



**INTERNSHIP REPORT  
ON  
SME Financing of Bangladesh Development Bank  
Ltd**

**Prepared For  
Dr. Salehuddin Ahmed  
Professor  
BRAC Business School  
BRAC University**

**Prepared By  
Iffat Zarin Khan  
ID NO: 15364042  
MBA, BRAC University**

**Date of Submission: 5<sup>th</sup> April 2018**



*SME Financing of Bangladesh  
Development Bank Limited*

**Prepared By  
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## ACKNOWLEDGEMENT

During the Internship Program held at BDBL from 7 February 2018 to April 4 2018, I have been fortunate to get the support, assistance and encouragement from a number of individuals including my respectable teacher **Dr. Salehuddin Ahmed** and a good number of officials of BDBL..

In the first instance, I would like to express my grateful appreciation to Almighty Allah for enabling me to complete this report successfully.

I would like to thank our honorable academic supervisor **Dr. Salehuddin Ahmed**, BRAC Business School, BRAC University. I am thankful to him for his continuous support and supervision, suggestions and providing me with valuable information that were very much needed for the completion of this presentation. I am very much lucky for getting the opportunity to prepare this report under his supervision and guidance.

This is my special privilege to express my thanks and gratitude to the Authority Bangladesh Development bank ltd. (BDBL) for kindly granting me Internship which is necessary for completion of my MBA Course. I would like to pay my respect and thanks to Mohammad Nuruddin, Asst. General Manger, Training Institute of BDBL at Kawran Bazar, Dhaka for giving me proper directions during the course of my Internship in BDBL.

I also articulate my heartiest appreciation to Mr. Solaiman Ali, Deputy General Manager and Rubina Yeasmin Khan, Senior Principal Officer of SME department of Bangladesh Development Bank Ltd.(BDBL) to direct and guide me under working schedule and enabling me doing my job in a favorable environment in my internship program period.

Likewise I am also thankful to ASST. General Manager, Elephant Road Branch, BDBL for their kind and sincere cooperation extended to me in this regard.

I also admire all the personnel of Bangladesh Development Bank Ltd (BDBL), for their cooperation and cordial assistance to me. I am grateful to all their employees for providing me with valuable information for my report. Though I was unknown to them, they have helped me by fulfilling my Internship Program. Their useful information allowed completing my report successfully. Besides, I am also grateful to the authors, researchers, and article writers who's Books, Reports, Thesis papers and Journals that have helped me to prepare my this Report.

## **Letter of Transmittal**

April 5, 2018  
Dr. Salehuddin Ahmed  
Professor, BRAC Business School  
BRAC University  
66, Mohakhali C/A  
Dhaka-1212

### **Subject: Submission of Internship Report.**

Dear Sir,

It is a privilege to submit the report on “SME Financing of Bangladesh Development Bank Limited”. I am submitting this report as part of my internship in BDBL. The report is prepared according to the instructions and methods set by you. I would like to take this opportunity to thank you for the guidance and support you have provided me during the course of this report.

Working in Bangladesh Development Bank Limited, was an inspiring experience for me. I feel the immense knowledge and experience will facilitate me a lot in my future career life. With my limited knowledge, I have tried my best to prepare the report worthwhile. The practical knowledge and experience gathered during my report preparation will immeasurably help in my future professional life.

I would like thank you, for giving me the opportunity to do a report on the above mentioned topic. Your acceptance of the report will make all the endeavors fruitful.

Sincerely yours

.....

Iffat Zarin Khan

ID NO: 15364042

MBA, BRAC University

## LETTER OF ACCEPTANCE

I hereby certify that the concerned Internship Report on “SME Financing of Bangladesh Development Bank Ltd” using relevant documents and data related to assigned topic prepared by Iffat Zarin Khan, Id No: 15364042, a regular student of MBA, BRAC Business School, BRAC University has been acknowledged as it is acceptable.

.....

Dr. Salehuddin Ahmed  
Professor, BRAC Business School  
BRAC University

## EXECUTIVE SUMMARY

Bangladesh Development Bank Ltd (BDBL) is the prime concern of development financing institution of country that extends financial assistance both in local and foreign currencies for setting up new industries to boost up the industrial policy and financial reforms program of government towards market economy. In this report my prime focus would be SME department of Bangladesh Development Bank Ltd (BDBL). I will try to find out the overall activities of SME department of BDBL.

For enhancing domestic investment to meet rising demand for employment generation, women's empowerment and regional development, the role of SME is indispensable. In line with the Government's and Bangladesh Bank's Policy Guidelines, promoting a dynamic SME sector is a priority for the bank. For enhancing the knowledge and awareness of the officers on SME financing, a number of training programs were arranged by the bank in the year of 2011 on SME related issue. Besides that the bank actively participated in different SME fairs and seminars.

The objectives of the proposed study are to find out all relevant information about SME banking. As I am doing my internship at BDBL, I thoroughly analyze their SME banking practices and find out all needed information. In this report I find out BDBL's SME products, borrower's eligibility to get the loan, its loan recovery success and provided some necessary recommendations for improving the SME products of BDBL.

Bangladesh Development Bank Ltd (BDBL) has four types of SME products. The introduction of four new SME products namely "Ashar Alo" (for women entrepreneur), "Koler Chaka Takar Jhaka" (Industries loan), "Khamar Bari" (loans for the processing of agricultural products), and "Proshar" (Business Loan) makes the bank different from others.

Ashar Alo is a SME loan, which is provided to the women entrepreneur. It helps to include women power in the economic development of the country and encourages women entrepreneur to do business in order to alleviate poverty from the grass-root level. Koler Chaka Takar Jhaka (industry/ service loan) is another type of SME loan. That loan is provided to encourage the middle class in operating business and make positive contribution



in the economic development of the country, to make direct contribution in reducing poverty from the country and to earn foreign currency by producing export quality products.

Khamar Bari (Agri- Product Processing Loan) is a type of agricultural loan. It makes contribution in the development of the country's agricultural sectors, which is the main driving force of the country's economic development and to make direct contribution in reducing poverty from the country by solving unemployment problem

The final SME product is Prosar (Business Loan). That loan is provided to create an opportunity for the business men who are interested in medium and small enterprise and to make direct contribution in reducing poverty from the country by solving unemployment problem and finally improve the standard of living of the people of our country.

The population sampled for the study was limited to the Bangladesh Development Bank Ltd where I was assigned to perform the study. In order to conduct the report, I have collected necessary information from two sources such a primary sources of information and secondary sources of information. Primary sources of information include face to face conversation with the respective officers, staff and customers of BDBL, oral interview of the responsible officers, observation of department of BDBL. Secondary sources of information include annual report of the BDBL in 2013 –2014, annual Budget of the BDBL, various document of the BDBL, relevant document's studies as provided by the officers concerned and extensive literature search on the basis of these documents of publication.

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# ***CHAPTER 1: INTRODUCTION PART***

## 1.1 Introduction:

Banking Industry is one of the promising industries of our country. Generally by the word “Bank” we can easily understand that, the financial institution that deals with money. There are different types of banks that provide service to customers like: Central Bank, Agricultural Bank, State Owned Commercial Bank, Private Commercial Bank, Industrial Bank, Foreign Commercial Bank, Saving Bank and Exchange Bank etc. But when we use the term Bank it generally means the “Commercial Bank”, the primary contributors to the economy of a country. It helps to flow funds from surplus unit to deficit unit and through this it facilitated the efficient allocation of the resources as well as accelerated economic growth. The ne thing is that how it operates and presenting its activities for the purpose of serving customer requirements to increase their well being in the sense of wealth.

Bank also provides many services for clients to make their life easy in this busy life. In this competitive environment in the world of today, the entire bank increases their facilities in favor of their customers to retain them and capture more shares of the market to be the leader. Therefore, it can be said that the rate of interest is one of the main factors in attracting customers.

Bangladesh Development Bank Ltd (BDBL), a state owned commercial Bank, which was shaped up by a merger between Bangladesh Shilpa bank (BSB) and another is Bangladesh Shilpa Rin Sanghstha (BSRS) has started its operations across the country from January 3, 2010. As a development bank, BDBL primarily remains committed to provide industrial financing. It is also to embark on

commercial on commercial banking activities including foreign exchanging and international trade financing.

The bank will continue to strengthen its growth and brand image by expanding new business activities, particularly in the area of trade financing , import and export business, foreign remittance, retail banking, SME and agro-based industries mainly. For major manufacturing, infrastructural and utility project, the bank will prefer syndicate financing.

For enhancing domestic investment to meet rising demand for employment generation, women's empowerment and regional development, the role of SME is indispensable. In line with the Government's and Bangladesh Bank's Policy Guidelines, promoting a dynamic SME sector is a priority for the bank. Bangladesh Development Bank Ltd (BDBL) has four types of SME products namely "Ashar Alo" (for women entrepreneur), "Koler Chaka Takar Jhaka" (Industries loan), "Khamar Bari" (loans for the processing of agricultural products), and "Proshar" (Business Loan).

SME can be termed as 'employment generating machine', because it helps to solve unemployment problem and to get a higher economic growth, narrowing the gap of income inequality and poverty alleviation. Extension of credit facility is an indispensable condition to boost up SME sectors in Bangladesh. So BDBL should increase its credit/loan limit and take appropriate marketing plan to make that segment more popular. The present government has also put much emphasis on the development of SME sector considering it as 'the driving force for industrialization..

