sales Risks	Analysis
• Sales damaged by changes in regulations - imposition of price controls reduces margins - removal of price controls leads to increased competition - imposition of export tariffs/controls reduces sales - fluctuation of foreign exchange rates reduces margins	• Review regulations which govern industry • Review recent changes and determine likelihood and nature of future changes -Discuss with industry experts in the bank -Discuss with industry participants • Evaluate impact on industry of recent and potential future changes
• Company loses a single large customer	• Identify company's 5 largest customers (in terms of sales) • Fore any customers representing more than 10% of sales, assess the risk that these customers switch to a competitor.

Performance risk...

ASSESSMENT OF PERFORMANCWE RISK INVOLVES VALIDATING THE COMPANY'S PERFORMANCE EXPECTATIONS

Examples of Performance Risks	Analysis
• Company borrows more than it can repay, based on unrealistic performance expectations - performance assumptions incorrect - analysis faulty/non-existent	• Analyse recent performance history - use financial spreadsheets - look for trends - find explanations for any significant trends • Analyse competitive position - risk in industry - comparison of financial data with competitors - company strengths and weaknesses • Assess company's strategy - does it exist? - is it appropriate? - how risky is it? • Analyse cash flow forecasts

Resilience risk ...

THE RESILIENCE OF A COMPANY DEPENDS ON ITS LEVERAGE, ITS LIQUIDITY, AND THE STRENGTH OF ITS CONNECTIONS

Measures	Examples of Risk	Analysis
Leverage	• Company has insufficient equity to avoid bankruptcy - Equity overvalued .. assets overvalue .. liabilities undervalued/omitted (e.g.inter company loans or loans from directors omitted) - Shareholders withdraw support	• Analyse debt to equity ratio - assess quality value of assets - assess value land completeness of liabilities • Obtain credit bureau reports • Assess shareholders' support - willingness to guarantee - willingness to inject additional capital
Liquidity	• Company has insufficient cash flow to meet repayments - Cost increase combined with difficult in raising prices .. interest rates .. labour costs .. materials costs - Sales fall combined with high unavoidable costs - Creditors withdraw support, combined with illiquid assets	• Analyse financial ratios - current - quick - receivables turnover - inventory turnover - accounts payable turnover - debt service coverage - etc. • Analyse flexibility of production
Connections	• Company position weakened by inappropriate connections - company damaged by connections with unpopular players - company unable to lobby for critical issues due to lack of right connections.	• Determine political and private sector affiliations of owner(s) and key managers - family relations - membership of groups/political parties - voting record

Management competence risk ...

THE COMPETENCE OF THE MANAGERS DEPENDS ON THEIR ABILITY AND LEVEL OF TEAMWORK

Measures	Examples of Risks	Analysis
Ability	• Managers don't have the necessary abilities or experience - Insufficient skills to manage key areas (e.g. Finance, Operations, Administration etc.) - Inability to manage people .. Autocratic style .. Failure to communicate with employees	• Obtain key managers' bio-data and determine - education - experience - relevant skills • Interview individuals familiar with management - Branch/Region Manager - Government Officers - Managers themselves
Level of Teamwork	• Managers don't work well together - Poor organization structure .. Unclear responsibilities .. Key functions missing .. Span of control too wide/narrow (i.e. a manager is responsible for too many or too few immediate subordinates) - Poor decision making .. Important decisions are made arbitrarily without proper analysis .. Difficult decisions are not made .. Frequent changes in direction	• Review organization chart - Test for clarity - Ensure all functions are present - Determine span of control • Review performance and compare with competitors - Profits - Growth • Determine reasons for any recent changes in management

Management integrity risk ...

MANAGEMENT INTEGRIT IS A COMBINATION OF HONESTY

Measure	Examples of Risks	Analysis
Honesty	• Bank is unable to assess risk properly due to unreliable or inadequate data - Managers fail to disclose all relevant information - Information that is supplied is misleading	• Review credit files - note missing information/documentation - note inconsistencies in information supplied - determine frequency and nature of communication • Interview management - test for openness - ask for references • Interview individuals familiar with management - branch/regional manager - auditors - government officers • Perform site visits to assess - inventory - fixed asset quality • Look for signs of audit problems - auditors changed recently - audits refused - accounts qualified

Management Integrity Risk ...

... AND DEPENDABILITY

Measure	Examples of Risks	Analysis
Dependability	• Bank has difficulty in covering loan due to failure of management to meet commitments - Management fail to meet contractual obligations - funds diverted to associated companies - security double pledged - management fail to meet with bank - management frequently postpone meetings	• Review intra group accounts - receivables and payables to related companies - transfer prices used with related companies - dividend payments - owner's salaries/drawings • Look for characteristics of managers that any cause problems in recovering the loans - political power used to evade obligations - obsessive tax avoidance - involved in questionable activities

Security Control Risk ...

THE RISK OF FAILING TO REALISE THE SECURITY DEPENDS ON THE DIFFICULTY WITH WHICH THE BANK CAN BOTH OBTAIN A FAVOURABLE JUDGEMENT AND TAKE POSSESSION

Measure	Examples of Risks	Analysis
Ease of obtaining a favourable judgement	• Legal rights compromised - Mortgage not taken - Bank has second priority or is subordinated • Documentation inadequate - Lacking notary - Missing signatures - Incorrect references - Incomplete documentation - Lacking stamp duty - Outdated, past due • Fraud • Insurance does not cover exposure • Customer able to influence judgement - Customer has strong lobbying power - Judge sympathetic towards customer	• Verify documentation - Security perfection - Documentation completeness - Documentation integrity - Insurance policy and documentation • Assess customer's lobbying power with legal authorities
Ease of Taking possession of security	• Security missing/transferred • Security immobile • Difficulty in evicting squatters	• Conduct site visit(s) to verify security existence

Security Cover Risk ...

SECURITY COVER DEPENDS ON SPEED OF REALIZATION AND LIQUIDATION VALUE

Measures	Examples of Risk	Analysis
Expected security cover strength	• Expected realizable value (based on expected speed of liquidation and expected value at liquidation) is less than the exposure	• Complete security cover calculation form
Speed of Realization	**Security liquidation takes longer than expected** • Acquiring title to security takes longer than expected - legal process is unpredictable/slow - borrower is able to delay legal process .. documentation difficulties .. lobbying • Selling security takes longer than expected - security highly specialized - value so large that few can afford it - borrower has influence over potential buyers	• Review recent cases to estimate speed of realization • Assess power of borrower to prolong legal process • Analyse market demand for security
Liquidation Value	Value realised at liquidation is less than expected • Security loses value before it is realized - poor quality - perishable - subject to rapid depreciation - technology liable to become obsolete - product has been customized for customer (e.g. tailor made suit) • Market price changes before security is realized - market prices are volatile - small number of buyers collude to hold the price down	• Use assessor to value security - quality & quantity - market demand • Review recent cases for difference between assessed value and value realized at sale • Review economic conditions

APPROVAL PAGE FOR INDUSTRIAL CREDIT

M/s. ____

1. **Industry Information**:

1.1. Name of the Project :

1.2. Name of applicant with mailing address :

1.3. Location of the Project :

1.4. Brief description of the Project. :

1.5. Industrial classification and coverage under IIS :

1.6. Type of Project :

1.7. Sources of Credit :

2. **Technical Information** :

2.1. Manufacturing Process :

2.2. Origin of Machinery :

2.3. Price of Machine is competitive :

2.4. People is able to operate the Machinery :

3. **Economic Aspects :**

	1st Year.	2nd Year.	3rd Year.
3.1. Employment Generation			
3.2. Fixed cost per job			
3.3. Contribution to G.D.P.			

4. **Marketing Information**:

a) Demand:
* Existing Demand :
* Projected Demand :

Total Demand :

b) Supply Situation :
* Existing Supply :
* Projected Supply :

Total Supply :

Demand Gap (a – b) :

5. Financial:

5.1. Project Cost :

Item.	Equity	Debt	Total
Land			
Building			
Machinery			
Other assets			
Development cost			
Total fixed cost: of the Project			
Working capital requirement :			
Total cost of the project :			

5.2. **Means of Finance** :

		Amount.	Percentage.
a)	Equity		
b)	Bank borrowing		
c)	Interest during construction		
	Total :		

4. **Marketing Information**:

a) Demand:
- * Existing Demand :
- * Projected Demand :

Total Demand :

b) Supply Situation :
- * Existing Supply :
- * Projected Supply :

Total Supply :

Demand Gap (a – b) :

5. Financial:

5.1. Project Cost :

Item.	Equity	Debt	Total
Land			
Building			
Machinery			
Other assets			
Development cost			
Total fixed cost: of the Project			
Working capital requirement :			
Total cost of the project :			

5.2. **Means of Finance** :

	Amount.	Percentage.
a) Equity		
b) Bank borrowing		
c) Interest during construction		
Total :		

Appendix -1

A. Variable used for calculation of Sectoral Profit.

B. Credit Portfolio Profitability Analysis

2

A. Variables used for Calculation of Credit Portfolio

3

A.VARIABLES USED FOR CALCULATION OF SECTORAL PROFIT

A.I.VARIABLES USED TO CALCULATE SECTOR PROFIT ANALYSIS

0 Information of Interest forgiveness on Industrial credit collected from Industrial Development Finance Division, Agrani Bank, Head Office, Dhaka.
0 Sectorwise Interest forgiveness are not available.
0 No writeoff has been made in these sectors.
Total amount of interest forgiveness allocated to each sectors according to ratio of loans.

Sl.No.	Sector	Interest rate	Unclassifed	Substandar	Doubtful	Bad/Loss	Sector Total	Intt.Forgiveness
1	Textile except Readymade Garments	13%	24544	424	701	13122	38790	3055
2	Readymade Garments	13%	10057	277	459	8599	19393	1528
3	Jute Spinning & Weaving	13%	939	2	3	63	1007	95
4	Agrobased Industries	10%	1132	100	164	3073	4468	382
5	Cold Storage	13%	9639	156	259	4851	14906	1146
6	Pharmaceutical & Chemicals	13%	3655	260	430	8048	12392	955
7	Forest & Allied Industries	13%	25	7	12	225	269	95
8	Cement Industries	13%	2114	0	0	0	2114	191
9	Ceramics Industries	13%	166	20	34	629	848	95
10	Paper Industries	13%	3881	51	85	1595	5613	477
11	Leather & Leather goods	10%	1212	44	73	1374	2703	191
12	Printing & Packaging	13%	178	41	68	1264	1551	95
13	Engineering & Electronics	10%	4475	158	262	4911	9807	765
14	Food &Allied Industries	13%	324	38	63	1187	1612	382
15	Others	13%	2004	70	116	2175	4365	0
			64345	**1648**	**2729**	**51116**	**119838**	**9452**

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A.II. CALCULATION OF COST OF FUND

ITEMS USED FOR CALCULATION OF COST OF FUND

		Tk in crore		
1	Capital	248.42		
2	Reserve	76.89		
3	Deposits	10052.85		
4	Other Bank Borrowing	0		
5	Bills Payable	148.89		
6	Other liabilities	1799.24		
7	Total Liabilities	12000.99		
8	Contras (1019.66+254.99)	1272.65		
9	Liabilities(-Contras& Capital)	10728.34		
10	Total Expenses	841.2		
11	Interest Expenses	640.03		
12	Admin.Expenses(Total Exp-Intt.Exp)	201.17		
13	Admin.Cost to Deposit (60%)	120.7		

