

**An Internship Report on
Overview of Credit Management &
Exposure on Ready-Made Garments Sector:
A Study on
United Commercial Bank Limited**





**An Internship Report on:
Overview of Credit Management & Exposure on Ready-Made
Garments Sector: A Study on United Commercial Bank Limited**

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LETTER OF TRANSMITTAL

25th March 2014

To
Mr. Mahmudul Haq
Assistant Professor
BRAC Business School
BRAC University

Subject: **Submission of Internship Report on Overview of Credit Management and Exposure on Ready- Made Garment Sector of UCBL**

Dear Sir,

I, Mohammad Palash Hossain would like to inform you that it is a great pleasure for me to submit my internship report titled **Overview of Credit Management and Exposure on Ready- Made Garment Sector of UCBL** as requirement for BBA program. I found this assignment to be useful and practical where the intent was to incorporate the knowledge gathered throughout the period of my graduation. I have concentrated my best effort to achieve the objectives of the report. However some of the aspects are unintentionally overlooked. It is hoped that you would ignore any discrepancies considering my limitations.

I believe that the knowledge and experience I have gathered during my internship program will immensely help me in my professional life. I will be obliged and grateful to receive your suggestions and comments regarding this.

Yours sincerely,

.....
Mohammad Palash Hossain
ID: 09204095
BRAC Business School
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ACKNOWLEDGEMENT

First, I would like to express my gratitude to Almighty Allah for giving me the strength to successfully attend the internship program at Corporate Branch of United Commercial Bank Limited and complete the report within the extended time period.

I want to express my thankfulness to my Faculty Advisor **Mr. Mahmudul Haq**, Assistant Professor, BRAC Business School, BRAC University for his direction, constant and spontaneous support, efficient supervision and constructive suggestions. I am also grateful to **Mr. Kazi Muzibul Islam**; SVP and Operational Manager of Corporate Branch; United Commercial Bank Limited. It would have been very difficult to prepare this report up to this mark without their help.

I would like offer a special thank to Md. Jahangir Ahmed, Executive Officer, Md. Saiful Islam Saif, Executive Officer and my supervisor Md. Mahbubur Rahman, Senior Executive officer; Advance Department and Amit Mehta, AVP; Foreign Exchange Department, United Commercial Bank Limited who have assisted me while preparing this report.

Finally, I will also like to take the opportunity to thank all those people of UCBL who have helped me from time to time in preparing this report. I thank them for their valuable time and co-operation, and apologize to them for the inconvenience I caused them by barging in their regular routine and disrupting their daily work.

EXECUTIVE SUMMARY

Today, Private Commercial banking is considered as a service industry. In the process of conducting its own activities to achieve its own goal, like making profit, a commercial bank gives services to all types of customers. Actually, to collect savings from the general customer is the normal function of all commercial bank. But the most important activities of commercial banking are sanctioning loan of different business organization to continue their business activities. Among these activities, loan & advance and credit management activities are the basic activities of all commercial bank.

This report is broadly categorized in seven different parts. At first there is introduction where I described the background and origin of the report along with rationale, objectives, sources of data and limitation. The main objectives of the report are identifying the credit approval and monitoring and their overall performance in the last few years. Chapter two narrates the company profile including UCBL's history, their vision, mission, objectives, functions, management and performances. Chapter three focuses on the banking credit mechanism. It includes types of credit provided by UCBL, types of credit products and principles of lending. It also describes in details about the procedure of sanctioning credit, loan documentation and execution, stamping witness and other legal formalities.

In chapter four it exposes the RMG sector which is the life blood for the economy of Bangladesh. The country depends heavily on the export earnings of RMG sector and also the whole economy revolves around this industry. From Banking, Insurance, Transportation, Tele-Communication, Government institutions, Labor and Manpower- all are related in one way or the other with this industry or are a beneficiary. The recent incidents that shook the whole nation and sent shock waves from this industry namely the labor unrest, dearth in supply gas and electricity, as well as political instability to accurately address the salary/wage issues, unskilled labor, lack of quality control, child labor issues promoted me to address the problems of this sector.

However, as an intern dealing in this trade and also as a candidate for the degree of Bachelor in Business Administration, I further thought of incorporating my professional experience into this report. The problems that I can see afflicting of Bank in investing or getting associated with this sector are quite deplorable in nature. My report contains the present scenario of RMG sector in Bangladesh along with the export volumes of different commercial banks. In my work, I have tried to bring up the key problems in the export sector and how different commercial banks have performed in dealing with this RMG sector. Here, I have also tried to discuss about the potential growths of this sector. Few recommendations have been provided towards the end of the report which may be helpful for the owners and the associated banks. Therefore, with a view to analyze the performance and contribution of this industry in the national economy on the macro level, as well as on micro level, I tried to study into the facts as to why my Bank i.e. United Commercial Bank Ltd. should move forward and employ into reaping benefits from this industry like the other third generation banks are doing.

Finally, I can sum up by saying that this study may be of some help to someone trying to get an idea of Credit management and the contribution of the RMG sector, and how any bank could become a financial partner in this development effort.

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CHAPTER: 1

INTRODUCTION

1.1 Background of the study

As a financial intermediary commercial bank play an important role to match the surplus & deficit unit. They collect deposit from surplus unit & lend it to the deficit unit. This mobilizations of deposit & allocation of credit to productive & consumer services leads towards the economic development, but commercial bank in Bangladesh was not so much careful in credit management&, which leads to the widespread loan default & ultimately worse the entire financial cycle. Different commercial banks, specialized banks, Islamic banks offer different types of loan to their Business & individual customer. Especially bank now focus on lending to consumer credit, because it has risk then individual consumer loan, although consumer loan is mainly unsecured. Bank usually gives long-term loan to business firm. However credit management is crucial issue. Bank performance or profitability almost depends on proper credit management.

In today's world, Credit officers skilled in evaluating the credit request of business firms rank among the most experienced and highest paid people in the financial services field along with investment bankers. Well, United Commercial Bank Limited (UCBL) credit department try their best in maintenance of credit. So in my study I wanted to focus on Credit Analysis of UCBL.

On the other hand, I tried to come up with some guidelines and suggestions after analyzing extensively the pros and cons of the problems and prospects associated in Ready-made Garments sector. I also tried to instil interest amongst the employees and management so that they extend their cooperation and come forward to associate themselves, and obtain new Ready-made Garments businesses, and thus, be a part of national development endeavours'.

1.2 Origin of the report

As a part of the Bachelor of Business Administration (BBA) course requirement, I was assigned for doing my Internship in the United Commercial Bank Limited. The topic of my Internship was **Overview on Credit Management and Exposure on RMG Sector, Problems and Prospects: A study on UCBL.**

1.3 Objective of the study

The main objective of this report is to reflect the practical knowledge that is gained during internship period and to relate the theoretical learning of BBA Program. Besides this broad objective, the followings are given emphasis:

- To analyze the credit mechanism of UCBL
- To describe Credit Risk Management procedure of UCBL
- To find the problems prospect of UCBL in RMG sector.
- To analyze the overall scenario of the RMG sector of Bangladesh.

1.4 Sources of Data

Data collection is very important in preparing a report. In order to make the report more and meaningful I mainly use two types of sources. These are:

Primary Sources:

These are those, which are collected for this specific report and which are afresh in nature, were not used before and need to be processed. Primary sources are:

- ◆ Information from several principal loan officers
- ◆ Face to face conversation with the clients
- ◆ Practical work exposure achieved from different desks

Secondary Sources:

Most of the information is collected from secondary sources. This includes annual report, credit policy and process manual of the UCBL, a number of books, journals, handbooks, periodicals published by Bangladesh Bank and websites.

1.5 Limitation

A comprehensive knowledge on the organization and a thorough knowledge on the credit management of the organization have come under the scope of the report.

The limitations are:

1. Large scale analysis is not possible due to constraints & restrictions posted by the banking authority
2. In many cases, up to date information may not be available
3. Insufficiency of necessary information, lack of experience and budget constraint.
4. In case of performance analysis secondary data are used
5. This study completely depended on official records and annual reports
6. Time Limitation is one of the most barriers for an intern

CHAPTER: 2

OVERVIEW OF UNITED COMMERCIAL BANK LIMITED

2.1 History of Bank

As financial intermediaries commercial banks play an important role in the financial system and the economy. The importance of that in the development of the overall economy of country cannot be described in short. From the inception of the civilization the banking sector dominate the economic development of a country by mobilizing the saving from the general people and channelling those saving for investment and thus economic development and growth.

As a key component of the financial system, banks allocate funds from savers to borrowers in an efficient manner. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient.

The importance of commercial banks after the ravage of the Liberation War to develop a better economy was severely needed and it is needed now and will be required in future also. Time to time Government of Bangladesh agreed to permit the private commercial banking in the country.

To fulfil the demand as well as to improve the commercial banking service in our country the United Commercial Bank Limited (Here in after UCBL) started its operation in 1984 after obtaining license from Bangladesh Bank with a target to play the vital role on the socio-economic development of the country. It was incorporated on June 26, 1983 as a public limited company under the Companies Act, 1913. The Bank obtained permission from Bangladesh Bank to commence business with effect from June 28, 1983. The promoters of the Bank comprised of seventeen persons from the private sector with long experience in business and industry.

The first branch opened by this bank is Motijheel branch 58, Motijheel C/A Dhaka. At present UCBL have 138 branches except the head office.

The emergence of the UCBL is an important event in the country's financial sector at the inception of financial sector reform. The authorized capital of UCBL is tk. 15000 million and paid up capital of the same bank is tk.8, 366.12 million. The Chairman (Executive Committee) of

the bank is M.A. Sabur and the Chairman (Audit Committee) of the bank is Md. Jahangir Alam Khan. The bank has made a very good progress due to its visionary management people as well as its appropriate policy and implementation.

2.2 Mission of UCBL

The missions of the UCBL are described below:

1. To maximize profit with steady growth ensuring major market share
2. To be the leader in providing need based innovative products and services
3. To continuously upgrade technology for strong information Management System and meet customer expectations
4. To establish a strong best practice corporate culture of participative management and enabling environment where innovativeness and performance is rewarded
5. To develop and retain in quality workforce through effective Human Resource Management System maintaining high moral and ethical standards

2.3 Objectives of UCBL

The objectives of UCBL can be described as follows:

1. To achieve steady growth rates in following areas like; Profit, Deposit, Advance, Import, Export, Treasury earning, Increase Earnings per Share, Increase Customer base, Increase Return on Asset, Increase Return on Investment etc.
2. To Introduce Online banking to be established in 60% of the branches by next 3 years
3. To establish computerized MIS software to be made available in all branches
4. To link reward and remuneration with performance by the end of 2011
5. To strong marketing team to be established for new innovative products and services for exploring strong client base
6. To contribute to social service by setting up UCBL foundation
7. To increase professional efficiency and technology literacy throughout the organization by conducting intensive training to develop and retain a quality work force
8. To put in place an effective Human Resource Management system.
9. To continuously improve internal control and compliance of the bank

10. To improve the quality asset by continuously improving Credit Risk Management
11. To setup a centralized core banking solution in place

2.4 Functions of UCBL

The functions of UCBL are as follows:

1. To mobilize the idle resources of the country by accepting Deposits from the general public.
2. To give facilities to the clients and shareholders in a systemic way.
3. To give opportunity of the people to do job in UCBL.
4. To give encourage to the people for saving.
5. To increase investment.
6. To identify customer demand and fulfill their demand by supplying money.
7. To improve economy by borrowing financial facility.
8. To assist Capital Market.

2.5 Management of UCBL

The Bank has a very competent Management team comprising highly skilled, eminent and professional bankers. Mr. Muhamed Ali is the Managing Director of the bank and forerunner of the management team .He brings with him vast experience, expertise and modern outlook having more than thirty years long outstanding career. The Divisional Heads at the Bank's are senior bankers who have long experience in domestic and International Banking. The Management adheres to maintaining high ethical standard and nourishes and practices good corporate governance for the greater interest of the institution and the country as a whole.

Some committee is framed to run the organization properly. These are to set out a strong internal control framework. Every Committee is headed by the Managing Director/ Deputy Managing Director.

Management Committee (MANCOM)

This Committee is the highest body of Management. Their responsibilities are:

- ✿ To put in place policies and procedures with governance and guidance from the Board to:
 - Identify
 - Measure
 - Monitor
 - Control risks
 - Establish a specific 'Code of Ethics' and
 - Compliance culture
- ✿ Establish the internal control structure which assigns:
 - Clear responsibility
 - Authority and
 - Reporting relationship
- ✿ Monitor the adequacy and effectiveness of Internal Control System based on Bank's established policy and procedures.
- ✿ Review on a yearly basis the overall effectiveness of the internal control system and to provide yearly certification to the Board on the following:
 - Effectiveness
 - Practice and
 - Procedures of the internal control system.

Asset Liability Management Committee (ALCO)

The macro-level management risk is conducted by this committee, while micro-level risk management is conducted by the managers of the independent divisions. These business managers base their investment and borrowing decisions on the ALCO recommendations, i.e. micro-level decisions are within the broad framework laid at the macro-level. ALCO does not consider individual cases for decision making.

ALCO's key roles and responsibilities are as follows:

- To assume overall responsibilities of Money Market activities.
- To manage liquidity and interest rate of the bank
- To comply with the central bank regulations in respect of bank's statutory obligations as well as thorough understanding of the risk elements involved with the business
- Understanding of the market dynamics i.e. competition, potential target markets etc.
- Provide inputs to the Treasurer regarding market views and update the balance sheet movement
- Deal within the dealer's authorized limit.

