



INTERNSHIP REPORT

ON

**Improving Opportunities for SMEs in Bangladesh-----
Challenges and Prospect Identified with a Reference to
BRAC Bank Services**

Prepared For

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Letter of Transmittal

November 30, 2017

Dr. Salehuddin Ahmed
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Subject: Submission of Internship Report

Dear Sir,

It is a privilege to submit the report on **“Improving Opportunities for SMEs in Bangladesh---Challenges and Prospects Identified with a Reference to BRAC Bank services.”** I am submitting this report as part of my internship in BRAC Bank Limited. The report is prepared according to the instructions and methods set by you. I would like to take this opportunity to thank you for the guidance and support you have provided me during the course of this report.

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 endeavor will serve the purpose. The practical knowledge and experience gathered during my report preparation will immeasurably help in my future professional life.

Your acceptance of the report will make all the endeavors fruitful.

Gratefully, in thanking you,

Pollobe Biswas

ID:15264061

DECLARATION OF ORIGINALITY

I, **Pollobe Biswas**, hereby declare that the presented research report of internship titled **“Improving Opportunities for SMEs in Bangladesh-Challenges and Prospect Identified with a Reference to BRAC Bank Services”** is uniquely prepared by me after the completion of three months’ work at Head office of BRAC Bank Limited. I also confirm that, the report is only prepared for my academic requirement not for any other purpose. It might not be used with the interest of opposite party of the corporation.

Pollobe Biswas

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MBA Program

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CERTIFICATE OF SUPERVISOR

This is to certified that the internship report on “**Improving Opportunities for SMEs in Bangladesh-Challenges and Prospect Identified with a Reference to BRAC Bank Services**” is an authentic record and the report is done by **Pollobe Biswas** bearing **ID No: 15264061**, Semester: Fall-2017 as a partial fulfillment of the requirement of Master of Business Administration (MBA) degree from the BRAC Business School, BRAC University, Dhaka. All the analysis, interpretation of data in this report is the author’s own opinion and the findings are only for academic use not for any other application.

The report has been prepared under my supervision and is a record of bona-fide work carried out successfully.

Dr. Salehuddin Ahmed
Professor
BRAC Business School
BRAC University, Dhaka

Acknowledgement

The successful accomplishment of this Internship Report is the outcome of the contribution and involvement of a number of people, especially those who took the time to share their thoughtful guidance and suggestions to improve the report. It's difficult for me to thank all of those people who have contributed something to this report. There are some special people who cannot go without mention.

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Besides, I am also grateful to the authors, researchers, and articles writer who's Books, Reports, Thesis papers and Journals that have helped me to prepare my Internship Report successfully.

Executive Summary

This report aims toward providing an overview of the challenges and prospects of SMEs in Bangladesh and functions of SME Divisions of BRAC Bank Ltd. While preparing this report, it has been attempted to disclose the insights of the overall operation of the bank in relation to SMEs. In addition, a few recommendations and suggestions were also prescribed based on the observation and findings.

Small and Medium Enterprises (SMEs) can help to alleviate poverty to a satisfactory level by eliminating various prejudices against labor intensive industry and creating jobs for the skilled and semi-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 enterprises have tremendous opportunities in empowering potential entrepreneurs and transforming society for higher economic growth. To target this sector BRAC Bank Ltd has introduced SME Banking Division in 2001.

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.

This report focuses on the idea of providing a synopsis on the SME financing scenario in Bangladesh, challenges faced, prospects identified and related services offered by the BRAC Bank Ltd. Analyzing the SME scenario in Bangladesh and assessing the performance of BRAC Bank Ltd. in the context of highly competitive market, this report attempts to come up with set of recommendations for further consideration. Along with that the report will justify how SME is contributing in socio-economic development of the country and deserves new improved opportunities.

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CHAPTER 1

INTRODUCTION

- **Origin of the Report**
- **Rationale of the Study**
 - **Scope of the Study**
- **Objectives of the Study**
- **Methodology of the Study**
- **Limitations of the Report**

“When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes.”
---A.P.J. Abdul Kalam (in *Indomitable Spirit*), Former President of Republic of India

1.1 Origin of the Report

As a part of the MBA program at BRAC University Business School, I have been assigned as an internee in the **HR Operations Department of BRAC Bank Limited (HQ)**. In order to conclude the internship each student is required to submit a research report of specific interest. In this regard, I have selected my research report title as **‘Improving Opportunities for SMEs in Bangladesh---challenges and prospects identified with a reference to BRAC Bank services’**.

1.2 Rationale of the Study

It is my sincere interests in ‘SME development and SME finance’ which inspired me to pursue my studies in the MBA program and I am indeed privileged to be eligible to enroll at BRAC University Business School. The evolution SMEs in Bangladesh has been truly remarkable particularly at a time while the entrepreneurs are faced with undeniable challenges, yet possessing an attitude of optimism. And, I wanted to be a part of that growth pattern. Considering the fact that I am genuinely interested in the development of SME’s (even thinking of this as a career option) to enhance national economic growth including employment generation, I find it particularly fitting to focus on the above research topic to gain new knowledge and to identify the challenges and prospects for SMEs with a reference to BRAC Bank services. As I have been specializing in ‘finance’ as part of my MBA program, I am most interested in areas of studies focusing on SME finance and their overall growth, in particular overcoming of the financial access constraints. I can only hope that my research on SMEs would lead to contribute ideas to ‘Improve Opportunities for SMEs in Bangladesh’.

1.3 Scope of the Study

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

1.4 Objectives of the Study

The report will focus on Detail description of SME division of BRAC Bank.

General Objectives

- To present an overview of SME division of BRAC Bank and collection procedure of SME Banking in the context of BRAC Bank;
- To gain broader perspectives in identifying SME challenges and how to overcome.

Specific Objectives

- To present an schematic (general scenario) of SME sector in Bangladesh with a reference to BRAC Bank supporting SME initiatives;
- To highlight the prospects of SME sector in Bangladesh and where/how BRAC Bank could be of assistance;
- To identify the challenges of SME sector in Bangladesh and Recommend few suggestions to overcome those problems.

1.5 Methodology of the Study

The research report is mainly based on analyses of published books, newspapers, magazines, different published research works, reports of various government authorities and websites. Data used in this report are gathered from publicly available sources of SME related information. Both the primary and secondary data are used to make the report more informative.

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.

Secondary Sources

- Website of BRAC Bank Ltd (www.bracbank-bd.com)
- Annual Report of BRAC Bank
- Bangladesh Bank Circular (www.bangladesh-bank.)

1.6 Limitations of the Report

Since this research is only for academic purpose, there are some limitations in this study. These are mentioned below:

- Discussion about the Small and Medium Enterprises is a vast subject, but only selected areas are covered in the research paper;
- The study is basically based on secondary data and primary sources of research reports;
- Lack of available recent data on SME;
- Lack of properly sourced materials including latest publications and most source materials are for-paid subscriptions only;
- The main constraints faced in preparing this research report was ‘time availability’ while doing full time internship along with weekend classes! (My humble suggestion is to initiate final research report over the period of two last semesters instead of final semester.)

CHAPTER 2

MY JOB PART

- **My working experience at BRAC Bank Ltd.**
- **Lessons learnt from my internship program**
 - **Daily Activities**

“It gave a tremendous level of self-confidence, that through exploration and learning one could understand seemingly very complex things in one’s environment.”

----- Steve Jobs, Founder of Apple Inc.

2.1 My working experience at BRAC Bank Ltd.

I have worked under HR OPERATION divisions of the Bank, where all the employees of the bank were generous and helpful in providing information. Overall, it was a very responsive and supportive environment at BRAC Bank Limited, which gave me pleasure and satisfaction to be a part of them for the last 3 months. I was also encouraged to learn from the bank employees. They have discussed in details about their respective task. It also helped me to understand how they deal with the customer.