## 1.2 Origin of the Report:

Term paper program is a pre-requisite for acquiring MBA degree. Before completion of the degree, a student must undergo the Internship program. This report is prepared based on practical knowledge acquired from the internship program and as well as for the fulfillment of degree requirement of MBA. As the classroom discussion alone cannot make a student perfect in handling the real business situation, therefore, it is an opportunity for the students to know about the real life situation through this program. The program consists of three phases:

- The orientation of the Intern with the organization, its function and performance.
- The project work pertaining to a particular problem(s) matching with the Intern's area of specialization and organizational requirement.
- The report writing to summarize the Intern's analysis, findings and achievements in the proceeding of the followings.

As practical orientation is integral part of **MBA**, I was sent to the **Bangladesh Development Bank Ltd, Head Office, Motijheel, Dhaka** to have real life exposure on a term paper (from February 7 2018 to April 4 2018). This internship report titled “**SME Financing of Bangladesh Development Bank Ltd**” will be able to meet the requirement of the internship program successfully.

## 1.3 Rationale of the Study:

Industrialization is the main indicator of a develop country, so government has established Bangladesh Development Bank Ltd. to disperse the loan and other

technical facilities among the entrepreneur to develop industry. Since Bangladesh is a developing country and the present economic situation of Bangladesh is open market in nature so in this situation the specialized bank like BDBL can play a vital role toward the economic improvement. BDBL provide large scale loan, short & medium scale loan and working capital to different industry in Bangladesh. These types of loans play a very important role in our industrial development. So at once I determined to demonstrate the loan operation activity of BDBL. It is my sincere interests in ‘SME development and SME finance’ which inspired me to pursue my studies in the MBA program and I am indeed privileged to be eligible to enroll at BRAC University Business School. The evolution SMEs in Bangladesh has been truly remarkable particularly at a time while the entrepreneurs are faced with undeniable challenges, yet possessing an attitude of optimism. And, I wanted to be a part of that growth pattern. Considering the fact that I am genuinely interested in the development of SME’s (even thinking of this as a career option) to enhance national economic growth including employment generation, I find it particularly fitting to focus on the above research topic to gain new knowledge and to identify the challenges and prospects for SMEs with a reference to Bangladesh Development Bank services. As I have been specializing in ‘finance’ as part of my MBA program, I am most interested in areas of studies focusing on SME finance and their overall growth, in particular overcoming of the financial access constraints That’s why I select this topic ‘SME Financing of Bangladesh Development Bank Ltd.’



## **1.4 Scope of the Study:**

The report has been prepared in order to provide a brief idea about the SME financing of Bangladesh Development Bank Ltd. Analyzing the SME scenario of Bangladesh and to assess the performance of Bangladesh Development Bank Ltd (BDBL) in context of this highly competitive market. Along with that the report will justify how SME is contributing in socio-economic development of the country. The report will identify challenges faced by SMEs and recommendations on how to overcome them.

## **1.5 Objectives of the Study:**

The report has been prepared in order to provide a brief idea about the SME financing Scenario of Bangladesh from the perspective of Bangladesh Development Bank Ltd. The broad and specific objectives of the report are given below:

### **Broad Objectives:**

- The Broad Objective of this study is to analyze the SME financing of BDBL. Along with that the report will justify, how SME contribute in socio economic development of a country.
- To find out the problems, if any, that Bangladesh Development Bank Ltd. As well as clients in SME financing for Small and Medium Entrepreneurs and to suggest remedies for the problems encountered.

### **Specific Objectives**

- To have exposure to the overall banking operation and other function of Bangladesh Development Bank Ltd.
- To have a clear understanding of the business operation of Bangladesh Development Bank Ltd.
- To learn about SME banking practices of BDBL.

- To learn the characteristics of SME products of BDBL such as “Ashar Alo” (for women entrepreneur), “Khamar Bari” (loans for the processing of agricultural products), “Koler Chaka Takar Jhaka” (Industries loan) and “Proshar” (Business Loan) the eligibility for getting this loan.
- To get an idea about the characteristics and the eligibility of borrower for getting this loan.
- To analyze the financial statements and different parts of annual report of the bank.
- To understand the policies and procedures the bank follows in the competitive market.
- To know the details of the major departments of the bank.
- To know about the different products and services the bank offers to its customers.
- To observe the working environment of Bangladesh Development Bank Ltd.
- To understand the process of sanctioning the loan.
- To understand the process of loan recovery.
- To understand the process of small & medium enterprise loan and advance.
- To identify the current status of disbursement policy.
- To determine the trend of loans and advances.
- To identify the trend of recovery.
- To recommend ways and means to solve the problems related to my observed arena.

## **1.6 Methodology of the Study:**

Correct and smooth completion of research work requires adherence to some rules and methodologies. In order to conduct the report, the decision had been taken to collect various types of primary data and secondary data. Data have been collected oral interviewing the responsible officers. In order to make the report more meaningful and presentable, two sources of data and information have been used widely.

### **Primary sources of information**

- ⇒ Face to face conversation with the respective officer of different departments.
- ⇒ Relevant file study as provided by the officer of the concerned organization.
- ⇒ Practical work exposures from different division of the bank.

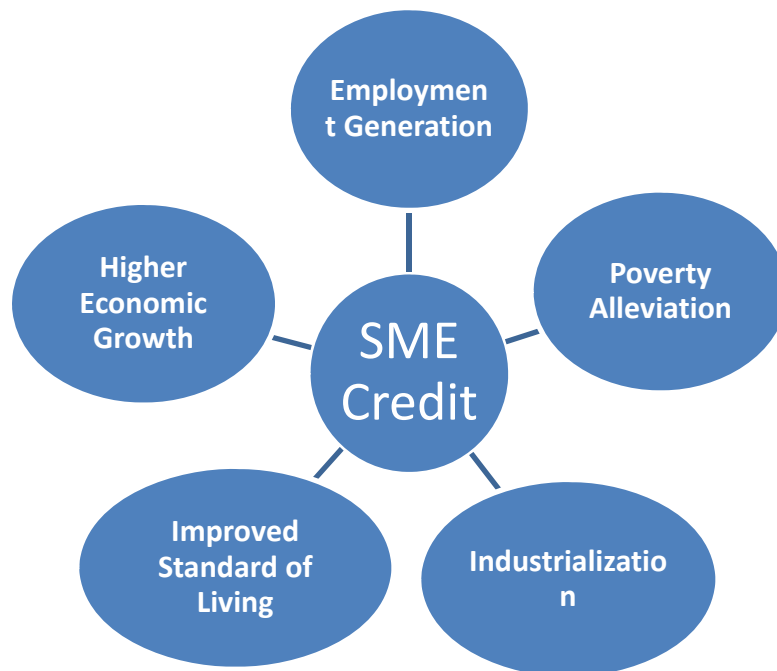
### **Secondary sources of information**

- ⇒ Annual report of Bangladesh Development Bank Ltd -2010
- ⇒ Different papers of Bangladesh Development Bank Ltd
- ⇒ Office files
- ⇒ Various books, articles, manuals etc.
- ⇒ Information about the organization from their company profile.
- ⇒ Web Sites of Bangladesh Bank, SME foundation.
- ⇒ Different text books.
- ⇒ Unpublished data of Bangladesh Development Bank Ltd.

## 1.7 Literature Review:

Small and medium enterprises (SMEs) operate in the same environment as their larger counterparts, but without the associated benefits such as adequate capital and extended human resources of the larger organizations. SMEs encounter increasing competitive pressure fuelled by globalization, legislation and the relaxing of trade barriers, as well as an increase in market expansion due to emerging technologies and innovation. Small and medium enterprises often flourish on their adaptability and agility such as their close proximity to their customers, their openness towards new ways of working, and their risk taking approach, but many micro, small and medium enterprise are susceptible to major external shocks (Berry, 2002; Laforet and Tann, 2006).

**Figure 1: Graphical Representation of How SME Credit Contributes to Build the Economy of Bangladesh**



The Daily Star in its editorial (2006) mentioned that many SME owners are to face difficulties when they require bank loans. In fact, SME financing has recently been identified by experts as one of the major problems faced by SMEs in Bangladesh.

Mahmud (2006) said that the SMEs have very limited bank finance, which is only around 10 percent, while self-finance remains the major source of their finance contributing 76.5 percent of fixed capital and 51.8 percent of working capital.

A World Bank survey (2002) on Bangladesh's SMEs identified lack of finance as the major issue, with 55% SMEs reporting it. Bribes (21%), orders/marketing of product (28%), lack of knowledge (12%), and license for work (8%), along with new technology (8%) were also considered as major issues. Without the much vital capital, they have little chance of growth or even sustenance in this mobile world. This study has tried to pinpoint, through empirical research, the major, problems faced by SMEs and banks in Bangladesh in relation to financing and has provided recommendations based on the findings to improve the situation.

Rosen (2003) mentioned that SMEs make up the largest portion of the employment base in many developing countries and, indeed, are often the foundation of the local private sector. The entrepreneurs behind them could and should play a much larger role in development, but too often are held back by a lack of ready access to financing from local formal sector financial institutions.

IFC (2004) Annual Review report mentioned that in almost every part of the world limited access to finance is one of the biggest obstacles to private sector growth. This is especially true for smaller firms that have minimum influence on policy reform.

Bhattacharya and Chowdhury (2003) mentioned that Bangladesh Bank encourages banks to give loans to projects for diversified industrial development. From the point of view of limiting the credit risk exposures of the banks having a higher level of classified loan, the new rule is justified. However, to consider large loans as risky loans (by the new rule) is not reasonable. Moreover, for increasing the volume of lending to the SME sector, this sort of supply-side policy is not adequate. In fact, under both directed lending (before 1990) and deregulated lending (after 1990) regimes, the demand-side factors were not considered; consequently, resource allocation suffered.

