



BRAC Bank SME Loan Poverty Alleviation in Bangladesh and its Challenges

Internship Research Report | BRAC University

13 August 2015

Internship Research Report
On
**BRAC Bank SME Loan Poverty Alleviation in Bangladesh and
It's Challenges**

Submitted To
Ms.SohanaWadud Ahmad
Lecturer
BRAC Business School

Submitted By
Suman Kumar Saha
ID-13164010
MBA Program
BRAC Business School

Date of Submission: 13 August 2015



BRAC University
66, Mohakhali C/A, Dhaka-1212
Bangladesh

Letter of Transmittal

13th August, 2015

Ms.SohanaWadud Ahmad

Lecturer

BRAC Business School

BRAC University

Subject: Submission of internship report

Dear Madam,

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. Without your help, this report would have been impossible to complete. With deep gratitude, I also acknowledge the help provided by Md. SabbirAbedin, Manager, Legal Coordination, Special Assets Management, BRAC Bank for providing me utmost supervision during my internship in the organization.

To prepare the report I collected what I believe to be most relevant information to make my report as analytical and reliable as possible. I have concentrated my best effort to achieve the objectives of the report and hope that my endeavour will serve the purpose. The practical knowledge and experience gathered during my report preparation will immeasurably help in my future professional life.

I would really be grateful if you enlighten me with your thoughts and views regarding the report. Also, if you wish to enquire about an aspect of my report, I would gladly answer your queries. Thank you again for your support and patience.

Yours Sincerely,

Suman Kumar Saha

ID-13164010

MBA Program

BRAC Business School

BRAC University

Acknowledgement

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Finally my sincere gratitude goes to my family, friends, classmates and colleagues who helped me whenever I needed.

Executive Summary

Advanced expansion of the Small and Medium Enterprises (SMEs) can help to cut poverty to a satisfactory level by eliminating various prejudices against labour 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 166 Branches and Krishi Branches, 22 SME Sales and Service Centers, 400+ ATMs, 464 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-economic 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 constraints, 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 defaulters. 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 especially for NPL. Lowering interest rate, more effective loan approval system, strong monitoring activities, and entrepreneurs meeting arrangement could improve BRAC bank’s performance. Analysis of the BRAC Bank SME Loan Poverty Alleviation in Bangladesh and its Challenges gives an idea about the current market vibe of SME banking.

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Chapter One

Company Overview

1.1 Introduction

Banks lie at the heart of the world's financial system. Banking system plays a significant and commendable role in the growth and development of economy and its components. A well-built banking sector is significant for a prosperous economy. For any nation, banking system plays a vital role in the development of its sound economy. And commercial banks are the major player to develop the economy.

Bangladesh banking system has undergone unprecedented changes over the last twenty five years. The country moved away from state control to a relatively market-based open economy by adopting a major stabilization, liberalization and deregulation program under the influence of the World Bank and the IMF against the backdrop of serious macroeconomic imbalances in the early 1980s. After the initiation of Financial Sector Reforms Program (FSRP) in 1990, the sector was opened to greater competition by the entry of new private banks and more liberal entry of foreign banks in line with the recommendations of this program.

Where increased adoption of the internet as a delivery channel contributes to a gradual reduction in overhead expenses (Marketing, IT and Staff) of the banks by providing a high level of quality services through ATM, POS (Point of Sale), Online, Internet, Tele-banking, SWIFT and Reuter. These have changed the market structure of Bangladesh banking industry significantly. As a result, in recent years, the state-owned public banks have lost market share to the private commercial banks.

These changes will have vast implications for concentration and competition in the banking and financial sectors. However, increased concentration can intensify the market power of the large banks by fostering collusive behaviour among them and therefore hinder both competition and efficiency. In order to judge the implications of these structural changes and developments, it is imperative to examine current market structure of the banking sector to understand the impact the changes are likely to have on the market structure and the behaviour of banks.

1.2 Background

Dedicated to the people of Bangladesh because we believe in faith and hope cemented by our Unshakable trust on the dreams of 160 million, it is not just a place for transactions – BRAC Bank is a place where potentials are realized. Traditionally, banking in Bangladesh has been for the mid to large sized businesses or the professionals in jobs. Ironically, more than ¾th of the economy is out of the reach of formal banking. BRAC Bank took a step to break this tradition of banking and tapped into the true suburb entrepreneurial initiatives. More than half of BRAC Bank’s lending is for this small and medium enterprises – popularly known as ‘SME’. These businesses are the dreams and achievements of individual Bangladeshis

1.3 What BRAC Bank has been doing?

BRAC Bank is one of the country largest and world’s 4th largest SME Bank. In a market where traditional banking support was inadequate, these SMEs could find a partner. Since BRAC Bank inception served around 471,618 SME borrowers by lending BDT 291,871 Million through 624 customer touch points (SME unit offices, SME sales and service centers, SME Krishi Branches and Branches)! While we are a SME-heavy bank, we also render a full-array of banking services, not only SME financing. The bank is considered a leading one in retail services with the largest plastic-base (over half a million customers of the bank carry a debit or credit card to access their everyday banking needs), the 3rd largest private-sector remittance distributor, and the 7th largest bank in terms of fund management, 2nd highest issuer of home loans and 3rd largest distributor of car loans in the country.

1.4 Business model of BRAC Bank

The **Business Model** innovated was simple: mobilize funds from the urban market towards lending at semi-urban and rural. The bank had to break away from traditional banking, had to develop new ways to assess credit proposals and to reach these people who rarely accesses a bank outside metro areas, but the journey proved a success.

1.5 Structure

1.5.1 Capital Structure

BRAC Bank has started with an initial capital of amount BDT 250 million, while the authorized capital is BDT 1,000 million. Over time the bank has increased its capital base because of its steady growth and within three years of operations, it has doubled its capital base to BDT 500 million. The Bank has planned to go public by the last quarter of this year (2006) and raise its paid up capital to BDT 1000 million. BRAC Bank originated with Local and International Institutional shareholding including BRAC as promoter with IFC.

1.5.2 Capital Fund

The authorized and paid up capital of BBL is TK.1000 million and TK.500 million respectively. The paid up capital is one of the strongest in the banking industry. The bank is going to raise its paid up capital in the month September, 2006 by TK.500 million with issuing public share of 5, 00,000 of TK.100 each.

Shareholding Structure:

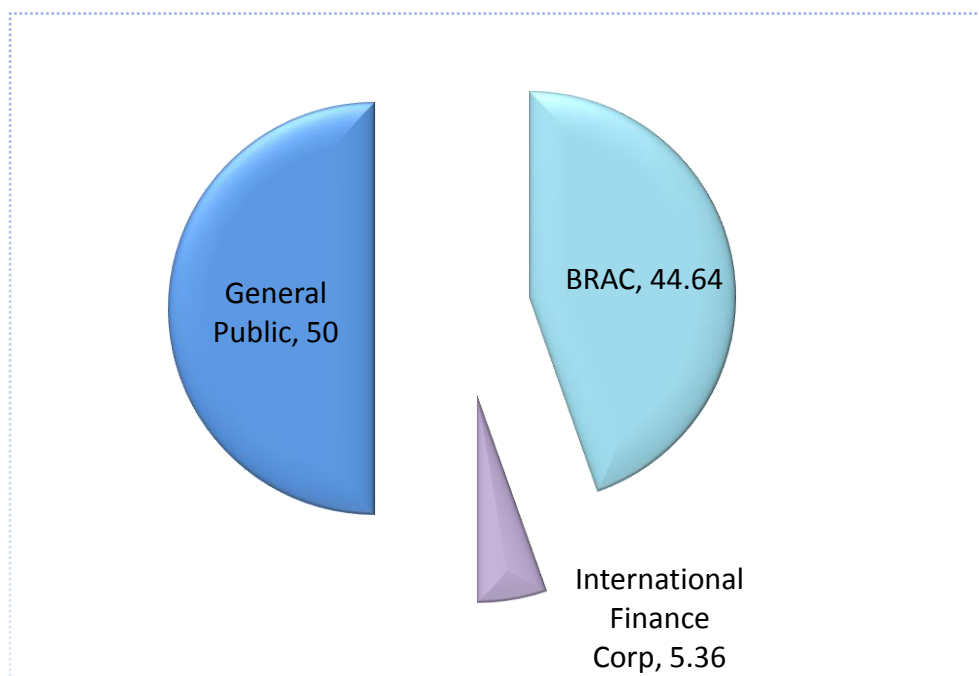


Figure 1: Shareholding Structure

Name of Shareholder	Total Shares	% of Total Share
BRAC	316,598,451	44.64
International Finance Corp	38,002,483	5.36
Sir FazleHasan Abed	7,020	0.001
Mr. Syed Humayunkabir	7,020	0.001
Mr. A.S Mahmud	5,872	0.001
Mr.Faruq A. Chowdhury	5,872	0.001
Dr.SalehUddin Ahmed	4,825	0.001
Ms. Tamara Hasan Abed	5,872	0.001
Mr.Shib Narayan Kairy	5,341	0.001
Ms.NihadKabir	5,872	0.001
General Public	354,638,693	50.00
Total Paid-up Share	709,287,321	100.00

Table 1: Shareholding Structure

1.5.3 BRAC

BRAC, a national, private organization, started as an almost entirely donor funded, small-scale relief and rehabilitation project initiated by Sir FazleHasan Abed to help the country overcome the devastation and trauma of the Liberation War and focused on resettling refugees returning from India. Today, BRAC has emerged as an independent, virtually self-financed paradigm in sustainable human development. It is one of the largest Southern development organizations employing 97,192 people, with 61% women, and working with the twin objectives of poverty alleviation and empowerment of the poor.

1.5.4 International Finance Corporation

The International Finance Corporation (IFC) is the private sector arm and the commercial wing of the World Bank Group. IFC promotes sustainable private sector development in developing countries. Using certain channels and overseas representatives, IFC helps local financial institutions find profitable ways to target small and medium sized companies. Funding comes from the Asian Development Bank, Canada, the European Commission, the Netherlands, Norway, the United Kingdom and IFC itself.

IFC is a 5.36% shareholder in BRAC Bank. A new assistance program signed in August 2005 aims to double the bank’s number of small and medium enterprise clients in 18 months through campaigns to target women entrepreneurs and rural clients, introduce new products and train branch managers.