2.2 Lessons learnt from my internship program

- Knowing about corporate culture & process to work in structured organization.
- Developed communication skills & learned about ways to interact with the customers.
- Learned how to complete given task within specified time frame & process to prioritize the work based on their importance.
- Learned how to work in a team & also was able to broader networking of contact which may help to build my career.

2.3 Daily Activities

- Maintaining and updating database of the employee.
- File processing and updating personal files in IFS.
- Checking the documents of personal files.
- Calling the candidates and joining of the selected candidates.
- Assisting the recruitment team in maintaining the external CV that come to the HR.
- Major task to help in data migration to ERP system and correcting the data, checking and go through the entire process.

First eight weeks of my internship program on Human Resource Division I have worked with the full support of HR Operation Division and next four weeks I worked with the recruitment department.

My supervisor used to monitor my daily work, checks everyday report and gave feedback. He also used to share his insight that how their day-to-day tasks and projects are profiting the company as a whole and also performing into the industry.

CHAPTER 3

ORGANIZATIONAL REVIEW---in the SME Context

- BRAC Bank Limited
- Vision of BRAC Bank
- Mission of BRAC Bank
- Mission of BRAC Bank
- Product and service offerings
- Journey begins from “MISSING MIDDLE”
 - SME Overview of BRAC Bank

“Engaging in social business is beneficial to a company because it leverages on business competitiveness to address social issues, involves one-time investment with sustainable results, and produces other positive effects such as employee motivation and improved organizational culture.”

-----*Muhammad Yunus, a Founder of Grameen Bank.*

3.1 BRAC Bank Limited

BRAC Bank Limited is a scheduled commercial bank in Bangladesh, established in under the Banking Companies Act, 1991 and incorporated as a private limited company as on 20 May 1999 under the Companies Act, 1994. Its operation started on July 4, 2001 with a vision to be the market leader. BRAC Bank offers a broad range of products and services, including SME, retail, commercial and corporate banking to more than 1.2 million customers. The company consists of 165 branches, 624 SME unit offices, 675 Remittance Delivery Points, over 350 ATMs. And market capitalization of this bank is USD 1 billion.

BRAC Bank practices upon a model where fund accumulated from urban deposits disseminates in the rural and uplift Small and Medium Enterprises (SME). By now it has become fourth largest SME bank globally. The bank already established 91 Zonal offices and 429 unit offices all over the country and 1309 Customer Relation Officers (CRO) providing door-to-door service.

3.2 Vision of BRAC Bank

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. BRAC Bank will be a socially responsible institution that will not lend to businesses that have a detrimental impact on the environment and people.

3.3 Mission of BRAC Bank

- * Sustained growth in 'small & Medium Enterprise' sector.
- * Continuous low cost deposit growth with controlled growth in retained assets.
- * Corporate assets to be funded through self-liability mobilization.
- * Continuous endeavor to increase fee based income.
- * Keep Debt Charges at 2% to maintain a steady profitable growth.

3.4 Product and service offerings

BRAC Bank Ltd. is currently focusing on four different areas of business activities. These are:

- SME Banking

- Retail Banking (Retail Distribution, Non Funded Business and Secured Value Center, Alternate Delivery Channel, Unsecured Value Center, Liability, Service quality/business intelligence, Collections , Regional Distribution)
- Corporate Banking
- Probashi Banking& e-Banking
- Treasury & Financial Institution &Marketing & Corporate Affairs

3.5 Journey begins from “MISSING MIDDLE”

BRAC Bank is now 12 years old and pioneered the small and medium enterprise (SME) Banking. 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’s where BRAC Bank has filled the gap. So, BRAC bank Launched SME loan for lower and middle classes business from the Concept of missing middle.

3.6 SME Overview 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. **Small Business** department is organized into regions, territories, zones, and unit offices all throughout the country. Historically the department provided small loans to entrepreneurs. Now it is fully equipped to provide all kinds of products and services to small entrepreneurs. **Medium Business** department is currently located in Dhaka and Chittagong city to look after the mid-size borrowers of SME Banking arena. It is looked after by Senior Relationship.

CHAPTER 4

SME AND BANGLADESH

- **Introduction**
 - **SME (Small and Medium Enterprises)**
- **SME Development in Bangladesh and Constraints faced by SMEs**
 - **General SME Guidelines by Bangladesh Bank**
 - **Elements of a Strategy for SME Development**

Initiatives to facilitate the SME growth in Bangladesh

"It is an axiom nowadays that no bank fails for lack of capital; unprofitable lending is always the underlying cause."

----- *James Grant, author of Money of the Mind: Borrowing and Lending*

4.1 Introduction

Accelerating growth and reducing poverty, income inequality and regional disparity are the overarching goals of the current development paradigm in Bangladesh. The main strategy for achieving these goals include creation of productive employment in the manufacturing and organized service sector and withdrawal of labor force out of the low skilled and low return agricultural sector and informal activities.

The purpose of the present study is to assess the current situation of SMEs in Bangladesh economy and evaluate the means to integrate the SMEs as a dynamic sector in the economy by overcoming the existing constraints and by articulating proper strategy for facilitating the development of the SME sector in manufacturing to contribute effectively to the objective of growth and equity in the upcoming 7th Five Year Plan.

4.2 SME (Small and Medium Enterprises)

SME business is a non-public limited companies but a business for self-employment or for social welfare.

According to the latest circular of BANGLADESH BANK (Date – 26/05/2008), the definition of Small & Medium Enterprise sector is given below:

Small Enterprises – Small enterprises refer to those enterprises which are not any Public Limited Companies and which fulfill the following criteria-

1.Service Concern– Having an investment of Tk. 50,000 to Tk. 50, 00,000 excluding land & building and / or employing up to 25 workers.

2.Business Concern – Having an investment of Tk. 50,000 to Tk. 50, 00,000 excluding land & building and / or employing up to 25 workers.

3.Manufacturing Concern – Having an investment of Tk. 50,000 to Tk. 1,50,00,000 excluding land & building and / or employing up to 50 workers.

Medium Enterprises – Medium enterprises refer to those enterprises which are not any Public Limited Companies and which fulfill the following criteria-

1.Service Concern– Having an investment of Tk. 50,00,000 to Tk. 10,00,00,000 excluding land & building and / or employing up to 50 workers.

2.Business Concern – Having an investment of Tk. 50,00,000 to Tk. 10,00,00,000 excluding land & building and / or employing up to 50 workers.

3. Manufacturing Concern – Having an investment of Tk. 1,50,00,000 to Tk. 20,00,00,000 excluding land & building and / or employing up to 150 workers.

4.3 SME Development in Bangladesh and Constraints faced by SMEs:

The Government is committed to develop SME as one of the main pillars of economic growth to achieve the goal of becoming a middle income country by 2021. The primary role of the Government has been delineated as that of a facilitator to aid naturally growing SMEs through removing market and policy obstacles, and secondly providing necessary promotional support.

The SME Foundation was created under the Ministry of Industries as an apex institution for SME development in the country through a gazette in 2007. The major activities of the Foundation include (i) implementation of SME Policy Strategies adopted by the Bangladesh Government, (ii) policy advocacy and intervention for the growth of SMEs, (iii) facilitating financial supports for SMEs, providing skill development and capacity building training, (iv) facilitating adaptation with appropriate technologies and access to ICT, and (v) providing business support services, etc. The Foundation is intended to work as a one-stop service delivery window for SMEs.

