



SME Banking Division of BRAC Bank Limited

Internship Report on
SME Banking Division of BRAC Bank Limited

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Letter of Transmittal

8 November, 2012

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Subject: Submission of Internship Report

Dear Madam,

I have conducted my Internship on SME Banking Division of BRAC Bank Limited under your supervision. I am glad to submit my Internship Report on “**SME Banking Division of BRAC Bank Limited**”.

I tried my best to make this report as reflective as possible. I will be grateful to you if you accept this report. Thank you for your consideration.

Sincerely Yours,

Shah Abdullah Al Mamun

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Acknowledgement

First of all I want to convey my earnest appreciation to the almighty Allah for giving me strength all through the report making and enabling me to finish the report.

Completion of this report made me thankful to a number of persons. I want to thank my supervisor and teacher **Ms. Syeda Shaharbanu Shahbazi Ahmed** who helped me to improve my report by providing necessary guidance and suggestions. Her assistance and encouragement made it possible to accomplish this report within time.

My heartiest gratitude goes to **Mr. M. Sarwar Ahmed**, Head of Special Assets Management (SAM)-SME & Retail Banking, my Mentor in BRAC Bank Limited for allowing me to do Internship Report on SME Banking Division of BRAC Bank Limited and for his guidance.

I also want to thank **Md. Kawsar Ali**, Zonal Manager of SME Unit Office of Dinajpur for helping me to fit in the new work environment, for co-operating me endlessly during my attachment period. I am also grateful to the entire SME Division working in the Head Office, who in fact, taught me about SME banking service, described products and important documents.

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Executive Summary

Higher growth of the Small and Medium Enterprises (SMEs) can help to cut poverty to a satisfactory level by eliminating various prejudices against labor intensive industry and creating jobs for the skilled manpower in the SME sector. However, the access to financing is still recognized as the leading obstacle to SME growth in Bangladesh, alike most other developing and under-developed countries. Small and medium entrepreneurship have a tremendous potential in empowering potential entrepreneurs and transforming society. To target this sector with huge potentiality BRAC Bank Ltd introduced SME Banking Division in 2001.

Being the fastest growing bank of the country currently BRAC Bank is operating all over the country having 84 Branches, 22 SME Sales and Service Centers, 48 SME/ Krishi Branches, 313 ATMs, 399 SME Unit offices. This fastest growing bank works on 3P- People, Planet and Profit; ensures sustainable growth and largely focuses on SME financing sector.

BRAC Bank SME division was set up to capture “Missing Middle” and to create socio-economical impact in the country. Within 11 years of establishing it has proved its success through becoming country’s largest SME finance provider and 4th large SME provider in the world in terms of lending volume.

For the inheriting business risk, SME sector is facing several constrains in terms of growth. Policy level complexity, financial constrains, legal bindings and industry structure are hindering financial institutions to support SME sector. Lack of SME supporters, poor infrastructure of the country, lack of entrepreneur’s skills, lender-borrower gap, huge market competitions are the major drawbacks for both borrowers and lenders. Again SME sector has tremendously contributed in the economy. Today it has been considered as the engine of country’s economy.

Being country’s largest SME provider, BRAC Bank is facing several challenges which are identified in analytical part of the report. Business risk, high interest rate, high defaulter rate, certain government policy change etc are the major challenges facing by BRAC Bank. At the same time BRAC Bank has a large number of defaulter. Even though strict loan approval system

is maintained, due to some unavoidable reason “bad-losses” sometimes occur. In order to reduce credit risk BRAC Bank follows consistent monitoring system upon borrower’s activities. Again if someone turns in to defaulter special wing called SAM works to enforce law.

The recommendation part of the report tried to find out some steps could be initiated by BRAC Bank in order to overcome existing weakness. Lowering interest rate, more effective loan approval system, strong monitoring activities, and entrepreneurs meeting arrangement could improve BRAC bank’s performance. Analysis of the Loan Repayment Behavior of the borrowers gives an idea about the current market vibe of SME banking.

The Organization

Introduction

For graduate students Internship is a major requirement. Internship provides an unique opportunity for students to implement their knowledge and improve their skill while working in a different environment. As a student of business school from the very beginning, I have always been aspiring to work in a financial institution, especially in banking sector.

In a developing country like Bangladesh, for rapid progression in economic growth role of banking sector is very crucial. BRAC bank, widely regarded as one of the fastest growing banks in Bangladesh, started its journey with an unconventional view of helping potential entrepreneurs in the country, to strengthen national economy. The core operation of the bank – SME banking has gone beyond the entire conventional role of economic solution. Along with its core operation of SME Banking BRAC Bank is offering almost all the banking services to the nation.

BRAC Bank Limited

BRAC Bank Limited, the youngest commercial bank in Bangladesh banking industry was founded in July 04, 2001, by Bangladesh Rural Advance committee (BRAC), one of the biggest development finance institutions founded by Sir Fazle Hasan Abed in 1972. Though it is an affiliation of BRAC, it is partially owned by International Finance Corporation (IFC) and Shore Cap International.

In its inception, it was established with an endeavor to facilitate small and medium enterprises (SMEs) in the country. But later on it started providing services for retail and corporate segment along with the non-resident Bangladeshis. It has been reported to be one of the top banks processing remittance inward to the country. BRAC Bank Ltd. is the leading SME focused bank in Bangladesh. After being established in 2001, BRAC Bank has pioneered the small and medium enterprise (SME) banking within a very short period of time. It is the largest SME bank in the country in terms of number and coverage of SME distribution channels, amount of loan disbursements, number of clients and so forth.

BRAC Bank has gradually grown in to a large financial institution having 154 distribution outlets in total among which 84 are branches, 48 are SME Krishi branches, 22 are SME Sales & Service Center and 12 are Aapon Somoy. The number of SME unit office is 399 at this moment which are spread all over the country. BRAC Bank owns a strong ATM network of 310+ ATMs across the country. All its network distributions, outlets, business segments are working relentlessly led by skilled and enthusiastic work force to extend organization's growth. BRAC bank has been working diligently to reach banking facilities to the furthest corner of Bangladesh, to facilitate small-medium entrepreneur by providing capital base and to aid the money transferring process by non- resident Bangladeshi living abroad. This organization has been coming up with new products and is planning to roll in more products to serve wide arrays of customers.

Business Divisions of BRAC Bank Limited

BRAC Bank Limited consists of three major business divisions namely-

1. Retail Banking Division
2. Corporate Banking Division
3. Small and Medium Enterprise (SME)

Retail Banking Division:

Retail Division offers a wide array of lucrative and competitive banking products to the individual customers of the bank. It offers different types of term deposit scheme and attractive STD & Savings deposit schemes giving interest on daily balance. Retail Banking Division has the following departments:

- ❖ Branch Banking
- ❖ Alternative Delivery Channels (ATM, Apon Somoy, Cash deposit machine (CDM), Phone banking, e-statement)
- ❖ Cards Department
- ❖ Retail Risk
- ❖ Products and Marketing
- ❖ Value Centers

Currently BRAC Bank has re-organized its retail business according to customer profile. This segmentation has been done to deliver more standardized services and reduce operating costs as well. The new segments are as follows-

Premium Banking: Guest who maintains at least BDT 50 lacs (6 month average) is called premium customers. They are highly prioritized. They also enjoy different gift and discount through BRAC Bank. Currently BRAC Bank has around 1000 premium customers.

Supreme Banking: Guests who maintain a balance between BDT 10 lacs to below 50 lacs (6 month average) are treated as supreme clients. They enjoy separate service booth and cash deposite booth in the branch along with many other services.

Excel Banking: Client who maintains a balance between BDT 50 thousand to below 10 lacs in an average of 6 months are called excel group of guest.

Easy Banking: These are the general customers who do day to day and traditional banking with the bank. They only require a minimum balance in the account (upto BDT 50 thousand).

Corporate Banking Division:

Corporate Division provides full range of commercial banking products and services to any potential corporate clients including multinationals, large or medium local corporate, NGOs, institutional bodies.

The Corporate Banking Division has a centralized structure through on-line banking system. Any credit facility is processed at the Corporate Banking Division, Head office. After sanctioning of the facility, the limit is put on line and the customer can enjoy the facility from any of the BRAC Bank branches. Strict adherence to internal control guidelines and other legal and statutory compliance are followed. The Credit approval process involves separate Credit Division, the Managing Director and finally the Board.

Other departments like Foreign Trade, Treasury, and Credit Administration etc. play the support role for a comprehensive range of service to the Corporate Banking Division.

Treasury Division is one of the major divisions of BRAC Bank. Treasury Division deals with money market. All treasury related products are processed in conformity with the Bank's Operational, Trading, Money market, Overnight, Term placing, Deal settlement, Commercial position keeping, Treasury, Credit, Finance & other applicable policies.

Treasury Operations calculates investment figure, prepares the auction application, forwards the application to Bangladesh Bank for Bid and Treasury Operations maintains and reconciles all accounts with foreign and local banks.

Small and Medium Enterprise (SME):

SME is an additional and specialized horizon of the bank which serves the bank's special focus on promoting broad based participation by catering to the small and medium entrepreneur. The network of SME has already been established throughout Bangladesh. The SME market in Bangladesh is large. BRAC Bank is the absolute market leader in the number of loans given to small & medium enterprises throughout Bangladesh.

Organizational Structure

Board of Directors is the sole authority to take decision about the affairs of the business. Now there are 7 directors including the Chairman in the board of the bank. The board of directors holds meetings on a regular basis. The current board of directors and management committee are given in the following table:

Board of Directors:

Mr. Muhammad A. (Rume) Ali Chairman	
Mr. Shib Narayan Kairy Director	Ms. Zahida Ispahani Director
Dr. Hafiz G.A. Siddiqi Director	Ms. Nihad Kabir Director (Independent)
Ms. Tamara Hasan Abed Director	Mr. Syed Mahbubur Rahman Managing Director and CEO

Table 1: Board of Directors

Management Committee:

Mr. Syed Mahbubur Rahman Managing Director and CEO	
Mr. Mohammad Mamdudur Rashid Deputy Managing Director	Mr. Rais Uddin Ahmad Group Company Secretary & Head of Legal & Regulatory Affairs and CAMLCO
Mr. Nabil Mustafizur Rahman Chief Credit Officer	Mr. Syed Faridul Islam Head of Risk Management

<p>Ms. Tahniyat Ahmed Karim Head of Human Resources</p>	<p>Mr. Firoz Ahmed Khan Head of Retail Banking</p>
<p>Mr. Nawed Iqbal Chief Technology Officer</p>	<p>Mr. Mahmoodun Nabi Chowdhury Head of Corporate Banking & Cash Management & Custodial Services</p>
<p>Mr. Zeeshan Kingshuk Huq Head of Communication & Service Quality</p>	<p>Mr. Shah Alam Bhuiyan Head of Operations</p>
<p>Mr. Abdur Rahman Head of SME Banking</p>	<p>Mr. M. Sarwar Ahmed Head of Special Assets Management (SAM)- SME & Retail Banking</p>

Table 2: Management Committee

Vision & Mission

Vision:

“Building profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh”.

