

An Internship Report  
On  
**LOAN ADVANCE SYSTEM OF ECO-SOCIAL DEVELOPMENT  
ORGANIZATION (ESDO) STUDY IN CONTEXT OF BONPARA,  
NATORE**

An Internship Report Presented to the Faculty of Business Studies,  
Hajee Mohammad Danesh Science and Technology University, Dinajpur  
For the Fulfillment of the Degree of Masters of Business Administration (Evening MBA) program, 2015

**SUBMITTED TO**

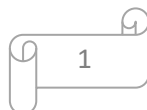
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**Hajee Mohammad Danesh Science and Technology University, Dinajpur-  
5200**



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**PREPARED BY**

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## **ACCEPTANCE LETTER**

*This is to certify that **ANIBHUSHON ROY**, a student of MBA, Department of Finance and Banking, Student ID. 130501104 has successfully completed his internship program in **ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)** Bonpara, Natore Branch titled on “**LOAN ADVANCE SYSTEM**” under my supervision. He is directed to submit the report for evaluation.*

I wish him every success in life.

---

**Supervisor**

**SHAHANAZ PARVIN**

Assistant Professor

Department of Finance & Banking

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HSTU, Dinajpur

# LETTER OF TRANSMITTAL

May 06, 2016

**SHAHANAZ PARVIN**

Assistant Professor

Department of Finance & Banking

Faculty of Business Studies

Hajee Mahammad Danesh Science and Technology University, Dinajpur

**Subject:** Submission of Internship Report.

Dear Madam,

With due respect please note that I submit the internship report on '*LOAN ADVANCE SYSTEM OF ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)*' as partial requirement of internship program under your direct supervision.

I have tried my best to follow your guidelines in every aspect of planning and preparing my report. I have collected data that I believe to be most important to make my report as specific as possible. This study has provided me an opportunity to increase my understanding about financial management system of a non-government organization.

So, it will be my honor if you kindly accept my internship report. I shall be pleased to answer any queries relating to this submission.

Thank You.

Sincerely Yours

**ANIBHUSHON ROY**

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Major: Finance and Banking

MBA (Evening) 1st Batch

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## **STUDENT’S DECLARATION**

I hereby declare that the concerned report “*LOAN ADVANCE SYSTEM OF ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)*” is a prepared after successfully completed my internship on Financial Management at ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO), Bonpara, Natore. I also declare that the publication is written on my internship working experience and activities. I assure that the publication hasn’t collected from any sources and books. I assure that the work will not hamper the mentioned company rules and regulation.

---

**ANIBHUSHON ROY**

**Id No: E-130501104**

Major: Finance and Banking

MBA (Evening) 1st Batch

Faculty of Business Studies

**Hajee Mohammad Danesh Science and Technology University, Dinajpur**

## **SUPERVISOR’S DECLARATION**

I hereby declare that the concerned internship report entitled ‘**LOAN ADVANCE SYSTEM OF ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)**’ is submitted by ANIBHUSHON ROY. Student no. E-130501104, M.B.A. (Major in Finance and Banking), Hajee Mohammad Danesh Science and Technology University, Dinajpur- 5200, completed his internship under our supervision and submitted for the partial fulfillment of the requirement of the degree of Masters of Business Administration (MBA) at HSTU, Dinajpur.

I wish him every success in life.

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**SHAHANAZ PARVIN**

Supervisor

Assistant Professor

Department of Finance & Banking

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## **CO-SUPERVISOR'S DECLARATION**

I hereby declare that the concerned internship report entitled '**LOAN ADVANCE SYSTEM OF ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)**' is submitted by ANIBHUSHON ROY. Student no. E-130501104, M.B.A. (Major in Finance and Banking), Hajee Mohammad Danesh Science and Technology University, Dinajpur- 5200, completed his internship under our supervision and submitted for the partial fulfillment of the requirement of the degree of Masters of Business Administration (MBA) at HSTU, Dinajpur.

I wish him every success in life.

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**MD. MAMUNUR RASHID**

Co-Supervisor

Associate Professor

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HSTU, Dinajpur

## ACKNOWLEDGEMENT

For the very first of all I would like to express my gratefulness and harmony to the ALLMIGHTY the supreme authority of the Universe, whom we would be nothing. Next I would like to express my kindness to my beloved parents whose continuous inspiration enrages me to make a right move in my life.

I would like to express my gratitude to my academic supervisor **Shahanaz Parvin**, Assistant Professor, Department of Finance & Banking, Faculty of Business Studies, HSTU, Dinajpur.

Her valuable suggestion and guideline helped me a lot to prepare the report in a well organized manner.

I want to thank all the officials of “**ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)**” who were involved to prepare my internship report. I would especially show my gratitude to chairman of ESDO for giving me huge time and sharing his thoughts and insights regarding their financial planning and system, project activities and strategies. I would like to thank him for giving me the required information to commence this report and for providing the permission to conduct the study. I would also like to express my gratitude to all my colleagues especially the Finance and Administration team of ESDO for helping me to create this report.

Thanking at last but not least, the Hajee Mohammad Danesh Science and Technology University, Dinajpur, Bangladesh for giving me an opportunity to complete my MBA (Evening) degree and give me a chance to gather practical experience and enrich my knowledge.

May ALLMIGHTY bless all of them.



## EXECUTIVE SUMMARY

**ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO)**, a non political, not for profit and non government organization with the aim of encouraging poor disable person, ultra poor people and women to become self-reliant and not to be dependent on others. ESDO enables them to become contributing productive members of society and helps them to lead their lives with dignity and self respect.

The main objective of this study is to explore the financial management system of ESDO. For accomplishing the study, data were collected both from primary and secondary sources. A number of discussions were made in order to understand different financial issues and activities.

ESDO gives priority in maintaining excellent financial management system after incorporation. ESDO believes good practice in financial management can help financial manager and project coordinator to be effective and efficient stewards of the resources to achieve objectives and fulfill commitments to stakeholders. Officers at every level in Finance department have a role to play in handling the financial activities and risks, answer to donors and beneficiaries and deliver results to the stakeholders.

Financial planning in ESDO involves building both longer term funding strategies and shorter term budgets and forecasts. Once plans are set, ESDO draws up its budgets and cash flow forecast to help the implementation of plans.

ESDO is receiving fund for one project. ESDO receives funds from the donors according to agreement and other sources of fund like social contributors, member's subscription, donation, service charge, etc. ESDO maintains separate bank account for its projects and open the bank account in any scheduled bank in the project area by taking resolution of the Executive committee. Bank reconciliation statement is prepared by a Finance officer in every month to reconcile the bank balances.

All fixed assets are recorded in fixed assets register. The fixed assets are physically verified at the end of each year and results are reconciled with fixed assets register. Different types of internal risks are managed by using a series of controls, checks and balances. Internal

controls are also very important in protecting all those who handle the financial affairs of the as they remove any suspicion of and temptation to dishonesty.

This study finds that there are no internal auditors in ESDO and the internal audit is not conducted on a regular basis. Study also finds a communication gap between the project employees and personnel of finance department which induces the conflict in obtaining and using the funds.

So ESDO should introduce efficient internal audit mechanism in order to examine the financial operations and should generate more funds for expanding and smooth continuation of their project.

## PREFACE

*We devoted our best effort and attention to gather academic knowledge from our academic books. Books are the principle source of knowledge rather than practical. But it is true that education cannot be fulfilled without the combination of these two components.*

*It is matter of immense pleasure to us that the Faculty of Business of Hajee Mohammad Danesh Science & Technology University, Dinajpur has taken massive program entitling “Internship Program” at the end of final examination of MBA with a view to the knowledge of students practically. Undoubtedly, it is a timely endeavor to make our MBA degree holders more dynamic and operational to adept with the ever changing business field.*

*My respected and honorable teacher Shahanaz Parvin, selected the topic “**LOAN ADVANCE SYSTEM OF ECO-SOCIAL DEVELOPMENT ORGANIZATION (ESDO): A Study in Context of Bonpara, Natore Branch**” as my Internship program. I have tried my best to bring out the fulfillment of the report to highlight the aspect of the subject. My effort will be meaningful if this report serves the purpose effectively.*

*I acknowledge with thanks for all suggestion received from my honorable teacher for finishing the program.*

**DEDICATED  
TO  
MY BELOVED  
PARENTS**

**LOAN ADVANCE SYSTEM**  
**OF**  
**ECO-SOCIAL DEVELOPMENT**  
**ORGANIZATION (ESDO)**

## ABSTRACT

This study is a result of short term basis research activity and observation. After the completion of theoretical part of two years EMBA program, this is a short run practical application of knowledge to explore the problems associated with loan and advances practices in ESDO NGO.