4.3.1 Policy Issues

Trade Policy: Import tariffs have been lowered and quantitative restrictions virtually eliminated. All these have facilitated greater access of domestic producers to import raw materials. However, import liberalization has also exposed domestic producers to competition from foreign goods. To ensure a level playing field and to enable domestic SMEs to compete effectively with imports, the following policy concerns need to be addressed.

Prior Announcement of Policy Changes: To enable domestic producers, particularly the SMEs, to prepare themselves to face external competition the government should makes prior

announcements of its impending trade policy changes, particularly with respect to tariff schedules, investors will be aware of the degree of competition they will be facing with the changes and will make adjustments in their investment and production plans accordingly.

Tariff Rationalization: To encourage domestic production, there should be adequate gap between duty on raw materials and duty on finished products.

Appropriate Tariff Valuation: To avert the problem of under-invoicing, a system of tariff value has been put in place for certain categories of imports.

4.3.2 Fiscal Policy

Value Added Tax: The main components of indirect tax in Bangladesh are Value Added Tax (VAT), Supplementary Duty and Excise Duty. VAT is imposed on producer, manufacturer, importer, exporter or service renderer under the Value Added Tax Act, 1991, on goods or specified services, at the rate of 15% at every stage of transfer and supplementary duty is imposed at variable rates on certain categories of consumption goods across all size categories. Finally, excise duty applies to a limited number of items irrespective of size classification.

Tax Holiday: The tax holiday, however, is not available to sole proprietorship enterprises which are the usual form of small and cottage industries in Bangladesh.

Wealth Tax: Wealth tax is payable by an individual if his net wealth exceeds Taka 2.5 million. As per existing law, no wealth tax is payable by a company, the usual legal form of a large industry. On the other hand, the legal form of small industries is usually sole proprietorship, and hence these enterprises have to pay wealth tax on their business capital. Thus, fiscal policy in Bangladesh is not particularly tailored to provide support to SMEs, which is pointed out by most SME entrepreneurs as a critical policy constraint hindering SME growth.

4.3.3 Legal, Regulatory, and Administrative Constraints

Trade License: Investors are required to procure trade license from local government bodies by paying statutory fees. The process involves unnecessary delays, harassment and side payments.

Registration under Factories Act: According to the Factories Act 1965, all manufacturing units employing 10 or more workers are required to be registered with the office of the Chief Inspector of Factories and Establishments. In practice, the regulation has proved to be a major source of delay, harassment and unofficial payments for the investors particularly for those in the SME sub-sector as the existing regulations do not differentiate between different size categories with respect to safety and working conditions requirements.

Registration with Sponsoring Agency: Registration with sponsoring agencies such as the Bangladesh Small and Cottage Industries Corporation (BSCIC), Board of Investment (BOI) or Bangladesh Export Processing Zone Authority (BEPZA) is voluntary unless an enterprise wants to avail itself of government incentives.

4.3.4 Financial Constraints

Access to Finance: SMEs encounter great difficulties while raising fixed and working capital because of the reluctance of banks to provide loans to SMEs. According to eminent economist '**Professor Wahiduddin Mahmud**'- "Despite exponential growth of non-firm activities in rural economy, there is still a problem of scaling up SMEs due to the lack of finance and there is missing middle both in credit market and in case of size of business or industrial units which is the are the main strength of the economy." [Financial Express, Oct.13, 2017]. One of the main factors that have hampered flow of institutional finance into small and medium enterprises is banks' pre-occupation with collateral based lending.

Project Preparation and Evaluation: The first problem entrepreneurs face in seeking institutional finance is with regard to preparation of the project proposal which is lengthy and cumbersome. The entrepreneur often lacks the ability to formulate a proper project proposal and the financial institutions themselves lack adequate capability for proper project evaluation.

Collateral Requirements: One of the main factors that have hampered flow of institutional finance into SMEs is banks' pre-occupation with collateral based lending. Traditionally banks have used fixed asset ownership, particularly land ownership as the basis for judging credit-worthiness. This puts SMEs at a relative disadvantage, as large entrepreneurs are often able to get around the problem because of their influence and contacts by putting up collateral of dubious valuation.

Bureaucracy and Corruption: Because of lack of proper autonomy and accountability the public sector financial institutions are beset with inflexibility, inefficiency, political interventions and corruption.

The studies reviewed reveal that SMEs have received disproportionately smaller support from the government in terms of policy or fiscal incentives. SMEs, as a group, are weak in echoing their needs and demands.

Lack of freehold land: A stumbling difficulty faced by investors in setting up new enterprises is paucity of freehold land. The existing system of maintaining records of land transactions is highly deficient and it becomes extremely difficult to ascertain the legal status of any land.

Human resource development: Deficient entrepreneurial, managerial and technical skill is a major supply-side bottleneck in Bangladesh that has constrained growth and diversification of the industrial base in general and the SME and export sector in particular.

4.4 General SME Guidelines by Bangladesh Bank

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

- ❖ Each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.
- ❖ Following the 'Area Approach Method' banks/financial institutions will try to attain their indicative targets separately by dividing it as branch wise, region wise & sector wise.
- ❖ Priority shall be given to small entrepreneurs and for small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk.50,00,000 (Fifty lac).
- ❖ For more participation of women entrepreneurs, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement.
- ❖ 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.
- ❖ Each bank and financial institution shall establish a separate '**Women Entrepreneurs' Dedicated Desk**' and Training programs shall be arranged for the entrepreneurs.
- ❖ 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.

4.5 Elements of a Strategy for SME Development

This is a three-step strategy to be played to develop the SME sector of the country.

- ❖ The first step relates to the consolidation of the naturally developed capabilities mainly serving the domestic market.
- ❖ The second step relates the facilitation of their entry into the export market.
- ❖ The third step relates to the enhancement of capacities to thrive into the global market.

The SME policy 2005 identified 11 booster sectors for providing support through SME foundations. They include: (i) Electronics and electrical products, (ii) Light engineering and metal-working, (iii) Agro-processing, (iv) Plastics and other synthetics, (v) Leather goods, and (vi) Fashion-rich personal effects, wear and consumption goods.

4.6 Initiatives to facilitate the SME growth in Bangladesh:

With the establishment of the SME foundation, the overall support structure for SME development in Bangladesh became a multi-institution approach. Each of them works in some specific areas although with some overlaps.

4.6.1 Ministry of Industry

In formulating the industrial policy of the country, the Ministry of Industry duly emphasized on the development of the SME in country. Chapter 6 of National Industrial Policy- 2010 is about promoting small, medium, micro and cottage industries. A SME cell has been instituted within the Ministry with the objective of providing to the SMEs the necessary promotional support of various kinds like the following:

- (a) It will accentuate and sustain SME activities through motivation, loan allocation and training of the entrepreneurs.
- (b) The ministry will take necessary steps will be taken to provide women entrepreneurs with pre-investment advice and assistance in drawing up and implementing projects.
- (d) The ministry will work with other ministries like ministry of finance so that SME development strategies shall be embedded in other public policies like the Medium Term Budgetary Framework (MTBF).
- (e) The ministry will help implement dispute settlement procedures that proactively shield small enterprises especially from high legal costs and insidious harassment, if any.
- (f) The ministry will take innovative measures to create avenues of mobilizing debt without collaterals in order to assist small enterprises in dealing with their pervasive lack of access to finance.

4.6.2 BSCIC

The Small and Cottage Industries Training Institute (SCITI) was set up in 1985 under BSCIC to support the entrepreneurs in SME sector and their employees in the development of their entrepreneurial & managerial skill and arranges credit facilities under credit programs such as (a) self-employment through small & cottage industries, and (b) United Nations Capital Development Fund (UNCDF).

