CHAPTER - ONE

Introduction

1.1 The Problem

1.2 Statement of the Problem

1.3 Objective of the Study

1.4 Review of Existing Literature

1.5 Hypotheses to be Tested

1.6 Conceptual Framework

1.7 Methodology of the Study

1.8 Expected Contribution

1.9 Chapter Design

CHAPTER ONE

Introduction

1.1 The Problem

Banking system as a whole plays an important role in the economy of a country irrespective of its level of development. Bangladesh, one of the two poorest countries in the world, is no exception to this. It inherited a poor banking system in terms of liquidity, personnel, deposits, advances, discipline and banking network at the time of liberation. In the system, the branches of different categories of banks were mostly concentrated in urban areas and the banking business was dominated by the banks with headquarters in Pakistan. These banks mainly served their Pakistani masters who promoted and owned them. After the Liberation War, the Pakistani masters and personnel had to go. Their disappearance posed a serious problem to bank administration and management as well as to banking business both internally and internationally. There were not only gross imbalances between assets and liabilities but also great problems in reorganising the banking sector and leading it to desired direction. In order to solve these problems and also in pursuance of the government policy to control the banking sector, the local as well as Pakistani banks were nationalised and reorganised into distinct banks incorporated in Bangladesh in terms of the Bangladesh Bank (Nationalisation) order, 1972 which was promulgated on March 26, 1972.The foreign banks with only a few urban branches were allowed to function as before.[1]

The reorganised Pakistani commercial banks that were 10 in number came to be known as Sonali Bank, Agrani Bank, Janata Bank and Rupali Bank. Two Bangladeshi Commercial Banks namely the Eastern Mercantile Bank Limited and the Eastern Banking Corporation Ltd., were named as Pubali Bank and Uttara Bank respectively. These two banks had, however, been transferred to private sector in 1982. The Uttara Bank Ltd. emerged as a private sector Bank in September 1982. Originally this was Eastern Banking Corporation established in January 1965, which was nationalised in 1972. It has a paid up capital of Tk. 9.25 crore. Pubali Bank is the successor bank to the former nationalised Pubali Bank and Eastern Mercantile Bank Ltd. of pre-liberation period. International Finance and Investment Company Ltd., was formed as a public ltd. company in 1976. 49% of the share was allocated to the nationalised

banks and financial Institutions and the balance to the general public and foreign investors. Consequent upon Govt. decision to allow banks in the private sector IFIC was converted into Banking Company and named as International Finance and Investment and Commercial Bank Ltd. and started functioning with effect from 24-6-1983. Its paid up capital is Tk. 8 crore. United Commercial Bank Ltd., another private sector bank, was incorporated in June 26, 1986. The Paid up capital is Tk. 8 crore. The City Bank Ltd. was established in March 1986, having a paid up capital of Tk. 8 crore. The National Bank Ltd. was established in March 1986 with an authorised capital and Paid up capital of Tk. 10 crore and Tk. 8 crore respectively. Islami Bank Bangladesh Ltd. was incorporated in 13-3-1983 and it got permission to commence business with effect from 27-3-1986. This is the first interest free Bank in South East Asia. All of its activities are run as per Islamic Shariah. The foreign sponsors are Kuwait Finance House, Islami Investment and Exchange Corporation, Qater Bahrain Islamic Bank, Islamic Banking System International holding, Islamic Development Bank, Jeddah Jordan Islamic Bank etc. The authorised capital of the bank is Tk. 50 crore, paid up capital is Tk. 8 crore, subscribed being Tk. 7.95 crore.[2]

Arab Bangladesh Bank Ltd. commenced on April 12, 1982 to function as private sector bank with an authorised capital of Tk. 20 crore. Now-a-days, there are 27 PCBs in Bangladesh. The latest PCBs are Prime Bank, Dhaka Bank, Bank of Asia, One Bank, Al-Arafah Bank, Social Investment Bank & Mercantile Bank etc.

1.2 Statement of the Problem

Consumer credit scheme is an important development scheme in the Banking scenario of Bangladesh. In Bangladesh people of limited income like the service holders face a great difficulty in improving their standard of living. Considering this, some private banks have started consumer credit scheme.[3] The objectives of the scheme are as follows:

(a) To help service holders engaged in different professions to collect their required materials.

(b) To facilitate increasing standard of living of the service holders.

(c) To develop savings habit among the lower income group.

(d) To play active role in the socio-economic development of the country.

(e) To popularise the scheme among the limited income group.

The scheme is open for the permanent officers and employees having age of upto 50 years in any organisation like govt. and semi govt. or autonomous bodies like Bank and insurance companies, Army, Marine, Airforce, Bangladesh Rifles, Police and University, Govt. College, Govt. School and Madrasa teachers. Even the employees of private firms can have the facility through the recommendation of their respective Heads. The advances are made to purchase (a) freeze and deep freeze, (b) Radio, two-in-one, three in one, television, (c) motor cycle, bicycle and car, (d) air cooler, air conditioner, water cooler, (e) personal computer, type writer, camera, movie camera, (f) washing machine (g) furniture like khat, almirah, Sofa set, carpet, dressing table, ware-drop, showcase, sewing machine, oven, micro oven, blender, pressure cooker, toaster, dinner set, tea set, cutleries, crocakries etc. photocopier, telephone, fax machine, cordless telephone. Internal PABX system, gold ornament, ceiling fan, table fan, pedestal fan, small-size generator and other required items of any family. Loan for emergency medical treatment and marriage ceremony is also offered. 10% interest is charged. Once 1% service charge is collected which is paid to the supervising agent. 1% risk fund in case of housing appliances and 2% in case of car are to be paid. Supervision charge and Risk fund are collected from the borrowers at the time of disbursement of loan. The repayment of loan is made on monthly basis. Instalment of loan starts after the following month of loan disbursement, which is to be paid on the 1st week of the month. Every instalment is to be paid by cheque in the said bank. The borrowers are to give the promise letter to the bank to pay the instalment in time. Personal guarantee in favour of the borrowers is to be given by another same level or more than that person. Guarantee is to be attested by appropriate authorities. One is to apply in particular form. The prescribed form is to be filled up by the applicant and it is to be recommended by the departmental head. Agent appointed by the bank on commission basis makes supervision of loan. The agent will select the customers, make overall supervision, and collect the instalment. Risk fund is to be created by collection of 1% from the customers on total investment of bank when client fails to repay the instalment. Adjustment is made with the risk fund in case of private car and motor cycle. Whatever amount is received on fully damage of car from insurance company, the balance is adjusted with the risk fund. Balance of risk fund is spent for social schemes through social fund. The client is to use the supplied items carefully. If there is any damage of the items due to negligence of the clients, he will be held responsible for the losses. If the client fails to

pay three consecutive instalments the bank can take the item in its custody. Required license, registration, insurance cost will be borne by the client. Even the repairing expenses and maintenance expenses will also be borne by him. Without the consent of the bank no part of the items could be rented or transferred or surrendered to others. Bank's representative will supervise it from time to time. The loan facilities will be made available from the nearby branch of the clients. Change in address of the client must be communicated to the bank in time. Life span of investment for private car and motor cycle is four years and for others two years. Consumer's equity would be 40% in private car purchase and for others it would be 25%. Once the investment is fixed up or approved, the client is to deposit his equity to the bank and within seven days of equity deposit, bank will supply the materials to him. To ensure the ownership of the bank over the materials or item, all the purchase documents are made in the name of the bank and sticker of the bank will be affixed to the product. Once bank dues are clear, the ownership passes on to the client.