WEIGHTED AVERAGE COST OF FUND= Total Interest expenses divided by Liabilities (-Contras & Capital)
= 640.33 /10728.34
= 5.97%

COST OF DEPOSIT GATHERING = 60% Deposit Admin Cost divided by Liabilities (-Contras&Capital)
= 120.70/10728.34
= 1.31%

BURDENED COST OF DEPOSIT = 5.97%+1.13%=7.10%
(Called Cost of Fund)

A.III. CALCULATION OF LOAN SERVICING COST

Sl.#	Sector	Sector Total	Ratio	Admin. Exp	Admin. Cost in %
1	Textile except Ready made Garments	38790	32%	19.31	0.05%
2	Readymade Garments	19393	16%	9.66	0.05%
3	Jute Spinning & Weaving	1007	1%	0.6	0.05%
4	Agrobased Industries	4468	4%	2.41	0.05%
5	Cold Storage	14906	12%	7.24	0.05%
6	Pharmaceutical & Chemicals	12392	10%	6.04	0.05%
7	Forest & Allied Industries	269	1%	0.6	0.05%
8	Cement Industries	2114	2%	1.21	0.05%
9	Cyramics Industries	848	1%	0.6	0.05%
10	Paper Industries	5613	5%	3.02	0.05%
11	Leather & Leather Goods	2703	2%	1.21	0.05%
12	Printing & Packaging	1551	1%	0.6	0.05%
13	Engineering & Electronics	9807	8%	4.83	0.05%
14	Food &Allied Industries	1612	1%	0.6	0.05%
15	Others	4365	4%	2.42	0.05%
		119838	100%	60.35	

0 Total Administrative Expenses to deposits = 201.17 cr.

0 Loan servicing cost (30% of Admin.Cost allocated to loan Admn. Cost)
I.e. Tke.201.17 multiplied by 30% = 60.35 cr.

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A.IV. CALCULATION OF INTEREST INCOME

0 Interest income has been calculated by using formula,

0 Interest Income= (Interest rate + subsidy) multiply to total loan for the sector.

Sl.#	Sector	Sector Total	Total Earning Rate	Total Interest Income
1	Textile except Ready made Garments	38790	10%	3879
2	Readymade Garments	19393	13%	2521
3	Jute Spinning & Weaving	1007	13%	131
4	Agrobased Industries	4468	13%	447
5	Cold Storage	14906	10%	1938
6	Pharmaceutical & Chemicals	12392	13%	1611
7	Forest & Allied Industries	269	13%	35
8	Cement Industries	2114	13%	275
9	Cyramics Industries	848	13%	110
10	Paper Industries	5613	13%	730
11	Leather & Leather Goods	2703	10%	270
12	Printing & Packaging	1551	13%	202
13	Engineering & Electronics	9807	10%	981
14	Food &Allied Industries	1612	13%	210
15	Others	4365	13%	568
		119838		13908

A.V. CALCULATION OF INTEREST LOSS ON NON PERFORMING LOANS

Formula used to calculate interest loss

Interest loss on Non Performing Loan= Total Classified Amount (Sub/Doubt/Loss) Rate multiplied by Interest

Tk. In Lac

Sl.#	Sector	Interest Rate	Classified Amount	Interest loss
1	Textile except Ready made Garments	10%	14246	1852
2	Readymade Garments	13%	9334	1213
3	Jute Spinning & Weaving	13%	68	9
4	Agrobased Industries	13%	3336	334
5	Cold Storage	10%	5267	685
6	Pharmaceutical & Chemicals	13%	8737	1136
7	Forest & Allied Industries	13%	244	32
8	Cement Industries	13%	0	0
9	Cyramics Industries	13%	682	89
10	Paper Industries	13%	1732	225
11	Leather & Leather Goods	10%	1491	149
12	Printing & Packaging	13%	1373	178
13	Engineering & Electronics	10%	5332	533
14	Food &Allied Industries	13%	1228	160
15	Others	13%	2361	307
			55431	**6902**

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A.VI. CALCULATION OF NOMINAL WEIGHTED AVERAGE YEILD

0 Nominal weighted average yield has been calculated by using formula,

0 Nominal weighted average yeild=Interest income minus Interest loss on non performing loan divided by total loans (sectorwise)

Sl.#	Sector	Sector Total	Intt. Income	Intt. Loss	Nom. Inc.	NWAY
1	Textile except Ready made Garments	38790	3879	1852	2027	5.23%
2	Readymade Garments	19393	2521	1213	1308	6.74%
3	Jute Spinning & Weaving	1007	131	9	122	12.11%
4	Agrobased Industries	4468	447	334	113	2.53%
5	Cold Storage	14906	1938	685	1253	8.41%
6	Pharmaceutical & Chemicals	12392	1611	1136	475	3.83%
7	Forest & Allied Industries	269	35	32	3	1.11%
8	Cement Industries	2114	275	0	275	13.00%
9	Cyramics Industries	848	110	89	26	2.47%
10	Paper Industries	5613	730	225	505	9.00%
11	Leather & Leather Goods	2703	270	149	124	4.59%
12	Printing & Packaging	1551	202	178	24	1.55%
13	Engineering & Electronics	9807	981	533	448	4.57%
14	Food &Allied Industries	1612	210	160	50	3.10%
15	Others	4365	560	307	253	5.80%
		119838	13900	6902	7006	

Nom.Inc = Nominal Income

NWAY = Nominal Weighted Average Yield.

A.VII. CALCULATION OF SECTORAL INTEREST FORGIVENESS

0 Sectoral interest forgivness is not available.
0 Sectoral writeoff as per bank policy is also not available.
0 Total interest forgivness has allocated according to the ratio of classified amount.

Sl.#	Sector	Sector total	Classified Amt	Ratio	Intt.forgivness
1	Textile except Ready made Garments	38790	14246	32%	3055
2	Readymade Garments	19393	9334	16%	1528
3	Jute Spinning & Weaving	1007	68	1%	95
4	Agrobased Industries	4468	3336	4%	382
5	Cold Storage	14906	5267	12%	1146
6	Pharmaceutical & Chemicals	12392	8737	10%	955
7	Forest & Allied Industries	269	244	1%	95
8	Cement Industries	2114	0	2%	191
9	Cyramics Industries	848	682	1%	95
10	Paper Industries	5613	1732	5%	477
11	Leather & Leather Goods	2703	1491	2%	191
12	Printing & Packaging	1551	1373	1%	95
13	Engineering & Electronics	9807	5332	8%	765
14	Food &Allied Industries	1612	1228	1%	95
15	Others	4365	2361	4%	382
		119838	**55431**	**100%**	**9547**

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AVIII.CALCULATION OF TOTAL WRITEOFF

0 Cost of Interest forgivness calculated by the formula Interest forgivness divided by total advances.

SI.#	Sector	Sector total	Intt.forgivness	Cost of intt.forgivness
1	Textile except Ready made Garments	38790	3055	7.88%
2	Readymade Garments	19393	1528	7.88%
3	Jute Spinning & Weaving	1007	95	9.43%
4	Agrobased Industries	4468	382	8.55%
5	Cold Storage	14906	1146	7.69%
6	Pharmaceutical & Chemicals	12392	955	7.71%
7	Forest & Allied Industries	269	95	35.32%
8	Cement Industries	2114	191	9.04%
9	Cyramics Industries	848	95	11.20%
10	Paper Industries	5613	477	8.50%
11	Leather & Leather Goods	2703	191	7.07%
12	Printing & Packaging	1551	95	6.13%
13	Engineering & Electronics	9807	765	7.80%
14	Food &Allied Industries	1612	95	5.89%
15	Others	4365	382	8.75%
		119838	**9547**	

A.IX. SECTORWISE PROVISION OF ADVANCES

0 Base for provision has been taken from the statement as supplied by the Loan Classification Division of Agrani Bank, Head Office, Dhaka.

0 Provision ratio has been calculated as under:
Unclassified 1%,Substandard 20%, Doubtful 50%, Bad & Loss 100%.

Sl.#	Sector	Unclassified	Substandard	Doubtful	Bad/Loss	Total
1	Textile except Ready made Garments	24544	424	701	13122	
	Provision	245	85	351	13122	13803
2	Readymade Garments	10057	277	459	8599	
	Provision	101	55	230	8599	8985
3	Jute Spinning & Weaving	938	2	3	63	
	Provision	9	0.4	2	63	74.4
4	Agrobased Industries	1132	100	164	3073	
	Provision	11	20	82	3073	3186
5	Cold Storage	9639	156	259	4851	
	Provision	96	31	130	4851	5108
6	Pharmaceutical & Chemicals	3655	260	430	8048	
	Provision	37	52	215	8048	8352
7	Forest & Allied Industries	25	7	12	225	
	Provision	0.25	1	6	225	232.25
8	Cement Industries	2114	0	0	0	
	Provision	21	0	0	0	21
9	Cyramics Industries	166	20	34	629	
	Provision	2	4	17	629	652
10	Paper Industries	3881	51	85	1595	
	Provision	39	10	43	1595	1687
11	Leather & Leather Goods	1212	44	73	1374	
	Provision	12	9	37	1374	1432
12	Printing & Packaging	179	41	68	1264	
	Provision	2	8	34	1264	1308
13	Engineering & Electronics	4475	158	262	4911	
	Provision	45	32	131	4911	5119
14	Food &Allied Industries	324	38	63	1187	
	Provision	3	8	32	1187	1230
15	Others	2004	70	116	2175	
	Provision	20	14	58	2175	2267

A. X. PROVISION REQUIREMENT AGAINST CLASSIFIED ADVANCES FOR 2000

0 Total provision requirement upto 2000 isTk.53419lac
0 Provision available is Tk.95.61
0 Further provision requirement has been taken from the statement supplied by the Loan Classification Division, Agrani Bank , Head Office, Dhaka.
0 Cost of Provision has been claculated by using the formula.
Cost of provision for each sector = Provision for the sector divided by Total Advances for the sector

Sl.#	Sector	Provision	Ratio	Prov.availa	Prov.reqd	Total Advances	Cost of Provision
1	Textile except Ready made Garments	13803	0.26	24.86	5708	38790	14.72%
2	Readymade Garments	8985	0.17	16.25	3732	19393	19.24%
3	Jute Spinning & Weaving	74	0.001	0.1	22	1007	2.18%
4	Agrobased Industries	3186	0.06	5.74	1317	4468	29.47%
5	Cold Storage	5108	0.1	9.56	2195	14906	14.73%
6	Pharmaceutical & Chemicals	8352	0.16	15.3	3512	12392	28.34%
7	Forest & Allied Industries	232	0.003	0.29	66	269	24.54%
8	Cement Industries	21	0.0004	0.04	9	2114	0.43%
9	Cyramics Industries	652	0.01	0.96	220	848	25.95%
10	Paper Industries	1687	0.03	2.87	659	5613	11.74%
11	Leather & Leather Goods	1395	0.03	2.87	659	2703	24.38%
12	Printing & Packaging	1308	0.02	1.91	439	1551	28.30%
13	Engineering & Electronics	5119	0.1	9.56	2195	9807	22.38%
14	Food &Allied Industries	1230	0.02	1.91	419	1612	25.99%
15	Others	2267	0.04	3.82	800	4365	18.32%
		53419	**1.0044**	**96.04**	**21952**	**119838**	