1.6 Where does BRAC Bank stand today?

- ✓ Country’s one of the **Largest SME Bank**
- ✓ A full-scale financial hypermarket offering **financial solutions to every segment**






BRAC Bank Subsidiaries	Logo
BRAC EPL Investment Limited	
BRAC EPL Stock Brokerage Limited	
BRAC Saajan Exchange Limited	
bkash (a subsidiary of BRAC Bank)	
BRAC IT services Ltd (bits)	

Table 2: BRAC Bank Subsidiaries

SME Disbursed	BDT 291,871 Million
General Customers	13 Lac+
SMEs Customer	4.7+Lac
ATM network	2nd largest. largest to have integration with rest of the industry
Plastic Card	Largest base (over 5 Lac customers carry Debit or Credit cards)
Remittance	3rd largest in-flow of remittance among commercial banks
Network	Largest real-time, online
Branches/Krishi Branches	166
SME Unit Offices	464
ATMs (own)	400+
Remittance Delivery Points	2,000+
AponShomoy	16
Employees	8000+ the largest employee base among main-stream commercial banks
Member	GABV (Global Alliance for Banking on Values).
Achievements	Global Brand Excellence Award-2014, Best Bank in Bangladesh Award 2013, IFC GTFP Award 2011, Asian Bankers Award 2011, FT IFC Award 2010, DHL Daily Star Bangladesh Business Award 2009

Table 3: Overall stand of BRAC Bank

1.7 What sets BRAC Bank apart?

- SME Banking Model: 50% of the total loan portfolio is always for SMEs
- Value-based banking: a mission of Financial Inclusion and the 3P philosophy

 **People**

 **Planet and**

 **Profit**

- Largest real-time, online network

1.8 BRAC Bank's Strategy

BRAC Bank's current four strategic intents are:

 Think SME, Think BBL

 Delightful Customer Experience


 Socially Responsible and Sustainable Preferred Trade Bank

1.9 Industry initiatives

- ✓ The SME Financing Model eventually has been replicated across the industry
- ✓ Omnibus – a common platform for shared ATM network
- ✓ Eldorado – a common platform for remittance distribution
- ✓ First PPP (Public Private Partnership) in Banking Industry with Rupali Bank for installation of ATM at their premises and issuance of ATM Card for their customers
- ✓ PPP with Bangladesh Road Transport Authority (BRTA) for collection of vehicle fees and with HBFC for loan instalment

1.10 Business Divisions of BRAC Bank Limited

BRAC Bank Limited consists of five major business divisions. They are

 Small & Medium Enterprise (SME)

 Retail Banking

 Corporate Banking

- ☑ Cash Management & Custodial Service
- ☑ Treasury & Financial Institution

Other important division are

- ☑ Probashi Banking
- ☑ Card Division

1.10.1 Small & Medium Enterprise (SME)

BRAC Bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives. Today, with over 291,871 million of SME loans disbursed till date, BRAC Bank is country's largest SME financier that has made more than 471618 dreams come true.

1.10.2 SME Product and Services

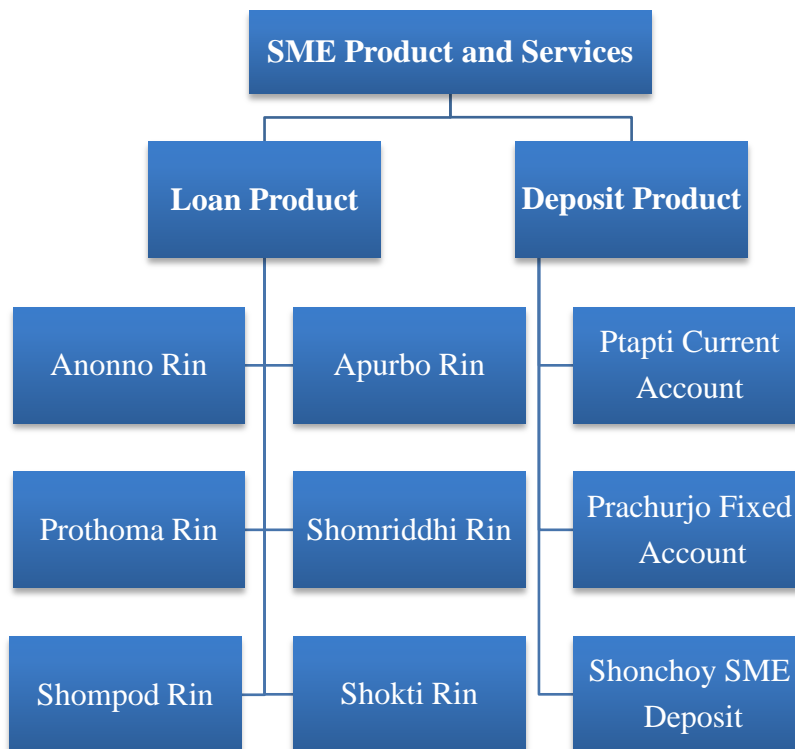






Figure 2: SME Product and Service

1.11 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, AponSomoy, Cash deposit machine (CDM), Phone banking, e-statement)
- Ca000rds 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 segments are as follows-

-  **Premium Banking**
-  **Supreme Banking**
-  **Excel Banking**
-  **Easy Banking**

◆ **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 (6month average) are treated as supreme clients. They enjoy separate service booth and cash deposit 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 (up to BDT 50 thousand)

1.11.1 Retail Banking Product and Services

Retail Banking product and Services			
Depository Products			Loan Products
Savings A/C Product	Current A/C Product	Term Deposits Product	
Triple Benefits Savings Account	Current Classic Account	DPS	Personal Loan
Savings Classic Account	Current Plus	Fixed Deposit General	Lifestyle plus Loan
Aporajita Account	EZee Account	Fixed DPS	Auto Loan
Future Star Account	Salary Account	Interest First Fixed Deposit	Home Loan
	Campus Account	Freedom Fixed Deposit	Secured Loan/Overdraft
		Abiram Fixed Deposit	Personal Loan for Doctors
		Unit Fixed Deposit	Nijerr Bari
			Personal Loan for and Lord
			Motor Cycle Loan

Figure 3: Retail Banking Product and Services

1.12 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

1.12.1 Corporate Banking Products and Services

BRAC Bank offers a full array of Financial Services to Corporations and Institutions. Having access to the deepest end of the country, BRAC Bank is there to assist businesses in Bangladesh. With us on your side, you have the power of local knowledge with the capabilities of global standard.

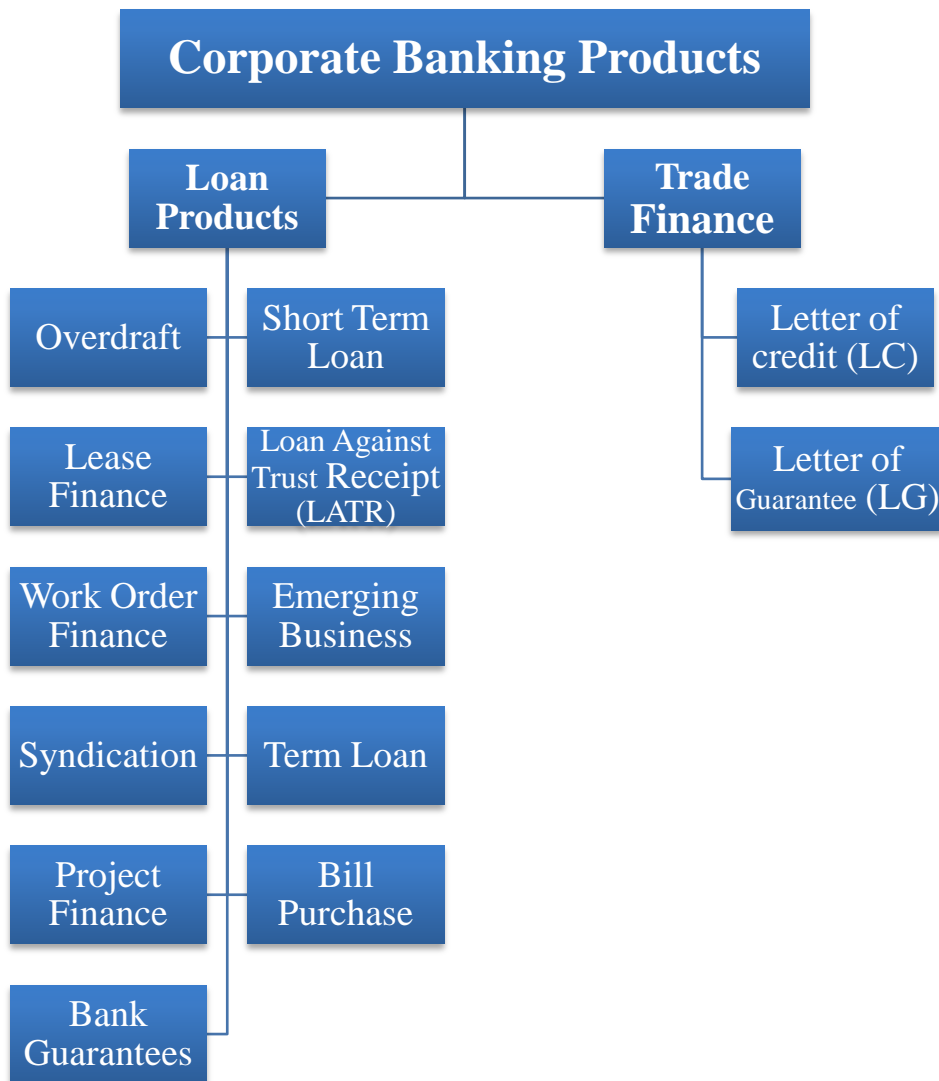


Figure 4: Corporate Banking Products and Services

1.13 Cash Management & Custodial Services

Corporate Cash management provides a wide range of corporate fund management solutions. Tailored cash management solutions are provided to different Government organizations, autonomous bodies, and large local conglomerates to MNC's.

