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Effectiveness of Project Financing Techniques in Specialized Banks of Bangladesh

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This is to certify that Mr. Abu Bakar Siddique has prepared the Dissertation entitled **"Effectiveness of Project Financing Techniques in Specialized Banks of Bangladesh"** for the award of Ph.D in Banking and Finance under my direct supervision. No such work has been done earlier in any other university.

I wish him success in life.

(Professor Dr. Abhinaya Chandra Saha)

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(Abu Bakar Siddique)

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LIST OF ABBREVIATIONS

ACC	Anti-Corruption Commission
ADB	Asian Development Bank
ADP	Annual Development Program
AIS	Accounting Information System
ARI	Accounting Rate of Return
BASEL-II	Basel Committee on Bank Supervision
BASIC	Bank for Small Industries and Commerce
BB	Bangladesh Bank
BBTA	Bangladesh Bank Training Academy
BCIC	Bangladesh Chemical Industries Corporation
BDBL	Bangladesh Development Bank Ltd
BDT	Bangladesh Taka
BEP	Break Even Point
BHB	Bangladesh Handloom Board
BIBM	Bangladesh Institute of Bank Management
BMRE	Balancing, Modernization, Rehabilitate and Expansion
BRPD	Banking Regulation and Policy Department
BSB	Bangladesh Shilpa Bank
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BSEC	Bangladesh Steel and Engineering Corporation
BSRS	Bangladesh Shilpa Rin Sangtha
BSTI	Bangladesh Standard Testing Institution
CAR	Capital Adequacy Ratio
CIB	Credit Information Bureau
CiF	Cost Insurance and Freight
CNG	Converted Natural Gas
CPV	Contract Point Verification
DFIs	Development Financial Institutions
DSCR	Debt service Coverage Ratio
ECNEC	Executive Committee of the National Economic Council

EOQ	Economic Order Quantity
EPF	Equity Participation Fund
EPSCIC	East Pakistan Small and Cottage Industries Corporation
FCBS	Foreign Commercial Banks
FGD	Focus Group Discussion
FoB	Free on Board
FY	Fiscal Year
GDP	Gross Domestic Products
GoB	Government of Bangladesh
IBs	Islamic Banks
ICP	Investment Corporation of Pakistan
IDA	International Development Agency
IDBP	Industrial Development Bank of Pakistan
IFRS	International Financial Reporting Standards
IPFA	International Project Finance Association
IRS	Interest Rate Spread
IACB	Investment Advisory Center of Bangladesh
IDA	International Development Agency
IRR	Internal Rate of Return
IT	Information Technology
JICA	Japan International Cooperation Agency
KII	Key Informant Interview
KYC	Know Your Customer
LIBOR	London Interbank Offered Rate
LIM	Loan against Imported Merchandise
LPS	Loan Preview Status
LRA	Lending Risk Analysis
MDGs	Millennium Development Goals
MIDAS	Micro Industries Development Assistance and Services
MICR	Magnetic Ink Character Recognition
MIS	Management Information System
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
NPAT	Net profit After Tax

NBFIs	Non-Bank Financial Institutions
NCBs	Nationalized Commercial Banks
NEC	National Economic Council
NGOs	Non-Government Organizations
NOC	No Objection Certificate
NITL	National Investment Trust Limited
NPC	National Planning Committee
NPL	Non- Performing Loan
PCBs	Private Commercial Banks
PDB	Power Development Board
PEC	Project Evaluation Committee
PICIC	Pakistan Industrial Credit and Investment Corporation Ltd
PP	Project Proforma
REB	Rural Electrification Board
RoA	Return on Assets
RoE	Return on Equity
RoI	Return on Investment
SBILC	Small Business Investment and Lending Corporation
SBs	State-owned Specialized Banks
SCBs	State Owned Commercial Banks
SMA	Special Mention Account
SME	Small and Medium Enterprise
SMEF	SME Foundation
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
SSIDI	Small-Scale Industrial Development Institutions
SSIs	Small Scale Industries
TFYP	Third Five Year Plan
TIN	Tax Identification Number
UNDP	United Nation Development Programs
USAID	U.S Agency for International Development
WEDP	Women Entrepreneurship Development Project

Abstract

Specialized banks of Bangladesh consist of Bangladesh Krishi Bank (established in 1972), Rajshahi Krishi Unnayan Bank (established in 1987), BASIC Bank Ltd (established in 1989), and Bangladesh Development Bank Ltd (established in 2010 with the amalgamation of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangtha). These banks were established with an objective to provide long-term and midterm finance into agriculture, industry and SMEs sector for strengthening their capacity of production. These banks had huge volume of classified loans, and percentage of NPL to total loan for specialized banks was 23.92% & Tk. 3,230 crores had been written off as bad debts up to December 2012, and average profitability ratio for the banks in FY 2012 was 1.40%. Considering the aforesaid problems, the present study was planned to conduct.

The objectives of the study are to know project financing techniques and to find out nature & extent of project financing, to measure overall performance, and to identify variations of such techniques in application towards project financing, and to find out SWOT Mix of the sample banks in Bangladesh during the period 2003-2012. The study approach is both quantitative and qualitative in nature. The sample of the study includes BASIC Bank Ltd and BDBL, out of four specialized banks in Bangladesh based on purposive sampling. One branch of BDBL and one branch of BASIC Bank Ltd of seven Divisional Headquarters totaling fourteen branches are selected for the study. One set of questionnaire is used to collect primary data covering 88 respondents (having 50 respondents of BASIC Bank Ltd and 38 of BDBL).

Whenever a potential entrepreneur desires to avail project finance from a bank, the bank arranges a rigorous feasibility appraisal for the project to determine whether it is viable or not. If the bank is satisfied with feasibility appraisal, it releases funds to the project and observes & monitors the repayment status of the loan. Whenever the borrower could not be able to repay installment on due date, the bank exerts moral pressure, serves notice, sells the security to recover dues, and finally files a suit in district law court for legal settlement.

The project financing scenario and operational performance of both BASIC Bank Ltd and BDBL varied largely in terms of classified loans, recovery of classified loans, and loans written off as bad debts, NPAT, and earnings & activity level during the year 2003-2012. Average amount of project loans of BASIC Bank Ltd & BDBL were Tk. 915 crores and Tk.1,042 crores respectively, and average number of projects entertained by BASIC Bank

Ltd and BDBL were 760 units and 783 units respectively. Interest spread on BASIC Bank Ltd was lower (i.e, Tk. 38.50 crores on an average) and BDBL enjoyed high interest spread (i.e, Tk. 74.60 crores on an average). BASIC Bank Ltd and BDBL had earned Tk. (2.90) crores and Tk. 33 crores respectively as net profit after tax on yearly average.

It is found that average percentage of NPL to total loans and average amount of written off loans as bad debts were 33.73% and Tk. 2,161 croes respectively for BDBL over the last three years. But in the year 2013, the percentage of NPL to total loans was 34.55% for the bank and the bank had written off Tk. 1,862 crores as bad debts. On the other hand, average percentage of NPL to total loans and average amount of written off loans as bad debts were 4.63% and Tk. 16 croes respectively for BASIC Bank Ltd over the last ten years. But in the year 2013, the percentage of NPL to total loans was 28.75% for the bank and the bank had written off Tk. 310 crores as bad debts. In the year 2012, BASIC Bank Ltd had made massive operational loss (i.e, net loss of Tk. 72.20 crores). So, the performance of project financing for BASIC Bank Ltd was better up to the year 2011, and its performance afterwards was rapidly declining & the performance of BDBL over the study period was not satisfactory.

Both the banks conducted same interview procedures to assess the viability of a new borrower. BASIC Bank Ltd had appraised its project very successfully up to the year 2011 and did not appraise successfully afterwards. On the other hand, BDBL had not appraised the projects successfully over the study period and resulting in huge volume of classified loans.

Lending interest rates of BASIC Bank Ltd are 11% for agriculture loans, 13.75% for agro-based industries, 13% for cottage (service & manufacturing), 14%-15% for other SMEs, 14.50% for large industry loans, 15% for consumer finance and 16% for real estate loans. On the other hand, the interest rates of BDBL are 10% for agriculture loans, 13% for agro-based industries, 14% for SMEs, 14% for large industry, 14.50% for consumer finance and 14% for real estate loans. Average interest earnings of BASIC Bank Ltd and BDBL were 12.82% and 10.23% respectively in the year 2012.

The major five reasons for non-performing project loan of BDBL are as (a) inability of borrowers in equity mobilization, (b) fund diversification to other business, (c) wrong borrower selection/willful defaulter, (d) inability to raise sufficient working capital in need, and (e) lack of adequate infrastructural facility and interrupted utility supply. On the other hand, the major five reasons for non-performing project loan of BASIC Bank Ltd are as (a) political unrest and turmoil, (b) Fund diversification to other business and lack of experience of entrepreneurs, (c) natural disaster (d) fall of market demand of products & industrial slowdown, and (e) Wrong borrower selection/Willful defaulter. NPL decreases profitability and equity fund of a bank, and requires to appraise projects successfully not only to protect the financial health and sustainable growth & development of specialized banks but also to attain bank’s objectives and goals as a whole.

CHAPTER ONE

INTRODUCTION

1.1 PRELUDE

Financing an economic unit designed for performing commercial operation is a crucial concern of the specialized banks in Bangladesh to boost up production of agriculture, large-scale industry, Small and Medium Enterprises (SMEs) and cottage industry. Since commercial banks mobilize their investible funds predominantly from the individuals and institutions in the form of either demand deposit or time deposit, that is a constraint for them to accept the loan offer from project borrowers in the form of equity or debt financing for long term and medium term. Basically, specialized banks are mostly constituted with Presidential Ordinance, and predominant fund suppliers of those banks are Government of Bangladesh (GoB) and Bangladesh Bank (BB) as refinancing scheme organized by development or donor agencies. Typically, project loan is allocated by specialized bank to a project that has a life span of more than one year engaged in economic activity and capable of generating significant cash inflow through which the obligation to the lender bank would be repaid as repayment schedule prescribed by bank as no-recourse on the assets of financial structure of the borrower or limited-recourse on the assets of the project.

Project in relation to a specialized bank means a scheme for capital investment to develop facilities to provide goods and services.[1] A commercial unit where a bank considers investing fund for medium term or long term in order to facilitate borrowers' production of goods and services or strengthening his financial capacity or value addition is known as project. Project finance refers to mobilization of debt, equity, contingent equity and a variety of limited guarantees for a person, company, partnership or joint venture in building a capital intensive facility and repayment the loan with interest to lenders is made through the cash inflow from the projects.

Project financing techniques mean an investigation or assessment done by the bank prior to providing any loan & advance/project finance about commercial, marketing, technical, financial, economic, environmental, social, entrepreneurial, political & legal aspects and risk related viability of the proposed project. The non-recourse basis of the finance is covered through the operational efficiency in generating significant cash flow to repay the loan and the bank can impose its legal right only on the assets of the economic unit as limited recourse. The collateral security coverage for the finance upon the asset structure of the borrowers as full-recourse is termed as only psychological pressure upon the borrowers.

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[1] Bangladesh Shilpa Bank, *"Manual of Project Appraisal,"* March, 1976, p. 2.

Categorizes of project financing delivered by those banks viz. Long term debt or equity financing to industrial plant, procurement of capital machineries and technology, loans to infrastructure sector under PPP programs, advance against hypothecation of vehicles (transport loan), SME loans, consumer loans, house building loan, agricultural loan-farming and off-farming, consortium loan, syndicated loans, lease financing, hire purchase, import financing (LIM).[2] Projects loan is disbursed by those banks in the projects viz. Power & energy, Telecommunication, Transport & Communication, SMEs, Lease Financing, Real Estate Business (including house loan), Food and Allied products, Jute and Allied fibber, Cotton and Woolen Products, Paper and Paper products, Tannery and its products, Nonmetallic mineral products, Forest and Wood Products, Basic metal Products, Metal products, Electrical Machinery, Machinery and spare parts, Chemicals, Petra Chemicals and Miscellaneous.[3]

The project financing tends to consider the technical and economic feasibility of the project with the help of expert engineers and analysts mostly in case of new borrower having no predetermined idea about the project or business environment. Thus, it takes an entirely different credit evaluation or investment decision process to determine the potential risks and rewards of a project financing. Since these newly formed entities do not have their own credit or operating history and existing borrowers require additional finance have limited idea about the future business environment, it is necessary for lenders to appraise the project thoroughly to determine its credit worthiness in different feasibility aspects on the basis of project’s cash flows in order to avoid future default of the finance.

1.2 BACKGROUND OF THE STUDY

The term “project finance” is used loosely by academics, bankers and journalists to describe a range of financing arrangements. Project finance is actually a centuries-old financing method that predates corporate finance. However, with the explosive growth in privately financed infrastructure projects in the developing world, the technique was enjoying renewed attention. Project financing techniques date back to at least 1299 A.D. when the English Crown financed the exploration and the development of the Devon silver mines by

[2] Bangladesh Development Bank Limited, *Branch Manager’s Conference,* 2012, P. 5-6.
[3] Bangladesh Development Bank Limited, Annual Report-2010, P.101

repaying the Florentine merchant bank, Frescobaldi, with output from the mines.[4] The Italian bankers held a one-year lease and mining concession, i.e., they were entitled to as much silver as they could mine during the year. In this example, the chief characteristic of the project financing was the use of the project's output or assets to secure financing. Another form of project finance was used to fund sailing ship voyages until the 17th century. Investors would provide financing for trading expenditures on a voyage-by-voyage basis. Upon return, the cargoes and ships would be liquidated and the proceeds of the voyage were split amongst investors.[5] An individual investor then could decide whether or not to invest in the sailing ship's next voyage, or to put the capital to other uses.

The concept of project financing was first epitomized in the country after the establishment of Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS) in October 31, 1972 which were engaged in accelerating the industrial pace of the country providing debt and equity to industrial projects. Afterwards the concept was fostered by nationalized commercial banks (Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank) and first generation private commercial banks such as AB Bank and National Bank solely and in some cases on syndicated arrangement. In order to alleviate poverty and to make a huge employment opportunity of the mass rural people and fostering indigenous skill and expertise in SMEs, government extended their hands to develop SMEs sector through policy documents in 1973. Due to negligible immovable property of the SMEs sector being used as security for bank loan, no accounting and reporting standard of the industry, and high dealing and administrative costs of loan to banks; no banks advanced to entertain the loan demand of SMEs. There were twenty different departments and institutions in Bangladesh, which were supposed to protect and promote the activities of Small scale industries (SSIs) in Bangladesh.[6] But, the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the Bangladesh Handloom Board (BHB) were the two agencies to support the SSIs.[7] Since most of these institutions were suffering from bureaucratic complexity, these institutions were not playing the desired promotional role. After 90's two private initiative financial institutions named- Bank for Small Industries and Commerce (BASIC) and Micro

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[4] John W. Kensinger and John D. Martin, "Project Finance: Raising Money the Old-Fashioned Way," as cited by Donald H. Chew, Jr., *The New Corporate Finance: Where Theory Meets Practice*, (New York: McGraw- Hill, 1993), p. 326.

[5] *Ibid*, p. 326.

[6] A. H. M. Rahman et al., "Entrepreneurship and Small Enterprises in Bangladesh," *Bureau of Business Research, University of Dhaka,* (1979): p. 23.

[7] M. A. Mannan, *Growth and Developments of Small enterprises: The case of Bangladesh,* (U.K: Avebury- Asghate Publishing Ltd., 1993), p. 7.

industries Development Assistance and Services (MIDAS) had emerged as financing to SMEs sector in Bangladesh.[8] As a result, the performance of BASIC and MIDAS in accelerating project financing to SMEs sector was highly appreciable in terms of both number of assisted projects and amount of fund allocation. Up to June 1991, the MIDAS had extended credit to 96 small enterprises amounting Tk. 188 million.[9] While BASIC bank had extended financial support to 1154 projects amounting Tk. 47,036 million till 31st December, 2012.[10]

1.3 STATEMENT OF THE PROBLEM

Bangladesh is one of forty-eight least developed countries of the world.[11] She has a perennial resource constraint on the development of the national economy through increasing the volume of goods and services in agriculture, industry and service sectors. But industrialization before liberation was under divergent policy regimes in public sector participation with overcapitalization, under utilization of capacity, low efficiency and low productivity and wide range of industrial sickness leaving the huge debt burden of about 40% for the banking sector of the country. Bangladesh adopted an import-substitution strategy for industrialization after liberation in 1971 and undertook a number of industry policies starting from the year 1971 and onwards for strengthening the process of economic development. As a result, Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS) banks commenced their operation in 1972 to provide institutional finance two industrial units. The Government of Bangladesh (GoB) undertook a number of structural and policy reforms for institutional funding to industrial sectors in 1980 while commercial banks extended their financing to SMEs sector with creeping up trend. BASIC Bank Ltd was established in 1989 to provide mainly SME loans into raising sectors. These three financial institutions had acquired efficient and prudent experience in dealing with removal of capital constraints of the entrepreneurs. Nevertheless, Bangladesh Krishi Bank (BKB) was established under the Bangladesh Krishi Bank order 1973 (President's Order No 27 of 1973) for providing loans to agriculture sector especially for small and marginal farmers. On the other hand, Rajshahi Krishi Unnayan Bank (RAKUB) was established by

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[8] Salauddin Ahmed Khan and Khaleda Khatun, "Institutional Credit to the Small Scale Industries in Bangladesh: Some Relevant Observation," *Journal of Business Studies: Dhaka University,* Vol. 15, no. 2 (1994): p. 233.

[9] A. H. M. Rahman, "Performance of Small Industries Credit Programmes in Bangladesh," *Journal of Finance and Banking Department: Dhaka University,* Vol. 2 (1992): p. 4.

[10] BASIC Bank Limited, Annual Report- 2012, p. 62.

[11] UNCTAD, *"The Least Developed Countries Report 2012,"* (United Nations Publication, 2012), p. iii.

the President's Ordinance No. 58 of 1986 in order to have overall improvement of agriculture and the condition of farmers for Rajshahi and Rangpur division. In order to expand SMEs, agro-based industry, basic industry and backward & forward linkage industry, specialized banks basically extend their medium term advance and capital investment in compliance with the directives of Bangladesh Bank. Since, commercial banks as financial intermediary invest funds to various productive sectors or economic units in the forms of short-term or medium-term loans as full recourse on the assets of the financial structure of the borrowers. Specialized banks launched mainly long-term loans and financial assistance to income generating projects with non-recourse or limited recourse to the assets of the borrower's company and experienced a huge amount of classified loans and a number of industrial projects became sick due to inefficient programs of those banks. The SCBs and the DFIs continued to have high levels of NPLs mainly due to substantial loans provided by them on considerations other than commercial criteria and under direct credit programs during the1970's and 80's. Poor appraisal and inadequate follow-up and supervision of the loans disbursed by the SCBs and the DFIs in the past eventually resulted in massive booking of poor quality assets which still continue to remain significant in the portfolio of these banks. Furthermore, these banks were reluctant to write-off the historically accumulated bad loans because of the poor quality of underlying collaterals.

On the other hand, Most of the industrial project loans of BSB and BSRS became overdue, classified and lastly defaulted. The reasons of loan default culture were disbursement of loans without following proper project appraisal; sanctioning of loan on the basis of political consideration rather than business performance; and poor implementation, observation, monitoring & evaluation system; inadequate knowledge and inefficient recovery performance of the management. As a result, the Government amalgamated the former Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS) and formed Bangladesh Development Bank Ltd (BDBL) to acquire and take over all of their (BSB & BSRS) assets, liabilities.

The recovery of NPLs of specialized banks, however, witnessed some improvement in recent years through internal restructuring to strengthen loan recovery mechanism and recovery drive and write-off measures. Banking sector of Bangladesh would be in a healthy state in terms of capital adequacy if the Non-performing Loan (NPL) of specialized banks could be controlled and restricted from moving it up to maintain good asset quality. As per Bangladesh Bank Report actual risk based capital of all banks was 11.31% (four specialized banks it was -4.30%) in 30 June 2012 as against required level of 10% as described in BASEL-II. NPL to total loan for specialized banks was 23.92% as on December 2012. But the trend of written off classified loans as bad debts for specialized banks was moving upward every year and 32.30 billion taka was written off as bad debts as on Dec, 2012. As a result the profitability ratio for specialized banks in FY 2012 was 1.40% (where 13.50% of all banks). In order to bring the Capital Adequacy Ratio (CAR) for specialized banks to a required level as per BASEL-II, effective application of project financing techniques through applying proper guidelines in accordance with Prudential regulations directed by Bangladesh Bank and Head Office of concerned bank is deemed as a most vital mechanism for strengthening the financial health of specialized banks. The following table shows a clear evidence of the present project financing scenario of specialized banks of Bangladesh for the year 2012:

Projects Financing scenario of Specialized Banks for the year 2012 (in Million Taka)[12]

Particulars / Name of the Banks	BDBL Ltd	BASIC Bank Ltd	Bangladesh Krishi Bank	Rajshahi Krishi Unnayan Bank	Total
Total Loan and Advances cumulated up to 31st Dec, 2012	14,742	85,956	1,41,294	35,682	2,77,674
Classified Loan cumulated up to 31st Dec, 2012	5411	7,102	40,273	13,631	66,417
No. of Projects cumulated up to 31st Dec, 2012	175	1,154	2,96,571	45,678	3,43,578
Allocated project Loan cumulated up to 31st Dec, 2012	4,771	47,036	78,415	5,131	1,35,353
Total loan disbursed during the year	4,494	64,418	58,339	11,509	1,38,760
Disbursed Project Loan during the year (Excluding Working Capital Loan and others)	697	13,851	49,363	6,404	70,315
Recovery of Project Loan during the Year	1380	4,906	36,648	7,456	50,390
% of Disbursed Project loan to total disbursed loan during the year	15.51%	21.50%	84.61%	55.64%	------
% of Classified Loan during the year	36.70%	8.26%	28.50%	38.20%	23.92%
Amount of Operating Profit during the year	1,040	2,541	(1,404)	(503)	1,674
Weighted Average Interest rate on Deposits	7.25%	10.86%	9.24%	7.45%	-------
Weighted Average Lending Rate	12.75%	14.98%	11.35%	11.67%	-------
Weighted Average Interest Spread Rate	5.50%	4.12%	2.11%	4.22%	-------

[12] Ministry of Finance, *Resumes of Banks-Insurances and Financial Institutions 2012-13*, pp. 171-186.

1.4 OBJECTIVES OF THE STUDY

The core objective of the study is to measure the effectiveness of project financing techniques used in specialized banks of Bangladesh.

Specific Objectives

a) To know the project financing techniques in specialized banks of Bangladesh.

b) To find out the nature and extent of project financing in specialized banks of Bangladesh during the year 2003-2012.

c) To measure the impact of such project financing techniques on the banks performance.

d) To find out the variations in project financing techniques and their impact among the sample banks.

(e) To find out the strengths, weaknesses, opportunities & threats of sample banks in project financing programs.

1.5 RESEARCH HYPOTHESES

Based on detailed review of related studies, the following hypotheses are formulated:

a) There are no variations in interest spread and burden within and between the sample banks in Bangladesh.

b) There are no variations in cost of fund in the sample banks of Bangladesh.

c) There are no variations in earnings, RoA, and RoE within and between the sample banks in Bangladesh.

d) There is a positive correlation between the disbursement of project loans and total classified loans.

e) Employees productivity is negatively correlated with classified advances, bad debts, and cost of fund.

f) Variations in sectoral advances are statistically significant.

1.6 RESEARCH METHODOLOGY

1.6.1 Nature of the Study

The study approach is both quantitative and qualitative in nature because it is critically explored the performance of the specialized banks in exercising various techniques for assessing project appraisal and implementation & monitoring of the project loan and their impact on the overall performance of the banks and finally suggestions are given to improve financing techniques.

1.6.2 Sample Size and Sampling Method

Bangladesh as a developing country has strong financial structure and performs financial activity through a large number of banks and financial institutions directed by regulatory and supervisory mechanism of Bangladesh Bank. The total number of specialized banks in Bangladesh as on March 31, 2013 is four, namely Bangladesh Development Bank Ltd (BDBL), Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, and BASIC Bank Ltd.[13] The sample of the study includes BDBL and BASIC Bank Ltd out of four specialized banks in Bangladesh based on purposive sampling. These specialized banks are selected due to their major share in project financing in Bangladesh respectively. One branch of BDBL Bank Ltd and one branch of BASIC Bank Ltd of each of the seven Divisions like Dhaka, Chittagong, Sylhet, Khulna, Barisal, Rajshahi and Rangpur are selected considering their highest concentration on project financing.

Details of respondents are selected as follows:

Category of Respondents	**Respondents**			**Sampling Method**
	BASIC Bank Ltd	**BDBL**	**Total**	
Head Office/Branch executives and officials	50	38	88	Purposive sampling

[13] *Ibid*, p. i

1.6.3 Sources of Data

Data are collected from both primary sources such as respondents of the questionnaire, field study and secondary sources such as websites, library books, journals, articles, theses, dissertations, magazines and annual reports of selected banks.

1.6.4 Procedures of Data Collection

One set of questionnaire is used for collection of primary data from Head Office/Branch executives and officials based on purposive sampling. Secondary data are collected from head office of selected banks.

1.6.5 Data Processing and Techniques of Analysis

Firstly, the researcher is verified, reviewed, scrutinized and edited the collected data to avoid errors and inconsistency. Both quantitative and qualitative data regarding the performance of banks on project financing are analyzed by using appropriate statistical techniques such as descriptive statistics, simple co-relation, multiple-correlation and one sample T-test and Two sample T-test through SPSS-11.50 to determine the relationship of the selected variables. On the other hand, bank's performance and productivity are assessed based on prescribed indicators like volume of NPL, written off classified loans as bad debts, NPAT, RoA, RoE, profit per employee, etc. The findings of the study are presented in tables, figures, and charts to make the study easily understandable and meaningful to the stakeholders.

1.7 SCOPE AND LIMITATION OF THE STUDY

The study critically evaluates the performance of the specialized banks in exercising project financing techniques for attaining organizational goals and objectives under project financing. The research is conducted only on two banks (BDBL and BASIC), out of four specialized banks by taking one branch located in seven divisional headquarter of each bank totaling fourteen branches due to budget and time constraints. Data of the sample banks during a period of ten years from 2003 to 2012 has been analyzed. Total number of respondents for two sets of questionnaire is only 88 persons.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION: To carry out any kind of research work on substantial new knowledge or challenges of existing knowledge, related literatures need to be reviewed for assessing their contribution in the concerned study area. In order to find out knowledge gap and develop a conceptual framework of the proposed study, a number of books, journals, articles and research reports have been critically reviewed.

Ahamed (1980)[14] presented few aspects about project appraisal of BMRE of jute mills of Bangladesh in planning, implementation and monitoring stage of the projects and derived some findings thereon. In the planning stage, he pointed out technical feasibility of the project in relation to availability of raw materials, labour forces, and site selection of the plant for quick and timely transportation of materials and distribution or shipment of finished goods to other parts of the country or to abroad inconvenient manner. In implementation stage, he gave emphasis on the adequacy trained up personnel with academically and pragmatically sound to complete the project without any loopholes and shortcomings to minimize time over-run and cost over-run. The article revealed that timely allocation of funds mobilized from either domestic sources or foreign sources was invariably needed to procure inputs for avoidance impediments and bottlenecks in the implementation of the project and suggested some mechanisms for diagnosis fund crisis.

Chowdhury (1980)[15] pointed out the prescribed procedures to evaluate the viability of a project like Annual Development Programs, Five-Year Plan and perspective plan for economic and social development of the country. Ministry of Planning of Bangladesh has a planning cell which is headed by the Secretary and is composed of economists, statisticians and other technical officers. The project is first examined by the planning cell of the Ministry. If a project proposal is considered as economic viability and technically feasible by the planning cell of the Ministry, it will be forwarded to the Technical Division of Planning Commission for further appraisal and processing. The major responsibility of the Planning Commission is to examine and appraise development projects and to recommend them for approval by the National Economic Council (NEC) and the Executive Committee

[14] Salahuddin Ahamed, "Appraisal of an Industrial Sector Project: A Case Study with Reference to BMRE of Jute Mills of Bangladesh," *Project Management edited by Muhammad Sirajuddi, Project Implementation Bureau, Bangladesh Management development Centre, UNICEP-Bangladesh*, (1980): pp. 5.67-5.73.

[15] A.K. M. Kamaluddin Chowdhury, "Administrative Framework and the Actual Procedure for Project Appraisal in Bangladesh," *Project Management edited by Muhammad Sirajuddi, Project Implementation Bureau, Bangladesh Management development Centre, UNICEP-Bangladesh*, (1980): pp. 3.3-3.13.

of the National Economic Council (ECNEC). 'A' category schemes costing below Tk. 50 lakhs can be approved by sponsoring Ministry, 'B' category schemes up to Tk. 2 crores can be approved by the Ministry of Planning and 'C' category schemes more than Tk. 2 crores can only be approved by the ECNEC. Development projects are prepared in a prescribed project pro forma (PP) and Planning Commission has laid down standard methodology for examination and appraisal of these projects. Economic, financial, technical and managerial feasibility of a project are examined in depth by technical sections of Sector Division of Planning Commission and advance viability report to the Project Evaluation Committee (PEC) for approval by the ECNEC. It is noted that though various aspects of the project appraisal process have been conceived separately for convenient in analysis, appraisal of feasibilities is really interrelated. In fact, project planning, appraisal and implementation is an integrated and persistent cycle of activity where one phase or aspect of a project is linked with others and should be reviewed accordingly. The sponsoring Ministry will submit the project profile not only to relevant Division of Planning Commission for technical and economic appraisal but also to the Ministry of Finance for assessing its financial strength to carry out the project. While a project is considered as viable by a technical section of the Planning Commission and the section should prepare working papers to circulate to sponsoring agency and Ministry of Finance along with a report placed before the Project Evaluation Committee (PEC). The PEC submits a report to ECNEC for approval after analyzing economic and financial feasibility and finally to the Ministry of Finance to release funds in order to execute the project.

Khandkar (1980)[16] highlighted some factors such as economic, technical, financial, and managerial feasibility that should be considered by the investor or lender or even by the borrower's entity to determine investment worthiness of a project at the pre-investment stage. Demand of new product, existing competitors in the industry, market size, and conditions of macro-economy should critically evaluate in assessing the economic feasibility of a new project. Input needs, land, plant size, technology, site are judged for technical feasibility. Financial solvency, liquidity, profitability, earning profit, optimum capital structure and generation of cash inflow to repay loan are needed to consider for assessing the financial viability of the project. Managerial efficiency, experience, expertise,

[16] M.A.H Khandkar, "Some Aspect of Project Appraisal," *Project Management edited by Muhammad Sirajuddi, Project Implementation Bureau, Bangladesh Management development Centre, UNICEP-Bangladesh,* (1980): pp. 5.3-5.21.

staff level skill and productivity are considered in assessing managerial performance. Project's contribution to the borrower and to the National economy as a whole are measured as the economic feasibility of a project. The viability of a project is likely identified and measured step by step and separated. Basically, project appraisal starts with determination of the investment worthiness of a project which is known as 'ex-ante project evaluation'. Project evaluation means cost-benefits analysis that is directly related to borrowers as commercial/ financial aspects and is indirectly related to the national economy and to society for utilization of scarce resources which have an opportunity cost and of employment, income, savings, consumption, investment & environment respectively. Production projects should invariably appraise commercial aspects; and stately development projects and infrastructure projects are only subjected to economic appraisal where the social appraisal is indifferent to both. The measurement of investment worthiness is determined by two techniques such as; (a) naive/non discounting techniques (where the time value of money is ignored): (i) payback period (ii) accounting rate of return (iii) undiscounted cost-benefit ratio; and (b) theoretically correct methods (where the time value of money for future generated cash flow is considered): (i) discounted cost-benefit ratio (ii) net present value (iii) internal rate of return. Later one is the best techniques of project appraisal. In economic appraisal, theoretically correct methods are used to measure the projected costs and benefits because those assessments largely depend on knowledge and judgment of the appraiser of a project.

Sirajuddin (1980)[17] recognized success of a development project largely depends on the linkage of properly designing and adequate implementation thereof. Project monitoring belonged to favorable comparisons of work schedules with plan operation programs and assessed future cash inflow or benefits from the project as best result with tolerable deviations. In case of economic development project of Bangladesh, project manager directly engaged in implementation of project and top management of sponsoring agency supervised and monitored work schedules. The sponsoring agency assigned inadequate implementation officials with unclearly defining their responsibility and minimum delegation of authority; and allocated insufficient funds to work operation. During the year 1973-74, ADP could utilize only 56% of its allocation and made frustration in outputs of

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[17] Muhammad Sirajuddin, "Monitoring Implementation of Economic development Projects: The Bangladesh Experience," *Project Management edited by Muhammad Sirajuddi, Project Implementation Bureau, Bangladesh Management development Centre, UNICEP-Bangladesh*, (1980): pp. 6.91-6.100.

projects and foreign donors became septic about the management to absorb foreign aid. Project Implementation Bureau, which was constituted in January, 1975 is a central monitoring unit of the country to evaluate ongoing projects through preparing progress reports on work programs, converting them into quantifiable measures and assesses physical performance through financial expenditure as well as related drawbacks in terms of assigned time and resources. The Bureau collects physical information on project performance by field inspection and compares the actual project status with progress reports under schedule inspection programs in a financial year. It is also responsible for the ECNEC and submits reports on project work performance to the authority of the Ministry and Agency and makes them accountable to implement projects. He pointed out some impediments and bottlenecks in monitoring implementation process of development projects which are categorized as financial, technical, administrative or managerial. Annual schedule of expenditure was not allocated regularly or not released to the full extent of allocation due to perennial resource constraint caused a time consuming flow of foreign aid and the projects ultimately suffered from time over-run and cost over-run. Non-availability of suitable site, building material, experienced and efficient contractors, floatation of international tenders for procurement of machinery and equipments, appointment of consultants, award of contracts and signing of agreements were major cumbersome for implementation of projects. Preparation of project pro forma and approval the same by concerned Ministry and competitive authority, and appointment of skilled personnel are drawbacks in the implementation of a project.

Islam (1986)[18] critically evaluated some specific factors regarding capital investment to industry, financing for industry & industrial projects and financing. Capital investment in industrial sector not only depends on availability of capital of the investors rather than supplementary factors of investment such as government patronization on investment, availability of raw material for industrial units, marketing strategy, favorable climate to entertain local and foreign investment, political stability, controlled economy, and availability of skilled manpower. The favorable conditions of government patronization to set up industrial units are government policies which include tax policy, industrial investment policy, foreign capital investment policy, labor policy, market price discipline, industrial credit policy, and macro economic policy of the country. He pointed out that large

[18] Didarul Islam, *Industrial Finance and Investment,* (Dhaka: Apex Publisher’s, 1986).

industrial units require large amount of long term loan facility on the basis of strong security and collateral protection, and collateral free financing was provided to small and cottage industries in the form of debt or equity. Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangtha (BSRS) appraise public and private projects on the basis of technical, financial, marketing, and macroeconomic aspects with in depth analysis of borrowers' creditworthiness. A project was to be designed with the life cycle included identification, preparation and analysis, appraisal (identifying cost and benefits, capital budgeting techniques, and ratio analysis), implementation, and evaluation to allocate financial support in the form either equity or debt.

Ahmed (1991)[19] showed a lack of access to institutional credit had constituted an undesirable barrier to the SCIs growth in Bangladesh. Interestingly, this predicament was faced by industries since 1950. Limited attempts had been made by the government to meet financial requirements of the SCIs over the period. Instead of formulating and implementing a comprehensive credit program for industries, even in times of expansionary bank lending policies of industries in the 90s, the SCIs remained seriously marginalized in the commercial banks' term lending portfolios. Most of small entrepreneurs faced a shortage of funds and liquidity crises and experienced slow and unstable growth and as a result they mainly felt sick and died premature deaths. Since traditional commercial banks had been showing their reluctance to meet credit needs of the SCIs, specialized financial institutions were then established for providing credit support to the SCIs.

Choudhury et al. (1993)[20] considered access to institutional credit as one of the crucial issues for sustainable industrial development of the country. They pointed that the sick functioning financial system had seriously undermined macro-economic fundamentals of a country resulting lower growth in income and employment. They showed that large firms had greater access to institutional funds, including security market while small entrepreneurs had been faced acute financial problem due to their limited access to institutional credits. This view was commonly expressed by most of the researchers in the field of banking and industry.

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[19] M.U Ahmed, "Financing Small-Scale and Cottage Industry in Bangladesh: An analysis of Effectiveness in the Context of Industrial Policy-1991,*" Dhaka Chamber and Commerce Industry,* 1998.

[20] A. H.M. Nurul Islam Choudhury et al., "Banks in Financing Small Scale Industries in Bangladesh," *Bank Parikrama: BIBM,* Vol. 18, No. 3&4, (1993): p. 42.

Haq (1993)[21] pointed out financing sources of a business to carry out smooth operations in the form of short-term and long-term fund. Accounts Receivables, Trade credit, and Commercial Paper were widely used as short-term sources and Bank loan, Equity Capital, Retained Earnings and Lease Financing was treated as long term sources of finance. He highlighted three steps in capital investment to State-owned industrial sectors which included (a) Project Management (b) Designing of Long Term Financial Principles and Implementation (c) Capital Investment Control. The activities of project management comprised of project planning, project evaluation and approval, and project implementation and control. In project planning, there are two types of projects- one is new project and another is Balancing, Modernization, Replacement and Expansion (BMRE); these are considered in the steps like (i) Project digest (name, objectives, location, estimated cost and starting date to closing date of the project) (ii) Description of the project (availability of raw material, power, labor) (iii) Estimation of cost of the project (iv) Project financing through either local currency or foreign currency (v) Annual financial value of production (vi) Human resource requirements (vii) Work plan of the project and (viii) Project analysis. In the case of project appraisal and approval, a project needs to evaluate in technical, economical and financial aspects. The approval authority of a public and private project was divided into three types such as Ministry level authority, Planning Commission level authority and Central level authority. In the implementation stage of a project, a true execution largely depended on whether the equity fund had released from borrowers and then implementation committee started their functions. The predominant fund provider to industrial projects was Bangladesh Shlilpa Bank (BSB), Bangladesh Shilpa Rin Sangtha (BSRS) and Investment Corporation in Bangladesh (ICB) in the form either as debt or equity.

Alarm (1997)[22] pointed out economic growth and development, particularly industrial progress largely depended on predetermined implementation and commencement of economic production within a stipulated period of time. In practice many projects resulted time over-run and cost over-run due to reluctant attitudes of the executives to implement and monitoring system of the projects. This study revealed that 62.50% of development

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[21] Md. Jahirul Haq, *Principles of Finance in Business and Business Financing in Bangladesh,* (Dhaka: Bangla Academy, March 1993).

[22] M. Shah Alam, “Project Implementation and Monitoring System of Sugar Industry in Bangladesh,” *Journal of Institute of Bangladesh Studies*, Vol. 20 (1997): pp. 183-197.

projects had been completed during the Third Five Year Plan (TFYP) and undertaken projects had undergone time over-run and cost over-run and created a social burden. On the other hand, budgetary control system was considered inadequate as it did not give priority determination of investment projects. And the inspection team mainly functioned inspection rather than introducing timely project implementation. He contributed a survey driven few suggestions and recommendations for proper implementation and monitoring system of the project. These are: priority projects should be determined within given time, proper delegation of authority and power should be ensured to involve management responsible and accountable for implementing projects.

Matter (1998)[23] prepared an important study and highlighted faced by investors several risks when going into the projects located in a foreign country. The thesis examined risk exposures of investors and more specifically of lenders when financing in foreign infrastructure projects. Basically, these risks could be divided into three main categories: Financial Risks, Political risks and Project's performance risks. The first type of risk deals with the financial aspects of investment such as interest rate risk, currency transfer and inconvertible risk and currency devaluation risk. Political risks are concerned country related risks arisen from adverse effect of political, legal and regulatory actions. The third category of risk includes project construction related costs overrun, time overrun, quality of construction and market risk. Financial risk can be controlled through the use of proper financial derivatives coupled with internal hedging strategies. Political hedging is mainly achieved by either introducing "strong sleeping partner" or by buying insurance policies. Finally performance risk can be reduced by adopting appropriate contractual agreements. This study revealed that 35% of participants' banks didn't participate in infrastructure or construction financing projects. On the other hand, the survey resulted on concerning financial methods showed that none of the participating banks favor equity participation rather than debt participation in infrastructure project financing. The banks didn't make finance during feasibility and operational stages of a project rather than construction with strong guarantees from the contractor about the cost, time and quality of the project. The

[23] Mahdi Matter, "Risk in Global Infrastructure Project Financing," *Journal of Massachusetts Institute of Technology*, American University of Beirut, (September 1998). http://search.tb.ask.com/search /GGmain.jhtml? searchfor=Article+on+Risk+on+ global+infrastructure+ project+financingf&ptb =9DEED86-D09C-4A7F-B148-FD7FE4D13B&n=77fd2e77&tpr=hpsb&ts=1379345782647&p2=^YO^xdm 265^YYA^bd&st =tab&si = D2DBD [Access Date 15 September, 2013]

researcher concluded that only few banks had been engaged in international infrastructure project financing.

Saha and Chowdhury (2000)[24] observed that commercial banks play important functions in the financial system and economic development process of a Nation through mobilization of savings and allocation of credit to productive sectors. But, directed credit policy and inefficient allocation of funds in different periods without adequate credit appraisal and monitoring led to a widespread loan delinquency and deteriorated the health of the entire financial system of Bangladesh. Their findings included among other things, that commercial banks have been facing various problems such as mismatch of sources and uses of funds, depending on traditional collateral securities, politicization of the credit delivery system, inadequate legal system for recovery of loans, lack of government's extensive facilities in the form of database, investment counseling, inappropriate technology, infrastructure problem, marketing problem of products and so on. However, they opined in favor of increasing involvement of commercial banks in the process of development financing to gain long-term viability for the benefits of them as well as of the economy.

Alam and Ullah (2006)[25] identified the barriers and non accessibility of institutional finance to SMEs sector to expand this industry for increasing purchasing power predominantly of rural people, employment generation of indigenous and under privileged mass population as well as advancing national GDP. In Bangladesh, SME is a thrust sector to formulate a new business ideas and discover dynamic entrepreneurial talents based on labor intensive industry with inadequate amount of immovable property viz. Land, building, furniture and fixtures and other premises that could be used as collateral in borrowing loan from financial institutions. Typically, banks and financial institutions are pre-occupationally involved in collateral based lending practice for minimizing credit risk in case of loan default and technically avoid supervision cost. Banks experience some obstacles in financing SMEs sector due to improper documentations, inadequate accounting and reporting system. Banks should provide finance to SMEs by collecting information from market, training up entrepreneurs, developing infrastructure, procuring technology and linked with institutions for support services. They

[24] S. Saha and M.S Karim Chowdhury, "Role of Commercial Banks in Development Financing in Bangladesh," *Bank Parikrama: BIBM,* Vol. 25 (2000): pp. 104-110.

[25] Md. Shamsul Alam and Md. Anwar Ullah, "SMEs in Bangladesh and Their Financing: An Analysis and Some Recommendations," *The Cost and Management*, Vol. 34, No. 3 (May-June 2006): pp. 57-72.

gave some suggestion for accelerating institutional finance to SMEs like involvement of NGOs for borrower's selection and loan supervision to cut down loan supervision cost, imposed policies and regulations of Bangladesh Bank for raising SME finance, refinancing scheme under BB and/or developing agencies and group initiatives under the Small Business Investment and Lending Corporation (SBILC).

Habib (2009)[26] critically highlighted the impediments and constraints faced by industrial sectors in Bangladesh under the age of trade liberalization and globalization. He pointed out that a vibrant and dynamic industry sector led by SMEs was imperative for accelerating employment, income-augmenting and alleviating poverty in Bangladesh. The SMEs sector requires access to institutional funds, along with other facilities for their smooth operation. Loan and advances exposures of BASIC bank to SMEs sector was 57.70% of the total loans and advances amounting Tk.998.7 crores in 2005 with average growth of industrial loan was 37.61 over the study period. 175 projects were sanctioned as term loan out of which 109 were new and the rest were under BMRE of the existing projects during 2005. The average growth rate of before tax profit and after tax profit was 57.05% and 51.13% respectively during the study period.

Akterujjaman (2010)[27] identified the barriers in SMEs financing that restricted SME growth and development in a developing country like Bangladesh. SMEs have been playing a crucial role in promoting economic development and industrial production all over the world. The sector particularly provides the necessary foundations for sustainable growth and accelerating income at least-developed and transitional economies. The sector has also created large scale, low-cost employment opportunities, used locally available inputs and technologies, mobilized small and scattered private savings, developed entrepreneurship, and corrected regional imbalance in development that existed in developing countries. Despite of all these potentials, the sectors faced some obstacles such as no collateral security in the form of immovable property; inadequate infrastructure facilities; absence of taxes, regulations, and stability in policies; informal way of doing business in contrast to the bank's formal procedures and prerequisites; non-usage of modern technology and

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[26] M Ahsan Habib, "Industrial Financing by BASIC Bank Limited: An Empirical Analysis," *Journal of the Institute of Bangladesh Studies,* Vol. 32 (2009): pp. 187-196.

[27] S.M. Akterujjaman, "Problems and Prospects of SMEs Loan Management: A Study on Mercantile Bank Limited, Khulna Branch," *Journal of Business and Technology (Dhaka*), Vol. 05, Issue. 02 (July-December, 2010): pp. 38-52.

accounting procedures. The banks also had faced major issues in designing financial products for the SMEs. The sector had very limited bank finance, which was only around 10 percent, while self-finance remained a major source of their finance. And 76.50 percent of the equity of SMEs sector was used as fixed capital. However, some of the commercial banks had some "innovative" products or services targeting to SMEs only, while others had "repackaged". In Bangladesh, the sector contributed significantly to manufacturing growth and employment generation with around 27,000 medium sized enterprises and around 150,000 small-scale enterprises. Around 80 percent of manufacturing establishments were SMEs, accounted for 80 percent of the labor force, 50 percent of the output of the sector and 5 percent of GDP. SMEs are typically labor-intensive industries with relatively low capital intensity and enjoyed a natural comparative advantage in Bangladesh, where labor is abundant and have capital scarcity.

Rahman and Sayaduzzaman (2011)[28] identified that Government of Bangladesh (GoB) had undertaken a number of development steps and different industrial policies for promoting small scale industries. But industrial success generally depends on timely implementation of undertaking projects, the timely commencement of commercial operations and creating a market of goods. Nevertheless, various malpractices of officials of supportive agencies regarding plot allotment to entrepreneurs' project, inadequate provision of credit, and disbursement & recovery of loan restricted the growth and development of the sector. To overcome the hindrances, the study had outlined some suggestions for accelerating institutional credit, and setting up Small-scale Industrial Development Institutions (SSIDI) in every upazila to facilitate training and counseling of the SMEs people.

Zaman and Islam (2011)[29] attempted to identify major financing constraints faced by SMEs in Bangladesh and suggested some policy measures to overcome those constraints. In the last quarter of 1980's, Bangladesh Bank circular directed commercial banks to lend at least 15 percent of their lending capital to industrial sector. Five percent was supposed to be spent for Small and cottage industries. But there were no guidelines for women entrepreneurs. SMEs credit disbursement by financial institutions grew rapidly over the period 2003-2008 with acceleration in FY 2008-09. Total SME loans increased by Tk. 13441.85 crores (or 42.64 percent) to Tk. 44969.50 crores at March 31, 2009; which was

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[28] Md. Mushfiqur Rahman and Md. Sayaduzzaman, "Hindrance in Setting and Developing Small-Scale Industries in Bangladesh," *Journal of the Institute of Bangladesh Studies*, Vol. 34 (2011): pp. 65-76.

[29] A.K.M. Helaluz Zaman and Md. Jahirul Islam, "Small and Medium Enterprises Development in Bangladesh: Problems and Prospects," *ASA University Review*, Vol. 5, No. 1(January–June, 2011): pp. 145-160.

Tk. 31527.65 crores at the end of March, 2008. The loans increased in private banks by 41.88 percent, state-owned banks by 62.03 percent, NBFIs by 8.11 percent and SCBs by 3.31 percent during March, 2008 to March, 2009. Despite this huge surge in SMEs loan disbursements during the last five years by banks and NBFIs, the credit flow to SMEs by the majority of banks taken together still was not very significant compared to total loans. There were several reasons for such small share of institutional loans. *First*, large industries' requirement for capital was far greater than that of SMEs. S*econdly*, SMEs approached financial institutions very seldom for financing and at the same time, meager amounts of money are disbursed to the sector. *Thirdly*, formal financial institutions prefer to extend credit facilities to bigger firms or to those firms which were gradually expanded and had a viable business record. Finally, collateral-based SMEs loan process was complicated and entrepreneurs often failed to get loans from banks. Various government organizations, including specialized banks are engaged in providing credit to the SMEs sector. BASIC Bank Ltd as a specialized was established in 1988 by the foremost objective of financing small and cottage industries (SCI). The Memorandum of Articles of BASIC Bank contend that at least 50 percent of its loanable fund should be invested in small scale industries. The Bank also offered below market interest rates on SME lending compared to most other banks. Studies on the subject noted that women contributed around 26 per cent in total deposit of the banking system, but their access to credit is below 2 percent of total outstanding loans. Women Entrepreneurship Development Project (WEDP) was only programmed in the industry sector which was directly related to women entrepreneurship development. This was initiated by BSCIC in 1982 with the support from USAID and was discontinued in 2004-05. It was the first program to support women with larger amounts than micro credit without collateral. The high ceiling of the loan was Tk. 60, 000. The activities were to provide pre-investment counseling, assisting in project appraisal and feasibility studies, extending credit facilities, imparting training, and providing marketing and technical support. The SME Foundation (SMEF) is an independent organization established in 2007 with a view to making it an Apex body for looking after SMEs sector. The SMEF was capitalized by the Government of Bangladesh with a total endowment of Tk.2 billion. In order to facilitate low cost credit to SMEs, SME Foundation started a credit wholesaling program of Tk. 2.00 crores and it was being implemented by MIDAS Financing Ltd. and Shakti Foundation on a pilot basis. In spite of allowing refinance facility by BB, banks and FIs had extended only about 20.6 percent of their total loans and advanced to the SMEs sector. The contribution of SMEs loans in total loans is the highest in the case of NCBs (33.3%) followed by SCBs (20.9%), PCBs (17.9%), Non-bank FIs

(13.7%) and FCBs (8.1%). It was observed that among the participating banks, BASIC Bank, BRAC Bank and EXIM Bank disbursed a lion's share of their total loans and advances to the SME Sector. SMEs had limited access to institutional finance, which accounted for less than 30%. Enhancing access to institutional finance by 50% of SME entrepreneurs might be a target within next five years through strengthening SME foundation, motivating institutional sources of financing to deserving loan applicants.

Rahman (2013)[30] expressed succeeding idea in a seminar on strategy of SME Banking**.** About 90% enterprises of private sectors in Bangladesh were SMEs and 70 to 80% of non-agricultural workforces were engaged in SMEs sector. This sector contributed up to 25% GDP of Bangladesh last year and about 40% of gross manufacturing outputs; and absorbed around 25% of the total labour forces in Bangladesh through generating job opportunity and economic growth. To support in SMEs financing, a refinancing initiative was undertaken by Bangladesh Bank in cooperation with IDA, ADB and JICA. Under the refinancing scheme, BB had provided Tk. 23.97 billion (as of July 2012) out of which Tk. 4.00 billion for women entrepreneurs to different banks and NBFIs at subsidized interest rate. Banks and NBFIs need to be motivated towards enduring engagement in SMEs financing. Banks had incorporated strategy for SME banking to facilitate sound growth and profitability with better credit evaluation mechanism, product design, marketing skills, knowledge of customer and product profitability. For successful lending practice in the SME, banks should have a well-trained human resource adept in banking operation that can be confirmed through training conducted by BBTA and BIBM with the EU-funded inspired project.

Critic of prior studies: From the above review, it is clear that not a single study is done on this topic. That is why, this study is very important.

[30] Atiur Rahman, "SME Banking Strategy," *The Bangladesh Accountant.* (April- June, 2013): pp. 25-26.

CHAPTER THREE

THEORETICAL AND CONCEPTUAL FRAMEWORK

3.1 Overview of project financing

In order to foster indigenous skills on optimum utilization of scattered natural resources and boosting up domestic productions by utilizing huge labour forces into employment platform, industrialization is a pragmatic mechanism for rapid economic growth of the country. With the objective of converting natural resources and agro-goods into value added goods, project financing to commercial units is crucial concern of specialized banks in Bangladesh. Traditionally, those banks provided industrial loans to income generating projects on the basis of full recourse of entrepreneurs' asset structure and credit worthiness of the entrepreneurs which is a backdated concept and caused huge loans of those banks' default. Those banks did not focus on the assessment of feasibility of the project that could determine the generation of a significant amount of cash flow during its operation to repay the loan to the bank on due date. The concept of project financing refers to debt or equity investment an economic unit and repayment of finance comes back to the bank through cash flow generation over the project life. Since project finance is allowed to a project on the basis of non-recourse or limited recourse of the assets of the project, all kinds of finance having tenure of more than one year in the form of debt, equity to large- scale and SME sectors, and consumer financing are accounted for thereon. Commercial, marketing, technical, financial, economic, environment, social, and entrepreneurial feasibilities need to be appraised for determining viability of the project to the bank for lending. The concerns of banks were retarded to focus only into collateral security in evaluating a project proposal other than feasibility of the project and resulted huge loan default. Project financing to potential unit will be more profitable for the lender bank while the possibilities of the project are viable.

3.1.1 Meaning of project, Project financing, Techniques and Specialized Banks

Project and Project Financing

A "project" is usually a large-scale, capital-intensive, long-lived collection of ring-fenced assets, liabilities, and related construction and operation contracts. More specifically, Standard and Poors (S&P) defined a project finance transaction as "a cross between a structured, asset-backed financing and a corporate financing ... typically characterized as non-recourse financing of a single asset or portfolio of assets where the lenders can look only to those specific assets to generate the flow needed to service its fixed obligations, chief of which are interest payments and repayments of principal."[31]

The project Finance is termed as "the raising of finance on a limited recourse basis, for the purpose of developing a large capital- intensive infrastructure project, where the borrower is a special purpose vehicle and repayment of the financing by the borrower will be dependent on the internally generated cash flows of the project."[32]

The International Project Finance Association (IPFA) defined project financing as: "The financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cash flow generated by the project".[33] By facilitating the separation of project assets from the borrowers and enabling the financing of those assets on the basis of cash flows they are expected to generate, project finance can allow a borrower to undertake a project with more risk than the borrower is otherwise willing to underwrite independently. Project finance can also help borrowers to avoid incurring leverage beyond tolerable levels, thereby helping them preserve their debt capacity, credit ratings, and cash flows for alternative capital investment activities.

Techniques

Technique is a particular method or way of doing something and the word comes from the Greek "techne" which is an art, craft or skill.[34] On the other hand, technique is a particular way of doing something, especially one in which you have to learn special skills.[35]Any investible project requires sufficient techniques to appraise the feasibilities of commercial, marketing, financial, technical, economic, socio-economic, environmental, political and legal for assessing its viability to finance. The procedures of loan approval, sanctioning, documentation, disbursement, implementation, and monitoring & review are carried out as per the Prudential Guidelines of Bangladesh Bank and Prescribed Manual issued by the Credit Committee of respective banks to make sound lending and minimize subsequent credit default of the banks. Sound project design and implementation are crucial to a

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[31] Standard & Poors, *Global Project Finance Yearbook*, (London: October 2007), pp. 87-88.

[32] David Gardner and James Wright, *Project Finance*, (2011), p. 64. http://www.hsbcnet.com/gbm /attachments/products-services/financing/project-finance.pdf [Access date Aug. 18, 2013].

[33] http://www.investopedia.com/terms/p/projectfinance.asp [Access date September 18, 2013]

[34] http://encyclopedia2.thefreedictionary.com/techniques [Access date September 17, 2013]

[35] http://oald8.oxfordlearnersdictionaries.com/dictionary/Techniques#technique_4[Access date September 18, 2013]

developing country like Bangladesh with limited physical, economic and human resources. Before allocation of resources is made to a particular project, the decision making authority must be convinced that the proposed project is the best to achieve desired objectives in terms of socio-economic benefits.

Effectiveness

Efficiency is broadly understood as the maximization of output for a given level of input or resources, while effectiveness is directed to the achievement of goals or objectives.[36] The core objective of specialized banks is to lend their loanable fund to economic units in the form of medium term or long term with a view to returning back the loan with interest in due time without any kind of default. As a result, those banks should exercise the techniques of project financing in appraising projects in order to select viable one that could be repaid the loan through its generated cash flow and to ensure sound financial health by minimizing the volume of NPLs of the banks.

Specialized Banks

The banks that were established mostly under the special Presidential Ordinance of the People's Republic of Bangladesh with an objective to provide long-term and midterm finance into agriculture, industry and SMEs sector for strengthening their capacity of production with special directions of Bangladesh Bank, funded by the Government of Bangladesh (GoB) or Foreign Development Agencies. Those banks launched their operation after the independence of Bangladesh to accelerate production capacity of State-owned enterprises. Total number of Specialized banks in Bangladesh are four included Bangladesh Krishi Bank (established in 1972), Rajshahi Krishi Unnayan Bank (established in 1987), BASIC Bank (established in

[36] Brudney, J.L. and England, R.E, "Urban policy making and subjective service evaluations: Are they Compatible," *Public Administrative Review*, Vol. 42 no. 2, (1982): pp. 127-135.

1989), and Bangladesh Development Bank Ltd (established in 2010 with the amalgamation of Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sangtha).[37]

3.1.2 Relevant conceptual framework of project financing

Project in relation to specialized banks refers to a scheme which a bank is considering to invest fund in terms of medium term or long term in order to facilitate borrowers production of goods and services or strengthening his financial capacity or value addition to his proposed economic unit.

Project finance refers to mobilization of debt, equity, contingent equity and a variety of limited guarantees for a person, company, partnership or joint venture in building a capital intensive facility and repayment of the loan with interest to lenders is made through the cash inflow from the projects.

Project financing techniques mean an investigation or assessment done by the banks prior to providing any loans & advances/project finance about the technical, commercial, economical, social, financial, market oriented, environmental, legal and risk related viability of the proposed project & measuring the secured the primary & collateral security cover available for recovery of disbursed loan.

Categorizes of project financing delivered by those banks viz. Long term debt or equity financing to industrial plant, procurement of capital machineries and technology, loans to infrastructure sector under PPP programs, advance against hypothecation of vehicles (transport loan), SME loans, consumer loans, house building loan, agricultural loan-farming and off-farming, consortium loan, syndicated loans, lease financing, hire purchase, import financing (LIM).

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[37] Ministry of Finance, *Resumes of Banks-Insurances and Financial Institutions 2012-13*, pp. 171-186.

The Project financing of specialized banks is administrated under a cycle which is presented as below:

Conceptual Framework of Project Financing

Mobilize Fund (Deposits/debt/equity)

↓

Receipt application from project for project financing

↓

Scanning the project through feasibilities appraisal to undertake viable one

↓

Approval of loan considering its associated risks

↓

Agreed with documents and charged documents of the project

↓

Sanction of loan based on its availability of equity fund

↓

Disbursement of loan on the progress of production process

↓

Observation and monitoring the repayment of loan

↓

Classifying the overdue loans and maintain provisions

↓

Written off classified loans to improve the quality of its assets

↓

Extend procedures for recovery of classified loans

↓

Maximize equity fund to refinance for economic growth

3.1.3 Evolution of the concept of project financing

Project Development Trends in Bangladesh

Bangladesh is a territory with full of different indigenous skills & experts and cottage industry activities like other countries of this subcontinent from the British colonialism. Plenty of agricultural production and natural resources were available in this region that would be used as raw material in the industrial sector of British and West Pakistan. But the region faced perennial capital and technology constraints to convert these raw materials into final consumer products. The British colonialism tried to retard the cottage industries, skill and excellence in order to expand the market of their industrial products. During the late 30s of last century, the then India National Congress formed National Planning Committee (NPC) in order to measure the conditions of small and cottage industries in this subcontinent and small industry was treated as a rural cottage industry.

