



Internship Report
on
SME Division
of
BRAC Bank Ltd



Submitted to

Ms. Sayla Sowat Siddiqui

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Submitted By:

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Letter of Transmittal

7th February, 2015

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Subject: Submission of Internship Report

Dear Madam,

It is my immense pleasure to submit the report on “SME BANKING Division of BRAC Bank Limited.” I am submitting this report as part of my internship in BRAC Bank Limited. The report is prepared according to the instructions and methods set by you.

The purpose of the report is based on my working and the functions of SME Division of BRAC Bank Ltd.

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

Thanking you

Shamprikta Shafiq
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Acknowledgement

First of all, I would like to express my deep gratitude to Almighty for preparing this Internship Report.

I would like to thank **Ms. Moutushi Esha, Principal Officer of BRAC Bank Ltd.** for giving me the permission to do the internship at Corporate Branch of BRAC Bank Ltd. I also like to thank to my supervisor, **Mr. Tanvir Ahammad Molla, Senior Officer of BRAC Bank Ltd.** for giving me the guidance throughout the internship period and giving me the knowledge about the department as much as possible.

This Internship Report has been prepared as the part of BBA program under BRAC Business School Department of BRAC University. I would also like to thank Ms. Sayla Sowat Siddiqui for her sincere and accurate guidance and for leading the report into the right direction.

At last, I would like to express my gratitude towards the Almighty for providing me with this opportunity to complete the BBA program in an internationally acclaimed university with patience and perseverance.

Executive Summary

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

The BRAC Bank Ltd. is a private commercial bank which is operated by the Banking Companies Act 1991. It was established in May 10, 1999 with a view to providing financial assistance including all kinds of banking facilities to accelerate the pace of development to small industry of Bangladesh.

Advanced expansion of the Small and Medium Enterprises (SMEs) can help to cut poverty to a satisfactory level by eliminating various prejudices against labor intensive industry and creating jobs for the skilled manpower in the SME sector. However, the access to financing is still recognized as the leading obstacle to SME growth in Bangladesh, alike most other developing and under-developed countries. Small and medium entrepreneurship have a tremendous potential in empowering potential entrepreneurs and transforming society. To target this sector with huge potentiality BRAC Bank Ltd introduced SME Banking Division in 2001.

BRAC Bank SME division was set up to capture “Missing Middle” and to create socio-economic impact in the country. Within 11 years of establishing it has proved its success through becoming country’s largest SME finance provider and 4th large SME provider in the world in terms of lending volume.

For the inheriting business risk, SME sector is facing several constrains in terms of growth. Policy level complexity, financial constraints, legal bindings and industry structure are hindering financial institutions to support SME sector. Lack of SME supporters, poor infrastructure of the country, lack of entrepreneur’s skills, lender-borrower gap, huge market competitions are the major drawbacks for both borrowers and lenders. Again SME sector has tremendously contributed in the economy. Today it has been considered as the engine of country’s economy. Being country’s largest SME provider, BRAC Bank is facing several challenges which are identified in analytical part of the report. Business risk, high interest rate, high defaulter rate, certain government policy change etc. are the major challenges facing by BRAC Bank. At the same time BRAC Bank has a large number of defaulters. Even though strict loan approval system is maintained, due to some unavoidable reason “bad-losses” sometimes occur. In order to reduce credit risk BRAC Bank follows consistent monitoring system upon borrower’s activities. Again if someone turns in to defaulter special wing called SAM works to enforce law.

The recommendation part of the report strived to find out some steps could be initiated by BRAC Bank in order to overcome existing weakness. A more effective loan approval system, strong monitoring activities, and entrepreneurs meeting arrangement could improve BRAC bank’s performance.

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Chapter 1

INTRODUCTION

1.1 Origin of the Report

Every business-major student has to carry out this 3-month long internship program as a reflection of practical implication of their study. This is the best way to preliminary learn about the organization and cope with the environment in such a way like professional employees. I started my internship at BRAC Bank Ltd. on 4th September'2014 and completed the program on 4th December,2014.

1.2 Objective of the Report

The internship report focuses on the credit scenario and performance evaluation of BRAC Bank Ltd.

