

**Evolving SME Banking in Bangladesh:
through BRAC Bank Ltd and its
comparison with other four banks.**



INTERN REPORT

Submitted by

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Evolving SME Banking in Bangladesh: through BRAC Bank Ltd and its comparison with other four banks.



INTERN REPORT

An Internship Report Presented to the Faculty of Business Administration
in Partial Fulfillment of the Requirements for the Degree of Bachelor of
Business Administration

Submitted To

**Shabnam Sharmin Rahman
Senior Lecturer
BRAC Business School**

Submitted By

**Farieza Nayar
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Date of Submission: 24th February 2013

**BRAC Business School
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Letter of Transmittal

24th February, 2013

Ms. Sharmin Shabnam Rahman
Senior Lecturer,
BRAC Business School,
BRAC University,
Mohakhali, Dhaka.

Subject: Submission of the Report for Internship

Dear Madam,

I had conducted my Internship at BRAC Bank Ltd- Research & Development division under your supervision and it is a great pleasure for me to submit my Internship Report on '**Evolving SME Banking in Bangladesh: through BRAC Bank Ltd and its comparison with other four banks**'.

Creation of the final report was very exciting and practical organizational working experience for me. I had tried my best to collect pertinent information from all available resources in a most realistic and professional way.

I am glad that I had been given the opportunity to prepare this report and hope that this report will meet the standards of judgment. Any kind of suggestion and clarification will be accepted cordially.

Sincerely yours,

Farieza Nayar
ID:09104186
BRAC Business School
BRAC University

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.

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

I would like to express my cordial and deep respect to my Internship supervisor, Ms. Sharmin Shabnam Rahman, Senior Lecturer, BRAC University for her proper guidance, valuable advice, instructions which helped me a lot to complete this report. I am very lucky to get the opportunity to complete my internship report under her guidance and supervision.

I would also like to express my sincere gratitude Mr. S. M Anisuzzaman, Head of Research & Development division for giving me the opportunity to complete my internship program in Research & Development division. I also like to thank Mr. Tanvir Omar Chowdhury, Manager Consumer Insights, Mr. Ashique Iqbal, Manager, Product Development, and all the other officials of this division. I would like to give special thanks to Mr. Nurul Hai and Mr. S. M. Maniruzzaman for always providing me the required materials and helping me to clarify the banking activities. This report gave me practical knowledge about the banking activities.

I am also grateful to the bank officials of Prime bank Ltd, Eastern Bank Ltd, AB Bank Ltd and Dutch Bangla Ltd who gave their precious time and provided me with important information without which this report would not have been possible. Finally my sincere gratitude goes to my family, friends, classmates and colleagues who helped me whenever I needed.

Executive Summary

Small & Medium Enterprises (SMEs) are important to almost all economies in the world, especially to the developing countries as they face major employment and income distribution challenges. There are about 60 lakh SMEs and microenterprises in Bangladesh, according to Asian Development Bank. In recent times, SMEs have come into the forefront of development agenda due to the recognition of their contribution in fostering growth, sustaining global economic recovery, generating employment and reducing poverty.

Both micro-finance institutions and banks are beginning to realize the potential of SME market and are designing new financial products for it. Some banks and other financial institutions had been providing loans to such enterprises for long, though not in the classification of SME Financing. Now, almost all banks and non-bank financial institutions (NBFI) in the country are providing loans to the sector, under different governmental schemes as well as through their own product portfolios.

BRAC, the largest private development organization of the world, believes that micro finance is an important tool in breaking the cycle of poverty. BRAC realized that there is a vast group of small and medium entrepreneurs in the country, who have no access to institutional credit. Upon realization BRAC introduced a full-fledged commercial bank- BRAC Bank, in July 2001. 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. BRAC Bank is the largest SME Bank in the country and 4th largest SME Bank in the world in terms of outstanding loan amount. In its 11 years of operations, it has disbursed Tk 22,000 crore loans to 4 lakh SME entrepreneurs across the country through 553 customer touch points (SME Unit Offices, SME Sales and Service Centers, Krishi Branches, and Branches. The finance has created direct employment to 13 lakh people and it has a SME customer base of more than 3 lac people.

This report aims at analyzing the current SME financing status and BRAC bank's contribution in SME banking. Moreover a comparative analysis had been done to compare BRAC bank's SME banking with four other private commercial banks which also have good name in terms of serving SMEs. The comparison is done in terms of SME Banking establishment period, availability of SME customer touch points, SME product differentiation etc. Although there can be no comparison with the largest SME bank of the world, BRAC Bank Ltd but the report brings out the evolving SME banking of these four banks which has some special features which can lead them in successfully attracting SME customers.

Table of Content

Chapters	Name of Chapters	Page No.
1	INTRODUCTION	1-2
1.1	Origin of the Report	1
1.2	Objective of the Report	1
1.3	Scope of the Report	1
1.4	Methodology of the Report	2
1.5	Limitation of the Report	2
2	ORGANIZATIONAL OVERVIEW	3-17
2.1	Introduction	3
2.1.1	Parent Companies of BRAC Bank Ltd:	
	I) BRAC	4-5
	II) IFC	
	III) ShoreCap International	
2.1.2	Rise of BRAC Bank Ltd	6
2.1.3	Company Slogan	7
2.1.4	Vision & Mission	7
2.1.5	Chart of Organization Structure	8-9
2.2	Subsidiaries & its Association	10-11
2.3	Products & Services	12-13
2.4	Highlights of BRAC Bank Ltd	14-15
2.5	Distinctive Characteristics of BRAC Bank Ltd	15-16
2.6	Awards & Achievement	17
3	INTERNSHIP EXPERIENCE	18-24
3.1	Internship Opportunity in Research & Development Division	18-21
3.2	Observation	22
3.3	SWOT Analysis of the Internship Experience	23
3.4	Recommendation	24

4	PROJECT PART	25-37
4.1	Introduction to SMEs	25
4.1.1	Definition of SME	26
4.1.2	Evolution of SME Financing Importance	27-28
4.1.3	Initiatives taken for SME Financing	28-30
4.1.4	Contribution of SMEs in Bangladesh	30-31
4.2	Current Status of SME Financing	31-33
4.3	BRAC Bank's Contribution in SME Banking	34
4.3.1	Highlights of BRAC Bank's SME Banking	35
4.3.2	Important Features of BRAC Bank's SME Division	36
4.3.3	BRAC Bank's Availability	37
5	FINDINGS & ANALYSIS	38-58
5.1	SME Banking Profile	38-40
5.2	Eligibility Requirements for Pursuing SME Loan	40-41
5.3	Loan Product Differentiation	42-48
5.4	Financial Aspects	49-54
5.5	Summary of Findings & Analysis	55-58
6	RECOMMENDATION & CONCLUSION	59-60
6.1	Recommendation	59
6.2	Conclusion	60
7	REFERENCE	61-62
8	APENDIX	i-ii

CHAPTER: 1
INTRODUCTION

This paper is entitled “**Evolving SME Banking in Bangladesh: through BRAC Bank Ltd and its comparison with other four banks**”, originated from the fulfillment of the internship program.

1.1 Origin of the Report:

This report has been made as a completion of academic requirement endorsed by BRAC business school, BRAC University. The principle goal of internship program is to assess student’s ability for a particular career before choosing any career permanently and to provide an opportunity to converting theoretical knowledge to practical situation. It assists students to accommodate with the work environment. It is a three months long program in which students get opportunities to work in different business organizations, financial institutions, research institutions. Based on their working experience they have to make a project report. I had joined Research & Development division of BRAC Bank Ltd on 24th September 2012 and the internship period ended in 23rd December 2012.

1.2 Objective of the Report:

The objective of the report is categorized into two parts, one is board objectives and the other is specific objectives. These are given below:

Broad Objectives

- To review the importance of SMEs and its financing.
- To review the SME banking of Bangladesh.

Specific Objectives

- To review the importance of SMEs in the economy and the current status of SME financing in Bangladesh.
- To review the present role of regulatory authorities in SME financing and development.
- To review BRAC bank’s contribution in SME Banking.
- To conduct a comparative analysis of SME banking in BRAC Bank and four other private commercial banks.

1.3 Scope of the report:

The report focuses on the comparative analysis of SME Banking of BRAC Bank with four other private commercial banks not the whole banking and non banking industry.

1.4 Methodology of the Report:

To conduct a research work it is very important to obtain sufficient volume of data. Interviews were taken about SME banking in selected banks through a questionnaire. The report was completed by collecting both primary and secondary data through the following sources:

Primary sources:

- Interviewing selected banks' SME divisions.
- Direct conversation with the BRAC Bank Ltd SME staffs.
- 3 days training program of BRAC Bank Ltd.
- Personal observation over the internship period.

Secondary sources:

- Websites of selected banks.
- Annual Reports of selected banks.
- SME product brochures of selected banks.
- Journals, articles, books, BBL newsletters and research papers.

1.5 Limitations of the Report:

Since this report is only for academic purpose, there were some limitations in this study such as the followings:

- Small and Medium Enterprises and its financing is a vast subject, but this report covers very specific and limited areas. Therefore, converting such broad area into a short form was a challenge. The report was completed based on secondary data and primary data which had to be summarized by my own knowledge and understanding. Therefore there might be few errors.
- The report has not focused all banks that provide support to SMEs for which the outcome might not present the full picture of SME Banking.
- The banks selected for this report belongs to different generations. AB Bank Ltd is a 1st generation bank whereas Dutch-Bangla Bank Ltd, Eastern Bank Ltd, Prime Bank Ltd are 2nd generation banks. On the other hand, BRAC Bank Ltd is a 3rd generation bank for which the analysis and interpretation was difficult.
- Some banks did not response in giving appointment date and some banks did not provide much information for which those banks could not be considered in this report.
- Time constraint was a big problem. The regular office hours allowed me very limited time for doing the report. Many things were needed to be sorted in this short time therefore in depth analysis was not possible.

CHAPTER: 2
ORGANIZATIONAL OVERVIEW

2.1 Introduction

BRAC Bank is a scheduled commercial bank established under the Banking Companies Act, 1991 and incorporated as a public company limited by shares on 20 May, 1999 under the Companies Act, 1994 in Bangladesh. It is the last organization to have received a commercial banking license from Bangladesh Bank, making it the youngest private commercial bank in Bangladesh.

BRAC, the largest private development organization of the world, believes that micro finance is an important tool in breaking the cycle of poverty. BRAC realized that there is a vast group of small and medium entrepreneurs in the country, who have no access to institutional credit. Upon realization BRAC introduced a full-fledged commercial bank- BRAC Bank, in July 2001.

The bank is partially owned by BRAC, the largest non-government organization in the world, International Finance Corporation, the private sector arm of The World Bank Group and ShoreCap International. The shareholding position BRAC Bank Ltd as of 2011 is given below:

Name of Shareholder	% of Shareholding
BRAC	43.77%
International Finance Corporation	5.36%
ShoreCap International Limited	0.86%
Sir Fazle Hasan Abed	0.001%
Mr. Syed Humayun Kabir	0.001%
Mr. A.S.Mahmud	0.001%
Mr. Faruq A. Choudhury	0.001%
Mr. Dr. Saleh Uddin Ahmed	0.001%
Mr. Md.Aminul Alam	0.001%
Ms. Tamara Hasan Abed	0.001%
Mr. Shib Narayan kairy	0.001%
General Public	50.00%
Total	100.00%

BRAC Bank Ltd has important international shareholdings apart from BRAC which are International Finance Corporation (IFC) and ShoreCap International Limited. According to the year 2011, the General Public holds the highest shareholding of 50% and BRAC holds the second highest percentage of ownership which is 43.77%. On the other hand, International Finance Corporation (IFC) and ShoreCap International Limited hold 5.36% and 0.86% of shareholding respectively.

2.1.1 Parent Companies of BRAC Bank Ltd



BRAC is based in Bangladesh and is the world's largest non-governmental development organization. It had been established by Sir Fazle Hasan Abed in 1972 soon after the independence of Bangladesh.

The year 2012 marks forty years of BRAC's existence. In these four decades since its journey in 1972 as a small relief and rehabilitation project in a remote corner of Bangladesh, it has grown to become one of the largest and most successful development organizations in the world. Today it reaches more than 138 million people in Africa and Asia through its programs that address poverty by providing micro loans, self-employment opportunities, health services, education and legal and human rights services etc. BRAC now touches the lives of an estimated 126 million people, with staff and BRAC-trained entrepreneurs numbering in the hundreds of thousands. This year also marks the 10th year of its operations outside of Bangladesh, starting with its entry into Afghanistan in 2002. BRAC maintains offices in 14 countries throughout the world, including BRAC USA and BRAC UK. This global movement is bringing change to 10 countries in Asia, Africa and the Caribbean, with operations in the 11th country, the Philippines, being launched in 2012.

BRAC is present in all 64 districts of Bangladesh, with over 7 million microfinance group members and 37,500 non-formal primary schools. BRAC's tuberculosis programme alone covers a population of over 80 million people in Bangladesh. It is also the largest in terms of staff size, employing more than 60,000 people, and organizing and training an additional 60,000 self-employed health volunteers, agriculture and livestock extension agents and part-time teachers where majority employees are women. Across the world, the staff and volunteers together reach an estimated 113 million people.

In the 1980s BRAC's annual expenditure was USD 0.78 million which was 100% funded by donors and as years passed by; in 2011 BRAC's annual expenditure is USD 572 million and only 24% is funded by donors. Therefore, the organization is almost 80% self-funded through a number of commercial enterprises that include a dairy and food project and a chain of retail handicraft stores called 'Aarong'.

BRAC's Vision: A world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential.

BRAC's Mission: To empower people and communities in situations of poverty, illiteracy, disease and social injustice. BRAC's interventions aim to achieve large scale, positive changes through economic and social programmes that enable men and women to realize their potential.

II) International Finance Corporation:

The International Finance Corporation (IFC) is an international financial institution which offers investment, advisory, and asset management services to encourage private sector development in developing countries. It was established in 1956 as the commercial wing of the World Bank to advance economic development by investing in strictly for-profit and commercial projects which reduce poverty and promote development. The IFC is headquartered in Washington, D.C., United States. Since 2009, the IFC has focused on a set of development goals which its projects are expected to target. The corporation's total investments in 2011 amounted to \$18.66 billion. It committed \$820 million to advisory services for 642 projects in 2011, and held \$24.5 billion worth of liquid assets. The IFC is in good financial standing and received the highest ratings from two independent credit rating agencies in 2010 and 2011.

