



An Internship Report On

**“Prospect of SME Banking in Bangladesh: The EBL
Perspective”
(Banglamotor SME Branch)**



Submitted To:

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Submission Date: 28.08.2016**

Letter of Transmittal

August 28, 2016
Tamzidul Islam
Assistant Professor
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Subject: Submission of Internship Report

Dear Sir,

This is a great pleasure for me to submit the internship report, which is a partial requirement for completing the degree of MBA Program curriculum. It is a great achievement to work under your active supervision. I would like to take this opportunity to thank you for the guidance and support which you have provided me during the course of this report. My organization is Eastern Bank Limited and I have prepared my internship report. The analysis in the report is based on the data and information found during my internship period.

There are few limitations due to lack of time and other reasons, but I have tried my best to make it as correct as possible and I have tried my best to gather related information from all available sources.

Yours sincerely,

.....

(Forhad Hossen)

ID: 14164025

MBA Program

BRAC University

Supervisor Certificate

This is to certify that the internship on “Prospect of SME Banking in Bangladesh: The EBL Perspective.” has submitted for the award of the degree of MBA Program major in Marketing from BRAC University, carried out by Name: Forhad Hossen, ID: 14164025, under my supervision. Any part of this report has not been submitted for any degree before.

He has permitted to submit the Internship report.

Supervisor

Md. Mostafiduzzaman

Vice President

Head of liability, SME Banking

Eastern Bank Limited

Student Declaration

I, the student of MBA Program, ID: 14164025, major in Marketing from BRAC University, would like to declare here the declaration on An Internship report on “Prospect of SME Banking in Bangladesh: The EBL Perspective”, which I have not submitted for any other degree before.

(Forhad Hossen)

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MBA Program

BRAC University

ACKNOWLEDGEMENT

I would like to convey my deep gratitude to all those who have been helpful in the preparation of this internship report. It certainly would not have been possible without the help of many people and I would like to acknowledge my pleasure to all those who had helped me during this entire period.

At first beginning I would like to express my deepest honor to almighty for giving me the strength and the composure to complete my responsibilities. Internship report is an essential part of the MBA program and to complete the process I have worked in Eastern Bank Limited, Banglamotor SME Branch.

It is a great pleasure for me to prepare internship report on SME loan of Eastern Bank Ltd. On this manner I would like to thanks to my honorable organizational supervisor, Md. Mostafiduzzaman, Vice President, Head of Liability, SME Banking, Eastern Bank Limited for permitting and guiding me to work at EBL.

I want to thank my Academic supervisor Mr. Tamzidul Islam, Assistant Professor, MBA Program, BRAC University for giving me the permission to do prepare the internship report and guiding me how to write the report.

EXECUTIVE SUMMARY

SME financing is an important sector of banking activities. It is said that small and medium Enterprises (SME) account for about 50 percent of GDP and 60 percent of employments. SMEs are projected to contribute between 25 and 35 percent of world manufactured exports. Financial

Institutes around the world are relentlessly trying to enhance the SME exposure in their groups. Eastern Bank Ltd. (EBL) is a third generation bank which started its operation on 16th August 1992 as a scheduled Bank. Over the years Eastern Bank Ltd has expanded the financing exposure all over Bangladesh. SME sector is one of them. Although all over the world, the importance of SME financing is highly appreciated and entertained, this sector lacks proper boost from the government and attention of financial organizations. There are many reasons that financial organizations especially banks are unwilling in financing to the small and medium enterprises. Eastern Bank Ltd is currently motivated hard to enhance the SME exposure of the bank. A questionnaire survey was conducted on a selected portion of SME clients to find out the actual scenario of SME financing in EBL. The survey reflected the demographic profiles of the selected portion of the clients like the age, educational background, the problems they are currently facing, proprietors' perceptions about EBL SME, waiting period for the loan etc. From the survey, the most significant observations found were, most of the proprietors are in range of 25-50 years of age, the SME loan is mostly used for purchasing raw materials by the proprietors, lengthy system is the most common problem of EBL SME pointed out by the proprietors. Interview with the SME bankers open the problems they face during the SME management. According to them the highest problems for them were limited opportunity to offer flexible repayment options, confusion with borrowing terms and conditions, incorrect information regarding the borrower, security risk, documentation risk, risks in unsecured lending and monitoring activities. The comparative analysis of EBL's performance in SME sector reveals that the bank is relentlessly trying to increase the SME portfolio as shown in 2015 & 2016. In recent years EBL is quite successful in developing themselves as a successful bank in SME sector of Bangladesh.

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CHAPTER-01

INTRODUCTION

1.1 ORIGIN OF THE REPORT

As a part of the Internship Program of Masters of Business Administration program requirement, I chose to do my internship in the Eastern Bank Limited (EBL) for the period of 16 weeks starting from 01 May2016 to 10 July2016. In EBL I was assigned to the different concerned departments. My organizational supervisor was Md. Mostafiduzzaman. My project is ‘Prospect of SME Banking in Bangladesh: The EBL Perspective’ which was assigned by organizational supervisor of the said bank. My faculty supervisor Tamzidul Islam, Assistant Professor, BRAC University, also approved the project and authorized me to prepare this report. As per Bangladesh Bank definition of SME Banking “In manufacturing, medium industry/enterprise would be those with assets worth Tk 100 to 300 million (minus land and factory building, and including replacement value) and/or 100 to 250 workers.”“In service industry and in business, medium enterprises will be those, which employ 50 to 100 and have assets (defined as above) worth Tk 10 to 150 million. “The circular said if a business fits into any of the criterion for a large industry, it will be considered a large industry though its other characteristics may be that of a medium one.For small business “In manufacturing, small industry/enterprise would be those with assets worth Tk 5 to 100 million (defined as above) and/or 25 to 99 workers.”“In service industry and in business, small enterprises will be those which employ 10 to 25 and have assets (defined as above) worth Tk 500,000 to 10 million.”

1.2 OBJECTIVE OF THE REPORT

The objective of the report is to study and evaluate the prospects of EBL in the SME sector of Bangladesh.

1.3 SCOPE OF THE STUDY

I have limited the study to the following parameters:

- The total concept SME loan and liabilities
- EBL’s special focus on SME loan to promote small entrepreneurs all over the country and liabilities team collecting deposit from the core corporate house .
- Characteristic of SME loan as a sophisticated area of finance.
- Recent performance level of the EBL SME loans in the country.

1.4 METHODOLOGY

The study uses both primary data and secondary data. The report is divided into two parts. One is the Organization Part and the other is the Project Part. The parts are virtually separate from one another. In terms of data analysis I used Data analysis technique MS Excel.

1.4.1 PRIMARY SOURCES

For general concept development about the bank short interviews and discussion sessions were taken as primary sources. More over a market survey was conducted with a specific questioner. To identify the implementation, supervision, monitoring and repayment practice- interview with the employee and extensive study of the existing file was and practical case observation was done.

1.4.2 SECONDARY SOURCES

The information for the Organization part of the report was collected from secondary sources like books, published reports and website of EBL (www.bracbank.com), journals. For gathering concept of SME loan products of EBL, the Product Program Guidelines (PPGs) were thoroughly analyzed.

1.4.3 SAMPLING

For the survey, cluster sampling was thought to be appropriate. The SME clients of EBL can be categorized into four clusters-

- Manufacturing Businesses
- Trading Businesses
- Agro-based Businesses
- Service Businesses

Within the clusters, random sampling was conducted according to advantage of the surveyor and also considering the time factor. The sample frame was the list of existing clients of EBL SME loan facilities and the sample unit was the individual entrepreneur. The sample size for each cluster was determined as per the ratio of the total populations of the clusters. The total sample size was limited to 200.

1.5 LIMITATIONS

Despite my earnest efforts, there were some limitations that hindered the progress of this report.

- The sample size of the survey conducted was 200 only due to time considerations. However, the diversified nature of the respondents will hopefully make up for this lacking.
- Bank's policy does not permit to disclose various data and information related to Credit portfolio.
- Most recent data and information were not available. Therefore the timeframe for the report had to be limited to August 2016

CHAPTER-02

ORGANIZATIONAL OVERVIEW

2.1 BACKGROUND

Eastern Bank Limited started its journey on the 1992 originating from its source EBL is known as the one of the most successful in the world. Mainly, EBL originated due to successful story of EBL Micro finance. The Chairman believed that until modern, competitive financial services are readily available – including credit in amounts, terms and conditions that small can access, Bangladesh will not be able to create the large middle class that is a prerequisite to social stability. So, the Eastern Bank Limited came into existence due to the need of mass financing, which wouldn't have been possible with DBB finance itself.

Today EBL is considered as *third generation bank* extending full range of banking facilities by providing efficient, friendly and modern fully automated on-line service on a profitable basis. Since its inception, it has introduced fully integrated online banking service to provide all kinds of banking facilities from any of its conveniently located branches.

2.2 THE VISION

The vision of EBL Ltd. is -Building a profitable and socially responsible financial institution focused on Markets and Businesses with Growth Potential, thereby Assisting Eland stakeholders build a “just, enlightened, healthy, democratic and poverty free Bangladesh”. The EBL's vision is thus aligned.

2.3 CAPITAL STRUCTURE AND EQUITY PARTNERS

EBL 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 (2015) and raise its paid up capital to BDT 1000 million. EBL originated with Local and International Institutional shareholding including EBL as promoter with IFC and Shore Cap International, UK. Here is the break-up of EBL's shareholdings positions.

2.4 BRANCHES AND NETWORKS

The expansion of EBL is growing very fast. Now, in total there are 13 operating branches and more branches will open up in the coming year. To provide a strong network across the country EBL has 260 unit offices for SME purpose. Market Research Executive (MRE) a position has been created to capture the stronger market share, which will work closely with the Direct Sales Executive. EBL will open up three Sales Booths in the major area of the city and Kiosk in the shopping malls, which will cater the needs of the customers where branches are not in close areas. These will serve in terms of opening and closing accounts and selling products. In addition, EBL has also set up three ATM machines in three main areas of the city, keeping a target in mind that within the mid of next year the Bank will set up some more ATM machines.