Payment procedure shows that virtually in case of purchase of car, payment is made in 48 monthly equal instalments while in case of other products, 24 equal instalments are followed. The client authorises his employer to deduct the amount of instalment from the salary or other monthly benefits bill of the client. In this context the employer issues the certificate for the same. In case of non-payment, dismissal and discharge or death of the client, the bank will collect the amount on the strength of the given power of the client and consent of the employer.[4]

Practically all the NCBs and PCBs have failed to have satisfactory return on industrial finance and agricultural finance due to heavy stuck up advances. There is better success in commercial financing. Success in consumer credit scheme is yet to be determined. Search for profitable use of bank's fund, ways for reducing stuck up advances, effectiveness of financial sector reforms, like lending risk analysis, classified advances, causes of industrial sickness and business failure are the major problems faced by the NCBs and PCBs. This encourages the researcher to go for such a study.

1.3 Objectives of the Study

The broad purpose of the study is to investigate the detailed characteristics and effectiveness of consumer credit scheme of the commercial banks in Rajshahi Metropolitan area. The specific objectives among others, are as follows:

(a) To find out the effectiveness of the various consumer credit schemes followed by the PCBs since inception. (b) To know the major factors leading to the ineffectiveness of the schemes, if any, during the period. (c) To know the socio-economic background of the borrowers and its impact on the managerial success of the PCBs. (e) To identify the limiting factors of utilizing the available funds of the PCBs. (f) To make a comparative analysis of the success of commercial banks in implementing different consumer credit schemes and the causes of variation, if any.

1.4 Review of Existing Literature

Like many other developing nations Bangladesh too started its financial sector reforms since early eighties of the last century as a part of liberalized policy. The impact of new economic policy has accelerated the pace of consumerism in Bangladesh. The reformed regime allowed Bangladesh adopt pro-trade growth strategy implying less restrictions on exports and imparts. This situation has, in fact, widened consumer choices. But salaried people in Bangladesh, excepting a few, are not in a position to purchase high-priced consumer durables like colour television, washing machine, refrigerator, computer, motor cycle, scooter, car, furniture etc. Realising the necessity of demand for credit for purchasing consumer durables some Bangladeshi commercial banks (including one nationalised public sector bank) introduced consumer credit scheme since mid 1990s. Bangladesh is pioneer in innovating Grameen bank concept in empowering the poor especially the women and many works have been done on Grameen Bank, but little has been done on this new field of research on consumer credit scheme in Bangladesh. In this section we would like to make a brief review of literature relevant for our study.

Rakibuddin Ahmed's[5], paper "Nationalised Commercial Banks in Bangladesh - An Analysis of their Operational and Functional Performances" (1996) attempts to review the operation of the NCBs during 1985-91. For this purpose, income, expenditure and net profit of the NCBs are taken into consideration. Besides, their (NCBs) role in total bank credit, deposit mobilisation and financing of economic

activities has also been examined. It concluded that despite constraints faced, the NCBs have to gear up their activities in order to earn more profit by reducing expenditure and increasing income. With their vast network of branches and huge staff it is quite possible for them to attract more deposits provided they improve the quality of service rendered by them. Besides, their role in financing agriculture, the mainstay of the economy need also to be expanded in greater socio-economic interest.

Md. Nurul Alam & Sayeeda Bilquis Hasan's[6] article on "Default Culture in Banking Sector of Bangladesh" (1999) has shown that loan default in Bangladesh has mainly emanated from non-professional handling of assets both by the NCBs and the private sector banks. Public sector banks' credit was directed by the Government mostly for less financing of the public sector enterprises and on political consideration. On the other hand, private sector banks' lending was directed to satisfy sponsor directors' interests. Proper professional exercises were not in place in respect of disbursement, monitoring and supervision of credit. Bangladesh Bank's efforts to set the things on right track have met with limited success. The international standard of bank supervision as suggested by Financial Sector Reform Programme (FSRP) needs to be introduced in phases by allowing adequate time to adjust. All concerned should visualize that financial health of the banks should be kept intact through proper classification and provisioning.

With the change of economic policy of Government and also the change of Government of Bangladesh in 1975, "Socialism," one of the state principles was replaced by "Social Welfare" and private sector once again gained momentum. As a result, the Uttara Bank and Pubali Bank were denationalised in 1983 and 1986 respectively and a significant number of Private Commercial Banks (PCBs) were also established. In view of the fact, Md. Salim Uddin & S.M. Nasrul Quadir's (1998)[7] paper deals with comparative progress of UBL and PBL during the period after nationalisation and denationalisation. It is evident from this study that the sample banks show better performance during the period after denationalisation in terms of equity position, deposit mobilisation, loan and advances and investment of fund both in nominal and real terms compared to the period after nationalisation. On the other side both sample banks show more or less same performance during the period

after nationalisation in respect of profitability, liquidity and branch expansion compared to the period after denationalisation.

There are three different categories of commercial banks in Bangladesh viz., Nationalised Commercial Banks (NCBs), Private Commercial Banks (PCBs) and Foreign Banks having different sizes, objectives and functional areas. In a paper (Rahaman, 1994)[8] an attempt is made to show the trend of employees' productivity of NCBs and PCBs only using the same productivity indicators. Since the commercial banking system in Bangladesh is service oriented and labour-intensive, employee is the main input and therefore employee's productivity is the main measure of banking productivity. Employee's productivity has been calculated as output (Volume of Taka) per unit of input (Employee). It is observed that per employee deposit, advance and expenditure had almost an increasing trend in both NCBs and PCBs but per employee profit and investments showed zigzag trend during the study period. In fact productivity in PCBs was much-higher than in the NCBs.

Lending Risk Analysis (LRA) is a credit management and operational tool developed by Financial Sector Reform Programme (FSRP), which was launched by Bangladesh Government in 1990. The primary reason for innovating such a tool was to improve the quality of lending of the banks and thus to increase their operational efficiency towards achieving the goal of enduring economic development of the country. Md. M. Ahmad (1987)[9] has made an attempt to identify the factor that plays a vital role in estimating the quality of bank's performance. That factor is credit management and credit is associated with a lot of risks. It also focuses on lending risks illuminating the reasons of advent of LRA, its purpose, area of concentration and the points to be pondered on while using LRA technique. LRA cannot be treated as the panacea for the bank's lending ills. It has a number of shortcomings inherited in it, particularly, in the perspective of existing socio-economic condition and financial milieu of the country. Still then there is no doubt that LRA has become one of the most important management and operational tools for effective management of credit to the banks of Bangladesh. Though use of LRA technique may not bring any drastic and dramatic changes in the bank's efficiency towards achieving the goal of successful management of credit portfolio to their satisfaction, but as the time goes by it is hoped that, LRA would prove itself to be an effective tool for moderating the risks related to extension of loan to the potential borrowers by the banks.

The profitability of both NCBs & PCBs has declined during the last few years. In this context a study on Cost Efficiency in Banks assumes greater significance (Saha, Rahman & Banerjee : 2000)[10]. To fulfil this demand the relationship between costs and some functional indicators viz. deposit, funds, activities, total income etc. of various banks and the factors influencing the increase/decrease thereof in order to determine the level of cost efficiency in case of NCBs might be due to the various directed credit programmes and social banking imposed on them. The authors commented that cost management practices presently being followed were yet to embrace an appropriate cost control mechanism which would facilitate a great deal of cost efficiency for the banks. Finally some suggestions were also given at the end of the paper for achieving cost efficiency in banks.

Commercial banks play a very important role in the economic development of the country. In view of the recent structural changes in the economy of Bangladesh, Government laid much emphasis on the effectiveness of commercial banks. Development of large scale private commercial banks is of recent origin. There is hardly any study on assessing managerial effectiveness of private commercial banks. Bhuiyan (1995)[11] reviews managerial effectiveness of private commercial banks in Bangladesh using time series data. Managerial effectiveness of private commercial banks has been assessed on the basis of selected effectiveness measures of two banks of the same nature and almost of the same size. As revealed by the study, both general and relative measures reflecting managerial effectiveness registered rising trends, while the inter-bank variations in general effectiveness measures were influenced by variations in deposit mobilization and effectiveness of branch operations. Effectiveness of branch operations measured in terms of deposit per branch was both influenced by branch expansion and employee's productivity. Inter-bank variations in effectiveness indicators of private commercial banks operating almost in the same environment are indicative of the scope of further increase in the level of effectiveness through innovative deposit mobilization programme combined with appropriate human resources development.