NGO is one of the largest and oldest private sector commercial NGO in Bangladesh. It has 211 branches at home and 600 affiliates worldwide create efficient networking and reach rate capability. ESDO adapts new technology both in terms of equipment and practice ensures efficient service to its clients. The term loan and advances, used in this study, means sanctioning and collecting the loan amount with due interest though there are some sort of reschedule and rephrase in this process. Loan sanctioning and recovery is an important part of organizational activities of any organization dealing with loan facilities. ESDO is a private NGO; it is a provider of both long and medium-term loan facilities to various industrial organizations and projects. This study is a bridge between the theory part of education and practical process of loan and advances sanctioning and recovery of ESDO. Introduction part of this study represents the paper exhibits, in details, the research methodology, objectives and limitations of the study. The objective of this study is to explore the loan and advances of ESDO NGO. Analysis part is decorated by various sector-wise loan sanctions and disbursement for last few financial years of ESDO. Several tables have been used to see and analyze the information more closely. These tables show the sector-wise loan sanctioning and outstanding in each of these financial years. Beside this the tables also represent a percentage of loans in each sector compared to other different sectors. Other some tables represent the percentage of mode-wise Loan sanctions. Comparison to other Institutions with ESDO is representing

there. Loan and Advances operation are described there. Approval and loan disbursement process flow are described graphically. The loan and advance department takes a long time to process a loan because the process of sanctioning loan is done manually. Since loan and advances department is not fully automated there is a high risk of losing documents of disbursed loans. Small entrepreneurs are discouraged because ESDO usually doesn't want to finance small entrepreneurs whose financial standing is not clean to them. Finally some recommendations have been provided, on part of this study, for ESDO which will be beneficial for its loan approval and recovery process as well as overall loan practices of ESDO NGO. The procedure of loan sanctioning should be automated to make sanctioning of loan less time consuming and reducing the risk of losing documents of disbursed loans. The NGO should diversify its loans more to finance small entrepreneurs for better growth of the country.

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# Chapter 1

## INTRODUCTION

### 1.1 Organization Background

Eco-Social Development Organization (ESDO) started its journey in 1988 with a noble vision to stand in solidarity with the poor and marginalized. Being a peoples' centered organization, ESDO envisioned for a society which will be free from inequality and injustice, a society where no child will cry from hunger and no life will be ruined by poverty. Over two decades of relentless efforts to make this happen, ESDO has embraced new grounds and opened up new horizons to help the disadvantaged and vulnerable people to bring meaningful and lasting changes in their lives. During this long span, ESDO has adapted with the changing situation and provided the most time-bound services especially for the poor and disadvantaged. A community focused and people centered approach has been adapted by ESDO while consideration was given to the national policy and millennium development Goal (MDG) as its guiding principle. ESDO is one of the most dynamic organizations expanding its development interventions across 131 upazilas under 23 districts of Bangladesh covering over 6.5 million poor and vulnerable people. "Eco-Social Development Organization (ESDO) was established on 3rd April 1988"

### 1.2 ESDO Vision

“We seek an equitable society free from all discriminations”

Reduction in income poverty and human poverty of the people in ESDOs working area through undertaking massive integrated development program for the poor and marginalized community through service delivery and rights based approach. Income generation literacy programme, nutrition and health programme, human rights and good governance programme, giving proper importance to environmental protection and regeneration. ESDO firmly believes and is actively involved in promoting human rights, dignity and gender equality through people's social, economic, political and human capacity building. Women in general and children are the core and central focus of its activities. Strengthening the organizational capacity carries importance to ensure quality of its services. Extending its services to the ultra poor is its main manifesto.

## Chapter 2

### OBJECTIVES

After studying this lesson, you will be able to enlist the utility of granting loans and advances by commercial NGOs.

#### 2.1 Business Studies

1. Differentiate borrowing rates from lending rates;
2. Enumerate the ways of lending money;
3. Distinguish between long-term and short-term loans;
4. Point out the nature of security provided for loans; and
5. Outline the procedure for grant of cash credit, overdraft and discounting of bills of exchange.

#### 2.2 Meaning of Loans and Advances

The term 'loan' refers to the amount borrowed by one person from another. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus from the view point of borrower, it is 'borrowing' and from the view point of NGO, it is 'lending'. Loan may be regarded as 'credit' granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. While granting loans, credit is given for a definite purpose and for a predetermined period. Interest is charged on the loan at agreed rate and intervals of

payment. 'Advance' on the other hand, is a 'credit facility' granted by the NGO. NGOs grant advances largely for short-term purposes, such as purchase of goods traded in and meeting other short-term trading liabilities. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However, like loans, advances are also to be repaid. Thus a credit facility- repayable in instalments over a period is termed as loan while a credit facility repayable within one year may be known as advances. However, in the present lesson these two terms are used interchangeably.

### **2.3 Utility of Loans and Advances**

Loans and advances granted by commercial NGOs are highly beneficial to individuals, firms, companies and industrial concerns. The growth and diversification of business activities are effected to a large extent through NGO financing. Loans and advances granted by NGOs help in meeting short-term and long term financial needs of business enterprises. We can discuss the role played by NGOs in the business world by way of loans and advances as follows:-

### **2.4 Loans and Advances**

- (a) The flexibility in business operations. Traders may borrow money for day to day financial needs availing of the facility of cash credit, NGO overdraft and discounting of bills. The amount raised as loan may be repaid within a short period to suit the convenience of the borrower. Thus business may be run efficiently with borrowed funds from NGOs for financing its working capital requirements.
- (b) Loans and advances are utilized for making payment of current liabilities, wage and salaries of employees, and also the tax liability of business.
- (c) Loans and advances from NGOs are found to be 'economical' for traders and businessmen, because NGOs charge a reasonable rate of interest on such loans/advances. For loans from money lenders, the rate of interest charged is very high.
- (d) NGOs generally do not interfere with the use, management and control of the borrowed money. But it takes care to ensure that the money lent is used only for business purposes.
- (e) NGO loans and advances are found to be convenient as far as its repayment is concerned. This facilitates planning for future and timely repayment of loans. Otherwise business activities would have come to a halt.
- (f) Loans and advances by NGOs generally carry element of secrecy with it. NGOs are duty-bound to maintain secrecy of their transactions with the customers. This enhances people's faith in the NGOing system.

## **2.5 Borrowing Rate and Lending Rate**

People make their funds available to the NGOs by depositing their 'savings' in various types of accounts. In other words, NGO funds mainly consist of deposits from the pESDOic, though NGOs may also borrow money from other institutions and the Reserve NGO of India. NGOs, thus mobilises funds through its deposits. On pESDOic deposits the NGOs pay interest at and the rate of interest vary according to the type of deposit. The borrowing rate refers to the rate of interest paid by a NGO on its deposits. The rates which the NGOs allow depend upon the nature of deposit account and the period for which the deposit is made with the NGO. No interest is generally paid on current account deposits. The rate is relatively lower on savings account deposits. Higher rates ranging from 6% to 12% per annum are paid on Fixed deposit accounts according to the period of deposit.

## **2.6 Loans and Advances**

The rate at which commercial NGOs make funds available to people is known as 'Lending-rate'. The lending rates also vary depending upon the nature of loans and advances. The rates also vary according to the purpose in view. For example if the loan is sanctioned for the purpose of activities for the development of backward areas, the rate of interest is relatively lower as against loans and advances for commercial/business purposes. Similarly for smaller amounts of loan the rate of interest is higher as compared to larger amounts. Again lending rates for consumer durables, e.g. loans for purchase of two-wheelers, cars, refrigerators, etc. are relatively higher than for commercial borrowings. However, the Reserve NGO of India from time to time announces changes in the interest-rate structure to regulate the lending of funds by NGOs. Different rates of interest are prescribed for various categories of advances, such as advances to agriculture, small scale industries, road transport, etc. Graded rates of interest are prescribed for backward areas. Lower rate is normally charged from agencies selling food-grains at fixed price through Govt. approved outlets. Lastly, lower rate of interest is charged for loans granted to persons belonging to 'weaker sections of the society'.

## **2.7 Reasons to choose of ESDO NGO**

Interpretation: In this graph it is shown that about 50% of the total partners chose ESDO's loan and advances service for its better capability to loan sanction, 30% for their little amount of rate of return, 10% for its expertise service, 5% for its well-known top position and 5% for its motivational activities.

Interpretation: Almost 60% partners say that rate of return is comparable to other institutions, 20% for evaluation of clients, and 15% for providing of expertise knowledge and 5% for its inspection system.

## **2.8 Loan and Advances:**

Loan and advances granted by NGO are highly beneficial for firms, individuals, companies and industrial concerns. Loan may be regarded as credit granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. Advance is a credit facility granted by the NGO. NGO granted advances for short term purposes. Loan and advances granted by NGOs help in meeting short term and long term financial needs of business enterprises. Loan and Advances comprise the most important asset as well as the primary sources of earning of the NGO .On the other hand .loan is also the major sources of risk for the NGO management A prudent NGO management should always try to make an appropriate balance between return and risk involved with the loan portfolio and unregulated NGO might be with unregulated risk for maximizing its potential return .In such a situation, NGO might find itself in a serious financial distress instead of improving its financial health .Consequently not only the depositors but also the general shareholders will be deprived of getting back their money from the NGO.