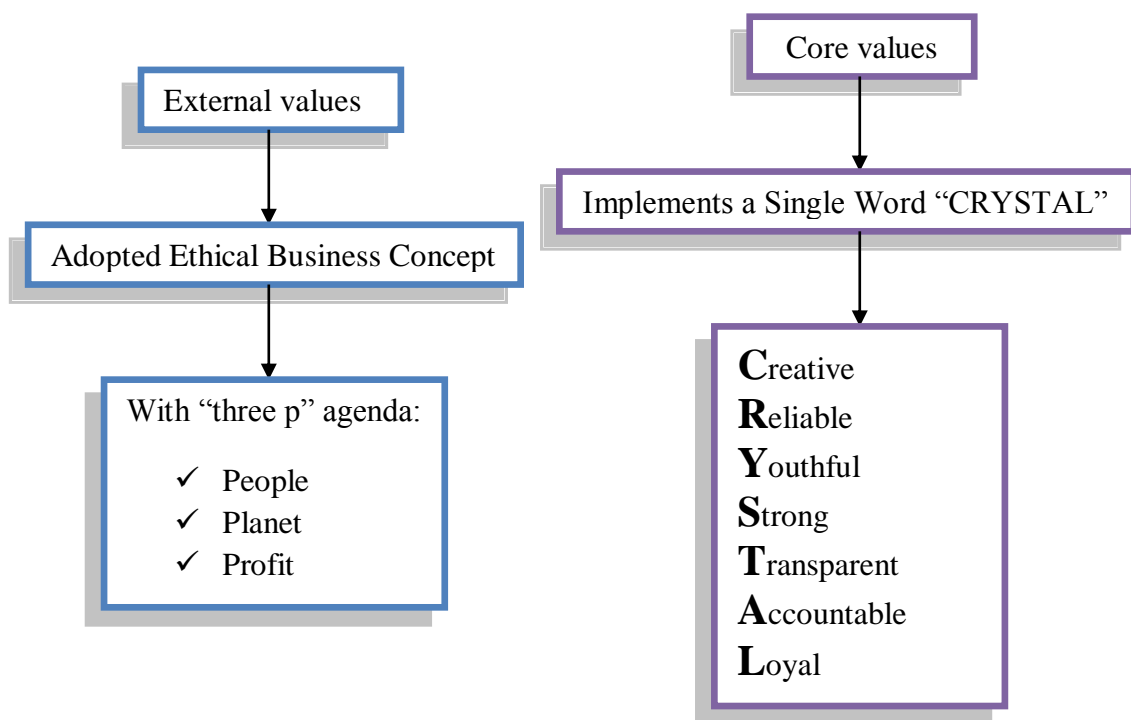
III) Shore Cap International Ltd

ShoreCap International Ltd (SCI) was launched in 2003 by ShoreBank Corporation. It is an international private non-profit, equity company seeking to invest in small business banks and regulated micro finance institutions in countries with developing and transitional economies like Africa, Asia and Eastern Europe.

2.1.2 Rise of BRAC Bank Limited

BRAC Bank is a scheduled commercial bank established under the Banking Companies Act, 1991 and incorporated as a public company limited by shares on 20 May, 1999 under the Companies Act, 1994 in Bangladesh. It is an affiliate of BRAC (Bangladesh Rural Advancement Committee), one of the world's largest non-governmental development organizations founded by Fazle Hasan Abed in 1972. The primary objective of the Bank is to carry on all kinds of banking business. The Bank could not start its operation till 03 June, 2001 since the activity of the Bank was suspended by the High Court of Bangladesh. Subsequently, the judgment of the High Court was set aside and dismissed by the Appellate Division of Supreme Court on 04 June, 2001 and accordingly, the Bank has started operations from 04 July, 2001.

BRAC Bank's Strength emanates from its owner - BRAC. A schematic presentation is given below to simplify its overall values:



BRAC Bank is a fully fledged commercial bank; yet, it has significantly contributed in the development of SME sector by creating a unique model of collateral free SME lending, which enabled the SME entrepreneurs (the missing middle) to get easy access to finance. BRAC Bank SME finances covers a many non-traditional sectors - agriculture, food processing, light engineering, plastic, handicrafts, poultry, dairy, fishery, feed mill, wood processing, boutique & garments, which helps to boosting rural economy and generating employment. With 400 SME Unit Offices, BRAC Bank is strongly positioned to reach to small entrepreneurs at the nook and corner of the country realizing their dreams.

2.1.3 Company Slogan

BRAC Bank Limited's company slogan is "Aastha Obichol". It promises of unshakeable trust, and being the "dependable friend in banking" will hold true for years to come.

2.1.4 Visions & Missions

Vision:

"Just, enlightened, healthy democratic and poverty free Bangladesh" this was the slogan when BRAC bank first started its journey. After all these years BRAC bank is still working for this purpose. From the inauguration, BRAC bank has been working with an aim to reinforcing human capital. Profit making is not the only purpose of BRAC bank. On the contrary, BRAC bank has always been dedicated to work as a social reformer by bringing revolution in economy. BRAC bank's 3p agenda includes- people, planet & profit. Simultaneously serving people, planet and profit BRAC bank wants to bring about a significant social impact. BRAC bank wants to enable mass people to contribute in our economy.

Vision Statement:

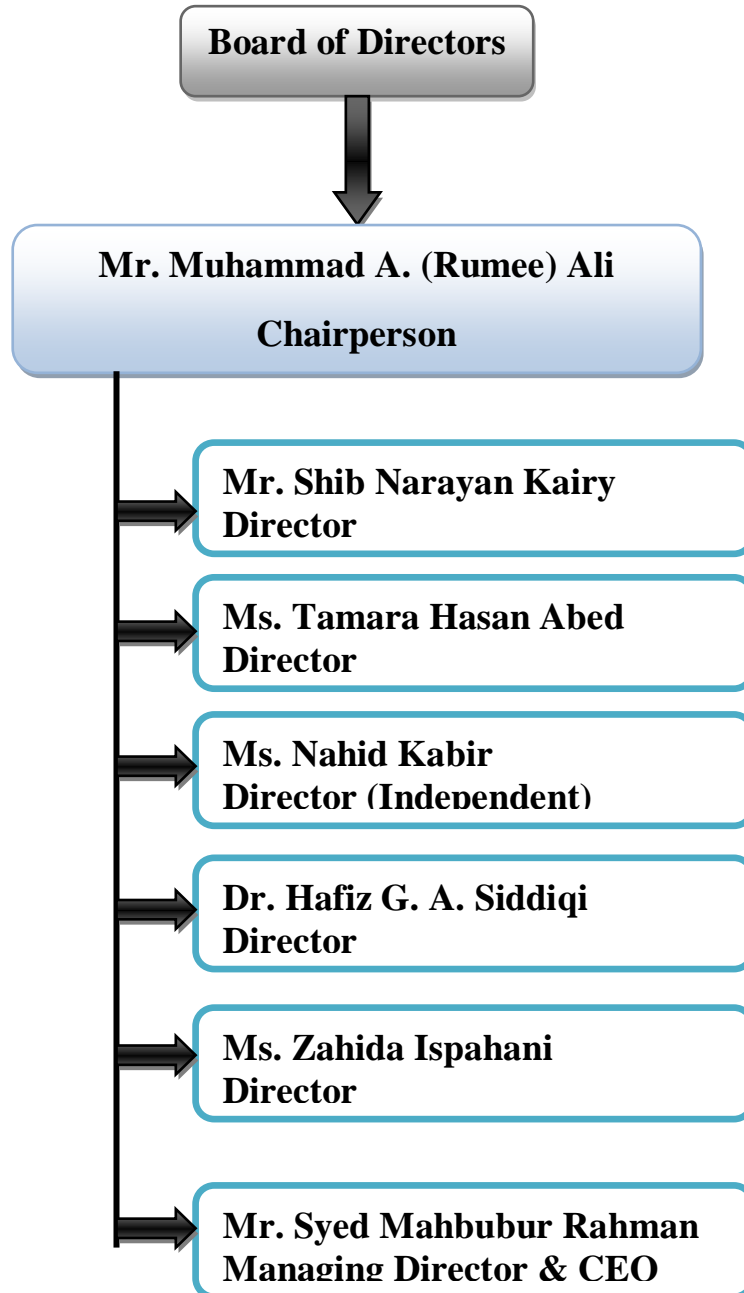
Building profitable and socially responsible financial institution focused on Market and Business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh".

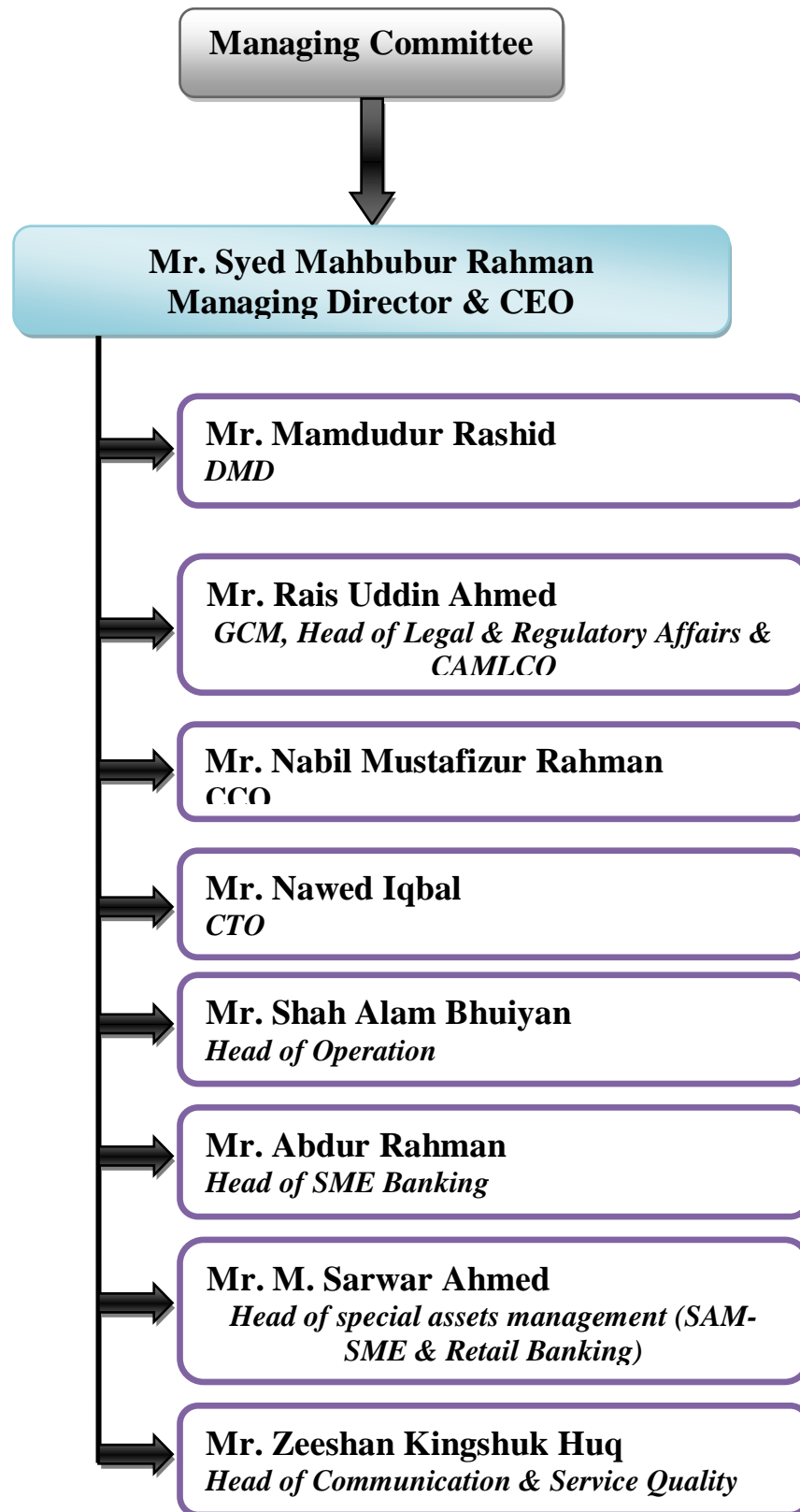
Mission:

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

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

2.1.5 BRAC Bank Limited Organogram





2.2 Subsidiaries and its Associations

The bank organizes its operation through four subsidiary companies, they are:

- I) BRAC EPL Investment Limited,**
- II) BRAC EPL Stock Brokerage Limited,**
- III) bKash Limited,**
- VI) BRAC Saajan Exchange Limited.**

And, one associate company;

- a) BRAC Asset Management Company Limited**

I) BRAC EPL Investment Limited:

BRAC EPL Investment Limited, a private company limited by shares, was incorporated in Bangladesh in 2000 under the Companies Act 1994 in the name “Equity Partners Limited”. On 4 October 2009, the company changed its name to “BRAC EPL Investment Limited”. BRAC Bank Limited acquired 51% of its equity in August 2009. On 11 February 2010, a new merchant registration certificate was issued in favor of BRAC EPL Investment Limited which allows it to perform the activities of issue manager, underwrite and portfolio manager.

BRAC EPL Investment Limited delivers a whole range of investment banking services including traditional merchant banking activities such as issue management, corporate advisory, and corporate finance to many of its clients.

II) BRAC EPL Stock Brokerage Limited:

BRAC EPL Stock Brokerage Limited was incorporated in Bangladesh on 16 May 2000, as a private limited company under the Companies Act 1994 in the name of “Equity Partner Security Limited”. The name of the company was changed to BRAC “EPL Stock Brokerage Limited” on 04 October 2009.

The main objectives of the company for which it was incorporated are to carry on the business of stock brokers/ stock dealers and other related business in connection with dealings of listed securities. Other objectives of the company are to buy, sell, hold, or otherwise acquire, or invest the capital of the company in shares, stock, and fixed income securities, etc. it has corporate membership of Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited.

III) bKash Limited:

bKash, a subsidiary of BRAC Bank (a joint venture MIM, USA), became fully operational in July 2011 and launched its operation with the objective of bringing unbanked mass people under formal banking coverage. bKash is using a fully encrypted VISA technology platform for transactions over mobile phones. With the simple business model of 'mobilizing deposits from urban areas and disbursing it to rural areas', bKash is well ahead on its journey of financial inclusion for the 'mass' with its state-of-art technology and security.

VI) BRAC Saajan Exchange Limited:

BRAC Bank has launched a full-scale exchange house-BRAC Saajan Exchange Limited – in Birmingham, United Kingdom. Non-Resident Bangladeshis (NRBs) from UK now have a secured, fast, online transfer option available for sending remittance to Bangladesh from UK. The company has been formed through acquisition of 75 % shares from the erstwhile Saajan Worldwide Money Transfer Limited by BRAC Bank Limited. The acquisition has strengthened our operation in the remittance market in UK. It's been reported that the company was able to successfully capture more than 10% of the remittance market in UK.

a) BRAC Asset Management Company Limited:

BRAC Asset Management Company Limited (the company) was incorporated in Bangladesh on 01 April 2010 as a private company, limited by shares vide certificate of incorporation no. C-83926/10. The principal activities of the company for which it was established include the business of investment and asset management, portfolio management, capital market operation, financial intermediary services, management and launching of mutual funds, fund management and sponsorship, merchant banking activities, etc.