Mission:

Mission statement reflects what organization is doing currently to achieve its vision. BRAC bank has number of missions, which are very specific in their way of achieving the vision.

- Sustained growth in Small & Medium Enterprise sector.
- Continuous low-cost deposit Growth with controlled growth in retail assets.
- Corporate Assets to be funded through self-liability mobilization. Growth in Assets through syndications and investment in faster growing sectors.
- Continuous endeavor to increase non-funded income.
- Keep our debt charges at 2% to maintain a steady profitable growth.
- Achieve efficient synergies between the bank’s branches, SME unit offices and BRAC. field offices for delivery of remittance and Bank’s other products and services.
- Manage various lines of business in a full controlled environment with no compromise on service quality.

Core Values:

BRAC Bank’s Strength emanates from their owner - BRAC. BRAC Bank is determined to work by holding the following values and with the guidance of BRAC.

- Value the fact that one is a member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth

- Work as team to serve the best interest of our owners
- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance
- Responsible, trustworthy and law-abiding in all that we do.

Logo:

The logo of BRAC Bank has been prepared keeping in mind the goal of the organization. The square structure of the logo means solid and strong. The Golden Color in the lower portion of the logo means that 'Golden Bangladesh & her fertile land'. The Blue color in the upper portion means 'the sky with enormous & unlimited opportunity'. The white colored curve means 'Growth and Progress'. White circles in the blue color mean the flashing sun that gives light to everywhere.



Figure 1: Logo of BRAC Bank

Share Holding Structure & Subsidiaries of BRAC Bank Limited

Share Holding Structure:

The shareholding structure of BRAC Bank Limited consists of different group with institutional shareholdings by BRAC, International Finance Corporation (IFC), Shore cap International and general public is also included through IPO. The present shareholder structure of BRAC Bank Ltd is as follows-

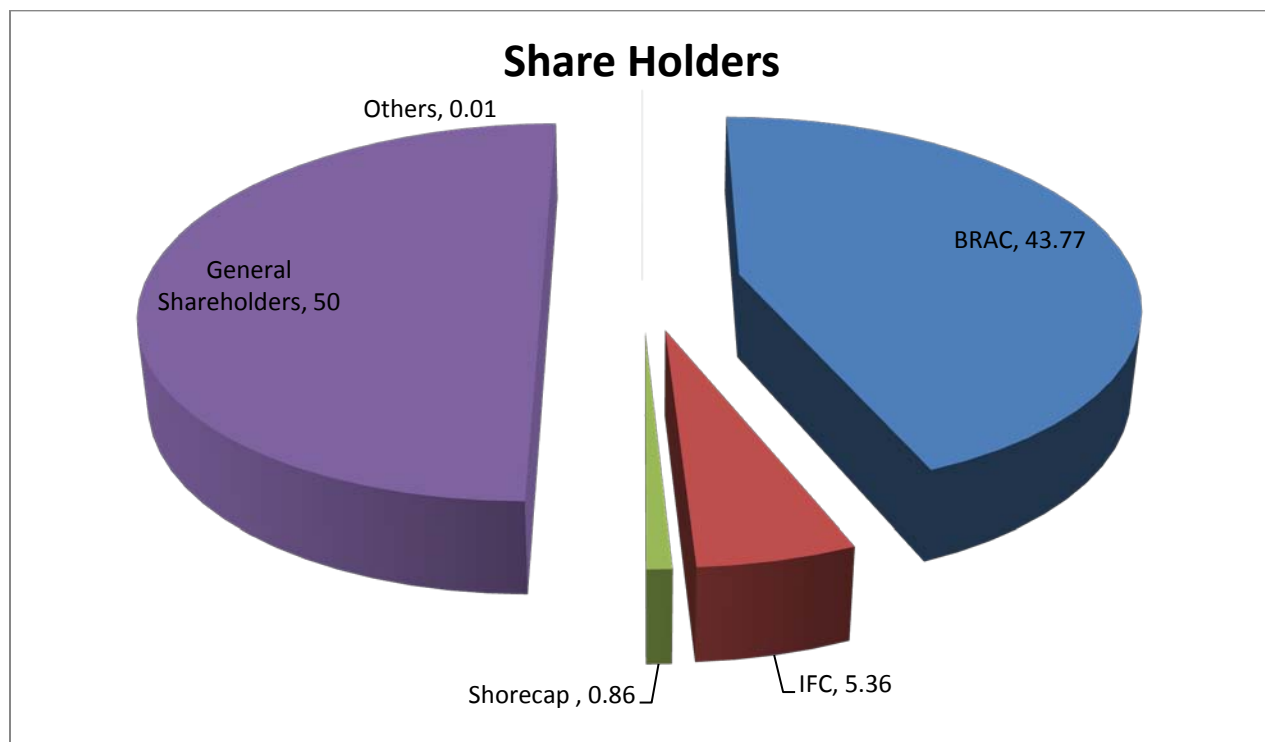


CHART 1: Present Shareholding Structure of BRAC Bank Ltd

Subsidiaries of BRAC Bank Limited:

BRAC Bank has different subsidiaries to support its banking system. All those subsidiaries are related with financial activities and serving to reach a broad number of customers. The subsidiaries are as follows-



BRAC EPL Stock Brokerage Limited is one of the leading stock brokers in the country. BRAC EPL Stock Brokerage Limited has membership at both of the country's stock exchanges; the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE).



BRAC EPL Investment Limited delivers a whole range of Investment Banking services including traditional merchant banking activities such as Issue Management, Corporate Advisory, Corporate Finance, Underwriting and Portfolio Management.



BRAC Saajan Exchange Limited mainly provides remittance services to the large Bangladeshi Communities living in UK. Apart from its remittance services the Company also caters to the investment needs of the NRBs through its parent organization BRAC Bank.



bKash Limited (a subsidiary of BRAC Bank) operates with an objective to ensure access to a broader range of financial services (mobile fund transfer facility) for the people of Bangladesh. It has a special focus to serve the low income masses of the country to achieve broader financial inclusion by providing services that are convenient, affordable and reliable.

My Internship Experience

Job Description

I joined BRAC Bank Limited as a Management Trainee Officer (MTO) on 1st July, 2012. I was selected for the position after a robust recruitment process of four different tests. I was selected as a member sixteen member MTO 10th Batch of BRAC Bank. We were selected for responsible and challenging positions in SME and Retail Business outlets of the bank. With the consent of my academic supervisor and on-site supervisor I report the first three month of my job as my Internship Period.

Specific Job Responsibilities:

During the three months of my internship period I was attached with three different divisions of the bank; Human Resources, Retail Banking and SME Banking. For my internship report I selected SME Banking attachment.

During the attachment period I visited the head office in Anik Tower, Gulshan-Tejgaon Link Road, Gulshan 1, Dhaka. From my visit to head office I came to know about the products in details and how the different units inside the SME Division works. Different units working within the SME Division are Products, Small Business, Medium Business, New Business, Deposit, MIS and Compliance. I also went on a survey to compare the BRAC Bank SME products with the competitors. After the head office attachment I was sent to Dinajpur for Unit Office attachment. The unit office attachment in Dinajpur was a real opportunity for me to see the SME Banking operations directly.

Dinajpur Unit Office is the base office of the Zonal Manager (ZM) of Dinajpur and also the base office of the newly created Dinajpur territory. The Territory Manager (TM) of Dinajpur territory is Md. Niamul Oakil and the ZM of Dinajpur Zone is Md Kawser Ali who along with the CROs helped me to understand the duties and responsibilities of theirs. There were 5 CROs, 2 CREs in Dinajpur unit office. Dinajpur Zone consists of three more unit offices namely Setabgonj, Birampur and Fulbari.

At the unit office the day used to start with morning hurdle with team members where the targets and duties of each of the team members were discussed. CROs used to pass the day exploring and visiting the potential borrowers during the daytime and submitting the file in the afternoon. The ZM used to go on field visit with the CROs and he also used to visit the other unit offices in the zone. I also went to visit few loan files and went to collection with the ZM, CROs and collection team in Dinajpur , Setabgonj, Birampur and Fulbari There was huge collection effort going on during my attachment period at Dinajpur Unit Office.

Observation:

- Lack of product diversification of the CROs, as a result CROs are comfortable to sale only the “Annono” (Limit: 2-10 Lac).
- The average loan size is about BDT 8 lac for last one year which is a result of selling of Anonno mainly. Lack of big ticket size loan is a big constraint towards portfolio increase.
- Lack of error free quality file is the result of careless attitude of the CROs which subsequently delay in sanctioning the loan file by the CRM. So the CROs should be more sincere in processing file.
- Small collection team compared to the number of overdue account.
- Slow web mail hampers the flow of the work of the CROs and also of the SAM Manager. Considering the time constraint and work load a better solution should be provided.
- Office area is very small for a zonal as well as territory base office. The SAM team along with the Collection team also attends their office from this small unit office. So it is very messy with a huge number of files.
- Tendency of collecting EMIs at the end of the month is a very risky affair. This requires close long term monitoring.
- Customers are dissatisfied due to insufficient information provided by the CROs before and even after disbursement of loan.
- The salary package for the entry and mid level management is considerably low.

Recommendation:

- Interest rate is very high which is a tough barrier for the CROs to sale especially the big ticket loans. Interest rate can be revised for few products.
- High processing fee is another constraint in selling big ticket size loan. So the processing fee can be rescheduled.
- Marketing activities should be increased to make the potential customers informed about the products and services of SME.
- Product knowledge need to be developed and CROs must sale other products to diversify the portfolio.CROs should be given training time to time and keep them up to date with latest information and follow up their work strictly.
- Frequently check client's performance regarding payments which would save the client from being an overdue client.
- By redesigning the incentives and benefits of the CROs they can be motivated to work more efficiently. Giving good environment to work and recognition would be non monetary inspiration for the CROs.
- The diversification of the loan amount need to be strictly monitored which can lead to product diversification and big ticket loan.
- Collection and sales target should be managed according to the market size and potential of any region.

Project

Background of the Study

BRAC Bank Ltd. was established in 2001 with a focus on the small business sector, operating with a double bottom-line agenda: a combination of profit and social responsibility. The bank also focused on relationship based banking, as it believes that the pursuit of profit and developmental goals are mutually reinforcing. This focus makes the bank to emphasize more on to explore and access market opportunities as well as build asset base to its clients conforming significant contribution to the profitability of the Bank.

The SME Banking unit goes beyond traditional banking and works as a business partner to entrepreneurs, building awareness, providing training, and arranging road shows to support and develop their businesses. The corporate mission of BRAC Bank Ltd is to ensure “**sustained growth in SME sector**”. In parallel with this goal, SME sector, the main concentrated area of the bank financing since its inception, comprises of more than 50% of total loans and advances. At present BRAC Bank Ltd has taken a segment oriented approach with special products for manufacturers, traders, suppliers, importers, distributors and women entrepreneurs to meet the diverse customer segment needs. Thus, it is gearing up small and medium industries in tremendous manner while contributing in poverty alleviation through economic growth, as well as employment generation on mass scale.