1.13.1 Cash Management Products and Services

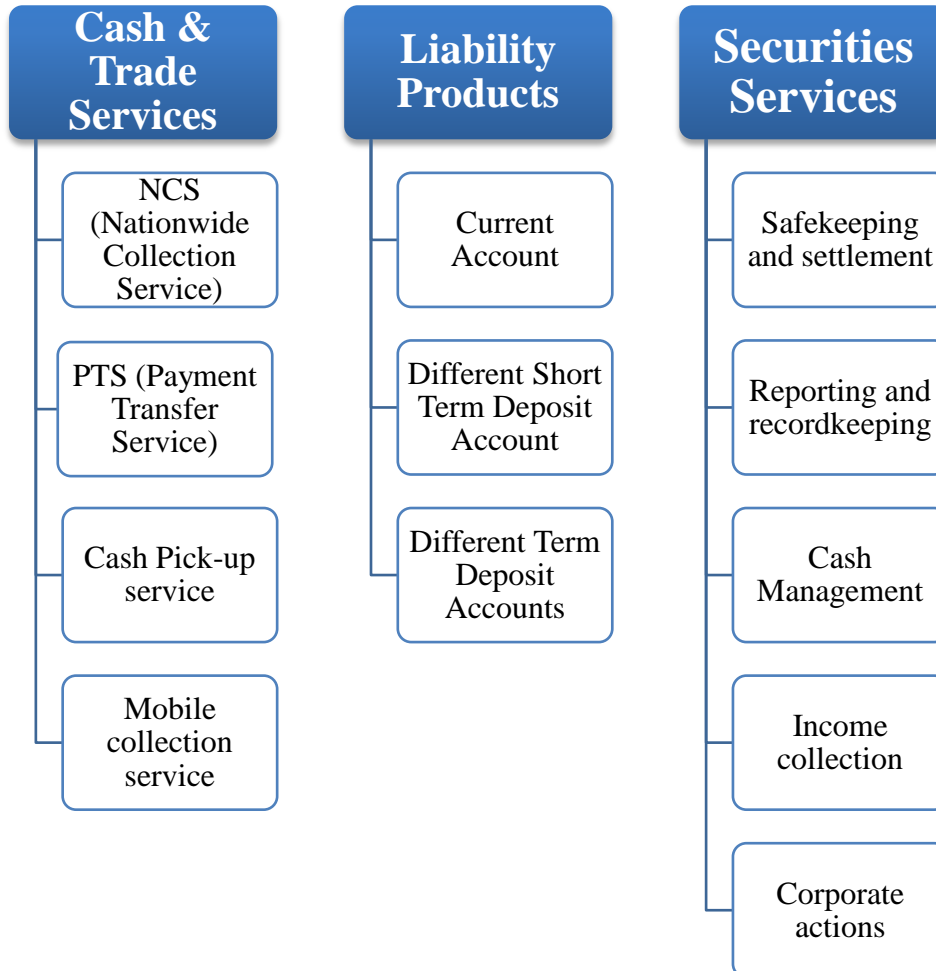


Figure 5: Cash Management Products and Services

1.14 Treasury & Financial Institution

Treasury department is vested with the responsibility to measure and minimize the risk associated with Bank's liquidity, foreign exchange exposure and asset liability management. Treasury continuously monitors price movement of foreign exchange and uses various hedging technique to manage its open position in such a way that minimize risk and maximum return.

The FI wing work as trigger point of establishing new relationship with correspondent bank as well as to maintain the existing relationship to provide a smooth funding channel for all business units. BRAC Bank Ltd has a strong worldwide corresponded network with the world's leading 20+ banks to facilitate trade, remittance and other services to its client efficiently and profitably.

➤ **Money Market Desk**

BRAC Bank has a strong presence in the Treasury Market in Bangladesh. The Money Market Desk of the Treasury Division mainly deals in Bangladeshi Taka transactions. The basic activities undertaken by the Money Market Desk are:

- ▣ Management of Statutory Reserves viz. Cash Reserve Ratio (CRR) & Statutory Liquidity Ratio (SLR)
- ▣ Daily Funds & Liquidity Management
- ▣ Investment Management
- ▣ Treasury Services
- ▣ Call/Overnight Lending & Borrowing
- ▣ Term Money Borrowing & Lending
- ▣ Repurchase Agreement
- ▣ Treasury Bills (T-Bills)

1.15 Cards

Card Name	Type	Features
Universal Credit Card	<ul style="list-style-type: none"> •Universal Visa/Master Platinum Credit Card •Universal Visa/MasterCard Classic Credit 	<ul style="list-style-type: none"> ◆ 50 day interest free period ◆ P@YFLEX - interest free installment program with more than 35 branded shops ◆ Fast Reward point for both BDT and USD transactions ◆ Card Cheque ◆ Credit shield – a unique insurance program with

	Card •Universal Visa/MasterCard Gold Credit Card	triple benefit ◆ EMV chip-based VISA / Master Credit card/Dual Currency
Planet Card	Debit Card	<ul style="list-style-type: none"> ◆ BDT 100,000 Daily withdrawal limit from ATM/POS machine ◆ Online transaction ◆ Purchase goods from shops ◆ Cheque Book & statement Request through ATM machine ◆ Utility & Credit Card Bill Payment
Foreign Currency Debit Card	Debit Card	<ul style="list-style-type: none"> ◆ An existing Foreign Currency Account holder can avail an Foreign Currency Debit Card ◆ This debit card can be used worldwide at Visa ATMs for cash withdrawals, Visa Point-of-Sales (POS) terminals for purchases and for making payments on the internet (i.e. e-Commerce) against US Dollar Foreign Currency account maintained with BRAC Bank.
Haji Prepaid Card	Debit Card	<ul style="list-style-type: none"> ◆ Completely interest free ◆ Limit up to USD 350 as per Hajj Quota (Quota may change as per Government regulation) ◆ Valid across KSA during Hajj
Travel Prepaid Card	Prepaid Card	<ul style="list-style-type: none"> ◆ Any Bangladeshi (21 years and above) with valid Bangladeshi Passport, can enjoy the benefits of Travel Pre-paid card. Customer do not need to have any account with BRAC bank to enjoy this service. One can withdraw cash from any VISA accepted ATMs or do the shopping across the world ◆ Minimum documentation

		<ul style="list-style-type: none"> ◆ Completely interest free ◆ Limit up to USD 5000 for SAARC and USD 7000 for non SAARC countries, as per Personal Travel Quota (Quota may change as per Government regulation)
Probashi Card	Probashi Card	<ul style="list-style-type: none"> ◆ Fast, reliable, hassle free and convenient way to receive remittance ◆ No need to maintain separate account ◆ Anytime withdrawal of remittance from any BBL/Visa and Omnibus branded ATMs ◆ Fractional withdrawal of remittance is possible

Table 4: Cards Details

1.16 Probashi Banking Products and Services

Product Name	Type of Account	Target Group	Minimum Amount (BDT)	Tenure	Remarks
Probashi Fixed Deposit	Fixed Deposit	Non Resident Bangladeshi (NRB)	10,000	3/6/9/12/24/36 Months	Interest is paid on maturity based 360 days
Probashi Abiram	Fixed Deposit	Non Resident Bangladeshi (NRB)	10,000	1-3 Years	Interest is paid on a monthly basis to link account
Probashi DPS	Deposit Premium Scheme	Non Resident Bangladeshi (NRB)	500 or any amount multiple of 500	4/7/11/14 Years	Instalment will be realized automatically on due date from the link account

Probashi Special FD	Fixed Deposit	Non Resident Bangladeshi (NRB)	500,000	89/150/3 60 Days	Auto Renewal on Maturity
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Table 5: Probashi Banking Products and Services

1.17 Operational Network Organogram

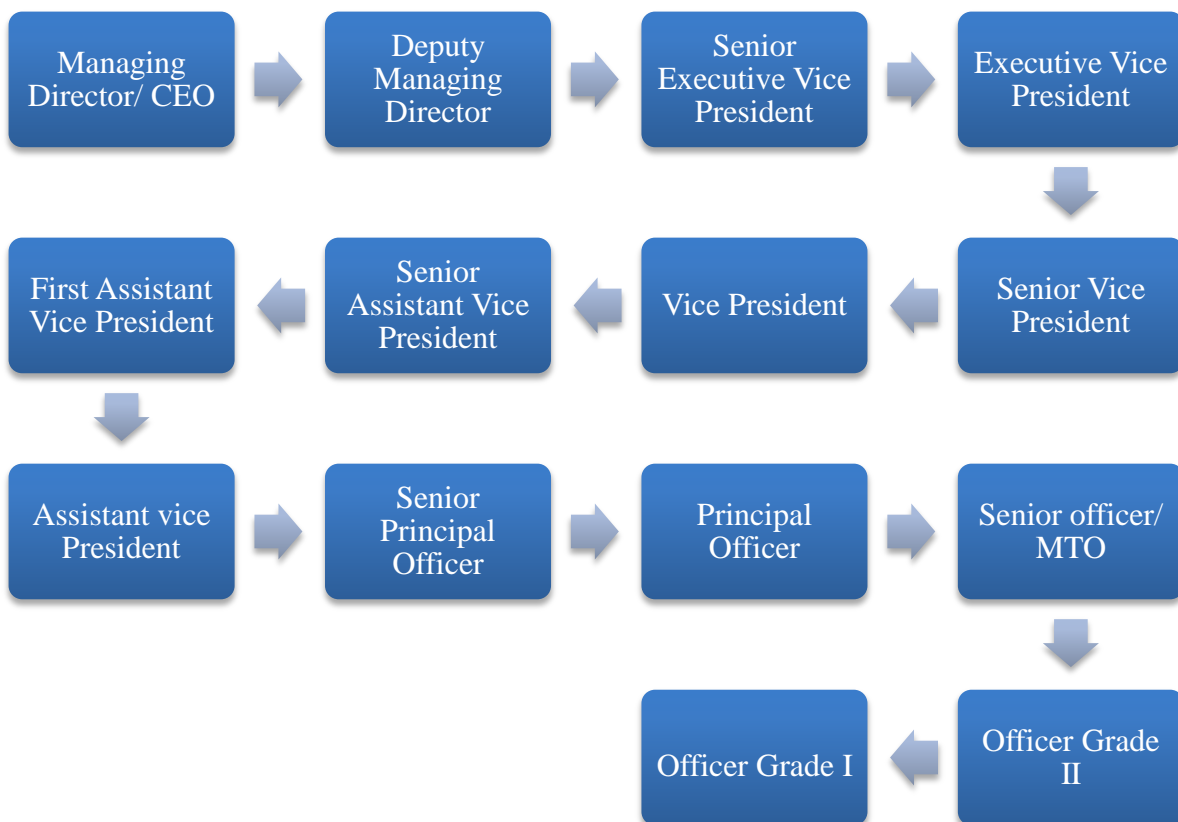


Figure 6: Operational Network Organogram

1.18 Vision for the Future

“ 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”.

1.18.1 Corporate Mission

- ▣ 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 Banks other products and services
- ▣ Manage various lines of business in a full controlled environment with no compromise on service quality
- ▣ Keep a divers, far flung team fully controlled environment with no compromise on service quality
- ▣ Keep a diverse, far flung team fully motivated and driven towards materializing the banks vision into reality

1.18.2 Core Values

BRAC Bank’s Strength emanates from its mother company - BRAC. This means, we will hold the following values and will be guided by 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.

1.19 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 Colour in the lower portion of the logo means that ‘Golden Bangladesh & her fertile land’. The Blue colour in the upper portion means ‘the sky with enormous & unlimited opportunity’. The white colour curve means ‘Growth and Progress’. White circles in the blue colour mean the flashing sun that gives light to everywhere.