A.XI. CALCULATION OF SECTORAL CLASSIFICATION

Sl.#	Sector	Sector total	Classified Amt	Classification in %
1	Textile except Ready made Garments	38790	14246	36.73%
2	Readymade Garments	19393	9334	48.13%
3	Jute Spinning & Weaving	1007	68	6.75%
4	Agrobased Industries	4468	3336	74.66%
5	Cold Storage	14906	5267	35.33%
6	Pharmaceutical & Chemicals	12392	8737	70.51%
7	Forest & Allied Industries	269	244	90.71%
8	Cement Industries	2114	0	0
9	Cyramics Industries	848	682	80.42
10	Paper Industries	5613	1732	30.86%
11	Leather & Leather Goods	2703	1491	55.16%
12	Printing & Packaging	1551	1373	88.52%
13	Engineering & Electronics	9807	5332	54.37%
14	Food &Allied Industries	1612	1228	76.18%
15	Others	4365	2361	54.09%
		119838	**55431**	**46.26%**

A.XII. SUMMARY OF ITEMS USED FOR CREDIT PORTFOLIO ANALYSIS

Sl.#	Sector	COP	COF	COLS	COIF	NWAY	Classification in %
1	Textile except Ready made Garments	14.72%	7.10%	0.05%	7.88%	5.23%	36.73%
2	Readymade Garments	19.24%	7.10%	0.05%	7.88%	6.74%	48.13%
3	Jute Spinning & Weaving	2.18%	7.10%	0.05%	9.43%	12.11%	6.75%
4	Agrobased Industries	29.47%	7.10%	0.05%	8.55%	2.53%	74.66%
5	Cold Storage	14.73%	7.10%	0.05%	7.69%	8.41%	35.33%
6	Pharmaceutical & Chemicals	28.34%	7.10%	0.05%	7.71%	3.83%	70.51%
7	Forest & Allied Industries	24.54%		0.05%	35.32%	1.11%	90.71%
8	Cement Industries	0.43%	7.10%	0.05%	9.04%	13.00%	0
9	Cyramics Industries	25.95%	7.10%	0.05%	11.20%	2.47%	80.42
10	Paper Industries	11.74%	7.10%	0.05%	8.50%	9.00%	30.86%
11	Leather & Leather Goods	24.38%	7.10%	0.05%	7.07%	4.59%	55.16%
12	Printing & Packaging	28.30%	7.10%	0.05%	6.13%	1.55%	88.52%
13	Engineering & Electronics	22.38%	7.10%	0.05%	7.80%	4.57%	54.37%
14	Food &Allied Industries	25.99%	7.10%	0.05%	5.89%	3.10%	76.18%
15	Others	18.32%	7.10%	0.05%	8.75%	5.80%	54.09%
							46.26%

COP=Cost of Provision, COF=Cost of Fund,COLS= Cost of Loan Servicing,COIF=Cost of Interest forgivness,
NWAY= Nominal Weighted Average Yeild.

B. Credit Portfolio Analytical Result

B. INDUSTRIAL CREDIT PORTFOLIO ANALYTICAL RESULT

B.I. CALCULATION OF PROFIT ON INDUSTRIAL CREDIT PORTFOLIO

The following formula is used to calculate profit on each Industrial Credit Portfolio.

Income= (Interest rate+ Subsidy) multiply to each Industrial Credit Portfolio Amount'I.e Interest Income
Minus Interest loss on non-performing portfolio
Minus Cost of Interest Forgivness
Minus Cost of Provision

Expenses= Cost of Fund Plus Loan Servicing Cost

Profit= Income minus Expenses

The following formula used to calculate Break-Even Yield to each Industrial Credit Portfolio

Break-Even Yield= Cost of Fund+ Cost of Provision+Cost of Interest Forgivness + Cost of Loan Servicing

Nominal Weighted Average Yield= Interest Income minus Interest Loss on Non-performing Portfolio divided by each Industrial Credit Portfolio Amount.

1. PROFITABILITY ANALYSIS OF TEXTILE INDUSTRY EXCEPT READYMADE GARMENTS

CALCULATION OF PROFIT ON TEXTILE INDUSTRY EXCEPT READYMADE GARMENTS

Taka in Lac

Items	Data	Result
1. Interest rate	10%	10%
2.Subsidy	0	0
3.Total Earning Rate	10%	10%
4.Total of Textile Industry except Readymade Garments	38790	38790
5.Total Classified Loan	14245	14245
6.Cost of Intereest Forgivness	7.88%	3055
7.Cost of Fund	7.10%	2754
8.Loan Servicing Cost	0.05%	19.31
9.Interest Loss on Non-Performing Loan	1852	1852
10. Cost of Provision	14.72%	5708

Calculation of Income on Textile Industry except Readymade Garments

		Result
Interest rate plus subsidy	10%	10%
Multiply to total Textile Industryexcept readymade garments	38790	38790
Minus Interest loss on non-performing loan	1852	2027
Minus Cost of Interest Forgivness	3055	-1028
Minus Cost of Provision	5708	-6736
I.e,Income on Textile Industry except Readymade Garments		-6736

Calculation of Expenses on Textile Industry except Readymade Garments

	Taka in Lac
Cost of Fund	2754
Plus Loan Servicing Cost	19.31
equals Expenses	2773.31

Calculation of Profit on Textile Industry Except Readymade Garments

Income	-6736
minus Expenses	-2773
equals profit on Textile Industry except Readymade Garments	-9509

<u>Calculation of Break-Even Yield on Textile Industry except Readymade Garments</u>

<u>Break-Even Yield Items</u>

1. Cost of Fund	7.10%
2.Cost of Provision	14.72%
3.Cost of Interest Forgivness	7.88%
4.Cost of Loan Servicing	0.05%
5.Profit	24.42%
6. Nominal Weighted Averasge Yield	5.33%

<u>Calculation of Break-Even Yield</u>

Cost of Fund	7.10%
plus Cost of Provision	14.72%
plus Cost of Interest Forgivness	7.88%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	29.75%

<u>Checking of Break-Even Yield</u>

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

5.33%= 29.75%+(-24.42)

5.33%= 5.33% (Proved)

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2. PROFITABILITY ANALYSIS OF READYMADE GARMENTS

CALCULATION OF PROFIT ON READYMADE GARMENTS

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Readymade Garments	19393	19393
5.Total Classified Loan	9334	9334
6.Cost of Intereest Forgivness	7.88%	1528
7.Cost of Fund	7.10%	1377
8.Loan Servicing Cost	0.05%	9.66
9.Interest Loss on Non-Performing Loan	1213	1213
10. Cost of Provision	19.24%	3731

Calculation of Income on t Readymade Garments

		Result
Interest rate plus subsidy	13%	13%
Multiply total of readymade garments	19393	2521
Minus Interest loss on non-performing loan	1213	1308
Minus Cost of Interest Forgivness	1528	-220
Minus Cost of Provision	3731	-3951
I.e,Income on Readymade Garments		-3951

Calculation of Expenses on Readymade Garments

	Taka in Lac
Cost of Fund	1377
Plus Loan Servicing Cost	9.66
equals Expenses	1386.66

Calculation of Profit on Readymade Garments

Income	-3951
minus Expenses	1387
equals profit on Readymade Garments	-5338

Calculation of Break-Even Yield on Readymade Garments

Break-Even Yield Items	
1. Cost of Fund	7.10%
2.Cost of Provision	19.24%
3.Cost of Interest Forgivness	7.88%
4.Cost of Loan Servicing	0.05%
5.Profit	-27.53%
6. Nominal Weighted Averasge Yield	6.74%

Calculation of Break-Even Yield	
Cost of Fund	7.10%
plus Cost of Provision	19.24%
plus Cost of Interest Forgivness	7.88%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	34.27%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

34.27%+(-27.53)

6.74%= 6.74%(proved)

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3. PROFITABILITY ANALYSIS OF JUTE SPINNING & WEAVING

CALCULATION OF PROFIT ON JUTE SPINNING & WEAVING

Taka in Lac

Items	[	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Jute Spinning & Weaving	1007	1007
5.Total Classified Loan	68	68
6.Cost of Intereest Forgivness	9.43%	95
7.Cost of Fund	7.10%	72
8.Loan Servicing Cost	0.05%	0.6
9.Interest Loss on Non-Performing Loan	9	9
10. Cost of Provision	2.18%	22

Calculation of Income on Jute Spinning & Weaving

		Result
Interest rate plus subsidy	13%	13%
Multiply total of Jute Spinning & Weaving	1007	131
Minus Interest loss on non-performing loan	9	122
Minus Cost of Interest Forgivness	95	27
Minus Cost of Provision	22	5
I.e,Income on Jute Spinning & Weaving		5

Calculation of Expenses on Jute Spinning & Weaving

	Taka in Lac
Cost of Fund	72
Plus Loan Servicing Cost	0.5
equals Expenses	72.5

Calculation of Profit on Jute Spinning & Weaving

Income	5
minus Expenses	72.5
equals profit on Jute Spinning & Weaving	-67.5

Calculation of Break-Even Yield on Jute Spinning & Weaving

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	2.18%
3.Cost of Interest Forgivness	9.43%
4.Cost of Loan Servicing	0.05%
5.Profit	-6.70%
6. Nominal Weighted Average Yield	12.11%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	2.18%
plus Cost of Interest Forgivness	9.43%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	18.76%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

18.76%+6.70%

12.11%=12.60% ?

4. PROFITABILITY ANALYSIS OF AGROBASED INDUSTRIES

CALCULATION OF PROFIT ON AGROBASED INDUSTRIES

Taka in Lac

Items	[	Result
1. Interest rate	10%	10%
2.Subsidy	0	0
3.Total Earning Rate	10%	10%
4.Total of Agrobased Industries	4468	4468
5.Total Classified Loan	3336	3336
6.Cost of Intereest Forgivness	8.55%	382
7.Cost of Fund	7.10%	317
8.Loan Servicing Cost	0.05%	2.23
9.Interest Loss on Non-Performing Loan	334	334
10. Cost of Provision	29.47%	1317

Calculation of Income on Jute Spinning & Weaving

		Result
Interest rate plus subsidy	10%	10%
Multiply total of Jute Spinning & Weaving	4468	447
Minus Interest loss on non-performing loan	334	113
Minus Cost of Interest Forgivness	382	-269
Minus Cost of Provision	1317	-1586
I.e,Income on Jute Spinning & Weaving		-1586

Calculation of Expenses on Jute Spinning & Weaving

	Taka in Lac
Cost of Fund	317
Plus Loan Servicing Cost	2.23
equals Expenses	319.23

Calculation of Profit on Agrobased Industries

Income	-1586
minus Expenses	319.23
equals profit on Agrobased Industries	-1905.2

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Calculation of Break-Even Yield on Agrobased Industries

Break-Even Yield Items	
1. Cost of Fund	7.10%
2.Cost of Provision	29.47%
3.Cost of Interest Forgivness	8.55%
4.Cost of Loan Servicing	0.05%
5.Profit	-42.64%
6. Nominal Weighted Average Yield	2.53%

Calculation of Break-Even Yield	
Cost of Fund	7.10%
plus Cost of Provision	29.47%
plus Cost of Interest Forgivness	8.55%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	45.17%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending
45.17%+(-42.64%)
2.53%=2.53%