Description of the Project

Objective 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 BRAC Bank Ltd. The broad objective and specific objectives of the report are given below-

Broad objective-

Broad objective of this study is to analysis the SME scenario of Bangladesh and to assess the performance of BRAC Bank Ltd in context of highly competitive market. Along with that the report will justify how SME is contributing in socio-economic development of the country.

Specific Objectives:

The report will work on some specific objectives. Those are as follows-

1. To provide a brief overview of BRAC Bank Ltd-
 - Background of BRAC Bank Ltd
 - Different divisions and subsidiaries of BRAC Bank Ltd.
 - SWOT analysis of BRAC Bank Ltd.
2. To present an overview of SME division of BRAC Bank Ltd-
 - Detail description of SME division of BRAC Bank Ltd
 - Operation Process of SME Loan Disbursement of BBL.
 - Risk management process and collection process of BRAC Bank Ltd.
3. To find out the problems, if any, that BRAC Bank Ltd. as well as clients is facing in SME financing for small and medium entrepreneurs and to suggest remedies for the problems encountered.

Methodology:

Both the primary and secondary data are used to make the report more rich and informative.

Primary Sources-

- Face to face communication with the on-site supervisor and employees of the BRAC Bank Ltd.
- Open ended and close ended questions with borrowers.

Secondary sources-

- Official Website of the Bank and bank records
- Different books, training papers, manuals etc. related to the topic.
- Different websites and publications, newspapers

Limitations:

I have worked only for three months in the bank. Within this short period it is almost impossible to acquire very deep understanding of banking industry as it is such a broad area to study and activities are quite complex. There were number of impediments in my way of research which prevailed all through the internship-

1. Time shortage:

I have already mentioned that internship period was too short to get the big picture of the organization.

2. Access to information:

Due to confidentiality issues and policies of the bank I could not use all the data in this report making.

3. Lack of cooperation from Customers:

Face-to-face conversation is most important to get the response from the customers. But not all the customers were co-operative. Many of them came here leaving their office or important job and wanted get over with the banking as early as possible, so not so eager to answer my question. Even whenever we visited any customer they were not supportive enough to disclose all their information.

1. 1 Small & Medium Enterprises (SME)

SME is defined as, “A firm managed in a personalized way by its owners or partners, which has only a small share of its market and is not sufficiently large to have access to the stock exchange for raising capital”. SME ordinarily have few accesses to formal channels of finance and depends primarily upon savings of their owners, their families & friends. Consequently, most SMEs are sole proprietorships & partnerships. As with all definitions, this one is not perfect. Depending on context therefore definition of SME will vary.

Despite the common features globally, countries do not use the same definition for classifying their SME sector. Also, a universal definition does not appear feasible or desirable. SMEs have been defined against various criteria. The three parameters that are generally applied by the Governments to define SMEs are:

- Capital investment in plant and machinery
- Number of workers employed
- Volume of production or turnover of business

Other definitions are based on whether the owner of the enterprise works alongside the workers, the degree of sophistication in management, and whether or not an enterprise lies in the "formal" sector. The definitions in use depend on the purposes these are required to serve according to the policies of the respective countries/Governments.

According to Bangladesh Bank's Small and Medium Enterprise (SME) Credit

Policies and Programmes:

Definition of Small Enterprise:

Small Enterprise refers to the firm/business which is not a public limited company and complies the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,000-50,00,000	25
02.	Business	50,000-50,00,000	25
03.	Industrial	50,000-1,50,00,000	50

Table 3: Small Enterprise

Definition of Medium Enterprise:

Medium Enterprise refers to the establishment/firm which is not a public limited company and complies the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,00,000-10,00,00,000	50
02.	Business	50,00,000-10,00,00,000	50
03.	Industrial	1,50,00,000-20,00,00,000	150

Table 4: Medium Enterprise

1.2 General SME Guidelines by Bangladesh Bank

Bangladeshi SME sector is guided by general SME Guideline of Bangladesh Bank. Guidelines are as follows-

- 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.
- Priority shall be given to small entrepreneurs.
- For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50, 00,000 (Fifty lacs)
- 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.
- 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.
- Each bank and financial institution shall establish a separate ‘Women Entrepreneurs’ Dedicated Desk’ with necessary and suitable manpower, provides them training on SME financing and suitably appoints 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.
- 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.
- 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’.

- 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.

1.3 Minimum Requirement for SME Financing According to Bangladesh Bank

Each and every SME provider is regulated by separate restriction given by Bangladesh bank along with general banking rules. It may be noted that those minimum requirement should not in any way interrupt the role of monument process through establishing comprehensive credit risk management system appropriate to their type, scope, sophistication and scale of operation. The Board of Directors of particular bank is required to establish policies, procedures and practice in order to define risks, specify security requirement, design internal control and ensure strict compliance with them.

All the minimum requirements can be described as follows-

- 1. Pre-operation**
- 2. Operations**
- 3. Discloser/ethics**

Pre-operation:

Before undertaking small enterprise financing, bank/financial institutions are required to follow some specific guidelines. Firms that have already established SME financing are required to compliance with the guidelines by six month of the date of issuance of Small Enterprise Financing Prudential Regulations. Pre-operation guidelines are-

- a)** For the purpose of undertaken SME financing, banks are required to set up own separate risk management capacity which will be properly staffed in combined with sufficient expertise and experienced person in the field o consumer finance/business.

- b)** The bank shall develop comprehensive credit policies suitably approved by Board of Directors. The policy will cover loan administration combined with documentations process, disbursement systems and appropriate monitoring mechanism. The policy will also revise with job description and job specification of different layer staffs. Along with it, policy shall specify powers/authority relating to approval/sanction of consumer finance facility.
- c)** The bank shall develop specific Product Program Guide (PPG) for every type of SME activities. The program shall describe the eligibility of the borrower in terms of objectives or quantitative parameters. It shall also determine the maximum permissible loan limit of each borrower. Along with that, PPG shall indicate the maximum permissible exposure banks will take against each product.
- d)** The SME undertaking bank shall have computer based Management Information's System (MIS) which will cater the need of small and medium enterprise financing portfolio and should be flexible enough to generate necessary information regarding various clients and their payments behaviors. This periodical report are expected to help in generating new policies, effectively implementation of current policies and facilities appropriate modifications of existing policy.
- e)** The bank shall prepare product wise profit and loss account quarterly which will adjusted with the provision on account of classified account as expected. The profit and loss account should be present to the Board of Directors in the immediate next board meeting. In case of foreign banks, the report should be place before committee combined with Chief Executive Officer, Chief Financial Officer and Head of Small enterprise.
- f)** The bank shall have comprehensive recovery procedures for the delinquent loan. There must have a constructive procedure to recover loan defaulters. That recovery procedure my very product to product, but the distinct should be prescribed in such manner so that pre-planned enforcement measures could be taken immediately.

- g)** All the institutions starting/undertaken small and medium enterprise financing are instructed to go through some training on an ongoing basis to their capabilities related with various aspects of SMEs. The bank shall prepare standardized set of borrowing and recourse documents for each types of SME financing.

Operations:

- a)** Like other financing institutions, small and medium enterprise financing institutions are subject to set up own credit risk management process. The process includes- information about borrower past dealing with banks, assessing the clients ability to repayment, sources of repayment, net worth and information obtained from Credit Information Bureau approved by Bangladesh Bank.
- b)** While granting loan to the borrowers, bank shall obtain written declaration from the borrower revealing the details of various facilities he/she already obtained from other financial institutions. The bank shall carefully go through the declaration detail and find out whether the customer exceeds the resemble limits as laid down in the approved policies of the banks. Additionally this declaration helps the bank to avoid exposure against an enterprise having multiple facilities from different financial institutions.
- c)** Bank should establish its own internal audit and control system in order to review its activities. For its inheriting nature, SME portfolios are subject to high risk and various weaknesses. The internal audit review managerial decisions in order to rectify the weaknesses of SME financing and reduce the level of risk. Another function of the internal audit is to look after the delinquency of internal control. It also figured out whether standardized policies are developed and practiced in reality.
- d)** The bank shall ensure that their accounting and computer systems are properly equipped so that bank can avoid mark up. Even if it marked –up, bank must ensure that the marked-up charge on the outstanding amount is kept separate from the principal. The

banks shall also ensure that any repayment made by the borrower is accounted for before applying mark-up on the outstanding amount.

Discloser/ethics:

Bank shall disclose all necessary terms and conditions regarding fees-charges; interest rate and penalties. It should also reveal internal information to some extent because sometimes it contains conditions related with interest rate and pre-payments penalties. In order to make it hassle free and keep update with clients, banks are encourage to published brochures regarding their different mood of products, eligibility to apply and frequent asked questions.

1.4 Importance of SME in Bangladesh

- **Employment generation-** Developing country like Bangladesh where unemployment rate is near 17% (according to ADB), SME plays vital role to create employment. In 2006, 55% of jobs were created through SME. The *National Private-Sector Survey of Enterprises in Bangladesh, 2003* identified that in Bangladesh the agriculture, manufacturing and industry, and service sector could create most employment for the poor people.
- **Support small and medium enterprises-** In Bangladesh, poor people are finance by micro-finance institutes while heavy businesses are encourage by corporate banks. Within this gap small and medium enterprise were ignorant by the traditional banking theme. However all those small and medium business are profitable. With the help of SME loan any potential borrowers can access BDT 2 lac – BDT 30 crore which were unthinkable even before 10 years back. BRAC bank provided 47.49% as SME loan of its entire loan amount in 2011.

- **Encourage manufacturing-** Though Bangladesh is an agro-based country, for the time being entrepreneurs are more interested on manufacturing sectors. In the period of Jan-June 2012, BDT 10,463 billion has been invested in manufacturing sectors which is more than 2.3% of last year on the same period.
- **Enhance living standard-** SME sector contributes in increasing living standard through GDP growth, GNP growth, and employment generations, providing low priced local products, transecting local resource and improving rural life.
- **GDP growth-** In 2011, SME resulted 25% GDP growth in Bangladesh. Through SME sector, Bangladeshi economy became able to decrease its dependency on foreign products, at the same time it has increased local resource transactions. SME's contribution to national exports is also significant.
- **Poverty reduction-** Poverty reduction is the logical sequence of employment generation by SME. Sector wise progress has facilities poverty reduction in both urban and rural areas.
- **Women empowerment-** There has been increased women's involvement in SMEs, especially home-based micro enterprises engaged in the production of clothing and textiles (boutiques and handicrafts, weaving and spinning), livestock and dairy, and retail sales.
- **Decreases of urban migration-** In Bangladesh most of the heavy firm, renowned businesses have been set up around Dhaka city. So there is tendency to come into Capital in-search of job. However SME has given new ray of hope to the entrepreneur of rural areas. About 60-65% of SME's are located outside of metropolitan areas of Dhaka and Chittagong, having easy access to labor and less problematic business environment. Business cost in rural areas is low which also offer better prospects for industrial dispersal. Thus SME decreases urban migration.