2.5 HIGHLIGHTS OF LONG TERM PLANNING

TABLE 2: HIGHLIGHTS OF LONG TERM PLANNING		
Particulars	Actual (2016)	Projected (2013)
Num. Of Branch	81	50
No. Of Booth	200	100
Unit Office	40	100
Staff	2000	4100
Profit Before Tax	300(crore)	400(crore)
ATM	180	200
PO's	100	250

EBL has a centralized banking structure through online banking system that resembles the ABN·AMRO Model. EBL consisted of four major divisions namely-

- ⇒ Small and Medium Enterprise (SME) Division,
- ⇒ Retail Banking,
- ⇒ Corporate Banking
- ⇒ Treasury Division.

Other important division are Credit Administration, Loan Administration, Trade Fin, IT, HRM, CCU, Internal Control etc, which work to support the major business divisions.

2.6 SME DIVISION

The biggest operational division of EBL is the SME (Small & Medium Enterprise) Division. SME is directly related to business of the bank. EBL extends loans to potential small and medium trading, manufacturing and service enterprises. This loan is able to provide quick and quality banking services to targeted business at any places of the country. Potential women entrepreneurs will also get the facilities of SME loan; this initiation is to play a role in the socio-economic development of the country by expansion of business as well as creation of employment. EBL was titled to be the fastest growing bank in 2014&2015, and it had a profit of 300 crore taka. The profitability of the bank came mostly from the SME sector. SME division is enriched with more than 700 staffs and it has almost 300 unit offices all over the country.

2.6.1 STRUCTURE OF SME DIVISION

- **Field Level:** In the field level there are three types of designated EBL staff operates. They are Lone officer (LO), Relationship Officer (RO) and Unit Head (UH).

LO (Lone officer): There are about 100 LO working all over the country in 20 unit offices. LO are assigned to spot potential entrepreneurs throughout the country and motivate them to take loan from EBL. Each LO falls under their assigned territory and they have to perform their job within that. They are under direct supervision of the Relationship officer (RO). LO goes to people, identifies their need and according their need, suggest them to avail loan from EBL. LO are responsible for evaluating the trustworthiness of the client whether they are capable to repay the loan or not. To provide loan and ensuring loan repayment are the two main tasks done by the LO.

RM (Relationship Manager): There are 36 Zonal Officers. These RM controls the LO. They visit the spot that the LO already located. Each and every enterprise will be visited by RM. RM has the authority to Proposed loan highest up to taka 3core.

UH(Unit Head): There are 10 Unit head . They supervise the RM and revised their business target portfolio.

DSH(Deputy small head): There are only 1 Deputy small head. He is assigned to follow the per week loan disbursement and monitoring the per month target moreover any client file documentation issue he will discuss with credit risk management and he also assigned to monitoring the UH and RM. He directly report to the head of business.

Product wise credit limit:

- The Credit limit varies depending on the lone product.
- ASHA product has the authority to proposed highest limit 25 lacs.
- UNNOTI has the authority to proposed up to highest 3 core.
- Krishirin product proposed for 10 lakh it goes to Credit Committee
- UDDOG product proposed for 3 core.

Credit AdminDepartment- The posting is done in the system (MBS) in the Loan Admin. Then Loan Admin sends requisition to Fin Admin.

CRM: Credit risk management assessing the all document, if the satisfied with the provide document and they finally sanction the lone for customer.

Recovery: Recovery Dept. prepares an overdue report and informs the TM. Recovery dept. keeps track of the money. Legal notices are given to the defaulters.

MIS: MIS dept. keeps the total record of loan from its sanction to repayment.

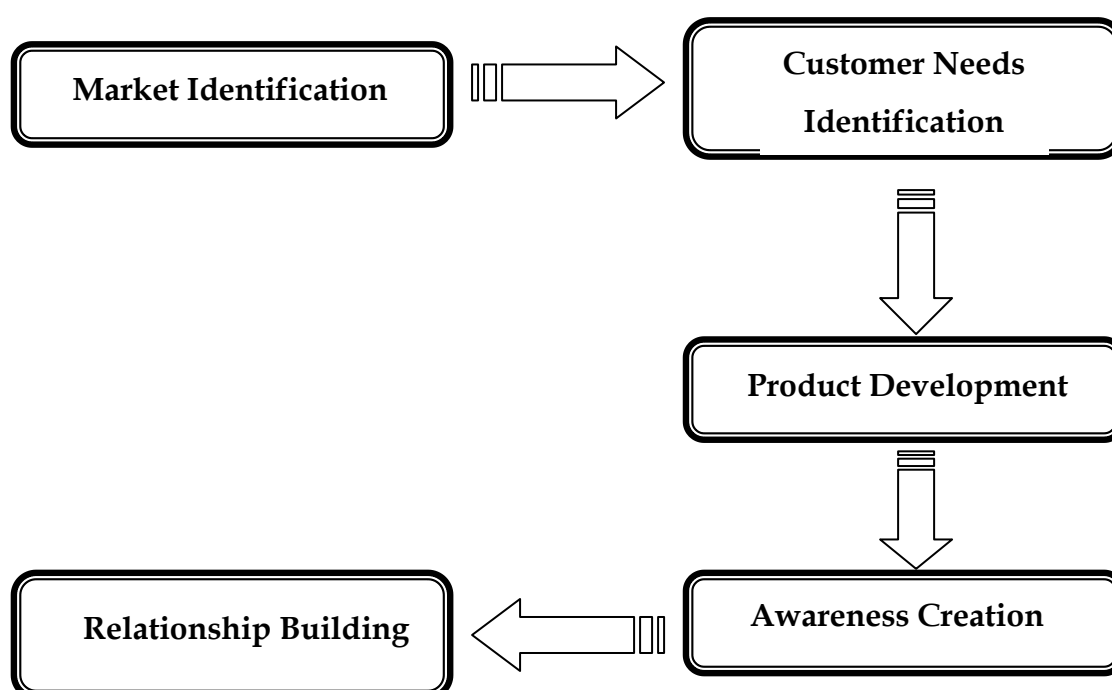
2.7 PERFORMANCE AT A GLANCE

TABLE 3: PERFORMANCE OF EBL			
Particulars	2015	2014	2013
Paid up capital	500,000	500,000	405,020
Total Capital including general provisions	988891	650,294	424,327
Capital Surplus/deficit	40753	73,684	157,178
Total Assets	16876009	10,015,936	4,542,043
Total Deposits	13409010	8,168,979	3,497,303
Total Loan & Advances	11719312	5,819,792	2,870,107
Credit Deposit Ratio	87.94%	71.24%	82.07%
Classified loans against total loans and advances (%)	2.25%	1.97%	1.06%
Profit after taxes & provisions	192680	99,303	30,281
Amount of classified loans during current year	265179	114,414	30,542
Provision kept against classified loans	134061	84,432	8,183
Provisions surplus/deficit	26862	40,841	173
Cost of fund	7.58	7.23%	7.50%
Interest earning assets	16278383	9,735,349	4,475,543
Non interest earning assets	597626	280,587	66,501
Return on Investment (ROI)	8.54	8.57%	3.73%
Return on Assets (ROA)	1.14	0.99%	0.67%
Incomes from investments	292067	166,967	94,790
Earnings per share	38.54	23.16	12.09

2.8 DEMAND CREATION

The SME division of EBL basically provides micro credit loans to small and medium enterprises. Because of its unique nature, the demand for SME loans is different in nature to the demand for corporate or retail loans. A huge portion of the target market has traditionally been neglected by the banking sector and hence, is ignorant about banking activities. Thus, awareness building has been, and still is, a vital activity of the demand management process of SME loans.

The process flow of demand creation is as follows:



The LOs play a vital role in all the stages of demand creation apart from market identification and product development. They provide door-to-door services for the clients and at the same time are always in search for potential new clients. Because clients are ignorant about banking products that may satisfy their needs, the LOs identify their needs, evaluate their requirements and determine which products are most suitable for them.

The major security of the SME products is building relationship between clients and banks. Demand basically comes from two groups: new customers and repeat customers. Because banks are facing new marketing realities like changing demographics, slow growth economy, more sophisticated competitors etc., EBL cannot afford to lose clients.

The key to customer retention is superior value and satisfaction. As EBL recognizes this fact, repeat borrowers of SME products enjoy lots of extra benefits.