2.3 Products and Services

SME Banking

SME	
Deposit	Loan
Prapti Current Account Prachurjo Fixed Deposit Shonchoy SME Deposit	Anonno Rin Apurbo Rin Prothoma Rin Durjoy Somriddhi Rin Shokti Rin Shompod Rin

Probashi Banking

Probashi	
Deposit	Investment
Probashi Current Account Probashi Saving Account Probashi Fixed Deposit Probashi Abiram	Probashi Wage Earners' Bond US Dollar Premium & Investment Bond Probashi Biniyog

Retail Banking

Retail		
Deposit		
Savings	Current	Term
Triple Benefit Saving Account Saving Classic Account Aporajita Account Future Star Account	Current Classic Account Current Plus EZee Account Salary Account Campus Account	DPS Fixed Deposit General Flexi DPS Interest First Fixed Deposit Freedom Fixed Deposit (FFD) Abiram Fixed Deposit
Loan	Cards	
Salary Loan Quick Loan Auto Loan Home Loan Secured Loan/ Overdraft Salary Loan	Debit Card	Credit Card
	VISA/Master Planet Card Haji Card Travel CARD VISA/Master Planet Card	VISA Classic VISA Gold Universal Card Platinum Card

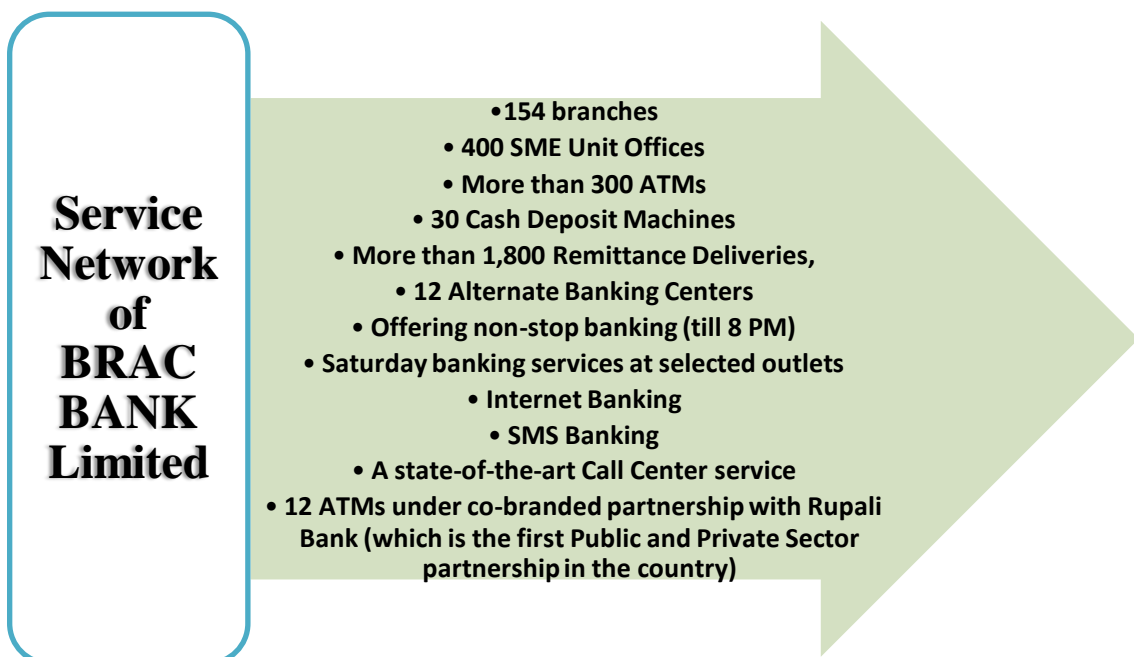
Wholesale Banking

Wholesale			
Corporate Banking		Cash Management	Custodial
Loan	Trade Finance		
Overdraft Short Term Loan Lease Finance Loan Against True Receipt Work Order Finance Emerging Business Syndication Term Loan Project Finance Bill Purchase Bank Guarantee	Letter of Credit Letter of Guarantee	Liability Products Security Services Cash & Trade Unit	Probashi Biniyog

Source: BBL Annual Report & BBL website

2.4 Highlights of BRAC Bank Ltd

- 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.
- It has been rated as one of the 4th successful & Sustainable SME banks in the world by the council of Microfinance Equity.
- BRAC Bank has the largest and widest online distribution network, becoming a role model to others. The services provided by BRAC bank are schematically presented below:



- It has acquired 1.3 million customers, bringing full banking services across not just SME, but all strata of the banking industry.
- It has the largest retail customer base of the country which is just near about 20% of the bank's total portfolio. This division contributes 32% to the banks revenue and 51% to the bank's profit. (BBL Annual Report 2011)
- It has managed and maintained the size of its corporate asset portfolio of over BDT 30 billion which is near about 27% of its portfolio.
- Its Offshore Banking Unit (OBU) grew by 147% in 2011 just in a year from BDT 1,841 million to BDT 4,544 million.

- It has more than 250 ATM Booths, a significant portion in rural areas where even electricity is not available.
- Quick loan disbursement and highest Collateral free loan ceiling in the industry.
- ‘CRECHE’ day care centre started from July 2011 for betterment of BRAC Bank’s staffs.

2.5 Distinctive Characteristics of BRAC Bank Ltd

Global Alliance for Banking on Values (GABV)

BRAC Bank’s founder Chairman Sir Fazle Hasan Abed is also the co-founder of GABV, a network of world’s leading sustainable banks all of whom have values-driven agenda at the core of their mission and they are mostly working on development of the low-income sector of their respective countries. BRAC Bank is one of the fourteen members of GABV and the only bank from Asia.

Focus on Innovation

- ◆ At present BRAC Bank is the first bank to issue Chip based MasterCard Platinum card and third bank in Bangladesh to issue Platinum card.
- ◆ In December 2010, BRAC Bank launched Bangladesh's first e-commerce banking platform in alliance with Visa.
- ◆ It introduced “Krishok Card” (meaning: Card for the Farmers) – first ever credit card for peasants and farmers to help them purchase seeds, fertilizer and other agricultural items on emergency when they are in severe credit crisis

Doorstep Service

BRAC Bank provides service at the doorsteps of the customers. Unlike the traditional banking system, BRAC Bank worker go to the villages regularly to collect savings and loan repayments.

Remittance Services

- ◆ The bank is also the pioneer in remittance services in the country with the widest network across the country to reach the population in the remotest parts of the country. In the inward remittance segment, it was able to capture almost 40% of the total market share.
- ◆ BRAC Bank has launched Probashi Card to help customers receive overseas remittance directly from ATM and POS all over the country.
- ◆ An online, web based facility called “El Dorado” is used to facilitate the whole remittance process.

Focus on Green Banking

- ◆ BRAC Bank Ltd organized e-statement campaign where customers switched to e-statement and get up to 10 percent discount on plants, solar home systems, silk and hand-made recycled paper products at BRAC Kanon.
- ◆ BRAC Bank introduced a card that helps making the planet greener. The PLANET CARD – a first-ever in Bangladesh. With every Planet Card (Debit Card) sold from BRAC Bank, each account holder contributes Taka 25 every year towards the above-mentioned CSR initiatives. BRAC Bank contributes equal. Planet Card holder will also enjoy various discounts at leading restaurants and shops etc.
- ◆ BRAC Bank SME Banking Division has set up solar panels in 46 SME unit offices across the country. It has financed biogas electricity plants, solar power plants, manufacturing energy efficient bulbs in the country. The Bank has also funded several effluent treatment plants in the garments manufacturing sector.

Payroll Service

Most of the banks, are serving the elite class under their payroll service but BRAC Bank serve the rural people as well, and also by ensuring profit for the shareholders. It had made agreements to manage the payroll of such thousands of unskilled to low-skilled employees for a very minimal fee, mostly for free in many instances. That is also with access to the most modern banking facilities like VISA-enabled ATM booths, Internet Banking, credit and loan facilities, etc.

2.6 Awards & Achievement

- Best Retail Bank in Bangladesh for 2011
- FT Sustainable Bank of the Year 2010
- DHL–Daily Star Bangladesh Business Awards 2008
- National Award as the Highest VAT payer for the financial year 2007-2008
- ICAB National Award for 2007

CHAPTER: 3

INTERNSHIP EXPERIENCE

3.1 Internship Opportunity in Research & Development Division

Research and development is of great importance in business as the level of competition, production processes and methods are rapidly increasing. It helps a company to keep an eagle eye on competitors and customers in order to keep pace with modern trends and analyze the needs, demands and desires of their customers.

It is a system driven by marketing which puts customer needs first, and only produces goods that are known to sell and create customer satisfaction. In an industry like banks that is changing fast, firms must continually revise their design and range of products. This is necessary due to continuous technology change and development as well as other competitors and the changing preference of customers.

The Research and Development (R&D) wing of BRAC Bank was established in 2010 with a view to equip the Bank with constant innovation and re-engineering in products and services which would help to sustain the leading market position in the industry. Taking the right business decision at the right time in the right way can result in a better competitive edge over the competitors. Thus research findings will helps Management to pin point the fact and figures that will ensure the highest Degree of Correctness of the decision in the shortest possible time. R&D is considered to be an investment for the Bank, as opposed to an expense and BRAC Bank Ltd knows its value better.

The Research and Development division of BRAC Bank mainly works with the following:

- ◆ Product Development
- ◆ Consumer Insight
- ◆ Decision Support System

My Experience

I was lucky to get opportunity to work with Research & Development division of BRAC Bank Ltd which allowed me to learn different innovative strategies and face the real world. The challenges has created me a strong person and helped me in improving my skills. Moreover I got opportunity of conducting a 3 day Training which no bank offers to its interns. The training was very interesting and informative. The first day session included presentation and discussion of overview of BRAC Bank and different divisions of the bank. These presentations were done by senior employees of the bank who were very smart and friendly. The second day session included one day attachment in a branch under retail banking. The employees there were very cooperative and informative therefore the day ended with gathering basic and direct knowledge about branch operations. The third day session included half day attachment under SME branch which went on learning more about real SME operations. This last day also included assessment about the learning from this three

day training which were taken through E-learning assessment and written test. Upon successfully completing the training and getting the standard marks will make us eligible for having a certificate at the end of the internship.

Projects that I was involved with

◆ Affordable Housing Loan for landlords

There were specific criteria which made this project very challenging, some are given below:

Target group : Landlords

Age : 18-60 years

Rental experience: Minimum 3 years

This project experience has been a memorable one as the whole survey was done through phone. We were given huge lists of Cell phone numbers of mainly BRAC Bank customers where we had to call and ask for some personal information and their preferences regarding this kind of loan. The questionnaire was of 3 pages and every detail was supposed to be explained to the person on the other side of the phone. The first challenge was to get the right person who fulfils the criteria. The second challenge was to influence the person in cooperating and fill up every question. The project went on for 2-3weeks continuously till the target sample size of 100 had been fulfilled. We had to call to numerous phone numbers, many phone numbers were switched off, many didn't fulfil the criteria, and many didn't cooperate. We had to take appointments with many and call them later on. Interestingly we were out of phone numbers but our target was yet to be achieved and then new numbers were managed through sales centre.

◆ Mobile Credit Card

This project represents a very innovative idea though I felt that there were some faults too which was needed to be corrected to make it a successful product. The target group was people earning not more than Tk5000-Tk15000 which means it focuses on people who cannot afford a credit card. This was a field survey where we had to visit numerous of organizations where a representative of the organization was interviewed and some target group of the organization was also interviewed. I got the opportunity to visit big organizations like PRIDE, TRANSCOM Foods, Jaago Foundation, URMI Garments, Prestige Bengal, Kohinoor Chemicals and many others.

I got to know about the organization's HR policies and a chance to create networks. Most of the organizations provided positive response and some showed negative attitude towards the bank or the product. This project went on for weeks till we visited more than 14 organizations and completes a sample of 80 responses.

◆ **SME Employment Generation**

This project made me realize that BRAC Bank Ltd spend huge amount of money in Research & Development. The sample size of this project was 800 which were randomly taken in 7 divisions from 80 unit offices where the bank serves SMEs. The responses were conducted by agents of BRAC Bank Ltd who then mailed the responses through posting and emails. Through this project, I understood about types of SMEs, SME size, SME source of funds, SME employment, and perspectives of the respondents. I was not responsible of conducting the responses but my involvement in data entry and analysis made me feel a part of it.

I found out that maximum percentage of respondents agree that BBL's loan has created impact in SME employment generation but in evidence very few respondents themselves had hired more employees. On the other hand, I found out that the loan has created business growth in terms of revenue and profit for many SMEs. Many respondents had not only taken loan from BBL but also from other organizations like Grameen Bank, BRAC NGO, Progoti Bank, Krishi bank etc. This detail gives an idea that SMEs that took loan for more than once might had been able to expand business with positive results. Moreover whenever I had talked with SME centres, they had said that it is hard to generate employment if someone takes loan for the first time as many SMEs use the loan in increasing asset or paying liabilities. The SMEs do not generally think about increasing employment till it can increase profit to 40-50%. This information had made me clear about the state of SMEs.

◆ **Mystery shopping**

This project is a never ending one as the objective of the mystery shopping is to track and assess service standards of selected branches of the BRAC Bank Ltd. This experience was a very interesting one and it made me understand that for any business it is important to sustain relationship with customers. BRAC Bank Ltd values their customers for which they check the service standard of their employees from time to time. The bank spend huge amount of money in this sector. Agents are hired who act as customers and check employees' service standard and attitude towards customers. BRAC Bank Ltd has set of rules for their employees which they strictly need to follow such as wearing name plate, greet the customers, provide adequate information

etc. Therefore the agents keep record of the branches performance in terms of customer satisfaction, work environment. My responsibility was to cross check the agents; to see whether they are doing their work properly or not, coming on right time or not, providing right information or not etc. therefore I had to visit several branches of the bank and observe the service quality of the employees and the job part of the agents. I got to see both positive and negative attitudes of the bank's employees.

Other activities

- ▶ I had to collect data from the Bangladesh Bank website to make analysis on the financial market outlook and BRAC Bank's Contribution in the matter. This activity related with internet and Microsoft Excel.

- ▶ I had to do data entries of different project responses using Microsoft Access and also create coding manuals for analysis of the data.

The three month experience in this division has made me learn a lot like how to persuade people, how to be tricky, having patience, being courteous and using different Microsoft tools effectively. All this would be very helpful in my near future.

3.2 Observation

- ◆ Strong internal control of BRAC Bank. Everything is cross-checked, employees are checked whether they are providing standard service or not. Agents are checked whether they are doing their work properly or not.
- ◆ Efficient Information Technology division of BRAC Bank. They systematically checks if there is any illegal softwares installed in any computer and then they take action. They even keep record of which computer has tried to enter to restricted websites.
- ◆ BRAC Bank Ltd makes sure that its employees are getting good facilities. BRAC Bank Ltd has a child day care centre named ‘CRÈCHE’ within the premises, a canteen containing reasonable foods, a medical centre, a library, prayer rooms and many other facilities. The corporate culture of BRAC Bank limited the employees can only leave the office after their boss leaves.
- ◆ The Environment of BRAC Bank is very friendly and people addressed their seniors as “Bhai” and “Apa”.
- ◆ All the employees here make sure that papers are not getting wasted, used papers that have other side blank are utilised. This refers that they are taking green banking initiatives.
- ◆ According to BBL, there are set of rules regarding to qualitative customer service such as good greeting, good closing, appropriate information, keeping a smile, being patient etc. But many employees of BBL do not have the right attitude especially in branches. They are impatient, rude, and don’t understand customer value.