Logo: BRAC Bank Ltd

Chapter Two

Internship

Experience

2.1 Job Description

I joined BRAC Bank as an intern in the Special Assets Management Department on 12th April. I was selected after an interview with the manager Legal Coordination of the respected department. With the consent of my onsite supervisor my report is over 3 months of internship

2.2 Specific Job Responsibilities

During my 3 months of internship I worked under the manager Legal Coordination (LC) in the Special Assets management (SAM) department. **“Sustainable Recovery Throughout The Year”** With this vision SAM working objectives are, Improve strategic thinking,strengthen of legal aspects,continuous involvement and effective supervision to pursue the goal,people development and motivation,proper escalation of issues and its mitigation plan. The Legal Coordination unit is one out of three units of SAM; remaining two are Settlement& Negotiation, and MIS & Monitoring. Legal Coordination unit is responsible for all kind of internal and external legal activities of entire BRAC Bank SMA-SME-Retail. Which are:

- Focus on NI Act & Arthorin
- Serving Legal Notice
- Lawyers and others Bill Process
- Update Case Status in CARMA
- Case Filing on Merit Basis
- Attending Court
- Panel Lawyer Selection and Management
- Establish Smooth Movement of Cheque and Document
- Expedite Execution of Warrant of Arrest by Rendering support

Figure 7: Legal Coordination Responsibilities

2.3 Works involved during internship

During my attachment period I was directly involved in the legal coordination work of BRAC Bank. This includes work of

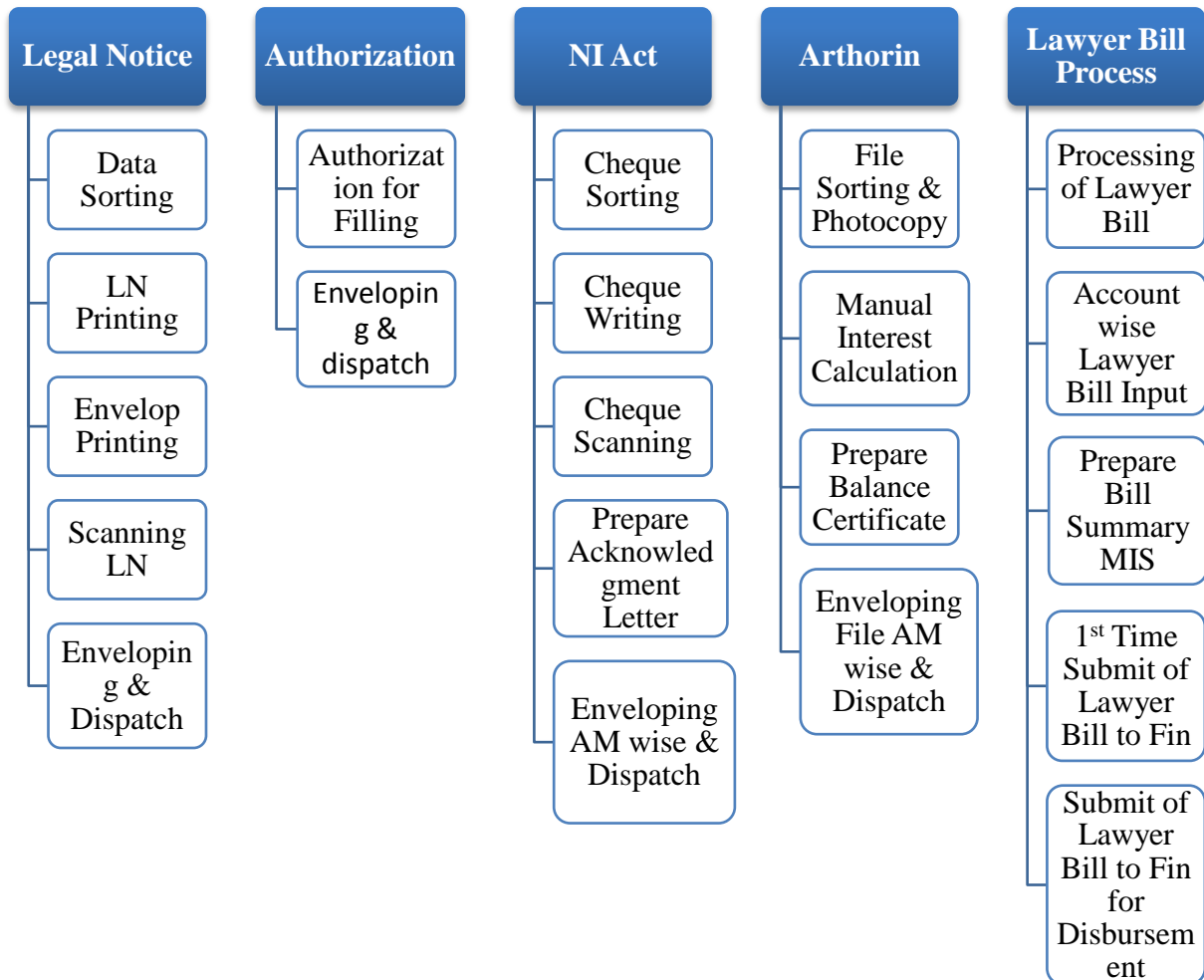


Figure 8: Works during Internship

2.4 Observation

- The BRAC Bank office environment is very friendly and maintains a corporate culture.
- Every employee is enthusiastic to his/her works, and seniors are very cooperative to junior.
- Work is never left pending for the next day unless it is absolutely necessary.
- With a limited number of office equipment such as Printer, Photocopy & Scanner working processes are time consuming.
- Decentralized offices such Archive, Barrister are also widen working processes time for ARA filling and Legal Notice
- A very small team to pull of such a big work load of the entire department.
- The salary package for the entry and mid-level management is considerably low.
- Office area is very small for working process as File sorting for NIA & ARA and Legal Notice prepare.

2.5 Recommendation

- ✓ The number of office equipment such as Printer, Photocopy & Scanner should be increased for the increase of working process speeds.
- ✓ Promote a centralized archive office to supply loan file when ever Legal coordination unit needs with in a working day.
- ✓ If a Barrister or his nominee officer always stays at SAM it will be easy and hurry to process Legal Notice.
- ✓ Need a rule for lawyers that no hand writing “Lawyer Bill” because sometimes it’s making indecipherable and delay to process at Finance department.
- ✓ The team should be extended for better work efficiency as the work load is massive for a small department.
- ✓ Increase accommodation for file processing and legal notice prepare.

Chapter Three

The Project

3.1 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

3.2 Description of the Project

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 bellow-

3.2.1 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 and its challenges.

3.2.2 Specific Objectives

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

1. To present an overview of SME division of BRAC Bank

- ◆ Detail description of SME division of BRAC Bank
- ◆ Operation Process of SME Loan Disbursement of BRAC Bank
- ◆ Risk management process and collection process of BRAC Bank Ltd.

2. 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.

3.3 Methodology

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

3.3.1 Primary Sources

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

3.3.2 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

3.4 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

◆ **Time shortage**

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

◆ **Access to information**

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

◆ **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.

3.5 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 Programs.

3.6.1 Definition of Small Enterprise

Small Enterprise refers to the firm/business which is not a public limited company 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 6: Small Enterprise

3.6.2 Definition of Medium Enterprise

Medium Enterprise refers to the establishment/firm which is not a public limited company and complains 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 7: Medium Enterprise

3.7 General SME Guidelines by Bangladesh Bank

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

- ① 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.
- ① Priority shall be given to small entrepreneurs.
- ① For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50, 00,000 (Fifty lacs)
- ① 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.
- ① 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.

- ④ 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.
- ④ 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.
- ④ 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’.
- ④ 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

3.8 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-

Pre-operation

Operations

Discloser/ethics

Figure 9: Minimum Requirement for SME Financing According to Bangladesh Bank

3.8.1 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-

- ④ 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
- ④ The bank shell develops 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.
- ④ 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
- ④ 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 behaviours. This periodical report are expected to help in generating new policies, effectively implementation of current policies and facilities appropriate modifications of existing policy.
- ④ 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.

- ④ 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.
- ④ All the institutions starting/undertaken small and medium enterprise financing are instructed to gone 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.

3.8.2 Operations

- ④ 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.
- ④ While granting loan to the borrowers, bank shall obtain written declaration from the borrower reviling the details of various facilities he/she already obtained from other financial institutions. The bank shall carefully gone 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.
- ④ 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.

- ④ 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

3.8.3 Discloser/Ethics

Bank shell disclose all necessary terms and conditions regarding fees-charges; interest rate and penalties. It should also reveal internal information to some extend 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.

3.9 Importance of SME in Bangladesh

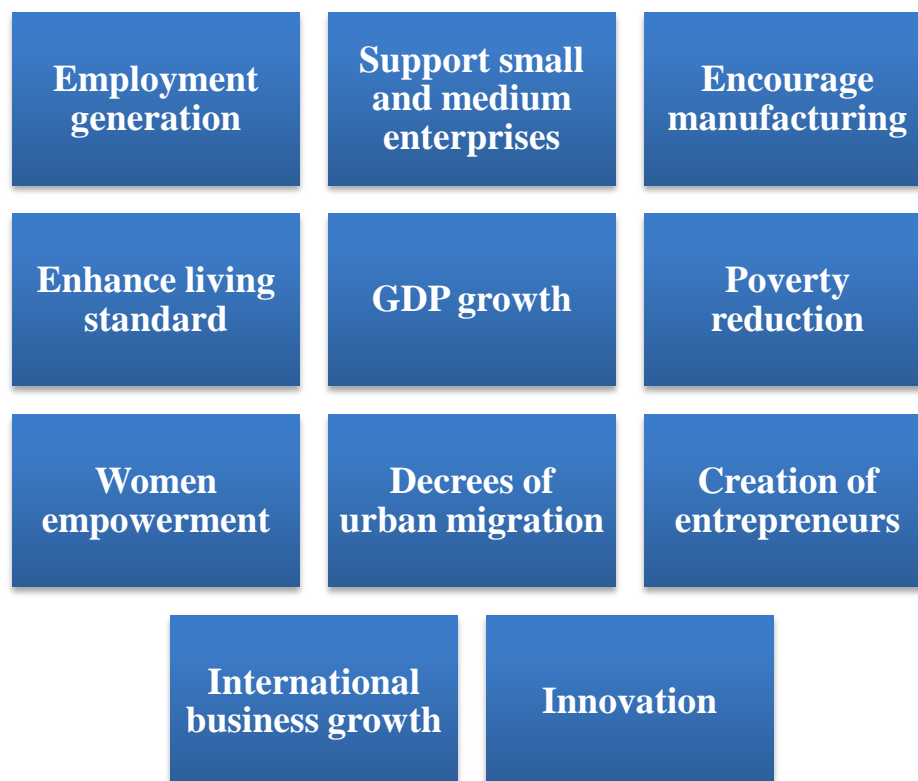


Table 8: Importance of SME in Bangladesh

◆ **Employment generation**

Developing country like Bangladesh where unemployment rate is near 17% (according to ADB), SME plays vital role to create employment. In 2005-2010, around 50% of jobs were created through SME.