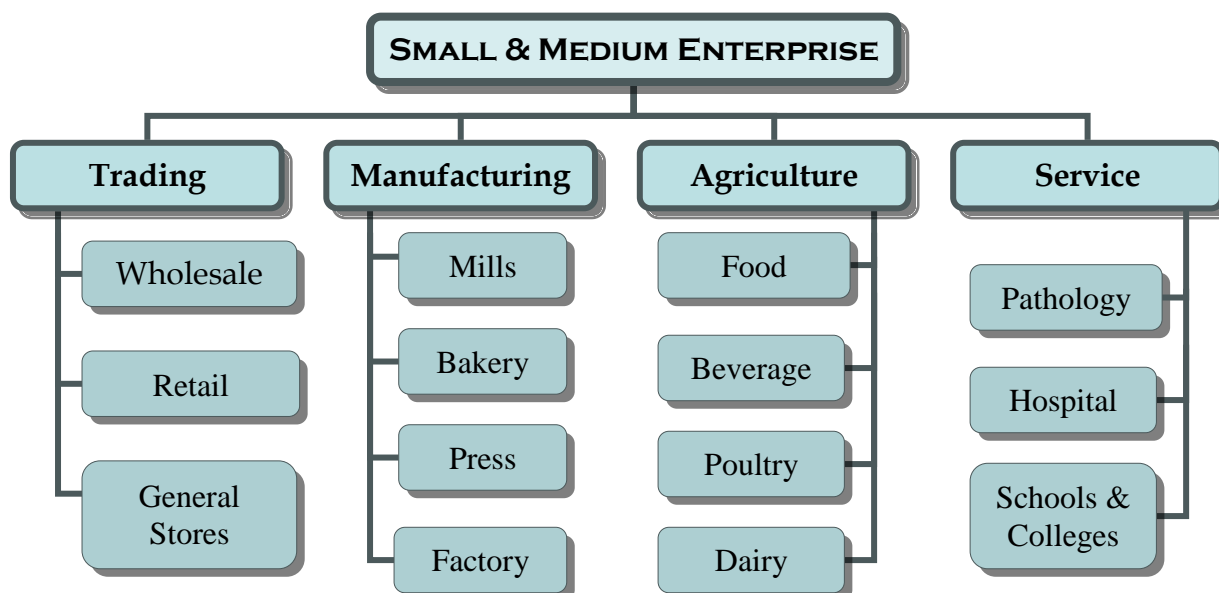
2.9 MARKET SEGMENTATION

The market consists of many types of customers, products and needs and the marketer has to determine which segments offer the best opportunity for achieving company objectives. EBL segments the market for banking products into three categories based on the nature of the consumer:

TABLE 4: MARKET SEGMENTATION OF EBL	
Segment	Target Market
Corporate	Enterprises with loan requirement of Taka 50 Core or more
Small & Medium Enterprise	Enterprises with loan requirement of Taka 2-3 core
Consumer banking	Individuals with loan requirements for consumer purposes

By segmenting its consumers into these categories, EBL is trying to serve niche markets where there is ample opportunity for growth.

Within SME, the market is further segmented on the basis of the nature of the business as follows:



2.10 TARGET CUSTOMERS

To succeed in today's competitive marketplace, organizations must be able to hold on to its customers by delivering greater value. In order to do this, an organization must be able to identify the customers who would be benefited from their products. EBL has targeted the small and medium enterprises that have small loan requirements as the target consumers of their SME products. However, EBL does not finance business startups. The business has to be at least two years old to avail the SME loan facilities offered by EBL. Most of such businesses are sole proprietorships. There are some partnerships as well, but limited companies are rarely seen in this category. The survey that I had conducted brought up the following results as common characteristics of the respondents:

- The mean age of the respondents was 38.71 years and mode was 33 years.
- 71.50% of the respondents did not pursue education after completing their HSC. 44.50% of the respondents did not complete HSC.
- The average working capital requirement of the respondents per month was almost Tk. 28,000.

Thus the target customers can be classified as the entrepreneurs who have little or no formal education, between the age group of 30-40 years and having working capital requirement of around Tk. 30,000.

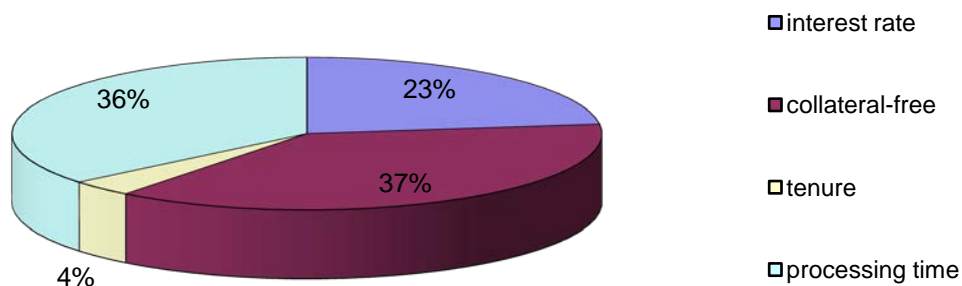
2.11 MARKET POSITIONING

Every product must have a unique proposition that will enable it to fulfill the customers' needs. In case of loans, there are four factors that might influence the clients' decisions regarding the selection of a loan from a bank:

- Interest Rate
- Collateral
- Time Involved in Acquiring the Loan
- Repayment Scheme and Tenure

Not all factors influence every segment of the market. In the survey conducted, the following findings were revealed when the respondents were asked about their prime reason for obtaining SME loans from EBL:

Figure 1: Reasons For Obtaining SME Loans From BBL



From this response, it can be concluded that EBL has been successful in positioning its SME loans as collateral-free and quick to get. In the segment that it operates, these features are the pre-dominant influencing factors in the minds of the clients. This position has enabled EBL to attain the astounding growth that it has already achieved in such a short time.

2.12 DEVELOPING THE MARKETING MIX FOR SME LOANS

2.12.1 PRODUCT

In order to serve the market more efficiently, EBL has designed various products that will be able to satisfy the needs of the clients. The summary of all the SME loan products of EBL can be found in Appendix III. However, a few important factors are worth mentioning here.

TABLE 5: DIFFERENT SME LOAN PRODUCTS OF EBL						
	ASHA	UDDOG	UNNOTI	AGRIM	NOBODOY	MUKTI
Purpose	Fixed Asset, Working Capital	Fixed Asset, Working Capital	Fixed Asset	Fixed Asset	Fixed Asset, Working Capital	Working Capital
Loan Size	15lacs	3 Core	3 Core	10lacs	70lacs	10 lacs
Repayment Scheme	Single Payment of Principal and Monthly Interest Payment/ Monthly Installment of Full Volume					

EBL has various SME products to satisfy the needs of the different types of clients in the SME market. The different loan sizes are set to attract enterprises of different sizes. Loans are approved on the basis of inventory and total receivables. Usually, up to 75% of the average inventory and receivables is granted as loan.

2.12.2 PRICE

The price of loans is actually the interest paid for it and the charges, fees or commissions associated with it. In case of EBL, the pricing for SME products are as follows:

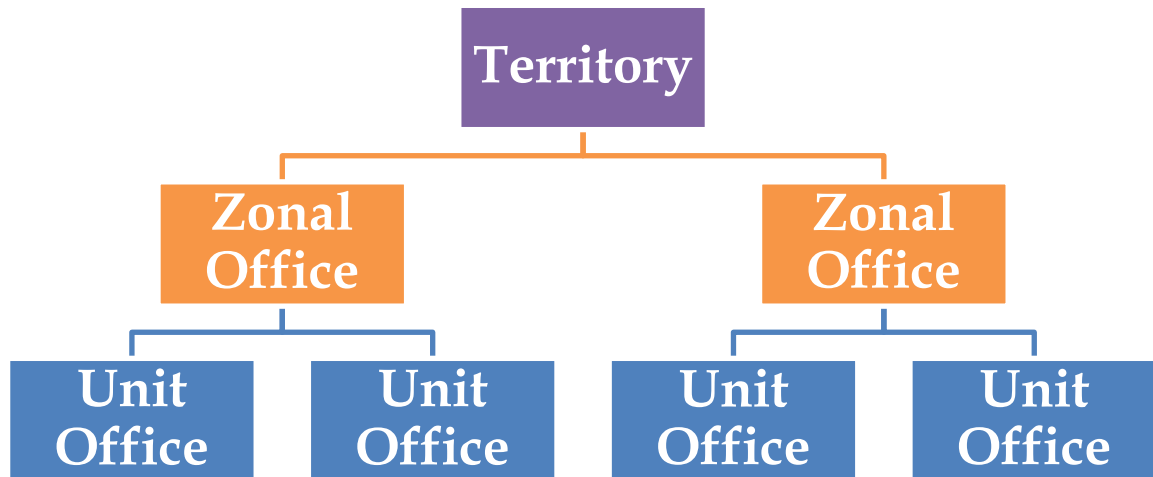
TABLE 6: PRICING OF DIFFERENT SME LOAN PRODUCTS OF EBL		
	Interest	Loan Processing Fee
Asha	16% p.a. (19% after regular payment of first time loan)	0.75% of loan amount plus VAT
Mukti	10% p.a. for loan Tk. 1 to 25 lac	0.75% of the loan amount plus VAT (1.00% after regular payment of first loan)
Uddum	16% p.a. for loan Tk.10.00-50.00 lac 16% p.a. for loan Tk. 50.0-70.00 lac 16% p.a for loan Tk. 70.00-1.00cor	0.75% of loan amount plus VAT
Uddog	17% p.a. for loan Tk.10.00-50.00 lac 18% p.a. for loan Tk. 50.0-70.00 lac 18% p.a for loan Tk. 70.00-1.00 cor	0.75% of loan amount plus VAT
Unnati	17% p.a. for loan Tk.1 Cror 17% p.a. for loan Tk. 2 Cror 17% p.a for loan Tk. 3 Cror	0.75% of loan amount plus VAT

This differentiated pricing method for different amount of loans is designed to attract clients with various requirements.

2.12.3 PLACE (DISTRIBUTION)

EBL offers loans to SME clients all over the country. However, loans are processed centrally in the SME Division of the Asset Operations Department. The base unit of the distribution channel of the SME Department is the Unit Office. There are 2-7 LOs in each unit office based on the market potential of that particular unit. The LOs are responsible for the grass-root level distribution of SME loans. At present, there are almost 1050 LOs operating in the country.

The distribution channel of SME loans is as follows:



The country is divided into 7 territories. There are 10 Zonal Offices and Unit Offices in the country.

CHAPTER THREE

3.1 DEFINITION OF SME

There are a lot of confusions regarding the definition of SME within the banking sectors. For example, EBL defines SME as enterprises with loan requirements of Tk 2-30 lacs. In Standard Chartered Bank, however, SME starts from Tk. 50 lacs. Again in the NCBs, SME includes even smaller enterprises with loan requirements of Tk. 50,000 or less. However, for the context of this report, SME will be counted as enterprises with loan requirements of Tk. 2-3 Core.

