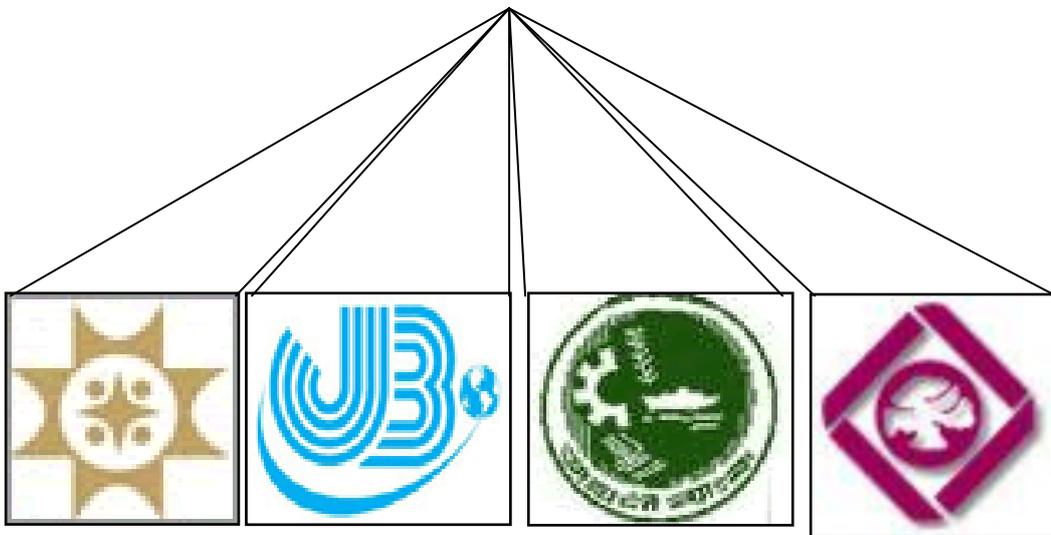


Study Paper

On

Reducing Corruption in Accessing Industrial Credit



Prepared by: Research Wing



International Business Forum of Bangladesh (IBFB)

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List of Abbreviation:

GoB- Government of Bangladesh
WB-World Bank
WTO- World Trade Organization
MoF- Ministry of Finance
MoI-Ministry of Industry
BB- Bangladesh Bank
FSA- Financial Services Agreement
SCB- State-owned Commercial Bank
PCB- Private Commercial Bank
NPL-Non-performing Loan
IRS- Interest Rate Spread
FDI- Foreign Direct Investment

Reducing Corruption in Accessing Industrial Credit

Executive Summary:

Historically, Bangladesh has suffered from a poorly performing banking sector due to public ownership, lack of competition, poor governance, weak management, inadequate regulatory framework and lack of central bank's autonomy and capacity. As per vision of the new Industrial Policy 2010, Bangladesh will have, by 2021, a dominant industrial sector where manufacturing will account for at least 30% of GDP with a capacity to absorb 20% of the workforce. In the context of Globalization, it is expected that the private sector-led industrial development could be the appropriate strategy for promoting the country's economic growth prominently through the Public-Private Partnership (PPP).

To increase GDP and boost up economy of the country there is no alternative but to industrialize the country rapidly. In recognition to this realizing, the Government has stressed much importance as reflected in the new Industrial Policy 2010 intended to raise industrial sector's contribution to the economy to 40% from current 28%, by 2021. To achieve this target, the policy should be acquainted to the people and made pro-people by offering all sorts of supports and facilities. All hurdles, barriers on the path of industrialization must be removed.

Agricultural and Industrial GDP are small in recent years, but Service Sector's GDP is swelling. This kind of imbalanced swell of one sector except other two causes inflation. The contribution of all sectors to GDP needs to increase equally. For this reason, modernization in agriculture, distribution of subsidies, interest-free loans among peasants and reformation of traditional land-owner law can be helpful. On the other hand, for the balance between the growth rates of Large Scale Industries and Small & Cottage Industries, it is necessary to bring them under government care. Government should increase domestic investments in proper areas with efficient hands. Two kinds of investments are prevailed, as, personal investment and bank loans. There are numerous examples of those people, who take bank loans for the establishment of industries, but don't establish any. This kind of misuse of investment hampers GDP growth.

To facilitate industrialization, loan sanctioning process to be simplified reducing formalities and tiers of sanctioning authority. After primary selection of site, borrower, collateral security, nature of project, the sanctioning authority may visit the project direct and decision should be given to send the proposal direct to sanctioning authority for approval discarding all other tiers.

To expedite and prompt sanction of industrial credit, sanctioning power upto certain limit should be delegated to field level executives, at least upto General Manager level. The dilly dally tendency of the officials at field levels for extracting unofficial money should be shunned.

By any definition corruption is illegal and in the first instance results from collusion between political and money elites-the first party abuses public position of trust for private gains of both parties. Former country director of World Bank in Bangladesh was candid enough to publicly point out the "system loss" in power sector resulting from collusive theft by the employees of the sector and the consumers; port inefficiencies costing over \$ one billion a year; governance problem and inefficiency in the banking sector slowing down GDP growth over one percent per annum; Taka 30-40 crores of public procurement lost every year due to corruption. Based on other similar reports, it is apparent that Bangladesh loses 2-3% GDP growth a year due to corruption.

There is a common belief in the minds of most of the people that getting an industrial loan is very much complicated, hazardous, expensive, time-consuming, and as such people tend to refrain from taking it. The wrong and unfounded thinking of the people should be removed by setting examples. In fact to make it easy, pro-people, popular and accessible, all concerned should be dedicated, motivated and committed with the cause of patriotism.

During early eighties, nationalized commercial banks maintained around 90% of bank deposits. This was not a proof of efficiency. SCBs enjoyed monopoly in the absence of significant number of private banks. Scenario changed quickly with the establishment of new banks in the private sector. Today giant SCBs together maintain less than half of total deposits, though they have largest network of branches spread all over the country. This speaks of serious weakness of their workforce and inefficiency of management. The deposit market has already shifted to the private banking sector. Access to credit in the SCBs has, therefore, been narrowed down considerably. Reversal of the trend appears to be difficult in the face of competitive ability of the private sector, which flourished through competition and never enjoyed monopoly and favour. To face this challenge, SCBs need to change their management and marketing policy, come out of monopoly culture and develop new organizational culture.

Processing of loan proposals requires high level of appraisal skills in a bank. Appraisal involves the technique of evaluating proposed project or business and also assessing the applicant's entrepreneurship and managerial ability. SCBs loan appraising officers are not properly selected and trained to match their responsibility.

Loan appraisal is a highly technical process requiring specialized knowledge, superior skill and high degree of financial and intellectual honesty. Appraiser must remain free from any pressure and outside influence. Government owned banks are vulnerable places, where governmental and socio-political influential persons bring in undue pressure for taking out money in the garb of loans, which can never be recovered. Loan seekers offer speed money or bribe with the advice, 'take it, sanction my loan or face the consequences'. So for making the operations of the SCBs transparent, Directors may be chosen from different categories of people and labor Act may be revised allowing only one Trade Union.