The objective of the study as follows:

i) Broad Objective

The broad objective of the report is to get acquainted with the Retail Division and the activities accomplished by this department.

ii) Specific Objective

- To get a firm knowledge on how a bank operates .
- To get acquainted the ratios that indicate and measure the performance of a bank.

1.3 Scope of the Report

This report is mainly focused on retail banking scenario of BRAC Bank Limited. In addition, functions of SME division has also been included in this report. The activities of other departments are excluded in this report.

1.4 Methodology

In this report, two sources have been used in order to collect data. One is Primary Sources and the other is Secondary Sources.

Primary source include the small meetings with my supervisor and other employees of the concerned department who helped me to acquire the basic banking knowledge.

The secondary sources of data and information are:

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

1.5 Limitations

- Due to privacy reason, certain information was not disclosed to me since I was not an permanent employee. This came up as an obstacle while preparing the report.
- It was very difficult for the employees to co-operate me since they were occupied with a lot of work. Therefore, it was not always possible to reach them.

Chapter 2

ORGANIZATION

REVIEW

2.1 Overview of BRAC Bank Ltd.

BRAC Bank Limited is a scheduled commercial bank in Bangladesh. It was established in under the Banking Companies Act, 1991 and incorporated as a private limited company as on May 20, 1999 under the Company Act, 1994.

The primary objective of the bank is to provide all kinds of banking business. At the very beginning, the Bank faced some legal obligations because the High Court of Bangladesh suspended activity of the bank and it could fail to start its operations till 3rd June 2001. Eventually, the judgment of the High Court was set aside and dismissed by the Appellate Division of the Supreme.

The Bank has started its operations from July 04, 2001. The Chairman of the Bank is Sir Fazle Hasan Abed. Now the Managing Director & CEO of the bank is Mr. Syed Mahbubur Rahman. The bank has made a reasonable progress due to its visionary management people and its appropriate policy and implementation. BRAC Bank is a commercial scheduled bank extending full range of banking facilities as per the directives of Bangladesh bank.

BRAC Bank is surviving in the large banking arena through its unique and competitive products and it is the only local bank that started providing 100% integrated online banking facility. BRAC Bank Limited is a fully operational commercial bank; it focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which till now has remained largely untapped within the country. In the last several years of operation, the bank has disbursed over BDT 9,750 cores in loans to nearly 30, 0000 small and medium entrepreneurs.

The management of the bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh through a team of over 8,000 employees. BRAC Bank offers a broad range of products and services, including SME, retail, commercial and corporate banking to more than 1.2 million customers. The company consists of 155 branches, 400 SME unit offices, 675 Remittance Delivery Points, over 320 ATMs and 14 Kiosks across the country. BRAC Bank is among the last few organizations to have received a commercial banking license from Bangladesh Bank.

BRAC Bank practices upon a model where fund accumulated from urban deposits disseminates in the rural and uplift Small and Medium Enterprises (SME). By now it has become fourth largest SME bank globally. The company also offers Probashi banking, which specifically caters to non-resident Bangladeshis abroad. Other areas include customized treasury and foreign exchange solutions, cash management and custodial services.

Shareholding Structure:

Name of shareholders	% of shareholdings
BRAC	43.77
International finance Corporation	5.36
ShoreCap Limited	0.86
Non-resident Bangladeshi	0.43
Mutual funds	3.22
Institutions and General Publics	46.36

Table 1: Shareholding Structure

2.2 Achievements and Recognitions of BRAC Bank

- * Best managed Bank Award 2013 from Asian Banker.
- * Retail Banker Award 2011 from Asian Banker.
- * Best Retail Banker Award 2011 from Asian Banker.
- * FT-IFC Sustainable Bank of the Year 2010 (Emerging Markets, Asia).
- * IFC awarded BRAC Bank as the Most Active Global Trade Finance.

- *Program (GTFP), Issuing Bank in South Asia in 2010.
- *Member of Global Alliance for Banking on Values (GABV).
- *ICAB National Award 2009.
- *DHL–Daily Star Bangladesh Business Awards 2008.
- * NBR National Award as the Highest VAT payer for the financial year.
- * bKash (Mobile banking service) Ltd.
- * BRAC Saajan Exchange Limited.
- *BRAC IT Services Limited (BITS).