- **Creation of entrepreneurs-** SMEs are labor-intensive and low-capital based. Thus it's encouraging individual entrepreneur to invest and to take risk. Mainly they are encouraged to invest in manufacturing sector where general public appeal is high.
- **International business growth-** SME's contribution to export is significant through different industries such as readymade garments, jute and leather.
- **Innovation-** There is evidence in the context of developing countries that innovations from small enterprises have led to greater benefits to large-scale businesses. One salient feature of SMEs is that they often rely on home-grown techniques of production, which are based on authentic innovation. Now if they can be protected under intellectual property rights, this may generate substantial business opportunities for SMEs.

1.5 Overall SME Credit Supply Analysis

As on March, 2012, six private banks have 63.21% of the market share for SME lending nationwide, which equals a total of TK 27.50 billion. The remaining four public banks and financial institutions including specialized types of banks hold an estimated 12% market share (6% each) for SME lending. This suggests an estimated total current supply of SME credit (SME loan principal outstanding) of Tk32.55 billion in the first half of the 2012 where in 2011 the figure was BDT 26.143 billion. That means SME loan has been increased by 24% (The daily Protham Alo, 30th August 2012).

Bank type	Principal outstanding (TK in billions)
Private banks	27.50670
Public banks	1.91468
specialized banks	1.77967
Total SME lending volume (principal outstanding)	32.255
Yearly target achieved (%)	55%

Table 5: SME Loan Outstanding (TK in Billion)

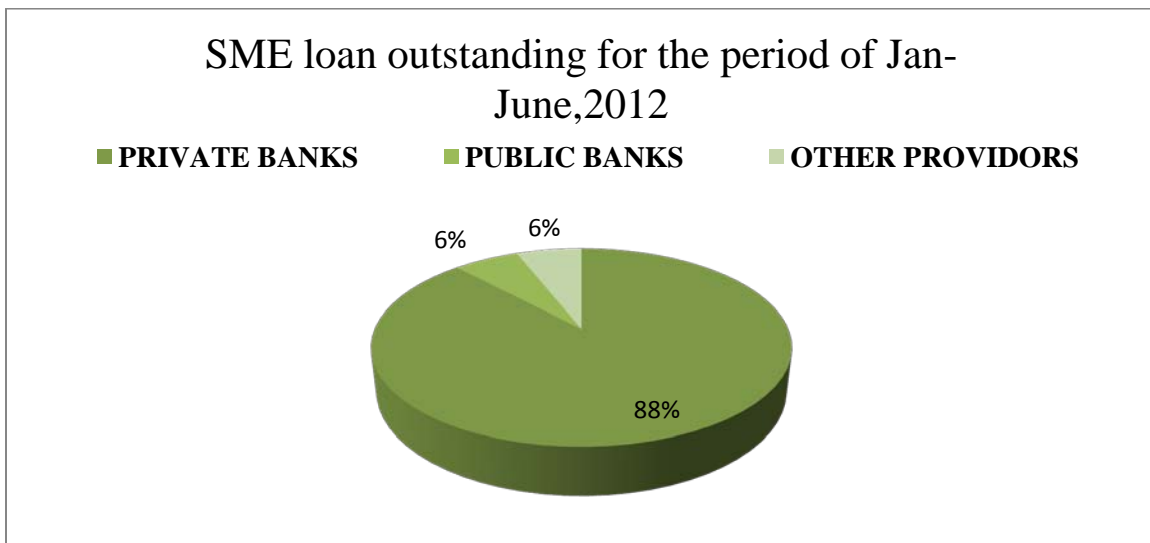


Chart 2 - Graphical presentation of SME loan outstanding in 2012

2.1 SME Background of BRAC Bank Limited

BRAC Bank is a financial supermarket that offers financial solutions for all strata – be it retail, SME, wholesale banking, capital market, or remittance; but it always had a focus on SME. This bank was actually founded on a philosophy of keeping trust on the hopes and dreams of Bangladeshi entrepreneurs – and majority of these entrepreneurs have been beyond the conventional banking reach.

If we think of the financial pyramid, there are corporate institutions (local and multinational) at the top of the pyramid and there are low income individuals at the bottom. Those at the top are served by banks and other financial institutions while those at the bottom are served by Micro Finance Institutions (MFIs), e.g. NGOs. But SME sector in the middle were missing access to necessary banking services and that “Missing Middle” is BRAC Bank’s target in SME financing. The corporate mission of BRAC Bank Ltd is to ensure —sustained growth in SME sector. In parallel with this goal, SME sector, the main concentrated area of the bank financing since its inception, comprises of more than 50% of total loans and advances.

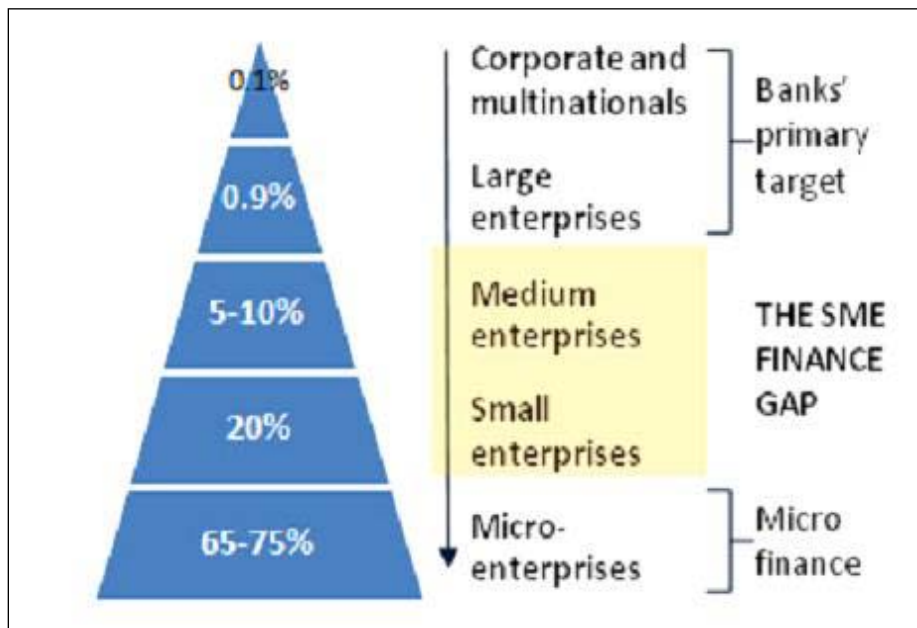


Figure 2: The SME Financing Gap

2.2 SME Banking Division

BRAC Bank Limited is the largest SME Bank in the country and 4th largest SME Bank in the world in terms of outstanding loan amount. SME Banking Division holds highest asset volume among the business divisions of the Bank (SME Banking, Retail Banking, Corporate Banking, and Probashi Banking). As the name signifies, it provides lending and deposit solutions as well as value adding services (payment remainder, payment notification, etc) to small and medium size businesses within the country.

According to “*Major Economic Indicators, Monthly Update Status*” as on 31st March, 2012-

- The division has captured 5.28% market share within SME Banking arena of Bangladesh which valued 8.35% within the private banking industries.
- It has served 320,000 entrepreneurs, with BDT 144,330 million of SME loan since its inception in 2001.

BBL SME Banking Portfolio:

Asset Portfolio : BDT 50098.60 Million

Liability Portfolio: BDT 17200 Million

Portfolio in account : 1,21,131

BBL Small Business Organogram:

Small Business is led by Head of Small Business directly from the Head Office who reports to the Head of SME. The Business is divided into three regions headed by the Regional Heads under whom the Territory Managers are there. Zonal Managers report to the Territory Manager regarding his/her zone who also supervises the CROs working at the very root level.

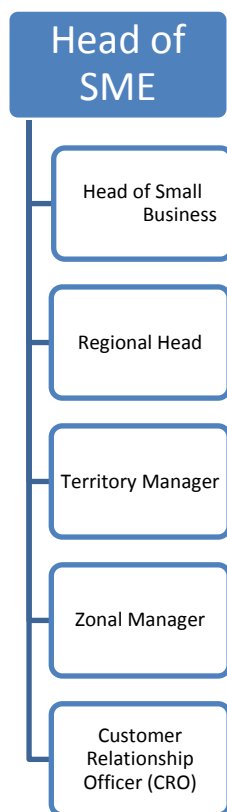


Figure 3: Organogram of Small Business

2.3 Presence of SME

Small Business department of the division works through 399 unit offices all throughout the 64 districts of the country. The department is divided into three regions named – Dhaka, Chittagong and Rajshahi. Each region comprises of 6 to 7 territories. Territories are divided into zones and zones are further divided into unit offices. Currently there are 21 territories and 119 zones. Medium Business department is currently located in Dhaka and Chittagong city to look after the mid size borrowers of SME Banking arena. The total number of CROs is approximately 1300 supervised by 119 Zonal Managers.

SME Network Coverage:

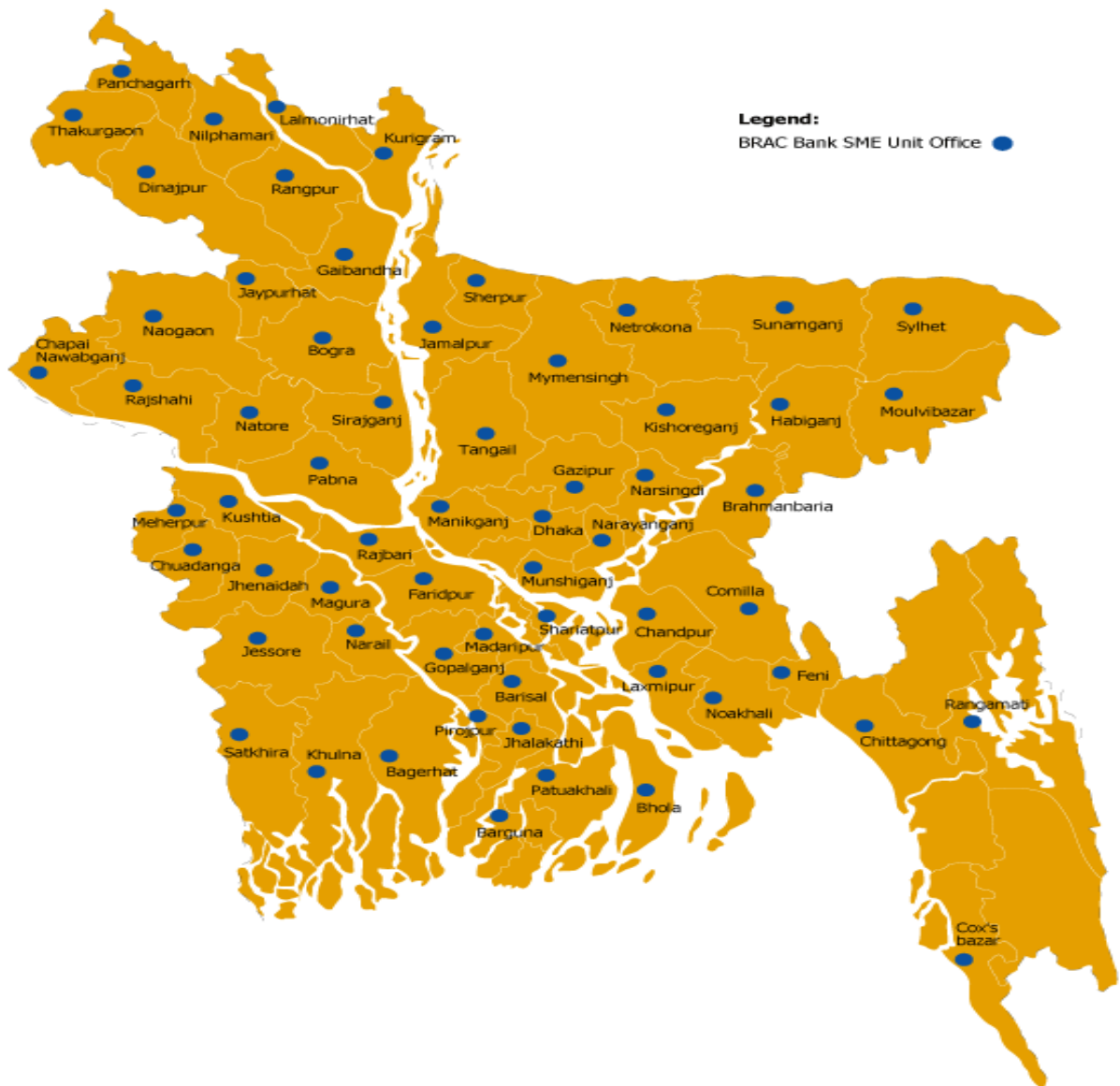


Figure 4 : SME Network Coverage

2.4 SME PRODUCTS

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives.