Introduction:

The performance of the financial sector is well recognized as a major determinant of the growth of the private sector in an economy. Economic development and smooth operation of the financial sector are strongly correlated. In low income developing economies, the financial sector tends to be dominated by banking enterprises. Historically, Bangladesh has suffered from a poorly performing banking sector due to public ownership, lack of competition, poor governance, weak management, inadequate regulatory frame work and lack of central bank's autonomy and capacity.

Much of the financing for private enterprises is typically provided by the banking sector. As of December 2008, the Bangladesh banking sector accounted for over 80% of country's financial assets. The performance of the banking sector is a key determinant of private sector growth.

After the independence of Bangladesh, the banking sector was nationalized. The dominance of the nationalized banks continued until the late 1990s, although, the private banks made a gradual entry into the banking business. The combination of public ownership and lack of competition contributed to not only weak performance but also to become a huge source of rent seeking and corruption. One key indicator of this is the volume of non-performing loan (NPLs). The total NPL of the state-owned commercial banks (SCBs) as of 2000, stood at 39% of total loans –TK110 billion (10% of GDP). Even in the face of greater competition with the private banks, the gross NPL of SCBs remains at 24% or at around TK 200 billion as of June 2009. In the case of NPLs for domestic private banks fell from 22% in 2000 to only 4.9% in June 2009.

As per vision of the new Industrial Policy 2010, Bangladesh will have, by 2021, a dominant industrial sector where manufacturing will account for at least 30% of GDP with a capacity to absorb 20% of the workforce. In the context of Globalization, it is expected that the private sector- led industrial development could be the appropriate strategy for promoting the country's economic growth prominently through the Public –Private Partnership (PPP).

The stated-owned commercial banks (SCBs) viz, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank, with about 3386 branches and over 53000 employees across the country in 2008 can play a very significant role in sanctioning and disbursing industrial credit to entrepreneurs who in turn can create opportunities for millions of youths seeking to enter job market each year. Unfortunately, a very dismal picture of industrial credit sanctioning and disbursement is seen in most of the cases. The situations of recovery and outstanding classified Industrial term loans in SCBs and specialized banks are disappointing. The procedural complexities and vicious circle associated with industrial credit are badly affecting the possibilities of industrial growth and economic development of the country.

Objectives of the Study:

The major objectives of the study are-

- To explore ground reality of the complexity and corruption associated with industrial credit operations by State-owned Commercial Banks (Sonali, Janata, Agrani and Rupali).
- To explore the vulnerable steps and procedures promoting corruption in industrial credit operations.
- To assess client's view on devising a simpler and less-time consuming procedures for accessing industrial credit.
- To put forward some tangible recommendations to simplify the procedures to access credit and make it more transparent and corruption-free.

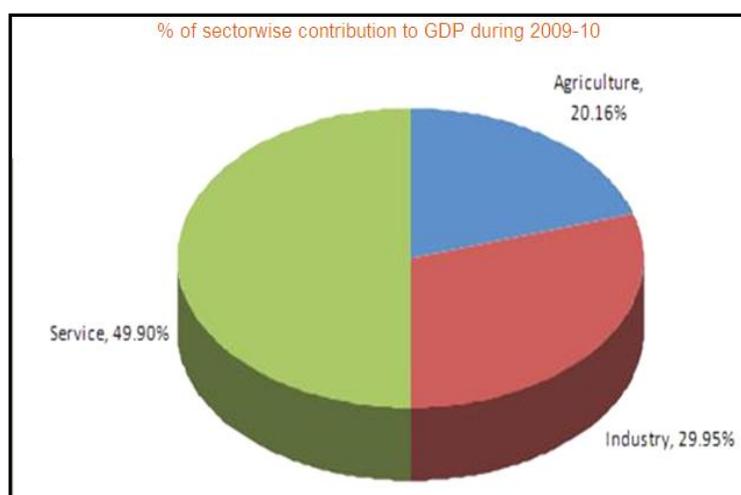
Methodology of the Study:

- The study is based on desk/ empirical research and interactive inputs from relevant stakeholders.
- Materials for desk research were drawn from relevant sources viz. Bangladesh Bank, Ministry of Finance, different articles, seminar papers etc.
- Fact finding interviews and interactive discussions were held with some senior bank officials and relevant teaching faculties of universities.
- Primary data were collected through structured questionnaire from assorted respondents of diverse business and industrial background which comprised of over 200 IBFB members including one from Malaysia.

Bangladesh GDP Growth: Sectoral Contribution:

Bangladesh economy has sustained growth momentum in recent years amid current global economic downturn and financial crises. A good domestic crop harvest together with moderate export growth and sustained high level of remittance flow helped the economy to attain a near-six percent growth rate during FY 09. According to the provisional estimates of the Bangladesh Bureau of Statistics (BBS), real GDP grew by 5.9 percent in FY09, only 0.3 percentage point lower than the 6.2 percent growth recorded in FY08. Measured at current market prices, the GDP of Bangladesh in FY09 was estimated at Taka 6149 billion representing a nominal growth of 12.7 percent in FY09 compared with 15.5 percent recorded in FY08.

The real GDP growth of 5.9 percent in FY09 was driven by a robust agricultural expansion and substantially increased output in industry and services sectors. The expansion was broad-based, registering positive growth by all sectors and sub-sectors of the economy GDP growth during the year was underpinned by 6.3 percent growth in the services sector, 5.9 percent in the industry sector and 4.6 percent in the agriculture sector. In the overall GDP growth of FY09, services sector contribution was the highest at 3.0 percentage points, followed by industry sector at 1.7 percentage points and agriculture sector at 0.9 percentage points. Sectoral contribution of GDP during 2009-2010 stands at 49.9% in the service sector followed by 29.95% and 20.16% in the cases of Industry and Agriculture respectively [Fig 1].



Source: Bangladesh Economic Review-2010, Ministry of Finance

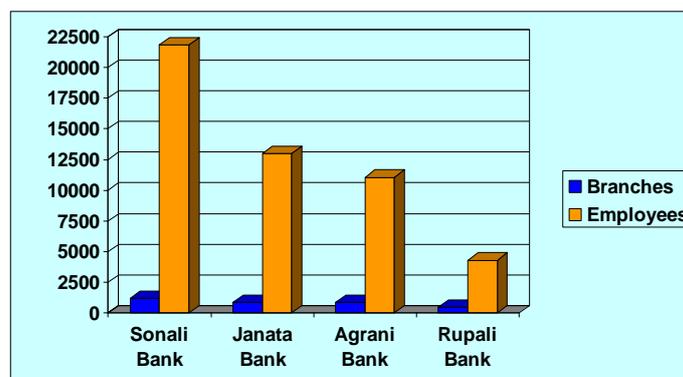
Figure-1: Sectoral Contribution to GDP.