2.3 Vision of BRAC Bank

Building profitable and socially responsible financial institution focused on Market and business with Growth potential, thereby assisting BRAC and stakeholders to build a just, enlightened, healthy democratic and poverty free Bangladesh BRAC Bank will be a socially responsible institution that will not lend to businesses that have a detrimental impact on the environment and people.

2.4 Mission of BRAC Bank

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

- * Manage various lines of business in a fully controlled environment with no compromise on service quality.
- * Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality.

2.5 Goal of BRAC Bank

BRAC Bank will be the absolute market leader in the number of loans given to small and medium sized enterprises throughout Bangladesh. It will be a world-class organization in terms of service quality and establishing relationships that help its customers to develop and grow successfully. It will be the Bank of choice both for its employees and its customers, the model bank in this part of the world.

2.6 Objectives of BRAC Bank

BRAC Bank is the fastest growing Bank of the country. Its primary motto is to be the second largest bank in Bangladesh within 2009. To be the fastest growing bank, BRAC Bank now emphasizes on the existing processes and want to make the bank a process related Bank.

The objectives of BRAC Bank Limited are specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference.

The objectives of BRAC Bank Limited are as follows:

- * Building a strong customer focus and relationship based on integrity, superior service.
- * To creating an honest, open and enabling environment.
- * To value and respect people and make decisions based on merit.
- * To strive for profit & sound growth.
- * To work as a team to serve the best interest of our owners.
- * To relentless in pursuit of business innovation and improvement.

- * To base recognition and reward on performance.
- * To responsible, trustworthy and law-abiding in all that we do.
- * To mobilize the savings and channeling it out as loan or advance as the company approve.
- * To establish, maintain, carry on, transact and undertake all kinds of investment and financial business including underwriting, managing and distributing the issue of stocks, debentures, and other securities.
- * To finance the international trade both in import and export.
- * To develop the standard of living of the limited income group by providing Consumer credit.
- * To finance the industry, trade and commerce in both the conventional way and by offering customer friendly credit service.
- * To encourage the new entrepreneurs for investment and thus to develop the country's industry sector and contribute to the economic development.

2.7 Management Aspect

Top Management makes all the major decisions at BRAC Bank Limited. The Board of directors are not directly concerned with the day-to-day operation of bank but they play an important role on policy formulation. They have delegated their authority to its management committee, which is called MANCOM. Now there are 5 directors at the Top management of the bank. Sir Fazle Hasan Abed is the Chairman of the Bank. The board of directors held meetings on a regular basis.

The Management Hierarchy of BRAC Bank Limited is given below:



Figure 1: Management Hierarchy of BBL

2.8 Values of BRAC Bank

The values of BRAC Bank Limited are as follows: BBL follows two kinds of values.

They are:

1. External Values

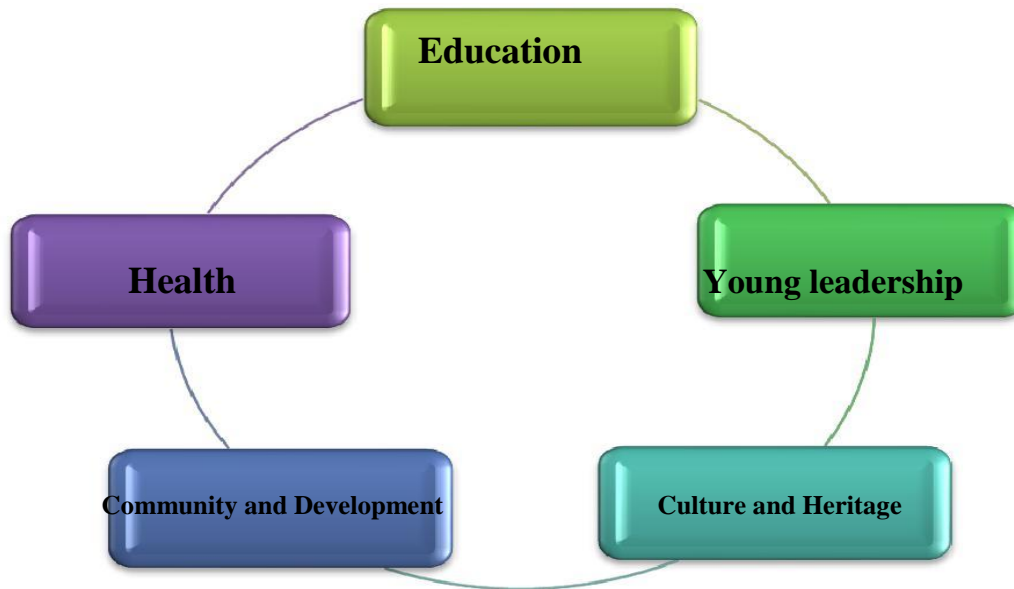
2. Core Values.