When India subcontinent got rid of the British colonialism in 1947, the region left with only eight textile mills, five sugar mills with production capacity of 35,000 metric tons, one cement mill and few jute processing factories. During the Pakistani rule, East Pakistan Small and Cottage Industries Corporation (EPSCIC) were formed to define a small scale industry, and to investigate problems and actions for solving them. More emphasis was given to establish mills-factories under private ownership after formation of Pakistan in 1947 and there were 3,130 registered factories out of which 791- textile, 576-chemical, & 406 food processing factories in the year 1968-69 and the number of small and cottage industries was more than registered factories.[38] Under an Act in the Parliament in 1957, Bangladesh Small and Cottage Industries Corporation (BSCIC) as successor organization of EPSCIC was established for the development of small and cottage industries.[39]

[38] Didarul Islam, *Industrial Finance and Investment*, (Dhaka: Apex Publishers, 1986), p.39
[39] http://en.wikipedia.org/wiki/Bangladesh_Small_and_Cottage_Industry_Corporation

It is an autonomous corporation under the Ministry of Industries to provide facilities to existing and new entrepreneurs to expand and develop their markets and to stay and sustain in the competitive environment.

> After the independence of Bangladesh, the government found more than 300 medium-and large-scale industrial plants and introduced different industrial policies for strengthening the sector. About 85% of private jute mills, sugar mills, textile mills, and other discard industries were nationalized by Presidential Special Ordinance on March, 1972. The investment limit of the private sector was raised to Tk. 3 crores from Tk. 25 lakhs in 1974 and increased it to Tk. 10 crores in 1975 through encouragement of privatization. The reserve list of public sector was cut down to 8 sectors from 18 sectors and concurrent list was 9 sectors under industrial Policy-1977. Under the Industrial policy-1982, privatization was liberalized more by retaining 6 sectors under the control of the government.[40]

Afterwards, the growth and development of large scale industry were very rapid due to proactive industrial policies and industrial financing provided by BSB and BSRS.As per Factory Act-1965, a factory which absorbs less than labour force mostly arranged for family is known as a cottage industry. On the other hand, the factory that requires an investment not over of Tk. 10 lakhs excluding immovable property is called small industry. The number of cottage industry (excluding handloom industry) and small industry was 3,22,000 units and 24,000 units respectively, and working labor force was 9,16,000 persons and 3,50,000 persons respectively in the year 1980.[41] Under privatization rule, the government released 521 out of 593 industrial units to private ownership. Remaining 72 industrial units are operated by Bangladesh Chemical industries Corporation (BCIC), Bangladesh Sugar and Food Industries Corporation (BSFIC), Bangladesh Steel and Engineering Corporation (BSEC), and other ministry and department viz. Jute and Textile Ministry, Investment Board and Privatization Commission.

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[40] *Ibid,* p.40

[41] Ministry of Planning, Bangladesh Bureau of Statistics, Statistics Year Book-1980.

The number of small industries and cottage industry on June, 2013 is 1,03,685 units and 6,489,851 units respectively. Total employment generation in small and cottage industries is 34.55 lakhs persons while the contribution of large industry and small & cottage industries to GDP is 19.54% and 5.27% respectively and the growth rate of this sector is 6.76%. On the other hand, the number of productive industrial units and export oriented industrial units situated in the BSCIC Industrial area is 4,205 units and 865 units respectively. [42]

Project Financing Growth Trends in Bangladesh

Investment Corporation of Bangladesh established in 1976 in order to collect equity finance from public for industrial development in the country. The government of Bangladesh had signed a deed with four agencies namely-Commonwealth Development Corporation, International Finance Corporation, Doss Jeafalsaft Company (German), and International Promotion Services (Switzerland) and formed Industrial Promotion and Development Company of Bangladesh Ltd in 1981 to expand private capital to set up new productive industries and flow of technical and technological knowledge. In 1983, Saudi-Bangladesh industrial and Agricultural investment Company Limited was established with a joint venture between Bangladesh and Saudi for accelerating industry and agro-based industries. Despite of different initiatives under different industrial policies and financing facilities of nationalized banks as refinancing scheme of Bangladesh Bank, the allocation of resources for small and cottage industry was yet inadequate till 1988.[43] Bangladesh small and Cottage Industries Corporation (BSCIC) and Bangladesh Handloom Board (BHB) were the only two agencies that had taken promotional measures for supporting small and cottage industry. Under Third Fifth Year Plan, two institutions, namely-Banks for Small Industries and Commerce (BASIC) and Micro Industries Development Assistance and Services (MIDAS) had emerged to finance the small scale industries. BASIC Bank was established by the erstwhile BCCI bank in collaboration with Bangladesh and MIDAS is a non-

[42] Ministry of Industry, Annual Report 2012-13, p. 39
[43] Didarul Islam, *Industrial Finance and Investment*, (Dhaka: Apex Publisher’s, 1986), p. 116

government organization financed by USAID. Up to June 1991, MIDAS has extended credit to 96 small enterprises amounting Tk. 188 million, while BASIC bank has extended their financial support to 50 projects amounting Tk. 140 million till June, 1991.[44] After the inception of BSB and BSRS in 1972, they offered institutional finance to small scale industries in the form of industrial loan. Some nationalized commercial banks and private banks launched industrial finance to small and large-scale industrial units in the form of working capital loan and syndicate loan during Fourth Fifth Year Plan. The nationalized commercial banks used to finance small scale industries from two sources- own sources and funds arranged by Bangladesh Government from different international agencies. But different financial institutions had given greater emphasis on the credit requirements of large-scale industries than that of small scale industries. The administrative cost of handling loan for small industry is high and those industries have no significant immovable property that can be used as collateral security and does not follow a specific repayment system due improper accounting and reporting disclosures. The average loan handling cost for small industry was 10.55% of the amount of loan while that is only 6.14% of the credit for the large loan to large industry.[45] After the incorporation of Financial Sector reform programs, large number of private and public commercial banks took initiatives to entertain SME financing under different names and umbrella.

Evolution of the then Bangladesh Shilpa Bank (BSB)

The former Industrial Development Bank of Pakistan (IDBP) and the Equity Participation Fund (EPF) were established before liberation period to work for industrial development of Pakistan. After liberation both were converted into a single institution named Bangladesh Shilpa Bank (BSB). Bangladesh Shilpa Bank came into existence on October 31st, 1972 by the Promulgation of Bangladesh Shilpa Bank order 1972 (president's order no 129 of 1972).

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[44] Salauddin Ahmed Khan and Khaleda Khatun, "Institutional Credit to the Small Scale Industries in Bangladesh: Some Relevant Observations,"*Journal of Business Studies: Dhaka University,* Vol. 15, no. 2 (1994): p. 233.

[45] A. Srinivasan, "A multiproduct cost study of rural branches in Bangladesh," *Graduate School Ohio State University, USA,* 1988. as cited by Salahuddin Ahmed Khan and Khaleda Khatun "Institutional Credit to the Small Scale Industries in Bangladesh: Some Relevant Observations," *Journal of Business Studies: Dhaka University,* Vol. 15, no. 2 (1994): p. 234.

The BSB order, 1972 was amended subsequently by the Parliament to provide more operational autonomy to its management. Authorized and paid up capital of the bank was 50 million taka at its originating time. During the fiscal year 2008-2009, the bank had Tk. 2,000 million as authorized and paid-up capital and 100% percent ownership belonged to the government. The bank was regulated by the Board of Directors consists of nine members, including the Chairman and the Managing Director. The aggregated value of numbers of approved projects, sanction of term loan, disbursement and recovery of loan was Tk.1, 546 million, Tk.10, 275 million, Tk.4, 627 million, and Tk.4, 940 million during the year 1971-1989.

Evolution of the then Bangladesh Shilpa Rin Sangtha (BSRS)

The Bangladesh Shilpa Rin Sangstha came into existence under the Bangladesh Shilpa Rin Sangstha Order, 1972 known as Presidential Order No. 128 of 1972 on 31st October, 1972 by combining the assets and liabilities of three organizations-Pakistan Industrial Credit and Investment Corporation Limited (PICIC), Investment Corporation of Pakistan (lCP), National Investment Trust Limited (NITL) in Bangladesh. BSRS was only restricted for providing term loan and equity finance for industrialization from inception to 1st March, 1985. But while the memorandum of understanding (MoU) was signed between the government of Bangladesh (GoB) and the donor agencies (IDA, ADB, and UNDP), it was extending financial assistances to BMRE projects of its portfolio. Then at 16th March in 1987, Investment Advisory Center of Bangladesh (IACB) merged with BSRS. On December 1986, the government made amendment the Bangladesh Shilpa Rin Sangtha Order, 1972 and allowed BSRS to carry on its activities as a full-fledged development financing institution with resumption of lending to new projects from June, 1995. The authorized capital and paid-up capital of the bank was Tk. 2,000 million and Tk. 700 million respectively during the fiscal year 2008-2009. At the end of FY 2008-09, the cumulative disbursement of term loan stood at Tk. 5,486 million against which cumulative recovery was Tk. 9,887 million.

Evolution of Bangladesh Development Bank Limited (BDBL)

With the decision of the government of Bangladesh (GoB), Bangladesh Development Bank Ltd (BDBL) was incorporated on 16 November, 2009 as a limited company under the Companies Act, 1994 by merger of the former Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangtha (BSRS), two development financial institutions in the public sector. BDBL was obtained certificate of commencement of business on 16 November, 2009. Bangladesh Bank issued banking license to BDBL on November 19, 2009 to carry on business activities. Two vendor agreements were signed between the government of Bangladesh and BDBL on 31 December, 2009 to acquire and takeover all of their (BSB & BSRS) assets, benefits, rights, powers, authorities, liabilities, borrowings, obligations and to carry on with the same business. BDBL formally embarked its journey on January 03, 2010 as a public limited company and extended term loans and financial assistance for setting up industries and inaugurated all kinds of commercial banking services to its customers through branch network all over Bangladesh. The authorized capital and paid-up capital of BDBL was Tk. 1000 crore and Tk. 400 crore respectively and total number of human resource, zonal offices and branch offices at inception period were 757, 4, and 17 respectively. And total loan and advances, written off loan, and classified loan of the bank was Tk. 990.60 crore, Tk. 2387 crore, and Tk. 310 crore respectively on 31 December, 2010.

Evolution of BASIC Bank Ltd

BASIC Bank Limited registered under the Companies Act-1913 on 2nd August, 1988 and started its operation since 21st January, 1989 in order to finance small scale Industries (SSIs). It is operated and governed by the Banking Companies Act-1991. The Bank started its operation as a joint venture enterprise of the BCC Foundation with 70 percent shares and the Government of Bangladesh (GOB) with remaining 30 percent shares. While the BCC Foundation was nonfunctional after the closure of the BCCI and the Government of Bangladesh took over 100 percent ownership of the bank on 4th June 1992. Thus the Bank is 100% state-owned. The bank operates like a private bank and as a blend of development and commercial banks. The Memorandum and Articles of Association of the Bank stipulate that 50 percent of loanable funds shall be invested in small and cottage industry sector. The bank persistently works with local and international agencies like the government, ministry, ADB and internationally reputed local NGOs as a development partner for implementing various projects for developing agribusiness and manufacturing sector. The authorized and paid up capital was Tk. 5,000 million and Tk. 2,946.98 million & total reserve and surplus was Tk. 3,493.60 million on December 31, 2012 and the number of branches counted as 62 on that date.

3.2 Overview of Regulatory Framework of project financing

For strengthening particular sector and achieving a specific set of objectives, specialized banks embarked their operations under the direct supervision of the government within restriction of complying regulations imposed by the regulatory bodies viz. Bangladesh Bank, Ministry of Finance, Ministry of Industry, Directorate of Environment, local authority of Government, or any other organizations. These circulated regulations, policies, rules and standards are implicitly important to abide by and comply with by the banks to attain maximum benefits in business and to maintain a sound financial market for smooth economic growth in the country. The Banking Companies Act, 1991; The Financial Institutions Act, 1993; and Bangladesh Bank Order, 1972 are critically evaluated in relation to their guidelines and compulsory requirements for carrying out project finance to commercial units under legal requirements. Various kinds of circular of Bangladesh Bank are complied with in dealings with project loans under institutional requirements.

3.2.1 Legal requirements

3.2.1.1 The Banking Companies Act, 1991

Section 5 clause m "special bank" means any bank established or formed by or under any Act in force for the time being and includes such banks as the Government may, by notification in the official Gazette, declare special banks for the purpose of this Act.

Section 7(1) clause (a) A banking company may engage any business like lending or advancing of money either upon or without security.

Section 27(1) No banking company- a) shall make any loans or advances on the security of its own shares; b) shall, without security, make any loan or advance to any of the following persons or institutions, or make any loan or advance in cases where those persons or institutions are guarantors- i) any of its directors; ii) any member of the family of any of its directors;

iii) any commercial institution or private company in which the banking company itself, or any of its directors or any member of the family of any of its directors is involved as director, owner or shareholder; iv) any public limited company which is in some way or other controlled by the company itself, or any of its directors or any member of the family of any of its directors, or the shares of which are held by any of the said persons to such an extent as to give it control of no less than twenty per cent of the voting rights.

Section 27(2) No banking company shall give to any of the following persons or institutions any loan or advance without the approval of the majority of the directors, excluding the director concerned,-

a) any of its directors;

b) any person, commercial institution or company in which any of the directors of the said banking company is interested as partner, director or guarantor.

Section 27(3) No banking company shall, without the previous permission in writing of the Bangladesh Bank, give to any person or institution, directly or indirectly, any benefit the aggregate value of which exceeds-

a) 15 per cent of the total capital of the said banking company;

b) 25 per cent of the total capital of the said banking company where the security of the said benefits has been provided by such financial securities as might be easily put on the market for sale.

3.2.1.2 The Financial Institutions Act, 1993

Section 2 clause b "financial institution" means such non-banking financial institutions, which-

i) Make loans and advances for industries, commerce, agriculture or building construction; or

ii) Carry out the business of underwriting, receiving, investing and reinvesting shares, stocks, bonds, debentures issued by the Government or any statutory organization or stocks or securities or other marketable securities;

iii) Carry out installment transactions, including the lease of machinery and equipments; or

iv) Finance venture capital;

Section 14 No financial institution shall-

a) Accept any such deposit as is repayable on demand through cheque, draft or order of the depositor;

b) Deal in gold or any foreign coins;

c) Grant credit facilities in excess of thirty per cent or, subject to the consent of the Bangladesh Bank, of hundred per cent of its capital to any particular person, firm, corporation or company or any such company, person or group as controls or exerts influence on such person, firm, corporation or company;

d) Grant credits in excess of 50 percent of its credit facilities or in excess of such percentage of its credit facilities as the Bangladesh Bank may determine from time to time;

e) Grant any unsecured advance, credit or credit facilities to any firm in which any of its directors, individually or jointly, is interested directors unless the total amount of such facilities does not exceed 10 per cent of its paid-up share capital and reserves;

f) Grant, in the manner mentioned in clause e), advances, credits or credit facilities in excess of Taka 5,00,000 to any person or group of persons other than those stated in the said clause.

(2) "Unsecured advance", "unsecured credit" or "unsecured credit facilities" as mentioned in sub-section (1) (e) mean any advance, credit or credit facilities granted without security or surety, and shall include, in the case of advances, credits or credit facilities granted against securities or sureties, that part of the credit which exceeds the market value of the securities or sureties and, in the case that, in the opinion of the Bangladesh Bank, securities or sureties have no market value, the amount settled by the said Bank.

(3) No financial institution shall grant any advance or credit, allowing its own shares as securities or grant credits or advances to any other institution for the purpose of buying and selling its own shares.

Section 35 If any financial institution grants credit facilities in contravention of the provisions of section 14, it shall be punishable with a fine which may extend to two million Taka.

3.2.1.3 Bangladesh Bank Order, 1972

Section 7A clause (f), Bangladesh Bank will regulate and supervise banking companies and financial institutions as its main function.

Section 16(2) sub. Clause (f), Bangladesh Bank will purchase, sale and rediscount of bills of exchange and promissory notes drawn on and payable in Bangladesh of a schedule bank or financial institution for making of loans and advances to agricultural or industrial sector having maturities not exceeding ten years from the date of such purchase or rediscount.

Sec.62(2) clause (a) Bangladesh Bank will make Industrial Credit Fund for disbursing medium-term and long-term loans and advances to banks and financial institutions for a period, not exceeding five years with a view to strengthening their capacity in industrial credit.

3.2.2 Institutional requirements

3.2.2.1 Bangladesh Bank

3.2.2.1.1 Policy on the definition of SME sector

The following definition regarding SME is pertained that is commensurate with the Industrial policy-2010 to follow widely by banks and financial institutions:[46]

For Medium Industry/Enterprises

Particulars	Manufacturing concerned	Service concerned	Trading concerned
Value of Fixed assets excluding land and factory building	Tk. 10-30 crores	Tk.1-15 crores	Tk.1-15 crores
Working force	100-250 persons	50-100 persons	50-100 persons

For Small Industry/Enterprises

Particulars	Manufacturing concerned	Service concerned	Trading concerned
Value of Fixed assets excluding land and factory building	Tk. 0.5-10 crores	Tk.0.5-1 crore	Tk.0.5-1 crore
Working force	25-99 persons	10-25 persons	10-25 persons

[46] Bangladesh Bank, "*Policy on the Definition of SME Sector,*" SME and Special Programmes Department, Circular no. 01, June 19, 2011.

3.2.2.1.2 Prudential Regulations for Consumer and Small Enterprises Financing

The following documents contain the Developmental Guidelines which banks are directed to follow in order to establish an efficient business unit and manage its inherent risks successfully.[47]

Organizational set-up for Consumer and Small Enterprises Financing

a. A separate Department for Consumer loan with delegation of power among experienced staffs for risk management,
b. Originating Consumer credit policy duly approved by the Board of Directors,
c. Product wise specification and exposure of bank,
d. Introducing MIS cell for information storing about delinquent customers and reporting,
e. Adoption of Strong recovery cell for delinquent borrowers,
f. Flow of on-job and in-job training for related personnels,
g. Ensure legal documentations for suit in case of default,

Feasibility assessment

a) Identification of repayment source of borrower and collect report from CIB on credit worthiness,
b) Obtain liability of borrower to other banks and measure his capacity to repay the loan,
c) Design internal audit and control system to assess the steps to recovery loans and policy compliance,
d) Modern accounting software is to be developed to measure the interest income, fee income, penalties for deferred payment of installment and classified loans.

A. Consumer Financing

Financing allowed to individuals in the form of auto loan, housing finance, loan for household durables or personal loans for meeting their personal, family or household needs is known as consumer financing. Any Bangladeshi individual who works as government officials, high officials in private organizations or NGOs, taxpaying businessmen or self employed persons are entertained by the scheme.

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[47] Bangladesh Bank, *"Prudential regulation for Consumer and Small Enterprises Financing,"* Banking Regulation & Policy Department, Circular No. 07, November 03, 2004.

1. General regulations

a) These loans are placed to own directors or staffs on the basis of some mark up approved by the Board of Directors and prevailing market rate of interest is charged upon other customers.

b) Limit of exposure on consumer loan is determined on the basis of equity capital and upon the amount of classified loan on that exposure.

c) Loan remains overdue for a period of 3 months is treated as special Mention, sub-standard for 6 months requires provision of 20%, doubtful for 9 months requires provision of 50%, and bad/loss for 12 months requires provision 100%.

d) Maintain a general reserve at least equivalent to 3% of their consumer finance portfolio to protect them from the risks associated with economic cyclical nature of this business.

2. Regulation for auto loans

The vehicle to be used for personal transportation is covered under consumer financing. The loan is allowed for maximum five years up to Tk. 50 lakhs after assessing the value of the vehicle by auto dealer maintaining 10% of the value of vehicle as down payment secured by hypothecation of the unit. After applying for this loan, the borrower pays down value to the vendor. The bank can approve the loan on in-depth assessing the feasibility and issue a facility letter to the vendor so that he can be registered the vehicle with a lien mark. Then the vendor will receive the value through Pay Order from the bank. A prescribed repayment schedule is served to the borrower, subject to alteration due to irregular repayment or prepayment of the loan. While the individual became default in repaying the loan, the bank can take repossession of the vehicle after throwing at least 15 days notice to the borrower.

3. Regulation for housing finance

The loan is allowed by banks for maximum Tk. 75 lakh for a period not exceeding twenty years, maintaining 20% of the value as a down payment by mortgaging the house in favour of the bank through a registered mortgage with registered Power of Attorney. The exposure for house financing will not exceed 10% of their net consumer advances and the value of the house is measured by expert engineer with the help of local authority e.g. city corporation.

4. Regulation for personal loans/consumer durables

These kinds of loan are allowed to individuals for the amount of Tk. 3 -10 lakhs depending on the home take salary of the individuals without security for 5 years to purchase home appliance by hypothecation the same with the bank. The loan is offered by the bank to borrower for purchasing Television, Refrigerator, Air Conditioner, Washing Machine, Computers, other household furniture etc.

Processing of Consumer financing

1. Pre-approval investigation

Whenever a potential borrower seeks to avail a loan under consumer financing scheme from a bank, the person should send an application to the bank showing all kinds of particulars with duly signed by him. Sales division or branch officials will scrutinize the application, whether it represents the requisite regulations of the concerned loan. In the stage, the bank assesses the customer's character for integrity & capacity to repay the loan on due date and measures risks in relation to the loan through qualitative judgment. After properly scrutinizing, they report the matter to the credit division of considering as loan approval.

2. Credit approval

After receiving the application from sales or branch, credit division thoroughly assesses the same in accordance with the credit policy of the bank and measures associated risks for the loan. Then the loan is approved by the credit division or top authority of the bank in commensurate with delegation of power of authority.

3. Documentations

While the loan is approved by the credit division, the application with approval letter needs to send to the credit administration division for complying with proper documentations. Approved application form, D.P note, Letter of Introduction, Letter of Undertaking, Letter of Guarantee, Letter of Hypothecation, Bank statement, CIB report, Blank Post dated cheques are required for personal loans/ loans for consumer durables. For auto loan and House financing, the necessary documents are Letter of Continuation, TIN Certificate, Irrecoverable Letter of Authority, Letter of Lien, Irrevocable Letter of Authority to sell Hypothecated Property, Letter of Authorization for Encashment of Securities, Personal Net-Worth

Statement of the borrower and Guarantor, Clearance Certificate from verification agent, and Price quotation for the item to be purchased in addition to the documents stated above.

4. Disbursement, monitoring and recovery process

Loan Administration division will disburse the loan under loan facilities only when all security documentations are in place and received documents should be preserved in branch or credit division fire proof locked storage. Credit division is responsible to measure the risk of the loan by their separate investigation team. Loan collection and recovery division will ensure timely monitoring and follow up of loan repayment. They critically assess overdue reports and identify where facilities are being over disbursed and where installments are being overdue and give suggestions for remedial actions to be taken for preventing losses. In that case, they advise the branch manager to send reminder letters to borrowers while they fail to regularize the installments by repeated requests through telephone. While the process does not see the light, the bank finally starts legal proceeding against the borrowers after maintaining proper classification and provisioning.

B. Small Enterprises Financing

Small Enterprise means an entity other than a public limited company employing less than 60 persons (in a manufacturing concern), 20 persons (in a trading concern), and 30 persons (in a service concern) with total assets at cost excluding land and building Tk. 0.50-100 lakhs (in a manufacturing concern), Tk 0.50-50 lakhs (in a trading concern), and Tk 0.50-30 lakhs (in a service concern).

1. General regulation

(a) Repayment capacity assessment

The bank was established with the objectives to provide financing to small enterprises should recruit an adequate number of experienced and competent staffs having expertness in the area of marketing, finance and economics to critically assess the future income source and capacity of the borrowers to repay the loan duly that will apparent from the financial statement of the borrowers and with the report from CIB.

(b) Thoroughly assessment of Borrowers' financial statements

Financial statements of the borrowers such as Balance Sheet, Income Statement, and Cash flow statement need to be audited by a Chartered Accountant where bank's exposure exceeds Tk. 40 lakhs. If the enterprise is not large enough to have proper books of accounts, the bank should assist in preparing financial statement in compliance with IFRS for SMEs (2009) for receiving necessary information about the viability of the project.

(c) Personal Guarantees

The financing facility to small enterprises will be backed by the spouse's guarantees of the owners of the enterprises.

(d) Exposure Limit

The exposure limit to single enterprises is Tk.2-Tk.50 lakhs for procurement of plant & machinery, technology, building or other fixed assets (up to 90% of the value of assets).

(e) Exposure to Small enterprises

The exposure of a bank to small enterprises is based on the classified loan to small enterprises. While the classified loan to SEs is 5 %, the total exposure is 10 times of equity, 6 times for 10%, 4 times for 15%, and 1 times for 15% or above.

(f) Security

For loan amounting Tk. 2 lakhs to Tk. 5 lakhs, the concerned bank will wholly decide about the security backed. For loan amounting Tk. 5 lakhs to Tk. 50 lakhs, hypothecation on tangible property, registered mortgage over immovable property, personal guarantee of spouse, one third party guarantee, and post dated cheques for each installment and one undated cheques for full loan value including full interest is required for ensuring safety of the loan.

(f) Maintain and Collection of provision

The bank should maintain a general provision of 5% of SE loans outstanding in the books. While realization of cash from classified borrower has collected more than net book value of the loans in case of loss loan, 50% of the net book value in case of doubtful loan and 25% of the net book value of the loans in case of sub-standard.

Processing of small enterprise financing
1. Pre-approval investigation

Sales or marketing division is the indivisible performing sale of project loan to small enterprises on a target basis as instructed by credit head with a view to utilize the loanable fund of the bank. In order to earn target sales, the team is intensely knocking at the door of a potential borrower through opening a current account, Contract Point Verification (CPV), and Know Your Customer (KYC). In the meantime, they persistently observe transaction performance of the borrower, analyze financial and market demand of the enterprise by applying their prudential knowledge for allowing BMRE loan. Since branch is introducer of a borrower to the bank, those staffs are responsible to ensure the accuracy of loan application, measure where the loan will be used by the borrower, and can assess risks of the loan. In case of a new borrower, projected market demand & economic feasibility and future cash flow are measured on the basis of market survey about the industry on which the firm is deemed to operate. While the team is fully convinced about the viability of the project, they check necessary papers enclosed with the application and forward it to the credit division with their remarks.

2. Credit approval

Credit division of a bank will assess application form received from the sales division by developing a comprehensive set known as the Loan Preview Status (LPS) which contains nature and status of enterprises, entrepreneurs, and collateral security; financial statements; profitability trends; list of required documents for the loan. A rigorous assessment will be carried out by eminent personnel under supervision of that division in order to measure the capacity of the enterprises to repay the loan, validity of collateral security, and risks associated with the loan with active care. Credit approval is performed supremely by credit division subject to delegation of approving authority to the branch manager or regional manager or upwards. Approval of credit must be circulated in writing and be kept on file with the Credit Application. While any loan does not comply with the credit policy of the bank, the proposal should be forwarded to the Managing Director or Board of Directors for approval.

3. Documentations

The required documentations for disbursement of SEs finance are broadly discussed in Chapter 4 under 4.4 (a) paragraph. These kinds of documentation and nature & extent may vary from bank to bank due to their convenience and satisfaction about the viability of entrepreneurs subject to circular amendment of regulatory bodies or authorities or amount of loan limit thereon.

4. Disbursement, monitoring and recovery process

After approving the loan by appropriate authority, cash is to be released to borrower accounts up to approved/sanctioned value on the basis of proper utilization of fund by the borrower. In most of the cases, the entrepreneurs could not be able to arrange their required equity fund from personal sources which discourage the bank to release further installment of loan for avoiding immediate stagnant of the debt capital. Internal control or audit division can perform the assessment of policy compliance and look after repayment pattern of the loan and prepare reports about the performance of the loan and submit it to respective departments for taking their remedial action thereon. Whenever any kind of misleads arises or overdue of any installment is apparent in the loan, credit administrative department starts follow up the loan through telephone calls to the borrower to make regular repayment of the loan. If this kind of follow up does not carry out any kind of significant value in repaying the loan, the branch manager issue first, second, and finally third reminder letter as final notice to the borrower to repay the dues. In that case, the bank should classify the loan under different heads as per the extent of overdue and make necessary provision to comply with the regulations of Bangladesh Bank. At last, the bank liquidates the collateral security to realize the loan with interest by forced sale of the mortgage assets or take repossession upon the assets and filed a suit in the district court for clearance the dealings with the borrower.

5. Relevant circulars on consumer financing and small enterprise financing

(a) Loan- Margin Ratio:[48] Loan-margin ratio for all kinds of consumer loan, including car loan is fixed as 50:50.

(b) General Provision for Consumer financing:[49] As per BRPD circular no. 01 of Bangladesh Bank, dated February 08, the issue has been reviewed further and banks and financial institutions are instructed to reduce the rate of General Provision from 5% to 2%

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[48] Bangladesh Bank, *"Loan-Margin,"* Banking Regulation & Policy Department, Circular No. 34, December 29, 2010.

[49] Bangladesh Bank, *"Prudential Guidelines for Consumer Financing and Small Enterprise Financing,"* Banking Regulation & Policy Department, Circular No. 01, February 08, 2006.

on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.

(c) Extending loan to SME sector:[50]

Banks and financial institutions are advised to avail the help of NGOs to reduce supervision cost of SME loan in selection, distribution and recovery of loans. The mid-term loan to medium enterprises is extended from 3 years to 4 years & the loan will be collected by 7 half yearly installments after allowing 6 months as a grace period for 4 years in case of the refinanced loan.

(d) Definition of default Borrower:[51]

As per BRPD circular no. 11 of Bangladesh Bank, dated July 19, 2012; If any loan or part of it or accrued interest thereon to any person/organization of his/its own or related concern remains "Overdue" for more than 06 (six) months, the borrower availing of such loan facility will be treated as Defaulted Borrower as per Section 5 (GaGa) of the Banking Companies Act, 1991.

(e) Loan Classification and Provisioning:[52]

Loans except Short-term Agricultural & Micro-Credit in the "Special Mention Account" and “Sub-Standard” will not be treated as defaulted loan for the purpose of section 27KaKa (3) [read with section 5 (GaGa)] of the Banking Companies Act, 1991. However, Fixed Term Loans amounting up to Tk. 10.00 Lakhs in the “Sub-Standard” category will also be treated as defaulted loan for the same purpose.”

(1) In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting up to Tk. 10.00 Lakh is not repaid within the due date, the amount of unpaid installment(s) will be termed as ‘past due or overdue installment’. In case of such types of Fixed Term Loans: If the amount of past due installment is equal to or more than the amount of installment(s) due within 06 (six) months, the entire loan will be classified as Sub-standard; Doubtful for period within 09 (nine) months; Bad/Loss for a period 12 (twelve) months.

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[50] Bangladesh Bank*, “Extending Loan to SME Sectors*,” Agriculture Credit and Financial Inclusion Department, Circular No. 02, May 26, 2008.

[51] Bangladesh Bank*, “Definition of Default Borrower,”* Banking Regulation & Policy Department, Circular No. 11, July 19, 2012.

[52] Bangladesh Bank*, “Loan Classification and Provisioning,”* Banking Regulation & Policy Department, Circular No. 19, December 27, 2012.

(2) In case of any installment(s) or part of installment(s) of a Fixed Term Loan amounting more than Tk. 10.00 Lakhs is not repaid within the due date, the amount of unpaid installment(s) will be termed as 'past due or overdue installment'. In case of such types of Fixed Term Loans: If the amount of past due installment is equal to or more than the amount of installment(s) due within 03 (three) months, the entire loan will be classified as Sub-standard; Doubtful for a period within 06 (six) month; Bad/Loss for a period within 09 (nine) months.

(f) Policy for Rescheduling of Banks:

In order to avoid repeated loan rescheduling of defaulted borrowers, the following guidelines are supported by Bangladesh bank for compliance by banks.[53]

Guidelines for Loan Rescheduling Applications:

a. The bank shall examine the nature of the borrower who is liable for the loan being non-performing. If it is found that the borrower has diverted the funds elsewhere or he is a habitual loan defaulter the bank shall not consider the application for loan rescheduling instead of taking all legal steps for recovery of the loan.
b. The bank must assess the borrower's overall repayment capacity taking into account the borrower's liability position with other banks.
c. The bank will review the borrower's cash flow statement, audited balance sheet, income statement and other financial statements in order to assess his repayment capacity. Bank officers should examine the borrower's company/business by spot inspection to know the capacity in generating surplus to repay the rescheduled liability.

Other Terms and Conditions of Rescheduling:

The Borrowers whose credit facilities have been rescheduled will get new loan facility subject to fulfillment of the following conditions:[54]

a. The defaulting borrower who has availed interest waiver must settle at least 15% of the compromise amount (excluding the down payment on rescheduling as per present guidelines) to avail any further credit facility from any Bank.

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[53] Bangladesh Bank, *"Policy for Rescheduling of Banks,"* Banking Regulation & Policy Department, Circular No. 01, January 13, 2003.

[54] Bangladesh Bank, *"Terms and Conditions of Rescheduling,"* Banking Regulation & Policy Department, Circular No. 02, February 14, 2006 and Circular 03, March 19, 2006

b. In case of borrowing from other Banks, the same rule will be applicable to take regular facility from other Banks subject to submission of NOC (No Objection Certificate) from the rescheduling bank.
c. Export borrowers may be granted further credit facility, subject to settle at least 7.5% of the compromise amount being paid.
d. If any such issue is already there (such fresh facility has already been allowed after allowing waiver), the same will not fall under purview of this circular.
e. Information on the loan accounts rescheduled shall be reported to the Credit Information Bureau (CIB) of Bangladesh Bank through showing as RS 1 for first rescheduling, RS 2 for second and RSIW for interest waivers.

Rescheduling Guidelines of Term Loan: Bangladesh Bank instructed that up to 15% of overdue installment or 10% of total arrear-which is lower, first rescheduling is considered after repaying such amount as cash; Up to 30% of overdue installment or 20% of total arrear-which is lower, second rescheduling is considered after repaying such amount as cash; and Up to 50% of overdue installment or 30% of total arrear-which is lower, third rescheduling is considered after repaying such amount as cash.[55]

Loan classification after rescheduling: If the loan is rescheduled after the expiry date, the following time-limit will be applied from the date of rescheduling:

Frequency	Classified as Substandard	Classified as Doubtful	Classified as Bad/Loss
First Rescheduling	Max. 36 months	Max. 24 months	Max. 24 months
Second Rescheduling	Max. 24 months	Max. 18 months	Max. 18 months
Third Rescheduling	Max. 12 months	Max. 12 months	Max. 12 months

(g) Lending Rate for project finance: Bangladesh Bank fixed up that the lending rate for project loan (agriculture/industrial term loan) was fixed @ Maximum 13% per annum. [56]

(h) Interest Calculation for Project loan:

Bangladesh Bank instructed that the interest on fixed term loan will be calculated on quarterly basis and on the date of final repayment. The formula of interest calculation is

[55] Bangladesh Bank, *"Rescheduling Guidelines of Term Loan,"* Financial Inclusion Department, Circular No. 02, March 05, 2007.
[56] Bangladesh Bank, *"Lending Rate for Project Finance,"* Banking Regulation & Policy Department, Circular No. 03, March 09, 2011.

suggested as (Due principal plus accumulated interest ×Annual rate ×Accumulated days from preceding calculation) ÷ 360 Days.[57]

(i) Policy on Single Borrower Exposure: Bangladesh Bank issued so far and incorporating some amendments to the previous circular for improving credit risk management of banks.[58]

1. The highest limit of single borrower exposure is 35% of the bank’s total capital (Tier I and Tier II Capital) at any point of time where funded credit facilities is maximum 15% and combined funded and non-funded facilities is maximum 35%. But, in case of export sector single borrower exposure limit is 50% of the bank's total capital.
2. (a) Loan sanctioned to any individual or enterprise or any organization of a group amounting to 10% or more of a bank's total capital shall be considered as large loan.

   (b) The bank will sanction large loans against its total loans and advances as per its respective classified loans. The highest rate for a large loan against its total loans & advances is 56% for 5% of net classified loans, 52% for 10%, 48% for 15%, 44% for 20% and 40% for 20% respectively.
3. (a) Banks should collect the large loan information on their borrowers from Credit Information Bureau (CIB) of Bangladesh Bank before sanctioning, renewing or rescheduling large loans.

   (b) Banks must perform Lending Risk Analysis (LRA) before sanctioning or renewing large loans. If the rating of an LRA turns out to be "marginal", a bank shall not sanction large loan, but it can consider renewal of an existing large loan taking into account other favorable, conditions and factors. However, if the result of an LRA is unsatisfactory, neither sanction nor renewal of large loans can be considered.

   (c) While sanctioning or renewing of large loans, a bank should judge its borrowers overall debt repayment capacity taking into consideration the borrower's liabilities with other banks and financial institutions.

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[57] Bangladesh Bank, *“Interest Calculation on Project Loan,”* Banking Regulation & Policy Department, Circular No. 27, August 31, 2010.

[58] Bangladesh Bank, *“Policy on Single Borrower Exposure,”* Banking Regulation & Policy Department, Circular No. 05, April 09, 2005.

(d) A bank shall examine borrower's Cash Flow Statement, Audited Balance Sheet, Income Statement and other financial statements to make sure that its borrower has the ability to repay the loan.

(e) Sanctioning, renewing or rescheduling of large loans should be approved by the Board of Directors.

4. Banks shall submit the monthly statement of large loan in the specified format (Form-L) to the Department of Off-site Supervision of Bangladesh Bank within 10 days after the end of the respective month.

3.2.2.2 SME Foundation in Bangladesh

Small and Medium Enterprise Foundation (SMEF) is a limited company licensed by Ministry of Industry as non-profit organization and registered under Company Act (Act-XXVIII) of 1994. The Government approved SME Foundation by accepting Memorandum and Articles of Association. It embarked operation in 2007 for accelerating the functions of SME sectors on special focus on women entrepreneurs and rural entrepreneurs who has limited access to institutional finance. The main objectives of the organization are to implement SME strategy for economic growth of the country, provide credit wholesaling with an endowment fund of Tk. 200 crores at a 9% rate of interest, facilitate training programs for entrepreneurs to enrich technical expertness, marketing products of SME sectors through product fair, provide SME advisory services, establishment of cluster based industrial park, creation of more employment in rural area through sector development to retard migration to abroad.

CHAPTER FOUR

PROJECT APPRAISAL TECHNIQUES AND FINANCING PROCEDURES

4.1 Pre-Project Financing Management

Since the loanable fund of a bank is a cost bearing component, the bank should invest the fund to various short-term, mid-term or long-term projects for earning a handsome interest spread or to abide by the directives of Bangladesh Bank or the Government of Bangladesh. For attaining such objectives, specialized banks give their emphasis to search economic or socially viable projects for investment. Basically, an appraisal of a project proposal starts with collecting relevant information about the potential borrowers to avoid future uncontrollable overdue loans. Under pre-project financing management, the following procedures are being followed by a specialized bank:

4.1.1 Gathering in-depth idea about the borrower

At a very early stage, a specialized bank assigns specially its branch executives in gathering information about a potential borrower who seeks a project loan from the bank. They must confidentially focus on gathering adequate and authentic information about borrower's character, capacity, capital, collateral, and condition from different available sources. The collected elaborate information is required to scrutiny, review, and verify and put into a precise credit report for making decision on a loan proposal. The department of Management Information System (MIS) deals with storing and supplying borrowers related information to facilitate the management of Loan Department (LD) and the bank as a whole. After collecting the required information they primarily adjudge about their future lending to the borrower. Various sources of collecting information about a borrower are as follows:

a. **Personal Interview**: Through personal interview with the proprietor or partners or directors or proposed guarantor or principal officials of the enterprise, significant information about the background and expected profitability of business, nature of the business and competitors are derived.

b. **Investigation of financial statements:** Published or unpublished financial statements such as Trading and Profit & Loss account, Balance Sheet and Cash & Fund flow statements can play a pivotal role to provide financial information to the bank for its lending decision.

c. **Bank's own records**: In case of an existing borrower, bank's own records about the loan performance are an authentic source of information. The amount of repayment installment, status of installment and utilization of loan limit, etc. are the significant phenomenon on the capacity of a borrower.

d. **Credit Information Bureau (CIB)**: The Credit Information Bureau (CIB) of Bangladesh Bank is responsible among others for collection, processing and maintaining an updated database of credit related information supplied by participants, institutions which extend credit.[59] The CIB was set up on 18 August 1992 at the Bangladesh Bank. It is a documentary archive maintained by Bangladesh Bank about an individual's repayment capacity of a liability within due time. A schedule bank as an authorized user can connect with the server of CIB in online and rapidly collects a borrower's liability repayment status to banks. CIB report is being made mandatory for an individual who seeks loan more than one lakh taka.

e. **Credit Rating Agencies**: In Bangladesh a large number of credit rating agencies are involved in providing grading services through proper market survey and financial analysis for large scale corporate business that will be helpful for a specialized bank in sorting viable projects for financing.

f. **From other banks:** While a specialized bank deals with a new borrower, necessary enquiries with local banks that have a significant experience about him should be made to generate an idea about the credit worthiness of the borrower and to avoid over financing.

g. **Tax assessment order:** Income tax assessment orders, agricultural income tax assessment orders, and house-hold property tax orders give a clear picture about borrower's net income, cash flow and, nature, value, position & income from immovable property. The assessment made by the income tax office shall indicate the loopholes of financial position of the borrowers.

h. **Sales tax assessment orders:** Sales tax assessment orders will clearly show turnover of the business and produce significant profit & loss account of the business.

i. **Municipal property registers:** It will give an idea of building located within the municipality, rental values and house tax payable, and the said registers are open for reference to all persons.

j. **Market sources:** Intensive touch with the market will help to have first hand information about the market share of a particular business in the industry.

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[59] Bangladesh Bank, *"Credit Information Bureau: Policies and guidelines for CIB Online Services,"* April- 2011, p. 3.

4.1.2 Receipt of project profile from the Borrower

While a potential entrepreneur or group of promoters is knocking at the door of a specialized bank or a bank itself persuades to provide loan facility, the borrower becomes a customer through opening a bank account and requires submitting a rough project profile to the bank. The profile will represent brief information about upcoming project based on projected data for bank to make their preliminary idea on the project at branch level. The following information are incorporated in this profile: (a) Nature of the project (b) Name of the entrepreneurs or promoters with educational background and working experiences (c) Detailed statement of entrepreneurs' assets and liabilities (d) Availability of equity fund/cash balance in bank (e) Availability of project inputs like raw material, labour, utilities (f) Availability of machinery, equipment, and technology including spare parts and technical expert (g) Adequacy of infrastructure facilities (h) Market and sales projection and sales budget for few years (i) Location of the project and mortgage property. (j) Management capabilities. The entrepreneurs will submit the profile to the branch for making their necessary actions.

4.1.3 Preliminary appraisal of the project and assessment of management strength

After receipt of a rough project profile from the borrower, the branch manager analyzes the proposal by arranging a meeting with branch executives about the viability of the project on the feasibilities, background of entrepreneurs and their capabilities, and collateral security. A satisfactory branch must have sufficient number of executives having significant knowledge in the aspects of economics, marketing, civil engineering and financial analysis to make sound decisions in appraising a project. In this regard, availability of lonable funds to the branch for financing, circulated or oral instructions and lending policy & procedures from head office/regional office and Bangladesh Bank, idea generation about the entrepreneurs from sites or other institutions, and position & value of the tentative collateral security is primarily collected by the branch manager. On the other hand, manager should assess the branch capacity to handle the loan through adequate, competent executives on disbursement, monitoring and review of loan. If the branch has derived positive idea about the project, they should be forwarded the profile to upper level authority like regional office, credit division, and credit committee for analyzing risk factors and chief executive officer for their consideration and acknowledgement (where necessary).

4.1.4 Approval for allowing loan application form to the borrower

While the branch manager is satisfactorily convinced about tentative viability of the project or received green signal from top authority on proposed financing, an application form is delivered to the entrepreneur at a cost of 0.125% of loan amount.[60] The application form must be filled up; signed and supporting papers are enclosed thereon by entrepreneurs. The application form contains detailed proposed information folders of the project like cost of the project, land and construction works, corporate and management set up, assets and liability positions of promoters, cash deposit into bank as equity, fixed assets and working capital of the unit, production capacity, income statement, detailed explanation of mortgage property and information of personal guarantee, etc. The application form with personal declaration will be submitted by the entrepreneur to the concerned branch for their necessary actions.

4.2 Determinants of worthiness of projects

After submitting an application form to the branch, the entrepreneurs give their focus on determinants of project worthiness. In this regard, they should assess feasibility, profitability, sustainability of the project in future. In assessing feasibility of a project, the aspects regarding commercial, marketing, technical, financial, economic, environmental, socio-cultural, entrepreneurial, legal, and political will be taken into consideration. Equity fund and availability of personal fund, procurement of land and construction works, procurement of machinery and technology are required to evaluate critically by the entrepreneurs. Budgeted earnings from the project over economic life that will be used as a fund for repaying the bank's loan are estimated carefully. When entrepreneurs are fully satisfied about project worthiness, project appraisal report is to be submitted to bank.

4.2.1 Submission of final project profile by the borrower

The entrepreneur should submit a final project profile of the bank after determining project worthiness on the feasibility aspects of a project. The bank will take final profile and advances their decision based on a report. The entrepreneur may avail several kinds of misappropriation or fraudulent steps and extravagant desires in preparing profile and bank should measure its accuracy from reality with conservatism. Since most of assessment of entrepreneurs fails to present the prescription of the bank, it leads a bank to conduct a feasibility assessment.

[60] Bangladesh Development Bank Limited, *"Lending Policy and Procedures,"* (December, 2010).

4.2.2 Nature of project feasibility studies

While entrepreneurs present their feasibility assessment to the bank in order to avail financing facility, bank takes their own initiatives to make a proper assessment for avoiding future default of the loan. In this stage, the following aspects are critically appraised by competent management executives of bank to make sound lending.

4.2.2.1 Commercial feasibility

When a project is designed to produce a special or an existing line of goods or to render services to a particular geographical territory or across the border, a bank tends to finance, it needs to appraise under availability and accessibility of all kinds of raw materials & inputs and sale proceeds based on market demand. Commercial profits measure the difference between the value of earnings and costs in a certain period.[61] Pre-assessment on project about future smooth operation and profitability is deemed as commercial feasibility. Feasibility assessment is considered as most crucial for a commercial concern because the main objective of a business is to maximize current profit and ensure future profitability. The following points should be considered in this regard for selecting a viable project:

1) **Availability of raw material and all production inputs:** Quality of outputs predominantly depends on availability of quality raw materials, technology and preserving capacity of the packaging. Production engineer must be confirmed about sources of materials to attain predetermined standard quality of outputs. Procurement of materials needs to do through Economic Order Quantity (EOQ) in order to minimize material ordering and carrying costs and usages of BIN card and Store Ledger ensure proper material management and avoid subsequent misappropriations. After receiving material order, quality controller should inspect the same and makes necessary arrangement in case of sub-standard supply. Material can be procured from local market or a foreign country, and quality of such materials & processed products require evaluating in a laboratory maintaining standard approved by Bangladesh Standard Testing Institution (BSTI). The other input of production signifies timely supply of required labour force at reasonable cost and adequate supply of power, utility and spares to ensure growth of production.

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[61] United Nations Industrial Development Organization*, "Guidelines for Project Evaluation,"* (United Nations, 1972), P.22.

2) **Identification of users and market:** The usual defense of commercial profit maximization as a criterion is based on the implicit assumption of "perfect competition"**.**[62] Whenever a project is contemplating to run production it must determine potential customers for its goods. Market customers may be classified into different groups according to their age, sex, religion, territory, perception, attitude, needs, etc. At first, market analyst should give emphasis upon market segments and group of customers who are potential buyers of the products. Then their interest, needs, income, value, status and attitude about the product needs to be analyzed. Products made by a project may be final consumer goods or intermediary goods or industrial goods that will be used as raw material for further production. The size, weight, quality, packing and durability depend on the price of the product that a buyer will ready to pay.

3) **Sales and profit budget:** The management of a project must be confirmed about earnings from the project over the projected life to determine whether it is logical to undertake in order to achieve objectives. As a result, financial earnings of a project may be classified and analyzed through master budget, which includes a sales budget, cost of production budget, earning profit (after tax) budget, and cash budget. In sales budget, all sales either cash or credit is incorporated to measure sales revenue from the project over the project life. All kinds of costs like manufacturing cost, factory overheads, administrative overheads, selling & distribution expenses and the value of inventory are calculated to determine the cost of production. In earning profit budget, gross margin, non-operating income and non-operating expenses, including financial cost are demonstrated to take decision about the profitability of the project. The cash budget for cash inflow and cash outflow of the project critically represents liquidity position and finds out how much loan is required over a certain period of time for smooth running the project.

4) **Price fixation for goods:** The price charged for goods produced by a project is determined by considering the factors like survival in the market, maximizing current profit and market share, ensuring leadership in quality, facing competition, and attraction of customers for the long run. When a project incorporates a new product, pricing strategy for that product is made by two ways, namely market-skimming pricing

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[62] *Ibid*, p. 25.

and market-penetration pricing.[63] On the earlier pricing, a product is thrown in monopoly market with high price to high valued customers for covering quick amortization of fixed expenses and the later pricing is followed to penetrate a product into perfect competitive market by charging low profit margin to attract existing customers with parallel quality of other competitors. The price fixation of a product takes consideration of production cost, the competitor's price and profit margin for covering financial cost and maximizing shareholders' wealth. The general approaches used for pricing a product are: i) Markup pricing = per unit cost of production + target profit on sales, ii) Target returns pricing = per unit cost of production + target profit on investment, iii) Perceived value pricing = Price depends on the reputation or goodwill of the company, iv) Going rate pricing = Uniform price with competitors.[64]

4.2.2.2 Marketing feasibility

Marketing is about satisfying customers' needs profitably.[65] It refers to all functions associated with buying and selling of goods and services to users such as procurement of raw material, financing, risk distribution, packaging, and storage. In marketing feasibility four P's (product, price, place and promotion) are considered. A new project tends to deal with some special goods or services to satisfy the present demand gap in the market or to fulfill estimated demand of future specific customers by charging new price on its goods. But in case of BMRE project, the prevailing demand gap is fulfilled through expansion of its production capacity at a given price. The marketing feasibility of a project consists of (a) customers' identification, (b) new demand or demand gap analysis, (c) existing supply determination, (d) market promotion, (e) adaption of distribution channel, and (g) Industry risks. The aspects of marketing appraisal are discussed below:

a) **Customers' identification:** When a project tends to produce new goods or services for target group of customers, the process of new product development like idea generation > idea screening > concept development and testing > marketing strategy development > business analysis > product development > test marketing > commercialization is followed.[66] The engineer firstly identifies potential buyers for the product in accordance to their age, income, values, and test considering their want to be satisfied. In designing

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[63] Philip Kotler and Gary Armstrong, *Principles of Marketing*, (New Jersey: Pearson Prentice Hall, 2008), 12th edit., P. 308.

[64] Shanjit Saha, *Marketing Management*, (Dhaka: Kazi Prokasoni, 2009), 3rd edit., p. 327-331

[65] Adrian Palmer, *Principles of Marketing*,(Oxford University Press, 2000), P. 307.

[66] Shanjit Saha, *Marketing Management*, (Dhaka: Kazi Prokasoni, 2009), 3rd edit., p. 251.

a new product, the real problem of customers that they want to be solved by a product or service must be identified by project engineers and a product will be developed to meet more than existing problem.

b) **New demand or demand gap analysis**: Estimation of present and future demand of producing goods and services is the crucial concern of a commercial project. The demand of an output in physical quantities can be determined by using the following simple equation: Consumption= Production + Imports – exports +_ Changes in stocks. Demand largely depends on income level, price and production of respective goods. Basically, demand of goods depends on demand of complementary goods, substitute goods and supply chain. Intermediary men will provide an idea of market demand of a product. On the other hand, Bangladesh Bureau of Statistics (BSB) and related government ministries can provide data about consumption status of a product over last periods**.** Previous consumption of goods minus local production represents a demand gap of goods. The best way of estimating demand of a product is market survey through exploratory research. On the other hand, future demand of a product is determined by using statistical regression analysis.

c) **Existing supply and supply gap determination:** In case of BMRE project, the product is generally sold in a perfectly competitive market wherein such project contributes a certain portion of supply to the market. While management of the project realizes that all firms can not satisfy current demand of the market and the concerned product of the project has some specialization in meeting the market demand, the project needs to expand for fulfilling the additional demand. But new projects should consider production of such quantity of goods requires to meet the current supply gap and future demand will be arisen over its economic life. While a new project is initiated to run production under a monopoly market, supply of production is determined through market demand derived from research.

d) **Market promotion:** To inform and persuade potential customers and to make close existing customers to the product, marketing promotion is a persistent effort of a project. Under marketing promotion, five kinds of tools such as advertising, sales promotion, personal selling, public relations and direct selling are widely used. Advertisement through mass media such as radio, TV, daily newspaper, magazine, circulation of brochure can increase market demand of the product. Free sample distribution of products among probable customers and credit sale to authorized dealers, sale or return, fair stall, sales and exhibition techniques can be able to boost up sales volume.

e) **Adaption of distribution channel:** This is the last stage of marketing aspect to reach a product to its consumers. The distribution channel should be easier, cheaper, quicker, convenient and safe & secured without compromising desired quality of the product. In global competitive arena, most of consumer's product need to supply to the hand of consumers with reasonably deteriorating role of intermediaries by using own delivery vans as a distribution channel. This kind of marketing philosophy minimizes middleman's commission, price charged and enriches the flow of customer's attitude and behavior towards the product collected from direct sales persons/marketing officers.

4.2.2.3 Technical feasibility

The technical feasibility of a commercial project refers to investigation and measurement the soundness of a project with the regard to every engineering, technological base, machinery and equipment, operational layout & process, and technical inputs, etc. Technical feasibility of a project is assessed to determine long term sustainability under the following different heads:[67]

1. **Product or service Design:** At the starting point of technical feasibility of a project, it is proposed to identify the nature of products or services that will be produced through the manufacturing process to meet ultimate demand in terms of quality, size and its implicit specification. The production consultants should design a plan of its products using prescribed ingredients through pre-planned technology to survive in the market for the long run. The product design must carry specification of potential buyers at a predetermined price maintaining the standard quality approved by BSTTI or other international requirements.

2. **Product Mix and Production Capacity:** The project is to analyze product mix derived from processing unit and classification of products in terms of size, quality and quantity. The production capacity of a project at the beginning stage is assumed at a rate of 50%-60% due to the scarcity of raw material, infant market of the goods and

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[67] Bangladesh Development Bank Limited*, "Loan Operation Department: Project Appraisal Report on BCL Paper Mills Ltd,"* (January, 2012), P. 11-18.

trail run of machinery. In determining production capacity of the project, production manager plans about daily working hours, no. of shift operation each day, and annual working days for attaining business objectives.

3. **Manufacturing process:** The technical experts have to choose best alternative methods of manufacturing to maximize operating profit of the project. Manufacturing process largely depends on the nature of technology, availability of raw material & labor, demand of market, the presence of competitors and economic factors. Any kind of manufacturing process involves a flow chart or some steps of operations in order to produce final goods. Determination of various steps of the process is important to assess productive capacity of plant, the time requirements of the flow of raw material through production cycle and manpower's demand. Production engineers should decide some points in this regards such as machine and technology use, normal loss of production, treatment of abnormal loss, determination and disposal of wastage, rework of scrap, determination of by-product and the treatment of its realization value.

4. **Technology, Machinery and Equipment:** Selection of technology and machinery of a project typically depends on the nature, size of project, mode of production, quality of raw material and intrinsic value of final products. These kinds of technical inputs should select on the basis of availability either in local market or in foreign markets, availability of spare parts and substitute inputs and easily accessible to skilled manpower for smooth running the operation. Entrepreneurs should give emphasis on low sophisticated technology and machinery that is locally available, affordable and accessible for running uninterrupted production.

a) **Existing machinery**: In general, existing technology and machinery incurred higher operating expenses in the form of fuel, depreciation and produces low quality products compared to other competitors. In a perfect competitive market, such machinery could not give significant profit in meeting large scale market demand.

b) **Proposed Machinery:** To satisfy increased demand of the market and minimizing operating costs, existing technology and machinery is required to replace with a new high efficiency machine for attaining strategic goals of the project. Specialized banks provide project finance in order to procure proposed machinery.

5. **Land and Location:** Project premises on own sufficient land at an industrial zone with better communication facilities can enjoy long term business sustainability. A project should have adequate land in order to construct factory building, administrative building, welfare buildings (canteen, hospital, club, and housing estate), power station,

transportation shed and forestation. Land of a project is required to be located at a high area where construction works will be viable and all kinds of infrastructure facilities are available. The whole land and property of the project requires being registered in the name of project or entrepreneurs as equitable.

6. **Building and Civil works:** Construction of the project will comprise of processing unit, factory building, administrative building and welfare buildings, raw material godown, finished goods godown, boundary wall, internal approach road & drain, and other civil works. Detailed specification, area and cost of civil works will be predetermined.
7. **Raw and Packing materials:** The feature of indigenous small and medium scale industry is suitably located in a place where availability of raw materials or labour inputs has adequate and has an easy transportation system. The purchasing department should (1) receive purchase requisitions for materials, supplies, and equipment; (2) keep informed concerning sources of supply, prices, and shipping and delivery schedules; (3) prepare and place purchase orders; and (4) arrange for adequate and systematic reports between the purchasing, the receiving, and the accounting departments.[68] Adequate and timely supply of production inputs can ensure uninterrupted operation of the project. If the project is based on local material, the engineer should give emphasis on local production of such raw material and provide credit facility to the farmers engaged in production of such raw materials by signing an agreement. Maintenance of Economic Order Quantity (EOQ) & minimum lead time and maximum re-order point are required to reduce material carrying cost. On the other hand, proper inspection after receiving the material order and taking timely remedial actions thereon ensures quality production.
8. **Manpower:** Bangladesh is a developing country with perennial resource constraints due to huge unemployment problem. In the literature on project selection, it is quite common to encourage decision makers to choose labour-intensive techniques in economics where labour is plentiful.[69] So, industrialization should be expanded in such a way that a large number of skilled and unskilled labour-force might be engaged into production for raising their income capacity. As a result, labour based project rather than capital based is blessing for socio-economic development of the country. But

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[68] Adolph Matz and Milton F. Usry, "Cost Accounting: Planning and Control," (West Chicago: South- Western Publishing Co.), Eighth edition, p. 238.

[69] United Nations Industrial Development Organization, "*Guidelines for Project Evaluation,"* (United Nations, 1972), P.88.

technical expert competent in technological know-how needs to be hired with high remuneration from abroad for its technological operation for a short period. All kinds of manpower for whole project operation should be employed in such way so that they can provide significant performance to their jurisdiction. Adequate training, motivation, and supervision of manpower can ensure productivity of project at a desirable level.

9. Utilities

a. **Water:** Most of the project needs surface or ground water that is predominantly available in a project situated at the bank of river. As a result, cement, tannery, textile and food processing industry are located in the area where the availability of water is adequate. On the other hand, own water pump is to be installed by project for meeting water requirement of production and supplying for staffs usages.

b. **Power:** Power is the heart of production process of a project. Uninterrupted power supply can ensure timely supply of product to its buyers. Government surety of persistent power supply to industrial plant, installation of own power station, and solar plant are required to make a project technically sound.

c. **Fuel and Lubricants:** Due to hike prices of fuel in the international market and available of natural gas in the country as a source of low cost fuel, most of the plants and machinery are converted into gas running machine for minimizing production cost.

d. **Transportation:** A good communication and transportation facilities by road, marine/river or railway to bring inputs to factory premises and to deliver outputs to buyers are largely depended on selection of factory site. Transportation-in and transportation-out costs are low in certain geographical location where the project is adjacent to highway road, river port or railway station. Arrangement of own delivery van and transportation system can reduce raw material carrying cost, storing cost of finished goods and confirm timely supply of outputs to consumers that is appreciated by modern philosophy of marketing.

e. **Stores and spares**: In analyzing the technical aspect of a project, engineers must be confirmed about availability of stores & spares and convenience in installation of technology and plant & machinery for processing unit. Business stability of technology and machinery supplier’s and availability of substitute machinery both in local and foreign countries are critically evaluated by the engineer for ensuring future uninterrupted supply of stores and spares to avoid abnormal shut down of processing plant.

f. **Maintenance and Repairs:** These costs are recurring overhead costs of a project incurred in order to regain full capacity of an asset or to retain current operating condition. Routine repair and maintenance includes painting, repairing plumbing, adjusting and cleaning equipment, lubricating machines, replacing minor parts, engine tune-ups, oil changes of plant & machinery are treated as revenue expenses and charged to the current Income Statement and while a major and extraordinary repairs like overhauling is incurred to improve the life expectancy of such assets is termed as capital expenditure which is depreciated over its remaining life. Pre-planned and efficient management of these costs will avoid material wastage, labour cost, efficiency loss, machine shut down, and production scrap etc. A sample maintenance calendar is being followed for noting maintenance service on each piece of machinery by identifying hours required for each maintenance service. Proper maintenance services can actively reduce afterwards repair cost through continuous inspection and solving problems. When repair cost exceeds half of procurement cost of a new one, the new machine is deemed to be purchased to minimize operating cost.

g. **Technical Know-how:** It refers to scientific knowledge used in a project to convert raw materials into final products through better application of men and machines. It is the invention capacity of an engineer designed for the whole processing unit in attaining specific quality of the product. If the processing unit is dependent on complex technology and sophisticated scientific & technical skills which are not readily available in the country, the entrepreneur must be confirmed about the arrangement for transfer of technology from abroad through collaboration. It is better for a project to choose a less sophisticated technology available in the local market and labor-intensive production base for subsequent failure of technical collaboration.