◆ **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 core 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 labour-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.

3.10 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.

3.11 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, 2012-2013

-  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 470,000 entrepreneurs, with BDT 291,871 million of SME loan since its inception in 2001.

3.11.1 BBL SME Banking Portfolio

BBL SME Banking Portfolio	Amount
Asset Portfolio	BDT 50098.60 Million
Liability Portfolio	BDT 17200 Million
Portfolio in account	1, 21,131

Table 09: The SME Financing Gap

3.12 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	Target Group	Loan Size	Tenure	Security	Facility
Anonno (Business Loan)	Small sized trading, manufacturing, service, agriculture, non-farm rural activities, agro-based industries, etc.	200,000-1,500,000	EMI Facility: 6 months-12 months SIL Facility: 3 months- 9 months	No collateral or Cash securities	<ul style="list-style-type: none"> •Equated Monthly Installment Loan (EMI) Facility/Single Installment Loan (SIL) Facility/ •Top-up & Repeat facility
Apurbo	Small and medium sized trading, manufacturing, service,	1,000,000-30,000,000	Loan Tenure of 2 kinds: a) Equal Monthly instalment		<ul style="list-style-type: none"> •EMI Facility •Single instalment Loan facility based on

(Term Loan)	agriculture, and agro-based industries, etc.		Facility: 12 months to 60 months depending on loan amount b) Single instalment Loan: 3 months -9 months	Mortgage	business cycle or for festival purpose. •Revolving Loan facility •Overdraft Facility •Bank Guarantee
Prothoma (Term Loan)	Small sized trading, manufacturing, service, agriculture, non-farm rural activities, agro-based industries owned by women	200,000-1,500,000	a)EMI (new loan): 12 months -36 b)Single Installment Loan Facility: 3-9 months	Unsecured	•EMI Facility •Single Instalment Loan (SIL) Facility •Short Term Loan to meet specific requirement:
Shomriddhi (Term Loan)	Small and medium sized trading, manufacturing, service, agriculture, and agro-based industries, etc.	Total exposure to a borrower for composite limit (LC/LATR/ RV/IBP/OD / BG) cannot exceed BDT 5.00 crore	Term Loan: 12-60 months Other services: tenure depends on cash cycle, acceptance period etc.	Cash Security (Full / partial) Mortgage	•Letter of Credit (LC) • Loan Against Trust Receipt (LATR) • Revolving Loan (RV) •Inland Bill Purchase (IBP) •Overdraft (OD) •Bank Guarantee (BG) •Term loan
Shokti (Business Loan)	Any kind a business having at least 1 year	1,000,000-10,000,000		Partial cash security	Term Loan and Overdraft

Shompod (Business Loan)	SMEs having valid trade license and has been operating for at least 3 years in Dhaka & Chittagong Metropolitan area.	1,000,000-35,000,000	Term loan: with monthly instalment repayment facility for maximum up to 10 years	Home or business premise mortgage.	<ul style="list-style-type: none"> •Overdraft facility to meet your working capital need. •Loan is also available to purchase business premises.
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Table 10: 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

3.13 SME Loan method 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 is 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.

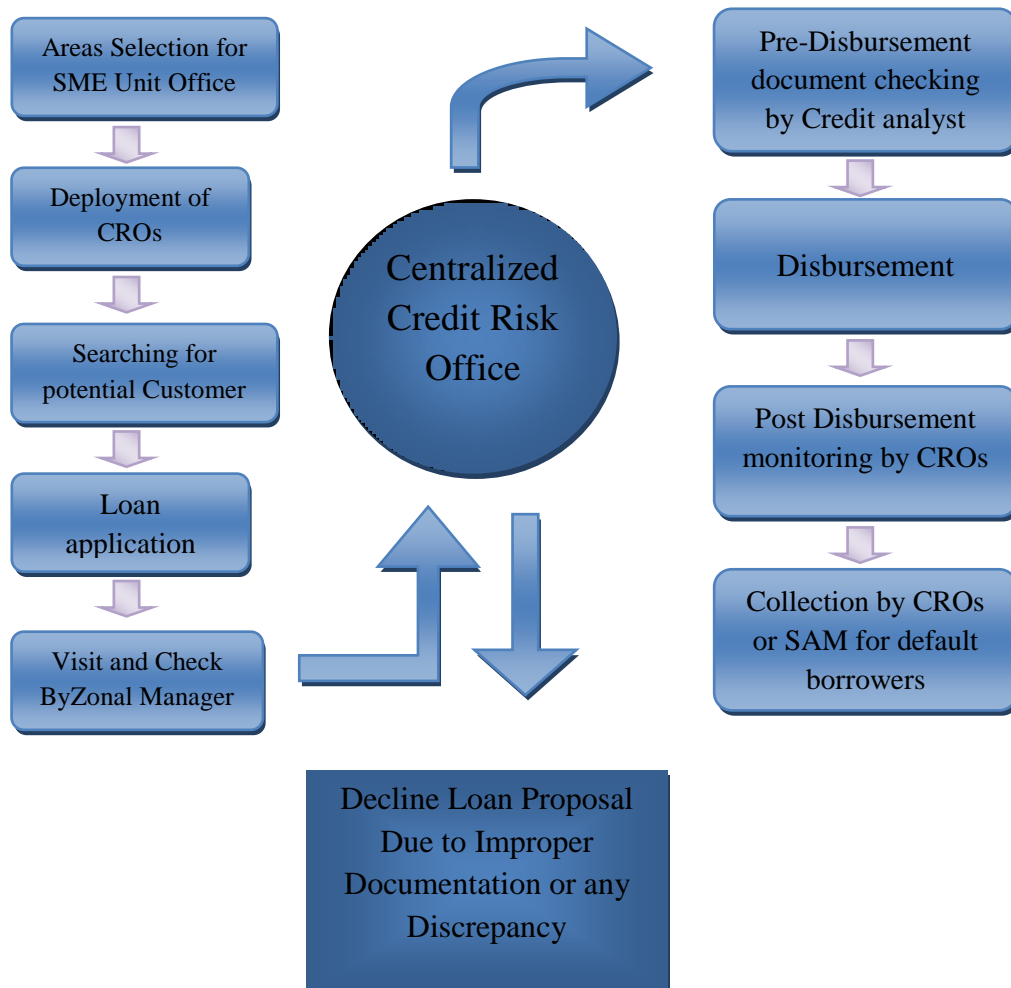


Figure 10: BRAC BANK Small Loan Processing Flow

3.14 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.

3.14.1 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.

3.15 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 and 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.

3.15.1 Recommendation

At times it is reported that people with bad reputation for 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.

3.16 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.

3.16.1 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 relative

3.17 Indictors and their interpretation from BRAC Bank perspective

Days Past Due (DPD)

Refers the number of days borrowers are not giving instilment, counting from the following date of instalment due date.

Portfolio at Risk (PAR)

When a loan account became delinquent for more than 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:

3.18 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

3.19 SME Financing: Major competitors

Banks/FIs/NGOs	Urban (Dhaka, Ctg, Sylhet, Khulna, Bogra, N'Ganj)	Semi-Urban & Rural
State owned Banks	<ul style="list-style-type: none"> ◆ Sonali ◆ Rupali, ◆ Agrani, and ◆ JanataBank 	<ul style="list-style-type: none"> ◆ 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	CBC	NIL
NBFI & NGOs	IDLC	BRAC, ASA

Table 11: Major Competitors

3.20 BRAC Bank SME Loan Poverty Alleviation in Bangladesh

Small and Medium size Enterprises (SMEs) in Bangladesh did not have access to banks and financial institutions like the big multinational & local corporate. But SMEs have a significant role in employment generation, poverty alleviation and overall economic growth, especially for a developing economy like that of Bangladesh's. SME banking was a young and dynamic industry in Bangladesh as 25% people of its overall workforce are involved in SME sector, which has 25% contribution to the country's Gross Domestic Product (GDP).