Industry Sector:

In the industry sector, which contributed 29.7 percent of GDP, growth rate slowed down from 6.8 percent of FY08 to 5.9 percent in FY09. The deceleration of growth of the sector was mainly due to slower growth in manufacturing sector caused in turn by export decline in most items other than apparels and textiles following global financial crisis. Manufacturing sub-sector registered a lower growth of 5.9 percent in FY09 compared to 7.2 percent growth in FY08. Growth was pronounced in both the large and medium, and the small scale-manufacturing sub-sectors, which grew by 5.7 percent and 6.6 percent in FY09 compared to 7.3 percent and 7.1 percent respectively in FY08. Small scale manufacturing sub-sector contributed about 29 percent for the total output of the manufacturing sector.

Banking Sector and Contribution to GDP:

The share of the financial sector in GDP was about 1.70% (FY06), which has remained quite steady over time. The contribution to GDP mostly comes from the banking sector. Overall employment in the financial sector is about 0.10 million with the private sector employment rising while the public sector employment falling. These banks have a total number of 6886 branches as of December 2008. The number of bank branches increased from 6717 in December 2007 to 6886 in December 2008 owing mainly to opening of new branches by the PCBs during the year. The proliferation of branches and employment generation in SCBs are given in [Fig 2.0:](#)



In 2008, the SCBs held 31.1 percent of the total industry assets as against 33.1 percent in 2007. PCBs' share rose to 54.2 percent in 2008 as against 51.4 percent in 2007. The FCBs held 8.0 percent of the industry assets in 2008, showing a declining trend by 0.2 percentage points over the previous year. The DFIs' share of assets was 6.7 percent in 2008 against 7.3 percent in 2007.

Liquidity position of the scheduled banks:

Excess liquidity of the scheduled banks remains a concern for Bangladesh Bank, as it reached Tk325.2 billion at the end of March 2010, up from Tk237.4 billion in March 2009, reflecting subdued investment demand. Excess liquidity (measured as a percentage of deposits) rose to 11.0% in March 2010 from 9.8% in March 2009. The outstanding stock of government treasury bills, bonds, and national savings directorate certificates stood at Tk571.9 billion at the end of February 2010, significantly up from Tk481.3 billion in February 2009.

Total liquid assets of the scheduled banks stood higher at Tk. 86832.65 crore as of end July, 2010, against Tk.87196.61 crore as of end June, 2010. However, excess liquidity of the scheduled banks stood lower at Tk.33127.56 crore as of end July, 2010, against Tk.34498.73 crore as of end June, 2010. Scheduled banks holding of liquid assets as of June, 2010 in the form of cash in tills & balances with Sonali bank, balances with Bangladesh bank and unencumbered approved securities are 5.17 percent, 32.16 percent and 62.68 percent respectively of total liquid assets.

Banks and Definition of Bank Credit:

Banks play an important role to the economy of a country by providing facilities for the pooling of savings and making them available for economically and socially desirable purposes in the form of credit. Banking is a business where banks try to earn revenue primarily by lending money to worthy borrowers. According to the Encyclopedia of Banking & Finance by Charles J. Woelfel Bank credit is “ the earning asset of the commercial banks, including the variety of short and long term loans made to individuals, partnership, corporation, other business firms, banks, and governmental units and agencies; the banks’ holdings of investments.”

Access to Credit:

Entrepreneur's access to credit in a bank depends on (i) availability of fund in the bank, (ii) bank's expertise in using the fund profitably, (iii) bank's skill in evaluating loan proposals professionally and (iv) bank's capability in identifying and scouting potential entrepreneurs from the open market (v) inferences and access to fund. On the other hand, an entrepreneur should have the skill of convincing the bank regarding his ability and genuineness to have access to credit in a bank.

(i) **Availability of Fund:** Availability of fund in a bank depends on its ability to mobilise deposits from the people. During early eighties, nationalised commercial banks maintained around 90% of bank deposits. This was not a proof of efficiency. SCBs enjoyed monopoly in the absence of significant number of private banks. Scenario changed quickly with the establishment of new banks in the private sector. Today giant SCBs together maintain less than half of total deposits, though they have largest network of branches spread all over the country. This speaks of serious weakness of their workforce and inefficiency of management. The deposit market has already shifted to the private banking sector. Access to credit in the SCBs has, therefore, been narrowed down considerably. Reversal of the trend appears to be difficult in the face of competitive ability of the private sector, which flourished through competition and never enjoyed monopoly and favour. To face this challenge, SCBs need to change their management and marketing policy, come out of monopoly culture and develop new organizational culture.

(ii) **Use of Fund:** Worst scenario prevails in the use of fund by the SCBs. Lower share of deposit mobilization only limits availability of fund, while inefficiency and corruption in use of fund eat-up the bank's capital as well as customer's deposits. This is a self-destructive process for any bank. Extent of destruction can be measured by the extent of non-performing loans of the bank. During nineties, NPL of SCBs reached its pick at around 50% of loan portfolio. Hovering around such staggering figure for a considerable period, it gradually declined to present 20% to 25%.

The declined figure can be questioned. Is it the result of real recovery? Or is it because of large-scale waiver and book adjustment? Any waiver or book adjustment means transfer of profit to provision account, a process of eating up capital. Provisioning is a legal process of penalising the bank and not curing the disease. Through this process, SCBs have, by now, drained out huge amount of their capital on account of bad loans, at the cost of good customers. Book adjustment process has hindered equity growth, created pressure on good customers to compensate the bad ones and restrained the banks to lower the lending rate. This is a vicious circle in which the SCBs are rotating.

(iii) **Loan Processing:** Processing of loan proposals requires high level of appraisal skills in a bank. Appraisal involves the technique of evaluating proposed project or business and

also assessing the applicant's entrepreneurship and managerial ability. SCB loan appraising officers are not properly selected and trained to match their responsibility. Quantified methods have recently been introduced. In the absence of reliable and adequate information, these methods do not yield desired results. Corresponding subjective analysis stands at a poor level in the absence of professional development of SCB appraisers. Thus poor loan processing opens the door of future NPL.

(iv) Scouting Entrepreneurs: A good bank must have marketing competence in both the areas of fund inflow and fund outflow. We have observed that inflow marketing or deposit mobilisation efforts are stronger in PCBs compared to that of SCB, resulting diminishing market share. Outflow marketing or scouting of good entrepreneurs is also very weak in SCBs, resulting in weak loan portfolio. Scouting of entrepreneurs requires a bank to have commitment, relational skills, technical skills and organizational culture. SCBs count poor ratings in all these areas. As a result, good, potential and robust entrepreneurs are often attracted towards PCBs which succeed in scouting them and also meeting their needs. SCBs share gets squeezed again. Safety and career advancement of a manager in SCB depends on going by the dotted rules, avoiding reasonable risk, and also avoiding proactive role. He is a routine man, and succumbs to robust competition.