10. Pollution Problem: Industrialization is important for economic growth of a country, but it causes some environmental hazards by polluting of air, water and soil through disposal of wastes. In Bangladesh, less attention is paid to environmental protection, environmental standards are often inappropriately implemented, and pollution control techniques are not yet fully developed. Environment hazardous technologies transferred from developed countries and rapid proliferation of informal small-scale enterprises in townships as well as in rural areas are the main causes of environmental pollution. Iron and steel, non-ferrous metals and petroleum products industries, cement mills, lead refineries, chemical fertilizer and pesticide factories massively pollutes air. On the other hand, textile dyeing, pulp and paper, leather tannery, electroplating, fluorescent lamp, lead battery and metal smelting factories largely pollute surface water and soil.

11. Safety provision: It consists of provision regarding health and hygiene, cleanliness of the workplace, safety of plant and machinery, security of good health and welfare & compensation for accidents.[70] Factory floor should be swept daily and washed at least once in a week by using anti-septic liquid and must have so many windows to flow sufficient air and dispatches of temperature. The factory is proposed to have sufficient fire extinguishers and an emergency exit route. The accumulated disposal should be properly discarded daily through an effluent treatment plant. Adequate lighting, drinking water, latrine and urinals and day care provision are required for ensuring good health of workers. Experienced and physically fit workers wearing safety uniform are allowed to run machines to avoid any kind operational accidents. Medical centre with significant supply of medicine, rest room, canteen facility are some of the symptoms for ensuring good health. Appointment letter clarifying terms and conditions for accidental compensation to various kinds of injuries is issued to workers.

12. Furniture and Fixture: The fixed assets that are not directly used in production but provide auxiliary supports to the whole operation cycle is termed as furniture and fixture. These include all kinds of executive & administrative and factory & office decorations like wood made chairs, tables, telephones, ceiling fans, computers and air conditions. These kinds of assets should have a low cost and visible smartness with strong durability for maintaining a comfortable environment for executives in their decision making. The cost for these items should be minimum for manufacturing unit and maximum for service concern to attract service respondents.

13. Time Schedule of Construction works: Civil engineers should closely monitor construction works of the projects and while documentations with the bank, and land acquisition & transfer of land to the project is completed, construction works will be started. Whenever 50% civil construction is finished, opening of L/C for import machinery and placement of order for local machinery will take place. After completion of 100% civil construction work, arrival of machinery is installed and trail run & normal operation will be started subsequently.[71]

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[70] Bangladesh Factories Act- 1965, Chapter: II-V.

[71] Bangladesh Development Bank Ltd*, "Loan Operation Department: Project Appraisal Report on BCL Paper Mills Ltd,"* (January, 2012), P. 18.

4.2.2.4 Financial feasibility

4.2.2.4.1 Cost of the Project: Detailed of estimated cost of the project shows under the following different heads. Summation of the below stated heads result total cost of the project.[72]

a. Land and site development (including registration, approach roads, leveling, gates etc.).
b. Building and other civil works (including godowns, warehouse, canteen, garages and quarters).
c. Imported Plant and Machinery (including FOB, freight, insurance, clearing charges, LC commission and import duty).
d. Local Machinery (FOR, sales tax, railway freight and transportation-in).
e. Erection and Installation (civil mechanical and electrical installation and security deposit for power).
f. Office Furniture and Fixture (including computer, fan and firefighting equipment).
g. Vehicles.
h. Consultant's fees (survey, plan and drawing, etc.).
i. Pre-operating fees (evaluation fee and VAT, promotional and legal, documentation fee, trail run & other expenditures).
j. Interest during construction period.
k. Provision for contingencies (unforeseen expenses and price increases over normal inflation rate).

4.2.2.4.2 Means of Finance

The cost of the project will be financed by the following available means of finance:[73]

a. Share Capital: Two types of share capital, namely equity capital and preference capital are used for the purpose. Equity capital is made by the owner of a business and receives no fixed rate of dividend and bears risk of ownership. On the other hand, preference shareholders receive a fixed rate of dividend.

b. Term Loans: These loans are provided by financial institutions and banks for financing both new projects and BMRE. The local currency term loan is given for land, building, civil works and local machinery. A foreign currency term loan is for procurement of imported equipment and technology.

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[72] Ibid, P. 27.

[73] Prasanna Chandra, *Projects Planning, analysis, Selection, Financing, Implementation and Review,* (New Delhi: Tata McGraw-Hill Publishing Company Limited, 2007-08), 6th edit., p. 6.7.

- **c. Debenture Capital:** Long term finance is raised through issuing debenture capital. Non-convertible debentures hold a fixed rate of interest having a maturity period over five years. And Convertible debentures are being possible to convert into equity.
- **d. Deferred credit:** Sometimes suppliers of plant and machinery offer a deferred credit facility for long periods.
- **e. Incentive sources:** The government and its agencies extend financial support for setting up an economic unit through seed capital assistance, capital subsidies and tax holiday.
- **f. Miscellaneous Sources:** In some cases, project finance is supported by unsecured loans, public deposits, leasing and hire purchases.

Total loan/debt means the sum up value of own bank's term loan and others institutional term loan and equity means borrower's personal investment to the project. The ratio of debt to equity needs to be maintained below 50% for ensuring safety of borrowed funds and Fixed Assets Coverage Ratio i.e. net fixed assets to long-term debt must be more than 2 times.[74]

4.2.2.4.3 Capital Structure

Specialized bank should provide project finance to a company that has more than 40% paid up capital to its authorized capital as an equity sound organization. No project finance could extend to a company that has below 20% paid up capital because it could not collect equity fund further for incurring cost of the project while bank has already disbursed debt capital.

4.2.2.4.4 Financial Evaluation

- **a) Estimates of Sales and Production:** The starting point of financial evaluation is to forecast of sales revenues. In estimating sales revenues, the following considerations should be borne in mind:
- **i. Capacity utilization:** A high capacity utilization level is not assumed in the first year of operation because some constraints like raw material shortage, limited power, and marketing problem etc. might be arisen. Capacity utilization of 40-50 percent in the first year, 50-80 percent in the second year, and 80-90 percent from the third year onwards are assumed as reasonable for a new project.[75]

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[74] Bangladesh Shilpa Bank, *"Manual of Project Appraisal,"* March, 1976, p. 52.
[75] *Ibid*, p. 6.9.

ii. **Stock of Raw material and finished goods:** No stock of finished goods arrived from unsold goods is assumed and stock of raw material is considered for a period of 30 days to avoid any disruption of production.[76]

iii. **Sales price and cost of production:** Sales price of the product will be the realizable value of the project and cost of raw material, labor, factory overhead will be prevailing market prices. A rate of 5% increase is considered for labour, factory overhead and administrative expenses for every subsequent year. While the cost of raw material will be increased, the selling price will also be increased to adjust that cost**.**

iv. **Production period:** The project will operate 5 days in a week without any interruption and at least 8 hours basis of two shift operations should be run for minimizing factory overhead cost. The economic life of the project is more than 10 years.

v. **Depreciation**

Land (No depreciation will be charged)

Building (Straight line depreciation @5%-7%)

Plant and Machinery (Diminishing balance or Sum of the year Digit @ 15%-20%)

Furniture and Fixture (Straight line @20%)

b) **Cost of Production:** It consists of the following components:

i. **Cost of raw material:** The ingredients that are directly used to produce a final product are known as raw material. The price of material inputs is defined as CIF (cost, insurance, and freight) and total requirements of raw material is determined by multiplying requirement per unit of output with expected outputs during the year.

ii. **Direct expenses/ Utility cost:** It consists of power, water, and fuel that may be determined by consultants.

iii. **Labour Cost:** It is the cost of all labour force directly engaged in producing final products. It is a function of the number of employees and rate of remuneration. The remuneration includes basic pay, dearness allowance, house rent, conveyance allowance and medical allowance etc.

iv. **Factory overheads:** The expenses on indirect material, indirect labour, repairs and maintenances, factory rent, taxes, insurances, and depreciation of factory machinery are known as factory overheads.

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[76] Bangladesh Development Bank Ltd, *"Loan Operation Department: Project Appraisal Report on BCL Paper Mills Ltd,"* (January, 2012), P. 28.

c) **Total administrative expenses:** This consists of administrative salaries, remuneration to directors, professional fees, light and postage, telephone and supplies, insurance and taxes, and miscellaneous expenses.

d) **Total Selling and marketing expenses:** This expense mainly depends on the nature of industry and kind of competitive conditions. Basically, selling expenses vary between 5 to 10 percent of sales. The expenses include sales commission, sales salary, sales promotion and advertising expenses.

e) **Royalty expenses:** The royalty rate is usually 2-5 percent of sales and payable often for a limited number of years, say 5-10 years.

f) **Total cost of production:** It equals to some of the cost of production, total administrative expenses, total selling expenses and royalty expenses.

g) **Expected sales:** These will be calculated by multiplying expected sales quantity by the expected sales price per unit. If the product is parallel with the existing product in the industry, the price of the product will be uniform with industry price. While the product is exclusive, the price of the product is determined by mutual consent between experienced cost accountant and market analyst and market demand is measured by market analyst with consideration of its specification and market segments.

h) **Profit before Tax and Interest:** It represents the difference between expected sales and total cost of production.

i) **Total financial expenses:** It consists of interest on term loans and interest on debenture.

j) **Depreciation:** In a capital-intensive project, depreciation of plant and machinery is an important component of expenses.

k) **Net operating profit:** It represents the value after deducting total financial expenses and depreciation from profit before tax and interest.

l) **Other non-operating Income/(loss):** Examples for the head are gain/(loss) on sale of fixed assets, income/(loss) from disposal of scrap, etc.

m) **Preliminary expenses written off:** Preliminary expenses up to 2.5 percent of the cost of the project or capital employed, whichever is higher, can be amortized in ten equal annual installments.

n) **Profit/(loss) before taxation:** It represents the value after deducting other non-operating Income/(loss) and Preliminary expenses written off from net operating profit.

o) **Provision for Taxation**: Applicable rate of tax is applied upon profit before taxation in order to derive periodical tax burden.

- **p) Profit after tax:** It is the value after deducting provision of taxation from profit before taxation.
- **q) Dividend paid:** It shows proposed dividend on equity capital and preference capital.
- **r) Retained earnings:** Deduction of dividend paid from profit after tax is known as retained earnings that will be as further equity of the company and maximizes wealth of the project.
- **s) Net cash benefit:** It is derived by summing retained earnings with non-cash expenses such as depreciation and preliminary expenses written off.

4.2.2.4.5 Profitability Forecast: The profitability of a project is to be measured by using the following ratios:

- **a) Gross profit to sales**: (Net sales- Cost of goods sold) ÷Net sales
- **b) Operating Profit (EBIT) to sales:** Operating profit÷ Net sales
- **c) Net operating profit (EBT) to sales:** Net operating profit ÷Net sales
- **d) Net profit after tax to sales**: Net profit after tax ÷ Net sales
- **e) Return on total capital employed:** Profit after tax ÷ (Equity fund +Debt capital)
- **f) Return on equity (ROE):** The ratio is measured by dividing profit after tax with equity fund of the company. The ratio is an important to measure a project's earnings performance upon equity fund. Financial analysts think that the ratio should vary between 15-20% to attract equity holders through maximizing profit and wealth.

4.2.2.4.6 Debt service coverage ratio

This ratio represents the earnings of a project to cover the obligations of interest and installments on long term loans/debts. The ratio for a sound project should be more than 2 times. While it falls below 1.5 times, the project may mean an uneconomic conditions. It is calculated as follows:

Net profit before tax	xxxxxx
(-) Income tax	(xxxxx)
(-) Re-investment	(xxxxx)
(+) Return on investment	xxxxx
(+) Depreciation and written off	xxxxx
(+) Interest on long term loan/debt	xxxxx
Income available for debt-service	xxxxx
Installment on term loan/debt	xxxxx
(+) Interest on long term loan/debt	xxxxx
(+) Installment on interest during cons. Period	xxxxx
Total obligation	xxxxx

Debt-service coverage ratio= Income available for debt-service ÷ Total obligation=Times

4.2.2.4.7 Fund Flow Statement

The pivotal concern of a specialized bank is to assess whether the project could generate a significant amount of cash resources that will be used for meeting forthcoming expenditures and to repay the obligations to the lender bank on due time. The following table shows the sources of funds and uses of funds:[77]

A. Sources of Funds:

a) Share Issue.

b) Net profit after tax and interest.

c) Depreciation and written off.

d) Increase of Current liabilities.

e) Decrease of current assets.

f) Increased unsecured and secured long-term borrowings.

g) Increased bank borrowings for working capital.

h) Sale of fixed assets and investments.

i) Other incomes

B. Uses of Funds:

a) Capital expenditure.

b) Deferred revenue expenditures.

c) Decrease of Current liabilities.

d) Increase of current assets.

e) Decreased unsecured and secured long-term borrowings.

f) Decreased bank borrowings for working capital.

g) Increase Investment.

h) Payment of taxes, dividend and interest on short term and loan term loans/debt.

i) Repayment of term loan and short term loans.

j) Other Expenditures.

Net surplus/(deficit) **(A-B)** (+) Opening balance of cash in hand and at bank= Closing balance of cash in hand and at bank

[77] Prasanna Chandra, *Projects Planning, analysis, Selection, Financing, Implementation and Review*, (New Delhi: Tata McGraw-Hill Publishing Company Limited, 2007-08), 6th edit., p. 6.19.

4.2.2.4.8 Break even Analysis

An economic project has some features like capacity utilization, level of production, sales volume, sales earning, related costs and expenses in producing goods and services. The costs associated to run production may be three types-variable cost that is directly related to outputs such as raw materials, direct labour, power, sales commission and spares etc; semi-variable costs that have some portion fixed and other part is variable directly related to the level of outputs; and fixed cost or period cost that remains unchanged irrespective to the volume of outputs such as depreciation, management expenses, overheads, rent and taxes etc. Break-even point is measured by dividing total annual fixed cost by contribution margin (sales earnings- variable cost). Net profit after tax of a project must be earned annually at least three times greater than total financial obligation (financial expenses + installment of loans) to avoid any loan default in the future. On the other hand, net profit after tax is to be measured by using the formula, (Actual sales units- BEP sales units) × (Sales price per unit- Variable cost per unit)×(1-tax rate). In calculating net profit after tax, the opportunity cost of capital or time value of money is not considered. But in real situations, the project will be viable while the net present value of future cash benefits equals to zero or more than zero {annual net cash benefits ×PVAF(r, n) - initial cash outlays}.[78] While the net profit is equal to total obligations (interest on loans + annual installment on loans) or zero, no institution should entertain loans to the projects because the project could not generate significant cash to repay the loan. The management of the project should bear in mind that any special sales offer should accept at a price over its variable cost while it has an idle production capacity to maximize the profit range.

For determining the required sales units the following formula is used:

$$\text{No. of units}^{79} = \frac{\text{Annual Fixed Cost+ net profit after tax}}{\text{Sales price per unit-Variable cost per unit}}$$

[78] Garrison and Noreen, *"Managerial Accounting,"* (U.S.A: McGraw-Hill/Irwin, 2005-2006), Edit-10th , P. 246.

[79] *Ibid,* p.244

4.2.2.4.9 Projected Balance Sheet

Projected Balance Sheet is the final stage of financial projection where fundamental accounting equation (Proprietorship + Outside liability= Assets) is used to show financial position of a project under earning forecast and fund flow statement at the end of a period. It would facilitate in assessing the position of debt in relation to equity and extent of assets-security for the loan. It is constructed with cumulative figures directly driven from fund flow. But in case of BMRE project the Balance Sheet just preceding the year is used. In a fund flow statement, initial fund raised during the construction period is treated as a sources of fund and is a liability in the balance sheet, but repayment of term loan will disposition of fund in the subsequent year resulted reduction of term loan in the liability head of balance sheet. On the other hand, provision of depreciation, tax and dividend paid decrease net profit and this will decrease fixed assets and equity fund with simultaneous impact on fund flow statement. A brief format of projected Balance Sheet is as follows:[80]

Assets	**Liability**
Fixed Assets	Share Capital
Investments	Reserve and Surplus
Current Assets, Loans and Advances	Secured Loans and Unsecured Loans
Miscellaneous expenditures and losses	Current Liabilities and Provisions

[80] Prasanna Chandra, *Projects Planning, analysis, Selection, Financing, Implementation and Review,* (New Delhi: Tata McGraw-Hill Publishing Company Limited, 2007-08), 6th edit., p. 6.21.

4.2.2.4.10 Financial Rate of Return

Investment a project basically flows in fixed assets and current assets in anticipation that the project will generate a certain sum of money as the return throughout its useful life. But the value of a return in the future is not equal to a return at now because the value of future is full of uncertainty and future amount of money provides low worth now due to time value of money. The rate by which the project's annual cost & benefits are discounted to produce the project's net present value is known as Accounting Rate of Interest (ARI).[81] Under discounted cash flow techniques, time value of money is considered in assessing costs and benefits of a project. Here net cash benefits are measured by adding non-cash expenses (depreciation and written off expenses) with net profit before tax. The Internal Rate of Return (IRR) is determined by using annual net cash benefits throughout a project's life and initial investment. If the IRR is greater than the overall cost of capital, the project will be viable.

4.2.2.4.11 Sensitivity Analysis

Concrete application of Sensitivity Analysis in investment decision-making under the conditions of uncertainty involves several key input parameters, such as incomes, costs, value of investments, discount rate, etc., as well as consideration of influences and effects of changes of these parameters on the values of several basic criteria which serve for the investment decision making, such as: the criterion of Net Present Value, the criterion of Internal Rate of Return, and the criterion of Pay-back Period.[82] Sensitivity analysis is carried out to assess adverse changes in operating conditions of a project on its viability. Adverse variation of 10 percent in selling price, quantity, and operating cost on internal rate of return (IRR), debt-service coverage ratio (DSCR), and break-even point (BEP) need to assess under feasibility of a project. If the IRR, DSCR, and BEP are favorable, then the project should be undertaken.

4.2.2.5 Economic feasibility and value added statements

Economic feasibility is the analysis of a project's cost and revenue from national or social point of view and economic cash flow is measured by shadow prices in order to determine whether or not it is logical to undertake.

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[81] Bangladesh Shilpa Bank, *"Manual of Project Appraisal,"* (March, 1976), p.02.

[82] Petar Jovanovic, "Application of sensitivity analysis in investment project evaluation under uncertainty and risk," *International Journal of Project Management*, Vol. 17, no.4 (1999): pp. 217-222.

> In a perfect competitive market of a developed country, allocation of resources would take place through price mechanism and all resources would be rewarded according to their marginal productivity. But in a developing country, price mechanism fails due to some factors like indirect taxes, monopoly market and government subsidies. As a result, economic analysis eliminates the divergence between 'social' and 'private' costs by measuring all goods and services in terms of real costs and benefits which their production imposes on the economy.[83]

Steps of Economic feasibility analysis

a. Identify and describe the target market for goods of the project and to determine how intended customers would benefit from the goods or service.
b. Assess competition in the target market by identifying major competitor firms, their products and services, and shares in the market.
c. Project revenue derived from sale proceeds of goods based on an assumed share of the target market for a period of one year or longer.
d. Estimate costs of goods production considering fixed and variable costs.
e. Weigh the costs and benefits of your planned activity or enterprise, using your projected revenues and costs as a guide. If the benefits exceed the costs, you can consider the new enterprise a feasible undertaking.

Guidelines on Measuring Feasibility

In measuring economic feasibility, the following guidelines were suggested to carry out:[84]

(1) **Valuation of Inputs and Outputs:** The appraisal of a project starts with the proper valuation of all inputs required for production and products derived from the project. This valuation is measured by Little-Mirrless Approach after necessary adjustment as per bank's requirements.

(2) **Valuation of Traded Goods:** When a project is engaged in producing such goods or services that are traded internationally at broader price is known as traded goods. These goods should be valued at CiF prices for imported goods and at FoB prices for exported goods by adding domestic transportation, handling and selling costs to CiF and subtracting such costs from FoB.

(3) **Valuation of Machinery and Equipment:** Valuation of machinery and equipment should be done by the method stated on valuation of traded goods. In case of local

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[83] *Ibid,* p. 102.
[84] *Ibid.* p. 102-111.

procured equipment, the accounting price will be lower than the CiF price while it is inferior in quality.

(4) Valuation of Non-traded Goods: Non-tradable goods are non-transferable goods such as power, infrastructure, land and building. It is the value derived from market prices multiplying by a conversion factor (ratio of world price to its domestic market price by deducting indirect taxes and adding subsidies).

(5) Valuation of Labour: In a project, both unskilled and skilled labour forces (including managerial and administrative) are used. The shadow wage rate of unskilled workers is marginal product value plus their consumption, rehabilitation and training cost. Since the marginal product value of unskilled workers is lower than the market wage rate in Bangladesh. So the shadow wage rate of unskilled labour would be determined by the formula= Market wage rate × Conversion factor prepared by the Planning Commission. On the other hand, the shadow wage rate of skilled labour should be valued at its market price.

(6) Valuation of other inputs:

a. Depreciation, Interest, etc.: All kinds of return to capital like depreciation, amortization, dividends and interest expenses should not be treated as a social cost.

b. Rent and Profit: Local rent, rates and tax is not included as a social cost because it is outflow to the government exchequer. But profit earned by the project is treated as social benefits.

c. (c) Treatment of Inventories: Inventories of raw material, finished goods and work-in-process will be valued CiF and FoB prices after taking adjustment for domestic transport and handling costs. On the other hand, finished goods and work-in-process can be valued multiplying their market prices by specific conversion factors (ratio of finished goods at shadow prices to finished goods at market prices).

d. Residual Values: The residual value of fixed assets and working capital should determine in the last year of the project's life at the following rates:

Own Land of the project	100% of original value
Machinery	5% of original value
Building	Engineer estimates
Other fixed assets	Engineer estimates
Working capital	100% of original value

e. Numeraire: The local currency is used as numeraire and foreign exchange is to convert into local currency at the official exchange rate.

f. **Inflation:** Since inflation is highly unstable in the economy, all future costs and benefits should be valued at current prices.

(7) **First Approximation Calculation**: This calculation is applied for small and less sophisticated projects suggested by World Bank. Here only machinery and equipment, traded raw material, and outputs should be valued at border price after adjustment for domestic transport, handling and selling costs. Unimportant traded goods such as stationery, equipment, store and supplies, etc. and non-traded goods such as land, building and labour, etc. should be valued at their market prices after adjusting specific taxes and subsidies.

(8) **Second Approximation Calculation:** A big project with high volume of cost and important in a social point of view required this calculation as approved by World Bank. All traded goods should be valued at their border prices. The small traded goods and non-traded goods should be valued at their accounting prices multiplying their market prices by appropriate conversion factors.

(9) **Calculation of Economic Rate of Return:** While all social costs and benefits are measured, and life of the project are determined, the future costs and benefits need to be discounted with its opportunity cost to derive net present value or net worth for making decision whether the project is viable to undertake. The rate that is used to discount the costs and benefits is commonly known as Economic Rate of Return (ERR). If the ERR is greater than opportunity cost, the project will bring social feasibility in the future and should be undertaken.

4.2.2.6 Environmental feasibility

While a project is planned to undertake, environmental issues related to the project require extensive appraisal because the existence of project predominantly depends on sustainability of environment. A project may pollute the environment in many ways like emission of huge carbon dye-oxide, discharging liquid and solid, and causing noise, heat, and vibrations. On the other hand, industrial process of a country may pollute air, water and soil due to avoiding environmental guidelines. A project that is engaged to produce physical outputs like cement, steel, paper, chemical, textile, leather tanning are largely liable to pollute the environment. The bank contemplating in project financing must focus on effluent treatment plant, clearance certificate of the Directorate of Environment, compliance of all environmental statutory requirements of the project.

4.2.2.7 Socio-cultural feasibility

These kinds of feasibility initiate to evaluate the impact of a project on society, race, social values, family, cultural heritage and nationalism. No project is being planned to produce such goods or services and makes available in the local market that have a pessimistic philosophy in society and vandalize national heritage in the long run. The financing bank will be well confident in searching those projects where raw material, technology or technical experts imported from enemy countries are not used and not to export of goods to them who may cause any kinds of detriment. On the other hand, inhuman working environment of the project or production of such goods that are prohibited by the code of religious or social values, no banks should extend project financing to those projects for rigorous existence of our national heritage.

4.2.2.8 Entrepreneurial feasibility

The origin of the concept "Entrepreneur" lies in 17th century in France – as an individual commissioned to undertake a particular commercial project by someone with money to invest.[85] Entrepreneurship is the practice of starting new organizations, particularly new businesses generally in response to identified opportunities.[86] A significant combination of entrepreneurs having predetermined knowledge and experience towards idea generation regarding a planned project is key indicator of successful execution of the project. While a specialized bank is considering a proposal from entrepreneurs for project financing; the competence, integrity, collateral security, and requisite organizational structure and managerial expertise of the entrepreneurs must be analyzed either of their previous records or on the basis of bank's own managerial judgment in order to make the loan worthy. In this regard, the bank must give their emphasis on the following points to appraise a project:[87]

1. **Entrepreneurial capability and background:** In order to appraise the entrepreneurial feasibility of a new project, the bank should provide their utmost emphasis on entrepreneurs' education, experience, dynamism, and skills so that they could carry out the project successfully over its economic life. Entrepreneurs are being created under two ways, namely-entrepreneur by born and entrepreneurs by acquiring knowledge and experiences. While an entrepreneur has significant knowledge in operation such kind of business and acquired adequate experience over his long term workings, it is deemed

[85] Reaz Uddin & Tarun Kanti Bose, " Determinants of Entrepreneurial Intention of Business Students in Bangladesh," *International Journal of Business and Management,* Vol. 7, no. 24 (2012): P.130.

[86] *Ibid,* P.129.

[87] Bangladesh Development Bank Limited*, "Loan Operation Department: Project Appraisal Report on BCL Paper Mills Ltd,"* (January, 2012), P. 6-10.

that he will be able to execute the project with tolerable failure. Higher educational qualification in a discipline in relation to the project and long term dealings with the business help an entrepreneur to become efficient. Engineers, cost and management accountants, chartered accountants, consultants regarding the discipline of project, MBA, etc. with long term experience or their proper combination will build up entrepreneur folk.

2. **Historical credit behavior:** Credit repayment attitude, repayment status, utilization of credit, and liability repayment capacity of entrepreneurs should be analyzed by taking opinions from declared banks, CIB of Bangladesh Bank, Income tax return, and financial statements of the existing business entrepreneurs. The honesty and integrity pottage of entrepreneurs can be cleared through interview with entrepreneur's creditors. The bank must be confirmed about utilization of credit taken from the bank because most of the project loans in earlier period became default due to sector excluded usages.
3. **Corporate and managerial set up:** The directors of the project having satisfactory educational knowledge and experience could run the unit efficiently and effectively by structuring them into diversification of functions. Delegation of authority is to be arranged among the directors after adequate classification their designation. Management force of the project should build up after hiring or recruiting them in consideration seniority of experience and assigned their authority and responsibility in accordance with their fields of experience.
4. **Equity mobilization and collateral security strengths:** The bank is always trying to maintain a debt-equity ratio as 50:100 instead of 100:100 for strengthening recovery of their loan through liquidating assets of the project in case of defaults.[88] After following the rule, the bank must be confident in equity mobilization from own sources of the entrepreneurs. While mobilization of equity is difficult or deferred compared to standard, disbursed amount of debt from the bank could not use in full requirements of the projects. Collateral security that is arranged for the psychological pressure upon the entrepreneurs should be adequate, the valuation of such security (measured at 60% of their current market price) has to be sufficient to full cover of debt. But collateral security is not a safeguard for the bank's loan because liquidation

[88] Bangladesh Development Bank Limited, *"Lending Policy and Procedures,"* (December, 2010), p. 18.

of securities takes more time and liquidation cost is very high due to legal hazards. So, the management should give emphasis on projected cash flow generated from the project for making their loan more viable.

4.2.2.9 Miscellaneous feasibility

1. The political stability and peaceful co-existence of all political parties is a prerequisite for economic growth of a developing country like Bangladesh. Bangladesh is a country of Parliamentary democracy where people are being the source of all power and opposition parties are themselves involved in criticizing detriments rules and decisions of the ruling parties. Political stability can encourage the flow of foreign investment into the country having plenty of human and natural resources. Nevertheless, law and order situations and freedom of the judiciary system is required to ensure justice for all and enhancement the pace of domestic productions. Any kind of deviations from preplanned situation makes stagnant disbursement loans of the bank and subsequently it becomes the default. Political unrest disrupts import or procurement of raw material & other inputs, and production & sale of goods or services. As a result the project will be sick in subsequent time and cannot repay the loans to the bank. The lengthy legal process of liquidating of default project incurs huge realization cost, liquidation cost, and capital cost.

4.3 Loan Approval Stage

If the branch manager/regional manager or managing director or board of directors is satisfied with feasibility appraisal and collateral security, they approve the proposal with demand debt or cut down the requested amount based on site, position & objective valuation of collateral security or assessment of equity flow and project risks. Since the project loan is mainly a non-recourse financing based on future cash-inflows from the project, approval authority must assess future risks associated in financing to the project by their risk assessment expert team and amount are largely depends on risk rating report prepared by the risk rating team. The project cannot produce significant amount of cash flows in the future to repay the loan due to arisen of risks that can broadly be categorized into five groups such as (a) Project-specific risk (risks in relation to construction works- engineers' financial health and their technological & labour force fitness, quality deterioration due to technology failure), (b) Competitive risk (unanticipated competition in the market belongs to the project can vandalized estimated earnings and incurres more cost in product innovation), (c) Industry-specific risk (unexpected technological improvement and regulatory changes to the industry), (d) Market risk (adverse movement in macroeconomic variables like GDP growth, interest rate, inflation rate and foreign exchange rate), (e) International risk (risks relating to exchange rate risk, political risk, condition applied by UN accord or other regional economic accord's barriers).[89] The financing risks are tabulated under seven criteria like very low, low, below average, average, above average, high, very high and determines approval amount of loan for sound lending. The amount of loan, margin, interest charges, and other terms and conditions are mentioned in approval letter by manager or credit division with consent from managing director or top authority and informed to the entrepreneurs.

4.4 Requirements for necessary documentation

Submission of the necessary papers and documents or required charged documents to the bank is taken place by the entrepreneurs after the loan is approved by board of directors or credit committee or branch manager. The satisfactory documentation clearly determines amount of loan should be sanctioned by the bank and what rate of interest will be charged for loan over its credit period and imposed other terms and conditions. In case of execution of documentations, adequate advices and opinions from the bank's legal section or panel lawyer is necessary to detect fake papers and fraudulent documents. This is a very complex task for the bank and requires such talent executives who have significant knowledge and experience regarding the documentations which varies from loan to loan. In case of syndicate/consortium loan, required documents are prepared by the leading bank, although participating banks have a right to verify those while signing loan agreement. The bank can facilitate to prepare some documents in favour of entrepreneurs and some should be gathered by entrepreneurs from their personal sources at the time signing agreement. The lists of documentation necessary for bank loans are divided into two groups:

(a) Documentations for SME loan: The enterprise that seeks project loan below 50 lakhs taka is required to submit the following necessary papers and charged documents to the bank:[90]

1. Required number of passport size photos of entrepreneurs and their guarantors.

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[89] Islamic Development Bank, *"Risk Management Guidelines for Project Finance,"* (Group Risk Management Department, January 2010), P. 7-11.

[90] Bangladesh Bank, *"Prudential Regulations for Consumer Financing,"* (First Edition-2004).

2. Present and permanent address & contact no. of entrepreneurs and their acknowledgement towards business address.
3. Specimen signature of entrepreneurs.
4. National ID card of entrepreneurs.
5. Bio-data of entrepreneurs with their working experiences.
6. Trade license for the business.
7. Tax payment slip to the local authority (Union Parishad or powrasava).
8. Income tax payment certificate of entrepreneurs (E-TIN).
9. Detailed declarations of movable and immovable properties of entrepreneurs.
10. Declaration about sources of equity funds and deed agreement to deposit the fund into the bank.
11. Declaration about the liabilities of entrepreneurs to other banks/financial institutions/ parties.
12. Permission letter from the local authority (Union Parishad or powrasava) to set up an industry.
13. Acknowledgement to abide by Labour Act-2010 & Shops and Institution Act-1965.
14. Papers necessary for project Land:
    i. Original registered deed, bia-deed and SA, BRS/certified copy of mutation khatian & duplicate carbon copy in case of purchased land.
    ii. C.S, S.A, BRS/certified copy of mutation khatian & duplicate carbon copy, certificate of heir and land distribution deed in case of heir land.
    iii. Up to date rent slip.
    iv. Original allotment letter, lease deed, and possession delivery certificate and evidence of installments paid in case of land allotted by BSCIC.
    v. Copy of acquisition, allotment letter, original registered deed in case of land acquired by the government.
    vi. Lease agreement by a borrower with the landlord, documents evidencing the title in favour of the landlord, approval of building plan by appropriate authority in case of rented land.
    vii. Location and demarcation map of mortgage land and it is attested both by mortgagee and bank officials.
    viii. Historical background of mortgage property and NEC of sub-registry office.
15. Muza map of the project land and route map of the project.
16. Site plan of the project with approval from appropriate authority.

17. Detailed project profiles.
18. Detailed design, drawing of construction work of the project approved by an authorized engineer/firm.
19. Layout about installation of machinery.
20. Submission of quotations for imported machineries from three competitors by local indenter.
21. Submission of quotations for local machineries from three competitors with necessary catalogue and details explanation.
22. Approval letter for supply of gas/electricity from PDB/REB/Gas transmission and distribution co or BSCIC.
23. No-objection certificate from Directorate of Environment.
24. Technical feasibility report from expert firm towards new technology.
25. Approval letter from property holder and family members for personal guarantee in case of collateral free loan.
26. Bank Account and Bank statement.

(b) Documentations for Large loan: In addition to the above papers and documents, the following documents are required to submit for a large loan for joint stock companies or partnership firms seeking loan above Tk.50 lakh.[91]

1. Acceptance of Letter with Company Board resolution.
2. Copy of Memorandum and Article of Association with Certificate of incorporation.
3. Partnership agreement
4. Memorandum of Association and Article of Association

Charged Documents:[92]

1. MICR Cheque
2. D P Note
3. D P Note Delivery Letter
4. Revival Letter Form-I
5. Revival Letter Form-II
6. Specimen Signature Card
7. Guarantee for advance & credits on Non-Judicial Stamp
8. Hypothecation agreement on Non-Judicial Stamp
9. Deed of Continuation & Acknowledgement on Non-Judicial Stamp
10. Letter of Continuity on Adhesive Stamp
11. Stock Ownership Declaration
12. Memorandum of Deposit of Title Deeds
13. Personal Guarantee
14. Certified copy of Registered Mortgage deed

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[91] Bangladesh Development Bank Limited, *"Lending Policy and Procedures,"* (December, 2010), p. 78.
[92] Bangladesh Development Bank Limited, *"Check-List of Documents,"* (September, 2013).

15. Certified copy of Registered Power of attorney deed
16. Credit Agreement.
17. Sanction letter duplicate copy
18. Undertaking as per sanction

4.5 Sanction of loan

In sanctioning project loan, the bank should significantly satisfy itself that entrepreneurs are capable of raising working capital for the project from the bank or other banks by offering required collateral security. A project must have full coverage with entrepreneur's equity and bank's finance and debt-equity for the project will not exceed the ratio of 60:40 maintaining a fixed assets coverage ratio of 1.5:1 representing its security is sufficient to ensure safety for the loan.[93] It represents that tangible assets will be 1.5 times of the disbursed loan. Security documents relating to ownership of assets must be verified and checked with physical verification. While the debt amount will be increased to 60% from 50% and tangible assets is decreased from 1.5 times of the disbursed loan, additional collateral security needs to add to existing collateral from entrepreneurs personal sources.[94] Immovable landed property located in prime location rather than movable property viz. Machinery, furniture and fixtures, equipment are treated as collateral security and the loan is fully protected by a duly-accredited insurance company enlisted with the bank. Collateral security is verified and valued by an enlisted surveyor of the bank. The sanction of a loan should comply with the requirements of the bank's Memorandum and Article of Association, Banking Companies Act-1991 and other rules and regulations in force. Sanction of loan is reported to Managing Director, Head of Internal Control, and Head of Credit Management for review and further action.

4.6 Disbursement of loan

Disbursement of loan starts while sanctioning authority is fully satisfied about the completion of documentation formalities, audit clearance, approval of construction and building layout. Then, the management focus on the entrepreneur's investment (20% as down payment for the procurement of machinery and 30% as civil constructions)[95] to the project and insurance policies covering risks of movable assets like machinery, equipment, and furniture &fixtures as per sanction terms and conditions. The disbursement process of project financing is divided into several phases based on a percentage of construction works of plant and buildings. The expert civil engineers should verify and measure the value of

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[93] Bangladesh Development Bank Ltd, *"Lending Policy and Procedures,"* (December, 2010), p. 18
[94] *Ibid, p. 18.*
[95] *Ibid,* p. 21.

construction work and check the invoice value of procured machinery and technology. After receiving engineer's certificate on works completed of the project, loan amount is released step by step on the basis of work completion.

4.7 Repayment observation and monitoring

The bank generally allows six months for constructing the plant and buildings of the project. After completion of construction works, the project is deemed to run trial production on which it receives proceeds from the sale of goods or services that will be used to repay installment of the loan. An efficient and continuous monitoring process and system can early investigate the financial health of the borrower and assess lacking thereon. Monitoring team of the branch or concerned department should check the compliance of terms and conditions, financial statements, breach of loan covenants and reports to authorized executives for taking remedial actions after carrying out regular inspections. The concerning team collects information both at implementation and operation of the project and reports it to related executives by using the forms: (a) Inspection form-I (Quarterly inspection report on construction) (b) Inspection form-II (Final construction report) (c) Inspection form-III (Half yearly inspection report on operations for manufacturing industry) (d) Inspection form-IV (Half yearly inspection report on operations for other than manufacturing industry) (e) Inspection-V (Early alert report for under implementation project).[96]

4.8 Review of loan

The volume of loans that was disbursed in the form of project loans by the banks is known as outstanding loans. When the entrepreneurs fail to repay any installment or part of installment within stipulated time due to numerous reasons beyond their control, the loan is treated as overdue or past due. While the amount of past due installment remains unpaid for a period of three or more than three months is considered as non-performing loans (NPLs). NPL/classified loans/default/stuck-up loans are harmful for the bank under two ways- it increases interest income suspense account, and makes loan loss provision from the income of the bank. On the other hand, NPL decreases profitability and quality of the assets of the bank. So the bank has to give maximum priority to control and recovery of NPL in order to attain organizational goals and objectives and to improve the image of the bank to regulatory body and its customers. Thus the recovery of classified loans is a major concern for sustainable growth and development of the bank:

[96] *Ibid*, p. 23.

1. Recovery procedure: Whenever the bank faces difficulty in receiving repayment installment, the following procedures for recovery of loan are being exercised:[97]

a. **Exerting moral pressure**: The assigned bankers approved by the manager or appropriate authority should physically visit the project unit and investigate the causes of non-payment of bank's dues. The bankers also communicate with entrepreneurs' guarantors to give them pressure, whether they make stress upon entrepreneurs of repaying the loans.

b. **Notice recalling advance:** While moral suasion fails, the bank gives a notice by Registered Acknowledgement Due Post (Regd. A.D.) to entrepreneur stating clearly that since he has failed to repay dues in spite of repeated requests, and he is finally requested to repay the dues within 30 days of receipt of the notice, failing which the bank will dispose of his securities lying with bank and legal action will be taken for recovery of loan.

c. **Sale of security:** If the entrepreneur refuses to accept the notice, the bank should issue a notice for sale of security to him through "Registered A/D mentioning that if the loan is not cleared by a particular date (as mentioned in the notice), the security will be sold away at a particular place, time and date. When the borrower refuses to accept the notice, the bank will get right to sell movable security either through auction or by inviting tenders. But in case of sale of immovable property, the bank should obtain a preliminary decree from the court against the mortgagor in the first instance giving the mortgagor some time to redeem mortgaged property. In case the mortgagor fails to clear his dues, the bank obtains in the final decree against the borrower which will permit sale of mortgaged property through the court. The bank should sell the much property that is sufficient to repay the loan from an entrepreneur. When the property is indivisible the entire security may have to be sold. A proper record of the sale transactions has to be maintained and entrepreneur has to be informed accordingly.

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[97] S.N. Maheshwari and S.K. Maheshwari, *"Banking Law and Practice,* (Kolkata: Kalyani Publishers, 2010-2011), P.VI-66-68.

d. **Filling of a suit:** While the entrepreneur fails to adjust their outstanding liabilities even after all out persuasion, the bank shall sell pledged goods, securities under lien and mortgage properties after filing of a suit in district law court where the right was conferred upon the Bank as per Section 12 of Artha Rin Adalat Ain-2010.

2. Basis of Loan Classification

Bangladesh Bank had developed the following concepts about loan classification and maintenance of provision for classification of loans:[98]

Past due/ Overdue: When any installment or part of the installment of project loan is not repaid within the due date, the amount of unpaid installment is treated as past due/overdue.

Special Mention Account: A loan which will remain overdue for a period of 02 (two) months or more, will be put into the "Special Mention Account (SMA)". This loan accounts are focused by the bank with potential problems and brings under the umbrella of early warning signals for showing the first sign of weakness and requires reporting to the Credit Information Bureau (CIB) of Bangladesh Bank.

Sub-standard: If the amount of past due installment remains unpaid for a period of three or more than three months.

Doubtful: If the amount of past due installment remains unpaid for a period of six or more.

Bad/Loss: If the amount of 'past due installment remains unpaid for a period of nine or more.

3. Accounting of the Interest of Classified Loans:

If any loan or advance is classified as 'Sub-standard' and 'Doubtful', interest accrued on such loan will be credited to Interest Suspense Account, instead of crediting the same to Income Account. In case of rescheduled loans the unrealized interest, if any, will be credited to interest Suspense Account, instead of crediting the same to Income Account. As soon as any

[98] Bangladesh Bank*, "Master Circular: Loan Classification and Provisioning,"* Banking Regulation & Policy Department, Circular No. 14, *September 23, 2012.*

loan or advance is classified as 'Bad/Loss', charging of interest in the same account will cease. In case of filing a law-suit for recovery of such loan, interest for the period till filing of the suit can be charged in the loan account in order to file the same for the amount of principal plus interest. But interest thus charged in the loan account has to be preserved in the 'Interest Suspense' account. If any interest is charged on any 'Bad/Loss' account for any other special reason, the same will be preserved in the 'Interest Suspense' account. If classified loan or part of it is recovered i.e., real deposit is effected in the loan account, first the interest charged and accrued but not charged is to be recovered from the said deposit and the principal to be adjusted afterward.

4. Maintenance of Provision for classified loan:

a) General Provision: Banks will be required to maintain General Provision in the following way:

1. @ 0.25% against all unclassified loans of Small and Medium Enterprise (SME) as defined by the SME & the Special Programs Department of Bangladesh Bank and @ 1% against all unclassified loans (other than loans Consumer Financing).
2. @ 5% on the unclassified amount for Consumer financing, whereas it has to be maintained @ 2% on the unclassified amount for (i) Housing Finance and (ii) Loans for Professionals to set up business under Consumer Financing Scheme.
3. @ 5% on the outstanding amount of loans kept in the 'Special Mention Account'.
4. @1% on the off-balance sheet exposures.

b) Specific Provision: Sub-standard: 20%; Doubtful: 50%; Bad/Loss: 100%.

5. Rescheduling of Classified loans: When an entrepreneur having classified loans asks for rescheduling of loan, the bank will give permission of rescheduling under a valid ground after receiving the required down payment.[99]

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[99] Bangladesh Bank, *"Master Circularon Loan Rescheduling,"* Banking Regulation & Policy Department, Circular No. 14, *September 23, 2012.*

a) Down payment in rescheduling:

Frequency	**Cash Payment**
First Rescheduling	At least 15% of the overdue installments or 10% of the total outstanding amount of loan, , whichever is less.
Second Rescheduling	Minimum 30% of the overdue installments or 20% of the total outstanding amount of loan, whichever is less.
Third Rescheduling	Minimum 50% of the overdue installments or 30% of the total outstanding amount of loan, whichever is less.

b) Time limit for rescheduling:

Frequency	**Classified as Sub-standard.**	**Classified as Doubtful.**	**Classified as Bad/loss.**
First Rescheduling	Maximum 24 (twenty four) months from the date of rescheduling.	Maximum 18 (eighteen) months from the date of rescheduling.	Maximum 18 (eighteen) months from the date of rescheduling.
Second Rescheduling	Maximum 18 (eighteen) months from the date of rescheduling.	Maximum 12 (twelve) months from the date of Rescheduling.	Maximum 12 (twelve) months from the date of rescheduling.
Third Rescheduling	Maximum 12 (twelve) months from the date of rescheduling.	Maximum 09 (nine) months from the date of rescheduling.	Maximum 09 (nine) months from the date of rescheduling.

CHAPTER FIVE

PROJECT FINANCING SCENARIO AND THEIR IMPACT ON PERFORMANCE OF BANKS

5.1 Projects Financing Scenario of BASIC Bank Ltd

After the inception, the bank is working persistently for extending loans & advances in the form of a term loan, cash credit & overdraft to SMEs sub-sector and other rising sub-sectors of the economy. Project loans of the bank consist of SMEs loan, real-estate loans, transport loans, staff loans, and Loans against Imported Merchandise (LIM). The equity fund of the bank was increased to Tk. 6,440.58 million in the year 2012 from Tk.80.00 million at its commencement. The Memorandum and Articles of Association of the bank stipulate that at least fifty percent of its fund is to be used for financing SMEs loan (including working capital). Over twenty four year journey, the bank could mobilize such amount of deposits that was always more than its loans & advances figure. The following table shows a snapshot about fund disbursement as project loans over the study period:

Table 5.1

Total loans, Deposits and Project Loans Disbursement of BASIC Bank Ltd. (in Million Tk.)

Particulars	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Mean	S.Dev.
SME loans(term)	2,274	2,553	3,518	3,897	5,056	6,207	7,718	12,226	14,732	22,805	8,099	6,013
Real Estate Loan	----	----	----	----	----	----	----	----	----	3,489	----	----
Transport Loans	----	----	----	----	----	----	----	----	----	4,284	----	----
Staff Loans	----	----	----	----	----	----	----	646	734	785	----	----
LIM	----	----	76	58	101	226	54	47	1	----	----	----
Total Projects Loans (PL)	2,274	2,553	3,594	3,955	5,157	6,433	7,772	12,919	15,467	31,363	9,149	8,953
Total Loans(Excl.Bills)	8,634	11,293	13,759	17,076	20,048	24,345	27,226	43,258	54,267	84,092	30,400	23,723
% of PL to Total Loans	26.34	22.61	26.12	23.16	25.72	26.42	28.55	29.87	28.50	37.30	27.50	4.14
Total Deposits	11,267	15,509	22,326	24,085	31,948	38,368	34,502	49,260	62,651	87,693	37,761	23,362
% of PL to Total Deposits	20.18	16.46	16.10	16.42	16.14	16.77	22.53	26.22	24.69	35.76	21.12	6.40

Source: Annual Reports of BASIC Bank Ltd during the year 2003-2012.

Average project loans of the bank were Tk. 914.90 crores and standard deviation was Tk. 895.30 crores over the study period. The figure of the project loans was gradually increasing year by year to satisfy the demand of its customers. Project loans of the bank were mainly dominated by SME loans. From the year 2003 to 2009, the bank had disbursed loans in the SMEs sector with some amount as Loan against Imported Merchandise (LIM). Afterwards, it extended project loans in the form of staff loans, and real estate & transport sub-sectors in the year 2012 for utilizing loanable fund. Average total deposits and total loans & advances were Tk. 3,776.10 crores and Tk. 3,040.00 crores respectively, over the study period. The average percentage of project loans to total deposits and percentage of project loans to total loans and advances were 21.12% and 27.50% respectively over the study period. Most of the deposits of the bank were collected from government institution which was cost bearing. Project loans and total loans & advances was positively correlated (r =0.99), and project loans and total deposits was positively correlated (r =0.97) (calculated by using MS Excel) . The bank rigorously extended its project finance to adjust its increased volume of deposits and total loans and advances. The rates of project loans to total loans and the rate of project loans to total deposits had shown upward trend over the study period.

Figure 5.1

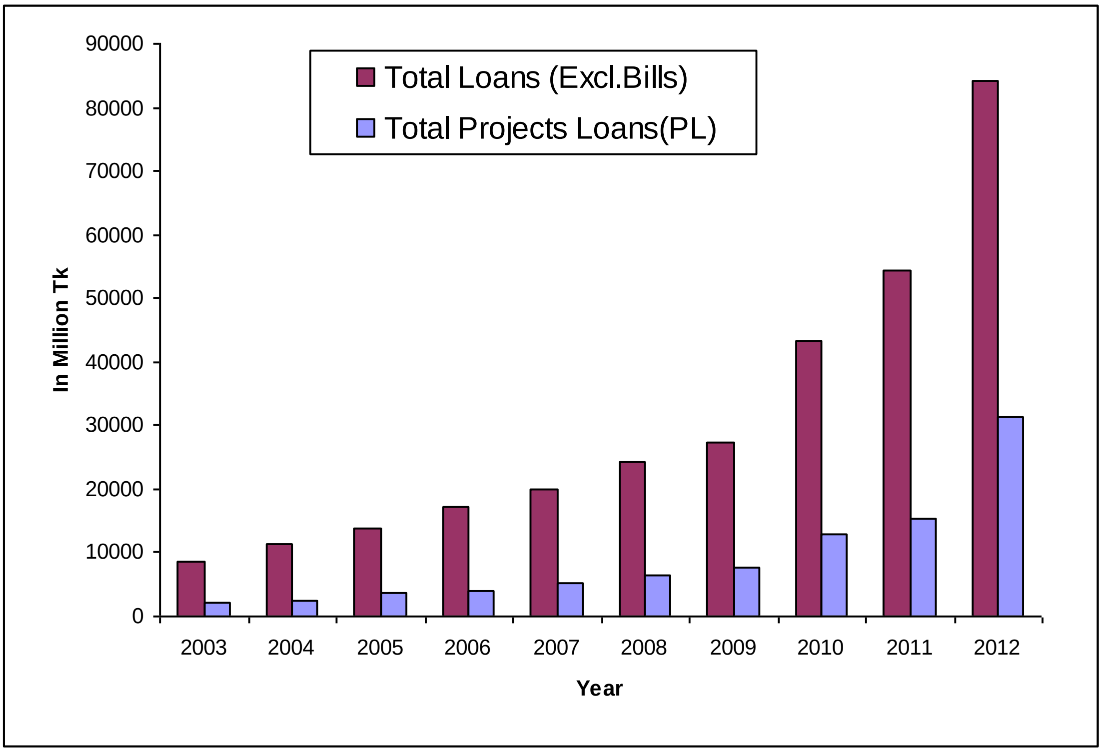


Figure 5.2

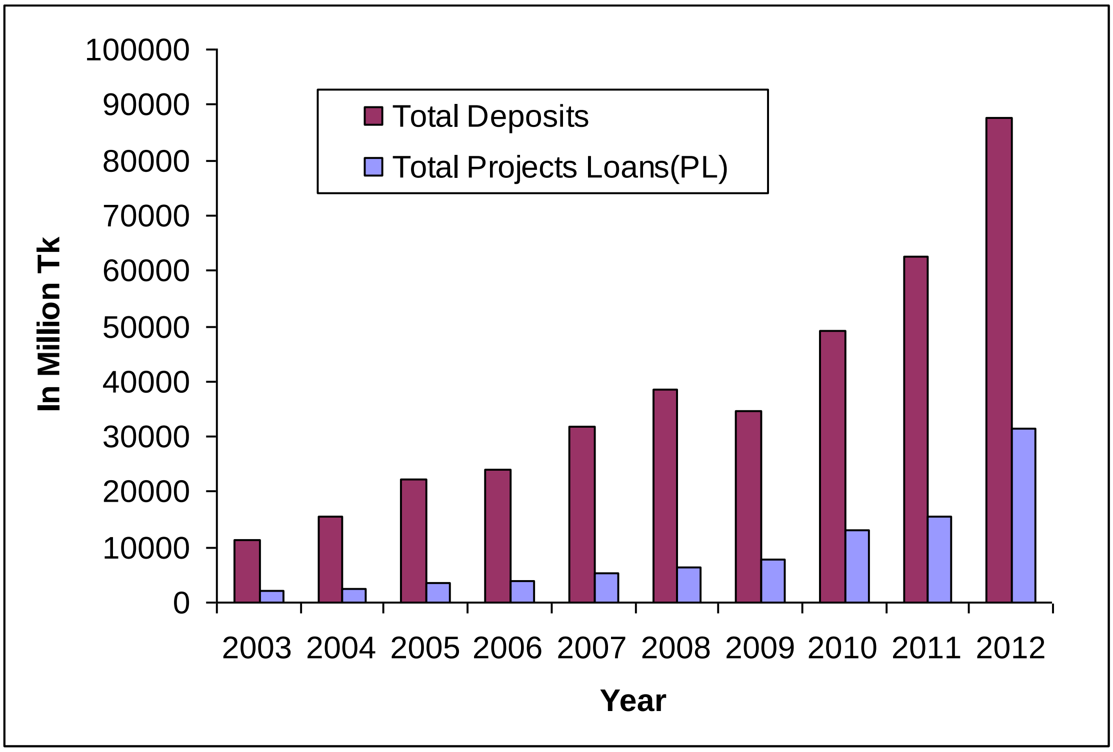


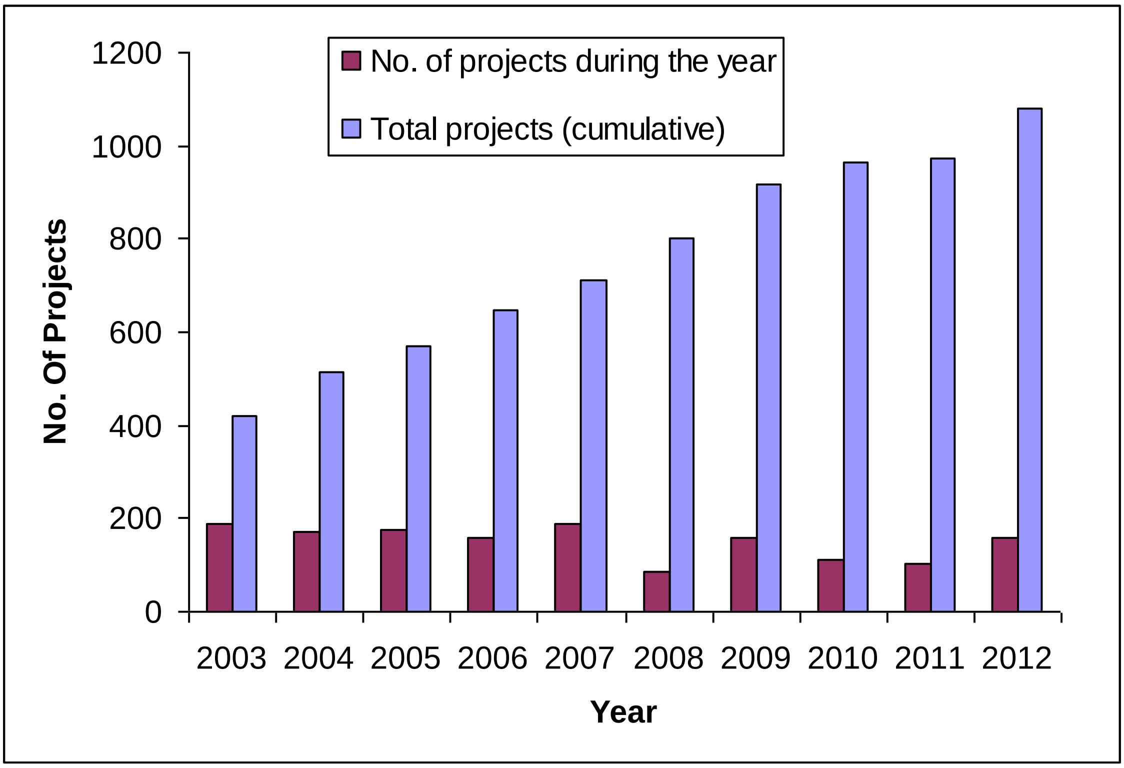
Table 5.2
Number of Projects under SME loans of BASIC Bank Ltd

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Mean	S.Dev
No. of projects during the year	187	171	175	159	187	87	160	111	101	160	150	37
Total projects (cumulative)	418	513	569	647	712	801	919	966	973	1078	760	223
No. of mature projects during the year	----	76	119	81	122	---	42	64	94	55	65	43

Source: Annual Reports of BASIC Bank Ltd during the year 2003-2012.

The bank averagely entertained 150 projects every year for the development of SMEs sector and average number of cumulative projects in the portfolio of the bank was 760 units over the study period. The number of entertaining projects of the bank from the year 2003 to 2007 was higher and drastically had fallen to 87 units and then it was gradually raised. Average number of mature projects of the bank was 65 units over the period and maximum number of mature projects was in the year 2007.

Figure 5. 3



5.2 Impact on overall performance of BASIC Bank Ltd

The impact of project financing on the overall performance of the bank is measured by NPL, written off loans as bad debts, NPAT, Return on Assets (RoA), Return on Equity (RoE), and profit per employee over the study period.

Table 5.3

Total Loans, NPL, and Written off loans of BASIC Bank Ltd. (In Million Tk.)

Particulars	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Mean	S.Dev
Total Loans (Excl. Bills)	8,634	11,293	13,759	17,076	20,048	24,345	27,226	43,258	54,267	84,092	30,400	23,723
Total Project Loans	2,274	2,553	3,594	3,955	5,157	6,433	7,772	12,919	15,467	31,363	9,149	8,953
Total NPL (cumulative)	395	444	698	703	723	1,251	1,412	2,240	2,490	7,066	----	----
NPL during the year	(13)	49	255	5	20	528	161	828	250	4,576	666	1,400
% of NPL to Total Loans	4.25	3.70	4.55	3.70	3.25	4.59	4.83	4.83	4.38	8.22	4.63	1.37
Cumulative written off	69	204	283	284	284	588	588	588	689	1,307	----	----
Written off during the year	69	135	79	0.52	0.04	304	---	---	101	618	163	207

Source: Annual Reports of BASIC Bank Ltd during the year 2003-2012.

For sustainable growth and development of specialized banks, the rate of NPL to total loans is to be maintained below 5% at any cost. The rate for the bank was below 5% during the study period except in the year 2012, whereas NPL to total loans for all specialized banks was 23.92% and 8.22% for the bank as on December 2012. An amount of Tk. 457.60 crores was marked as new classified loans in the year 2012 which made the cumulative volume of classified loans as Tk. 706.60 crores as on December 2012. These huge volumes of classified loans in loan portfolio of the bank abolished the success had attained by the bank after its inception. Total loans, total project loans and NPL loans were increased (yearly average on simple growth rate) by 28.91%, 36.42% and 45.25% respectively during the study period. It indicates that the bank gave emphasis on project loans in its loan portfolio and the bank could not control the reins of NPL because the growth rate of NPL was higher than that of total loans and total project loans.