Currently BRAC Bank has following SME loan products –

Product name	Eligibility	loan amount	mortgage	Business type	Overdraft facilities	Special features
ANONNO (Business Loan)	Small sized businesses (Production, Trading, Service, Agro based products and others) Having at least 3 years business history	BDT 2 Lac to 10 Lac.	no	Sole proprietorship, Partnership or Private Limited company		No security required
APURBO (Term loan)	Any kind of business operating at least 3 or more years	BDT 1 million to BDT 10 million	property/land/building		Based on business needs	
PROTHOMA (Term loan)	small scaled business operated by women entrepreneur having 2 or more years business experience	Maximum BDT 1 million	no	Sole proprietorship, Partnership or Private Limited Company		Low interest for woman entrepreneurs
SHOKTI (Business Loan)	Any kind of business Having At least 1 year bank statement.	BDT 1 million to BDT 10 million			yes	Loan against partial security or fixed deposit
DURJOY (Business Loan)	Any kind of business having valid trade license, which has been operating for at	BDT 3 Lac to BDT 2.5 million	no	Sole proprietorship, Partnership or		Easy instalment up to 5 years.

	least 3 years. Need 1 year bank statement			Private Limited Company.		
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Table 6: Comparative analysis of BRAC Bank SME products

Apart from it, there is SHOMRIDDHI SME Loan to meet import-export related expenses, post import expenses, tax/duty payment, local bill purchase and working capital. SHOMRIDDHI loan is offering BDT 1 Lac to BDT 20 million to any kinds of Sole proprietorship, Partnership or Private Limited Company having valid trade license and which has been operating for at least 3 years. It provides- 1) LC and LATR facility. 2) Revolving loan, overdraft and 3) Local bill discounting facility for exporter/importers.

2.5 SME Loan Procedure of BRAC BANK

BRAC Bank Ltd. was set up with the growing need for capital mobilization and the need for formal contracts for a wider spectrum of clients of the country. When it came to SME financing, instead of approaching the problem by scaling down its regular operations, a separate program designed especially for SME financing was launched by BRAC Bank in 2002. BRAC Bank's effort is noted in this regard for its complete focus on the credit needs of the small and medium enterprises. Since the initiation of SME operations by BRAC Bank, it has become the Bank's largest and most profitable venture.

The unique feature of BRAC Bank is that it is the only bank that approaches prospective clients, while other banks wait for them to apply for loans when required. SME units of BRAC Bank are located in all districts of the country. Each unit has two to five Customer Relations Officers (CROs). The role of CROs is instrumental in not only selecting and approaching clients, but also in maintaining regular interaction with each client, monitoring the use of the loan and ensuring regular repayment.

Customer Relations Officer (CRO) helps a customer choose the scheme which best meets his financial requirements and fits his business size and nature. The CRO then collects all the requisite documents from the customer, consolidates the information, and after ensuring that all the required documentation are in place, he prepares the Loan Application Proposal (LAP) and passes it on to his Zonal Manager. The Zonal Manager visits the business, gives the file a final check and forwards it to the Credit Risk Management department of our bank.

The in the SME Credit wing visits the business location and analyzes the loan proposal by making an assessment of the customer's ability to repay based on his business profile and matching customer's proposal with his credit assessment to determine whether the customer can be financed. In areas where there is no centralized credit assessment department, the bank has audit team that visits the business location and assesses the file. The Origination department verifies the documentation and opens the loan accounts of our customers. In addition, they help obtain the CIB report of the customer, a mandatory requirement of Bangladesh Bank. The loan is then disbursed to the customer. SME Business and CRM jointly manage the collection responsibility across the country based on overdue aging. SME Repayment Unit performs the functions of loan repayment and the Closing Unit does the loan closure.

The CRO obtains the deposit slip from the customers for the monthly installments; he sends a mobile text to Head Office for realization of the installment. The slips are collected at the repayment unit for reconciliation. As the loan matures, the closing and clearing units handle the necessary paperwork and forward the clearance certificate and redemption authority of mortgage property to the respective CRO/ZM, who then hand them over to our customer.

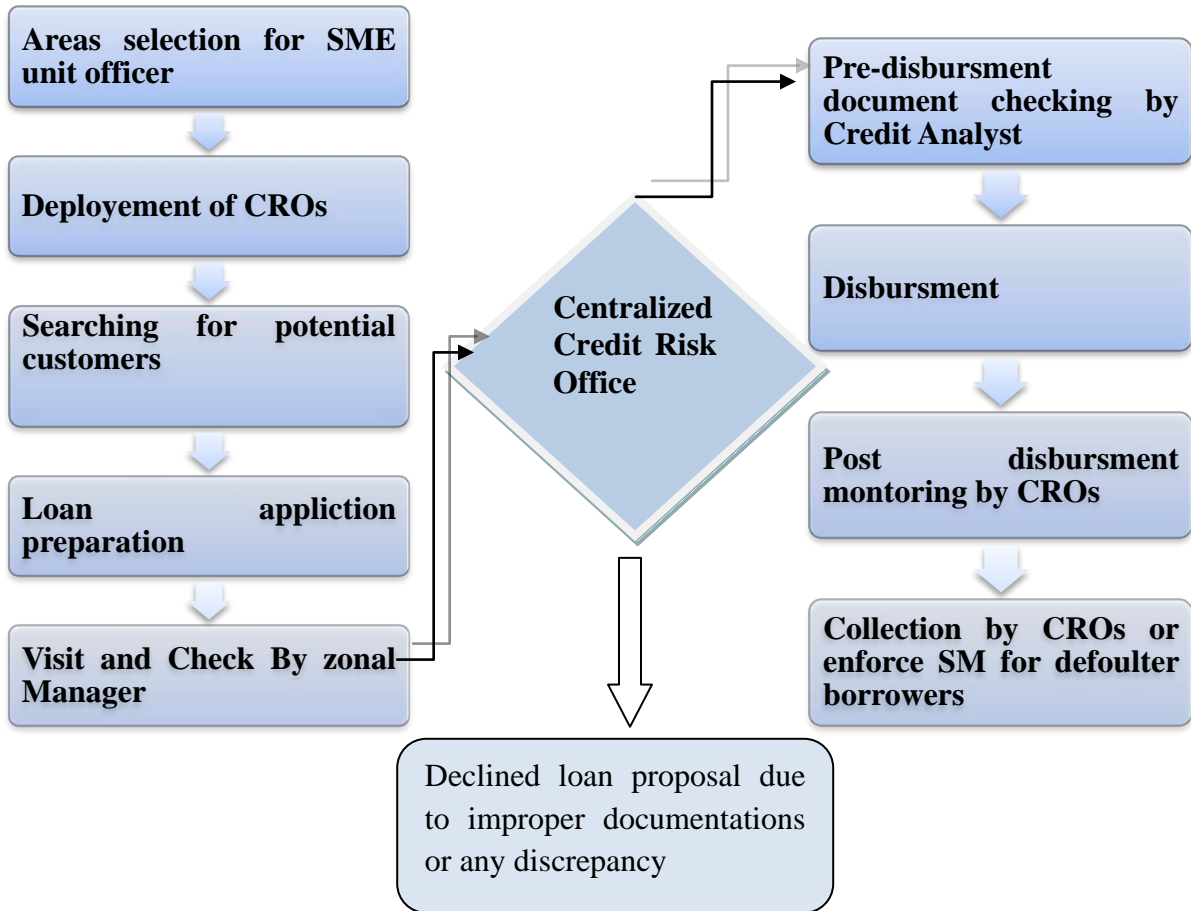


Figure 5: BRAC BANK Small Loan Processing Flow

2.6 Enterprise Selection Criteria

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

- The business must be in operation for at least three year.
- The business should be environment friendly, no narcotics or tobacco business.
- The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
- The business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable business will not be entertained.
- The business must have a defined market with a clear potential growth.
- The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.

Recommendation: Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business. The Enterprise Selection Criteria is good enough, but the management must ensure that the criteria been fulfilled by the CROs when they forward any file.

2.7 Potential entrepreneur Selection Criteria

In order to understand the capability of the management behind the business, the following should be assessed:

- The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.

- The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.
- The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat Anyone, generally helps people), and morally sound (Participates in community building)
- The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
- Suppliers or creditors should corroborate that he pays on time and is general in nature.

Recommendation: At times it is reported that people with bad reputation or integrity issues are offered loan in order to meet the business end targets, or because of political other pressures. So it has to be ensured that the criteria are fulfilled properly which will ensure smooth repayment of loan.

2.8 Guarantor Selection Criteria

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

- The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth).
- The guarantor should be aware about all the aspect of the loan and his responsibility.

- Government And semi-govt. Officials can be selected as a Guarantor such as school teacher, college teacher, doctor etc.
- Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor.
- The guarantor should know the entrepreneur reasonable well and should preferably live in the same community.

Recommendation: Knowing the guarantor is as important as knowing the borrower. The current practice is very good as the guarantor has to be the spouse of the borrower, or parents, or any one from the first blood relatives.

Indictors and their interpretation from BRAC Bank perspective-

Days Past Due (DPD) refers the number of days borrowers are not giving instalment, counting from the following date of installment due date.

Portfolio at Risk (PAR) - When a loan account became delinquent for more that 30 days we can identify that account to be included as a risky account among the portfolio. The standard international measure of portfolio quality in banking is portfolio at risk (PAR) beyond a specified number of days:

$$\text{PAR (x days)} = \frac{\text{Outstanding principal balance of all loans past due more than x days}}{\text{Outstanding principal balance of all loans}}$$

The accepted range of PAR is 0-5%. However, currently BRAC Bank has 19-20% PAR.

Non Performing loan (NPL) - The amount of loan that is totally defaulter called non performing loan. Currently bank consists of 11-12% NPL.