Hossain (1998) found that the most critical constraint that small and medium scale manufacturers mention is the lack of sufficient capital to operate the business. In most of the cases, businesses started using own savings and borrowing from friends and relatives, while banking source come after that. It is not so easy to rise fixed and working capital from banks, since banks are not so willing to provide loan of small size for high monitoring cost. On the other hand, potential small scale entrepreneurs are also not so much interested due to procedural hazards and requirement of long time, which may make the necessity of taking loan futile. Thus, the way to get bank loans needs to be simplified for the small entrepreneurs.

### **1.8 Limitation of the Study:**

Although the officials were very busy, they gave me wholehearted cooperation in the time of practical orientation also in preparing this report. But I have faced the following limitations during the orientation:

- During working period the officials were very busy with their task. So, they could provide me very little time.
- Due to maintain banking confidentiality they avoid some of my questions. So it was quite difficult for me to get in-depth knowledge about some of my task.
- Time constraint is another limitation.
- Sufficient books, publications and figures were not available.
- Lack of available up to date information.
- The employee of BDBL had no eagerness to provide some internal data which bank does not publish for strong reason.
- Lack of previous practical experience of this concern as I am a newcomer.
- Lack of in-depth knowledge and analytical ability for writing such report.
- Only few days 'internship experience is not enough to find out all the limitations of such a vast project.

If these limitations were not been there, the report would have been more useful.

## ***CHAPTER 2: MY JOB PART***



## **2.1 Job Responsibility:**

Bangladesh Development Bank is a state owned commercial bank of Bangladesh where I got the opportunity to conduct my Internship program. Though I got the chance to work in real life scenario at banking sector for 39 days only, it has increased my level of experience and I have learnt so many things about the real banking sector. During my Internship, I got the chance of working in different departments of BDBL. I selected SME Department for the Internship Report.

## **2.2 Daily Work:**

I worked in Bangladesh Development Bank limited with my Internship team. The team was concerned with 6 members. We worked with several departments by maintain a routine. I worked in the following departments of BDBL:

- Human Resource Management Department
- International Banking Department
- SME Department
- Loan Recovery Department

I also worked in Bangladesh Securities Limited which is a subsidiary company of BDBL.

## **2.3 My Roles at Bank:**

The roles that we played in BDBL are as follows:

- The time duration of my work was from 10:30am to 1:00pm five days a week
- During this time, I along with my teammates visited several departments and had briefing from the respective department heads, Assistant General Managers and senior officers

- We used to visit their offices and we had the opportunity to look at the booklets, documents, reports and policies of those departments which are very confidential.
- After doing this for one week, I was assigned in BDBL Principal branch which is at the ground floor of BDBL Bhaban.
- In Principal branch, I had the opportunity to work in SBS, CBS Software in computer and opened 3-4 KYC (Know your customer) profiles, Savings/Current Accounts and filled up the forms which were incomplete with the guidance of officers.
- My work was monitored by the AGM of Principal Branch, my supervisor, Mr. Shafiqul Islam and I had to report to him at the end of my work.
- During my last couple of weeks, I had the chance to work in Loan operations department, discussed the insights and future of BDBL in loan operation sector and sometimes did other work as asked by my supervisor.

#### **2.4 Work Experience:**

So far I gathered much experience by working with many experienced personnel and staffs of Bangladesh Development Bank Ltd. They created scope for me to learn something new and at the same time helped me to do many new works which I had not done before. However, the working environment of Bangladesh Development Bank Ltd is very inspiring. All the employees helped me a lot to learn each and every work I was assigned to.

## **2.5 My Observation about the SME Department:**

- Lack of Product Diversification
- Lack of enough IT support for the SME department. So it needs more IT support.
- Lack of error free quality file is the result of careless attitude which subsequently delay in sanctioning the loan. So the employee should be more sincere in file processing.
- Lack of skilled employee.
- Small collection team compared to the number of overdue account.
- Slow web mail hampers the flow of the work of manager. Considering the time constraint and work load a better solution should be provided.
- The office area of SME department is very small. So it is very messy with huge number of files.
- Customers are dissatisfied due to insufficient information.
- The salary package for the entry and mid level management is considerably low.

## ***CHAPTER 3: Organizational Review***

### **3.1 Bangladesh Development Bank Limited:**

Bangladesh Development Bank Ltd (BDBL), a state owned commercial Bank, which was shaped up by a merger between Bangladesh Shilpo bank (BSB) and another is Bangladesh Shilpo Rin Sanghstha (BSRS) has started its operations across the country from January 3, 2010.

For long, both the Bangladesh Shilpo bank (BSB) and another is Bangladesh Shilpo Rin Sanghstha (BSRS) had been facing crises in their respective operations as a huge amount of loans disbursed by them remained unrealized. Before the start of the banking operations, a vendor agreement will be signed between the government and the BDBL as a legal compliance, established as a public limited co. took over the undertaking and the business of statutory bodies namely the Bangladesh Shilpo bank (BSB) and Bangladesh Shilpo Rin Sanghstha (BSRS) with all their assets, benefits, rights, power, authorities, privileges, liabilities, personal, borrowers and other obligation to carry on with the same business. Additionally, it got the mandate to engage in commercial banking. The authorized capital of new bank is Tk 1,000 crore, while its paid-up capital is Tk 400 crore.

#### **Bangladesh Shilpo bank (BSB)-**

The formal Industrial Development Bank of Pakistan (IDBP) and the Equity Participation Fund (EPF) both of were established for the industrial development of Pakistan was converted into a single institution named Bangladesh Shilpo bank (BSB). Bangladesh Shilpo bank comes into existence on October 31, 1972 by the promulgation of Bangladesh Shilpo bank order 1972 (President's order no. 129 of 1972).

## **Bangladesh Shilpo Rin Sanghstha (BSRS)-**

Bangladesh Shilpo Rin Sanghstha (BSRS) established on 31 October, 1972 by the President's order no.128 of 1972 to provide credit facilities and other assistance to industrial concerns and to encourage and broaden the base of investment in Bangladesh. BSRS was vested with the undertakings of the Pakistan Industrial Credit and Investment Corporation Limited (PICIC), Investment Corporation of Pakistan, and National Investment Trust (NIT) located in Bangladesh. Later, on 16<sup>th</sup> March.1987, the investment advisory Center of Bangladesh (IACB) was merged with BSRS. The present form of BSB and BSRS is BDBL. The form comes through merge on December 2009. It starts its operation on BDBL on 3<sup>rd</sup> January, 2010.

### **3.2 Vision:**

To emerge as the country's prime Financial Institution for supporting private sector industrial and other projects of great significance to the country's economic development. Also be active participant in commercial banking by introducing new lines of product and providing excellent services to the customers.

### **3.3 Mission:**

- ✓ To be competitive with other Banks and Financial Institutions in rendering services ;
- ✓ To contribute to the country's socio-economic development by identifying new and profitable areas for investment ;

- ✓ To mobilize deposit for productive investment ;
- ✓ To expand branch network in commercially and geographically important places ;
- ✓ To employ quality human resources and enhance their capability through motivation and right –type of training at home and abroad ;
- ✓ To delegate maximum authority ensuring proper accountability ;
- ✓ To maintain continuous improvement and up-gradation in business policies and procedures ;
- ✓ To adopt and adapt to new technology ;
- ✓ To maximize profit by strong, efficient and prudent financial performance ;  
and
- ✓ To introduce new product lines according to market needs.

### **3.4 Functions of Bangladesh Development Bank**

Bangladesh Development Bank Limited (BDBL) extends term loan facilities in local and foreign currencies to industrial projects (both new and BMRE) IN THE PRIVATE AND Public Sectors. Besides, the bank also performs the following activities:

- It extends term loans by giving special priority to the SME enterprises for achieving self reliance as well as increasing productions and empowerment of women.
- Proving working capital loan to industrial projects.

- Provides Equity support in the form of underwriting and bridge loan to public limited companies.
- Issues guarantees on behalf of borrowers for repayment of loan
- Extends commercial banking services along with deposit mobilization
- Purchases and sales shares or securities of enlisted companies for BDBL and on behalf of its customers as member of Dhaka Stock Exchange Ltd. And Chittagong Sock Exchange Ltd. (CSE) for capital Market Development.
- Conduct Projects promotional activities along with preparation of various subject oral study reports.