S.A. Shakoor[12] (1989) has measured productivity of commercial banks in Bangladesh. From the overall analysis and interpretation of quantitative and qualitative data, it could be concluded that productivity of NCBs in Bangladesh had an increasing trend during 1972-86. It declined a little during 1978 to 1980 with an improvement during

1981-82 but again deteriorated during 1983 to 1985 although there was an improvement during 1986. Agrani Bank had the highest level of productivity followed by SB, RB, JB respectively. The major factors deteriorating the same of NCBs are continuous increase in operational expenses, current expenses, establishment expenses, non-current expenses etc.

The major chunk of loans given by the banks has concentrated on trade, industry and agricultural sectors. The trading loans comprise loans taken for pursuing general business against pledge/hypothecation of goods and foreign exchange transaction involving exports and imports. The industrial loan is given mainly for establishment of new industry and/or meeting the working capital requirement for running the existing industry. The agricultural loan is meant for short-term period for raising crop or term loan for installation of farm equipments. The reasons for default (Khan, 2000)[13] in these sectors are varied in nature. The ideal situation is that trader/industrialist/farmer would draw loan from the bank, invest the same in productive purpose and repay the loan in agreed schedule from the surplus of earning. But things do not run that straight in Bangladesh. There is hardly any borrower repaying the bank dues without any persuasion. It has become the order of the day.

There is plethora of reasons put forward by the defaulters to justify their failure to repay bank dues timely. While there are genuine cases of default arising due to some reason(s), the instances of wilful default are more in number. There are instances of industrial loan accounts where the bank owes millions of Taka, the industry did never come to commercial operation, the industrialist has deserted the industry and has been leaving in posh area in Dhaka city and the incumbent branch manager is fumbling for a way out by filing a case against the strength of mortgaged property valued at less than million Taka. In another instance, the bank owes another millions to a jute merchant who pledged jute stock were reportedly damaged in 1998 flood due to sheer negligence of both the bank and the party. The party is complacent that he has already drawn the money in excess of his entitlement through manipulation of pledged stock and the bank is satisfied that it had the document. Here again, the bank has no way out than filing a case. Who is loser in these instances and who is at fault? This is a common picture for hundreds of thousands of wilful default.

A study (Kalam, 1998)[14] was to evaluate the lending operations of BASIC bank. To this end following areas came under the orbit of the study : (i) Main objectives and functions of BASIC Bank. (ii) Lending operations of the bank. (iii) Evaluation of lending performance. (iv) Identification of flows in lending operation, if any, and suggest remedial measures thereof. The study was limited to BASIC Bank only. It evaluated lending operations of the bank for a period of five years ranging from 1993 to 1997. The study was based mainly of secondary data. Secondary data were relevant to growth, development, organisation & management of bank; lending operations and recovery of loan etc. these were collected on perusal of Annual Reports of the Bank, Resume of Financial Institutions & office records of the bank. However, primary data were also collected through free interview method. The author visited head office of BASIC in Dhaka and two branches of the bank in Dhaka and one in Chittagong and talked to the officials of the bank as to problems of lending, flows in loan operation, difficulties in recovery of the loan and suggested remedies thereof. Both descriptive and analytical methods were used to present the findings. Descriptive method was based as to growth and development of bank, organisation and management system, lending operations, problems and remedies. Analytical approach was based to evaluate lending performance. In this case a number of variables were taken into consideration such as quantum and trend of loan, composition of loan portfolio, credit deposit ratio and elasticity there of, loans to total asset and loans to working fund and other related variables. Some simple statistical techniques like average, standard deviation, co-efficient of variation etc. were used to interpret lending performance. It is seen that development of small-scale industry is considered important in Bangladesh especially in the context of the vast population and capital scarcity. A number of agencies are working in this regard. Bank of Small Industries and Commerce is a financial institution set up to help the entrepreneurs and relevant line and small scale industries that are working. However, the lending operations seemed to suffer from a number of flows, which need to be addressed in proper perspective.

The lending system is predominantly security oriented. Although there are provisions for supervision, yet it is reportedly inadequate. Provision for more and effective supervision may produce better performance and better utilization of resources. The loan deposit and loan asset ratio are found low. It is urgently required that the ratio be increased for the benefit of both the banks as to earning and

customer as the availability of more fund. Concerned authority may be given attention to this regard.

Commercial banks as the most important functionary of the financial system play a dynamic role in the economic development of a nation through mobilization of savings and allocation of credit to productive sectors. However, directed and inefficient credit allocation by the commercial banks of Bangladesh in various economic sectors without adequate credit appraisal and monitoring, inter alia, ultimately led to the widespread loan delinquency, and deteriorating health of the entire financial system. Recently, an attempt has been made (Saha & Chowdhury, 2000)[15] to examine and evaluate the nature and extent of involvement of commercial banks in development financing in Bangladesh using different performance indicators like branch expansion, mobilization of savings, sectoral and regional distribution of advances, etc. in their noble effort of development financing, commercial banks are facing various problems such as mismatch of sources and uses of funds, extreme dependence on traditional collateral securities, politicization of credit delivery system, absence of sound legal system for recovery of loans, lack of government's extension facilities in the form of data base, investment counseling, appropriate technology, infrastructure, marketing of products, etc. However, they should increasingly involve themselves in development financing in order to gain long-term viability benefiting themselves as well as the economy, but that should not occur at the cost of viability of the total financial intermediation process.

The financial sector in Bangladesh is smaller and less developed than that in most countries in South and East Asia. Despite recent modest gain in financial depth, the system remains shallow. While major policy reforms have been undertaken during the last few years including deregulation of interest rates, strengthening standards of loan classification and provisioning, elimination of Bangladesh Bank's control over most financial transactions and adoption of risk-based capital adequacy requirements, the financial sector continues to be severely underdeveloped and inefficient. The poor quality of intermediation of Bangladesh banks and the underdeveloped debt and equity markets are acting as a drag on economic growth (Nazrul, 1997)[16]. To avoid a painful crisis, a comprehensive and wide-ranging reform is indispensable. Implementation of reforms involves pain and costs. But experience

elsewhere in the world suggests that the longer the delay the greater the pain, sacrifice and costs.

The PCBs in Bangladesh show better performance in the spheres of increased growth rate in profitability, deposit and mobilization and credit disbursement (Ahmed & Nizami, 2001)[17]. However, measured from the angle of stability, the deposit-lending performance of NCBs found better than PCBs. On the other hand, the NCBs performance is well in branch expansion. Some factors that influence the profit and employee performance include manpower expenses, deposit mix, ratio of advance to deposit along with optional credit mix. These explanatory variables seem to be favorable for the PCBs than NCBs. The governing situation of the NCBs and PCBs is different. The NCBs give greater emphasis on social obligation. Expansion of branches in rural and remote areas, advance to priority sector at low interest rate, etc, are some of the examples in this regard. Such roles of the NCBs contribute significantly toward social profitability. But the fact remains that there may be scope for enhanced profitability and better performance for the NCBs. On the other hand, the PCBs are mostly urban based. Their credit portfolio that loans and advances consist mainly of trade financing. These are the devices for the save and rapid turnover of the fund deployed contributing to increased profit. Further, wide inter-bank performance variation, both among the NCBs and the PCBs has also been observed. This may be attributed to size, operational policies, leadership dimensions of the management and the like.