5. PROFITABILITY ANALYSIS OF COLD STORAGE

CALCULATION OF PROFIT ON COLD STORAGE

Taka in Lac

Items	[	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Cold Storage Loan	14906	14906
5.Total Classified Loan	5267	5267
6.Cost of Intereest Forgivness	7.69%	1146
7.Cost of Fund	7.10%	1058
8.Loan Servicing Cost	0.05%	7.45
9.Interest Loss on Non-Performing Loan	685	685
10. Cost of Provision	14.73%	2195

Calculation of Income on Cold Storage

		Result
Interest rate plus subsidy	13%	13%
Multiply total of Cold Storage	14906	1938
Minus Interest loss on non-performing loan	685	1253
Minus Cost of Interest Forgivness	1146	107
Minus Cost of Provision	2195	-2088
I.e,Income on Cold Storage		-2088

Calculation of Expenses on Cold Storage

	Taka in Lac
Cost of Fund	1058
Plus Loan Servicing Cost	7.45
equals Expenses	1065.45

Calculation of Profit on Cold Storage

Income	-2068
minus Expenses	1065.45
equals profit on Cold Storage	-3153.5

<u>Calculation of Break-Even Yield on Cold Storage</u>

<u>Break-Even Yield Items</u>

1. Cost of Fund	7.10%
2. Cost of Provision	14.73%
3. Cost of Interest Forgivness	7.69%
4. Cost of Loan Servicing	0.05%
5. Profit	-21.16%
6. Nominal Weighted Average Yield	8.41%

<u>Calculation of Break-Even Yield</u>

Cost of Fund	7.10%
plus Cost of Provision	14.73%
plus Cost of Interest Forgivness	7.69%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	29.57%

<u>Checking of Break-Even Yield</u>

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

8.41%= 29.57%+9-21.16)

8.41%= 8.41%

6. PROFITABILITY ANALYSIS OF PHARMACEUTICALS & CHEMICALS INDUSTRY LOAN

CALCULATION OF PROFIT ON PHARMACEUTICALS & CHEMICALS

		Taka in Lac
Items	[	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Pharmaceuticals & Chemicals Industry loan	12392	12392
5.Total Classified Loan	8737	8737
6.Cost of Intereest Forgivness	7.71%	955
7.Cost of Fund	7.10%	880
8.Loan Servicing Cost	0.05%	6.2
9.Interest Loss on Non-Performing Loan	1136	1136
10. Cost of Provision	28.34%	3512

Calculation of Income on Pharmaceuticals & Chemicals Industry Loan

		Result
Interest rate plus subsidy	13%	13%
Multiply total of Pharmaceuticals&Chemicals loan	12392	1611
Minus Interest loss on non-performing loan	1136	475
Minus Cost of Interest Forgivness	955	-480
Minus Cost of Provision	3512	-3992
I.e,Income on Pharmaceuticals Loan		-3992

Calculation of Expenses on Pharmaceuticals & Chemicals Industry Loan

	Taka in Lac
Cost of Fund	880
Plus Loan Servicing Cost	6.2
equals Expenses	886.2

Calculation of Profit on Pharmaceuticals & Chemicals Industry Loan

Income	-3992
minus Expenses	886.2
equals profit on Pharmaceuticals & Chemicals Loan	-4878.2

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Calculation of Break-Even Yield on Pharmaceuticals & Chemicals Industry Loan

Break-Even Yield Items	
1. Cost of Fund	7.10%
2.Cost of Provision	28.34%
3.Cost of Interest Forgivness	7.71%
4.Cost of Loan Servicing	0.05%
5.Profit	-39.37%
6. Nominal Weighted Average Yield	3.83%

Calculation of Break-Even Yield	
Cost of Fund	7.10%
plus Cost of Provision	28.34%
plus Cost of Interest Forgivness	7.71%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	43.20%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

3.83%=43.20%+(-39.37%)

3.83%=3.83%

7. PROFITABILITY ANALYSIS OF FOREST & ALLIED INDUSTRIES

CALCULATION OF PROFIT ON FOREST & ALLIED INDUSTRIES

Taka in Lac

Items	[	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Forest & Allied Industries	269	269
5.Total Classified Loan	244	244
6.Cost of Intereest Forgivness	35.32%	95
7.Cost of Fund	7.10%	19.1
8.Loan Servicing Cost	0.05%	0.13
9.Interest Loss on Non-Performing Loan	32	32
10. Cost of Provision	24.54%	66

Calculation of Income on Forest & Allied Industries

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Forest & Allied Industries	269	35
Minus Interest loss on non-performing loan	32	3
Minus Cost of Interest Forgivness	95	-92
Minus Cost of Provision	66	-158
I.e,Income on Forest Industries Loan		-158

Calculation of Expenses on Forest & Allied Industries

	Taka in Lac
Cost of Fund	19.1
Plus Loan Servicing Cost	0.13
equals Expenses	19.23

Calculation of Profit on Forest & Allied Industries

Income	-158
minus Expenses	19.23
equals profit on Forest & Allied Industries Loan	-177.23

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Calculation of Break-Even Yield on Forest & Allied Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	24.54%
3.Cost of Interest Forgivness	35.32%
4.Cost of Loan Servicing	0.05%
5.Profit	-65.90%
6. Nominal Weighted Average Yield	1.11%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	24.54%
plus Cost of Interest Forgivness	35.32%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	67.01%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

1.11%=67.01%+(-65.90)

1.11%=1.11%(Proved)

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8. PROFITABILITY ANALYSIS OF CEMENT INDUSTRIES

CALCULATION OF PROFIT ON CEMENT INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Cement Industries	2114	2114
5.Total Classified Loan	0	0
6.Cost of Intereest Forgivness	9.04%	191
7.Cost of Fund	7.10%	150
8.Loan Servicing Cost	0.05%	1.06
9.Interest Loss on Non-Performing Loan	0	0
10. Cost of Provision	0.43%	21

Calculation of Income on Cement Industries

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Cement Industries	2114	275
Minus Interest loss on non-performing loan	0	275
Minus Cost of Interest Forgivness	191	84
Minus Cost of Provision	9	75
I.e,Income on Cement Industries Loan		75

Calculation of Expenses on Cement Industries

	Taka in Lac
Cost of Fund	150
Plus Loan Servicing Cost	1.6
equals Expenses	151.6

Calculation of Profit on Cement Industries

Income	75
minus Expenses	151.6
equals profit on Cement Industries Loan	-76.6

Calculation of Break-Even Yield on Cement Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	0.43%
3.Cost of Interest Forgivness	9.04%
4.Cost of Loan Servicing	0.05%
5.Profit	-3.62%
6. Nominal Weighted Average Yield	13.00%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	0.43%
plus Cost of Interest Forgivness	9.04%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	16.62%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

13.00%= 16.62%+(-3.62%)

13.00%= 13.00%(Proved)

9. PROFITABILITY ANALYSIS OF CYRAMICS INDUSTRIES

CALCULATION OF PROFIT ON CYRAMICS INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Cyramics Industries	848	848
5.Total Classified Loan	682	682
6.Cost of Intereest Forgivness	11.20%	95
7.Cost of Fund	7.10%	60.21
8.Loan Servicing Cost	0.05%	0.42
9.Interest Loss on Non-Performing Loan	89	89
10. Cost of Provision	25.94%	220

Calculation of Income on Cyramics Industries

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Cyramics Industries	848	110
Minus Interest loss on non-performing loan	89	21
Minus Cost of Interest Forgivness	95	-74
Minus Cost of Provision	220	-294
I.e,Income on Cyramics Industries Loan		-294

Calculation of Expenses on Cyramics Industries

	Taka in Lac
Cost of Fund	60.21
Plus Loan Servicing Cost	0.42
equals Expenses	60.63

Calculation of Profit on Cyramics Industries

Income	-294
minus Expenses	60.63
equals profit on Cyramics Industries Loan	-354.63

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10. PROFITABILITY ANALYSIS OF PAPER INDUSTRIES

CALCULATION OF PROFIT ON PAPER INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Paper Industries	5613	5613
5.Total Classified Loan	1732	1732
6.Cost of Intereest Forgivness	8.50%	477
7.Cost of Fund	7.10%	399
8.Loan Servicing Cost	0.05%	2.81
9.Interest Loss on Non-Performing Loan	255	225
10. Cost of Provision	11.74%	659

Calculation of Income on Paper Industries

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Paper Industries	5613	730
Minus Interest loss on non-performing loan	225	505
Minus Cost of Interest Forgivness	477	28
Minus Cost of Provision	659	-631
I.e,Income on Paper Industries Loan		-631

Calculation of Expenses on Paper Industries

	Taka in Lac
Cost of Fund	399
Plus Loan Servicing Cost	2.81
equals Expenses	401.81

Calculation of Profit on Paper Industries

Income	-631
minus Expenses	401.81
equals profit on Paper Industries Loan	-1032.8

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Calculation of Break-Even Yield on Paper Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	11.74%
3.Cost of Interest Forgivness	8.50%
4.Cost of Loan Servicing	0.05%
5.Profit	-18.40%
6. Nominal Weighted Average Yield	9.00%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	11.74%
plus Cost of Interest Forgivness	8.50%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	27.39%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

9.00%=27.39%+(-18.40%)

9.00%=9.00%(Proved)

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11. PROFITABILITY ANALYSIS OFLEATHER & LEATHER GOODS INDUSTRIES

CALCULATION OF PROFIT ON LEATHER & LEATHER GOODS INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	10%	10%
2 Subsidy	0	0
3.Total Earning Rate	10%	10%
4.Total of Leather Industries	2703	2703
5.Total Classified Loan	1491	1491
6.Cost of Intereest Forgivness	7.07%	191
7.Cost of Fund	7.10%	192
8.Loan Servicing Cost	0.05%	1.35
9.Interest Loss on Non-Performing Loan	149	149
10. Cost of Provision	24.38%	659

Calculation of Income on Leather & Leather Goods Industries

	Data	Result
Interest rate plus subsidy	10%	10%
Multiply total of Leather Industries	2703	270
Minus Interest loss on non-performing loan	149	121
Minus Cost of Interest Forgivness	191	-70
Minus Cost of Provision	659	-729
I.e,Income on Leather Industries Loan		-729

Calculation of Expenses on Leather & Leather Goods Industries

	Taka in Lac
Cost of Fund	192
Plus Loan Servicing Cost	1.32
equals Expenses	193.35

Calculation of Profit on Leather Industries

Income	-729
minus Expenses	193.35
equals profit on Leather Industries Loan	-922.35

Calculation of Break-Even Yield on Leather Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	24.38%
3.Cost of Interest Forgivness	7.07%
4.Cost of Loan Servicing	0.05%
5.Profit	-34.01%
6. Nominal Weighted Average Yield	4.59%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	24.38%
plus Cost of Interest Forgivness	7.07%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	38.60%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending
4.59%=38.60%+(-34.01%)
4.59%=4.59%(Proved)

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12. PROFITABILITY ANALYSIS OF PRINTING & pACKAGING INDUSTRIES

CALCULATION OF PROFIT ON PRINTING & PACKAGING INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Printing & Packaging Industries	1551	1551
5.Total Classified Loan	1373	1373
6.Cost of Intereest Forgivness	6.13%	95
7.Cost of Fund	7.10%	110
8.Loan Servicing Cost	0.05%	0.78
9.Interest Loss on Non-Performing Loan	178	178
10. Cost of Provision	28.30%	439