3.2 INVESTMENTS IN THE SME SECTOR BY THE BANKING INDUSTRY

3.2.1 CATEGORY-WISE MARKET SHARE

The market of SME loans is dominated mainly by the NCBs with a market share of 53.37%. The total size of the market is Tk. 45.652 billion. Category-wise distribution of SME loans in the banking industry is shown in the following table:

TABLE 7: BANK CATEGORY-WISE DISTRIBUTION OF THE VOLUME OF SME LOANS		
<i>Figures in '000,000 BDT</i>		
	Volume	Percentage
NCB	23,294	53.37%
PCB	11,125	25.49%
FCB	2,450	5.61%
NSB	6,778	15.53%
Total	43,647	100.00%

The top ten market players in the SME banking sector and their market share are shown below:

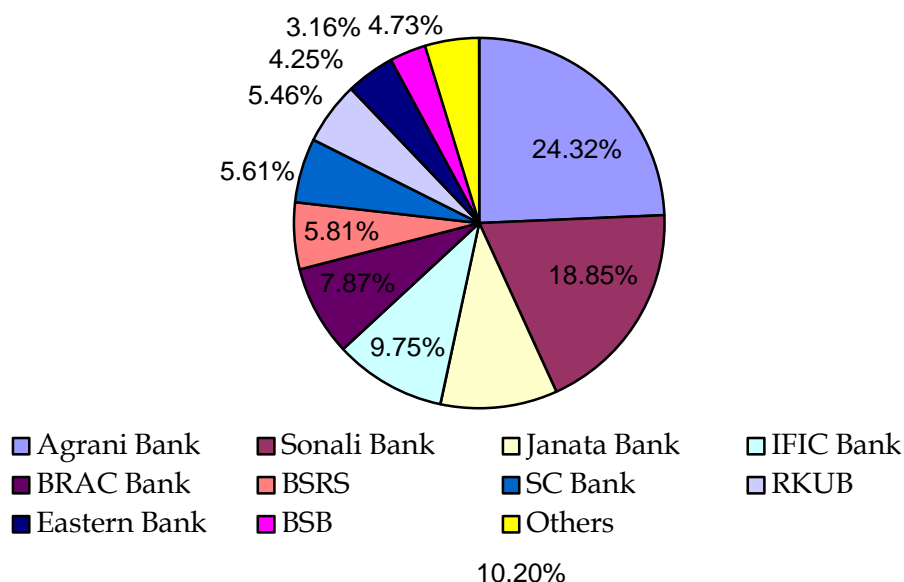


Figure 2: Market Share of the Top 10 Players in SME Banking

3.2.3 REASONS BEHIND THE DOMINANCE OF NCBs

There are various reasons behind the dominance of NCBs in the SME sector. Unfortunately, NSBs, which are supposed to support the SME sector, could not make such a dominant presence in the industry. The reasons behind the dominance of NCBs in the SME sector are discussed below:

- **Interest Rates:** The NCBs invest in the small and medium industry at a very low interest rate. The average interest rate for SME loans in the different categories are compared below:

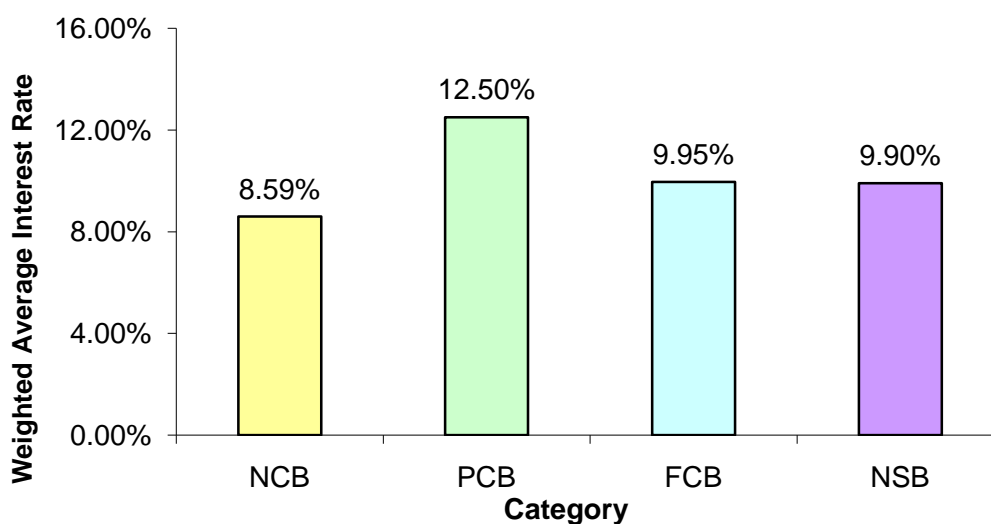


Figure 3: Category-Wise Interest Rates in SME Investments

The lowest interest rate is in Agrani Bank which has an average interest rate of 7.50% only. The highest interest rate is in EBL, which is 17.05%.

- Network:** The NCBs have a much better network in terms of branches established throughout the country. As a result, their contact is also far-reaching. The nature of SME clients is such that in order to reach them, a bank must have access to rural areas. As all transactions must be done through branches, it gives the NCBs a distinct advantage in the SME sector. The average branch size of the different banks in Bangladesh (category-wise) is shown in the following table:

TABLE 8: CATEGORY-WISE BRANCH STRENGTH OF BANKS		
Category	No. of Branches	Average Branch Size
NCB	2904	968
PCB	2077	67
FCB	18	18
NSB	1335	267

- Government Assistance:** Bangladesh Bank provides financial assistance to NCBs and NSBs to invest in the SME sector. This allows them to operate, even with a loss, at a lower price than the other banks. This is one of the main reasons why the interest rates in the NCBs are so low and thus, attractive for the clients.

3.2.3 GROWTH IN SME FINANCING BY THE BANKING INDUSTRY

Investments in the SME sector have experienced an upward sloping curve in the last three

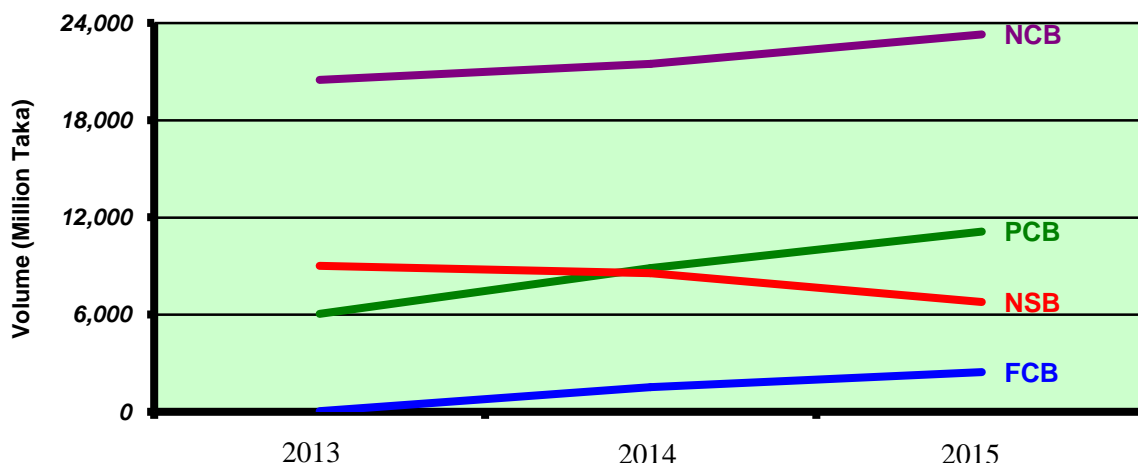


Figure 4: Trend of Loan Disbursement in the SME Sector by the Banking Industry:

years. From Figure 4 we can see that the NSBs have actually suffered negative growth in the year 2015. The growth rate for the PCBs is the highest at 83.61% over the period. The volume of loans in the NCBs increased at 13.20% and in the FCBs at 60%.

3.2.4 COMPARISON OF THE GROWTH RATE OF THE MAJOR PLAYERS

The trend for the top ten market share holders is as follows:

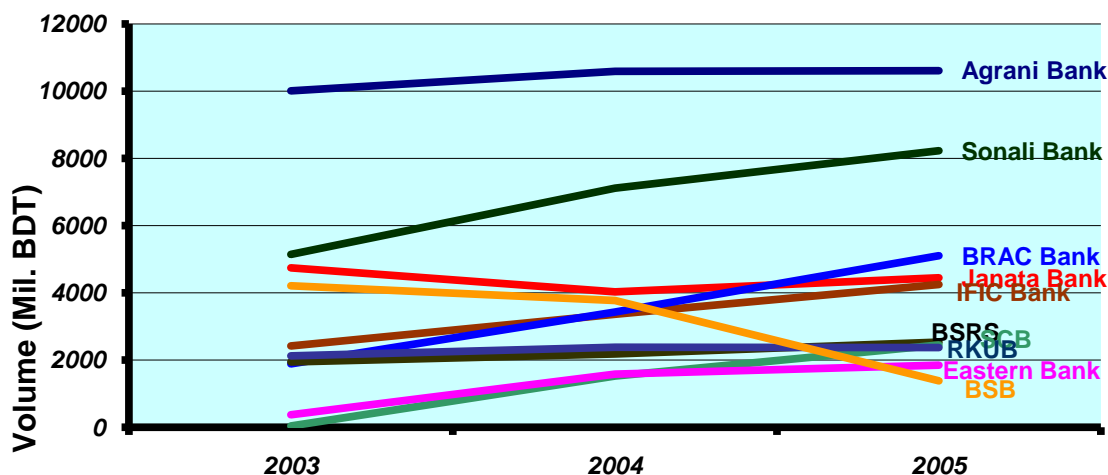


Figure 5: Trend in the Top Players in the SME Sector

This figure depicts the rather poor condition of the NSBs. The NCBs have experienced stagnant or negative growth during these three years. EBL and IFIC Bank have grown at a consistent rate during this period. Standard Chartered Bank has also made remarkable progress during this period. Janata Bank and RKUB have experienced negative growth in one year during this period while BSB had a constantly negative growth rate.