Purchase & Procurement Committee (PPC)

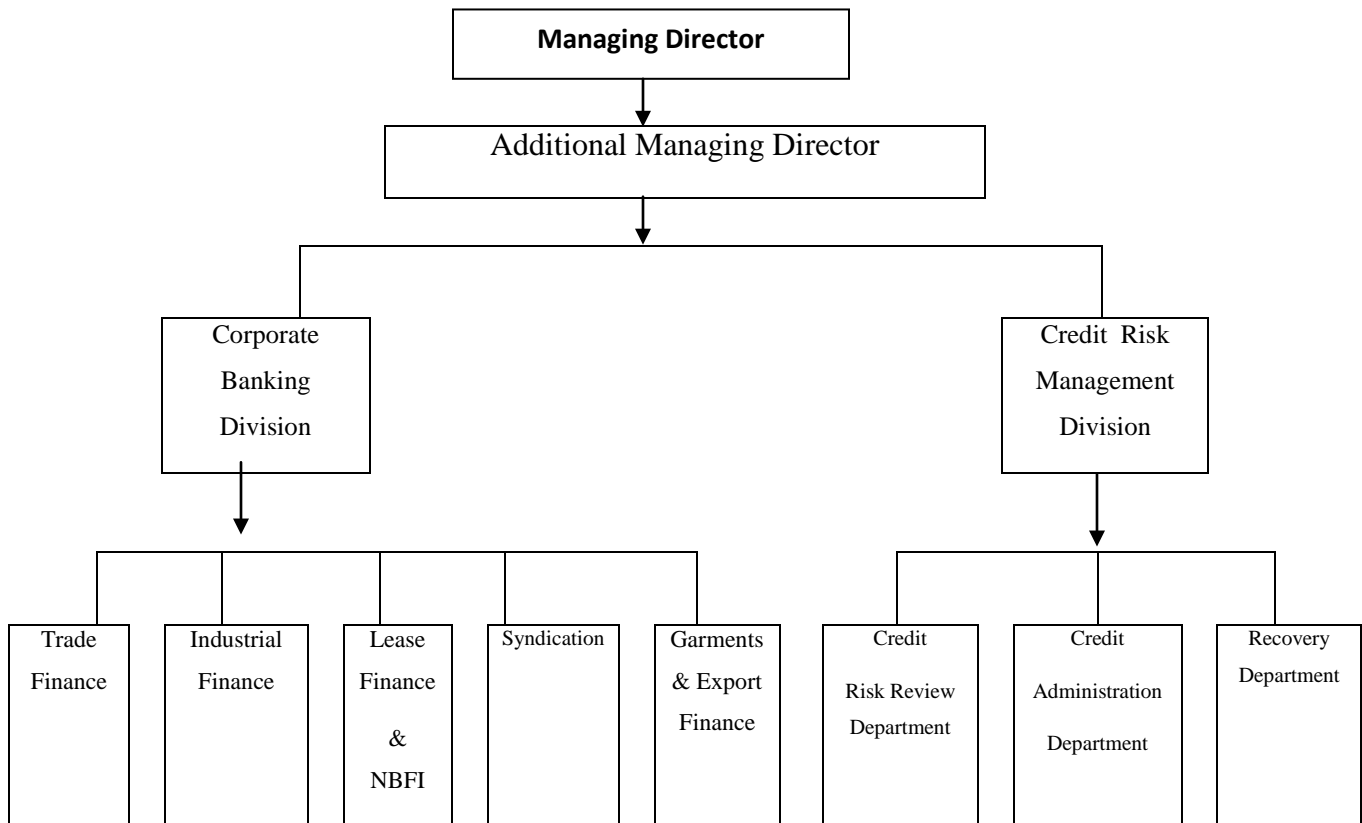
Purchase and procurement of the bank.

IT Steering Committee

IT related decision.

2.6 Organizational Structure

Functional Organizational Set-up at Head Office:



2.7 Performance at a glance

Sl.	Particulars	2012	2011	2010	2009
1	Authorized Capital	15,000.00	8000.00	8000.00	1000.00
2	Paid-up capital	8,366.12	7,274.88	2,909.95	1,193.83
3	Deposits	170,530.54	139,484.75	113,070.78	77,730.40
4	Advances	136,071.65	115,606.33	93,560.70	61,692.22
5	Investments	26,090.32	19,383.42	15,048.23	9,346.39
6	Import	94,843.80	90,919.70	86,666.50	58,857.00
7	Export	78,309.10	76,962.80	50,712.10	38,519.00
8	Interest Income	21,318.92	15,351.63	9,648.36	6,965.32
9	Interest Expenses	14,705.21	10,203.21	5,632.95	4,348.23
10	Operating Profit (before Provision)	5,762.22	5,972.91	4,733.12	3,125.17
11	Net Profit before Tax	3,739.06	5,172.91	3,632.60	1,541.86
12	Net Profit after Tax	1,586.13	2,945.80	2,182.43	932.90
13	Fixed Assets	5,222.78	3,288.09	1,966.35	1,305.81
14	Total Assets	52,153.26	40,255.37	40,797.74	22,098.19
15	Number of branches	130	115	107	98
16	Number of Employees	3,374	2,982	2,738	2,508
17	No. of ATM	81	77	54	12
18	Cost of Fund	12.46	11.09	9.81	10.72

2.8. Job

1. Description/nature of the job/s

I had to complete an internship program over the duration of 3 months in a corporate institution. I was under the supervision of Mr. Kazi Muzibul Islam (SVP) of United Commercial Bank Limited, Corporate Branch. I trained in 2 different departments during my internship at UCBL:

1. General Banking and
2. Credit and Marketing

2. Specific responsibilities of the job:

General Banking responsibilities: In the department of General Banking, I had to learn how to make different banking statements, understand the process of collection of vouchers, receive cheques, prepare salary sheets and locate different vouchers.

Remittance responsibilities: My responsibilities during my training in this department included entering daily transfer in transfer books, filling-up savings and current account forms, crossing off cheques, preparing demand drafts and providing clients with their cheques.

Card Division: Duties during my training under the Card Division department consisted of filling-up and observing debit card and credit card form, providing debit/ credit card to respected customers and clients, observing debit/ credit card vouchers, and participating with card team to convince consumers.

Advance responsibilities: In the Advance department, I was trained to observe and participate in the (drafting?) of different loans e.g. Overdraft loans, Secured Overdraft loans, Temporary loans, Transport loans, Home loans, Loans against Trust Receipt, Consumer Credit schemes, Car loans, Furniture loans etc.

3. Different aspects of job performance:

- Banking jobs are critical and also need lots of time to perform because bankers have to deal with every aspect in order to satisfy clients and also earn revenue for the bank.
- Manager or head of the branch is in total in charge of the bank to take any decision. Officers mainly follow his instruction to perform their job successfully.
- General banking is mostly responsible for doing different formulation of works such as preparing report, statements, salary sheets, discussing any reports and providing ideas. They also do some sensitive work related to provide money by receiving cheques, computerized account information, provide interest on deposit
- Remittance is responsible to give daily transactions, receiving and crossing cheques, provide foreign currency which comes from abroad with the support of Western Union Money Transfer. Preparing demand draft and other bill related activities. Open new account like current or saving accounts.
- Advance department mainly do loan related activities, carefully observe each in formations before provide any loan, make loan statements and send the copy to the head office for loan approval. They also check whether the client is giving the payment and interest of the loan and also the condition of each client to loan progress.
- Foreign exchange department deals with opening Letter of Credit and providing support to client through bank guarantees and deal with other foreign banks and institutions from the clients' point of views.
- Card division mainly provides client information related to debit/credit card. The types of benefits the customer will get if he/she have the card. Often they go for client's office to convince them to have the credit card. They also prepare different statements and voucher related to card.

4. Critical observations and recommendations

- The numbers of employees are not efficient to perform task effectively. For example in general banking or remittance or card division the numbers of employees are more than advance department. So in advance department there is always rushing to perform activities.
- The cash receive and collection booths are fewer in numbers than the clients. Before any festivals the clients need to wait lots of time in line which sometimes create frustrations among clients.
- The officers in charge remain always busy with their works for this they do not have enough time to provide information even to clients or interns even if they have the intension to do so.
- Advance works are very much critical and sensitive. Because of this it takes long time to perform any task. Officers and in charge always remain very much cautious to perform their activities.
- Sometimes they give pressure to clients to give interest of loans and other sanctions which sometimes create unpleasant environment.
- Slow internet connection often creates problems because the local broad band connection they use is not always speedy to perform tasks effectively.

CHAPTER: 3

CREDIT MECHANISM OF UNITED COMMERCIAL BANK LIMITED

3.1 Credit management

Credit is one of the important functions of any commercial bank. The word credit is derived from the Latin word 'Credere' which means 'to trust'. The fundamental nature of credit is that an element of trust exists between buyers and seller, whether of goods or money. Credit extension or lending is the principal, Credit constitute more than 60% of bank's asset and remains the main source of its income. But credit is also the most risk bearing asset and if not managed prudently, it may cause severe financial losses to the bank. This conflicting characteristic of credit provides all the significance to credit management. Strong & effective credit management is essential to ensure the financial health of a bank. The dominant objective of credit management is to maximize profit within a consistent framework of risk and credit discipline. Credit management involves credit planning, credit policies, credit procedures, credit administration, and credit monitoring & credit recovery.

3.2 Importance of bank credit

Financial Intermediary is an important activity in the economy because it allows fund to be channelled from those who might otherwise not put them to productive use to those who will. In this way financial intermediaries can help promote a more efficient and dynamic economy. Some other importance issues of bank credit are as follows:

- Credit is an important determinant of money creation and hence of production, consumption and national income.
- Credit influences and is influenced by quantity of money, level of economic activity (GNP), imports and net foreign assets. It influences imports and capital movements, and hence outcome of balance of payments.
- It also influences behaviour of economic sectors industry, agriculture and behaviour of economic agents.
- Credit provides vital linkage among government sector, private sector, financial sector and foreign sector.
- Credit is the most important activity of banks, because interest of loans constitutes the major part of bank income.
- It is of vital importance that the Bank takes good decisions in awarding of loans.

3.3 Portfolio of Credit

Loan mix reveals the diversification sought by the UCBL in its loan placements. As we know diversification reduces the level of default risk that is associated with large concentration of loans in a single category. The loan mix should be quantified and described in the credit policy.

3.4 Types of credit provided by UCBL

As initiated by Bangladesh Bank different kinds of lending were subdivided into 11 categories which was subsequently reduced to 9 to 7 prime sectors

Loan and advances have primarily been divided into three major groups:

a) Fixed term loan: These are the non-revolving loans made by the Bank with fixed repayment schedules. Fixed term loans are categorized into three categories based upon its tenure which is defined as follows:

<i>Term</i>	<i>Period</i>
<i>Short term</i>	<i>Up to 12 months</i>
<i>Medium term</i>	<i>More than 12 and up to 36 months</i>
<i>Long Term</i>	<i>More than 36 months</i>

- b) Continuous Loans: These are the revolving loans having no fixed repayment schedule, but have an expiry date at which it is renewable on satisfactory performance of the customer.
- c) Demand Loan: These are the non-revolving loans which are neither continuous nor fixed but have to be repaid on demand.

Furthermore all categories of loans are accommodated under the 7 prime sectors which are as under:

3.4.1 Agriculture:

Credit facilities provided to the customers who transact agro business falls under this category. It is divided into two major sub-sectors:

- a) Loans to primary producers: This sub-sector of agricultural financing refers to the credit facilities allowed to production units engaged in farming, fishing, forestry or livestock. Loans to processors or traders of agricultural products are not to be categorized as agricultural loans. Loans to tea gardens for production are treated as agricultural loan, but loans to tea gardens for export will be treated as 'Export Credit'. Similarly medium and long-term loans to tea gardens are categorized as industrial term lending.
- b) Loans to input dealers/distributors: It refers to the financing allowed to input dealers and (or) distributors in the agricultural sectors.

Loan to Agriculture sector may include short, medium and long term loans as well as continuous credits. As a product, it may fall under Term Loan/ Time Loan/Hire-Purchase/Lease Finance/Cash Credit/Overdraft etc.

3.4.2 Term Loan to Large & Medium Scale Industry:

This category of advances accommodate the medium and long term financing for capital asset formation of new Industries or for BMRE of the existing units who are engaged in manufacturing of goods and services. Term loan to tea gardens may also be included in this category depending on the nature and size. As the financing under this category have fixed repayment schedule it may fall under the heads Term Loan/Time Loan /Hire-Purchase/Lease Financing etc.

3.4.3 Term Loans to Small & Cottage Industries:

These are the medium and long term loans allowed to small & cottage manufacturing industries. Medium & Long term loans to weaver are also included in this category. Like the Large &

Medium Scale Industry it is also allowed in the form of Term Loan/Time Loan/Hire - Purchase/Lease Financing etc.

3.4.4 Working Capital:

Loans allowed to the manufacturing units to meet their working capital requirements, irrespective of their size - big, medium or small, fall under this category. These are usually continuous credits and as such fall under the head "Cash Credit" or "Overdraft".

3.4.5 Export Credit:

Credit facilities allowed to facilitate export of all items against Letter of Credit and/or confirmed export orders fall under this category. It is accommodated under the heads Export Cash Credit (ECC), Packing Credit (PC), Foreign Documentary Bill Purchased (FBPD), Inland Documentary Bill Purchased (LBPD) etc.

3.4.6 Commercial Lending:

Short term Loans and continuous credits allowed for commercial purposes other than exports fall under this category. It includes import financing for local trade, service establishment etc. No medium and long term loans are accommodated here. This category of advance is allowed in the form of: (i) Loan against Imported Merchandise (LIM), (ii) Loan against Trust Receipt (LTR), (iii) Payment Against Documents (PAD), (iv) Overdraft (OD), (v) Cash Credit etc. for commercial purposes.

3.4.7 Others:

Any loan that does not fall in any of the above categories is considered under the category 'Others'. It includes loan to: (i) transport equipments, (ii) construction works including housing (commercial/residential), (iii) work order finance, (iv) personal loans, etc.

3.5 Types of Credit Products:

The following are the existing credit products of United Commercial Bank Limited covering term loan, export lending, working capital & commercial lending. The products are subject to review and amendment of the product/launching new product will be carried out on a continuous basis. Depending on the various nature of financing, all the credit facilities have been brought under two major groups: (a) Funded Credit and (b) Non-funded Credit.