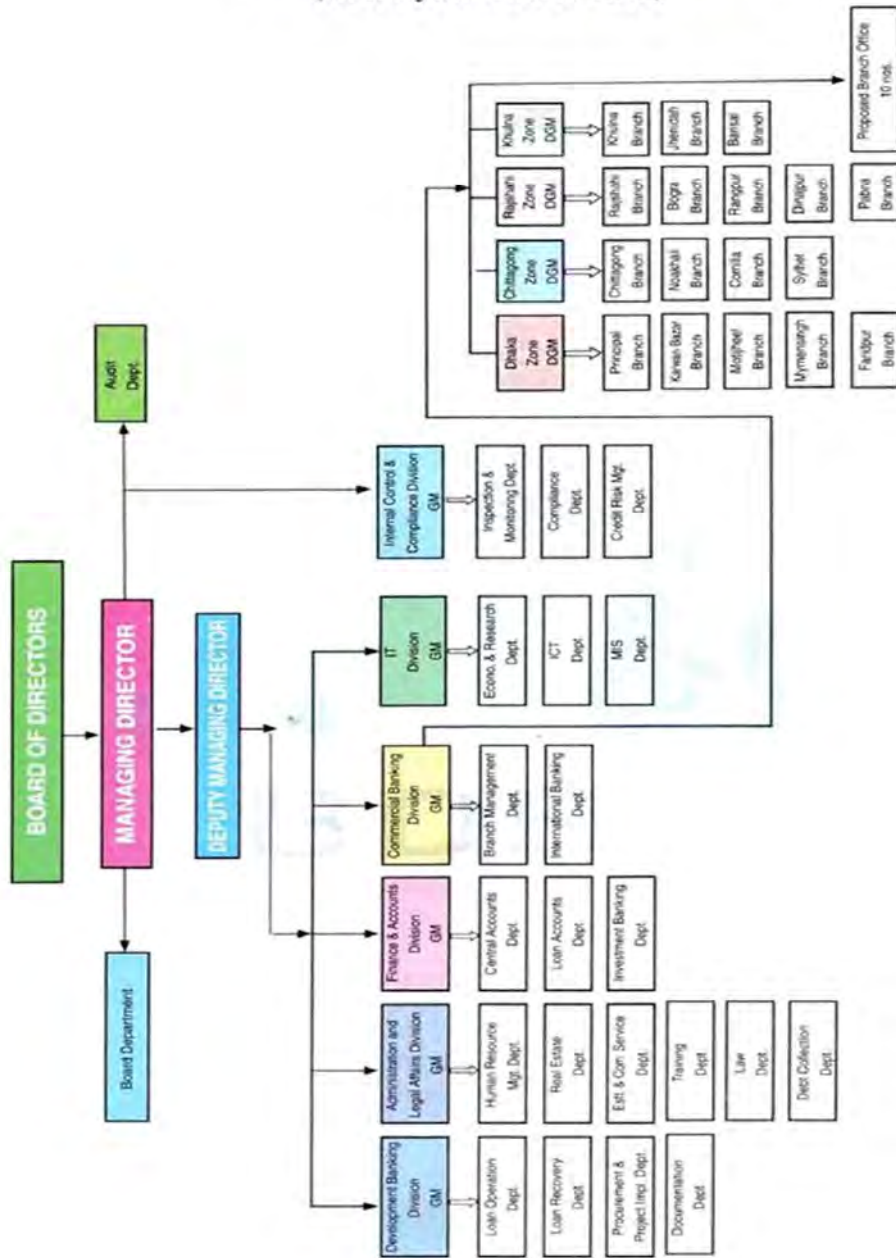


### 3.5 Corporate Information:

Name	Bangladesh Development Bank Ltd
Extent of Shareholding	100% Govt. Share
Legal Status	Public Limited Company.
License obtained	Bank.
Formal Inauguration	November 16, 2009
Registered Office	BDBL Bhaban, 8, Rajuk Avenue, Dhaka
Authorized Capital	TK. 10000 million
Paid Up Capital	TK. 4000 million
Reserve (on 01.01.2014)	TK 2500 million
Total Assets (on 01.01.2014)	TK 1980 million
Total Human Recourse	1200
No. of Zonal Office	4
No. of Branch Office	32
Membership	DSE, CSE
Web Site	<a href="http://www.bdbl.com.bd">www.bdbl.com.bd</a>

### 3.5 Organizational Structure:

#### INSTITUTIONAL STRUCTURE (At the year -End of 2010)



### **3.6 Product/Service Scheme:**

The bank is always committed to serve the clients with the best values and innovative products and services to enrich its portfolio at the client's demands and desires.

#### **I) Development Banking**

- Industrial loan with emphasis on syndicated arrangement (power & energy, telecommunication, fiber optic cable, etc)
- Public-Private Partnership (PPP) project (port development, transport & communication, like road, water & air ways etc)
- Small and Medium Enterprise (SME like IT industries i.e. development of hardware and software)
- Agro-based venture depending on indigenous raw materials (like jute twin/yarn industries)
- Green banking (environment & eco-friendly industries like automatic brick kiln, renewable energy, effluent treatment plant, etc)
- Lease financing.
- Real estate business (including housing loan).

#### **II) Commercial & Foreign Exchange Business**

- Current deposit
- Saving deposit.
- Short term deposit
- Fixed deposit.

- Deposit pensions Scheme
- Other special saving deposit.
- School banking (new)

a).5 year term BDBL Sanchay Shceme (BDBKSS).

b).10 year term Shikkha Sanchay Shceme (SSS).

c).10 year term Chikisha Sanchay Shceme (CSS).

**b. Short term loans**

- Cash credit (Hypothecation).
- Cash credit (Pledge).
- Secured advances (General).
- *Retail banking-*
  - a)customer's credit.
  - b) Personal loan.

**Trade/Foreign trade financing:**

a). Export cash credit.

b). Packing credit.

c). Purchase of local & foreign documentary bill.

d). Payment against documents (PAD).

e). Loan against imported merchandise (LIM).

f). loan against trust receipt (LTR).

### **c. Foreign Exchange**

- Local L/C.
- Import L/C.
- Export L/C.
- Back to back L/C.
- Foreign remittance.
- Foreign exchange buy & sale.

### **3. Capital Market operations**

- Share/ Security trading
- Underwriting
- Brokerage house services
- Mutual fund operation
- Banker's to public issues

### **3. Other activities of BDBL**

Apart from identification and development of viable projects, the bank assists the interested entrepreneurs in selecting industrial projects having appropriate

technology and potential market by providing advisory services and various information/data.

#### **a. Training**

For upgrading the professional competence and skills of its employees, the bank is continually arranging training programs both at home and abroad. Every FY they spent a lot of money for training programs and seminars.

#### **b. Observance of National Days**

Important national days like National Martyrs and International Mother Language day on February 21. Independence Day on March 26, Victory day on December 16 and National Mourn day were observed with due to respect and solemnity. Floral wreaths were laid at the Shaheed Meenar and at National Martyrs Memorial to pay homage to the martyrs who made supreme sacrifice to uphold the dignity of the mother tongue and achieve independence of the country.

#### **c. Professionalism**

BDBL committed to provide the best of our attention and ability for discharging our task, roles and responsibilities and continually upgrading our skill and knowledge base keeping abreast with ongoing local and global developments for attaining excellence in banking businesses.

#### **d. Transparency & Accountability**

BDBL are committed to remain transparent and accountable to our stakeholders in discharging our responsibilities.

## **e. Customer Focus**

BDBL is maintaining strong customer focus and build relationships based on integrity, trust, commitment, timely solution and mutual benefit to accelerate the growth.

## **f. Corporate Social Responsibilities**

The banks functions are not only limited to industrial financing , it is also committed to be known as an institution that builds long term relationship and delivers awards to its clients for regular payment of loans as well as responsible for its employees and communities. The bank promotes various socio-cultural activities, like picnic, sports, etc. for gearing and cheering up its employees, financial assistance to the bank's employees, and financial assistance to the severe ailing employees for proper treatment. Besides, the bank also donates to charitable institution and government's relief fund.

### **3.7 SWOT Analysis of BDBL:**

A SWOT analysis gives the stakeholders a perfect picture of a bank's performance which is as follows:

#### **Strengths of BDBL:**

- ❖ BDBL is unique in its nature having both specialized and commercial operation it is regarded as a development bank as well as commercial one.
- ❖ BDBL has skilled financial management, good credit control and few bad debts.
- ❖ A strong balance sheet. Access to extensive credit, a strong credit rating, and a good relationship with the bank and other sources of finance.

- ❖ Skilled employees, successful recruitment, and effective training and development.
- ❖ Govt. support and Encouragement.
- ❖ One of the fundamental objectives of BDBL is to boost up small medium industries.

### **Weaknesses of BDBL:**

- ❖ Decision making process is lengthy.
- ❖ Lack of promotional activities.
- ❖ Less diversified product and services line. The salary of BDBL is not high enough related with other commercial bank operating in Bangladesh.
- ❖ MAN/Internet/on-line services in BDBL is not upgraded, many of their works through manually.

### **Opportunities of BDBL:**

- ❖ There are huge demand of micro-credit, small and medium scale finance.
- ❖ There are opportunities of innovation in the banking industry.
- ❖ Bangladesh economy is expanding rapidly, so the need of bank is growing up.

### **Threats of BDBL:**

- ❖ More and less all the competition in the banking industry are competent , so to survive BASIC Bank no. of defaults loan is 37% which is real threats of bank business.



- ❖ Due to government institution many of the banking decision basic by political government
- ❖ Too much interrupted by international assistance institutions like World Bank, IMF, WTO.

## ***CHAPTER 4: SME & Bangladesh***

## **4.1 INTRODUCTION**

In view of present economic development effort in Bangladesh the SME sector plays an important role. SME sector employs 25% of the total labor force. As a result, this sector is the present available sector for creation jobs. SME sector help alleviate poverty, increase income level of rural people and promote agro-industrial linkage in Bangladesh. SME sector requires lower energy supply, lower infrastructure facilities and this sector impose less environment risk. They contribute towards better utilization of local resources and skills that might otherwise remain unutilized. Commercial banks are the major sources of financing in SME sector.

Commercial banks are disbursing significant amount of credit under various programs like Small Enterprise Development Project, Self-help Credit Program, and Projects for Small Entrepreneurs, Special Investment Program and Agro-based Supervisory Industrial Credit etc for the promotion and development of SMEs. The investment of private sector banks in financing SMEs remains insignificant in Bangladesh. Our major objective is to identify the contribution of banks in the development of SME sector. I also try to find out the current status of banks in the development of SME sector. By preparing the report I gain depth knowledge about SME banking. Here I also try to make some recommendations to improve the activities of the bank, especially credit process review.