Loans and advances mean lending made by the NGO to weak clients for earning interest. Main objective of the loans and advances is to earn profit for the NGO. On an average of 75%to 80% of the NGOs earning come from interest received against the loans and advances of a NGO.

The role played by NGOs in business world by way of loans and advances are as follows-

- NGO does not interfere with the use, management and control of borrowed money but takes care to ensure that the money lent is used only in business purpose.
- Loan and advances are utilized for making payment of current liabilities, wages and salaries of the employees and also the tax liability of business.
- Loan and Advances from NGOs are found to be economical for traders and businessman because NGOs charge a reasonable rate of interest on such loans and advances.
- Loan and advances can be arranged from NGOs in keeping with the flexibility in business operation.
- Loan and advances by NGOs generally carry element of secrecy with it. NGOs are duty-bound to maintain secrecy of their transactions with the customers.

## 2.9 Types of Loan and advances of NGO Ltd:

NGO has different type of loans. As per NGOing company act 1991 every company has to maintain a specified minimum (presently 16%) of the total of its demand and time liabilities in the form of cash and approved securities with Bangladesh NGO. .This percentage or ratio is termed statutory liquid ratio. The NGO continued to consolidate and diversify its portfolio in 2010 to have a diversified client base and portfolio distribution across the sectors to reduce client specific concentration and industry specific concentration and to reduce overall portfolio risk. In 2010 NGO Ltd registered a steady growth in the credit portfolio posting a growth of 23.37 percent. Total loans and advances of the NGO stood at taka 48,672.7 million during the year 2010 as compared to TK 39,451.4 million of the previous year .Average loan per Branch stood at TK 230.7 million .Sector wise allocations of advances revealed a well- diversified portfolio of the NGO with balanced exposure in different sectors. His percentage or ratio is termed statutory liquid ratio. Commercial NGOs allow different forms of advances.

ESDO NGO,Bonpara branch is situated in Bonpara, Dhaka which is very important place in Dhaka city.It is a very big and important branch of ESDO. These branches give different type of loans to its borrower. These are;

- CC Hypo (Cash credit hypo)
- CC Pledge (Cash credit Pledge)
- Consumer Credit Scheme(CCS)
- Overdraft (Second overdraft)
- UHRL (n Houseing Repairing Loan)
- SBL (Small Business Loan )
- Agricultural Loan
- PLS (Personal Loan)
- IBP.
- LTR.
- Women Entrepreneurship

## 2.10 Different interest rate of ESDO (Bonpara branch, Natore):

Sl. No	Loans	Interest rate %
--------	-------	-----------------

01	Cash Credit (CC)	16%
02	Personal Loan	16%
03	Small Business Loan	16%
04	Over Draft:Loan against DPS,MDS.	15%
05	Loan against FDR(our NGO)	2%plus concerned FDR rate.
06	Loan against DBDS	15%
07	Loan against share/securities	15%
08	Loan against wage Earners Development Bond	15%
09	Loan against work order	16.5%
10	n House Repairing Loan	17%
11	Import(PAD.LTR,&LIM)For importing essential items (rice, wheat, Edible oil, dal, Chola, Onion, Dates, and Suger etc,)	16%
12	Lease Financing	16%
13	For importing all other items.	16%
14	Consumer (Household Durables)	13%
15	IBP(Inland Bill Purchase)	16%
16	Nari Swanirbhor Rin Prokalpa	10%

## 2.11 Loan and advances Operations and Management

The loan and advances of the NGO demonstrated steady growth over the years. The total loan of the NGO stood at Taka 12395 crore against target of Tk12700 crore at the end of 2010. It was Taka 10215 crore in 2009. There achievement is 97.57%, with 21.32% growth. The share of loan of ESDO in NGOing sector as on 31.12.2010 increased to 10.12% from 6.57% as on 31.12.2009

Pursuant to the loan policy adopted by the NGO, currently a 5-years Perspective loan Plan has been drawn up for the year 2005 to 2010 and put into implementation. The plan has been formulated keeping in view the national economic priorities and aiming at diversification of the Investment Portfolios by size, sector, geographical area, economic purpose & securities to bring in phases all sectors of the economy & all types of economic activities and different economic strata of the society within the fold of NGOs loan operations.

- 6 years performance of ESDO in loan, growth & achievement can show at a glance then we can explain it literally:

## **Chapter 3**

### **LITERATURE REVIEW**

#### **3.1 Guiding Principles of Loan Repayment**

The repayment period of loans is determined on the basis of the liquidity position of each borrower and the economic life of the investment. Repayment schedules must be made flexible so that it should be adjusted to borrower's cash flow pattern. In addition to this credit policy instruments, some relevant lending principles are used by NGOs as their guiding principles (Zena 2009). These include; borrowers perceived need, competence or repayment capacity and personal character.

(a) Borrower's Perceived Need Borrowers have to be given an opportunity to borrow for their perceived needs because loans are more valuable when they meet borrower's need. The credit delivery system can focus on the needy part of households through establishing clear criteria for eligibility.

(b) Competence Borrower's competence refers to the repayment capacity which largely depends on the profitability of the use of credit. This is most helpful tool for estimating the potential credit worthiness of borrowers. In order to assess the borrower's capability in terms of repayment capacity, lenders will assess the borrower's past personal and profit record, past prosperity, etc. 8



(c) Borrower's Personal Character Lenders need to know personal reputation of the borrower and his attitude to the financial obligations. Lenders should always relate credit with good personal qualities of the borrower including;

- a) Integrity
- b) Honesty
- c) Responsibility
- d) Dependability
- e) Sincerity of the borrower.

### **3.2 Criteria for Successful Loan Repayment**

According to William (2007), there are certain criteria that most lenders require the business owner to meet in order to successfully acquire the funds needed for the business. These hurdles or requirements are generally categorized as: Good Credit, Equity, Experience, Business Plan, and Collateral. These five guidelines of successful borrowing are reviewed as follows;

**1. Good Credit** – this deals with the requirement that one must have a credit history which is not only good, but more to the outstanding side of the scale. The reason for this lender requirement according to the writer is that, every day any are coming to NGOs and lenders applying for loans for a variety of reasons. The funds do not belong to the loan officer, but rather they belong to the institution's depositors and investors. The loan officer and the lending institution's management have an obligation to manage these monetary assets to the positive benefit of the owners, namely the depositors and investors of the NGO. Therefore, loans must be made only to those who present the least risk of failure to repay. Past repayment history (i.e. good credit) is the first and probably the most important requirement for a successful loan.

**2. Equity**- Equity in borrowing can be thought of as similar to a down payment. The lender wants the borrower to have a financial commitment to the venture for which the loan is requested. The writer say that the borrower has to have some "skin" in this business "game" to insure his or her best efforts toward success and timely repayment of the borrowed funds. This is to say, that even if all the other four criteria for successful borrowing; credit, experience, business plan, and collateral are met; the NGO usually will not lend 100 percent

of the funds requested. The numeric value often placed on required Equity is in the range of 10 to 20 percent of the needed funds.

**3. Experience-**According to William (2007), no rational lender wants to or will turn over monies to a borrower to manage and expend in a business or venture in which the person has no or very limited experience. This criterion for successful borrowing should be easy to see from both the lender and borrower's point of view. Lenders need to be more certain that the person or persons borrowing the funds have the experience and expertise to manage the money and that day to day the business is conducted in a prudent manner. This is needed to insure positive results from the business and further insure that the lender will be repaid with interest and in a timely manner. Here again the question relates to risk. The more experience and talent the borrower has shown in the past, the lower the risk in lending from the NGO's point of view. The minimum numeric value often expected here is that the borrower should have at least three years of experience in the management of the type of business in whose name he or she is borrowing the funds. This experience can be as an owner and/or management experience. It could also be experience as an employee in a similar type business.

**4. Business Plan-** The fourth requirement of the NGO or lender is a well thought out, researched and constructed business plan. This is a document that: a) Will introduce the business in a clear and complete manner; b) Describes the business, the potential market for the goods and service to be offered, the existing competition, states who will be employed, who will lead and manage and how the borrowed funds will be expended; c) The good business plan will have pro-forma (estimated) financial documents. These are the cash flow statement, income statement, and balance sheet. Cash Flow shows the cash revenue coming into the business and the funds sent out in paid expenses as the business operates from period to period. The net result is either negative or positive on a month to month basis. Here the lender is looking for positive cash flows at least enough to make the loan repayment. The Income Statement is a listing of the total revenue of the business over the past year and a summarized listing of all the expenses of the business. These two values, one positive and one negative, when combined give the net income of the business operations for the period being reported. The Balance Sheet can be thought of as an instant photograph of the financial "health" of the business at an instant in time, normally at the end of the year. The balance sheet displays the assets (positive values of the things that the business owns) and the liabilities (the negative obligations that the business owes and is obligated to pay in the short or long run). Liabilities combined with the owner's or shareholder's equity (value of the

ownership) will equal (balance) the value of the assets. Finally, the good business plan has to have a section of Supporting Documents. These will add validity to all that has been included in the previous sections. This section should include such documents as the Resume(s) Credit Report, Net-Worth Statement of the borrower(s), and any other reasonable support to verify the facts and estimates on which the plan is based. The well constructed, thought out and documented Business Plan is essential to successful business borrowing. It is also used as a guide of the business progress or lack of it to the owner(s).It can also be used as an aid in soliciting partners and or other investors in the business.