The correlation between total project loans & cumulative NPL loans was highly positive (r = 0.99), and the correlation between total project loans and cumulative written off loans was also highly positive (r = 0.96) (calculated by using MS Excel) during the study period. Whenever the project loan had increased by 14 times, and cumulative NPL and cumulative written off loans had raised by 18 and 19 times respectively over the period. But the trend of written off classified loans as bad debts for the bank had been moving upward every year. In the year 2008, NPL and written off classified loans as bad debts were suddenly increased due to low recover NPL. During the study period the bank had to write off Tk. 131 crores as bad debts, including Tk. 62 crores in the year 2012 to comply with Bangladesh Bank circular on May 25, 2013 on risky loans.

Figure 5.4

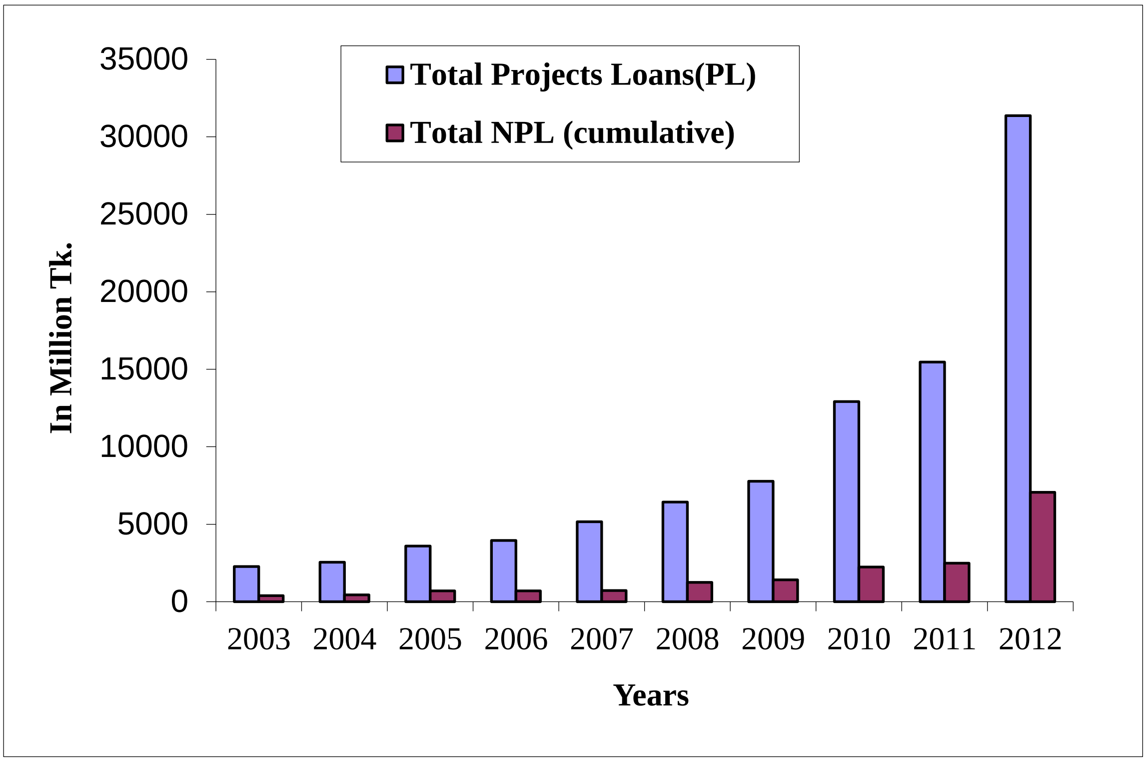


Figure 5.5

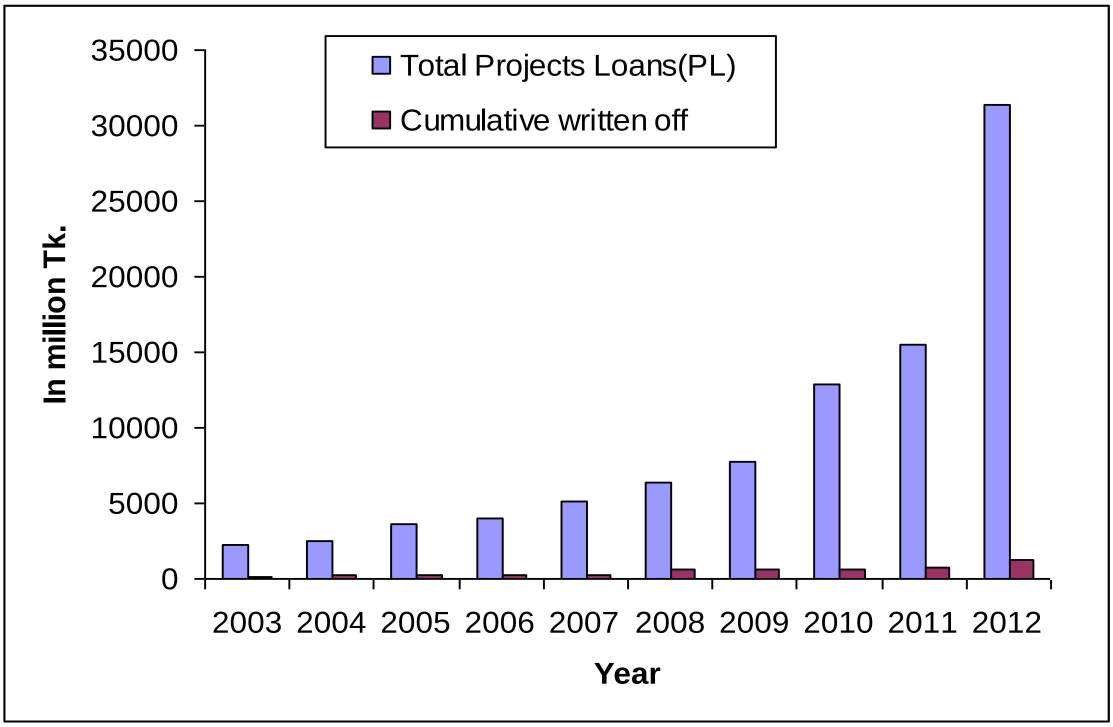


Table 5.4
Income Statement on Project Loans of BASIC BANK LTD (in Million Tk.)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Mean	S. Dev.
1. Interest income on total loan[100]	1,005	1,088	1,386	1,786	2,324	3,006	3,141	3,926	6,517	10,689	3,487	3,022
2. Interest expense on total loan[101]	500	564	582	902	1,160	1646	2,093	2,525	4,073	7,711	2,176	2,242
3. Net Interest Income (1-2)	505	524	804	884	1,164	1,360	1,048	1,401	2,444	2,978	1,311	808
4. % of PL to Total loan	26.34	22.61	26.12	23.16	25.72	26.42	28.54	29.86	28.50	37.30	27.46	4.14
5. Net Interest on PL (3×4)	133	118	210	205	299	359	299	418	697	1,111	385	305
6. (-) Total Op. Expenses[102]	38	33	63	61	98	125	94	185	279	514	149	149
7. Profit before Provision (5-6)	95	85	147	144	201	234	205	233	418	597	236	158
8. (-) Provision[103]	17	37	64	19	73	75	70	117	99	1,079	165	323
9. Total Profit before Tax(7-8)	78	48	83	125	128	159	135	116	319	-482	71	208
10. (-) Tax[104]	49	29	58	60	97	107	88	90	182	240	100	65
11. NPAT (9-10)	29	19	25	65	31	52	47	26	137	-722	-29	246

Source: Annual Reports of BASIC Bank Ltd during the year 2003-2012.

Average net interest on project loans of the bank was Tk. 38.50 crores with standard deviation of Tk. 30.50 crores over the study period. The bank earned NPAT of Tk. (2.90) crores that is accounted for a net loss of 0.32% to average project loans over the study period. Total project loans and NPAT had increased (yearly average on simple growth rate) by 36.42% and (9.09%) respectively. So it could not make significant net profit after tax due to high specific loan provisions for classified loans. The profitability had shown an increasing trend up to the year 2011 and had a massive negative figure in the year 2012 due to huge volumes of classified loan derived in compliance with BB circular on the intensification of risk in the project loans. The correlation between project loans & NPAT was highly negative (r = -0.82) (calculated by MS Excel) which indicates that the bank could not raise NPAT due to the specific provision for classified loans with its increased volume of project loans. While the project loan had disbursed, profit of the bank decreased due to the high specific provision and transfer of interest income to interest suspense account for classified loans and written off classified loans as bad debts. The earning capacity of BASIC Bank Ltd was lower and monitoring & recovery performance of the

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[100] Interest received from only clients on Loans and Advances.

[101] Interest expenses on loanable fund and calculated as *interest paid on deposits and borrowings ÷ (Borrowings from others banks, financial institutions and agents +Deposits and other accounts) ×Total Loans (Excl. Bills)*

[102] Total Operating Expenses is calculated as *(Total operating Expenses÷ Total operating Income) ×Net interest Income on Projects loans.*

[103] Provision is calculated as *Total provision ×% of projects Loans to total loans*

[104] Tax is calculated as *(Total Tax paid÷ Total operating Income) ×Net interest Income on Projects loans.*

bank were not demanded as praiseworthy because of the high growth rate of NPL and written off loans over the period.

Figure 5.6

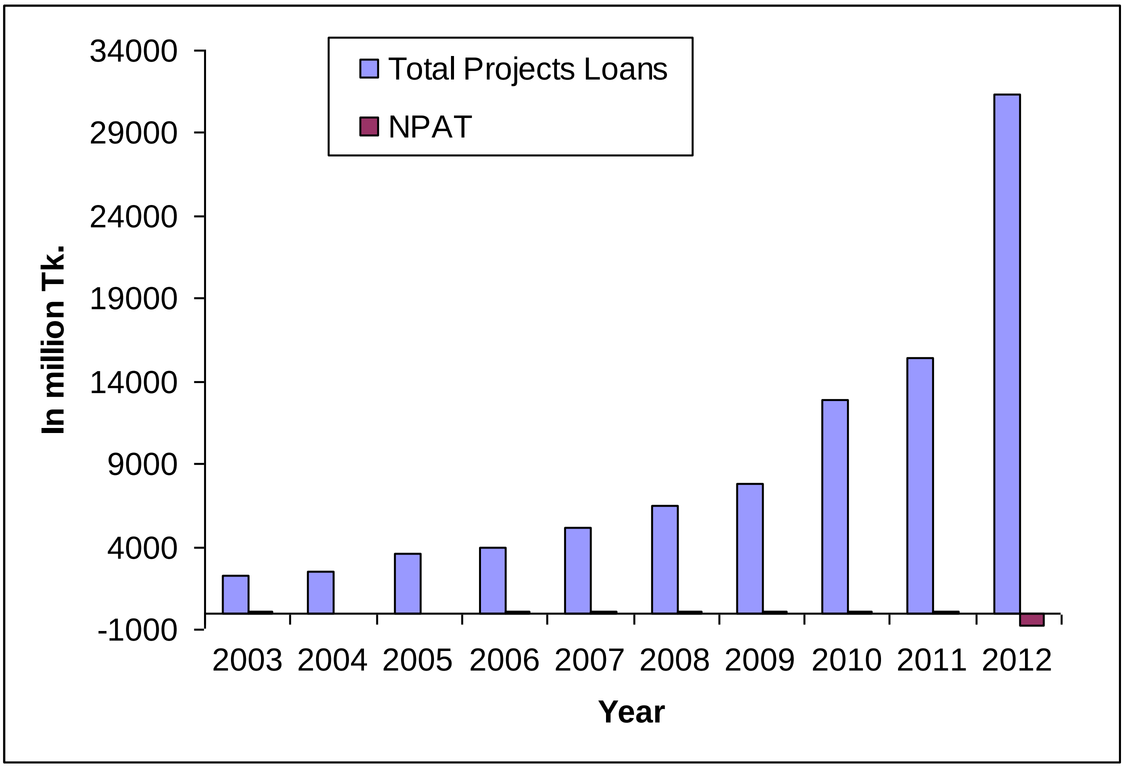


Table 5.5
Earnings and Activity level of BASIC Bank Ltd

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Mean	S. Dev.
After Tax Return on Assets (RoA) (%)	1.60	1.50	1.05	1.88	0.73	1.17	1.43	1.07	1.25	-1.21	1.05	0.86
After Tax Return on Equity (RoE)(%)	18.92	19.55	16.52	24.75	10.90	18.43	16.54	14.77	17.81	-20.67	13.75	12.60
Advance per Employee (in Million Tk.)	17.75	20.76	25.52	29.19	30.88	37.10	37.71	48.07	50.25	51.87	34.91	12.21
Profit before tax per Employee (in Million Tk.)	1.06	0.91	1.05	1.55	1.12	1.70	1.70	1.35	1.77	-0.17	1.20	0.57

Source: Annual Reports of BASIC Bank Ltd during the year 2003-2012.

Average RoA, RoE, advance per employee and profit before tax of the bank was 1.05%, 13.75%, Tk. 3.49 crores and Tk. 0.12 crores respectively over the study period. The correlation between project loans and advance per employee was highly positive (r = 0.84). But the correlation between project loans & after tax profit on assets was highly negative (r = -0.86), highly negative (r = -0.87) for after tax profit on equity, highly negative (r= -0.56) for profit before tax per employee (calculated by using MS Excel). The bank had to prove high productivity in increasing project loans for adjusting with their loanable fund over the period. But projects loan could not bring desirable benefits for the bank because profit after tax on assets and equity had declined over the study years.

Figure 5.7

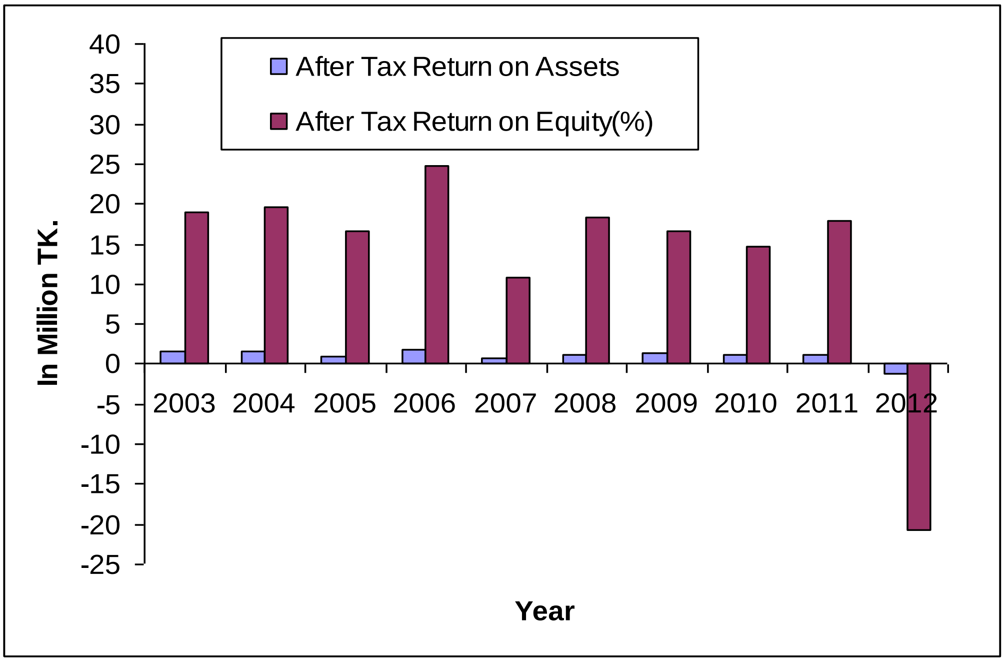
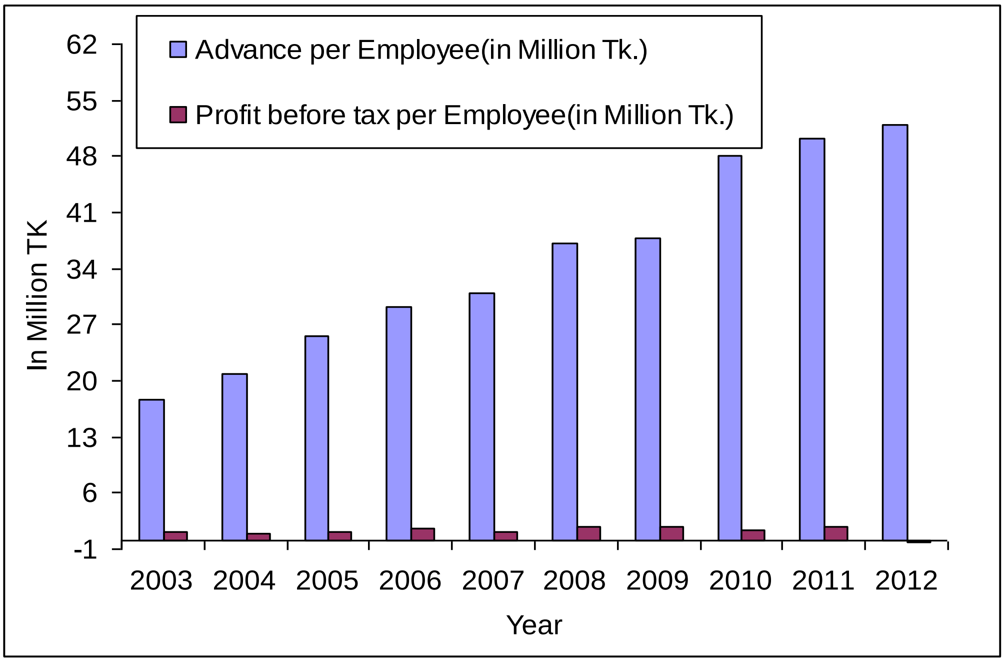


Figure 5.8



5.3 Projects Financing Scenario of the then BSB

The bank had been giving emphasis on providing financial assistance for setting up of viable projects having comparative opportunity, export-prospects, forward and backward-linkages and local technology as well as indigenous raw materials based large, medium and small scale projects. The sources of bank's fund were the Government, Bangladesh Bank, commercial banks, local/overseas financial institutions and suppliers' credit.

The cumulative loans & advances and classified loans were Tk. 8,064 million and Tk. 2,209 million respectively at the end of FY 2008-09. In the FY 2008-09, term loan of Tk. 616 million in the form of local currency had been disbursed to 40 projects. In the FY 2007-08, Tk. 384 million term loans in local currency disbursed to 45 projects, showing a rise Tk. 232 million in absolute terms and in percentage point 60% over the previous year. In FY 2008-09, the total number of projects in the loan portfolio was 175 units with total loan liabilities of Tk. 5,965 million for keeping written off loan in separate ledgers as per the guidelines of Bangladesh Bank. Among the projects, 52 were export-oriented, 80 were import-substitute and 43 were service/other industries. In the FY 2008-09, loan liabilities of 29 projects were liquidated and 17 new projects had entered into the loan portfolio with loan liabilities of Tk. 246 million. In the same period, total classified loan had stood at Tk. 1,577 million and the bank had recovered loan amount of Tk. 908 million in cash as against loan recovery target of Tk. 950 million, showing about 96 percent recovery of the target. During FY 2008-09, the bank had written off a total loan liability of about Tk. 39 million of 4 projects.

In the FY 2008-09, the net profit of the bank had reached to Tk. 255 million. As a result, the total equity of the shareholders was Tk. 3,453 million, showing a rise of 6 percent over the previous fiscal. In the same period, Return on Investment (RoI), returm on Assets (RoA) and Return on Equity (RoE) were 14%, 2% and 6% respectively.

Project loans of Bangladesh Shilpa Bank were constituted with industrial loans, bridge loans and staff loans. The following table shows the loans disbursed by the bank during the year 2002-09:

Table 5.6
Total Project loans of the then BSB (in Million Tk.)

Year	**Industrial Loan**		**Bridge Loan**	**Staff Loan**	**Total Projects Loans (PL)**	**Total Loans**	**% of PL to Total Loans**
	Amount	**No. of Projects**					
2002-03	14,374.00	461	223.52	778.38	15,375.90	16,432.86	93.57%
2003-04	13,998.00	308	239.18	880.53	15,117.71	16,168.68	93.50%
2004-05	7,441.91	166	51.97	986.46	8,480.34	8,910.68	95.17%
2005-06	6,260.18	164	43.24	1,084.76	7,388.18	7,892.44	93.61%
2006-07	6,229.60	179	12.22	1,203.71	7,445.53	8,164.81	91.19%
2007-08	5,699.74	177	12.22	1,329.10	7,041.06	7,660.24	91.92%
2008-09	5,965.00	175	12.22	1,444.99	7,422.21	8,064.05	92.04%
Mean	8,566.92	233	84.94	1101.13	9,752.99	10,470.54	93.00%
St. Dev	3,878.56	112.75	101.39	240.48	3,779.79	4,002.15	1.36%

Source: Annual Reports of BSB during the year 200/03-2008/09.

The mean values of industrial loan, bridge loan, staff loan, total projects loans (PL), and total loans over the study period were Tk. 856.69 crores, Tk. 8.49 crores, Tk. 110.11 crores, Tk. 975.30 crores, and Tk. 1,047.05 crores respectively. On the other hand, standard deviation of those loans were Tk. 3,87.86 crores, Tk. 10.14 crores, Tk. 24.05 crores, Tk. 377.98 crores, and Tk. 400.22 crores. The average percentage of project loans to total loans of BSB were 93% over the study period. The volume of project loans had been declining every year and came to 45.17% in the year 2008-09 compared to the volume of total loans in the year 2002-03. In the project loans portfolio, the portion of industrial loans and bridge loan had been decreased and the portion of staff loans had shown an upward trend during the years. During the period most of its projects had been matured on normal courses of action or the bank liquidated those with the help of Artha Rin Adalat-2003 and the number of projects came down to 175 units from 461 units. The trend of loan and advances with project loans had decreased rapidly because a few funds were disbursed to suitable projects. The bank could not able to select viable projects to undertake during the period.

Figure 5.9

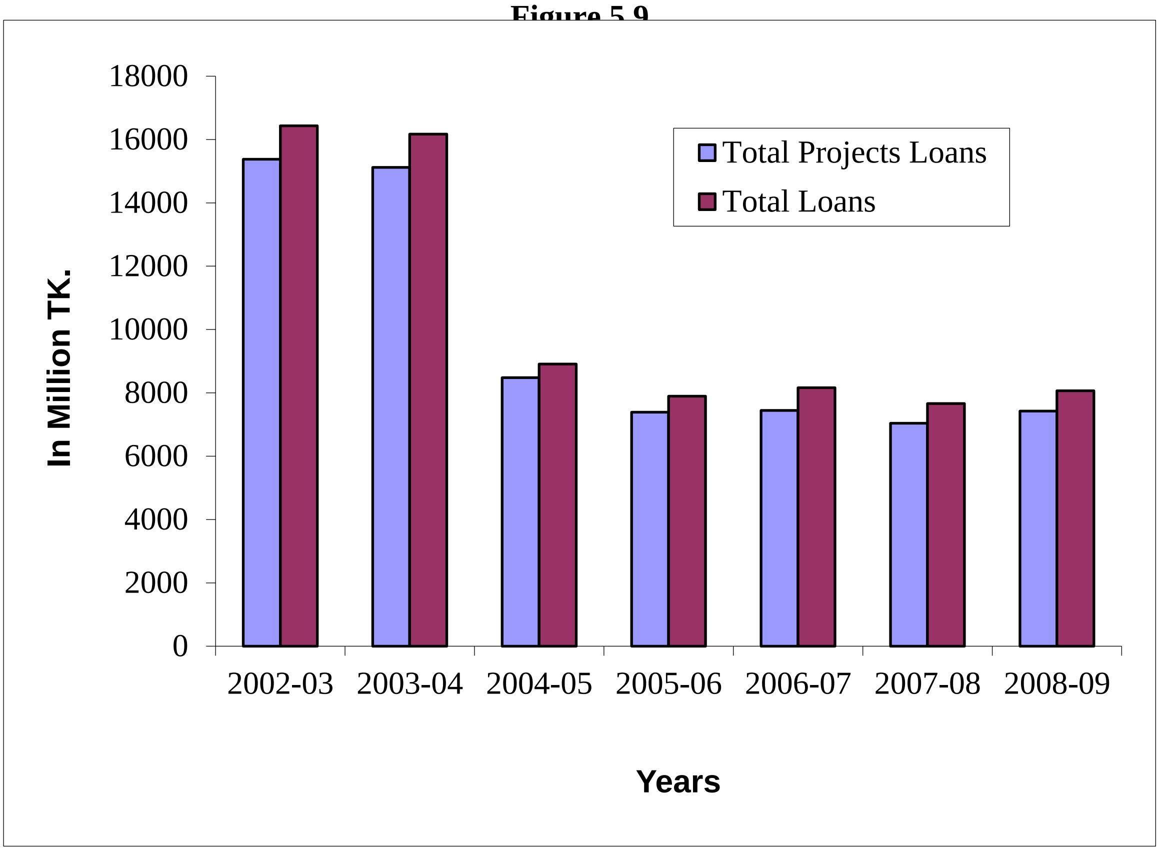


Table 5.7
Income Statement and Operational Performance of the then BSB (in Million Tk.)

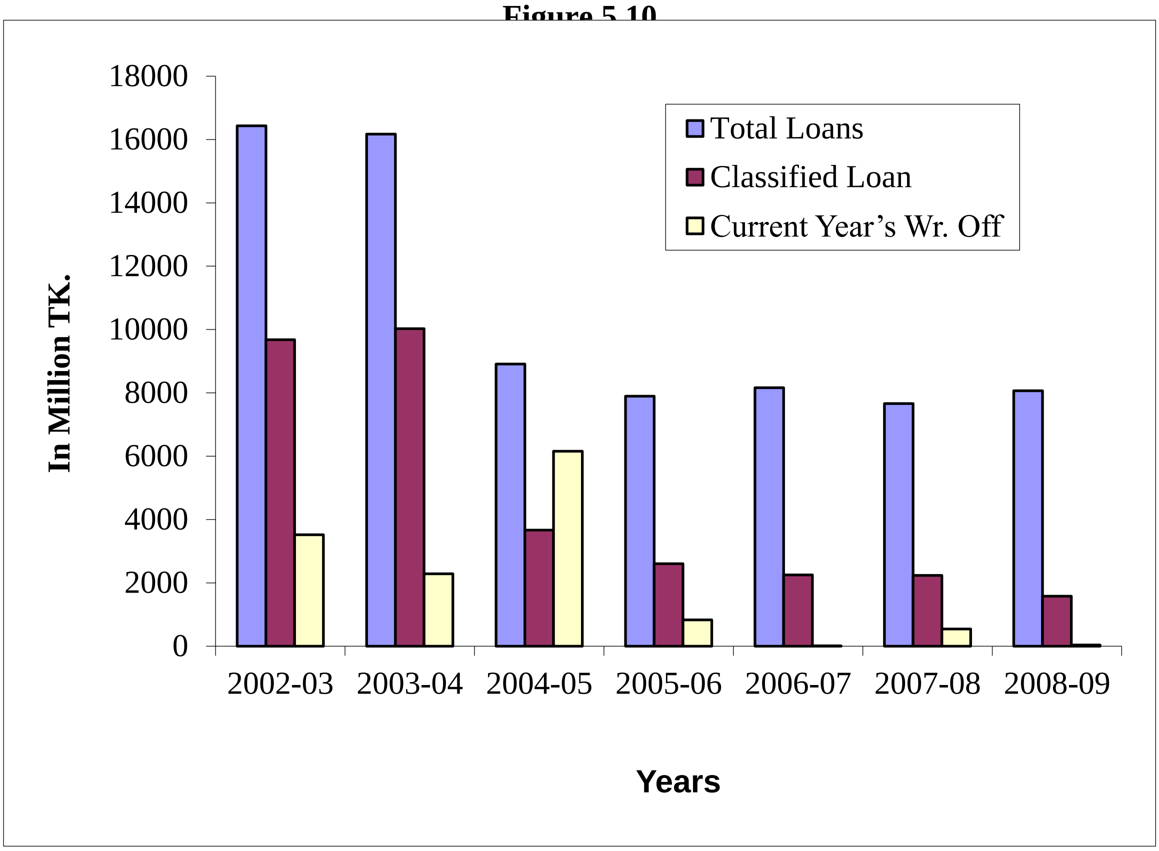
Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Mean	St. Dev
Interest Income on Project Loan	772.14	638.62	611.09	549.48	554.65	591.91	457.97	596.55	96.61
Interest Exps. on Project Loan	86.34	46.82	35.38	45.44	39.30	39.15	45.16	48.22	17.31
Net Interest	685.80	591.80	575.71	504.04	515.35	552.76	412.81	548.32	84.63
Operating Exp. on Project Loan	169.97	177.24	192.42	192.93	223.08	212.96	206.24	196.41	19.05
Profit B. Prov.	515.83	414.56	383.29	311.11	292.27	339.80	206.57	351.92	98.55
Loan Provision	(90.39)	49.77	625.47	46.85	(131.76)	137.12	52.33	98.48	250.02
Profit B. Tax	606.22	364.79	(242.18)	264.26	424.03	202.68	154.24	253.43	265.87
Tax	----	----	-----	-----	39.43	53.87	35.32	42.87	9.74
Profit After Tax	606.22	364.79	(242.18)	264.26	384.60	148.81	118.92	235.06	266.61
Classified Loan	9,676.20	10,024.40	3,664.71	2,604.30	2,248.30	2,234.01	1,577	4,575.56	3,658.60
% of class. loans to total loans	59%	62%	41%	32%	28%	29%	20%	39%	16.14%
Current year's Wr. Off	3,520	2,284.25	6,155.28	830.00	5.82	542.33	39.00	1,911.00	2,270. 02

Source: Annual Reports of BSB during the year 200/03-2008/09.

The main source of loanable fund of the bank was government of Bangladesh (GoB). So the interest expense of the fund was very low which made high interest spread and the bank enjoyed high net profit after tax over the period except in the year 2004-05. Average net interest income, profit after tax, classified loans and written off loans as bad debts of the bank were Tk. 54.83 crores, Tk. 25.34 crores, Tk. 457.56 crores and Tk. 191.10 crores respectively. The correlation between total project loans and cumulative classified loans of the bank was highly positive (r =0.99) (calculated by using MS Excel). In the 2008-09, net profit after tax, classified loans, and written off loans as bad debts were decreased to 19.62%, 16.30% and 1.10% compared to the figures in 2002-03. Since the declining trend of project loans of the bank was higher than that of net profit after tax, the growth trend of equity fund of the bank was negative.

The bank had earned 2.25% of net profit after tax to project loans during the period. But the profit had been declining rapidly due to the specific provision against classified loans & transfer of interest income to interest suspense account for writing off classified loans as bad debts, and disbursement of a few fund as project loans. During the period the bank had only undertaken a limited number of projects and disburses about Tk.287 crores as projects loans. The recovery performance of the bank was very poor that was evident of the huge volume of written off loans and Tk. 1,338 crores of loans had been written off as bad debts during the study period. But the high volume of classified loans of the bank made severe pressure upon disbursing new loans. Nevertheless, the bank predominantly performed the duty of classifying and being written off loans previously disbursed and came down the rate of classified loans to 20% in the year 2008-09 from 59% in 2002-03.

Figure 5.10



5.4 Projects Financing Scenario of the then BSRS

BSRS extended medium and long term credit facilities to industrial projects mainly in private sectors. Besides, it provided underwriting advance/bridge finance/debenture loans to public limited companies. The general policy, direction and administration of the affairs and business of the sangstha was vested in a Board of Directors appointed by the Government. The Board of Directors consisted of 9 members including the Chairman and the Managing Director. Since 1985, the resources of the then BSRS consisted of local currency funds only, which comprised paid up capital, reserves, customers' deposits and borrowings from Government. Prior to 1985, foreign currency funds of the sangstha were the lines of credit channeled by the Government from various international and regional lending agencies. The foreign currency resources were also augmented by contacting direct credit lines from different foreign countries and by borrowing foreign currency from the Government or any bank or financial institution in Bangladesh or from any foreign Government or foreign bank or financial institution. The authorized capital and paid-up capital of the then BSRS were Tk. 2,000.00 million and Tk. 700.00 million respectively at the end of fiscal year 2008-09.

Total equity of the then BSRS including reserves and surplus stood at Tk. 2,804.92 million at the end of the FY 2008-09. The then BSRS had no loan liabilities either to the Government or to any other institutions.

The operational activities of the then BSRS continued to focus on recovery of dues/overdues. However, the then BSRS had recognized the need for new project financing opportunities, investment banking and other activities. During FY 2008-09, the then BSRS had sanctioned Tk. 413.30 million for ten projects, out of which Tk. 243.40 million for 8 projects was approved by the Managing Director as per delegation of power and the rest Tk. 169.90 million for 2 projects was approved by the Board. Further out of these 10 projects sanctioned by BSRS, 3 projects were financed under consortium arrangements to the June of Tk. 155.00 million. At the end of FY 2008-09, the cumulative disbursement of term loan stood at Tk. 5,486 million against which cumulative recovery was Tk. 9,887 million. As on 30 June, 2009, the amount of outstanding loans of BSRS portfolio projects was Tk. 1,997.64 million.

As on 30 June 2009, total outstanding loan of the then BSRS had at Tk. 2,168.97 million of which private sector accounted for Tk. 2,168.03 million and the public sector accounted for only Tk. 0.94 million. The total outstanding loan was Tk. 2,093.15 million as on June 30, 2008. Classified loan accounted for 50.87% of the loan portfolio at the end of FY 2008-09 as against 47.45% on 30 June, 2008. As in previous years, recovery of dues/overdues of loans got priority during FY 2008-09. In the same period, the then BSRS recovered a total amount of Tk. 313.51 million, which included Tk. 288.02 million from long term loans disbursed in foreign and local currencies and Tk. 25.49 million on account of other operational activities like undertaking advance, debenture loan, staff advance, the customer’s credit, etc. During FY 2008-09 recovery from written off loan was Tk. 22.73

million, which led to a reduction of the written off amount by Tk. 231.59 million. At the end of FY 2008-09 the cumulative written off amount of BSRS came down to Tk. 12,445.32 million from Tk. 12,677.23 million at the end of FY 2007-08. During FY 2008-09, the then BSRS earned a pretax profit of Tk. 220.41 million as compared to Tk. 213.57 million in the preceding year.

The following table shows the loan disbursed as industrial loans of the then BSRS during the period 2002-09: **Table 5.8**

Total Projects Loans of the then BSRS (in Million Tk.)

Year	**Industrial Loans**	**Total Loans**	**% of PL to Total Loans**
2002-03	6,780.37	7,155.96	94.75%
2003-04	5.823.30	6,179.18	94.24%
2004-05	2,668.21	2,951.02	90.42%
2005-06	2,086.04	2,324.57	89.74%
2006-07	1,865.66	2,108.67	88.48%
2007-08	1,842.60	2,093.15	88.03%
2008-09	1,917.45	2,168.97	88.40%
Mean	2,860.06	3,568.79	90.58%
St.Dev	1,945.11	2,155.64	2.80%

Source: Annual Reports of BSRS during the year 200/03-2008/09.

Average industrial loans and total loans of the then BSRS over the period 2002-09 were Tk. 2,860.06 million and Tk. 3,568.79 million, respectively. The average industrial loans to total loans and its standard deviation were 90.58% and 2.80% respectively. The volume of industrial loans had drastically decreased over the period and reached to 28.28% in the year 2008-09 compared to the volume of industrial loans in 2002-03. The correlation between industrial loans and total loans was highly positive. The balance of industrial loans of the bank was Tk. 6,780.37 million in the year 2002-03 and was decreased to Tk. 1,917.45 million in the year 2008-09 due to non-availability of suitable projects or some other constraints.

Figure 5.11

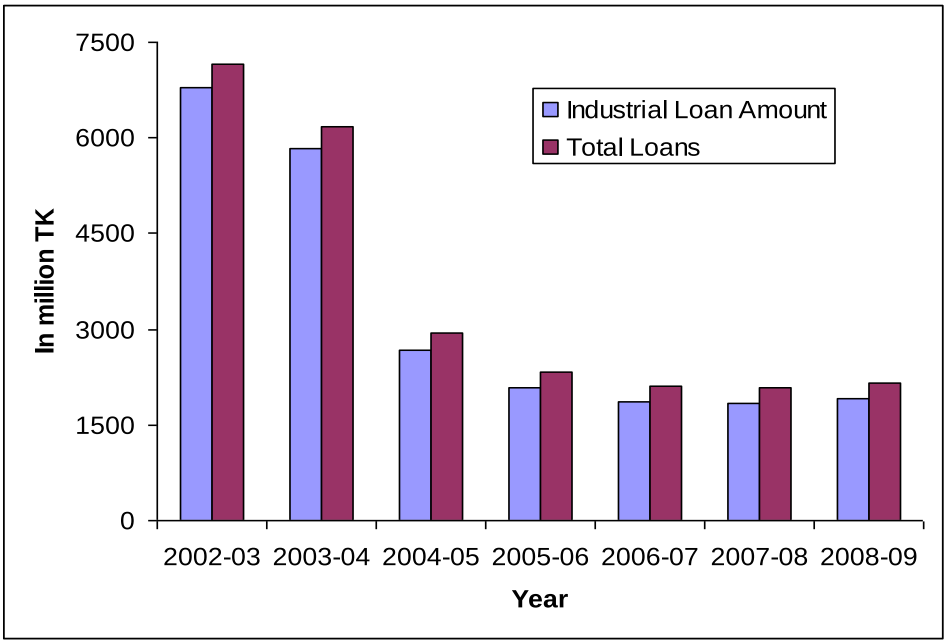


Table 5.9
Operational Performance of the then BSRS (in Million Tk.)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1.Paid-up capital	700	700	700	700	700	700	700
2.Reserve fund	1313.20	1492.95	1566.70	1,682.60	1,805.43	1,936.47	2,104.92
3.Borrowing	82.19	80.30	73.00	65.70	58.40	51.10	43.80
4.Deposit	138.53	153.94	393.78	317.87	278.39	331.07	417.51
5.Total Fund(1+2+3+4)	2,233.92	2,427.19	2,733.48	2,766.17	2,842.22	3,018.64	3,266.23
6. Cumulative loan disbursed at the end of the year	4,945.89	4,945.89	4,997.39	5,071.59	5,071.59	5,176.19	5,486.03
7. Outstanding loan at the end of the year	7,039.89	6,179.18	2,951.03	2,324.58	2,108.67	1,935.89	1,997.64
8.Outstanding Industrial loan	6,780.37	5.823.30	2,668.21	2,086.04	1,865.66	1,842.60	1,917.45
9.Term Loan outstanding	6,911.22	5,979.08	2,886.39	1,848.21	1,945.71	1,256.94	1,768.32
10. Cumulative Recovery at the end of the year	8,696.76	8,996.04	8,815.32	9,128.53	9,353.27	9,573.57	9,887.08
10. Loan recovery during the year	468.93	298.01	289.48	313.21	242.06	220.30	313.51
11.Loan written off during the year	---------	562.70	2,989	313.24	------	------	------
12. Classified loan	6,911.22X 65.72% =4,542.05	5,979.08X 64.40% =3,850.53	2,886.39x 61.13% =1,764.45	1,848.21x 54.07 =999.33	1,945.71x 50.24% =977.53	1,256.94x 47.45%= 596.42	1,768.32 x50.87% =899.54
13. Provision against class. loan	4,700.96X 83.64% =3,931.88	3,850.53x 82.82% =3,189	1,764.45x 65.23% =1,150.95	999.33x61 .56% =615.19	977.53x62 .85% =614.37	596.42x6 0.66% =361.79	899.54x 54.49% =490.16
14.Loan disbursed during the year	------	-------	51.50	74.20	------	-------	-------
15.Net income after tax	82.53	86.16	----	85.85	105.78	137.17	135.27

Source: Annual Reports of BSRS during the year 200/03-2008/09.

The equity fund of BSRS had been increasing over the period due to upward trend in net income after tax. But the bank had disbursed Tk. 12.6 crores as project loan during the year 2004-06 despite of available loanable fund. Low disbursements of loans during the study period had proved that there was non-availability of suitable projects. The management mainly focused on recovery of classified loans and had to write off classified loans as bad debts which were previously disbursed to unviable projects. The bank recovered Tk. 215 crores from defaulters and had written off about Tk. 387 crores as bad debts due to adverse situations to recover the classified loans in due time. As a result, the rate of classified loans was decreased to 50.87% in the year 2008-09 from 65.72% in 2002-03. The provision for classified loans was very high during the 2002-05 which made a low profit after tax and the rate of profit had been going to upward from 2005-06. The NPAT had shown an upward trend from the year 2005-06 due to high interest spread.

Figure 5.12

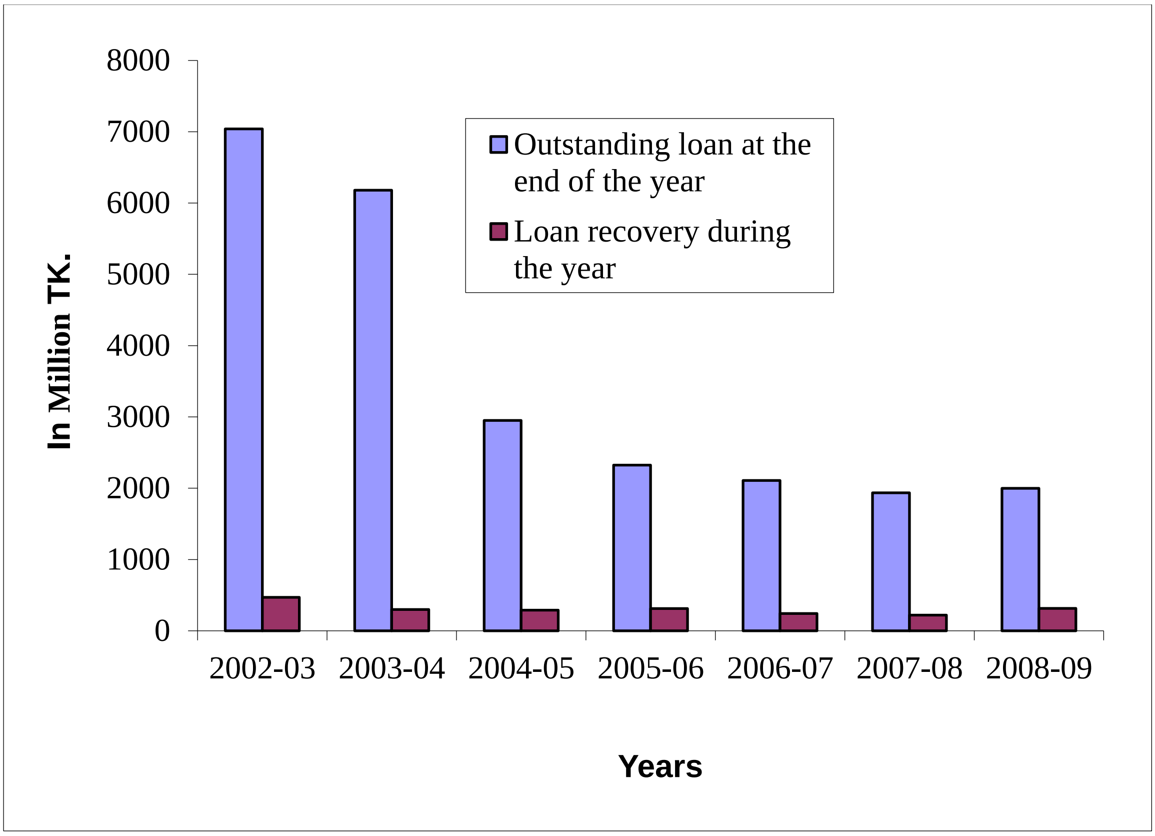
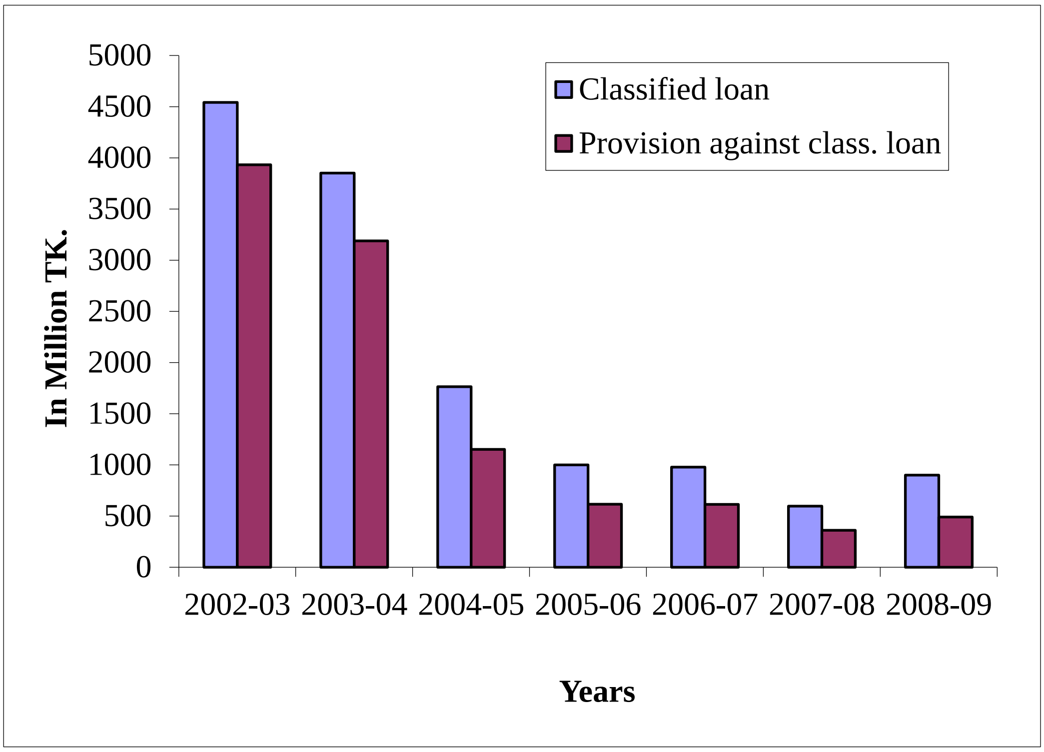


Figure 5.13



5.5 Projects Financing Scenario of BDBL

BDBL extends project loans in the form of industrial loans, SME loans, consumers' loans, work- in progress project loan and staff loans. After the amalgamation of BSB and BSRS into BDBL, the BDBL received 80% of its project loans from BSB and rest from BSRS.[105] The mean values of total loans, project loans and total deposits of the bank were Tk. 11,291 million, Tk. 10,421.81 million and Tk. 5,302 million, respectively over the last three years. The bank had disbursed averagely 93.28% of its total loans as project loans during the last three years. The bank had averagely disbursed 217% of its deposits as project loans over the study period.

Table 5.10

Total loans, Deposits and Project Loans Disbursement of BDBL LTD (in Million Tk.)

Year	2010	2011	2012	Mean	S. Dev.
Industrial Loan (cumulative)	7,256.30	6,857.70	7,270.40	7,128	234
SME Loan	371.10	328.10	166.20	288	108
Consumers Credit	95.60	102.10	117.69	105	11
Work- in progress projects Loan	1,879.00	2,335.33	2,192.60	2,136	233
Staff Loan	----	137.90	2,155.40	764	1207
Total Projects Loans (PL)	9,602.00	9,761.13	11,902.29	10,421.81	1,284.60
Total Loans (Excl. Bills)	9,906.04	9,978.53	13,989.58	11,291	2,337
% of PL to Total Loans	96.93%	97.82%	85.08%	93.28%	7.11%
Total Deposits	3,254.04	4,706.79	7,945.57	5,302	2,402
% of PL to Total Deposits	295%	207%	150%	217%	73%

Source: Annual Reports of BDBL during the year 2010-2012.

[105] Bangladesh Development Bank Limited, *"Annual Report-2010"* p. 5

Total loans and total project loans of the bank had been increasing (yearly average on simple growth rate) by 24.24% and 11.80% respectively during the year 2010-12. On the other hand, the rate of projects loan to total loans had decreased to 85% over the three years because the bank extended its portfolio to working capital and other cash credit loans as a commercial bank. The rate of industrial project loans to total project loans had decreased to 61% in the year 2012 and the amount of project loans had increased to Tk. 1,190 crores in the year 2012 from Tk. 960 crores in 2010. The correlation between total loans and total project loans was highly positive and correlation between total project loans and total deposits was also highly positive (r =0.97) (calculated by using MS Excel).

Figure 5.14

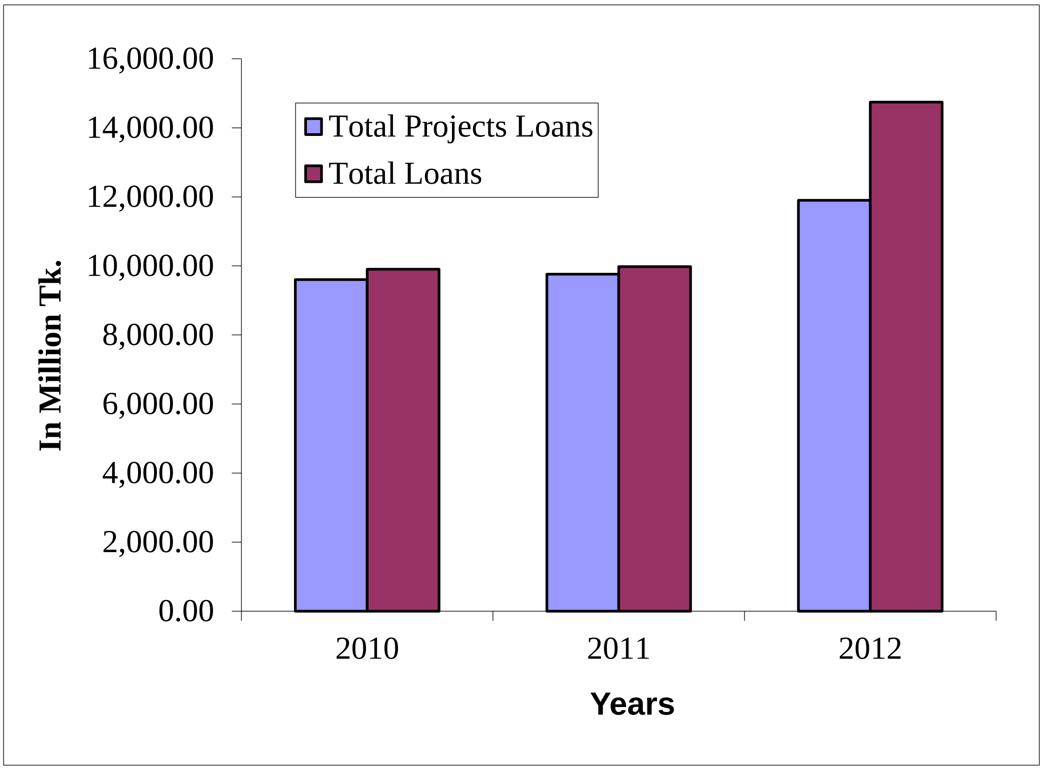


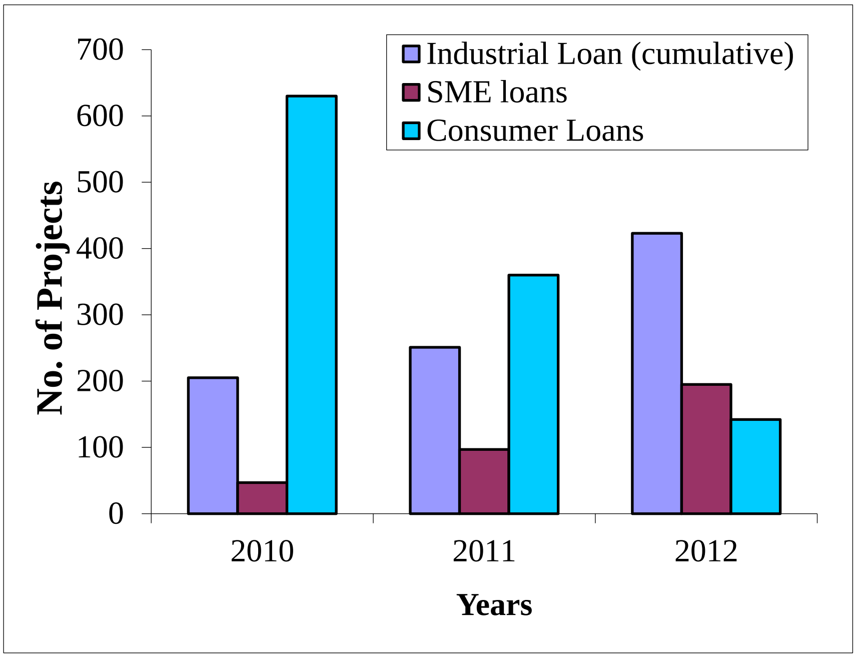
Table 5.11
Number of Projects of BDBL

Particulars	2010	2011	2012	Mean	S. Dev
Industrial Loan (cumulative)	205	251	423	293	115
SME loans	47	97	195	113	75
Consumer Loans	630	360	142	377	244
Total	882	708	760	783	89

Source: Annual Reports of BDBL during 2010-2012.

Average number of projects under industrial loans, SME loans, and consumer loans for the last three years were 293 units, 113 units, and 377 units respectively. The mean value and standard deviation of total projects were 783 units and 89 units respectively. The number of projects declined to 760 units in the year 2012 from 882 units in 2010. The number of projects under industrial loans and SME loans had shown upward trend and projects under consumer loans had been gradually decreasing over the study period.

Figure 5.15



5.6 Impact on Overall Performance of BDBL

The impact of project loans on the overall performance of BDBL Bank Ltd is measured by NPAT, classified loans, loans recovery during the year, loans written off as bad debts which are shown in the following table:

Table 5.12

Income Statement on Projects Loans of BDBL(in Million Tk.)

Year	2010	2011	2012	Mean	S. Dev.
1. Interest Income[106]	758.28	1,166.42	1,464.01	1,130	354
2. Interest Expenses[107]	99.30	241.19	489.24	277	197
3. Net Interest Income (1-2)	658.98	925.23	974.77	853	170
4. % of PL to Total Loans	96.93%	97.82%	85.08%	93.28%	7.11%
5. Net Interest on Project Loans (3×4)	638.75	905.06	829.33	791	137
6. Operating Expenses	332.90	417.66	378.67	376	354
7. Profit before provision (5-6)	305.85	487.40	450.66	415	96
8. Provision	2.33	----	-----	----	----
9. Profit before Tax (7-8)	303.52	487.40	450.66	414	97
10. Tax	65.98	98.97	83.75	83	16.50
11. NPAT (9-10)	237.54	388.43	366.91	331	82

Source: Annual Reports of BDBL during the year 2010-2012.

[106] Interest Income is calculated as Interest on loans + Interest on amount due + interest on advances + Interest on staff loan + Interest on LTR + Interest on LDBP + Interest on Bridge Financing + Interest waiver receipts from Govt.

[107] Interest Expenses is calculated as {Interest paid on Borrowings, Deposit, etc. ÷ (Loans and Advances +Investments)} × Total projects loans (excl. Bills)

The average value of net interest income, profit before tax and NPAT for the period were Tk. 853 million, Tk. 414 million, and Tk. 331 million, respectively. Total loans and NPAT of the bank had increased (yearly average on simple growth rate) by 24.24% and 29% respectively over the study period. The earning capacity of the bank was better for project loans because the growth rate of NPAT was higher than that of project loans.

Figure 5.16

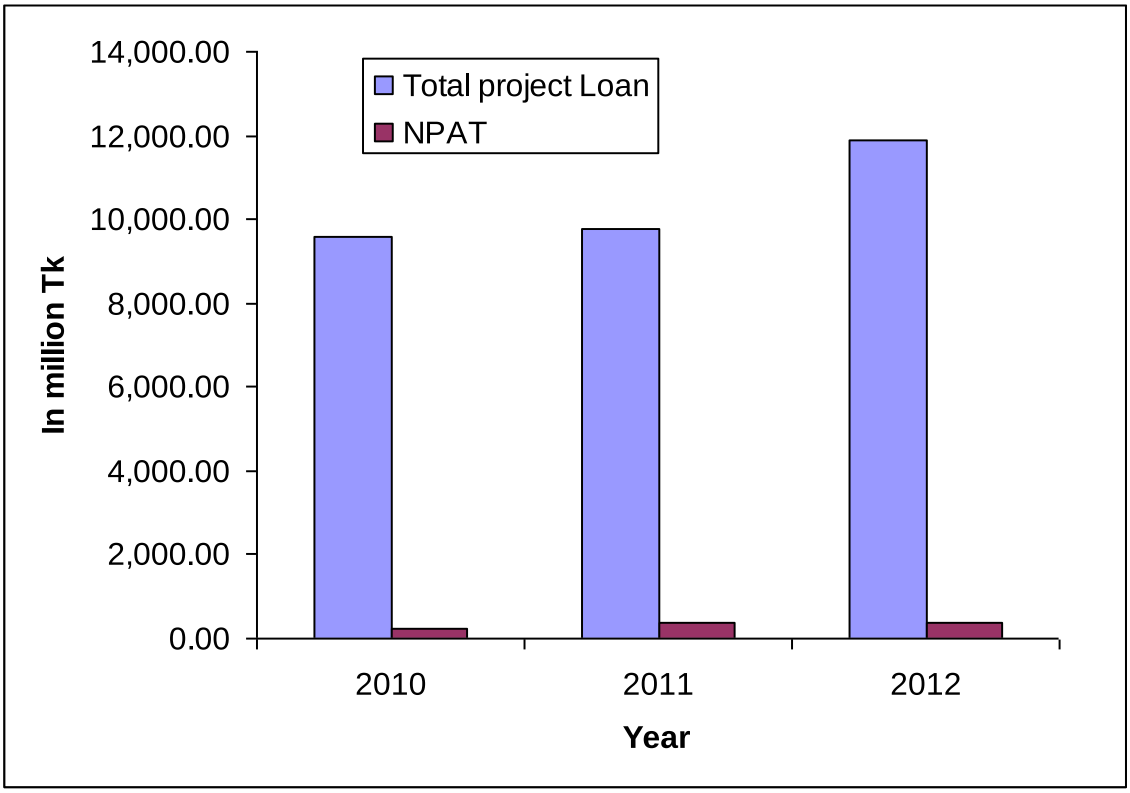


Table 5.13

Total Loans, NPL, Recovery and Written off loans of BDBL(in Million Tk.)

Years	2010	2011	2012	Mean	S. Dev
Total Loans (Excl. Bills)	9,906.04	9,978.53	13,989.58	11,291	2,337
Classified loans	3,101.70	3,107.00	5,417.89	3,875.53	1,335.73
Loans recovery during the year	170.52	163.63	275.56	203.24	62.73
Written off loans	23,872.3	21,264.5	19,685.7	21,607.5	2,114.3
% of classified loan to total loans	31.31%	31.14%	38.73%	33.73%	----
% of loan recovery to classified loans	5.50%	5.27%	5.09%	5.29%	----

Source: Annual Reports of BDBL during the year 2010-2012.

The average values for classified loans, loans recovery, and written off loans of the bank during the last three year were Tk. 3,875.53 million, Tk. 203.24 million, and Tk. 21,607.50 million, respectively. Total loans and NPL loans of the bank had increased (yearly average on simple growth rate) by 24.24% and 37.27% respectively over the last three years. The growth rate of classified loans had upward trend and loan recovery had also upward trend But written off loans as bad debts had downward trend. Average percentage of loan recovery to classified loans was 5.29% over the last three years. As a result, the bank could not be able to control the reins of the huge volume of classified loan arisen from unviable projects. During the last three years the bank had recovered Tk. 61 crores of classified loans and had to write off Tk. 6,482 crores of classified loans as bad debts, including Tk. 1,969 crores in the year 2012. But the amount of classified loans was Tk. 542 crores accounted for 38.73% of total loans on Dec 31, 2012. It indicates that the bank had been exercising weak project appraisal and monitoring system because its percentage of NPL was very high. The growth rate of NPL of the bank was higher than that of total loans and NPAT had increasing trend.