(v) Inferences on Access to Fund: SCBs market share in deposits and loans is either static or declining quantitatively and qualitatively, compared to those of PCBs. In business, static position is the sign of decline. Vertical comparison of a bank (i.e. comparing the bank's present with its past) is not a dependable method of judging its progress. Parallel comparison (i.e. comparing SCBs with PCBs) is more dependable method of ascertaining success or failure, because it counts market potentiality and market expansion. Such analysis does not convey good news for SCBs, which are trapped in a vicious cycle.

Access to Industrial Credit:

Reflections from Concurrent Industrial Policy & Export Policy:

The Government recognizes SMEs as vehicles for quality of life improvement, economic growth and poverty alleviation of the common people. The primary role of the Government shall firstly, be that of a facilitator removing policy obstacles and neutralizing market failures and, secondly, providing necessary promotional support. The Government will pursue the creation of special economic zones (SEZs) in Bangladesh for both export and local market oriented industries based on the cluster principle of collections of industries, brought together geographically for the purpose of promoting economic development. This also includes the creation of industrial parks for maximizing synergy among establishments, and these parks could be product-specific or hybrid. A key objective of SEZs and industrial parks would be to stimulate efficient use of skilled labour, land, infrastructure, energy and other resources as well as to facilitate backward, horizontal and forward linkages with local industries. The SEZs will also permit the relocation of pollution-prone and manufacturing enterprises from metropolitan areas.

Export-oriented Industrialization is one of the major objectives of the present Industrial Policy. In this respect, export-oriented industries, both existing and potential ones, will be prioritized and all-out government assistance will be provided for their promotion in line with the provisions of the Export Policy 2006-2009. The Government will encourage and actively support, based on the scale of investment, scale of employment generation, transfer of technology and overall value to

the nation and on case to case basis, large scale industrial ventures capable of spear-heading a major industrialization program with incentives and facilitations which will be equivalent to or more than what is currently being offered to EPZ industries.

The Government has liberalized the industrial and investment policies in recent years by reducing bureaucratic control over private investment and opening up new avenues for investment. The Government will provide the certain incentives and facilities in order to promote and attract investment in industries

Disbursement of credit:

Disbursement of bank credit somewhat slowed down during the first three quarters of 2007 largely due to low demand by the borrowers. Nominal bank credit grew by 8.6 percent during the first three quarters of 2007. The disbursement of term lending to industrial sector in FY08 showed a 7.0 percent growth over previous quarter and was 26.5 percent higher compared with the level of FY07.

Bangladesh Bank Governor said (April 2010) that the loan syndication becomes necessary in meeting large financing needs of large projects. High credit risk exposure on any single borrower can be hazardous; default on such a loan can wipe out a lender's capital base. This is why prudential regulations limit permissible single borrower exposure in terms of percentage of a lender's capital base. Borrowing needs of large new industrial and infrastructure projects coming up in Bangladesh now typically run into billions of taka.

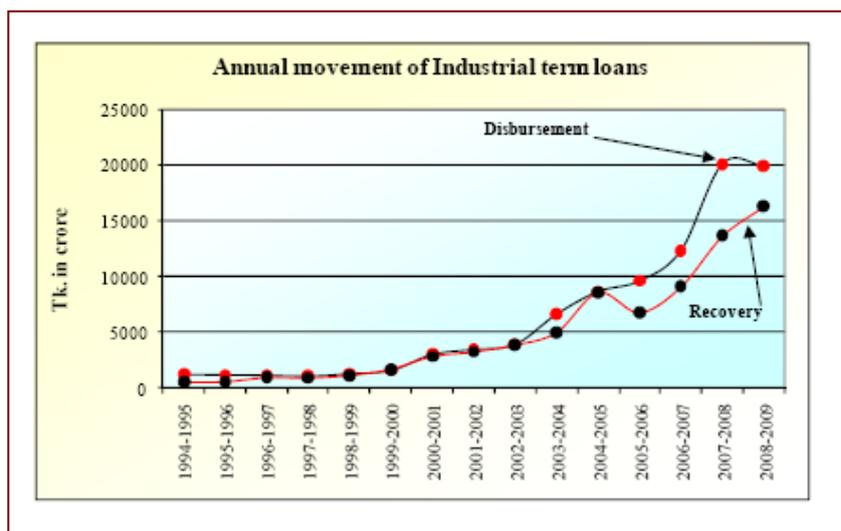
Syndication partner banks need to bear in mind the risks in excessive leveraging that in the recent global financial crisis brought numerous major corporate and financial markets in mature developed economies down to their knees. In Bangladesh, syndication arrangers and partners need to limit their lending to cautiously conservative levels of debt equity ratios; with careful eye on any overvaluation of owners' equity. The loan agreements should include covenants requiring the borrower projects to go for public issue of equity after pre-specified periods, with appropriate penal clauses to be activated on default.

Annual movement of Industrial term loans (Disbursement and Recovery)

(Tk. in crore)

Year	Disbursement	Recovery
1994-1995	1281.20	481.11
1995-1996	1230.44	519.69
1996-1997	1200.00	887.19
1997-1998	1120.34	859.43
1998-1999	1330.10	1093.31
1999-2000	1627.26	1653.34
2000-2001	3057.07	2795.10
2001-2002	3505.15	3212.97
2002-2003	3961.99	3835.12
2003-2004	6675.99	4963.44
2004-2005	8704.52	8546.98
2005-2006	9650.02	6759.52
2006-2007	12394.78	9068.45
2007-2008	20150.82	13624.20
2008-2009	19972.69	16302.48

Source: Bangladesh Bank



The disbursement of industrial term loan recorded significant improvement than to increase demand for credit by major industries. During July-March, FY2009-10 disbursement of term loan was Tk. 18,827.5 crore registering a growth 42.9 per cent compared to that in the previous year's Tk. 13,174.2 crore; growth (-) 9.6 per cent.

Complexities in Industrial Credit Sanctioning and Disbursement:

Highlights on Procedural Flaws:

In all State-owned Commercial Banks (SBCs), the authority follows a specific time limit to its different tiers starting from receiving the complete proposal by the branch till the sanctioning of the loan by the concerned or delegated authority of the bank. This type of standing instructions is issued to expedite the sanctioning of loans for the entrepreneur. But due to various reasons like – failure on the part of the applicant to submit all relevant papers, lack of knowledge and negligence of bankers, the specified time frame can not be strictly followed and as such inordinate delay is made. However, the time frame to be complied at various tiers or levels of the bank is given at Annex-01.