Under **Funded Credit**, following are the products of UCBL:

Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)
Funded				
1.	SOD(FO)	Secured overdraft 100% cash covered	General purpose	12 months
2.	TOD	Temporary overdraft	General Purpose Forced Loan	60 days
3.	PAD(Sight)	Payment against Document (Foreign-sight)	Advance against Sight L/C Forced Loan	21 days
4.	PAD(EDF)	Payment against Document (EDF)	Advance against EDF L/C Forced Loan	21 days
5.	PAD (A/G/B)	Payment against documents (A/G/B)	Advance against LC (A/G/B)-Forced loan	21 days
Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)

6.	PAD (Local)	Payment against document (Local- sight)	Advance against Sight L/C (Local) – Forced loan	21 days	
7.	PC (RMG & other than RMG)	Packing Credit against Export L/C & Export Order	To finance against Export L/C To finance against Export Order Pre-shipment Finance	120 days	
8.	ECC (New)	Export Cash Credit	Financial accommodation to a customer for export of goods under export LC and allowed a certain percentage of Export LCs/Contract Liquidated out of export proceeds	LC validity/180 days	
9.	BFL	Bridge Financing Loan	Support Equity	12-36 months	
10.	TRL	Transport Loan	To finance commercial Transport	36-48 months	
11.	HBL(Com)	House Building Loan - Commercial	To finance commercial house/ apartment	36-96 months	
12.	HBL(Res)	House Building Loan - Residential	To finance residential building / apartment	60-120 months	
13.	LTR	Loan against Trust Receipt	To finance import	180 days	

			L/C		
14.	HBL(S)	House Building Loan – Staff	To finance personal house/apartment	15 years	
15.	CC(Hypo)	Cash Credit against hypothecation of Inventory and Book Debts	To finance Inventory Other Business operations General purpose	12 months	
Serial No.	Name of the Facility	Description	Purpose	Tenor (Max)	
16.	CC(Pledge)	Cash Credit against Pledge of Inventory	To finance pledged Inventory	12 months	
17.	Loan General (New)	Loan General	Short term, medium term loans allowed for specific purpose for definite period and repayable by instalments.	12-36 months	
18.	FBPD	Foreign Bill Purchased & Discounted	To purchase /discount/ negotiate export documents against Sight/Usance Export L/C	As per LC Terms	
19.	LBPD	Local Bill Purchased & Discounted	To purchase /discount against local usance L/C	As per LC Terms 180 days	
20.	LCPS(S)	Loan under Personal Loan – Staff	To finance personal consumable items	36 months	

21.	CL(S)	Car Loan – Staff	To finance personal car	5 years	
22.	FL(S)	Furniture Loan – Staff	To finance personal furniture	72 months	
23.	LIM (Rename)	Import Loan against Imported Merchandise pledged	To finance imported merchandise under pledge	180 days	
24.	Term Loan	Term Loan against fixed assets	To finance fixed asset	Over 1 year max 7 years	
25.	Time Loan	Time Loan against Other Security/Collateral/Support	To finance business operations/work order/Industrial working capital To finance fixed asset To finance duty/tax General purpose	12 months	
26.	OAP	Own Acceptance Purchase	Advance allowed for purchasing foreign currency for payment against LCs (Back to Back) where the exports do not materialize before the date of import payment Forced Loan	90 days	
27.	OD(General)	Overdraft against Other Security Collateral	To finance business operations/Industry operations Misc. purpose	12 months	

28.	CP(Local)	Cheque Purchase (Local)	To purchase/discount Cheque, Bank Draft, and Payment Order	30 days
29.	CP (Foreign)	Cheque Purchase (Foreign)	To purchase/discount foreign currency Cheque, Bank Draft, and Payment Order	45 days
30.	Consumer Credit Scheme (CCS) (New)	Consumer credit provided to middle class income group	To finance purchase of consumer durable by the fixed income group to raise their standard of living.	Over 12 months Max 60 months
31.	Hire Purchase (New)	Hire purchase	To finance capital machinery, equipment and vehicle Installment credit Borrower agrees to take the goods on hire at a stated rental Repayment is inclusive of Principal as well as Interest for adjustment	Over 12 months Max 60 months
32.	Lease Financing (New)	Lease finance	To finance capital machinery, equipment and	Over 1 year max 5 years

			vehicle Exclusive right to use the asset by the leaseholder for an agreed period against payment of rent.	
33.	OD (Work Order) (New)	Overdraft against work order	Advance against assignment of work order/ bill for execution of contractual works Not a continuous credit rather time loan	06 months to 36 months
34.	OD(EM) (New)	Over Draft for Earnest Money	To pay earnest money	90 days

Under non-funded credit, there are basically two major products namely Letter of Credit and Letter of Guarantee. Following are the non-funded products of UCBL:

Serial No.	Name of the Facility	Description	Purpose	Tenor
Non –Funded				
1	BFC (Local)	Bills for Collection – Local	Collection of local outstation cheques/ Drafts/Documents	As per rules/terms
2.	BFC (Foreign)	Bills for Collection – Foreign	Collection of foreign cheques/ Drafts/Documents	As per rules/terms

3.	LG(Local)	Letter of Guarantee - Local	For contractual obligation (Bid-Bond, Payment Guarantee, Advance Payment Guarantee, Performance Guarantee, Customs Guarantee, Shipping Guarantee)	Specific period
4.	LG(Foreign)	Letter of Guarantee – Foreign	For contractual obligation and others	Specific period
5.	SLC(Local)	Sight Letter of Credit – Local	For local procurement Recourse on title to local document	As per LC Terms
6.	SLC(Foreign)	Sight Letter of Credit – Foreign	For foreign procurement under sight L/C Recourse on title to import document	As per LC Terms
7.	SLC(EDF)	Sight Letter of Credit – EDF	For importation under sight EDF L/C Recourse on title to import document	As per LC Terms
8.	SLC (A/G/B)	Sight Letter of Credit (Aid/Grant/ Barter)	For Importation under (A/G/B)	As per LC Terms
9.	ULC(Normal)	Usance Letter of Credit	For importation under usance L/C Recourse on sales	12 months (Max)

10.	ULC(BB)	Usance Letter of Credit – Back to Back	For importation under back to back usance LC Recourse on export	As per LC Terms
11.	Acceptance (Normal)	Acceptance against Usance Letter of Credit	To finance assets thru banker's acceptance Recourse on sales	As per LC Terms
12.	Acceptance (Back to Back)	Acceptance against Back to back usance Letter of Credit	To finance assets thru banker's acceptance Recourse on export	As per LC Terms
13.	Fwd FX	Forward Contract	Cover exchange risk against Letter of Credit Performance Risk	180 days

Secured & Unsecured Guide Line

UCBL currently offers both secured and unsecured loan to the clients both individual and corporate to help investment.

UCBL allows maximum 30% of the loan portfolio to corporate or individual customers, which are not secured by collateral and given on the basis of the integrity and financial strength of the client.

Collateral

Although there are customers having excellent business performance and reputation can get unsecured loan, many business borrowers have to post collateral. The amount of collateral and type depends on the customers' performance and familiarity and the proposed business's acceptability, the size and maturity of the loan. For ensuring the recovery of the loan if the client

failed to repay the loan due to the death or disability, strikes, catastrophic fire or flood or even the business failure, mismanagement of the business, UCBL take collateral security from the client that works as a source of repayments. UCBL takes the assets as collateral that does not comply with its policy and Bangladesh Bank's policy as well. In general they take DPS, FDR, Share, Stock, Land, Building and Equipment.

3.6 Principles of Lending

The granting of advances is one of the most important functions of a Bank and the test of a Bank's strength depends considerably on the quality of its advances and the proportion they bear to the total deposit. Although receipt from Exchange, Commission and Bank's Charges contribute a fair amount of the profits of Commercial Bank, its earnings are chiefly derived from interest charged on loans and discounts. Commercial banks generally consider each loan proposal from four angles. These are:

- a. Bank's point of view
- b. Borrower's standing
- c. Proposal of loan itself, and
- d. Social point of view.

► *Bank's point of view:*

Safety: Safety means the assurance of repayment of distributed loans. Bank is in business to make money but safety should never be sacrificed for profitability, to ensure the safety of loan, the borrower should be chosen carefully. He should be a person of good character & capacity as well as bank must have to maintain eligible number of security from borrower.

Liquidity: Liquidity means the availability of bank funds on short notice. The liquidity of an advance means it will be repaid on demand on due date or after a short notice. Therefore, the banks must have to maintain sufficient liquidity to repay its depositors and trade off between the liquidity and profitability is must.

Profitability: Banking is a business aiming at earning a good profit. The difference between the interest received on advances and the interest paid on deposit constitutes a major portion of the

bank income, besides, foreign exchange business is also highly remunerative. The bank will not enter into a transaction unless a fair return from it is assured.

Diversification of Risks:

The security consciousness of a Banker and the integrity of the Borrower are not adequate factors to keep the Banker on safe side. What is more important is the diversification of Risk. This means, he should not lend a major portion of his funds to any single Borrower or to an Industry or to one particular Region. In fact, the entire Banking business is one of taking calculated risks and a successful banker is an expert in assessing such risks. He is keen on spreading the risks involved in lending over a large number of Borrowers, over a large number of Industries and Areas, and over different types of securities; the advances must not be in one particular Industry.

► Borrowers' Standing:

The Integrity & Reliability of the Borrower:

The last and the most fundamental principle of lending are the integrity and reliability of the borrower. To avoid bad debt, it is the basic factor before any loan proposal can be considered. The success of any business depends upon the ability of the Banker to study borrowers. The study of a borrower involves the study of the five C's of the Party. This five C's refer to Parties:

- Character
- Capacity
- Capital
- Collateral.
- Capability

Instead of five C's, some authors mention the five R's. This five R's indicates parties':

- Reliability
- Responsibility

- Resources
- Respectability &
- Return

➤ *Social Point of View:*

National interest:

Banking industry has significant role to play in the economic development of a country. The bank would lend if the purpose of the advances can contribute more to the overall economic development of the country.

➤ *Proposal Itself:*

Purpose:

Another significant principle which is to be kept in view when advancing is the Purpose. The purpose for which lending is made should be productive as to ensure definite source or repayment.

The Banker must closely scrutinize the purpose for which the money is required, and ensure as far as he can, that the money borrowed for a particular purpose is applied by the borrower accordingly. Purpose has assumed a special significant in the present day concept or Banking.

Sources of Repayment:

A sound credit is one where timely repayment is assured. So, before giving financial accommodation, a Banker should consider the source from which repayment is promised.

3.7 General Procedure for Loans and Advances

Credit granting process

The following are the major steps that take place while approval & the repayment of a certain credit provided to a client:

3.7.1 Credit Analysis:

In the very first line we said that credit is to gainfully employ deposits received by a bank. The very important phrase ‘gainfully employ’ means securing the certain benefit from the credit approved. To secure the benefit, the credit analyst has to analyze a credit proposal from various perspectives which are discussed below:

- **Identification of the purpose of the credit:** First the analyst has to determine what the credit is for – which field the borrower is willing to put the money in, what is the tenure, what is the timing of cash inflow of the investment in which amount & what can be the repayment source and method.
- **Structure of the borrower (Knowing exactly to whom we are lending):** We have to know what is the legal entity of the client – is it an individual, a partnership business or a subsidiary of a holding company.

Careful attention has to be given if the client company is a subsidiary of a group that makes complicated transactions with the other companies in the group – that may transfer the fund to sister companies. At the same time, the bank should look to grant loan in favor of the subsidiary rather than to the holding company.

The bank must also know who are the key decision-maker of the borrowing company, which can provide the necessary information.

- **Business Analysis:** The analyst must gather enough idea of the borrower’s business and the environment in which it is going to play to identify future sources of repayment.

First of all, the analyst has to know the macro environment of the business, what is the overall industry condition of the business along with the rules & regulations set by the policymakers.

The second concern is the firm itself that the bank is going to finance. What type of product & service is the borrower going to offer with what kind of demand? At the same, the analyst must consider the competitive situation of the firm along with the core competencies of the borrower.

- **Financial Analysis:** This is a very important stage where the analyst has to determine/quantify how worthy the borrower is for the credit. This worth is measured in numeric terms with the help of various ratios. Those are as follows:

Income Statement Analysis/Profitability: A credit analyst may start with the profitability as it is the most critical single element in a firm's financial condition as it is directly positively related with asset & negatively related with debt & interest.

Balance Sheet Analysis: The next thing to analyze in the liability structure is the borrower's leverage (i.e. the amount of debts & liabilities relative to net worth). At the same time, the analyst must consider how well the firm's earnings cover the principal repayment obligations of debt. High leverage indicates high risk but may be acceptable if the firm is earning enough to cover its debts. On the other hand, the quality of the assets of the borrower has also to be analyzed. The focus should be on the market value and liquidity of the assets. This is important because these assets may be the last refuge for the bank to recover the loan by selling them what we can call the security. In common we can divide securities into two broad categories. Those are:

Primary Security: The Security directly related with the purpose of the credit (Example: Goods imported through an L/C).

Secondary Security: Any security not directly related with the purpose of the credit. (Example: A sole proprietors land mortgaged for loan sanctioned for development of his grocery shop).

Cash Flow Analysis: Cash flow is an important source of repayment. Cash flow can be constructed directly or indirectly. In the direct method, all cash inflows and outflows from operating activities, investment activities and financing activities are recorded. In the indirect method, cash flow is generated by adjusting non-cash inflow and out flow with the net income

Perspective: Not only the ratios from Income statement, balance sheet and the cash flow has to be calculated and analyzed, those has to be compared from different perspectives. First, the borrower's trend over the time period has to be compared – that means comparison of current performance with previous performance.

While the past & previous performance of the borrower has to be compared, the recent performance has to be also compared with the industry benchmarks.

Accounting: The accounting method followed by the borrower may mislead the analyst because of following any particular method. The analyst must keep an eye on which accounting method has been followed by the borrower while preparing the financial statements. At the same time the analyst must also look for the off-balance sheet items that have not been disclosed.

Pre-sanction documents:

In fact the first part of documentation for granting a credit is done before the credit proposal is placed before the granting authority. In the initial documentation, the following documents are scrutinized & collected:

1. Bank's loan application duly filled in, required for Public Limited Company only
2. Certificate of commencement of business for Public Limited Company only
3. Certificate of Incorporation
4. Certified copy of memorandum and articles of association, both for Public & Private Limited Company
5. Certified copy of Form XII of Joint Stock Company, if there is any change in the directors
6. Up to date Trade License – for Importers & Exporters
7. Bank's loan application duly filled in
8. Board resolution of the company to create loan
9. Annexure “ka” form of Bangladesh Bank duly signed and sealed for collecting CIB report
10. Up to date Income Tax Clearance Certificate

11. Net Worth of the Directors including Chairman and Managing Director
12. Name & address of the Directors and their number & percentage of shares
13. Name & address of sister concerns
14. Global liabilities of the company and sister concerns
15. Last three year's audited balance sheet(For old company)/Three years projected balance sheet(For new company) of the borrower company
16. Projected cash flow statement
17. Production Plan
18. Stock Report(Hypothecation & Pledge) report of the Borrower Company, applicable for old companies
19. Bio-data of the directors and other key personnel with two passport size photographs of each
20. Organization Chart
21. Name & address of the of the warehouse owner and up to date rent receipt, for rented warehouse
22. Name & address of five large customers and their purchasing percentage
23. Last audited balance sheet of two similar companies
24. Last three year's industry Turnover (National) of this type of company
25. List of aged debtors
26. For Manufacturing company, Environmental Certificate duly signed by the authority
27. Clearance Certificate of electricity, gas and water supply authority
28. Project Profile for Project loan
29. List of machineries with description and price list
30. Partnership deed for Partnership Firm
31. CIB report for any amount of credit

Along with the above analysis and documentation, doing the Lending Risk Analysis is a must if the loan amount is Tk. 1 crore or above. At the same time, in case of any large loan, the bank

must not invest more than 50% of its paid up capital (in form of both funded & non-funded loan) in a single loan, in which, the funded loan must not be more than 25%.