As bank, Janata, Pubali, BASIC, Jamuna, Bangladesh Development Bank, Standard Chartered, BRAC Bank provides all traditional banking services including a wide range of savings and scheme products, SME financing and ancillary services with the support of modern technology and professional management. But the main stress is, as the name implies, put on SME financing

and these bank has become the pioneer in promoting small, medium & cottage industries and the largest financiers in this sector. Since inspection, these banks foresighted the bright prospects of this sector and extended finance to the deserving and promising entrepreneurs. It provides this sector with financial support including market information and advice and today the SME sector constitute a great portion of the total economy.

Banks loan portfolios include commercial loan, industrial loan, consumer loan and SME loan. All of these loans have significant impact on the Banks profitability. So treatment is different, require different procedure, documents and so on. Now-a-days SME financing is getting more important because it is the way of boosting our economy and also creating employment opportunities.

In 2010 loan disbursement in SME sector was good but after that loan disbursement in SME sector is decreasing. Bankers are not so much interested on providing SME loan because of continuous monitoring, much attention and more investment on less return than industrial loan. There is greater chance of SME loan to become bad loan than others. From 2010, Bangladesh Bank gives target to government banks and private banks to disburse loan in SME sector. Since then it has got momentum. So Bangladesh Bank is playing a key role on SME loan disbursement. The target of government banks given by Bangladesh Bank to provide loans in SME sector is normally more than the private sector. In general, government banks provide more credit facilities in SME sector than private banks

## **4.2 Introduction of SME;**

Bank is committed to provide high quality financial services/products to contribute to the growth of the country through stimulating trade and commerce, accelerating the pace of industrialization, boosting up export, creating employment opportunity for youth, poverty alleviation, raising standard of living of limited income group and overall sustainable socio-economic development of the country.

In achieving the aforesaid objectives of the Bank, Credit Operation of the Bank is of paramount importance as the greatest share of total revenue of the Bank is generated from it, maximum risk is centered in it and even the very existence of bank depends on prudent management of its credit portfolios. The failure of a commercial bank is associated with the problem in credit portfolio and it's less often the result of shrinkage in the value of others assets. As such, credit portfolio not only feature dominant in the asset structure of the Bank, it is crucially importance to the success of the Bank also.

Banks loan portfolios include commercial loan, industrial loan, consumer loan and SME loan. All of these loans have significant impact on the Banks profitability. So treatment is different, require different procedure, documents and so on. Now-a-days SME financing is getting more important because it is the way of boosting our economy and also creating employment opportunities.

Small & Medium Enterprises (SMEs) all over the world have been playing a crucial role in promoting economic development as well as industrial production. In particular, SMEs provide the necessary for sustained growth and raising income on the less developed and transitional economies. SME financing is a topic of significant research interest to academic and an issue of great importance to the

policymakers of Bangladesh and around the world. However, this study attempts to analyze the SME financing scenarios of the Banking sectors.

### ***4.3 Bangladesh Bank Define Small and Medium Enterprise (SME):***

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Bangladesh Bank has reset the definitions of small and medium enterprises (SME) as per the National Industrial Policy Order 2010.

The redefinition was done for the benefit of banks and financial institutions, a Bangladesh circular on Monday said.

#### **4.3.1 MEDIUM INDUSTRY/ENTERPRISE:**

In manufacturing, medium industry/enterprise would be those with assets worth Tk. 100 million (minus land and factory building, and including replacement value) and/or 100 to workers.

In service industry and in business, medium enterprises will be those which employ 50 to and have assets (defined as above) worth Tk. 10 to 150 million.

The circular said if a business fits into any of the criterion for a large industry, it will be considered a large industry though it's other characteristics may be that of a medium one.

#### **4.3.2 SMALL INDUSTRY/ENTERPRISE:**

In manufacturing, small industry/enterprise would be those with assets worth Tk. 5 to 100 million (defined as above) and/or 25 to 99 workers.

In service industry and in business, small enterprises will be those which employ 10 to 25 have assets (defined as above) worth Tk. 500,000 to 10 million.

### **4.3.3 MICRO INDUSTRY/ENTERPRISE:**

In manufacturing, micro industry/enterprise would be those with assets worth Tk. 500,000 million (defined as above) and/or 10 to 24 workers or less.

### **4.3.4 Measures taken by Bangladesh Bank for SME Development:**

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Bangladesh Bank has already introduced several schemes and programs to flourish and expand SME Enterprises. Refinance scheme funded by Bangladesh Bank, IDA and ADB has been facilitated for the development of SME Sector. Besides, to ensure institutional financial facilities under easy conditions Bangladesh Bank has taken diverse steps; like opening of ‘Dedicated Desk’ for SME and ‘SME Service Centre’ in the banks and special facilities for the women entrepreneurs. But reality is that expected outcome has not been achieved so far in this sector.

In the back drop of recent global recession and changed circumstances, it has become essential to include all segments of people in the growth process through facilitating credit to the sectors where less attention has been given due to present market mechanism, specially, in agriculture and SME sector. Reasonably, a new department namely ‘SME and Special Programs Department’ has been established in Bangladesh Bank recently which will be solely responsible for policy formulation, facilitating fund, monitoring and development of entrepreneurship in the SME sector.

The guidelines formulated by the newly created department for compliance of the banks and financial institutions for the development of SME sector are enumerated below:

- I. For the first time in Bangladesh, an indicative target for SME loan disbursement has been set for 2010 by the banks and financial institutions considering SME development as one of the most important development agenda of the country. According to the target, SME loan shall be disbursed to the small, medium and women entrepreneurs.
- II. Following the 'Area Approach Method' banks/financial institutions will try to attain their indicative targets separately by dividing it as branch wise, region wise & sector wise.
- III. Each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.
- IV. Priority shall be given to small entrepreneurs.
- V. For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50, 00,000 (Fifty lac).
- VI. For more participation of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement.
- VII. Banks & Financial Institutions shall put highest priority in receiving loan application from small and medium women entrepreneurs and settle the loan



disbursement process within very reasonable time from the date of acceptance of the application.

- VIII. Each bank and financial institution shall establish a separate 'Women Entrepreneurs' Dedicated Desk' with necessary and suitable manpower, provide them training on SME financing and suitably appoint a lady officer as chief of dedicated desk. Branch wise list of 'Women Entrepreneurs' Dedicated Desk 'should be sent to SME and Special Programs Department of Bangladesh Bank within two months from the date of declaration of this policy and program.
- IX. Banks and financial institutions may sanction up to Tk. 25,00,000 to women entrepreneurs against personal guarantee. In that case, group security/social security may be considered.
- X. The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of 'SME/Agriculture Branch' instead of 'SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture'.
- XI. Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs)

at Bank rate +5% interests. Training programs shall be arranged for the entrepreneurs

#### **4.4 Units of SME Banking Division:**

There are 7 business wings in SME Banking Division:

1. General Business Unit
2. Women Entrepreneur cell (WEC)
3. Large Business Unit (LBU)
4. Manufacturing Business Unit (MBU)
5. Suppliers & Distributor Finance Unit (SDF)
6. Commercial Credit Union (CCU)
7. Vehicle Financing Unit

##### **❖ General Business Unit**

This largest business unit of SME Banking Division has long been providing loan to SME entrepreneurs. Regular business wing offers varying products. SME entrepreneurs mostly require small finance that this business unit has successfully been offering to all level of SME borrowers irrespective of business type. In addition to small finance this business unit is also offering finance to medium entrepreneurs.

##### **❖ Women Entrepreneur cell (WEC)**

Women Entrepreneur cell (WEC), one of its kinds in the banking industry of Bangladesh, was launched in 2006 under SME Banking Division with an objective to offer access to formal finance along with training and technical assistance to the women entrepreneurs across the country.

##### **❖ Large Business Unit (LBU)**

Large Business Cell started its journey from February 2007. The objective for this unit is to increase the average ticket size of the overall SME portfolio and also to tap the unexplored market.

❖ **Manufacturing Business Unit (MBU)**

Manufacturing Business Unit was launched in August 2007 under SME Banking Division. The objective of launching this unit is to better serve the manufacturing sector by providing sector-focused loan & other services.

❖ **Suppliers & Distributor Finance Unit (SDF)**

Suppliers & Distributor Finance Unit was launched in September 2007 to engine the growth of linkage industry, an indispensable sector for any industry.

❖ **Commercial Credit Union (CCU)**

The Commercial Credit Union (CCU) was launched in October 2007 with the objective of providing financial services in the Trade Finance services in the Trade Finance sector with pre & post import facilities.

❖ **Vehicle Financing Unit**

This newly formed business unit if SME Banking is aimed at financing the commercial vehicles of SMEs. This unit will operate in some selected areas of the country.

#### **4.5 Current Status of SME Financing by Banks in Bangladesh:**

SME financing is a high risk service with low profit, discouraging the banking sector to extend loans to this sector. However, banks cannot ignore an emerging sector like SMEs. That is why; banks are continuously endeavoring to evolve appropriate models of financing SMEs. Generally, banks provide both working and other working capital financing to large and medium as well as small industries. Bangladesh Bank has already introduced several scheme and programs to flourish and expand SME Enterprises. Refinance scheme funded by Bangladesh Bank, IDA, ADB has been facilitated for the development of SME sector. Besides, to ensure institutional financial facilities under easy conditions Bangladesh Bank has taken diverse steps like, opening of dedicated desk, for SME and SME Service Center in the banks and special facilities for the women entrepreneurs.

In the back drop of recent global recession and changed circumstances, it has become essential to include all segments of people in the growth process through facilitating credit to the sectors where less attention has given due to present market mechanism, specially, in agriculture and SME sector. Reasonably, a new department namely, “SME and Special Program Department” has been established in Bangladesh Bank recently will be solely responsible for policy formulation, facilitating food, monitoring and development of entrepreneurship in the SME sector.