In all SCBs, there is a high powered Business and Investment Committee which, on presentation of the proposal (before it will analyze, scrutinize, consider the inability, feasibility and all other aspects), will give its specific recommendation – either positive or negative or may make queries for insufficient information and data. If the proposal is okayed by the above committee, the credit department, on receiving the resolution of the committee, will take necessary action by putting up the same before the competent authority as per delegated power. Having sanction/approval of the competent authority, the credit dept. of Head Office will advise the concerned Branch (Br)/Regional Office (RO)/Principal Office (PO) through sanction letter incorporating all the terms of conditions. This process at the Head Office take at least 15-30 days considering the nature, size, sector, entrepreneur and importance of the project.

Trade Union Activities:

Trade union activists, particularly the Collective Bargaining Agents (CBAs), are often involved in pressurizing the authorities to sanction loans to themselves, as well as to outside borrowers. CBAs in banks are not averse to using strong-arm tactics to influence

On the other hand Banks/lending institutions may engage suitable private firms/ organizations who can be entrusted with the responsibility of preparing the credit proposals on behalf of the client/ applicant to meet the various document requirements and procedures as per checklist. This is going to cut down bank's involvement in Pre-CIB report stage.

Corruption and Bank Credit:

Corruption in SCBs:

Unprofessional, rather anti-professional culture was hatched for a long period of misrule, establishing a chronic disease in SCBs. Remember the proverb, "disease is contaminated, health is not." Destroying the health and contamination of disease is an easy process, which persisted in SCBs continuously for a long period. Hence it is the problem of organizational culture reconstruction, which requires careful nursing for considerable time. There are some visible areas and carriers of corruption in SCBs. These are

- (i) inadequate measures of encouragement and punishment,
- (ii) lack of professional need-based flexibility of operation,
- (iii) lack of personal stake and non-accountability of nominated directors in the Board,
- (iv) undue interference of governmental, political and other influential persons
- (v) corrupt trade union leaders under political patronization, and
- (vi) career advancement hazards for honest professionals.

Credit Sanction and Corruption:

The corruption problem arises when banks provide large loans to patron-clients promoted by the government in power or through bribe payments by influential business to managers of banks without doing due diligence and non-enforcement of loan servicing provisions. The corruption problem typically emerges from public ownership, but the global financial crisis has shown that private banks, if too large and not properly supervised, can also breed corruption. As well, weak corporate governance and inadequate prudential regulations and supervision could promote corruption in private banks. Public ownership means that bank managers do not have a stake in the bank's performance and the government in power can turn the blind eye in view of short-term political gains. Despite poor financial performance, the banks are sustained through injection of liquidity from the central bank or the Treasury.

The findings derived from studies conducted elsewhere indicate that a number of factors and circumstances as indicated below, play a significant role in the growth and continuation of corruption.

- The government's rapid drive towards industrialization during the first decade following independence whereby large amount of industrial loans financed from soft donor sources were liberally doled out to favored persons.
- The government's policy of mandated credit for agriculture, disbursed through local level officials.

- Interference by senior government officials in lending decisions, directing the bankers to lend to dubious projects owned by political or business allies of the ruling party, in violation of sound banking principles.
- Leniency of successive governments towards known loan defaulters, most of who in belong to the highest social and political classes in the society.
- The poor caliber of bank officers, many of whom lack the requisite background and training needed to carry out proper banking functions.
- The ambivalent attitude of the major donors with regard to the issue of combating corruption in the banking sector.
- The growing power of politically backed trade unions.
- Low compensation package for bank officers and staff.

Nature of Corruption in Loan Processing:

The diversity of bank services and the numerous steps involved in loan processing, disbursement, and monitoring provide corrupt bank officials with a wide range of opportunities for extracting bribes. The more common and significant of these include:

- Sanctioning of loans not on the basis of prudent banking principles but for some other considerations, such as
- outright bribes in the form of cash, valuable gifts, allotment of land, house construction, acquisition of apartments, share in business (usually in the name of dependants), appointment of dependants in good jobs, scholarships and admissions in educational institutions
- political pressure and patronage for posting, promotion, and extension of job tenure
- future lucrative employment in the borrower's company
- Over valuation of properties and assets of the borrower which are offered as collateral
- Cash credit without actual physical pledge of goods, contrary to documentary evidence
- Allowing withdrawal of funds in excess of or after expiry of the loan limit
- Loans sanctioned to the banks directors in dribbles over a period, each sanctioned amount being within by the managing director's authorization limit.

Corruption in Industrial Credit Process:

Corruption-Prone Actions and Procedures:

The following areas of credit operations and procedures are prone to corruption arising out of various factors and circumstances:

- In the very beginning, over –valuation of land or properties is done by the proposed applicant entrepreneur through the agencies assigned for this viz. Engineer, Banker, Surveyor, etc.
- Less important or litigated property is offered for proposed mortgage creating scope of corruption.
- Encumbered property is offered as security of the loan. Bank’s panel lawyer, officers are influenced by the entrepreneur to give a clean right and title certificate of the property.
- By way of over- invoicing, prices of machinery are shown exorbitantly higher. To accept this over-rated quotation by the bank – incident of corruption may take place.
- Some entrepreneurs, in the name of Project loan, submit highly ambitious profile and influence the bankers to sanction loan in various ways viz. offering bribe, exerting political pressure etc. and divert the excess loan to other unproductive purposes.

- At the time of appraisal of the project profile by the banker, there remains scope for corruption.
- The engineers, officers of the bank, in connivance with the entrepreneur, submit unrealistic technical and financial reports to the authority.
- The credit officer/ manager of the branch be involved in corruption making delay or raising lame excuses.
- At Regional Office (RO)/ Principal Office (PO) level, concerned officer/ executive or incumbent of the office may involve in corruption.
- At Head Office level, dealing officers, executives, divisional head etc may adopt corruption.

It is apparent that entrepreneur, lawyer, engineer, land / registry office, financial analysts, bankers may be involved in the corruption cycle. It is worth mentioning here that in above cases or phases, there are scopes of corruption in sanctioning industrial credits in SCBs but it is also true that corruption dose not happen always and by all.

Trade Union:

Trade unions in SCBs run parallel management. They received political strength and support from ruling political party. Trade union activists, particularly the Collective Bargaining Agents (CBAs), are often involved in pressurizing the authorities to sanction loans to themselves, as well as to outside borrowers. Thus trade union practices strengthen corruption in govt. owned banks and especially in the process of large loan as industrial loan. Organizational linkage between political party and trade union is a vicious obstacle in managing corruption in state-owned commercial banks. It may be mentioned that private sector banks have no trade unions, as they do not recruit any non-officers.

The Default Culture

Analysis of relevant facts reveal that in the past large borrowers willfully defaulted on the loan repayments to the Govt owned Development Finance Institutions (DFIs) and State-owned commercial banks (SCBs), emboldened by their close links with the corrupt govt. officials. Subsequently, the defaulters extracted concessions in the form of interest waivers, segregation of loans into "blocked accounts", and repeated rescheduling. Some defaulters are alleged to have used the defaulted funds to start private banks and insurance companies. This gave them a further opportunity for insider lending and for diverting yet more funds to various pet ventures.