2.9 Competitive Scan:

Small Business

- Term loans to small entrepreneurs is primarily dominated by BRAC Bank while 9-10 Banks/FIs namely City Bank, Bank Asia, EBL, SCB, IDLC, Prime bank, AB Bank, IFIC, Islami Bank, & BRAC NGO (in rural areas) also doing substantial business.
- Overdrafts/CC (mortgage/stock hypo) business is mainly dominated by state-owned commercial banks (SCBs) and PCBs across the country. Our business is insignificant.
- Competition is growing and prices offered by almost all competition is lower than us.

Medium Enterprise

- Financed by almost all scheduled banks in Bangladesh.
- Competition is intense and often price sensitive.

SME Financing: Major competitors

Banks/FIs/NGOs	Urban (Dhaka, Ctg, Sylhet, Khulna, Bogra, N’Ganj)	Semi-Urban & Rural
State owned Banks	Sonali, Rupali, Agrani, and Janata Bank	Sonali, Rupali, Agrani, and Janata Bank

Private Commercial Banks	<ul style="list-style-type: none"> • The City Bank • EBL • AB Bank • Dhaka Bank • Prime Bank • Bank Asia • Islami Bank • IFIC 	<ul style="list-style-type: none"> • Pubali Bank • The City Bank • Islami Bank • National Bank • IFIC • Uttara Bank • AB Bank • Prime Bank
Foreign Commercial Banks	SCB, CBC	nil
NBFI & NGOs	IDLC	BRAC, ASA

Table 7: Major Competitors

3Analysis of Loan Repayment Behavior

SME loan is given to small or medium enterprises not for initiating the business but for the purpose of working capital management or for purchasing any long term asset. Any sound organization after three years of their starting of business can apply for this loan.

From the observation of 37 SME loan borrowers' personal and repayment information I find the following results:

- Average age of SME borrowers is 39
- Average education of most of the SME borrowers is Class IX or X.
- Average Experience (As a promoter of the business) is 11 years (along with some extreme values.
- Average Experience(As an employee of the same business) is 8 years
- Monthly income and expenditure of the Entrepreneur is around TK. 30000 and TK. 23000 respectively.
- Average personal and family assets are around TK. 150000 and TK. 240000 respectively
- Almost all of the borrowers are 55% retailer and 45% whole seller
- Average number of employees they have is 3
- Average Amount of loan taken by them is around TK. 379729.7
- Average time period of loan they take to repay is 26 months
- Average amount of loan suppose to be paid is 275314.47
- Average amount of loan currently repaid is TK. 286847.62 per person.
- Average amount of loan due for recovery is TK. 6679.62 per person.

I have gathered 8 variables to analyze the relationship of each variable with recovery rate. These variables are:

- Age of the borrowers
- Education of the borrowers
- Experience of the borrowers related to their business.
- Amount of loan taken by the borrowers
- Term of loan

- Income of the borrowers
- Personal Asset of the borrowers
- Nature of business

We can analyze the relationship sequentially:

Relationship of recovery rate with age of the borrowers:

The relationship of recovery rate with the age of the customers can be described from the following charts:

Age group	Frequency	Recovery rate(%)
21-25	1	80%
26-30	4	96%
31-35	9	100%
36-40	9	98%
41-45	7	98%
46-50	4	96%
51+	3	100%

Table 8: Relationship of recovery rate with age of the borrowers

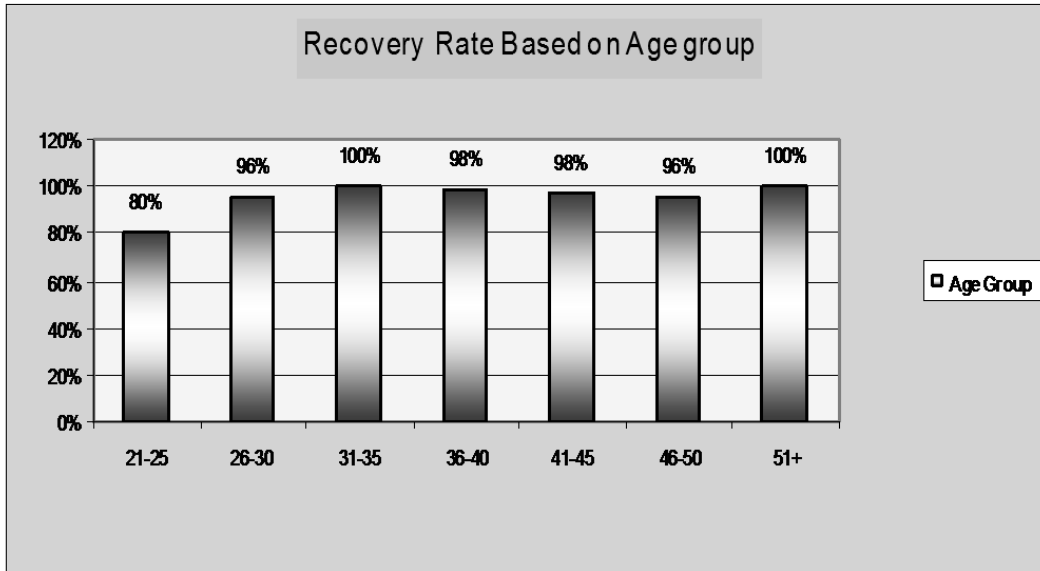


Figure 6 : Recovery Rate Based on Age Group

From the above chart we can see that recovery rate increases as the age of the borrowers increases. Here the recovery rate is lowest at the age group of 21-25 for the lacking of experience and knowledge in the related business. They can't make the proper use of funds. And that's why their business fails. At the age of 31-35 recovery rate is 100%. At that age group people like to behave professionally and control everything with strict discipline. They are highly concerned about their career which brings success to their business. So at that time recovery rate is the highest. Again at the age of 50 and above recovery rate is also 100% because of their huge experience and success in business.

Relationship of recovery rate with education of the borrowers:

The relationship of recovery rate with education of the customers can be described from the following charts:

Education	Frequency	Recovery rate(%)
Alphabetic-5	8	97%
6 to 10	20	98%
11 to 15	9	96%

Table 9 :Relationship of recovery rate with education of the borrowers

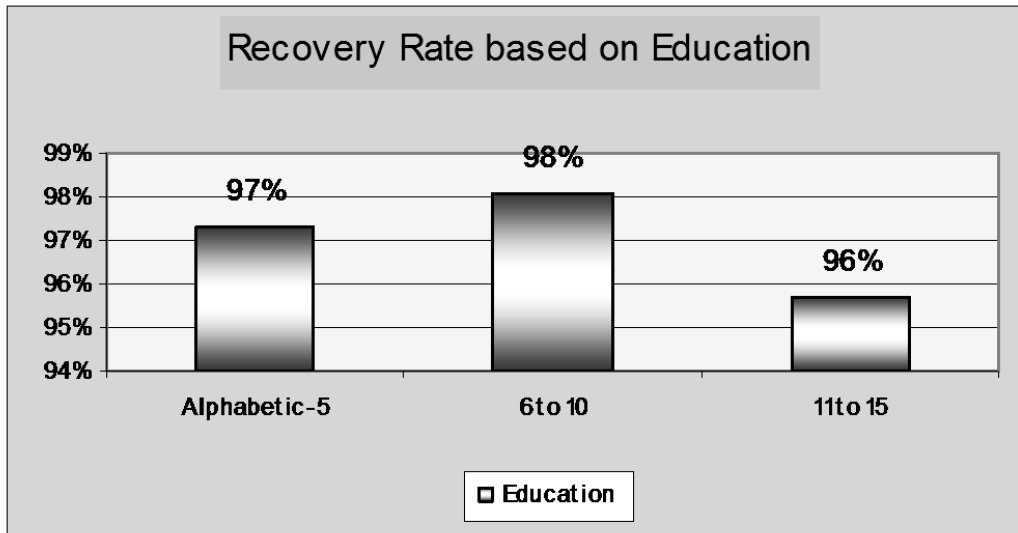


Figure 7 : Recovery Rate Based on Education

From the above chart we can see that Small and medium businesses are not highly affected with the educational background of the borrowers. That's why recovery rate also is not much affected with the education of the borrower. There should be some other variables affecting it as well.

Relationship of recovery rate with experience of the borrower:

Experience(year)	Frequency	Recovery rate(%)
1 to 5	13	94%
6 to 10	9	100%
11 to 15	5	100%
16-20	6	100%
20 above	4	99%

Table 10 : Relationship of recovery rate with experience of the borrowers

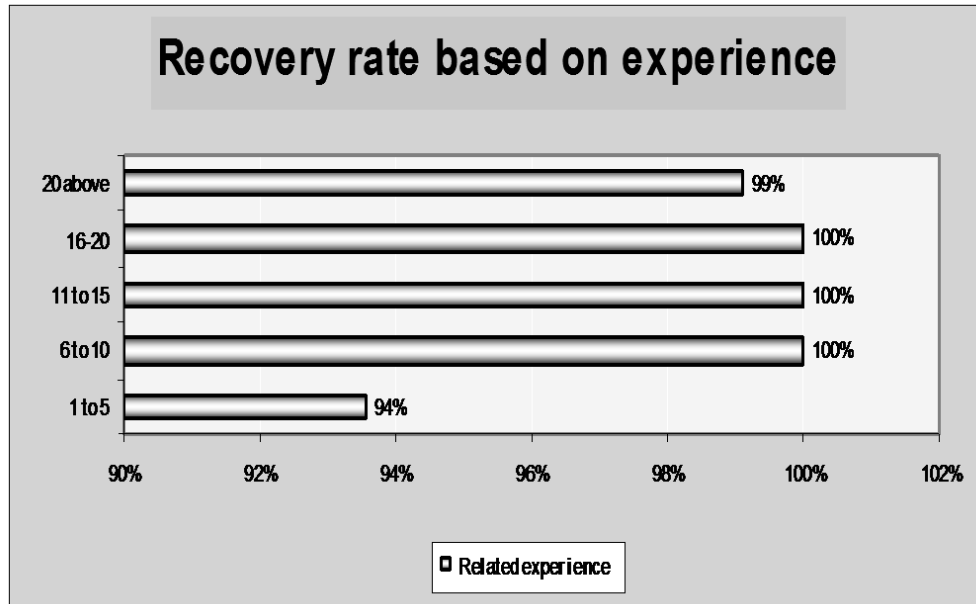


Figure 8 : Recovery Rate Based on Experience

From the above graph we see that recovery rate is highly affected with the experience of the borrowers in the business he is engaged with. In fact, it is all out true that a business and its success is greatly affected by the experience the entrepreneur have on the same line of business. At the initial periods of the business lack of experience can cause the business to fail which ultimately results in the default of loan repayments. So Brac Bank is always concerned about the related experience of the entrepreneur. They don't give SME loan to anybody having no experience or for initiating any business. And here also we see that recovery rate is lowest at the experience of 1 to 5 years.