A study on profitability and productivity of commercial banks in Bangladesh (Abedin, 1994)[18] it is clear that the overall productivity levels of the banks are not only low but also constantly declining. The continuations of this trend may lead to some sort of banking crisis in near future. So, serious efforts should be made to increase the profitability and productivity of the banks. With this end in view the following recommendations are offered to the respective authorities for their possible considerations : (i) The banks should be allowed to determine the rates of interests (except a few priority sectors) on deposits and advances. If the banks can rationally utilize this opportunity, they may be able to increase their profitability and productivity. (ii) Before every financial year begins, each bank should prepare its performance budget including its income and expenditure. Strict cost control measures are to be applied so that actual expenditure keeps pace with planned

expenditure. In no way, the growth rate of expenditure should be allowed to exceed the growth rate of income. The banks, which are making losses, must drastically curtail their expenditure heads on the one hand, and make best use of their manpower and resources for earning and raising incomes on other hand.

A study (Choudhury, Islam & Choudhury, 1993)[19] shows the performances of private commercial banks vis-a-vis banking sector as a whole. The results of denationalization and privatization in the banking sector of Bangladesh so far do not indicate clear-cut improvement in the efficiency of the banking system. The efficiency of three denationalized banks deteriorated in all respects during last 10 years. The performance of PCBs though at present better only in operational aspects compared to NCBs but lagging in allocative aspects in terms of putting less emphasis in the socially more desirable sectors. The privatization and denationalization process is also inducing NCBs to gradually withdraw from socially desirable sectors in order to improve their profitability.

The financing procedure under the Small Loans Scheme of the Commercial banks in Bangladesh (Bahar, 1992)[20] is not flexible enough, but thoughts are being given to make the procedure more flexible. Though 50% and 25% of the total Small Loans targets were earmarked for small/cottage industries and retail trade respectively in principle, but 14% and 79% of total small loans were disbursed to them respectively. This might be due to the traditional attitude of the concerned bankers for providing credit to the retail traders through easier procedures. Funds for Small Loans Scheme generally come from the deposit resources of the banks and refinance from the Bangladesh bank. But small enterprises which are financed by international agencies like IDA, receive the funds through the prescribed channels according to the terms and conditions of agreement. Then, they request the Bangladesh Bank for refinancing. The Bangladesh Bank refinances the participating bank afterwards and requests the IDA to reimburse it. Because of this round about process and resource constraints, the participating bank cannot always entertain all loan applications received from the 'would be' borrowers. The nationalized banks in Bangladesh have their own facilities for training in general banking. But training on various aspects of small loans/enterprises in these institutes is not of adequate details and duration. The course materials deal mainly with the theoretical aspects of project selection, appraisal, evaluation etc. without going deep into the practical procedures and

problems of sanction and recovery of loans in the remote areas. BSCIC also arranges some training facilities at the district level to make the small borrowers conscious about the need for timely repayment of loans.

A study (Azad, 2000)[21] analyses the impact of post reform regulatory framework and the efficiency of the restructured banking sector in terms of institutional deepening and financial intermediation, deposit mobilization and advance deployment, productivity and profitability, and the growth rate of the financial system. It also makes some policy recommendations in light of the findings of the review and analysis.

Consumer credit plays a pivotal role in fulfilling consumer's aspirations in having high-priced durables. This sort of credit scheme, already familiar in the highly industrially developed countries, has been gaining importance in the developing world including Bangladesh. Md. Shihab Khan's (1994)[22] study added a new dimension in the commercial banking in Bangladesh. This study actually helped formulating the consumer credit scheme in Bangladesh which was ultimately introduced since 1995-1996. Under this scheme the consumers in Bangladesh were allowed to get credit for the purchase of costly durable goods against no collateral security. Not only this, a down payment is made to create borrowers equity in it. The rest of the dues will be made on instalment basis. This system of credit delivery in the name of consumer credit scheme is very much popular in Bangladesh. This scheme, in effect has increased monetary savings, saved time of and ultimately helped formation of assets of the beneficiaries.

1.5 Hypotheses to be Tested

Consumers' credit programme of the commercial banks in Bangladesh is a recent phenomenon. The scheme was started in 1995. With the very short span of life consumer credit scheme has increased the profitability of commercial banks (private and nationalised) banks. In the course of our research investigation we have tested the following hypotheses.

1. There are variations in consumer credit activities of the selected branches of the banks.
2. There is a positive correlation among the socio-economic background of the borrowers and the consumer credit scheme of the selected banks.

3. There is variation in managerial performances of the selected commercial banks.
4. There is a positive correlation between managerial efficiency and effectiveness of consumer credit scheme of the commercial banks.
5. Trends in managerial performance of the sample banks are also satisfactory.

1.6 Conceptual Framework

Fund management is the major function of Nationalized Commercial Banks (NCBs) and Private Commercial Banks (PCBs) in Bangladesh. The concept of fund management refers to collection of deposits in various forms like current account, savings account and fixed account. Disbursement of loan may be short-term, mid-term, long-term and collection of receivable, payment of receivable, discount of bills and providing consumer credit to different client etc. The different concepts of fund management are described below:

(a) Management Defined

Management is the basic, integrating process of the business activity that surrounds our daily life. The need for management arises out of the scarcity of the resources, which go to satisfy human want. The success of man's quest for better living depends upon our understanding of how to develop and apply the skills of management.

Since World War II there has been a phenomenal economic growth and industrialization all the world over. The period since Second World War has witnessed large scale production of economic goods through giant organisations, intensive competition, vast expansion of international trade, specialization, run for foreign markets' and other allied developments. All these have increased complexities in the management of business enterprises. The survival of the modern business essentially depends upon such factors as quality production, minimum possible cost, coherence with demand conditions etc., and all these, in turn, depend upon efficient management.[23]

It is only logical to think that an efficient management cannot grow out of nothing. This calls for a comprehensive programme for training and development of management skills. It requires, among other things, the development of an educational system with universities and technical institutions of high standard,

wherein, prospective management personnel can acquire basic training. At the same time, there should be facilities for on the job training and development of managerial personnel. Every appropriate avenue for management training and development should be utilized be it the internal facilities of an organisation or the external institutions. These are the common means widely used by organisations for management development. And these traditional means definitely help in developing levels of knowledge and skill required by the managers in the performance of their day-to-day functions.

But what has been observed by contemporary research is that these traditional means for training and development of management skill have failed to raise the management to the level necessary for optimum contribution. In other words, the traditional means could not remove the basic incongruence between the 'management' and the 'organisation' and this has prevented 'optimum self actualization' on the part of both the organisation and the management.[24]

Thus, of late, "a new approach" to management development (over and above the traditional means) is becoming increasingly interesting and popular. This is the 'Motivational approach' to management development.

(b) Development

The term 'development' has a wider meaning in economics. We will use the term in relation to management i.e., in a much narrower sense. The word 'develop' means to unfold, to advance to a higher state of growth, to free from constraints. Development would then be reserved for those efforts which not only include technical skills - vocational and non-specific but also those which encourage and improve the ability to teach and train one and others. It is aimed at the manager's whole personality and not only at their hands or brains. It is essentially creating the capacity to grow and to make others around him grow. A developed manager in other words continues to be a developing manager.

Thus 'management development' refers to the development of people (working and potential executives), when management is conceived of as a leadership quality. But when management is thought of as a process entailing certain functions, it becomes difficult to define management development. The difficulty arises from the fact that

there are lots of differences of opinions on such issues like (a) what are the basic functions of management (b) what tools and techniques should be used for improving managerial performance and (c) what is the true aim of management. This means that for correct understanding of management development a study of the development of management thoughts i.e. a proper understanding of the meaning, philosophy, theories, approaches and systems of management is necessary.[25]

But the problem lies in the fact that such things like, philosophy of management and the development of various theories of management are not subject to formal exercise of management development programmes. Development in these areas are either very sudden or the outcome of very long process. Truly speaking, these cannot be developed through any deliberate programme taken up for a specific purpose and tenable to a short period of time. In fact, such total view entailing philosophy, theories and approaches is better to be known as organisation rather than management. Here we need to be cautious in making a distinction between organisation development and management development. Organisation development is a much broader term than management development. Organisation is composed of many sub-systems of which management may be the most important system, but it is only a tool of organisation development and a planned change to improve the effectiveness of the organisation.