3.3 SWOT Analysis of the Internship Experience

STRENGTH	WEAKNESS
<ul style="list-style-type: none"> ◆ 3 month practical real work experience, 3 day training with certificate. Moreover it adds value to the CV. ◆ Gained basic knowledge of overall banking activities and policies. ◆ Applying knowledge and skills in work related situations; helps to find out what one can do and what one need to work on which helps to clarify career goals. ◆ Established a network of contacts, mentors, and references that will be of value for future letters and support. ◆ Adaptability of work life and pressure helps to be one step ahead in the upcoming job life. ◆ Exposure to real world helps to create confidence and improve communication skills. 	<ul style="list-style-type: none"> ◆ Not related to my major subjects- Accounting & Finance. Therefore experience gained would not be directly beneficial to these fields. ◆ Not involved with direct operations of a bank. ◆ Honorarium given is not enough in case of R&D division as field works are expensive. ◆ Sometimes supervisor’s actions and reactions are discouraging and distractive. ◆ Pressure of both indoor and outdoor job responsibilities. ◆ Lack of technological resources such as computers, pendrives, photocopy machines etc.
OPPORTUNITY	THREAT
<ul style="list-style-type: none"> ◆ Enhancing creativity and innovative ideas. ◆ Being part of the internal source which relates with market research, product development etc. ◆ Worked as a representative of a big organization -BRAC Bank Ltd. ◆ Gained knowledge and experiences about Research & Development division directly. ◆ Visited many real life organizations and met different kind of work people. 	<ul style="list-style-type: none"> ◆ Risk of negative response of people while surveying. ◆ Risk of unintentional information sharing as everything is supposed to be confidential. ◆ Risk of unjustified grading by office supervisors as 20% of the internship mark is on their hand. ◆ Risk of getting late at office which can create bad impression

3.4 Recommendation

- ◆ Students should be allocated according to major subjects and area of interest.
- ◆ Interns should be treated well and supported in gaining knowledge and skills.
- ◆ Managers and Head of the division should be friendly and cooperative with the interns.
- ◆ Minimum percentage of the internship marks should be associated with the organization supervisor as there is a risk of unfair evaluation.
- ◆ R&D division should have a little bit more space where interns can seat as there are times when interns have to roan around in search of appropriate standing or seating place.
- ◆ R&D division should have more computers, pendrives, photocopy machines etc.
- ◆ R&D division's conveyance billing process should be faster
- ◆ BBL should emphasize more on employee's attitude. Trainings that consist of learning courtesy, positive attitude should be given to the employees. This would increase the customer satisfaction and employee quality.
- ◆ BBL should charge a bit low interest rate and other charges as this would attract more customers. Many existing and potential customers are discouraged by BBL's high interest charge and other charges.
- ◆ BBL should take customer complaints seriously and improve its service as this might create customers to move away if no steps are taken.

CHAPTER: 4
PROJECT PART

4.1 Introduction of SMEs

Small and medium enterprises are referred to as the ‘missing middle’, because its size is neither small enough for microcredit from microfinance institutions nor big enough to be considered viable to finance in the formal financial sector. Therefore In most of the developing countries, including Bangladesh, lack of adequate access to finance is considered one of the major constraints to the growth of the SME sector.

Small &Medium Enterprises are important to almost all economies in the world, especially to the developing countries as they face major employment and income distribution challenges. There are about 60 lakh SMEs and microenterprises in Bangladesh, according to Asian Development Bank. In recent times, small and medium Enterprises (SMEs) have come into the forefront of development agenda due to the recognition of their contribution in fostering growth, sustaining global economic recovery, generating employment and reducing poverty.

4.1.1 Definition of SME (Small and Medium Enterprises)

The definition of SMEs varies from country to country and sometimes from authority to authority. Certain countries define small and medium enterprises through the size of their workforce only. But in Bangladesh, like many other countries, SMEs are defined through the number of workers and/or fixed assets (excluding land and building).

Bangladesh Bank has reset the definitions of small and medium enterprises (SME) as per the National Industrial Policy Order 2010. According to the latest circular of Bangladesh Bank (Date – 20/06/2011), the definition of Small & Medium Enterprise sector is given below:

Category	Attributes under the categories	Total Assets (at cost)	And/or total number of employees
Medium Enterprise	Service Concern	Tk. 1 Crore to 15 Crores	50 to 100
	Trading Concern	Tk. 1 Crore to 15 Crores	50 to 100
	Manufacturing Concern	Above Tk. 10 Crores to 30 crores	100 to 250
Micro Enterprise	Service Concern	Tk. 5 lac or less	10 or less
	Trading Concern	Tk. 5 lac or less	10 or less
	Manufacturing Concern	Tk. 5 lac to Tk. 50 lac	10 to 24 or less
Cottage Enterprise	Service Concern	Tk. 5 lac or less	10 or less
	Trading Concern	Tk. 5 lac or less	10 or less
	Manufacturing Concern	Tk. 5 lac to Tk. 50 lac	10 to 24 or less
Women Enterprises	Owner of at least 51 percent of a partnership or a private company registered under joint stock companies.		

Source: bdnews.com, June 2011

4.1.2 Evolution of SME financing importance

Financing is the foremost obstacle for SMEs followed by taxes, regulation and inflation. SME enterprises in Bangladesh essentially require financing for three purposes – for start-up, for working capital, and for fixed capital. Unavailability of working capital from formal financial institutions has been recognized as one of the major complaints of SMEs in Bangladesh (Meagher, 1998).

High percentage of SME ventures in Bangladesh was depended on personal savings, family or other informal credit sources. In recognition of this failure of the financial market, attempts had been taken by few of the more established MFIs (Microfinance Institutions) who had scaled up to tap this market. ASA was one of the first NGOs to introduce its Small Entrepreneur Development Program with a loan limit of Taka 30,000 (\$870) in 1992. Proshika commenced its Small Economic Enterprise Development Program in 1996 with loans as large as Taka 400,000 (\$6,700). Other MFIs such as Buro Tangail and TMSS also scaled up their microcredit operations. Brac scaled up chiefly to cater to the needs of its micro-finance graduates. Brac's credit programs include *Unnoti* (loans size \$166–\$833) and MELA (loans size \$580–\$5,800) along with the standard microfinance (loans size \$17–\$345). However, these scaling-ups by MFIs were not large enough to meet the fund requirements of the SMEs. Some specialized financial organizations such as Basic Bank also started providing financial services to the SME sector. Since the SME segment of the market was relatively underserved, a number of formal financial institutions were gradually scaling down and designing financial products for them.

The Bangladesh Bank has then started taking a number of policy measures to increase SME access to institutional finance. In Jan 2005, Bangladesh Bank had introduced \$16 million refinancing scheme to promote lending to SMEs by banks and financial institutions and made agreement with six banks and eight financial institutions. As a result about 2,000 SMEs have benefited from the scheme up to the end of January. 'Small and Medium Enterprise Sector Development Programme', a \$30 million project of Government of Bangladesh and ADB, is also in progress.

Historically, the selection of the size group and activities of Enterprise Financing has been decided in Bangladesh in an arbitrary manner. In all earlier Five Year Plans the emphasis was limited to small and cottage industries (SCI). PRS P-I, initiated in 2005, replaced the expression small and cottage industry (SCI) by small and medium enterprises (SME), but did not provide any explanation which raised many problems in understanding this concept.

The lack of objective basis in determining the coverage of SME, policy measures aimed at promoting SMEs have often yielded distorted results. The extension of the purview of SME to include non-manufacturing activities has led to large number of trading enterprises of specified size to claim policy support earmarked for SMEs. Therefore, an overwhelming proportion of credit provided to SMEs under Bangladesh Bank's refinance scheme has gone to the trading sector. There was confusion amongst the policy makers regarding whether micro enterprise (cottage industries and enterprises with less than 10 workers) should be included in the coverage.

Finally, in the Poverty Reduction Strategy Paper (PRSP)-II, which is currently in force, development of SME has been identified as a critical element of the Strategic Block for pro-poor growth. SME is likely to be an important component of inclusive growth strategy underlying the upcoming Sixth Five-Year Plan (2011-2015)

4.1.3 Initiatives taken for SME Financing

The success of microfinance for a number of decades has smooth the way for more formalized SME lending in Bangladesh. The interest of the government and regulatory bodies here is also admirable. With establishment of the SME Foundation and incorporation of the SME credit policy and programs by Bangladesh Bank, a new era has been envisioned. It was not until 2010 that the government and policymakers recognized the importance of providing extensive credit facilities to small and medium sector entrepreneurs to promote various initiatives, especially start-up enterprises as well as ones looking to scale up.

Regulatory bodies & its policy

A special programmes department has been established to promote the SME sector such as SME Foundation. Subsequently, the Department of Banking Inspection-3 was also constituted for onsite supervision of SME-sector credit.

SME credit policy and programmes was put in place requiring the banks/non-bank financial institutions to commit adequate fund prioritising the manufacturing and service sector and to ensure increased access of small and women enterprises to institutional finance.

Quarterly meetings are arranged at the Bangladesh Bank on a regular basis to review the performance status and corrective measures, if any, taken by the participating banks and non-bank financial institutions under the SME credit policy and programmes.

Refinancing scheme

The Bangladesh Bank has come up with a sizeable amount of revolving refinance fund for the banks and non-bank financial institutions primarily using external resources (e.g. the International Development Association, the Asian Development Bank). This is a win-win solution. It facilitates pro-poor growth and not adding to the reserve money. So this does not fuel inflation. The total amount of revolving refinance window was Tk 1,618 crore (Daily Star, October 2011). The central bank in assistance from Japan International Cooperation Agency has recently started a Tk 415 crore refinancing scheme (New Age, October 2012). The objective of the refinance window is not to fully support the SME sector lending requirements. We provide the refinance window to motivate and create awareness of the benefits of financing to this sector. Banks and non-bank financial institutions should not fully depend on this refinance window for their SME portfolio. Although the risk profile for SME lending is said to be a bit higher but in many countries including India and also many other Asian countries banks have come up with lending models that proved to be workable and also profitable. Through this window so far a total of Tk 1,931 crore has been refinanced to 21,191 entrepreneurs.

Broadening SME finance sectors

BB and SME Foundation are trying to provide integrated support to women entrepreneurs in pre-investment consultation, planning and implementation of projects. In 2010, 19,194 woman entrepreneurs were provided with SME loans worth Tk. 2,103 crore.

It has been focusing on expanding facilities in rural areas and giving loan assistance to traditional industries like handicraft, weaving, pottery and boutique etc. The loans will be mainly given to more than 60 categories of operations in the SME sector such as light engineering, handicraft, flower, fish processing, handloom, rice-mill, Jamdani, Rajshahi silk etc.

Promoting SME Finance

Road show, trade fairs, workshops and other initiatives were taken to make the bankers, entrepreneurs and other stakeholders aware of the need for easy access of SMEs to institutional finance. BB governor formally handed over sanction letters for loans worth Tk. 4.19 crore to 23 entrepreneurs from across the country. Nineteen banks provided the loans. SME fairs in rural areas and include poultry, fishing and flower farming under the SME category has been planned.

Interest Rate & Inflation

The interest rate had already been brought down to support the country's entrepreneurs but now the government considers a further cut in bank interest rates, especially for small and medium enterprises (SMEs) to help the sector grow faster.

Bangladesh Bank has emphasis on cluster and area-approach methods for disbursement of such loans with the aim of easing inflationary pressures on the economy through creation of jobs across the country.

4.1.4 Contribution of SMEs in Bangladesh:

Positive impacts of SMEs

- Employment Generation
- Enhanced Living Standard
- GDP Growth
- Poverty Reduction
- Reduction in Urban Migration
- Creation of Entrepreneurship
- Women empowerment
- Creation of Market for Indigenous Group
- Growth in International Business
- Innovation

In Bangladesh, poverty alleviation through economic growth, as well as employment generation on mass scale is heavily dependent on the development and expansion of SMEs.

Empirical studies find that the share of SMEs in GDP is significantly higher in high income countries. A cross country study (Ayyagari et al, 2003) shows that SMEs account for over 51 percent of GDP and 57 percent of employment in high income countries while the corresponding figures for low income countries are 16 and 18 percent. This reveals the importance of SME in growth and employment generation According to the Bangladesh Economic Review 2009, around 6 percent of the country's \$90 billion economy comes from SMEs. Developing countries like China are getting 20 to 30 per cent of their GDP from SMEs whereas this sector in Bangladesh is contributing 25 per cent to GDP with 60 per cent of employment generation

As of recent research (Daily Star, 2011), the SMEs account for about 45 percent of manufacturing value addition, 80 percent of industrial employment, 90 percent of total industrial units and about 25 percent of total labor force. Their total contribution to export earnings ranges from 75 percent to 80 percent, according to a recent economic census. The SMEs make up 75 percent of the domestic economy.

Bangladesh is a developing nation, rich in human resources where women constitute slightly less than half the population. The majority of them are underprivileged, undernourished, illiterate and poor. Moreover, there are not enough employment opportunities for women. Therefore, economic activities, through self-employment have become essential for potential working women. As a matter of fact, women entrepreneurship or “women in business” has gained importance and acts as a very recent phenomenon in Bangladesh.

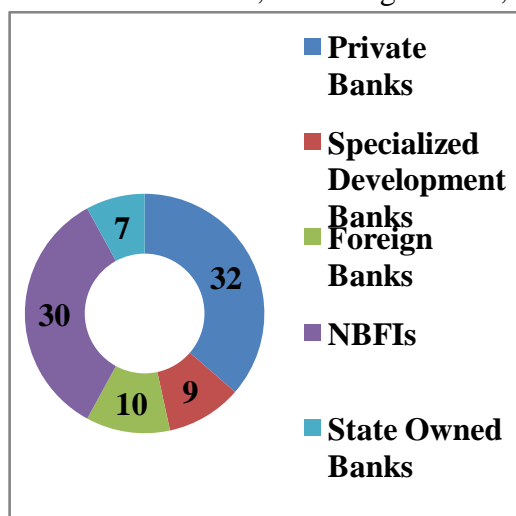
SMEs can play a significant role in establishing gender equality and bridge the widening the gap between rural and urban income. It is said that introduction of SME to rural areas would result in a large-scale development that would put the country’s economy in a high growth trajectory.

4.2 Current Status of SME Financing

SME has been considered as the thrust sector in the economic development of the country and substantial increase in SME and Retail Credit portfolios along with commercial, corporate and institutional lending, would lead the banks to its higher trajectory of growth, minimizing the risk of lending through portfolio diversification. As such, most of the banks have taken up aggressive marketing policy to augment their exposure in SME and Retail Credit.

Possible Sources of Funds

There are huge numbers of financial institutes of Bangladesh- 32 Private Banks, 7 Nationalized Banks, 10 Foreign Banks, 30 NBFIs and 9 Specialized Banks till now.