The growth rate in 2014 and 2015 of the top ten SME investing banks are as follows:

TABLE 9: GROWTH RATE FOR THE TOP TEN SME INVESTORS		
Bank	2014	2015
Agrani Bank	5.84%	0.23%
Sonali Bank	38.36%	15.63%
Janata Bank	-15.06%	10.31%
IFIC Bank	38.85%	26.49%
EBL	81.75%	48.62%
BSRS	12.31%	15.85%
SCB	3542.86%	60.13%
RKUB	12.12%	-0.25%
Eastern Bank	328.65%	16.83%
BSB	-10.51%	-63.38%

In both 2014 and, the highest growth rate was achieved by Standard Chartered Bank- 3542.86% and 60.13% respectively. However, as the bank has started SME banking only in 2014, this growth rate is expected. Same is the case for Eastern Bank Limited, which has experienced a growth of 328.65% in 2013. The growth rates for the NCBs are less because of the following reasons:

- **Huge Volume:** The NCBs are the market leaders in the SME banking segment. Because of the huge volume of SME loans they have already achieved, it is impossible for them to sustain the same growth rate.
- **Existence for a Longer Period:** The NCBs have started SME banking in the 1990s. It is impossible to maintain a high growth rate for such a long time. The SME market has almost reached the maturity stage for the NCBs.
- **Aggressive Marketing by the PCBs:** After their emergence in the SME sector in the early 2000s, the PCBs have adopted an aggressive strategy in marketing their SME products. This has enabled them to snatch away a considerable portion of the SME market from the NCBs. As they could not compete with the interest rates, they provided other facilities like collateral and shorter processing time.

3.3 SME BANKING IN EBL

3.3.1 CONTRIBUTION OF THE MAJOR BUSINESS DIVISIONS

As is shown from Figure 2, EBL is one of the major investors in the SME segment of Bangladesh's economy with a market share of 7.78%. Even within the bank, SME consists of a major portion of the total loan portfolio. The bank policy requires that at least 50% of the total loan portfolio should be allocated to SME. The contribution of SME loans in EBL's loan portfolio is shown in Figure 6.

The contribution of SME in the overall loan portfolio was highest in 2013 at 61.14%. However, in 2015, the contribution has decreased to 42.45%. This is mainly due to the management's concentration on retail loan products, the share of which has increased from 17.55% in 2012 to 31.19% in 2015.

The total loan portfolio of EBL in the years 2012, 2013 and 2014 is shown in the following table:

TABLE 10: DIVISION-WISE LOAN PORTFOLIO OF EBL				
<i>Figures in Million BDT</i>				
	2012	2013	2014	2015
SME	331	1,890	2000	2200
Retail	400	578	1,229	1330
Corporate	1000	1500	2500	3000
Total	1731	3968	5729	6530

3.3.2 GROWTH IN THE BUSINESS DIVISIONS OF EBL

The growth rate in the business divisions of EBL are as follows:

TABLE 11: GROWTH IN THE BUSINESS DIVISIONS OF EBL			
	2013	2014	2015
SME	300.72%	250.76%	200.61%
Retail	426.41%	112.72%	205.10%
Corporate	237.95%	125.33%	125.76%

The year 2013 brought about huge growth in all the divisions of EBL. As the bank began its operations in late 2011, this was expected. Although the growth rate declined in the subsequent years, the bank still managed to sustain at least a 100% growth rate in the retail and corporate division. But the growth in the SME division continued to decline drastically through the years 2014 and 2015. This scenario is clearly depicted in the trend analysis of the loan volumes in the different business divisions of EBL.

Figure 7: Trend of the Volume of Loans (Division-wise) in BBL

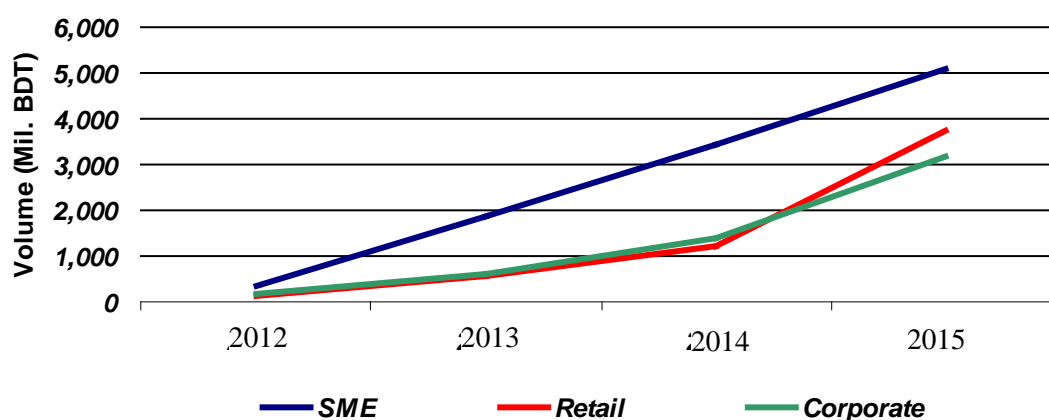


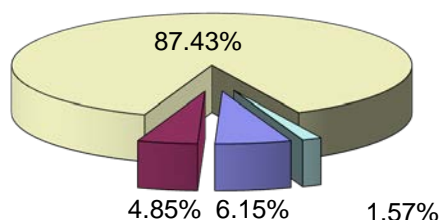
Figure7 shows that SME has maintained a steady slope over the years, whereas the slope for retail and corporate has begun to become steeper after 2014. This indicates that retail and corporate are experiencing a greater growth than SME from 2014.

3.3.3 PRODUCT-WISE BREAKDOWN OF SME LOANS IN EBL

The first product introduced in SME banking by EBL in 2006 was Asha loan, which was an any-purpose loan with a range of Tk. 2-8 lacs. This loan still remains the most dominant product with a share of almost 85% of the SME loan portfolio. After the success of Asha, mukti was introduced with a range of Tk. 8-30 lacs. This product also became quite popular and now has a share of 12%. Aroggo and Pathshala were introduced in 2014 to capture specific segments of the SME market, namely the health-care and education sector. These loans have a combined portfolio share of 2.5%. The most recent loans, Uddog and Supplier Finance, have not made significant progress yet, and have a combined portfolio share of 0.5%.

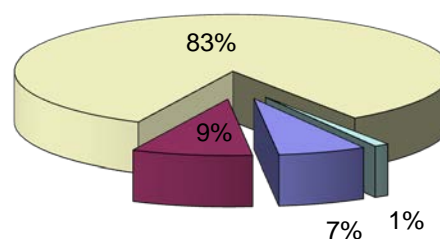
3.4 INVESTMENT SECTOR-WISE BREAKDOWN OF SME PRODUCTS OF EBL

Based on investment sector, EBL has segmented the SME market into 4 categories: Trade, Manufacturing, Agriculture and Services. The portfolio share in each of the segments is shown in Figure 9 and 10.



■ agriculture ■ manufacturing □ trade □ service

Figure 9: Sector-wise Portfolio Share (No. of Loans)



■ agriculture ■ manufacturing □ trade □ service

Figure 10: Sector-wise Portfolio Share (Volume-wise)

Although trading companies have an 87.43% share and service companies 1.57%, number-wise, the volume-wise share is 83.48% and 1.07% respectively. On the other hand, manufacturing and agro-based companies have a larger share in volume than in number of loans. This signifies the fact that the average loan size of trading companies is actually smaller than that of manufacturing and agriculture companies.

3.5 SECTOR-WISE GROWTH

If we compare the sector-wise trend of SME loans as is shown in Figure 11, we can see that investment in the trading companies has the steepest curve. This indicates the huge increase volume-wise in this sector on a year-to-year basis. Service sector, on the other hand, has experienced slow increase in volume up to 2015. However, if we take a closer look at Figure 12 which indicates percentage increase on a year-to year basis, we can see that only the service sector has experienced an increasing trend in terms of percentage growth over the period. Investment growth in the manufacturing sector has also begun to increase from 2014. From these figures it can be concluded that although, the trading sector still accounts for the bulk of the portfolio, manufacturing and service sectors have enormous potential for growth.