Curbing Corruption in Industrial Credit:

Removing Tadbir Management Technique:

Cabinet should take a decision and Ministry of Finance may issue orders to all SCBs instructing that recommendation, verbal or written, by any person regarding sanction of any loan/facilities will disqualify the proposal. Such recommendations and consequent refusal of loan should be compulsorily published in at least two national dailies for public information, as it relates to public fund. Without exercising his right to make personal representation to higher authority, if an employee prefers tadbir constantly, he may be charge sheeted for misconduct.

Corruption Curbing Efforts:

Corruption chain in the bank must be broken first by frequent transfer of loan processing and sanctioning officials. Anti-corruption agency may depute intelligence officials to identify corrupt bankers and trade union leaders, locate their bank accounts and wealth, and prosecute them. This is important for breaking the chain. Appraisers of bad loans should be taken to task. If NPL of any SCB far exceeds industry average, top management should be taken to task. Hire and fire system of SCB should be flexible and operational. Officials of the rank of DGM and above should be selected on the basis of integrity and skill, and be appointed on contract basis. This has to be incorporated in Employees Service Rules.

Industrial Credit Operations & Respondent's View:

Summary analysis of response data, obtained through structured questionnaire, from assorted respondents of diverse business and industrial background reveal the following-

- The time required from application to sanctioning of industrial loan varied from 60-80 days, while the same for documentation and mortgage was reported to be around 30 days.
- Respondents enjoyed 40-70% coverage of project cost and 70(Bank):30 (Borrower) equity participation of such industrial loan.
- As regards simplifying the overall credit operations, the respondent's had varied opinion, however, 80% respondents were in favour of reducing the paper work and chain of documents. One overseas respondent (IBFB Member from Malaysia) heavily stressed on preparing the basic application documents flawless to eliminate bank officials making excuses or playing the upper hand. In his opinion the least an applicant seeks bank's assistance in the pre-process, the less is the possibility of malpractice and corruption.
- In the case of Malaysia (where 07 days are needed from submission of application to sanctioning of the loan, and 14 days required for documentation and mortgage) services of an efficient lawyer with good rapport with the bank have been suggested to be instrumental to workout industrial credit cases.
- Almost all respondent preferred Private bank for industrial credit and stressed on single digit bank interest. They also stressed on decentralization of decision making in different tiers of the bank administering the credit.
- More than 70% respondents were in favour of transaction of credit handling attitude of the SCBs and advocated for making it more customer friendly, time bound and hassle free.

Observations from the Stakeholders' Meeting & Observations from the meeting with Journalists/ Civil Society:

Two meetings were held on the issues of 'Reducing Corruption in Accessing Industrial Credit'. On 28 September 2010, the issues were discussed by stakeholders including Mr. Mirza Azizul Islam, Former Adviser, Mr. Sohel A. Choudhury, Former Secretary and Former Chairman, Janata Bank, Mr. Faruq A. Siddiqi, Former Chairman-SEC, Mr. Safar Raj Hossain, Former Secretary, Mr. Anis-ud-Dowla, President-MCCI, Mr. Mohammad Mizanur Rahman, Chairman-PHP Group, Mr. Zahiduzzaman Faruque, Journalist, Mr. Sajedur Seraj, Chairman-Aqua Paints, Mr. S.M. Khalilur Rahman, CEO-Kiron Enterprise, Mr. ASM Mainuddin Monem, DMD-Abdul Monem Ltd., and Mr. Iqbal Hossain, MD-Magnum Engineering & Construction Ltd. The second round discussions were participated by Journalists and eminent citizens/ civil society members including Prof. Dr. Muzaffar Ahmed, Former Chairman-TIB, Professor Dr. Khondkar Bazlul Haque, Chairman-Agrani Bank, Dr. Mizanur Rahman Shelly, Former Minister, Dr. Iftekharuzzaman, Executive Director-TIB, Mr. Riazuddin Ahmed, Editor-The Daily News Today, Mr. Shawkat Hossain Masum, Business Editor-the Daily Prothom Alo and Mr. Sohel A. Chowdhury. Key note paper was presented by Khondkar Ibrahim Khaled in both the workshops. Both sessions yielded views, analyses and recommendations. Deliberations may be grouped into five problem areas for corruption in Industrial Credit –

- (i) Ownership**
- (ii) Governance**
- (iii) External socio-political interference**
- (iv) In-house Trade Union interference and**
- (v) Compensation**

(i) Ownership & Observation: Two distinct views came up in the deliberations - (i) social sectors need government owned banks and (ii) government-owned banks should be privatised as the government can not run business professionally. Differences gradually narrowed down after critical analyses of the problem.

(ii) Governance & Observation: Two aspects of governance issue came up in discussions - (i) governance at Board level and (ii) governance at management level.

(i) Governance at BoD level: It was observed that BoD of SCBs are not as effective as that of private banks, because (i) directors have no stake in the banks, (ii) effective persons are rarely selected as directors and (iii) SCB directors' accountability to Central Bank is diluted because of their government nomination as well as official position.

(ii) Governance at Management level: CEO's pay between Tk. 6 and 8 lac created serious conflict and isolated the CEO from rest of the organization. Present government reduced pay of the CEO and increased compensation package of other employees. The measure has eased the situation. Yet SCB management appears to be less effective compared to that of PCBs.

(iii) External Socio-Political Interference & Observations: External socio-political interference in matters of loan sanctioning, appointment, transfer, promotion and branch opening is considered to be a big threat to SCB bank management. Influential socio-political leaders belonging to government party, changing with change of government, create unbearable pressure, arguing that they are people's representatives and their request must be respected. They prefer

SCBs, because these are owned by government. It is a social problem and cannot be solved totally. Yet, measures may be taken to reduce the level of interference.

(iv) In-house Trade Union Interference & Observations: Labour Act was amended for allowing Trade Unions to act as sister organization of Political Parties. Thus TUs became the labour wing of political parties. It is observed that in SCBs, CBA changes with the change of government. Ruling party affiliates are always CBAs, facilitating them to act as party representative with consequent authority. They run parallel administration in SCBs. They extort money for appointment, transfer, promotion, staff loan, vehicle repair, fuel and sanction of loan proposals. Some TU leaders of SCBs are millionaires. Two CBA leaders of Sonali Bank, who passed away recently, were known for their authority and wealth. T.U leaders use bank's car, do not attend to duties, remain busy in political activism, disturb business environment by shouting slogans during office hours and threatens officials who do not listen to them. Violating T.U rules, they snatch space at Regional Offices and branches to install their own office. Practically they are beyond the control of management. Even in the Central Bank, no governor could escape harassment. They gather strength from their affiliation with political party.