3.7.2 Approval Process:

Step-1: A potential borrower collects prescribed Credit Application Form from the Relationship Officer of Branch/Corporate Division, Head Office/Web address of the Bank. Later, he/she submits the filled in Credit Application Form along with required papers and documents.

Step-2: The Relationship Officer scrutinizes the Credit Application Form and other documents submitted by the customer and make a preliminary assessment on creditworthiness of the potential borrower on the basis of the information provided by the borrower. Relationship Officer collects further information from the customer if it is felt necessary. And, if Relationship Officer finds the proposal not creditworthy, a refusal letter to the customer would be sent immediately. On the other hand, if Relationship Officer finds the proposal acceptable within the parameter as set by the Credit Policy and instructions issued time to time by Credit Department, Relationship Officer will forward the application with his comments to the concerned Relationship Manager.

Step-3: The Relationship Manager, singly or jointly with Relationship Officer, visit the customer's business premise and try to acquire proper understanding about the business position, business expertise and reputation of the borrower, purpose of credit, actual credit requirement, sources of repayment, etc. Besides, he/she negotiates with the customer about the structure of the proposed credit facility to control the risks. Apart from this, he/she assesses the value of the security to be offered and prepares Valuation Report (**Appendix-A**). Finally, the Relationship Manager summarizes all these information in the Pre-sanction Inspection Report/Call Report/Visit Report in the Bank's prescribed format in which he/she recommends for specific credit facility for the customer. At the same time, The Relationship Officer, who is the primary bank contact with the borrowers collects duly filled in "CIB Inquiry Form" from the customer and send the same to the Credit Administration Department of Head Office to collect latest CIB Report from Credit Information Bureau of Bangladesh Bank.

Step-4: The Relationship Manager sends the Pre-sanction Inspection Report to the Corporate Division, Head Office. The Head of Corporate Division or assigned Executive assesses the credit proposal and may contact with the concerned Relationship Manager or directly to the customer for any query. Finally, Corporate Division of Head Office communicates their decision to the Relationship Manager.

Step-5: Credit Administration Department on receipt of the request letter from the Branch will send the 'CIB Inquiry Form' to Bangladesh Bank. Credit Administration Department will send the CIB report immediately by facsimile/e-mail/courier service to the concerned Relationship Officer on receipt of the report. Everything may be closed if adverse CIB report is received. In that case, letter of regrets would be issued to the customer informing the reason accordingly.

Step-6: If, clean CIB Report is received, the Relationship Officer originates a formal Credit Proposal in prescribed format that should carry the recommendations of the Relationship Manager. After signing by him, it is to be sent to the Corporate Banking Division, Head Office and a copy to the Credit Risk Review Department of Credit Risk Management Division. It is to be mentioned here that for renewal proposal, a certification of Credit Administration officer is required stating the documentation status following existing sanction advice.

Step-7: If the facility is approved by the appropriate approval authority, Corporate Banking Division will send the copy of approval Memo/Note sheet to Credit Risk Management Division. On receipt of approval, Credit Risk Review Department of CRMD issues Sanction Advice to the originating Branch along with a Documentation Check List preferably on the same date which clearly spells out what is the documentation formalities required to be completed before disbursement. Copy of the Sanction Advice is to be sent to Corporate Banking Division and Credit Administration Department.

Step-8: Sanction Letter to the customer following Credit Risk Review Department of CRM sanction advice to be issued under dual signatures from the originating Branch. Preferably, Relationship Manager and Credit Administration Officer of the Branch should sign on the Sanction Letter.

Post-sanction Documentation:

After the branch has got the approval, it informs the client of the approval of the credit through a letter that contains the amount approved, the rate of interest payable, repayment procedure etc. As the client accepts the proposal, the major part of documentation begins. This part of documentation includes the Charge documents (Whichever is applicable) that are signed by the borrower and/or the guarantor. The charge documents may be registered or unregistered. If registered, the registration has to be done with RJSC (Registrar of the Joint Stock Company).

Required Post Sanction Documents:

1. Accepted Advice Letter - the received copy of the sanction letter by the customer
2. Acknowledged Assignment of Receivables/Contract Proceeds if the borrower has agreed to assign receivables/contract proceeds to the bank
3. If Mortgage being taken the Agreement to Mortgage
4. Biana Deed, that shows whom the land is bought from
5. Board Resolution for Corporate Guarantee, if corporate guarantee taken
6. Board Resolution of Borrowing Authority - standard document taken in all cases
7. Central Bank Approval – applicable if the loan is over 15% of paid up capital
8. Continuing Guarantee that is taken if personal guarantee is taken
9. Counter Indemnity, if bank guarantee given
10. Cross Corporate Guarantee, taken when all members of a group of companies provide a guarantee for a particular group member
11. CS Parcha, survey showing history of land during British period
12. Demand Promissory (DP) Note – Charge Document. Promise to pay back a specific amount. Standard document taken in all cases
13. General Loan + Collateral Agreement – Charge Document. Standard document taken in all cases
14. Insurance Policy for Inventory/Fixed Assets – taken If inventory/fixed assets hypothecated
15. Letter of Continuity – Charge Document. Standard document taken in all cases
16. Letter of Disbursement – Charge Document. Standard document taken in all cases

17. Letter of Hypothecation - If Hypothecation takes place
18. Letter of Lien – If a security such as FDR is being taken
19. Letter of Lien and set off for GOB Bonds, If bonds are kept as security
20. List of Project’s Machineries, If Machinery is being Hypothecated
21. Memorandum of Deposit of Title Deed, If equitable mortgage taken. Title deed has to be kept with the bank
22. Mouza Map + Site plan – to help identify the land
23. Mutation Parcha. To show the name of the property if land is security
24. No Objection letter from RAJUK if plot is RAJUK’s
25. Non-Encumbrance certificate, to show that property has not been mortgaged elsewhere
26. Original Plan of Building, if building is kept as security
27. Personal Guarantee of Owners, if Guarantee being taken as security
28. Registered Hypothecation of Debts & Assets, for Limited Companies if hypothecation done, has to be registered with the RJSC
29. Registered Hypothecation of Fixed Assets, for Limited Companies if hypothecation done, has to be registered with the RJSC
30. Registered Hypothecation of Inventory, for Limited Companies if hypothecation done, has to be registered with the RJSC
31. Registered Mortgage at Sub Registry Office, if this is done, it is not necessary to keep title deed. But bank keeps the title deed in practice

3.7.3 Disbursement:

Once a loan has been granted and documentation has been finished, the disbursement stage starts. The branch uses a given format for loan disbursement. As per the financing need of the client the branch disburses the total amount of loan – it can be in one single payment or in parts. Even after one partial payment, the bank continues monitoring the implementation of the loan, and if needed, the bank reschedules its disbursement schedule.

3.7.4 Credit Monitoring Process:

Credit monitoring is a formal program for reviewing all existing loans regularly, frequently, critically that is essential to the continued success of bank's portfolio. Once the loan is disbursed, risk remains and continues until the borrowing is fully repaid and the loan should be continuously watched over. These include keeping track of borrower's compliance with credit terms, identifying early signs of irregularity and monitoring timely repayments. Monitoring of accounts is the prime responsibility of RM team of Corporate Banking Division. Steps involved in monitoring process are as follows:

1. Daily past due statement should be generated from the system to enable the Relationship Manager to take proactive steps at an early stage. Branch should send at least weekly past due statement either by e-mail or courier service to Credit Administration Department who in turn place a consolidated statement before Additional Managing Director/Managing Director if the system failed to generate the same centrally.
2. Accounts activity of the credit facility should be monitored critically by the Relationship Manager frequently and monthly by the CAD officer to understand whether the risk commensurate with the business. Any exceptions observed by CAD officer should be reported to Credit Administration Department, Head Office.
3. Monthly statement should be prepared with observation for LTR//LIM/PAD/EOL/ IBP/FBP facilities and should be reported to Head of Credit Risk management Division. Exceptions should be reported to Additional Managing Director/Managing Director.
4. To ensure that borrowers business is being satisfactorily conducted, physical inspections are to be conducted half yearly basis by the Relationship Officer/Relationship Manager as the case may be. Business Call Report is to be prepared and to be maintained in Credit File with a copy to Credit Risk Management Division/ Corporate Banking Division. Exceptions should be reported to Additional Managing Director/Managing Director.

5. Large Unit, where aggregate facilities is above Taka 5 crore would be inspected by Head of Credit Risk Management Division or his nominated executive once in a year but at least three months before the annual review date.

6. Borrowers business or management of accounts along with covenants mentioned in the Sanction letter should be reviewed on half yearly basis and exceptions should be reported to Additional Managing Director/Managing Director.

7. Inventory, aging of receivables & pledged goods, trend in sale and market position of the goods and deposit of sale proceeds should be monitored closely.

8. Comparative study of financial statements should be made in order to ascertain whether the figures matched with the accounts turnover. Sales, Profitability, debt servicing, liquidity and cash flow situation should be reviewed.

9. Call reports shall be analyzed to ensure that the affairs of the business of the borrower are being run on expected line and there is no material change in the status of the borrower.

It is to be mentioned here that Managing Director may constitute separate body to monitor the problem accounts closely as identified and the affairs of large accounts.

3.7.5 Credit Recovery

Advance is such kind of arrangement that its clients are repayable this either on demand at the expiry of fixed period or as per repayment schedule agreed upon while granting the facilities.

The last but a very important step is the recovery of the loan disbursed. The borrower may repay the whole amount at once or part by part depending on the type of the loan. If the investment is in a seasonal inventory, the payments may come at the end of the season. In a longer-term inventory and receivables financing, the repayments would be made from profit margins or from refinancing and in parts. If it is a Project loan, the repayment comes from the sale of resource and also usually in installments.

The sale of the security is actually not the ultimate solution if the credit is classified as bad. But in some cases, the bank has to take that last refuge and recover its investment. The bank follows these procedures as per the Money Loan Court Act 2003, which is enacted from May 1, 2003.

CHAPTER 4:

EXPOSURE ON READY-MADE GARMENTS (RMG) SECTOR, PROBLEMS AND PROSPECTS

4.1 Introduction

The management has an apathetic attitude toward making investment in this sector, and to some extent they feel it is a high risk venture, and this attitude also could well be attributed to the fact that the Bank lacks proper trained personnel expert in dealing with RMG sector. I tried to come up with some guidelines and suggestions after analyzing extensively the pros and cons of the problems and prospects associated in this sector. I also tried to instil interest amongst the employees and management so that they extend their cooperation and come forward to associate themselves, and obtain new RMG businesses, and thus, be a part of national development endeavours’.

4.2 Objectives

Broad Objectives:

Overall objective was to investigate the problems of the RMG sector and hence came up with some remedial action plans.

Specific Objectives:

- Analyzed present policies & practices of RMG sector in Bangladesh.
- Investigated the extent of labour rights, minimum wage requirements and practices in reality.
- Developed a way and provide recommendation on minimizing false representations of RMG performance in order to obtain government incentives.
- Found out the irregularities in issuance of bond license and misuse of it.
- Addressed the non-compliance of international standards in production facilities of the RMG like implementation of ETP (Effluent Treatment Plant).
- Investigated the involvement and role of the bankers in the decision making process of the RMG sector.
- Identified strategic, operational and legal issues encompassing the RMG sector.

- Identified the problems, recommended strategies and tactics that can be used to cope up with them.
- Recommended the effective ways and measures to overcome the problems and reap the benefits.
- Increased interest among the employees and the management to come forward so that they extend their cooperation and associate themselves to obtain new RMG businesses.

4.3 Significance of the study

The RMG sector is expected to grow despite the global financial crisis of 2009. As China is finding it challenging to make textile and foot wear items at cheap price, due to rising labor costs, many foreign investors are coming to Bangladesh to take advantage of the low labor cost which is our biggest advantage. This report therefore, was trying to investigate into the problems afflicted in this sector, and came up some remedial suggestions in line with the government regulation, international compliance and from a management point of view.

4.4 Literature review

Several authors have analyzed aspects of the garment industry in Bangladesh. Of the various aspects of the industry, the problems and the working conditions of female workers have received the greatest attention. There are several studies including the Bangladesh Institute of Development Studies (BIDS), (Mazumder, Protima;, 1991) these studies use accepted survey and research methodology to analyze a wealth of data on the social and economic background, problems and prospects of female workers in the RMG sector. The women workers in the Bangladesh garment industry have had more public attention to their rights than any group of workers in the entire history of the country. Increase in female labor supply accompanied by generation of demand for female labor in new forms of production resulted in a feminization of the labor force in Bangladesh. This has affected both gender segregation and market

segmentation. Women's primary responsibility for reproductive work, however, appears to constrain both quality of employment and returns to labor by restricting women's full participation in market work. Moreover, unchanging gender division of labor in the household and reproductive economies carries negative implications for the wellbeing of women and of family members dependent upon women's care-giving labor. (Mahmud, Simmen; 2003) (www.jstor.org). Islam and Quddus (2006) present an overall analysis of the industry to evaluate its potential as a catalyst for the development of the rest of the Bangladesh economy. The garment industry of Bangladesh has been the key export division and a main source of foreign exchange for the last 25 years. National labor laws do not apply in the EPZs, leaving BEPZA in full control over work conditions, wages and benefits. Garment factories in Bangladesh provide employment to 40 percent of industrial workers. But without the proper laws the worker are demanding their various wants and as a result conflict is began with the industry. Low working salary is another vital fact which makes the labor conflict. Worker made strike, layout to capture their demand. Sometime bonus and the overtime salary are the important cause of crisis. Insufficient government policy about this sector is great problems in Garments Company. There are some other problems which are associated with this sector. Those are- lack of marketing tactics, absence of easily on-hand middle management, a small number of manufacturing methods, lack of training organizations for industrial workers, supervisors and managers, autocratic approach of nearly all the investors, fewer process units for textiles and garments, sluggish backward or forward blending procedure, incompetent ports, entry/exit complicated and loading/unloading takes much time, time-consuming custom clearance etc. (BGMEA, BKMEA, 2008). Backward linkage or integration means the use by one firm or industry of produced inputs from another firm or industry. (Deardorff, Alan V.;, 2001). That means the finished garment relies on three steps; first level for converting fibers to yarns, second step for converting yarns to grey fabrics and the final step for converting grey fabrics to dyed, printed of other finished fabrics. These three steps are integrated into each other and these steps are essential for backward linkage integration. (BGMEA, January 2005). RMG industry in Bangladesh has already proved itself to be a resilient industry and can be a catalyst for further industrialization in the country. However, this vital industry still depends heavily on imported fabrics. After the liberalization of the quota regime some of the major textile suppliers Thailand, India, China, Hong Kong,

Indonesia and Taiwan increased their own RMG exports. If Bangladesh wants to enjoy increased market access created by the global open market economy it has no alternative but to produce textile items competitively at home through the establishment of backward linkage with the RMG industry. To some extent the industry has foreseen the need and has embarked on its own capacity building. The trend of back-to-back import should be declined so that it will help Bangladesh to meet the challenges in the post – MFA (Multi-fiber Arrangement) era. The existence of sound infrastructural facilities is a prerequisite for economic development. In Bangladesh, continuing growth of the RMG sector is dependent on the development of a strong backward linkage in order to reduce the lead time. However, other factors constraining competitiveness of Bangladesh’s RMG exports included the absence of adequate physical infrastructure and utilities. ‘Lead Time’ is a crucial factor maintaining export competitiveness. Bangladesh happens to feature the longest lead time in the RMG world. The lead time for Bangladesh is 120 days on an average, while the corresponding period for Sri Lanka is about 19-45 days and for India it is only about 12 days. (Nuruzzaman, 2007). Various factors like the distance from major markets, importation of raw materials, port congestion, strikes, poor transportation etc. are some of the factors responsible for this. At present the fashion seasons are becoming short with a changing trend, it would not be possible to compete if the lead time extends beyond 30-40 days. Therefore, bringing down the lead time to about 30-40 days is a major challenge for the country’s RMG sector. Clearly more business can be captured only if the lead time could be improved. And we are losing very big buyer for this issue.