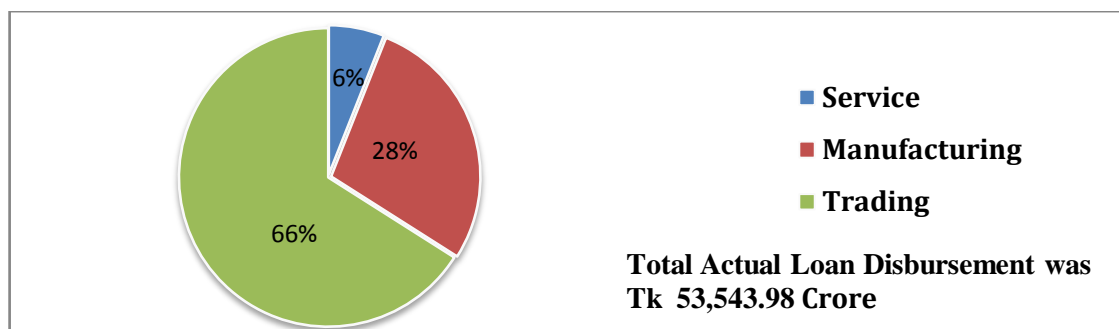


Source: Wikipedia

Both micro-finance institutions and banks are beginning to realize the potential of SME market and are designing new financial products for it. Some banks and other financial institutions had been providing loans to such enterprises for long, though not in the classification of SME Financing. Now, almost all banks and non-bank financial institutions (NBFI) in the country are providing loans to the sector, under different governmental schemes as well as through their own product portfolios.

SME Financing Status of 2010

(New Age, 2011) The banks and non-bank financial institutions had a self-fixed target of Tk 38,845.55 crore for disbursement in the SME sector and the total actual disbursement stood at Tk 53,543.98 crore exceeding the target by Tk 14,698.43 crore or by 138 per cent.



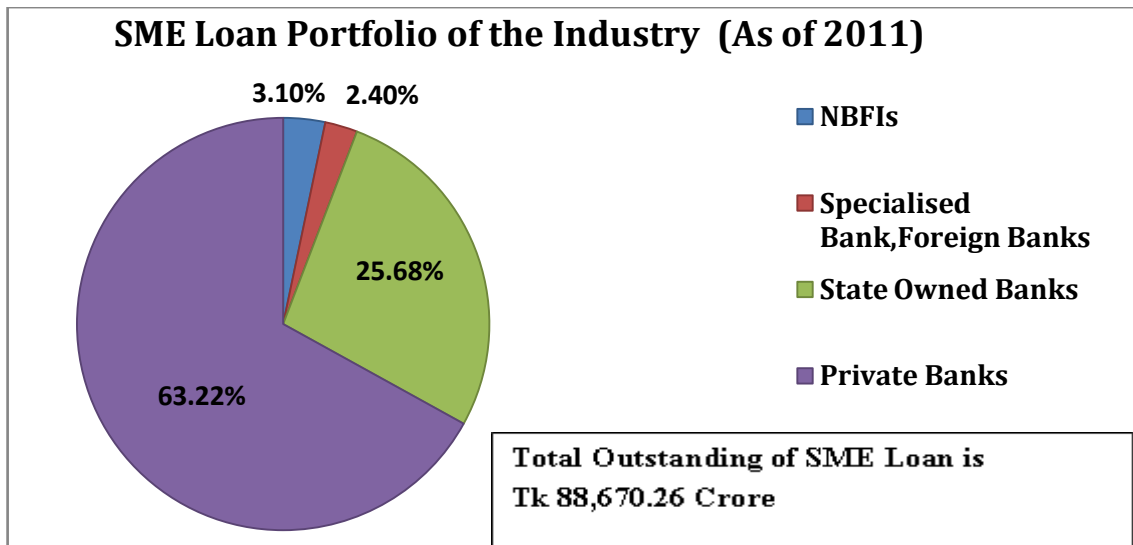
The total trading sector received Tk 35,040.50 crore which is 66 per cent of the total disbursement. The total manufacturing sector received Tk 15,147.74 crore or 28 per cent. The total service sector received Tk 3,355.68 crore or 6 per cent.

The small enterprises received an amount of Tk 23,033.45 crore which is 43 per cent of total disbursement against the set target of 40 per cent. This states that the needy and small entrepreneurs are getting loans. Moreover the women entrepreneurs gained access to finance increasingly in each successive quarter in 2010 which totalled to Tk 1,807.02 crore or 3.38 per cent. The total SME outstanding increased to Tk 69,526.55 crore only in December 2010 from Tk 51,147.58 crore in December 2009 indicating a strong recovery performance during 2010.

SME Financing Status of 2011

(Financial Express, 2011) The central bank had set the target for disbursement of loans at over Tk. 625 billion for the small and medium enterprise (SME) sector for the year 2011 which is a 64.56 per cent increase over that of the previous year.

. Types of Banks	Estimated	
Owned Commercial Banks & Financial Institutions	Tk 134.99 billion	21.58%
Private Commercial Banks	Tk 451.76 billion	72.24%
Foreign Commercial Banks	Tk 15.93 billion	2.54%
Non-Banking Financial Institutions	Tk 22.65 billion	3.62%
Total	Tk 625.33 billion	



Source: BRAC Bank Ltd

According to the above chart, the private banks has provided SME loan of 63.22% where the target was 72.24%. The state owned banks covered SME loan of 25.68% against the target of 21.58% which indicates an increase. The Non-banking financial institution provided SME loan of 3.10% against the target of 3.62%. The foreign commercial banks and/ or specialized banks had a target of 2.54% and it achieved 2.40%.

During the first half of 2011, there was an increasing trend in the loan disbursement compared to the corresponding period of 2010. Disbursement of SME loan during this period was Tk 26,163.33 crore compared to Tk 24,451.33 crore of the same period of 2010. Therefore, this shows a substantial rise of Tk 1,712 crore or 7 per cent.

The manufacturing sector recorded a 4 per cent growth with a total amount Tk 7,885.05 crore in the first half of 2011 compared to Tk 7,596.44 crore of January-June 2010. The small enterprises has received good amount of loan during this period similar to that of 2010.

4.3 BRAC Bank's Contribution in SME Banking

BRAC Bank was set up with the growing need for capital mobilization and the need for formal contracts for a wider range 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.

BRAC Bank's Vision: *Remain the leader in SME banking, respected locally and globally while focusing on people, profit, and planet.*

Target Market:

Fisheries	Large tailoring business
Manual/auto rice mill	Weaving mills
Boutiques and parlors	Bakery
Restaurant	Printing house
Distributor of FMCG products/others	Feed mill
Fish wholesaler	Poultry
Food grain wholesaler	Electrical and electronic items
Wood processing/saw mills	Building materials
Trading of grocery item	Imported foods
Hardware	Light machinery
Chemical products	And many more.....
Sanitary ware	
Dairy farm	

BRAC Bank SME finances covers a many non-traditional sectors - agriculture, food processing, light engineering, plastic, handicrafts, poultry, dairy, fishery, feed mill, wood processing, boutique & garments, which helps in boosting rural economy and generating employment.

4.3.1 Highlights of BRAC Bank's SME Banking

- The SME division has captured 6.38% market share within SME Banking arena of Bangladesh and above 9% of the market within Private Banks of Bangladesh in 2012 whereas the percentage of total market share was 5.87% in 2011. (BRAC Bank Ltd)
- In its 11 years of operations, it has disbursed Tk 22,000 crore loan to 4 lakh SME entrepreneurs across the country through 553 customer touch points (SME Unit Offices, SME Sales and Service Centers, Krishi Branches, and Branches). (Daily Star, December 2012)
- BRAC Bank is the only bank in the country to have a plan to disburse near about 70 percent of its loan portfolio to SME.
- BRAC Bank's SME credit portfolio has crossed Tk 5,000 crore as of November 2012 for the first time, up by Tk 712 crore from the last year's disbursement. (Daily Star, December 2012)
- BDT 49,302 million SME assets were fuelled by BDT 16,669 million SME deposits and deposit from other sources in 2012.(BBL Annual Report,2011)
- BRAC Bank's SME customers have increased their fixed asset by 223 percent, equity capital by 109 percent, sales by 134 percent and profit by 91 percent in by November 2012. (Daily Star, December 2012)
- The finance has created direct employment to 13 lakh people in 11 years where 2 lakh people got employed in 2011 alone. The bank also extended support to 8,000 women entrepreneurs with Tk 360 crore loans till date.(Daily Star, December 2012)
- BRAC Bank has achieved 63% growth in SME financing at the end of first six month of 2012.
- In 2011, the deposit growth was of 47% and asset growth was of 17% It made a record breaking disbursement of BDT 4630 Million in October 2011 and the asset grew by BDT 2120 Million in that month alone.(BBL Annual Report,2011)
- Portfolio at Risk (PAR) has been brought down slightly in 2011 & 2012.

4.3.2 Important Features of BRAC Bank's SME Division

Effective CROs

The unique feature of Brac Bank is that it is the only bank that approaches prospective clients, while other banks wait for them to apply for loans when required. SME units of BRAC Bank are located in all districts of the country. Each unit has two to five Customer Relations Officers (CROs). The role of CROs is instrumental in not only selecting and approaching clients, but also in maintaining regular interaction with each client, monitoring the use of the loan and ensuring regular repayment. Each CRO conducts informal surveys of the area around his office to identify potential clients. He has a monthly target of disbursement, which is determined by the Head Office in Dhaka, based on the CRO's years of experience and market potential of the areas. The geographical reach of each unit is restricted by the CRO's capacity to travel to each enterprise's site of operation. Once a client makes an application for loan, the CRO sends a detailed report of the enterprise's financial status along with the application to the Head Office for approval. The Head Office seeks clearance from the Credit Information Bureau (CIB) and based on the risk rating, either approves or rejects the loan application. After approval from the Head Office, loan disbursement is carried out between the Head Office and the clients directly through the services of another assigned bank (Pubali Bank, in most cases).

Financing SMEs Working Capital

BRAC Bank's SME loans in the form of working capital are one of the useful and important factors for SMEs. 89 percent of the clients reported that they used their loan for increasing working capital. Working capital has direct impact on the volume of sales and this enables to increase stocks and varieties and benefit from availing market opportunities. Many retailers expand business by starting up wholesale transactions as it can be facilitated due to the availability of cash. This allows entrepreneurs to purchase raw materials and goods for sale at lower prices, and also improve their relations with their buyers by offering sales on credit. As a result, Expansion of business and cash purchasing increases which facilitates future business deals.

Availability of Deposit Products

There are a number of SME deposit products which helps in building saving habit among the small entrepreneurs which is an important factor for their survival at time of difficulty.

4.3.3 BRAC Bank's SME Banking Availability:

Small Business department of the division works through *400 unit offices* all through out the country. The department is divided into three regions-Dhaka,Chittagong and Rajshahi. Each region comprises of *6 to 7 territories*. Territories are divided into zones and zones are further divided into unit offices. Currently there are *20 territories* and *126 zones*. The frontline employees of small business are called Customer Relations Officer (CRO). More than *1,100 CROs* are working in the department as of June 2012.

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. It is the biggest department of the division in terms of asset, deposit, and nationwide presence.

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 Managers/Relationship Managers.



CHAPTER: 5
FINDINGS & ANALYSIS

5.1 SME Banking Profile

Details	BRAC Bank Ltd	AB Bank Ltd	Prime Bank Ltd	Eastern Bank Ltd	Dutch Bangla Bank Ltd
Bank Opening Year	2001	1984	1996	1992	1996
SME Operation Year	2001	1984	1999	2005	2008
SME Division Opening Year	2002	2008	2009	2005	2009
Number of SME Branch	91	74	17	8	124
Number of SME Service Centre	60	11	None	53	None
Number of SME Unit Offices	315	None	None	None	None
Total Number of SME Touch Points	466	85	17	61	124
Number of SME Customers	370000	4300	4500	5700	6500
SME Portion In Loans & Advances	50.00%	32%	13.50%	15%	36%
Total Number of SME Products	9	7	6	14	6
Number of SME Deposit Products	3	None	None	3	None
Number of SME Loan Products	6	7	6	11	6
SME Loan Outstanding	Tk.4431 crore	Tk.3150 crore	Tk.2100 crore	Tk.2935 crore	Tk.3500 crore

Source: Data of 2011 collected through Bank Interview

Bank Establishment Period

Considering the selected banks' Establishment Year, it can be found that the banks belong to different generations. AB Bank Ltd is a 1st generation bank, establishing in 1982; whereas Eastern Bank Ltd, Dutch-Bangla Bank Ltd, Prime Bank Ltd are 2nd generation banks, establishing in 1992 and 1996. On the other hand, BRAC Bank Ltd is a 3rd generation bank which was established in 2001.

SME Banking Establishment Period

The SME operation was first started in AB Bank Ltd (ABBL) in 1984 but the SME division was opened in 2008. Prime Bank Ltd (PBL) was the second to start initial SME operation which was in 1999 but at that time they didn't have any specific guideline. Therefore they officially started serving SMEs in 2002 and opened the SME division in 2009. BRAC Bank Ltd (BBL) which was introduced to give special focus

on providing financial services to Small and Medium Enterprises (SME) started SME operation from the year it was established which was in 2001 and it introduced SME division in 2002. Eastern Bank Ltd (EBL) started both SME financial services and SME division in the year 2005. Dutch Bangla Bank Ltd (DBBL) started SME operation in 2008 and introduced separate SME division in 2009. Therefore, all the banks selected have created separate SME divisions between the years 2002 to 2009.

Availability of SME Customer Touch points

BRAC Bank Ltd has the highest number of customer touch points which is 466; this include 315 SME unit offices, 91 SME/Krishi branches and 60 SME service centres. DBBL has the second highest number of SME outlets which is 124 branches but it does not have any separate SME service centres or SME unit offices. ABBL has the third highest SME outlets including 74 SME branches and 11 SME service centres totalling to 85 outlets. EBL has 61 SME outlets which includes 8 SME branches and 53 SME service centres. PBL has the lowest outlets of 17 SME Branches and no SME service centres. Among the five banks, only BBL has SME unit offices and none of the banks has it.

Availability of SME Products

Eastern Bank Ltd provide the highest number of products among the other selected banks. It has 3 deposit products and 11 loan products which totals to 14 products. BRAC Bank Ltd offers the second highest number of products totaling to 13 which includes 5 deposit products and 8 loan products. On the other hand, ABBL, PBL, DBBL only has loan facility for SMEs but they do not have any deposit facility for SMEs. ABBL has 7 loan products; both PBL and DBBL has 6 loan products.

Among the selected banks only BBL has 5 Deposit products and EBL has 3 deposit products which include Current scheme, Savings scheme and fixed deposit scheme.

The Current scheme of BBL is known as 'Prapti' and the current scheme of EBL is known as 'Shubidha'. The Minimum account opening amount of 'Shubidha' is Tk.100, 000 whereas in 'Prapti' the requirement is Tk. 2000. Both 'Prapti' and 'Shubidha' has daily interest bearing and BBL gives interest upto 4%. 'Shubidha' has free monthly statement and half-yearly Statement. On the other hand 'Prapti' has half yearly statement home delivery system and for cash withdrawal for sole proprietorship, there will be a debit card given while opening the account.

The Fixed deposit scheme of BBL is known as 'Prachurjo' which can be opened with minimum amount of Tk. 50000 for 1 month to 36 month. EBL's Fixed deposit scheme

is known as ‘SME Double Return’ which offers double return after 6 years of maturity with minimum account opening of 1 lac.