Cash Flow shows the cash revenue coming into the business and the funds sent out in paid expenses as the business operates from period to period. The net result is either negative or positive on a month to month basis. Here the lender is looking for positive cash flows at least enough to make the loan repayment.

The Income Statement is a listing of the total revenue of the business over the past year and a summarized listing of all the expenses of the business. These two values, one positive and one negative, when combined give the net income of the business operations for the period being reported.

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**5. Collateral-** Finally according to the writer, after a borrower have shown good credit, put in equity cash or goods, shown he/she have experience in the business and produced a positive cash flow business plan. The lender would be willing to open the vaults and ask the borrower

to come in and select all the cash he/she desire. However, there is one last hurdle that the borrower must clear to reach loan success. This final criterion is collateral. Collateral according to William (2007) is any asset of value that can be pledged by the borrower(s) as security that the loan will be re-paid in full and with interest. Collateral requirements in the process of borrowing for a business can range up to and above 100 percent of the loan principal. This percentage depends again on the amount of risk that the lender calculates that his institution is exposed from this particular loan and the accumulation of all loans currently in process. Collateral assets can be in the form of real property owned, inventory of the business, cash savings or deposits, stocks /bonds equity in home equipment and like assets both tangible and non-tangible. The value to be placed on a collateral asset in the securing of a business loan is usually estimated or appraised by the lending institute.

**3.3 Repayment Capacity of Borrowers** Van (2002) explains that, capacity refers to the ability of the borrower to repay the loan. Investment credit which will yield sufficient profit will enable the borrower to repay the loan.  $\text{Net income} - \text{family living expenses} = \text{Surplus}$ . The surplus is used to repay the credit. Most borrowers can easily repay the principal and interest. However, some of them find it hard to repay the principal. Cash flow budgeting technique is used to assess repayment capacity. Good financial management improves repayment capacity and the profitable use of credit. The following will help borrowers to improve their repayment capacity. (i) Extending repayment time-long repayment period (ii) Planning repayments to coincide with income 12 (iii) Planning and running to minimize overhead costs (iv) Stressing enterprises with higher and quicker income-related to this is maximum use of self-liquidating loans. .

**3.4 Means of Strengthening Repayment Capacity** Lyne and Ortmann (1992) identify some factors that strengthen the repayment capacity of farmer borrowers. These include; a) Building more owners equity or net worth b) Use more of self-liquidating loans c) Organize or operate farm business for more income select enterprises capable of increasing income. d) Planning the repayment schedule for farmers – harvest time and repayment of loans should be linked.

**3.5 Reasons for loan Delinquency** Loan delinquency refers to failure of borrowers to repay their debts on time or to repay them at all. Loan delinquency is a serious problem of rural credit programs because it results in a waste of manpower, high administration costs and slow turnover of resources. The main reasons for loan delinquency are; a) Failure to use borrowed funds for productive purposes. b) Crop failure, natural disasters of various kinds and changes

in economic conditions followed by a drop in farm prices. c) Unrealistic project appraisal studies d) Willful default or refusal to repay -which is not good character (Okorie 2004).

**3.6 Repayment Plan** According to Vogel (1998) there are various kinds of repayment plans, these include; a) Lump sum payment plan – pay at the maturity at one time. b) Amortized even payment plan – equal installments paid by stage. c) Amortized decreasing payment plan- installment is decreasing from time to time because income is higher at the beginning. d) Quasi-variable payment plan – the installment payments are variable depending on the variability of income. e) Reserve payment plan - the borrower is allowed to pay over and above the given installment. The payment will be adjusted in such a way that the remaining balance will be brought to the next time. f) Flexible payment plan - there is no restriction to pay a specified amount within a limited time until the loan is due-any time until the due date.

## **Chapter 4**

### **METHODOLOGY**

#### **4.1 Loan Sanction Activities**

The respective unit office sanctions loan to the clients if it is between 2 & 5 lacs and then send the sanction letter including all necessary charge documents to the asset operation division for disbursement the loan. If the amount is higher than 5 lacs then the respective unit office sends the proposal to SME head office for sanction. The head of SME sanctions the loan and sends the sanction letter including all documents to the AOD for disbursement and inform the respective unit office regarding sanction of the loan.

Select potential enterprise: For loan, in this step the CRO conduct a survey and identify potential enterprise. Then they communicate with entrepreneurs and discuss the loan program.

Loan Presentation: The function of CRO is to prepare loan presentation based on the information collected and provided by the entrepreneur about their business, land property (Where mortgage is necessary).

Collect confidential information: Another important function of a CRO is to collect confidential information about the client from various sources. The sources of information are suppliers regarding the client's payment, customers regarding the delivery of goods of services according to order, various NGOs where the client has account which shows the NGOs transactions nature of the client.

Open client's accounts in the respective NGO: When the CRO decided to provide loan to the client then he/she help the client to open a NGO account where ESDO NGO has a STD.A/c. ESDO NGO will disburse the loan through this account. On the other hand the client will repay by this account. Although there is some exception occur by the special permission of the authority to repay by a different NGO account.

Fill up CIB form: CRO gives a CIB form to the client and the client fill and sign in it. In some cases if the client is illiterate then the CRO fill the form on behalf of the client. Then CRO send the filled and signed form to the SME, head office.

Sending CIB to Bangladesh NGO: The SME, head office collects all information and sends the CIB form to Bangladesh NGO for clearance. Bangladesh NGO return this CIB form within 10-12 days with reference no.

CIB report from Bangladesh NGO: In the CIB report Bangladesh NGO uses any of the following reference no:

- NIL: if the client has no loan facility in any NGO or any financial institution then BB (Bangladesh NGO) use 'NIL' in the report
- UC (Unclassified): if the client has any loan facility in any NGO or financial institution and if the installment due 0 to 5.99 then BB use UC in the report
- SS (Substandard): if the client has any loan facility in any NGO or financial institution and if the installment due 6 to 11.99 then BB use SS in the report
- DF (Doubtful): if the client has any loan facility in any NGO or financial institution and if the installment due 12 to 17.99 then BB use DF in the report
- BL (Bad lose): if the client has any loan facility in any NGO or financial institution and if the installments due for more than 18 or above months then BB use BL in the

report. This report indicates that the client is defaulter and the NGO should not provide loan the client.

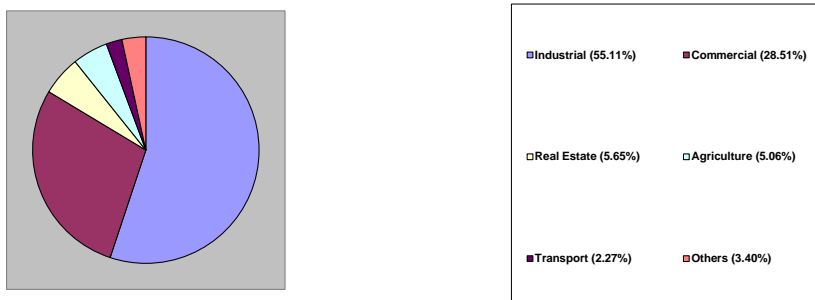


Fig. No.-03: Sector Wise Loan Sanctions (31.12.10)

Table No. 04: Sector Wise sanction of ESDO

(Amount in Million)

Sl. No	Sectors	2008		2009		2010	
		Amount in Taka	% of total sanctions	Amount in Taka	% of total sanctions	Amount in Taka	% of total sanctions
1	Industrial	62,642.10	55.15%	78,788	54.37%	99,233	55.11%
2	Commercial	28,983.80	25.52%	43,877	30.28%	51,332	28.51%
3	Real Estate	8,357.80	7.36%	8,588	5.93%	10,172	5.65%
4	Agriculture	5,890.00	5.19%	6,485	4.47%	9,110	5.06%
5	Transport	2,722.40	2.40%	2,656	1.83%	4,082	2.27%
6	Others	4,978.97	4.38%	4,527	3.12%	6,125	3.40%
7	Total	1,13,575.07	100.00%	1,44,921	100.00%	1,80,054	100.00%

## 4.2 Analysis

4.2.1: Year to year Loan sanction Position of Cash Credit (Hypothecation) in Bonpara Branch.