4.6.3 SME Foundation

The SME Foundation became functional with 24 staffs in 2008 following government gazette dated August 7, 2007. The number of staffs is now about 60. The Foundation is capitalized by the government of Bangladesh with a total endowment of Tk. 2 billion. The interest earning on this endowment fund is the sole source of finance for different activities undertaken by the Foundation. The Foundation works through different wings which are described below.

- ❖ **Policy advocacy wing**
- ❖ **Credit wholesaling wing**
- ❖ **Capacity Building & Skill Development**
- ❖ **Access to Technology and Access to Information**
- ❖ **Women Entrepreneurship Development**
- ❖ **Business Support Service**

Different credit wholesaling (refinancing schemes) initiatives undertaken by Bangladesh Bank are as follows:

- **Refinance for Small Enterprises:**

46 banks and non-bank financial Institutions have signed a participation agreement with Bangladesh Bank for financing the SME sector under following schemes:

- Bangladesh Bank Fund (BB Fund)
- Enterprise Growth and Bank Modernization Program (EGBMP) Fund
- ADB Fund-1 and ADB Fund-2
- JICA Two Step Loan
- **Refinance Scheme for Agro-based Product Processing Industries**
- **Refinance to Women Entrepreneurs**
- **Refinance Fund for New Entrepreneurs under Cottage, Micro and Small Category**

CHAPTER 5

SME AND BRAC BANK

- **SME Banking Division of BRAC Bank Limited**
 - **Different categories of SME business**
 - **Terms and Conditions of SME Loan**
 - **SWOT Analysis (SME) of BRAC Bank**
- **SME Loan Related Securities Documentation Process of BRAC Bank Limited**
 - **BRAC Bank Compared to its Competitors**

“Everyday is a bank account, and time is our currency. No one is rich, no one is poor, we've got 24 hours each.”

----- Christopher Rice, USA

5.1 SME Banking Division of BRAC Bank Limited

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. The main focus of BRAC Bank is not limited only to providing and recovering of loan but also try to develop the economy of a country. SMEs can play a significant role in establishing gender equality and bridge the widening the gap between rural and urban income. It is said that introduction of SME to rural areas would result in a large-scale development that would put the country's economy in a high growth trajectory.

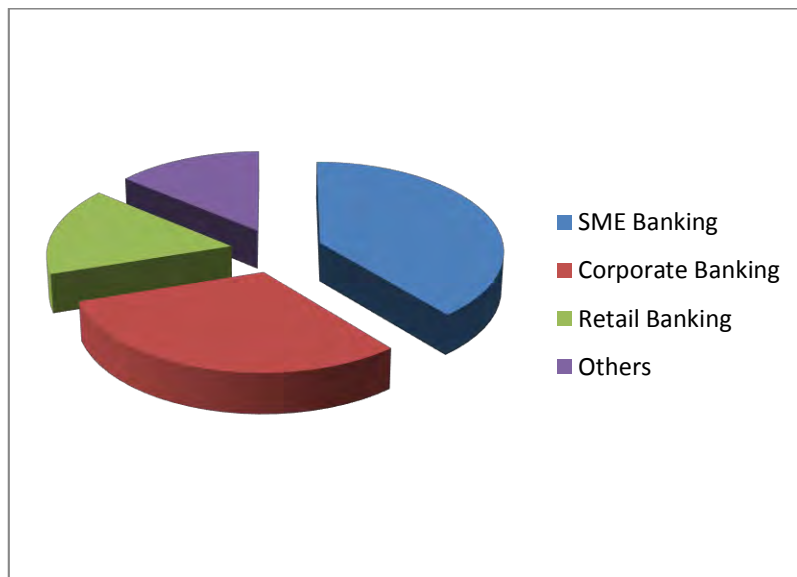


Figure: BRAC Bank's Portfolio

5.1.1 Different categories of SME business

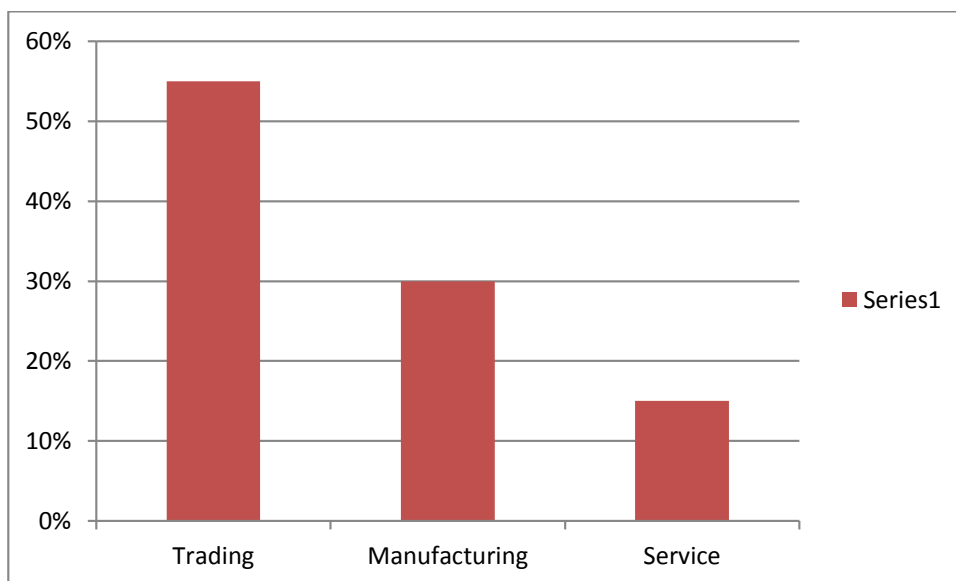


Figure: BBL's SME Business Categories

5.1.2 Terms and Conditions of SME Loan

The SME department of BRAC Bank will provide small loans to potential borrower and will impose loan processing fees for evaluation / processing a loan proposal as following:

Loan Amount	Loan Processing Fee
2 lacs to 2.99 lacs	BDT 5,000
3 lacs to 5 lacs	BDT 7,500
5.01 lacs to 15 lacs	BDT 10,000
15.01 lacs to 50 lacs	BDT 15,000

To avail a funded SME loan 15 to 25 days are required and for Non Funded SME loan, the timeframe is 1 to 2 days from the date of application, if all the necessary papers are in order. At present, loans are only given to entrepreneurs who have a running business of at least one year. The interest rate of SME loans ranges from 14% to 24% on the reducing balance method, depending on the amount and the loan scheme. Collateral is necessary for loan amounts of BDT 10 lacs and above. Generally collateral is not necessary for loan amounts ranging from BDT 2 lacs to below BDT 10 lacs.

5.1.3 SME loan Product

Loan type	Loan Amount	Processing Fee	Interest Rate
Anonno	BDT 2-10lacs	1.5%+VAT	23.50%
Apurbo	BDT 10-100lacs	1%+VAT	18%
Durjoy	BDT 3-25lacs	2%+VAT	18%
Prothoma	BDT 2-10lacs	2%+VAT	10%
Shamolima	BDT 50k-10lacs	1%+VAT	13%
Shomridhi	Up to 20million	1%+VAT	18%
Shokti	BDT 10-75lacs	1.5%+VAT	21.50%

For disbursement of any SME loan a clean CIB report is required. A Valid trade license, rental deed, and any other authorization (if necessary) are the primary documents that are

needed to get an SME loan. A number of information is required along with the loan application form i.e. Inventory list, Accounts Receivables list, Accounts Payables list, Buyers list, Suppliers list, and Fixed Asset list.