Calculation of Income on Printing & Packaging Industries

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Printing & Packaging Industries	1551	202
Minus Interest loss on non-performing loan	178	24
Minus Cost of Interest Forgivness	95	-71
Minus Cost of Provision	439	-510
I.e,Income on Printing & Packaging Industries Loan		-510

Calculation of Expenses on Printing & Packaging Industries

	Taka in Lac
Cost of Fund	110
Plus Loan Servicing Cost	0.78
equals Expenses	110.78

Calculation of Profit on Printing & Packaging Industries

Income	-510
minus Expenses	110.78
equals profit on Printing & Packaging Industries Loan	-620.78

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Calculation of Break-Even Yield on Printing & Packaging Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	28.30%
3.Cost of Interest Forgivness	6.13%
4.Cost of Loan Servicing	0.05%
5.Profit	-40.03%
6. Nominal Weighted Average Yield	1.55%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	28.30%
plus Cost of Interest Forgivness	6.13%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	41.58%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

1.55%=41.58%+(-40.03%)

1.55%=1.55%(Proved)

13.PROFITABILITY ANALYSIS OF ENGINEERING & ELECTRONICS INDUSTRIES

CALCULATION OF PROFIT ON ENGINEERING & ELECTRONICS INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	10%	10%
2.Subsidy	0	0
3.Total Earning Rate	10%	10%
4.Total of Engineering & Electronics Industries	9807	9807
5.Total Classified Loan	5332	5332
6.Cost of Intereest Forgivness	7.80%	765
7.Cost of Fund	7.10%	696
8.Loan Servicing Cost	0.05%	4.9
9.Interest Loss on Non-Performing Loan	533	533
10. Cost of Provision	22.38%	2195

Calculation of Income on Engineering & Electronics Industries

	Data	Result
Interest rate plus subsidy	10%	10%
Multiply total of Engineering & Electronics Industr	9807	981
Minus Interest loss on non-performing loan	533	448
Minus Cost of Interest Forgivness	765	-317
Minus Cost of Provision	2195	-2512
I.e,Income on Engineering & Electronics Industries Loan		-2512

Calculation of Expenses on Engineering & Electronics Industries

	Taka in Lac
Cost of Fund	696
Plus Loan Servicing Cost	4.9
equals Expenses	701

Calculation of Profit on Engineering & Electronics Industries

Income	-2512
minus Expenses	701
equals profit on Engineering & Electronics Industries Loan	-3213

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Calculation of Break-Even Yield on Engineering & Electronics Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	22.38%
3.Cost of Interest Forgivness	7.80%
4.Cost of Loan Servicing	0.05%
5.Profit	-32.76%
6. Nominal Weighted Average Yield	4.57%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	22.38%
plus Cost of Interest Forgivness	7.80%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	37.33%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

4.57%=37.33%+(-32.76%)

4.57%=4.57%(Proved)

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14. PROFITABILITY ANALYSIS OF FOOD & ALLIED INDUSTRIES

CALCULATION OF PROFIT ON FOOD & ALLIED INDUSTRIES

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2. Subsidy	0	0
3. Total Earning Rate	13%	13%
4. Total of Food & Allied Industries	1612	1612
5. Total Classified Loan	1228	1228
6. Cost of Intereest Forgivness	5.89%	95
7. Cost of Fund	7.10%	115
8. Loan Servicing Cost	0.05%	0.81
9. Interest Loss on Non-Performing Loan	160	160
10. Cost of Provision	25.99%	419

Calculation of Income on Food & Allied Industries

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Food & Allied Industries	1612	210
Minus Interest loss on non-performing loan	160	50
Minus Cost of Interest Forgivness	95	-45
Minus Cost of Provision	419	-464
i.e, Income on Food & Allied Industries Loan		-464

Calculation of Expenses on Food & Allied Industries

	Taka in Lac
Cost of Fund	115
Plus Loan Servicing Cost	0.81
equals Expenses	115.81

Calculation of Profit on Food & Allied Industries

Income	-464
minus Expenses	115.81
equals profit on Food & Allied Industries Loan	-579.81

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Calculation of Break-Even Yield on Food & Allied Industries Loan

Break-Even Yield Items

1. Cost of Fund	7.10%
2.Cost of Provision	25.99%
3.Cost of Interest Forgivness	5.89%
4.Cost of Loan Servicing	0.05%
5.Profit	-35.93%
6. Nominal Weighted Average Yield	3.10%

Calculation of Break-Even Yield

Cost of Fund	7.10%
plus Cost of Provision	25.99%
plus Cost of Interest Forgivness	5.89%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	39.03%

Checking of Break-Even Yield

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

3.10%=39.03%+(-35.93%)

3.10%=3.10%(Proved)

15. PROFITABILITY ANALYSIS OF OTHERS

CALCULATION OF PROFIT ON OTHERS

Taka in Lac

Items	Data	Result
1. Interest rate	13%	13%
2.Subsidy	0	0
3.Total Earning Rate	13%	13%
4.Total of Others	4365	4365
5.Total Classified Loan	2361	2361
6.Cost of Intereest Forgivness	8.75%	382
7.Cost of Fund	7.10%	310
8.Loan Servicing Cost	0.05%	2.18
9.Interest Loss on Non-Performing Loan	307	307
10. Cost of Provision	18.32%	800

Calculation of Income on Others

	Data	Result
Interest rate plus subsidy	13%	13%
Multiply total of Others	4365	567
Minus Interest loss on non-performing loan	307	260
Minus Cost of Interest Forgivness	382	-122
Minus Cost of Provision	800	-922
I.e,Income on Others		-922

Calculation of Expenses on Others

	Taka in Lac
Cost of Fund	310
Plus Loan Servicing Cost	2.18
equals Expenses	312.18

Calculation of Profit on Others

Income	-922
minus Expenses	312.18
equals profit on Others	-1234.2

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<u>Calculation of Break-Even Yield on Others</u>

<u>Break-Even Yield Items</u>

1. Cost of Fund	7.10%
2.Cost of Provision	18.32%
3.Cost of Interest Forgivness	8.75%
4.Cost of Loan Servicing	0.05%
5.Profit	-28.42%
6. Nominal Weighted Average Yield	5.80%

<u>Calculation of Break-Even Yield</u>

Cost of Fund	7.10%
plus Cost of Provision	18.32%
plus Cost of Interest Forgivness	8.75%
plus Cost of Loan Servicing	0.05%
Break-Even Yield	34.22%

<u>Checking of Break-Even Yield</u>

Nominal Weighted Average Yield=Break-Even Yield plus Profit on Lending

5.80%=34.22+(-28.42%)

5.80%=5.80%(Proved)

Appendix -2

Loan Operating Manual for Industrial Credit

1 Introduction
2 Investment of fund mobilized by selling the bond.
3 Investment Policy.
4 Mechanism for selection of Enterpreneure
5 Procedure for submission of loan application.
6 Time schedule for taking decision on the loan proposal recorded by the entrepreneure.
7 Sanctioning of loan
8 Implementation
9 Norms and procedure to be followed by other commercial banks and non-banking financial institutions
10 Monitoring of credits.

MANUAL

1. Introduction:

Although the economy of Bangladesh is basically agro-based but it alone is not sufficiently enough to provide the huge manpower of the country with job opportunities. As such, it is essential to explore the job opportunities by fluorescing the industrial sector which require a large amount of fund to be invested.

It is needless to mention that commercial banks generally deals with short term loan. But long term is inevitably required for industrial development. Taking this point in, view Agrani Bank has taken an initiative for mobilization of fund for investment in the industrial sector by selling bond under a new scheme tilled "Industrial Bond."

2. Investment of Fund mobilized by selling the Bond.

2.1. Out of Tk. 500.00 crore to be mobilized 25% i.e Tk. 125.00 crore will be sponsored by Agrani Bank alone under its own management and rest 75% i.e. Tk. 375.00 crore will be placed by other Commercial Banks/Financial Institutions by complying with the norms & procedures for financing in the industrial sector to be prepared by Bangladesh Bank.

2.2. In case of direct investment in any project by Agrani Bank a lenient rate of interest will be considered compared to other banks. As regard to financing of other commercial banks & financial institutions for 5 years terms bond Agrani Bank will consider latest average rate for two year treasury bond plus 15 bands points & for 7 years term bond latest average rate for two year treasury bond plus 250 basis points will be taken into consideration for determining the rate of interest. The other banks will also determine their rate of interest in line with free market policy. The shortfall, if any, arising out of difference between rate of interest on bond and loan will be refinanced to Agrani Bank by Govt.

2.3. In financing the garments sectors, Backward Linkage & Agro-based industries will be given top priority as professional sectors.

2.4. Terms of project loan, implementation period, Grace period, Debt-equity ratio & nature of equity will be determined in line with the norms to be introduced/prepared by Bangladesh Bank.

2.5. Project land, Building, Machineries & Furniture will remain as primary security and in need other collateral securities will be taken as per bank's existing norms. But this collateral security must be out of primary securities i.e. Project land, Building, Machines & Furniture as mentioned earlier.

2.6. Loan could be sanctioned out of this fund as per norms & procedures to be prepared by Bangladesh Bank.

3. The investment policy of fund mobilized under Agrani Bank Industrial Bond (In time with ICD Circular No.ICD/2 dated 09-08-99 of Bangladesh Bank):

Govt. approved Agrani Bank for mobilization of an industrial development fund for financing in the industrial sector by selling industrial development bond which will be 5 & 7 years terms & guaranteed by the Govt. itself. The purpose of scheme is to expedite upliftment of the industrial sector of the country through invest of the fund as procured. Out of this fund 25% will be financed by Agrani Bank itself under its own management & 75% will be invested by other commercial banks/financial institutions through Agrani Bank.