(Amount in Lac Taka)

Types of Loan	2006	2007	2008	2009	2010
Cash Credit (Hypothecation)	1531	533	480	382	420
% of Total Loan sanction	23.13%	2.68%	2.21%	1.46%	1.41%

Table 05: Cash credit (Hypothecation)

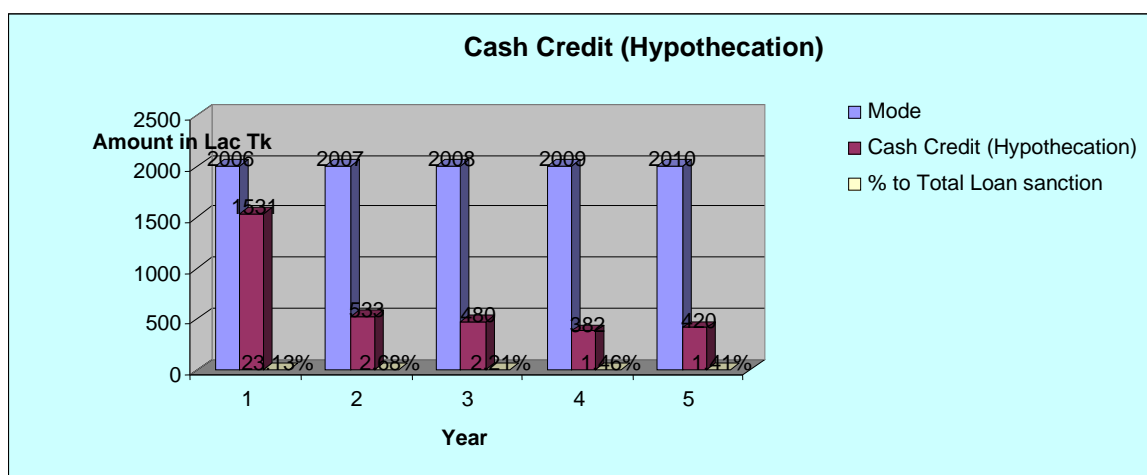


Figure 04: Loan sanction Position of Cash credit (Hypothecation) in Bonpara Branch

In this figure shows the upward trends and downward trends for ESDO, Bonpara Branch loan sanction, from 2006 to 2010 under cash credit (hypothecation) types of loan. Loan sanction in 2006 was TK 1531 lac and increased growth was 23.13%, in 2007 was Tk533 lac and increased growth was 2.68%, the highest loans in this types of loan and in 2006 was TK 1531 lac and increased growth was 23.13%.

4.2.2: Year to Year loan sanction position of Cash credit (pledge) in Bonpara Branch

Table 06: Cash credit (pledge)



(Amount in Lac Taka)

Type	2006	2007	2008	2009	2010
Cashcredit (pledge)	27	51	50	4	47
% of total loan sanction	0.40%	0.10%	2.21%	0.01%	0.15%

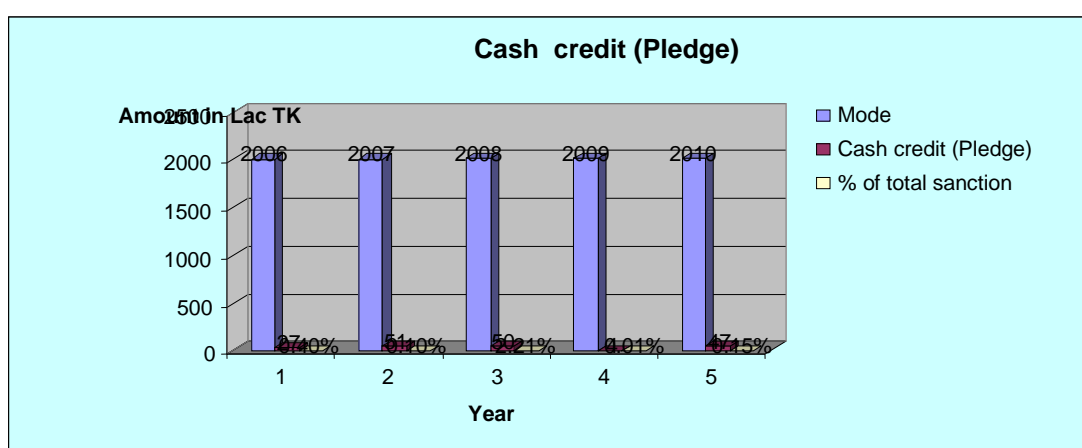


Figure 05: Loan sanction position of Cash credit (pledge) Cash credit (Pledge) in Bonpara Branch

In this figure shows the upward trends and downward trends for ESDO, Bonpara Branch loan sanction, from 2007 to 2010 under cash credit (Pledge) types of loan. Loan sanctions in 2006 were TK 27 lac and increased growth was 0.40%. The highest loan sanctions in this type of loan and in 2008 was Tk 50 lac but increased growth was 2.21%, and in 2010 was TK 47 lac and increased growth was 0.15%.

#### 4.2.3: Year to Year loan sanction position of Consumer Credit schemes (CCS) in Bonpara Branch

Table 07: consumer credit schemes

(Amount in Lac Taka)

Type	2007	2008	2009	2010
Consumer Credit schemes (CCS)	41	66	69	47
% Of total sanctions	0.20%	0.22%	0.26%	0.15%

4.2.4: Year to Year loan sanction position of Small Business Loan (SBL) in Bonpara Branch

(Amount in Lac Taka)

Year	2006	2007	2008	2009	June2010
SBL	3994	10456	15445	14919	13795
% of Total sanctions	60.35%	52.76%	68.43%	57.16%	46.39%

Source: Appendix

Table 08: SBL

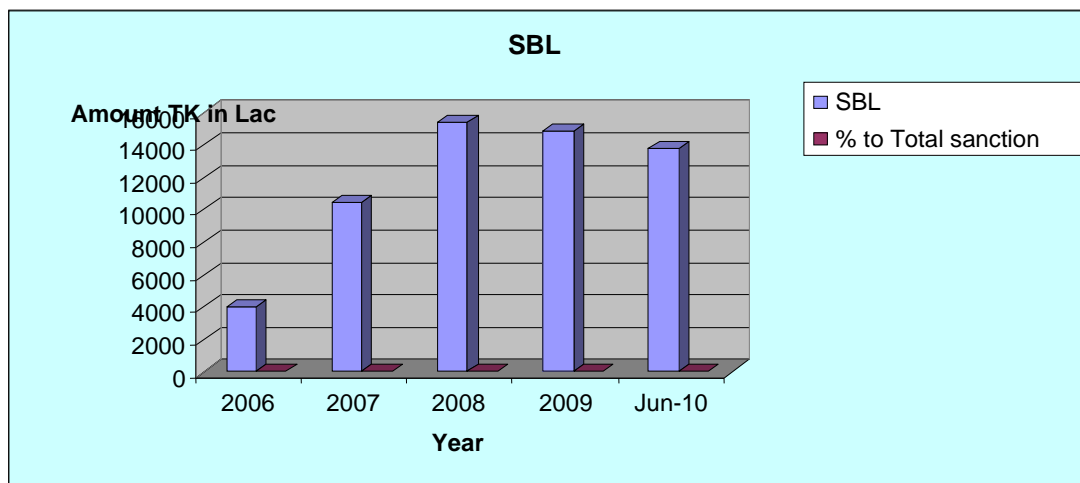


Figure 07: Loan sanction position of SBL in Bonpara Branch

In this figure shows the upward trends and downward trends for ESDO, Bonpara Branch, and sanction from 2006 to 2010 under SBL types of loan. Sanctions in 2006 were TK 3994 lac and increased growth was 60.35%. The highest sanction in the SBL in 2008 was Tk 15445 lac and increased growth was 68.43%, and in 2010 was TK 13795 lac and increased growth was 46.39%.

4.2.5: Year to Year loan sanction position of LTR in Bonpara Branch

Table 09: LTR

(Amount in Lac Taka)

Type	2006	2007	2008	2009	2010
LTR	455	1377	1522	1670	2240
% of Total sanction	6.87%	6.94%	6.74%	6.39%	7.53%

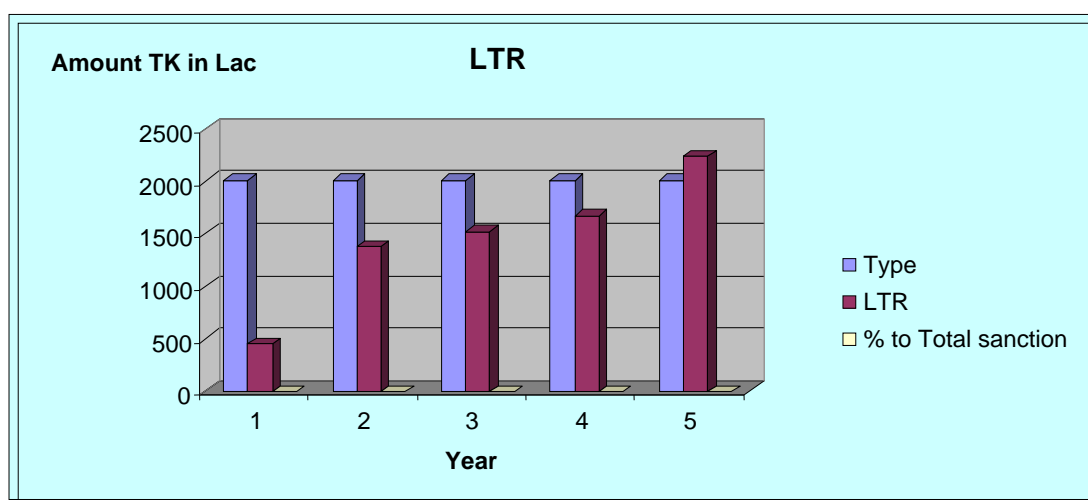


Fig.08 Loan sanction position of LTR

In this figure shows the upward trends and downward trends for ESDO, Bonpara Branch, and sanction from 2006 to 2010 under LTR types of loan. Sanctions in 2006 were TK 455 lac and increased growth was 6.87%. The highest sanction in the LTR in 2010 was Tk 2240 lac and increased growth was 7.53%.