Relationship of recovery rate with amount of loan taken:

Amount of Loan	Frequency	Recovery rate(%)
200,000	4	95%
250,000	1	100%

300,000	12	97%
350,000	2	100%
400,000	6	100%
450,000	1	94%
500,000	10	97%
850,000	1	100%

Table 11 :Relationship of recovery rate with loan amount of the borrowers

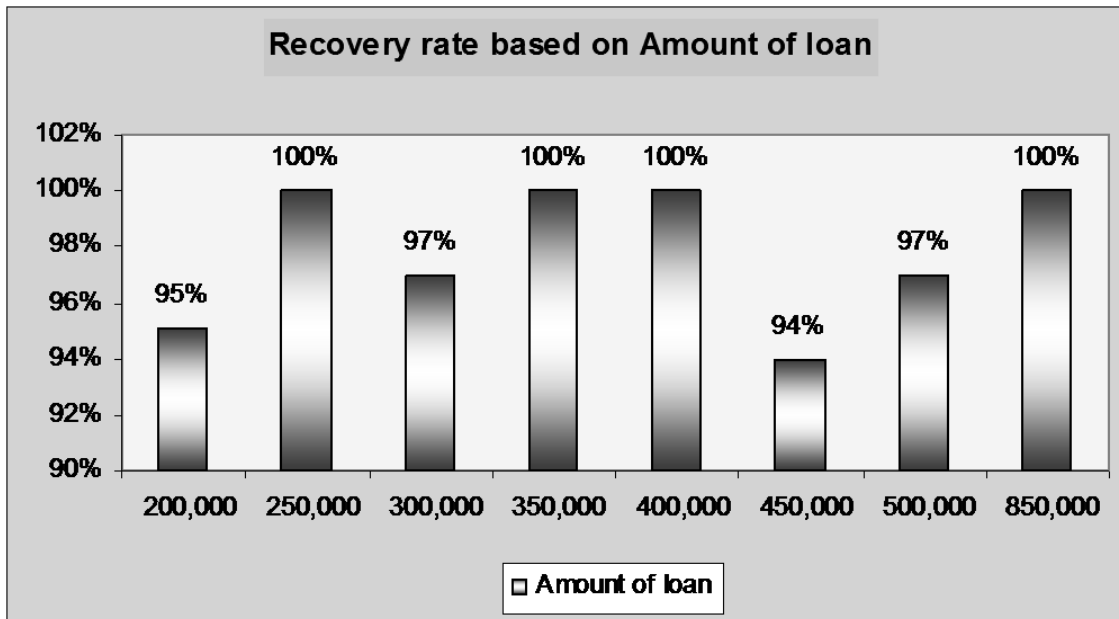


Figure 9: Recovery Rate Based on Loan Amount

From the above chart we see that its tough to make a relationship with both the recovery rate amount of loan taken by the borrowers. But still it can be said that loan amount ranging from 250000 to 400000 have a good recovery rate on an average. That's why maximum amount or size of SME loan the authority like to disburse is 300000.

Relationship of recovery rate with term of loan:

Term Of Loan(Month)	Frequency	Recovery rate(%)
15	3	98%
18	3	100%
21	10	100%
24	11	98%
27	1	94%
36	5	94%
48	4	91%

Table 12 :Relationship of recovery rate with term of loan

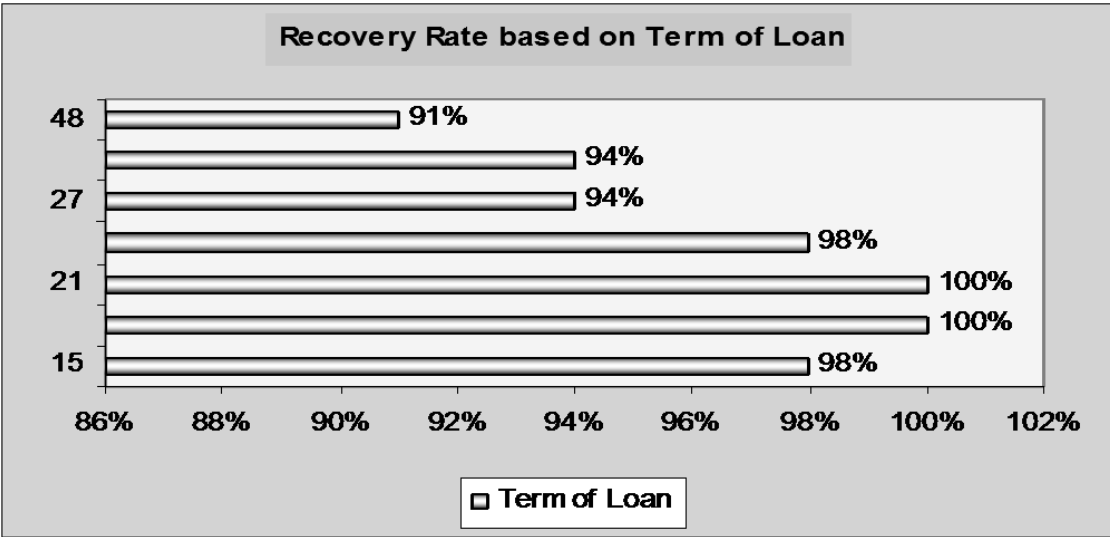


Figure 10: Recovery Rate Based on Term of Loan

The above graph shows that, as the loan duration increases the rate of recovery decreases. This may be the inherent reason of why the authority of BRAC Bank likes to disburse loan at a shorter term of 18 to 24 months.

Relationship of recovery rate with income of the borrower:

Income group	Frequency	Recovery rate(%)
1000-10000	5	94%
10001-20000	15	98%
20001-30000	8	96%
30001-40000	1	100%
40001-50000	3	100%
50000 above	5	100%

Table 13 :Relationship of recovery rate with income of the borrowers

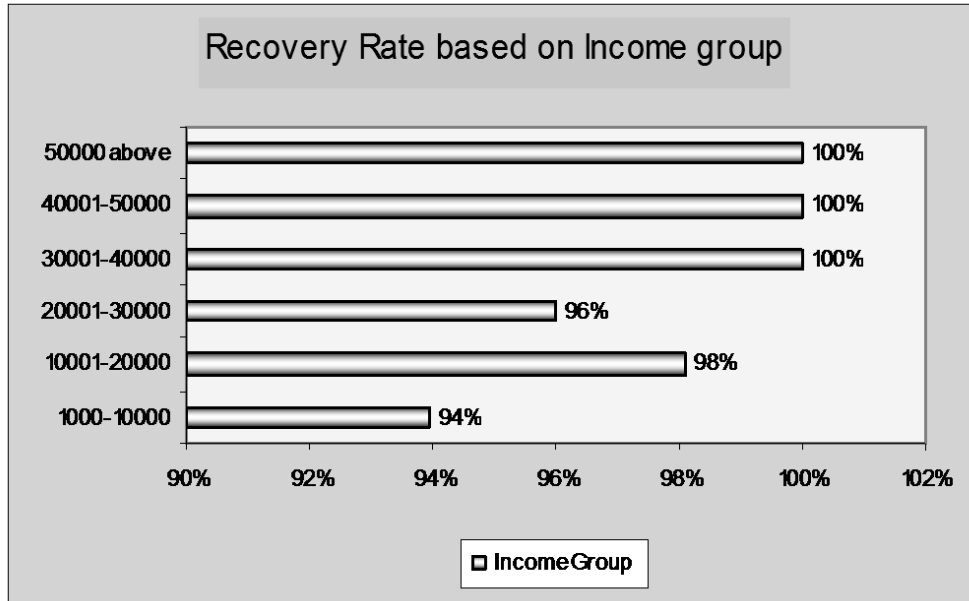


Figure 11: Recovery Rate Based on Income

In fact, income of a borrower can be a vital factor to repay his loan. And the above graph is a replica of this truth. Here we see that people with higher income group like 30000 to 50000 or above have the highest recovery rate. Entrepreneurs having a good skill, knowledge and experience in business can make success in their business which ultimately increases their income as well. So their recovery rate is good than those group of people who have lower income.

Relationship of recovery rate with the personal asset of the borrower:

Personal asset	Frequency	Recovery rate(%)
100000-500000	9	94%
500001-1000000	14	98%
1000001-1500000	5	99%
1500001-2000000	3	100%
2000000 above	7	97%

Table 14 :Relationship of recovery rate with personal asset of the borrowers

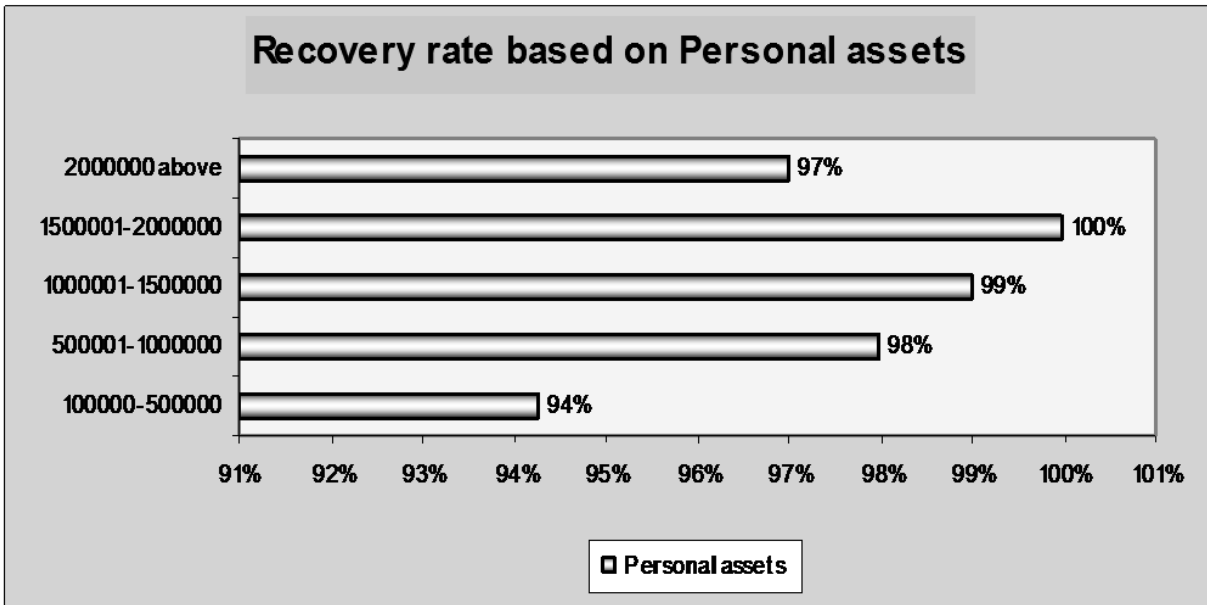


Figure 12: Recovery Rate Based on Personal Assets

Entrepreneurs who have sufficient personal assets and mortgage them for taking the loan have the record of higher recovery rate. They don't have the tendency to make a default in paying the installments. Brac Bank likes to pay SME loans after collecting title deeds of those personal or family assets. People who don't have much personal asset must show that they have sufficient family asset. Here from the above chart we see that entrepreneurs having lowest personal asset have the lowest recovery rate of 94%.