Minimum two guarantors are required for an SME loan, one of whom must be a third party guarantor and another from his /her own family. A third party guarantor may be a businessman or a service holder from the private sector with minimum wealth of 125% of the loan amount. However, for a family guarantor the net wealth condition is not applicable. A guarantor of SME loan can not avail a loan from BRAC Bank as long as he/she is a guarantor.

Procedure of BRAC bank SME loan:

- Select Potential Enterprise
- Loan Presentation
- Collect Confidential Information
- Open Clients Accounts in the Respective Bank
- Fill Up CIB Form and Sending CIB to Bangladesh Bank

Loan can be repaid in two ways:

- 1) An equal monthly loan installment with monthly interest payment.
- 2) By one single payment at maturity, with interest repayable a quarter ends residual on maturity.

Loan may have various validates, such as, 3 months, 4 months, 6 months, 9 months, 12 months, 15 months, 18 months, 24 months, 30 months and 36 months. The borrower must open a bank account with the same bank and branch where the SME has its account.

What restricts banks to finance SMEs

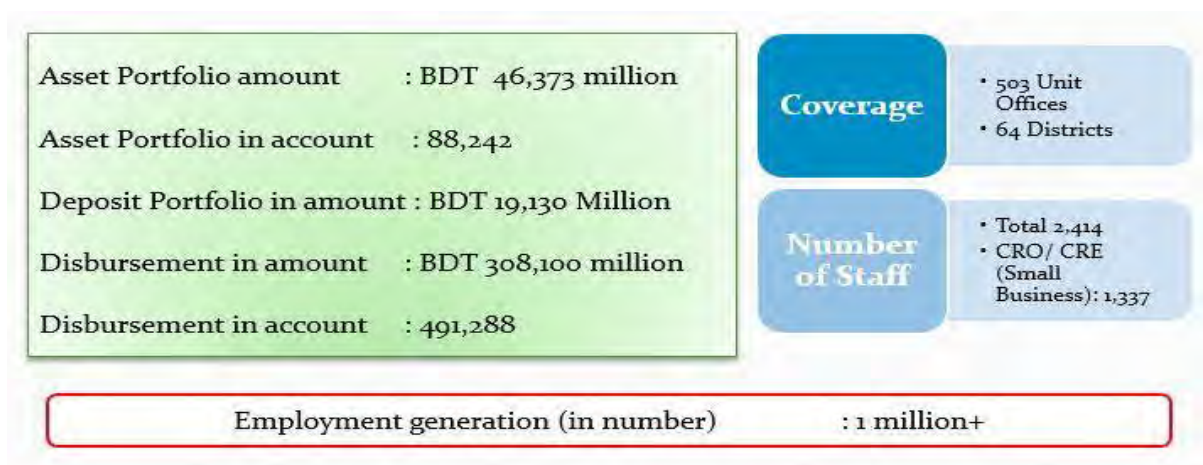
Literature on industrial finance and entrepreneurship development amply document two factors that restrict banks to extend sufficient credit facilities to the SME sector.:

- Collateral
- High transaction cost

5.2 SWOT Analysis (SME)of BRAC Bank

Strength: <ul style="list-style-type: none"> ❖ Focus on Technological Advancement ❖ Building customer relationship outside branches ❖ Preference for Interns ❖ Extra Benefits for Employees 	Weaknesses <ul style="list-style-type: none"> ❖ Remuneration Packages are Low ❖ Lack of Promotion of SME Banking ❖ Working hours are not enforced
Opportunities: <ul style="list-style-type: none"> ❖ Expand to more areas ❖ International Expansion ❖ Engaging in CSR activities 	Threats: <ul style="list-style-type: none"> ❖ Upcoming banks ❖ Multinational banks ❖ Contemporary banks and financial institutions

Here are some financial figure which highlights the BRAC Bank Current situation of SME Banking:



5.3 SME Loan Related Securities Documentation Process of BRAC Bank Limited:

- **SME Security Documentation against Loan**
- **Land Related Securities Documentation Process**
- **Mortgage**
- **Basic Charge Documents**[Sanction Letter: Demand Promissory Note, Letter of Continuity (This is not always taken if there is only loan disbursement),Letter of Arrangement, General Loan Agreement, Letter of Disbursement, General Loan Agreement]

- **Other Security Documents** [Letter of Undertaking, Letter of Lien, Right to Set Off, Letter of Disbursement, Personal Guarantees,
- **Other Basic Charge Documents**[Demand Promissory Note (DP Note), Letter of Continuity, Letter of Arrangement, General Loan Agreement, Letter of Disbursement]

5.3.1 Fees & Charges

Stamp cost: It is the cost that will be needed in future for legal procedures. For an SME loan the stamp cost is BDT 620 only.

Loan Application Fees: The borrower has to pay BDT 200 and 15% VAT thereon as the loan application fees at the time of loan disbursement.

Loan Processing Fees: Loan Processing Fee of SME loan ranges from 1% to 2.5% plus VAT of the loan amount.

Early Settlement Fees: Early settlement fees of 1% to 5% plus VAT thereon will be charged on the outstanding amount for early settlement of EMI loans of SME Banking. There is no early settlement fee for Non EMI loans. If a client misses the installment date, he/she will have to pay day-wise interest on the outstanding amount.

5.3.2 Repayment

EMI: EMI stands for Equated Monthly Installments. It is the system where installments are paid in equal amount on a monthly basis.

Single payment system: It is the system where interest is paid monthly and the total principle is paid at maturity (except for Anonno loan). For Anonno loan 70% repayment of the principal will be realized in the following month of the highest sales/cash collection and the rest 30% will be realized in the following second month.

Reasons behind SME clients are more dependent with BASIC,BSRS, BSB, RAKUB etc.

- For high esteem security
- Low interest rate
- Government institution

5.4 BRAC Bank Compared to its Competitors

Bank Name	Start SME Operation	Loan of Size	Interest Rate	Loan Process fee	Period of Loan
Dhaka Bank	2003	.50 - 50 Lacks	12%-18%	1.5% of Loan	1 to 5 years
Dutch Bangla	2001	3 - 50 Lacks	15%-17%	1% of Loan	1 to 3 years
Prime Bank	1999	1 – 75 Lacks	17%-20%	1% of Loan	Up to 1 year
Mercantile Bank	1999	.50 - 50 Lacks	12%-18%	0.5% of Loan	Up to 1 year
Eastern Bank	2005	2 – 300 Lacks	13%- 16%	1% of Loan	1.5 to 5 years
BRAC Bank	2001	.50 - 30 Lacks	14% - 24%	1% of Loan	1 to 3 years

5.4.1 Collateral free loan

Bank Name	Collateral free Loan
BRAC Bank	92%
Eastern Bank	84.42%
Prime Bank	82.23%
Dhaka Bank	78.93%
Mercantile Bank	78.43%
Dutch Bangla Bank	73.36%

BRAC Bank disbursed the highest percentage of collateral free loan up to 31st December, 2011 where Dutch Bangla Bank disbursed the lowest percentage of SME loan. As BRAC Bank is the pioneer bank which provided highest collateral free loan so that it gain market leader in SME.