(v) Employee Compensation & Observations: Compensation package of SCBs has recently been revised and improved. Yet it is low compared to that of PCBs. Improving pay package at market level will require (i) rationalization of manpower (ii) improvement of productivity of personnel (iii) effective marketing strategy and (iv) consequent growth of profitability.

Recommendations:

1. Equity participation for industrial credit should be in the ratio of 70 : 30 (Bank: Borrower). Any circular issued earlier should be withdrawn immediately.
2. Industrial Credit processing be made time bound from the existing practice requiring 70 days to be reduced to 30 days.
3. Decentralization of power to expedite prompt sanction of Industrial Credit and sanctioning power up to certain limits should be delegated to field level executives, at least up to the General Manager.
4. Board of Directors of State-own Commercial Banks (SCBs) should be appointed on merit and experience.
5. Any outside recommendation/pressure, written or verbal, should cancel a loan proposal.

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শিল্প ঋণ প্রস্তাব প্রক্রিয়াকরণের সময়সূচি:

ক্রমিক নং	কার্যক্রম	দায়িত্বপালনকারী কর্মকর্তাবৃন্দ	গৃহীতব্য সময়
০১	প্রকল্প / ঋণ প্রস্তাব গ্রহণ এবং প্রাথমিক যাচাইকরণ।	শাখা প্রধান এবং আঞ্চলিক / প্রিন্সিপাল অফিস প্রধান	৩ দিন
০২	তথ্য/ কাগজপত্র/ দলিলাদি ঘাটতির জন্য আবেদনকারীর সঙ্গে যোগাযোগ এবং সংগ্রহকরণ।	শাখা প্রধান এবং আঞ্চলিক/ প্রিন্সিপাল অফিস প্রধান	৭ দিন
০৩	শাখা প্রধান এবং আঞ্চলিক/ প্রিন্সিপাল অফিস প্রধান কর্তৃক যৌথভাবে প্রকল্প স্থান/ প্রকল্প পরিদর্শন, জমির প্রথমিক মূল্য যাচাইকরণ, অবকাঠামোগত সুবিধাদি চিহ্নিতকরণ এবং প্রকল্প সম্পর্কে সার্বিক প্রাথমিক মূল্যায়ন।	শাখা প্রধান এবং আঞ্চলিক/ প্রিন্সিপাল অফিসার	১৫ দিন
০৪	মতামত/ সুপারিশসহ আঞ্চলিক প্রিন্সিপাল অফিসে প্রস্তাব প্রেরণ।	শাখা প্রধান	২ দিন
০৫	সুপারিশ/ মতামত সংযোগে প্রস্তাব সংশ্লিষ্ট জেনারেল ম্যানেজারের অফিসে প্রেরণ।	আঞ্চলিক/ প্রিন্সিপাল অফিস প্রধান	২ দিন
০৬	সুপারিশ/ মতামত সহকারে প্রধান কার্যালয়ের শিল্প ঋণ বিভাগে প্রেরণ।	বিভাগীয় জেনারেল ম্যানেজার	৪ দিন
০৭	শিল্প ঋণ বিভাগে প্রক্রিয়াকরণ।	০১. পুরকর্মের মূল্যায়ন ০২. বিপন্ন বিশে-ষণ ০৩. আর্থিক বিশে-ষণ ০৪. ব্যবস্থাপনা বিশে-ষণ ০৫. IRA/CRS তৈরি ০৬. CIB রিপোর্ট সংগ্রহ	৪ দিন ৭ দিন ৫ দিন ২ দিন ২ দিন ১০ দিন
০৮	সকল তথ্যের সমন্বয়করণ।	শিল্প ঋণ বিভাগের সংশ্লিষ্ট শাখার সহকারি মহাব্যবস্থাপক	২ দিন
০৯	বোর্ড মেমোসহ চূড়ান্ত অনুমোদনের জন্য উপস্থাপন।	শিল্প ঋণ বিভাগের উপ-মহাব্যবস্থাপক মোট =	৫ দিন ৭০ দিন

শিল্প ঋণ আবেদনপত্র প্রক্রিয়াকরণের জন্য 'চেকলিস্ট' (CHECK LIST)

প্রয়োজনীয় কাগজপত্র / দলিলপত্র

দাখিল করা হলে বন্দনীর ভিতর টিক (√)

এবং দাখিল করা না হলে বন্দনীর মধ্যে (x)

চিহ্ন দিতে হবে। দলিলপত্র প্রয়োজন /

প্রয়োজন না হলে (অ) অক্ষর বসাতে হবে।

- ১। নির্ধারিত ফরমে পূর্ণাংগভাবে পূরণকৃত আবেদনপত্র (চার কপি)। ()
- ২। উদ্যোক্তার (দের) প্রত্যয়নকৃত পাসপোর্ট আকারের ছবি এবং শিক্ষাগত যোগ্যতা সম্পর্কিত সনদপত্র (প্রতিটির চার কপি)। ()
- ৩। প্রস্তুতকৃত প্রকল্প ভূমি এবং দালান কোঠার মালিকানা সম্পর্কিত দলিলের সত্যায়িত কপি (সোফকবলা/ইজারা দলিল/বায়নানা/বরাদ্দপত্র) এবং চলতি মূলধন ঋণ বিবেচনার জন্য প্রদেয় জামানতযোগ্য স্থাবর সম্পত্তির মালিকানা সম্পর্কিত দলিলাদির সত্যায়িত কপি (চার প্রস্থ)। ()
- ৪। মিউটেশন, পর্চা, নন-এনকাম ব্র্যান্স সার্টিফিকেট, হাল-নাগাদ খাজনা পরিশোধের রশিদ এবং মৌজার ম্যাপ এর কপি (প্রতিটি চার কপি)। ()
- ৫। সোনালী ব্যাংক প্রধান কার্যালয়ের ৫-৩-৯০ তারিখের ৪৪৪ নম্বর ইন্স্ট্রুমেন্ট পত্রে নির্দেশিত ছক অনুযায়ী পূরণকৃত ও যথাযথভাবে স্বাক্ষরিত জামানত হিসাবে প্রদেয় স্থাবর সম্পত্তির তথ্যাদি। ()
- ৬। প্রকল্পের খসড়া নীলনকশা এবং সাইট প-১ন (প্রতিটির চার কপি)। ()
- ৭। পুরকর্মের বিস্তারিত পরিকল্পনা ও ব্যয়প্রাক্কলন (চার কপি)। ()
- ৮। কোন ব্যাংক / প্রতিষ্ঠান / ব্যক্তির নিকট উদ্যোক্তাদের এবং উদ্যোক্তাদের সহযোগী বা সংশ্লিষ্ট প্রতিষ্ঠানের আর্থিক দায় দেনা সম্পর্কিত বিস্তারিত বিবরণ এবং এতদ্বিষয়ক ঘোষণা পত্র বা এফিডেভিট (চার প্রস্থ)। ()
- ৯। ট্রেড লাইসেন্স এর প্রত্যয়নকৃত কপি (চার কপি)। ()
- ১০। প্রকল্পে বিদ্যুৎ, গ্যাস সংযোগ সম্পর্কিত সংশ্লিষ্ট কর্তৃপক্ষের সম্মতিপত্র অথবা উদ্যোক্তা কর্তৃক নিশ্চয়তাপত্র (প্রতিটি চার কপি)। ()
- ১১। প্রকল্পে বিদ্যুৎ সংযোগের আর্থিক প্রাক্কলন (৫০ কিঃ ওয়াট এর বেশি হলে ট্রান্সফরমার এর ৪ সেট কোটেশনসহ)। ()
- ১২। প্রস্তুতকৃত প্রকল্প স্থাপনে সংশ্লিষ্ট সকল কর্তৃপক্ষের অনাপত্তি পত্র (চার কপি)। ()
- ১৩। রাজউক/বিসিক/ইপিজেড বা এরূপ অন্য কোন কর্তৃপক্ষের জমিতে প্রকল্প স্থাপনের জন্য ব্যাংক ঋণ গ্রহণে সম্পদের উপর বন্ধক সৃষ্টির ক্ষেত্রে সংশ্লিষ্ট কর্তৃপক্ষের অনাপত্তি পত্র (চার কপি)। ()
- ১৪। ঔষধ শিল্প স্থাপনে ড্রাগ প্রশাসন কর্তৃপক্ষের সনদপত্র (চার কপি)। ()