It is however relevant to mention here that for better effectiveness of management development programmes a clear understanding of the entire system of organisation along with the philosophy, theories and approaches is relevant and sometimes critical.

To consider management development as development of people might be too narrow a definition but to consider management development in the sense of organisation development is also not appropriate. Thus management development which is basically development of people (working and potential executives), also includes the development of institutions - methods, procedures and systems capable of keeping pace with continuously changing, environment within and outside the organisations. Bettignies has defined management development as "the attempt to improve managerial effectiveness through a planned and deliberate learning process. Management has also been defined as" conscious and systematic decision - action process to control the development of managerial resources in the organisation for

the achievement of organisational goals and strategies. It however needs to be mentioned here that management development is an operational function in an organisation rather than a discrete academic discipline. Further, management development can mean something very different in different organisations and it is necessary for any organisation to understand the particular approach and priorities for management relative to its own needs. Handy has suggested that although there are number of alternatives to management development, but the most appropriate one shall be determined by the culture of the particular organisation concerned.[26]

(c) Why Management Development

Systematic development of managerial talent is one of the primary tasks of any organisation for its own survival in an increasingly changing environment. Thus management development is a necessary requirement for the long term success of organisation. Management development is a must because the environment in which managers work does not remain static, rather it changes. It is necessary that the managers should understand the significance of these changes and alter their methods and practices accordingly management development should help managers to recognise and adapt to change. However, the significant changes which make major impact on managers include the following : (i) Technological changes, which frequently require changes in strategies, structure, and management styles and practices. (ii) Changes in the availability and sources of raw materials, which may cause managers to be less consumer or marketing oriented and more procurement oriented. (iii) Changes in public attitudes and demands which are creating public oriented managers. (iv) Changes in strategies and organisational structures, which require different managerial skills. (v) Changes in employees value, life styles, and education levels, which call for different ways of leading and motivating employees.

Again, management development programmes are expected to do a lot in improving managerial efficiency. In a survey Crotty identified the following major reasons for the use of management development programmes. : (i) Management development programmes broaden the manager's vision and understanding. (ii) They provide the manager with the latest information on business theory and practice. (iii) They stimulate a more creative and innovative approach to problem solving and decision making. (iv) They give the manager the opportunity to discuss ideas and problems

with their business people. (v) They allow the manager to reflect upon and assess his or her career development and work role.[27]

(d) Components of Management Development

Right perception, commendable technical skill and problem solving capability are three important qualities which make a manager successful in his/her job. To enhance perceptual, technical and problem-solving competence of working and potential executives is regarded as the true aims of management development. Thus 'perceptual capability', 'technical capability' and 'problem-solving capability' are the basic components of any management development programme.

It is however relevant to mention here that all these three areas are not equally accessible for development. So far as technical capability is concerned a reasonably high degree of ability can be taught to people of certain intellectual level and practice certainly improves this ability. Further, reasonably satisfactory teaching and training techniques are available in this area. But in other two areas viz., perceptual and problem solving areas, one is not sure of teaching successfully or even of what exactly to teach.

(e) Qualities of Bank Management

Conceptually speaking perception is the understanding of a person about an object or reactions in a particular situation. To the perceiver his own perception is his subjective reality. It is to this reality that he responds, it is on this reality that he builds a vision of hope and achievement and brings to hear all his other capabilities. However perception forms a grey area in human psychology which is not amenable to precise or total manipulation and appears to be a distinct individualistic element and thus two managers are inherently unequal in this respect.

Nevertheless, a manager's perception can be recognised by others and guided and influenced to some extent. In fact, shaping of manager's perception is fundamental to any successful management development programme. Perception has however both bias and content, the former depending essentially on one's technical capability in analysing and understanding the environmental stimulus.[28] The environment radiates information about itself which has to be picked up by suitably devised

techniques evolved through-solving. This 'picked-up' information is then interpreted and converted into perception through the value system.

It is the technical knowledge and skill of doing things. As far as the technical capability is concerned, adequate means are available for imparting knowledge and skills in the various functional areas including inter disciplinary areas like Operations Research. There are however, some problems connected with such expertise. These are (a) a tendency to isolate one functional area and project it as the most important form of expertise relevant to the organisation (b) a general lack of awareness or appreciation of the concept total management among functional specialists (c) inter-functional rivalry (d) futile controversies about generalists and technicians resulting partly from (b) above (e) failure to provide technologists the necessary psychological and physical incentives (f) the absence of a system to review not merely the current appropriateness and upto-datedness of functional expertise but its obsolescence potential vis-a-vis the changing needs of the organisation. However from the point of view of management development, what we need is to ensure that functional expertise is (1) sound, upto-date and receptive; (2) based on the big picture of management and aware of its own role in this picture; and (3) embedded in the social context so that at every step it is creative of human welfare and not merely of new knowledge and power.

A manager confronts a host of problems in the discharge of his responsibilities. The success of manager is in fact depends on how many and how efficiently the manager can handle or solve such problems. The problems might be in the areas of production, finance, marketing and personnel, but personnel management particularly motivating people is the main problem rather major task of management. In fact perceptual skill and motivational skill from the electrodes of the managerial current which activates the whole process of management. Thus developing a manager involves influencing his perception of the opportunity for self development and motivating him to evaluate the opportunity. A psychologically and physically supportive and secure environment encourage him to evaluate this opportunity optimistically and learning behaviour results. Continued support to the learning process results in a success experience which is the source of all permanent learning. Thus, while motivation provides the right attitude and learning experience provides the necessary knowledge and skill, success experience reinforces and fixes

all the three leading to a state of development. The most sacred of all management responsibilities is therefore, the providing of success experience to one's subordinates by building on their strengths and protecting their weaknesses.

(f) Effectiveness and Efficiency

Effectiveness usually refers to the degree of goal achievement. The term effectiveness, however, connotes different things to different people. Different writers like Cambell, Steers, Webb, Van de Van have identified different criteria to measure managerial effectiveness. According to Van de Van, "three criteria or categories of performance appear appropriate for the comparative study of organisational performance over time: Productivity, employee morale and effectiveness. Until now there has not been any consensus on indicators to measure each of the said aspects. Bhattacharjee identified as many as five groups of productivity indicators for commercial banks and each of these reflects a specific aspect of productivity of commercial banks. In view of the large number of productivity measures used in measuring productivity of commercial banks, there remains the problem of subjectivity in selection of productivity indicators. Similar problems arise in measuring morale of employees. There was, however, a general tendency on the part of personnel and industrial psychologists to accept as "ultimate criteria" of organisational accomplishment of its various missions and the success of the organisation in maintaining or expanding itself. Laxmi Narain analyzed the performance of public enterprises basing on 14 indicators reflecting the rates of growth of items like net worth, various types of assets, profits, etc. and also used indicators reflecting financial ratios. Sobhan and Ahmed used value added, capacity utilization, sales and profitability and production trends in evaluating the performance of nationalized industries in Bangladesh. While assessing the efficiency and profitability of enterprises Habibullah used as many as 11 financial ratios. In evaluating the performance of NCBs in Bangladesh, Bhattacharjee identified five sets of indicators, viz. general banking business including net profit, social profitability measures, employee and branch performance measures and commercial profitability measures. There is also the practice of evaluating the performance of enterprises based on profit criterion. As viewed by some experts, although profit and profitability indicators cannot be construed as the single important group of indicators justifying the operational effectiveness of NCBs, they cannot be ignored

altogether in assessing performance. Taking into account the phenomenon of earning profit being one of the major objectives of private commercial banks, managerial effectiveness of private commercial banks for the purpose of analysis has been deemed to encapsulate productivity, general business and income generation. Social aspect has also been taken into account.[29]

Effectiveness measures of commercial banks may broadly be divided into two groups: general measures and relative measures for the purpose of analysis. General indicators reflect operational success measured in terms of volume. General measures include deposit mobilization, total business, gross income and employment generation. Relative measures refer to operational success attained by branches and employees in selected measures of effectiveness. Relative measures of effectiveness include deposit per employee, deposit per branch, gross income per employee, gross income per branch, total business per employee and total business per branch.