4.5 Hypothesis

“Losing foreign buyers and decreasing exports were mainly due to lack of skilled labor and lack of backward linkage integration. Moreover High Lead Time affects the production”

Losing foreign buyers is not the only concern, but it also results in ruining the image of the country. Moreover for these above problems, total reserve of our country is decreasing gradually. I focused on these and as well as the overall prospects of the garments industry of Bangladesh.

4.6 Research methodology

4.6.1 Data collection procedure:

Primary data

As primary data are the prime source of information I collected the primary data through commercials, commercial managers of different garments industry, foreign trade officer of different banks.

The survey size was conducted on **50** different foreign trade officers from different banks, commercial managers, and owner of the garments who deal with these issues. I tried to take some personal interview from them. It wasn't a tough work as they were frequently visiting bank for their different purpose.

Secondary Data

However some secondary data had been used for this report like internet, company inside information (non-confidential), and from the internal source of Banks and Garments Industry, BGMEA, BKMEA etc. This secondary information had aid to the report to a great extent as one of the objectives of the report was to find the problem and prospect of RMG sector export related with banking specially United Commercial Bank Ltd.

4.7 Sample size and variables

Sample Size: 50 respondents

Dependent Variables: Losing foreign buyers and decreasing exports.

Independent Variables: Lack of skilled efficient labor.

Lack of backward linkage integration.

High Lead Time.

4.8 Survey locations

- Employees working in foreign trade divisions.
- Commercial managers of different garment factories.
- Few garment factory owners.

4.9 Statistical analysis

For data analysis I had used SPSS19 and I have done frequencies of all the questions of the questionnaire and a regression analysis.

4.10 Justifications of the questions:

SECTION 1 (Losing Foreign Buyers & Decreasing Exports)

Coding: Strongly Agree =5, Agree = 4, Neutral = 3, Disagree = 2, Strongly Disagree = 1

1. Is RMG sector of Bangladesh going through a crucial period?

Purpose: To find out the current scenario of the RMG sector of the Bangladesh.

2. Foreign buyers are reducing their interest on Bangladesh's RMG industry day by day.

Purpose: To know the level of interest of foreign buyers on Bangladesh's RMG industry.

3. Bangladesh fails to keep the position of top export country in the world.

Purpose: To know the current position of Bangladesh exports.

4. Bangladesh exports only low value products so new buyers overlook the RMG sector of Bangladesh.

Purpose: To analyze the buyer's RMG requirement from Bangladesh.

5. Custom delay is one of the main hindrances to timely exports.

Purpose: This question was asked to find out one of the burden of timely exports of Bangladesh.

6. Government of Bangladesh has given enough facility to the exporters of Bangladesh to gain foreign currency.

Purpose: To identify if the initiatives of the government regarding providing facilities to the exporters.

SECTION 2 (Lack of Skilled Labor)

Coding: Strongly Agree =5, Agree = 4, Neutral = 3, Disagree = 2, Strongly Disagree = 1

1. The productive efficiency of labor is a very important determinant for gaining competitive advantage.

Purpose: To find out if effective labor is a good factor for competitive advantage.

2. Physical abundance of labor is less needed than the efficient labor in case of exporting high volume of products.

Purpose: To know the main factor needed for high value exports.

3. In Bangladesh workers are mostly women with little education, which lead Bangladesh's export down.

Purpose: To find out if the literacy rate of the women workers affects our exports.

4. In Bangladesh workers are mostly women, most of them have no training, which reduces Bangladesh's export.

Purpose: To find out if unskilled workers reduces the export.

5. Bangladesh labor productivity is known to be lower than the other countries like Japan, Hong Kong etc.

Purpose: To know the position of Bangladesh regarding labor productivity.

6. Labor of Bangladesh is becoming an expert of exporting low value goods; as a result foreign buyers don't find any interest on our unskilled labor.

Purpose: To find out the expertise of Bangladeshi workers in the field of RMG exports.

SECTION 3 (Lack of backward linkage integration)

Coding: Strongly Agree =5, Agree = 4, Neutral = 3, Disagree = 2, Strongly Disagree = 1

1. Bangladesh still lacks in the backward linkage industries.

Purpose: To find out the current condition Bangladesh's RMG industries on backward linkage.

2. The Vital industries still depend heavily on imported fabrics.

Purpose: To know the level of dependency of most of the RMG industries.

3. The trend of back to back import has been declining over the years.

Purpose: To find out the trend of the back to back import in current years.

4. After the liberalization of the quota regime Bangladesh are still lagging behind as Bangladesh still heavily depends on import, whereas Thailand, India have increased their export as they produce the raw material by their own.

Purpose: To know the current position of Bangladesh in the field of import where Bangladesh could gain the quota regime.

5. The government should give incentive to entrepreneurs to set up textile factories which will increase the export and decrease the import.

Purpose: To find out whether such initiatives should be taken by government for increasing exports and reducing imports.

SECTION 4 (High Lead Time affects the production)

Coding: Strongly Agree =5, Agree = 4, Neutral = 3, Disagree = 2, Strongly Disagree = 1

1. Lead time is a crucial factor maintaining the export competitiveness.

Purpose: To find out how worthy lead time is.

2. The existing infrastructural facilities are not good enough for gripping the new foreign buyers

Purpose: To find out if the current set-up is equipped enough to attract new buyers.

3. Shortening the lead time is the most urgent priority task for Bangladesh; the best way is to develop domestic backward linkages

Purpose: To find out if developing domestic backward linkages would be the best possible way to shorten the lead time.

4. Bangladesh needs to increase more Export Processing Zone to reduce high lead time.

Purpose: To find out if increased number of EPZ's would reduce the problem.

5. Bangladesh lacks proper transportation system; as a result it takes a longer time to export.

Purpose: To identify if transportation is a major contributor towards a longer shipment period.

4.11 Data Analysis of the Questionnaires:

Descriptive Statistics

Descriptive Statistics

	N	Mean	Std. Deviation
Lack of skilled labor	50	3.6868	.66465
Lack of backward linkage integration	50	3.6560	.71032
High Lead Time affects the production	50	3.7240	.69973
Loosing foreign Buyers and Decreasing Exports	50	3.7438	.61275
Valid N (list wise)	50		

Table: Descriptive Statistics

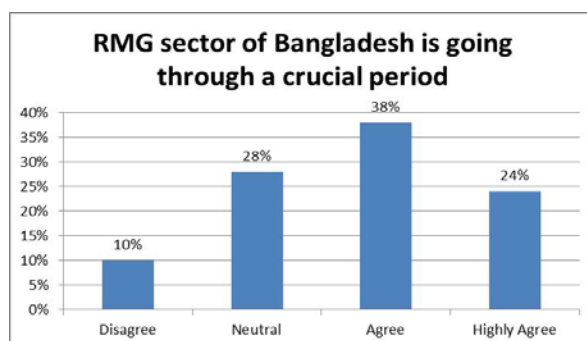
4.12 FREQUENCY DISTRIBUTION

4.12.1 Section 1 (Loosing foreign Buyers and Decreasing Exports)

1. RMG sector of Bangladesh is going through a crucial period

	Frequency	Percent
Disagree	5	10.0
Neutral	13	26.0
Valid Agree	19	38.0
Highly Agree	13	26.0
Total	50	100.0

Table: RMG sector of Bangladesh is going through a crucial period



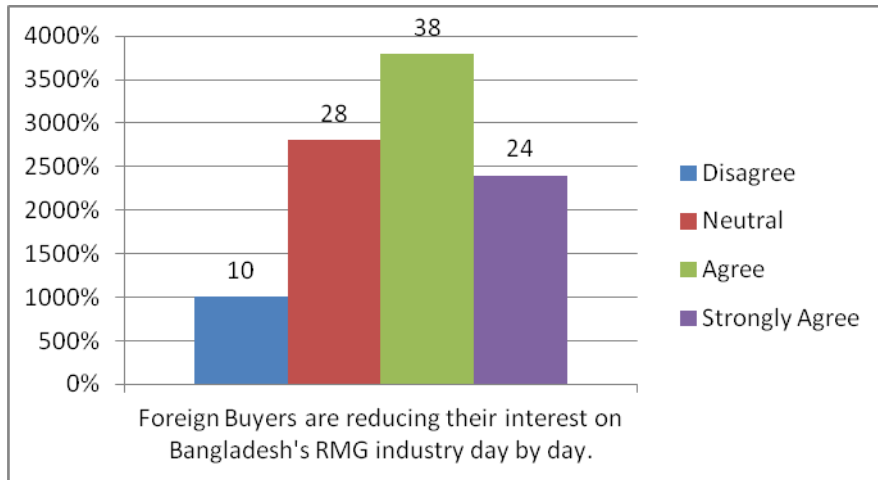
Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 26% were neutral, 38% just agreed and rest of 26% highly agreed that RMG sector of Bangladesh is going through a crucial period .Though there were difference among opinions but only 10% disagreed that RMG sector of Bangladesh is going through a crucial period.

2. Foreign buyers are reducing their interest on Bangladesh’s RMG industry day by day.

	Frequency	Percent
Disagree	5	10.0
Neutral	14	28.0
Valid Agree	19	38.0
Highly Agree	12	24.0
Total	50	100.0

Table: Foreign buyers are reducing their interest on Bangladesh’s RMG industry day by day



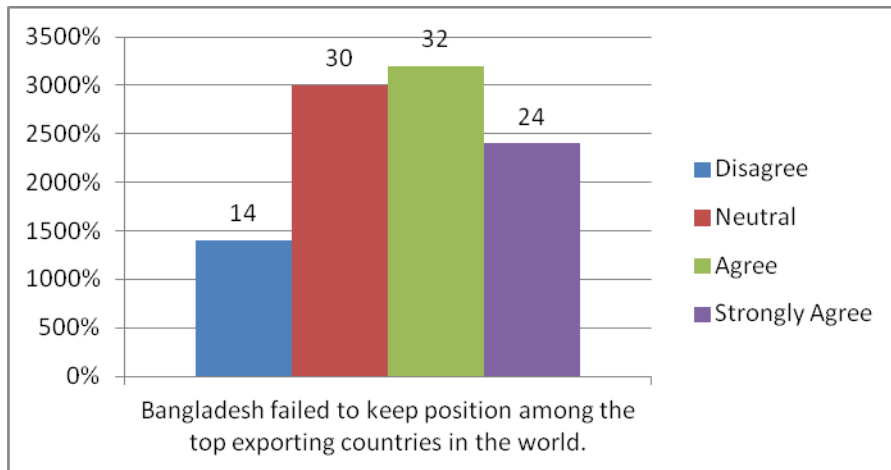
Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 38% just agreed and rest of 24% highly agreed that Foreign buyers are reducing their interest on Bangladesh’s RMG industry day by day. Though there were difference among opinions but only 10% disagreed that we are losing foreign buyers day by day.

3. Bangladesh failed to keep position among the top exporting countries in the world.

	Frequency	Percent
Disagree	7	14.0
Neutral	15	30.0
Valid Agree	16	32.0
Highly Agree	12	24.0
Total	50	100.0

Table: Bangladesh fails to keep the position of top export country in the world.

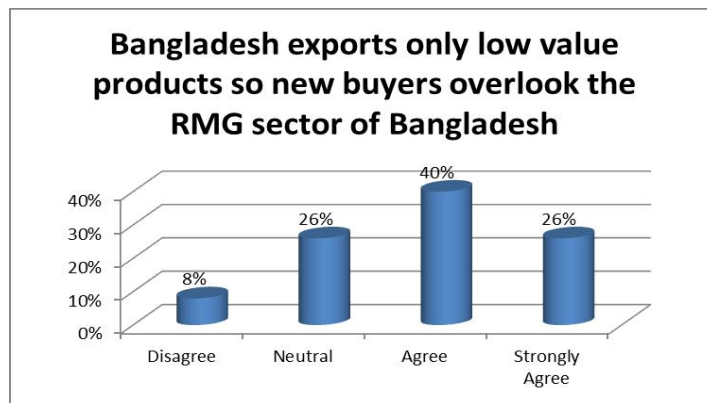


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 30% were neutral, 32% just agreed and rest of 24% highly agreed that Bangladesh fails to keep the position of top export country in the world. Though there were difference among opinions but only 14% disagreed that Bangladesh fails to keep the position of top export country in the world.

4. Bangladesh exports only low value products, so new buyers overlook the RMG sector of Bangladesh.

	Frequency	Percent
Disagree	4	8.0
Neutral	13	26.0
Valid Agree	20	40.0
Highly Agree	13	26.0
Total	50	100.0

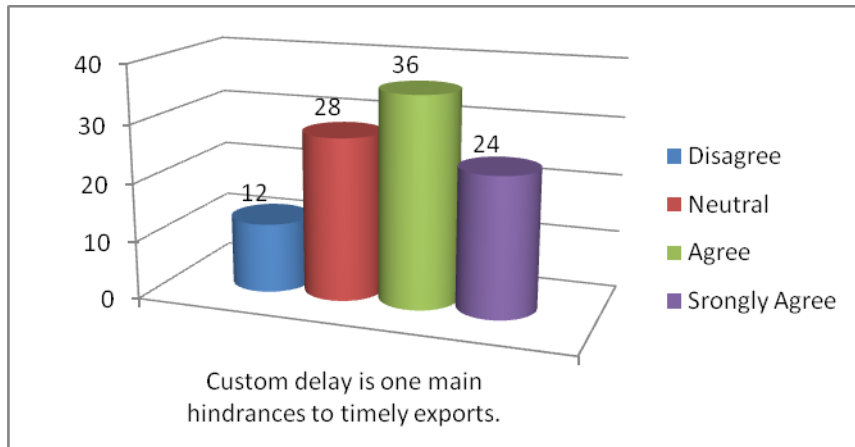


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 26% were neutral, 40% just agreed and rest of 26% highly agreed that Bangladesh exports only low value products so new buyers overlook the RMG sector of Bangladesh. Though there were difference among opinions but only 8% disagreed that we are producing low value products which is hindering to grab new buyers.