Bangladesh Development Bank Ltd are disbursing significant amount of credit under various programs like Small Enterprise Development Project, Self-help Credit Program, and Projects for Small Entrepreneurs, special investment Program and Agro-based Supervisory Industrial Credit etc for the promotion and development of SMEs. The investment of private sector banks in financing SMEs remains insignificant in Bangladesh.

Of all the private sector banks like Pubali Bank, Standard Chartered Bank, Agrani Bank, BRAC Bank, Eastern Bank Ltd( EBL), Prime Bank Ltd, Dhaka Bank Ltd, Mercantile Bank Ltd, Dutch-Bangla Bank Ltd, Islami Bank Bangladesh Ltd, IFIC Bank Ltd. have the leading role in SME financing.

Bank of Small Industries and Commerce Bangladesh Ltd. (BASIC) and other government and private banks are entrusted with the responsibility of providing medium and long-term loans for promotion and development of small scale industries.

The memorandum and Article of Association of the bank stipulates that 50% of loan able funds shall be used for financing small scale and cottage industries. The outstanding credit of BASIC stood at 1505.06 crore at the end of June 2013 for small and cottage industries sector.

#### **4.6 Loan documents needed for SME financing by banks:**

Getting SME loan or any kind of Bank loan is, in a word, complicated. In a sense it's okay to be complicated because giving money is not a good feeling for anyone but banks. Wherever anyone go to a bank for loan they just behave like they are not willing to give loan but in hindsight they actually love to give loan but they love documents more. In Bangladesh it's more than true that

we need a bunch of documents to get loan. To take SME loan from any Bank or financial institution we need numbers of document that many of SME loan seekers don't know.

Criteria for loan selection are similar among financial institutions. Without these documents bank cannot think anyone reliable for any types of loan. So to sanction a loan for any kind of small, medium or cottage industry these documents are inevitable for any institutions. Most frequently requested documents by financial institutions as a part of the loan application process include:

- ❖ Personal guarantee
- ❖ Business plan
- ❖ Appraisal of asset to be financed
- ❖ Purchase agreement
- ❖ Cash flow projection
- ❖ Personal financial statement
- ❖ Formal application for financing
- ❖ Business financial statement
- ❖ TIN certificate
- ❖ Citizenship certificate
- ❖ Bank solvency certificate
- ❖ VAT certificate
- ❖ Export license

#### **4.7 Potential SME Sectors:**

Bangladesh has a lot of potential sectors for applying SME. These sectors are nominated below:-

<i>Serial No.</i>	<i>Name of Sectors</i>	<i>Serial No.</i>	<i>Name of Sectors</i>
<b>01</b>	Agro based and agro processing industry	<b>26</b>	Diagnostic centre
<b>02</b>	Agro tools making & marketing	<b>27</b>	Call centre
<b>03</b>	Fishing boat building	<b>28</b>	Digital color lab
<b>04</b>	Nakshi kantha and handloom	<b>29</b>	Cable operators
<b>05</b>	Food seed and preservation	<b>30</b>	Generator
<b>06</b>	Bakery	<b>31</b>	Telecommunication
<b>07</b>	Hatchery	<b>32</b>	Old iron goods
<b>08</b>	Dry fish processing	<b>33</b>	Mobile set and accessories
<b>09</b>	IT based activities	<b>34</b>	Electronic business
<b>10</b>	Cyber café	<b>35</b>	Fertilizer tools
<b>11</b>	Forestry and furniture	<b>36</b>	Clothing and shoe business
<b>12</b>	Horticulture, floriculture	<b>37</b>	Road and cement business
<b>13</b>	Cold storage	<b>38</b>	Grocery and chaff goods
<b>14</b>	Construction business	<b>39</b>	LP gas business
<b>15</b>	Hospital and clinic	<b>40</b>	Warehouse & container business
<b>16</b>	Handicrafts	<b>41</b>	Printing and packaging
<b>17</b>	Herbal medicine industry	<b>42</b>	Plastic industry
<b>18</b>	Jute goods & jute mixed goods	<b>43</b>	Cosmetic industry
<b>19</b>	Stationery goods industry	<b>44</b>	Oil and pulse mill
<b>20</b>	Transport communication	<b>45</b>	Mini sugar mill
<b>21</b>	Laboratory	<b>46</b>	Hosiery
<b>22</b>	Jewellery	<b>47</b>	Welding industry
<b>23</b>	Tailoring	<b>48</b>	Partex industry
<b>24</b>	Saloon and beauty parlors	<b>49</b>	Paddy rice business
<b>25</b>	Community centre	<b>50</b>	Boutiques

*Table: Potential sectors of SME*

## ***CHAPTER 5: SME & BDBL***

## *5.1 SME Department OF BDBL*

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For enhancing domestic investment to meet rising demand for employment generation, women's empowerment and regional development, the role of SME is indispensable. In line with the Government's and Bangladesh Bank's Policy Guidelines, promoting a dynamic SME sector is a priority for the bank. For enhancing the knowledge and awareness of the officers on SME financing, a number of training programs were arranged by the bank in the year of 2011 on SME related issue. Besides that the bank actively participated in different SME fairs and seminars.

The bank took several steps in this regard, some of which were:

- Fixation of delegation of power categorically for sanctioning of SME loan by the Zonal, Branch Head and officers concerned in head office;
- Creation of the SME Department to guide, supervise and monitor SME related activities, sanction and recovery of loans;
- For the convenience of selecting SME projects, a list based on area, sectors and cluster was prepared and sent to all Branches;
- Provision of collateral free loan for women up to a certain limit;
- Preparation of SME Manual relating to rules, regulation and other related information;
- Set up of SME cell, a help desk/ women entrepreneur assistant desk to advise and assist SME entrepreneur and particularly, women entrepreneur for advisory services including all related assistant; and
- Introduction of four new SME products namely "Ashar Alo" (for women entrepreneur), "Koler Chaka Takar Jhaka" ( Industries loan), " Khamar Bari" (loans for the processing of agricultural products), and "Proshar" (Business Loan).



## ***5.2 Function of SME Department OF BDBL:***

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Some functions of the SME department are described below;

- Preparation of strategic plan on overall SME loan and advances of the bank
- Sanction of all types SME loan beyond sanctioning power of Branch and Zonal Head.
- Maintenance of update records, statements, follow-up, supervision monitoring of SME loans and inform board of directors/B.B from time to time.
- To assist and guide Branch and zonal officials as per guideline of B.B & SME foundation to mobilize women entrepreneur to across the country through respective women chamber, chamber of commerce & federation of chamber of commerce.
- To collect information & existing set up of BSCIC sponsored artisan village/centre run by women entrepreneur to across the country.

## ***5.3 SME products of BDBL:***

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Bangladesh Development Bank Ltd (BDBL) has four types of SME products namely “Ashar Alo” (for women entrepreneur), “Koler Chaka Takar Jhaka” (Industries loan), “Khamar Bari” (loans for the processing of agricultural products), and “Proshar” (Business Loan).

### ***5.3.1 ASHAR ALO (WOMEN ENTREPRENEUR LOAN):***

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#### **Objectives of Loan:**

1. To include women power in the economic development of the country.
2. To encourage women entrepreneur in order to alleviate poverty from the grass-root level.
3. Establishing respect for women power and make them self sufficient.

#### **Characteristics of Loan:**

1. Provide different advices to formulate loan proposal.

2. Grant and distribute loan at a quick time.
3. Easy terms and conditions as well as flexible interest rate. Present interest rate is 14 % quarterly.
4. The loan can be repaid within 1 to 5 year in easy installments
5. The grace period is 12 months.
6. Up to a certain level (5 lacs) no collateral is needed, but if the loan amount is more than 5 lacs, collateral is needed. (Usually it is the fixed assets and 1.25 times the loan amount)
7. For small loan, the loan and the capital ratio is 60:40, and for the medium loan, the loan and the capital ratio is 50:50.

### **Borrowers Characteristics:**

1. At least one year experience in operating business.
2. Must have a legal trade license.
3. Must have a tax identification number.

### **5.3.2 KHAMAR BARI (AGRI- PRODUCT PROCESSING LOAN):**

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#### **Objectives of Loan:**

1. The development of the country's agricultural sectors, which is the main driving force of the country's economic development.
2. To make direct contribution in reducing poverty from the country by solving unemployment problem
3. To earn foreign currency by producing export quality products and increase the production of the country.

#### **Characteristics of Loan:**

1. Provide different advices to formulate loan proposal.
2. Grant and distribute loan at a quick time.
3. Easy terms and conditions as well as flexible interest rate. Present interest rate is 15 %.
4. The loan can be repaid within 1 to 5 year in easy installments. (like: monthly/ quarterly/ half yearly)

5. The ratio between loan and fixed asset is 1:1.25.
6. For small loan, the loan and the capital ratio are 60:40, and for the medium loan, the loan and the capital ratio is 50:50.

### **Borrowers Characteristics:**

1. At least one year experience in operating business.
2. Must have a legal trade license.
3. Must have a tax identification number.
4. Must be able to equity investment.
5. The person should be enthusiastic in operating business.

### **5.3.3 KOLER CHAKA TAKAR JHAKA (INDUSTRY/ SERVICE LOAN):**

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#### **Objectives of Loan:**

1. To encourage the middle class in operating business and make positive contribution in the economic development of the country.
2. To make direct contribution in reducing poverty from the country.
3. To earn foreign currency by using local technology and raw material.
4. To earn foreign currency by producing export quality products.