#### 4.3: Procedure of Preparing Proposal for Loan:

The following procedure is followed by Bonpara branch while preparing proposal for loan.

First, borrower has to apply to ESDO for their loan by filling up of a specific application form given by the NGO in respect of their own status

(individual/proprietorship/pESDOic/private ltd.etc.).A very efficient team of employee is working under the supervision of sales manages to help the borrower in this regard.

In case of individual loan, an applicant has to submit at least 6 month latest financial statement of their own NGO account along with his photocopy of passport or ID card or any other documentation, as his personal identification. If the loan is for house repairing then the borrower has to submit various documents of existing house as an evidence of house owner. Thereafter, he has to submit price quotation accepted and signed by the borrower, a salary certificate given by the organization (if borrower is a service holder) and with all other necessary documents.

But in the case of business person, some excess documents are required. Borrower has to submit at least 12 months latest financial statement of their own NGO account. They are also required to submit the names of all board of directors of the organization.

The following papers will have to be submitted while applying for loan:

- Application in prescribed form duly filled in all the columns and signed by the applicant.
- Two passport size photographs of the applicant duly attested by manager/ relationship manager of the branch. A photograph of the house/ building/ flat is to be sent with the proposal.
- Estimate of the proposed expenditure to be incurred for the repairing and or renovation of the house/ building/ flat to be submitted of the application.
- Personal Net Worth statement of the client.
- NGOs Statement for minimum last 6 (six) months of the account of the client.
- Contact Point Verification Report by NGOs authorized officer.
- Lawyer's opinion on the documents of the properties.

Others

- The repairing and/ or renovation work must be done within the premises as per estimate submitted by the party with the application.
- Since there is no provision for insurance cover against the loan, the borrower will furnish an under taking to the effect that he/she will repay the NGOs loan even if there is any loss of property due to natural calamity.

- The borrower will allow the NGO official to inspect the side at any time.
- The borrower will immediately inform the NGO if he /she or his /her grantor changes residential address or professional.
- The borrower will not sell, gift or transfer the possession/owner ship of the house/building /flat before full adjustment of the loan without prior permission from the NGO.
- Existing rent of the house /building /flat and other source of income of the applicant are to be mentioned in loan application form.

After that, the applicants for loan has to fill up a CIB (Credit Information Bureau) form and must be verified by Bangladesh NGO whether the applicant has any irregularities in repayment of loan or any other credit records.

After that the employee of Bonpara branch checks all documents provided by the borrower .the following documents is checked:

- Application and passport size photograph: The employees of Bonpara branch checks application and 2 or 3 copies of recent passport size photographs.
- Price quotation: A quotation accepted by the applicant should also be submitted to ESDO. And this quotation must be real, because this is also be verified, it is genuine or not.
- Passport /voter ID / office ID/ other ID: Passport, voter ID, office ID, or any other Kinds of ID are also required as and evidence of the applicants ID and should be submitted by the prescribed application form.
- Salary Certificate: If the applicant is a service holder, then a real salary certificate, signed by his superior is also needed.
- Photocopy of latest trade license: if the applicant is a business person and the business is a proprietorship business, then a photocopy of latest trade license of his organization is also required,
- Photocopy of registered/Notarized partnership deed: if the business is a partnership business, then the applicant has to submit a photocopy of registered or notarized partnership deed to ESDO these deeds of the applicant business are also be verified carefully.

- Tax documents: sometimes personal relevant income tax documents are also needed and should be submitted to ESDO NGO td.
- NGO statement: NGO statement of the applicant's account is very much important. The applicant has to submit latest 6 months transactions.
- Checking duplicity and regular liabilities with Uttars NGO Ltd. in this part of verification duplicity and regular liabilities of an applicant ESDO are also be checked.
- Checking proper filling up of the application: filling up of the application is also an important requirement.

After that, Bonpara Branch sent a very efficient team for the verification. If the team is satisfied by all aspects, then they report to the branch manager. If the branch manager agrees, then he gives order for preparing proposal for loan.

After getting the permission from manager the employee's team prepares loan statement of Bonpara branch. By adding all the documents, submit it to head office and zonal office.

#### **4.4: CIB Obtaining Process**

CIB is a regulatory requirement for Loan Documentation. Credit Information Bureau (CIB) of Bangladesh NGO has a central database for all the lenders of Bangladesh. It contains the total credit history of a client and act as the most dependable source to analyze the credit worthiness of a prospective client. Obtaining the CIB clearance is a precondition of fund disbursement and all type of Retail, SME and corporate loan require CIB report before disbursement. For some retail unsecured assets, ESDO obtains post-factor CIB clearance. However, in most cases AOD obtains the CIB for a client before disbursement of fund.

To obtain a CIB report, AOD fills up the following Bangladesh NGO prescribed forms for each loan application:

Inquiry Form: CIB –A1: For each individual/ institution

Inquiry Form: CIB –A2: Owner information if borrower is institution

Inquiry Form: CIB –A3: Group/ related business information of borrower

CIB Undertaking form “KA”: For each individual/proprietor/director/partner

These forms are filled up by the business units and sent to the CIB segment of AOD. CIB segment maintains a central database for all the CIB inquiry forms. Each form is registered under a Head Office serial number and a Branch/ Unit office serial number. Therefore AOD prepares a forwarding letter with reference to 20 such inquiry forms, and sent them to Credit Information Bureau of BB once in a day. Usually the CIB reports are received within 7-10 working days.

After receiving the reports from BB, AOD prepares a summary of the report and put that as reference in the loan file along with the photocopy of the CIB inquiry forms, undertaking and copy of the original CIB report. For any mistakes made in the forms, writing wrong spelling, incomplete name of individuals or institutions, CIB report may show error as mismatch exists there. Those CIB inquiry forms require to be sent again correcting the facts. CIB reports are usually updated quarterly and half-yearly. Therefore most updated CIB reports are required to be obtained and CIB report is also require for the same client for repeat loan. All forms need to be supported by the Applicant's Undertaking and all the forms are signed by designated officers of the business organization.

#### **4.5 Appraisal process of Loan/Application:**

A potential customer to interested to avail Lease Finance from our NGO will apply in standard application Form design by the NGO along with a brief write-up on the proposal/equipment expected returns/benefits for the use of such equipment or automobile as the case may be. A competitive quotation of the lease item issued in favor of ESDO shall have to be submitted.

After examination of the various aspects of the project, if the branch manager /relationship manager fully satisfied about the financial standing, credit worthiness, management set-up , professional integrity , technical feasibility , repayment capacity etc, of the provost lessee and business viability of the project ,the proposal may be forward to head office through the zonal office with necessary comments ,view and recommendation for approval.