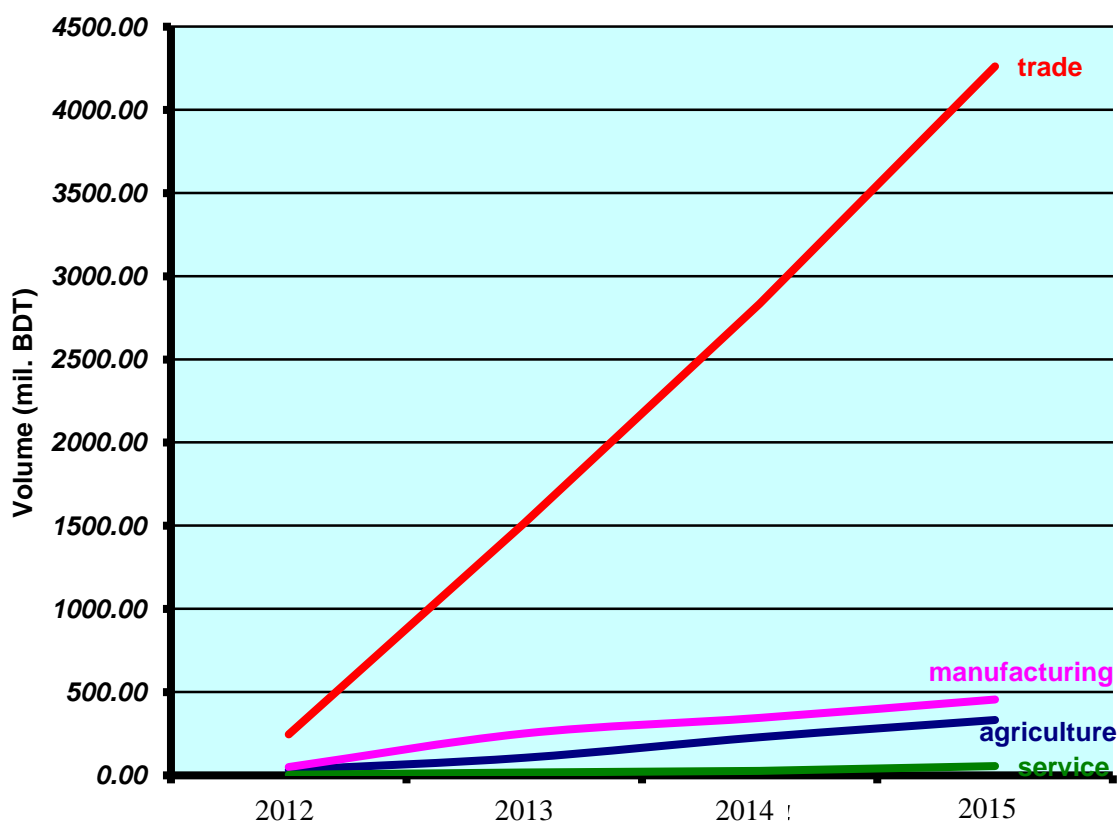


Figure 11: Sectorwise-Trend of SME Loans of BBL

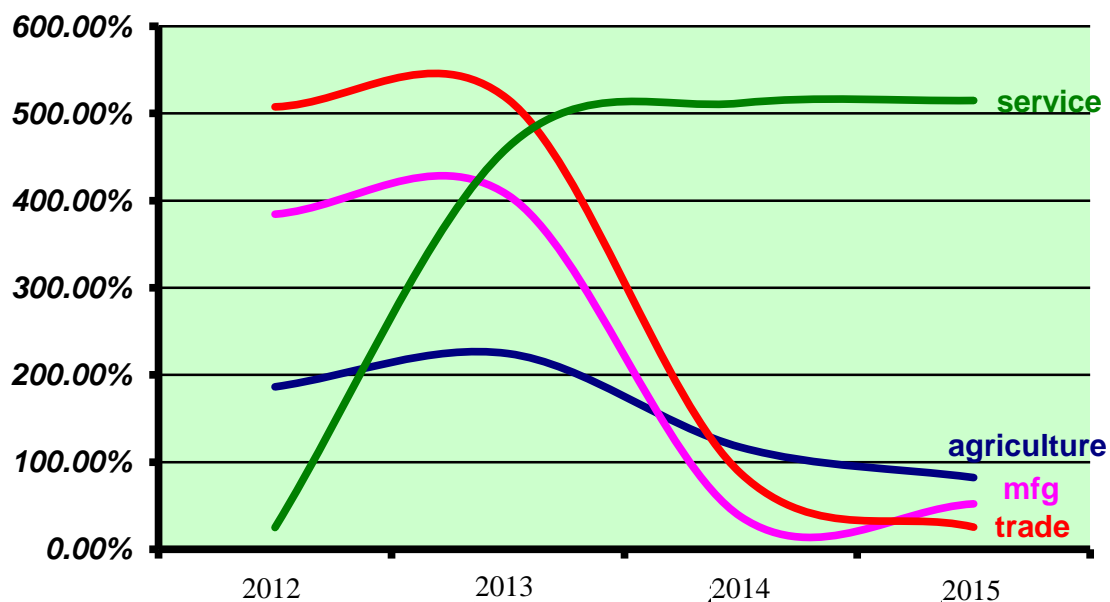


Figure 12: Percentage Growth in Volume of SME Loans of BBL

3.6 PERFORMANCE OF SME LOANS OF EBL

The performance of a loan is determined by the repayment status of that loan. A loan has two statuses which determine its performance:

- **Regular Loan:** When the repayment of a loan is made on time it is considered to be a regular loan. A loan is performing as long as the installments of that loan are paid on time.
- **Irregular Loan:** A loan becomes irregular when the installments are not paid on time or when installments are missed. The number of irregular accounts reflects the overall credit quality of a loan portfolio because it is the point from where loan accounts tend to move towards being defaulted. Therefore the actual recovery efforts by the bank start here.

3.7 PERFORMANCE IN COMPARISON TO OTHER BUSINESS DIVISIONS

To analyze the performance of loans, EBL maintains records of overdue installments. In some cases, clients pay partial installments and in such situations, the installment is counted as per the proportion of paid amount to installment amount. There are two measures of performance evaluation in EBL.

- **Portfolio at Risk (PAR):** The percentage of the total outstanding amount of irregular loans is known as Portfolio at Risk (PAR). PAR is the total amount

outstanding of the irregular portion of the loan accounts expressed as a percentage of the outstanding amount of total loan portfolio. It is so called because the chance of its becoming Bad Debt is more than the regular accounts and hence, this portion of the portfolio is deemed to be at risk.

The performance of loans in the different business divisions of EBL as on December 31 2015 is shown in the following table:

TABLE 12: PERFORMANCE OF LOANS IN EBL			
<i>Figures in BDT 000</i>			
	Retail	SME	Corporate
Outstanding (31 Dec 05)	4,094,181	4,806,200	2,875,300
Overdue 6 Installments & Above	17,110	29,812	2,116
Overdue 5-5.99 Installments	10,355	29,495	1,645
Overdue 4-4.99 Installments	17,153	33,609	5,801
Overdue 3-3.99 Installments	29,592	36,609	2,693
Overdue 2-2.99 Installments	106,382	58,981	97,676
Overdue 1-1.99 Installments	287,690	79,733	150,854
Total Overdue	468,282	268,239	260,785
PAR	11.44%	5.58%	9.07%
Arrear-Outstanding Ratio	0.0085	0.0497	0.0385

An analysis of the above table will reveal that in case of retail and corporate loans, most loans are irregular for one or two installments. The case is different with SME, though. In SME, the CROs pursue clients for repayment right from the first installment date. Therefore, the chances of irregularity are minimal. However, in case of larger SME loans, irregularity exists because the installment amounts sometimes become too big for the clients and they find it difficult to pay. In comparison with retail loans and corporate loans, the PAR is very low for SME loans.

Arrear-Outstanding Ratio: The arrear amount of an overdue loan is the total amount of the installments that have been missed. The performance is calculated by dividing the total arrear amount by the total outstanding amount. The lower the ratio, the better is the performance of a particular loan or loan segment. The above table shows that the arrear-outstanding ratio of SME loans is higher than that of both retail and corporate loans. This can be explained by the following factors:

In both retail and corporate loans, the volume of irregular loans in the 1-1.99 installments category is proportionately much higher than that of the other categories. In retail loans, this consists of 61.44% of the overdue volume, and in corporate loans this figure is 57.85%. As a consequence, the total arrear amount is also very low. Also, in case of SME loans, there is a uniformity of overdue volume in each category, whereas in the other two divisions, the volume gradually goes down as the installments increase. This fact is better reflected in Figure 13.

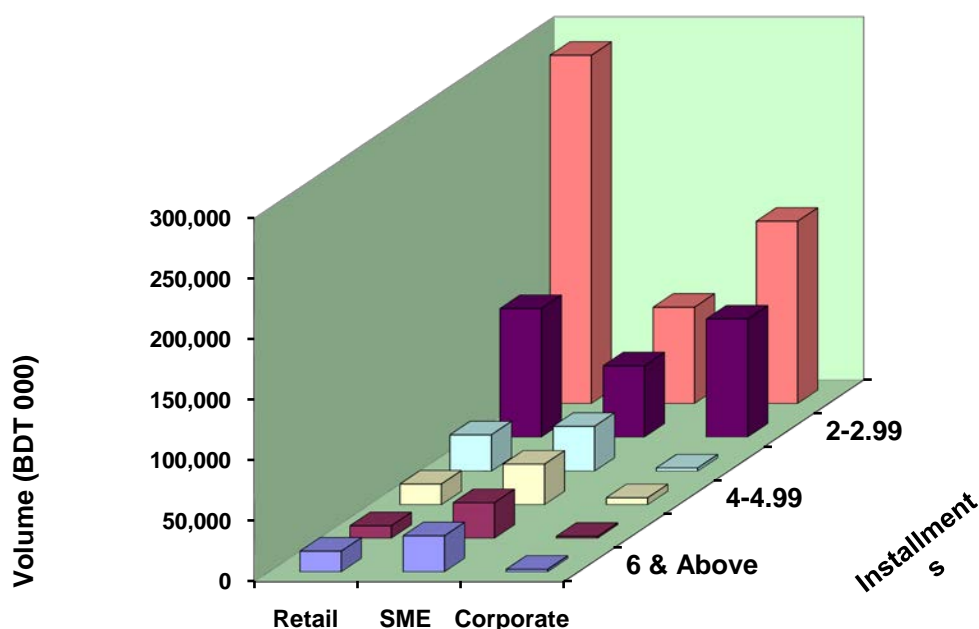


Figure 13: Installment-wise Overdue Amount of Retail, SME and Corporate Loans

The loan size of SME and Corporate loans are larger than that of Retail loans. As the tenure is more or less the same for all types of loans, the installment size in retail is much smaller than those of SME and corporate. Hence, the arrear amount is also smaller.