#### **Characteristics of Loan:**

1. Provide different advices to formulate loan proposal.
2. Grant and distribute loan at a quick time.
3. Easy terms and conditions as well as flexible interest rate. Present interest rate is 15 %.
4. The loan can be repaid within 1 to 5 year in easy installments. (like: monthly/ quarterly/ half yearly)
5. The ratio between loan and fixed asset is 1:1.25.
6. For small loan, the loan and the capital ratio are 60:40, and for the medium loan, the loan and the capital ratio is 50:50.

## **Borrowers Characteristics:**

1. At least one year experience in operating business.
2. Must have a legal trade license.
3. Must have a tax identification number.
4. Must be able to equity investment.
5. The person should be enthusiastic in operating business.

### **5.3.4 PROSAR (BUSINESS LOAN):**

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#### **Objectives of Loan:**

1. To create a loan opportunity for the business man who are interested in medium and small enterprise.
2. To make direct contribution in reducing poverty from the country by solving unemployment problem
3. To improve the standard of living of the people of our country.

#### **Characteristics of Loan:**

1. Provide different advices to formulate loan proposal.
2. Grant and distribute loan at a quick time.
3. Easy terms and conditions as well as flexible interest rate. Present interest rate is 14%.
4. The loan can be repaid within 1 to 5 year in easy installments. (like: monthly/ quarterly/ half yearly)
5. The ratio between loan and fixed asset is 1:1.25.
6. For small loan, the loan and the capital ratio are 60:40, and for the medium loan, the loan and the capital ratio is 50:50.

## **Borrowers Characteristics:**

1. At least one year experience in operating business.
2. Must have a legal trade license.

3. Must have a tax identification number.
4. The person should be enthusiastic in operating business.

Amount of SME loan range from 50 thousand to 50 laces which are approved by credit committee consists of 4 GM as consultant officer. For SME loan investor need to provide application form along with TIN number and trading certificate.

#### **5.4 Targets for SME Credit**

A total target of SME credit worth Tk. 23,995 (Twenty three thousand nine hundred ninety five) crore has been set by the banks and financial institutions for the first time in 2010 considering SME development as one of the important development agenda of the country. According to the target, SME loan shall be disbursed to the small, medium and women entrepreneurs. In future, banks/financial institutions will send their target to the SME and Special Programmes Department as well as branch offices of Bangladesh Bank fixing their target of SME loan sector wise, region wise and branch wise.

#### **5.5 SME Loan Operation Policy of BDBL**

Government policy, direction of SME Foundation and Bangladesh Bank is used as the guideline of SME policy of BDBL.

##### **5.5.1 Objectives of SME Loan**

- To elevate poverty from the country through creating employment opportunity and lessening the income discrimination.
- To develop potential entrepreneur in small and medium industry.
- To support women entrepreneur financially in industrial and business sector.
- To explore intellectual property in the place of venture capital.
- To prompt the economic cycle of the country.

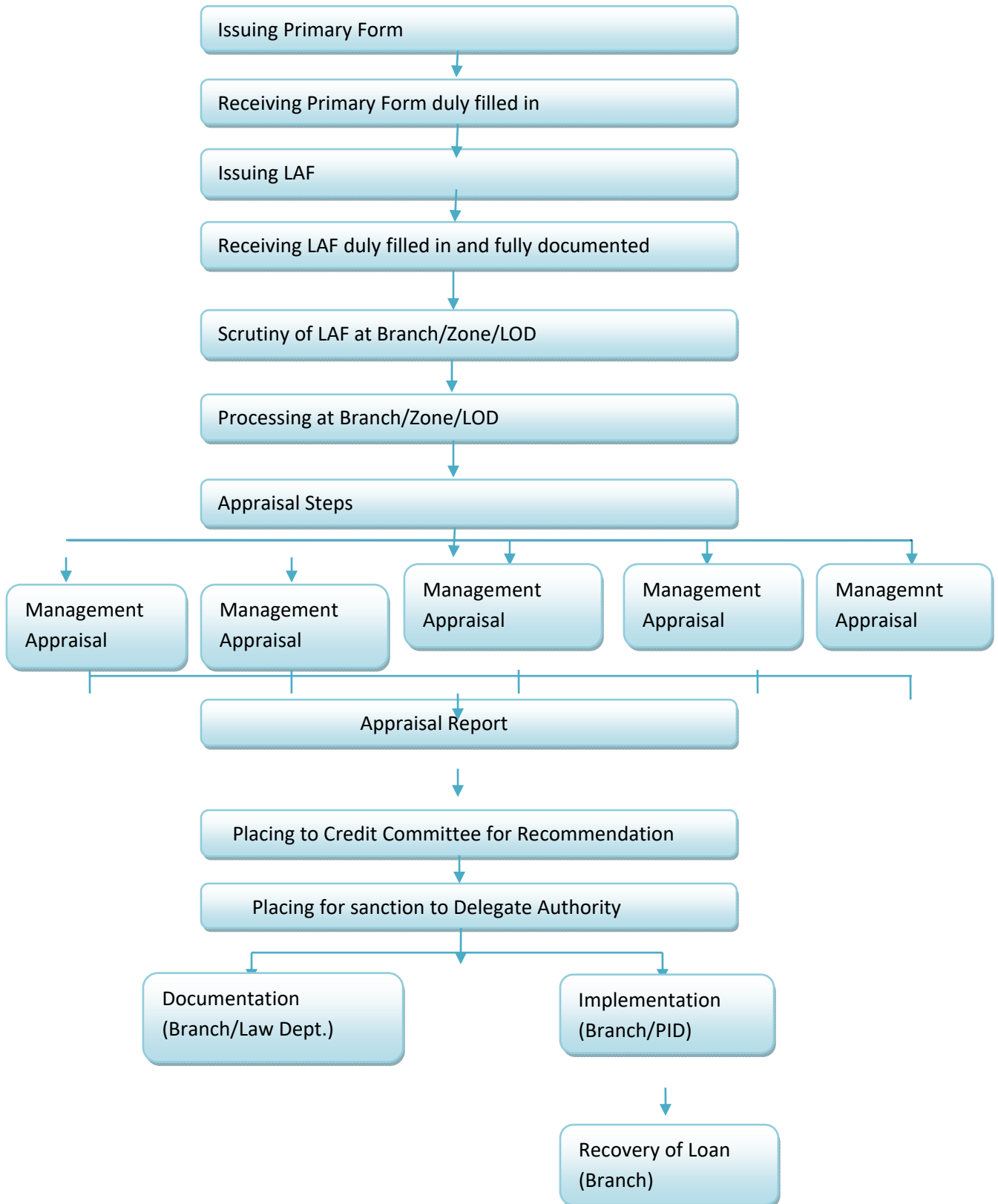
### **5.5.2 SME Loan Approval Process by BDBL**

Following activities are operated by SME Loan Operation Department to approve the loan:

- ❖ Application received in primary form for consideration of issuing final form against fee.
- ❖ Formal application received in banks printed form namely LAF (Loan Application form) with evaluation fee and vat.
- ❖ Examination LAF.
- ❖ Seeking of missing information required for appraisal.
- ❖ Project land inspection suitability, title, lawyer's opinion, infrastructure facilities etc.
- ❖ Preparation for appraisal report
- ❖ Preparation of memo for credit committee.
- ❖ Recommendation of credit committee.
- ❖ Preparation of memo for competent authority.
- ❖ Issuing of sanction latter.

BDBL provide loan for an investment to create, expand and/or develops certain facilities in order to increase the productions of goods and/or services in a community during a certain period of time. BDBL's main function is to extend financial assistance to industrial project. It basically needs to be satisfied about the overall viability of a project to be financed. For this purpose, an objective assessment of the viability of the project is required to be examined by BDBL from various points of view.

**Approval Process**





### 5.5.3 Credit Limit:

<b>Types of Enterprise</b>	<b>Project Loan/Term Loan</b>	<b>Cash Credit/Current Capital</b>
Small Enterprise (service and business)	Tk 50000 to 25 Lakh	Tk 50000 to 25 Lakh
Small Enterprise (Industry/Production)	Upward of Tk 50000 to not more than 50 lakh	Upward of Tk 50000 to not more than 50 lakh
Medium Enterprise (service and business)	Upward of tk 25 lakh but not more than 50 crore	Upward of tk 25 lakh but not more than 50 crore
Medium Enterprise (industry/production)	Tk 50 lakh and so on	Upward of tk 25 lakh but not more than 50 crore

### 5.5.4 Interest Rate:

- I. Project/Term Loan: 15% (monthly/quarterly basis).
- II. Cash Credit/ Current Capital: 15% (quarterly basis).
- III. Women Entrepreneur: 14% (quarterly basis).

## ***5.6 Loan Recovery in SME Sectors:***

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BDBL provides different types of SME loan to the investors, which they can invest mainly in trading sectors, manufacturing sector and service sector.

### **5.6.1 Trading Sector:**

The Trading sector is a good sector for banks especially for BDBL as this is one of the largest industrial sectors of Bangladesh as earning foreign exchange and holds a good position in the world market. Loan recovery of BDBL in this sector is quite satisfactory. The bank faced loan default of 107 million taka in 2013-2014 financial years. So there is a hefty amount of loan defaulted in trading sectors.