The investment policy of the fund procured under this scheme is as follows:

1)	Project Area/ Location	:	Bangladesh.
2)	Projects	:	The industries as listed in the industrial policy'99 are eligible to be financed under this scheme. Export oriented, Agro-based & Backward Linkage Industries will be given top priority.
3)	The participating banks & financial institution in dis-bursement of project loan.	:	Agrani Bank will invest 25% out of the fund procured by way of selling of industrial bond under its own management & rest 75% of the fund will be financed by other commercial banks after transfer of the fund by Agrani Bank to them. All the commercial banks of the country will be eligible for procurement of this fund from Agrani Bank. Despite, the financial institution (Non-bank financial institution) having credit of recovery of outstanding loan not below 80%, are also eligible for procurement of this fund.
4)	Evaluation of Project & sanctioning of loan.	:	The participating banks/financial institutions will study the viability of the project as per norms in force and subsequent sanction those whose viability acceptable.
5)	Loan Limit	:	Banks/Financial Institution will sanction and

			approve the loan limit as required by the industries belonging to this sector on the basis of profitability subject to availability of the fund.
6)	Debt-Equity Ratio	:	Minimum equity requires 30%. 50% of the equity of the entrepreneur to be deposited in cash after sanctioning of the project for onward investment in the same. Beside the market value of the project land, Building etc. offered by the entrepreneur will be considered as part of entrepreneur's equity.
7)	Security	:	Project land, Building & Machineries etc. offered as primary security by the entrepreneur to be mortgaged with the financing banks/financial institutions. In case of need they (financer) also claim other collateral security from the entrepreneur.
8)	Term of the Project	:	The terms of other project sanctioned/approved under this scheme will be same as sanctioned earlier by the respective banks/financial institutions. Repayment program should be determined with a grace period of 9 months after disbursement of 1st installment of the sanctioned project.
9)	Financing in the Project.	:	Financing banks/financial institution will claim this re-imbursed amount either sanctioning the project or after disbursing the loan with necessary papers including DP Note to Agrani bank and in turn Agrani Bank will also reimburse the claimed amount subject to availability of the fund.
10)	Running Capital	:	Loan sanctioning banks/financial institutions will also ensure the running capital to be required in the project.
11)	Rate of intt. (in case of banks/ financial institutions procuring fund from Agrani Bank).	:	Banks/Financial institution procuring fund as loan for 5 years term mobilized through issuance of Bond by Agrani Bank will deter- mine the rate of interest applying latest average rate for two years treasury bond plus 150 basis points and for 7 years term loan by applying latest average rate for two year treasury

			bond plus 250 basis points.
12)	Rate of Intt. (In case of project Loan).		Participating bank/Financial Institution will determine the rate of interest in its own project in line with free market interest policy.
13)	Utilization of Loan	:	Respective Bank/Financial Institution will ensure proper utilization of fund disbursed under the sanctioned project by constant supervision, inspection & necessary advisory assistance to the entrepreneurs.
14)	Recovery of Loan	:	Respective loan sanctioning Bank/Financial Institution will remain absolute responsible for recovery of the disbursed amount. They also ensure full recovery of the loan as per terms and condition of the sanction advice.
15)	Loan Repayment	:	Bank/Financial institution participating in the investment program by taking fund from Agrani bank will prepare the respective repayment schedule for adjustment of borrowing amount on half yearly basis after expiry of grace period.
16)	Execution of Contract/Agreement	:	Bank/Financial Institution participating in this program will sign a participation agreement as per schedule designed in this respect.
17)	Conduction of the Scheme.	:	To run this scheme successfully sufficient expertise manpower together with required logistic support by Agrani Bank and Participating Bank/Financial Institutions at their Head office level is required.
18)	Submission of the Report.	:	To evaluate the projects sanctioned under this scheme including their number, sanctioning of loan, disbursement, recovery, overdue and outstanding position, Agrani Bank will ensure submission of statement on half yearly basis to Industrial Credit Division of Bangladesh Bank.
19)	Miscellaneous	:	In case of any sort of clarification/instruction decision from Bangladesh Bank will be the final.

4. Mechanism for Selection of Entrepreneur:

A successful entrepreneur must have the following qualities:

a)	Self-Confidence	:	He must possesses the qualities of independent and dynamic leadership to run the project.
b)	Speciality	:	An entrepreneur should be a man of creative, initiative and boldness and also having diversified knowledge.
c)	Public Relation	:	He must be a man of amiable disposition and also having the mentality of easily accepting the criticism of others.
d)	Far sightness	:	He who having the far sightness in understanding the future and adherence to stick in success.
e)	Risk	:	An ideal entrepreneur must have the quality to take risk and challenge in running the project already implemented.

A person having all the above mentioned qualities may be selected as an entrepreneur. After being selected as an entrepreneur he is eligible to submit the loan proposal.

5 Procedure for submission of Project loan application:

Branch Manager will advise the man to submit the loan proposal after being selected as an entrepreneur.

A set of industrial loan proposal should be accompanied by the following necessary papers/documents:

i) 4 copies of loan application form duly filled in.

ii) 4 copies of pass port size photograph of the owner/partner/director duly attested & academic certificate, if any

iii) Copy of title deed of project land & building (i.e. Regd. deed/Lease deed/allotment order etc.) & deed of immovable properties showing as collateral security for consideration of running capital.

iv) Draft plan/Blue Print/Site Plan alongwith the estimated cost of the project (4 copies each as per Sl.No.1 of the loan application form).

v) Bank certificate showing the position of asset & liability of entrepreneur with then & declaration as regard to the above (4 copies of affidavit as per loan application form No.4).

vi) Permission/consent letter from different utility services deptt. i.e. PDB/Desha/REB/PBS/Gas showing their consent to give connection of services with the project.

vii) NOC from the local body as regard to installation of the project in this area.

viii) In case of pharmaceutical industries necessary certificate from the drug administration.

ix) Solvency certificate & GIR No. (if any) of the entrepreneur.

x) In case of Limited Company certificate issued by its Managing Director, Article of Association & Article of Memorandum along with certificate of incorporation and certificate of commencement, if any. But in case of partnership firm individual certificate to be issued by each partner is required (As per regd. partnership deed 4 copies each in accordance with Sl.No.2(2).

xi) 3 sets of detailed quotations of importable & local machineries from different suppliers as regard to origin, brand and model along with a catalogue in case of importable machineries. (4 copies each as per Sl.No.10 of Loan Application Form). In addition to this, Machinery Lay-out Plan & Flow chart showing production capacity.

xii) In case of B.M.R.E. (Balancing, Modernization, Replacement & Expansion) of existing project the following information is also required in addition to the above stated papers/deeds as and which are applicable:

   a) Evaluation certificate justifying the enhancement of production capacity, production of new item by the newly installed machinery in place of old one (4 copies).

   b) Audited/Provisional statement of Accounts & Balance sheet of last 3 years (4 copies as per Sl.No.24 of Loan application form).

xiii) Feasibility Study Report of the Project: 4 copies

xiv) 4 Set of Loan Application Form duly filled in as per instruction/guidelines stated above are to be submitted to the respective branch. [illegible] loan application form is [illegible] annexure- A)

A. <u>Works to be done at Branch Level</u>:

   a) Scrutiny of the loan application form together with the necessary papers submitted by the entrepreneur and advise them to submit the required paper if not enclosed with the loan application form.

b) To prepare a detailed report as regard to project site & property showing as collateral security, its ownership/right to title, valuation and last by infra-structural facilities after inspecting the same by an authorized officer.

c) Evaluation Report of the properties/asset of the entrepreneur shown in the loan application form by them

d) To collect CIB Report from Bangladesh Bank as regard to the entrepreneur and their sister concerns, if any.

e) To prepare LRA Report.

f) To prepare the information sheet of the project (as per Annexure 'Kha').

Then the respective branch note down their observation, opinion and recommendation as regard to viability of the project and forward the same to the Zonal Office who, in turn will send it to the Circle Office.

B. Works to be done at Zonal Office.

a) Shortfall of any paper, if detected after scrutiny is to be collected through proposal forwarding branch.

b) To send the loan proposal if it is found in order to the respective Circle G.M. Office. Subsequently Zonal Office will arrange to send two sets of Loan proposal to their Circle GM Office through a forwarding letter with their specific recommendation.

C. Works to be done at Circle G.M. Office.

a) To arrange to collect the wanting paper, if not enclosed with the loan proposal through the forwarding Zonal Office.

b) To send the loan proposal to the respective division of the Head Office i.e. Industrial Development Finance Division with their recommendation keeping one set with them.

6 Time schedule for taking decision on the loan proposal received from the entreprenuers.

The entrepreneurs should duly be informed/intimated as to the necessary papers and documents to be required in preparing loan proposal. They must be informed that any shortfall of paper/document or incomplete preparation of the loan proposal may lead to non-acceptance of the same by the Bank.

The following time schedule is fixed for taking decision final decision as regard to acceptance of the same by the bank at its different offices/ties.

	S t e p.	Set Time Schedule
a)	Respective branch after receiving the loan proposal will scrutinize the same, arrange to	10 days after receiving the

	inspect the project site & study the viability of the project and send the proposal to the Zonal Office with their opinion/recommendation.	proposal.
b)	Zonal Office after receiving the proposal from the branch will scrutinize & study the papers & documents enclosed with the proposal & subsequently arrange to send the same to the respective Circle G.M. Office with the recommendation.	10 days after receiving the proposal from the branch.
c)	Lastly Circle G.M.Office will send the proposal to the concerned Division of the Head Office i.e., Industrial Development Finance Division with their recommendation.	10 days after receiving the proposal from Zonal Office.
d)	Works at respective Division of Head Office, <u>i.e., Industrial Development Finance Division</u>.	
	i) Preparation of a fact sheet of the loan proposal.	5 days after receiving the proposal
	ii) Collection of the deleted information of the proposed project.	Within 15 days from the above
	iii) Submission of the loan proposal to the Business Advising Committee.	Within 10 days from the above.
	iv) Completion of the viability study of project loan proposal.	Within 20 days from the above.
	v) Submission of the loan proposal already evaluated to the meeting of the Board of Directors.	Within 10 days from the above.

7. <u>Steps to be taken by IDFD at Head Office Towards sanctioning project loan</u>.

a) To scrutinize the loan proposal & arrange to collect the required paper/information, if any from the concerned proposal forwarding branch.

b) To study the viability of the project including its Management, Technical & Marketing aspect.

c) To put up the proposal in detail through line Management with Divisional opinion & recommendation.
d) To present the working paper as per decision of the authority to the Business Advisory Committee for it recommendation.
e) To initiate note narrating the recommendation/observation of Business Advisory Committee for approval of the line Management.
f) To initiate note for final approval of the project by the Management or to place the Board Memo to the Board of Director as per delegation of power.

Before sanctioning of the project loan by the respective branch, Zonal & Circle Office it must be evaluated from IDFD at Head Office. After sanctioning one copy of the sanction letter is to be sent to IDFD. The following points should be incorporated in the sanction advice & contract form while sanctioning by the Branch, Zonal & Circle Office.

a) Amount of Loan.
b) Type of Loan.
c) Period.
d) Term of condition of security & mortgage.
e) Repayment.
f) Special conditions.
g) General conditions.
h) Instruction for the Brach.

<u>Points to be incorporated in the Contract Form</u>:

a) Project Cost.
b) Terms & conditions for loan disbursement from time to time.
c) Different steps for implementation of the project.
d) Positive & Negative converts.
e) Repayment schedule.

8. <u>Steps of Implementations</u>:

i) To examine as to whether all the documents as per sanction letter have been received & surety letter in this regard is to be obtained from the Branch.
ii) To rectify any sort of mistake if occurred in obtaining the documents.
iii) To modify/rectify/settle any sort of objection raised by the entrepreneur.
iv) To arrange disbursement of the loan in conformity with the debt-equity ratio as incorporated in the sanction letter.
v) To ensure the completion of project building and other infrastructures through close supervision by the civil engineer of the IDFD.

vi) To arrange importation of the machineries and other goods of the project through opening letter of credit.

vii) To arrange procurement of local materials/goods of the project.

viii) To ensure installation of the machineries and other materials in the project through frequent inspection by the concerned engineer and also obtain inspection report and completion certificate in this respect from them.

ix) To start up capital for running the project initially.

x) After going the project in operation the following arrangements should be done :

- Running capital to be required afterward should be assessed by the respective branch.
- Before disbursement of the assessed running capital, the start up capital disbursed initially should be adjusted.
- Initial startup capital, by no means, be cumulated with the running capital sanctioned lateron.

xi) To send the repayment schedule to the respective branch after going the the project in operation.

xii) To obtain Project completion certificate as per annexure "   ".