Reasons for institutional sources fail to provide SME loans

- High interest rate
- Too much paper work
- Lack of proper contact with SME
- Lack of long term relationship

Following are the obstacles faced by the SMEs integrating loans

- Lack of collateral assets
- High interest on govt. bonds
- Lack of ability to draw business plan
- High rate of non performance loans in banking sector

SME Loan Disbursement of BRAC Bank Limited

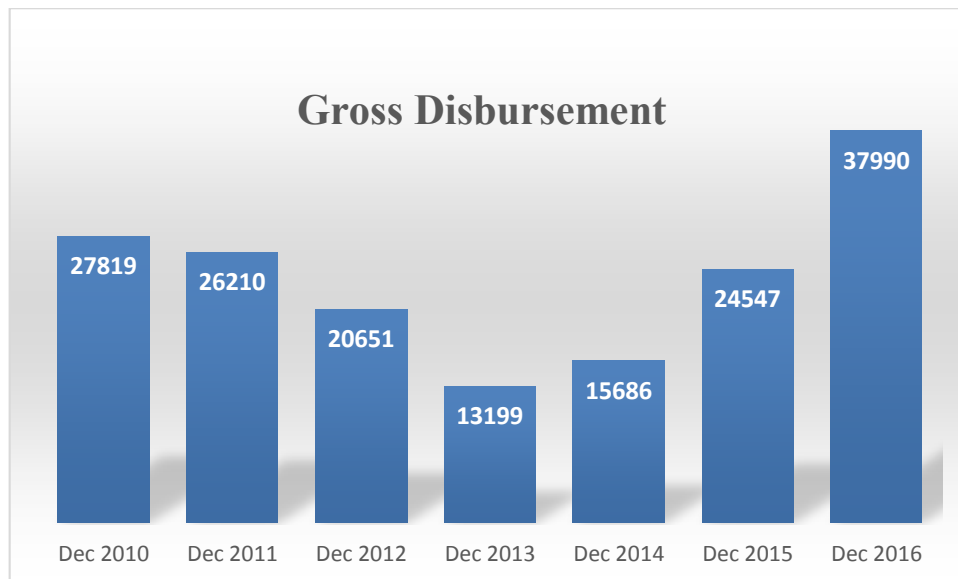


Figure: Disbursement in the last 6 years of BBL

- ❖ BDT 17.014 M SME Asset Portfolio Growth in 2016.
- ❖ Total no. of Loan AC: 110.037
- ❖ Total SME Deposit Position: BDT 27.954 M

38.456 new SME borrowers were brought on board in 2016: 13% increased [Annual Report, BRAC Bank Ltd. 2016]

Selim RF Hussain, managing director of Brac Bank, said the changes are positive and aligned with the government's broader industrial policy, reflecting the transformational changes that have taken place in the economy in the last seven-eight years.

“The definitions of micro, small and medium are clearer and better than what they were,” he told The Daily Star.

CHAPTER 6

RESEARCH AND ANALYSIS

- **Questions Raised and Addressed**
 - **In the matter of challenges to access to SME finance**
 - **In the realm of development of SME infrastructure**
- **In the matter of BD Government SME policies and governmental assistance**
 - **In the matter of usage of modern technology**
 - **In the matter of sustainable SME development**

“More generally the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation.”

-----Paul cook and Fred Nixon, SME Research Analyst and Essayist, USA

6.1 QUESTIONS RAISED AND ADDRESSED:

6.1.1 In the matter of challenges to access to SME finance:

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

Sulaiman, (2005) observed that the 50.53 percent of SMEs had no access to formal source of finance. Only 35.79 percent of SMEs enjoy unrestricted access to the formal credit. Of the rest 13.68 percent have restricted access to formal credit. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6 percent) seek finance for their working capital needs from banks, although only a half-of them get loan from banks.

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

Hasan and Islam (2008) identifies that banks usually do not express great interest towards SME financing. The reason behind this conservativeness is higher operational cost, less return and high risk associated with the SME financing. Due to small loan size the operational cost is higher and they require intensive monitoring and supervision. The main reason for higher risk is that the small and medium entrepreneurs are highly unlikely to comply with the collateral requirements as typically they do not have immovable properties. With the excuse of collateral sometimes banks and non-bank financial institutions are reluctant to finance SMEs.

Bangladesh Bank Report (2014) says, the key reasons behind the SMEs are not entering into manufacturing but are financial constrains, dismal state of utilities, technology and policy discriminations. On the other hand, Bank and others financial institutions generally prefer large enterprise clients because of lower transition costs, and greater availability of collateral. The SMEs also fall outside the reach of micro finance schemes, and thus are compelled to depend on formal sources of funds at much higher interest rates, the Bangladesh Bank report said. The BB report, however, said that other interrelated problems like shortage of short and long term finance, lack of modern technology and lack of promotional support services are major obstacles in the way of development of the SMEs sector. Higher growth of the Small and Medium Enterprises (SMEs) can help cut poverty to a satisfactory level by eliminating various prejudices against labour intensive and creating jobs for the skilled manpower in the SME sector.

Growth of SMEs in developing countries is certainly a desirable goal in view of their perceived contribution to decentralized job creation and generation of output (Chen, 2011). In developing economy like Bangladesh, SMEs play a significant role in the development of the economy by creating employment opportunities and producing useful machine substitutes and machinery parts saving huge amount of foreign currency for our country (Chowdhury, 2008). About 6.0 million SMEs are actively performing in Bangladesh which were contributing 25 per cent of the total GDP, employing about 31 million people and providing 75 per cent of household income. Various categories of SMEs together contribute between 80 to 85 per cent of industrial employment and 23 percent of total employment in Bangladesh (Chowdhury, 2008)

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

In addressing the broadening the scope of SME's access to institutional finance, on can review the excellent academic works conducted by Hasan, F., & Jamil, G. M. H. (2014): Financing Small and Medium Enterprises in Bangladesh–Issues and Challenges. The Asian Journal of Technology Management Vol, 7(1), 45-54; and Alam, M.S., and Ullah, M.A.: SMEs in Bangladesh and Their Financing: An Analysis and Some Recommendations. The Cost and Management, Vol. 34, No.3.

It is found that almost 60% of SME entrepreneurs take bank loan to operate their businesses and it is indeed very positive. Only about 4 out of 10 entrepreneurs do not currently take bank loans from any formal financing institutions.

By addressing numerous obstacles (below) which are prohibiting financial institutions from engaging the SMEs in their roster of borrowing, hopefully sometime soon in the immediate future institutional financing for SMEs can be broaden. And prior to elaborating on this matter it is imperative to review:

ii. Are there provisions for female entrepreneurs and young entrepreneurs to have access to specialized funds for SME development?

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

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

The main driving force in SME promotion in Bangladesh is in the growth of agro-based processing and essential consumer goods products. Many institutions at the national level are providing assistance to entrepreneurs through SMEs in the country. Industrial credit in Bangladesh is financed through government sponsored industrial banks; commercial banks and specialized financial institutions (ESCAP, 2003).

Marketing Constrains---Inability to Market SME Product: The present and future growth prospect of any product depends to a large extent upon marketing activity. This requires having a well-planned marketing strategy including advertisement campaign as well as resources for implementing that strategy. Unfortunately, SME entrepreneurs are at the bitter end in this respect as they cannot make adequate investments in marketing and also lack necessary marketing skills.

ii. Quality Assurance---Inability to Maintain Product Quality: A major constraint to the sustainability of SME growth in Bangladesh is the inability to maintain the quality of SME products. At present Bangladesh produces mostly common consumer goods which are labor intensive and require relatively simple technology. But due to poor quality these products

cannot stand competition from imported products. The challenge for Bangladesh today is not in competing with high tech products of developed countries but to make its SME sector survive competition from its rivals.

iii. Skilled Human Resources---Lack of Skilled Technicians and Workers: Lack of skilled manpower is a perennial problem in Bangladesh. This problem is particularly acute for small and medium scale export oriented enterprises. Bangladesh has made large inroads in the world's apparel market through commendable performance of RMG sector. However, the value addition of the products is low. Despite high demand, Bangladesh cannot make much entry into high value fashion wear exports due to dearth of trained workers. Supply capacity is thus constrained by non-availability of skilled workers.