5. Custom delay is one of the main hindrances to timely exports

	Frequency	Percent
Disagree	6	12.0
Neutral	14	28.0
Valid Agree	18	36.0
Highly Agree	12	24.0
Total	50	100.0

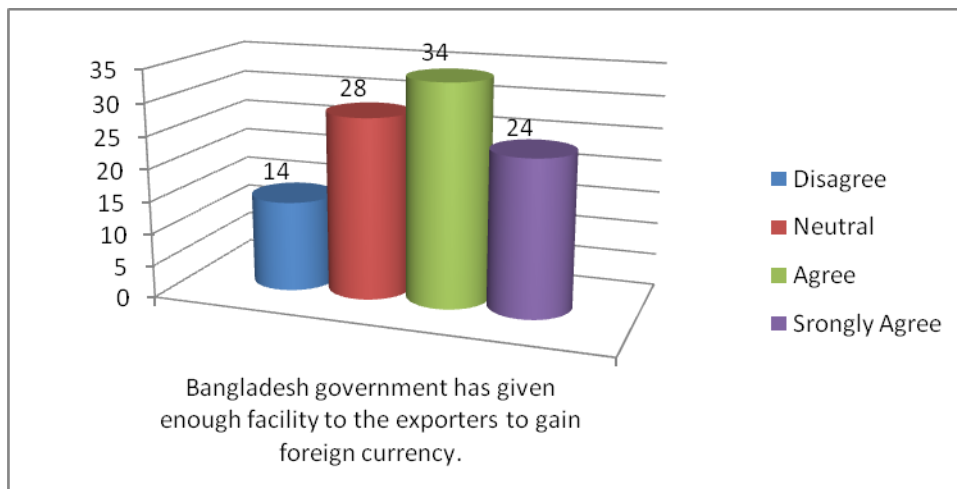


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 36% just agreed and rest of 24% highly agreed that Custom delay is one of the main hindrances to timely exports. Though there were differences among opinions but only 12% disagreed that we are facing a lot problem with our customs delay which affected the shipment.

6. Government of Bangladesh has given enough facility to the exporters of Bangladesh to gain foreign currency.

	Frequency	Percent
Disagree	7	14.0
Neutral	14	28.0
Valid Agree	17	34.0
Highly Agree	12	24.0
Total	50	100.0



Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 34% just agreed and rest of 24% highly agreed that Government of Bangladesh has given enough facility to the exporters of Bangladesh to gain foreign currency. Though there were difference among opinions but only 14% disagreed with the statement.

FINDINGS OF THE SECTION 1

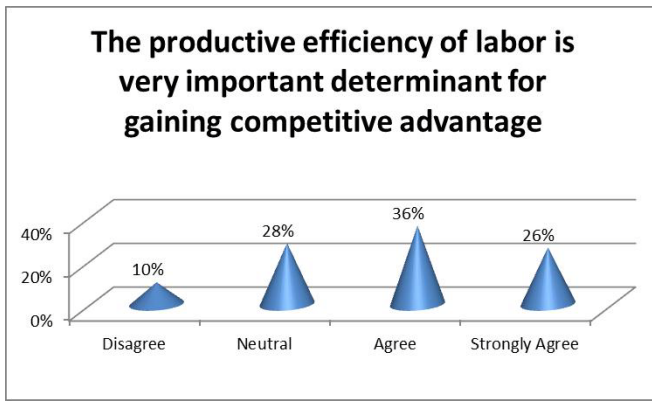
1. RMG sector of Bangladesh is going through a crucial period
 - a. From the survey I found that 62% of the respondents agreed that currently Bangladesh are facing a crucial time period in the RMG sector.

2. Foreign buyers are reducing their interest on Bangladesh's RMG industry day by day
 - a. From the survey I found that 62% of the respondents agreed that new and big buyers often overlook our RMG sector.
3. Bangladesh fails to keep the position of top export country in the world.
 - a. From the survey I found that 56% of the respondent agreed that we keep felling our position in export country's list.
4. Bangladesh exports only low value products so new buyers overlook the RMG sector of Bangladesh.
 - a. From the survey I found that 66% of respondents agreed that most of the garments of Bangladesh produced low price product so that big buyer won't find any interest in our RMG sector.
5. Custom delay is one of the main hindrances to timely exports.
 - a. From the survey I found that 60% of the respondents agreed that custom delay is one of the major issues to lose foreign buyers.
6. Government of Bangladesh has given enough facility to the exporters of Bangladesh to gain foreign currency
 - a. From the survey I found that 58% of the respondents agreed that government gave enough facility to grab new buyers.

4.12.2 Section 2 (Lack of Skilled Labor)

1. **The productive efficiency of labor is very important determinant for gaining competitive advantage.**

	Frequency	Percent
Disagree	5	10.0
Neutral	14	28.0
Valid Agree	18	36.0
Highly Agree	13	26.0
Total	50	100.0

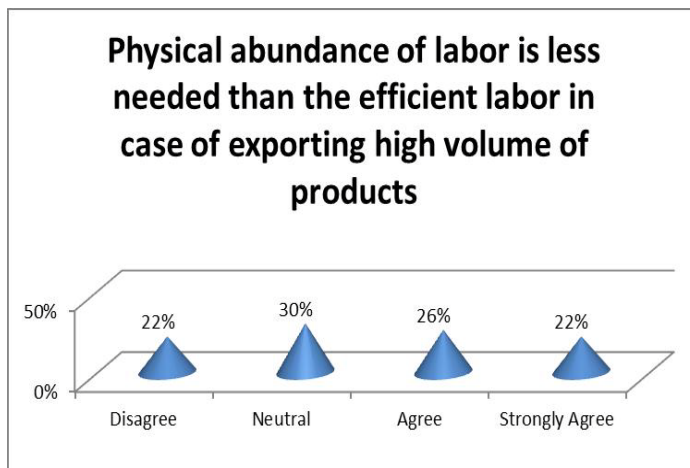


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 36% just agreed and rest of 26% highly agreed that The productive efficiency of labor is very important determinant for gaining competitive advantage. Though there were differences among opinions but only 10% disagreed with the statement.

2. Physical abundance of labor is less needed than the efficient labor in case of exporting high volume of products.

	Frequency	Percent
Disagree	11	22.0
Neutral	15	30.0
Valid Agree	13	26.0
Highly Agree	11	22.0
Total	50	100.0

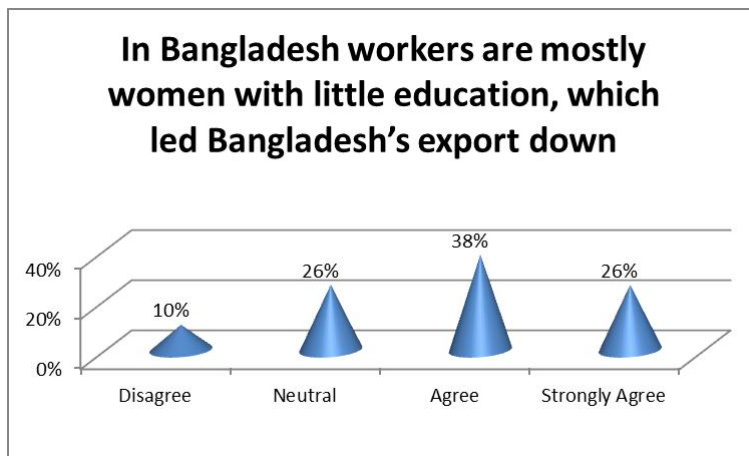


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 30% were neutral, 26% just agreed and rest of 22% highly agreed that The productive efficiency of labor is very important determinant for gaining competitive advantage. Though there were differences among opinions but 22% disagreed with the statement.

3. In Bangladesh workers are mostly women with little education, which led Bangladesh’s export down.

	Frequency	Percent
Disagree	5	10.0
Neutral	13	26.0
Valid Agree	19	38.0
Highly Agree	13	26.0
Total	50	100.0



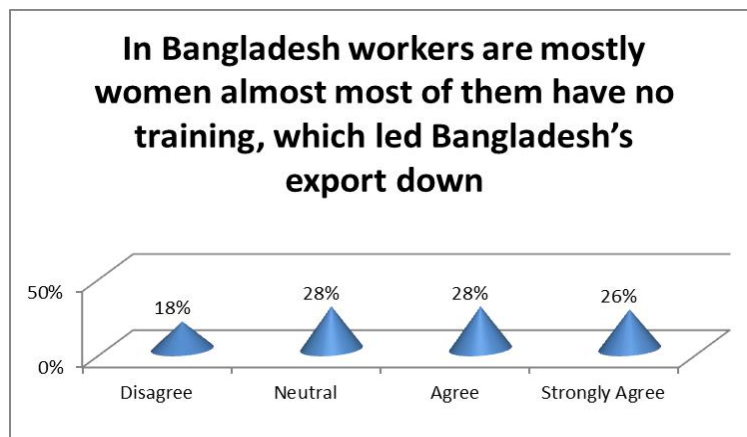
Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 26% were neutral, 38% just agreed and rest of 26% highly agreed that in Bangladesh workers are mostly women with little education, which led to Bangladesh’s export down. Though there were differences among opinions but only 10% disagreed with the

statement.

4. In Bangladesh workers are mostly women almost most of them have no training, which led Bangladesh's export down

	Frequency	Percent
Disagree	9	18.0
Neutral	14	28.0
Valid Agree	14	28.0
Highly Agree	13	26.0
Total	50	100.0

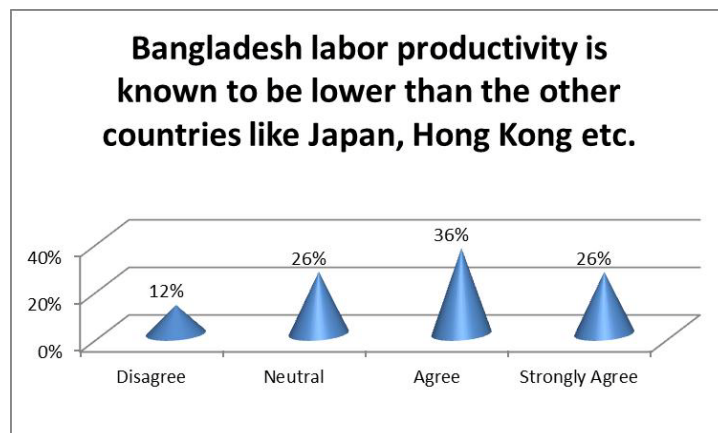


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 28% just agreed and rest of 26% highly agreed that in Bangladesh workers are mostly women almost most of them have no training, which led Bangladesh's export down. Though there were differences among opinions but only 18% disagreed with the statement.

5. Bangladesh labor productivity is known to be lower than the other countries like Japan, Hong Kong etc.

	Frequency	Percent
Disagree	6	12.0
Neutral	13	26.0
Valid Agree	18	36.0
Highly Agree	13	26.0
Total	50	100.0

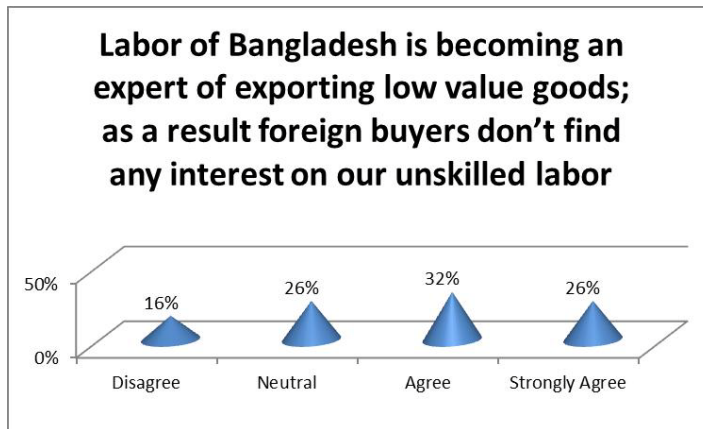


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 26% were neutral, 36% just agreed and rest of 26% highly agreed that Bangladesh labor productivity is known to be lower than the other countries like Japan, Hong Kong etc. Though there were differences among opinions but only 12% disagreed with the statement.

6. Labor of Bangladesh is becoming an expert of exporting low value goods; as a result foreign buyers don't find any interest on our unskilled labor

	Frequency	Percent
Disagree	8	16.0
Neutral	13	26.0
Valid Agree	16	32.0
Highly Agree	13	26.0
Total	50	100.0



Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 26% were neutral, 32% just agreed and rest of 26% highly agreed that Labor of Bangladesh is becoming an expert of exporting low value goods, as a result foreign buyers don't find any interest on our unskilled labor. Though there were differences among opinions but only 16% disagreed with the statement.

FINDINGS OF THE SECTION 2

1. The productive efficiency of labor is very important determinant for gaining competitive advantage.

- a. From the survey I found that 62% of the respondents agreed that efficiency of labor is a very important component for competitive advantage.
2. Physical abundance of labor is less needed than the efficient labor in case of exporting high volume of products.
 - a. From the survey I found that 48% of the respondents agreed that physical labor is more important than efficient labor but 22% were disagreed with that statement.
3. In Bangladesh workers are mostly women with little education, which led Bangladesh's export down.
 - a. From the survey I found that 64% of the respondents agreed that women labor of our country have little education for efficient labor.
4. In Bangladesh workers are mostly women almost most of them have no training, which led

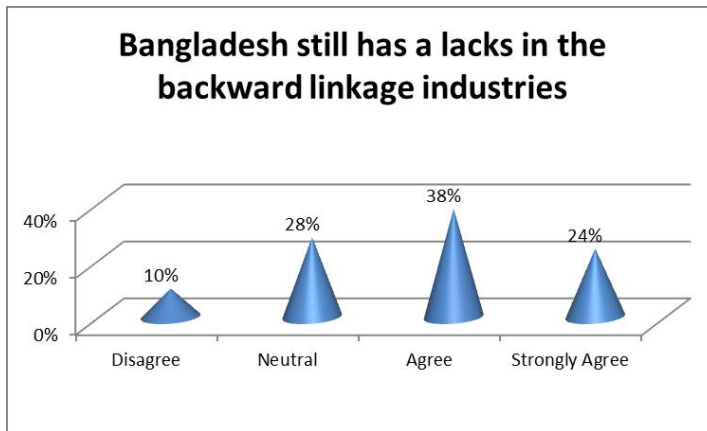
Bangladesh's export down

- a. From the survey I found that 54% of the respondents agreed that women labor of our country have little training for effective labor.
5. Bangladesh labor productivity is known to be lower than the other countries like Japan, Hong Kong etc.
 - a. From the survey I found that 62% of the respondents agreed that Bangladesh is lagging behind than the other nearby our country regarding labor productivity.
6. Labor of Bangladesh is becoming an expert of exporting low value goods; as a result foreign buyers don't find any interest on our unskilled labor.
 - a. From the survey I found that 58% of the respondents agreed that labor of our country is becoming expert of exporting low value goods which decrease foreign buyer's attraction.