3.7.1 PERFORMANCE OF SME LOANS OVER THE LAST THREE YEARS

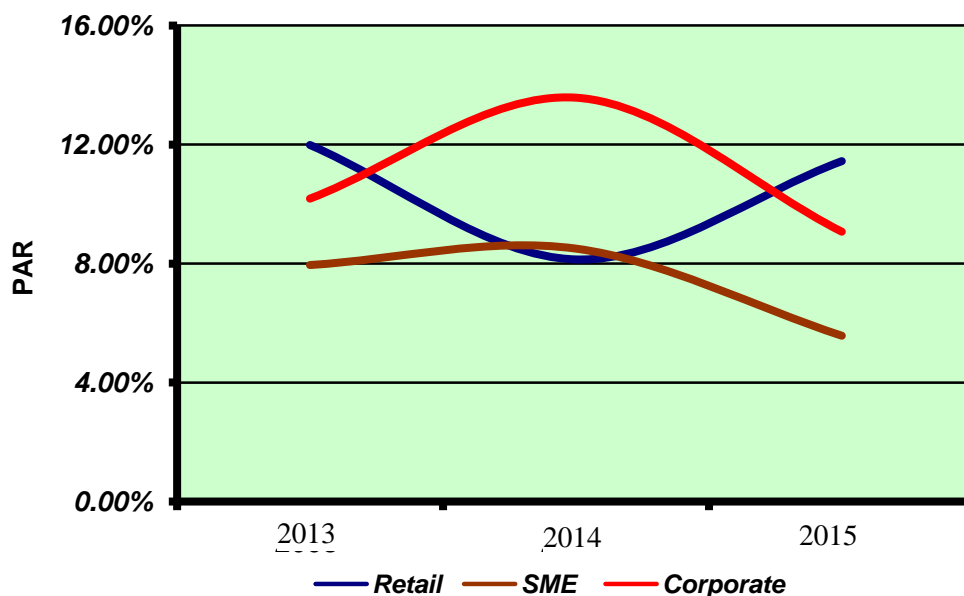


Figure 14: Trend of PAR of BBL Loans

If we consider the PAR over the last three years, as is shown in Figure 14, we can see that the PAR of SME and Corporate loans has decreased in 2015, whereas that of retail loan depicts a reversal. The sudden increase in PAR of retail loans is due to the introduction and irregularity of one product- the Salary Loan, which makes up a bulk of the retail portfolio. The decreasing trend of PAR of SME loans is a reflection of their better performance. The trend for corporate loans is also decreasing. However, it has always been more than that of SME loans.

Figure 15 shows the arrear ratio of the EBL loans over the last three years. The ratio for retail loans and corporate loans is declining steadily, whereas that of SME loans is increasing steadily. In 2013, the ratio for corporate loans was much higher than those of SME and retail loans, which were almost identical. In 2014, the ratios for SME and corporate loans respectively were almost the same. This goes to show that in the SME sector, higher number of installments are becoming overdue, which is a cause for concern.

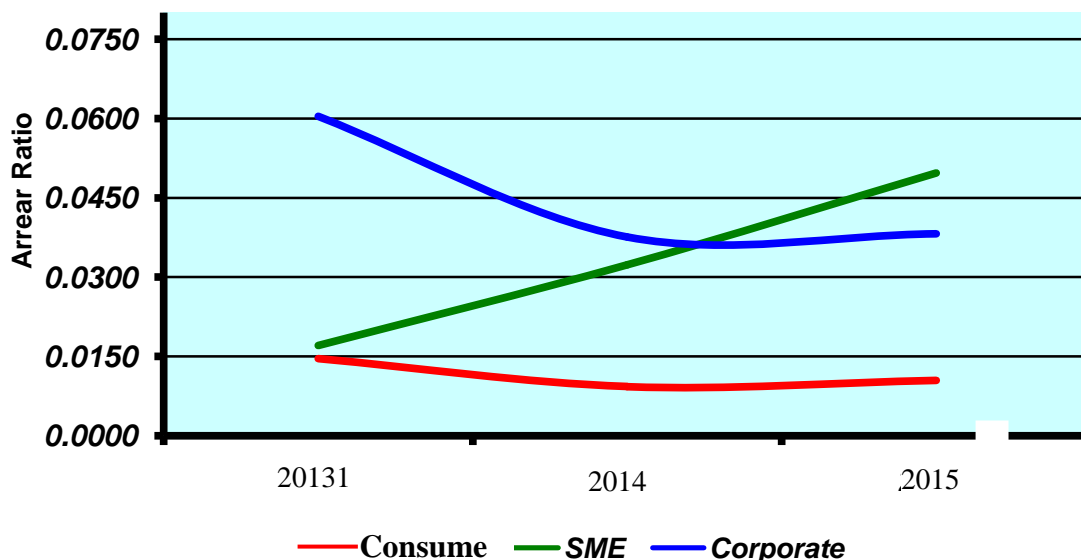


Figure 15: Trend of Arrear Ratio of BBL Loans

3.7.2 SECTOR-WISE PERFORMANCE

Figure 16 shows the sector-wise PAR of SME loans from 2013 to 2015. From the graph, it can be seen that the PAR in the service sector has undergone constant improvement going down from 3.73% in 2013 to 2.01% in 2015. PAR in the agriculture and the manufacturing sector have increased in 2014 whereas the PAR in trading sector has decreased to 5.07% in 2015 after increasing to 9.84% in 2014 from 8.23% in 2013. The PAR for the overall SME loans reflects the changes in the trading sector, mainly because of the huge market share of the sector. The agriculture sector has maintained a fairly stable PAR at and around 6% throughout the three-year period.

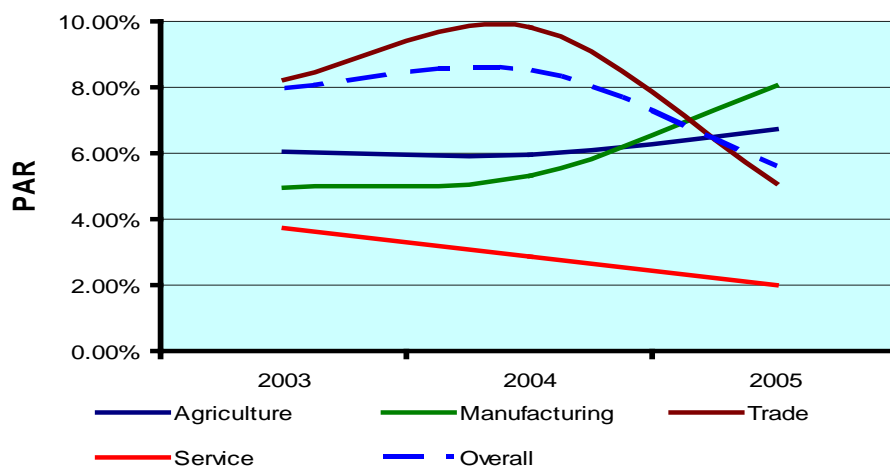


Figure 16: Sector-wise PAR of SME Loans

CHAPTER FOUR

4.1 FINDINGS

The scenario in the SME sector is quite complex. The data analyzed did not indicate any specific trend in the market. However, the situation can be termed fairly prospective if the market can be properly exploited. Based on my analysis I have presented my findings below.

4.1.1 OPPORTUNITY OF GROWTH

At present the market leaders in the SME industry are the NCBs. However, their market share has declined gradually in the last three years. The market share of the different categories of banks over the previous three years is shown in the following table.

TABLE 11: CATEGORY-WISE MARKET OF SME LOANS			
<i>Figures in '000,000 BDT</i>			
	2013	2014	2015
NCB	54.48%	50.59%	51.03%
PCB	16.11%	20.90%	24.37%
FCB	0.11%	3.61%	53.67%
NSB	23.96%	20.17%	14.85%

In 2013, the market share of the NCBs in the SME sector was 54.48% which declined to 51.03% in 2015. Again, the market share of PCBs has increased from 16.11% in 2013 to 24.37% in 2015. As the PCBs are penetrating the market in the SME sector, the growth potential for EBL in the SME sector is increasing year by year.

Amongst the PCBs investing in the SME sector, EBL has a market share of 45.89%. It is the second largest PCB behind IFIC Bank in this sector. As the PCBs have a market share that is gradually increasing, EBL has a tremendous potential to be the market leaders in the SME sector in the near future. The growth rate of SME loans of EBL from 2013 to

2015 was 172.12%. A comparison of the growth rate of the major banks in the SME sector is shown in the following table:

TABLE 12: GROWTH RATE OF THE MAJOR BANKS IN THE SME SECTOR	
Bank	Growth Rate
Agrani Bank	6.08%
Sonali Bank	59.98%
IFIC Bank	75.64%
EBL	172.12%

4.1.2 DECLINING GROWTH RATE OF SME LOANS

From Table 9 it can be gathered that the growth rate of SME Banking of EBL has declined from 470.72% in 2013 to 48.61% in 2015. This may seem perfectly natural as the business moves on. However, the key issue of any successful business is whether it can sustain its growth. EBL has failed to do so for the following reasons.

- **Loan Range:** EBL has defined its SME sector as enterprises with loan requirements of Taka 2-30 lacs. In such a definition, enterprises with lesser loan requirements miss out. In the survey conducted, the required loan amount of the clients was asked. Figure 17 is a summary of the answers found.