iv. Adequate Management Skills of Entrepreneurs: In the modern day economy, managerial skills for undertaking planning, marketing, and cash-flow management are vital for survival of an industry, small or large. SME entrepreneurs in Bangladesh are very much lacking in managerial skills and are not used to strategic planning. It is natural that they are unable to survive market failures. The concept of managerial training for SME entrepreneurs is yet to take root in Bangladesh.

v. Absence of National Quality Certification Authority---Lack of Quality Assurance: Govt. has failed to frame a national quality policy, provide adequate support systems and establish a national quality certification authority. As a consequence SME of Bangladesh has failed to ensure the quality of their products and services both in local and international market.

vi. Lack of Raw Materials---resource scarcity and inability for finished products: In Bangladesh scarcity of raw materials hinder the ability of SME to be export oriented and limits its ability to reach more advanced stages of international business. For example, Bangladesh has access to plenty of raw hides but lack finished capability.

vii. High Employee Turnover: Due to limited growth of SME most of the skilled employees leave SMEs. Levy (2003) observed that SMEs are knowledge creators but poor at knowledge retention. High employee turnover is a major obstacle for the progress of this sector.

viii. Absence of Modern Technology: Many SMEs have failed to adopt modern technology. Handling operation of the business becomes difficult without using update

technology. It cannot be imagine now competing around the world with the absence of modern technology. Without the proper use of modern technology, we will lag behind.

ix. Poor Physical Infrastructure: Inadequate supply of necessary utilities like electricity, water, roads and highways hinder the growth of SME sector. Moreover unfavorable geographical conditions increase the transportation cost.

x. Lack of Entrepreneurship Skills: Conservative attitude towards risk, lack of vision, ability to make plan and implement those hinder the growth of SME in Bangladesh. Most of the people engaged in this business have no proper innovation skills.

xi. Access to Market and Lack of Awareness Regarding the Importance of Marketing Tool: For SME, owing a retail space is very expensive in the major cities in Bangladesh. As a result many customers are not interested to buy products and services from SMEs. Because they can't judge the quality until they physically examined the product. Most of the cases SMEs in Bangladesh are not able to use the Integrated Marketing Communication (IMC) tools. But these tools play the role of important stimulus to motivate the customers and retain them. The country does not have enough marketing capability and resources to invest in marketing.

xii. Prohibitively High Interest Rate: Most of our SME entrepreneurs are starting business by taking loan from banks. But there is high interest rate on such loans. It is not so easy to rise fixed and working capital from banks, since banks are not so willing to provide loan of small size for high monitoring cost.

xiii. Lack of Commitment to Innovation and Customer Satisfaction: Ernesto (2005) stated that to keep in pace with international competition, firms of all size are challenged to improve and innovate their products processes constantly. But in Bangladesh SMEs are still not relating the importance of satisfying and retaining customers by offering novel and desired benefits.

xiv. Lack of Research and Development Facilities: Most of the developed nations spend a lion's share in this sector to develop their industry but we do not invest huge amount in this sector for the development of our industry.

6.1.2 In the realm of development of SME infrastructure:

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

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

ii. Are there accessible and affordable training facilities for SME, female entrepreneurs and young entrepreneurs?

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

iii. Can BRAC Bank and/or BRAC U be of any assistance in addressing the above queries?

Such a notion can be given a high priority considering that BRAC Bank has substantial policy framework in the SME fields.

6.1.3 In the matter of BD Government SME policies and governmental assistance:

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

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

6.1.4 In the matter of usage of modern technology:

i. Can the usage of modern technology be of any significance in making SME more competitive both nationally and internationally?

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

ii. Should BRAC Bank and/or BRAC U be of help to facilitate access to technology platforms?

BRAC Bank and BRAC University could undertake the building and development of technology platform to assist SMEs bot to conduct trade online and to facilitate trade.

6.1.5 In the matter of sustainable SME development:

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

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

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

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

iii. How to address lack of marketing ability, commitment to innovation and customer satisfaction?

Marketing a product requires a whole fleet of skills and information. Proper institutional framework focusing on 'Product Marketing' can help in this regard. Innovation requires

governmental assistance particularly in a country like Bangladesh where private sector assistance in this regard is nearly absent. And customer satisfaction requires the maintenance of product quality, product assurance, product suitability and timely delivery, among others.

iv. Are the entrepreneurs equipped with skills in proper book keeping/accounting, banking and investor relations and financial management; and if not what can be done?

Though there is a general sense of acceptance for these skills among entrepreneurs, it is reasonable to assume that advance skills are needed particularly in investor relations and financial management. Once again, it is institutional framework dedicated to these skills enhancement framework which would be of great help.

CHAPTER 7

RECOMMENDATION

- **GENERAL RECOMMENDATIONS**
 - **Enhancing Access to SME Finance**
 - **Development of Infrastructure Targeting SME**
 - **Quality Assurance of SME Products**
 - **Training Facilities for SME workers and Entrepreneur**
 - **Organizing trade fairs, SME symposiums, workshops on SMEs**
- **Setting Help Desks within Banks and Business Promotion Bodies with Internet Facilities**
 - **Use of Modern Technology**
- **Monitoring Agency---for Proper Implementation of SME policy**
 - **Role of NGO**

“If Development is a Moving Target Then the Entrepreneurs are the Movers!”

*-----Sujit Chowdhury, Secretary General, World Summit of Young Entrepreneurs of the UN,
1997, San Hose, Costa Rica*

7.1 GENERAL RECOMMENDATIONS:

As in most developing countries and particularly in middle income emerging economy like Bangladesh, SMEs will continue to be the major driving force for income generation, income distribution and productive employment generation in Bangladesh. This is an age of entrepreneurship where individuals' initiatives are encouraged, facilitated and endorsed by all sectors of the society like government, business community, educational institutions, community, and financial institutions. Sustainable SMEs development in Bangladesh is paramount in order to increase productive employment level, raise the standard of living, and indeed enhance overall health of both the people and economy of our country.

Needless to say that substantive studies are needed to identify critical issues entailing entrepreneurs and SME development so to create a national level policy framework that are implementable. However, I would humbly like to put forward few modest suggestions and recommendations:

7.1.1 Enhancing Access to SME Finance

As this has been evident that less than 36% of SMEs have access to formal institutional credits. It can be concluded that access to institutional finance for SMEs is still greatly limited. Enhancing access to institutional finance by at least 60% of SME entrepreneurs might be a national target within next five fiscal years. There ought to be public-private joint initiatives in elevating the status of SMEs' greater access to finance. These can be initiated through strengthening SME foundations, motivating institutional sources of financing, collaborating with the private banks, among others, to provide access to the deserving SME credit seekers.

After analyzing a comprehension body of academic work on 'Problems and Prospects of SME Financing in Bangladesh', by Md. Shahnur Azad Chowdhury and et al, we can get substantive ideas on how/what can be achieved to advance SMEs access to finance and financial resources:

“Special SME Development Fund: Government should set up special funds to raise the required equity capital for SMEs with the potential entrepreneurs. Credit Guarantee Scheme: Government should provide mortgage and guarantee free loan up to a certain limit under the credit guarantee scheme.

Financial Incentive Scheme: Government should develop financial incentive schemes for SMEs through a ranking system for their sound business plan and feasibility study.

Institutional Network: Development should be done on institutional network through public-private support partnership would be more effective in SMEs financing by pooling the unused or surplus funds available around the country. To make it viable, restructuring of the existing public agencies as well as private support institutions are required.

Alternative Credit Scheme: As an alternative to collateral based financing, loan should be provided to potential SMEs based on previous years cash flow statements (i.e., like project financing).