The Savings scheme of BBL is known as ‘Shonchoy’ where customers can monthly deposit any amount starting from Tk. 500 for any tenure period of 1 year to 10 year according to the business convenience and requirement. There is a 95% overdraft facility on the deposited amount. On the other hand, EBL’s Savings scheme is known as ‘SME Equity Builder’ which is linked with the current account. It has a monthly deposit requirement of Tk. 500 to Tk. 50000 for 5 years. The amount can be encashed anytime; multiple accounts can be opened by one enterprise and 90% overdraft facility.

Moreover BBL has 2 more term deposit products which ‘IFFD’ and ‘Probriddhi’. IFFD is a special product in which interest is paid first when the FD is created. Probriddhi is a term deposit which maximizes the return.

SME Portfolio

BBL has the highest SME Loan & advances portfolio size not only among these selected banks but also among other private commercial banks, 50% of its portfolio consists of SMEs and its target is to create a portfolio size of 70%. DBBL has the second highest SME portfolio percentage which is 36%. ABBL has the second highest percentage of SME portfolio among the selected banks which is 32% and its target is to increase the SME portion of loans and advances to 54%. On the other hand EBL and PBL have a SME Loans & advances portion of 15% and 13.5% respectively.

The SME loan outstanding till 2011 in case of BBL is the highest with Tk. 4431 crore. The second highest SME loan outstanding bank is DBBL with Tk. 3500 crore.

ABBL has the third highest loan outstanding amount of Tk. 3150 crore. EBL and PBL has the loan outstanding amount of Tk. 2935 crore and Tk. 2100 crore respectively.

In case of the number of SME customers, BBL has the highest number with 370000 SME customers. Among the selected banks, DBBL has the second highest SME customer base of 6500. EBL has the third highest number with 5700 SME customers; whereas ABBL and PBL has the customer base of 4300 and 4500 respectively.

5.2 Eligibility Requirement for pursuing SME Loan

BRAC Bank Ltd	Prime Bank Ltd
Any kinds of businesses having valid trade license and which has been operating for at least 2-3 years.	Age at least 21 years
Sole proprietorship, Partnership or Private Limited Company.	Any entrepreneur having the experience of successfully managing the business for at least two years may apply for the loan.
1 year bank statement	Sole proprietorship, Partnership or Private Limited Company.
Small sized business (Production, Trading, Service and others)	1 year bank statement
Those who have property/land/building	Trade license - at least 2 (two) years old
AB Bank Ltd	Dutch Bangla Bank Ltd
Any kinds of businesses having valid trade license and which has been operating for at least 2years.	Bangladeshi national having minimum 2 years of successful business operation.
Age above 18 years	Trade licence and TIN
Personal guarantee of the spouse and/or other able family member(s) of the borrower.	
Third party guarantee from a person acceptable to the Bank.	
1 year bank statement	Age: At least 21 years
Eastern Bank Ltd	
Any sole proprietorship, partnership or limited companies having minimum 2 years of successful business operation	
Business cash flow must support to the proposed loan amount	
Two guarantors required, Tax certificate	
Business income to support the proposed loan instalment.	
Bank account in the name of enterprise or the entrepreneurs.	

Source: Bank website

All the five banks have some set of eligibility requirements for SMEs. The policies of Eligibility should be effective at the same time it should be easier. All the five banks consider a successful enterprise operating for at least 2 year which can be Sole proprietorship, Partnership or Private Limited Company as an eligible SME customer.

The basic requirement of all the five banks is Trade license and TIN. ABBL, BBL and PBL have the common requirements of 1 year bank statement whereas the other two banks do not emphasize on it. BBL and PBL requirements are simple but BBL prefers SMEs who own property/land/ building. BBL, DBBL, PBL, EBL does not provide loan facility to someone of below 21 years whereas only ABBL allows customers of age 18 years.

Among the selected banks EBL and ABBL have many requirements before considering someone eligible for applying for SME loan. EBL focuses on the business income and business cash flow to check whether it can support proposed loan amount. It also prefers a bank account in the name of enterprise or the entrepreneur. ABBL and EBL requires two guarantors but ABBL has specific requirements of guarantors- Guarantee of the spouse and/or other able family member(s) of the borrower and a third party guarantee from a person acceptable to the Bank. This creates the bank's policy effective but can create complication for SMEs who might not have two guarantors. The most friendly eligibility requirement is of DBBL which do not emphasize on guarantors or ownership of property etc. Through this, DBBL is giving chance to all types of SMEs and creating an easy process of SME loans.

5.3 Product Differentiation

Bank	Deposit Products	Loan Products	Features of Loans	Loan Amount	Interest Rate	Loan Period
BRAC BANK LTD	Prapti (Current)	APURBO	Loan facility for small Entrepreneurs, with Collateral(land/Building)	10 Lac to 1 Crore	22% to 24%, (10% for Shamolima & Prothoma)	3 yr and above
	Shonchoy (Saving)	ANONNO	Collateral free	3 Lac to 10 lac		
	Prachurjo (FD)	PROTHOMA	Term loan for small scaled business operated by women entrepreneur, Collateral free	Up to 10 lac		
	IFFD (Interest First Fixed Deposit)	DURJOY	Collateral free	3 Lac to 25 lac		Up to 5 yr
	Probriddhi (Term)	SHOMRIDDHI	Working capital, import-export related expenses, post import expenses, tax/duty payment, local bill purchase	1 Lac to 200 lac		Up to 6 months
		SHAMOLIMA	Loan for agricultural and new sectors (biogas plant, solar panel, effluent treatment plant.)			
		SHOMPOD	Secured loan (secured against residential apartment/commercial space)	Upto 3.5 crore		
		SHOKTI	Business loan, Fixed Deposit Collateral	10 Lac to 100 lac		

Source: BBL website & Internal data

Evolving SME Banking in Bangladesh: through BRAC Bank Ltd and its comparison with other four banks.

Bank	Deposit Products:	Loan Products:	Features of Loans	Loan Amount	Interest Rate	Loan Period
AB BANK LTD		GATI	Working capital loan with Collateral	Up to 500 lac	15% to 18%	Up to 3 years
		PROSHAR	Term Loan for expansion & BMRE with Collateral	Up to 500 lac		Up to 5 years
		DIGUN	Double amount of loan, Lien of savings instrument (ABBL FDR, DDS) covering minimum 50% of loan size	10 Lac to 100 lac		Up to 3 years
		SATHI	Term loan with Collateral for CNG Refueling conversion/ Light Engineering/ project finance - funded)	Up to 500 lac		Up to 5 years
		CHHOTO PUJI	Collateral free Working capital/ fixed investment	Up to 10 lac		Up to 3 years
		UDDOG	Collateral loan for New entrepreneur/ business, Working capital/ fixed capital investment	Up to 50 lac		Up to 3 years
		AWPARAJITA	Women entrepreneur loan for Working capital, Collateral free maximum Limit TK 25 lacs	Up to 200 lac		Up to 3 years

Source: ABBL website

Evolving SME Banking in Bangladesh: through BRAC Bank Ltd and its comparison with other four banks.

Bank	Deposit Products:	Loan Products:	Features of Loans	Loan Amount	Interest Rate	Loan Period
PRIME BANK LTD		Sahaj Rin	Collateral Free Loan	2 lac to 6 lac	17% to 19%	3 years
		Sampad Rin	Capital loan with Cash collateral (FDR)	Upto 50 lac for SE and upto 300 lac for ME		5 years
		Chalti Rin	Working Capital loan with Cash collateral (FDR)	Upto 50 lac for SE and upto 300 lac for ME		1 to 5 years
		Digun Rin	Double loan with Cash collateral (FDR)	2 lac to 50 lac		5 years
		Anchol	Women entrepreneurs' loan, Small enterprise loan, Collateral free loan upto 25 lac	1 lac to 50 lac		1 to 5 years
		Moushami Rin	Seasonal loan with Cash collateral (FDR)	Upto 50 lac for SE and upto 300 lac for ME		6 months
DUTCH BANLA BANK LTD		Smart SME Term Loan	Term Loan, Collateral free upto 5 lac, above 5 lac need cash security (30%-100%)	1 lac to 50 lac	15% to 16% (with collateral), 17% (Collateral free)	1 yr and above
		Distributorship Financing	Term Loan, Collateral free upto 5 lac	upto 70 lac		5 yr
		Women Entrepreneurship	Collateral free upto 25 lac	upto 70 lac		5 yr
		Festival Loan	Collateral free upto 5 lac, for existing clients only	upto 70 lac		6 months
		Smart SME Cash Credit	Collateral free upto 5 lac	1 lac to 50 lac		1 yr and above
		Small Shop Financing	Secured by marketable srocks	upto 5 lac		1 yr

Source: Bank website & Bank interview

Evolving SME Banking in Bangladesh: through BRAC Bank Ltd and its comparison with other four banks.

Bank	Deposit Products:	Loan Products:	Features of Loans	Loan Amount	Interest Rate	Loan Period
EASTERN BANK LTD	EBL Shubidha (Current)	EBL Unnoti	Fixed asset, working capital loan with Collateral	10 lac to 100 lac	14% to 19% (9% for leather industry)	Term Loan is 5 yr & Overdraft for 1 yr
	Equity Builder (Savings)	EBL Nobodoy	Collateral free upto 10 lac	2 lac to 70 lac		Up to 5 yr
	Double Return(FD)	EBL Asha	Collateral free	2 lac to 9.9 lac		2 yr
		EBL Uddam	50% Collateral of FD	10 lac to 50 lac		4 yr
		EBL Uday	Collateral free Loan for Leather goods producer of Dhaka city	1 lac to 10 lac		6 months to 3 yr
		EBL Bannijyo	Legitimate import business with 30%-40% FD as Collateral	Up to 200 lac		6 months
		EBL Agrim	Collateral free	2 lac to 9.5 lac		Up to 6 months
		EBL Mukti	Collateral free loan for Women Entrepreneur	3 lac		1.5 yr
		EBL Uddog	50% of the loan amount in the form of fixed deposit is needed	6 lac to 50 lac		5 yr
		Krishi Rin	Collateral free Loan for Individual Farmers/Share Cropper	10 thousand to 1.5 lac		3month to 1yr

Source: EBL website

Loan Varieties

All the selected banks offer working capital loan, term loan, fixed investment etc but ABBL has different loan scheme for meeting this specific requirement as other banks are not very specific about the loan type and mostly concentrate on working capital. All the selected banks have different types of scheme but among all of them ABBL and PBL offers a special scheme which is Double loan facility. Here, double amount of loan is provided against any savings instrument such as FDR. This helps to avoid encashing long held saving for business required capital. The loan amount range is Tk. 2 lac to Tk. 50 lac in case of PBL and Tk. 10 lac to Tk. 100 lac in case of ABBL. Another special scheme is Seasonal/festival loan which is offered by PBL, EBL and DBBL. The duration is 6 months and it is offered to grab the additional opportunities in various festivals and seasonal events. PBL's festival loan amount range is

Tk 50 lac for SE customers and maximum Tk 300 lac for medium enterprise customers whereas DBBL's festival loan limit is upto Tk. 70 lac where upto Tk. 5 lac is collateral free. EBL's loan limit is Tk. 2 lac to Tk. 9.5 lac.

Loan Size

ABBL offers the highest loan limit of Tk. 500 lac among the five banks and its lowest loan limit is Tk.10 lac. PBL offers loan range of Tk. 1 lac to Tk. 300 lac which is the second highest loan limit among the other banks. Both BBL and EBL offers upto Tk. 200 lac of loan amount but there loan range is very different. BBL's loan range is Tk. 1 lac to Tk. 200 lac whereas EBL's loan range is Tk. 10 thousand to Tk. 200 lac as its lowest scheme is of Tk. 10 thousand to Tk. 1.5 lac. DBBL has a loan range of Tk. 1 lac to Tk. 70 lac.

Collateral Requirements

Among the five banks, EBL and DBBL offers highest number of collateral free loan product which is 5 products. EBL's collateral free loan is given upto Tk. 10 lac including women entrepreneur whereas DBBL's collateral free loan is limited to Tk. 5 lac and women entrepreneur gets upto Tk. 25 lac collateral free. BBL offers 3 collateral free products including a collateral free product of upto Tk. 10 lac for women entrepreneurs. Tk. 3lac to Tk. 25 lac collateral free loan amount is offered to other SMEs by BBL. On the other hand, the other two banks offer 2 collateral free loans. PBL's collateral free loan amount is Tk. 2lac to Tk. 6 lac and upto Tk. 25 lac for women entrepreneur. ABBL's collateral free loan also offers upto Tk.25 lac for women entrepreneur and upto Tk. 10 lac for other SMEs. Therefore, it can be concluded that ABBL, PBL and DBBL offers highest collateral free loans to women entrepreneur. All the other banks offer collateral free loan of Tk. 2lac to Tk. 10 lac to SMEs excluding women entrepreneur but only BBL offers the highest collateral free loan amount of Tk. 25 lac.

Interest Rate Charged

All the banks charge an interest rate of 10% for women entrepreneur. BBL has a 10% interest scheme for agriculture and new sectors (biogas plant, solar panel, effluent treatment plant, etc). EBL also has a 9% interest scheme for leather industry but it is 100% refinanced by SME foundation.

Excluding women entrepreneur interest rate, the highest interest rate of 22% to 24% is charged by BBL. PBL's SME loan interest rate range is from 17% to 19%; EBL's interest rate range is 14% to 19% and ABBL's interest rate charged is from 15% to 17%. On the other hand, DBBL is believed to be the lowest interest rate charger as its interest rate lies from 15% to 17% where 15% to 16% is with collateral and 17% is without collateral.

Therefore we can see that EBL has variety of interest rates for different loan schemes. Considering the high loan size of ABBL, it is charging low interest rate comparing to BBL, EBL and PBL.

Period of Loan

ABBL's 80% SME loan products has a tenor of upto 3 years and 20% of the product has a loan tenor of 5 years which means loan period can be said to be 3year to 5 year. PBL's loan tenor are 3 years, 1 to 5 years, 6 months which indicates that the standard loan period is 1 year to 5 years excluding the festival loan tenor of 6 months. EBL has the most variable loan schemes with flexible loan period of 1 year to 5 year, 2 years, 4 years, 3 months to 1 year, 1.5 years, 6 months to 3 years, 6 months etc; it can be said that its loan tenor is from 3 months to 5 years. DBBL's most of the SME loans have a standard tenor of 1year to 5 years excluding festival loan of 6 months. BBL's loan period is from 6 months to 5 years.

Special Sectors Served

The entire five banks gives loan to women entrepreneur but banks like DBBL, PBL and ABBL gives special preference to women entrepreneur by offering high amount of loan. ABBL offers highest amount of loan to women which is Tk. 2 crore where upto Tk. 25 lac is collateral free. DBBL offers the second highest loan amount to women which is upto Tk. 70 lac where upto Tk. 25 lac is collateral free. PBL offers a loan limit of Tk. 50 lac where upto Tk. 25 lac is collateral free. BBL and PBL does not offer huge amount of loan to women. BBL offer upto Tk. 10 lac of collateral free loan to women entrepreneur whereas EBL offers only Tk. 3lac of collateral free loan to women entrepreneur.