Figure 5.17

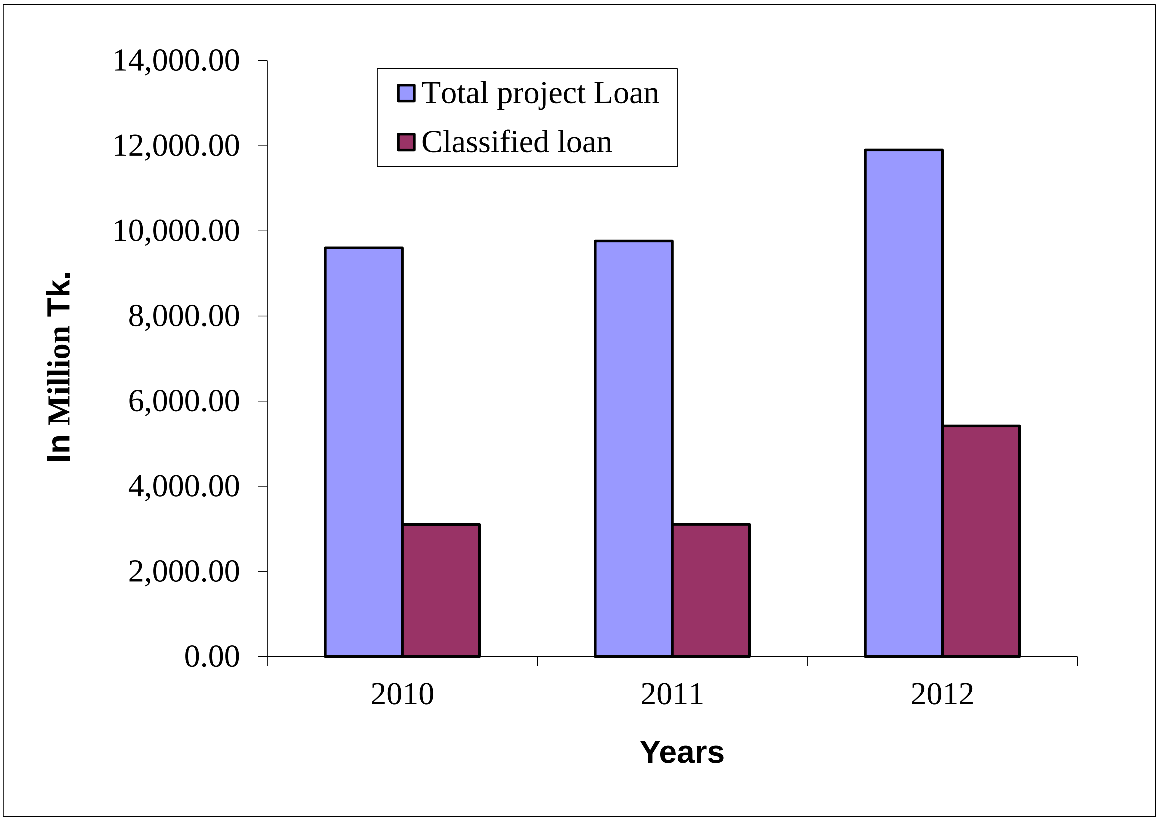


Figure 5.18

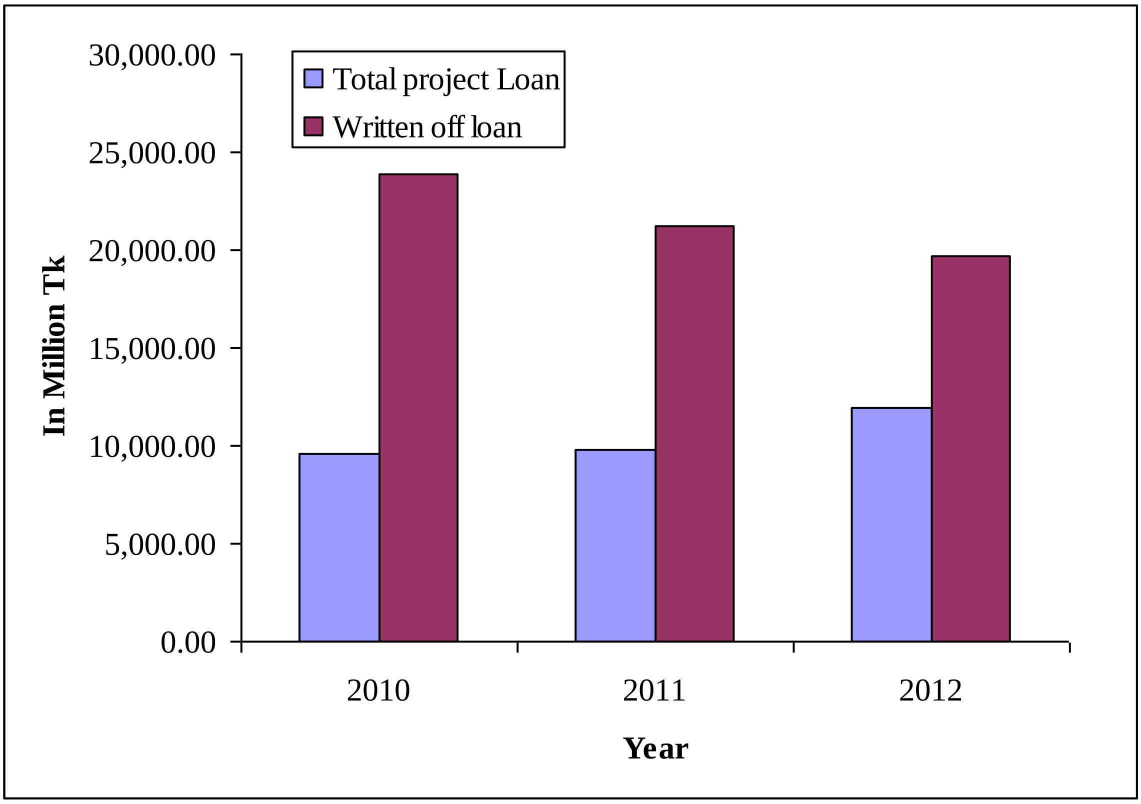
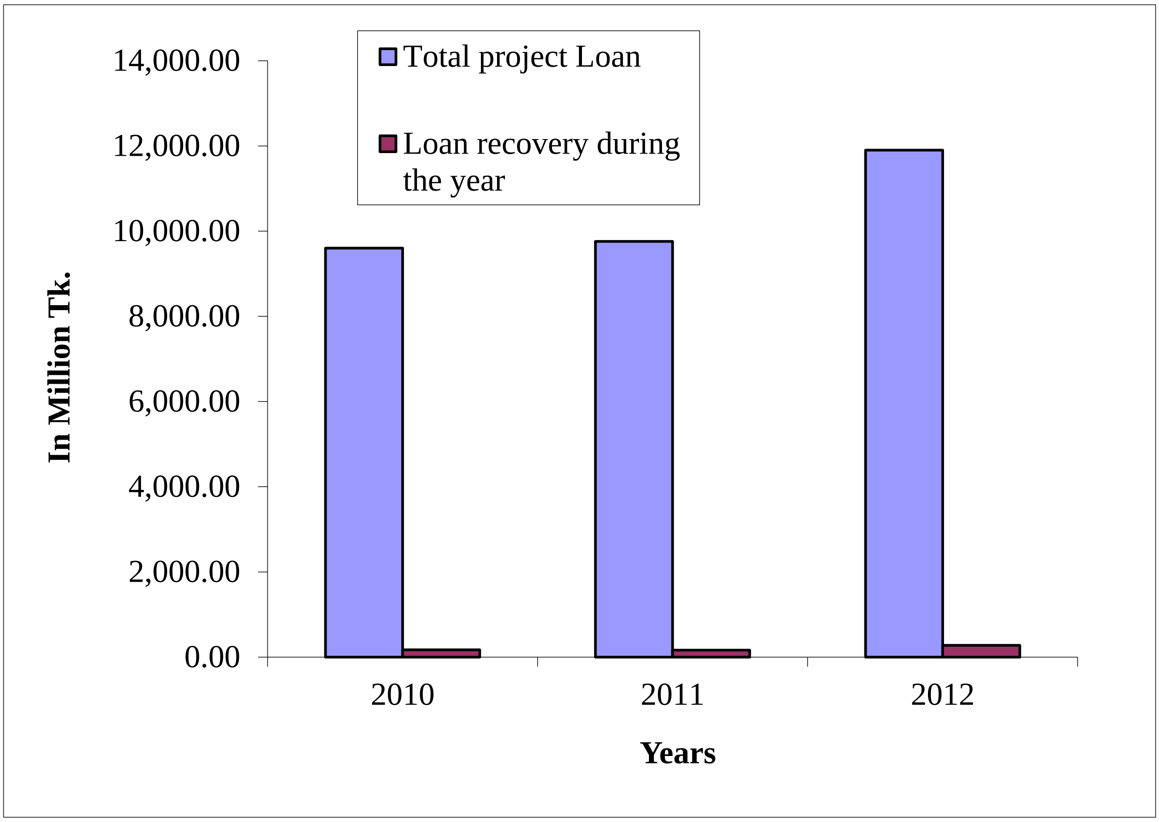


Figure 5.19



Earnings and Activity level of BDBL

Year	2010	2011	2012	**Mean**	**S. Dev.**
Total Projects Loans (PL)	9,602.00	9,761.13	11,902.29	10,421.81	1,284.60
After Tax Return on Assets (RoA) (%)	2.34	2.38	2.56	2.43	0.12
After Tax Return on Equity (RoE) (%)	4.12	4.62	5.33	4.69	0.61
Advance per Employee (in Million Tk.)	13.09	12.02	17.20	14.10	2.73
Profit before tax per Employee (in Million Tk.)	1.09	1.03	1.20	1.11	0.09

Source: Annual reports of BDBL during the year 2010-2012.

The mean values of of RoA, RoE, advance per employee, and profit before tax per employee were 2.43%, 4.69%, Tk. 14.10 million and Tk. 1.11 million, respectively. The correlation between project loans & advance per employee, project loans & after tax profit on assets, project loans & after tax profit on equity, and project loan & profit before tax per employee were highly positive (r = 0.97, r = 0.99, r = 0.94, and r = 0.91 respectively) (calculated by using MS Excel). The bank had to prove high productivity in increasing project loans, after tax profit on assets, after tax profit on equity and profit before tax per employee for adjusting with their loanable fund over the years.

CHAPTER SIX

Practices, Variations, SWOT Mix of Techniques, and Branch Level Performance in Project Financing

6.1 Scenario of Techniques Practices

Both the sample banks followed uniform project financing procedures and appraisal techniques, but their nature and mode of practices significantly varied from one to another. These variations in practice of techniques were largely responsible for the inconsistent poor overall performance of the banks. To understand about practices of techniques of both the banks, the answer of 38 respondents of BDBL and 50 respondents of BASIC Bank Ltd both at Head office and branch level officials on the questionnaire were collected purposively. The following tables show the result derived from the respondents of both banks:

1. Sources used in collecting information about a borrower/applicant: In searching a suitable borrower/entrepreneur who wants to avail project loan, a specialized bank extends its strategy to gather in-depth idea about behavior of the borrower to repay the loan duly by using the sources such as (a) personal interview with the borrower (b) examination of financial statements of the borrower (c) Credit Information Bureau (CIB) (d) Credit Rating Agencies (e) directly from other banks (f) tax return of the borrower (g) assets declaration in bank's format, etc.

Sources	Required to consider by banks.	Level of usage as per answer of the respondents'.		Variation	
		BDBL	BASIC	BDBL	BASIC
(a) Personal interview with borrower	All sizes of loan.	100%	100%	N/A	N/A
(b) Examination of financial statements of the borrower	Loan over taka five lakhs.	100%	100%	N/A	N/A
(c) Credit Information Bureau (CIB)	All sizes of loan (more than taka one lakh).	100%	100%	N/A	N/A
(d) Credit Rating Agencies	Loan more than taka five crores.	100%	100%	N/A	N/A
(e) Directly from other banks	Loan over taka ten lakhs.	100%	100%	N/A	N/A
(f) Tax return of the borrower	Loan over taka five lakhs.	100%	100%	N/A	N/A
(g) Assets Declaration in bank's format, etc.	All sizes of loan.	100%	100%	N/A	N/A
(h) Personal visit of the project / business site	All sizes of loan.	100%	100%	N/A	N/A
(i) Interview with creditors of the borrower	Loan over take ten lakhs.	55.26%	56%	44.74%	44%
(j) Information from market and competitors	Loan over taka ten lakhs.	47.37%	52%	52.63%	48%

Source: Questionnaire survey.

Explanation: BDBL and BASIC Bank Ltd always collect information about entrepreneurs through personal interview with borrowers for all sizes of loans, examination of financial statements of the borrowers for loans over taka five lakhs, Credit Information Bureau (CIB) for loans over taka one lakhs, Credit Rating Agencies for loans over taka morte than five crores, directly from other banks for loans over taka ten lakhs, tax return of the borrowers for loans over taka five lakhs, Assets declaration in the bank's format for all sizes of loans, and personal visit of the project for all sizes of loans. The information derived from an interview with creditors of borrowers and views from competitors & market were not used by both banks in some cases because these two sources are used for loan over taka ten lakhs.

Malpractices in selecting a suitable borrower: A conservative interview with borrower can help the executives of a bank to know his plan of business, project, equity, motive to use the loan, and his experience and capability to deal with the project. Since most of the small and medium scale industries had no qualified accountants to prepare financial statements, bank takes necessary steps to prepare financial statement of those projects by its experts. Whenever a bank intends to approve a loan facility of more than Tk.10 lakhs, the loan repayment behavior of borrower with other banks is required to be investigated by the bank to realize a better idea about him. As per the instruction of the National Board of Revenue (NBR) on August 2012, TIN (Tax Payer Identification Number) of a borrower was made mandatory to sanction loan of more than taka five lakhs. In most of the cases borrower does not supply authentic tax return certificate to the bank to avail loan. The executives of the bank physically visited the site of the project to perform their assignments and could not collect unbiased report in some cases. Creditors of a borrower can provide a clear idea about the repayment behavior and capacity of the borrower that helps the bank to know his customer. On the other hand, competitors and market where the borrower deals with his project can provide a real picture on the cash generation capacity that will be used to repay the loan duly.

2. Emphasized information on a project application from a borrower: While a borrower intends to avail some extent of project loan from a specialized bank, he/she asks for such loan through plain paper application with First Information Sheet (FIS) to the bank. In these circumstances, the bank considers and analyzes some factors regarding the borrower and his tentative project for successful lending.

Respondents of BASIC Bank Ltd and BDBL on the questionnaire gave the following answer:

Sources	Required to consider by the bank.	Level of usage as per answer of the respondents.		Variation	
		BDBL	BASIC	BDBL	BASIC
(a) Nature of the project	All sizes of loan.	100%	100%	N/A	N/A
(b) Fame of Entrepreneurs in business	All sizes of loans.	100%	100%	N/A	N/A
(c) Detailed statement of entrepreneurs' assets and liabilities (net worth)	Loan over taka five lakhs.	100%	100%	N/A	N/A
(d) Ability to mobilize equity/cash and bank balance	All sizes of loan.	100%	100%	N/A	N/A
(e) Availability of project inputs like raw material, labour, and utilities	All sizes of loan	100%	100%	N/A	N/A
(f) Availability of machinery, equipment, and technology, including spare parts and technical experts	All sizes of loan	100%	100%	N/A	N/A
(g) Adequacy of infrastructure facilities	All sizes of loan.	100%	100%	N/A	N/A
(h) Market and sales projection and sales budget for few years	All sizes of loan	100%	100%	N/A	N/A
(i) Location of project and position of the mortgage property	All sizes of loan	100%	100%	N/A	N/A
(j) Management capabilities	All sizes of loan.	100%	100%	N/A	N/A

Source: Questionnaire survey.

Both the banks fully emphasized the above information on a project application from borrower to select a viable project for lending. Key executives of BDBL and BASIC Bank Ltd in relation to project loan thought that the above information of a project application with FIS from a borrower needed to be critically emphasized in order to select sound projects. The information on a project application from a borrower cited above is emphasized successfully by both the banks. Productive, fast growing and income generating projects need to be considered by the bank to select viable one. But the risks arise when there is a huge lack in consideration of aforesaid factors by the executives of the bank. Some risks come into force while the bank considers only past business experiences of the entrepreneurs; uses of manipulated and unaudited financial statements of the entrepreneur. There are some reasons that were responsible for the huge volume of stuck-up project loans of both the banks such as failure to mobilize equity fund in the future, scarcity and price hike of raw materials and labour & scarcity of utility supply, unavailability of machinery and equipment in local and international market and out-dated technology, inefficient procurement, production, and marketing managers of the project; and remote location of project & out of control and time consuming to liquidate the mortgage property.

3. Considerable factors in allowing loan application form to borrower: After analyzing & evaluating the information about a suitable borrower and his project, the bank considers some factors in allowing loan application form to borrower in order to make a healthy loan portfolio of the bank. These factors are being mutually exclusive, but inclusive for avoiding future loan default.

Sources	Required to consider by the bank.	Level of usage as per answer of the respondents.		Variation	
		BDBL	BASIC	BDBL	BASIC
(a) Adequate human resources of the project	All sizes of loan.	100%	100%	N/A	N/A
(b) Management competency	All sizes of loan.	100%	100%	N/A	N/A
(c) Availability of loanable fund of the bank	All sizes of loan.	100%	100%	N/A	N/A
(d) Circular or instructions from authority	All sizes of loan.	100%	100%	N/A	N/A
(e) Ability to mobilize equity/ cash and bank balance	All sizes of loan.	100%	100%	N/A	N/A
(f) Credit behavioral of the entrepreneurs	All sizes of loan.	100%	100%	N/A	N/A
(g) Position and value of collateral security	All sizes of loan.	100%	100%	N/A	N/A
(h) Past record of the project (in case of BMRE)	All sizes of loan.	100%	100%	N/A	N/A
(i) Report of recent loan at other banks	All sizes of loan.	100%	100%	N/A	N/A

Source: Questionnaire survey.

Both the banks considered the above factors very successfully in allowing loan form to borrowers for all sizes of loans. But future is a full of uncertainty. When any variation will occur in the future due to unavoidable reasons that turns any project into unviable situation.

4. Sources of information about the feasibilities of the project: The information that are used to measure the feasibility of a project is collected by a bank from different sources such as market survey, feasibility appraised by entrepreneurs, credit rating agencies, bank's own Accounting Information System (AIS) & Management Information System (MIS), and local agencies (chamber of commerce) etc. Whenever the sources of information are more reliable and authentic, appraisal of the project by the bank would be successful.

Sources	Required to consider by the bank.	Level of usage as per answer of the respondents.		Variation	
		BDBL	BASIC	BDBL	BASIC
(a) Market survey	Loan over taka twenty five lakhs.	100%	100%	N/A	N/A
(b) Feasibility appraised by the entrepreneurs	All sizes of loan.	100%	100%	N/A	N/A
(c) Credit rating agency report	Loan over taka five crores.	100%	100%	N/A	N/A
(d) Banks own Management Information System (MIS)	All sizes of loan.	100%	100%	N/A	N/A
(e) Local agency if any	Loan over taka one crore.	100%	100%	N/A	N/A

Source: Questionnaire survey.

Both the banks used market survey for loans sizes over taka twenty lakhs, feasibility appraised by the borrowers for all sizes of loans, credit rating agency report for loans over taka five crores, MIS for all sizes of loans, and local agency for loans over taka one crores as cent percent to receive information about feasibility of a project for sound appraisal.

Recent reliable and authentic Political, Economic, Social & Technological (PEST) and environmental & entrepreneurial information is collected by a bank through market survey for making a successful feasibility of a project. Credit rating agencies are engaged to maintain and supply of macroeconomic and business related data for growth and development of financial sectors. On the other hand, local agencies can supply territory based information on business, economic and environment regarding tertiary level projects and entrepreneurs. Bank’s own Management Information System (MIS) & Accounting Information System (AIS) maintain only past and traditional information that is rarely relevant for an upcoming project. Most of the cases an entrepreneur uses fake, biased and window dressing information to show the project viable.

5. Feasibility appraisal in assessing the viability of the project: After receiving filed up application form with First Information Sheet (FIS) from a suitable entrepreneur, a specialized bank extends its effort to appraise the project through collected relevant and authentic information in order to measure the viability of a project. In these circumstances, nine categorizes of feasibility need to appraise despite of such categorizes varies from loan sizes. Rigorous analysis and interpretation of the selected variables under each feasibility are needed in order to determine conservative result for avoiding future default.

Name of feasibility	Required to consider by the bank.	Level of usage as per answer of the respondents.		Variation	
		BDBL	BASIC	BDBL	BASIC
(a) Commercial feasibility	All sizes of loan.	100%	100%	N/A	N/A
(b) Marketing feasibility	Loan over taka fifty lakhs.	100%	100%	N/A	N/A
(c) Technical feasibility	Loan over taka fifty lakhs.	100%	100%	N/A	N/A
(d) Financial feasibility	Loan over taka one crore.	100%	100%	N/A	N/A
(e) Economic feasibility	Loan over taka one crore.	100%	100%	N/A	N/A
(f) Environmental feasibility	Loan over taka twenty five lakhs.	100%	100%	N/A	N/A
(g) Socio-cultural feasibility	Loan over taka one crore.	100%	100%	N/A	N/A
(h) Entrepreneurial feasibility	All sizes of loan.	100%	100%	N/A	N/A
(i) Miscellaneous feasibility	Loan over taka one crore.	100%	100%	N/A	N/A

Source: Questionnaire survey.

Both BDBL and BASIC Bank Ltd appraised commercial, marketing, technical, financial, economic, environmental, socio-cultural, entrepreneurial, and miscellaneous feasibility as 100% percentage. The risk in appraisal of a project can be categorized in two ways: (i) deviation in appraisal (ii) variation of variables prediction in appraisal. Future production obstacles, scarcity of raw material & production inputs, poor demand of products, and insignificant generation of cash flows are some future variables of a project. While these kinds of variables largely vary in the future, the project could not provide significant amount of cash flows.

6. Mode of Appraisal of bank: When a bank is contemplating to undertake a project, it arranges a rigorous appraisal exercise by its Credit Appraisal Committee at branch level while loan size is below taka thirty lakhs for project loan and taka up to ten lakhs for trade loan. When the loan size is over taka 30 lakhs for project loan and taka over 10 lakhs for trade loan, the report is placed to a Credit Committee either at Zonal or Head office level. The Credit Appraisal Committee at branch level is constituted by at least one engineer, one economist, and one accountant. The Credit Committee at Head office is constituted by all General Managers at head office as member, one secretary having rank as principal officer or above and Managing Director as chairman.

The appraisal is conducted by the committee on the basis of collected relevant and authentic information in order to determine whether it is viable or not for the bank. BDBL conducted credit appraisal for loan size below Tk. 10 lakhs at branch level, Tk. 10-50 lakhs at zonal level, and taka over 50 lakhs at head office level. On the other hand, BASIC Bank Ltd conducted credi appraisal for loan size below Tk. 50 lakhs at branch level and taka over 50 lakhs at head office level. BDBL has four zonal offices but BASIC Bank Ltd has no zonal office. Credit appraisal is cvarried out by credit committee of both the banks very carefully.

7. Practice of allowing working capital facility to projects having term loan: Working capital finance is very essential for the project to meet its operational expenses and to repay current liabilities in due time. Manufacturing projects avail working capital finance from banks to carry out their operational functions smoothly. As a result, the bank that allowed long term project loans intended to allow working capital finance to those projects for its earnings and keep sound the operation of projects for long run. Working capital financing is the great opportunity for the mother bank to control the projects having term loan.

Both the banks allowed working capital finance to projects having term loans as cash credit and bank overdraft taking additional collateral from entrepreneurs. The rates of working capital finance to total loans and advances of BDBL and BASIC Bank Ltd were 19.25% and 55.56% respectively in the year 2012. The rate of working capital finance of BASIC Bank Ltd was higher compared to that of BDBL.

8. Time required to appraise a project: When a bank receives an offer for project loan in the prescribed form from an entrepreneur, it critically extends its techniques to appraise the project. The appraisal of the project is conducted by the credit appraisal committee of bank for determining its viability, whether the project will be capable to generate significant cash flow to repay the loan with interest in due time. The bank takes possible shortest time for appraising to attract entrepreneurs and to reduce cost overrun and time overrun of the projects.

BDBL took 2 weeks for small loans (below Tk. 10 lakhs), 3-4 weeks for medium loan (Tk. 10-50 lakhs), and 7-8 weeks for large loan (over Tk. 50 lakhs) to appraise a project. On the other hand, BASIC Bank Ltd took 2 weeks for small loans (below Tk. 10 lakhs), 3-4 weeks for medium loan (Tk. 10-50 lakhs), and 5 weeks for large loan (over Tk. 50 lakhs) to appraise a project.

9. Time required for approval of loan: If the branch credit appraisal committee is satisfied with the feasibility appraisal, collateral security and capabilities of entrepreneurs of the project, the manager approves the loan without any delay. Small loans for BDBL and BASIC Bank Ltd are approved after getting the viability result. Medium loans for BDBL are approved within 1 week by zonal office whereas these loans for BASIC bank Ltd are approved by the branch committee without any delay. But large loans for BDBL and BASIC bank Ltd are approved within 2 weeks.

10. The tangible assets of the project to principal exposure considered by the bank on sanctioned loan: Tangible assets of a project are machinery, furniture, fixtures, equipment and building etc. These kinds of tangible assets are used as security for principal exposure of a bank. The bank requires to maintain Fixed Assets Coverage Ratio (Tangible assets of the project divided by principal exposure) of 1.50:1 in case of debt-equity ratio of the project is 50:50 for ensuring safety of disbursed loan. Land and landed property located in prime location, share, bond and savings certificate are known as collateral security. The bank requires to ask collateral security as additional protection of its disbursed loan while debt-equity ratio of project is increased from 50%, while Fixed Assets Coverage Ratio of the project is decreased from 150% of principal exposure and project having risk in nature determined by management committees of the bank. BASIC Bank Ltd and BDBL always maintain required level of tangible assets of the project and collateral security to disbursed loan.

11. Objective valuation of collateral security: Accurate objective valuation of collateral security by reliable and independent engineers ensures safety of the disbursed loan in the event of default because sufficient amount of fund is realized by selling such security in the secondary market. In valuation of collateral security, almost 70% value of collateral security is to be considered as countable value due to price volatile of such assets. Both the banks practically exercise such valuation procedures for effective measuring the value of collateral security.

While the valuation of collateral security is conducted by biased and inexpert surveyor/engineers, over valuation and fictitious valuation might be arisen. As a result, adequate amount of fund would not be realized through selling of collateral security to adjust the loan in the event of default.

12. Time required to verify required documents from borrower after the loan is sanctioned: While a bank approves a project loan to an entrepreneur, the bank allows sometimes to prepare and submit required documents and charged documents to release funds in favor of the project. BDBL and BASIC Bank Ltd took half week for small loans, 1 week for medium loans to verify required documents. On the other hand, BDBL and BASIC Bank Ltd took 4 weeks and 3 weeks respectively for large loans to verify required documents from borrowers to release funds.

13. The reasons behind under achievement of projected total project loans during the period 2003-2012: The causes for under achievement in projected total project loans of both the banks can be categorized as no satisfactory borrowers/scarcity of appropriate borrowers, fund diversion of borrowers, sick SMEs, and natural calamity etc.

Causes of under/over achievement of project loans	No. of respondents		Percentage	
	BDBL	BASIC	BDBL	BASIC
(a) No satisfactory borrowers/ scarcity of appropriate borrowers,	20	32	52.63%	64%
(b) Fund diversion of borrowers,	6	10	15.79%	20%
(c) Sick SMEs	8	10	21.05%	20%
(d) Natural calamity	4	8	10.53%	16%
Total	38	50	100%	100%

Source: Questionnaire survey.

Explanation: From the above table it is found that 52.63% respondents of BDBL and 64% respondents of BASIC Bank Ltd believed that the reason behind under achievement of project loans was scarcity of appropriate borrowers/no satisfactory borrowers to avail such loans. So the main reason behind under achievement of projected project loans was no reliable borrowers or unviable projects.

14. The bank takes mandatory margin from borrower in disbursing loan: Before the release of the first installment of disbursed loan, the bank must be ensured on entrepreneur’s investment of 50% (20% as down payment for the procurement of machinery and rest 30% as civil constructions) as equity in the project. At least 50% of the total cost in the form of procurement of machinery & equipment assets, including its installation and civil construction works from entrepreneur’s investment as equity of the project are mandatorily inflowed for disbursement of loan. Both the banks took mandatory margin under procurement of machinery and civil construction works successfully.

15.1 Collection at least of three sets of proforma invoices/quotations in procurement of machinery either locally or globally and evaluation those critically: The manufacturing project is intended to produce goods, requires to procure suitable capital machinery for the production process. If the project is capital intensive, huge fund is to be sacrificed to procure quality machinery for producing quality goods and services. In the procurement of machinery, lender bank collects at least three sets of proforma invoices/quotations to accept a lower bidder with prescribed quality and assurance of after procurement service and availability of spare parts in local or global markets. BDBL and BASIC Bank Ltd always collect at least three sets of proforma invoices/quotations in the procurement of machinery.

15.2 Significance on introduction of three sets of proforma invoice/quotations to control over vouching in procurement of machinery: The executives of both the banks suggested that introduction of three sets of proforma invoices/quotations in procurement of machinery to control over vouching was sufficient. The significance largely depends on the transparency and neutrality of the verifying committee. They also suggested that introduction of product based loan through direct communication with the bidder would be more appropriate to protect over vouching and fund diversion to abroad.

15.3 Measurement of civil construction work of the project: In order to verify actual works done in the project authentically, the bank regularly inspects and measures civil construction works of the project by its own engineers. The engineer physically visits the construction site phase by phase and prepares reports on actual works completion. The engineer is accountable to measure construction works accurately because installments of loan are released on the basis of engineer certificate at work's completion. Both the banks always measure civil construction works by their own engineers.

16. Extent of compliance with the various circulars of Bangladesh Bank, banks own policy, instructions, and guidelines for every sizes of project financing as: Specialized bank performs its functions under the regulations of The Banking Companies Act, 1991 & The Financial Institution Act, 1993 and in accordance with the circulars issued by Bangladesh Bank. The bank is mandatorily required to follow various circulars of Bangladesh bank, its own policies and office orders, instructions and guidelines for smooth lending of project financing. Both the banks fully complied with such circulars and guidelines designed as standard for project financing successfully.

17. Collection the reports on implementation of project: After loan approval, the bank collects under implementation report as a part of credit administration and monitoring to verify whether the project appropriately utilizes the finance of bank in construction of project plant and site. The implementation reports may be (a) More than 3 times during implementation (b) 3 times during implementation (c) 2 times during implementation (d) Once during implementation (e) Only after the implementation depending on the nature and size of projects. These reports show the progress status in implementation of the projects.

Both the banks collected reports successfully from entrepreneurs on the implementation progress of project. But the implementation progress reports of the project were prepared by entrepreneurs could not show a real progress picture in most of the cases. As a result, the banks require to prepare final completion report for verifying the progress status by neutral and competent engineers.

18. Nature of inspection of undergoing projects: The inspection of undergoing projects is rigorously conducted by the bank own engineers to know the real picture of project's progress in construction. The nature of inspection of undergoing projects may be (a) Quarterly inspection report on construction (b) Final construction report depending on the nature and size of projects.

Both the banks carry out inspection of undergoing projects mandatorily because dishonest entrepreneurs can use low quality construction materials and show dummy works to divert funds. Whenever a bank introduces product based loan for construction materials and to release funds in favour of suppliers selected by the bank, the malpractices of fund diversion may be reduced.

19.1 Number of Projects implemented properly:

When a specialized bank finances a project, the bank is trying its best to implement the project effectively. But some of its financed projects were not being implemented properly due to non-availability of equity fund in time, management conflict, death of entrepreneur, natural calamity, cost overrun, time overrun, etc.

Number of projects implemented properly by BDBL and BASIC Bank Ltd as on Dec. 31, 2012.

Nature of projects	BDBL		BASIC Bank Ltd	
	Number	Percentage	Number	percentage
(a) Small Loans (below Tk. 10 lakhs)	443 units	58%	327 units	30%
(b) Medium Loans (Tk. 10-50 lakhs)	203	27%	421	39%
(c) Large Loans (Tk. over 50 lakhs)	114	15%	330	31%
Total	760 units		1078 units	

Source: Head office records of BDBL and BASIC Bank Ltd

BDBL had higher percentage of small projects and lower percentage of large projects in its loan portfolio. On the contrary, BASIC Bank Ltd had higher percentage of medium projects and lower percentage of small projects.

19.2 Reasons behind unimplemented projects: The reasons behind projects that were not implemented properly can be broadly categorized as non-availability of equity fund in time, management conflict, death of entrepreneur, natural calamity, cost overrun, time overrun, etc.

The major two reasons behind unimplemented projects of BDBL were non-availability of equity fund and cost overrun of the project due to price hike of machinery, construction materials and technology. And the major two reasons for BASIC Bank Ltd were non-availability of equity fund and management conflict to run the project.

20. Collection of information on the operational performance of the projects: When a bank finances a project, it must regularly collect the information regarding operational performance of the project after its successful implementation and trial run of production through prescribed inspection form. These kinds of inspection clearly disclose production, marketing as well as revenue generation performance of the project because the cash inflow could be used to repay the loan duly. Reports on operational performance of projects may be (a) Monthly inspection report (b) Quarterly inspection report (c) Half yearly inspection report (d) Yearly inspection report. These kinds of collected information make confident the bank whether the project will solvent or insolvent to repay the next installments of the bank. Both the banks collects information on operational performance of the projects successfully through inspection reports, while the project fails to repay installments on due time.

21.1 Extending early warning system in case of unfavorable operational performance and repayment capacity of the project: When the bank finds some potential weakness in revenue generation from projects, it extends an early warning to the projects for reducing future failure in repayment of the loan. The bank always fosters early prevention by ensuring swift action in a weak project to protect its interest. Both BASIC Bank Ltd and

BDBL practically extended early warning system to unfavorable operational performance and repayment capacity of the project.

21.2 Reasons behind NPL of project loans: In spite of exercising due appraisal, supervision of implementation processes and monitoring the operational performance of the projects, a certain percentage of disbursed loans remain stuck-up after extending early warning system. Loan classification and maintenance provision for non-performing loans are required for banks to comply with guidelines issued by BB. Afterwards banks follow prescribed procedures to regularize and recovery of such loans in order to attain its objectives.

The reasons found from the answers of 38 respondents of BDBL and 50 respondents of BASIC Bank Ltd through close ended questionnaires for non-performing project loans are classified in the following table:

Reasons for non-performing loans	Scored by respondents		Percentage	
	BDBL	**BASIC**	**BDBL**	**BASIC**
1. Wrong borrower selection/Willful defaulter	15	7	8.06%	4.67%
2. Entrepreneurs incompetency	----	2	----	1.33%
3. Lack of experience of entrepreneurs	----	18	----	12.00%
4. Inappropriate project appraisal	4	----	2.15%	----
5. Cost over-run and Time over-run of project.	9	6	4.84%	4.00%
6. Project was not implemented properly	4	----	2.15%	----
7. Inability of borrowers in equity mobilization	22	4	11.83%	2.67%
8. Inability to raise sufficient working capital in need	14	4	7.53%	2.67%
9. Fund diversification to other business	16	18	8.60%	12.00%

Reasons for non-performing loans	Scored by respondents		Percentage	
	BDBL	**BASIC**	**BDBL**	**BASIC**
10. High operational expenditure.	10	4	5.38%	2.67%
11. Under utilization of production capacity	----	3	----	2.00%
12. Management inefficiency	7	----	3.76%	----
13. Scarcity and price hike of raw material	7	----	3.76%	----
14. Lack of technological know-how	6	----	3.22%	----
15. Intrusion of foreign products in local market	11	5	5.91%	3.31%
16. Lack of adequate human resources of bank to monitor the project	9	----	4.84%	----
17. Lack of adequate infrastructural facility and interrupted utility supply	12	3	6.45%	2.00%
18. Lack of marketing and promotional activities	10	----	5.38%	----
19. High rate of interest and service cost of bank	----	4	----	2.67%
20. Technological outdated	----	6	----	4.00%
21. Fall of market demand of products	6	12	3.22%	8.00%
22. Industrial slowdown	----	12	----	8.00%
23. Political unrest and turmoil	11	22	5.91%	14.67%
24. Natural disaster	5	14	2.68%	9.33%
25. Economic recession	8	6	4.33%	4.00%
Total	186	150	100%	100%

Source: Questionnaire survey.

Explanation: Top executives (General Managers/Deputy General Managers) of BASIC Bank Ltd expressed their prudential focus on operational efficiency of the projects whereas the executives of BDBL gave their prudential focus on collateral security of the projects for project finance. The respondents of BDBL (38 respondents) pointed out the above identified reasons in 186 times and aforesaid reasons were received in 150 times from the respondents of BASIC Bank Ltd (50 respondents). The major five reasons for non-performing project loan of BDBL were as **(a) inability of borrowers in equity mobilization, (b) fund**

diversification to other business, (c) wrong borrower selection/willful defaulter, (d) inability to raise sufficient working capital in need, and (e) lack of adequate infrastructural facility and interrupted utility supply. On the other hand, the major five reasons for non-performing project loan of BASIC Bank Ltd were as **(a) political unrest and turmoil, (b) Fund diversification to other business and lack of experience of entrepreneurs, (c) natural disaster (d) fall of market demand of products & industrial slowdown, and (e) Wrong borrower selection/Willful defaulter.**

22. Loan classification and maintenance of provision for classified loan in compliance with guidelines issued by BB: As per Bangladesh Bank guidelines, when any installment or part of installment of project loan is not repaid within due date, the amount of unpaid installment is treated as past due/overdue, special mention account for remaining unpaid for a period of 2-3 months, sub-standard for a period of 3-6 months, doubtful for a period of 6-9 months and bad/loss for a period of nine or more months. Banks are required to maintain general provision on stipulated loans and specific provision (sub-standard: 20%, doubtful: 50%, Bad/loss: 100%) to comply with the instructions of Bangladesh Bank. Both the banks comply with guidelines issued by Bangladesh Bank in loan classification and maintenance of provision for classified loans very strictly.

23. Procedures followed for recovery of loan: In spite of adequate appraisal of loan and credit administration, the entrepreneurs do not willingly repay their dues within stipulated time or fail to repay due to many reasons beyond their control. NPL provides not only suspension of interest income of those loans but also forces to make loan loss provision from the income of the bank. It deteriorates image of the bank and decreases the profitability of the bank. Recovery of NPL is a major concern of bank to improve the quality of its assets. While a borrower can not repay his dues within stipulated time due to the reasons that remained behind his control, his application for reschedulement of loan is considered by the bank as per policy for rescheduling of loans (BRPD Circular No. 15, dated September 23, 2012). The Bank examines reasons for default. Reschedulement proposal is considered by the bank in case of habitual or willful defaulter or for the borrower who diverted fund. Time limit for rescheduling fixed term loan, down payment of term loan for rescheduling, classification and interest suspense of rescheduled loans, and new loan facility after rescheduling are guided by BRPD Circular No. 06 dated May 29, 2013. Under Artha Rin Adalat-2003 and (amendment) 2010 revealed that sale of certain securities by financial institutions in the section 12, the bank having legal right on the pledged securities could sell those in the market to recover its dues and filled a suit in district court to issue decree for legal settlement. On the other hand, procedures for selling mortgaged properties in section 33, special provision and time limit regarding filling of cases in section 46, limitations of imposing claim in section 47, amicable settlement during execution through dedication in section 38, amicable settlement in suit in section 45, and mediation in section 22 of the law are strictly followed by the banks to recover of NPLs.

24. Reasons behind written off loan: When the borrower does not repay the classified loan despite of all sorts of procedures followed, the bank legally sells the collateral security lying with the bank. If the realization value of collateral security is insufficient to adjust the loan, the bank will mandatorily write off such unrecovered loan in order to comply with the instructions issued by BB.

The respondents of BDBL and BASIC Bank Ltd identified the following reasons in close ended questionnaires for written off project loans:

1. No reliable borrowers.
2. Inappropriate documentations.
3. Poor realization value of security and collateral.
4. Non-resumption of production due to scarcity of technology and raw materials.
5. Long litigation procedures to liquidate projects.
6. Improve the quality of bank’s assets as per BB’s policy.

6.2 SWOT Mix Analysis

SWOT analysis is a useful tool for measuring all sorts of situations in business and organization to attain predetermined objectives and goals for long-run existence. It is an acronym for Strengths, Weaknesses, Opportunities, and Threats. The analysis came from the research conducted at Stanford Research Institute from 1960-1970 by Marion Dosher, Dr Otis Benepe, Albert Humphrey, Robert Stewart, Birger Lie to find out why corporate planning had failed. Strengths and Weaknesses are internal factors that can be fixed up, managed and controlled by the organization in order to survive in the industry and to lead the market. On the other hand, Opportunities and Threats are external factors that are uncontrollable. By proper designing strengths, minimizing weaknesses, and incorporating strategic planning to diagnose opportunities and threats; an organization can attain its objectives and run business successfully in the industry. PEST analysis measures a business's market and potential competition as external factors such as Political, Economic, Social and Technological. It is often helpful to complete a PEST analysis prior to a SWOT analysis.

6.2.1 SWOT Mix analysis of sample banks: To analyze SWOT mix of sample banks, primary data of BASIC Bank Ltd and BDBL were collected by 50 questionnaires and 38 questionnaires respectively. SWOT mix under 14 components of both the banks were determined from opinion of respondents by using SPSS 11.50 (descriptive statistics) and are presented as follows:

1. Adequate human resources in dealing with project loans:

BASIC Bank Ltd

% of human resources to total employees (mid value)	No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid .25	8	16.0	16.0	16.0
.35	14	28.0	28.0	44.0
.45	12	24.0	24.0	68.0
.55	14	28.0	28.0	96.0
.65	2	4.0	4.0	100.0
Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		.4260
Std. Deviation		.11528

BDBL

% of human resources to total employees (mid value)		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	.25	6	15.8	15.8	15.8
	.35	12	31.6	31.6	47.4
	.45	10	26.3	26.3	73.7
	.55	8	21.1	21.1	94.7
	.65	2	5.3	5.3	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		.4184
Std. Deviation		.11415

Interpretation: From the above table, we find that average percentage of human resources in dealing with project loans of BASIC Bank Ltd was 42.60% and 41.84% for BDBL as per the view of the executives at the head office and branch level of both the banks. BASIC Bank Ltd had more significant adequate human resources to total employees to carry out the functions of project loans compared to BDBL.

2. Experience and competency of management forces on project loan:

BASIC Bank Ltd

Experience and competency level of management forces		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Below moderate)	3	6.0	6.0	6.0
	3.00 (Moderate)	15	30.0	30.0	36.0
	4.00 (High)	24	48.0	48.0	84.0
	5.00 (Very High)	8	16.0	16.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.7400
Std. Deviation		.80331

BDBL

Experience and competency level of management forces		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	1.00 (Insufficient)	1	2.6	2.6	2.6
	2.00 (Below moderate)	1	2.6	2.6	5.3
	3.00 (Moderate)	11	28.9	28.9	34.2
	4.00 (Sufficient)	20	52.6	52.6	86.8
	5.00 (High sufficient)	5	13.2	13.2	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.7105
Std. Deviation		.83530

Interpretation: From the above table, we find that average score on length of experience and education & training on competency of management forces for BASIC Bank Ltd was

3.74 and 3.71 for BDBL. The level of experience and competency of both the banks was more than 'moderate' level, but below 'sufficient' level. But BASIC Bank Ltd had more significant adequate human resources to total employees to carry out the functions of projects loan compared to BDBL.

3. Communication between and among management forces:

BASIC Bank Ltd

Level of Communication		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (below satisfactory)	5	10.0	10.0	10.0
	3.00 (Satisfactory)	21	42.0	42.0	52.0
	4.00 (Strong)	15	30.0	30.0	82.0
	5.00 (Very strong)	9	18.0	18.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

	Valid	50
	Missing	0
Mean		3.5600
Std. Deviation		.90711

BDBL

Level of Communication		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (below satisfactory)	8	21.1	21.1	21.1
	3.00 (Satisfactory)	14	36.8	36.8	57.9
	4.00 (Strong)	14	36.8	36.8	94.7
	5.00 (Very strong)	2	5.3	5.3	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.2632
Std. Deviation		.86005

Interpretation: Upward-downward and parallel communication between and among officers are important for successful project financing. The strengths of communication for both the banks were over ‘satisfactory’ level, but below ‘strong’ level. The average score of such communication of BASIC bank Ltd was 3.56 and 3.26 for BDBL that represented BASIC Bank Ltd enjoyed a better communication system compared to BDBL.

4. Efficiency of MIS and AIS of the banks:

BASIC Bank Ltd

Level of efficiency in MIS & AIS		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	1.00 (Poor)	2	4.0	4.0	4.0
	2.00 (Below satisfactory)	2	4.0	4.0	8.0
	3.00 (satisfactory)	22	44.0	44.0	52.0
	4.00 (Strong)	20	40.0	40.0	92.0
	5.00 (Very strong)	4	8.0	8.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.4400
Std. Deviation		.86094

BDBL

Level of efficiency in MIS & AIS		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Below satisfactory)	1	2.6	2.6	2.6
	3.00 (Satisfactory)	28	73.7	73.7	76.3
	4.00 (Strong)	9	23.7	23.7	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.2105
Std. Deviation		.47408

Interpretation: The strengths of MIS and AIS for both the banks were over ‘satisfactory’ level but below ‘strong’ level. The average score of such MIS and AIS of BASIC Bank Ltd was 3.44 and 3.21 for BDBL that represented BASIC Bank Ltd enjoyed better MIS and AIS compared to BDBL.

5. Available Loanable fund for project loan to total loan: Both the sample banks had sufficient amount of loanable fund to finance projects. By-laws of constitution BASIC Bank Ltd was obliged to invest its 50% loanable fund to SME sectors. During the last ten years, the bank had disbursed 27.50% of its loanable fund as project loans on an average. On the other hand, BDBL had disbursed 93.28% of its loanable fund as project loans over the last three years.

6. Level of motivation of the employees (salary, working environment and social status) of the banks:

BASIC Bank Ltd

Level of motivation		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	3.00 (Satisfactory)	24	48.0	48.0	48.0
	4.00 (High)	24	48.0	48.0	96.0
	5.00 (Very high)	2	4.0	4.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.5600
Std. Deviation		.57711

BDBL

Level of motivation		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	1.00 (Poor)	2	5.3	5.3	5.3
	2.00 (Below satisfactory)	11	28.9	28.9	34.2
	3.00 (Satisfactory)	23	60.5	60.5	94.7
	4.00 (High)	2	5.3	5.3	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		2.6579
Std. Deviation		.66886

Interpretation: The mean values of motivation level of employees was 3.56 for BASIC Bank Ltd and 2.66 for BDBL. Motivation level of officers for BASIC Bank Ltd was over 'satisfactory' level. But officers of BDBL received below 'satisfactory' level of motivation.

7. Monitoring and supervision mechanism patter on management by the authority:

BASIC Bank Ltd

Mode & pattern on monitoring and supervision		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	3.00 (Satisfactory)	25	50.0	50.0	50.0
	4.00 (Strongly)	18	36.0	36.0	86.0
	5.00 (Very strongly)	7	14.0	14.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.6400
Std. Deviation		.72168

BDBL

Mode & pattern on monitoring and supervision		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (below satisfactory)	14	36.8	36.8	36.8
	3.00 (Satisfactory)	19	50.0	50.0	86.8
	4.00 (Strongly)	3	7.9	7.9	94.7
	5.00 (Very strongly)	2	5.3	5.3	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		2.8158
Std. Deviation		.80052

Interpretation: The mode & pattern of monitoring and supervision mechanism upon officers by top executives of BASIC Bank Ltd was over 'satisfactory' level and was 'below satisfactory' level for BDBL. It represented that the officers of BASIC Bank Ltd were more obedient and accountable to top executives compared to that of BDBL.

8. Teamwork among employees:

BASIC Bank Ltd

Performance of teamwork among employees		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	3.00 (Satisfactory)	17	34.0	34.0	34.0
	4.00 (Strongly)	17	34.0	34.0	68.0
	5.00 (Very strongly)	16	32.0	32.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.9800
Std. Deviation		.82040

BDBL

Performance of teamwork among employees		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Below satisfactory)	6	15.8	15.8	15.8
	3.00 ((Satisfactory)	24	63.2	63.2	78.9
	4.00 (Strongly)	7	18.4	18.4	97.4
	5.00 (Very strongly)	1	2.6	2.6	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.0789
Std. Deviation		.67310

Interpretation: Division of labour and group work is an important tool for completion of the functions of project loans. The employees of BASIC Bank Ltd were more cordial and co-operative to perform their assigned duties. Some of the officers of BDBL did not quickly respond to their assignment and took some reminders. Ethical training, routine workshop and seminars can enrich efficiency & performance and team spirit of the officers.

9. Job satisfaction of employees:

BASIC Bank Ltd

Level of satisfaction		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Below satisfactory)	3	6.0	6.0	6.0
	4.00 (Satisfactory)	36	72.0	72.0	78.0
	5.00 (Very satisfactory)	11	22.0	22.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		4.1000
Std. Deviation		.67763

BDBL

Level of satisfaction		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	1.00 (Poor)	1	2.6	2.6	2.6
	2.00 (Below satisfactory)	14	36.8	36.8	39.5
	4.00 (Satisfactory)	23	60.5	60.5	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.1842
Std. Deviation		1.03598

Interpretation: Job satisfaction of employees in an organization is directly related to their performance. It largely depends on the factors of salary, nature of the job, working environment and social status. Job satisfaction of the officers of BASIC Bank Ltd was higher than that of BDBL. Level of job satisfaction of BASIC Bank Ltd was marked as ‘satisfactory’ but that was ‘moderate’ for BDBL.

10. Demand for Finance from borrowers:

BASIC Bank Ltd

Magnitude of demand		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Average)	9	18.0	18.0	18.0
	3.00 (High)	31	62.0	62.0	80.0
	4.00 (Very high)	10	20.0	20.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.0200
Std. Deviation		.62237

BDBL

Magnitude of demand		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Average)	17	44.7	44.7	44.7
	3.00 (High)	20	52.6	52.6	97.4
	4.00 (Very high)	1	2.6	2.6	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		2.5789
Std. Deviation		.55173

Interpretation: The demand for finance from borrowers to banks largely depends on quick and co-operative service of officers, behavior of management, interest & charge and after loan service to projects. The magnitude of demand for financing from borrowers to BASIC Bank Ltd was 'high' and 'average' for BDBL. So BDBL could not compete with not only BASIC Bank Ltd but also other private banks due to its services drawbacks to borrowers.

11. Infrastructural facility of the bank to provide project loan:

BASIC Bank Ltd

Strengths of facility		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	3.00 (Satisfactory)	22	44.0	44.0	44.0
	4.00 (Strongly)	21	42.0	42.0	86.0
	5.00 (Very strongly)	7	14.0	14.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

	Valid	50
	Missing	0
Mean		3.7000
Std. Deviation		.70711

BDBL

Strengths of facility		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Below satisfactory)	6	15.8	15.8	15.8
	3.00 (Satisfactory)	30	78.9	78.9	94.7
	4.00 (Strongly)	1	2.6	2.6	97.4
	5.00 (Very strongly)	1	2.6	2.6	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		2.9211
Std. Deviation		.53935

Interpretation: Infrastructural facilities of a bank to provide loans to borrowers is termed as modern banking facilities such as computer facility, on-line facility, ATM booth, mobile banking, internet and swift facility, etc. Strengths of infrastructural facility of BASIC Bank Ltd was ‘strong’ and ‘below satisfactory’ for BDBL.

12. Technical support provided by the bank to projects (borrowers):

BASIC Bank Ltd

Extent of technical support		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Low)	5	10.0	10.0	10.0
	3.00 (Average)	11	22.0	22.0	32.0
	4.00 (High)	25	50.0	50.0	82.0
	5.00 (Very high)	9	18.0	18.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.7600
Std. Deviation		.87037

BDBL

Extend of technical support		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Low)	19	50.0	50.0	50.0
	3.00 (Average)	10	26.3	26.3	76.3
	4.00 (High)	7	18.4	18.4	94.7
	5.00 (Very High)	2	5.3	5.3	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		2.7895
Std. Deviation		.93456

Interpretation: Both the sample banks were practicing strong collateral security against loans and gave less importance to extend technical service to projects. But BASIC Bank Ltd extended some advisory service, working capital finance to projects and rescheduling classified loans at the earliest possible time.

13. Unfair competition with private banks faced by the banks:

BASIC Bank Ltd

Intensification of unfair competition		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	1.00 (No)	4	8.0	8.0	8.0
	2.00 (Low)	9	18.0	18.0	26.0
	3.00 (Average)	16	32.0	32.0	58.0
	4.00 (High)	15	30.0	30.0	88.0
	5.00 (Very high)	6	12.0	12.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.2000
Std. Deviation		1.12486

BDBL

Intensification of unfair competition		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	1.00 (No)	1	2.6	2.6	2.6
	2.00 (Low)	3	7.9	7.9	10.5
	3.00 (Average)	14	36.8	36.8	47.4
	4.00 (High)	18	47.4	47.4	94.7
	5.00 (Very high)	2	5.3	5.3	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.4474
Std. Deviation		.82846

Interpretation: Some of the private banks practice desperate banking to make abnormal profit by allowing illegal loan facility to customers. More customers are turning to such private banks and create pressure upon specialized banks to do unethical banking. Both the sample banks face 'average' unfair competition with private banks. But the unfair competition with private banks for BASIC Bank Ltd was lower than that of BDBL.

14. Pressure of market economy faced by the banks:

BASIC Bank Ltd

Pressure of market economy		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	3.00 (Average)	15	30.0	30.0	30.0
	4.00 (High)	29	58.0	58.0	88.0
	5.00 (Very high)	6	12.0	12.0	100.0
	Total	**50**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BASIC Bank Ltd)

N	Valid	50
	Missing	0
Mean		3.8200
Std. Deviation		.62890

BDBL

Pressure of market economy		No. of respondents	Percent	Valid Percent	Cumulative Percent
Valid	2.00 (Low)	3	7.9	7.9	7.9
	3.00 (Average)	17	44.7	44.7	52.6
	4.00 (High)	18	47.4	47.4	100.0
	Total	**38**	**100.0**	**100.0**	

Source: Questionnaire survey.

Descriptive statistics (BDBL)

N	Valid	38
	Missing	0
Mean		3.3947
Std. Deviation		.63839

Interpretation: Under the philosophy of market economy, the bank that is capable to provide quick and better service at reasonable cost will be sustainable by turning more customers. The pressure of the market economy for BASIC Bank Ltd was higher compared to BDBL. Low interest spread and high cost of fund were the major challenges for BASIC Bank Ltd to face the pressure of market economy.

6.2.2 SWOT Mix at a Glance

1. Strengths: Adequacy of human resources in dealing with project loans, experience and competency level of management forces, level of communication between & among management forces, level of efficiency in MIS & AIS, level of motivation (salary & working environment), job satisfaction of employees, and teamwork among officials of the banks are treated as strengths. The following table depicts the aggregate value of the strengths of both banks:

Descriptive statistics (BASIC Bank Ltd)

		BASIC Bank Ltd	BDBL
N	Valid	8	8
	Missing	0	0
Mean		3.51	3.00
Std. Deviation		.6088	.4831

Average value and co-efficient variance of strengths of BASIC Bank Ltd were 3.51 & 0.17 (0.6088/3.40) respectively, and 3.00 & 0.16 (0.4831/3.00) respectively for BDBL. BASIC Bank Ltd enjoyed highest strengths compares to BDBL.

2. Weakness: BASIC Bank Ltd had limited funds for project financing compared to that BDBL.

3. Opportunities: Demand for finance from borrowers, infrastructural facility, and technical services to projects by banks were considered as opportunities. The combined value of the opportunities of the banks is presented as follows:

Descriptive statistics

		BASIC Bank Ltd	BDBL
N	Valid	3	3
	Missing	0	0
Mean		3.49	2.76
Std. Deviation		.4111	.1726

Since average value and co-efficient variance of opportunities of BASIC Bank Ltd were 3.49 & 0.12 (0.45/3.65) respectively and 2.76 & 0.09 (0.25/2.87) respectively for BDBL; BASIC Bank Ltd had highest opportunities to boost up project financing for growth and development of SME sectors in Bangladesh**.**

4. Threats: Unfair competition with private banks, and pressure of market economy were accounted for as threats. The aggregated values of threats of the banks are as follows:

Descriptive statistics

		BASIC Bank Ltd	BDBL
N	Valid	2	2
	Missing	0	0
Mean		3.51	3.42
Std. Deviation		.438406	.037265

Average value and co-efficient of variance of opportunities of BASIC Bank Ltd were 3.51 & 0.125 (0.438405/3.51) respectively, and 3.42 & 0.011 (0.037265/3.42) respectively, for BDBL. BASIC Bank Ltd faced more threats to expand business compared to that of BDBL.

6.3 Branch Level Performance in Project Financing of Banks

Number of financed projects, outstanding project loans, classified project loans, written off loans, and total profit (before provision and taxes) of both BASIC Bank Ltd and BDBL each of seven divisional branches are presented in the following tables and graphs:

6.3.1 Branch Level Performance of BASIC bank Ltd

6.3.1.1 No. of financed projects of BASIC Bank Ltd as on Dec. 31, 2012:

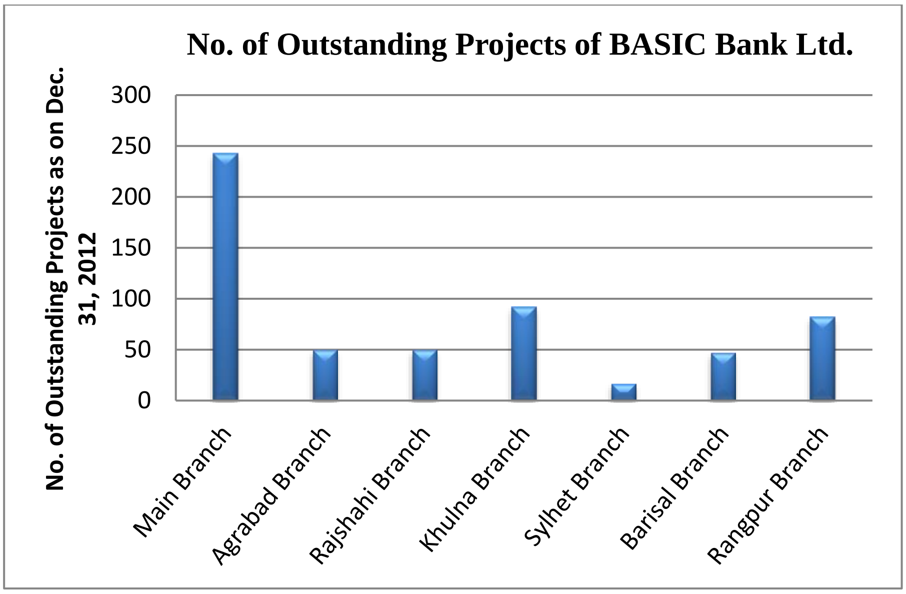
Table-6.1

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	72	4	18	24	2	27	29	176
10-25	69	10	13	31	4	2	22	151
25-50	30	8	5	11	1	7	14	76
50-100	11	6	6	10	8	5	8	54
100-500	24	14	8	14	0	3	7	70
500-1000	15	2	0	2	1	2	2	24
>1000	22	6	0	0	1	1	0	30
Total	243	50	50	92	17	47	82	581

Source: Branch records.

Interpretation: Total cumulative projects of BASIC Bank Ltd were 1,078 units at the end of the year 2012, whereas selected seven branches entertained only 581 units which was accounted for 53.90% of the total projects of the bank. These seven branches were large and higher concentrated branches on project loans. Main branch had the highest number of projects among seven branches followed by Khulna branch, Rangpur branch, Agrabad branch, Rajshahi branch, Barisal branch, and Sylhet branch. The number of projects in small loans was higher and lower for large loans.