4.12.3 Section 3 (Lack of backward linkage integration)

1. Bangladesh still has a lacks in the backward linkage industries

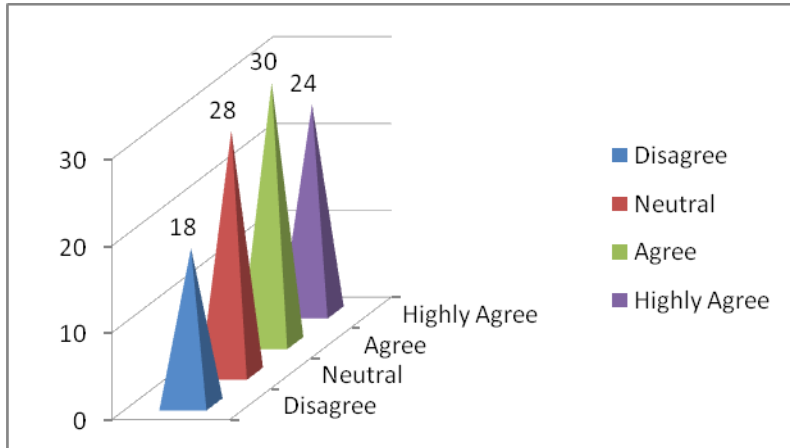
	Frequency	Percent
Disagree	5	10.0
Neutral	14	28.0
Valid Agree	19	38.0
Highly Agree	12	24.0
Total	50	100.0



From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 38% just agreed and rest of 24% highly agreed that Bangladesh still lacks in the backward linkage industries. Though there were differences among opinions but only 10% disagreed with the statement.

2. The Vital industries still depend heavily on imported fabrics

	Frequency	Percent
Disagree	9	18.0
Neutral	14	28.0
Valid Agree	15	30.0
Highly Agree	12	24.0
Total	50	100.0

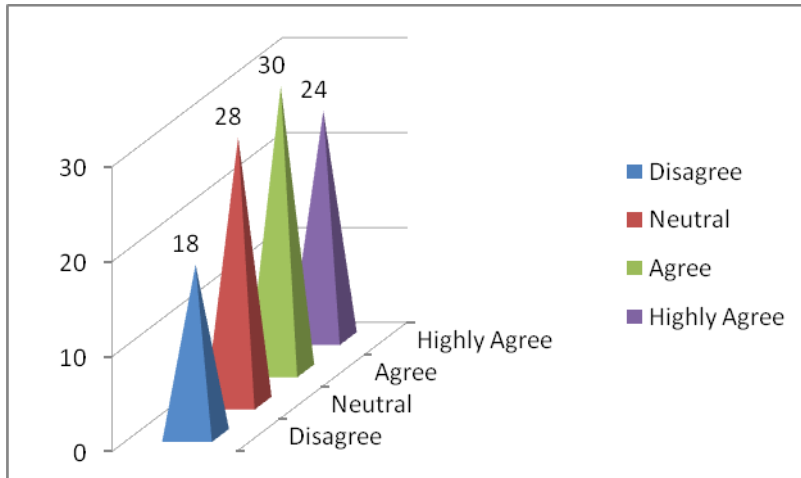


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 30% just agreed and rest of 24% highly agreed that the vital industries still depend heavily on imported fabrics. Though there were differences among opinions but only 18% disagreed with the statement.

3. The trend of back to back import has been declining over the years

	Frequency	Percent
Disagree	9	18.0
Neutral	12	24.0
Valid Agree	17	34.0
Highly Agree	12	24.0
Total	50	100.0

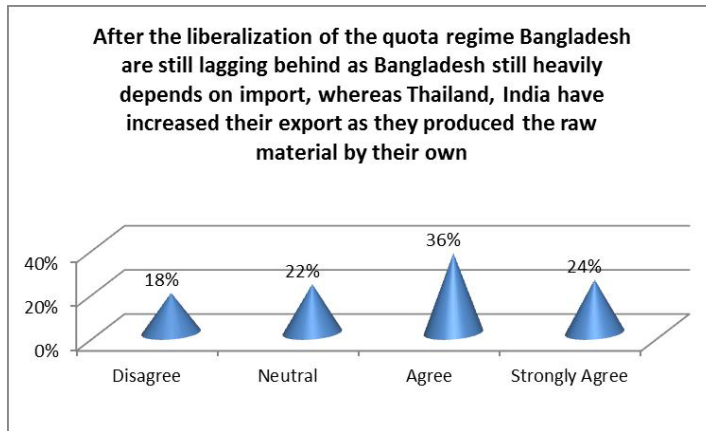


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 24% were neutral, 34% just agreed and rest of 24% highly agreed that the trend of back to back import has been declining over the years. Though there were differences among opinions but only 18% disagreed with the statement.

4. After the liberalization of the quota regime Bangladesh are still lagging behind as Bangladesh still heavily depends on import, whereas Thailand, India have increased their export as they produced the raw material by their own

	Frequency	Percent
Disagree	9	18.0
Neutral	11	22.0
Valid Agree	18	36.0
Highly Agree	12	24.0
Total	50	100.0

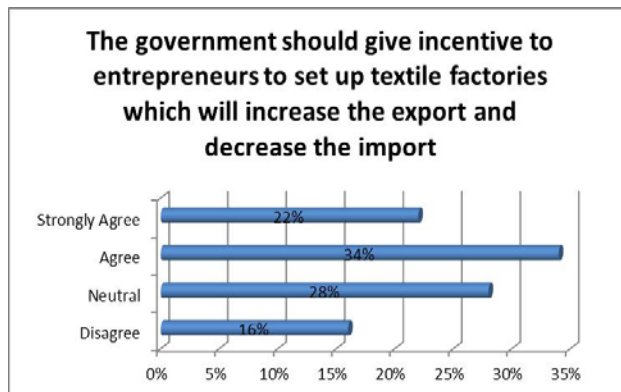


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 22% were neutral, 36% just agreed and rest of 24% highly agreed that after the liberalization of the quota regime Bangladesh are still lagging behind as Bangladesh still heavily depends on import, whereas Thailand, India have increased their export as they produced the raw material by their own. Though there were differences among opinions but only 18% disagreed with the statement.

5. The government should give incentive to entrepreneurs to set up textile factories which will increase the export and decrease the import

	Frequency	Percent
Disagree	8	16.0
Neutral	14	28.0
Valid Agree	17	34.0
Highly Agree	11	22.0
Total	50	100.0



Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 34% just agreed and rest of 22% highly agreed that the government should give incentive to entrepreneurs to set up textile factories which will increase the export and decrease the import. Though there were differences among opinions but only 16% disagreed with the statement.

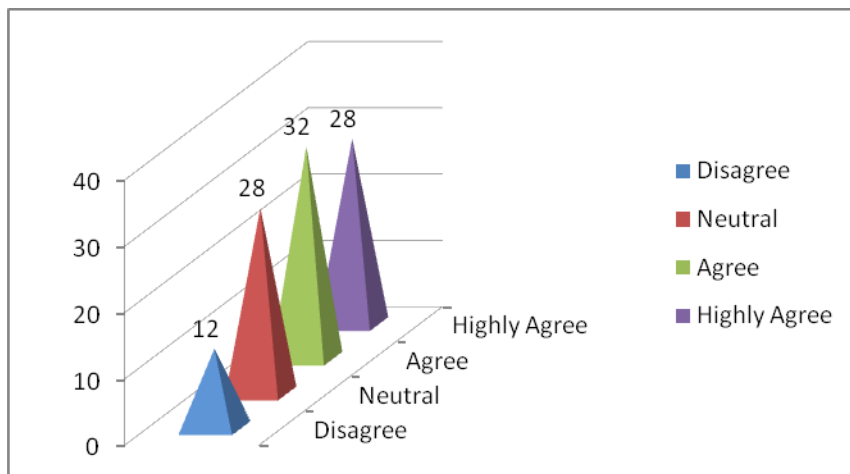
FINDINGS OF THE SECTION 3

1. Bangladesh still lacks in the backward linkage industries.
 - a. From the survey I found that 62% of the respondents agreed that we are still have a lack of backward linkage industries.
2. The Vital industries still depend heavily on imported fabrics.
 - a. From the survey I found that 54% of the respondents agreed that vital industries still depended on imported raw materials.
3. The trend of back to back import has been declining over the years.
 - a. From the survey I found that 58% of the respondents agreed that back to back import has been declining over the years but still it is not satisfactory as we are still lagging behind.
4. After the liberalization of the quota regime Bangladesh are still lagging behind as Bangladesh still heavily depends on import, whereas Thailand, India have increased their export as they produced the raw material by their own
 - a. From the survey I found that 60% of the respondents agreed that in this quota regime we are still lagging behind in export and still depend on import.
5. The government should give incentive to entrepreneurs to set up textile factories which will increase the export and decrease the import
 - a. From the survey I found that 56% of the respondents agreed that government should give more incentive and setting up more EPZ so that we can reduce our import.

4.12.4 Section 4 (HIGH LEAD TIME AFFECTS THE PRODUCTION)

1. Lead time is a crucial factor maintaining the export competitiveness

	Frequency	Percent
Disagree	6	12.0
Neutral	14	28.0
Valid Agree	16	32.0
Highly Agree	14	28.0
Total	50	100.0

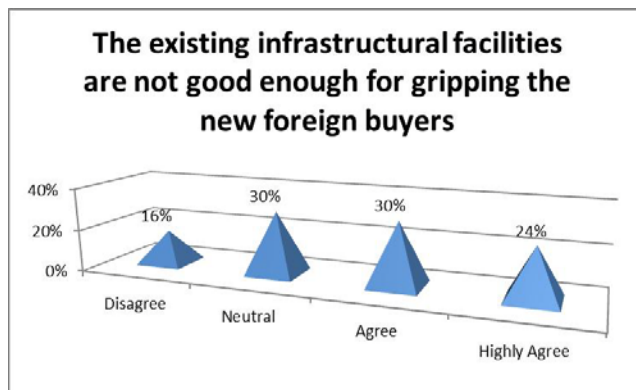


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 32% just agreed and rest of 28% highly agreed that lead time is a crucial factor maintaining the export competitiveness. Though there were differences among opinions but only 12% disagreed with the statement.

2. The existing infrastructural facilities are not good enough for gripping the new foreign buyers

	Frequency	Percent
Disagree	8	16.0
Neutral	15	30.0
Valid Agree	15	30.0
Highly Agree	12	24.0
Total	50	100.0

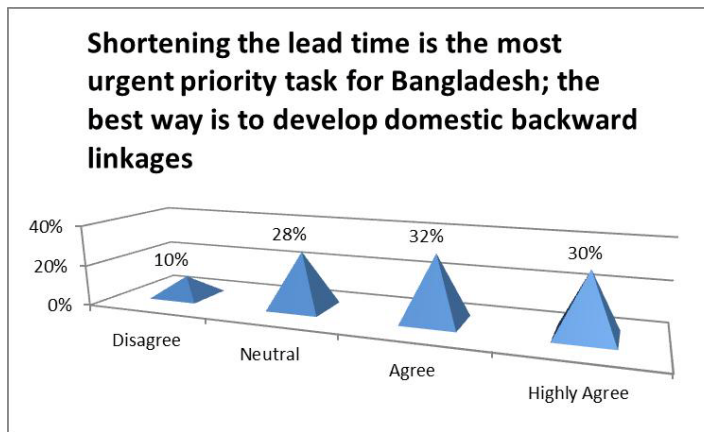


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 30% were neutral, 30% just agreed and rest of 24% highly agreed that the existing infrastructural facilities are not good enough for gripping the new foreign buyers. Though there were differences among opinions but only 16% were disagreed with the statement.

3. Shortening the lead time is the most urgent priority task for Bangladesh; the best way is to develop domestic backward linkages

	Frequency	Percent
Disagree	5	10.0
Neutral	14	28.0
Valid Agree	16	32.0
Highly Agree	15	30.0
Total	50	100.0

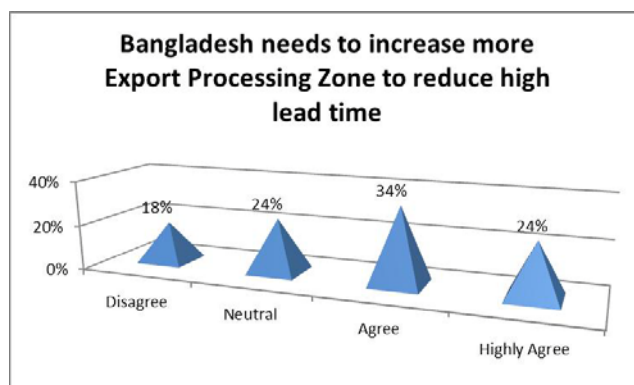


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 32% just agreed and rest of 30% highly agreed that shortening the lead time is the most urgent priority task for Bangladesh; the best way is to develop domestic backward linkages. Though there were differences among opinions but only 10% disagreed with the statement.