Relationship of recovery rate with the Nature of business:

Nature of business	Frequency	Recovery rate(%)
Whole sale	13	98%
Retail	21	92%

Table 15 :Relationship of recovery rate with nature of business of the borrowers

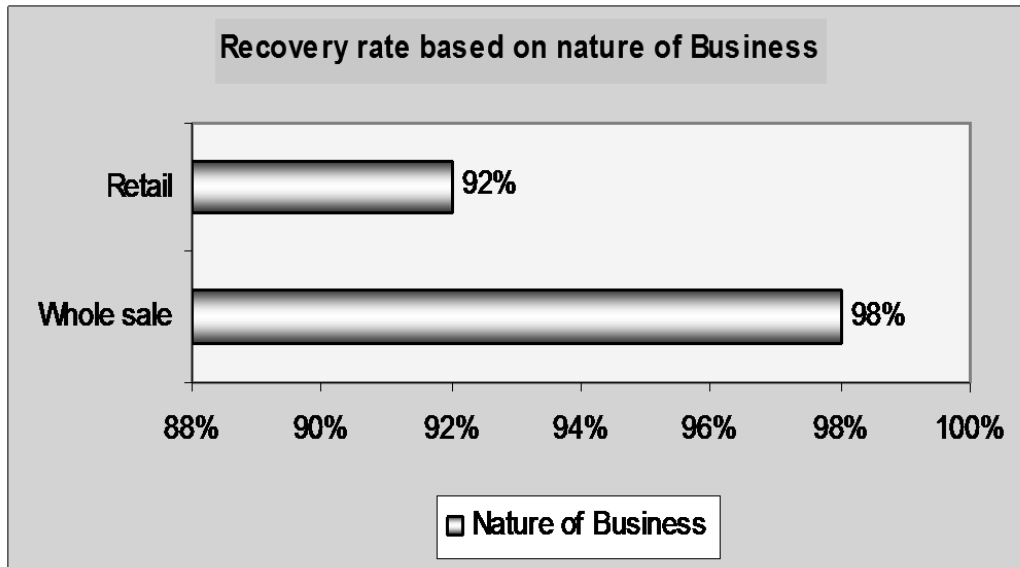


Figure 13: Recovery Rate Based on Nature of Business

From the above chart we see that entrepreneurs having retail business have a less recovery rate than the entrepreneurs having whole sale business. This may happen because whole sale business transactions happen at a large scale. So they can convert their stocks as well as accounts receivables into cash very quickly before the occurrence of any misfortune. On the other hand, retail business transactions happen at a small lot. So they cannot make swift conversion of their current asset in to cash.

4. Findings

BRAC Bank, as we know, is one of the fastest growing banks in Bangladesh. SME banking which has made the performance of this bank so enlightened is its core product to offer to the small and mediocre business entrepreneurs. In fact no businessman could think ever before that they could take loan so easily, without any collateral and without going to bank. But Brac Bank has made this improbable process so successfully through SME banking.

However from the analysis of SME loan repayment behavior I can make the following findings:

Relationship of recovery rate with age of the borrowers: Age has a significant impact on the recovery of SME loan. Young entrepreneurs have a lower rate of recovery. On the other hand as middle aged and experienced entrepreneurs are very loyal with their loan repayment they can make proper and timely repayment of their loans. And that's why most of the SME loan borrowers age ranges from 30 to 40.

Relationship of recovery rate with education of the borrowers: Education does not have any direct relationship with the recovery rate. In fact, Most of the entrepreneurs of retail and whole business (small or medium in size) are not highly educated. Most of them studied up to class 9 or 10. Sometimes there are some entrepreneurs who have only alphabetic knowledge or who can give their signature only. But still they are running their business so well for many years. In this case experience makes them successful in their business. So, education does have much impact on these small and medium enterprises and also on the recovery rate of SME loans.

Relationship of recovery rate with experience of the borrowers: Experience is the most significant variable which has a great impact on any kind of business and recovery rate as well. Experienced entrepreneurs run their business so tactfully, identify the exact time what is their pick time of sales and when they need fund. They take the loan in the pick season when they have excess demand but short of capital. Then they ensures the best use of the loan and finally they reach to success and make the dully installments. So their recovery rate is good and that's why Brac bank looks always for experienced entrepreneurs.

Relationship of recovery rate with number of installments of the borrowers: Number of installments (term of loan) and amount of loan taken do affect recovery rate slightly. But trends show that BRAC bank prefers to disburse loan of an amount of 300000 and at a term of 18 to 24 months.

Relationship of recovery rate with income of the borrowers: Another variable affecting recovery rate very much is the income of the borrowers. The higher the existing income of the borrowers, the lower the rate of default. Higher income groups make the best use of the loan they have taken and get success. On the other hand lower income group may misuse the loan and ultimately may default in paying installments.

Relationship of recovery rate with asset of the borrowers: Personal or family asset might have some impact while sanctioning the loan as well as when recovering the loan installments. Suppose if a borrower fails to pay one of his installments, bank can find his personal assets as back up for the recovery of the installments.

Relationship of recovery rate with type of business of the borrowers: Retail business and whole sale business both types of businesses get loans from Brac Bank but whole sellers have a higher recovery rate as their business transactions occur at lot size and their collection is much quick.

Finally we can say that SME loan is a loan given especially to entrepreneurs who are experienced small or medium businessmen, more or less middle aged, at least moderate income generated and who have reasonable personal or family asset. That's why their recovery rate is so high that is 97%. And their default rate is so small compared to other loan categories. Sometimes borrowers go for early settlements of their loans.

5. SWOT Analysis

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

Strengths:

Company reputation: BRAC bank has already established a favorable reputation in the banking industry of the country particularly among the new comers. Within a period of 11 years, BBL has already established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have led them to earn a reputation in the banking field.

Sponsors: BBL has been founded by a group of eminent entrepreneurs of the country having adequate financial strength. The sponsor directors belong to prominent resources persons of the country. The Board of Directors headed by its Chairman Mr. Muhammad A. (Rume) Ali. Therefore, BBL has a strong financial strength and it built upon a strong foundation.

Top Management: The top management of the bank is also major strength for the BBL has contributed heavily towards the growth and development of the bank. The top management officials have all worked in reputed banks and their years of banking experience, skills, expertise will continue to contribute towards further expansion of the bank. At BBL, the top management is the driving force and the think tank of the organization where policies are crafted and often cascaded down.

Facilities and equipment: BBL has adequate physical facilities and equipments to provide better services to the customers. The bank has computerized and online banking operations under the software called MBS banking operations. Counting machines in the teller counters have been installed for speedy service and the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available.

Interactive corporate culture: BBL, has an interactive corporate culture. Unlike other local organization, BBL's work environment is very friendly, interactive and informal. There are no hidden barriers or boundaries while interacting among the superior or the subordinate. The environment is also lively and since the nature of the banking job itself is monotonous, BBL's likely work environment boosts up the spirit and motivation of the employees.

Weaknesses:

Advertising and promotion of SME loan: This is a major setback for BBL and one of its weakest areas. BBL's adverting and promotional activities are satisfactory but it SME loan is not advertised well. It does not expose its SME product to general public and are not in lime light. BBL does not have neon sign or any advertisement for SME loan in the city. As a result people are not aware of the existence of this bank.

NGO name (BRAC): BRAC is one of the largest NGO of the world and it is operating its activities in Bangladesh. BRAC bank is not a NGO bank but many people of them country consider it as a NGO bank like Grameen bank which is not correct.

Low remuneration package: The remuneration package for the entry and the mid level management is considerably low. The compensation package for BBL entry level positions is even lower than the contemporary banks. Under the existing low payment structure, it will be very difficult to attract and retain high performing employees in BBL. Specially CRO's are not satisfied with compensation package provided to them.

Opportunities:

Growing Market: The SME sector in Bangladesh is still growing and the Government of Bangladesh is focusing strongly on this sector. This ample market growth opening is a big opportunity for BRAC Bank Ltd.

Mobile Banking: Mobile banking or money transfer via mobile phone is already a popular choice among the mass. BRAC Bank also with its subsidiary bKash doing good, but there is a huge opportunity to grab the untapped market to bring it within their banking network.

ATM: This is the fastest growing modern banking concept. BBL should grab this opportunity and take preparation for launching ATM. Since BBL is a local bank, they can form an alliance with other contemporary banks in launching the ATM.

Large Customer Base: BRAC Bank Ltd has an existing large customer base which gives them a clear head start against their competitors.

Threats:

Upcoming banks: The upcoming private local banks can also pose a threat to the existing private commercial banks like BBL. It is expected that in the next few years more local private banks may emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against an onslaught of foreign banks.

Contemporary banks: The contemporary banks of BBL such as Dhaka bank, prime bank and Dutch Bangla are its major rivals. Prime bank and other banks are carrying out aggressive campaign to attract lucrative clients as well as big time depositors.

Inherent Risk of Business: The SME consists 60% of BRAC Bank Ltd's activity where other Bank and financial institutions generally prefer large enterprise clients because of lower transition costs, and greater availability of collateral.

6. Recommendations

To overcome challenges faced by SME is not easy. Both the government and individual organization need to concern about it. Some general instructions already discussed previous section. This section will recommend some policy could be adapted by BRAC Bank Ltd specifically.

To overcoming the barriers discussed in previous section following policies can be implemented-

- Reduce the interest rate- Because many of their competitors are providing loans at a lower rate. For example most of the competitors banks providing loan at 18-22% interest rate. High interest rate is the result of high cost of fund ,so they must source fund at lower cost.
- Train the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan.
- Some times CROs, bank staffs or direct sales tem select potential borrowers in order to meet sales target. It's a major reason of defaulter. So BRAC bank should not put excessive pressure on employees because at the end of the day it hampers bank reputation.
- Organize entrepreneurs meeting to train them up according to the business type.
- Prepare retail division staffs specially front line employees about SME vastly. Because most people do come to retail branch in order to get information's.
- A loan approval procedure is lengthy. This should be reducing.
- Borrower's assessment and monitoring system should be stricter. Current defaulter rate says that there are some weakness in loan approval and monitoring system.

- More media converge is needed to inform potential borrowers about products and services. There TV advertisement and radio coverage could be strong media.
- BRAC bank can share common platform in order to provide SME loan. It can jointly work with other financial institutes without hampering profits. For example entrepreneur training season could be arranged jointly with SME Foundation.
- Increase marketing activities in the urban area because other competing industries are given huge ad in urban area which helps them to increase their customer base.
- BRAC bank should have separate banking division for woman. This will encourage woman in banking activities.
- Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
- Risk Management department's audit report should be more strict and reliable so that possible defaulter may not get the loan.
- Increase the remuneration and compensation package for the entry and mid level management otherwise BBL can't retain the efficient and experienced employees

Conclusion

In recent days the Small and Medium Enterprise (SME) Financing has become an important area for Commercial Banks in Bangladesh. To align its corporate policy with the regulation of Central Bank, banks have become more concerned about SME and opened windows to conduct business in this particular area. BRAC Bank Ltd has been established on the visionary to finance “missing middle” in order to bring economic development of the country. With its unique thinking and impressive business strategies it has proven small and medium enterprises as an emerging economic opportunity.

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