Figure-6.1



6.3.1.2 Total Outstanding Loans (in Lakhs Tk.) of BASIC Bank Ltd as on Dec. 31, 2012:

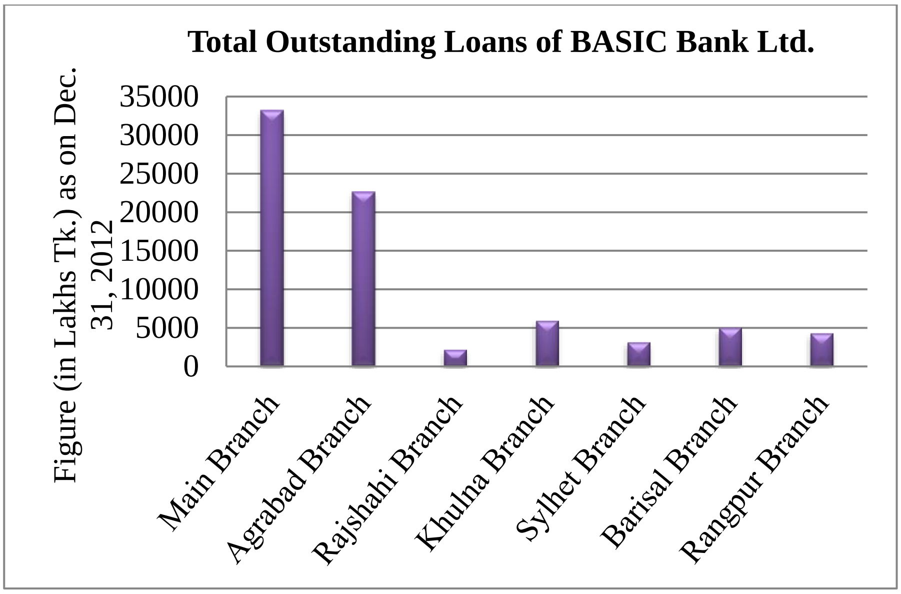
Table-6.2

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	1,64.75	18.91	1,05.00	1,82.28	9.00	1,28.25	2,02.34	8,10.53
10-25	4,44.18	1,84.99	1,78.00	4,99.13	92.00	60.94	3,67.57	18,26.81
25-50	3,50.99	2,68.91	1,59.00	3,83.25	40.00	2,18.31	5,48.69	19,69.15
50-100	2,85.95	4,25.00	3,93.00	6,14.34	7,00.00	3,22.26	5,97.71	33,38.26
100-500	23,81.50	25,97.41	13,62.00	30,63.73	0	8,16.59	14,05.31	116,26.54
500-1000	39,79.18	16,83.81	0	12,31.03	7,75.00	13,31.25	11,98.17	101,98.44
>1000	256,51.74	174,64.04	0	0	15,50.00	22,18.60	0	468,84.38
Total	332,58.29	226,43.07	21,97.00	59,73.76	31,66.00	50,96.20	43,19.79	766,54.11

Source: Branch records.

Interpretation: BASIC Bank Ltd had disbursed Tk. 3,136.30 crores as project loans up to the end of the year 2012, whereas cumulative project loans on that date for the seven branches was Tk. 766.54 crores which was accounted for 24.44% of total project loans of the bank. Main branch had disbursed highest volume of project loans, followed by Agrabad branch, Khulna branch, Barisal branch, Rangpur branch, Sylhet branch, and Rajshahi branch respectively. Commercial and industrial important divisional branch and old incepted branch had a high volume of outstanding project loans.

Figure-6.2



6.3.1.3 Total Classified Loans (in Lakhs Tk.) of BASIC Bank Ltd as on Dec. 31, 2012:

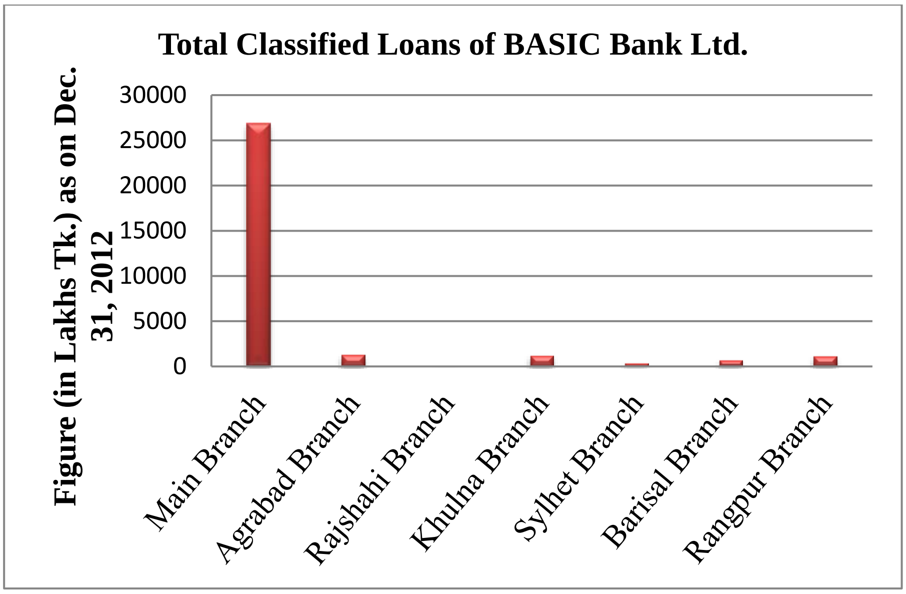
Table-6.3

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	0	5.83	25.00	26.74	5.91	5.28	0	68.76
10-25	90.29	11.28	0	75.14	0	6.75	0	1,83.46
25-50	1,57.35	85.18	0	1,08.24	90.66	0	0	4,41.43
50-100	71.68	0	62.00	1,84.29	77.26	1,10.50	0	5,05.73
100-500	5,41.20	4,79.36	0	8,57.90	0	25.80	4,57.35	23,61.61
500-1000	35,26.08	7,35.56	0	0	2,18.03	0	6,76.44	51,56.11
>1000	224,81.20	0	0	0	0	5,41.20	0	230,22.40
Total	268,67.80	13,17.21	87.00	12,52.31	3,91.86	6,89.53	11,33.79	317,39.50

Source: Branch records.

Interpretation: Total classified project loans of the bank were Tk. 706.60 crores at the end of the year 2012, whereas the figure for selected branches was Tk. 317.39 crores which was accounted for 44.92% of total classified loans of the bank. Main branch had the highest volume of classified project loans, followed by Agrabad branch, Rangpur branch, Khulna branch, Barisal branch, Sylhet branch, and Rajshahi branch respectively.

Figure-6.3



6.3.1.4 Total Written off Loans (in Lakhs Tk.) of BASIC Bank Ltd as on Dec. 31, 2012:

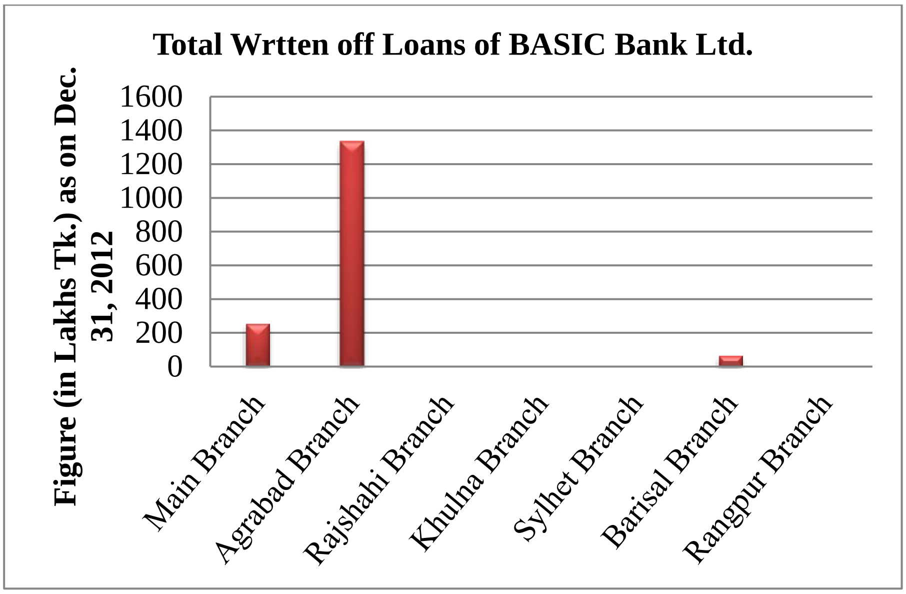
Table-6.4

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	11.17	0	0	0	0	0	0	11.17
10-25	10.42	0	0	0	0	0	0	10.42
25-50	99.66	0	0	0	0	0	0	99.66
50-100	1,34.41	0	0	0	0	35.18	0	1,69.59
100-500	0	6,68.02	0	0	0	11.28	0	6,79.30
500-1000	0	6,67.71	0	0	0	0	0	6,67.71
>1000	0	0	0	0	0	18.19	0	18.19
Total	2,55.66	13,35.73	0	0	0	64.65	0	16,56.04

Source: Branch records.

Interpretation: Total written off classified project loans of the bank was Tk. 61.80 crores at the end of the year 2012, whereas the figure for selected branches was Tk. 16.56 crores which was accounted for 26.80% of total written off classified loans of the bank. Agrabad had the highest volume of written off loans, followed by Main branch and Barisal branch respectively and rest of the branches had not being written off classified loans.

Figure-6.4



6.3.1.5 Total Profit Before Provision and Taxes of BASIC Bank Ltd as on Dec. 31, 2012:

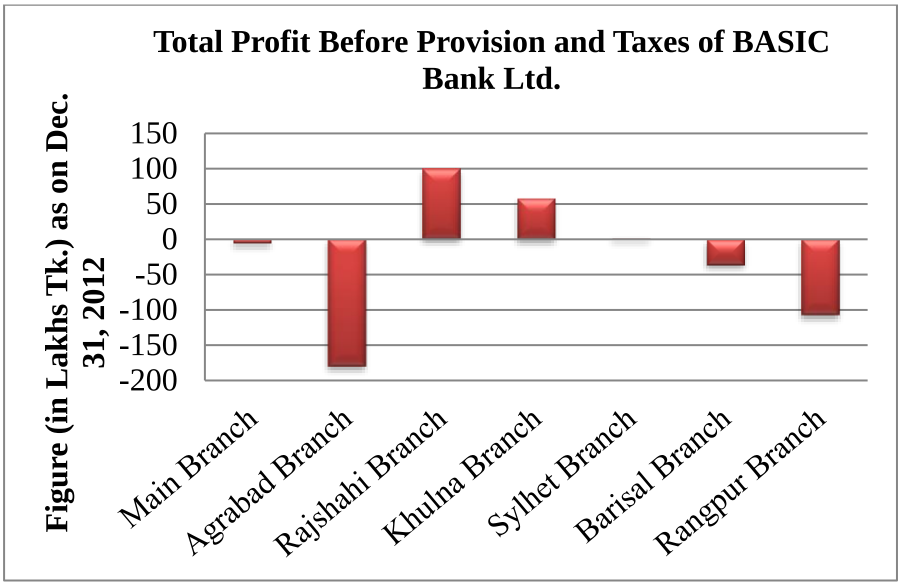
Table-6.5

Particulars	Taka (in lakhs)							
	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
Interest Income	54,35.99	28,86.71	12,36.23	6,04.00	18,78.68	25,78.25	5,57.16	151,77.02
Less: Interest Expenses	34,72.52	20,21.06	9,95.69	4,92.40	16,30.29	22,16.18	4,93.09	113,21.23
Net Interest Income	19,63.47	8,65.65	2,40.54	111.60	2,48.39	362.07	64.07	38,55.79
Less: Operating Expenses	19,68.82	10,45.52	1,40.15	53.40	2,46.16	3,98.33	1,71.49	40,23.87
Profit/(Loss) before Provision and Taxes	(5.35)	(1,79.87)	1,00.39	58.20	2.23	(36.26)	(1,07.42)	(1,68.08)

Source: Branch records.

Interpretation: At the end of the year 2012, the bank made a total profit before provision and taxes of Tk. 59.70 crores, whereas the selected seven branches incurred a total loss before provision and taxes of Tk. 1.68 crores on that date. Among the branches, three branches made profit and suffered from loss for four branches. Rajshahi branch made the highest profit, followed by Khulna branch and Sylhet branch respectively & Agrabad branch incurred highest loss, followed by Rangpur branch, Barisal branch and Main branch respectively.

Figure-6.5



6.3.1.6 Branch Level Operational Performance of BASIC Bank Ltd at a Glance ((in Lakhs Tk.)

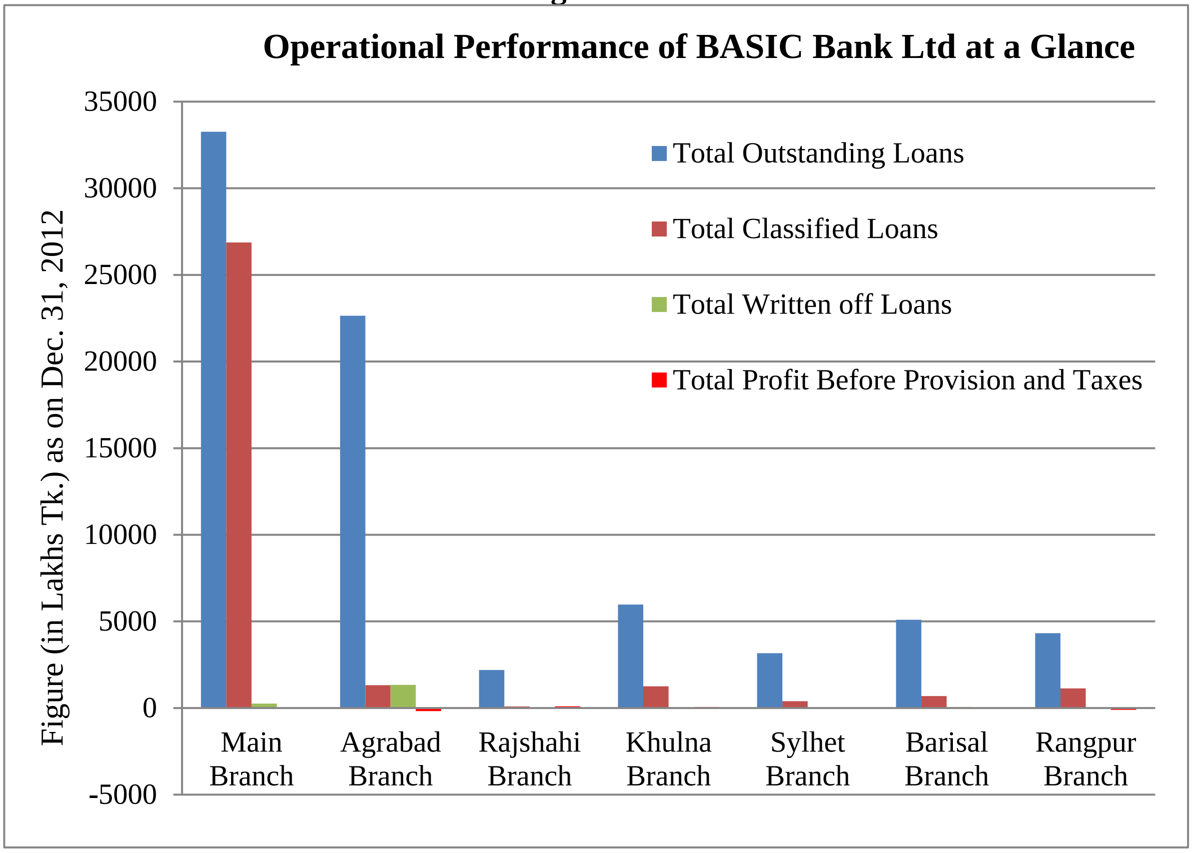
Table-6.6

Particulars	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
Total Outstanding Loans	332,58.29	226,43.07	21,97.00	59,73.76	31,66.00	50,96.20	43,19.79	766,54.11
Total Classified Loans	268,67.80	13,17.21	87.00	12,52.31	3,91.86	6,89.53	11,33.79	317,39.50
% of Classified loans to total loans	80.78%	5.82%	3.96%	20.96%	12.38%	13.53%	26.25%	41.41%
Total Written off Loans	2,55.66	13,35.73	0	0	0	64.65	0	16,56.04
Total Profit Before Provision and Taxes	(5.35)	(1,79.87)	1,00.39	58.20	2.23	(36.26)	(1,07.42)	(1,68.08)

Source: Branch records.

Interpretation: Main branch of the bank had the highest percentage of classified loans, followed by Rangpur branch, Khulna branch, Barisal branch, Sylhet branch, Agrabad branch, and Rajshahi branch respectively and the aggregate percentage of classified loans of the seven branches were 41.41%. On the other hand, Agrabad branch had written off the highest volume of classified loans, followed by Main branch and Barisal branch respectively & Rajshahi branch, Khulna branch, Sylhet branch, and Rangpur branch had not been written off classified loans in the year 2012. Transfer interest income on project loans to interest suspense account and maintenance of general & specific provision for classified loans and written off classified loans was mandatory instructed by Bangladesh Bank. As a result, interest spread of the branch had been lessened or negative, which made a total profit before provision and taxes negative. Main branch, Agrabad branch, Rangpur branch, Khulna branch had high levels of weakness in project appraisal compared to others because they had a high percentage of classified loans. Agrabad branch, Main branch had some weakness in recovery of classified loans. Only Rajshahi branch, Khulna branch, and Sylhet branch made some extent of profit before provision and taxes among the seven branches.

Figure-6.6



6.3.2 Branch Level Performance of BDBL

6.3.2.1 No. of financed projects of BDBL as on Dec. 31, 2012:

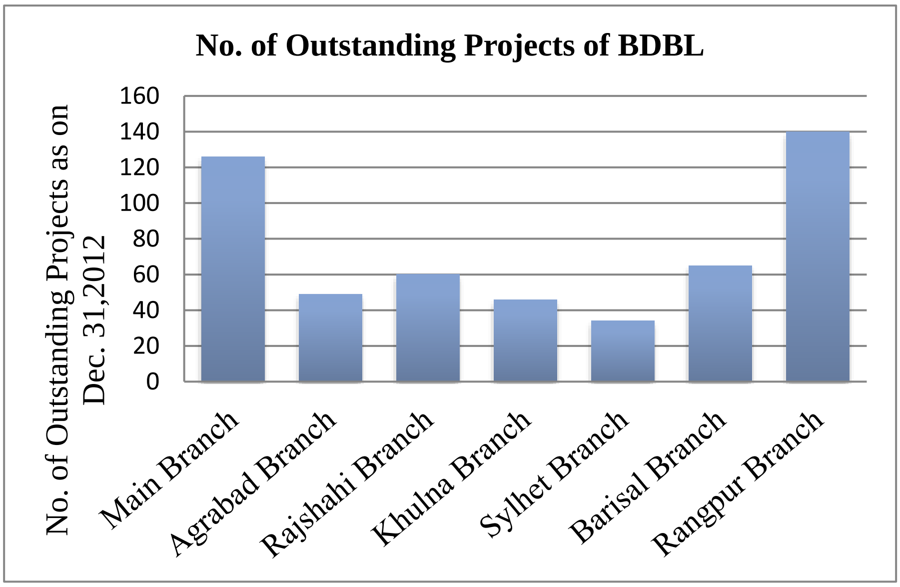
Table -6.7

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	77	42	36	6	28	42	72	303
10-25	1	0	11	34	2	7	53	108
25-50	2	1	6	3	1	14	4	31
50-100	3	2	6	2	3	1	7	24
100-500	20	4	1	1	0	0	2	28
500-1000	12	0	0	0	0	0	2	14
>1000	11	0	0	0	0	1	0	12
Total	126	49	60	46	34	65	140	520

Source: Branch records.

Interpretation: At the end of the year 2012, total number of outstanding projects of BDBL was 760 units, whereas selected seven branches entertained 520 units which was accounted for 68.42% of total projects of the bank. These seven branches were large and higher concentrated branches on project loans. Rangpur branch had the highest number of projects among seven branches, followed by Main branch, Barisal branch, Rajshahi branch, Agrabad branch, Khulna branch and Sylhet branch respectively. The number of projects in small loans was higher and lower for large loans.

Figure-6.7



6.3.2.2 Total Outstanding Loans (in Lakhs Tk.) of BDBL as on Dec. 31, 2012:

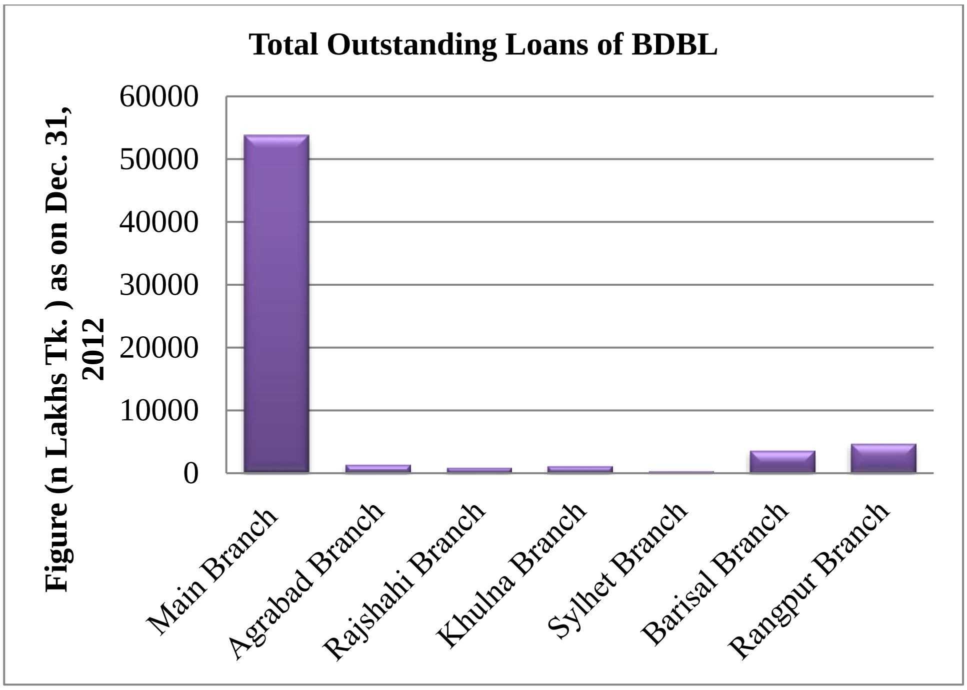
Table-6.8

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	76.50	2,24.38	16.00	27.44	1,41.89	4,40.00	4,73.85	14,00.06
10-25	24.47	0	1,22.00	5,34.82	26.79	1,12.00	9,47.70	17,67.78
25-50	92.08	34.97	31.00	1,05.61	46.97	6,10.00	3,21.42	12,42.05
50-100	2,41.59	1,74.47	4,89.00	94.77	1,68.94	80.00	7,21.54	19,70.31
100-500	52,59.61	9,38.17	2,50.00	3,97.62	0	0	3,84.04	72,29.44
500-1000	92,29.36	0	0	0	0	0	18,89.93	111,19.29
>1000	389,31.39	0	0	0	0	24,18.00	0	413,49.39
Total	538,55.00	13,71.99	9,08.00	11,60.26	3,84.59	36,60.00	47,38.48	660,78.32

Source: Branch records.

Interpretation: The bank had disbursed Tk. 1,190.23 crores as project loans up to the end of the year 2012, whereas cumulative outstanding project loans on that date for the seven branches was Tk. 660.78 crores which was accounted for 55.52% of total outstanding project loans of the bank. Main branch had disbursed highest volume of project loans, followed by Rangpur branch, Barisal branch, Agrabad branch, Khulna branch, Rajshahi branch, and Sylhet branch respectively.

Figure-6.8



6.3.2.3 Total Classified Loans (in Lakhs Tk.) of BDBL as on Dec. 31, 2012:

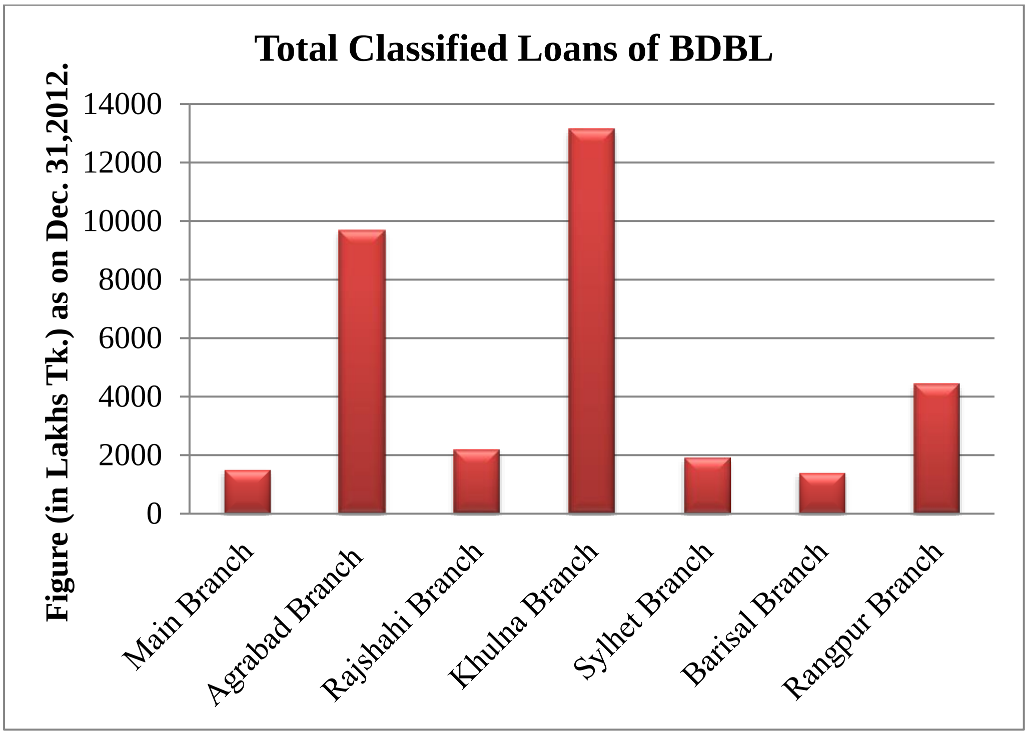
Table-6.9

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	1,46.75	0	0	0	2.49	8.00	0	1,57.24
10-25	4,24.47	0	0	0	14.73	7.00	37.50	4,83.70
25-50	7,42.23	0	0	4.12	0	15.00	38.00	7,99.35
50-100	21,57.28	0	4.00	34.77	1,68.94	0	100.00	24,64.99
100-500	52,98.79	1,36.24	0	1,05.61	0	0	3,25.50	58,66.14
500-1000	96,61.78	0	0	1,85.50	0	18.00	0	98,65.28
>1000	258,57.70	0	0	2,58.00	0	1,15.00	6,00.00	268,30.70
Total	442,89.00	1,36.24	4.00	5,88.00	1,86.16	163.00	11,01.00	464,67.40

Source: Branch records.

Interpretation: Total classified project loans of the bank were Tk. 541.79 crores at the end of the year 2012, whereas the figure for selected branches was Tk. 464.67 crores which was accounted for 85.77% of total classified loans of the bank. Main branch had the highest volume of classified project loans, followed by Rangpur branch, Khulna branch, Sylhet branch, Barisal branch, Agrabad branch and Rajshahi branch respectively.

Figure-6.9



6.3.2.4 Total Written off Loans (in Lakhs Tk.) of BDBL as on Dec. 31, 2012:

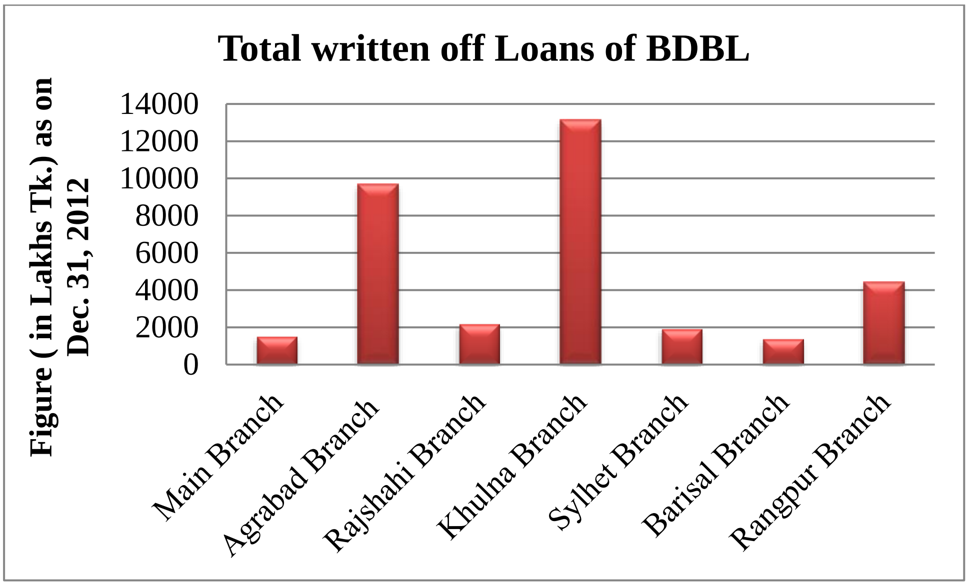
Table-6.10

Loan Size (in Lakhs Tk.)	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
3-10	0	0	0	0	0	0	0	0
10-25	18.50	0	0	32.65	0	0	30.20	81.35
25-50	25.00	0	4,50.00	77.96	5,37.78	41.00	150.15	12,81.89
50-100	98.10	2,00.69	17,44.00	27.35	6,56.09	105.00	250.25	30,81.48
100-500	405.00	7,01.40	0	11,71.13	0	2,18.50	8,13.14	33,09.17
500-1000	410.65	17,50.17	0	44,14.49	7,32.78	4,25.50	13,75.26	91,08.85
>1000	552.75	70,39.22	0	74,38.42	0	6,08.00	18,26.00	174,64.39
Total	15,10.00	96,91.48	21,94.00	131,62.00	19,26.65	13,98.00	44,45.00	343,27.13

Source: Branch records.

Interpretation: Total written off classified loans of the bank during the year 2012 was Tk. 1,969 crores, whereas the cumulative written off classified loans for selected branches at the end of 2012 was Tk. 343.27 crores. Khulna branch had the highest volume of written off loans, followed by Agrabad branch, Rangpur branch, Rajshahi branch, Sylhet branch, Main branch, Barisal branch respectively.

Figure-6.10



6.3.2.5 Total Profit Before Provision and Taxes of BDBL as on Dec. 31, 2012:

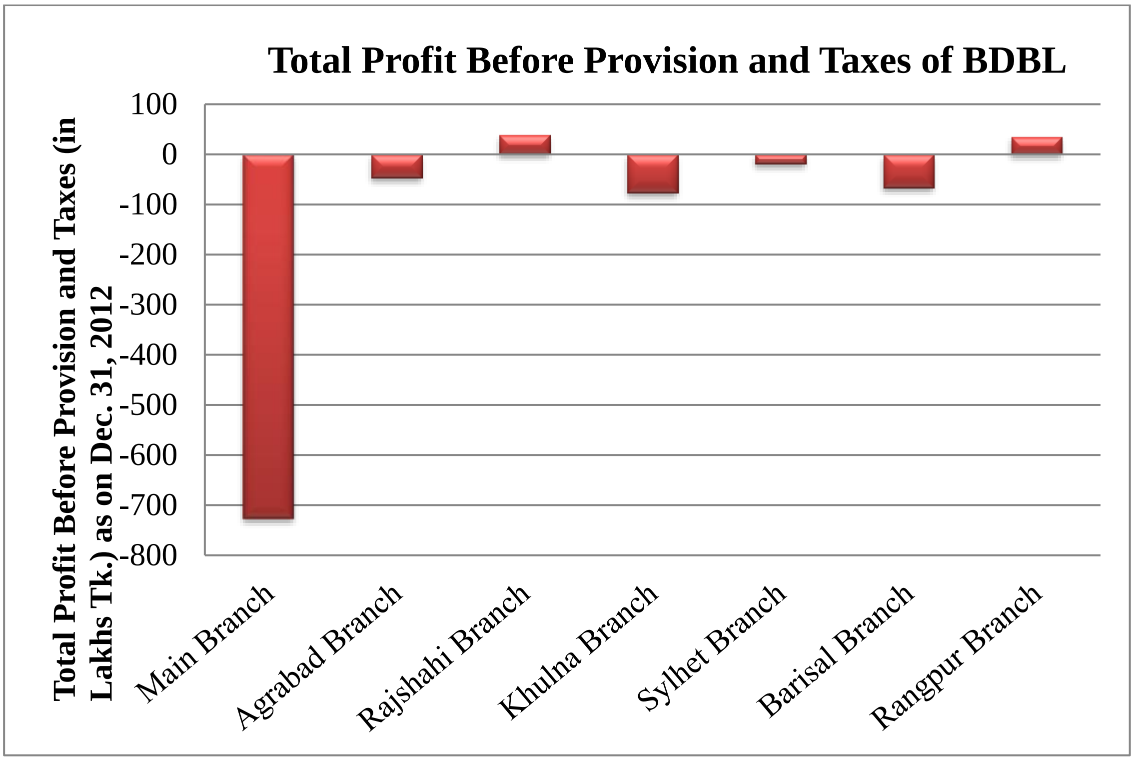
Table-6.11

Particulars	Taka (in lakhs)							
	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
Interest Income	13,06.45	1,94.77	1,78.00	1,01.00	1,83.24	4,36.00	4,82.64	28,82.10
Less: Interest Expenses	13,93.67	1,44.06	53.00	1,28.00	1,39.98	4,19.00	3,68.76	26,46.47
Net Interest Income	-87.22	50.71	1,25.00	-27.00	43.26	17.00	1,13.88	235.63
Less: Operating Expenses	6,41	97.74	86.00	49.80	62.13	84.00	78.59	10,99.26
Profit/(Loss) before Provision and Taxes	(7,28.22)	(47.03)	39.00	(76.80)	(18.87)	(67.00)	35.29	(8,63.63)

Source: Branch records.

Interpretation: At the end of the year 2012, the bank made total profit before provision and taxes of Tk. 45.07 crores whereas the selected seven branches incurred total loss of Tk. 8.64 crores on that date. Among the branches, two branches made profit and suffered from loss for five branches. Rajshahi branch made the highest profit, followed by Rangpur branch & Main branch incurred highest loss, followed by Khulna branch, Barisal branch, Agrabad branch and Sylhet branch respectively. On the other hand, Branch Manager's Conference-2013 report shown that total operational profit of Main branch, Agrabad branch, Rajshahi branch, Khulna branch, Sylhet branch, Barisal branch, Rangpur branch was Tk. 11.60 crores,Tk. 0.15 crores, Tk. 0.54 crores, Tk. 0.42 crores, Tk. 0.08 crores, Tk. 1.16 crores, Tk. 0.35 crores respectively.

Figure-6.11



6.3.2.6 Branch Level Operational Performance of BDBL at a Glance ((in Lakhs Tk.)

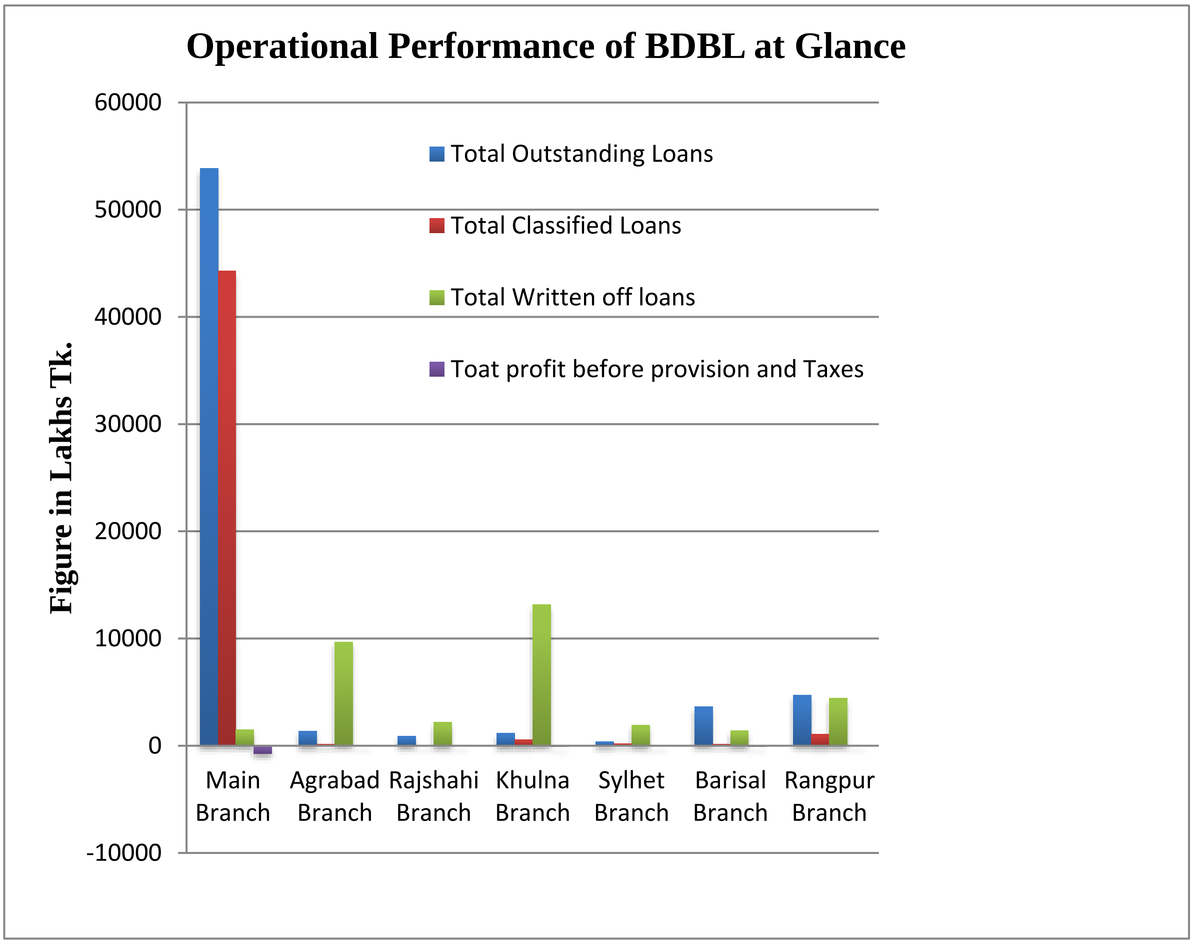
Table-6.12

Particulars	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
Total Outstanding Loans	538,55.00	13,71.99	9,08.00	11,60.26	3,84.59	36,60.00	47,38.48	535,59.45
Total Classified Loans	442,89.00	1,36.24	4.00	5,88.00	1,86.16	1,63.00	11,01.00	464,67.40
% of Classified loans to total loans	82.24%	9.93%	0.44%	50.68%	48.41%	4.45%	23.23%	86.76%
Total Written off Loans	15,10.00	96,91.48	21,94.00	131,62.00	19,26.65	13,98.00	44,45.00	343,27.13
Total Profit Before Provision and Taxes	(7,28.22)	(47.03)	39.00	(76.80)	(18.87)	(67.00)	35.29	(8,63.63)

Source: Branch records.

Interpretation: Main branch of the bank had the highest percentage of classified loans, followed by Khulna branch, Sylhet branch, Rangpur branch, Agrabad branch respectively and an aggregate percentage of classified loans of the seven branches were 86.76%. On the other hand, Khulna branch had the highest volume of written off loans, followed by Agrabad branch, Rangpur branch, Rajshahi branch, Sylhet branch, Main branch, Barisal branch respectively. Transfer interest income on project loans to interest suspense account and maintenance of general & specific provision for classified loans and written off classified loans was mandatory followed by the bank as per the instructions of Bangladesh Bank. As a result, interest spread of the branch had been lessen or negative, which made total loss. From the above table, it is found that Main branch, Khulna branch, Sylhet branch, Rangpur branch had high levels of weakness in project appraisal compare to others because they had a high percentage of classified loans. These branches maily focused on collateral security rather than projected operational performance in selection of the projects for loan disbursement. Agrabad branch, Barisal branch, and Rajshahi branch enjoyed better performance in selection of projects through project appraisal. Khulna branch, Agrabad branch, Rangpur branch, Rajshahi branch, and Sylhet branch had poor performance in recovery of classified loans. Among the seven branches, only Rajshahi branch and Rangpur branch made some extent of profit before provision and taxes.

Figure-6.12



6.3.3 Branch Level Comparative Operational Performance of BASIC Bank Ltd and BDBL at a Glance (in Lakhs Tk.)

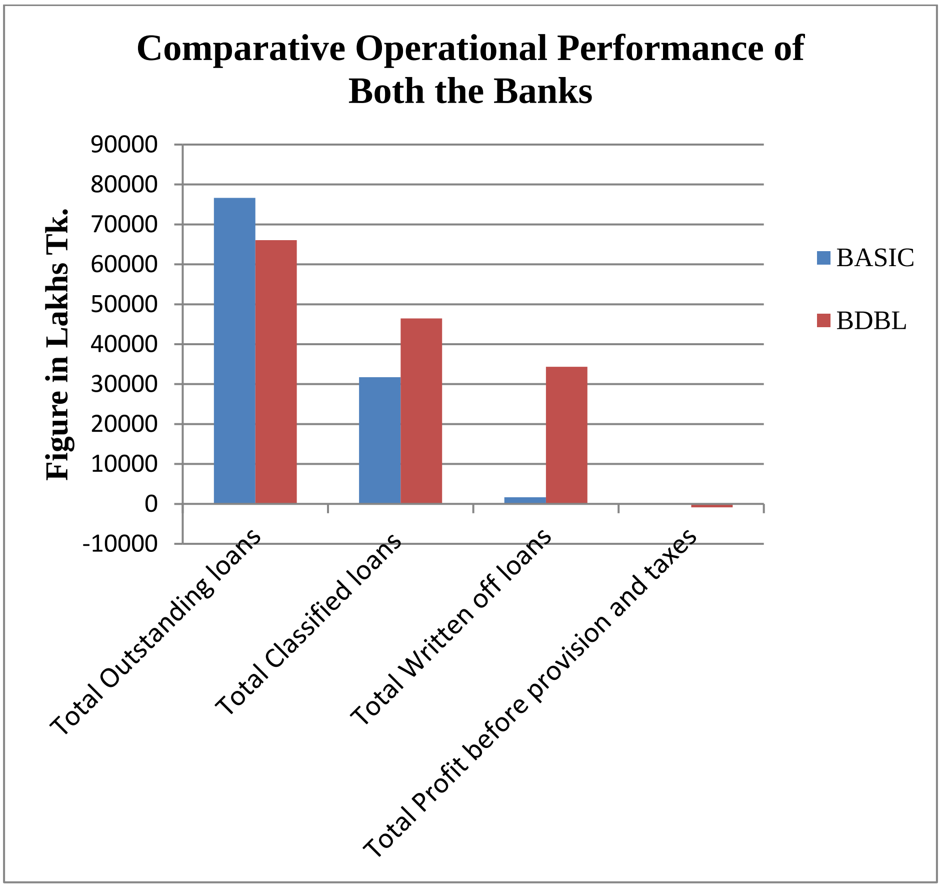
Table-6.13

Particulars	**BASIC Bank Ltd**	**BDBL**
Total Outstanding Loans	766,54.11	660,78.32
Total Classified Loans	317,39.50	464,67.40
% of Classified Loans to Total loans	41.41%	47.06%
Total Written off Loans	16,56.04	343,27.13
Total Profit Before Provision and Taxes	(1,68.08)	(8,63.63)

Source: Branch records.

Interpretation: Among the aggregate result of seven branches of both the banks, BDBL had higher percentage of classified loans, written off classified loans and total loss before provision and taxes and BASIC Bank Ltd enjoyed better performance in project appraisal, recovery of classified loans, and suffered from low loss compared to BDBL.

Figure-6.13



6.4 Sectoral Advances: Both the banks disbursed loans in different rising and thrust sectors to comply with the instructions of Bangladesh Bank for sustainable economic development and national growth. The volume of advances of the banks varied from one sub-sectors to another depending on the earning capacity of the sub-sectors to repay the loans successfully in the future. These sectors are divided into twelve sub-sectors where both the banks disbursed SMEs loan, and industrial loans.

Sectoral advances of BASIC Bank Ltd and BDBL (in Million Tk.)

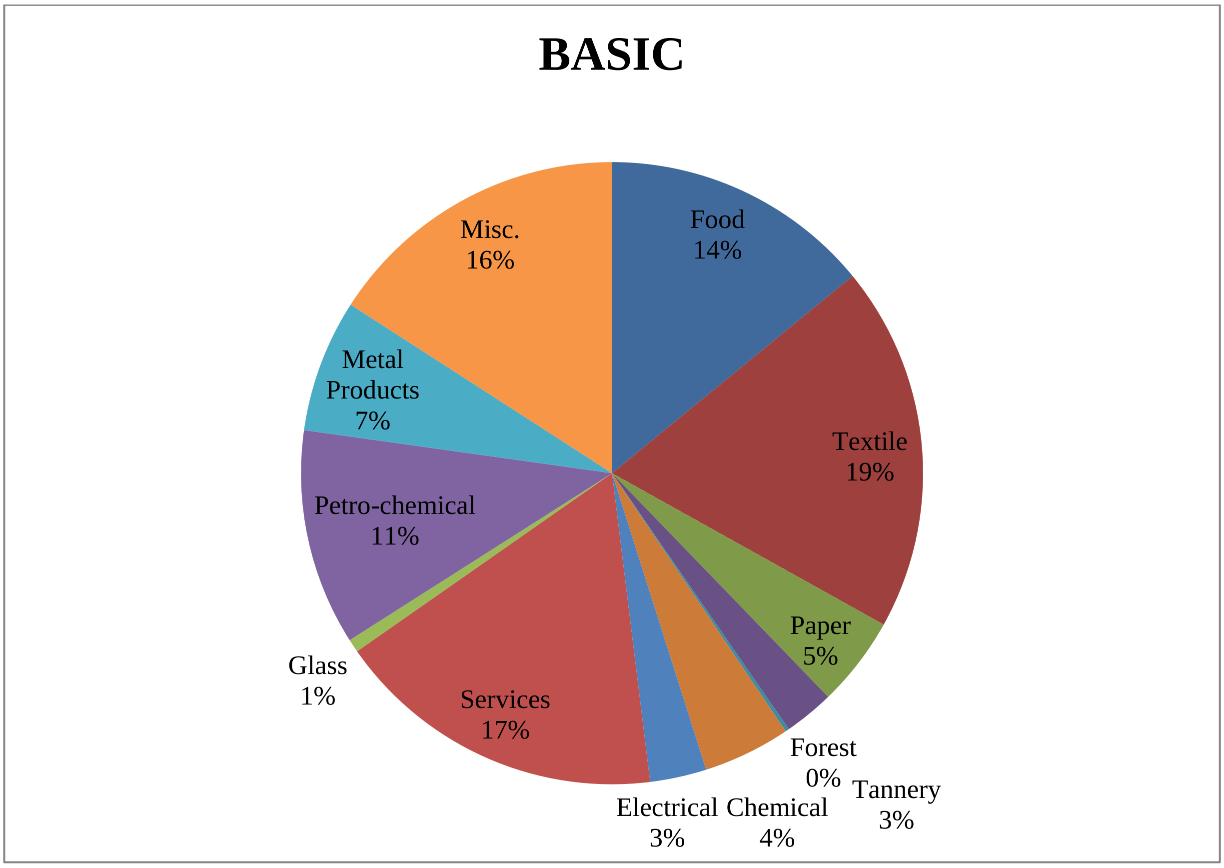
Table-6.14

Sectors	BASIC Bank Ltd				BDBL			
	2010	2011	2012	Average	2010	2011	2012	Average
1. Food & Allied products	3,543.30 (12.76%)	4,450.00 (13.35%)	7,462.90 (16.31%)	5,152.07 (14.14%)	481.40 (6.63%)	555.40 (8.10%)	766.10 (10.54%)	600.97 (8.42%)
2. Textile	6,313.60 (22.73%)	6,684.30 (20.06%)	6,635.30 (14.50%)	6,544.40 (19.10%)	5,356.30 (73.82%)	5,218.50 (76.10%)	5,353.50 (73.63%)	5,309.43 (74.52%)
3. Paper, Board and printing & packaging	994.10 (3.58%)	1,720.80 (5.16%)	1,991.60 (4.35%)	1,568.83 (4.70%)	130.20 (1.79%)	115.50 (1.68%)	140.30 (1.93%)	128.67 (1.80%)
4. Tannery Leather and Rubber products	927.40 (3.34%)	926.60 (2.78%)	796.30 (1.74%)	883.43 (2.62%)	80.40 (1.11%)	70.20 (1.02%)	64.10 (0.88%)	71.57 (1.00%)
5. Forest, wood products & Saw Mills	66.10 (0.24%)	54.90 (0.17%)	72.40 (0.16%)	64.47 (0.19%)	25.10 (0.35%)	28.20 (0.41%)	33.40 (0.46%)	28.90 (0.41%)
6. Chemical & Pharmaceuticals	1,478.30 (5.32%)	1,394.80 (4.19%)	1,767.50 (3.86%)	1,546.87 (4.56%)	411.70 (5.67%)	380.00 (5.54%)	213.90 (2.94%)	335.20 (4.72%)
7. Electrical and Electronics Industries.	567.70 (2.04%)	669.40 (2.00%)	2,194.70 (4.80%)	1,143.93 (2.95%)	44.70 (0.62%)	47.60 (0.69%)	59.90 (0.82%)	50.73 (0.71%)
8. Services Industries.	2,809.70 (10.11%)	4,752.30 (14.26%)	12,634.90 (27.61%)	6,732.30 (17.33%)	186.10 (2.57%)	160.60 (2.34%)	240.90 (3.31%)	195.87 (2.74%)
9. Glass, Ceramics and other non metal products	160.70 (0.58%)	219.10 (0.66%)	386.00 (0.84%)	255.27 (0.69%)	16.80 (0.23%)	26.70 (0.39%)	67.90 (0.93%)	37.13 (0.52%)
10. Petro- chemicals	3,230.40 (11.63%)	3,652.00 (10.96%)	5,148.10 (11.25%)	4,010.17 (11.28%)	50.30 (0.69%)	61.00 (0.89%)	73.70 (1.01%)	61.67 (0.86%)
11. Metal products	2,307.60 (8.31%)	3,187.40 (9.57%)	1,330.8 (2.91%)	2,275.27 (6.93%)	113.70 (1.57%)	99.10 (1.45%)	85.70 (1.18%)	99.50 (1.40%)
12. Miscellaneous	5,378.99 (19.36%)	5,611.40 (16.84%)	5,342.20 (11.67%)	5,444.20 (15.96%)	359.60 (4.96%)	94.90 (1.38%)	171.00 (2.35%)	208.50 (2.90%)
Total	27,777.89 (100%)	33,323.00 (100%)	45,762.70 (100%)	35,621.20 (100%)	7,256.30 (100%)	6,857.70 (100%)	7,270.40 (100%)	7,128.13 (100%)

Source: Annual Reports of BASIC Bank Ltd and BDBL for the year 2010-12.

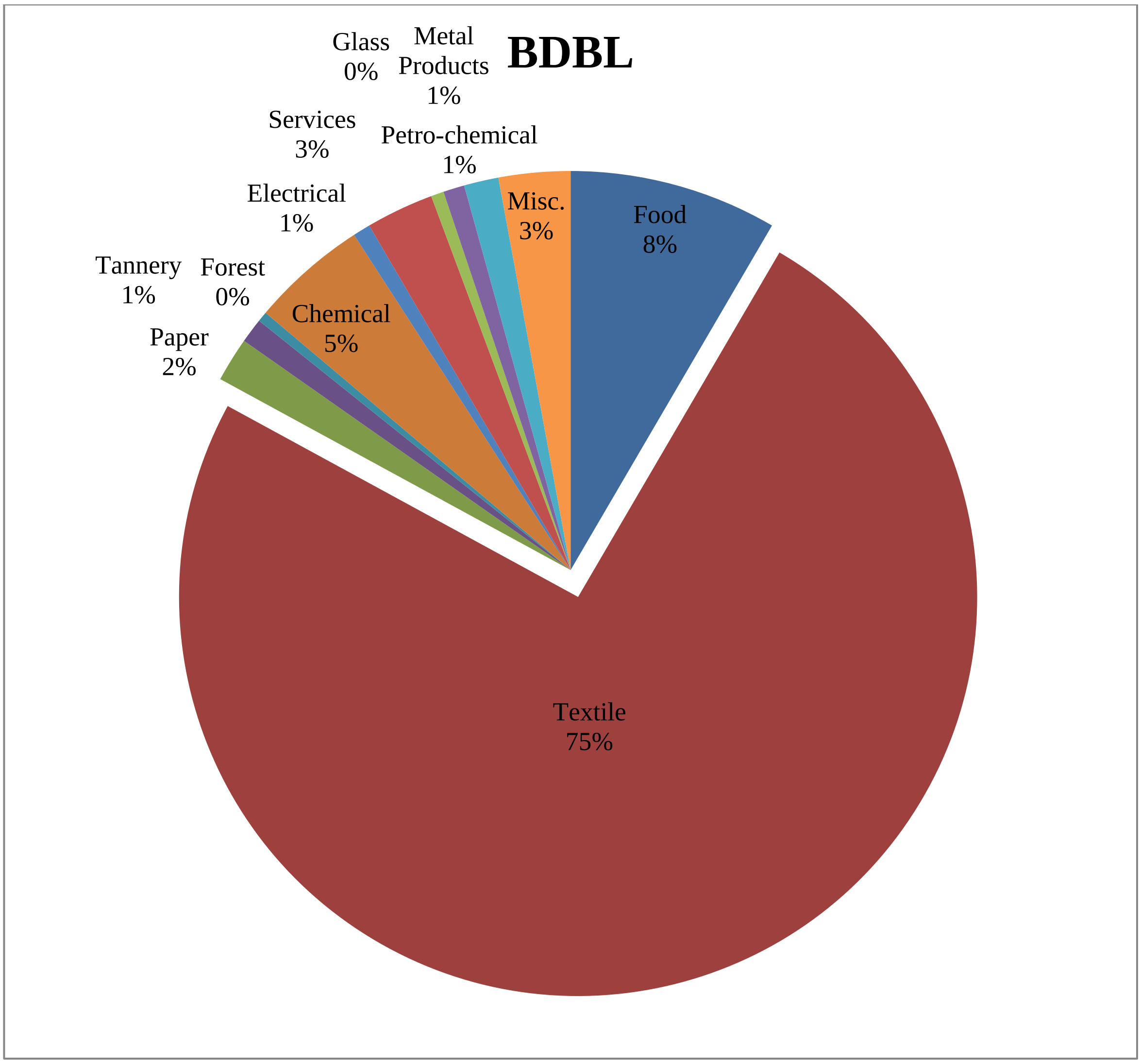
Explanation: BASIC bank Ltd had disbursed Tk. 2,778 crores, Tk. 3,332 crores and Tk. 4,576 crores respectively during the last three years which was accounted for Tk. 3,562 crores on an yearly average. On the other hand, BDBL had disbursed Tk. 726 crores, Tk. 686 crores, and Tk. 727 crores respectively over the last three years which was accounted for Tk. 713 crores on an yearly average. It was found from the table that the volume of advance disbursement of BDBL was only 20% of that of BASIC Bank Ltd on an average to those sub-sectors. The volume of sectoral advances of BASIC Bank Ltd had upward trend whereas it was unchanged for BDBL. Among the aforesaid twelve sub-sectors, disbursement of advance to service industries, food and allied products, miscellaneous, and electrical & electronics industry had shown remarkable upward trend; and textile sub-sectors, petro-chemicals, metal products, chemical & pharmaceuticals, and tannery leather & rubber products had shown downward trend over the same period. Sectoral advances of BASIC Bank Ltd had shown more diversification. But the concentration of BDBL for disbursement of advance was mainly focused on textile sub-sectors and food & allied industries.

Figure-6.14



Explanation: By averaging the percentage of sectoral advances for last three years, it was found that BASIC Bank Ltd had disbursed major advances to textile sub-sectors, followed by services, miscellaneous industries, food and allied products, petro-chemical, metal products, paper, board and printing & packaging sub-sectors etc.

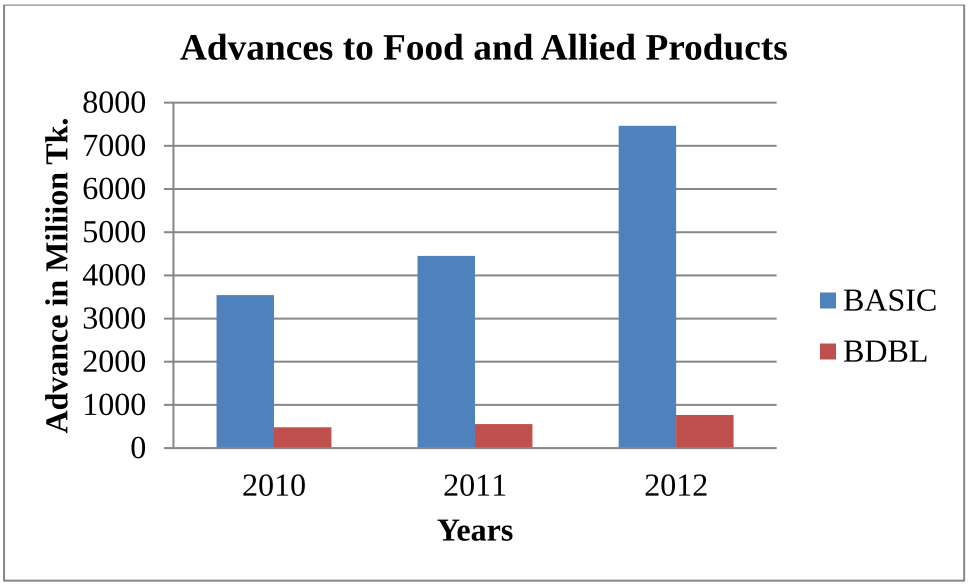
Figure-6.15



Explanation: BDBL had disbursed major percentage of advances to textile sub-sectors, followed by food and allied products, chemical & pharmaceuticals, services industries, miscellaneous industries, etc. over the last three years. The bank had mainly concentrated the advances of textile factories, ready-made garments-knitwear and oven factories and forward linkage factories.

6.4.1 Food & Allied products: Agriculture as indigenous profession is the largest sector of economy of Bangladesh. The sector supplies food & nutrition for mass people of the country and 80% of rural people are directly engaged into agriculture. The sector reduces rural poverty and recently contributes around 20% to GDP. Food and allied product industry is the forward linkage industry of agriculture and most of raw material of the industry is supplied by agriculture. Surplus production of food grains ensures low cost and timely supply of raw materials to food and allied food industries. Large companies engaged in the industry are Square Group, Rangpur Dairy and food products, AMCL (Pran) foods, Fuwang foods, Apex foods, etc. Both the banks had entertained loans to those SMEs in the industry that were produced processed foods in territory based by using locally available raw material and indigenous skill and technology. Name of such food items are chips, chanachur, biscuit, cake, loaf, dust of spice, ghee, curd, chocolate, muri, etc.

Figure-6.16



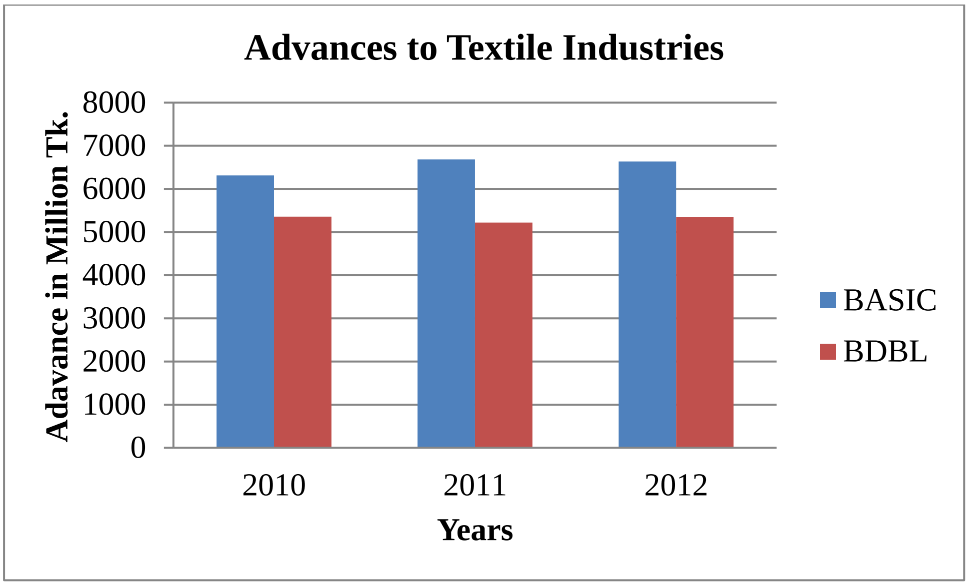
Explanation: BASIC Bank Ltd had disbursed Tk. 343 crores, Tk. 445 crores and Tk. 746 crores respectively as advances to food and allied products during the last three years. On the other hand, BDBL had disbursed Tk. 48 crores, Tk. 56 crores and Tk. 77 crores as advances to the sub-sector during the same period. The trend of advances to the sub-sectors was upward for both the banks. Average percentage of advances to the sub-sectors was 14.14% for BASIC Bank Ltd and 8.42% for BDBL**.**

Success: Huge availability of raw material in the country, low labour cost and adequate local technology and high domestic demand are the favorable factors to rise the sub-sector rapidly. There is an opportunity for the industry to expand their market in neighbour countries like Myanmar, Seven sister states, West-Bengal, etc. for its quality and taste.