4. Bangladesh needs to increase more Export Processing Zone to reduce high lead time.

	Frequency	Percent
Disagree	9	18.0
Neutral	12	24.0
Valid Agree	17	34.0
Highly Agree	12	24.0
Total	50	100.0

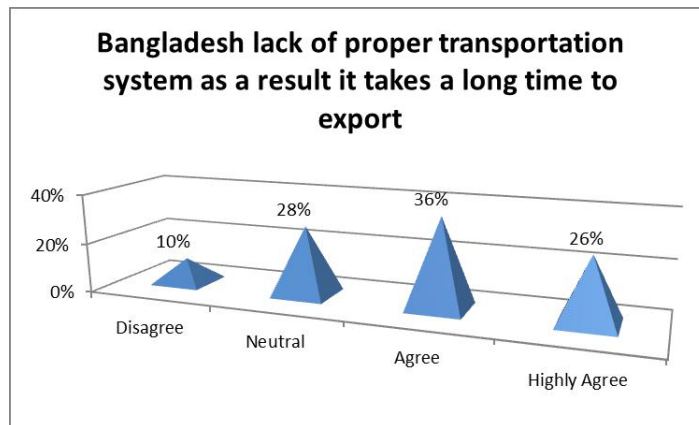


Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 24% were neutral, 34% just agreed and rest of 24% highly agreed that Bangladesh needs to increase more Export Processing Zone to reduce high lead time. Though there were differences among opinions but only 18% disagreed with the statement.

5. Bangladesh has lack of proper transportation system as a result it takes a long time to export

	Frequency	Percent
Disagree	5	10.0
Neutral	14	28.0
Valid Agree	18	36.0
Highly Agree	13	26.0
Total	50	100.0



Findings from the frequency table & graph:

From the frequency table and the graph we can see that according to my survey out of 50 respondents, 28% were neutral, 36% just agreed and rest of 26% highly agreed that Bangladesh has lack of proper transportation system as a result it takes a long time to export.. Though there were differences among opinions but only 10% disagreed with the statement.

FINDINGS OF THE SECTION 4

1. Lead time is a crucial factor maintaining the export competitiveness.
 - a. From the survey I found that 60% of the respondents agreed that lead time is an important component for maintaining export competitiveness.
2. The existing infrastructural facilities are not good enough for gripping the new foreign buyers.
 - a. From the survey I found that 54% of the respondents agreed that currently our infrastructure is not well enough for gripping new buyers.
3. Shortening the lead time is the most urgent priority task for Bangladesh; the best way is to develop domestic backward linkages.
 - a. From the survey I found that 62% of the respondents agreed that maintaining lead time is now our most priority task to overcome backward linkage integration.
4. Bangladesh needs to increase more Export Processing Zone to reduce high lead time
 - a. From the survey I found that 58% of the respondents agreed that we need more EPZ to reduce lead time.
5. Bangladesh lack of proper transportation system as a result it takes a long time to export
 - a. From the survey I found that 62% of the respondents agreed that because of poor communication we felt to achieve low lead time.

4.13 Regression analysis:

Here I focused on proving how skilled labors and backward integration influences our national RMG exports. So my hypothesis being:

H_0 : RMG exports are not influenced by skilled labor and backward linkage integration.

H_1 : RMG exports are influenced by skilled labor and backward linkage integration.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711 ^a	.506	.485	.48344

a. Predictors: (Constant), Lack of backward linkage integration, Lack of skilled labor

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.237	2	5.619	24.041	.000 ^a
	Residual	10.984	47	.234		
	Total	22.222	49			

a. Predictors: (Constant), Lack of backward linkage integration, Lack of skilled labor

b. Dependent Variable: Losing foreign buyers and decreasing exports

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.483	.675		-.716	.478	-1.841	.875
	Lack of skilled labor	.649	.165	.405	3.932	.000	.317	.981
	Lack of backward linkage integration	.502	.094	.549	5.334	.000	.312	.691

a. Dependent Variable: Losing foreign buyers and decreasing exports

As the p-value of lack of skilled labor & backward linkage integration falls outside the 95% confidence interval, it is evident that lack of skilled labor and lack of backward linkage integration substantially decreases RMG exports. Moreover, the value of 'r' being 0.711 shows that skilled labor & backward integration are strongly positively related with RMG exports. If these independent variables go through a positive trend, it will have a positive impact on RMG exports.

The value of 'R-square' being 0.506, also adds to the validity of the following model and shows the strength of the model is moderately strong.

$$Y = -0.483 + 0.649 A + 0.502 B + \mu$$

Here,

Y = Losing foreign buyers & decreasing exports

A= Lack of skilled labor

B= Lack of backward linkage integration.

The Banking sector of Bangladesh invests and its performance relies to a great level on the RMG sector of our country. As lack of skilled labor & backward linkage integration creates a negative impact on the RMG exports of our country, our banking industry also gets hampered in the process. Decreased exports lead to reduced Banking involvement in this sector. Lesser banking transaction, leads to reduced commission earned by the banks through conducting export

transactions from the RMG sector. As the RMG sector goes through a rough patch, it not only reduces our national exports but also adversely affects our banking sector.

4.14 UNITED COMMERCIAL BANK LTD'S EXPOSURE IN THE RMG SECTOR

United Commercial Bank Ltd, unlike the other leading third generation banks, is lacking to reap benefits in the garments sector. The Exim Bank, which was established at about the same time has more exposure in the same sector. Exim earns 90% of its profit earnings through investments in apparel and its related industry. The major reason that could be attributed to this is lack of proper manpower, lack of training, insignificance towards involvement in this sector due to perceived complexity affiliated with the RMG sector. However, in the recent years, the bank management has decided to explore this sector as it is the only thrust sector for the Bangladesh economy as we have seen in the detailed analysis of various aspects of this sector. The management in beginning has chalked out some strategies to address the objectives which are proper recruitment, timely delivery of services, and monitoring of the garment units from the head office loans department.

(Fig in millions)

Bank's Name	Total Export	Total Operating Income	Exchange Gain	Commission
Islami Bank Ltd	80,028.00	9,946.80	1,429.20	1,665.60
EXIM	66,948.00	2,820.00	536.40	712.80
IFIC	65,838.00	3,299.00	414.00	490.80
PRIME	61,579.20	4,816.00	745.20	619.20
Mercantile	39,204.12	2,401.00	508.80	439.20
NBL	38,188.80	4,349.00	776.40	858.00
Southeast Bank	34,525.20	3,817.00	564.00	825.60
EBL	32,007.60	2,820.00	434.40	328.80
Bank Asia	24,500.40	2,253.00	412.80	426.00
One Bank	23,292.00	1,527.00	242.40	295.20
City Bank	22,981.20	2,572.00	318.00	320.40
DBBL	16,788.00	1,328.00	180.00	204.00

Source: Annual Report

4.15 LIMITATION OF THE STUDY

The report might have facing some constraints which will be:

- ❑ Difficulty in gaining accesses to sufficient data because of the time constraint.

- ❑ Unavailability of necessary documents.

- ❑ In collecting information, there might be some problem because of the excessive nature of confidentiality maintained by the officials.

☒ Sometimes data might not be verified.

☒ I have conducted the survey on Dhaka based data might be different outside of the Dhaka as well as the results.

CHAPTER 4:

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION AND RECOMMENDATION

Bangladesh economy at present is more globally integrated than at any time in the past. The MFA phase-out will lead to more efficient global readjustments of the textile and the clothing industry. The phase out was expected to have negative impact on the economy of Bangladesh.

Cheap labor is no longer considered to be a mainstay of competitive advantage. The need for establishing strong backward linkage was appropriately realized and accordingly necessary steps were taken by all quarters of RMG industry, which has been reflected in decreased pattern of back to back import supported by increased domestic value addition. However further progress is in order, and a strong public sector role is necessary to facilitate the establishment of textile mills with global standards. An appropriate policy regime is needed to encourage the importation of technology, intermediate and raw materials, so that the local industries get a chance to reduce its average cost to international level and narrow the lead time.

To remain competitive in the post-MFA phase, Bangladesh needs to remove all the structural weaknesses in the transportation facilities, telecommunication network, and power supply, management of seaport, utility services and in the law and order situation. The government and the RMG sector would have to jointly worked together to maintain competitiveness in the global RMG market. Given the remarkable entrepreneurial initiatives and the dedication of its workforce, Bangladesh can look forward to advancing its share of the global RMG market.

- Reducing lead time is the most urgently priority task for Bangladesh.
- The best way is to develop domestic backward linkages with the aim of reducing “production and distribution.
- Such a strategy would have a positive impact on surface-level performance.
- An alternative solution would be to establish a central or common bonded warehouse in the private sector for storing raw materials usable in the export-oriented garments industry.

- It should be special incentive such as duty free import.

- Set up more textile factories.

- Upgrade the communication system.

- Implement of all existing labour laws is necessary.

- New labour law should be formulated according to the needs of country's labor market.

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Appendix

Survey Results

	QUES1	QUES2	QUES3	QUES4	QUES5	QUES6	LOSING FOREIGN BUYERS & DECREASING EXPORTS
R1	5	4	5	5	3	5	4.50
R2	5	5	5	4	5	4	4.67
R3	4	4	4	5	3	4	4.00
R4	3	3	4	5	3	5	3.83
R5	5	4	5	4	5	4	4.50
R6	4	5	3	4	2	4	3.67
R7	5	4	5	5	5	5	4.83
R8	4	3	4	4	4	3	3.67
R9	4	4	4	3	4	5	4.00
R10	5	5	5	4	4	4	4.50
R11	4	4	4	5	5	5	4.50
R12	3	4	5	5	4	4	4.17
R13	5	5	4	3	4	3	4.00
R14	4	4	3	4	4	4	3.83
R15	5	4	5	3	5	5	4.50
R16	4	4	4	5	3	4	4.00
R17	4	3	4	5	2	4	3.67
R18	5	3	2	2	4	4	3.33
R19	3	4	4	4	3	3	3.50
R20	5	4	4	4	5	5	4.50
R21	4	5	5	5	4	4	4.50
R22	5	4	5	3	3	4	4.00
R23	4	3	3	2	3	4	3.17
R24	5	4	4	4	5	5	4.50
R25	4	5	4	4	3	4	4.00
R26	4	4	5	5	4	4	4.33
R27	5	4	2	3	2	3	3.17
R28	4	5	3	3	5	4	4.00
R29	3	3	4	4	4	2	3.33
R30	5	5	4	4	4	2	4.00
R31	4	4	2	2	3	2	2.83
R32	4	5	3	5	5	5	4.50
R33	3	4	3	2	2	3	2.83
R34	3	3	4	4	3	3	3.33
R35	4	5	5	5	5	5	4.83

R36	3	4	3	3	3	2	3.00
R37	4	3	3	4	4	2	3.33
R38	3	3	3	4	3	3	3.17
R39	3	3	3	4	3	3	3.17
R40	2	2	3	4	4	3	3.00
R41	2	2	3	4	4	3	3.00
R42	3	3	4	3	2	4	3.17
R43	2	3	2	3	3	3	2.67
R44	2	3	2	3	4	3	2.83
R45	3	3	3	4	4	3	3.33
R46	2	2	3	3	4	2	2.67
R47	3	2	3	3	2	2	2.50
R48	3	2	2	3	4	3	2.83
R49	4	5	2	4	5	5	4.17
R50	4	5	5	5	5	5	4.83

Lack of Skilled Labor

Ques1	Ques2	Ques3	Ques4	Ques5	Ques6	Mean
5	5	3	2	4	5	4.00
4	2	5	4	4	4	3.83
3	5	4	5	2	3	3.67
4	3	5	5	4	5	4.33
5	4	5	3	5	3	4.17
3	5	2	2	3	5	3.33
4	5	4	3	4	4	4.00
5	3	3	5	5	5	4.33
3	3	3	4	2	3	3.00
4	5	4	2	5	5	4.17
5	4	4	5	4	3	4.17
2	5	2	3	4	5	3.50
4	2	4	2	5	4	3.50
4	5	3	5	4	5	4.33
4	2	5	4	5	3	3.83
2	5	4	3	3	5	3.67
5	2	4	2	4	4	3.50
3	2	3	5	5	5	3.83
4	2	4	5	4	3	3.67
2	5	5	2	3	5	3.67
4	2	3	3	5	2	3.17
4	5	4	5	3	5	4.33
5	4	2	3	5	4	3.83
2	5	4	4	4	5	4.00
3	2	5	2	3	3	3.00
5	4	3	5	3	5	4.17
3	3	3	3	5	4	3.50
4	2	4	4	4	2	3.33
2	4	4	2	2	4	3.00
3	3	2	4	5	3	3.33
4	4	4	3	3	2	3.33
5	2	5	5	4	4	4.17
3	3	4	4	5	2	3.50
5	3	3	5	4	4	4.00
4	4	5	4	5	3	4.17
3	4	2	3	2	4	3.00
4	3	4	5	4	4	4.00
5	3	3	3	3	2	3.17

3	4	5	4	4	3	3.83
3	3	3	4	3	4	3.33
4	4	5	2	4	2	3.50
5	3	3	3	2	4	3.33
3	3	4	4	3	2	3.17
3	4	5	3	4	4	3.83
4	3	4	3	3	3	3.33
5	4	5	4	3	3	4.00
3	2	4	3	4	4	3.33
4	3	3	4	3	2	3.17
4	4	4	4	2	3	3.50
5	3	5	5	5	4	4.50
						3.69

LACK OF BACKWARD LINKAGE INTEGRATION

QUES1	QUES2	QUES3	QUES4	QUES5	MEAN
5	5	4	5	5	4.80
4	5	5	4	4	4.40
5	4	5	5	3	4.40
4	3	4	3	4	3.60
5	5	4	4	5	4.60
4	4	5	5	3	4.20
5	5	3	3	4	4.00
4	4	2	4	3	3.40
4	4	5	5	5	4.60
5	2	4	3	4	3.60
3	3	2	3	3	2.80
4	4	4	4	4	4.00
5	5	4	5	3	4.40
3	2	2	2	4	2.60
4	4	5	4	5	4.40
5	5	3	4	4	4.20
2	3	2	3	2	2.40
4	4	4	5	2	3.80
3	3	3	4	4	3.40
5	5	4	2	3	3.80
3	5	4	5	5	4.40
5	4	5	3	4	4.20
3	3	3	4	2	3.00
5	4	4	2	4	3.80
4	5	5	5	2	4.20
4	3	4	3	4	3.60
5	4	3	4	5	4.20
4	5	5	4	3	4.20
3	2	4	2	4	3.00
3	5	5	3	3	3.80
4	4	5	5	5	4.60
4	3	4	4	4	3.80
3	3	2	3	3	2.80
2	3	2	2	4	2.60
4	4	4	4	5	4.20
3	2	3	3	3	2.80
4	2	3	2	4	3.00
3	4	2	4	2	3.00

4	3	4	4	4	3.80
3	4	4	5	5	4.20
2	2	2	3	2	2.20
3	3	3	4	3	3.20
2	3	3	2	2	2.40
4	2	3	4	4	3.40
4	3	4	5	5	4.20
3	2	3	4	3	3.00
3	2	2	2	3	2.40
2	3	3	2	2	2.40
5	4	5	5	3	4.40
4	5	5	4	5	4.60