External values: Within external values they adopted ethical business concept. They follow 3p agenda which consists of “People. Planet and Profit”.

Core Values: Within Core Values BBL implements a single world “CRYSTAL”. It means C for Creative. R for Reliable, Y for Youthful , S for Strong, T for Transparent, A for Accountable, L for Loyal.

2.9 Corporate Social Responsibility

Since the inception, as a responsible corporate body BRAC Bank Ltd. has undertaken various initiative considering the interest of customers, employees, shareholders, communities and environment. These initiatives go beyond the statutory obligation/mandatory compliances to voluntary activities that promote sustainable development. A significant portion of earning of the bank is routed through the ownership structure of the Bank for building just enlightened poverty free Bangladesh – is the vision that the founder Chairman and Chairperson of BRAC, Sir Fazle Hasan Abed dearly and closely follows through. BRAC Bank’s vision is linked with social responsibility which focuses on the ‘triple bottom line’: People, Planet and Profit. Currently, BRAC Bank’s CSR program focuses on Education, Health, Young leadership, Culture & heritage, Community development.



2.10 BRAC Bank CSR Initiatives:

- Bio-Chemistry Olympiad
- Potuakhali Journalist Scholarship
- BRAC Bank-ProthomAloAdamyMedhabi
- Kidney Foundation- Emergency kidney care
- Autism Awareness creation.
- Lifelong support to TaramonBibi, BirProtik.
- Daur: Marathon for Humanity
- Standing beside BDR victims
- Meghe Dhaka Tara - To unlock potentials of disadvantaged girls.
- Solarizing SME Offices- To promote renewable energy
- Biogas Plant- To promote green initiative.
- Ekushey Book Fair- To promote Bengali literature.
- Bengali Spelling Competition- To promote correct Bengali spelling.
- Liberation War Museum- To preserve the history of liberation war

- Computer Donation: Bagmara High School, Nawabgonj; SallahSamabaya High School, Kalihati, Tangail
- Employment of Acid Victims.
- Scholarship for poor students of BRAC University
- Scholarship for Afghan Student
- Supported Libya returnees in association with BRAC
- Computer donation to Presidency University
- Warm Clothes Distribution to the cold hit poor people.

2.11 Departments of BRAC Bank Limited

BRAC Bank limited has 26 departments in three different criteria .The departments are:

Business: These sectors basically deal with the valuable customers of the bank and interact with them on daily basis. The daily transactions for the bank are handled by these departments.

Operation: These sectors generally deal with technicalities of the relevant sectors and ensure smooth functioning of the business for the bank.

Support: These sectors provide support to the business by ensuring the proper functioning of the various resources, risk management and banking regulations.

Business	Operation	Support
<ul style="list-style-type: none"> •SME Banking •Retail Banking •Retail Distribution •NFB and secured Assets •ADC •Unsecured Assests •Liability •Service Quality •Collections •Cross Selling •Regional Distribution •Corporate Banking •Probashi Banking •International Distribution •Cards •Treasury and Financial Institution •Marketing and Corporate Affairs 	<ul style="list-style-type: none"> •Retail Banking Operation •SME Banking Operation •Wholesale Banking Operation •Probashi Banking Operations •Card Operations •Business Solutions •Technology •General Infrastructure Services •Central Operations •Call Centre •PSO & MIS 	<ul style="list-style-type: none"> •Company Secretariat &Regulatory & Internal Control •Enterprise Risk Management •Credit •Human Resource Division •Financial Administration •Impaired Assets Managements •Complaint Handling Cell •Credit Inspector