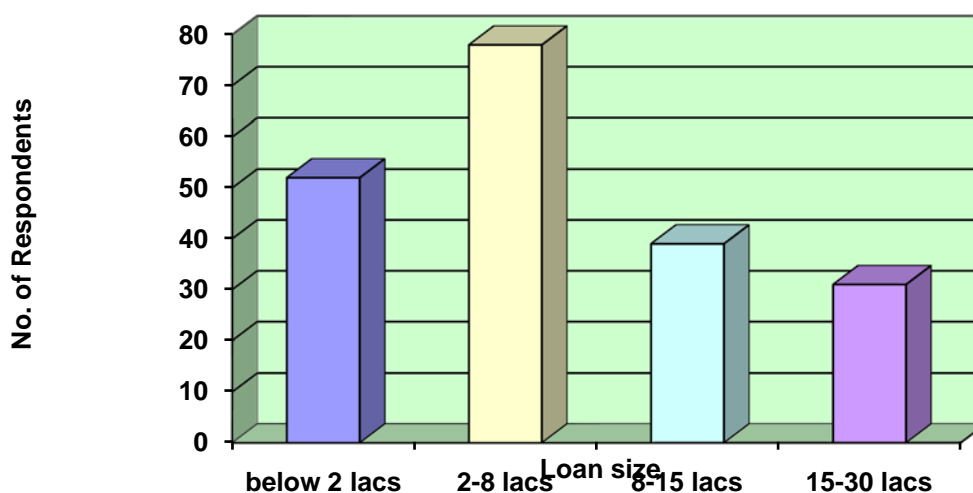


Figure 17: Loan Requirements of SME clients

26% of the respondents wanted a loan of below Tk. 2 lacs. Due to the policy of EBL, they were forced to take a Taka 2 lac loan, even though they did not require the amount. Many more such clients might not have been able to avail EBL loans due to their low loan requirements.

- **Interest Rate:** The interest rate of EBL is the highest among its competitors. Although EBL provides other facilities to its clients, the high interest rate discourages many clients to approach the bank for loans. During the survey, 38.50% of the respondents appeared to be neutral about the interest rate of SME loans of EBL. 35% of the respondents were not satisfied with the interest rate while 26.50% were happy with it. This indicates that many more potential clients were put off by the high interest rates.
- **Lack of Branches:** At present, EBL has 18 branches throughout the country in 4 districts. Because of the lack of branches, loan processing and repayment is considered to be arduous to many clients. As all transactions have to be done through the branches, according to Bangladesh Bank regulations, clients outside the branch network have to get and repay the loans through correspondent banks.

4.1.3 INCREASING PORTFOLIO SHARE OF RETAIL AND CORPORATE

In 2012 retail loans had a portfolio share of 18.70%. In 2015 its share had increased to 31.19%. During the same period, the portfolio share of SME decreased from 61.14% to 42.45% and that of corporate loans increased from 20.17% to 26.37%.

There are two main factors that contributed to the growth of retail in 2014. They are:

- **Increasing Number of Products:** At present, the number of retail products in EBL is 10. The recent inclusion of two new products- study loan and travel loan has bolstered the sales of retail products. SME on the other hand has only 6 products, and among them, Apurbo loan is an extension of Anonno loan.
- **Segmented Market Approach:** Retail loans are designed to cater to the needs of the clients of different segments. These loans are tailor-made according to the need requirements of the different segments. For example, salary loans are only

for employees and not businessmen, teachers' loan and doctors' loan for teachers and doctors respectively, and high-flyer loans for airlines personnel. This segmented approach is new for SME loans, and there are only three such segmentation-oriented products- Unnoti loan, Uddog loan and Supplier Finance.

The growth in corporate loans can be accredited to the inclusion of a new corporate loan product, the Commerce Loan. This is a product to attract medium enterprises. The loan range of this product is from Taka 30 lacs to Taka 3 crore.

4.1.4 PORTFOLIO STRUCTURE OF SME LOANS

Figures 8, 9 and 10 portray the portfolio structure of SME loans product-wise and sector-wise. Asha loans are the most dominant loan products in the SME portfolio. Unnati and Mukti being new products, haven't yet been able to penetrate the market significantly. However, the huge volume of Asha loans indicates that the average loan requirement of the clients is in between Taka 10-15 lacs.

In the sector-wise portfolio, trading companies dominate the market both volume-wise and number-wise. Although trading companies have an 87.43% share and service companies 1.57%, number-wise, the volume-wise share is 83.48% and 1.07% respectively. On the other hand, manufacturing and agro-based companies have a larger share in volume than in number of loans. This signifies the fact that the average loan size of trading companies is actually smaller than that of manufacturing and agriculture companies.

Figure 11 and 12 portray the growth in each investment sector. All the sectors have grown steadily from 2012 to 2015. However, apart from the service sector, all the sectors have experienced declining growth rates from 2013. The manufacturing sector has started an increasing trend again from 2014, but the agriculture and trading sector is on a steady decline. However, the portfolio share of trading sector has increased from 80.43% in 2012 to 87.43% in 2015. The portfolio share of the segments from 2012 to 2015 is given in the following table.

TABLE 13: SECTOR-WISE PORTFOLIO SHARE OF SME LOANS FROM 2012-2015				
	Trade	Manufacturing	Agriculture	Service
2012	80.43%	14.51%	3.82%	1.24%
2013	85.41%	11.27%	2.84%	0.47%
2014	82.91%	11.53%	4.53%	1.51%
2015	87.43%	4.85%	6.15%	1.57%

The portfolio share of trade sector has gradually increased over the period, while that of the manufacturing sector has gradually decreased. However, both the agriculture and service sector have increased their contribution in the SME loan portfolio. Although the dependence on the trading sector is still very high, EBL is trying to diversify into other sectors of the economy as well.

The reason for the gradual decrease in the portfolio share of manufacturing companies is that entrepreneurs tend to change quickly from manufacturing companies to trading companies. In the survey conducted, 34% of the respondents revealed that they were engaged in other businesses before their present endeavor. Out of this 34%, 36.76% were engaged in manufacturing business before turning to trading concerns.

4.1.5 PERFORMANCE OF SME LOANS

In 2015, the PAR of SME loans was the lowest amongst retail, SME and corporate loans. However, the Arrear Ratio was the highest. In both retail and corporate loans, the volume of irregular loans in the 1-1.99 installments category is proportionately much higher than that of the other categories. In retail loans, this consists of 61.44% of the overdue volume, and in corporate loans this figure is 57.85%. As a consequence, the total arrear amount is also very low. Also, in case of SME loans, there is a uniformity of overdue volume in each category, which is shown in Table 10 and Figure 13. In the other two divisions, the volume gradually goes down as the installments increase.

The PAR of SME and Corporate loans has improved from 2013 to 2015 while that of retail has deteriorated as shown in Figure 14. The arrear ratio, however, has been on an increasing trend for the SMEs. This states the fact that the performance of SME loans have begun to deteriorate.

From Figure 16 we can see that the PAR for manufacturing and agriculture sector is increasing. Both these sectors require immense capital investment, and hence, the loan size is also high. Thus the installment sizes are also big, which makes it difficult for the client to repay the loan on time. Trading and service sectors, on the other hand, mostly require working capital financing, and thus their loan size is also small. This leads to better performance of these sectors in terms of PAR.

CHAPTER FIVE

5.1 RECOMMENDATIONS

On the basis of the above findings, I have made the following recommendations that EBL may take into considerations in order to exploit the potential SME market.

5.1.1 INCREASE THE RANGE FOR SME LOANS

As the survey and analysis have revealed, many SMEs require a smaller loan size. The current loan floor of Taka 10 lacs is actually an excess of funds for them. Thus EBL can consider dropping the floor to Taka 8 lac. This will increase the market size as well as the prospect for faster growth.

5.1.2 SEGMENT-ORIENTED APPROACH

As is the case for retail products, SME can pursue a more segment oriented approach to capture a larger portion of the market. EBL can introduce new tailor-made products for the different sectors. New product with slight modifications in price can be introduced for the following segments:

- Clothes and footwear industry, which captures about 19% of the total portfolio.
- Grocery and household items, which captures about 15% of the total portfolio.
- The service sector, which has the highest growth rate among the four sectors.

5.1.3 DIVERSIFICATION INTO OTHER SECTORS

At present, the SME division is overly dependent on the trading sector, which has more than an 80% portfolio share. If this sector begins to under-perform, it will be reflected in the performance of the whole division. Thus EBL needs to diversify into other sectors to minimize risk. More focus should be put on the other sectors, specially the service sector. Promotional campaigns can be held to create market awareness in these sectors. New and modified products can be introduced to these sectors. A more diversified portfolio will reduce the risk associated with SME loans.

5.1.4 INTRODUCING OVERDRAFT FACILITIES INTO THE SME SECTOR

Overdraft facilities can be introduced to the SME sector for clients with small loan requirements. This facility will enhance the prospect of working capital financing. The size of the facility may be smaller than the existing loan sizes, but the interest rate will be higher. As the size of the facility will be small and the tenure very short, the higher interest rate will not affect the client much.

5.1.5 PROPER MONITORING OF LOANS

There is an existing recovery team for the SME division to monitor the performance of SME loans, yet, the performance is declining. Therefore, EBL has to be more careful on this issue. In order to improve the performance of SME loans the following steps can be taken.

- An “Early Alert System” can be introduced. This will keep track of the probability of loans going bad. The system will consist of a detailed database of all loans outstanding and will be updated daily. It will also signal the repayment date, amount and client particulars of a loan ahead of time so that the CROs can then pursue the client to repay on time. A team can be allocated to constantly monitor the database. The existing system identifies non-performing loans only after installments become overdue. The database is updated monthly, which makes the recovery process slow.
- Whenever more than one consecutive installment is missed, the loan should be reviewed for rescheduling. This will increase the probability of repayment for the client. If more than six consecutive installments are missed, the rescheduling can be forced on the client with a rescheduling charge debited from his account.

5.2 CONCLUSION

EBL is an SME focused bank. The prospects of the SME market are great, and the market size is also huge. Research in this field has only begun recently, and the specifics of the market are still not clearly outlined. At the same time, this market is a risky market, as it involves dealing with entities which are prone to default. However, because of its tremendous potential, it is worth taking the risk. But in the process, EBL has to take care to minimize the risk involved in investing in this sector. As the SME sector is relatively new, the performance of the loans in this segment cannot be evaluated conclusively yet. A cautious approach to the SME market will enable EBL to exploit the prospects of this segment.

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