(g) Concept of Profitability

The term profit originated when the business was necessarily run by small-sized enterprises of household character, and it was possible to pin down the result of each transaction through a profit and loss account. Accounting profits are taken to be those derived after having matched the revenues with costs. This refers to the amount earned by an enterprise from operations in the course of a period of time, normally a year after all expenses relating there to have been made good. Practically accounting profits are the residue left after charging against the value of good and services (output) the cost of all those goods and services (inputs) which have helped in earning it.

The economic concept of profit is based on the present value of future cash flows. It is a valuation concept measuring the accretion of wealth in terms of changes in the market value of the firm. It is recognised as the increment to or decrement from the value of ownership claims plans and non-wage distributions to owners during the year.

The most widely quoted definition in this connection is that of Hicks who states "The purpose of income calculations in practical affairs is to give people an indication of

the amount which they can consume without impoverishing themselves". This elegant statement though made in relation to the individual applies equally to the firm. Alexandar adopted this concept to the Corporation and described profit as the maximum amount that could be distributed as dividends to shareholders during a period without any contraction of resources. The firm should be as well off at the end of the period as at the beginning. The basic difference between these two income concepts lies in the accountant's attachment to realisation as the test of income determination as against the economist's emphasis on changes during the period in the discounted value of future earnings. [30]

However the nationalised banks have to conduct in such a manner as to ensure fair level of commercial profitability. The Report of the Banking Commission, states that "The nationalized banks are not run with the object of earning maximum profits as they have to have their due contribution towards the fulfilment of the economic and social objectives laid down by the authorities. This does not mean that there should not be any profit motive at all.

(h) Operational Efficiency

In any manufacturing industry, the operational efficiency can be practised at various stages of decision making. The amount of inputs, the methods of production process, the level of output, inventory holding, price changes, marketing etc. are important matters.

There are considerable differences of opinion about the criteria by which the efficiency and the health of the banking industry can be assessed. Is it the level of deposits i.e., deposits mobilised or the level of advances i.e., physical growth of banking, or the level of capital and reserves i.e., capital adequacy, or simply, the profits i.e. commercial profitability? Other indicators, in addition to the traditional ones, are the number of rural branches opened, the level of advances to the priority and the hitherto neglected sectors, etc. these can be grouped as measures of social profitability which is an important yardstick to measure the success of the banking system. [31]

Profitability is important for the public sector banks as for any commercial enterprise. It is true that these banks have been nationalised with the additional

object of taking care of many neglected areas of operations in the banking sector such as rural branches, agricultural loans of commercial rates, priority sector loans etc. These exercises are bound to be less profitable in the initial stage.

(i) The Concept of Social Obligations

The word "responsibility" means the human sense of answerableness for all acts of thought and conduct. It originates from the word "obligation" that comes from the Latin word 'obligare' which is defined a "Some thing that one is bound to do or forebear: and imperative duty obligations necessary for the attainment of social objectives are called social obligations". The sense of answerableness towards society is called "Social Responsibility of Business". The origin of the concept of "Social obligations" can be traced from the very birth of human civilisation and the beginning of family relationships. Man from his very birth was burdened with certain obligations towards parents and towards the society. Even in the family able members used to work not only for the absolute benefit of themselves, but for the overall interest of the household. However, social obligations of business were not prominent earlier as business had no inherent tendencies of disorderliness in society.

The state was all powerful and prominent and hence certain obligations were assigned to it so as to ensure the welfare of society. The regulation and control of business was a part of its duty but with the change in economic conditions business gained power and created distortions in society. Consequently business was expected to operate in itself in the larger interest of society and hence, the former as a part of its obligatory duty owned certain obligations towards the latter. Thus, the concept has gained prominence only recently.

(j) Credit Analysis

Factors Considered in Credit Analysis

Credit arises because of man's faith in man. For years credit men have referred to the three Cs of credit-character, capacity, and capital. To these three over the years have been added collateral and finally conditions, making five Cs in all. In recent years many have reduced these five factors to three the personal factor and the economic factors. One of the criticisms of this classification is that it departs from the usual

classification with which most people are familiar, and secondly that it lacks the rhythm of the five Cs which contributes to the case of money.

Capacity to Borrow

Since banks are interested in the return of the funds loaned to borrowers at the maturity of the loan, they are not only interested in the borrower's ability to repay but also his authority to borrow. Loans, therefore, are made only to those borrowers who have the legal authority to enter into legal contract. Individuals who are of legal age and who have the legal capacity to enter into contract may borrow from banks.

The real test is, therefore, the determination of whether or not a partnership buys and sells for a profit. This distinction has also accepted in general by the Uniform Partnership Act which has been adopted by most states. As a means of protecting themselves against the risk of a partnership not having the authority to borrow, banks usually request the partnership which is applying for a loan to provide the bank with a resolution signed by all of the partners setting for the partnership's borrowing authority and designed the person or persons who will negotiate for all loans and sign notes and loan agreements for the partnership. [32]

The term character refers to the ethical terms honesty, integrity, industry, trustworthiness, and morality that are accepted by most people as being desirable attributes in a human being. People who possess these qualities are said to be "good". Those who lack these attributes are less acceptable to society, character is not only the most difficult factor to measure by credit men, since it possesses no unit for measurement, but is also the most difficult to explain. Character, as it applies to credit relationships, seems to have a more narrow meaning than the term has when it is applied to society as a whole. The broad social concept seems to include all those moral qualities, which identify an individual. Credit character, on the other hand, includes those qualities of an individual, that causes him to want and to intend to pay an obligation. It would include those qualities that cause a person to want to do the right thing. Since society considers the repayment of obligations as a desirable traits, this quality is considered a part of character.

Credit character also applies to Governments and nations. In the purchase of bonds issued by a government, for example, the attitude of the people toward taxation and

debt repayment is very important. Like corporations, Government reflects the attitude and moral faith of the people. Some Government and nations have seen fit to repudiate debts that have been contracted. Character, as it applies to the extension of credit is applicable to all loans required.

We rely on history to a great extent to measure credit character and accept the off quoted biblical Pharisee "by their fruits" we shall know them. We do not stop with an interpretation of history to project it into the future. The loss ratio suffered by creditors is in part due either to misinterpretation, projection or a combination of both.

Ability to Create Income

The ability to create income is Synonymous with capacity. It means the ability to meet the obligation when it comes due and stems from the power, ability or capacity of the borrower, whether individual, business or government, to create a flow of income sufficient in amount to pay the obligation. Credit character is a desirable attribute and is based on debt repayment, but there must also be an ability to obtain funds with which to make payment. Debts are pad from three acceptable source i.e. from income, sale of asset or borrowings or funds from another source. The loan could be repaid by the sale of the security for the loan by the creditor, but that is the sale of an asset. Banks in general, do not lely on this method of repayment since it may be expensive, time consuming, and may detract from a good public relations programmes.