**Table 1: Trading Sectors' Loan Recovery** (Million TK)

LOAN	2010-11	2011-12	2012-13	2012-13	2013-14
Loan Sanctioned	<b>227</b>	<b>312</b>	<b>397</b>	<b>443</b>	<b>628</b>
Loan Recovered	<b>163</b>	<b>237</b>	<b>284</b>	<b>378</b>	<b>521</b>
Loan Defaulted	<b>64</b>	<b>75</b>	<b>113</b>	<b>65</b>	<b>107</b>

### **5.6.2 Manufacturing Sectors:**

Manufacturing sector is an important sector for country's growth. But this sector faces loan default because of inexperienced and inefficient manpower of our country. This can be said in the way that the electric machines installed in our country with the help of foreign engineer but after installation though they gave instruction but our inexperienced workers are not able not maintain properly. The condition of loan recovery is not good in recent years although the bank has sanctioned a satisfactory amount of manufacturing loan in the SME sector. The bank faced loan default of 109 million taka in 2013-2014 financial years. So there is a hefty amount of loan defaulted in manufacturing sectors.

**Table 2: Manufacturing Sectors' Loan Recovery**

(Million TK)

LOAN	2010-11	2011-12	2012-13	2012-13	2013-14
Loan Sanctioned	157	234	297	338	397
Loan Recovered	93	163	169	265	288
Loan Defaulted	64	71	128	73	109

### 5.6.3 Service Sectors:

Service sector in our country is much profitable though there are some defaults. For expanding this industry, BDBL gave loan such as tourism center, hotel, restaurant and service oriented activities. BDBL's loan recovery condition in this sector is moderately good. The bank faced loan default of 94 million taka in 2013-2014 financial years. So there is a hefty amount of loan defaulted in service sectors.

**Table 3: Service Sectors' Loan Recovery**

(Million TK)

	2010-11	2011-12	2012-13	2012-13	2013-14
Loan Sanctioned	202	243	293	323	387
Loan Recovered	109	165	171	265	293
Loan Defaulted	93	78	122	58	94

The health of a bank is determined by its Non-performing loan (NPL). There we can see from 2010-2014 a hefty amount of loan is defaulted by the borrowers of BDBL. So the health of BDBL is not in a very good condition

## ***CHAPTER 6: Research & Analysis***

## **6.1 Questions Raised & Addressed**

There are some open ended questions which are being answered by the bankers. This study is based on both primary and secondary data. Primary data were collected through personal interview with a structured questionnaire and direct observations.

### **6.1.1 Can institutional finance for SME be broaden both in terms of number of SME accessing such loans and diversifying (increasing) the varied sources of funds for SME?**

Lack of investing or operating funds remains as one of the most prominent challenge for almost all the SMEs in Bangladesh. Ahmed (2014) points out that due to the lack of national quality policy and adequate support system, and also the lack of credibility of the quality certification authority, SMEs of Bangladesh have failed to ensure the quality of products and services both in domestic and international markets. He also argues that access to finance prevails as one of the most important problems for the SMEs in Bangladesh.

Rahman and Mahmood (2007) mentions that Small and Medium Enterprises are the backbone of the economy in countries like Bangladesh. SMEs suffer from common constraints such as lack of capital, difficulties in procuring raw materials, lack of access to relevant business information, low technological capabilities, problems caused by cumbersome and costly bureaucratic procedures, and policies and regulations that generate market distortions. However, with proper domestic policy support from the government, and an eye towards global market trends, SMEs can build capacity and reap the rewards of globalization.

### **6.1.2 Are there provisions for female entrepreneurs and young entrepreneurs to have access to specialized funds for SME development?**

In addressing the above notion it can be said that Bangladesh Development Bank Ltd (BDBL) itself has greater focus on female run SMEs, along with other commercial banks in general. However, there has not been any serious undertaking in terms of young entrepreneurs in particular.

General Obstacles Faced by SMEs: which are prohibiting financing institutions from taking greater interests in SMEs and that are not persuading entrepreneurs to undertake SMEs as livelihood mechanisms:

The main driving force in SME promotion in Bangladesh is in the growth of agro-based processing and essential consumer goods products. Many institutions at the national level are providing assistance to entrepreneurs through SMEs in the country. Industrial credit in Bangladesh is financed through government sponsored industrial banks; commercial banks and specialized financial institution.

### **6.1.3 Are there accessible and affordable training facilities for SME, female entrepreneurs and young entrepreneurs?**

There is limited access to training facilities and wherever available they are not necessarily affordable. At the moment, commercial banks are not entertaining any training facility for SME though occasionally ILO-UN and /or ADB funded training programs are made available for those SME who are equipped with internet facility. It is indeed discriminatory for those of whom mostly reside in the district/villages level. Female SME owners are given a priority though not in an adequate manner and as for young entrepreneurs, it barely exists.

### **6.1.4 Are there adequate infrastructure facilities (i.e. gas, electricity and roads etc.) for SME growth?**

Bangladesh is currently lacking adequate infrastructure facilities, i.e. gas, electricity, roads, warehouse facilities, cold storage etc., which are hampering SME growth and access to market facility. Utilization costs for such infrastructure are so high that they often not encouraging to SME development.

### **6.1.5 Are there sufficient skilled technicians and workers to support SME growth and to compensate for the poor management skills of the entrepreneurs particularly female and young entrepreneurs?**

There are tremendous shortage of skilled workers to support SME growth and needless to mention that poor management skills are a hindrance. In a country like Bangladesh particular focus must be given to female and young entrepreneurs considering that more than 50% of the population consists of female and over 68% of the population is under the age of 30 years of age.

### **6.1.6 Can the usage of modern technology be of any significance in making SME more competitive both nationally and internationally?**

At a time when most design and development of SME products are mostly manual and/or highly labor intensive, usage of modern technology could be of high value adding. Such an introduction of modern technology would greatly enhance national and international competitiveness of BD SMEs.

**6.1.7 Are there sufficient policy framework for supporting SME growth; are they comprehensive and sustainable?**

Generally speaking, various Ministries of BD Govt. and Bangladesh Bank in particular has guidelines in this regard. However, they are not well established in terms of implementation mechanisms and nor are they enforceable in any manner. SME policy frameworks are by no means comprehensive and hence, not sustainable.

**6.1.8 Is the inability to market SME product, maintain quality assurance and sustain product quality in a consistent manner of any concern in the current SME growth context?**

When competitiveness, both in the country from larger enterprises and from within, is in high gear, consistent product with assured quality is paramount. Sustainability of SMEs depends on it in high degree. It is only then SME growth can be perceived as viable.

## ***CHAPTER 7: Findings of the Study***



## **7.1 Findings & Analysis**

Form my practical analysis I have found the real scenario of BBL surrounding with credit are as follows-

1. Aggregate Loans and advances are 79% of total Deposit.
2. Approximately 77% of the loans and advances have been given to small and cottage industries.
3. In the credit policy it has been specified that, approximately 50% of the loans and advances will be given to small-scale industries. By examining the figures we have found that, for the month ended June 2012, BDBL employed 77% of its loan able funds to small-scale industries. Head Office of the bank is monitoring all kind of loans and advances.
4. Branch managers are fully liable for the selection of the borrower.
5. Continuous monitoring of the working capital facilities are ensuring by the inspection of the stocks.
6. Conservation approach is taken to avoid any kind of foreign exchange exposure.
7. Documentation process.
8. No credit is extended to customer client Entity, which exceeds in total commitment more than 10% of the Banks capital and fees reserves.
9. House building loan facility and other commercial loan facility has been demoralized by the branch authority.
10. Persuasion and monitoring are moderately maintain for ensuring the prompt payment.
11. Head office decision sometimes creating classified loans.
12. Credit evolutions techniques are not enough to judge the credibility of the borrower

## *7.2 Causes of Problem Loans in BDBL*

However, the study of files and documents of top defaulters of BASIC reveals the following causes of problem loans.

- ❖ Poor Loan Interview.
- ❖ Inadequate Financial Analysis
- ❖ Improper Loan Structuring
- ❖ Improper Loan Support
- ❖ Inadequate Monitoring

## ***CHAPTER 8: Recommendations & Conclusion***

## *8.1 Recommendations*

Although the Bank is sound, it requires some changing criteria from my practical experience. Here some recommendations are made to enrich the credit operation system of the bank:

1. Loan appraisal technique should be modernized.
2. Documentation process should be improved.
3. Customer Service should be enhance
4. Marketing for selling the services should be encouraged.
5. Adequate training is required for credit officer.
6. Adequate measure should be taken for small industrial loan.
7. Management should be careful about high liquidity ratio.
8. Some discretionary power should be given to the branch management.

## 8.2 Conclusion

In this report I tried to find out the performance of BDBL on its SME credit operation and I have found that, the performance of BDBL is in satisfactory level. The credit management of BDBL is relatively sound compared to all other banks operating in the country. BDBL has already developed goodwill among its clientele by offering its excellent services. This success has resulted from the dedication, commitment and dynamic leadership among its management over the periods. The Bank has a very low rate of classified loans, which is around 4.93% only. BDBL has been following a series of measures, both in Head office and branch levels, to follow up and supervision of loans and advances to avoid and minimize non performing loan of the bank. BDBL therefore emphasizes on persuasions rather than going for legal action in order to recover its classified loans. Bank considers the practical aspects of the project being sick and extends further finance or reschedules the repayment period. Into eliminate those problems to increase in do are encouraging in the sense that it shows efficient management can lead to successful banking business in Bangladesh. This could be source of useful lessons to the total banking sector. BDBL being the best among the government owned banks and should go hand in hand with modern banking system and culture to retain and improve the present position in the financial arena. But to retain the performance of BDBL it should make changes in some of the cases. Such as : in disbursing loans and advances the bank gives more emphasize on Dhaka division, textile sector etc. but it is not enough for future success. Though the classification rate of BDBL is well below of the acceptable rate but its credit technique to judge the client are not satisfactory, so changes are necessary to eliminate those problems to increase the efficiency and betterment of the bank.

Whatever, during the short span of time of its SME loan operation, the bank has been successful to the position itself as a progressive and dynamic financial institution in the country.

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