Threats: The industry faced low profit margin for sustainable expansion. While natural calamity like flood, drought, etc. restrict the target production of food grains and supply of raw material for the industry is hampered.

6.4.2 Textile Industries: The performance of textile sector in Bangladesh lies on the field of spinning, weaving, knitting, dyeing & finishing and garments making. Ready-made garment industry is the forward linkage industry of textile industry. RMG was emerged in the western world in 1950. The sector was experienced exponential growth in late 1980s. Multi Fibre Agreement (MFA) came into force in 1974 and expansion of the sector was enhanced afterwards in Bangladesh. RMG sector in Bangladesh is divided into knitwear and woven factories. Bangladesh mainly produces five products-T-shirts, sweaters, trousers, men's and women's shirts. Now the sector contributes about 76% of export earnings, employees around 4.2 million Bangladeshis and 80% of workers are women who come from low income families. In 2012, there were 4,490 manufacturing units and contributes around 13% to GDP. The apparel industry is the biggest export earner of Bangladesh with value of over $24.49 billion of exports in the last financial year (from July 2013 to June 2014). USA is the largest importer of Bangladeshi RMG products, followed by Germany, UK, France and other E.U countries. Most of the machinery of the sector was imported from Germany and Switzerland. The backward linkage industry of RMG is accessories industry that are engaged to produce zippers, buttons, labels, hooks, hangers, elastic bands, thread, backboards, butterfly pins, clips, collar stays, collarbones and cartons.

Figure-6.17



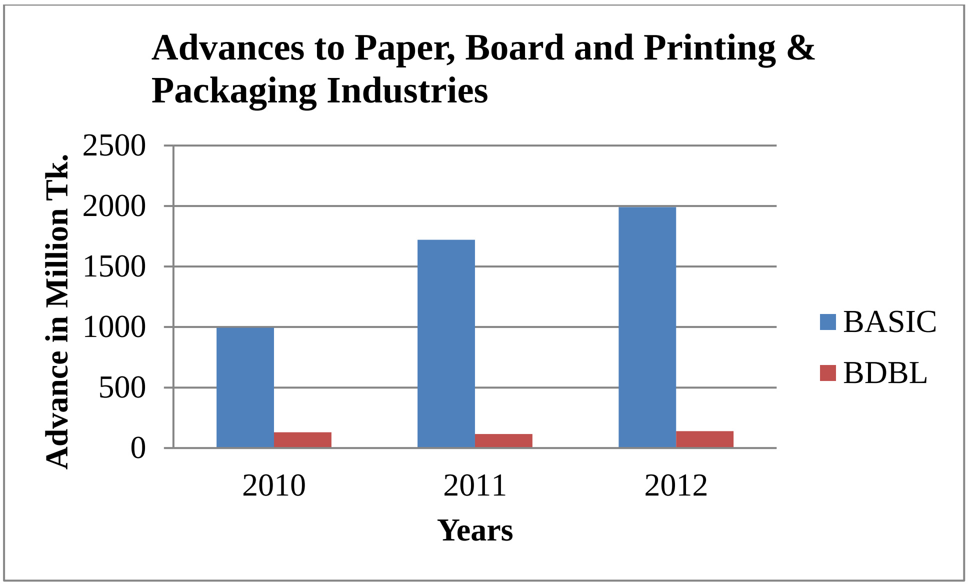
Explanation: BASIC Bank Ltd had disbursed Tk. 631 crores, Tk. 668 crores and Tk. 654 crores respectively as advances to textile industries during the last three years. On the other hand, BDBL had disbursed Tk. 536 crores, Tk. 522 crores and Tk. 535 crores as advance to the sub-sectors during the same periods. The trend of advances to the sub-sectors was upward for BASIC Bank Ltd and was downward for BDBL. Average percentage of advances to the sub-sectors was 19.10% for BASIC Bank Ltd and 74.52% for BDBLover the period**.** As per the circular of BDBL as on June 18, 2013, credit committee of the bank suggested that project finance requires to spread out to other divisions and districts due to it was accounted for 83.38% in Dhaka division and credit in textile sector should be discouraged because total credit in the sector was 42.78%**.**

Success: Availability of experienced workers with low cost, earlier Generalized System of Preference (GSP) and Government patronization to boost the sector are main facilities to rise the sector. After the world financial crises and cancellation of GSP facility, the export earnings of the sector had increased.

Threats: The challenges of the sector are for workers safety, workers rights and political unrest & labour unrest. The tragedy of Tazrin and Rana garments factory had deteriorated the success image of the sector. As a result, GSP facility was postponed by buyers in 2013 and China and India are gradually absorbing the market share of the sector in the world market. The products were mainly exported to two markets namely EU and North America (US and Canada). The export earnings from the two markets had decreased during the last five years. As a result, RMG sector is contemplating to diversify their products to other markets and give more concentrate on high-end products like suits, lingerie, etc for the sustainable growth of the sector.

6.4.3 Paper, Board and printing & packaging Industries: Most of the pulp and paper is produced in Bangladesh by karnaphuli paper mills and Bashundhara paper mill. Paper is used to print books, documents and writing purposes. Board and packaging items like carton and sticker are largely used in RMG, food & allied food, electrical & electronics, glass & ceramics companies for packing of finished goods. The demand of tissue paper is increasing to satisfy customers. Due ot the advancement of digitalization, printing materials and press business is gradually comes to end.

Figure-6.18



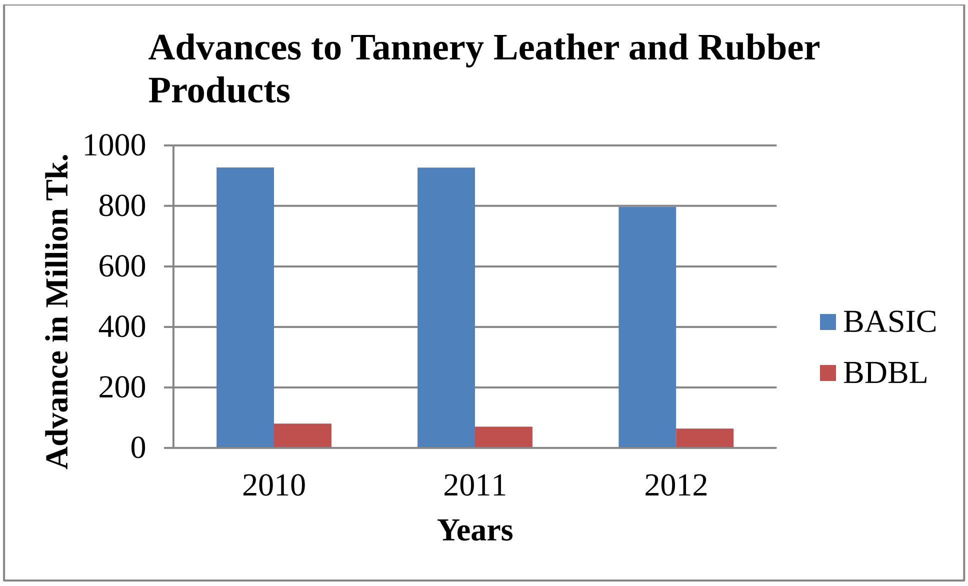
Explanation: The trend of advances to the sub-sectors was upward for both the banks. But the volume of advances in the sub-sectors was higher for BASIC Bank Ltd and was low for BDBL. Most of advances of both the banks were flowed to small business enterprises that were engaged in making packing materials like carton for backward linkage industries of RMG sectors, and printing of calendars, sticker, leaflet and posters as SME loans.

Success: Most of raw materials of the sub-sector are supplied by large paper mills of Bangladesh that use locally available raw materials flow from forest and wood. On the other hand, low capital requirement and locally made machinery are used to run small and medium enterprises. So, the repayment capacity of the sub-sectors is satisfactory to lender banks.

Threats: Inadequacy of fibrous raw material in local market and rapid digitalization are major challenges of the sub-sector.

6.4.4 Tannery, Leather and Rubber products: Leather sector is a 4th largest export earning and highly potential sector in Bangladesh as 90% of the basic raw material is locally available. There are 220 tanneries in Bangladesh, out of which 187 tanneries are located in Hazaribagh, Dhaka. About 95% of leather and leather products of Bangladesh are marketed abroad, mostly in the form of crushed leather, finished leather, leather garments, and footwear. Most of the leather and leather goods go to Germany, Italy, France, Netherlands, Spain, Russia, Bgrazil, Japan, China, Singapore, and Taiwan. Total export earning of the sector during 2011-12 was UD$ 20 billion. The annual domestic supply of hides and skins is around 220 million square feet.

Figure-6.19



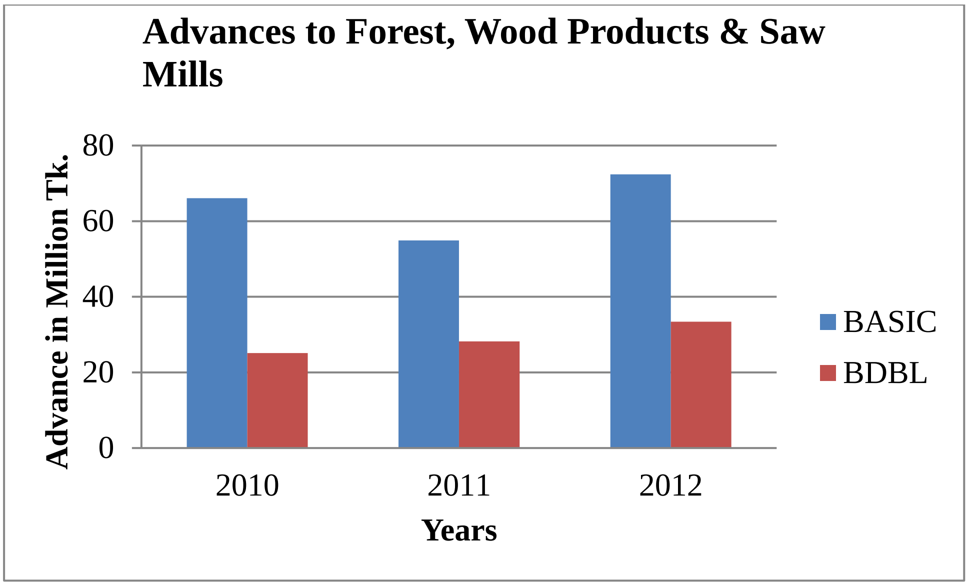
Explanation: The trend of advances to the sub-sectors was downward for both the banks. But the amount of advances in the sub-sectors was higher for BASIC Bank Ltd compared to BDBL.

Success: Good quality of rawhide, low labour cost, low maintenance cost, government assistance, and high demand of leather goods in the foreign market, etc were the favourable factors to survive the sub-sector in the economy.

Threats: The sector generated 20,000m^3 tannery effluent and 232 tones solid waste per day. There were no effluent treatment plants in leather industry to protect environment requirements. As a result, the advance of both the banks in the sector was decreasing day by day.

6.4.5 Forest, Wood products & Saw Mills: Wooden furniture business had expanded after late eighties while modern and luxurious furniture and decoration were demanded in private corporate offices. Many furniture manufacturing companies initiated their business to provide modern furniture to cooperate sector. Otobi, Partex, Navana and Hatil furniture are some of the companies that engaged to manufacture furniture. On the other hand, RFL and Gazi group manufactured plywood furniture to meet local demands and export surplus production.

Figure-6.20



Explanation: The trend of advances to the sub-sectors was upward for both the banks. Over the last three years BASIC Bank Ltd and BDBL had disbursed Tk. 6.50 crores and Tk. 3.00 crores respectively on an average. The average percentage of advances to the sub-sector for both the banks was insignificant because those banks had only disbursed SME loans in furniture shops & show rooms, plywood furniture and some saw mills.

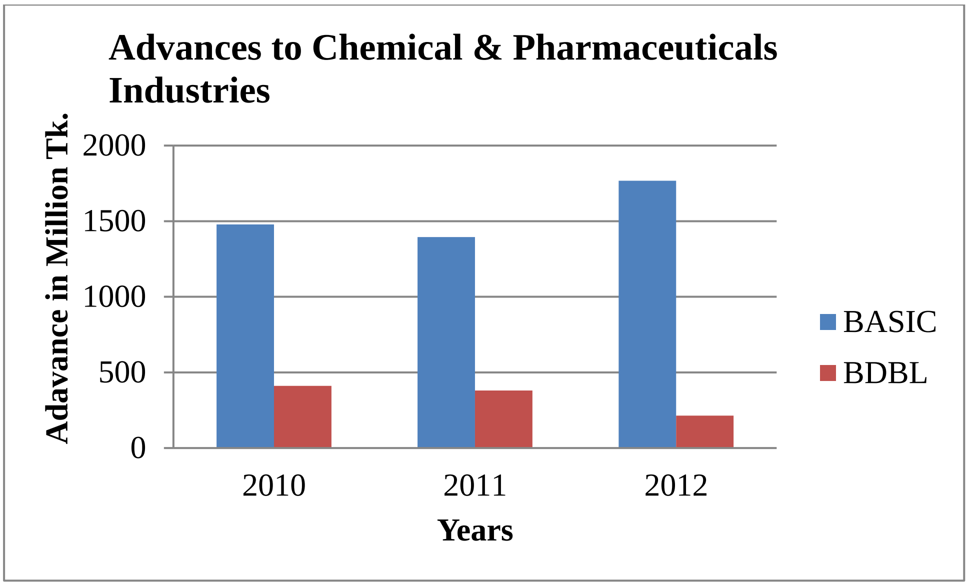
Success: Raw materials of wooden furniture and plywood furniture are local produced and indigenous skill of labour to make furniture is available in the country**.** New apartments are developed in cities area that requires more furniture and wooden products. So, the sub-sector is a rising SME sector for financing of the banks.

Threats: Forest plants are gradually decreasing in the country that will make scarcity of wood. Furniture and saw mills business is seasonal and more finance is required to procure raw wood that restricts continuous cash flow in the business. On the other hand, high technology and expertise of large companies to manufacture products deteriorate the market share of small enterprises.

6.4.6 Chemical & Pharmaceuticals Industries: Chemical industry is the backward linkage industry of textile & Readymade garments sectors and pharmaceutical industry in the healthcare sectors of Bangladesh. Chemical industry was firstly originated in Switzerland in the late nineteenth century and Arabian Pharmacists had opened the ancient drug store in Baghdad before eighth century & later on the business was fostered in other Islamic and

European countries. The growth of the sector in Bangladesh started in 1950s. The number of licensed pharmaceutical manufacturers was 166 in 1981 and Tk. 30 crores was exchanged to import foreign drug. As a result, drug (control) ordinance was formulated in 1982 and national drug policy-2004 came into force in order to regulate the sector. At present, about 250 pharmaceutical companies were serving in the country and only 30 companies own 90% of the whole share. The sector satisfies 98% of local demand and exports to more than 80 countries. There were 261Uunani, 161 Ayurvedic, 76 homeopathic and biochemical licensed manufacturing units. The creation of Active Pharmaceutical Ingredient Park (API) was the significant measure for rapid growth of the sector. The sector imports 80% of its raw materials from abroad. The contribution of pharmaceutical industries to GDP was 5% on an average during the last five years.

Figure-6.21



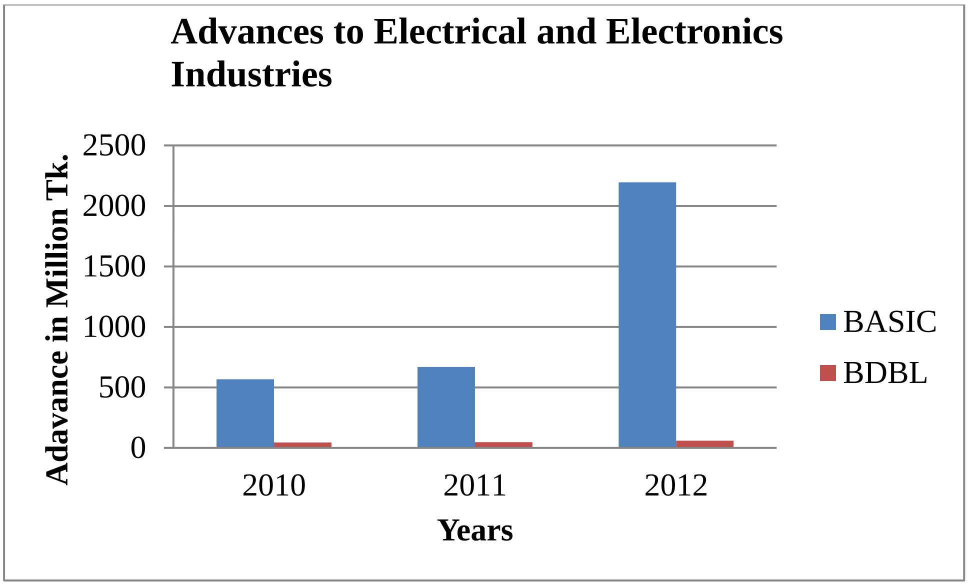
Explanation: The market share of large pharmaceutical industries had increased rapidly and both the banks had not financed those large industries. The trend of advances to that sub-sector had been upward for BASIC Bank Ltd and downward for BDBL during the last three years. But the average portion of advances to total advances for both the banks in the sub-sectors was same during the last three years.

Success: Food adulteration, excessive usage of insecticide in food grains make severe health hazards and lack of health conscious of people is resulting huge demand of drug in the country. The ingredients of small and medium pharmaceuticals and Unani & Ayurvedic are mostly produced locally. On the other hand, drug market of small and medium pharmaceutical is rapidly promoted in neighbour countries. Banks could select this rising sector for their profitable financing.

Threats: High cost of marketing, lack of Bangladesh Bank patronization to finance the sector and Bangladesh Drug Administration is not global member-are major weakness of the sector that restricted banks to entertain finance in the sector.

6.4.7 Electrical and Electronics Industries: The sub-sectors are thriving sector in Bangladesh and scattered throughout the country without any clusters. Electronics are knowledge based sub-sectors and Electrical sub-sector is formed with skilled manpower. The sub-sector was developed in the country over last three decades. Most of the raw materials for the sectors are imported from China and India. The imported raw material is assembled in the country to make finished goods for satisfying local demand. Some of electrical and electronics items are ceiling fan, table fans, charger fan, TV, refrigerator, mobile sets, computer, IPS, UPS, and electrical accessories, generator, air conditioner, etc. Since the living standard of people in the country are gradually increasing day by day, the demand of electrical and electronics is rising.

Figure-6.22



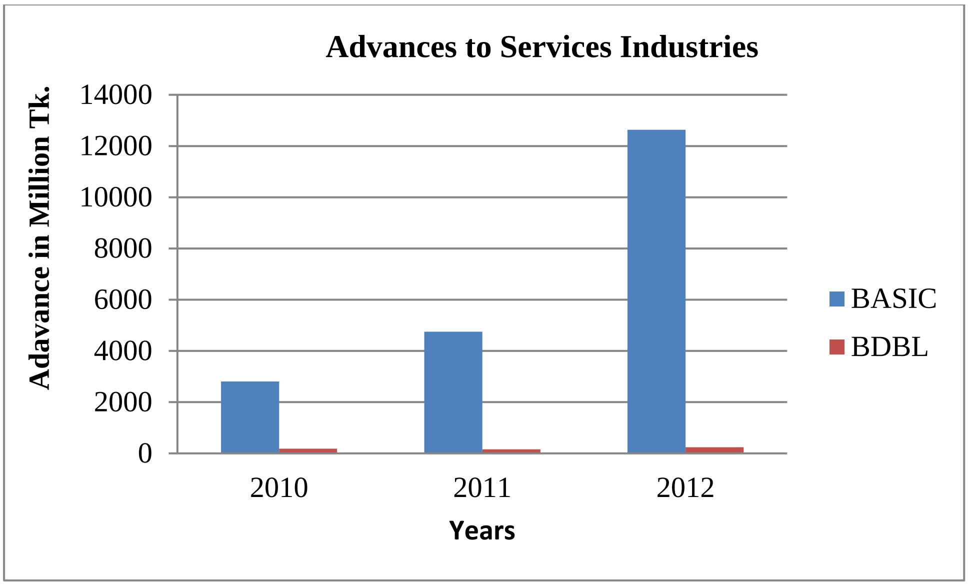
Explanation: The trend of advances to the sub-sectors was upward for both the banks. But the average portion of advances to total advances in the sub-sectors was higher for BASIC Bank Ltd compared to BDBL during the last three years. The portion of advances in the sub-sector for both the banks was very poor because they mainly disbursed loans for the concerns which were engaged in assembling goods through imported spare parts, and production of goods by indigenous raw materials.

Success: High local demand and profit margin, employment generation source, indigenous technology based are major favorable factors to rise the sector very quickly.

Threats: Production with poor technical know-how and lack of quality machinery that could not compete with foreign products and intrusion of foreign products absorbed the market share as a whole.

6.4.8 Services Industries: Hospital, clinic, diagnostic centre, restaurant, hotel, transport etc. are considered as service industries. Frequent movement of commuters for diversified purposes and human health hazards make success the sectors. The arrival of tourists in the country has flourished the sub-sector.

Figure-6.23



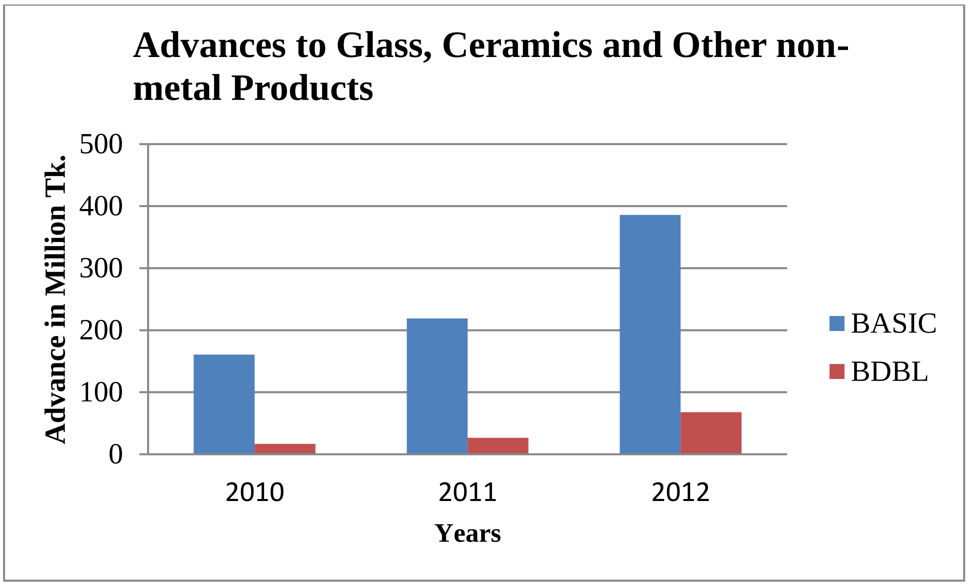
Explanation: BASIC Bank Ltd had disbursed Tk. 281 crores, Tk. 475 crores and Tk. 1,263 crores respectively as advances to service industries during the last three years. On the other hand, BDBL had disbursed Tk. 19 crores, Tk. 16 crores and Tk. 24 crores as advance to those sub-sectors during the same periods. The trend of advances to the sub-sectors was upward for both the banks. Average percentage of advances to the sub-sectors was 17.33% for BASIC Bank Ltd and 2.74% for BDBL over the last three years.

Success: No working capital, no credit sale, and no technological base are major successful phenomena for the sector. If the management is efficient to provide modern services, the business will be profitable. In the year 2012, BASIC Bank Ltd disbursed more fund in service industries.

Threats: High operation cost to provide standard service is the major challenge of the sub-sector for sustainable development. Whenever the management could not change the mode of service to attract their customers with affordable cost, the business would be closed.

6.4.9 Glass, Ceramics and other non metal products: The demand of glass, ceramics and non-metal products is gradually increasing for corporate office decoration, transport, kitchen & dining durables and floor & bathroom decoration. Nasir glass, RAK ceramics and China-Bangla ceramics basically lead the major portion of the market. The contribution of the sector to GDP is increasing day by day.

Figure-6.24



Explanation: The trend of advances to the sub-sectors was upwards for both the banks. But the volume of advances to disburse in the sub-sectors was low for both the banks.

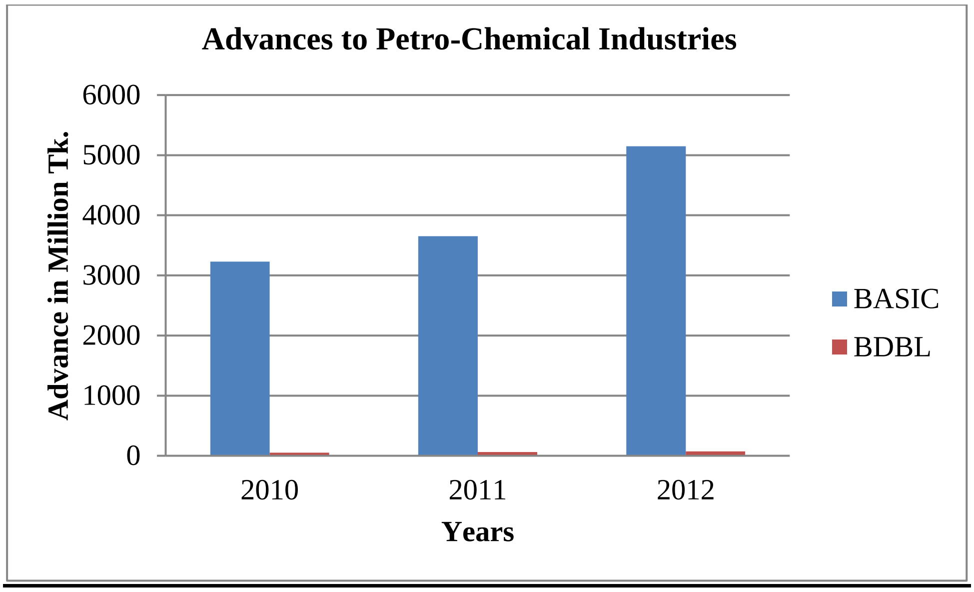
Success: Local demand of the products and export earning is higher for the products, more small and medium enterprises are engaged in production.

Threats: Most of raw materials are imported for the sub-sector and cost of the production is also higher. As a result, small and medium scale enterprises could not compete with large companies to survive in the long run. So, the advances of both the banks are poor in the sub-sector.

6.4.10 Petro chemicals sectors:

The demand for electricity and energy is increasing rapidly in the country. But yet the demand for electricity is growing at a faster pace than supply for which the sector should expand to make alternative energy source. The sector is engaged in production of solar power plant, bio-gas plant and rice brand oil by using local technology and materials. CVO Petrochemical Refinery, the country's first ever public limited company in the sector, started production of fuel and chemical at its plant in April 02, 2014. The company initially produced 'phulcophy' brand soyabean oil and 'gold cup' brand vegetable ghee, side by side running their original petrol and lubricant business through a petrol filling station.

Figure-6.25



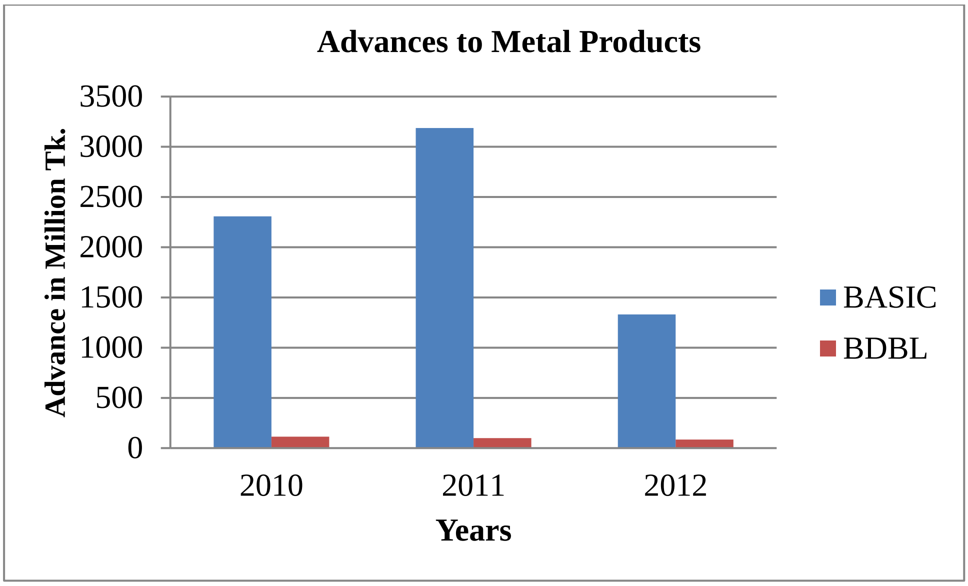
Explanation: BASIC Bank Ltd had disbursed Tk. 323 crores, Tk. 365 crores and Tk. 515 crores respectively as advances to petro-chemicals industries during the last three years. On the other hand, BDBL had disbursed Tk. 5 crores, Tk. 6 crores and Tk. 7 crores as advance to that sub-sector during the same periods. The trend of advances to the sub-sectors was upward for both the banks. Average percentage of advances to the sub-sectors was 11.28% for BASIC Bank Ltd and was 0.86% for BDBL during the last three years.

Success: Availability of local indigenous technology and raw material, high demand of products in the local market and low capital requirements to establish the company encourages the bank to invest in the sector. As a result, the volume of finance of both the banks in the sector is increasing day by day.

Threats: The sector is mainly based on locally produced raw material; inadequate supply of raw materials due to natural calamity may hinder the success flow of the sector. The free flow of products from abroad due to tariff facility is another challenge of the sector.

6.4.11 Metal products sectors: The sector of Bangladesh is engaged to produce steel, aluminum, bathroom fittings, and light engineering products including auto-parts, furniture accessories, motor cycle, bi-cycle and toys. The sector is rising day by day due to huge availability of local raw materials in the country at affordable cost.

Figure-6.26



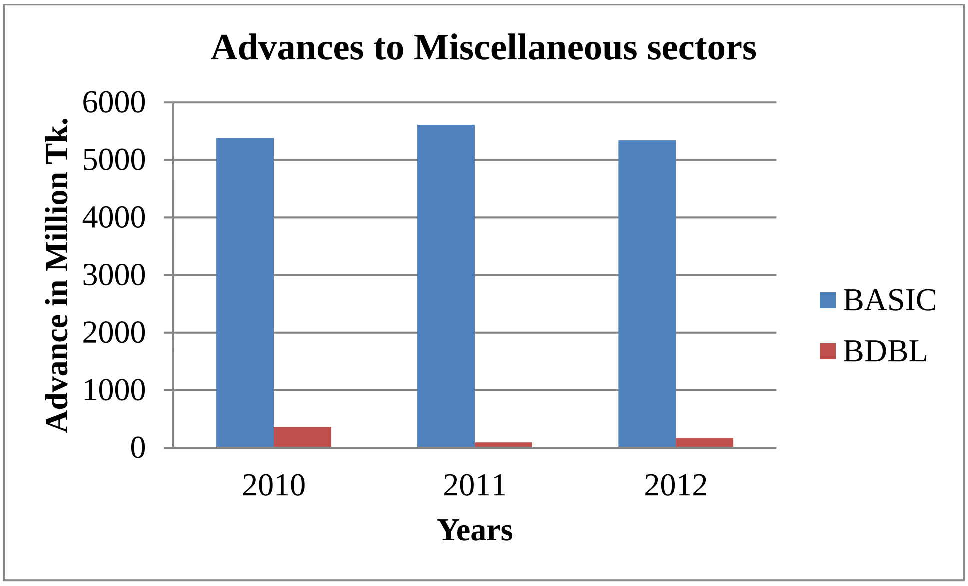
Explanation: BASIC Bank Ltd had disbursed Tk. 231 crores, Tk. 319 crores and Tk. 133 crores respectively as advances to metal products industries during the last three years. On the other hand, BDBL had disbursed Tk. 11 crores, Tk. 10 crores and Tk. 9 crores as advance to that sub-sector during the same periods. The trend of advances to the sub-sectors was downwards for both the banks. Average percentage of advances to the sub-sectors was 6.93% for BASIC Bank Ltd and was 1.40% for BDBL.

Success: Indigenous technical know-how, cheap workers cost and availability of raw material in local market are the factors to flourish the sector in the country.

Threats: High cost of imported raw materials and intrusion of foreign products are responsible to restrict the expansion the sector. As a result, the advances of both the banks are decreasing day by day in the sector.

6.4.12 Miscellaneous sectors: The advances under the sector for both the banks refer to financing jute and allied products, machinery and spare parts and house loan, etc.

Figure-6.27



Explanation: BASIC Bank Ltd had disbursed Tk. 538 crores, Tk. 561 crores and Tk. 534 crores respectively as advances to miscellaneous industries during the last three years. On the other hand, BDBL had disbursed Tk. 36 crores, Tk. 9.50 crores and Tk. 17 crores as advance to that sub-sector during the same periods. The trend of advances to the sub-sectors was downwards for both the banks. Average percentage of advances to the sub-sectors was 15.96% for BASIC Bank Ltd and was 2.90% for BDBL. BASIC Bank Ltd had found out suitable projects under the sub-sector and BDBL had given low concentration in the sub-sector.

6.5 Sectoral Advance at Branch Level

6.5.1 Sectoral advances of BASIC Bank Ltd at branch level

Sectoral advances under total outstanding loans, total classified loans, and total written off loans as bad debts of BASIC Bank Ltd at branch level were divided into six group as (a) Food and allied products (b) Textile (c) Electrical and electronics (d) Services industries (e) Petro-chemical (f) Miscellaneous. Sectoral advance position of seven divisional branches as on Dec. 31, 2012 are presented in the following tables and graphs:

6.5.1.1 Total Outstanding Loans (in Lakhs Tk.) of BASIC Bank Ltd up to Dec. 31, 2012:

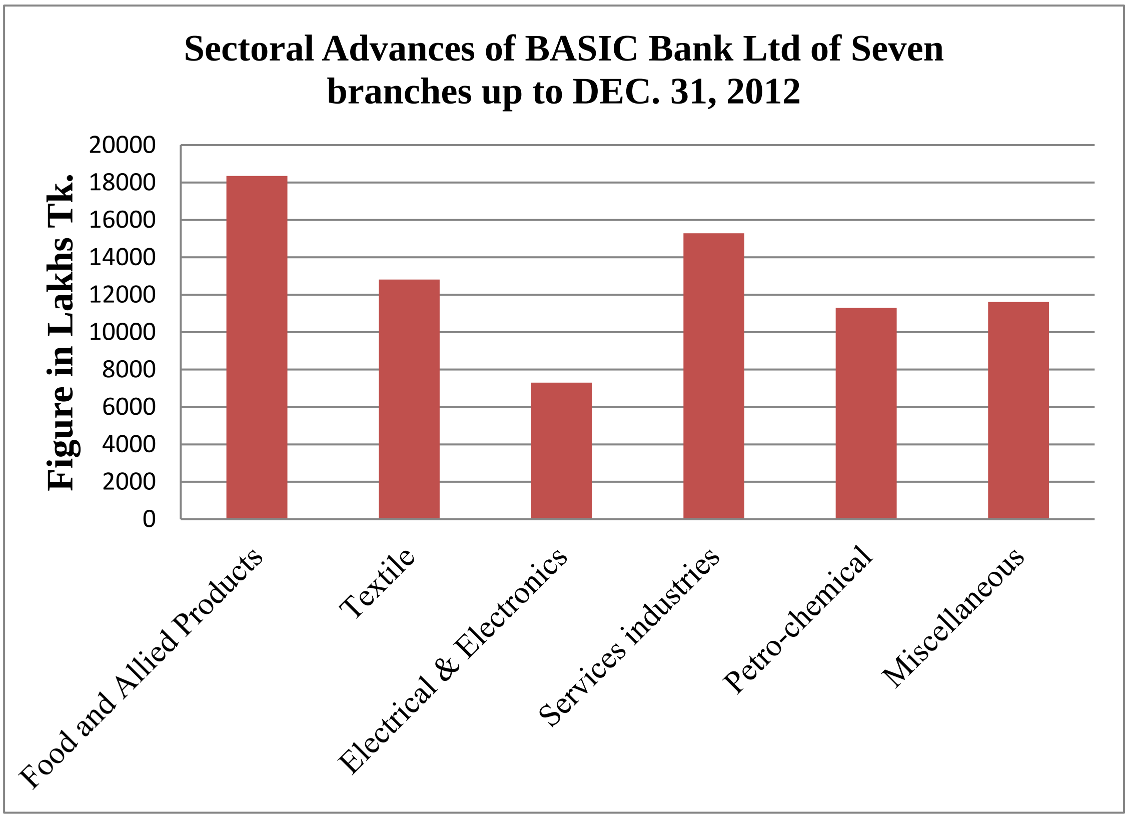
Table-6.15

Sectors	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
1. Food and allied products	54,24.43	76,18.23	6,17.29	10,05.00	6,15.31	8,52.21	22,18.64	183,51.11
2. Textile	48,22.45	54,56.50	12,06.25	6,52.00	4,61.00	1,05.00	1,06.00	128,09.20
3. Electrical and Electronics	15,96.40	24,18.27	0	21,22.32	41.58	0	11,18.31	72,96.88
4. Service industries	91,82.61	12,13.42	0	9,25.39	12,18.25	27,50.00	0	152,89.67
5.Petro-chemical	37,41.59	49,52.16	0	8,25.31	60.52	11,12.30	6,05.01	112,96.89
6. Miscellaneous	84,90.81	9,84.49	3,73.46	4,43.74	7,69.34	2,76.69	2,71.83	116,10.36
Total	332,58.29	226,43.07	21,97.00	59,73.76	31,66.00	50,96.20	43,19.79	766,54.11

Source: Branch records.

Interpretation: Maximum outstanding loans of the seven branches were in food and allied products, followed by services industries, textile, and petro-chemical industries respectively. Major advances for Main branch were in services industries, food and allied products for Agrabad branch and Rangpur branch, textile industries for Rajshahi branch, electrical and electronics products for Khulna branch, services industries for Sylhet branch and Barisal branch.

Figures-6.28



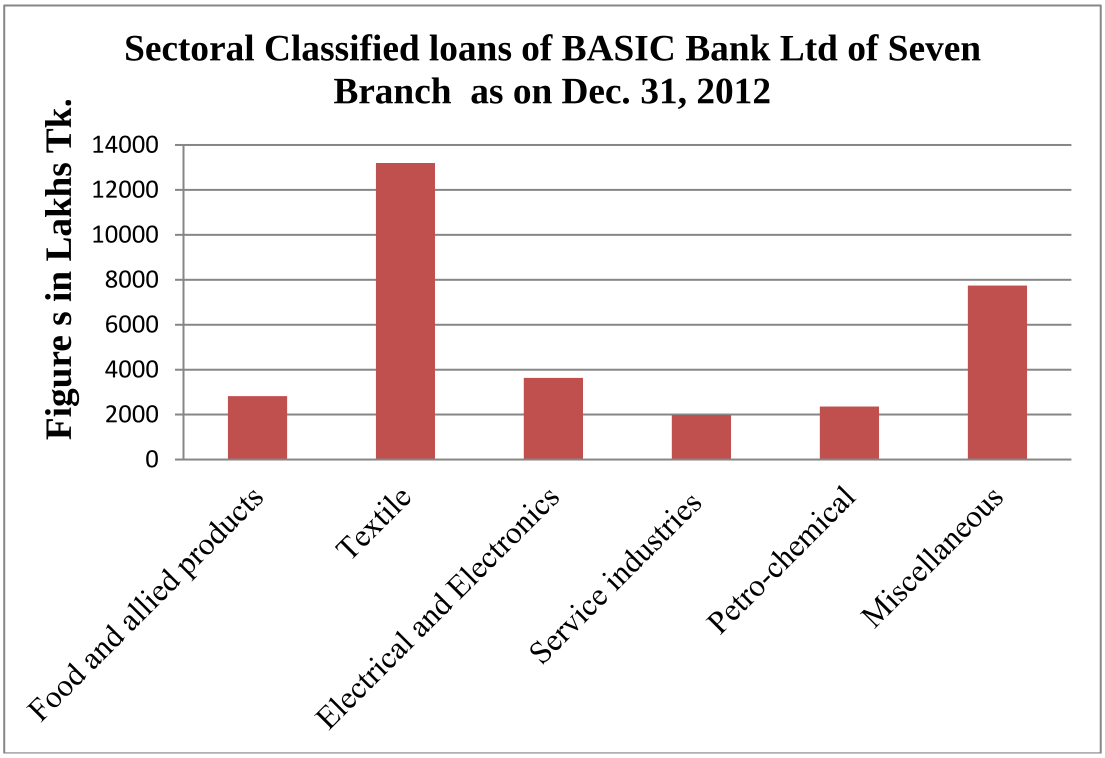
6.5.1.2 Total Classified Loans (in Lakhs Tk.) of BASIC Bank Ltd as on Dec. 31, 2012: Table-6.16

Sectors	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
1. Food and allied products	18,79.70	2,05.13	5.23	0	1,12.00	0	6,18.12	28,20.18
2. Textile	130,42.00	1,18.42	25.12	0	12.11	0	0	131,97.65
3. Electrical and Electronics	27,09.55	0	0	6,12.11		0	3,12.93	36,34.59
4. Service industries	15,12.23	0	0	0	89.23	3,82.18	0	19,83.64
5.Petro-chemical	12,15.00	6,09.25	0	4,23.00	0	1,12.00	0	23,59.25
6. Miscellaneous	65,09.32	3,84.41	56.65	2,17.20	1,78.52	1,95.35	2,02.74	77,44.19
Total	268,67.80	13,17.21	87.00	12,52.31	3,91.86	6,89.53	11,33.79	317,39.50

Source: Branch records.

Interpretation: Maximum classified advances of the above branches were in textile industries, followed by miscellaneous industries, electrical & electronics, and food & allied products respectively. Major clasified loans for Main branch were in textile industries, petro-chemical industries for Agrabad branch, miscellaneous industries for Rajshahi branch and Sylhet branch, electrical and electronics products for Khulna branch, services industries for Barisal branch, and food & allied products for Rangpur branch.

Figures-6.29



6.5.1.3 Total Written off Loans (in Lakhs Tk.) of BASIC Bank Ltd as on Dec. 31, 2012:

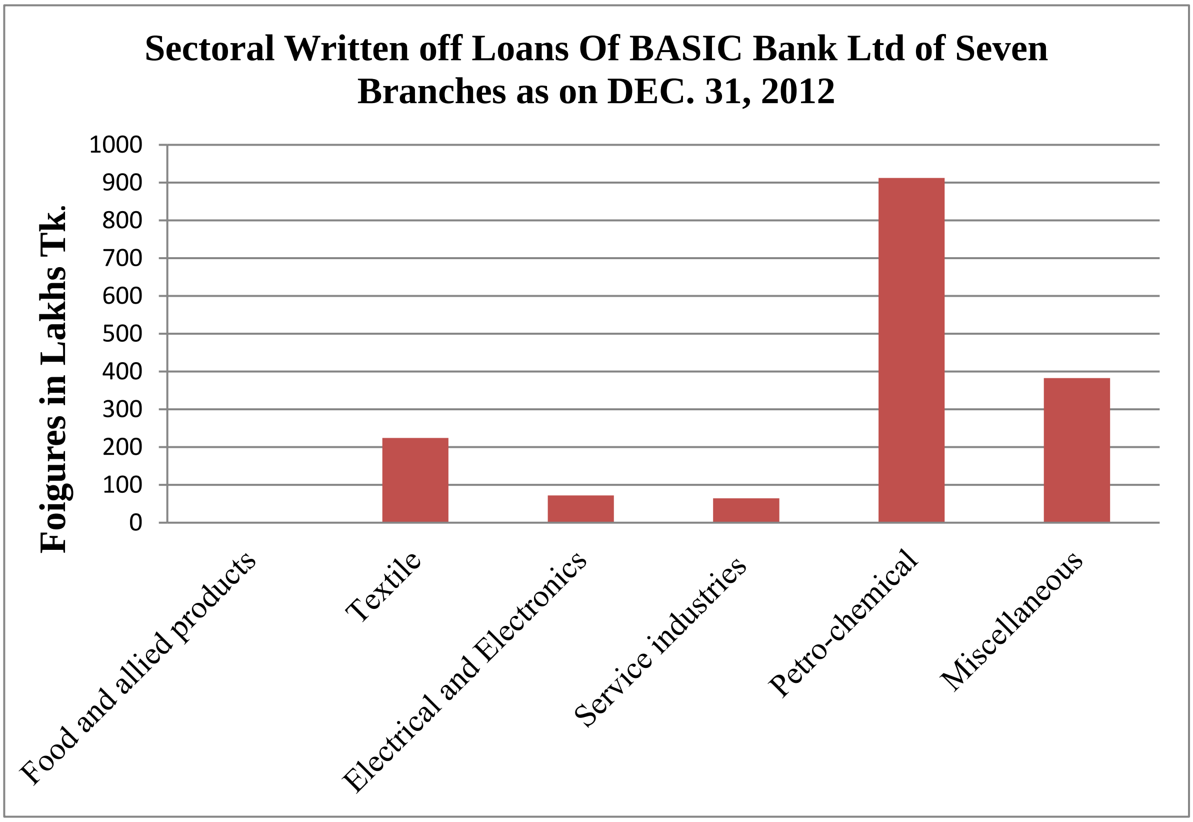
Table-6.17

Sectors	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
1. Food and allied products	0	0	0	0	0	0	0	0
2. Textile	1,15.18	1,09.12	0	0	0	0	0	2,24.30
3. Electrical and Electronics	72.23	0	0	0	0	0	0	72.23
4. Service industries	0	0	0	0	0	64.65	0	64.65
5.Petro-chemical	0	9,12.27	0	0	0	0	0	9,12.27
6. Miscellaneous	68.25	3,14.34		0	0	0	0	3,82.59
Total	2,55.66	13,35.73	0	0	0	64.65	0	16,56.04

Source: Branch records.

Interpretation: Maximum written off loans as bad debts of the above branches in were petro-chemical industries, followed by miscellaneous industries, textile industries, electrical & electronics industries, and services industries respectively. Major written off loans as bad debts for Main branch were in textile industries, petro-chemical industries for Agrabad branch, services industries for Barisal branch. Rajshahi branch, Khulna branch, Sylhet branch, and Rangpur branch had no written off loans in the year 2012.

Figures-6.30



6.5.2 Sectoral advances of BDBLat branch level

Sectoral advances under total outstanding loans, total classified loans, and total written off loans as bad debts of BDBL at branch level were divided into six group as (a) Food and allied products (b) Textile (c) Paper, printing & packaging (d) Chemical & pharmaceuticals (e) Services industries (f) Miscellaneous. Sectoral advance position of seven divisional branches as on Dec. 31, 2012 are presented in the following tables and graphs:

6.5.2.1 Total Outstanding Loans (in Lakhs Tk.) of BDBL up to Dec. 31, 2012:

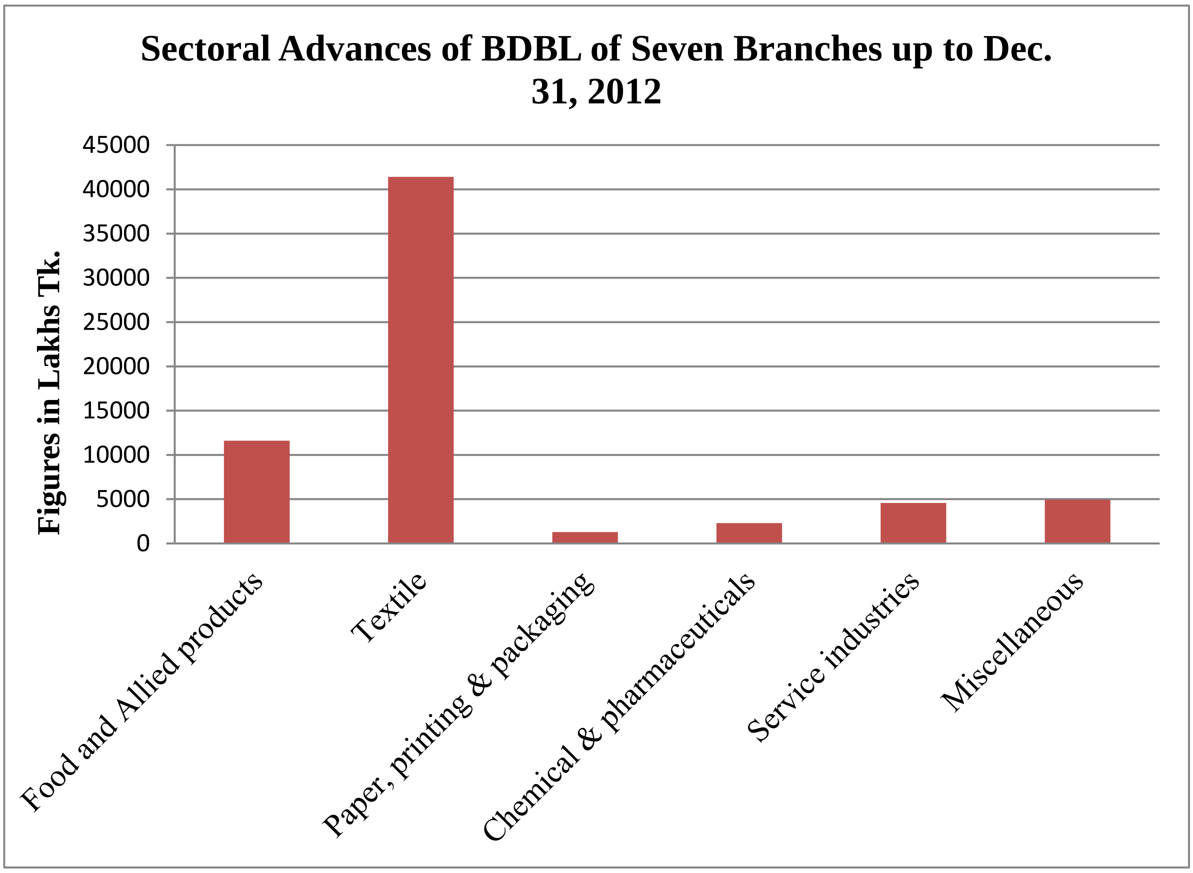
Table-6.18

Sectors	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
1. Food and Allied products	56,76.32	1,44.61	2,95.70	4,02.29	40.54	24,22.15	26,18.24	115,99.85
2. Textile	396,53.44	10,10.20	3,68.56	54.29	83.17	0	2,34.08	414,03.74
3. Paper, printing & packaging	10,39.40	26.48	73.12	65.27	0	0	76.12	12,80.39
4. Chemical & pharmaceuticals	15,38.34	40.34	25.60	5,40.25	18.25	0	1,28.88	22,91.66
5. Service industries	17,82.60	45.41	60.05	25.94	1,65.25	10,25.00	14,67.16	45,71.41
6. Miscellaneous	41,64.90	1,04.95	84.97	72.22	77.38	2,12.85	2,14.00	49,31.27
Total	538,55.00	13,71.99	9,08.00	11,60.26	3,84.59	36,60.00	47,38.48	660,78.32

Source: Branch records.

Interpretation: Maximum outstanding loans of the seven branches were in textile industries, followed by food & allied products, miscellaneous products, services industries, and chemical & pharmaceutical industries respectively. Major advances for Main branch, Agrabad branch, Rajshahi branch were in textile industries, chemical & pharmaceutical industries for Khulna branch, services industries for Sylhet branch, food and allied products for Barisal branch & Rangpur branch.

Figures-6.31



6.5.2.2 Total Classified Loans (in Lakhs Tk.) of BDBL as on Dec. 31, 2012:

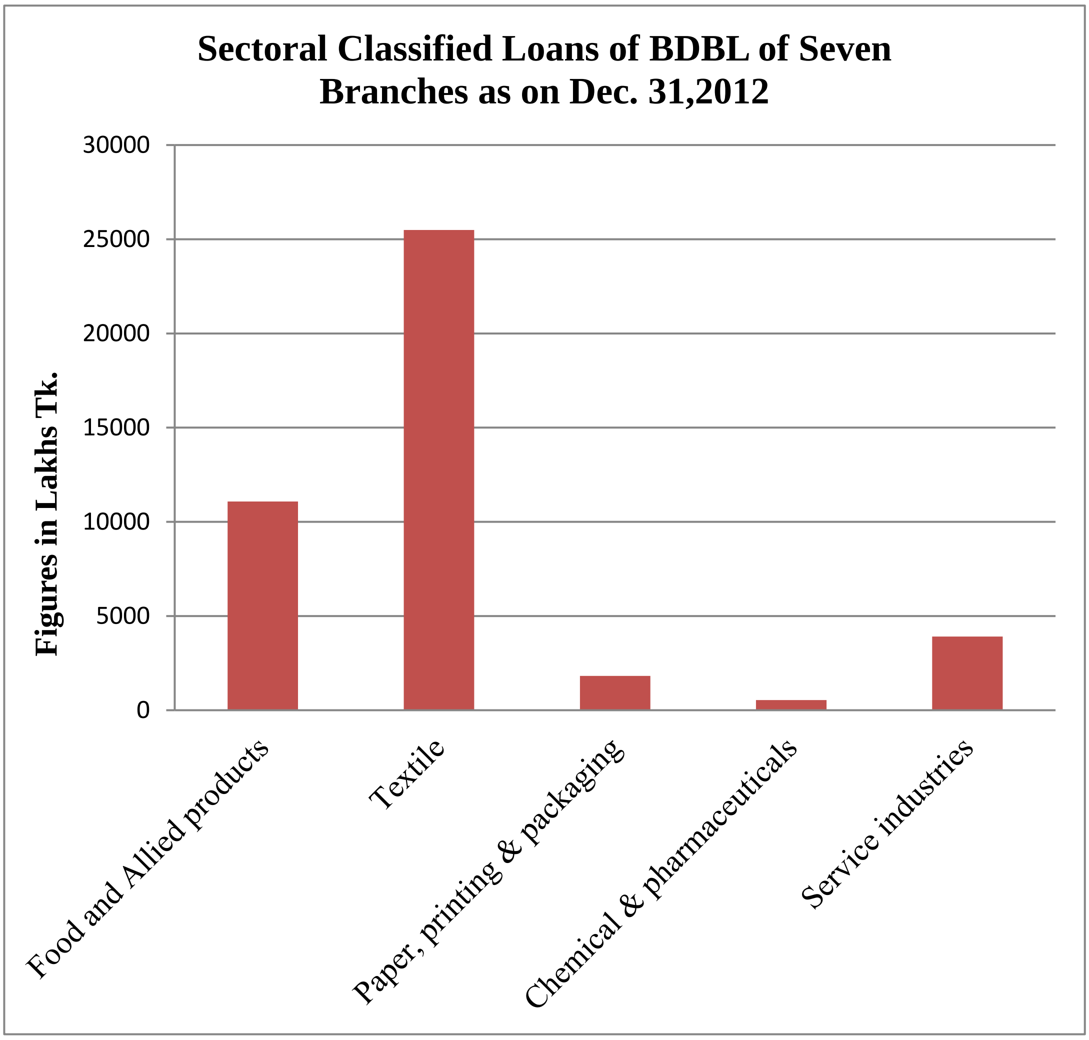
Table-6.19

Sectors	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
1. Food and Allied products	96,90.15	0	0	4,50.00	14.45	118.35	8,09.32	110,82.27
2. Textile	252,71.25	1,36.24	4.00	0	11.50	0	65.25	254,88.24
3. Paper, printing & packaging	18,17.00	0	0	0	0	0	0	18,17.00
4. Chemical & pharmaceuticals	4,02.30	0	0	1,38.00	0	0	0	5,40.30
5. Service industries	36,12.35	0	0	0	1,60.21	32.00	1,05.50	39,10.06
6. Miscellaneous	34,95.95	0	0	0	0	12.65	1,20.93	36,29.53
	442,89.00	1,36.24	4.00	5,88.00	1,86.16	163.00	11,01.00	464,67.40

Source: Branch records.

Interpretation: Maximum classified advances of the above branches were in textile industries, followed by food & allied products, services industries respectively. Major clasified loans for Main branch, Agrabad branch, Rajshahi branch were in textile industries, food & allied products for Khulna branch, Barisal branch, and Rangpur branch, services industries for Sylhet branch.

Figures-6.32



6.5.2.3 Total Written off Loans (in Lakhs Tk.) of BDBL as on Dec. 31, 2012:

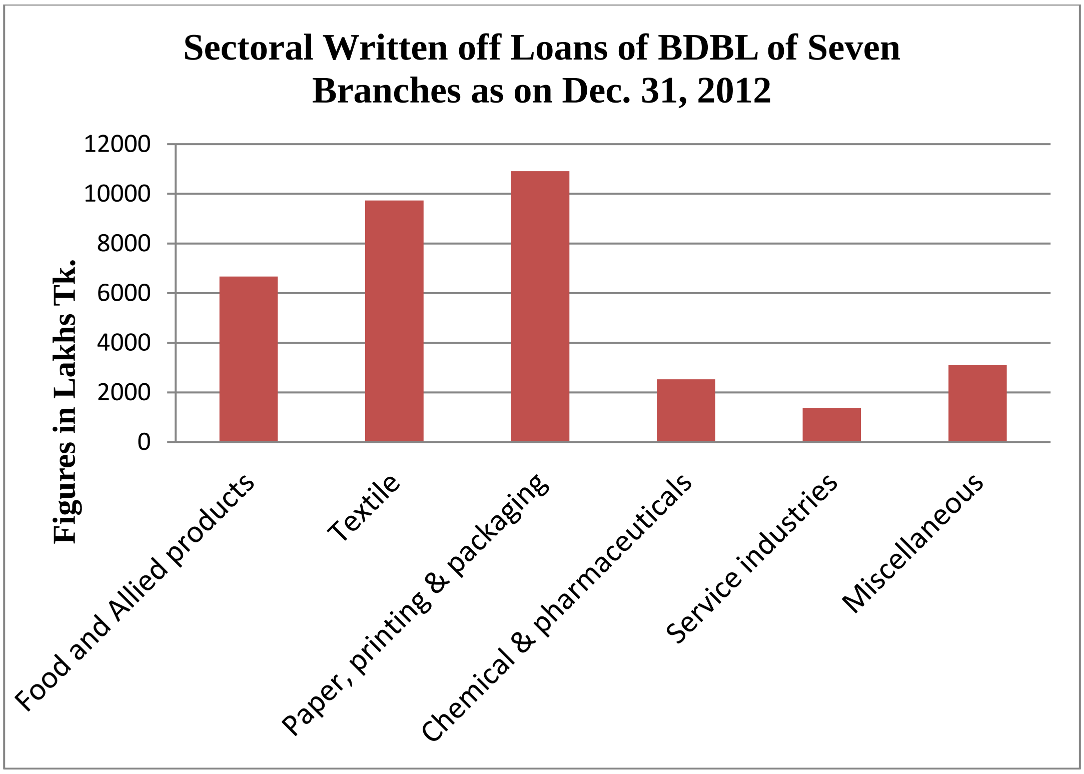
Table-6.20

Sectors	Main Branch	Agrabad Branch	Rajshahi Branch	Khulna Branch	Sylhet Branch	Barisal Branch	Rangpur Branch	Total
1. Food and Allied products	1,65.00	28,50.35	8,05.12	0	6,00.12	4,05.23	18,45.00	66,70.82
2. Textile	12,20.50	18,37.50	12,45.30	45,48.50	8,51.25	0	30.20	97,33.25
3. Paper, printing & packaging	35.00	45,12.35	0	62,16.25	0	0	1,50.15	109,13.75
4. Chemical & pharmaceuticals	12.10	1,00.69	0	17,63.35	4,05.00	0	2,50.25	25,31.39
5. Service industries	32.45	91.40	0	0	37.50	9,67.27	2,54.50	13,83.12
6. Miscellaneous	44.95	2,99.19	1,43.58	6,33.90	32.78	25.50	19,14.90	30,94.80
Total	15,10.00	96,91.48	21,94.00	131,62.00	19,26.65	13,98.00	44,45.00	343,27.13

Source: Branch records.