(k) Financial Analysis as a Criterion of Evaluation

Financial analysis is one amongst the many criteria of appraising a proposal or project, others being technical, commercial, economical and managerial. The feasibility of a project is examined from all these different standpoints. If financial analysis is concerned only with capitalisation schemes and sources of financing, it would amount to little more than tinkering with the problem. It must examine the commercial profitability, economic marketability and managerial capability behind the particular project. The strict financing pattern along would hardly give the banker any clues about the ability of the concern to generate profits and command liquid resources. A concern might have been started with a satisfactory leverage and

working capital position, it cannot be sustained for long unless it has a ready market to absorb its products. If the sponsors of a project are not themselves competent to implement it, they would depend upon some consultants indigenous or foreign. If the dependence for civil and mechanical work on contractors and collaborators is total, the project is said to be implemented on a "turnkey" basis. And despite the availability of an extensive market, the business can flourish only when the unit selling-price banks a reasonable margin over costs, which in turn is possible when it is managed by a professionally qualified forward looking team of persons. The whole thing is, therefore knit together excepting the technical aspect, which forms a study by itself, no other parameter can be studied in isolation, and it is indeed difficult to identify as to which shares the major burden. The safeguard to be applied is that the techniques of financial analysis should be applied only after a preliminary study has revealed that the proposal is technically viable. This avoids the infractions labour and time that might be spent on examining those projects which later turn out to be technologically shaky. The usefulness of this technical feasibility valuation is the decision about location, that fits in with the availability of cost and quality of raw materials, water, power, transport, skilled and unskilled labour and other offsite facilities. Then there are the questions of the economic size of plant, the methods of production and the scale of production, the product mix, the procurement of plant and machinery, the project implementation schedule and the like. The Banker can consult the "Data Banks" if it exits, which is a specialized agency for collecting and analysing the material on the technical know how available in the country and abroad. [33]

(l) The Techniques of Financial Analysis

The technique that dominated the scene of financial analysis for over a century has been that of accounting ratios, for many an analyst the two were synonymous terms. Ratio was the sort of shotgun, which according to them could be usefully employed anywhere for appraising a business. But not now, and as a matter of fact, ratios have come to be thrown more and more into the rear. A newer and more powerful set of technique has been evolved over the years, especially by the practitioner of financial management. In this attempt to find the figures and to secure from them the utmost insight, he has begun employing a services of tools of financial planning and control. Bankers who might have developed their own pet devices in the past could hardly

afford to lay behind, now it is usual to find them successfully experimenting with almost all of them. Be it a commercial or a development Bank, each is seen trying to read through them whatever it can about the future functioning of the concern. The present day kit of these techniques consists of : (i) Ratio analysis (ii) Fund flow analysis (iii) Projected cash analysis (iv) Break even analysis (v) Discounted cash flow and (vi) Proforma statements.

(m) Productivity Indicators[41]

As discussed earlier productivity is the ratio of output in relation to inputs engaged during particular period of time. The identification of the same differs from industry to industry. In case of Banking Industry, following are the selected indicators of general productivity and profitability : (i) Deposit per employee (ii) Advances per employee (iii) Income per employee (iv) Spread per employee (v) Expenditure per employee (vi) Establishment expenses per employee (vii) Expenditure per branch (viii) Establishment expenses per branch (ix) Advances per branch (x) Deposit per branch (xi) Income per branch (xii) Spread per branch (xiii) Ratio of working funds to establishment expenses (xiv) Ratio of deposits to cash balances.

The selected indicators of productivity with respect to special social objectives are :

(i) Proportion of rural and semi-urban branches to the total branches (ii) Ratio of rural and semi-urban branch deposits to total deposits. (iii) Ratio of savings and term deposits in rural and semi-urban areas to total savings and term deposits (iv) Ratio of number of accounts of savings and term deposits in rural and semi-urban areas to total number of accounts of savings and term deposits.

In addition to the above, the sectoral objectives productivity indicators are as follows:

(i) Ratio of advances to priority sectors to total advances. (ii) Ratio of agricultural advances (direct) to total advances. (ii) Ratio of advances to small-scale industries to total advances. (iii) Ratio of advances to other priority sectors to total advances. (iv) Ratio of agricultural advances (direct) less than Tk. 100 agriculture, advances.

Selected indicators for profitability are : (i) Ratio of investment income to net income. (ii) Ratio of net profits to net income. (iii) Ratio of net income to working funds. (iv) Ratio of net income to establishment expenses. [34]

(n) Meaning of Risk

While the banks assume the role of financial intermediation and perform the different functions, they have to accept and manage different kinds of risks. Risk can be defined as danger, volatility of outcome or simply uncertainty. Risk is not simply the incidence of adverse outcomes. Unpredictable favourable outcomes are also a form of risk. Opportunity losses can be as important as actual losses. Forgoing a positive net present value investment conceptually is just as significant as the cost of negative present value decision. When wealth maximisation is the objective, selling an assets too soon may be as costly as holding it too long. In capital markets the bank interacts with owners and lenders. In the product markets it interacts with customers and suppliers. These risks could be grouped into : (i) Product market related risks and (ii) Capital market related risks.

Product market decisions relate to the operating revenues and expenses of the firm; those decisions that impact the operating portion of the profit and loss statement. They include decisions about prices, marketing, operating system, labour costs, technology, quality, channels of distribution and strategic focus. Product market risks pertains to the risks inherent in the operating side of a financial services firm. [35]

Capital market decisions relate to the financing and financial support of product activities. They relate most directly to the balance sheet of the firm. The result of product market decisions must be compared to the required returns that result from capital market decisions to determine if management is creating or destroying value. If product market returns exceed capital costs, then positive value is being created for the owners. If product market returns do not meet capital market standards then value is being eroded or destroyed.

Product market risks relate to variations in the operating cash flows of the firm. Capital market risks relate to variations in value associated with different financing instruments and required rates of returns in the economy. The risks associated with both the categories have symbiotic relationship. The product market risks can affect capital market - required rates of return. Similarly capital market decision affects the risk tolerance of product market decision.

The new risks of doing business in financial services were frequently non-traditional in nature. Interest rate changes - not traditional credit risk - eroded asset values. International business and international expansion caused huge losses for firms that had not been accustomed to these risks. Computer systems replaced manual systems and complicated the audit trail of many transactions. Regulatory changes rearranged the profitability of many traditional financial services franchises.

The entire philosophy of risk management requires rethinking and restructuring.

In both capital markets and product markets the financial institution functions within legal and regulatory constraints that limit its risk management alternatives.

Risk Management or Risk Avoidance

While the risk itself is ultimately unavoidable, the border of the risk and its costs are both manageable and transferable.

Financial innovation has been more concerned with risk reduction than any other subject. Derivatives are thus capital markets way of moving risk around SWAPS, OPTIONS, FUTURES - all attempts to transfer risk much the way an insurance company can pass off its risks through reinsurance. With the possibility of managing risk near zero, the challenge becomes not how much risk can be removed, but rather how much risk should be removed.

The business of financial services is the business of bearing risk for a price. Without risk in the product markets and capital markets of financial institutions, there is much less reason for their existence.

World have been less complicated and management less complex, if all risks were shifted away through hedging or maturity matching of assets and liabilities in the capital markets. But an essential part of intermediation function is to bear some appropriate amount of risk. This is the level of risk, that does not jeopardize liquidity and solvency. In turn, the acceptable level of risk is the maximum amount that can be compensated without jeopardizing the bank's existence. Any risk which compromises the existence of the firm cannot be adequately compensated since compensation cannot be realised by a bank that is not in business. [36]

It is probably impossible to accurately estimate the excess and survival threatening risk borne by the financial institutions. Risk does not disappear upon transfer to other parties. Precisely because risk can be significant. Since the most efficient bearer determines the price of risk the strategic act of risk management is to identify those institutions best positioned to accept risk.

Along with revenue maximization and operational cost minimization risk management has moved to centre stage in defining superior performance. Differences in risk management philosophy and technique can produce prosperity, mediocrity or failure.

Declining to accept transaction where the risk is significant or transferring the risk at whatsoever cost can compromise the institutions' value through excessive risk avoidance. Placing the firms at the appropriate point between excessive risk acceptance and avoidance will separate the winners from losers in the years ahead.

Assuming and managing risk is the essence of business decision making. Investing a new technology, hiring a new employee, choosing funding plan or launching a marketing campaign are all decisions with uncertain outcomes. Risk is unavoidable as long as we do not know what the future brings. As a result, all management decisions are choices of how much risk to take and how to manage those risks.