Table 2: Departments of BRAC Bank

2.12 Target Customers

As the main product of BRAC Bank Ltd is SME, BRAC Bank has a strong SME focus and has developed a wide range of SME business products, these are customized for specific localized small and medium business across the country. The SME loan products cover a range of rural, semi-urban and urban financial needs in the market. Besides them, industries, transport business, education institutions, medical centers, marine business, any other high worth companies, individuals, etc are also the main customers of the bank. The bank has the ATM card and Credit card facility, so the users of the same are also in target.

2.13 Small and Medium Enterprises (SME)

Definition of Small Enterprise

A small-scale enterprise that employs a small number of workers and does not have a high volume of sales

Serial No.	Sector	Fixed Asset other than Land and Building(Tk.)	Employed Manpower (not above)
01	Service	50,000 - 50,00,000	25
02	Business	50,000 - 50,00,000	25
03	Industrial	50,000 – 1, 50,00,000	50

Table 3: Small Enterprise

Definition of Medium Enterprise

Medium-Scale Enterprise meets the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building(Tk.)	Employed Manpower (not above)
01	Service	50,00,000 – 10,00,00,000	50
02	Business	50,00,000 – 10,00,00,000	50
03	Industrial	1,50,00,000 - 20,00,00,000	150

Table 4: Medium Enterprise

2.14 General SME Guidelines by Bangladesh Bank

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

- Each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.

- Priority shall be given to small entrepreneurs.
- For small entrepreneurs credit limit will be ranged from Tk. 50,000 (Fifty thousand) to Tk. 50, 00,000 (Fifty lacs)
- For more participation of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement.
- Banks & Financial Institutions shall put highest priority in receiving loan application from small and medium women entrepreneurs and settle the loan disbursement process within very reasonable time from the date of acceptance of the application.
- Each bank and financial institution shall establish a separate ‘Women Entrepreneurs’ Dedicated Desk’ with necessary and suitable manpower, provides them training on SME financing and suitably appoints a lady officer as chief of dedicated desk. Branch wise list of ‘Women Entrepreneurs’ Dedicated Desk ‘should be sent to SME and Special Programs Department of Bangladesh Bank within two months from the date of declaration of this policy and program.
- Banks and financial institutions may sanction up to Tk. 25, 00,000 to women entrepreneurs against personal guarantee. In that case, group security/social security may be considered.
- The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of ‘SME/Agriculture Branch’ instead of ‘SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture’.

- Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs) at Bank rate +5% interests.

2.15 Minimum Requirement for SME Financing According to Bangladesh Bank

Each and every SME provider is regulated by separate restriction given by Bangladesh bank along with general banking rules. It may be noted that those minimum requirement should not in any way interrupt the role of monument process through establishing comprehensive credit risk management system appropriate to their type, scope, sophistication and scale of operation. The Board of Directors of particular bank is required to establish policies, procedures and practice in order to define risks, specify security requirement, design internal control and ensure strict compliance with them.

All the minimum requirements can be described as follows-

Pre-Operation

Before undertaking small enterprise financing, bank/financial institutions are required to follow some specific guidelines. Firms that have already established SME financing are required to compliance with the guidelines by six month of the date of issuance of Small Enterprise Financing Prudential Regulations. Pre-operation guidelines are-