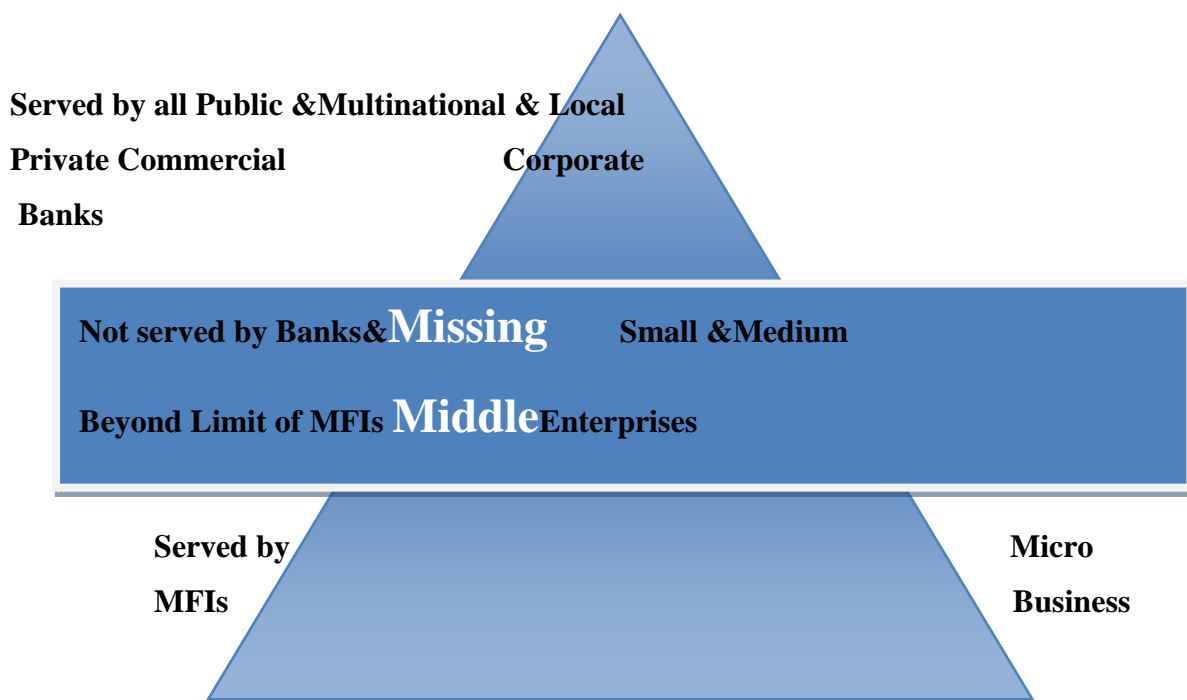
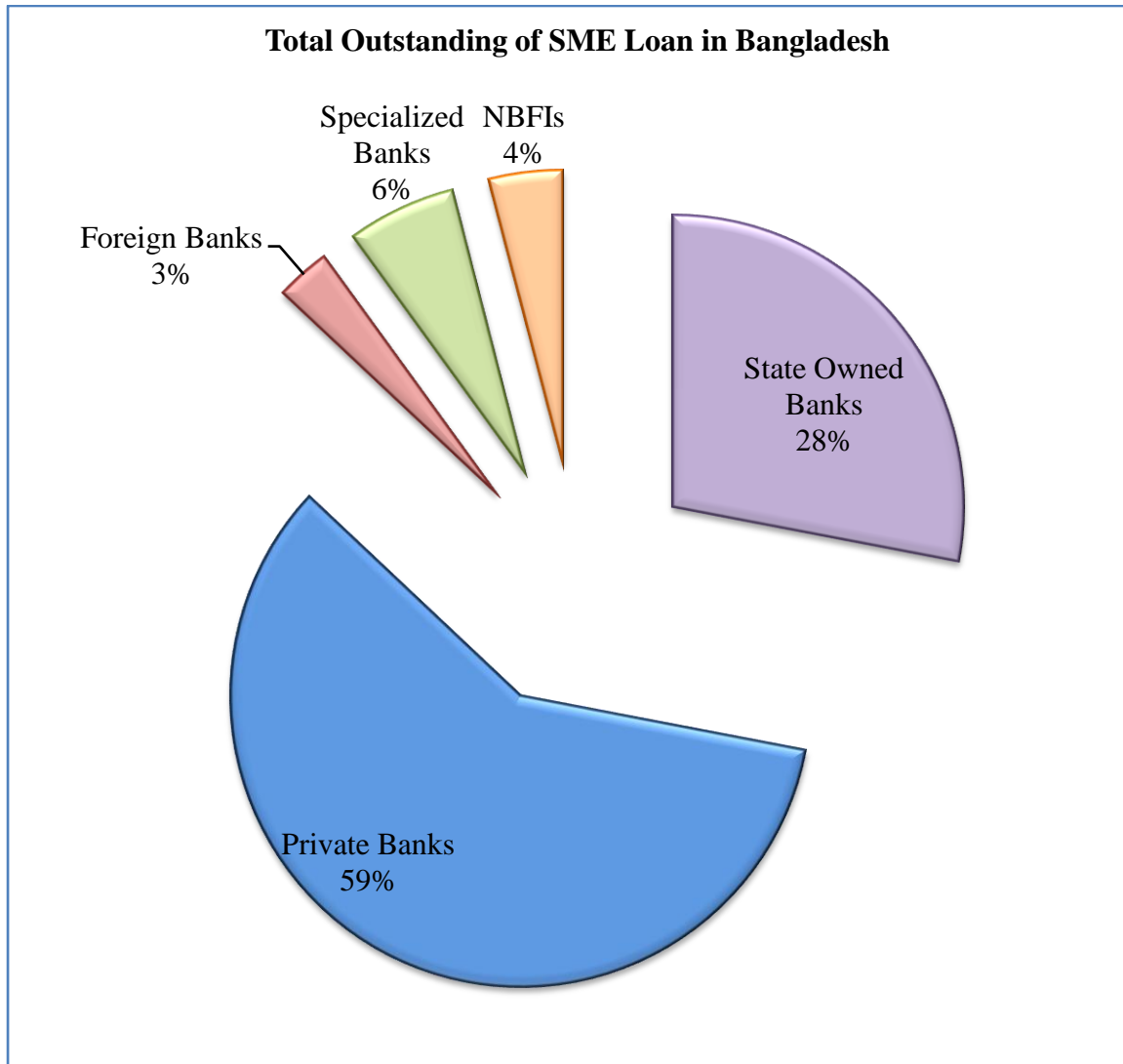


Figure 11: Missing Middle

To serve the “Missing Middle” and to work as a catalyst for the vibrant yet unbanked SME sector of Bangladesh, The Chairperson of BRAC, Sir FazleHasn Abed founded BRAC Bank in 2001 with institutional shareholding of BRAC, Shore Bank & IFC.

3.20.1 Financial Industry’s contribution to SMEs in Bangladesh



The SME loan growth of the private banks was 73.65% in December 2013 while the growth of the national commercial banks was only 13.32% and the foreign banks 7.99%. Total Outstanding of SME Loans in the industry is more than USD 10,000 Million



Source: Major Economic Indicators: Monthly Update

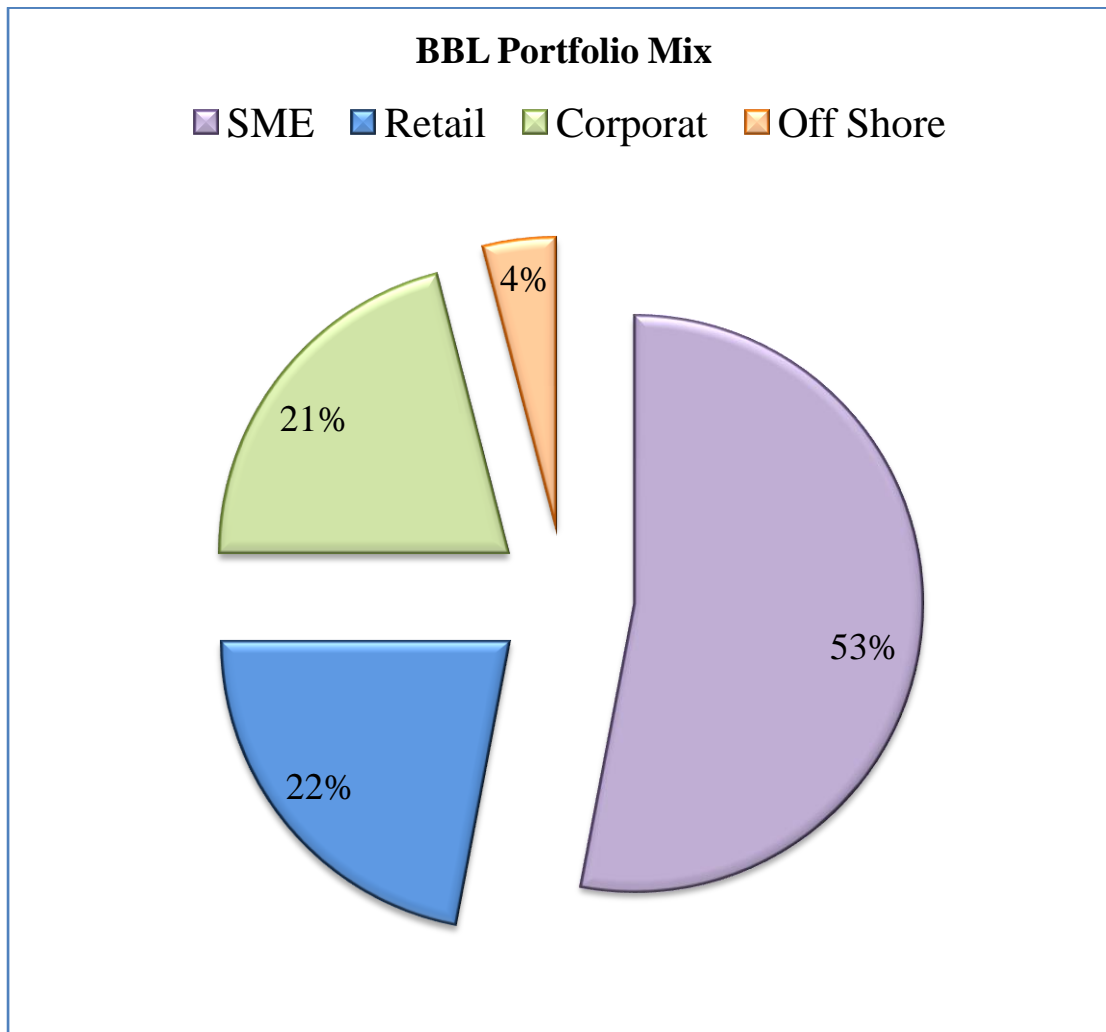
Figure 12: SME loan in Bangladesh

BRAC Bank holds:

-  **9% SME Portfolio of Private Banks**
-  **5.29% SME Portfolio of Entire Industry**

3.20.2 BRAC Bank’s Portfolio Mix:

BRAC Bank started its journey in 2001 with a mandate to serve the SMEs of Bangladesh & to realize dreams and aspirations of SMEs especially in remote areas of the country. In-line with the mandate BRAC Bank continued to grow its SME portfolio, which is 53% of Bank’s total portfolio. And always maintain a minimum of 51% SME portfolio which is commitment with Bangladesh Bank.



Source: Secondary data

Figure 13: BRAC Bank’s Portfolio Mix

BBL is the first bank to launch SME division, but BBL now a financial tree that offers financial solution to all branches- be it retail, SME, wholesale banking, capital market, or remittance, but it has a special focus on SME.

3.20.3 Reasons for taking loan by SMEs from BBL

Reasons for seeking credits	% of Respondents
To start the business.	20%
To rent/lease premises	00%
To procure equipment from local markets	20%
To procure equipment from international markets	10%
To procure raw material from local markets	10%
To build inventory	00%
To facilitate works in process	30%
To hire skilled labour	10%
Total	100%

Source: Primary Data

Figure 12: Reasons for taking SME loan

Survey results of 20 SME borrower show that there are at least eight reasons for which SMEs seek loans from BRAC Bank SME. The first reason is to initiate the business. Nearly 20 percent of the SMEs took credit to start their business. Nearly 20 percent clients seek loans to procure equipment from local markets. 10 percent are for to procure equipments from international market and 30 percent are for to facilitate work in process.

BBL's motto is to mobilise fund from the urban areas to rural areas. This is a key solution towards economic advancement through employment generation. BRAC Bank at present stands among the top in the industry with a double digit profit growth every year and the risk is leaved past while the business model comes successfully. A total of more than 2000 employees are currently working in SME division and serving the nation. In which new SME customers and to ensure proper customer services to the SME Business, 551 new Customer Relationship Officers (CROs) were recruited in 2014 and this ensures the huge permanent employment generation in a single year by any Bank.

SMEs can help reduced poverty by contributing to the national economic growth, removing problems of labour- intensive industries, creating employment opportunities for the semi-skilled workers and also linking small entrepreneurs with main stream business. BRAC Bank

is trying to do the same considering it as a reality for the economic advantage advancement of the country, Managing Director (MD) and chief executive officer of BRAC Bank Ltd (BBL) Mr Syed MahbuburRahman said this while talking to the Financial Express on an interview.