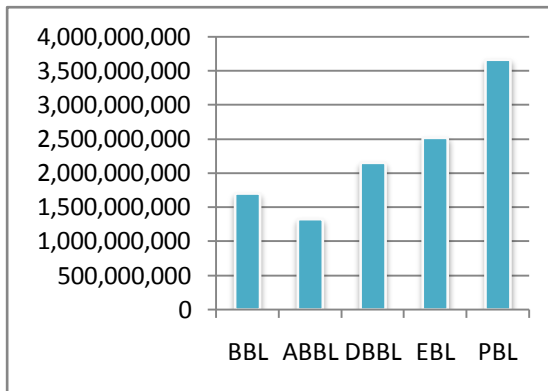
ABBL and EBL have loans designed for specific sectors. ABBL has loans for new entrepreneur/business, CNG Refueling conversion/ Light Engineering/ project finance (package deal including non-funded) and BMRE which indicates that it focuses on manufacturing and expansion. The loan limit for these sectors is Tk50 lac to Tk. 500 lac. On the other hand EBL does not offer such huge amounts to SMEs but offers attractive products to farmers, leather industry and agro based industry. All these products are collateral free upto Tk. 10 lac and with lowest interest rate. EBL offers Tk. 10 thousand to Tk. 1.5 lac to farmers, upto 70 lac to agro based industry and upto 10 lac to leather industry; which is 100% pre-financed by SME foundation and consists of a single digit interest rate of 9%. On the other hand, BBL has a product designed for agricultural and new sectors (biogas plant, solar panel, effluent treatment plant, etc.) with minimum 10% interest rate.

5.4 Financial Aspects

Details	BRAC Bank Ltd	AB Bank Ltd	Prime Bank Ltd	Eastern Bank Ltd	Dutch Bangla Bank Ltd
NP after tax	1,702,381,869	1,327,983,705	3,662,183,069	2,520,704,413	2,153,642,684
Revenue	13,610,278,427	12,830,837,754	16,736,821,063	9,713,139,461	9,980,301,489
Total Loans & Advances	90,822,174,665	94,638,218,363	139,408,893,185	81,773,910,178	79,248,994,443
Total Deposit	103,725,529,225	116,151,864,140	159,815,720,972	75,535,746,703	100,711,010,944
Ratios					
<u>Profitability:</u>					
Net profit margin	12.51	10.35	21.88	25.95	21.58
ROA	1.28	0.87	2.03	2.14	1.75
<u>Liquidity Ratio:</u>					
Cash ratio	0.15	0.15	0.09	0.13	0.15
Loans to Total Deposit	0.88	0.81	0.87	1.08	0.79
Loans to Total Asset	0.68	0.62	0.77	0.70	0.65
<u>Asset Activity Ratio:</u>					
Fixed Asset Turnover	5.79	3.33	4.21	2.18	2.51
Net Asset Turnover	0.10	0.08	0.09	0.08	0.08

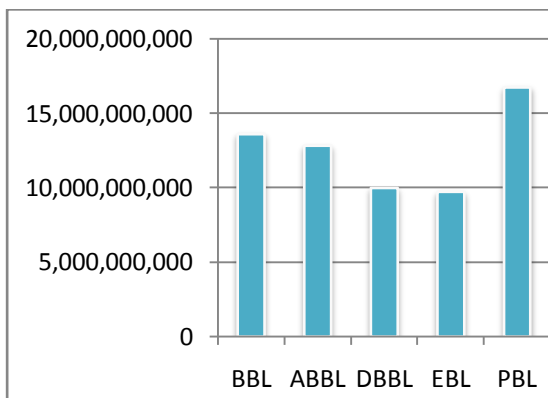
Source: Annual Report 2011

Net Profit after Tax



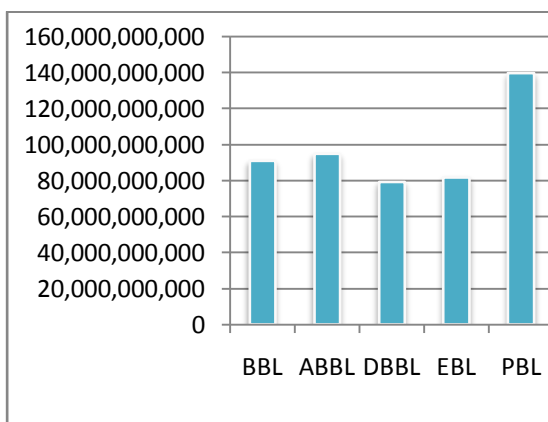
PBL has the highest net profit with a significant amount whereas EBL has the second highest net profit and DBBL has the third highest. BBL's net profit was comparatively low and ABBL's net profit is the lowest.

Total Revenue



PBL has the highest total revenue. BBL has the second highest amount of revenue whereas ABBL has the third highest revenue amount. On the other hand DBBL and EBL are in similar positions with lowest revenue comparing to other three banks.

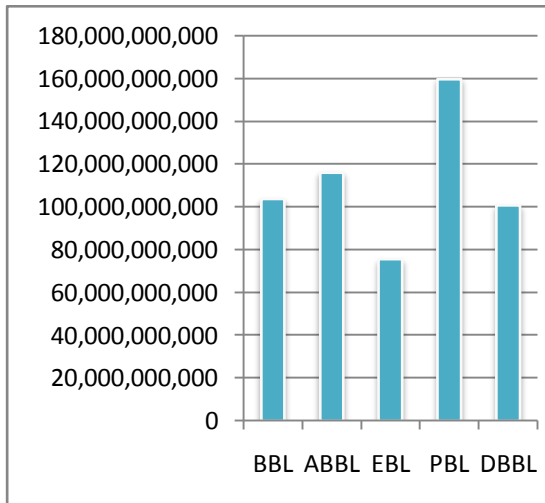
Total Loans & Advances



PBL has a significant amount of Loans & advances among the four other banks. ABBL and BBL has the second highest amount of loans & advances whereas EBL and DBL are near about in the same position.

Total Deposits

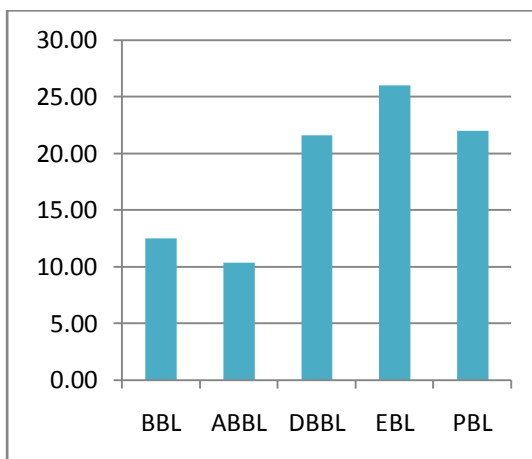
The word deposit most often implies the act of placing money in the safety of a bank. The greater the deposit amount, the more the bank can loan out a significantly larger amount of money for every deposit placed in their trust.



Here PBL has the highest number of total deposit in 2011, which means more number of people are depositing money in the bank. ABBL has the second highest number of total deposit. BBL and DBBL are near about in the same position in case of total deposit whereas EBL has the lowest total deposit among the selected banks.

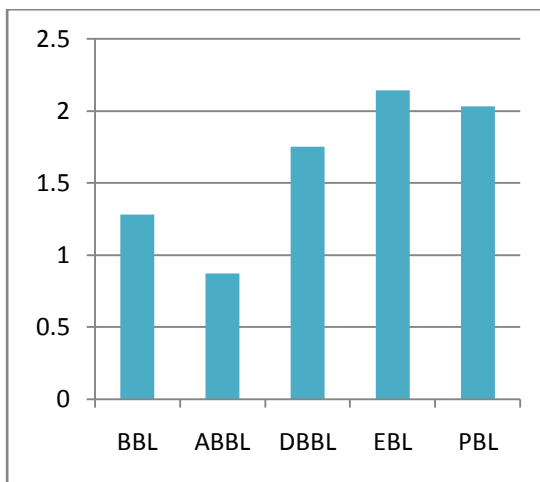
Profitability show a company's overall efficiency and performance.

Net Profit Margin



EBL's net profit margin of 26% was highest among the other banks which show the bank was making profit. DBBL and PBL had the same position with a net profit margin of near about 22%. BBL and ABBL's net profit margin was the lowest 12.5% and 10.4% respectively which indicate low margin of safety and higher risk that a decline in sales will ease profit and result in a net loss.

Return on Asset



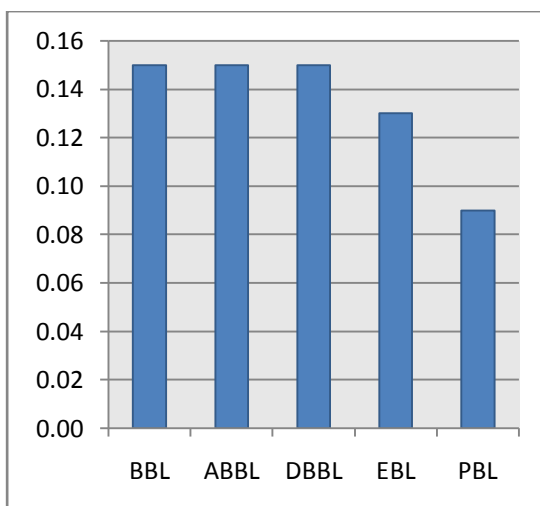
The higher the ROA, the better is the condition of the bank which means the bank was able to effectively use its assets into making revenue.

Here EBL has the highest ratio with 2.14, PBL is in the second position and DBBL in the third. BBL is in 4th position with 1.28 which is satisfactory comparing to other four banks.

Liquidity Ratio expresses a company's ability to repay short-term creditors out of its total cash. It shows the number of times short-term liabilities are covered by cash. If the value is greater than 1.00, it means fully covered.

Cash Ratio

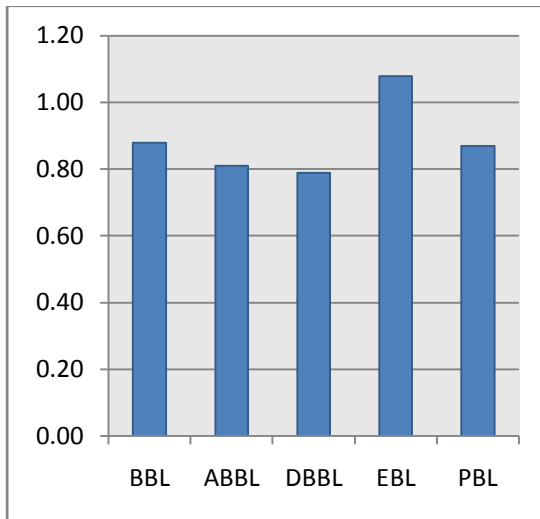
It is the ratio of a company's total cash and cash equivalents to its current liabilities.



Here BBL, ABBL, DBBL are in similar position and carry the ratio of 0.15. On the other hand EBL has a ratio and 0.13 and PBL has the lowest ratio of 0.09. The cash ratio of all the banks can be said to be in risky position as it is very much lower than the standard value of 1.00. As PBL's ratio is the lowest so it indicates that the bank's liquidity position is poor and it might not repay its short-term debt efficiently.

Loans to Total Deposit

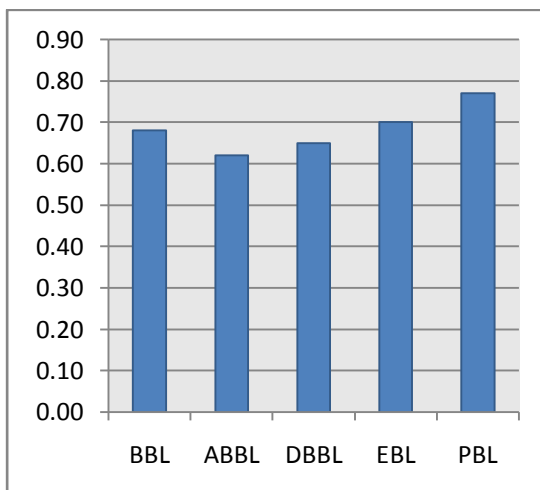
If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements.



EBL has the very high ratio which means it might not have enough liquidity to cover any unforeseen fund requirements. BBL and PBL is in similar position and they also have the risk of not having enough liquidity. On the other hand, ABBL and DBBL are in stable position compared to the other three banks.

Loans to Total Asset

It indicates what proportion of the company's assets is being financed through debt.

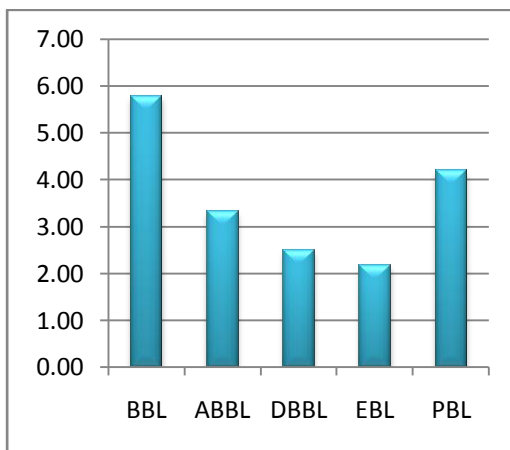


All the banks have ratio less than 1.00 which means most of the company's assets are financed through equity. Among the five banks, PBL has the highest ratio of 0.77 which is closer to 1.00. BBL and EBL are in satisfactory position as more than 65% of the company's asset is financed through debt. DBBL and ABBL has lower ratio which indicates that most of it's asset has been financed by equity.

Asset Activity Ratio measures a firm's efficiency at using its assets in generating sales or revenue - the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

Fixed Asset Turnover

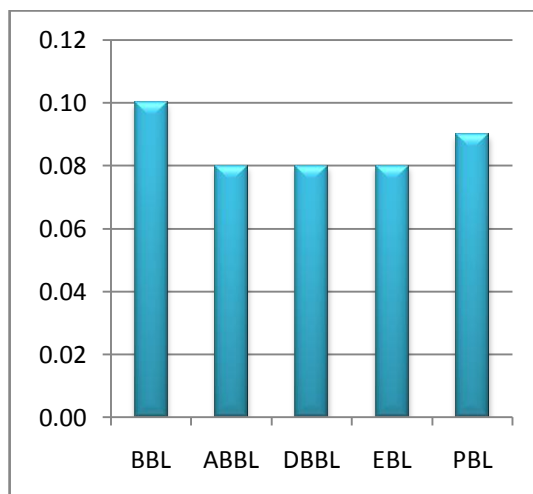
Fixed asset turnover is the ratio of sales to the value of fixed assets. It indicates how well the business is using its fixed assets to generate sales.



BBL has the highest fixed asset turnover which indicates that the bank had maximized its use of fixed assets to generate sale and has been efficient too. PBL has the second highest and ABBL has the third highest fixed asset turnover which means that they are in good positions. On the other hand, DBBL and EBL have the lowest ratio among the other banks.

Net Asset Turnover

It is a measurement of the ability of management to use a firm's net assets to generate sales revenue, calculated as sales revenue divided by capital employed. This ratio measures how asset-intensive a business is and the efficiency of the assets employed.