1.7 Methodology of the Study

This covers sample size, nature and sources of data, preparation of the interview schedules and data analysis technique.

Sample size

This study includes ten commercial banks of which special attention has been given on the analysis of four banks viz., Islami Bank, Prime bank, national Bank and Mercantile Bank located in Rajshahi metropolitan area. Then a list of 204 beneficiaries was selected randomly for detailed investigation. Data of consumer credit programme of whole Bangladesh are also gathered. For this we rely on both secondary and primary sources data.

Nature and sources of data

This study is based on both primary and secondary data. Primary data are the unpublished official records and statements of the private commercial banks information gathered from the beneficiaries etc. The secondary data are the publications of the private commercial banks and Bangladesh Bank, Ministry of Finance, Ministry of Planning etc.

Preparation of interview schedule

The researcher has used three sets of interview schedules. One set is for the clients, one set for the bank manager and another set for the executives of the PCBs. For ensuring the coverage and appropriateness of the interview schedule preliminary discussion was made with the executives of Prime Bank Ltd., Rajshahi. Necessary changes were made accordingly.

Technique of Analysis

(i) In the first place, characteristics of the consumer credit schemes have been highlighted. (ii) Performance of the schemes have been analyzed through inserting the volume of loan given, nature of recovery, overdues and outstanding, default in instalment payment etc. (iii) Socio-economic background of the borrowers have been presented highlighted the age, education, sex, income, family composition and parental background of the borrowers. (iv) Modus operandi i.e., process and procedures of lending, its feasibility and weakness are judged taking the opinions of the bank executives and the borrowers. (v) Opinions of the borrowers are analyzed in relation to the practical benefits and limitations of various schemes. (vi) Inter bank variations if any, are also judged along with the causes there on. (vii) Over all managerial performance of the selected banks are also analyzed through selected variables like rate of interest, target in deposit, achievement, customers services given etc. (viii) Statistical techniques such as Mean Values, Standard Deviation, Multiple Correlation, Multiple Regression, T-Test, F-Test, ANOVA are followed to test the five statistical hypotheses as mentioned earlier.

Statistical Tools Employed

In order to analyze and interpret the data obtained from the annual reports of the Sample banks and the data collected by interviewing the borrowers, different statistical tools and techniques are used in this study. Different statistical tools, which have been used in this study, have been presented below. The statistical techniques used are as follows :

Mean

The most popular and widely used measure for representing the entire data by one is mean value, what most laymen call an 'average' and what the statisticians call the arithmetic mean. The mean value is obtained by adding together all the observations and by dividing this total by the number of observations. The arithmetic mean, often simply referred to as mean, is the total of the values of a set of observations divided by their total number of observations. It is calculated by applying the formula.

$$\bar{X} = \frac{\sum X}{N}$$

Where, $\bar{X}$ = Arithmetic Mean, $\sum X$ = Value of observations and N=Number of observations

Standard Deviation

It is by far the most important and widely used measure for the study of dispersion. It satisfies most of the properties of a good measure of dispersion. Standard deviation is also known as the root-mean square deviation. The square of the standard deviation is called the variance. It is conventionally symbolized by δ (sigma). The formula for standard deviation for ungrouped and grouped data by direct and short cut methods are given below:

$$\delta = \sqrt{\frac{\sum (x - A)^2}{n} - \left\{\frac{\sum (x - A)}{n}\right\}^2}$$

Where, δ = Standard deviation, A = Mid-value of class interval,

X = The individual value, n = Number of observation.

For frequency distribution with unequal size class internal the formula by short-cut method is given bellow:

$$\delta = \sqrt{\frac{\sum f(x - A)^2}{n} - \left\{\frac{\sum f(x - A)}{n}\right\}^2}$$

Where, A = Assumed mean, f = Class frequency, x =Mid – value, n = Total frequency.

Co-efficient of variation

It is one of the important relative measures of dispersion. Symbolically,

$$C.V. = \frac{\delta}{x} \times 100$$

Where,C.V = Co-efficient of variation, δ = Standard deviation, x = Mean value

Standard Error of Estimate

The standard error of estimate, measures the variability or scatter, of the observed values around the regression line. The equation of standard error is given below:

$$S_e = \sqrt{\frac{(Y - \hat{Y})^2}{n - 2}}$$

Where, Y = Values of dependent variable, $\hat{Y}$ = Estimated values from the estimating equation that correspond to each Y values. n = Number of data points used to fit the regression line.

Analysis of Variance

ANOVA is a test for the significance of the differences among more than two sample means. It is able to make inferences about whether the samples are drawn from populations having the same mean. Analysis of variance (ANOVA) has always been playing a vital role in the field of empirical research where the ability to examine the effects of many different variables.

$$F = \frac{\text{The variance among the sample means}}{\text{The variances within the samples}} = \frac{S^1_2}{S^2_2}$$

t- Test

It is the technique to test the hypotheses about the mean of a normal population whose standard deviation is unknown.

$$t = \frac{\overline{X} - \mu}{S_e}$$

Where, $\overline{X}$ = Population mean, μ = Sample mean, S_e = Standard error of the mean

Correlation

To evaluate the inter-relationship between various variables under the study Correlation Coefficient has been used. The formula used to calculate the correlation coefficient of any two variables is:

$R = Cov_{(x,y)} / N\sigma_X \sigma_X$

Where,

R = Correlation co-efficient, $Cov_{(x,y)}$ = Co-vatiance of x, y,

σ_X = Standard deviation of x, σ_X = Number of Pairs of Observations

Simple Regression

In the regression analysis, when the relationship is constructed among one independent variable and one dependent variable, then the relationship is called simple regression equation. Sometime, simple regression is used to find out linear growth rate of different variables. The equation applied to find out the linear growth rate is as follows:

$Y = a + bX$

Where,

Y = Dependent Variable, X = Time, a = Constant and b = Growth Rate

Multiple Regression Equation

In order to estimate the degree and extent of linear relationship between a dependent variable and the number of independent variables, multiple linear regression equation is used. In our study, multiple regression equation is used to find out degree and extent of relationship of one variable with respect to other variables. The following is the multiple regression equation, which is used to determine the relationships:

$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \ldots\ldots\ldots\ldots + \beta_n X_n + \mu$

Where,

Y_i = Dependent Variables X_i = Independent Variables.

Where I = 1....n indicating different socio-economic variables,

$X_i \ldots X_n$ = Various variables are used as independent variables.

α = Constant (Intercept).

$\beta_1 \ldots \beta_n$= Coefficient of respective variables.

The multiple regression equation used to find out the degree and extent of relationship among different variables is as follows:

$Y = a + b_1 X_1 + b_2 X_2 + e$

Where,

Y = Dependent Variable, $X_1 \ldots X_2$ = Different independent variables.

a = Constant, b_1, b_2 = Beta values (degree of relationship).

The overall variance and regression coefficients calculated using the above equation are tested with student 't' values and the goodness of fit of the estimated equation is worked out with the help of R^2 and Adjusted - R^2 and its significant level is tested with 'F' ratios.

1.8 Expected Contribution

The present study on consumer credit programme has been a newer concept added into the activities of commercial banks in Bangladesh. Little work has so far been done on this particular aspect of commercial banking. In view of limited availability of research materials we are bound to be specific to study the socio-economic impact of consumer credit programme of some selected commercial banks in Bangladesh with special reference to Rajshahi metropolitan area.

1.9 Chapter Design

The proposed thesis has been constituted with six chapters. Chapter one covers the introduction, statement of the problems, objectives, literature review, hypotheses of the study, rationale of the study, conceptual framework, methodology, limitations of the study and chapter design. The second chapter deals only with the modus operandi of consumer credit programme. The third chapter covers the profile of the study area. Chapter four analyses consumer credit programme. The fifth chapter includes the impact assessment of the scheme. Conclusions and recommendations are made in the last chapter.

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