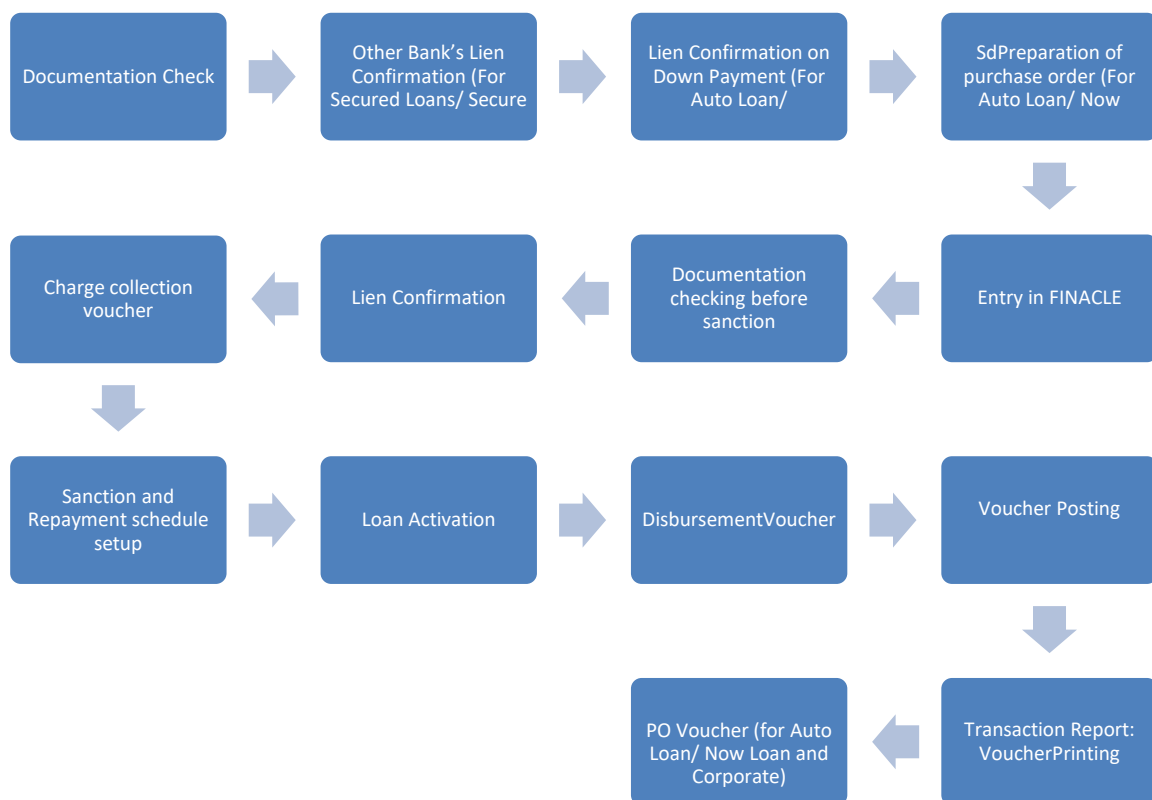
#### **4.6 Sanction letter**

All letters addressed to the borrowers sanctioning credit facilities should be prepared in duplicate and signed by two authorized officers of the NGO. Among the two authorized Officer one must be a Manager of the Credit Team. If the terms and conditions of loan sanction letter are acceptable to him the borrower should return the duplicate copy duly signed.

Client’s information & Loan details is matched with the Credit approval then loan is sanctioned & a Loan Sanction Number is auto generated.

#### 4.7 Disbursement of Loan

##### Process Flow for Loan Disbursement





## 4.8 Approval process

Loan Applications in the prescribed format shall be received at Credit Approval unit recommended by sales team along with annexure that covers comprehensive LPF information detailed in the Prudential Guideline advised by Bangladesh NGO.

The sales team is responsible for loan sales and should be the owner of the customer relationship, and must be held responsible to ensure the accuracy of the loan application submitted for approval. They should be familiar with the NGO's Credit Policy and PPG and should conduct due diligence on new borrowers, purpose of the loans and guarantors. During recommending for a client it is expected that the respective Officer has adhered to Know Your Customer (KYC) and Money Laundering guidelines.

Credit Approval Sheet should have, as a minimum, the following details:

- Amount and type of loan(s) proposed.
- Purpose of loan(s)
- Loan Structure (Tenor, Covenants, Repayment Schedule, Interest)
- Security (if any)

The following diagram shows the flow chart of the loan disbursement procedure.

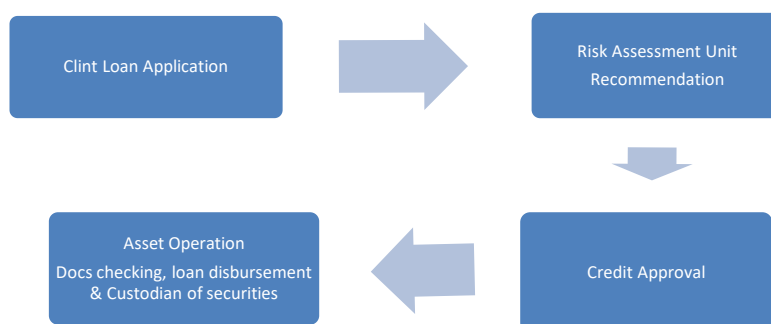


Fig 3: Loan Approval Process

Approvals must be evidenced in writing, or by electronic signature. Approval records must be kept on file with the Credit Applications. Loans and advances on becoming inoperative / stuck up should not be renewed and / or re-scheduled without getting prior approval from the Credit Committee.

In case of loan take over from any NGO/financial institution, then any correspondence should be made with the NGO/financial institution directly, such as security takeover.

#### **4.9 Registered Mortgage**

In case of the loan files where registered mortgage is a requirement, AOD checks the following land documentation:

- Original Title deed for the entire mortgaged property.
- Bia Deeds/ Duplicate of Bia Deeds to support the Title Deed.
- Mutation of the Mortgaged Property by the concerned AC Land
- Original Khatians
- Revisional Survey (R.S) - most important one
- Bangladesh Survey (B.S) –if done and issued
- State Acquisition (S.A) & Catetal Survey (C.S) – If there
- Up todate duplicate Carbon Receipt for the property after mutation.
- Non Encumbrance Certificate issued by the Sub-Registrar’s Office for the past 12 years.
- Up todate Rental Receipt for the property.
- Mortgage deed between ESDO and the enterprise.

- Notarized Memorandum of Deposit of Title Deeds.
- Legal Opinion
- Power of Attorney in favour of ESDO
- If the business is situated in land owned by Parents/ Siblings/ Spouse –
- Mortgage given by third party (For Registered Mortgage)
- MDTD sign by all land owners (For Equitable Mortgage)
- PG or NOC (Non objection certificate by third party)
- Ward commissioner's (warission) certificate in case of clients' parent's death

If any documentation deficiency is found, the concerned CRO, ZO is informed for resolving the deficiency. After checking the required fees submission for Loan Documentation, the application is sent for Insurance Premium Checking.

#### **4.10 Insurance Premium Checking Risk issues while checking Loan Documentation:**

- No Fluid or overwriting should be there
- Missing of seal and sign (Check all Pages)
- Missing of Signature verification by CRO
- Lack of witness CRO and Guarantor
- Missing of any clause of charge documents
- Missing Guarantors sign in Guarantee page

- Mismatch in Client's Name, Business Name, Addresses and business type
- Incomplete documentation for registered mortgaged property
- Validity of licenses and deeds
- NGO's name, client's name, seal, signature and number of undated cheques

Besides, some particular licenses are required for categorized enterprises, like:

- Drug license (Medicine Business)
- BSTI (Food Business)
- Diesel / LP gas / Petrol (Fire license from Directorate of explosives)
- Saw Mill (Permission from District Forest Department)

#### **4.11 Problem with Advances of Bonpara branch:**

- In case of advance in different project, the interest rate is too high.
- Maximum parties have no financial strength.
- In terms of law and order situation sometime it is very difficult for the NGO to liquidate the collateral when the party is unable to pay the debt.
- Most of the parties are creating some sort of pressure to get the loan.
- There are some mortgage problem such as, acquisition and proprietorship, problem of asset.

#### **4.12 Example of loan and advances:**

There are different type's loans in ESDO NGO Ltd at Bonpara branch; some examples are given below----

#### 4.12.1: For CC loan:

Ripon karmakar, is a businessman. His loan amount is 7 00,000 lacks. For taking the loan first he has to open an account. In 2 to 3 months he has to transact up to tk 50,000 thousand to 2,00,000 lacks. The time period of the loan is 3 years. After 3 years this will be closed. And within this 3 year he has to pay 16% interest to the NGO. For taking these loans he has to submit some papers-

- Papers of land.
- Voter ID card/
- National ID card.
- Photograph
- Trade license.

After showing that papers he got the loan.

#### 4.12.2: For SBL loan:

There is another example of a person named Karim Rahman he has a small shop in Bonpara. He has an account in ESDO. His applicable loan amount was 50000 thousand. The time period of the loan is 3 years. The interest rate is 16% of these loans. His shops condition was not so well. For that reasons he wanted to take SBL (Small business loan) loan for his shop. NGO told him to show-

- Any kind of properties or fixed deposit.
- Land or building papers.
- Commissioner certificate.
- Audit report of the property.
- Valuation of the property.
- Six months NGO statement.
- Accounts check(But His transaction amount was so little)
- Personal guarantee etc.

But Karim Rahman was unable to show that kind of papers. So He did not get the loan.

#### 4.12.3 For Personal loan:

There is a person named Sohel Rahman is a service holder worked in a NGO. His basic salary is 20,000 thousand. His agricultural income is 10,000.He get other facilities from his office. He also gives income tax. He has an account in ESDO. He applied for loan tk.5, 00,000. Basically this loans limit is 10 lacks. The interest rate is 16% of this loan. And no need to show any collateral. So Sohel can get the loan easily.