Too high a number may indicate too little investment while too low a ratio (relative to comparable firms) suggests inefficient management. However as all the banks have ratios between 0.07 to 0.10 so they are in stable position. Among the five banks, BBL's performance is very efficient in case of Net asset turnover which indicates that it is a well asset-intensive business.

5.5 Summary of Findings & Analysis

SME Banking Profile

Rank	Total Outlets		Portion in Loan & advances		Outstanding Loan		SME customer base		Total SME Products	
1	466	BBL	50%	BBL	Tk.4431 crore	BBL	370000	BBL	14	EBL
2	124	DBBL	36%	DBBL	Tk.3500 crore	DBBL	6500	DBBL	13	BBL
3	85	ABBL	32%	ABBL	Tk.3150 crore	ABBL	5700	EBL	7	ABBL
4	61	EBL	15%	EBL	Tk.2935 crore	EBL	4500	PBL	6	EBL, PBL
5	17	PBL	13.5%	PBL	Tk.2100 crore	PBL	4300	ABBL		

Considering the above table, it can be seen that BBL is in the 1st rank in terms of Total SME outlets, SME Loan & Advances portion, outstanding loan and SME customer base. DBBL is in the second position through out. ABBL is in the third position in terms SME outlets, SME Loan & Advances portion, Outstanding loan but in case of SME customer base it has the lowest; this can be because ABBL gives huge loan amounts like upto Tk. 500 lac to individual clients. EBL has a fourth position in terms of SME outlets, SME Loan & Advances portion, Outstanding loan but it is in the third rank in case of customer base which can be because of its varieties of loan schemes, it manages more customers. PBL is in the last rank in terms on SME outlets and SME Loan & Advances portion as it has only 17 outlets and 13.5% of SME portfolio but in case of outstanding loan and SME customer base it is in a satisfactory standing.

In case of SME products, EBL provides the highest number of products among the other selected banks. It has 3 deposit products and 11 loan products which totals to 14 products. BBL offers the second highest number of products totaling to 13 which includes 5 deposit products and 8 loan products. On the other hand, ABBL, PBL, DBBL only has loan facility for SMEs but they do not have any deposit facility for SMEs. ABBL has 7 loan products; both PBL and DBBL have 6 loan products.

Eligibility for Pursuing SME Loan

Among the selected banks EBL and ABBL have many requirements before considering someone eligible for applying for SME loan which means they are taking careful and strict steps before giving loan. Loan is a risky product for which standard policies should be maintained by the banks before providing loan to SMEs but considering the convenience of SMEs complicated or long procedure should be avoided. Both EBL and ABBL require guarantors but in many cases it is difficult to manage two guarantors even though someone might be a good customer. On the other hand, BBL follows standard easy steps but it has a requirement of ownership of property which in many cases cannot be appropriate especially for new entrepreneurs.

Among all these five banks DBBL and PBL follows standard and SME friendly Eligibility requirement. Moreover, DBBL wishes to consider SMEs with Fixed capital starting from Tk. 50000 so that more potential entrepreneurs can be provided with finance.

Loan Product Differentiation

Rank	Number of Loan Product Available		Number of Collateral free Products		Collateral free loan size			Loan size (in Tk)				Avg. Interest Rate (Ranking from lowest)	
					(Tk)	SME	WE	SME		WE			
1	11	EBL	5	DBBL EBL	upto 25 lac	BBL	DBBL ABBL PBL	upto 500 lac	ABBL	upto 200 lac	ABBL	16%	DBBL
2	8	BBL	3	BBL	upto 10 lac	ABBL EBL	EBL, BBL	upto 300 lac	PBL	upto 70lac	DBBL	16.5 %	EBL, ABBL
3	7	ABBL	2	PBL, ABBL	upto 6 lac	PBL		upto 200 lac	BBL EBL	upto 50 lac	PBL	18%	PBL
4	6	PBL, DBBL			Upto 5 lac	DBBL		upto 70 lac	DBBL	upto 10 lac	BBL	23%	BBL
5										upto 3 lac	EBL		

Considering the above table, it is seen that EBL has the highest number of SME loan products. It has the highest number of collateral free loan products. In case of highest collateral free loan size, it is in the second position. BBL offers the highest collateral free loan size of Tk. 25 lac and it is in the second rank in terms of Total number of SME products and number of collateral free product. ABBL offers the highest loan size of Tk. 500 lac for SMEs, highest loan size for

women entrepreneur which is Tk. 200 lac and it is in the second position in terms of high collateral free loan size of Tk. 10 lac. Moreover, it is in the third rank in case of total number of SME products and collateral free products. DBBL offers the highest number of collateral free loan products as 90% of its SME products are collateral free upto Tk. 5 lac and it offers the second highest loan size for women entrepreneurs which is Tk. 70 lac. PBL is in the second position in case of loan size and its other sectors are satisfactory.

In case of collateral free loan product for women entrepreneur, DBBL, ABBL and PBL offers upto Tk. 25 lac whereas EBL and BBL offers only Tk. 10 lac.

In case of average interest rate, DBBL offers the lowest of 16% which is good for SMEs. ABBL's average interest rate of 16.5%, is more than reasonable in accordance to its high loan size. EBL offers 16.5% too whereas PBL has an average interest rate of 18%. On the other hand, BBL has the highest average interest rate of 23% which might become a constraint for SMEs.

Financial Aspects

In terms of financial state, it is difficult to get the exact picture of the company as the banks are established in different times and are well performing in different sector. The financial data are important to judge a company's overall performance therefore here the following concluding statements are assumptions of how the picture might be. This comparison is very limited in nature as few important financial details and ratios have been focused.

Rank	NP	Loans & Advances	Deposit	Revenue	NP Margin	ROA
1	PBL	PBL	PBL	PBL	26% EBL	2.14 EBL
2	EBL	ABBL	ABBL	BBL	22% PBL,DBBL	2.03 PBL
3	DBBL	BBL	BBL	ABBL	13% BBL	1.75 DBBL
4	BBL	EBL	DBBL	DBBL	10% ABBL	1.28 BBL
5	ABBL	DBBL	EBL	EBL		0.87 ABBL

The above table shows that PBL which was established in 90s has highest NP, loans & advances, deposits and revenue. Now, considering BRAC Bank Ltd, it has second highest revenue which shows even having 50% of SME portfolio, it has managed to have high revenue. The loans & advances and deposit state of BBL is also in good form as it has managed to leave behind EBL and DBBL which shows that its performance are getting better faster.

The **Profitability Ratio** of BBL is lower comparing to other four banks. A lower NP may suggest that the deposits of that bank might be higher for which interests are being paid. It might also suggest that bank has higher service network such as ATMs, branches etc which are expenditures. BBL has high loan & advances and deposit than DBBL and EBL for which even having higher Revenue; its NP is lower than them. Therefore, this is why BBL's NP margin is lower too comparing to EBL's 26%. In case of PBL, it consists only 13.5% of SME portfolio; it has limited ATMs, branches which decrease its expenditure and that might help it to achieve high NP margin. The return on assets (ROA) ratio is related to both profit margin and asset turnover, and shows how well a company controls its costs and utilizes its resources. In this case, BBL is efficiently utilizing its resources but might not effectively manage to control its costs.

The **Liquidity Ratios** of BBL is in proper shape according to other four banks. The cash ratio is according to the standard comparing to other four banks which indicates that it can quickly liquidate assets and cover short-term liabilities etc. The Loans to Deposit ratio is also in good form and it less than 1 which means it has not borrowed money from other banks rather used its own deposit to give loans to its customers. Looking at Appendix II, it can be seen that 78 % of BBL's Deposits are used as a source of fund and in case of utilization of fund, 68% of the source of fund it utilized in loans & advances. It also indicates means that BBL might have enough liquidity to cover any unforeseen fund requirements or in case of crisis. The Loans to Asset ratio measures the total loan outstanding as a percentage of total assets. Here BBL has low ratio which indicates that the bank is not loaned up and is not in a risky state.

The **Asset Activity Ratio** of BBL is higher comparing to other four banks which indicates that it is efficiently using its Assets in generating its revenues and is in a standard position. The Fixed Asset Turnover ratio is outstanding which means that BBL has less money tied up in fixed assets for each unit of sales.

Therefore it can be said that BBL, being the youngest bank has successfully managed to compete with other banks in terms of Deposit, Loan & Advance, Revenue, ATMs, branches etc ; even having 50% of SME portfolio which is considered as risky sector for a bank. According to Appendix II, it can be seen that BBL has an increasing trend in Deposit, Loans & Advances, NP and Total Asset from the year 2007 to 2011; therefore it would definitely be able to increase its Net Profit margin and ROA in near future. Both the Liquidity and Asset Activity position of BBL is appropriate and up to standard. Therefore BBL is also a good performer in case of financial aspects too.

CHAPTER: 6
**RECOMMENDATION &
CONCLUSION**

6.1 Recommendation

- BBL should make its product range more attractive like it can include seasonal loan; more collateral free loans which might be of different loan size, loan period etc by this it can attract wider range of SME customers.
- BBL's cost of fund is high so it should explore alternative tools to reduce the cost of fund and decrease its interest rate to at least 20% or else there is a risk of losing potential customers who might choose other banks who offer lower interest.
- BBL should give chance to customers who do not have any property instead check their business income or bank balance so that new entrepreneur is encouraged.
- It should provide loans to the leather and jewelers industry, because leather is the 3rd exporting product as they can contribute towards the economic development of Bangladesh.

6.2 Conclusion

BRAC Bank Ltd has proved that a bank can value People, Environment and also make Profit. It is famous worldwide for its sustainable banking and its fast movement towards prosperity. BRAC Bank's contribution in SME banking is immense and uncompetitive. Being the youngest bank, BRAC Bank has managed to become the largest SME bank in Bangladesh and 4th largest SME bank in the world.

Considering the report, BBL has the highest SME outlets, SME portfolio, SME outstanding loan and SME customer base. The findings and analysis shows that other banks are focusing on SMEs and trying to expand their SME portfolio which means in the long run BRAC Bank might have competitors in terms of getting new potential SME customers. ABBL has been providing loans to SMEs from long before and now it has an attractive loan size. DBBL is in a good shape in terms of SME outlets, SME customer base, SME outstanding loan etc. It has standard loan size with attractive features including lowest interest rate whereas EBL has attractive product features like variety of products, varieties of loan size, flexible tenor period etc. On the other hand, PBL needs to focus more on SMEs in order to compete with other banks.

In case of SMEs, more doors of finance are being opened for their business prospect and they have more choices in terms of loan varieties, loan size, loan tenor, loan interest rate etc.

CHAPTER: 7

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CHAPTER: 8

APPENDIX

I) Questionnaire



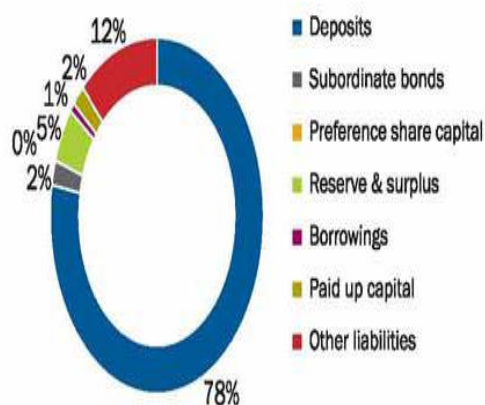
“SME BANKING”

Name of the Bank:

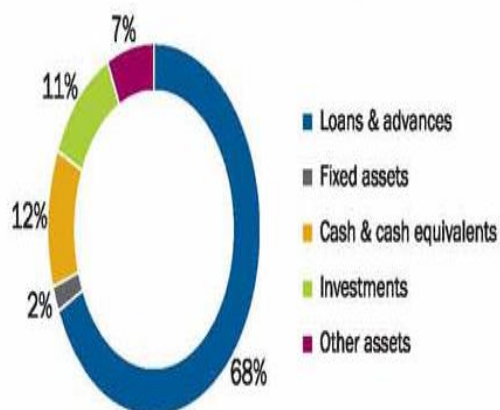
1. When was your bank established?
2. In which year did your bank started operation on SME banking?
3. How many SME branches and SME centers does your bank have?
4. Does your bank have separate division/wing for SME banking? From which year?
5. Which sectors of SME does your bank serves? Does it serve all types of trading, manufacturing and service enterprises? Are there any restricted sector?
6. How many products do your bank offers for SMEs? Are all loan products?
7. What is the interest rate range charged for SME loans?
8. What is the main eligibility required for getting SME loan? Are there any restrictions?
9. How many SME customers do your bank has?
10. What is the amount of SME loan disbursed till date?
11. What portion of the total loan and advances consists of SME loans?
12. Which bank do you consider your competitor in case of SME banking?

II) Statistical Data from BRAC Bank Ltd's Annual Report 2011

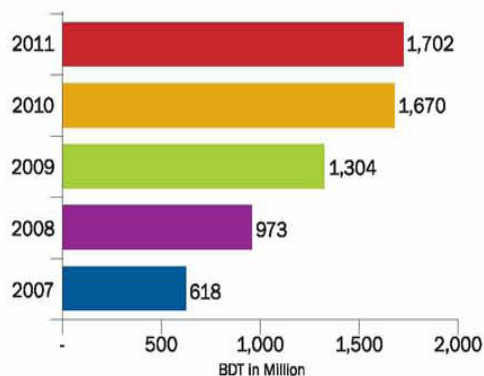
Sources of Fund



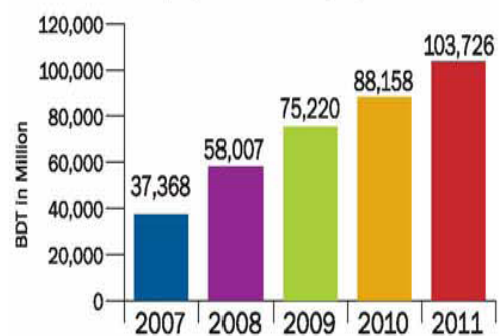
Utilization of Fund



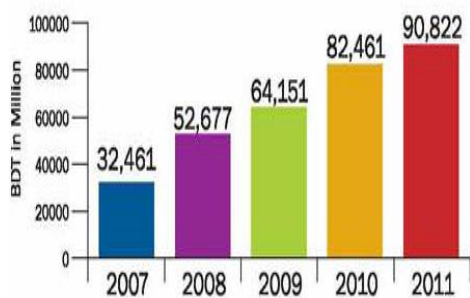
Profit After Tax



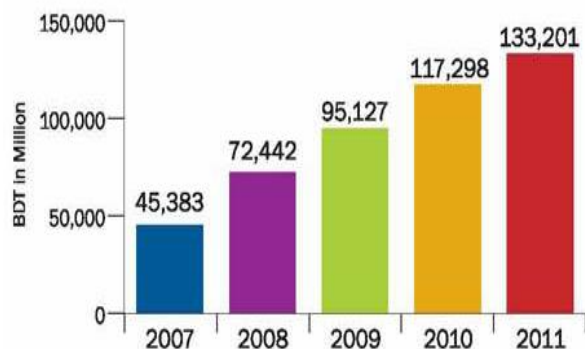
Deposits



Loans & Advances



Total Assets



44,314 million