Venture Capital: Venture capital formation for SME financing should be highly encouraged through enforcement of proper rules and regulations by the Stock Exchange Commission (SEC) and other key players including the Bangladesh and private support organizations.

Bank Syndication Scheme: Forming bank syndication between micro finance institutions and commercial banks for SMEs financing. Micro finance institutions should provide recommendation and credit history to commercial banks for SME development.

HRD in Financial institutions and in Government offices: Government should provide Human Resource development and training program for financial institution employees and related government officials to smooth out the SMEs financing process.

Sub-contracting arrangements: Government should come up with policies in collaboration with private support organizations to link up SMEs and suppliers of manufacturers and raw materials under the same industry (both backward and forward linkage service providing firms) based on subcontracting / outsourcing agreement. If developed and implemented accordingly, this types of cooperatives would lead to higher value addition and economies of scale. Government, associations of Chambers of Commerce and Industry, credit information bureau (CIB), Bangladesh Bank and Stock Exchange Commission (SEC) and renowned auditing firms should jointly prepare a reliable database, where necessary information about the existing and potential entrepreneurs and formal creditors will be available. The date base will be accessible only to the concerned authorities. This would ensure transparency and accountability while choosing the right entrepreneur and the right project among the pool of applicants.

Specialized Financial Institution: There should be created a separate financial institution to deal exclusively regarding SME financing and promotion of their goods and services, both in domestic and foreign market.

Credit rating system: Alternative to existing financial tools and leasing, the “downgrading” of banks to preferred target groups, especially SMEs and “upgrading” of successful non-governmental organizations (NGOs) and private support organizations could help to provide finance to Microenterprises and SMEs. Such approaches can eliminate the need for credit guarantees.”

7.1.2 Development of Infrastructure Targeting SME:

Infrastructure development, targeting SME, is a prerequisite to efficient development and financing of SMEs. Currently, the most severe constraint that hinder the development of SMEs is the lack of infrastructure (e.g., roads, gas and electricity), limited access to market opportunities, lack of technology platforms, required expertise and business information and communication for informed decision making. There needs to be appropriate infrastructure for SME growth.

7.1.3 Quality Assurance of SME Products:

Quality (poor) of products is a big setback for expansion of SME business and SME sector as a whole. Initiatives for quality improvement and standardization of SME products have to be a national target. The BSTI may be made more effective in monitoring quality of product both for domestic market and for exports.

7.1.4 Training Facilities for SME workers and Entrepreneur:

Workers in Bangladesh are good at learning varied production skills and following them to the finished products. However, training facilities for SME workers and development of entrepreneurial skills are not adequate in our country. Some training Institutes like the Training Institute of BSCIC impart training but it is not utilized properly. Special programs are to be undertaken for the establishment of training institutes regarding SME development and entrepreneurship skills building.

7.1.5 Organizing trade fairs, SME symposiums, workshops on SMEs:

At present workshops and symposiums on SMEs are held by different organizations and think tanks, but these are held infrequently and are not conducted in any systematic and engaging manner. A plan for holding seminars, workshops, trade fairs, etc. on a regular basis should be formulated.

7.1.6 Setting Help Desks within Banks and Business Promotion Bodies with Internet Facilities:

To extend the outreach of SME development programs, particularly with respect to women entrepreneurs and young entrepreneurs, SME Help Desks with computer and internet facilities should be set up within bank branches dealing with SME finance as well as in all chambers of commerce and industry and other trade promotional bodies.

7.1.7 Use of Modern Technology:

Product design and technology are a very important aspect of SME development. Most SMEs are engaged with indigenous technology and they are not involved in improving their existing production techniques and processes. Without the utilization of modern technology, ‘facilitation processes’ do not occur particularly in an indigenous sector and hence, enterprises become uncompetitive.

7.1.8 Monitoring Agency---for Proper Implementation of SME policy:

BD Government has formulated SME policy to recognize SMEs as indispensable players in growth acceleration and poverty reduction. To this end government has introduced various strategies, provides facilities and incentives for development and growth of SMEs. However, it lacks appropriate monitoring! Setting up a monitoring mechanism would be helpful.

7.1.9 Role of NGO:

Dedicated Non-Government Organizations (NGOs) focusing on entrepreneurship development, should be encouraged to take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh. They could act as facilitator and/or lobbyists. Female entrepreneurs must be engaged in formulating and implementing policies toward female-run SMEs assist.

Conclusion

Published Research and statistical data analysis prove that SMEs play a vital role in Bangladesh economic development, however, the sector is facing multiple challenges. The Govt. of Bangladesh is committed to develop the SME sector and BRAC Bank is leading the initiative, among a few others, through different policy measures, though the rate of development is not up to expectations. Bangladesh Bank Report of 2014 demonstrably indicates that ‘key reason behind the SMEs not entering manufacturing are financial constraints, dismal state of utilities, technology and policy discriminations’ while being deprived of ‘equal access’ to formal financing opportunities.

Numerous ‘challenges’ have been identified through this research report (by following the excellent works of various experts) and access to credit along with skills enhancement and managerial trainings are noteworthy deficiencies. Several prospects have been noted corresponding to these challenges and a few deserve urgent attention, such as, ‘Special SME Development Funds, Financial Incentive Scheme, Alternative Credit Scheme, Bank Syndication Scheme, Venture Capital’ [&Angel Investor access], etc. among others. Special attention ought to be given to female entrepreneurs and emerging young entrepreneurs in order to effectively engage this vast population sector to harness ‘sustainable competitiveness’ of SMEs across Bangladesh.

SME should be a most engaging and cost-effective sector for income and employment generation which may inject new dynamism into national industrial growth, leading to poverty alleviation and greater contributions to the GDP. BRAC Bank and BRAC University could further engage and enhance this national effort by capitalizing the unwarranted optimism of our aspirant SMEs whom are possessed with an attitude that ‘risks are there to be taken and not to be avoided, complexity is fun and tensions could be promising’.

Indeed, further research and constructive policy measures with implementation frameworks are needed. One can hope that it is not in the too distant future that SMEs would be embraced by the Govt. banks, universities, interested parties and other regulatory bodies as a distinct ‘locomotor’ of sustainable national income growth.

Hence, ‘Improving Opportunities for SMEs in Bangladesh’ is paramount.

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Appendix 1

QUESTIONS TO BE RAISED AND ADDRESSED:

A. In the matter of challenges to access to SME finance:

- i. Can institutional finance for SME be broaden both in terms of number of SME accessing such loans and diversifying (increasing) the varied sources of funds for SME? and
- ii. Are there provisions for female entrepreneurs and young entrepreneurs to have access to specialized funds for SME development?

B. In the realm of development of SME infrastructure:

- i. Are there adequate infrastructure facilities (i.e. gas, electricity and roads etc.) for SME growth?
- ii. Are there accessible and affordable training facilities for SME, female entrepreneurs and young entrepreneurs? and
- iii. Can BRAC Bank and/or BRAC U be of any assistance in addressing the above queries?

C. In the matter of BD Government SME policies and governmental assistance:

- i. Are there sufficient policy framework for supporting SME growth; are they comprehensive and sustainable?
- ii. Are there adequate implementation mechanisms to support those policies?

D. In the matter of usage of modern technology:

- i. Can the usage of modern technology be of any significance in making SME more competitive both nationally and internationally? and
- ii. Should BRAC Bank and/or BRAC U be of help to facilitate access to technology platforms?

E. In the matter of sustainable SME development:

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

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

iii. How to address lack of marketing ability, commitment to innovation and customer satisfaction?

And

iv. Are the entrepreneurs equipped with skills in proper book keeping/accounting, banking and investor relations and financial management; and if not what can be done?