#### 4.12.4 For Women Entrepreneurship:

Mrs. Shaila khanom is a housewife. She has account in ESDO. She wants to open a boutique shop. For opening this shop she has not enough money. Without property the limit of this loan is 5lac.but if women have enough property she can get the loan up to 15 lacks. Mrs. Shaila applied for loan of tk.10 lac. The interest rate of this loan is 10%. For taking this loan she has to submit some papers. This are-

- Papers of building.
- Fixed Deposit statement.
- Statement of provident fund.
- Commissioner certificate.
- National ID/
- Voter ID card.
- Cheque of her account.etc.

After showing these kinds of papers Mrs.Shaila got the loan.

#### 4.13 Loan and advances Operations and Management

The loan and advances of the NGO demonstrated steady growth over the years. The total loan of the NGO stood at Taka 12395 crore against target of Tk12700 crore at the end of 2010. It was Taka 10215 crore in 2009. There achievement is 97.57%, with 21.32% growth. The share of loan of ESDO in NGOing sector as on 31.12.2010 increased to 10.12% from 6.57% as on 31.12.2009

Year	Tk(Million)
2005	35238
2006	46281

2007	59007
2008	75859
2009	93644
2010	120395

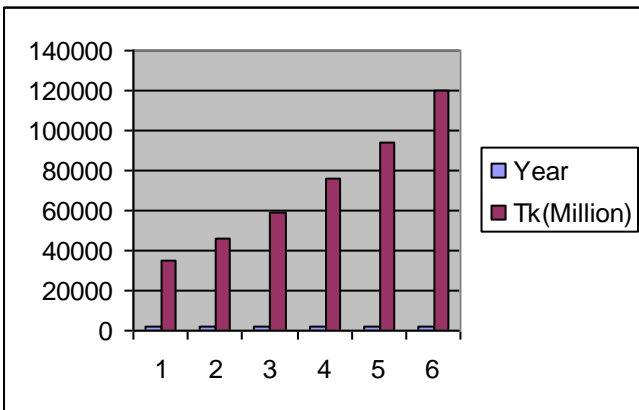


Fig:09 Trend of Loan

Pursuant to the loan policy adopted by the NGO, currently a 5-years Perspective loan Plan has been drawn up for the year 2005 to 2010 and put into implementation. The plan has been formulated keeping in view the national economic priorities and aiming at diversification of the Investment Portfolios by size, sector, geographical area, economic purpose & securities to bring in phases all sectors of the economy & all types of economic activities and different economic strata of the society within the fold of NGOs loan operations.

- 6 years performance of ESDO in loan, growth & achievement can show at a glance then we can explain it literally:

#### 4.13.1 Loan sanction and recovery scenario in ESDO for last five years

Table 10: Loan Sanction and Recovery (for last five Financial Years)

(In million taka)

Years	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Term Loan Sanctioned	1009	1311	1006	918	436
Term Loan Disbursed	144	485	534	384	616
Working Capital Loan Sanction	14	232	105	3	10
Working Capital Loan Disbursed	21	32	196	33	22
Loan Recovered	1391	1159	1065	981	908
Rephrased\Rescheduled	259	790	280	423	264
Loan Written off	11867	12626	12478	12531	12258

From the above table it has been observed that the loan disbursement of ESDO has a successive record. But the point being observed here is that the loan recovery process follows a chronological fall from the FY 2005-06 to the FY 2009-10. This is because the loan disbursed among the projects are collected or recovered on an installment basis. However, the loan amount each year has been increased. Therefore there must have an increase in recovery amount. But the amount of written-off loans has been increased. This indicates a controversial cause and effect between theoretical and practical situation.

#### 4.13.2 Percentage of loan recovery of ESDO

Table11: Percentage of loan recovery of ESDO

Years	2005-06	2006-07	2007-08	2008-09	2009-10
Total loan outstanding	8187	6966	5688.4	5178	5481
Loan Recovered	1391	1159	1065	981	908
Percentage of Loan Recovery (%)	16.99	16.64	18.72	18.95	16.57
Change in Recovery (%)	-	(0.35)	2.08	0.22	(2.38)



- Percentage of loan recovery= $(\text{Loan recovery}/\text{Total loan outstanding}) * 100$
- Change in recovery rate= $(\% \text{ of loan recovery of base FY} - \% \text{ of loan recovery of preceding FY})$

(E.g. in the case of change in recovery rate for FY2005-06, base FY=2005-06 and preceding FY=2004-05)

From table- 11(figures showed in parenthesis is a negative change) it is seen that loan recovery rate in the FY 2008-09(18.95%) is highest. But total loan outstanding in FY2008-09 is the lowest one. And now from table-10 again it can be compared that during FY2008-09 the rescheduled loan and written off loan is highest in compared to other FYs of ESDO. In the FY 2008-09 total loan increased by 303 million taka but loan recovery rate decreased by 2.38%. This situation exhibits a hidden problem in ESDO loan sanction and recovery process.

# CHAPTER 5

## FINDINGS

- The loan and advance department takes a long time to process a loan because the process of sanctioning loan is done manually. Since loan and advances department is not fully automated there is a high risk of losing documents of disbursed loans.
- Small entrepreneurs are discouraged because ESDO usually do not want to finance small entrepreneurs whose financial standing is not clean to them.
- The NGO has a tendency to give loan only businessman. In 2010 the sector wise loan sanction shows that 55.11% in industrial sector and 28.5% in commercial sector.
- UBL does not grant loans for new entrepreneurs, new businessman and new companies etc, which ultimately create “class NGOing”
- In terms of law and order sometimes it is very difficult for the NGO to liquidate the collateral, which makes the borrowers unable to pay the debt.
- The NGO does not provide more loan in the small and cottage industry and the agricultural, Fishing, and Forestry also.
- Installment period and installment time duration is relatively low. Because the installment time duration is monthly or 6<sup>th</sup> periods in a year for this reason borrower can not utilize their debt facility properly for profit maximization.
- There are some mortgage problem such as acquisition, proprietorship and problem of asset.
- The loan and advances strategy of the UBL is not appropriate enough to survive in the market.
- Maximum amount of the loans are provided in the long-term industrial loan sector.
- Not enough innovative products.
- Online NGOing facilities, ATM services and mobile NGOing facility are not available.
- Absence of ethical NGOing or green NGOing.

# CHAPTER 6

## CONCLUSION RECOMMENDATIONS

Loan and advances granted by ESDO NGO Ltd are highly beneficial for firms, individuals, companies and industrial concerns. Loan may be regarded as credit granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. Advance is a credit facility granted by the NGO. NGO granted advances for short term purposes. Loan and advances granted by NGOs help in meeting short term and long term financial needs of business enterprises. Loan and Advances comprise the most important asset as well as the primary sources of earning of the NGO . A prudent NGO management should always try to make an appropriate balance between return and risk involved with the loan portfolio and unregulated NGO might be with unregulated risk for maximizing its potential return .In such a situation, NGO might find itself in a serious financial distress instead of improving its financial health .Consequently not only the depositors but also the general shareholders will be deprived of getting back their money from the NGO. Credit Division of ESDO NGO has a very qualified and dedicated group of officers and staffs who are always trying to provide the best service to the clients. They always monitor the credit in different sectors and their position. Before providing the loan they analyze whether the loan will be profitable and whether the client is good enough to repay the loan within the given period of time. Credit department diversified their loans in different sectors classified by them. Among the sectors the NGO doesn't provide more loans in the agricultural side. The reason showed that this sector is very risky and depends on natural climate and still didn't expand their service in the rural side. The NGO also does not provide more loan in the small & cottage industry. The reason is that the return from this sector is not very good and also the sector is very uncertain. The NGO provides most of the credit facility in term loan mainly in long-term loans. Return from short-term loan is very good and also proves to be very safe to finance.

## Recommendations

- The procedure of loan sanctioning should be automated to make sanctioning of loan less time consuming and reducing the risk of losing documents of disbursed loans.
- To create better client the NGO should decrease the rate of interest on different sector, especially in ESDO House Repairing Loan and Small Business Loan.
- The NGO should diversify its loans more to finance small entrepreneurs for better growth of the country.
- The NGO can provide student loan, doctors loan etc, this may encourage the students to come forward to do something for the economy. And also increase the amount of personal loan and consumer loan.
- The law and order should be easier for the NGO to liquidate the collateral, so that the borrower can be able to pay the debt easily.
- Maximum number of the loan is provided in the long-term industrial loans. NGO's clients
- Installment period and installment time duration should be increased so that the borrower can utilize their debt facility properly for profit maximization.
- In case of some mortgage problem such as acquisition, proprietorship and problem of asset, the NGO should try to avoid this type of loan sanction.
- The NGO should try to increase it's recovery amount since loan amount each year has been increased. The NGO should induce quality client and select best project for risk free rate of interest.
- The NGO should update it's loan and advances strategy in sustainable and appropriately enough to survive in the market.

The NGO should provide more loans of small scale in different sectors though it will decrease the profit a little. But it will be very safe.

In a competitive financial market, the NGO should innovate it's products services need to be focused more on customers' needs.

The NGO should formulate the ethical NGOing or green NGOing both internally and externally.

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