3.20.4 Agreement signing with Bangladesh Bank

SME Business has signed-off two new refinancing schemes with Bangladesh Bank. BDT 1000 m fund has been created by Bangladesh Bank as “New Entrepreneurs Fund” to finance the New Entrepreneurs who has completed certain business training from Dhaka Chamber of Commerce (DCC). Also to encourage the financing to the marginal and micro entrepreneurs, BDT 2000 m fund has been created for “BDT 10 A/C holder”. SME Banking Division has signed MoU with Bangladesh Bank to finance in these special sectors. SME Business is continuing women entrepreneur refinancing scheme, renewable energy refinancing, agricultural based industry refinancing and agro-financing with Bangladesh Bank

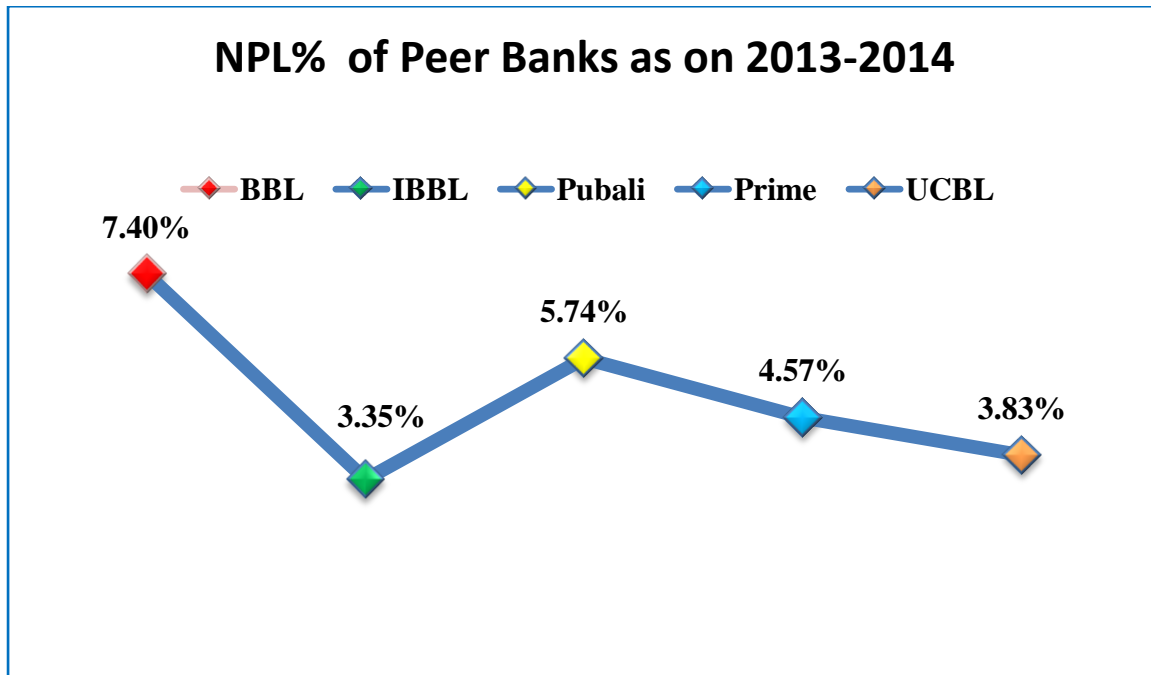
3.21 Challenges of BBL SME loan and Analysis

3.21.1 Key Challenges – Small Business in BBL

- Adept with the current economic condition & achieve the desired growth in SME Segment
- Maintain the competitive edge over other players & retain the No 1 position in SME lending in an environment where there will be increased competition among existing players as well as new entrants (new banks/FIs) focusing the SME segment.
- Improve/maintain the Quality of the Portfolio
- Higher customer & quality staff attrition due to competition
- Greater regulatory intervention in SME lending which may impact pricing and bring down revenue
- Declining Net Interest Margin due to increase in cost of liquidity
- Containing costs of acquisition through enhancing staff productivity and efficiency

3.21.2 Industry Nonperforming Loan

A non-performing loan is defined as an advance where payment of interest or repayment of instalment of principle (in case of term loans) or both remains unpaid for a certain period. An NPL is a loan asset which has ceased to generate any income for a bank whether in the form of interest or principal repayment.



Source: Secondary Source

Figure 14: NPL of Peer Banks

From the above line chart it is clear that BBL hold a high percentage of NPL with compared to peer banks. Maintaining non-performing loans (NPLs) of the country’s small and medium enterprises (SMEs) at lower level is being considered as a major administrative threat for the banks as they are facing difficulties to recover the loans from the field levels. The total NPL rate was 7.90% in the SME sector of which 17.20% in state owned banks, 5.35% in private banks and 11.79% in NBFIs.

3.21.3 Loan Classification and Provision

CL-Status	Full Name	ST-Form	Provision Rate
Un Classified	Standard	STD	.25%
	Special Mention Account	SMA	05%
Classified	Sub Standard	SS	20%
	Doubtful	DF	50%
	Bad & Loss	BL	100%

Table 13: Loan Classification and provision

Non –Performing Loan Management is a managerial process by which banks may acquire a position for recovery or regularization of loan for maintain it at least a position of good threshold level. Needless to say, non-performing loan means a loan which has been classified by a bank or financial institution as: (i) Sub-Standard (ii) Doubtful (iii) Bad and Loss.

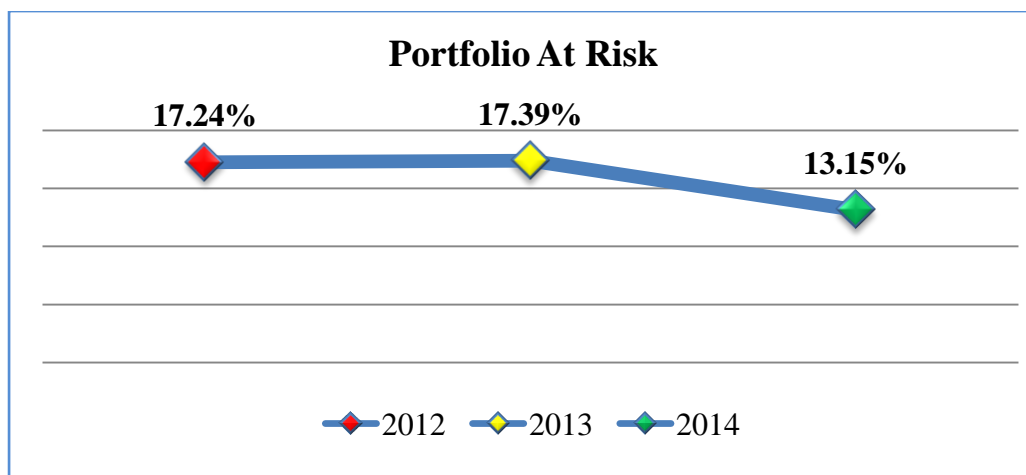
Considering the scope for further contribution of SMEs to the economy of Bangladesh and in order to boost up financing to the Small and Medium Enterprises (SMEs) sector, banks are required to maintain 1% General provision instead of 2% against unclassified loan amount for SMEs. Also the word stipulated as Small Enterprise Financing (SEFs) has been renamed Small and Medium Enterprise Financing (SMEF) effecting from June 30, 2008

3.21.4 Portfolio at Risk of BBL SME

Portfolio at risk (PAR) refers to loans that are late in their repayments; it is the universal measure for quality of a loan portfolio. For computation of PAR, even when only a portion of the instalment is late, the entire outstanding loan balance is assumed to be at risk

Business Unit -SME	2012	2013	2014
PAR %	17.24%	17.39%	13.15%

Table 14: PAR% of SME, BBL



Source: Secondary Source

Figure 15: PAR% of SME, BBL

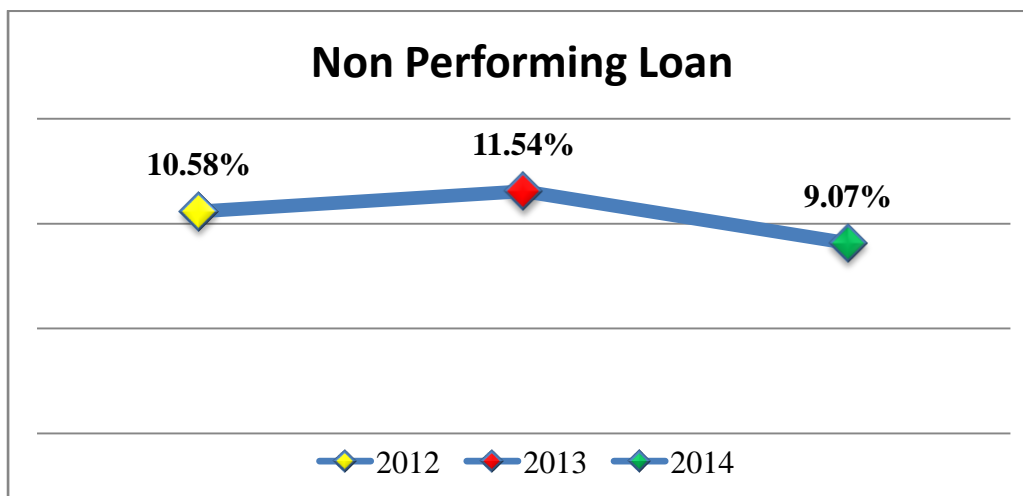
The Portfolio at Risk (PAR) is 17.24% in SME at 2012 which is a big challenge for BRAC Bank and this percentage also upward next year. But in 2014 it's come down at 13.15% by the efficient process of Special Assets Management (SAM) department. 13.15% is still now a high percentage with compare peer banks for SME loan of BRAC Bank.

3.21.5 Nonperforming Loan of BBL SME

Sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower. If the debtor starts making payments again on a nonperforming loan, it becomes a re-performing loan, even if the debtor has not caught up on all the missed payments.

Business Unit -SME	2012	2013	2014
NPL %	10.58%	11.54%	9.07%

Table 15: NPL% of SME, BBL



Source: Secondary Source

Figure 16: NPL% of SME, BBL

In 2014 BRAC Bank SME loan NPL is 9.07% which was a two digit integer before the year. Two digit NPL percentages is a scared situation for any financial service. Because some of adverse effects of Non Performing Loan. Where others peer banks have average below 5% NPL for SME loan.