10. Norms & procedures to be followed by other commercial banks and Non-banking <u>financial institutions</u>:

10.1. <u>Nationalized Commercial Banks</u>:

- Nationalized Bank of the country namely Sonali Bank, Janata Bank and Rupali Bank Ltd. may also procure money from this fund by complying with the norms and procedures stipulated in this respect. In this case the delegated officer/executive of that bank will apply to the chief executive of Agrani Bank with evaluation letter, sanction Advice and other necessary papers/information through a covering letter after signing the D.P.Note. After receiving those papers i.e. prayer from other banks the concerned Deptt./Division of Agrani Bank will arrange to obtain the management approval, allocate fund and arrange to disburse the same.
- This allocation and disbursement of fund will be done through Principal Branch, Motijheel, Dhaka.
- The Principal Branch, Motijheel will maintain necessary ledger and record.

10.2. <u>Non-Government Commercial Banks</u>:

- Only the problem bank as marked and ranked by Bangladesh Bank from amongst the Private Banks will not be entitled to have this fund.

- Other private banks will apply for fund for the project received by them to the chief executive of the Agrani Bank with a forwarding letter.

Points to be mentioned in the forwarding letter:

- Name of the Bank.
- Permission number with date of Bangladesh Bank.
- Amount of authorized capital & paid up capital.
- Deposit Advance Ratio.
- Rate of Classified Loan.
- Performance of the bank (Audited Balance sheets for last 3 years to be enclosed).
- The respective Deptt./Division of the Agrani Bank after receiving the proposal from private bank will put up the same to the Board of Director for their approval.
- Agrani Bank will then allocate fund and arrange to disburse the same after approval of the Board of Directors.
- The fund allocated in this way will be disbursed through Principal Branch, Motijheel of Agrani Bank.
- Principal Branch, Motijheel will maintain necessary ledger & records.

10.3. Other Financial Organization (Non-Bank Financial Institution):

1) **Mode of Apply** : Acceptable financial institutions are to apply with the following information & papers under a covering letter directly to the Chief Executive of the Bank.

a) Registration Certificate of the Organization/Company.
b) Article of Memorandum & Article of Association of the Company.
c) List of the directors of the Company with their name, address & share.
d) Audited Balance Sheet (for last 3 years).
e) Latest position of amount already invested in the project with the amount recoverable and recovered from the Company.
f) Objective of the proposed loan & necessary papers in its support.

But the papers detailed under Sl.No. 'a' to 'd' will be required to submit once i.e. at the initial stage.

2) Approval of the Project:

On receipt of the papers and information as stated above IDFD will primarily scrutinize & verify the same for onward submission to the Board of Directors for their decision. Other necessary steps will be taken after receiving Board's decision which will ultimately be intimated to the loan intending institution.

3) Documents to be Obtained :

a) D.P. Note charge deed.

b) Deed showing 1st charge made on all the present and anticipated asset and properties of the company.

c) Personal Guarantee of all the directors covering corporate guarantee of the company.

d) Resolution, Indemnity as to repayment of the loan and other documents as per contract made in between Bank & Company.

4) Mode of disbursement :

After completion of all the documents as per sanction advice the loan will be disbursed on case to case basis or as per demand of the borrowing company through the Principal Branch, Motijheel, Dhaka.

10) Monitoring/Supervisory Jobs:

1) All the projects financed by Agrani Bank can be categorized in the following 2 groups for monitoring purpose.

a) Projects under implementation &

b) Projects already on production.

2) To monitor the project performance in a planned way 3 formats as designed by Bank is appended herewith in annexure 'cha' 'chha' & 'ja'. Primary information is to be reported in annexure 'cha' in order to make the project inspection easier. After completion of the primary inspection as per data incorporated in the annexure 'cha' other necessary information is to be collected as per annexure 'chha' or 'ja'. The project under implementation is to be inspected separately.

3) The branch must be conveyed with necessary advice & instructions for next course of action from their end after analyzing the information as reported in the annexure 'cha' 'chha' & 'ja'. In case of need for evaluation the project the production cost involved, sales proceeds, profit-loss, Management, loan recovery and other on going position could be available from the above stated inspection report. Besides, whether the project under production is on loss or profit side could be assessed by going through these inspection reports which will also help take necessary precautionary step in consideration of loss and profit of the project.

4) In addition to the above goal & action plan may also be designed in order to monitor the project. In the goal & action plan the name of the officer/staff of the branch &

Zone should clearly be mentioned in order to make them liable for successful completion of job allotted to them as per following phases :

1st step	:	Preparation of fact sheet.
2nd step	:	Project inspection.
3rd step	:	Preparation of inspection report & onward submission of it to the concerned branch & zonal offices.
4th step	:	To take next course of action as per findings of inspection report.

As per goal & action plan designed in the above manner in a day only 2 officers are supposed to take part in the action so that branch activities are not hampered in no way.

5) All the Zonal Offices of the Bank after completion of the inspection of the projects under the Zone from their end shall ensure submission of the inspection report on monthly basis to the concerned Division of Head Office. Head Office, in turn, will analyze the information reported in statement & in case of any default or irregularity they convey the necessary instruction/advice to the concern branch for their rectification.

Appendix -3

Monitoring Model for Industrial Credit.

1 Monitoring: The concepts
2 Jurisdiction of working
3 Monitoring Policy
4 Working procedure
5 Follow-up Action
6 Closing Action

Monitoring: The concepts:

1.1. Concepts:

The monitoring function begins as the next stage after the sanction of assistance and not after disbursal of assistance. Its purpose fundamentally is supervision of management of the enterprise to check that the project follows the agreed lines, is well managed and matures into a profitable enterprise. This involves the following tasks:

- getting acquainted with the project, its promoters, socio-economic environment, time and cost assumption and financial & economic aspects;
- understanding the full importance of special conditions stipulated as the time of sanction of assistance;
- co-ordinating with Legal Department for investigation of borrower's title to property and preparation of documents for execution;
- examining the prospectus and other documents for public issue of shares;
- obtaining documents for release of bridge finance;
- complying with disbursement formalities;
- disbursement of funds;
- establishing broad contours of the information system, i.e. advising the borrower about the format, frequency and coverage of periodical reports;
- appointment of a nominee director (if necessary);
- insurance of fixed assets;
- monitoring physical progress;
- undertaking periodical inspections;
- carrying out reappraisal of the project and sanction of additional assistance (if necessary in case of cost overrun);
- transmitting feedback on operations to project/loans department and other operational arms of institution;
- managing investment portfolio and disposal of holding; and
- above all nursing/nurturing/ intensive care of sick/problem projects and revitalizing their operations.

1.2. Requirements of Monitoring:

The professional expertise should cover all key areas of enterprise management. Ability to ask the right question, analyze the available information and pinpoint the areas of weakness, i.e. for trouble shooting, are important ingredients. In addition, in order that the staff keep track of important developments in their field and are up-to-date, they need to be kept well informed by circulation of new letters, participation in specialist seminars and training programs in their respective disciplines.

The attitude has to be that of problem solving and expeditions decision making. This is particularly important in taking care of sick units when the task needs to be handled with understanding and sympathy apart from a high level of expertise. Moreover, follow-up functions involve rather variety of tasks for the staff concerned. They have to deal with not only the promoters but co-financiers, officials of government and other agencies, which call for greater public relations skill, with healthy, positive and problem solving attitudes. It helps a great deal if, right from the start, care is taken to nurture a sense of partnership with the management of the enterprise for mutual support, trust and respect so that the guidance buy the institution is not mistaken for undue interference in the affairs of the enterprise. In fact, when the relations are soundly built, the entrepreneur on his own will have to confidence to seek the advice and guidance of the institution at an early stage when problems arise.

1.3. Business Enterprise Assessment:

The efficiency of the follow-up organization could be determined with reference to:

a) The quality of operation, the success it achieves in streamlining its working and reducing procedural delays in disbursement of assistance.

b) Its ability to receive and transmit for action early warning signals through its liaison with the management of the enterprise and the commercial bankers.

c) The quickness and decisiveness with which follow-up action is taken on the performance reports, nominee directors reports, reports of visits/inspections and personal discussions.

d) its ability to take steps to correct on time the institutional dues by way of interest and principal and in general to reduce the percentage of over dues to assistance outstanding; and

e) Its ability to expeditiously negotiate and implement nursing/rehabilitation programs.

2. Jurisdiction of Workings:

Necessarily a question arises from where monitoring work will start and where it will end.

The reply to this question is clearly given to the conceptual framework of monitoring under serial no.1.

However, the stages of monitoring work after sanctioning of bank loan can be defined in the following manner.

i) Pre-implementation stage.
ii) Post-implementation stage.

2.1. Pre-Implementation Stage:

It involves the following steps:-

- completion of documentation formalities as per sanction advice.
- disbursement of loans.
- construction of factory building (if any).
- opening of letter of credit for importation of machinery etc.(for procurement of machinery from foreign countries).
- Procurement of machinery from the local market (if the factory is established by the local machinery).
- Completion of civil construction and installation of machinery.
- Installation of machinery in the factory.
- Recruitment of General Administrative & Factory Personnel.
- Deciding of management set up.
- Starting of trial production.

2.2. Post-Implementation Stage:

- Procurement of raw materials.
- Starting of commercial production.
- Production of finished goods.
- Storing of finished goods.
- Sale of finished goods both at domestic market and foreign market.
- Collection of sale proceeds.
- Maintenance of books of accounts.
- Repayment of Bank loans.

Monitoring work will start at pre-implementation stage and will close at the end of post-implementation stage i.e. upto the realization of Bank Loan. Monitoring inspector will neither work as an auditor nor a mere supervisor. He will work as a partners in management of the entrepreneurs. With a view to perform this work, jobs of newly created Monitoring Department of IDFD have been defined and structured.

The newly defined jobs of Monitoring Department have been given as under:

2.3. Functions of Monitoring Department:

i) Preparation of Project lists showing necessary information required for monitoring and updated the same regularly.

ii) Preparation of a 'Due Date Diary' showing
- Date of sanction
- Date of fixed for completion of documentation formalities.
- Date of first disbursement of loan.
- Date of completion of implementation of the projects.

iii) Supervision for completion of documentation within schedule time.

iv) Monitoring of projects under implementation regarding disbursement stages and progress of implementation.

v) Assisting implementation department regarding feasibility of changes of the sanctioned projects (if any) (such as location of projects, supplier of machinery changes of collateral security, reduction of margins etc.).

vi) Opening of LC in time, procurement of imported and local machinery, installation of machinery in projects, supervision of trial production and commercial production and assisting of release of working capital.

vii) Preparation of statement of current state of projects showing following information and place it to the Divisional Head for information.

- No of projects sanctioned during the month and comparison with the previous month.
- Loan disbursement and recovery during the month and comparison with the previous months position.
- No of projects completed implementation during the month and comparison with the previous month.
- No of projects start trial production during the month.
- No of project start commercial production during the month.
- Analyze the projects finding problems and issues and thereby draw corrective measures.

viii) Supervision of issuing revised repayment schedule after implementation of projects.

ix) Monitoring of current Affairs of the projects on commercial production and preparation of recommendations for corrective measures where necessary.

x) Monitoring of

- Repayment of installment in time.
- Rescheduling of credits.
- Declassification of classified Advances.
- Supervising & Assisting.
- Recovery of stuck-up credits & suit filed credits.

xi) Collection of Inspection Report done by Zonal Head & Branch Head, Analyzing, prepare of recommendations, taking steps for implementation, and prepare of a summary statement showing the following information and place it to the Divisional Head:

a) Problematic Projects.
b) Closed Projects.
c) Running Projects.
d) Classified Projects.
e) No. of projects need immediate attention.

xii) Any other responsibilities.