- ১৫। উদ্যোক্তা / উদ্যোক্তাদের স্বচ্ছলতার প্রত্যয়নপত্র এবং টিআইএন (যদি থাকে)। আয়কর পরিশোধ সংক্রান্ত যথাযথ কর্তৃপক্ষের ক্লিয়ারিং সার্টিফিকেট (প্রত্যেকটির চার কপি)। ()
- ১৬। উদ্যোক্তার (দের) ইকুইটির উৎসের সমর্থনে ব্যাংক ডকুমেন্টস/ স্টেটমেন্টস/ প্রমাণিক কাগজপত্র (Documentary evidence) (চার কপি)। ()
- ১৭। লিমিটেড কোম্পানির ক্ষেত্রে কোম্পানির ব্যবস্থাপনা পরিচালকের প্রত্যয়ন সহ মেমোরেন্ডাম ও আর্টিকেলস অব এ্যাসোসিয়েশন, সার্টিফিকেট অব ইনকর্পোরেশন, সার্টিফিকেট অব কমেন্সমেন্ট এবং অংশীদারী ফার্মের ক্ষেত্রে অংশীদারদের প্রত্যয়নসহ রেজিস্টার্ড অংশীদারিত্বের চুক্তিপত্র (প্রত্যেকটির চার কপি)। ()
- ১৮। ঋণ গ্রহণ, ঋণ দলিলাদি সম্পাদন করার ক্ষমতা ইত্যাদি বিষয়ে গৃহীত সিদ্ধান্ত সম্বলিত আবেদনকারী কোম্পানীর পরিচালনা পরিষদের প্রত্যয়নকৃত কার্যবিবরণী (Resolution) – (চার কপি)। ()
- ১৯। ব্রান্ড ও মডেলের বিশদ বিবরণসহ তিনজন সরবরাহকারীর কাছ থেকে প্রয়োজনীয় স্থানীয় ও আমদানীতব্য যন্ত্রপাতি ও কলকজা সরবরাহের প্রতিযোগিতামূলক কোটেশন/প্রোফরমা ইনভয়েস/ইভেন্ট (প্রতিটি চার সেট)। গৃহীত কোটেশন/প্রোফরমা ইনভয়েস/ইভেন্ট-এর সাথে আমদানীতব্য যন্ত্রপাতির ক্ষেত্রে ক্যাটালগ/ড্রয়িং/লিটারেচার এর ৪ কপি। স্থানীয়ভাবে প্রস্তুতকৃত যন্ত্রপাতির ক্ষেত্রে ক্যাটালগ/মেকানিক্যাল ড্রয়িং (চার কপি)। ()
- ২০। বিদ্যমান প্রতিষ্ঠান/ কোম্পানীর ক্ষেত্রে বিগত তিন বছরের অডিটেড/প্রভিশনাল স্টেটমেন্ট অব একাউন্টস (বিক্রয় সংক্রান্ত বিস্তারিত তথ্যাদি সন্নিবেশিত সহযোগে) এবং ব্যালান্স শীট (চার কপি)। ()
- ২১। বিদ্যমান / প্রতিষ্ঠান ও কোম্পানীর ক্ষেত্রে মজুদ মালামালের ষ্টক-রিপোর্ট- (চার কপি)। ()
- ২২। প্রকল্প / প্রতিষ্ঠানের মালামাল মজুদ করণে ব্যবহৃতব্য গোডাউনের ক্ষেত্রে (পে- জ ও নন- পে- জ উভয় প্রকার গুদামের ক্ষেত্রে) ফায়ার সার্ভিস ও সিভিল ডিফেন্স এর মহাপরিচালক এর কার্যালয় থেকে ইস্যুকৃত ওয়্যার হাউজ / ওয়ার্কশপ লাইসেন্স এর প্রত্যয়নকৃত কপি (চার কপি)। ()
- ২৩। প্রযোজ্য ক্ষেত্রে পরিবেশ দূষণ নিয়ন্ত্রণ কর্তৃপক্ষের অনাপত্তি পত্র এবং ওয়েস্ট, ট্রিটমেন্ট প্লান্ট/ বর্জ্য পদার্থ এর নিরাপদ অপসারণের পদ্ধতি (WASTE TREATMENT PLANT / SAFE WASTE DISPOSAL SYSTEM)। ()

Annex-04

List of papers / documents required by Pvt. Commercial Banks:

1. Photocopy of National ID/ Voter ID Card.
2. Photograph of the proprietor (2 copies)
3. IF -48, IF-49 duly filled in (form enclosed).
4. Filled in Letter of Understanding as per Bangladesh Bank Format
5. Photocopy of valid Trade license, TIN Certificate and VAT Certificate.
6. Liabilities declaration, regarding overdue stuck up liabilities with other bank. (if any)
7. Liabilities declaration of its sister concern with any bank (if any)
8. Projected / Audited Balance Sheet and Profit-Loss A/C
9. Competitors information of the Market Share and Size
10. Staff's position and their remuneration (Employee).
11. Collateral securities, title deed, Bia deed, C.S, S.A, R.S purcha, up to date rent receipt, municipal tax receipt, R.S mutation parcha with DCR, mouza map, of the proposed collateral securities, Non encumbrance Certificate and all other related documents / papers.
12. Statement of Sundry Debtors & Creditors.
13. Stock Report (item wise)
14. List of Machineries.