3.21.6 Effects of NPL on SME loan

- ◆ Banks profitability is affected adversely because of providing of classified loans.
- ◆ Return on Investments (ROI) is reduced
- ◆ The cost capital will go up
- ◆ Assets and liability mismatch will widen
- ◆ Its limits recycling of funds
- ◆ Reduced earning capacity of assets
- ◆ NOLs block capital. As NPLs do not earn any income, they adversely affected capital adequacy ratio
- ◆ Incurrence of additional cost: on cost of funds for capital adequacy and operating cost for monitoring and recovering NPLs
- ◆ Low yield on advances
- ◆ NPLs reduce earning capacity of the assets and as a result of this; Return on Assets (ROA) gets affected.
- ◆ Adverse impact on net profit as interest cannot be shown into income account
Moreover, provision to be made out of profit.
- ◆ Adverse impact on fund flow
- ◆ Additional manpower needs to be employed for handling NPL resulting additional expenditure.
- ◆ It hampers normal routine business
- ◆ Reduces equity
- ◆ Bad effect on goodwill

3.21.7 Running Case of SME in BBL

Types of Case	Account No	CCA-BDT*000
Appeal	226	59,752
ArthoJari	462	259,030
ArthorinAdalot Ain-2003	1,009	697,365
Civil Suit	1	2,733
NI Act, Sec-138	18,138	52,09,675
Penal Code-420/406/109	93	13,818
Revision	59	15,599
Grand Total	19,988	62,62,505

Source: Secondary Source

Table 16: Running Case of SME

Those litigation numbers show the real situation of NPL adverse effect on SME loan of BRAC Bank up to June 2015. The Legal Coordination Unit of Special Assets Management department courageously handles and recovers asset from those account holder.

3.21.8 Order of Work

Days Delinquent	Activities
60-90	Send statement or Call up letter, make physical visit
90-180	Send Initial Legal Notice to borrower & Guarantors
180-240	Make physical visit & vigorous persuasion
240-270	Preparing for litigation (NI Act, ARA, Penal Code)
270-540	Summon, Warrant execution & go for final settlement
540-above	Group visit with the help of law enforcing agency
W-Off	We W-Off when ACs are BL, Litigated & 100% Provided

Table 17: Order of Work

3.22 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 BBL SME Loan Poverty Alleviation in Bangladesh and It's Challenges, I can make the following findings especially on Non-Performing Loan creation in SME loan of BRAC Bank.

Causes for Creation of Non-Performing Loans in SME

I. Pre-approval phase:

Factors influencing pre approval phase mainly include the followings:

- Poor selection process of potential borrower
- Mistake in selection of business where to finance/ not to finance
- Poor overhead appraisal technique on viability of the project
- End use/ purpose not properly tracked
- Defective structuring of credit
- Under/ over financing
- Lack of proper pre-inquiry
- Absence of observing of cash flows tatement

II. Disbursement phase:

- Defect in filing and signing of charge documents
- Improper obtaining of legal document:
 - ✓ Improper obtaining instruments/ documents
 - ✓ Lack of proper stamping
 - ✓ Lack of appropriate execution & registration
- Improper line
- Poor quality of collateral

- Poor quality of hypothecation

III. Post disbursement phase:

Major factors influencing post approval phase:

- Poor recovery drive and absence of monitoring
- Poor MIS
- Irregular or delinquent loan payments
- Frequent alterations in loan terms
- Poor loan renewal records
- Verification of projected cash flow with actual cash flow
- Customer's reliance on non-recurring sources of funds to meet loan repayments
- Covenants not complied and monitored
- Improper internal control and audit
- Absence of competent successors
- Disasters and calamities
- Political unrest
- Wilful default
- Economic recession
- Change in govt. policy

At present SME loan of BRAC Bank is also facing some others barrier in financing. The major constraints are:

- **Inadequate fund:**

BRAC Bank SME loan products have set a specified limit for SME financing. If big amount financing require for the expansion of existing business or pursuing new venture then it is difficult to collect require fund from the bank

- **Project Preparation and Evaluation:**

Regardless of Bangladesh bank instruction, Loan application process for SMEs financing in BBL is still lengthy. On the other hand, it is quiet difficult to the entrepreneur to prepare a formal project proposal.

- **High interest on SME loan:**

BRAC Bank charge highest interest rate on SME financing with compare peer banks interest rate. The rate is almost 14% to 24% and this high rate is on the prime hitch in the competitive market. Where peer banks are in below 20%.

- **Collateral requirement:**

BRAC Banks demand good collateral as a safeguard and reduce risk exposure from the small and medium enterprises financing. But most of the SMEs fail to comply with this requirement of the banks and deprived of SME loan facility

3.23 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.



Figure 16: SWOT Analysis

3.23.1 Strengths

- **Company status**

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 FazleHasan Abed. Therefore, BBL has a strong financial strength and it built upon a strong foundation.

- **Top Executive**

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.

- **ATM**

This is the fastest growing modern banking concept. BBL has 400+ ATM across the country to provide this facility. BBL also made an alliance with Rupali Bank for better and wide ATM service.

3.23.2 Weaknesses

- **Marketing and Advertising of SME loan**

This is a major setback for BBL and one of its weakest areas. BBL's advertising and promotional activities are satisfactory but its 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.

3.23.3 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.

- **Diversification**

BBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. By expanding their business portfolio, BBL can reduce their business risk.

- **Mobile Banking**

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

- **Large Customer Base**

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

3.23.4 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.

3.24 Recommendations

Strategies for managing SME NPL of BBL

Two types of strategies should be taken for the management of SME NPL in BRAC Bank:

-  Preventive strategy
-  Curative strategy

(A) Preventive Strategy

(I) Formulation of well-structure NPL management strategy covering following areas:

- ✓ No compromise with due diligence in the sanctioning process. Keeping in mind “prevention is better than cure.”
- ✓ Prepare loan recovery policy, strategies and techniques for reducing NPL
- ✓ Fix targets of recovery and draw time bound action program
- ✓ Identification of highly risk sensitive borrowers in the credit portfolio
- ✓ Identification of geographical area-wise risk sensitivity
- ✓ Targeting high value end NPL accounts
- ✓ Proper action on credit reports
- ✓ Developing capacity of officers and executives on recovery at all levels

(II) Supervising:

- ✓ Off-site monitoring.
- ✓ Periodic reports on the risk sensitive clients/ borrowers
- ✓ Ascertaining and grading risks
- ✓ Analysis of financial statement to find out the weakness in the business
- ✓ On-site monitoring
- ✓ Physical visits to the business venue of the clients.
- ✓ Direct interaction/ discussion meeting
- ✓ Understand clients business
- ✓ Analyze clients financial position
- ✓ Frequent visit to client
- ✓ Ensuring perfection of legal documentation

- ✓ Investigation on market rumours
- ✓ Use credit bureau checking

(III) Monitoring and follow up:

- ✓ To see that the terms and condition are complied with
- ✓ To ensure that funds are utilized for the purpose for which they were sanctioned.
- ✓ To monitor the project implementation for avoiding time lag and consequential cost over runs
- ✓ To evaluate the performance in terms of production, sales, profits on a periodic basis for ensuring that the borrower is keeping to the original plan and is having sufficient profits to repay the debts
- ✓ To assess the impact of negative externalities on the performance of the company.
- ✓ To detect the symptom of sickness at the early stage
- ✓ To keep check on the movement of financial position
- ✓ Monitoring implementation status of the time bound action plan
- ✓ Take corrective steps whenever found necessary while monitoring the action plan and make changes in the original plan if necessary

(IV) Requiring awareness of the bankers:

- ✓ Bankers are required to remain vigilant over the status of their credit portfolio and if any indication of deterioration of performance of borrowers is found, in that case immediate retrieval measure should be initiated
- ✓ Apparent stagnation in the business as reflected by slow/ negligible turnover in the account
- ✓ Frequent request for overdrawing or issue of cheques without ensuring availability of funds in the account
- ✓ In case of term loan, no payment of overdue instalment
- ✓ Unexplained delays in submission of stock reports.
- ✓ Slow movement/ stagnation of stocks observed during inspection.
- ✓ Persistent delay in compliance or non-compliance with vital requirements like execution of documents

- ✓ Diversion of fund to sister units/ acquiring capital assets not relevant to the business

(V) Features common to NPL which should warn a banker:

- ✓ Unusual or unexplained delay in receiving promised repayments.
- ✓ Adverse changes in the price of a borrowing customer's stock
- ✓ Adverse changes in the borrower's capital structure (equity/ debt ratio), liquidity (current ratio or activity levels), and ratio of sales to inventory.
- ✓ Deviation of actual sales or cash flow from those projects when the loan was sanctioned.
- ✓ Sudden unexpected and unexplained changes in deposit balance maintained by the customer.

(B) Curative Strategy:

(I) Negotiation:

Negotiation and persuasion with the borrower personally, through guarantor, through political channel, through socially influential person and through govt. officials.

(II) Rescheduling of NPL:

NPL may be rescheduled following the instructions given by Bangladesh Bank (vide its BRPD circular No. 15 dated 23-09-2012).

To curb the propensity of rescheduling, banks/ financial institutions should consider the following factors:

- ✓ The bank must identify the causes behind the loan becoming non-performing.
- ✓ No consideration will be accorded for rescheduling of the borrower who is a habitual loan defaulter rather legal action should be initiated for recovery.
- ✓ At the time of applying rescheduling, down payment is to be realized at a time in cash.
- ✓ While considering the rescheduling proposal overall repayment capability of the borrower to be assessed properly.

- (III) Renewal/ renewal for adjustment of loan**
- (IV) Interest waive of Loan**
- (V) Legal Proceedings**

The following measures have been suggested for improving some other barriers in BBL SME loan financing:

- BRAC Bank need to be increased the limit of SME financing and they also need to change their view towards it.
- Government as well as Bangladesh bank need to be established a standard format and policy for SME loan proposal and project evaluation. Beside this, close monitoring of the banks activities regarding SME loan evaluation is crucial.
- The interest rate should be lowered. It is must to make easy entrance to SME financing.
- To overcome the constraint of collateral, BRAC bank is required to relax their collateral requirement SME loan.

3.25 Conclusion

In current times 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, BRAC 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. And Non-performing loans challenges may spill over the SME banking system of BBL and constrict the money stock which may lead to a financial crisis. To tackle the NPL problem, not only bank but also fore-sighted changes are required to span the entire gamut of social, economic, political and administrative views of our country.

Acronym

ATM	Automated Teller Machines
BBL	BRAC Bank Limited
CIB	Credit Information Bureau
CRO	Customer Relationship Officer
EMI	Equal Monthly Instalment
EMT	Extended Management Team
ERMC	Enterprise Risk Management Committee
GDP	Gross Domestic Product
IFC	International Finance Corporation
MOU	Memorandum of Understanding
PPG	Product Program Guide
ROA	Return on Asset
ROC	Regional Operation Center
ROE	Return on Equity
ROI	Return on Investment
SME	Small and Medium Enterprise loan
SSC	SME Service Center
TM	Territory Manager
ZM	Zonal Manager
ADB	Asian Development Bank

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