

Internship Report

A Case Study on Small and Medium Enterprise Financing and Its Impact





Inspiring Excellence

BRAC Business School

SMALL AND MEDIUM ENTERPRISE

Financing in Bangladesh

The Means to Battle Unemployment and Poverty

Shihab Anwar

ID: 12104109

BRAC Business School

BRAC University, Dhaka, Bangladesh

Date of Submission: 24/5/2016

Letter of Transmittal

24th May, 2016

Tanjina Shahjahan
Lecturer, BRAC Business School
BRAC University, Dhaka, Bangladesh

Subject: Submission of internship report.

Dear Miss,

With due respect and gratification I would like to inform that, I have completed my internship report titled “**Small and Medium Enterprise Financing in Bangladesh: The Means to Battle Unemployment and Poverty**” according to your given instruction. Besides the worthwhile internship experience at IDLC Finance Limited, working on this report gives me the opportunity to learn about SME in a more detailed and exhaustive manner.

Perusal through the first section of the report will replicate an inclusive picture of IDLC Finance Limited with a description on the company and its background, present state of the organization, product offerings and analysis. Then the progression of reading will unfold the job description during my time of internship along with job responsibilities, aspects, observation and recommendation regarding the performed tasks. After that, the next chapter of this report will disclose every steps of the research format used for better extraction of information as well as for reaching a credible outcome and analysis on the research work.

In preparing this report I have tried to abide by the Instructions you have rendered about writing and presentation of the report. Nonetheless I am willing to shed light on any discrepancies if arises.

Thank you for giving me the opportunity to work on this topic. This will definitely enhance my knowhow and insight regarding the subject matter I have worked on.

Yours sincerely,

Shihab Anwar
ID: 12104109
BRAC Business School, BRAC University

Acknowledgement

First I would like to express my devotion and gratitude towards the almighty Allah for His compassion and blessing. Nothing good can be achieved without the help of Allah.

My gratitude towards my Internship supervisor Miss Tanjina Shahjahan; without her guidance and supervision it would be impossible to complete this paper. I would also like to express my thankfulness for her encouragement and directives towards working on this topic.

I would also like to place my gratitude to the Human Resource division of IDLC Finance Limited for allowing me to complete my internship in their esteemed organization. I would like to thank my organizational supervisor Mr. Adnan Rashid; AGM & Head of Credit (SEF) at IDLC Finance Ltd. for his help and support throughout the internship program and for giving me the opportunities to learn the nitty-gritty related to the process of SME financing and Credit Risk Management. I am also thankful to Mr. Abdullah-Al-Mamun; Assistant Manager of Credit Risk Management for his support, guidance and insights. Without his cooperation and encouragement it would not be possible to complete my internship let alone the report.

Special thanks to Mr. Rifat Ishtiaq Khan; for his help, cooperation and never ending enthusiasm in teaching me the dynamics of Small and Medium Enterprise financing and also for being so patient in teaching me the complex process of Credit Risk Management. I would also like thank Mrs. Shahnaz Sharmin Deeba and Mr. Rakib Hasan for their guidance and assistance in learning the intricacies of Management Information System related to the process of Credit Risk Management. I am also extending my heartfelt thanks to Miss Farah Marjan for helping me with valuable resources to complete my internship report.

Finally I would like to take this opportunity to thank all the people who has helped and supported with their thoughts, ideas, tips and assistance. Without all of your cooperation it would not be possible to finish this work within the given time frame.

Table of Content

| SL No. | Topic | Page No. |
|--|--|----------|
| 01 | Executive Summary | 01 |
| 02 | Introduction | 04 |
| The organization - IDLC Finance Limited | | |
| 03 | History and company overview | 05 |
| 04 | Illustration of the key financial indicators of IDLC | 07 |
| 05 | Business overview of IDLC | 08 |
| 06 | Product offerings | 09 |
| 07 | Credit rating of IDLC | 12 |
| 08 | CSR of IDLC | 12 |
| 09 | Milestones of IDLC through the timeline | 13 |
| 10 | Operational Network | 15 |
| 11 | Organogram | 16 |
| 12 | Organogram of SME division | 17 |
| 13 | Corporate ethos | 18 |
| Job at IDLC Finance Limited | | |
| 14 | Attachment with IDLC Finance Limited | 21 |
| 15 | Internship profile at a glance | 21 |
| 16 | Description of my jobs | 22 |
| 17 | A diagrammatic expression of my jobs and their hierarchical position | 28 |
| 18 | Specific Job responsibility | 30 |

| | | |
|--------------------|---|----|
| 19 | Different aspects of job performance | 31 |
| 20 | Critical observation and Recommendation | 33 |
| The project | | |
| 21 | Origin of the report | 36 |
| 22 | Problem statement | 36 |
| 23 | Rationality of the study | 37 |
| 24 | Explanation of the reasons | 37 |
| 25 | Definition of SME | 40 |
| 26 | Definition of SME in Bangladesh | 42 |
| 27 | Contribution in GDP and economy | 43 |
| 28 | Number of SME enterprises in Bangladesh | 44 |
| 29 | Trend of SME financing | 44 |
| 30 | Employment creation | 45 |
| 31 | Sectors of SME | 46 |
| 32 | Objective of the report | 47 |
| 33 | Scope of the study | 48 |
| 34 | Limitation | 48 |
| 35 | Literature review | 49 |
| 36 | Method of reasoning | 51 |
| 37 | Hypothesis | 51 |
| 38 | Research questions | 51 |
| 39 | Research design | 51 |
| 40 | Source of information | 52 |

| | | |
|----|---|----|
| 41 | Type of survey research | 53 |
| 42 | Data collection time | 53 |
| 43 | Research fallacies | 53 |
| 44 | Steps of sampling processing | 54 |
| 45 | Technique of data analysis | 54 |
| 46 | Bangladesh Bank regulations regarding SME financing | 55 |
| 47 | Technical aspects that banks and NBFIs follow for SME financing | 57 |
| 48 | SWOT analysis of SME financing | 59 |
| 49 | Analysis | 64 |
| 50 | Findings | 82 |
| 51 | Recommendation | 83 |
| 52 | Conclusion | 85 |
| 53 | Reference | 86 |
| 54 | Appendix | 89 |

Executive Summary

Bangladesh, the country of immense potentiality is a developing country located in the Southeast-Asia. Every year the size of the economy of this country is growing up with the help of the proper utilization of resources. With GDP growth of about 7.5% year-on-year in nine months of 2015/2016 fiscal year, the total production of goods and services stands higher than ever. New industries and potential sectors are growing up besides the agricultural industry, which is still the biggest contributor in the national economy of Bangladesh. Moreover, Bangladesh is presently going through the phase of demographic dividend, almost one fourth of the country's population consist of youth working age population and every year almost 2.00 million people are joining the labor force. Very exciting scenario indeed!

But when the economists of our country are asked about the economic circumstance of Bangladesh, despite the presence of all these above statistics they do not seem to present a very convincing picture regarding the future prospect of this country. Searching for the reason of this depressing vibe reveals that, unlike the general mass the economists' see-through the facts where they discover superfluous figures, exaggerated numeric and secrecy about the negative statistics of the country. Rather than presenting the truth the government and its affiliated authorities always present a picture which could convince people about their eligibility regarding governance. It is said that, identification of a problem is equal to 50% of the solution. But, in Bangladesh identification of problem is regarded as weakness and because of that rather than solving a problem from its root concealment of information gets the preference as always. But as an attempt to break that trend and to solve a problem from its very core the topic "Small and Medium Enterprise Financing in Bangladesh: The Means to Battle Unemployment and Poverty" has come into light.

In this report attempt has been made to portray an analysis regarding Small and Medium Enterprise financing in Bangladesh and its potentiality. To bring a meaningful insight in the research work a survey was also been conducted within the students of BRAC Business School and the people in my social circle. In addition, the research was conducted by gathering information from the secondary sources e.g. online journals, newspaper articles, research statistics of national and international think-tanks, guidelines of organizations such as ADB, World Bank. After gathering the required data, MS Office and MS excel was used to find out optimum information from the sample and then analysis was done by following the deductive reasoning method to figure out the outcome. In conclusion it is found that, though SME financing is believed as the most potential source of financing in battling unemployment and poverty but it is yet to be the tool for that purpose judging by the present method of financing. So to enhance the performance of SME financing as par its prospective, recommendations are stated at the end to draw the conclusion of the project.

Apart from the project work this report also consists of two other sections; organizational overview and description of the job during the attachment of 12 weeks. In the very beginning of the report information regarding the attached institution has been portrayed and in my case it was about IDLC Financing Limited. Inception of that section has been marked by history of the company; the status quo of 1985 is described in light of IDLC Finance Limited. In the next section product and service offerings have been mentioned followed by the operational coverage and organogram of this Non-banking financial institution. Then to mark the end; vision, mission and code of conduct of the company have been stated.

In the second part titled job description, explanation has been given about the work I was designated to do during my time at IDLC Finance Limited. Then my daily job responsibilities are stated in time of my internship. After that varied aspects of the job and its relation to the knowledge I have gathered through the curriculum in the university have been portrayed. Then an explanation is given accompanied by recommendation about the issues IDLC Finance can contemplate on for efficient and better management of their work.

The Organization

IDLC Finance Limited

Introduction

After the nine months war of demolition Bangladesh earned its independence in the year of 1971. 16th December was the day when the people of the Republic of Bangladesh held their heads high with nothing but the taste of independence. Here, the word ‘nothing’ is used not as a figurative expression. With whole economic system at the state of stagnancy literally in that point of time Bangladesh was in catastrophe. Economy is called the backbone of a country. So soon, to turn around the fortune wheel of economy and to reincarnate the country from the ashes of devastation few pragmatic and conclusive steps were taken to rebuild the financial sector of Bangladesh. As a module of escalating the growth of financial system apart from the controlling authority ‘Bangladesh Bank’; Schedule and Non-Schedule banks were authorized to establish in Bangladesh. But as the commercial banks are reluctant in long term credit in commerce and industries which to say was needed most in that period of revival; NBFIs (Non Banking Financial institutions) came into light to fill the market gap.

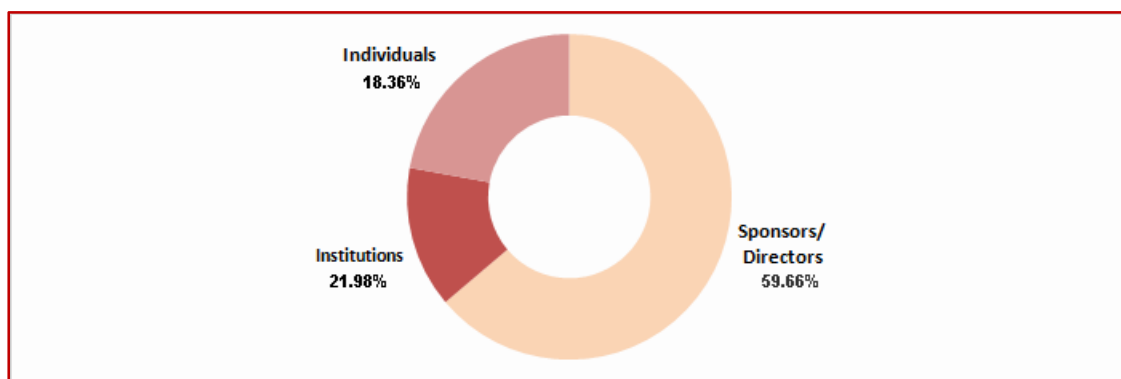
The inception of NBFIs in Bangladesh started with the Industrial Promotion and Development Company of Bangladesh (IPDC) in 1981 with a view to emphasize on the resources mobilization, long term source of fund, specialized credit (SME financing), employment generation, capital formation and also to have an impact in breaking the vicious circle of poverty. In Bangladesh the NBFIs are established based on the Financial Institution Act 1993 and at present the overall number is 33 among which one is a subsidiary of a state-bank, two are fully government owned, 15 are local private initiatives and the other 15 are established in joint ventures. The major sources of funds of the NBFIs are the term deposits, credit facility from banks, call money rate, bond and securitization.

The modes of financing and operation of the NBFIs are a bit different in nature from typical banks in operation. Basic difference of NBFIs and Bank includes; NBFIs are not involved in providing the service of bank accounts, whereas the banks provide the general services e.g. facilities of current account, fixed account etc. Banks can issue debit or credit card which the NBFIs cannot; NBFIs cannot work on foreign exchange transaction, LC opening but the banks have authority in the extending these services to customers.

Traditionally the NBFIs of Bangladesh consists of development financial institutions, leasing enterprises, investment companies, merchant bankers as well as asset management companies and IDLC Finance Limited provides all the above services is also one of the leading non-banking financing institutions of the country. Established in 1985 IDLC offers varied products according to customer needs with an aim to change the financial scenario of Bangladesh. As a cumulative effort of different institutions of home and abroad, IDLC was formed to take the chance of market gap. By utilizing the window of opportunity IDLC inscribed its name in the financial arena of Bangladesh with an aim to make an impact in the development of Bangladesh.

History and company overview

The industrial development and leasing company characterize as IDLC was established 30 years ago through the collaboration of International Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, and Sadharan Bima Corporation. But through the passage of time and in the process of evolution the initial foreign shareholding of 49% was gradually overtaken by the local investors and in 2009 the last portion of the foreign shareholding was bought out by local sponsors.



Shareholding composition of IDLC Finance Limited

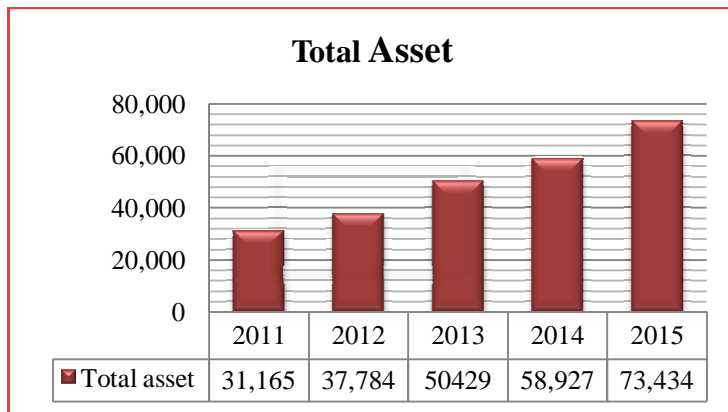
Back in 1985, IDLC marketed its inception in the industry with Lease Financing as their core product and now in 2016 over 31 years in operation IDLC has grown to become the largest multi-product Non-Bank Financial Institution of Bangladesh with corporate, retail, SME and asset management solutions in their list of offered services. Apart from the dominance in the financing sector IDLC also holds significant presence in Capital Markets as well as in the division of Stock Brokerage. The wholly-owned merchant banking subsidiary of IDLC dubbed as IDLC Investments Limited is also a leading name in the field of investment banking in the country. IDLC Securities Limited is the other wholly-owned subsidiary of IDLC and offers brokerage services of international standard for both the institutional as well as the retail clients and it is holding its position amongst the top five brokers in Bangladesh. Apart from these functions, IDLC is also a depository participant in the Central Depository Bangladesh Limited (CDBL).

IDLC has attained a significant height judging by the performance of the last 30 years with more than 1200 permanent employees principally in Bangladesh. With an aim to provide satisfactory service to the client (Client base of 2015: 13,960) IDLC is also a listed company in both Dhaka

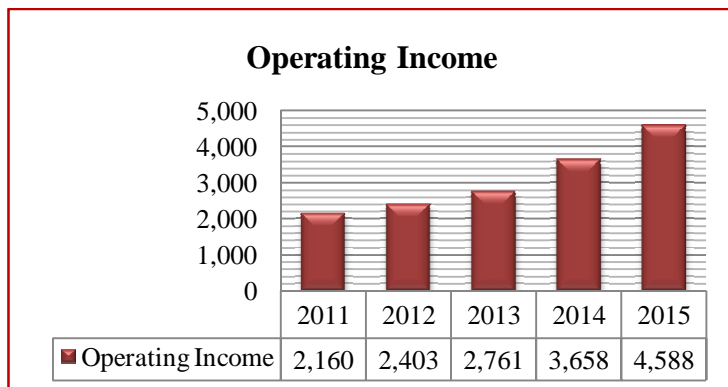
and Chittagong stock exchange. IDLC is one of the blue-chip companies in the stock market of Bangladesh with market capital of more than 15,986.95 million taka.

In 2015 with a staggering 73,434.45 million taka of Total Asset IDLC enlisted a convincing increase of 24.62% in the size of its Balance Sheet. As an indicator of solidity in business as well as in the adaptive capacity regarding the changes of industry dynamics IDLC registers 22% in compound annual growth rate of asset from 2010 to 2015. Though the continuous increase in the amount of non-performing loan gives a headwind in the expected amount of profit but still the company holds an up-warding movement in its income with 17.16% boost in the year of 2015. Judging by the operating efficiency and effectiveness in maximizing the shareholders value IDLC is certainly doing well as its cost to income ratio records a consecutive depleting stance for the past three years. IDLC also registers 17.37% increase in earnings per share in comparison with 2014 with market value added over 6.03%, which authorizes the positive steps and constructive decisions of management in attracting investment. Though the decision of raising addition capital and that for issuing more shares slows down the growth of earning per share a bit, but still keeping a steady steep in the profit covers it up along with a high ROE. So, the investors are not losing confidence rather they are considering IDLC as a company of future prospect with stability in return, even though the P/E ratio of IDLC (8.14) stands well below the industry average (20.86).

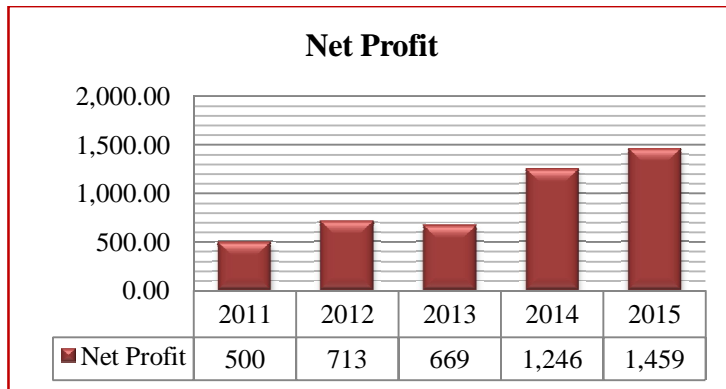
Illustration of the key financial indicators of IDLC



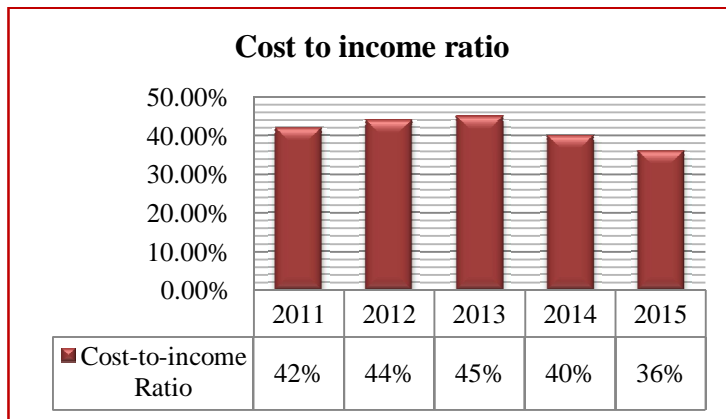
Total Asset
24.62% increase in
 2014 to 2015



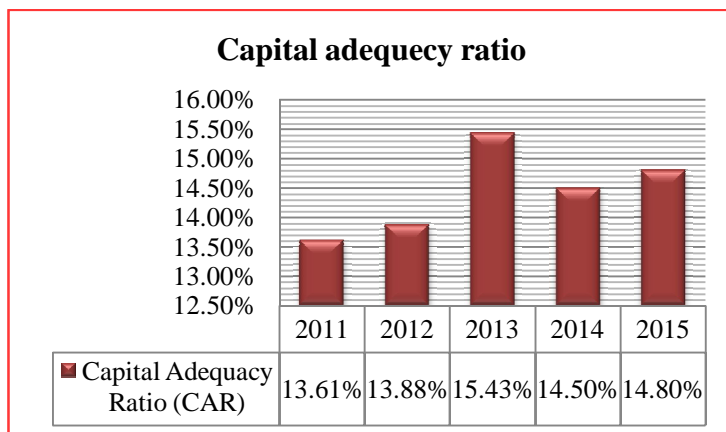
Operating Income
25.43% increase in
 2014 to 2015



Net Profit
17.16% increase in
2014 to 2015



Cost to income ratio
35.92% in
2015



CAR
14.80% in
2015

Business overview of IDLC

IDLC is operating its business with its four wings; Corporate, consumer, SME and Capital market. To satisfy the diversified necessities of the customers and to encourage them in business and investment, the management of IDLC has tailored its business according to the needs of its client base.

Corporate

The corporate division of IDLC provides facility of lease financing, term loans, working capital financing, project financing and other specialized products for capital expenditure and working capital to a broad range of corporate clients across the country. The division also offers Structured Finance (SF) solutions that include corporate bond issuances and debt syndication.

Consumer

The offerings of consumer division include home loan, car loan and personal loans facility with an aim to improve the quality of life for consumers. As a leading home loan provider of the country, the division enjoys the highest market shares and growth rates among the home loan providers of Bangladesh. Lately, the consumer division came up with a new product offering called “RegistraLoan”, which is a secured loan facility for property buyers and possession-holders for securing ownership of apartment, commercial space and land, and it is also the first loan of its kind in Bangladesh. The consumer division of IDLC also offers deposit scheme facility with a wide range of term deposit packages as well as regular earner packages.

Small and Medium Enterprise

The Small and Medium Enterprise division provides specialist financing facilities to small and medium-sized businesses across the country. With an extensive range of product offerings according to the needs of businesses of different sizes and kinds, the SME division of IDLC stands at the top among the industry. From steel to cement, from light engineering to plastics, textiles and information technology; the SME division encourages the businesses that reflect potentiality. The division’s operations include term loans, working capital loans and lease financing, customized structured financing. The division also supports and encourages women entrepreneurship by providing loans at an attractive covenant as well as by arranging seminars and workshops on promoting women entrepreneurship.

Capital Market

IDLC conducts the function of capital market by its two wholly-owned subsidiaries, IDLC Securities Limited and IDLC Investments Limited. Under the umbrella of capital market, IDLC provides trading services to customers and institutions through robust trading facilities; such as underwriting, primary issuances, market research, brokerage services and so on. The division also

has Discretionary Portfolio Management services and is looking to grow this portfolio, especially by leveraging inter-divisional synergistic opportunities.

Product offerings of IDLC

Product offering of IDLC includes;

Small and Medium Enterprises

Small Enterprise Loan/ Lease

- Seasonal Loan
- IDLC Purnota - Women Entrepreneur Loan
- SME Shachal Loan
- SME Surakkha
- SME Deposit
- Commercial Space Loan
- Revolving Short Term Loan
- Commercial Space Loan
- Commercial Vehicle Loan
- IDLC Udbhabon
- SME Deposit

Medium Enterprise Finance

- Medium Enterprise Loan/ Lease
- Commercial Vehicle Finance
- Machinery Lease
- Healthcare Finance
- Revolving Short Term Loan
- SME Deposit
- Commercial Space Loan

Supplier and Distributor Finance

- Factoring of Accounts Receivable
- Bill/ Invoice Discounting
- Work Order Financing
- Distributor Financing

Statistics at a glance of SME

| | | | |
|---|--|--|--|
| 17.16% SME loans compound average growth rate 2010 – 2015 | 22,368 Taka in million SME portfolio in 2015 | 15,656 Taka in million SME loan disbursement in 2014 | 9,325 SME division active customer in 2015 |
|---|--|--|--|

- Home Loan
- Car Loan
- Personal Loan
- Loan against Deposit

Deposit

- Flexible Term Deposit Package
- Regular Earner package

Key statistics at a glance of Consumer Division

| | | | |
|---|--|---|--|
| 7,803 Number of loan Customers in consumer division 2015 | 20,633 Taka in million Consumer loan Portfolio 2015 | 8,382 Taka in million Consumer loans disbursement 2015 | 25% Consumer loans compound average growth rate [2010 – 2015] |
|---|--|---|--|

Corporate

Corporate Finance

- Lease financing
- Term Loan Financing for Capital Equipment
- Commercial Space Financing
- Project Financing
- Short-term loan to meet working capital requirement
- Specialized Products for meeting seasonal demand
- Green Financing (BB Refinance)
- Supplier and Distributor Financing (Factoring)

Structured Finance Solutions

- Syndicated Loan
- Private Placement of Equity

- Preference Shares
- Projects/ Infrastructure Finance
- Bonds
- Foreign Currency Loans
- Refinancing of Special Funds
- Merger and Acquisitions
- Joint Venture Matchmaking
- Feasibility Study
- Securitization of Assets
- Commercial Paper

Treasury

- Overnight Borrowing/ Placement
- Term Deposits
- Bonds
- Debentures
- Commercial Papers
- Preference Shares
- Equity Investments
- Treasury Bills/ Bonds

Statistics of Corporate Division

| | | | |
|---|--|---|--|
| <p>6,484 Taka in million Corporate loan disbursement in 2015</p> | <p>18% Corporate loans compound average growth rate [2010 – 2015]</p> | <p>10,623 Taka in million Corporate loans portfolio 2015</p> | <p>256 Corporate division active customer base 2015</p> |
|---|--|---|--|

Capital Markets

IDLC Securities Limited

- Cash Account
- Margin Account through IDLC IL and other enlisted merchant banks
- Easy IPO
- Institutional and Foreign brokerage
- Trade execution through Dhaka and Chittagong Stock Exchanges
- Custodial and CDBL services
- Bloomberg terminal for foreign clientele
- Research and advisory services

IDLC Investments Limited

- Margin Loan
- Discretionary Portfolio Management
- Corporate Advisory
- Issue Management
- Underwriting and Research

Key figures of Capital Market of IDLC

| | | | |
|---|--|--|---|
| 306 Taka in million Operating income 2015 | 14.37% Shareholders equity compound average growth rate {2010 – 2015} | 192 Taka in million Net profit before tax 2015 | 306 Taka in million Net profit after tax 2015 |
|---|--|--|---|

Credit rating of IDLC

Emerging Credit Rating Limited has assigned AAA for long term credit rating and ECRL-1 for short term credit rating to IDLC Finance Limited based on the audited financial statement and other information required for rating purpose. For impeccable analysis and to designate the proper rating based on the performance; ECRL considered financial performance, capital base, asset composition, asset quality, earning trends, profitability, management experience and prospect of the industry.

Corporate social responsibility of IDLC

With an aim to ensure sustainability and to contribute towards protecting the greater environment, the management of IDLC has integrated with the concept of ‘Green Banking and Sustainability’ in their ideology. Instead of focusing only on profit IDLC believes in 3Ps; People, planet and profit. IDLC considers CSR as a concept that implies more than donation and few programs. So, apart from the charitable activities, IDLC is involved in both local and international initiatives to promote environmental awareness and sustainable business practice. IDLC has also become a signatory of projects such as; UNEP FI (United Nations Environment Program Finance Initiative), UNGC (United Nations Global Compact), CSR Centre of Bangladesh an initiative of BEI (Bangladesh Enterprise Institute).

Milestones through the timeline

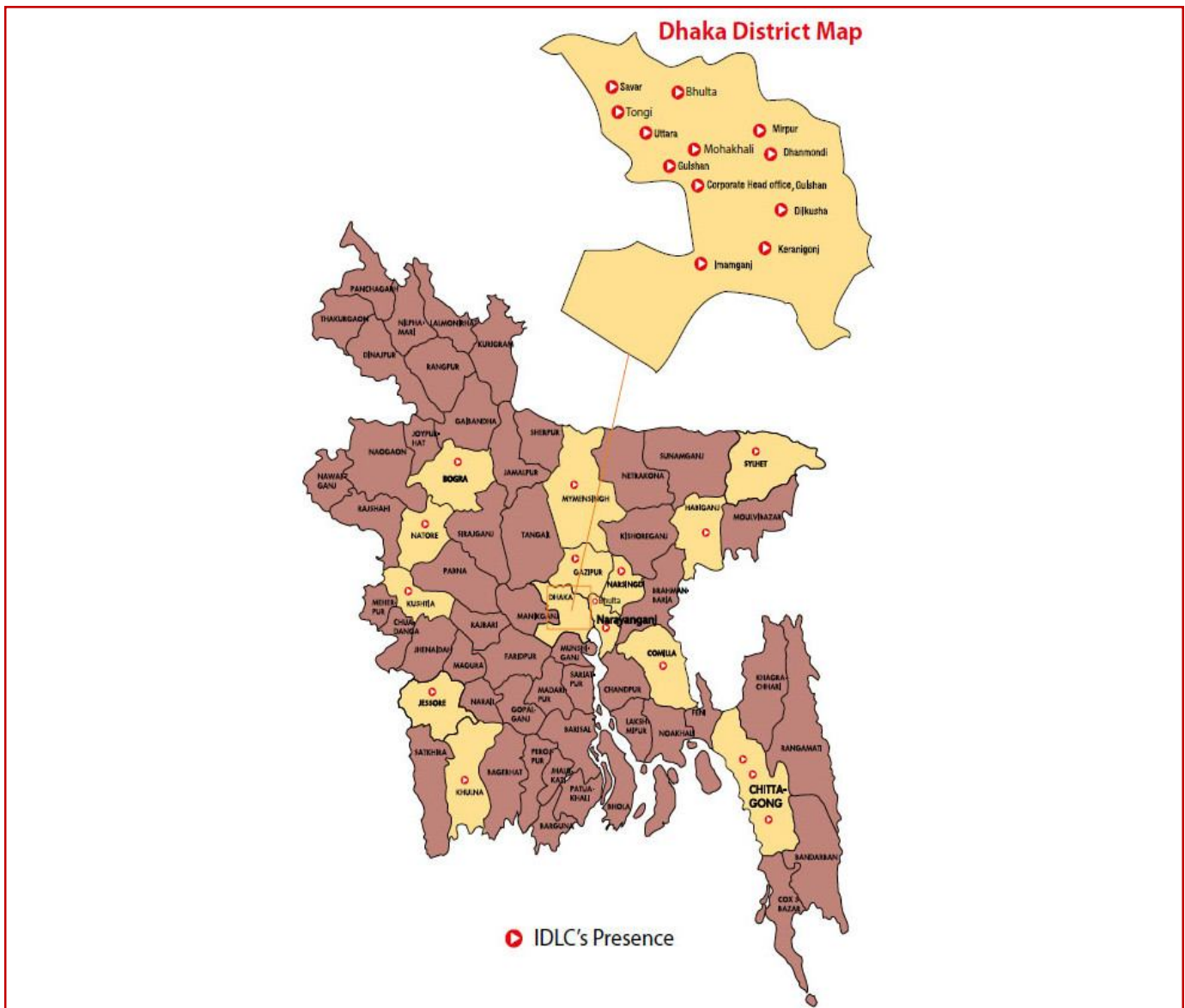
| Year | Date | Event |
|------|--------------|--|
| 1985 | 23 May | Incorporation of the Company |
| 1986 | 22 February | Commencement of the leasing business |
| 1990 | 1 October | Establishment of a branch in Chittagong, the main port city of Bangladesh |
| 1993 | 20 March | Enlisted on the Dhaka Stock Exchange Limited |
| 1995 | 7 February | Licensed as a NBFIs under the Financial Institutions Act 1993 |
| 1996 | 25 November | Listed on the Chittagong Stock Exchange Limited |
| 1997 | 27 May | Launched home finance and short term finance operations |
| 1998 | 22 January | Licensed as a merchant banker by the Bangladesh Securities and Exchange Commission |
| 1999 | 15 Jan | Commencement of corporate finance and merchant banking operations |
| 2004 | 29 January | Opening of the first retail focused branch at Dhanmondi |
| | 29 January | Opening of the Gulshan Branch |
| | 22 November | Launched investment management services, 'Cap Invest' |
| 2006 | 2 January | Opening of the first SME focused branch at Bogra |
| | 1 July | Relocation of the Company's Registered and Corporate Head Office at own premises at 57, Gulshan Avenue |
| | 18 September | Commencement of the operation of IDLC Securities Limited as a wholly owned subsidiary of IDLC |
| 2007 | 14 March | Launching of discretionary portfolio management services |
| | 5 August | Company name abbreviated to ' IDLC Finance Limited ' from ' Industrial Development Leasing Company of Bangladesh Limited ' |
| 2011 | 16 August | Commencement of operations of IDLC Investments Limited, a wholly-owned subsidiary of IDLC |
| 2012 | 11 March | Change of logo and rebranding of IDLC |

| | | |
|------|--------------------|---|
| 2013 | 21 December | IDLC owns 2 nd position in the category of 'SAARC Anniversary Award for Corporate Governance' for the Best Presented Annual Reports. |
| 2013 | 22 March | IDLC conquers the 1 st position in the financial service sector among the SAARC countries. |
| 2014 | 29 April | IDLC bags the first position as the best corporate among the NBFIs. |

Operational Network

IDLC is now operating through 36 branches (34 branch and 2 booths) covering all the major pockets of the nation. With an aim to serve the under-served vast majority and to support the potential ventures deprived of financial facility, IDLC is building a strategic web of network in order to serve effectively and efficiently.

Pictorial view of the location of IDLC branches around Bangladesh ; (Newly inaugurated Kushtia and Moulvibazar branch are not identified in the map below)



Organogram

As a public limited company IDLC is guided by an elected panel of Board of Directors consisting of eleven members with Mr. Aziz Al Mahmood as chairman. On the other hand, the Executive Committee of IDLC is comprised of four members from the share holding institutions including the CEO and Managing Director Mr. Arif Khan.

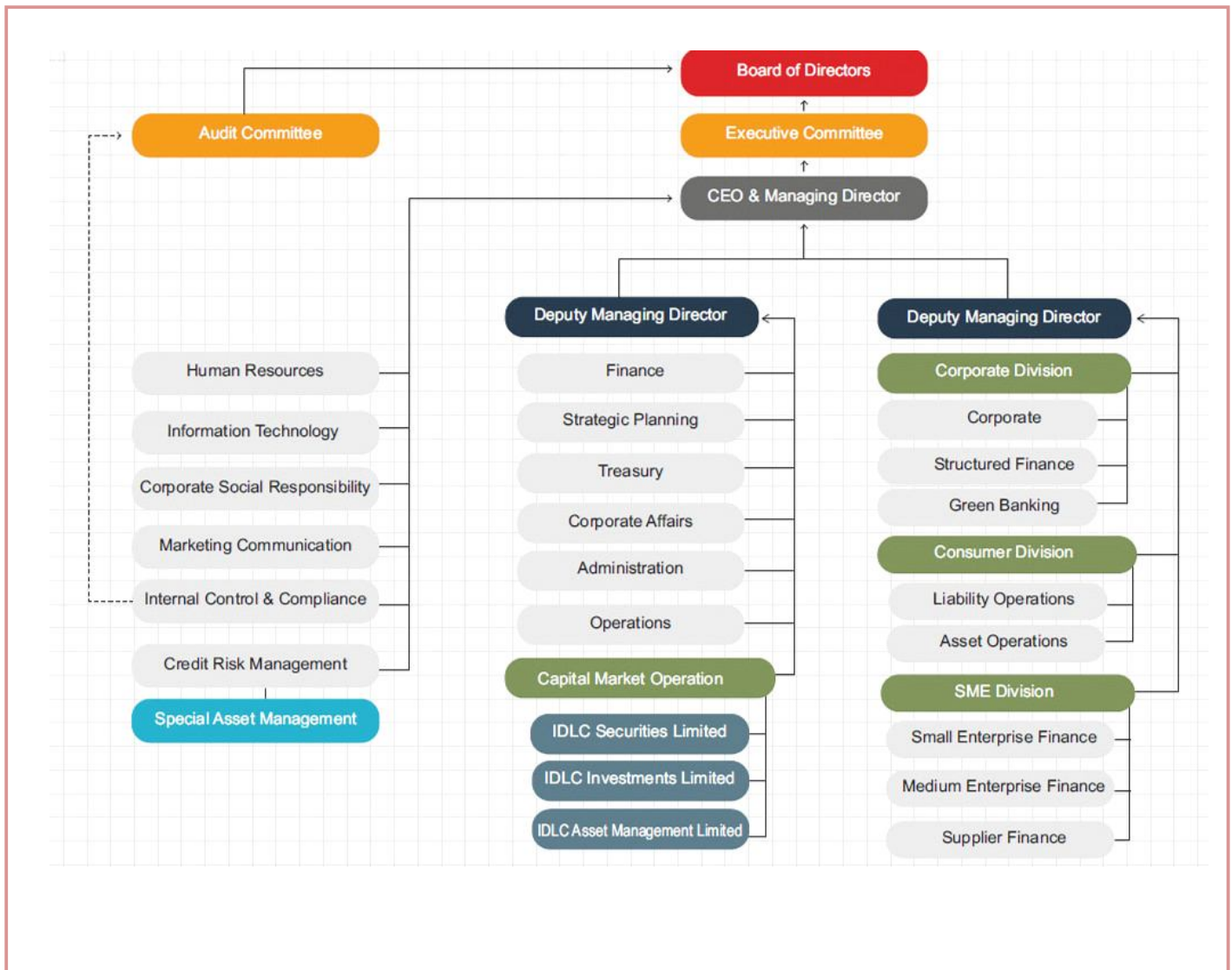
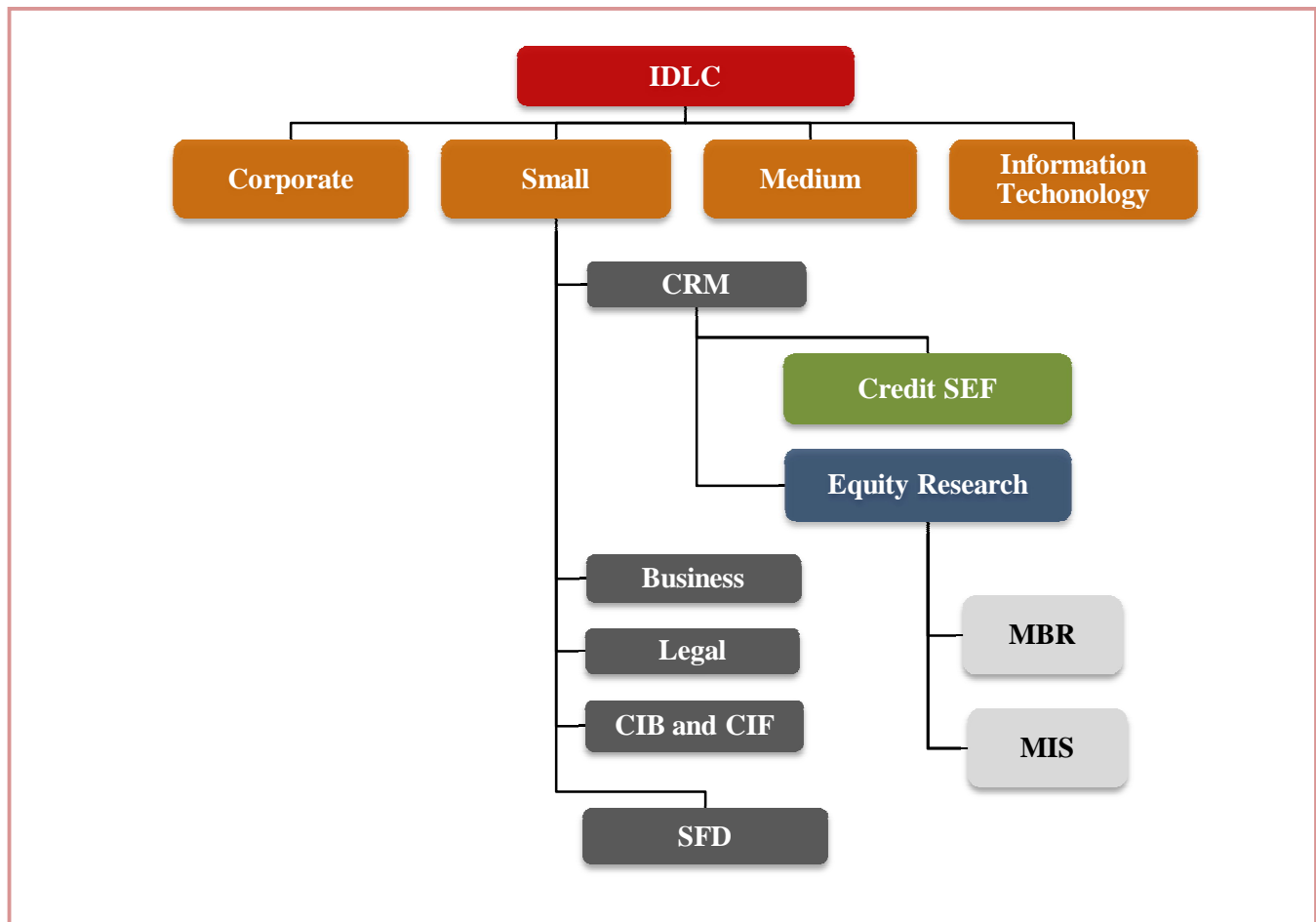


Illustration of the chain of command of IDLC

Detailed organizational chart of my assigned division (SME)



- **CRM** – Credit Risk Management
- **CIB** – Credit Information Bureau
- **CIF** – Customer Identification Number
- **SEF** – Small Enterprise Financing
- **SFD** – Supply Finance Department
- **MBR** – Monthly Business Review
- **MIS**- Management Information System

Corporate ethos

Vision

We will be the best financial brand in the country.

Mission

We will focus on quality growth, superior customer experience and sustainable business practices.

Strategic Objectives

- Grow and develop our talent pool
- Fully leverage the new core banking platform
- Optimize distribution points
- Grow and diversify funding sources
- Grow sales and service capabilities in the Consumer Division
- Aggressively grow the SME portfolio
- Focus on top-tier clients in the corporate segment
- Consolidate capital market operations and enhance capabilities
- Embrace internationally-accepted corporate governance and sustainable business practices

Core Values

- Integrity
- Customer Focus
- Trust and Respect
- Equal Opportunity
- Eco-friendly
- Passion
- Simplicity

Code of Conduct and Ethics

In accordance with the approved and agreed Code of Conduct, IDLC employees should;

- Act with integrity, competence, dignity and in an ethical manner when dealing with customers, prospects, colleagues, agencies and public.
- Act and encourage others to behave in a professional and ethical manner that will reflect positively on IDLC employees, their profession and on IDLC at large.

- Strive to maintain and improve the competence of all in the business.
- Use reasonable care and exercise independent professional judgment.
- Not restrain others from performing their professional obligations.
- Maintain knowledge of and comply with all applicable laws, rules and regulations.
- Disclose all conflicts of interest.
- Deliver professional services in accordance with IDLC policies and relevant technical and professional standards.
- Respect the confidentiality and privacy of customers, people and others with whom they do business.
- Not engage in any professional conduct involving dishonesty, fraud, deceit or misrepresentation or commit any act that reflects adversely on their honesty, trust worthiness or professional competence.
- IDLC employees have an obligation to know and understand not only the guidance contained in the Code of Conduct but also the spirit on which it is based.

Job Description

Attachment with IDLC Finance Limited

After concluding all the required courses for completing my major in Accounting and Finance; I joined IDLC Finance Limited for completing my internship as a prerequisite of BBA program of BRAC Business School of BRAC University. And as per the guideline of the internship program I had completed my attachment of 12 months in the Management Information System and Credit Risk Management division of Small and Medium Enterprise financing at IDLC Finance Limited.

Recognized as one of the top notch financial institution of country IDLC is able to sustain its position among the top rated Non Banking Financial Institutions (NBFI) of the country because of its tailored financial services, efficacy in implementation of financial strategies and also for maintaining government regulations as well as international standard.

IDLC believes in the power of innovation and knows the importance of diversified and innovative products to thrive in today's competitive industry. For this reason, to guide the innovation with experience IDLC recruits the top qualified experts of the industry to fresh graduates straight out of universities and apart from this bunch, to give the eligible students a firsthand experience of corporate world IDLC also offers opening for internship every quarter. Unlike the typical internship program of most of the corporate giant, IDLC challenges its interns with the very work of paid and permanent employees with a view to give them an essence of everyday problems and solutions.

Internship profile at a glance

| | |
|--------------------------|---|
| Name of the organization | IDLC Finance Limited |
| Designation | Intern |
| Attached division | Small and Medium Enterprise Financing |
| Remuneration | 4,000 BDT per month |
| Working hour | 10.00 am to 6.00 pm |
| Job category | MIS – [12/15/2015 – 1/10/2016] |
| | Credit Analysis – [1/11/2016 – 3/20/2016] |
| Work station | Gulshan Branch – [12/15/2015 – 1/10/2016] |
| | Elephant Road Branch – [1/11/2016 – 3/20/2016] |

Description of my jobs

My job description of IDLC is divided into two different phases as I worked in two different branches of IDLC Finance Limited with different responsibilities in both the cases.

At Gulshan Branch of IDLC FL

After facing my interview on 14/12/2015 I was asked to join in the department of Management and Information System (MIS) of CRM under SME on 15/12/2015. Under MIS, the tasks I was assigned with a includes;

- Bangladesh Bank reporting
- Updating the Loan origination module (LOM) of Oracle information of financial service also known as FLEXCUBE and status update
- Uploading data in the Satellite Gateway, the task is called 'Disbursement'
- Updating the database of sanctioned files, known as 'Sanction' to the employees
- Cross check

Bangladesh Bank reporting

To ensure corporate governance and to maintain a proper regulation on the transactions and fraudulent activities of the Banks and other institutions e.g. Non-banking financial institutions; Bangladesh Bank archives every single financial activities of the prevailing entities of the country. In a specified format of spreadsheet provided by the Bangladesh Bank authority every loan disbursement needed to be enlisted in a quarterly basis and has to be submitted within the first ten days of the first month of the following quarter. As I was in the SME division of IDLC Finance Limited my responsibility entails reporting all the financing activities of Small and Medium enterprises by IDLC. The required information for reporting includes: company name, owners name, TIN number, national ID, nature of the business, education, age of the business, number of employee, amount of current and fixed asset, required loan amount, total loan amount, disbursed amount, size of the installments, tenure, interest rate, amount of sales (current and forecasted after availing loan); Ratios: including, average collection period, average payment period, debt to equity ratio, debt burden ratio, personal net worth and business net worth.

Loan origination and status update

Loan origination also dubbed as LO by the employees of IDLC is a process for keeping track of the sanctioned loans. In this phase, the nitty-gritty of the approved loan facility is inserted in the financial service software of Oracle called FLEXCUBE. In this process, the approved loan files were sent to me via the internal network system of IDLC and after receiving a file in Microsoft

outlook I needed to collect the CIF and CASA number from that file to track and download the 'Appraisal' of that particular loan facility. Then after checking the collateral history from ORACLE Business Intelligence software called (OBI) of that very client I needed to start incorporating the information according to the oriented cells of the database. The information of the FLEXCUBE enlists: Branch code, application number (A distinctive ID formed for each client by assimilating a random number of four digits and the CRE code), application category (Lease financing, Partially secured, Fully secured or Unsecured), nature of business, purpose of financing (Working Capital, Building, Machinery and Equipment, vehicle) Customer no. which is the CIF number, currency of the financing amount, NID, customer category, loan amount (If the client is an existing in that case, have to mention the number of pervious loan facility), country name, amount of fixed asset, net worth, fixed asset, current asset, non-current asset (Which includes the amount of other assets), capital, liability (Current and Long term liability), pool code (Which is the CIF number), pool currency (BDT), collateral (The number of cells in collateral has to be proportionate with the number of guarantors plus hypothecation, mortgage and title deed/possession deed/ rental deed/MDTD), collateral amount, haircut, guarantors name and ID, EMI, requested amount and installment. As FLEXCUBE is an automated system, the software updates the information provided continuously and for this reason 20 minutes is the allocated time for inserting the information of a single file.

On the other hand, status update is the way of keeping record of the files which are already inserted in the system of FLEXCUBE. Keeping the status updated reliefs an employee from updating the same file again in the system, which ultimately creates a jumble in the system and confusion in the mind of the employees. Status update is mainly a part of the LO and updating the spreadsheet file is a mandatory thing to do at the end of each day. The data of status update includes: Branch name, CIF number, company name, application ID, person's name, number of loan origination. Status update is also important to navigate the person who has done that particular loan origination.

Disbursement

Disbursement is the process of updating the database with the information of already availed loan facilities to the customers. To keep track of the disbursed loan facilities with other necessary information IDLC uses the software called 'Satellite gateway'. Inserted data of this section includes: CIF number of the client, business type, sector, sub-sector, number of the employees, fixed asset, name of the credit analyst, purpose of financing, application date, date of sanction, security (All the lease files are fully secured, if the security coverage is 100% or more than the facility is fully secured and if less than partly secured, cash security is regarded as partially secured and absence of mortgage or cash security is considered as unsecured) and environmental risk grading (ERM).

Sanction

‘Sanction’ is basically a way of keeping the information of the approved files catalogued. Sanction is comprised of the key information from the ‘Appraisal’ as well as the name of the credit analyst and the approvers. This process is important for balancing the number of files generated from the system with the information provided by the credit analysts. As sometimes because of the faulty mechanism or technical difficulty the software fails to generate accurate result as per the input.

Cross check

Sorting the file name and disbursed amount according to the name of the branch, credit analyst and approver as per the information provided by all the 36 branches with the information extracted from the system, is called cross checking. Cross checking is a way of keeping track of the files and matching the manually generate data with the system generate information for the purpose of locating the origination branch of a particular file as well as the involved employees in generation of a file.

At Elephant Road Branch of IDLC FL

After working close to a month in MIS of IDLC Finance limited I joined the Credit Analyst team of CRM under SME division on 1/11/2016 with new job responsibilities. My job responsibility CRM department involves;

Preparing Appraisal

‘Appraisal’, is the name of the assessment sheet for credit analysis. An appraisal is a multiple sheet structured spreadsheet document, by using which a credit analyst examines and evaluate the circumstances of an applied concern by setting the PPG criteria as benchmark. In credit risk management PPG is regarded as the instruction and Appraisal is the implementation of that instructions.

PPG (Product Program Guideline); is a standard set of instructions for the credit analysts, depending on which the analysts compare the size and worthiness of the business and judge whether the particular business is appropriate for the applied loan facility or not. Apart from the ‘Master PPG’ IDLC has generated a structured set of PPGs for different sets of products, depending on the varied sectors of SME. List of PPG includes;

- IDLC Purnota - Women Entrepreneur Loan
- SME Shachal Loan
- SME Surakkha

- Commercial Space Loan
- Revolving Short Term Loan
- Commercial Space Loan
- Commercial Vehicle Loan
- IDLC Udbhabon

Taking market feedback and guarantors opinion

Market feedback is a way to apprehend the reputation of an entrepreneur and the position of the business in the market place. Market feedback is important because as per the assumption that, 'people close to a particular individual would know that person better' and for this reason the other business owners of that particular compound is contacted over telephone for a more thorough inspection about the client. Queries over telephone entail;

- Whether they know about a business of that name
- Whether they are acquainted with the owner of the business
- What is their judgment about that particular business
- If they know anything about their political affiliation and informal borrowing
- Do they have any knowledge about their transaction and loan facility
- Their assumption on the applied loan amount
- Whether they know anything about business expansion or renovation.

Apart from taking the market feedback from the business personals, guarantors against the loan amount are also been contacted. As in some cases, the client writes down guarantors name without even informing that particular person or even against the will and later in case of default the organization becomes the ultimate sufferer as the amount of bad debt goes up. So, as parts of the process of credit analysis guarantors are inquired. Inquiries to the guarantors enlist;

- Whether they are aware of the fact that, they have been chosen as guarantors against this loan facility
- How do they know the client
- Whether they are involved in business or service
- In case of business; kind of business and
- Whether they are exposed to any loan facility currently and also the name of the Bank or NBF
- Type of the current loan, (CC loan, term loan etc.)

In case of choosing a guarantor it is always preferred to choose a person with CC loan as in case of default the Credit Information Bureau (CIB) report of the sponsor besides the client will also get affected. For this reason it is presumed that, the guarantor will compensate the remaining amount as quickly as possible to keep a clean slate in the CIB. Otherwise the guarantor will face a halt on their CC loan and cannot continue the required daily transaction.

Preparing a visit plan and client visit

After the visit and authorization of the sales team leader the file gets forwarded to the credit analyst team and here the foremost duty of a credit analyst is to visit the owner of the business and inspect the property of the client such as; outlets, factory, warehouse ,office and in case of secured loan the mortgage possessions.

Here the task was to collaborate with the CRE and arrange a suitable time for visit. As there is around 8-12 clients to visit every week; planning and scheduling a efficient visit plan is important by considering the hindrance e.g. traffic jam, distance among the scheduled visits, absence of client. Besides implementation of an efficient visit plan also plays a key role in achieving the targeted TAT of the organization.

Updating proposal status and the performance review

Proposal status is a specifically formatted spreadsheet file where the credit analyst keeps track of the files submitted, approved, under processed and sanctioned. The proposal status assists the credit analysts to plan their work according to priority and also helps to keep pace in reaching the targeted disbursement amount specified in the beginning of the each month. Proposal status also portrays which file is declined by specifying the reasons of rejection and that ultimately helps the organization in understanding the correlation of rejection rate in terms of specific industry, business or even a particular person. Information of proposal status consist of: Business name, requested amount, address of the client, proprietor name, name of the CRE, name of sales team leader, current position (Under process, sanctioned, declined), name of credit analyst, name of the approvers, application date, sanctioned date, TAT and deviation.

TAT stands for turnaround time, which is the lead time between application date of the client for fund and the date of sanction. TAT is a very important aspect for NBFIs as the only way they can convince people to choose them over a bank is their service and here TAT represents the swiftness of the service. The target of IDLC is to reduce the TAT within 5 to 7 days.

Availing a loan facility by diverging from the criteria of PPG is called Deviation. In case of deviation the credit analyst has to show constructive reasons by explaining the particular point on which deviations has been taken and needs to specify clear opinion to the approving authority about the ins and outs of the circumstance.

List of deviation approving authority

| Tier | Amount | Approving authority |
|-------------|------------------------|----------------------------|
| Tier 1 | Up to BDT 5.00 million | Head of Regional Business |

| | | |
|---|---------------------------------|-------------|
| Tier 2 | Up to BDT 5.00 to 8.00 million | Head of SEF |
| Tier 3 | Up to BDT 8.00 to 20.00 million | Head of SME |
| Proposal with deviation amount above BDT 5.00 million will also be approved by Head of Credit and Collection. | | |

Reporting to CAD and ICC

(CAD) stands for Credit Administration Department and (ICC) is the Internal Control and Compliances. The task of these divisions is to assess and manage the operational risk of the company and as part of this process of mitigating risk and ensuring more efficiency; these divisions also monitor the disbursement loan facilities. In fact, after completion of the appraisal and approval credit team forwards a sanction advice to the operational unit and also a disbursement proposal to the Credit Administration Department who ultimately disburse the loan by evaluating the credit control of the appraisal of that particular loan facility.

Apart from this task, CAD also maintains an archive of the files disbursed in monthly to tackle the sudden inspection of the Central Bank authorities. For this reason I was assigned the task of documentation of the hard copies of the disbursed files after the end of every month. My job was to print out the appraisal and credit control of the disbursed files and send it to the department of credit administration after taking the sign of the credit analyst and approving persons. But if the net exposure of any file is 20.00 million or more and the facility amount is 50.00 million or more the hard copies of the disbursed files are needed to be sent to the ICC.

A diagrammatic expression of my responsibilities and their hierarchical position

| | |
|--|--|
| Search for postential customer and convincing | <ul style="list-style-type: none"> • Done by the Business team • Inspect and judge the worthiness for loan facility. |
| Acquire necessary documents and file submission | <ul style="list-style-type: none"> • If falls under the criteria stated in PPG then forward the file to the STL otherwise discard the project. |
| Inspection and visit | <ul style="list-style-type: none"> • STL then visits the client • Inspect the business and apply the experties to find out frodulents • If satisfied by the assesment, STL authorize the file and if not discard it. |
| Prepare the input sheet and request for CIF | <ul style="list-style-type: none"> • Input sheet is a spreadsheet file prepared by MIS which assists the credit analyst to gather the information more quickly in preparing appraisal. |
| Submission of file to the Credit Analyst team | <ul style="list-style-type: none"> • The CRE in the mean time collects the necessary documents e.g. monthly sales of at least one year, asset information, bank statement etc. • Then after filling up the KYC form submits the file to the credit analyst. |
| Update the proposal status | <ul style="list-style-type: none"> • Credit analyst inputs the information in proposal status. |
| Client visit by credit team | <ul style="list-style-type: none"> • Arrange visit plan by collaborating with the CRE. • Visit the client property and inspect the elements e.g. property value, sales, daily transaction, business dynamics, political affiliation etc. |
| Preparing Appraisal and request for the CIB report | <ul style="list-style-type: none"> • Analyze the gather information • Check the DSCR, percentage of sells associated with bank transaction, sales trend, installment, interest rate etc. |
| Market feedback and posting the file for approval | <ul style="list-style-type: none"> • Here the analyst takes market feedback from the personal guarantors and other persons to again make sure the credibility and worthiness of the person and also checks the CIB. • If everthing is in order the file gets posted in the public folder for approval. |
| Sanction | <ul style="list-style-type: none"> • On the other hand the files that are approved and ready for disbursement get enlisted by MIS along with key information. |
| Loan origination (LO) | <ul style="list-style-type: none"> • if the file gets approved by the incharge of tier within which the amount of the loan falls under, it is send to the MIS for loan origination. • After that the LO is send again to the credit analyst for their approval. |
| Completion of the file by CRE | <ul style="list-style-type: none"> • Here the CRE acquires the authorization of the gurantors by taking signature and pledge of compensation in case of default. |

| | |
|---------------------------|--|
| Authorization of CAD | •Then the file is forwarded to CAD for approval on disbursement. |
| Prepare a CASA account | •Done by MIS and it is basically a current and savings account for receiving charges and cash security as well as for transferring funds to customers account. |
| Disbursement | •Through account payee check or BEFTN. |
| Satellite gateway | •Have to update the key information regarding the disbursed files into satellite gateway. |
| Status update | •Enlisting the files at the end of the day that are already inserted in Loan Origination Module (LOM). |
| Cross check | •Have done by MIS at the end of every month. |
| Reporting to CAD | •Have to report to CAD at the end of each month and also needs to dispatch the hard copies for documentation. |
| Bangladesh Bank reporting | •Get done by MIS once in every quarter. |

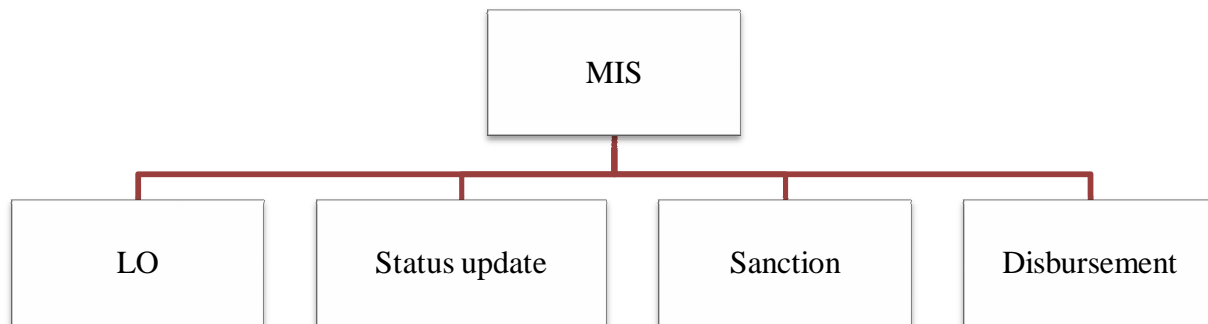
■ Participated jobs during my attachment at IDLC Finance limited

- **STL: Sales team leader**
- **CIF: Customer/Client identification number**
- **CRE: Credit (A personnel of the business team is called CRE)**
- **KYC: Know your customer**
- **BEFTN: Bangladesh electronic fund transfer network**
- **DSCR: Debt service coverage ratio (Net operation income/Total debt)**

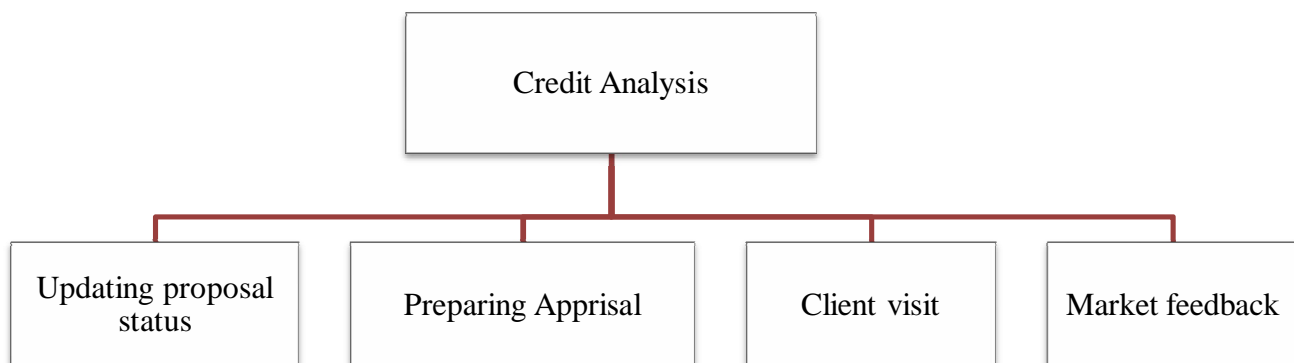
Specific Job responsibility

My job responsibilities in IDLC Finance limited was changed with my relocation from MIS to Credit Analysis division. But in both the divisions I was assigned with a number of specified responsibilities which I needed to perform in daily basis. An illustration is given below of the specified responsibilities of two spheres at IDLC Finance Limited.

Job responsibility at MIS division



Job responsibility at Credit Analysis division



Different aspects of job performance

In the tenure of three months attachment at IDLC Finance Limited I was assigned with responsibilities with assorted dynamics. Aspects of my job involved;

Finance

Working as an analyst for the last two months during my internship gave me the exposure to learn about the usage of different financial tools in different aspects in order to get the best result. As per the responsibility, for the task of credit analysis I was required to use different financial ratios for analyzing the performance of a particular business. The effective use of debt to equity ratio and debt to burden ratio helps the analysts in understanding the worthiness of a business regarding the requested loan facility. On the other hand, debt service coverage ratio (DSCR) holds a big role in evaluating a business, as it gives insight about whether the business will have sufficient income to pay off the debt after availing the loan amount or not. Other financial parameters that I needed to keep an eye on includes; liability to equity ratio (preferably less than 1), ROE, inventory turnover, cash conversion cycle, average collection period and average payment period.

Accounting

Accounting conquests a large section of the process of credit risk management and as per the responsibility of a credit analyst I had to analyze the financial statements of the business applied for credit. For impeccable assessment it is mandatory to visit the client to cross-check the daily sales, income statement and balance sheet for any discrepancy or misdemeanor. Then as a part of preparing the appraisal to simulate the sales trend apart from checking the EBIT, retained earnings and liability. Measurement of the client's bank transaction with revenue is also an important aspect to understand whether the business maintains a clear transaction record or not.

Public relation (PR)

As client visit was also enlisted in my list of responsibilities, visiting the clients to grab an understanding of the business dynamics was also embedded in my list of regular tasks. But facing a client and extracting information is not easy task as it sounds because the owners in some cases feel vulnerable in disclosing business secretes. Being patient and understanding the customer's psychology is the key here. So, in the critical situations the analysts are required to handle the situation in a way so that the client does not being interrogated. Analysts are required to speak in a way of conversation manner rather than asking question blatantly and also we were

needed to explain the importance of the demanded data in a comprehensive way so that the customer realizes the significance of the information for his/her own benefit.

Managerial task

Managerial tasks such as: coordination with business team, dealing with correspondence, writing emails, collaboration with MIS, delegation of tasks according to expertise, prioritization and completion of the tasks in order of importance, managing files and database.

Business process development

Apart from ORACLE financial service software IDLC gets most of its work done by Microsoft Excel and the management always encourages people to come up with new tricks and strategies in excel which would make the more effective use of the spreadsheet program and eventually develops the business process by ensuring efficiency. So, as a part of business process development I shared my idea about reducing the process time of doing Bangladesh Bank reporting as I found that, the reporting time for each file could be reduced by 3 to 4 minutes (normally which takes 5 minutes) by using a the index and Vlookup function of excel. The process will also reduce the errors of operation. I also shared my thought about maintaining a database of the all files in order to generate the industry average from the available information. So, in future when IDLC is going to finance a company of any industry they can better judge the performance by comparing it with the industry average.

Critical observation and Recommendation

Business process automation

For processing a file from submission to disbursement and Bangladesh Bank reporting IDLC uses different financial service software along with Microsoft excel and even hand written documentation. So, for using different medium for processing a file few steps of the course become repetitive for no reason at all. The redundant mechanism not only reduces the turnaround time, it also increases the necessity of hiring more employees as well as expenses eventually.

Recommendation

Under business process automation IDLC can use single software to get the entire job done. From preparing the input sheet to updating the proposal status, making appraisal, loan origination, disbursement and Bangladesh Bank reporting everything will be correlated and quantified. As a result, updating the input sheet will automatically bring up to date in the record of proposal status and appraisal and preparing the appraisal will automatically generate information for loan origination, disbursement and even Bangladesh Bank reporting.

Business focus information portal

Everyone thinks that the success of effective credit risk management lies upon the accessibility of information. But the one word that is missing in that sentence is effective, effective information. In this world of technology and dynamic communication, information overload (called 'Infobesity') is a common phenomenon. Here in the job of credit analysis, the analyst always has to remain updated and informed about the new trend and regulations of business as well as the government bindings and decisions. Knowing the economy, situation of export and import and the industry condition gives the analyst upper hand in meticulous processing of a loan facility. But, getting all this news and information from the newspaper single handedly sometimes become time consuming and naturally unfeasible.

Recommendation

An information portal is all that is needed to solve this complex problem. The information portal will sift through all the newspapers and online information portal as well as stock markets and websites of importance. Then the system will process the data and automatically highlights the information according to the need of every division (SME, corporate and consumer) plus general information e.g. (Related news articles, economic situation and market situation) in a structured way. This portal will give the employees of every division let alone the analysts a competitive

advantage over the other organizations in their designated field and as well in terms of bargain power with customers.

Usage of SMS as reminder instead of phone call

In IDLC an employee is designated only to remind the customers about their installment two days prior to the submission deadline through a phone call and quite interestingly the emoluments and effectiveness of that position is judged by the number of effective phone calls. But on the other hand clients who are diligent enough and make the payments on time are rather dissatisfied regarding this unnecessary reminder and even in some cases requested for alleviation from this irritation.

Recommendation

As some clients make their payment on time and some do not, the best solution here for reminding the customers about that payment date and the consequence of late payment is, customized short message service (SMS). In this process every customer will receive a 'reminding text message' in the first month of their installment payment and then by judging their performance of the previous month (on time payment) they will get SMS in the following month. As a result, the conscious clients will remain free from the unnecessary phone calls and get a warm greeting and gentle reminder instead and on the other hand the defaulted clients will get consecutive SMS alert and even a phone call from the CRE in case of 1 or 2 days late payment.

The Project

Origin of the report

As an integral part of the completion of internship program the research paper titled ‘**Small and Medium Enterprise Financing in Bangladesh: The Means to Battle Unemployment and Poverty**’ has been assigned and done under the guidance and supervision of Miss Tanjina Shahjahan, lecturer at BRAC Business School, BRAC University, Dhaka, Bangladesh.

Problem statement

Problem identification is the first step of any research work and to figure out a problem worthwhile for research involves the following seven steps;

- **Background assessment**
Background assessment reveals that, unemployment and poverty are the two major challenges of Bangladesh in terms of achieving the expected growth rate in economy also for increasing the standard of living and quality of life.
- **Clarification of the symptoms**
Further evaluation for a thorough understanding on the problems bring out symptoms which make these problems difficult to eradicate, such as: lack of capital resources, escalation in population growth, saturated job market, inflexible financing or investment options, wrong target client base etc.
- **Pinpoint suspected cause of symptom**
Here the specified point regarding the problems stated is absence of structured financing options with wrong client base which could otherwise motivate an individual in commencing a business enterprise and eliminating poverty.
- **Specified solution regarding problem alleviation**
Introducing modified financing or investment schemes related to different sectors of SME (like the existing startup facilities e.g. IDLC Udbhabon) and targeting the right client base.
- **Speculated outcome of the mentioned solution**
Modified schemes of SMEs will definitely encourage people in taking the loan facility and come out of unemployment. On the other hand targeting the people; who are not poor, not deprived of basic rights and people who are unemployed (irrespective of education) for financing facilities can lead to reduction of unemployment and number of poor population as well.

- **Assumption regarding the consequence of the solution**
Introduction of the structured SME products by targeting the unemployed (But not poor) will definitely drag down the number of unemployment and rate of poverty. As a result per capita income will go up as well as the overall standard of living.
- **Assess the adequacy of the information on hand to specify Research Objectives**
To reduce the discrepancy of information, I have assessed and compared the gathered information with Bangladesh Bureau of Statistics (BBS), Asian Development Bank (ADB) and World Bank (WB) researches.

Finally by following the seven step process I have decided **“Absence of a structured financing facility for the unemployed is the reason why unemployment and poverty still stand as a major challenge for the development of Bangladesh”** as my research problem statement.

Rationality of the study

In case of this project my subject of interest was SME as I was attached with the SME division of IDLC Finance Limited during my period of internship. In there, besides learning about the credit analysis techniques against SME financing I have gathered some knowhow in the field of SME financing and its possibilities. Through my learning curve I have realized that, SME financing is not only a tool for business expansion, but it can also be a means for business inception (like IDLC Udbhabon – loan for the startups) and the tool against battling unemployment. SME is also one of the cost-effective means of providing employment. It not only injects dynamism in industrial growth but also can play a significant role in poverty alleviation and contribution to the nations GDP.

Explanation of the reasons

Unemployment and poverty are the two major challenges Bangladesh is still facing in the process of ensuring steady growth and economic development of the country. So, to comprehend the exact circumstance of these problems initially I did an assessment regarding the variables which are related to these problems. What I find interesting by searching the secondary data sources is that, unemployment is not only a problem for those who are deprived of proper education in our country rather the rate of educated unemployed among unemployed youth is staggering 92.47%. In Bangladesh people are not getting jobs not because they have no formal education but because of the saturation in this field. With increasing population it becomes increasingly difficult for the government and private sector to come up with new jobs as per the

demanding rate. Even SME which is the most effective facility in creating jobs is unable to move in parallel line with the rising trend of unemployment. On the other hand, background assessment on poverty reveals that, in Bangladesh almost 26% of total population still leaves within the vicious circle of poverty (Which is about 41.60 million people). Searching for the prime reason behind this stigmatic circumstance reveals that, unemployment is the reason behind all these problems. Not having a job drags people down below the line of minimum wage and traps them in the cycle of poverty.

But judging the above two challenges it can be stated that, though there is a fine line between unemployment and poverty still decreasing the rate of unemployment can help in reducing the rate of poverty as unemployment is regarded as the prime reason behind the rise of poverty. Here the only question is regarding the way to utilize the scarce resources. A system which can target the suitable client base and answer to both the problems with a single solution instead of having two separate solutions for the two stated problems.

In Bangladesh the traditional financing schemes available are not structured enough to encourage majority of the people to become an entrepreneur rather than remaining unemployed. It's because people see those options as a scar in their already wounded spirit not as an opportunity to turn the fortune wheel. Similarly in case of poverty reduction, though Micro financing creates a major impact worldwide in its operation through past 33 years, but still the fact is, in even 2016 more than 40 million people of Bangladesh is still trapped in the web of poverty.

So the search of a better way which could be more rational in tackling the challenge of unemployment and poverty reveals the possibility of SME financing. Small and Medium Enterprise financing, is the financing option that can be befitted to the need of unemployed people. From the loan amount to interest rate, everything can be structured in a way so that unemployed individuals get encouraged to take loan and start of a new business. Like the IDLC Udbhabon product (**which is basically a startup loan package for the entrepreneurs related to the industry of information and technology**). Much like this product if other options can be created for every industry available, people would get interested in taking loan rather than staying unemployed. And for poverty reduction what Micro financing is doing is, they are lending money to the poor people who typically lack collateral, steady employment and a verifiable credit history. Here the target is to empower the poor to reduce poverty. Indeed a number of people were able to turn their life around and become an entrepreneur. Even in some cases they have also created jobs for other people and also encouraged few to follow their trail. But, in the other side of the coin, when poor people were unable to pay off the debt in a timely manner with the burden of interest, their properties were seized which ultimately drags the poor in a more difficult situation. As the poor people have so much to lose, financing or investing on them involves higher risk both for the lender and the borrower. But what would happen if they were given a job a means for steady cash flow. The first thing a deprived individual want is the assurance of three meals a day and a job is the only way to deliver it in a risk free way. As business is too risky and there exist a chance of failure let alone the guarantee of regular income.

But promoting the SMEs and encouraging the educated or uneducated unemployed who are not deprived of the basic rights, not only make them an entrepreneur but also relieve them from the state of unemployment. And with proper training the chance of success is higher than the risk involved in investing on a poor uneducated people;

- Because they will take less dividend in terms of business formation, opposite to poor
- Even if the business goes down-warded they can still stick to it as they do not have to think about the basic rights (especially food, which is the main concern of the poor. If the business fails or goes down for a month or quarter, the poor will not be able to revive from that dungeon, .They won't be able to repay the loan amount, they won't be able to buy foods and eventually they may lose what they have as last resort),
- Poor people are less informative and they can easily fall victim to any wrong doing and ill motive of the institutions,
- Poor uneducated people do not understand the concept of creating jobs, because their deprived state of being draws the motivation away and traps them into a psychology of 'satisfied with less',

As per the information of BBS the number of poor in Bangladesh is almost 50.76 million and the number of illiteracy is 40.64 million. And as per rational assumption it can be stated that, the people who are poor are the people illiterate. **(This statement may be subject to exceptional fallacy because all the people who are illiterate are not poor; but after considering other reasons it is safe to state that, in most of the cases poor people are poor because they have no formal education and as a result they cannot get any job as they have no skills that can come into use to anyone).**

So according to the stated reasons and explanation above, it can be presumed that, poor illiterate people are not the rational client base for loan facility. Rather they are the one who should be involved in jobs until they are out of the confinements of poverty. So, the question here can be who will give the poor jobs? (Answer of this question is stated in the recommendation section where a new investment policy is divulged which can give the poor a steady cash flow).

The proper client base for SME financing facility, apart from the current target group (in contrary to micro credit) should be the people who are not poor and not deprived of basic rights as well as people who are unemployed (irrespective of education). In this methodology, as the client base is not deprived of the basic rights, they will not fall victim to the risk factors stated above and as a result there exist a higher chance of success than investing on the poor. In this way the unemployed people can become self depended and even they can create jobs for the poor in their business, which will ultimately create an impact in the process of poverty reduction.

Definition of SME

Small and Medium size Enterprise (SME) is also elaborated as Small and Medium enterprise. In a rudimentary form SME can be stated as the business which complies within the criteria stated in terms of fixed asset, land and building, number of employees and amount of turnover or revenue. According to the Organization for Economic Cooperation and Development (OECD), ‘the characteristic of SMEs not only reflects the economic patterns of a country but also the social and cultural dimensions’ and this is the reason why the decisive factors of SME is of different aspect in terms of geographical locations and countries. According to United Nations¹ ‘The definition of SME can be based on a threshold in revenue, like it is in case of Canada, it can be based on number of employees, as it is in the United Kingdom, even it can also be a combination of both, number of employees and turnover for legal and statistical purposes or the amount of fixed asset as like Portugal and Bangladesh consecutively. ‘Because of this differences and involvement of SME with socio economic condition of a country, the definition of SME has been defined by apex bodies of different region and as of world in respect to the circumstances of location. Definition includes statement of the European Union (EU), Multilateral Investment Guarantee Agency (MIGA)/International Finance Corporation (IFC), Asia Pacific Economic Cooperation (APEC), and United Nations Industrial Development Organization (UNIDO).

As per European Commission, ‘The category of micro, small and medium-sized enterprise (SME) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million (4429.50million BDT), and/or size the balance sheet not exceeding EUR 43 million (3809.37 million BDT).’

European Commissions guideline for SME

| Enterprise Category | Headcount (Annual Work Unit) | Annual Sales (Million €) | Balance sheet total (Million €) |
|---------------------|------------------------------|--------------------------|---------------------------------|
| Micro | ≤10 | ≤2.00 | ≤43.00 |
| Small | ≤50 | ≤10.00 | ≤10.00 |
| Medium | ≤250 | ≤50.00 | ≤2.00 |

Measurement of eligibility of other institutions;

| Institution | Headcount (Annual Work Unit) | Annual Sales (Million \$) | Total Asset (Million \$) |
|-------------|------------------------------|---------------------------|--------------------------|
| World Bank | ≤300 | ≤10.50 | ≤10.50 |

| | | | |
|--------------------------|------|-------|-----|
| African development Bank | ≤50 | ≤3.00 | N/A |
| UNDP | ≤200 | N/A | N/A |

According to Asia Pacific Economic Cooperation (APEC), ‘SME is an enterprise with less than 100 people, whereby a medium sized enterprise employs between 20 and 99 people, a small firm employs between 5 and 19, and a micro firm employs less than 5 employees which also include self employed managers.’

On the other hand United Nations Industrial Development Organization (UNIDO) states that ‘In Small and Medium size Enterprise, micro-sized enterprises are those employing between 1 and 9 employees and/or have a registered capital of less than \$42,300 (3.30 million BDT), Small enterprises employ between 10 to 49 employees and have a registered capital of more than \$42,300 Medium enterprises employ between 50 to 249 employees and have a registered capital of more than \$42,300.’

The definition of SME may differ in terms of different institutions but the core provision of the concept always remains the same, which is ‘promoting the business of limited resources’. But apart from these quantitative indicators SME also consists of a range of qualitative characteristics.

Qualitative characteristics of SME

| Category | SME |
|-----------------|---|
| Business plan | Absence of constructive and sustainable business plan |
| Management | Proprietor oriented |
| | Functions of the organization are link with personalities |
| Personnel | Lack of university graduates |
| Organization | Highly personalized contacts |
| Sales | Competitive position not defined and uncertain. |
| Buyers relation | Unstable |
| Production | Labor intensive |

| | |
|----------------------|--|
| Research development | Following the market trend (Intuitive approach) |
| Finance | Family fund and self contribution. |
| Marketing | Bottom in the list in terms of fund allocation as well as realizing the importance of promotion. |

SME is called a ‘small enterprises with big opportunities’. Because of the limited resources and restrained number of employees this business are defined as SME but in respect of performance indeed they can also be stated as a powerful tool in boosting a countries economy.

Definition of SME in Bangladesh

In Bangladesh SME is defined in so many different ways. The Ministry of Industries characterizes SME as ‘A registered entity with less than 50 workers, excluding the cottage units, and with a fixed capital investment of less than BDT 100 million, is defined as small enterprise. A medium enterprise is a registered enterprise with between 50 and 99 workers, and/or with a fixed capital investment between BDT 100 million and BDT 300 million.’ But the PCBs (Private Commercial Banks) seem to hold a different scale in measuring the SMEs regarding varied loan components. According to PCBs ‘Small-scale segment is defined as an enterprise with loan component between BDT 300,000 and BDT 10 million (between USD 5,500 and USD185, 000). Medium companies are said to have a loan component between BDT 10million and BDT 100 million (between USD 185,000 and USD 1.85 million).’ According to Bangladesh Bank the SME is defined as,

Small enterprise

Firm/business which is not a public limited company and falls within the measurement of the following criteria:

| Business type | | Fixed Asset, Land and Building | Employees (Maximum) |
|---------------|----------|--------------------------------|---------------------|
| Small | Service | 50,000 to 50,00,000 | 25 |
| | Business | 50,000 to 50,00,000 | 25 |
| | Industry | 50,000 to 1,50,00,000 | 50 |

Medium Enterprise

An establishment/firm which is not a public limited company and complies with the following criteria:

| Business type | | Fixed Asset, Land and Building | Employees (Maximum) |
|---------------|----------|--------------------------------|---------------------|
| Medium | Service | 50,00,000 to 10,00,00,000 | 50 |
| | Business | 50,00,000 to 10,00,00,000 | 50 |
| | Industry | 1,50,00,000 to 20,00,00,000 | 150 |

As per the redefined Industrial Policy 2010, Bangladesh Bank entitles **Micro and Cottage industry** also under SME sector.

| Business type | | Fixed Asset, Land and Building | Employee |
|---|---------------|--------------------------------|-------------|
| Cottage (Predominant family labor) | | Up to 500,000 | Not above 9 |
| Micro | Service | Less than 500,000 | 10 |
| | Trade | Less than 500,000 | 10 |
| | Manufacturing | 500,000 to 5,000,000 | 10 to 24 |

Under the new definition of SME, Bangladesh Bank also entails a woman as an entrepreneur if the person is an owner or proprietor of a privately-run organization or owns at least 51% of shares in case of a joint venture or company listed with the Office of the Registrar of Joint Stock Companies and Firms.

Contribution in GDP and economy

In Bangladesh about 90% of the private sector enterprises fall within the compound of SME and as per the information of Bangladesh Bureau of Statistics in the year 2013, total contribution of SMEs in GDP was about 31%. According to the an article published in Daily Star, 'Micro enterprises conquer the highest portion in the total contribution of SME in the GDP of Bangladesh, which is about 51%'.

The following chart shows the sector wise contribution of SME in total GDP of Bangladesh

| Sector | Percentage of total contribution |
|---|---|
| Agriculture | 24 |
| Fishing | 4 |
| Construction | 1 |
| Manufacturing | 38 |
| Wholesale and repairs | 23 |
| Hotels and restaurants | 3 |
| Transport, Storage and Communication | 1 |
| Real state, storage and Business activities | 2 |
| Education | 1 |
| Health and social work | 1 |
| Other service activities | 2 |
| Total | 100 |

According to the recent economic census, SMEs in Bangladesh account for about 45% of manufacturing value addition, about 80% of industrial employment and about 90% of total industrial units. Also the total contribution of SME in export earnings varies from 75% to 80% in year to year basis.

Number of SME enterprises in Bangladesh

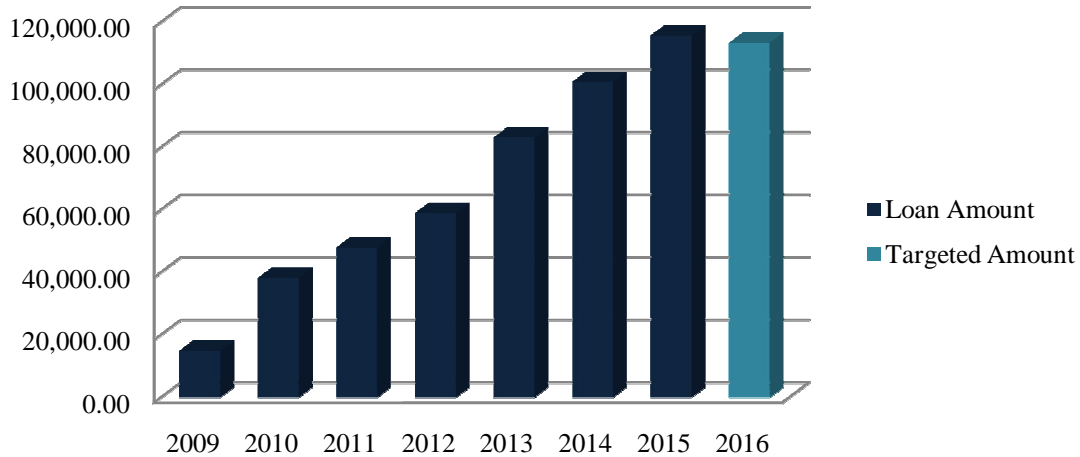
At present ‘The total number of SMEs in Bangladesh is about 79,754 (Without micro establishments). Among them, 93.6% falls under the criteria small enterprise and 6.4% are regarded as medium enterprise.’ On the other hand a recent private sector survey of Bangladesh estimated that, the number of micro, small and medium enterprises in Bangladesh is near about 6 million and this statistics matches exactly with that figure published by Asian Development Bank (ADB). But as per World Bank survey, Bangladesh has about 28,000 medium scale enterprises and approximately 170,000 small size establishments.

Trend of SME financing

In 2016 Bangladesh Bank decides to disburse BDT 113,503 crore loans in SME which is about 9.56% higher than the target settled in previous year. In terms of disbursed loan in SME, the

cumulative annual growth rate shows almost 8.99% increase through the last seven years which also means the ascending trend of SMEs through the past years.

Disbursed amount in SME (In crore BDT)



Moreover the comparison between the targeted and disbursement amount in SME shows that, the target settled by Bangladesh Bank is exceeded every year almost by 14.98%; which may also mean that, the Central Bank, Commercial Banks and NBFIs of Bangladesh are more willing in financing SMEs.

Employment creation

As the most effective tool of job creation SME has the highest impact on the job creation statistics Bangladesh. As per BBS, in Bangladesh SME contributes almost 80 to 85% of the industrial jobs creation and in case of total labor force the rate is 25% which is higher than the effectiveness of any other sectors in this regard.

| Year | Total employment in Bangladesh | Contribution of SME |
|------|--------------------------------|---------------------|
| 2009 | 39,076,000.00 | 9,769,000.00 |
| 2010 | 40,052,900.00 | 10,013,225.00 |
| 2011 | 44,058,190.00 | 11,014,547.50 |
| 2012 | 48,464,009.00 | 12,116,002.25 |
| 2013 | 53,310,409.90 | 13,327,602.48 |

Typical a SME sector requires an average investment of BDT 36,000 compare to BDT 1.34 million by a large-scale industry in Bangladesh for generating one unit of employment. Despite this effectiveness of the investments to job creation ratio the potentiality of SME is not realized fully in Bangladesh.

Sectors of SME

In Bangladesh SMEs make up almost 75% of the domestic economy and as per the report of Daily Star almost 60 to 65% of the SMEs are located outside the metropolitan areas of Dhaka and Chittagong. So, a rational conclusion here implies that, the contribution of rural economy for countries development is more substantial than the businesses of urban area. Keeping this in mind, Bangladesh Bank divides the sectors of SME into 132 subdivision in order to emphasize and adapt well with each of the possible business opportunities available in rural areas as well as to finance the mostly targeted businesses in terms of the geographic advantage and availability of resources in that particular area. But as per the governments Ministry of Industries 11 distinctive areas are identified as '**Booster sectors of SME**' on which special emphasize are directed to given. The sectors are;

- Electronics and electrical
- Software-development
- Light engineering and metal-working
- Agro-processing/agro-business/plantation agriculture/ specialist farming/tissue-culture
- Leather-making and leather goods
- Knitwear and ready-made garments
- Plastics and other synthetics
- Healthcare & diagnostics
- Educational services
- Pharmaceuticals/cosmetics/toiletries
- Fashion-rich personal effects, wear and consumption goods.

Objective of the report

The objective of a research reflects the statement regarding the identified problem of the research and the effectiveness of the presumed solution/s, which may lead to extermination of that problem.

General objective

The primary objective of this research is to find out the effectiveness of SME financing in reducing the rate of unemployment and poverty in Bangladesh.

Unemployment and poverty are the major problems of our country. Because of lack of opportunities a great number of people still remains unemployed and more shockingly the number is increasing every year. Despite being bright and active, people are not getting jobs because of the lack of opportunities as well as for the saturation in the job market of our country. On the contrary, poverty is standing as a major challenge in ensuring the steady growth of the country. Though the figurative picture of the manipulated statistics shows a plunge in the rate of poverty, but the real condition discloses a very different picture of the deprived. And over the years the situation has not been improved in the way it was expected rather much like a true reflection of the capitalist state; In Bangladesh, day by day the rich are becoming wealthier and poor are becoming poorer.

Specified objective

- To find out the opinion regarding unemployment and poverty
- To figure out the best way for reducing unemployment and poverty
- To find out the effectiveness of SME in comparison to other instruments for the stated purpose
- To find the perception regarding current SME facilities
- To figure out the best suited SME facility for encouraging the unemployed

Scope of the study

The study is confined within my social circle and the graduated students of BRAC University.

Limitation of the report

Limitations of the research

- Though ‘Simple Random Sampling’ would be the befitted method for this particular research purpose, but because of lack of cooperation ‘Stratified Random Sampling’ is used here for collecting the response of the primary survey.
- For the purpose of the research, most of the samples were collected from the students of BRAC University and as a result the dependency of the extracted data is cannot be generalized. As the students of other universities may have different opinion against the stated queries.
- The research information is also gathered from the people within my social circle. But then again, they do not represent all the social classes and the people of all the geographic regions of Bangladesh. So, the data collected here cannot be authenticated and approved as the true reflection of the population.
- A small portion the research data can be collected through the primary sources because of the time constraints.
- Though this method of survey has low response and approval rate but judging by the sufficiency of fund and time allocation for the research purpose, ‘Mail Survey’ was the only way to collect samples.

Limitations of the report

- Data collection for the research was quite difficult because of unavailability of the qualitative and quantitative information.
- Time allocated for preparing this report along with analysis was insufficient.
- Because of strict policy of the organizations and absence of any implementation of the ‘Right to information’ stand as an obstacle in the persuasion of establishing a genuine research work.

Literature review

Among the range of financing tools, Small and Medium Enterprise financing is certainly attracts more interest than any other schemes in most of the countries. Critics may describe this SME financing approach as nothing more than a refurbished edition of general financing options but the fact is, SME financing is not just an another version of typical financing facility rather it is the tool that contributes in expediting the social and economic growth of a country by focusing predominantly on the small and medium size businesses which holds big opportunities.

From the beginning of SME financing through the passage of time, the approach has marked its contribution significantly in employment generation, income generation, poverty reduction and catalyzing development in urban and rural areas; Hallberg (2000), Williams (2006)¹. But rather than conventional strategy of focusing on the both poor and unemployed, SME financing devised a strategy through which they can multiply the impact of job creation as well as can influence the micro and macro economic factors in a positive way. Pioneers of the development economics Lewis, Nurkse and Rosenstein Rodan believes in economic development but not by concentrating on the poor rather they were focused on the impact of economic development on the poor. They were also the proponents of the ‘trickle-down’ impact of economic development (Lipton and Ravallion, 1995)²; which can only be ensured by implementing the financing facility of SME.

But few economists believe economic development, employment creation and poverty reduction is possible only thorough establishing capital intensive large scale corporation. Adelman and Robinson 1989 said that, development more often takes place in urban areas than in rural areas hence the poor are not benefited by the process of development. But as SMEs are mostly located outside the metropolitan areas (In Bangladesh 60 to 65 percent of all SMEs are located outside the metropolitan areas of Dhaka and Chittagong), so financing these establishments can really balance the development scenario of the country by equally improving the urban and rural economy. Moreover, financing on SMEs also demise the influx of large population from rural to urban areas, which in turn also helps in developing quality of life and eventually the macro economic scenario of the country.

As the “Engine of growth” (Advani 1997)³ SME financing of the developing countries registers higher ‘financing to job creation ratio’ than facilitating the large scale enterprises. This facility of financing not only contributes in making the unemployed self-dependent but also in creating

¹Onyam, G.E., Usang, E. I., Gabriel, E.E., Small and Medium Enterprises Financing and Poverty Reduction: An empirical analysis 2015 Vol.6, No.11,

²Aderibigbe, J. O. (2000). The role of the financial sector in poverty reduction; CBN Economic and Financial Review 39(4)

³Schlogl, H. (2004). Small and medium enterprises: Seizing the potential. Organizational for Economic Cooperation and Development, No. 243, pp. 46-48

more jobs for the poor. As the cost of living and expenses are lower in rural areas than urban states, this in line also assures the cheap labor force and reduced cost of the business. Not only that, financing in the SMEs of rural region makes the lower wages high enough for reducing unemployment and poverty plus it also makes the cost of business low enough for competing in market of intense international rivalry. Besides, financing the SMEs can help economy to grow in the long run and improve the domestic market efficiency which uses scarce resources productively (Kayanula and Quartey, 2000)⁴. Consciously or not this approach of financing also support the neo-modern innovation technique called ‘JUGAAD’ mindset, which implies solving problems with the available resources in hand by initiating an inclusive and frugal approach (Dr. Jaideep Prabhu, 2015)⁵. So, this means, SME financing is also a way to contribute in resource optimization, which ultimately ensures efficiency and effectiveness in countries economy.

Judging by the status-quo, growth of SME financing and SMEs in developing countries is certainly a desirable goal in view of their perceived contribution to decentralized job creation, generation of employment and poverty reduction (Chen, 2011)⁶. In Bangladesh scarcity of resources left government and private sectors end up creating a small number of jobs in comparison to the rising demand. On the other hand, by targeting the poor to change their lives microcredit confines development only in the poor community (with less efficiency), less adaptability of general financing in response to all the business sectors makes this category less desirable to entrepreneurs and lack of promotion regarding venture capital and crowd funding makes this facility still an unacquainted one to the general mass of this country. So, here to fill the market gap as the most effective source of financing for affecting both unemployed and poor, SME financing is the only option left which is befitted with purpose and also in the context of the economy of Bangladesh.

⁴Indarti, N. &Langenberg, M. (2004), Factors affecting business success among SMEs: Empirical evidences from Indonesia

⁵Radjou, N., Prabhu, J., Ahuja, S., Roberts, K., Jugaad Innovation: Think Frugal, Be Flexible, Generate Breakthrough Growth, (March 2012)

⁶ Edwards, S. (1998). Openness, productivity and growth: What do we really know? The Economic Journal, 108(447)

Method of reasoning

From the two reasoning methods; deductive and inductive, the deductive or top-down method is used in this research work. Which starts with a tentative theory, then comes the hypothesis, observation and confirmation in successive manner.

Hypothesis

Small and Medium enterprise financing is the most effective tool in eradicating unemployment and poverty of Bangladesh.

Research questions

This research work is designed to evaluate the empirical opinion of the public regarding SME and its impact on reducing unemployment. Moreover, the study also shows the relation between job creation and eradication of poverty. So, as per this judgment the questions of this research project are;

- **Descriptive:** What is the opinion of the people regarding the presumption about, ‘SME is the tool for battling unemployment’?
- **Relational:** Is it rational statement, ‘eradication of unemployment is the way eliminating poverty’?

Research design

Research design is the tool that holds the framework of the research and helps in shaping all the extracted data into conclusive information by analyzing through the different steps structure.

Most research can be classified into three types of research design;

- Exploratory
- Experimental
- Conclusive

Research design for exploratory studies: This research design is followed when a problem is not evidently identified and in case of finding a new insights or hypothesis. This is a flexible research methodology with small sample size. Through trial studies, interviews, discussion and

experiments this research provides details regarding the useful information needed for establishing a logical outcome.

Research design for experimental studies: This research methodology describes the characteristic of the experimented sample or the subject by observing through the process of manipulation and control. Explanatory studies involve experimentation of the casual hypothesis with the use of unstructured and randomized tools.

Research design for conclusive studies: This research methodology is best suited in case of decision making or reaching a decisive conclusion. Conclusive studies test the hypothesis and provide information based on both secondary and primary data to portray a more reliable and representative picture of the population. Here, apart from evaluating the qualitative data, statistical tests and techniques are used in analyzing the quantitative figures.

In this report the conclusive research design is used in reaching the outcome based on the stated hypothesis. Analysis are conducted on the primary and secondary data in order to find out the best possible solution the companies might consider in reducing the rate of unemployment and poverty along with business expansion.

Source of information

Primary data in any research is collected for the specified purpose of the study and on the other hand the readily available secondary data are collected to analyze the current situation as well as to comprehend the change over time.

Primary source

- The empirical data of this research is collected by surveying the graduated students of BRAC University as well as people around my social circle who are enrolled in services sector of different dynamics. The population of the research was a large portion of the total headcount (Unemployed, employed, decision makers, bankers, political personals and people of different sectors of life) of Bangladesh (which is approximately 160.00). But because of resource and time constriction BRAC university student and the people in my social circle are taken as sample in implementing this research work.

Secondary source

- Secondary data has been collected from different websites, online journals, newspapers and scholar articles.

Type of survey research

For gathering information the mail survey research was used. Through this online survey mechanism questionnaires were prepared and forwarded by using Google form.

Data collection time

Time plays an important role in any research project and depending on the research design data collection time of a research is classified into two distinctions. Cross sectional, which takes place at a single point of time on the other hand longitudinal study refers to the one which takes place over time, at least two waves of collection period.

For the data collection of this research project cross sectional time frame is used and the data collection time ranges from 17th to 18th April 2016.

Research fallacies

Fallacy of a research is the error that may occur from a mistaken assumption. In conducting a research work the researcher needs to be aware of different fallacies that may corrupt the logical conclusion. Different fallacies of research involve; ecological fallacy, which is making a conclusion based on the group data. Then there is exceptional fallacy which implies, making judgment based on an exceptional case. Another issue to be aware of in research is the correlation of certain behavior of certain groups.

Here in this research project the sample data is collected only from the students of BRAC University and the people within my social circle. So here only a portion has been taken as sample from the considered population who may not well portray the behavior of the whole population who lives in a different geographic region of the country. Another issue here is the correlation of certain behavior of the people involved in the research. Depending on demography and location the outcome may differ if the research was conducted in a wider range.

Steps of sampling processing

Population

‘The group the researcher wishes to generalize to is called the population of the research. This is the group the researcher would like to sample from because this is the group the researcher interested in generalizing to’ (William M.K. Trochim). Population of this research work is all the students (At least 15 years old) employed people, unemployed people (regardless of education), retired personal, self-employed, entrepreneur, business man, , decision makers and politicians. This group people is also referred to as theoretical population (which is the people I wanted to generalize)

Accessible population

As I have conducted my survey work online so, in my research work the accessible population is those people who have an account in Facebook.

The sampling frame

Here the sampling frame is the enlisted students of BRAC University and the people of my social circle who have an account in Facebook.

Sample

Sample is the group of people the researcher selects to be in the study (William M.K. Trochim). In this study grand total of 30 samples has been taken to figure out a decisive outcome.

Sampling technique

For this research purpose Stratified Random Sampling is used. Stratified Random Sampling also sometimes called proportional or quota random sampling, involves dividing the population into homogeneous subgroups and then taking a simple random sample in each subgroup (William M.K. Trochim). From the accessible population two subgroups were created which are people within my social circle and the students of BRAC University. Then as per the simple random sampling technique data is extracted from the random samples of each group.

Technique of data analysis

For data analysis, tools of Microsoft excel has been used. With the help of this software all the gathered data has been analyzed in acquire the needed information.

Bangladesh Bank regulations regarding SME financing

Because of the low investment requirements, shorter growth cycle and higher potentiality of success in terms of employment and income; Bangladesh Bank characterizes SME financing as an indispensable part of the national economy. The Central Bank believes, SME can play a vital role in achieving the target of MDGs as well as in diminishing the rate of poverty and it can also be a tool in alleviating the gender and income inequality. And by capitalizing on these implications Bangladesh Bank introduced varied schemes and regulations for ensuring an effective expansion plan of SMEs. Those include;

- **Refinancing scheme:** For growth and development of enterprises Bangladesh Bank introduces refinancing scheme funded by Bangladesh Bank, IDA and ADB.
- **Dedicated desk:** For advisory service and for allocating equal importance as other departments, Bangladesh Bank creates a dedicated desk for SME related issues and queries.
- **SME Service Centre:** Bangladesh Bank directed every Banks and NBFIs to open a special facility and service center for women entrepreneurs.
- **Area approach method:** Directives are given to the institutions to locate their branches by dividing the geography into different regions. To reduce the discrimination between rural and urban area, banks and NBFIs are also required to establish at least 3 rural branches before establishing an urban branch.
- **Separate business strategy:** The guideline also orders the institutions to follow a separate business strategy for SME. To ensure an easy and swift service least documentation technique is directed to follow.
- **Priority:** Priority is asked to given on the potential women entrepreneurs and small enterprises.
- **Training:** Training program on entrepreneurship should be arranged by banks and NBFIs. Besides that, organizations like BBTA, BIBM, DCCI, FBCCI, NASCIB, BWCCI and SME Foundation should be requested to conduct training session regarding the development of marketing, skill, technology and development of SME sector.
- **Interest rate:** Interest rate for SME loans are directed to retain within a tolerable range. In case of women entrepreneurs financing the interest rate should not be Bank rate (Bank rate is 5% at present) + not more than 5%.

- **Financing amount:** As per the revised rule, Bangladesh Bank authorized increase SME financing up to BDT 50.00 million. Though incase of Small enterprise the spread is from BDT 50 thousand to 5 million.
- **Grace period:** Banks and NBFIs should consider moratorium period at the time formulating a SME loan facility.
- **Collateral:** According to the guideline institutions can disburse loan up to 2,500,000 without any collateral. Credit can also be provided against hypothecation and machineries. However banks and NBFIs are asked to use due diligence in terms of choosing clients and facility amount.
- **Assistance:** For reducing the bad debt and avoiding the fraudulent borrower banks and NBFIs are given authority to consult with private organizations/Non-Government Organizations (NGOs)/self-help groups.
- **Availability of information:** Banks and NBFIs are directed to display detailed information regarding SME credit facilities in their website, branches and also easily noticeable places, so that people can learn, interested clients can assess and select their best option. Advertised SME related information should include, like sector wise products, information about credit flow, rate of default, employment creation, loan amount, interest rate etc.
- **Emphasize on refinancing:** To increase employment as well as to ensure higher production, in case of manufacturing and service sector 100% claim is directed to refinance by Bangladesh Bank.

Technical aspects that banks and NBFIs follow for SME financing

- (FSV) Forced Sale Value in case of registered mortgage of land, building and apartment needs to be 100 to 120 percent, depending on loan providers and FSV of apartment and commercial space should be 75 to 85 percent of the market value.
- In case of financing against registered mortgage, disbursement is subject to obtaining lawyer's opinion regarding 'good right' over the land.
- In case of loan below 3.00 to 4.00 million from 3 or more Banks or NBFIs, the prospect will not be considered as eligible.
- Any client who receives loan from other institutions will be eligible for financing only after 5 regular installments.
- If the client is an existing one then he/she will be qualified for repeat financing only after regular installments.
- Age of the proprietor should be within 20 to 60 years and on the other hand guarantor should be within the age limit of 25 to 50 years.
- For manufacturing business in financing over 2.50 million, submission of ECC document is mandatory.
- At least 1 third part guarantor.
- Amount of net worth of the guarantors in comparison with the facility amount.
- Updated trade license and valid TIN and NID.
- Names of employees, salary, post and monthly salary sheet.
- IRC (Import Registration Certificate) and IRE certificate (for Export & import business).
- Inventory and price of stocked products
- Substantial amount of bank transaction in proportionate to the revenue.
- Sales information and bank transaction of last one year.

- List of receivable and payable.
- List of major supplier and updated information about stock and inventory.
- The client must have a clear CIB report with no SS (Sub Standard loan).
- DSCR after availing the loan facility.
- Debt to equity ratio before and after the sanction of the loan amount.
- Certificate from the approved authority e.g. BSTI certificate (For food producing companies, Permission from DC (for Diesel and Acid Business), Petro Bangla Certificate (for Diesel and Octane Business) etc.
- List of current client base of the business.
- Certificate of incorporation and Memorandum of Articles certified by RJSC
- Resolution of loan taking decision for private limited company.
- Educational qualification certificate.
- Copy telephone and electricity bill.
- Agreement of shop or house or operating office of that particular business establishment.

SWOT analysis of SME financing

Like every other schemes available, SME financing has also few strong and weak areas. But improving those areas will surely give this facility an opportunity to face the threats it is facing today and becoming an effective tool in tackling unemployment and poverty.

Strengths

- Customized package for existing businesses
- Low interest rate facility in women enterprise financing
- Availability of different financing facility
- Insurance facility against financing
- Options of repeat financing

Weakness

- High interest rate (other than women enterprise financing)
- Absence of grace period
- Insubstantial amount under the unsecured financing option
- Lower amount regarding startup financing

Opportunities

- Impact on poverty reduction by emphasizing on startup financing
- Customized product for ‘unemployed but willing to be an entrepreneurs’
- Conquer larger client base

Threats

- Higher risk of default
- Scarcity of required cash flow
- End up financing in a ‘shell corporation’

Strengths

Customized package for existing businesses: Under the current financing method, Banks and NBFIs offer different products befitted to different sectors of SME. In order to ensure, the best desired package for the client for every possible sector of SME, products customized by considering the dynamics of a sector the business falls under. Products offering includes: Commercial vehicle loan, commercial space loan, women entrepreneurship financing, specialized loan for agricultural sector etc.

Low interest rate facility in women enterprise financing: To encourage women entrepreneurship as well as to give recognition of the skills and knowledge of women, Bangladesh Bank introduced women entrepreneurship financing with a low interest rate. This option will definitely encourage the women entrepreneurs in taking challenge and implementing their idea of business.

Availability of different financing facility: Under SME financing there exist secured, unsecured and partially secured financing facilities. Depending on these options the loan and interest amount also varies and as for that, the clients become more willing to choose SME loan financing, as they can go through several options before considering the suitable one for their business.

Insurance facility against financing: Insurance facility against the avail loan gives the client assurance about the loan burden in case of absence. Otherwise in case of any accident, the loan burden will get levied on the family of the client, which would definitely be a worst case scenario, if the client had been the only earning member of the family.

Options of repeat financing: The chance to avail repeat financing up to 100% also guarantees a strong customer base for the SME financing. In case of manufacturing and service sector repeat financing can be up to 100%.

Weakness

High interest rate: Excessive interest rate (other than women enterprise financing) is surely downgraded the SME financing. Because of the excessive interest rate small, micro and cottage entrepreneurs sometimes lost their interest in taking the benefit of SME loan.

Absence of grace period: Grace period is not granted in most of the SME financing facilities. But in case of SMEs as the production facility or served client base of the businesses are comparatively small; the business requires a longer period to gather enough money (After taking the dividend and excluding the expenditure) to reimburse the loan amount. So, as the business is in most of the cases, the only way of earning for the clients, giving the facility of grace will surely encourage more clients in taking this financing scheme.

Insubstantial amount under the unsecured financing option: Under Bangladesh Bank provision the ceiling for the unsecured facility is BDT 2.5 million. Here the fact is, most of the clients of SME financing consists of micro, cottage and small establishments and the proprietors of those businesses are willing to take the unsecured facility. As in most cases, the owner of those businesses do not have enough cash to take the loan under partially secured facility and for them the secured loan amount is too large in proportion of their businesses (Even in some cases

the owners do not own a property which can be justified as collateral). So, judging by these circumstances, if the financing bracket under the unsecured facility was increased, it would bring a better solution for those small time owners and also for the institutions as well.

Not encouraging startup financing: SME is known as the tool for job creation and yes the job creation rate of SME is higher than another scheme of financing. But, here the fact is the rate of creating jobs by SME financing is not well balanced; as many industrious, well worthy person is still not getting job and remind unemployed. The number of SME financing is increasing every year along with disbursed loan facility, but so as the number of unemployment (As it now stand highest comparing to the figure of last 15 years; 2.63 million as per BBS). And the root of this problem lies within the structure of SME financing itself, which is not targeting the startups and not encouraging the unemployed to become entrepreneurs. In the current policy, the institutions are more willing to finance in business expansion rather than new business creation and only because of not understanding this weakness of SME scheme, unemployment is still prevailing in our society and so does the poverty.

Opportunities

Impact on eliminating unemployment: If the unemployed are encouraged in entrepreneurship and emphasize is given to raise the startups, the unemployed can surely turn out as entrepreneurs. In case of SME financing, focus should be given on the startups, which will not only give the unemployed a means to live but also a way to become self dependent.

A tool for poverty reduction: SME can be the ultimate tool of poverty reduction. But here the idea is not financing the poor. Because of the previously stated reasons, a job is the most suitable means of living for poor people. But for giving those jobs, positions and businesses need to be created and for that unemployed people (who are not deprived of basic rights) needs to be financed to become an entrepreneur. With proper training and financial back up the unemployed can flourish their business and expand it to increase the facility of production as well as employment.

Conquer larger client base: Increasing the SME startup financing will surely increase the client base and opportunity of SME financing schemes. Large portion of the business establishments of country falls under SME and adding another 2.63 million more will surely work as a booster in countries economy as well as in escalating the profitability for the banks and NBFIs.

Threats

Venture capital and crowd funding: These new mode of financing are getting popular now a days because of their adaptability, less complexity and paper work, involvement of lower risk factor etc. Ignoring these issues and not considering a strategic mechanism in utilizing the blessings of technology will surely suffer SME financing in coming years.

Higher risk of default: The risk of loan default or fraudulent activity is always associated with financing activity. Higher default rate may degrade the company's reputation and drag it down in red zone. So, to reduce this rate of default, the loan facilities need to be analyzed properly by considering the quantitative data and physical existence of the business.

End up financing in a 'shell corporation': Shell Corporation is the corporation which only exists in papers but it has no physical existence whatsoever. Corrupted employee may end up financing shell corporations, which can hamper the cash flow of the institution and raise the bad debt, which may eventually lead the institution even to bankruptcy.

Analysis

of the primary and secondary data

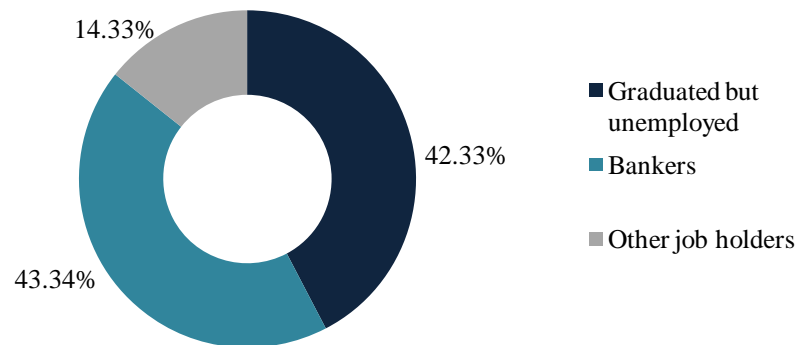
Analysis is done based on the gathered data extracted from primary and secondary sources.

Status of primary respondents

From the total 30 respondents 42.33% was graduated students of BRAC University, 43.34% was banker and the last 14.33% consist of job holders in different sectors of different industries.

Analysis

Judging by the pool of respondent it can surely be assumed that, the analysis reflects the mindset of the decision makers as well as the people who are looking for jobs plus the bunch who are involved with the active labor force of the country.



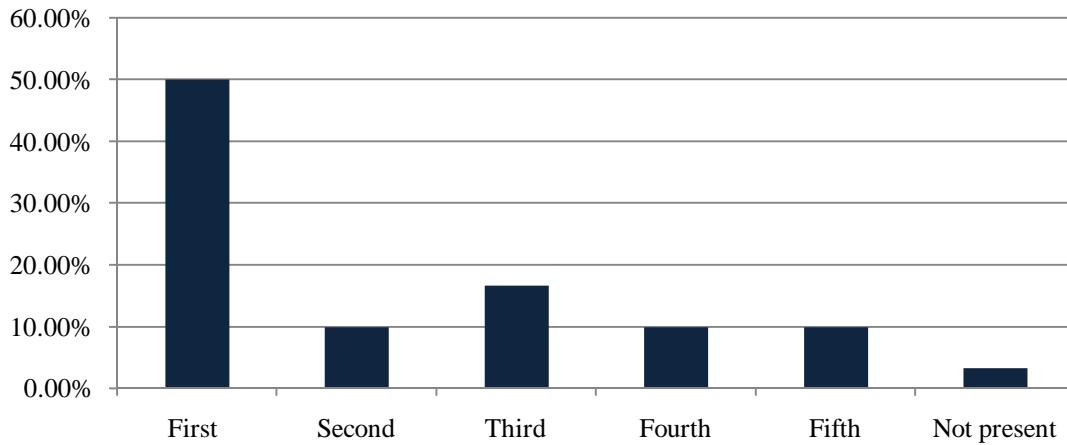
Perception regarding unemployment and poverty in Bangladesh

At present about 41.60 million people in Bangladesh lives under the poverty line and the rate of unemployment is almost 5.10% of the total labor force which implies that, more than 4.05 million people are unemployed at present in Bangladesh (Though as per CPD the rate is 21% because as per their statement, the unemployed population in the growing labor force has to be taken into consideration). According to World Bank at present one fourth of the total population of Bangladesh consists of youth, which means almost around 40 million people and as per their study one third of that youth population still duels under the unemployed category (10.3 million unemployed youth).So, by considering these statistics (Without authorization of any primary source) it is difficult relay on one rate among the published information of the think-tanks.. Though it is clear even by considering the stated statistics that, the situation is not at all amenable with economic growth and development of this country. So, in order to grab an idea about the perception of people and to get a reflection of people about ‘how bad they think the scenario is by considering the position of unemployment and poverty’; a question was asked to the

respondent by asking them to rank the both unemployment and poverty in the list of major challenges Bangladesh is facing presently.

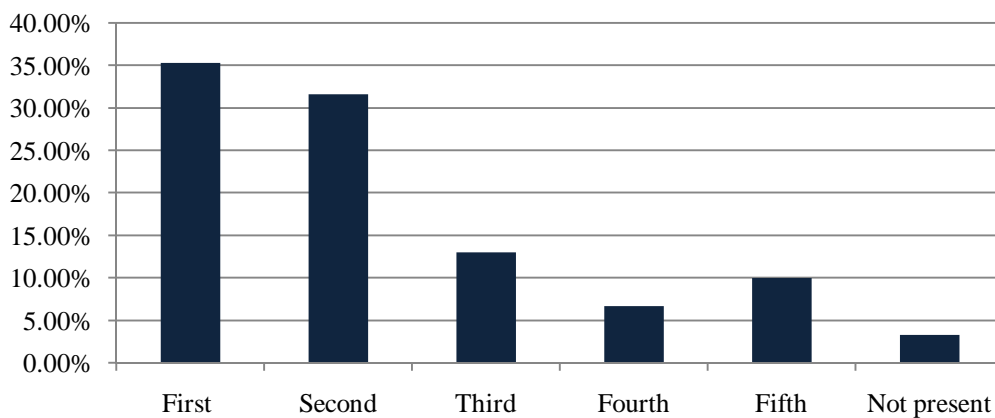
Position of unemployment and poverty among the five major challenges Bangladesh is facing

Position of unemployment



From the responses gathered it can be said that, most of the people about 50.00% believe unemployment is the first problem in the list of major challenges Bangladesh is facing presently. On the other hand second, fourth and fifth category distinctively gets an allocation of 10.00% in each of their category. Though 16.67% believe the issue as a third in the race whereas 3.33% think unemployment is not a problem at all among the top five over which Bangladesh should be concerned about.

Position of poverty



The response shows that, about 35.33% people regard poverty as the first problem in the circumstance of Bangladesh whereas 31.66% believes it as the second in the list of five major challenges. Among the rest of the participants 13.00%, 6.67%, 10.00% enlists poverty as third, fourth and fifth obstacle successively in escalating the growth of the country although 3.34% percent does not include poverty as a problem in the list of five major challenges.

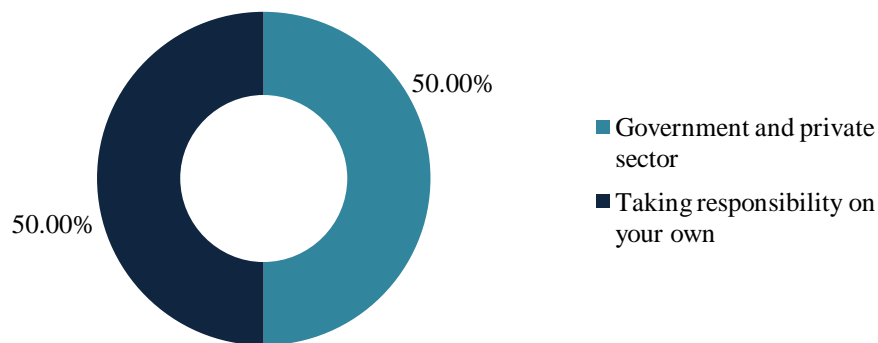
Judging by the primary response it would not be unfair to state that, majority of the population see unemployment and poverty as the two major factors issues; which are not only holding back the potentiality of the people of this country but also depriving them from lives they would have probably led if they were given exposure to befitted financing opportunities.

Preferred path for poverty reduction and creation of employment

In case of calculating the rate of unemployment the BBS study carefully ignores the fact of including unemployment in the rate of unemployment which means, ignoring the growth of labor force in calculating the rate of unemployment (According to the study of World Bank). The current labor force of Bangladesh is around 79.30 million and every year 2.24 million new faces are added in this labor force. But of this 2.24 million only 53.57% get the opportunity to become employed and rest 1.04 million joins the bunch of unemployed and inactive workforce.

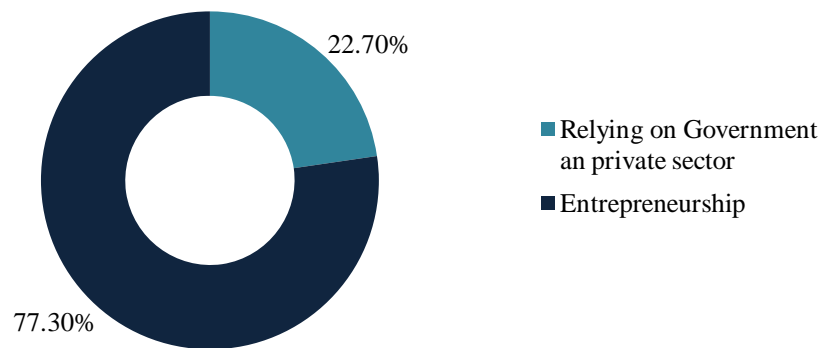
The current population growth rate of Bangladesh is about 1.2% and on the bright side the population growth rate is less than the growth rate of people added in the labor force which is about 1.4%. But in the current status-quo of Bangladesh this blessing also consist a hind side as the government cannot create enough jobs proportionate to the number of added population in the labor force every year and as a result the rate of unemployment is going up. And as per a statement published in Daily Prothom Alo the progress of job creation is considered as stagnant as ever. So, by keeping these in mind, the respondents were asked regarding the responsibility of job creation.

Responsibility of job creation



The outcome of the first query shows that, 50.00% people believes, it is not possible for government and private sector alone to create jobs for the growing population and that is reason why the gap is widening day by day between the rate of employment creation and rate of inactive pool of people but, the rest 50.00% of the poll believes conversely. According to their perception if the government and private sector want to create job they can come up with the amount of job necessary every year. So, as per the respondents perception no conclusion can be drawn regarding who is more responsible for creating jobs as the opinion reflects similar weight on government and private sectors as well as taking responsibility on your own.

But in the following question respondent were asked about **‘Which one is more preferable to them for solving the unemployment problem?’**

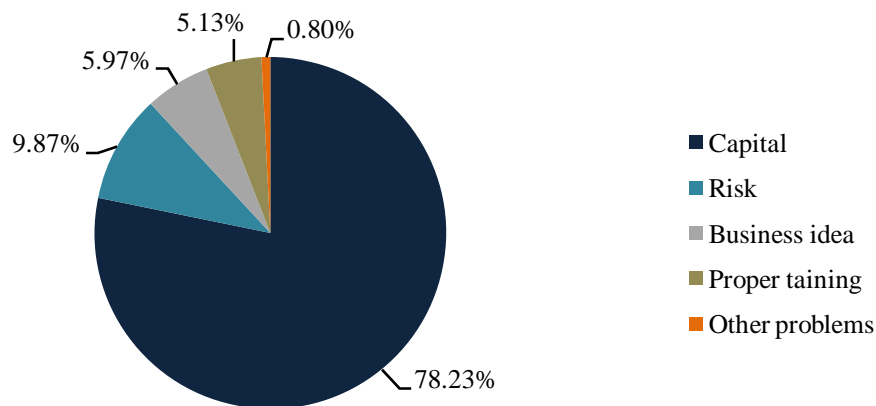


The data collected from the responses suggest that, entrepreneurship is the preferable choice for most of the people (About 77.30%).As per the previous query, though the respondents do not fully agree with the statement that, it is their own responsibility to create jobs on their own but still this poll shows that, people prefers to involved in entrepreneurship as they understand day increasing difficulty of the government and other organizations to employ the huge labor force with the small resources they possess. The secondary data also indicates that, contrary of the puritanical thought of becoming a Doctor, Engineer or Lawyer people now-a-days are thinking outside the box and rather than being a just another employee of the company they are more willing to portray their talent and have an impact in the progress of the society. According to the survey of Light Castle Partners (A data-driven consulting firm: a prominent name in the startup scenario of Bangladesh); Bangladesh is presently going through a phase they mention as ‘Startup fever’ and more and more people are engaging in startup everyday than ever before. LCP also says, about 31% of founders diverge in this path out of passion, almost 29% takes the risk of being an entrepreneur as they believe they can use the opportunity of the market, 15% founders prefer entrepreneurship as they think they will not find independence they might need to work in the corporate houses and the remaining 25% believe they can do better by founding a business rather than working as an employee.

Backing this mindset of the new generation can create employments in a more progressive way and it can also reduce the rate of poverty in a more efficient way. Patronizing the potentiality backed by necessary aid would offer more people the chance they want to pursue and would ultimately subsidize the two major concerns Bangladesh is facing presently in its way of development: unemployment and poverty.

Obstacle in becoming an entrepreneur

But because of the resource scarcity and shortage of money, becoming an entrepreneur is not that easy as it sounds. So, people were asked about the main hindrance they are facing in the path to become an entrepreneur.



The response shows that about 78.23% people see scarcity of capital as the major problem in starting a business venture. The rest 12.77% percent thinks higher risk, absence of proper training a guidance facility, not having a business idea and other problems like political instability, corruption, family approval etc. as the main obstacle in starting a business. So, considering these facts it is safe to presume that, capital inadequacy is the major problem people faces in general in case of entrepreneurship.

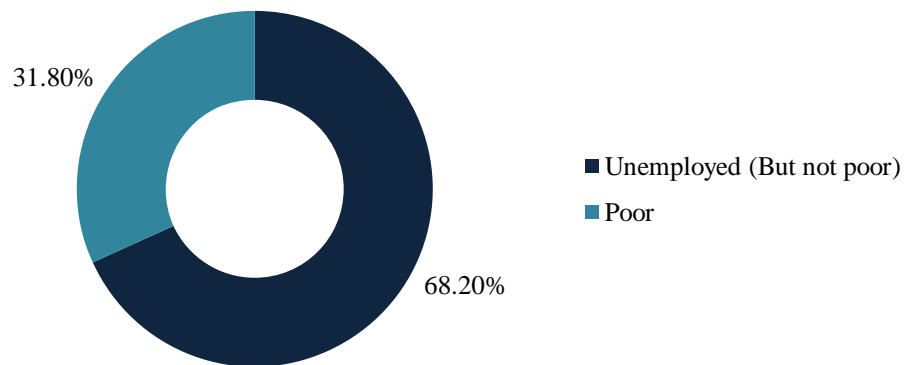
Target people for financing facilities

But insufficiency of money supply is not only a problem for the entrepreneurs it is also a problem for the Government. With one fourth of the total population living without earning 2 dollar a day and per capita income of only 1,314 dollar makes it very difficult for the government to extract necessary cash flow from the general people in form of tax. Moreover, 80% of the country’s population lives in rural area, among which 36% lives under the poverty line and another 29% falls under the definition of moderately poor (Moderately poor are the people who may own a land, but do not enough liquid asset and in most of cases do not have enough to

eat). Tax return, one of the major sources of income for the government is still disappointing as always. Less than 1% of the 160 million people pay tax in Bangladesh (As per NBR). Moreover because of corruption at least 5 percent of the GDP is lost every year (As per TIB). On the other hand in private organizations, the focus is always onto gaining efficiency regarding expenditure (Getting more jobs done with minimal cost) and maximizing the wealth of shareholders. Yet there was chance to create more jobs in private sector by encouraging more foreign direct investments. But, because of excessive corruptions of the related authority, underdeveloped infrastructure, poor communication companies are not getting lured even though Bangladesh offers the cheapest labor of all.

Judging this scenario Bangladesh Bank, commercial banks and NBFIs have to remain careful in resource mobilization. Otherwise bed debt will rise, ultimately Bangladesh Bank have to bankroll the at stake organizations which eventually can lead to more scarcity of financing amount. But if effective use can be ensured employment opportunity can be created which have an impact both in reducing both unemployment and poverty.

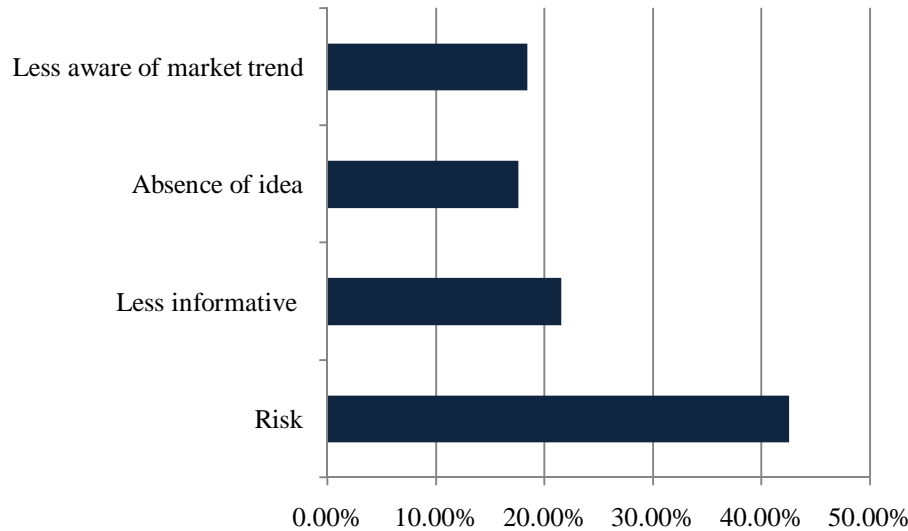
So, the respondents were asked about their opinion regarding the target client base of financing facility



From the answers it is rational to assume that, most of the people (68.20%) believe that, financing the unemployed (But not poor) should be the preferable choice, rather than investing on the poor.

Reason behind preference on the unemployed (But not poor)

Compare to approximately 4,050,000 unemployed populations, the number of poverty ridden population is about 12 times higher. This may intrigue the respondents in choosing the unemployed as the preferable one with the scarce resource in hand. So, question was asked to find out the reason behind choosing unemployed as the more favorable for financing option.



In considering the poor population for financing option 42.50% thinks that, the risk involved in financing the poor is higher than investing on the unemployed (but not poor) population. The poor do not have any material possession, do not have enough to feed and clothe the family and even they do not have access to necessary medical services. If a poor individual is financed to be an entrepreneur; first thing he/she will ensure is the necessary food and clothing for the family. Deprivation of the basic rights will force the individual to draw out more money from the business for supporting the family. So, even if the client becomes self-dependent and able to give proper support to the family, the possibility of business expansion along with job creation for others stand low in probability. Beside the poor people are less informative about the recent trends of market. They are less aware of the concept of fashion and fad. 17.60% respondents also believe that, they do not have proper idea regarding business plan. Not aware of the technological benefit is also a factor that makes the poor less desirable for the financing options.

Best tool in facing unemployment and poverty

Poor people can be entrepreneurs. The revolutionized microcredit has changed the lives of many poor populations around the world and helps them in becoming a successful individual. Microcredit is not only a mechanism which gives the poor exposure to credit; it is also a tool which makes the poor self-employed and self sufficient. Microcredit is dedicated for the development of the poor with a view to bring them out from the shackles of poverty. In a statement published by Grameen Bank it is said that, ‘the principle of microcredit is to give poor people a tool for earning and a way for utilizing their skills and creativity’. According to Microcredit Regulatory Authority (MRA), credit service of this scheme can be categorized into six groups: a) general microcredit for small-scale self employment based activities b) microenterprise loans, c) loans for ultra poor, d) agricultural loans, e) seasonal loans, and f) loans for disaster management. And all of these categories implies one thing in common which is, they

are all focused on creating self-employment, envisioned to backing as a booster in bringing prosperity in the lives of the poor, but not creation of employment. Grameen Bank says, at present 33.73 million people (including 8.62 million people of Grameen Bank) are enlisted in the facility of micro financing and among that pool almost 95% are rural women. And most of the women get involved in this financing aid just to be a helping hand beside their better half in turning the insolvency of the family. So, even if they expand their business by using the financing facility, the entrepreneurs generally employs their own family members which not only helps them to add more income in the family but also reduces the cost of their business. And because of the higher interest rate (As per Grameen Bank, the average global interest rate for microcredit is 37%) in most of the cases it becomes very difficult for the women entrepreneurs to expand the size of their businesses, by maintaining higher installment rate as well as by bearing the expenses of the family.

So, by evaluating all these facts it is safe to consider that, micro financing is definitely a tool for poverty reduction but when it comes to creating employment and reducing poverty altogether, it is not the best tactic to implement. As in micro financing the income gets trapped within the household and helps only one poverty ridden family in most of the cases.

As per the statistic of Micro credit regulatory authority of Bangladesh, microfinance has created direct job opportunities for about 114,644 people from June 2013 to 2014 and this apparently looks contradictory to the idea that, microcredit is not efficient in creating jobs. But, here the fact is, the number of employment creation for microfinance for the past five years goes like;

| 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------|----------------|----------------|----------------|----------------|
| 109,597 | 111,828 | 108,654 | 110,734 | 114,644 |

*Source: MRA

The above table makes it visible that, the number of employment creation of the microcredit financing lingers around a specific rang and more importantly the figures are shockingly disproportionate to the number of available micro-financing clients. On the contrary, in SME as the target client base is not the poor SME register a staggering 25% in the total sum of job creation which is about 0.30 million people from the total 1.2 million jobs created every year in Bangladesh.

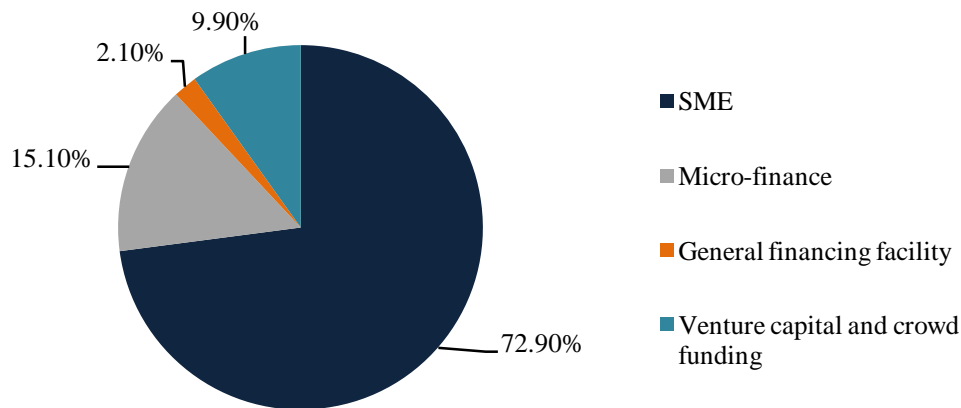
The factors of the below table shows that, SME financing is creating higher amount of jobs compare to micro financing. But, the numbers also reflects the higher cost behind a single job creation through SME financing. So, by considering the latter fact micro financing looks more efficient in terms of costing. As per Grameen Bank ‘The repayment success rates of micro financing are between 95 and 98 percent’ while in SME financing because of corruption and fraudulent activities the amount of bed-debt and NPL is increasing every day which in turn also

affects the efficiency of this scheme of financing as well as drags down its effectiveness in terms of job creation.

| | Total number of outstanding amount | Cost per job creation | Total number of Clients or establishments | Clients or establishments to job creation ratio |
|-----------------|---|------------------------------|--|--|
| SME Financing | 1,135,030,000,000.00 | 3,783,433.33 | 6,000,000.00 | 0.0500 |
| Micro financing | 278,017,000,000.00 | 2,425,046.23 | 33,730,000.00 | 0.0034 |

So, here to judge the opinion of the decision makers about the preferred sector, question was asked regarding the choice of financing facility in reducing both unemployment and poverty.

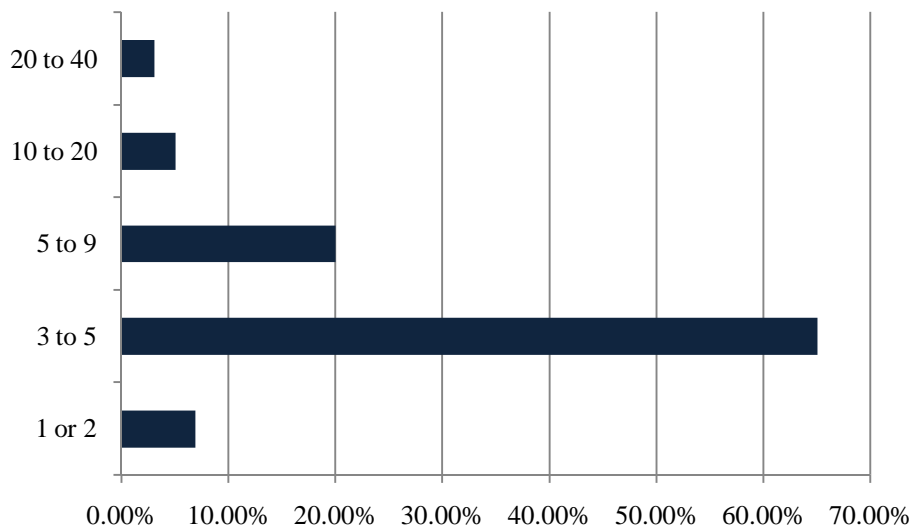
Best financing tool in beating unemployment and poverty



The gathered response rate shows that, 73.90% decision makers believe SME is the best source of financing considering the required purpose. So judging by the primary and secondary data here it is safe to presume that, SME financing is the preferred financing source for battling both unemployment and poverty (However it is true that, the present structure of financing, policies, poor implementation of laws and inefficiency of job creation makes this scheme yet to be regarded as the most effective in dealing both unemployment and poverty). The poll also shows that, few people see general financing as well as venture capital and crowd funding as an effective tool in facing the presented problem. By analyzing the secondary data source it is found that, in Bangladesh most of the labor force (almost 42%) falls under the agricultural sector and the rest consist of service sector (22%) and industry (36%). But as venture capital and crowd funding are two technical sources of financing where the fund is generally collected via internet,

majority of the labor force will go through trouble in utilizing the benefit of these sources as they do not have clear idea and elementary knowledge regarding technology and about this financing facility as well. Conversely general financing is not customized enough to serve the purpose of every sector of different industries. Using this facility for every sector available will deprive an entrepreneurship from services like: required loan amount, best suited interest rate, secured, product wise ceiling (secured, unsecured and partially secured), structured financing facility (The benefit of balloon payment) and offered training facilities.

Though SME is thought as the best tool for plummeting the rising challenges but a question still remain about the number of possible job creation and its impact on the poor population. So, a question was enlisted in the survey about, the possible number of job creation on an average by a SME enterprise.



The response shows, 6.89% people believes in employing only 1 or 2 employees, 65.03% goes with employing 3 to 5 people, 20.01% believes they can create 5 to 9 jobs, 5.03% goes with 10 to 20 jobs and the rest 3.04% person cast their vote on creating 20 to 40 jobs in a single establishment. So, judging by the sample result it is reasonable to say that, on an average 3 to 5 recruitments can certainly be done by establishing one single enterprise and if all the people unemployed presently can be taken under entrepreneurship with SME financing, if they can create the jobs as per their expectation surely unemployment and poverty will not stand as major challenge anymore. Unemployed 4.05 million becomes entrepreneur, each can employ 3 to 5 people (4 is taken as median of that two figures) and each poor family consists of 4 members on an average (According to BBS, on an average the people under poverty have 4 family members and three 3 is headcount in case of people who live above the poverty line); which gives a total figure of 64.80 million people. At present 41.60 million in Bangladesh lives under poverty line which means a flexible policy of SME financing will positively affect way more people than expected. Though this figure is figurative still from a conservative angle it will not be irrational

to say that, if half of this people can be employed and structured policy guidelines can be created, win against the battle with unemployment and poverty will only be a matter of time.

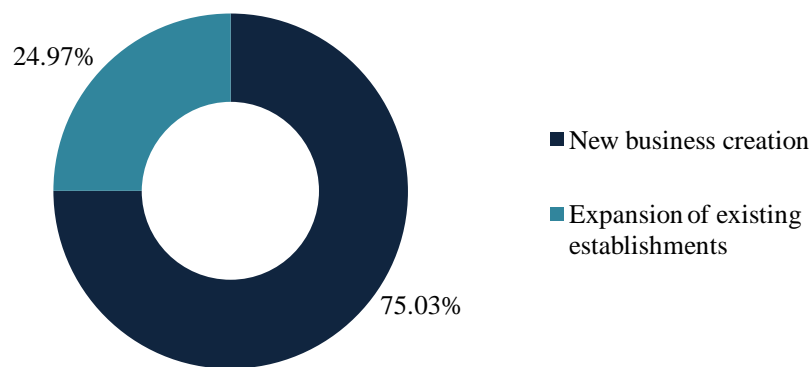
Current SME facilities and employment generation

In current SME financing policies continuous business experience is counted as a major factor before availing the loan facility. From top three NBFIs (IDLC, LankaBangla and BRAC) to others in the list of SME financing each and every one of them requires 1 to 3 years of business experience or continuous business operation in any of their product offerings. So even if business expansion is possible though the current policy encouraging new entrepreneurs is not at all possible. Argument can be raised regarding the necessity of creating new entrepreneurs, as the current policies of SME is already contributing way more than any other sector in case of employment generation. The fact is, apart from SMEs other sectors (Government and private organizations) cannot add the expected number of work force as required through their establishments. So, the only way left for creation of more jobs is through the help of SME financing facility (As per the data of primary and secondary source). Critics may say increasing the size and capacity of the existing businesses will enlist more people in the work force and ultimately reduce unemployment. But here six issues were left out of considerations which discourage and obstruct SME entrepreneurs in turning their establishment into a big company.

- Absence of unsalable business model is first barrier SME entrepreneurs face in becoming a large business unit. Without renovating the business model, it is almost impossible to achieve efficiency and effective only by increasing the production capacity.
- Rather than being a conglomerate SME entrepreneurs favor to keep their business focused in a particular sector and by keeping the ownership within them (proprietorship, partnership and private limited company).
- Dependency on the customers can sometimes erode the potentiality of business progress by taking away the upper hand in negotiation. Many SME entrepreneurs consciously or subconsciously depend on the existing customers rather than perusing the new ones to make the first purchase. This approach may save the business's expenditure by cutting the promotional cost but over dependency also raises the risk of business, because a minor error can lead to dissatisfaction and eventually contraction in overall sales and profit.
- Flawed marketing strategy and unwillingness to spend more in promotion also gives the companies less exposure and ultimately stand as complication in becoming a large corporation.

- Apathy regarding technological wizardry. By remaining isolated from the benefits of technology most of SME not only declining their efficiency but also descends the curve of performance and potentiality.
- Lack of innovation and systematic support growth also holding back the SMEs from growing to their maximum possibility. Without innovation in product, service offering and promotion SMEs cannot contend and expand in the competitive market. And without a systematic approach (In most of the SMEs, from all the systematic approaches only a Accounting system exist) a SME becomes reliable on people, which not only increases the margin of error but also makes the business vulnerable in case of sickness, memory loss, employee turnover and lose of interest.

To justify the rationality of this statement experts were also asked about their perception regarding new business creation or expansion of existing ones.



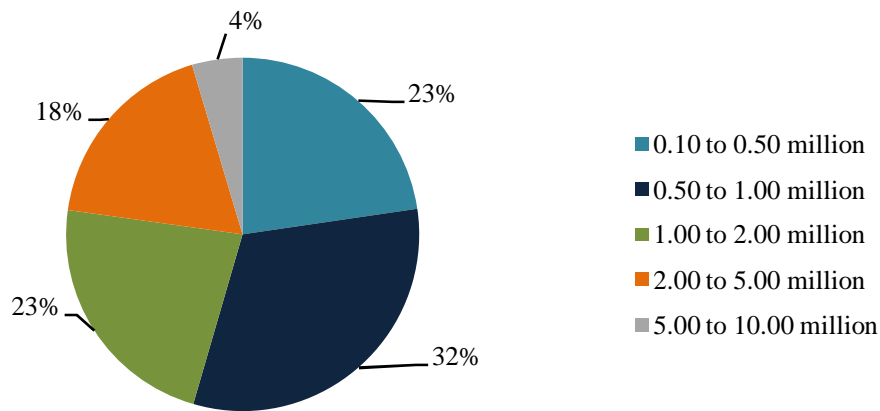
Among the respondents only 24.97% believes that, elimination of unemployment is possible only by expanding the existing establishments which in another way makes it rational to say that, creation of new enterprises is the most effective way in tackling the unemployment situation. Because the existing establishments of SME are not sufficient to tackle the problem of unemployment and poverty alone. But, if the above stated concern can be mitigated with proper planning and response, even the existing SMEs can create more jobs and play major role in eradicating poverty.

Best suited SME facility for encouraging the unemployed

Apart from the experience requirement, current SME facilities are also structured in a way which makes only a few people interested to become an entrepreneur. So, to figure out the expected financing policy for the unemployed, respondents were asked about their opinion.

Loan amount

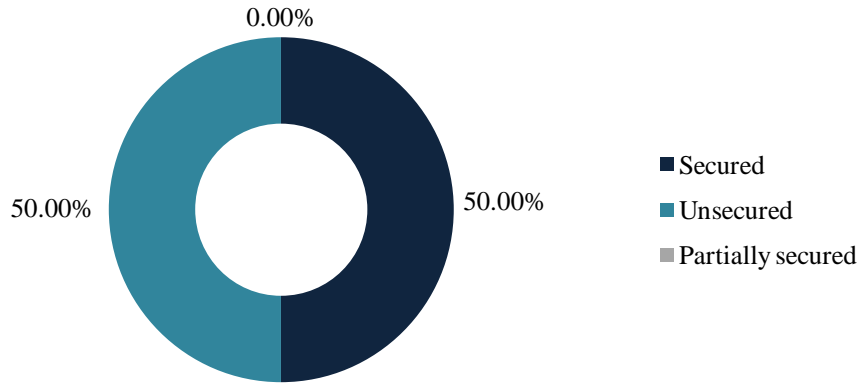
As SME financing is regarded as small and medium enterprise financing, ceiling on the offered loan facilities is presented in all the product categories in order to keep the financing separated from large corporations as well as to give a structured loan facility best suited for the case of different SMEs. But the survey reflection discloses the consumer demand for a more structured loan facility, which will be more appropriate in terms of the purpose.



The data received shows that, 31.80% person people believe 0.50 to 1.00 million financing is enough for implementing an idea into a successful business. Whereas bracket of 0.10 to 0.50 million and 1.00 to 2.00 million attracts respondents of 22.70% and the rest 18.20% and 4.60% respondents believes 2.00 to 5.00 million and 5.00 to 10.00 million successively is the right amount needed for a startup. But, judging by the response a conclusion can be state that, 0.50 to 1.00 million financing should be the range in case of startup financing.

Loan facility

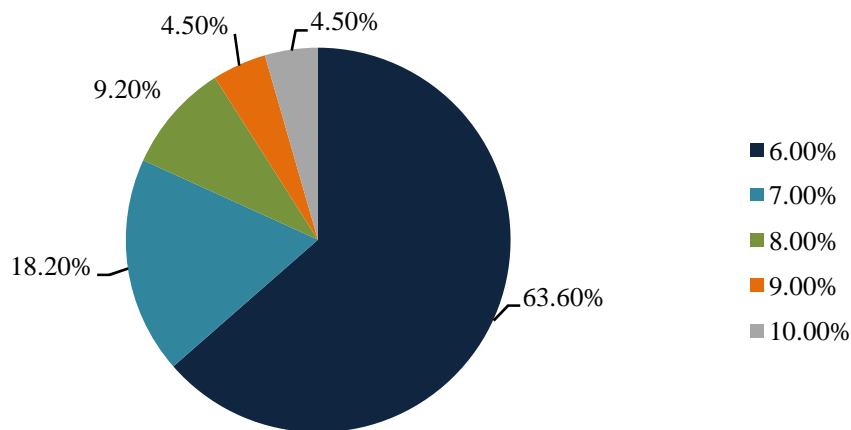
On an average most of the SME financing facilitators provide loan under three facilities, secured (With collateral), unsecured (Without any collateral and cash security) and partially secured (By keeping cash security against the facilitated amount). So, in primary data collection respondents were asked to state the best suited facility to create new entrepreneurs.



Quite astonishingly it turns out that, in both the cases secured and unsecured facility the liking proportion is equally 50.00%, but no vote casted on the partially secured facility. This may be also implication of the fact that, because of the absence of the current asset the people interested in entrepreneurship cannot start of their businesses.

Interest rate

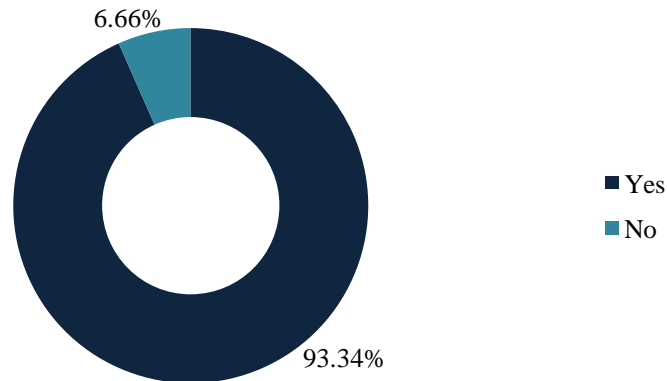
Interest rate is the foremost issue a customer judges before confirming a transaction with a bank. Response regarding interest rate shows,



63.60% vote is casted on 6% rate of interest and the rest 18.20%, 9.20%, 4.50% and 4.50% people believe 7%, 8%, 9% and 10% consecutively should be the lending rate of loan. The result implies, majority of the respondents believe if the loan can be sanctioned in 6% interest rate, unemployed will be more encouraged in taking the financing facility.

Grace period

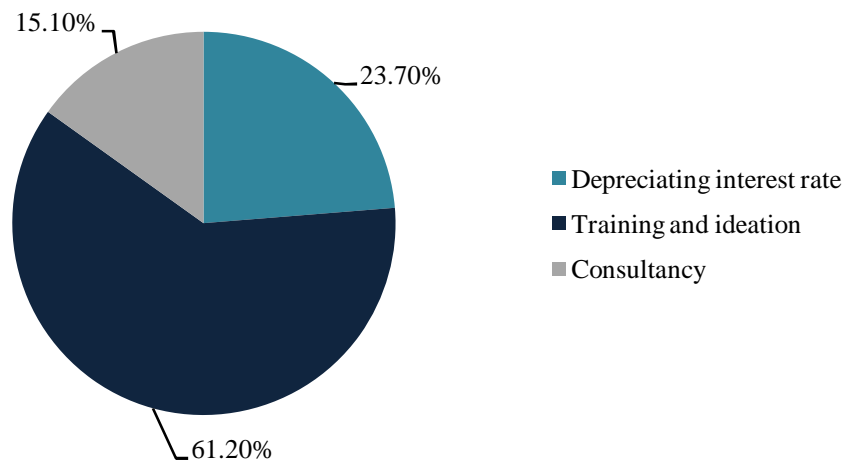
The option of grace period is an important factor in case of embryonic enterprises. Absence of grace period in a startup will scoop a chunk from the profit portion and eventually less will remain to reinvest, which will ultimately delay the break-even, affect the dividend policy and also the capital structure. So, by considering all these impediments the respondents were asked about their opinion on this regard.



The response shows that, almost 93.34% believe that grace period is indeed needed for the startups to flourish and also to build a strong base before expanding the business establishments. And regarding the time of the grace period, 3.33% wants a period of 3 months, 10% wants 4 months, 26.68% voted on 5 months, 26.67% prefers 6 months, 3.33% wants 7 months, 16.67% goes with 8 months, 3.33% of the respondents want 10 months and the rest 3.33% thinks that 12 months of grace period would help them to build the business well and solid. So to sum up it can be said that, grace period is indeed demanded by the potential entrepreneurs and the experts in this field also believes that grace period is important, mostly in case of a new business.

Expected service form the banks or NBFIs

Here, the participants in the survey were asked to name the expected service from the institutions apart from the loan facility, which they believe would increase the success rate dramatically in term of business establishment and ultimately unemployed and poverty.



The result shows that, 61.20% response goes in demanding relevant training and idea generation support from the banks and NBFIs. Apart from that, the rest 29.80% consist of demand such as: consultancy in running and operation and depreciating interest rate based on payment performance.

Risk Involvement in SME financing

Aside considering all the above factors, risk is another issue on which further priority should be given to make SME financing more of useful for the decided objective. Risk is actually the foremost thing a credit analyst judge in case of financing any concern. Risk can be segregated into different sections amalgamation of which ultimately indicates whether an establishment is financing worthy or not. Absence of thorough judgment and presence of hoax in the process of analysis may expose the financing institute to vulnerability. So to decrease the loss and to also to subside the NPL the risks on which institutions should focus in case of SME financing are;

- **Credit risk:** Which is the inability of the borrower to pay the borrowed amount as promised. Surprisingly it is noticed that, financing the poor involves less credit risk than the financing schemes of SME. SME financing has more default loans than microcredit schemes and per Grameen Bank ‘repayment success rates of microcredit are between 95 and 98 percent’. But on the contrary because of ill practice, lack of ethical awareness and corruption credit risk has involved over the years for SME and other financing options.
- **Market risk:** SME financing is also involved with market risk which is the risk associated with decreased value of collateral associated with the transaction. Due to social and environmental issues the market value of the collateral may decrease which eventually incurs loss if the client default the loan amount and the institution has to forced sale the possession to reimburse the loss.
- **Interest rate risk:** In case of SME financing most of the times the low cost funds are received from foreign donors and different organizations therefore if the inflation of the stated currency increase there is always a chance of up-warding movement of interest rate which in turn may also increase the interest rate of the disbursed funds.
- **Exchange rate risk:** Exchange rate risk is a type of financial risk occurs when the base currency (here it is BDT) decreased in value against the currency value of the loan amount (which is US dollar in most of the cases of Bangladesh).So, if the BDT value decreases from 78.61 present exchange rates against 1 US dollar then, in time of paying back the loan amount because of the fixed interest rate the borrower has to pay more than required to compensate the credit amount.

From the above four categories it is clear that, to be the befitted financing tool for tackling unemployment and poverty, the authorities should focus more on issues such as reduction of corruption, implementation of sound financial policy, generation of well tailored economic regulations and of course on independence and empowerment of the Central Bank controlling

body. Without doing so effective disbursement of the low cost funds will not be possible and as a result the idea of reducing unemployment and poverty with SME financing facility will also prevail just as another unproductive hypothesis. And as analysis of the primary and secondary data reveals SME financing as the most suited tool for facing unemployment and poverty; it is high time for the authorities to take initiatives to renovate this financing facility. And this is not only to extract the full potentiality of this scheme of financing but also to use this financing as a booster in facilitating the advantage of demographic dividend for the next 37 years.

Findings from the analysis

Key finding of the above mentioned survey and the secondary data analysis are as follows.

- The SWOT analysis of SME financing discloses that, SME financing is still not yet the tool for reducing unemployment and poverty. Absence of proper incentive for the startups, higher interest rate, inadaptability with technological benefits and presence of fraudulent disbursement still holding back the true potential expected from this financing facility.

Findings from the survey shows,

- Entrepreneurship as the preferred option in eradicating unemployment.
- Capital inadequacy as the most faced impediment in becoming an entrepreneur.
- SME as the most suited tool for financing a business establishment.
- SME as the most potential option for tackling both unemployment and poverty.
- Expected changes which can make SME an absolute tool for attracting the unemployed in entrepreneurship.

Analysis of the secondary data exposes the following findings,

- Unemployment and poverty are the two major challenges Bangladesh is facing in terms of expediting the growth and development
- Scarcity of resources makes it difficult for private sector and government in creating jobs as per the increasing demand.
- The structure of prevailed financing opportunities (apart from SME financing) are not well suited for reducing both unemployment and poverty
- Impact of targeting the wrong client base (the poor population) will only reduce poverty, but cannot have much impact on eradication of both unemployment and poverty.
- The barriers in expansion of a SME business reduce the chance of employing more people.
- The present structures of SME financing are not encouraging the startups and people in becoming judging their potential.

Recommendation

So to exploit the benefits of SME financing up to its potential, I believe the following steps will make the difference if taken into consideration

- **Lessening the bank rate**

Decreasing the bank rate in case of disbursing the low cost funds receive from the international donor organizations and different institutions. The current bank rate is 5% and as a matter, the low interest rate fund from JICA, ADB and such organizations receives the consumer ends constituting a rate not less than 10% (As apart from Central Bank, banks and NBFIs also add interest rate against the received funds as mark up). But, if Bangladesh Bank cuts the bank rate and directs the disbursed institutes not to add interest rate over 2% in the allocated fund for startups the interest rate will surely go down and eventually encourage the unemployed to become entrepreneur. Here, question may arise regarding the lessening of bank rate because the rate is correlated with inflation. So, to mitigate this problem reducing the rate of inflation would be the main challenge. Three steps the government can take in reducing the rate of inflation: raising the repo rate, raising the reserve requirement or increasing the interest rate of government bonds. But the fact is, apart from decreasing the rate of inflation these approaches will also reduce the encouragement on investment which may ultimately lead to stagnant economic growth and even more unemployment. But, if the Bangladesh Bank segregates the reserve requirements and bank rates in two sections; a) for SME financing and b) for other financing and investment options; Bangladesh Bank can surely compensate the loss for charging lower bank rate for SME financing by increasing the rate of interest for other financing and investment options, considering the possibilities of SME financing in creating job and also in reducing poverty.

- **New product of investment and financing**

Introducing a new investment option can act as a solution, where the banks and NBFIs will invest in the SME against a percentage of ownership. The institution will finance the startup business but against the financing, 25% of ownership will be retained by the institution and the institutions will also get a certain percentage of profit sharing (which is like interest in case of financing options). And after the repayment of the whole invested amount; the institution will transfer the ownership to a poor individual by initiating a contract. And as a part of that contract the seller bank or NBFIs will receive 30% of the profit sharing (for a certain period) that the poor individual will receive because of the entitlement of 25% ownership in the company. In this way, not only the unemployed will get self dependent but also the poor individuals will have a steady source of income. But here question may arise that; this facility will make the poor inactive and unwilling to work as they are getting steady income flow without any effort.

So, by taking this effort into consideration these products will be structured for a limited time period. A time period of 3 to 5 or 8 years will be given to the beneficiaries to revive their fortune from this steady flow of income and besides that, consultation will also be provided so that the poor can find out the best fitted earning option for themselves.

- **Strict policy and implementation**

Enactment of strict policies against fraudulent activities and corruption to erase the ever growing balance of nonperforming loans will surely make SME financing a more efficient and effective option. Following this approach will also reduce the cost of financing in response to employment creation. As per Bangladesh Bank at present the percentage of NPL against the total loan amount stands close to 28.76%, 29.39%, 7.3% and 6.02% in state owned banks, specialized banks, private banks and foreign banks successively. If strict laws can be passed in mitigating this problem the economy will energies more from the benefits of these financing options.

- **Introduction of training programs**

Different training programs, work shop and formal educational curriculum should be included in for increasing entrepreneurial skills in the youth and unemployed of the country. The research of Light Castel Partner shows that, about half of the total startups currently operating in Bangladesh found inspiration from the academic institutions. So, by talking this research outcome into consideration if curriculums can be structured in a more innovative and creative way it is safe to believe that general mass as well as the new generation will get more interested in startups. Even by making the most of academic influence students can be encouraged to come up with venture that will not only solve societal problems but also will create employment and reduce poverty.

- **Government regulations on import**

Restriction on imported products should be imposed in encouraging the potential sectors in respect of the economy. Otherwise the foreign products will eat away the profit and will left lesser possibility for the startups to flourish in the complete market.

- **Appointment of third party credit analyst for auditing**

Designating a third party analyst in every banks and NBFIs for evaluating the nitty-gritty of a startup establishment before financing will surely make the process more authentic as well as it will reduce fraudulent activity to a great extent.

- **Competitions on ideation**

Encouraging SME ideation competition for promoting efficient and effective ideas will surely give the policy makers option to analyze the best sector for financing. These participatory programs will also bring innovative ideas in light which can be

implemented in large scale for reducing unemployment and poverty or even in facing any challenges in the way of development.

Conclusion

In respect to the analyzed data it can be said that, Small and Medium Enterprise financing is yet to be the tool for reducing both unemployment and poverty. Because of absence of standardized structure and exuberant promotional policies and campaigns regarding startup financing this sector is still lagging behind despite its immense potential in social advancement, employment creation and economic growth of a country. Regardless of governments' positive attitude towards SME financing, the performance of this sector is still below the level desired because of the high cost funding options, absence of grace period, no grooming and consulting services and most importantly for not financing any startups. But if only a few amendments can be made in the product policy guidelines of SME financing, the most potential source of financing for reducing unemployment and poverty will surely penetrate the crust of these chronic problems the country is facing from the very beginning. Moreover the success of the SME financing could also help the country to achieve its vision 2021 as well as the goals of MDG. Collectively SME financing is the largest source of job creation as well as the greatest creator of wealth. Through job and wealth creation SMEs can ultimately help alleviate the poverty which in turn has a positive effect on the standard of living, quality of life as well as in the country's economy.

So to sum up it is safe to say that, unemployment and poverty may not be correlated entirely but tool like SME financing can be used to devise a strategy that can relate these unrelated problems and create a ripple effect in eradication of both unemployment and poverty.

References

- Ahmed, S., (2006, August 10), Some Issues on SME finance in Bangladesh, The NewNation. Retrieved from <http://thenewnationbd.com/>
- Bangladesh Bureau of Statistics, (2008) Report on Labor Force Survey, 2010
- Bangladesh Bank (2010). “Prudential Regulations for Small Enterprises Financing”
- Bangladesh Bank (2010), “Small and Medium Enterprise (SME) credit Policies and programs”
- SME Policy Strategies (2005), Publication of the Government of People’s Republic of Bangladesh
- Bangladesh Bank (2010), Checklist for documents and deeds required for availing SME loan facility from Banks and Financial Institutions
- Hasan, R.A. and Islam, K.M.Z., (2008). Bridging the Gap between Microfinance and SME Financing in Bangladesh: unlocking the potentials, *Daffodil International University Journal of Business and Economic*, Vol. 3, No.1
- Chowdhury, M.M.R., Emerging women SME entrepreneurs, (2016, February 04), retrieved from <http://www.thedailystar.net/>
- SMEs propel economy to higher growth, (2016, January 01), retrieved from <http://www.thedailystar.net/>
- Rahman, M., Potential of Small and Medium Enterprises, (2015, March 11), retrieved from <http://www.thedailystar.net/>
- Bakht, Z., SME development, (2015, March 11), retrieved from <http://www.thedailystar.net/>
- SMEs and job creation, (2013, July 26), retrieved from <http://www.ilo.org/>
- SMALL BUSINESSES, JOB CREATION AND GROWTH: FACTS, OBSTACLES AND BEST PRACTICES; retrieved from <https://www.oecd.org>
- Freund, C., Small & medium sized enterprises: not a silver bullet for growth and job creation, retrieved from <http://blogs.worldbank.org/>
- Small and Medium Enterprises (SMEs) Finance, IBRD, IDA (World Bank); retrieved from <http://www.worldbank.org/>
- Bangladesh Bureau of Statistics, (2010) Report on “labor and employment”

Bangladesh Bureau of Statistics, (2013) Report on “Economic census of Bangladesh”

Report of Asian Development Bank (ADB); Strategic Issues and Potential Response Small and Medium Enterprise Development and Export Expansion; *Asian Development Bank (ADB)*, Dhaka

Jun MI & LIjun CAO (2007), “Study on the Ecological Mechanism of Growth of SMEs,” School of Management, Shanxi University, Taiyuan, P.R.China

Wijewardena, H. & Tibbits, G.E. (1999); Factors Contributing to the Growth of Small Manufacturing Firms: Data from Australia; *Journal of Small Business Management*, Vol. 37

Bangladesh Bank, (2016) “Guidelines on Credit Risk Management (CRM) for Banks and NBFIs”

Monthly Business Review of IDLC Finance Limited; retrieved from <http://idlc.com/>

IDLC Annual Report (2015) retrieved from <http://idlc.com/>

Ali, S., Rashid, H., Khan, M.A., The role of small and medium enterprises and poverty in Pakistan: An empirical analysis; *Theoretical and Applied Economics, Volume XXI (2014), No. 4(593), pp. 67-80*

Issahaku, A., Ganiyu, A.A., Sophia, A., REDUCING THE RATE OF POVERTY IN TAMALE METROPOLIS: THE ROLE OF SMALL AND MEDIUM ENTERPRISES; *International Journal of Economics, Commerce and Management*, Vol. III, Issue 3, March 2015; retrieved from <http://ijecm.co.uk/>

Micro Credit in Bangladesh, retrieved from <http://www.mra.gov.bd/>

Appendix

Survey questionnaires

Survey Objective: Finding out the effectiveness of SME in reducing the rate of unemployment and poverty.

Among the many challenges that trample the escalating growth of Bangladesh, ‘Unemployment’ and ‘Poverty’ are the major ones. According to Bangladesh Bureau of Statistics (BBS), the present figure of unemployment stands highest compare to the numeric of past 15 years and more alarmingly 74% of that unemployment population consists of youth. On the other hand, poverty rate of Bangladesh stands close to 26% according to survey of ADB.

(Give it a read, before answering the questions)

1. Do you think Unemployment is major threat for a countries development?

a) Yes b) no

2. Where would you position ‘UNEMPLOYMENT’ in list of five major hindrances Bangladesh is facing?

| | | | | |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|

3. Where would you position ‘POVERTY’ in list of five major hindrances Bangladesh is facing?

| | | | | |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|

4. Do you think cumulative effort of Government and private sectors can create job for all the unemployed population? Or entrepreneurship is the best way possible?

- a) Government and private sectors
- b) Entrepreneurship is the best way

5. Which is more preferable to you for solving the unemployment problem?

- a) Relaying on government or private sector
- b) Taking responsibility on your own

6. What is it do you think is the major obstacle in becoming an entrepreneur?
7. Despite the presence of Micro-finance and other financing and investment schemes, 41.60 million of Bangladesh still lives below the poverty line. What is it do you think they are doing wrong?
8. Who do you think should be the preferred client base for eradicating unemployment and poverty?
 - a) Unemployed (But not deprived of basic rights)
 - b) Poor
9. Reason behind choosing the preferred client base?
10. Which one is the best tool for reducing poverty?
 - a) SME financing b) Microcredit c) General financing options d) Venture capital or crowd funding
11. Which one is the best tool for reducing unemployment?
 - a) SME financing b) Microcredit c) General financing options d) Venture capital or crowd funding
12. Which one is the best tool for reducing both unemployment and poverty?
13. On an average how many people do you think a SME can employ?
 - a) 1 or 2
 - b) 3 to 5
 - c) 5 to 9
 - d) 10 to 20
 - e) 20 to 40
14. Which one do you think can have better impact on employment creation?
 - a) Expansion of existing operations
 - b) Financing new entrepreneurs and encouraging startups

15. Choose the preferred loan amount for startup financing?
- a) 0.10 to 0.50 million
 - b) 0.50 to 1.00 million
 - c) 1.00 to 2.00 million
 - d) 2.00 to 5.00 million
 - e) 5.00 to 10.00 million
16. Which one of the options below is best suited as the interest rate for encouraging the unemployed in entrepreneurship?
- a) 6%
 - b) 7%
 - c) 8%
 - d) 9%
 - e) 10%
17. Choose the preferred loan tenure for startup financing?
- a) 12 months
 - b) 24 months
 - c) 36 months
 - d) 48 months
 - e) 60 months
18. Do you think grace period is necessary for a start-up? (Grace period is the time range when the borrower only pays the principal amount of the loan)
- a) Yes
 - b) No
19. Which one do you prefer; secured loan facility (Keeping mortgage with the financing institute), partially secured (Keeping cash as security) or unsecured loan facility?
- a) Secured
 - b) Unsecured
 - c) Partially secured
20. Name one expected service which you think would encourage more people in becoming an entrepreneur?

Present structure of SME financing products

Characteristics of the offered services

- Working Capital financing, revolving short term loan financing and Long term Financing
- Loan and lease financing facility
- Minimum loan amount 0.50 million
- Maximum loan amount 50.00 million
- Range of interest rate 10% to 19%
- Grace period from 3 to 6 months

Eligibility criteria

- Minimum 2 or at least 1 years of continuous business operation
- For partners and key persons of the limited company; must have minimum 2 years of experience in the same line of business.

* Within the mentioned range of financing amount, maximum and minimum loan amount of SME financing varies depending on the lending institutions.

** Credit ceiling also varies depending on the offered facilities; secured facility, unsecured and partially secured facility.

*** 10% interest rate is for women financing facility under Bangladesh bank refinancing scheme.

**** Grace period is offered only in few products of the SME financing, e.g. IDLC Purnota, IDLC Udbhabon etc.

Primary survey Findings

| Time Stamp | Name | Do you think unemployment is a major threat for a countries development? |
|--------------------|-----------------------------|--|
| 4/17/2016 23:50:41 | Md. Zahidul Islam | Yes |
| 4/18/2016 0:05:20 | Arpita Khondokar | Yes |
| 4/18/2016 0:26:53 | Pinky Reza | Yes |
| 4/18/2016 0:27:31 | Niaz | Yes |
| 4/18/2016 0:29:12 | Showkot | Yes |
| 4/18/2016 0:33:23 | Jaki Osman | Yes |
| 4/18/2016 0:50:44 | Mustafa Rafid Hossain Abeir | Yes |
| 4/18/2016 0:53:39 | Mir Sohanuzzaman Arefin | Yes |
| 4/18/2016 0:59:54 | Mehedi | No |
| 4/18/2016 1:02:08 | Omar Faruk Noor | Yes |
| 4/18/2016 1:07:35 | Sazzad Khan | Yes |
| 4/18/2016 1:16:58 | Md. Adnan Rahman | Yes |
| 4/18/2016 1:19:02 | Md. Hasnat Awal | Yes |
| 4/18/2016 1:45:24 | Shahdat Hossain | Yes |
| 4/18/2016 5:00:09 | Farah Samin | Yes |
| 4/18/2016 7:00:53 | Md. Bokul Hasan | Yes |
| 4/18/2016 11:37:00 | Shafakat Nayem | Yes |
| 4/18/2016 14:49:20 | Khalid Shovon | Yes |
| 4/18/2016 16:32:15 | Kazireaz | Yes |
| 4/18/2016 17:39:20 | Rizwan Chowdhury | Yes |
| 4/18/2016 19:39:41 | SamiaTasnim | Yes |
| 4/18/2016 19:37:32 | Nibrash Zaman Naafi | Yes |
| 4/18/2016 20:38:44 | Md. Sakib Sattar | Yes |
| 4/18/2016 20:39:53 | Md. Habibur Rahman | Yes |
| 4/18/2016 20:39:54 | Md. Sadil Islam | No |
| 4/18/2016 21:39:59 | Md. Neon Ahmed | Yes |
| 4/18/2016 22:30:05 | Adnan Ahmed | Yes |
| 4/18/2016 23:35:33 | Mahbuba Tanni | Yes |
| 4/18/2016 23:43:39 | Nishat Kuntola | Yes |

| Where would you position 'UNEMPLOYMENT' in list of five major hindrances Bangladesh is facing? | Where would you position 'POVERTY' in the list of five major challenges Bangladesh is facing? | Which one is the more preferred in your perception? |
|--|---|---|
| 1 | 1 | Becoming an entrepreneur |
| 1 | 1 | Becoming an entrepreneur |
| N/A | 1 | Becoming an entrepreneur |
| 1 | 2 | Becoming an entrepreneur |
| 5 | 1 | Becoming an entrepreneur |
| 4 | 2 | Becoming an entrepreneur |
| 2 | 1 | Becoming an entrepreneur |
| 1 | 2 | Becoming an entrepreneur |
| 3 | 1 | Becoming an entrepreneur |
| 4 | 5 | Becoming an entrepreneur |
| 1 | 2 | Relaying on government or private sector |
| 3 | 1 | Becoming an entrepreneur |
| 3 | 4 | Becoming an entrepreneur |
| 2 | 3 | Becoming an entrepreneur |
| 1 | 1 | Becoming an entrepreneur |
| 4 | 1 | Becoming an entrepreneur |
| 3 | 2 | Becoming an entrepreneur |
| 1 | 3 | Becoming an entrepreneur |
| 1 | 1 | Becoming an entrepreneur |
| 1 | 2 | Becoming an entrepreneur |
| 2 | 1 | Relaying on government or private sector |
| 1 | 3 | Relaying on government or private sector |
| 1 | 2 | Relaying on government or private sector |
| 1 | 2 | Becoming an entrepreneur |
| 5 | 3 | Becoming an entrepreneur |
| 3 | 4 | Becoming an entrepreneur |
| 1 | 2 | Becoming an entrepreneur |
| 1 | 1 | Becoming an entrepreneur |
| 1 | 1 | Relaying on government or private sector |

| Do you think cumulative effort of Government and private sectors can create job for all the unemployed population? Or entrepreneurship is the best way possible? | What is it do you think is the major obstacle in becoming an entrepreneur? | Who do you think should be the preferred client base for eradicating unemployment and poverty? | Reason behind choosing the preferred client base? |
|---|---|---|--|
| Government and private sector can create job for all | Risk | Unemployed (But not deprived of basic rights) | N/A |
| Entrepreneurship is the way out | Proper training and idea | Unemployed (But not deprived of basic rights) | Can create more employment |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | Can focus on business |
| Government and private sector can create job for all | Absence of capital | Poor | N/A |
| Entrepreneurship is the way out | Risk | Unemployed (But not deprived of basic rights) | N/A |
| Entrepreneurship is the way out | Absence of steady income | Poor | N/A |
| Government and private sector can create job for all | Absence of capital | Unemployed (But not deprived of basic rights) | Will take less profit from the business |
| Entrepreneurship is the way out | Risk | Unemployed (But not deprived of basic rights) | N/A |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | Can create more employment |
| Government and private sector can create job for all | Proper training and idea | Unemployed (But not deprived of basic rights) | N/A |
| Government and private sector can create job for all | Risk | Poor | N/A |
| Entrepreneurship is the way out | Proper training and idea | Unemployed (But not deprived of basic rights) | N/A |
| Entrepreneurship is the way out | Proper training and idea | Unemployed (But not deprived of basic rights) | Can expand the business |
| Entrepreneurship is the way out | Risk | Poor | N/A |
| Government and private sector can create job for all | Absence of steady income | Unemployed (But not deprived of basic rights) | Aware of the trend |
| Government and private sector can create job for all | Risk | Unemployed (But not deprived of basic rights) | Know about technological benefits |
| Government and private sector can create job for all | Absence of capital | Poor | N/A |
| Government and private sector can create job for all | Risk | Poor | N/A |
| Entrepreneurship is the way out | Absence of capital | Poor | N/A |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | Can create more job |

| | | | |
|--|--------------------------|---|--------------------------|
| Government and private sector can create job for all | Proper training and idea | Unemployed (But not deprived of basic rights) | N/A |
| Government and private sector can create job for all | Absence of steady income | Poor | N/A |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | N/A |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | Will reinvest the profit |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | N/A |
| Government and private sector can create job for all | Risk | Unemployed (But not deprived of basic rights) | Can employ more people |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | N/A |
| Entrepreneurship is the way out | Absence of capital | Poor | N/A |
| Entrepreneurship is the way out | Absence of capital | Unemployed (But not deprived of basic rights) | N/A |

| Which one is the best tool for reducing poverty? | Which one is the best tool for reducing unemployment? | Which one is the best tool for reducing both unemployment and poverty? | On an average how many people do you think a SME can employ? |
|---|--|---|---|
| SME financing | SME financing | SME | 1 or 2 |
| Microcredit | SME financing | SME | 3 to 5 |
| Microcredit | SME financing | SME | 3 to 5 |
| Microcredit | SME financing | SME | 3 to 5 |
| Microcredit | SME financing | Venture capital or crowd funding | 3 to 5 |
| Microcredit | SME financing | SME | 3 to 5 |
| SME financing | SME financing | SME | 1 or 2 |
| Venture capital or crowd funding | SME financing | Microcredit | 3 to 5 |
| Venture capital or crowd funding | SME financing | SME | 3 to 5 |
| SME financing | Venture capital or crowd funding | SME | 3 to 5 |
| Microcredit | Venture capital or crowd funding | SME | 5 to 9 |
| Microcredit | General financing options | Venture capital or crowd funding | 5 to 9 |
| Microcredit | Venture capital or crowd funding | SME | 3 to 5 |
| General financing options | SME financing | Microcredit | 3 to 5 |
| Venture capital or crowd | SME financing | SME | 5 to 9 |

| | | | |
|----------------------------------|----------------------------------|----------------------------------|----------|
| funding | | | |
| SME financing | General financing options | SME | 3 to 5 |
| Microcredit | Venture capital or crowd funding | General financing options | 3 to 5 |
| Microcredit | Microcredit | SME | 3 to 5 |
| Microcredit | SME financing | SME | 10 to 20 |
| Microcredit | SME financing | Venture capital or crowd funding | 3 to 5 |
| General financing options | Microcredit | SME | 3 to 5 |
| Microcredit | General financing options | Microcredit | 20 to 40 |
| Microcredit | SME financing | SME | 3 to 5 |
| Microcredit | SME financing | SME | 3 to 5 |
| Microcredit | Venture capital or crowd funding | SME | 3 to 5 |
| SME financing | Venture capital or crowd funding | Microcredit | 5 to 9 |
| Venture capital or crowd funding | SME financing | SME | 10 to 20 |
| Microcredit | SME financing | SME | 3 to 5 |
| SME financing | SME financing | SME | 3 to 5 |

| Which one do you think can have better impact on employment creation? | How much fund do you think is substantial for starting a business? | Do you think grace period is necessary for a start-up? If 'Yes' mentioned the preferred time period (Grace period is the time range when the borrower only pays the principal amount of the loan) | How much interest rate/ (profit sharing) would you prefer for your start-up? |
|--|---|--|---|
| Financing new entrepreneurs and encouraging startups | 1.00 to 2.00 million | Yes (8 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 1.00 to 2.00 million | Yes (6 months) | 7% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (6 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 1.00 to 2.00 million | Yes (10 months) | 10% |
| Expansion of existing operations | 2.00 to 5.00 million | Yes (8 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 2.00 to 5.00 million | No | 6% |

| | | | |
|--|-----------------------|-----------------|----|
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (8 months) | 6% |
| Expansion of existing operations | 5.00 to 10.00 million | Yes (4 months) | 8% |
| Financing new entrepreneurs and encouraging startups | 2.00 to 5.00 million | Yes (5 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (3 months) | 7% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (10 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (8 months) | 7% |
| Expansion of existing operations | 0.10 to 0.50 million | Yes (12 months) | 9% |
| Financing new entrepreneurs and encouraging startups | 1.00 to 2.00 million | Yes (6 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.10 to 0.50 million | Yes (8 months) | 6% |
| Expansion of existing operations | 0.50 to 1.00 million | Yes (6 months) | 6% |
| Expansion of existing operations | 0.50 to 1.00 million | Yes (6 months) | 7% |
| Financing new entrepreneurs and encouraging startups | 0.10 to 0.50 million | Yes (7 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.10 to 0.50 million | Yes (5 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 2.00 to 5.00 million | Yes (6 months) | 8% |
| Financing new entrepreneurs and encouraging startups | 0.10 to 0.50 million | Yes (5 months) | 6% |
| Expansion of existing operations | 1.00 to 2.00 million | No | 6% |
| Encouraging startups | 0.50 to 1.00 million | Yes (6 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (5 months) | 7% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (5 months) | 8% |

| | | | |
|--|----------------------|----------------|----|
| Expansion of existing operations | 0.50 to 1.00 million | Yes (6 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.50 to 1.00 million | Yes (5 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 0.10 to 0.50 million | Yes (4 months) | 6% |
| Financing new entrepreneurs and encouraging startups | 2.00 to 5.00 million | Yes (4 months) | 9% |

| Which one do you prefer; secured loan facility (Keeping mortgage with the financing institute), partially secured (Keeping cash as security) or unsecured loan facility? | Choose the preferred loan tenure for startup financing? | If you want to be an entrepreneur, name one thing that you need most for commencing your operation? |
|---|--|--|
| Secured | 24 months | Capital |
| Unsecured | 36 months | Capital |
| Unsecured | 48 months | Confidence |
| Secured | 24 months | An idea |
| Unsecured | 48 months | Capital |
| Unsecured | 24 months | Human Resource |
| Secured | 60 months | Legal Status |
| Unsecured | 36 months | Money |
| Secured | 48 months | Enough Capital |
| Unsecured | 24 months | Capital |
| Secured | 48 months | Money and money |
| Secured | 36 months | Ideas |
| Unsecured | 36 months | Loyal people motivated to work |
| Secured | 24 months | Stable economy |
| Secured | 24 months | Capital |
| Secured | 36 months | N/A |
| Secured | 60 months | Capital |
| Secured | 36 months | Co-operation |
| Unsecured | 48 months | Capital |
| Unsecured | 24 months | Market knowledge and trend |
| Unsecured | 24 months | Capital |
| Unsecured | 48 months | Hard working and creativity |
| Secured | 60 months | Hard working and creativity |

| | | |
|-----------|-----------|----------------------------|
| Unsecured | 24 months | Capital |
| Unsecured | 48 months | Ideas |
| Secured | 12 months | Market knowledge and trend |
| Secured | 24 months | Capital |
| Unsecured | 36 months | Human Resource |
| Unsecured | 24 months | Capital |

| Despite the presence of Micro-finance and other financing and investment schemes, 50.40 million people in Bangladesh still live below the poverty line. What is it do you think they are doing wrong? | Name one expected service which you think would encourage more people in becoming an entrepreneur? |
|--|---|
| Targeting the wrong client base for the loan purpose | N/A |
| Targeting the wrong client base for the loan purpose | Training and ideation |
| Absence of training and innovative ideas | N/A |
| High interest rate | N/A |
| Presence of collateral | Consultancy |
| Targeting the wrong client base for the loan purpose | Depreciating interest rate |
| Strict policies | Depreciating interest rate |
| High interest rate | Training and ideation |
| Targeting the wrong client base for the loan purpose | N/A |
| Targeting the wrong client base for the loan purpose | Training and ideation |
| Targeting the wrong client base for the loan purpose | Training and ideation |
| Absence of training and innovative ideas | Depreciating interest rate |
| Targeting the wrong client base for the loan purpose | Training and ideation |
| Targeting the wrong client base for the loan purpose | N/A |
| Absence of training and innovative ideas | Training and ideation |
| High interest rate | Depreciating interest rate |
| High interest rate | N/A |
| Presence of collateral | Training and ideation |
| High interest rate | Depreciating interest rate |
| Absence of training and innovative ideas | Training and ideation |
| Absence of training and innovative ideas | Consultancy |
| Targeting the wrong client base for the loan purpose | Consultancy |

| | |
|--|-----------------------|
| Targeting the wrong client base for the loan purpose | N/A |
| Strict policies | Training and ideation |
| Targeting the wrong client base for the loan purpose | N/A |
| High interest rate | Training and ideation |
| Strict policies | Training and ideation |
| Targeting the wrong client base for the loan purpose | N/A |
| Targeting the wrong client base for the loan purpose | N/A |