3. Monitoring Policy:

- Monitoring plan will be designed by the Monitoring Department of IDFD, Agrani Bank, H.O. Dhaka on yearly basis.
- Monitoring of all credits sanctioned by IDFD, HO, Zonal Office and Branch office (if any) will be conducted simultaneously.
- In this respect 'Goal and Action Plan' will be prepared by the department concerned on yearly basis.
- The well conversant officers of IDFD will be assigned the task of inspection and report writing.
- Zonal Heads and Branches headed by ..... will also assigned the inspection.
- Facts finding, analyzing credits and drawing upto recommendation will be done by the Departmental Incharge.
- Recommendations will be communicated to the Zonal Head and Branches by the Divisional Heads for implementation.
- Recommendations to be implemented by the departmental in-charge of Implementation & Recovery to be communicated by the Divisional Head through memorandum.

- In some cases General Manager responsible for IDFD may be required for communications to some fair for implementation of recommendations. In such cases, Divisional Head will arrange for the communications through General Manager.
- In preparing 'Goal and Action Plan' preference will be given to monitor the credits sanctioned by IDFD. Priorities will be set on the basis of classification status. From among the classified loans Doubtful will be ranked first substandard second and the last ranked will be Bad and Loss.
- Thereafter, credits sanctioned by Zonal Heads and Branches relating to industrial credits shall also be included in monitoring.

4. Working Procedure:

The workings of monitoring department will be based on inspection of projects done by IDFD officials Zones and Branch Officials according to 'Goal and Action Plan'. The inspection will be of various steps viz;

Pre-implementation stages and

Post –implementation stage.

Detailed working procedures at pre-implementation and post-implementation stages in given below in flow process chart.

Monitoring

Pre-implementation Stage
(Works to be started after sanction and ends before trial production)

Study the terms & conditions of sanction advice. Find the implementation stages.

Whether the factory to be established in a rented premises or the premises to be constructed.

In rented, then measure area and observe the premises is with the F&F and with other instruments by equity money as proposed in the profile.

Procurement of machinery from foreign countries & local market, if any

Whether LC is opened in time/ or not.

Determine the date of trial production and factory starts trial production.

Starting of concern production.

Post-Implementation Stage

If the premises to be constructed.

Determine the phases of construction i.e. upto plinth level lintal level. Rooting and finishing etc.

Ascertain the loan amount to be disbursed as per above noted phases.

Ascertain the correct disbursement of loans and utilization of the same.

Procurement of machinery from foreign countries & local market, if any.

Starting of concern production.

Management of industry and maintenance of production as per schedule and according to capacity of machines.

The trend to be maintained upto the period of loan.

5. Follow-up Action:

Here inspection, finding of problems and issues and thereby draw up of corrective measures, communication of action steps shall not only the jobs of monitoring department. Monitoring Department will ensure the implementation of projects, maintenance of production & sales by the projects at required level (i.e. the level which will be able to repay the loan) at all times during the currency of credits. Monitoring works will be a continuous process till final adjustment of credits.

6. Closing of Monitoring Action:

Since monitoring of credit is a continuous process till adjustment of credits, Monitoring department will open files project-wise with facts of the individual projects. The facts to be incorporated in a paper which will be known as 'Fact Sheet'. This fact sheet will be the main documents of the file. Thereafter, inspection reports, action steps and other correspondences to be incorporated in the file. The file will close after adjustment of full credit amount including interest.

Monitoring Model of Industrial Credits.

There is no monitoring procedure in the nationalized bank. What the banks presently doing are that they are contacting with the borrower and requesting them to pay back the loan installment/ loan amount in time. The borrowers are replying to the bankers intelligently that they will repay the loan. Sometimes they pay no need as to repay the loan. As a result the bankers are waiting letters reminding the borrowers to repay the loan only for the same of their services. In fact, the credit analysis is not being done for finding the root causes of non-repayment of loan and take actions according to the problems identified on analysis of credit.

While conducting this study, I observe that both the bank and the client has shown their profit hyper basically. The client did not prepare any accounts i.e. they did not prepare manufacturing account/trading account, profit and loss account and balance sheet. It is also assumed that they did not supply the same to the banker. But they maintain production book, sales book, purchase book, raw materials stock book, finished goods stock book and expenses book etc. A banker should be more prudent than the client so that he can collect data from the books maintained by the client and be able to prepare a position of the clients business performance for interring decision regarding repayment of loan installment or to find the root causes of non-payment of loan installments by the borrower.

Keeping this point in view, to develop a monitoring model for industrial credit, it needs to analyze the credit for its use from the implementation stage to commercial production stage. When the implementation stage of a project is over, then commercial production and its profitability is inevitably to be monitored as to asses whether the client is able to repay the loan or not. In case of unability of the borrower to repay the loan, the banker will be able to find out the causes of non-repayment and also will be able to take further cause of action.

Due to non-supplying of the statement by the client, the bank may collect data for the purpose of analysing the credit in the forms as devised and enclosed in annexure .... However, a working procedure for monitoring of credits by using this newly devised monitoring model has been done through a case study as under :

CASE-I

The bank is to collect data from the books of the client as referred above on quarterly basis for analysis of industrial credit in the following manner:

Agrani Bank
Industrial Development Finance Division
Head Office. Dhaka.

Inspection Report

Name of the Month: 1st quarter'00
Date: 15-04-2000

Relevant Information

1. Name and site of the Project : ABC Apparels Ltd. Maradia, Dhaka.

2. Name of the Branch & Zonal Office financing the project. : Ramna Branch, Dhaka.

3. Sanction of Loan :
   a) Amount of the loan sanctioned : Tk. 57.03 lac.
   b) Date of sanction : 31-01-1993
   c) Name of the loan sanctioning Authority. : Board of Directors of the Bank.

4. Changes, if any of the loan sanctioned : Not available.

5. Documentation :
   a) Date of completion of the documentation. : 27-01-93
   b) Whether the documentation has been done in accordance with the terms & condition of the sanction & contract letter. If not the particulars of incomplete documents & reason there against. : Yes

6. Security: Tk. in lac.

Particulars.		Valuation: At the time of sanction	Valuation: Present	Date of last inspection
a)	Primary security	7.59	7.93	
b)	Collateral security	59.60	59.60	
	Total:	67.19	67.53	

7. Name of the product & Annual production capacity : Shirt, Ladies wear, Fullpant & half-pant, 75000 dozen.

8. Implementation period in terms of sanction letter: 6 months construction period and 6 months grace period to total 12 months or 1 year. The sponsor completed the same within four months.

Agrani Bank
Industrial Development Finance Division
Head Office, Dhaka.

Information relating to implementation of the Project

1. Disbursement of the Loan.

	Step/Installment.	Date of Disbursement.	Amount Alloted.	Amount Disbursed.
a) Building & other Civil works.	1st			
	2nd			
	3rd			
	4th			
	Total:			

b) Imported Machineries.	Dt. of L/C Opened/Procurement.	Amount Alloted.	Amount Disbursed.

c) Local Machineries :

d) Dt. of installation of the Machineries. :

e) Brand & Quantity of the Machineries. :

f) Dt. of last installation of the Machineries. :

2. Date of trial production : 20/05/1993

3. Date of commercial production : 09/06/93

4. If not implemented in due time, what are the reasons there-against. : Implemented in due time.

5. Date of revised repayment schedule. :

Agrani Bank
Industrial Development Finance Division
Head Office, Dhaka.

Information relating to commercial production — Date of Inspection. 05/04/2000

1. Present Production Status:
   a) Products :
   b) Annual Production capacity :
   c) Running capacity (Rated) :
      (............ to ....)
   d) Utilization of production capacity (In %) :
      (............ to ....)

2. Manpower :

a) Administrative & labour	:	8 person	300 persons
b) Monthly salary & wages	:	Tk.3,60,000	Tk.19,20,000

3. Sales of the products (upto 31/03/2000):
   a) Total Sale :
   b) Sales value : 55,75,000

4. Information relating to Export of products (............ to ....) :
   a) Total Export : Total sales are export sales.
   b) Total Export Value (FOB / CM) :

5. Condition of Hypothecated & Pledged goods during the Inspecting Month. : Stock against hypothecation is 93565 yards cloth. Pledge stock is not applicable here.

6. Recovery condition. Loan in fixed cost. Working capital. Other Loan.

   a) Limit :
   b) Amount disbursed : Not available
   c) Term :
   d) Recoverable Amount :

e) Amount recovered :
f) Balance in Ledger :
g) Dt. of next installment :
h) Amount of next installment :

7. Reasons of dissatisfactory rate of recovery. :

8. Loss & Profit (....... to ....) :

a) Sales value (FOB/CM/NORMAL):

b) <u>Production Cost</u> :

a)	Raw Materials		55,75,000
b)	Wages (Staff/Labour)	1920000	
c)	Electricity Bill	369000	
d)	WASA Bill	13000	
e)	Gas Bill	36000	
f)	Fuel & Lubricants	6000	
g)	Stores & Spares	120000	
h)	Maintenance & Installation	60000	
i)	Insurance, Rent & Taxes	286000	
j)	Others.	<u>20000</u>	
			33,18,000

c) Gross Profit (a-b) 22,57,000

d) <u>Administrative Cost</u>:

a)	Allowances/Remuneration paid to the Directors	:	120000	
b)	Staff Salary	:	360000	
c)	Postage, Telegram & Telephone	:	102000	
d)	Telex & Fax	:		
e)	Printing & Stationery	:	42000	
f)	Travelling Allowances	:	30000	
g)	Sale expenditure(Advertising cost)	:	30000	
h)	Audit & Legal expenditure	:	18000	
i)	Other administrative cost	:	60000	
j)	Others	:	<u>33000</u>	
				7,95,000

e) Operating Profit (c-d) : 14,62,000

10. <u>Financial Expenses :</u>

a)	Interest on Term Loan	:	186000
b)	Interest on C.C. Hypo.	:	37000

c) Interest on other loan : 500000

7,23,000

d) Operating Profit before tax : 7,39,000

11. Statement of Bank Accounts :
12. Comments/Statement of the management of the Project:
13. Overall observation & opinion of the inspecting officers:
14. Opinion of Branch Manager on overall condition of the Project:
15. Other information:

a)	After successful implementation of the project, the factory starts commercial production as on 20/09/93.	
b)	Management information :	There is no management problem.
c)	Production :	The project is running at 80%. Production capacity which is 5% higher than rated capacity.
d)	Sales :	FOB value of the produced goods as on 31-3-2000 Tk. 278.75 lac. 20% of FOB value has been calculated as sales value to find out profit & loss a/c.
e)	Profit and loss :	Operating profit before tax has been calculated as Tk. 7.39 lac.
f)	Credit recovery procedure :	Total recoverable amount 28.92 lac. Total recovered amount is Tk. 18.12 lac and the classified amount is Tk. 10.80 lacs.
g)	Stock of CC Hypo. & CC Pledge:	Stock of Fabrics in 935665 yards are found at the time of inspection.
h)	Present problems :	No problem was found in the project.
i)	Other information :	The CC hypo. loan expired on 28/02/2000 and the outstanding amount is Tk. 5.18 lacs.
j)	Opinion of the inspectors :	(1) The project is running profitably. (2) Recovery rate is 62.66% (3) Classified amount is Tk. 10.80 lac (4) Classified amount to be deducted from the export proceed.

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