Interpretation: Maximum written off loans as bad debts of the seven branches in were Paper, printing & packaging industries, followed by textile industries, food & allied products respectively. Major written off loans as bad debts for Main branch, Rajshahi branch, and Sylhet branch were in textile industries, paper, printing & packaging industries for Agrabad branch and Khulna branch, services industries for Barisal branch, and food & allied products for Rangpur branch in the year 2012.

Figures-6.33


Sectoral Written off Loans of BDBL of Seven Branches as on Dec. 31, 2012
Figures in Lakhs Tk.
12000
10000
8000
6000
4000
2000
0
Food and Allied products
Textile
Paper, printing & packaging
Chemical & pharmaceuticals
Service industries
Miscellaneous

CHAPTER SEVEN

TESTING OF HYPOTHESES AND MAJOR FINDINGS

7.1 Testing of Hypotheses

7.1.1 First Hypothesis: There are no variations in interest spread and burden within and between the sample banks in Bangladesh.

Interest spread refers to periodical interest income from project loans minus interest paid on deposits & borrowings to project loans fund and periodical non-interest income minus non-interest expenses on project loans is known as burden. One sample T-test and Two sample T-test are used to determine variations within periods and between sample banks respectively.

Table-7.1
Interest spread and burden of the sample banks

Year	Interest Spread on Project loans (in Million Tk.)		Burden of Project loans (in Million Tk.)	
	BASIC Bank Ltd	BDBL	BASIC Bank Ltd	BDBL
2003	133	797.43	23.46	-155.60
2004	118	736.42	34.06	-200.17
2005	210	689.07	19.77	-560.89
2006	205	667.05	29.95	-141.66
2007	299	679.72	93.35	-170.84
2008	359	750.24	109.27	-55.22
2009	299	582.38	161.34	-54.60
2010	418	658.98	123.53	135.85
2011	697	925.23	45.93	-33.96
2012	1,111	974.77	49.90	120.86

Source: Calculation is made by researcher based on Annual Reports of the Sample Banks during the year 2003-2012.

7.1.1.1 Under Interest Spread: To determine variations in interest spread within periods of BASIC Bank Ltd and BDBL, One sample T-test is used through SPSS-11.50.

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in interest spread within periods of the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in interest spread within periods of the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	10	384.9000	305.28582	96.53985
BDBL	10	746.1290	122.66707	38.79073

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
BASIC	3.987	9	.003	384.9000	166.5117	603.2883
BDBL	19.235	9	.000	746.1290	658.3783	833.8797

Interpretation: The average value of interest spread was Tk. 384.90 million for BASIC Bank Ltd and Tk. 746.13 million for BDBL and co-efficient of Variation (CV) was 79.32% for BASIC Bank Ltd and 16.44% for BDBL. So BDBL had high strength on interest spread compared to BASIC Bank Ltd. Since the sig. (2-tailed) value (p value) of T-test for both the banks was less than 0.05, Null hypothesis is rejected, i.e. there are significant variations in interest spread within periods of the banks.

7.1.1.2 Under burden: To determine variations in burden within periods of BASIC Bank Ltd and BDBL, One sample T-test is used through SPSS-11.50.

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in burden within periods of the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in burden within periods of the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	10	69.0560	49.27811	15.58311
BDBL	10	-111.6230	195.44250	61.80435

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
BASIC	4.431	9	.002	69.0560	33.8046	104.3074
BDBL	-1.806	9	.104	-111.6230	-251.4341	28.1881

Interpretation: The average value of burden was Tk. 69.06 million for BASIC Bank Ltd and Tk. -111.62 million for BDBL. So, BASIC Bank Ltd had higher strength on earning non-interest income minus non-interest expenses on project loans compared to BDBL. Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for BASIC Bank Ltd and more than for BDBL, Null hypothesis is rejected for BASIC and accepted for BDBL, i.e. there are significant variations in burden within the periods for BASIC Bank Ltd and no significant variations in burden within periods for BDBL.

7.1.1.3 Under interest Spread and Burden between BASIC Bank Ltd and BDBL: To determine variations in interest spread and burden between sample banks, Two sample T-test is used through SPSS-11.50.

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in interest spread and burden between sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in interest spread and burden between sample banks.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Interest Spread	BASIC	384.9000	10	305.28582	96.53985
	BDBL	746.1290	10	122.66707	38.79073
Burden	BASIC	68.9634	10	49.32710	15.59860
	BDBL	-111.6230	10	195.44250	61.80435

Paired Samples Correlations

		N	Correlation	Sig.
Interest Spread	BASIC & BDBL	10	.749	.013
Burden	BASIC & BDBL	10	.480	.160

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Interest Spread	BASIC - BDBL	-361.2290	228.29914	72.19453	-524.5444	-197.9136	-5.004	9	.001
Burden	BASIC - BDBL	180.5864	177.11713	56.00935	53.8844	307.2884	3.224	9	.010

Interpretation: Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for both banks, Null hypothesis is rejected, i.e. there are significant variations in interest spread and burden between the banks.

7.1.2 Second Hypothesis: There are no variations in cost of fund in the sample banks of Bangladesh.

The cost of fund is interest paid on deposits & borrowings to project loans' fund and administrative costs thereon. One sample T-test is used to determine variations in sample banks.

Table-7.2

Cost of Fund (%) of the sample banks

Year	Cost of Fund	
	BASIC Bank Ltd	**BDBL**
2003	5.79%	1.39%
2004	5.00%	0.92%
2005	4.23%	0.90%
2006	5.28%	1.37%
2007	5.79%	1.34%
2008	6.76%	1.60%
2009	7.69%	2.03%
2010	5.84%	1.95%
2011	7.51%	4.66%
2012	9.17%	6.64%

Source: Calculation is made by researcher based on Annual Reports of the Sample Banks during the year 2003-2012.

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in cost of fund in the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in cost of fund in the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	10	6.3060	1.47541	.46656
BDBL	10	2.2800	1.87278	.59222

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
BASIC	13.516	9	.000	6.3060	5.2506	7.3614
BDBL	3.850	9	.004	2.2800	.9403	3.6197

Interpretation: The average cost of funds was 6.31% for BASIC Bank Ltd and 2.28% for BDBL and Co-efficient of Variance (CV) was 23.40% for BASIC Bank Ltd and 82.14% for BDBL. So BASIC Bank Ltd had high cost of fund compared BDBL. Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for both the banks, Null hypothesis is rejected, i.e. there are significant variations in cost of fund in the banks.

7.1.3 Third Hypothesis: There are no variations in earnings, RoA, and RoE within and between the sample banks in Bangladesh.

The variables are periodical earnings on project loans (NPAT), RoA, and RoE of the sample banks. One sample T-test and Two sample T-test are used to determine variations within periods and between sample banks respectively.

Table-7.3

NPAT, RoA, and RoE of the sample banks

Year	BASIC Bank Ltd			BDBL		
	NPAT on PL (in Million Tk.)	RoA (%)	RoE (%)	NPAT on PL (in Million Tk.)	RoA (%)	RoE (%)
2003	29	1.60	18.92	688.75	2.52	22.91
2004	19	1.50	19.55	450.95	1.63	10.29
2005	25	1.05	16.52	-242.18	-1.19	-5.00
2006	65	1.88	24.75	350.11	2.38	8.25
2007	31	0.73	10.90	490.38	1.09	3.34
2008	52	1.17	18.43	285.98	2.36	6.53
2009	47	1.43	16.54	254.19	2.03	5.33
2010	26	1.07	14.77	237.54	2.34	4.12
2011	137	1.25	17.81	388.43	2.38	4.62
2012	-722	-1.21	-20.67	366.91	2.56	5.33

Source: Calculation is made by researcher based on Annual Reports of the Sample Banks during 2003-2012.

7.1.3.1 Under Net Profit after Tax (NPAT):

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in Net Profit after Tax within the periods of the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$)): There are significant variations in Net Profit after within the periods of the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	10	-29.1000	245.89675	77.75938
BDBL	10	327.1060	239.85482	75.84875

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
BASIC	-.374	9	.717	-29.1000	-205.0039	146.8039
BDBL	4.313	9	.002	327.1060	155.5242	498.6878

Interpretation: The average value of NPAT was Tk. -29.10 million for BASIC Bank Ltd and Tk. 327.11 million for BDBL. So BASIC Bank Ltd had been incurring net loss over the study period, whereas BDBL had been earning standard net profit after tax. Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for BDBL and more than for BASIC Bank Ltd, Null hypothesis is rejected for BDBL and accepted for BASIC, i.e. there are significant variations in NPAT for BDBL and no significant variations in NPAT for BASIC Bank Ltd within periods.

7.1.3.2 Under Return on Assets (RoA):

Null Hypothesis (H_0: $\mu_1 = \mu_2$): There are no significant variations in RoA within the periods of the sample banks.

Alternative Hypothesis (H_A: $\mu_1 \neq \mu_2$): There are significant variations in RoA within the periods of the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	10	1.0470	.85654	.27086
BDBL	10	1.8100	1.14983	.36361

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
BASIC	3.865	9	.004	1.0470	.4343	1.6597
BDBL	4.978	9	.001	1.8100	.9875	2.6325

Interpretation: The average value of RoA was 1.05% for BASIC Bank Ltd and 1.81% for BDBL and Co-efficient of Variance (CV) was 81.81% for BASIC Bank Ltd and 63.53% for BDBL. So BDBL had highest RoA compared to that of BASIC Bank Ltd. Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for both the banks, Null hypothesis is rejected, i.e. there are significant variations in RoA for both the banks within periods.

7.1.3.3 **Under Return on Equity (RoE):**

Null Hypothesis (H_0: $\mu_1=\mu_2$) : There are no significant variations in RoE within the periods of the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in RoE within the periods of the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	10	13.7520	12.60120	3.98485
BDBL	10	6.5720	6.99870	2.21318

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
BASIC	3.451	9	.007	13.7520	4.7376	22.7664
BDBL	2.969	9	.016	6.5720	1.5654	11.5786

Interpretation: The average value of interest spread was 13.75% for BASIC Bank Ltd and 6.57% for BDBL. So BASIC Bank Ltd had highest RoE compared to that of BDBL. Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for both the banks, Null hypothesis is rejected, i.e. there are significant variations in RoE for both banks within periods.

7.1.3.4 Under NPAT and RoA between BASIC Bank Ltd and BDBL:

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in NPAT and RoA between the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in NPAT and ROA between the sample banks.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
NPAT	BASIC	-29.1000	10	245.89675	77.75938
	BDBL	327.1060	10	239.85482	75.84875
RoA	BASIC	1.0470	10	.85654	.27086
	BDBL	1.8100	10	1.14983	.36361

Paired Samples Correlations

		N	Correlation	Sig.
NPAT	BASIC & BDBL	10	-.043	.905
RoA	BASIC & BDBL	10	-.046	.900

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
NPAT	BASIC - BDBL	-356.2060	350.88651	110.96006	-607.2151	-105.1969	-3.210	9	.011
ROA	BASIC - BDBL	-.7630	1.46506	.46329	-1.8110	.2850	-1.647	9	.134

Interpretation: Since, the sig. (2-tailed) value (p value) of T-test is less than 0.05 for NPAT and more than for RoA, Null hypothesis is rejected for NPAT and accepted for RoA i.e, there are significant variations in NPAT and no significant variations in ROA between the banks.

7.1.3.5 Under ROA and RoE between BASIC Bank Ltd and BDBL:

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in ROA and RoE between the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in ROA and RoE between the sample banks.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
RoA	BASIC	1.0470	10	.85654	.27086
	BDBL	1.8100	10	1.14983	.36361
RoE	BASIC	327.1060	10	239.85482	75.84875
	BDBL	6.5720	10	6.99870	2.21318

Paired Samples Correlations

		N	Correlation	Sig.
RoA	BASIC & BDBL	10	-.046	.900
RoE	BASIC & BDBL	10	.835	.003

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
RoA	BASIC - BDBL	-.7630	1.46506	.46329	-1.8110	.2850	-1.647	9	.134
RoE	BASIC - BDBL	320.5340	234.04486	74.01148	153.1084	487.9596	4.331	9	.002

Interpretation: Since the sig. (2-tailed) value (p value) of T-test is more than 0.05 for RoA and less than 0.05 for RoE, Null hypothesis is accepted for RoA and rejected for RoE i.e, there are no significant variations in RoA and significant variations in RoE between the banks.

7.1.4 Fourth Hypothesis: There is a positive correlation between the disbursement of project loans and total classified loans.

The independent variable is the periodical disbursement of project loans and the dependent variable is volume of classified loans of the banks. Multiple correlations are used to test the hypothesis. The following table shows the disbursement of project loans and total classified loans of both the banks during the year 2003-2012.

Table-7.4

Disbursement of loans and Classified of Loans of BASIC Bank Ltd and BDBL

Year	BASIC Bank Ltd		BDBL	
	Disbursement of Project loans (in Million Tk.)	Classified loan (in Million Tk.)	Disbursement of Project loans (in Million Tk.)	Classified loan (in Million Tk.)
2003	2,274	395	22,156	14,218
2004	2,553	444	20,940	13,875
2005	3,594	698	11,148	5,429
2006	3,955	703	9,474	3,603
2007	5,157	723	9,311	3,226
2008	6,433	1,251	8,884	2,830
2009	7,772	1,412	9,339	2,467
2010	12,919	2,240	9,602	3,102
2011	15,467	2,490	9,761	3,107
2012	31,363	7,066	11,902	5,418

Source: Annual Reports of the Sample Banks during 2003-2012.

Correlations

		Disbursement of loan of BASIC	Classified loans of BASIC	Disbursement of loan of BDBL	Classified loans of BDBL
Disbursement of loan of BASIC	Pearson Correlation	1	.988(**)	-.282	-.305
	Sig. (2-tailed)	.	.000	.430	.392
	N	10	10	10	10
Classified loans of BASIC	Pearson Correlation	.988(**)	1	-.222	-.238
	Sig. (2-tailed)	.000	.	.538	.507
	N	10	10	10	10
Disbursement of loan of BDBL	Pearson Correlation	-.282	-.222	1	.996(**)
	Sig. (2-tailed)	.430	.538	.	.000
	N	10	10	10	10
Classified loans of BDBL	Pearson Correlation	-.305	-.238	.996(**)	1
	Sig. (2-tailed)	.392	.507	.000	.
	N	10	10	10	10

** Correlation is significant at the 0.01 level (2-tailed).

Interpretation: The correlation of disbursement of project loans and total classified loans of BASIC Bank Ltd was 0.988 and 0.996 for BDBL which was a significant positive correlation. The correlation between the disbursement of loan of BASIC Bank Ltd and that of BDBL was negative (-0.282) whereas the correlation between disbursement of loan of BDBL and classified of loans of BASIC Bank Ltd was also negative (-0.222). On the other hand, the correlation between the disbursement of BASIC Bank Ltd and classified of BDBL was negative (-0.305) whereas the correlation between classified of BASIC Bank Ltd and that of BDBL was also negative (-0.238).

7.1.5 Fifth Hypothesis: Employees productivity is negatively correlated with classified advances, bad debts, and cost of fund.

Employee's productivity means profit before tax per employee and yearly classified advances, bad debts, and cost of funds (%) of both the banks are considered to test the hypothesis. Multiple-correlation is used to test the hypothesis.

Table-7.5

Employees productivity, classified advances, bad debts, and cost of fund of BASIC Bank Ltd

Year	**Profit before tax per employee (in Million Tk.)**	**Classified Advances (in Million Tk.)**	**Bad Debts (in Million Tk.)**	**Cost of Fund (%)**
2003	1.06	395	69	5.79%
2004	0.91	444	204	5.00%
2005	1.05	698	283	4.23%
2006	1.55	703	284	5.28%
2007	1.12	723	284	5.79%
2008	1.70	1,251	588	6.76%
2009	1.70	1,412	588	7.69%
2010	1.35	2,240	588	5.84%
2011	1.77	2,490	689	7.51%
2012	-0.17	7,066	1,307	9.17%

Source: Annual Reports of BASIC Bank Ltd during the year 2003-2012.

Correlations Matrix

		Profit before tax per employee	**Classified Advances**	**Bad Debts**	**Cost of Fund (%)**
Profit before tax per employee	Pearson Correlation	1	-.651(*)	-.424	-.254
	Sig. (2-tailed)	.	.041	.222	.478
	N	10	10	10	10
Classified Advances	Pearson Correlation	-.651(*)	1	.948(**)	.803(**)
	Sig. (2-tailed)	.041	.	.000	.005
	N	10	10	10	10
Bad Debts	Pearson Correlation	-.424	.948(**)	1	.864(**)
	Sig. (2-tailed)	.222	.000	.	.001
	N	10	10	10	10
Cost of Fund (%)	Pearson Correlation	-.254	.803(**)	.864(**)	1
	Sig. (2-tailed)	.478	.005	.001	.
	N	10	10	10	10

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Interpretation: The correlation between profit before tax per employee and classified loans was -0.651 which was significantly negative; profit before tax per employee and bad debts was -0.424 which was negative; profit before tax per employee and cost of funds was -0.254 which was negative. Classified advances and bad debts had a significant positive correlation

(0.948), classified advances and cost of fund had a significant positive correlation (0.803) and bad debts and cost of fund had significant positive correlation (0.864).

Table-7.6

Employees productivity, classified advances, bad debts, and cost of fund of BDBL

Year	Profit before tax per employee (in Million Tk.)	Classified Advances (in Million Tk.)	Bad Debts (in Million Tk.)	Cost of Fund (%)
2003	0.80	14,218	3,520	1.39%
2004	0.51	13,875	2,847	0.92%
2005	-0.22	5,429	9,144	0.90%
2006	0.48	3,603	1,143	1.37%
2007	0.32	3,226	5.82	1.34%
2008	0.60	2,830	542	1.60%
2009	0.56	2,467	39	2.03%
2010	1.09	3,102	2,387	1.95%
2011	1.03	3,107	2,126	4.66%
2012	1.20	5,418	1,969	6.64%

Source: Annual Reports of BDBL during the year 2003-2012.

Correlations Matrix (BDBL)

		Profit before tax per employee	Classified Advances	Bad Debts	Cost of Fund (%)
Profit before tax per employee	Pearson Correlation	1	-.018	-.478	.698(*)
	Sig. (2-tailed)	.	.961	.162	.025
	N	10	10	10	10
Classified Advances	Pearson Correlation	-.018	1	.314	-.236
	Sig. (2-tailed)	.961	.	.377	.512
	N	10	10	10	10
Bad Debts	Pearson Correlation	-.478	.314	1	-.183
	Sig. (2-tailed)	.162	.377	.	.613
	N	10	10	10	10
Cost of Fund (%)	Pearson Correlation	.698(*)	-.236	-.183	1
	Sig. (2-tailed)	.025	.512	.613	.
	N	10	10	10	10

* Correlation is significant at the 0.05 level (2-tailed).

Interpretation: The correlation between profit before tax per employee and classified loans was -0.18 which was negative; profit before tax per employee and bad debts was -0.478

which was negative; profit before tax per employee and cost of funds was 0.698 which was significantly positive. Classified advances and bad debts had a positive correlation (0.314), classified advances and cost of funds had negative correlation (-0.236) and bad debts and cost of funds had negative correlation (-0.183).

7.1.6 Sixth Hypothesis: Variations in sectoral advances are statistically significant.

The variables are amount of loan disbursement to different sub-sectors of the banks. One sample T-test is used to determine variations between sample banks.

Table-7.7

Sectoral advances of BASIC Bank Ltd and BDBL as on 31 December, 2012

Sectors	**Advances (in Million Tk.)**	
	BASIC Bank Ltd	**BDBL**
1. Food & Allied products	7,462.90	766.10
2. Textile	6,635.30	5,353.5
3. Paper, Board and printing & packaging	1,991.60	140.30
4. Tannery Leather and Rubber products	796.30	64.10
5. Forest, wood products & Saw Mills	72.40	33.40
6. Chemical & Pharmaceuticals	1,767.50	213.90
7. Electrical and Electronics Ind.	2,194.70	59.90
8. Services Ind.	12,634.90	240.90
9. Glass, Ceramics and other non metal products	386.00	67.90
10. Petro- chemicals	5,148.10	73.70
11. Metal products	1,330.8	85.70
12. Miscellaneous	5,342.20	171.00

Source: Annual Reports of the Sample Banks for the year 2012.

Null Hypothesis (H_0: $\mu_1=\mu_2$): There are no significant variations in sectoral advances of the sample banks.

Alternative Hypothesis (H_A: $\mu_1\neq\mu_2$): There are significant variations in sectoral advances of the sample banks.

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
BASIC	12	3813.5583	3745.93943	1081.35957
BDBL	12	605.8667	1508.18640	435.37591

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
BASIC	3.527	11	.005	3813.5583	1433.5020	6193.6147
BDBL	1.392	11	.192	605.8667	-352.3893	1564.1226

Interpretation: The average value of disbursement of loans in various sectors was Tk. 3,813.56 million for BASIC Bank Ltd and was Tk. 605.87 million for BDBL and Co-efficient of Variations (CV) was 98.23% for BASIC Bank Ltd and 248.93% for BDBL. So BASIC Bank Ltd practiced uniform sectoral advances compared to that of BDBL. Since the sig. (2-tailed) value (p value) of T-test is less than 0.05 for BASIC Bank Ltd and more than for BDBL, Null hypothesis is rejected for BASIC Bank Ltd and accepted for BDBL, i.e. there are significant variations in sectoral advances for BASIC Bank Ltd and no significant variations in sectoral advances for BDBL.

7.2 Major Findings of the Study

7.2.1 Project financing procedures and appraisal techniques

Whenever a potential entrepreneur desires to avail project finance from a bank for his project, the bank collects in-depth idea about the borrower through various arrangements, receives short profile about the project, assess management's strength of the project as preliminary appraisal of the project. While the bank is convinced about the viability of the project, an application form is allowed to the borrower and requested to submit a final project profile along with duly filled up application form to the bank. After receiving final project profile from the borrower, the bank arranges a rigorous feasibility appraisal for the project to determine whether it is viable or not. In the feasibility appraisal of a project, the bank carries out commercial feasibility to know its profit earning capacity; marketing feasibility to find out market demand of the product; technical feasibility to identify technological and technical solvency for smooth production process; financial feasibility to determine cost of the project and sources of finance; environmental feasibility to know whether the project is environmentally sound; socio-cultural feasibility to identify its impact to society, race, social values, cultural heritage and nationalism; entrepreneurial feasibility to know the capability of the entrepreneurs to run the projects smoothly. If the bank is satisfied with feasibility appraisal, collateral security, and project risks, they approve the proposal with demand debt or cut down the requested amount based on site, position & objective valuation of collateral security or assessment of equity flow. Afterwards, the bank asks for necessary documentation to the borrower to release the fund. Disbursement of loan is done phase by phase on the basis of works completion of the project and received of certificate from engineer. Then the bank observes and monitors the repayment status of the loan. Whenever the borrower could not be able to repay installment on due date, the bank exerts moral pressure, serves notice, sells of security to recover dues, and finally files a suit in district law court for legal settlement.

7.2.2 Project financing scenario and their impact on bank's performance

The project financing scenario and operational performance of both BASIC Bank Ltd and BDBL varied largely in terms of classified loans, recovery of classified loans, and loans written off as bad debts, NPAT, and earnings & activity level during the year 2003-2012. Average amount of project loans and number of projects of BASIC Bank Ltd were Tk. 915 crores and 760 units respectively over the study period. On the other hand, average amount of project loans and number of projects of BDBL were Tk. 1,042 crores and 783 units respectively over the last three years. Average interest spreads of BASIC Bank Ltd and BDBLwere Tk. 38.49 crores and Tk. 74.61 crores over the period. The interest spread of BASIC Bank Ltd was low because most of the funds had flowed from individuals and institutional sources and BDBL enjoyed high interest spread due to its fund predominantly supplied by the government of Bangladesh as debt with nominal cost. BASIC Bank Ltd averagely had earned Tk. (2.90) crores as net profit after tax yearly that was accounted for a net loss of 0.32% to average project loans over the study period. On the other hand, BDBL had earned Tk. 33 crores yearly as net profit after tax, which was 3.18% for total project loans over last three years due to its high interest spread. As a result, the growth rate of NPAT for BASIC Bank Ltd was (9.09%) over the study period and 29% for BDBL during the last three years. Average employee productivity was higher for BASIC Bank Ltd compared to BDBL. Average RoA of BDBL was higher compared to BASIC Bank Ltd banks but average RoE of BASIC Bank Ltd was higher compared to BDBL. Since BASIC Bank Ltd enjoyed higher after tax return on equity compared to BDBL because the earning capacity of the bank was better on ancillary services and investment head. The growth rates of NPL for BASIC Bank Ltd and BDBL were 45.25% and 37.27% respectively. NPL to total loans of BASIC Bank Ltd had averagely 4.63% over the study period and was 33.73% for BDBL over the last three years. Cumulative amount of classified loans of BDBL was Tk. 1,163 crores over the three years and the bank had written off Tk. 6,482 crores as bad debts over the same period. On the other hand, Cumulative written off loans of BASIC Bank Ltd was Tk. 131 crores including Tk. 69 crores in the year 2012 over the study period and the volume of NPL was Tk. 666 crores including Tk. 458 in the year 2012 for the same period. It is found that the amount of NPL and written off loans as bad debts was very high for BDBL over three years. On the contrary, NPL and written off of BASIC Bank Ltd was very high from the year 2012. So, the project appraisal and monitoring performance of BASIC Bank Ltd was better compared to BDBL up to the year 2011.

7.2.3 Practices, variations, SWOT Mix of Techniques and branch level performance

7.2.3.1 Practices and variations of Project Financing Techniques: Both the banks conducted same interview procedures to assess the viability of a new borrower. These banks always collect information about entrepreneurs through personal interview with borrowers for all sizes of loans, examination of financial statements of the borrowers for loans over taka five lakhs, Credit Information Bureau (CIB) for loans over taka one lakhs, Credit Rating Agencies for loans over taka more than five crores, directly from other banks for loans over taka ten lakhs, tax return of the borrowers for loans over taka five lakhs, assets declaration in the bank’s format for all sizes of loans, and personal visit of the project for all sizes of loans. The information derived from an interview with creditors of borrowers and views from competitors & market were not used by both banks in some cases because these two sources are used for loan over taka ten lakhs.

Both the banks fully emphasized on the information of nature of the project; fame of entrepreneurs in business; detailed statement of entrepreneurs assets and liabilities; ability to mobilize equity/cash and bank balance; availability of project inputs like raw material, labour, and utilities, machinery, equipment, technology, including spare parts and technical experts; adequacy of infrastructure facilities; market and sales projection and sales budget for few years; location of project and position of the mortgage property; management capabilities on a project application from borrower to select a viable project for lending.

Both BDBL and BASIC Bank Ltd appraised commercial, marketing, technical, financial, economic, environmental, socio-cultural, entrepreneurial, and miscellaneous feasibility as 100% percentage and enjoyed freedom in appraisal of all loans projects. These banks allowed working capital finance to projects having term loans as cash credit and bank overdraft taking additional collateral from entrepreneurs. The rates of working capital finance to total loans and advances of BDBL and BASIC Bank Ltd were 19.25% and 55.56% respectively in the year 2012. The rate of working capital finance of BASIC Bank Ltd was higher compared to that of BDBL.

BDBL and BASIC Bank Ltd took 2 weeks for small loans (below Tk. 10 lakhs), 3-4 weeks for medium loan (Tk. 10-50 lakhs). But 7-8 weeks for large loan (over Tk. 50 lakhs) was allowed by BDBL and 5 weeks for large loan (over Tk. 50 lakhs) by BASIC Bank Ltd to appraise a project. Large loans for BDBL and BASIC bank Ltd were approved within 2 weeks. BDBL and BASIC Bank Ltd took 4 weeks and 3 weeks respectively for large loans to verify required documents from borrowers to release funds. They always maintain 150:100 of tangible assets to principal exposure of the project to disbursed loan. The main reason behind under achievement of project loans for both the banks was scarcity of appropriate borrowers/no satisfactory borrowers to avail such loans. Executives of both the banks suggested that product based loan in the procurement of machinery to control fund smuggling to abroad or fund diversification to other business was effective.

The major two reasons behind unimplemented projects of BDBL were non-availability of equity fund and cost overrun of the project due to price hike of machinery, construction materials and technology. And the major two reasons for BASIC Bank Ltd were non-availability of equity fund and management conflict to run the project. Both the banks collected information on the operational performance of the project through inspection and extended early warning to the projects having some weakness in revenue generation.

Both the banks complied with guidelines issued by Bangladesh Bank in loan classification and maintenance of provision for classified loans very strictly. Whenever an entrepreneur does not repay or fails to repay his dues within stipulated time, the bank should follow the guidelines of Artha Rin Adalat-2003 and amendment in 2010 to recover the dues from the project.

Top executives (General Managers/Deputy General Managers) of BASIC Bank Ltd expressed their prudential focus on operational efficiency of the projects whereas the executives of BDBL gave their prudential focus on collateral security of the projects for project finance. The major five reasons for non-performing project loan of BDBL were as (a) inability of borrowers in equity mobilization, (b) fund diversification to other business, (c) wrong borrower selection/willful defaulter, (d) inability to raise sufficient working capital in need, and (e) lack of adequate infrastructural facility and interrupted utility supply. On the other hand, the major five reasons for non-performing project loan of BASIC Bank Ltd were as (a) political unrest and turmoil, (b) Fund diversification to other business and lack of experience of entrepreneurs, (c) natural disaster (d) fall of market demand of products & industrial slowdown, and (e) Wrong borrower selection/Willful defaulter. The reasons for written off project loans for both the banks are (a) no reliable borrowers (b) inappropriate documentations (c) poor realization value of security and collateral (d) non-resumption of production due to scarcity of technology and raw materials (e) long litigation procedures to liquidate projects (f) improve the quality of bank's assets as per BB's policy.

7.2.3.2 SWOT Mix of techniques

Strengths and Weaknesses of BASIC Bank Ltd

Strengths

1. Highest financial inclusion: From inception to the end of the year 2012, the bank has 62 countrywide branches to provide project loans and financial services for economic growth and development of the country.

2. Young enthusiastic management and officials forces: As a first growing specialized bank, the bank recruits adequate talent officers and skilled bankers almost every year to provide significant banking services to its customers under managed way.

3. Highly co-operative banking service: The bank highly fosters the philosophy "Customer is our lord". The officials of the bank maintain a hospitable working environment through quick responds of customer queries and complaints.

4. Business philosophy among officers: Employees of the bank are very much vigilant to render financial services and on disbursing & recovery of loans. They believe that their return from jobs depends on the success of the bank.

5. Full-fledged technology based with variety products: The branches of the bank connected to head office and each other through online. The bank has a wide variety of active financial products to attract its customers.

6. Maximum utilization of loanable fund: The bank used to disburse its loanable fund into diversified projects through its strategic plan and efficient workforces. During the year 2012, the bank had disbursed 78.37% of its total assets as loan and advances.

7. Positive non-interest burden: Periodical non-interest income minus non-interest expenses on project loans is known as burdens. The bank earns positive, non-interest burden and mean burden was Tk. 69.06 million during the study period.

8. Highly experienced officers: Those banks have highly and long experienced work forces to carry out project loans efficiently.

Weaknesses

1. Low interest spread: The bank mobilized most of its funds from individuals and institutions by paying high interest expense on deposits and borrowings and earned low interest spread. Mean interest spread on project loans was Tk. 38.50 crores during the study period.

2. High cost of fund: The bank had high cost of fund and mean of cost of funds was 6.31% during the study period.

3. Centralization of power: The bank has no zonal offices to delegate power for quick and smooth service to customers. As a result, approval, disbursement of the new loan and renewal of existing loan takes huge time and the customers of project loans suffer from time overrun and cost overrun.

Strengths and Weaknesses of BDBL

Strengths

1. High interest spread: The bank mobilized most of its funds from government as debt service by paying lower interest expenses and earns a high interest spread. Mean interest spread on project loans was Tk. 74.61 crores during the study period.

2. Low cost of fund: The bank enjoyed low cost of funds compared to BASIC Bank Ltd. The mean value of the cost of funds was 2.28% over the study period.

3. Decentralization of authority: The bank has four zonal offices in Dhaka, Khulna, Chittagong and Rajshahi division. These zonal offices has been delegated some extent of power to monitor, supervise, manage and control business activity of assigned branches. As a result, customers will get quick service from a bank in case of approval, sanction, disbursement of the new loan and renewal thereon.

4. Low administrative cost: The salary and allowance of employees were being paid under the regulations of 'National Pay Scale'. But the salary and allowance to employees of other banks, including BASIC Bank Ltd was very handsome and was almost two times more than that of BDBL.

Weaknesses

1. Perpetual job philosophy among officers: Most of the employees believe that their jobs are permanent, their salary and benefit is predetermined and their promotion is based on the length of service. As a result, some of the employees perform their assignments as relaxed mode and their performance is not up to the mark.

2. Lack of adequate customer services: Some of the officers feel poor job satisfaction due to absence of motivation and do not actively engage them in proper customer services. They do not cordially entertain customer queries.

3. Traditional products: Research and development wing to incorporate new modern products of the bank is very weak. The bank only deals with traditional products.

4. Absence of strong marketing activities: The bank does not have any strong marketing activities through mass media to sell its products and has no market forces like development officers or relationship officers to provide inclusive customer service and to find new market of business.

5. Negative non-interest burden: The bank could not earn positive non-interest burden and mean burden was negative which (Tk. 11.16) was crores during the study period.

Opportunities and Threats of BASIC Bank Ltd and BDBL

Opportunities

1. Financing to productive projects: Specialized banks of Bangladesh lend their fund to these projects that are engaged in producing goods and services for economic growth.

3. Entertain long term loan: The main function of those banks to entertain long term project loans into industrial and SME sectors.

Threats

1. Upcoming private banks: Upcoming banks with multiple loanable products seriously threats existing specialized banks. So specialized banks will have to develop strategies to compete against and win the battle of the banks.

2. Default Loans: Non-performing loans can make a capital loss of a bank. So, banks should remain vigilant about the default culture and take proactive strategies to minimize non-performing loans.

3. Industrial downturn: Bangladesh is an economic and political unstable country. Flood, cyclone, drought, terrorism and high inflation impose extra pressure on the banking sector for capital investment.

7.2.3.3 Branch Level operational performance and sectoral advances of the banks: In comparative branch level operational performance of fourteen branches under both the banks, they had great extent of weakness in project financing in the form of project selection, project appraisal, documentation, implementation, monitoring, and recovery of loans. The Volume of sectoral advances of BDBL were mainly disbursed in textile and food & allied products that accounted for 95% of total advances whereas 61.85% of advances was disbursed in service sub-sector, textile, food & allied products, and petro chemical sub-sectors by BASIC Bank Ltd on an average. The banks could not attain the core objectives of their establishment and require to take necessary measures to control the reins of the high volume of classified loans for sustainable growth and development.

7.2.4 Hypotheses testing

Since there are significant variations in interest spread within periods of the sample banks, interest spread for both banks showed an upward trend during the study period and its growth rate for BASIC Bank Ltd was higher than that of BDBL. There are significant variations in the burden within the periods for BASIC Bank Ltd and no significant variations in the burden within periods for BDBL. As a result, the burden of BASIC Bank Ltd was accounted for increased trend and no significant change for BDBL during the study period. On the other hand, there is a significant variation in interest spread and burden between sample banks. So, the interest spread and burden between both the banks during the study period varied from each other (identical). There are significant variations in cost of funds in both banks. The cost of fund of both the banks was different from each other.

There are significant variations in NPAT for BDBL & no significant variations in NPAT for BASIC Bank Ltd within the periods and there are significant variations in RoA and RoE for both the banks within periods. On the other hand, there are significant variations in NPAT & RoE and no significant variations in ROA between the sample banks. The correlation of disbursement of project loans and total classified loans of BASIC Bank Ltd is 0.988 and 0.996 for BDBL which is a significant positive correlation.

The correlation between profit before tax per employee and classified loans was -0.651; profit before tax per employee and bad debts was -0.424; profit before tax per employee and the cost of funds was -0.254 for BASIC Bank Ltd. The correlation between classified advances and bad debts was 0.948, classified advances and cost of funds was 0.803 and bad debts and cost of funds was 0.864 for the same bank. The correlation between profit before tax per employee and classified loans was -0.18; profit before tax per employee and bad debts was -0.478; profit before tax per employee and the cost of funds was 0.698 for BDBL. The correlation between classified advances and bad debts was 0.314, classified advances and cost of funds was -0.236 and bad debts and cost of funds was -0.183 for the same bank.

The average value of disbursement of loans in various sectors was Tk. 381.36 crores for BASIC Bank Ltd and was Tk. 60.59 crores for BDBL. There are significant variations in sectoral advances for BASIC Bank Ltd and no significant variations in sectoral advances for BDBL.

CHAPTER EIGHT

Conclusion
Limitations
Suggestions and Recommendations for Further Studies

CONCLUSION

Specialized banks had embarked their operations under the direct supervision of the government within restriction of complying regulations imposed by the regulatory bodies viz. Bangladesh Bank, Ministry of Finance, Ministry of Industry, Directorate of Environment, local authority of Government, or any other organizations. These circulated regulations, policies, rules and standards are implicitly important to abide by and comply with by the banks to attain maximum benefits in business and to maintain a sound financial market for smooth economic growth in the country. The guidelines under The Banking Companies Act, 1991; The Financial Institutions Act, 1993; and Bangladesh Bank Order, 1972 are compulsorily required to follow by the banks for project finance to commercial units. The objectives of the banks to provide project finance an economic unit for increasing production of agriculture, large scale industry, SMEs and cottage industry. The first and foremost duty of a specialized bank before providing project finance is to apprise the project critically under commercial, marketing, technical, financial, environmental, socio-cultural, entrepreneurial and miscellaneous feasibility in order to determine whether it is viable or not for the bank. The main focus of the bank to find out whether the project will be able to generate significant amount of cash flow to repay the loan on due date. The extent of techniques used in appraisal varies from loan to loan in terms of its nature and volume.

Project loans consist of SMEs loan, real-estate loans, transport loans, staff loans, & Loans against Imported Merchandise (LIM) for BASIC Bank Ltd. Project loans of BDBL consist of industrial loans, SME loans, consumers loans & staff loans. Disbursement of annual average project loans by BASIC Bank Ltd and BDBL were Tk. 915 crores and Tk. 1,042 crores respectively. After the amalgamation of the then BSB and BSRS into BDBL, the BDBL had received 80% of its project loans from the then BSB and rest from BSRS. The correlation of project loans and total loans & advances of both banks were highly positive. Projects loans of BASIC Bank Ltd were accounted for 27.50% of total loans & advances, and 21.12% of total deposits; and 93.28% of total loans & advances, and 217% of deposits was regarded as project loans for BDBL over the study period. BASIC Bank Ltd had entertained 150 projects yearly for the development of SMEs sector, matured 65 projects yearly and average number of cumulative projects in the portfolio was 760 over the study period. The number of projects of BDBL declined to 760 units from 882 units during the three years and average cumulative number of projects of the bank was 783 units.

The average project loans to total loans of BSB and of BSRS were 93.14% and 90.58% during the period of 2002/03-2008/09. The volume of project loans had been declining every year due to non-availability of suitable projects and most of its projects had matured on normal courses of action or the banks liquidated those with the help of Artha Rin Adalat-2003. The banks had earned a net profit after tax to project loans during the period because lower interest expense of the fund received from GOB as debt service. But the profit had been declining rapidly over the periods due to provision against classified loans, written off classified loans as bad debts, and disbursement of a few fund as loans. The recovery performance of the banks was very poor that is evident from the huge volume of written off loans like Tk. 1,338 crores and Tk. 387 crores for the then BSB and BSRS respectively, during the year 2002-09.

The percentage of NPL to total loans of BASIC Bank Ltd was 4.63% over the study period and was 8.22% as on December 2012 whereas the rate of NPL to total loans of BDBL was 33.73% over the three years and was 38.72% as on December 2012. The project loans of BASIC Bank Ltd had increased by 14 times, and cumulative NPL and cumulative written off loans had risen by 18 and 19 times over the period. During the study period the bank had to write off Tk. 131 crores as bad debts, including Tk. 62 crores in 2012. On the other hand, BDBL had written off Tk. 6,482 crores as bad debts over the last three years including Tk. 1,969 crores in 2012.

BASIC Bank Ltd earned Tk. (2.90) crores on average as net loss yearly that was accounted for a net loss of 0.32% to average project loans over the study period. The bank had to maintain Tk. 293 crores as provision against NPL in the year 2012 to comply with the circular of BB {DBI-2 (UB-5)/7034/2013-275 dated 26 May, 2013} and made a huge net loss. But the earning capacity of the bank had shown upward trend up to the year 2011. On the other hand, BDBL earned Tk. 33 crores yearly as net profit after tax, which was 3.18% for total project loans over last three years due to its high interest spread. The mean values of interest spread on project loans of BASIC Bank Ltd and BDBL were Tk. 38.50 crores and Tk. 74.61 crores respectively, and burden for both banks were Tk. 6.90 crores and Tk. (11.16) crores respectively. On the other hand, the mean values on cost of fund of BASIC Bank Ltd and BDBL were 6.31% and 2.28% respectively. On the contrary, the mean values of RoA and RoE for BASIC Bank Ltd were 1.05% & 13.75% respectively, and 2.43% & 4.69% respectively for BDBL.

The correlation for BASIC Bank Ltd between project loans & NPAT, project loans & after tax profit on assets, project loans & after tax profit on equity, and project loans & profit before tax per employee were highly negative and correlation between project loans & advance per employee was highly positive. On the other hand, the correlation for BDBL between project loans & advance per employee, project loans & after tax profit on assets, project loans & after tax profit on equity, and project loans & profit before tax per employee were highly positive. Both banks had to prove high productivity in increasing project loans for adjusting with their loanable funds over the years. But net profit had been drastically declining in the year 2012 for BASIC Bank Ltd.

Reliable and authentic sources of information were more actively used by both the banks to measure the feasibility of a project and appraised commercial, marketing, technical, financial, economic, environmental, socio-cultural, entrepreneurial, and miscellaneous feasibility as 100% percentage to find out viable projects, and enjoyed cent percent freedom in appraisal of all loans projects.

BASIC Bank Ltd and BDBL always maintain required level of tangible assets of the project and collateral security to disbursed loan after following successful valuation procedures for collateral security. The main reason on under achievement of projected project loans for both banks was scarcity of satisfactory borrowers or unviable projects to avail such loans. Both the banks took mandatory margin under procurement of machinery and civil construction works successfully and always collect at least three sets of proforma invoices/quotations in the procurement of machinery. Since proforma invoice is ineffective to protect fund divert in some cases, the incorporation of product based finance could utilize properly bank's debt fund with receiving clear specification of quality machinery supplied by competent machinery manufacturer.

Both the banks carry out inspection of undergoing projects mandatorily because dishonest entrepreneurs can use low quality construction materials and show dummy works to divert funds. The major two reasons behind unimplemented projects of BDBL can be marked as non-availability of equity fund and cost overrun of the project due to price hike of machinery, construction materials and technology. The major two reasons behind unimplemented projects of BASIC Bank Ltd can be marked as non-availability of equity fund and management conflict to run the project.

Both the banks collect information on operational performance of the projects successfully through inspection reports. When the bank finds some potential weakness in revenue generation from projects, it should extend an early warning to the projects for reducing future failure and serves legal notice and files a suit in district court to realize dues.

The major five reasons for non-performing project loan of BDBL were as (a) inability of borrowers in equity mobilization, (b) fund diversification to other business, (c) wrong borrower selection/willful defaulter, (d) inability to raise sufficient working capital in need, and (e) lack of adequate infrastructural facility and interrupted utility supply. On the other hand, the major five reasons for non-performing project loan of BASIC Bank Ltd were as (a) political unrest and turmoil, (b) Fund diversification to other business and lack of experience of entrepreneurs, (c) natural disaster (d) fall of market demand of products & industrial slowdown, and (e) Wrong borrower selection/Willful defaulter. The reasons for writing off project loans for both the banks are (a) no reliable borrowers (b) inappropriate documentations (c) poor realization value of security and collateral (d) non-resumption of production due to scarcity of technology and raw materials (e) long litigation procedures to liquidate projects (f) improve the quality of bank's assets as per BB's policy.

Despite of low interest spread and high cost of fund, BASIC Bank Ltd had been earning net profit up to the year 2011 and but incurred net loss in the year 2012. Average NPL of the bank was only 4.63% and volume of written off loan as bad debts were only Tk. 131crores over the study period. But the volume of classified loans of the bank during the year 2012 was Tk. 458 crores, which indicates that the bank could not be able to appraise projects successfully during the year 2012 and/or preceding the year. As a result, the bank may face massive operational loss in the subsequent year. Project financing techniques as appraisal of projects, monitoring, recovery of the loan of the bank is more effective up to the year 2011. But the success gained by the bank from its inception was vandalized in the year 2012 and requires pragmatic change in project financing techniques to survive in the long run. In reality, all kinds of measures for its survival will be crocodile tears without huge government debt finance. On the other, BDBL had high interest spread and low cost of fund and had enjoyed net profit every year over the study period. The average NPL of the bank was 33.73% and had written off as bad debts were Tk. 6,482 crores over the study period. The bank did not exercise successful appraisal programs rather than emphasized on collateral security to select projects and monitoring & recovery system of classified loans was also very weak & focused on liquidate the projects through Artha Rin Adalat. So, project financing techniques of BDBL was not effective.

BASIC Bank Ltd had more strengths, opportunities and threats compared to BDBL in SWOT Mix of techniques. But the bank had faced limited funds for projects loans as restriction imposed by Memorandum and Article of Association compared to BDBL. In comparative branch level operational performance of both banks, both the banks had great extent of weakness in project financing in the form of project selection, and recovery of loans. Both the banks could not attain the core objectives of their establishment and require to take necessary measures to control the reins of high volumes of classified loans for sustainable growth and development.

LIMITATIONS

The research was only conducted on two banks (BDBL and BASIC Bank Ltd) out of four specialized banks by taking seven branches of each bank totaling fourteen branches due to budget and time constraints. Data of the sampled banks regarding their number of financed projects, total loans, disbursement of project loans, classified loans, written off classified loans as bad debts, NPAT, RoA, RoE, etc. during a period of ten years from 2003 to 2012 are analyzed. Data of fourteen branches of both the banks for number of projects, total outstanding loans, total classified loans, total written off loans and profit before provision and taxes for the year 2012 were only analyzed to find out branch level performance. On the other hand, branch level data on sectoral advances for both the banks for the year 2012 and the data for the banks as a whole for the period 2010-2012 were analyzed. Total number of respondents for the questionnaire that is designed to collect data from bank officials of sample two banks is 88 (50+38).

POLICY IMPLICATIONS

The study finds out certain gap and loopholes in the application of project financing techniques of both banks which should be eliminated as soon as possible to increase operational performance and to control the reins of the increasing volume of stuck-up loans in attaining organizational goals and objectives. On the other hand, there are some areas for researchers to conduct further studies to improve managerial performance of specialized banks, commercial banks and other financial institutions in dealing with project loans, industrial loans, commercial loans, foreign exchange loans, and other corporate loans. Since banking sector is the heart to circulate money and financing partner of private sectors to boost up domestic production for economic growth of the country, financing of fund mobilized from individuals requires to be flowed to productive sectors by strictly following prescribed rules and regulations for sustainable existence of the sector. The study provides the following suggestions:

(1) Both the banks must be confirmed that borrowers actively participate in business with debt-equity fund for avoiding misappropriation or fund divert to other businesses or countries.

(2) Competent consultants who have significant expertise in marketing, technical and economic aspects should be hired or recruited by the banks for avoiding future commercial failure of the project in generating sufficient cash flow to repay bank’s dues.

(3) Over valuation of collateral securities is mainly responsible to realize poor value in liquidation of the securities. So the executives who had made cognizable offense in this regard should be turned under a trial.

(4) Over-vouching in the procurement of machinery & technology and construction works is responsible for fund transfer to other business or abroad. In this case, product based finance to the vendors selected by the banks and fund release under step by step in construction works for the project are suggested to control over-vouching.

(5) The banks must confirm the mobilization of equity fund from the borrowers for smooth implementation and operation of the project. In this case, the bank should always follow debt-equity ratio for releasing finance.

(6) Legal department that is responsible for documentations and recovery of default loans should verify necessary documents carefully before disbursement of loans and make them accountable for any kind of forgery or fraudulent activity.

(7) The executive's folk who are responsible to monitor the implementation and operational performance of the project should be accountable for their certificate reports on implementation and operational performance in the event of default.

(8) A strong and superior Loan Co-ordination Department needs to be set up for co-ordination of all loan departments and to make all executives accountable in relation to loans.

(9) One stop legal service to liquidate the project should be set up for quick realization of default loans.

(10) Interest spread of BASIC Bank Ltd is low, so it should reduce administrative expenses and search low cost government fund for investment. On the other hand, the trend of profit of the bank is downward and volume of classified loans is extremely upward. The practice of project financing techniques of the bank requires to change now for protecting financial health.

(11) The percentages of classified loans to total loans of BASIC Bank Ltd and BDBL were 5.44% and 38.72% respectively in the year 2012. Both the banks should expand their effort to find out the causes of classified loans and strengthen their recover division for quick recovery of classified loans.

(12) Government should carry out action research before the alteration or change of existing policies to determine whether coming policies would be benefited to existing and coming sectors under macroeconomic aspects.

(13) Government should extend uninterrupted utility supply for smooth operation of the project at subsidized rates for boosting domestic production and employment generation.

(14) Special custom policy should be incorporated by the government to ensure timely supply of industrial raw materials and to the restricted intrusion of foreign goods in the country by strengthening border security for protecting local industry.

(15) Monitoring bodies within and outside of the bank should extent surveillance and diligent force in strict monitoring of every project loan to arrest subsequent irregularity and misappropriation of funds committed by concerned employees.

(16) The banking code of ethics, business values, cultures, and banking norms should be fostered rigorously to protect subsequent credibility and solvency of the banking industry.

(17) A separate department like Loan Observation and Reward Department is required to be established to ensure reward and punishment for concerned employees for good loans and bad loans respectively.

RECOMMENDATIONS FOR FURTHER STUDIES

(1) The bank itself should conduct action research about the feasibility appraisal of a finance project done by the executives to determine whether those projects are running smoothly or not.

(2) To remove cost overrun and time overrun of the projects, action research may be conducted by external researchers to find out the way to deliver quick and efficient financing services to borrowers through maintaining prescribed rules and regulations in financing for the convenience of the borrowers.

(3) A research on the monitoring system of the implementation process of construction works & operational performance of projects and objective valuation of collateral security is to be carried out to find out the gap of executives' performance thereon.

(4) A research on proper documentations and legal procedures for recovery of classified loans should be carried out to determine the causes behind long litigation in liquidation of projects for BDBL and BASIC Bank Ltd.

(5) A research on borrower’s perception towards service provided by banks should be undertaken to find out the bank’s limitations in service and develop a best service package for potential customers.

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Questionnaire

On

Effectiveness of Project Financing Techniques in Specialized Banks of Bangladesh

For

Bank Officials (Head office/Regional office and Branches)

1. Respondent's particular:

a. Name of the respondent:

b. Designation:

c. Education:

d. Higher Education (if any)

d. Division/Department:

e. Experience:

2. Which sources are used in collecting information about a borrower/applicant:

Sources	Loan Sizes		
	(a) Small Loan (below Tk. 10 lakhs)	(b) Medium Loan (Tk. 10-50 lakhs)	(c) Large Loan (over Tk. 50 lakhs)
(a) Personal Interview with borrowers			
(b) Financial statements of the applicant			
(c) Credit Information Bureau (CIB)			
(d) Credit Rating Agencies			
(e) Directly From other banks			
(f) Tax Return of borrower			
(g) Asset Declaration in bank's format			
(h) Personal visit of the project/business site			
(i) Interview with creditors of the borrower			
(j) Information from market and competitors			

3. Upon what kinds of information the bank gives its emphasis on a project application with First Information Sheet received from a borrower:

Considerable Factors	Loan Sizes		
	(a) Small Loan (below Tk. 10 lakhs)	(b) Medium Loan (Tk. 10-50 lakhs)	(c) Large Loan (over Tk. 50 lakhs)
(a) Nature of the project			
(b) Fame of the entrepreneurs in business			
(c) Detailed statement of entrepreneurs assets and liabilities (net worth)			
(d) Ability to mobilize equity / cash and bank balance			
(e)) Availability of project inputs like raw material, labor, and utilities			
(f) Availability of machinery, equipment, and technology, including spare parts and technical experts			
(g) Adequacy of infrastructure facilities			
(h) Market and sales projection and sales budget for few years			
(i) Location of the project and position of the mortgage property			
(j) Management capabilities			

4. From the quick glimpse on the project (FIS), what factors the bank will consider in allowing loan application form to the borrower:

Considerable Factors	Loan Sizes		
	(a) Small Loan (below Tk. 10 lakhs)	(b) Medium Loan (Tk. 10-50 lakhs)	(c) Large Loan (over Tk. 50 lakhs)
(a) Adequate human resources of the project			
(b) Management competency			
(c) Availability of loanable fund of the bank			
(d) Circulars or instructions from authority			
(e) Ability to mobilize equity / cash and bank balance			
(f) Credit behavioral of the entrepreneurs			
(g) Position and value of collateral security			
(h) Past record of the project (in case of BMRE)			
(i) Report of recent loan at other banks			

5. The sources used in gathering information about the feasibilities of the project:

Considerable Factors	**Loan Sizes**		
	(a) Small Loan (below Tk. 10 lakhs)	(b) Medium Loan (Tk. 10-50 lakhs)	(c) Large Loan (over Tk. 50 lakhs)
(a) Market survey			
(b) Feasibility appraised by the entrepreneurs			
(c) Credit rating agency report			
(d) Banks own Management information System (MIS)			
(e) Local agency if any			

6. The feasibilities that are appraised by the bank in assessing the viability of the project:

Considerable Factors	**Loan Sizes**		
	(a) Small Loan (below Tk. 10 lakhs)	(b) Medium Loan (Tk. 10-50 lakhs)	(c) Large Loan (over Tk. 50 lakhs)
(a) Commercial Feasibility			
(b) Marketing feasibility			
(c) Technical feasibility			
(d) Financial feasibility			
(e) Economic feasibility			
(f) Environmental feasibility			
(g) Socio-cultural feasibility			
(h) Entrepreneurial feasibility			
(i) Miscellaneous feasibility			

7. Nature of project appraisal mode exercised by the management of the bank:

Loan Sizes	**BDBL**			**BASIC Bank Ltd**		
	Branch Level	Zonal Level	Head Office Level	Branch Level	Zonal Level	Head Office Level
(a) Small Loan (below Tk. 10 lakhs)						
(b) Medium Loan (Tk. 10-50 lakhs)						
(c) Large Loan (over Tk. 50 lakhs)						

8. Maximum period used to appraise a project under the aforesaid techniques:

Please put answer on the following table using (a) 2 weeks (b) 3-4 weeks (c) 5 weeks (d) 7-8 weeks

Particulars	BDBL	BASIC Bank Ltd
(a) Small Loan (below Tk. 10 lakhs)		
(b) Medium Loan (Tk. 10-50 lakhs)		
(c) Large Loan (over Tk. 50 lakhs)		

9. Maximum period used for approval of loan after feasibilities has completed:
Please put answer on the following table using (a) 1 week (b) 2 weeks (c) 3 weeks (d) 4 weeks

Particulars	BDBL	BASIC Bank Ltd
(a) Medium Loan (Tk. 10-50 lakhs)		
(b) Large Loan (over Tk. 50 lakhs)		

10. Maximum period required to verify required documents from borrower after the loan is sanctioned:
Please put answer on the following table using (a) half week (b) 1 week (c) 3 weeks (d) 4 weeks

Particulars	BDBL	BASIC Bank Ltd
(a) Small Loan (below Tk. 10 lakhs)		
(b) Medium Loan (Tk. 10-50 lakhs)		
(c) Large Loan (over Tk. 50 lakhs)		

11. The reason behind under achievement of projected loan during the period 2003-2012:

(a) No satisfactory borrower/scarcity of appropriate borrowers (b) Fund Diversion (c) Sick SMEs (d) Natural calamity.

12. How many of the projects are implemented properly?

Nature of Loans	**Number of projects**
(a) Small Loans (below Tk. 10 lakhs)	
(b) Medium Loans (Tk. 10-50 lakhs)	
(c) Large Loans (Tk. over 50 lakhs)	

13. Reasons behind unimplemented projects:

(a) non-availability of equity fund in time (b) management conflict (c) death of entrepreneur (d) natural calamity (e) cost overrun (f) time overrun.

14. What are the reasons behind NPL of project loans?

(a) Fund Diversion to other business

(b) Willful defaulter

(c) Inability to mobilize equity fund in need

(d) Management Inefficiency

(e) High operational cost

(f) Others

15. What are in your opinion the reasons behind written off of project loan?

(a) Inappropriate documentations.

(b) Poor realization value of security and collateral.

(c) Long litigation procedures to liquidate projects.

(d) Others

16. What is your opinion on the following factors of the bank?

A. Percentage of human resources to total employees in dealing with project loans:

(a) 20%- 30% (b) 30%-40% (c) 40%-50% (d) 50%-60% (e) 60%-70%

B. Experience and competency of management forces on project loan:

a) Very high b) high c) moderate d) below moderate

C. Communication both upward-down ward and parallel:

(a) Very strong (b) Strong (c) Satisfactory (d) Below satisfactory (e) Poor

D. MIS and AIS System of the bank:

(a) Very strong (b) Strong (c) Satisfactory (d) Below satisfactory (e) Poor

E. Salary, working environment and social status of employees:

(a) Very High (b) High (c) Satisfactory (d) Below satisfactory (e) Poor

F. Monitoring and supervision of the employees by the authority:

(a) Very strongly (b) Strongly (c) Satisfactory (d) Below satisfactory (e) Poor

G. Teamwork among employees:

a) Very strongly (b) Strongly (c) Satisfactory (d) Below satisfactory (e) Poor

H. Job satisfaction of employees:

(a) Very satisfactory (b) Satisfactory (d) below satisfactory (e) Poor

I. Demand for finance from borrowers:

(a) Very High (b) High (c) Average (c) Low

J. Infrastructural facility of the Bank:

(a) Very strong (b) Strong (c) Satisfactory (d) Below satisfactory (e) Poor

K. Technical services provided by the bank to projects:

(a) Very High (b) High (c) Average (d) Low (e) No

L. The Bank faced unfair competition with private banks:

(a) Very High (b) High (c) Average (d) Low (e) No

M. Pressure of market economy faced by the bank:

(a) Very High (b) High (c) Average (d) Low (e) No

Research Questionnaire

On

<u>Effectiveness of Project Financing Techniques in Specialized Banks of Bangladesh</u>

For

Selected Branch Manager

Project Loan for the research is denoted as term loans (more than one year) in the form of industrial loans, SME loans, Real estate loans, transport loans, staff loans, consumer credit, and LIM.

1. Please give your answer on the points stated in the box based on the project loans information as on 31 December, 2012:

Particulars	**LOAN SIZE (in Lakhs TK.)**						
	3-10	**10-25**	**25-50**	**50-100**	**100-500**	**500-1000**	**>1000**
(a) No. of projects as on Dec.31, 2012							
(b) Outstanding loan as on Dec.31, 2012							
(c) Classified loans as on Dec.31, 2012							
(d) Written off loans as on Dec.31, 2012							

2. Please give sector-wise advances, classified loans and written off loans as bad debts as on Dec. 31, 2012 of your branch

For the branch of BASIC Bank Ltd

Sectors	Total Advances (in Lakhs Tk.)	Total Classsified Loans(in Lakhs Tk.)	Total Written off Loans(in Lakhs Tk.)
1. Food and allied products			
2. Textile			
3. Electrical and Electronics			
4. Service industries			
5.Petro-chemical			
6. Miscellaneous			
Total			

For the branch of BDBL

Sectors	Total Advances(in Lakhs Tk.)	Total Classsified Loans(in Lakhs Tk.)	Total Written off Loans(in Lakhs Tk.)
1. Food and Allied products			
2. Textile			
3. Paper, printing & packaging			
4. Chemical & pharmaceuticals			
5. Service industries			
6. Miscellaneous			
Total			

3. What was the interest income, interest expenses, and operating expenses on project loans your branch as on December 31, 2012:

Interest income:

Interest expenses:

Operating expenses:
