

٢.٤ **Loan concepts regarding DSL**

A loan begins with a loan negotiation and ends with its final repayment. Loan-related activities begin after loan agreements become effective. Issues related to a loan are chronologically mentioned here.

Disbursement of Loan:

The loan process begins with disbursements of loan proceeds. Disbursements are inflows of financial resources.

Principal repayment:

Principal repayment is the process of returning the total disbursed amount as per the amortization schedule to the creditor. The total principal amount is paid back in installments. Before the start of principal repayments, a period of time is often given to the borrowers, which is called moratorium period or grace period. This grace period is actually given to a borrower for utilizing the borrowed money. It actually helps the borrower to become financially capable for servicing the contractual obligation. The common repayment methods are annual and semi-annual equal installments.

Interest

Interest is a service charge on a borrowing. In other words, it is the price for using borrowed resources. Interest is calculated following the reducing balance method. With each principal repayment, the debt level reduces and the interest is calculated on the remaining/outstanding principal balance. The rate of interest is quoted on annual basis. Most commonly, the interest payment is at six monthly intervals. The applicable interest rate for a loan could be fixed or floating. The floating interest rates like London Inter Bank Offer Rate (LIBOR) and US Prime Rate etc are not a case of concentration here. Fixed interest rates are the interest rates fixed by the multi-lateral or bi-lateral creditors. The foreign currency loans taken by the government and on-lent to the State Owned Enterprises (SOEs) are fixed interest rate based.

What in On-lending :

On-lending occurs when funds are borrowed by the government from external sources and then reinvested in State Owned Enterprises (SOEs) on some conditions. When it is difficult or impossible to obtain loans from donors, SOEs seek assistance from the government. The government provides loans to the SOE's from its