- For the purpose of undertaken SME financing, banks are required to set up own separate risk management capacity which will be properly staffed in combined with sufficient expertise and experienced person in the field o consumer finance/business.
- The bank shall develop comprehensive credit policies suitably approved by Board of Directors. The policy will cover loan administration combined with documentations process, disbursement systems and appropriate monitoring mechanism. The policy will also revise with job description and job specification of different layer staffs. Along with it, policy shall specify powers/authority relating to approval/sanction of consumer finance facility.
- The bank shall develop specific Product Program Guide (PPG) for every type of SME activities. The program shall describe the eligibility of the borrower in terms of objectives or quantitative parameters. It shall also determine the maximum permissible loan limit of each borrower. Along with that, PPG shall indicate the maximum permissible exposure banks will take against each product.
- The SME undertaking bank shall have computer based Management Information's System (MIS) which will cater the need of small and medium enterprise financing portfolio and should be flexible enough to generate necessary information regarding various clients and their payments behaviors. This periodical report are expected to help in generating new policies, effectively implementation of current policies and facilities appropriate modifications of existing policy.
- The bank shall prepare product wise profit and loss account quarterly which will adjusted with the provision on account of classified account as expected. The profit and loss account should be present to the Board of Directors in the immediate next board meeting. In case of foreign banks, the report should be place before committee combined with Chief Executive Officer, Chief Financial Officer and Head of Small enterprise.

- The bank shall have comprehensive recovery procedures for the delinquent loan. There must have a constructive procedure to recover loan defaulters. That recovery procedure may vary from product to product, but the distinct should be prescribed in such manner so that pre-planned enforcement measures could be taken immediately.
- All the institutions starting/undertaken small and medium enterprise financing are instructed to go through some training on an ongoing basis to their capabilities related with various aspects of SMEs. The bank shall prepare standardized set of borrowing and recourse documents for each types of SME financing.

2.16 Operations

- Like other financing institutions, small and medium enterprise financing institutions are subject to set up own credit risk management process. The process includes- information about borrower past dealing with banks, assessing the clients ability to repayment, sources of repayment, net worth and information obtained from Credit Information Bureau approved by Bangladesh Bank.
- While granting loan to the borrowers, bank shall obtain written declaration from the borrower revealing the details of various facilities he/she already obtained from other financial institutions. The bank shall carefully go through the declaration detail and find out whether the customer exceeds the resemble limits as laid down in the approved policies of the banks. Additionally this declaration helps the bank to avoid exposure against an enterprise having multiple facilities from different financial institutions.
- Bank should establish its own internal audit and control system in order to review its activities. For its inheriting nature, SME portfolios are subject to high risk and various weaknesses. The internal audit review managerial decisions in order to rectify the weaknesses of SME financing and reduce the level of risk. Another function of the

internal audit is to look after the delinquency of internal control. It also figured out whether standardized policies are developed and practiced in reality.

- The bank shall ensure that their accounting and computer systems are properly equipped so that bank can avoid mark up. Even if it marked –up, bank must ensure that the marked-up charge on the outstanding amount is kept separate from the principal. The banks shall also ensure that any repayment made by the borrower is accounted for before applying mark-up on the outstanding amount.

2.17 Discloser/Ethics

Bank shall disclose all necessary terms and conditions regarding fees-charges; interest rate and penalties. It should also reveal internal information to some extent because sometimes it contains conditions related with interest rate and pre-payments penalties. In order to make it hassle free and keep update with clients, banks are encourage to published brochures regarding their different mood of products, eligibility to apply and frequent asked questions.

Chapter 3

JOB PART

3.1 My working experience at BRAC Bank Ltd

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

3.2 Lessons learnt from my internship program:

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

3.3 Daily Activities:

Throughout this three months of internship period, I performed lot of responsibilities. My foremost duty was to communicate with the Zero-balance and Dormant account holder customers of BRAC BANK.

I was assigned to maintain decent relation with those valuable customers . I tried to convince the customer to deposit money in account and at the end of every day I have to report to my mentor about the feedback of these customers. My mentor used to check the feedback of customers and guided me for the following day. For the duration of the phone calls, if I faced any difficulties, I used to discuss it with him and acquire solutions.

3.4 My daily activities conclude into performing the following activities:

1. Figures the account position in XCRV (BRAC Bank's internal server where all information of their customers' were reserved)
2. If there is no transaction between 6-12months then calling the customers and inform them about their account status.
3. Keep a track of their feedback and write it up in excel sheet.
4. Need to fulfill the target list of customers provided by the supervisor every day.
5. Organize daily report and submit, take pointer from supervisor.

3.5 Role of my supervisor:

- My supervisor used to monitor my daily work, checks everyday report and gave feedback.
- He also used to share his insight that how their day-to-day tasks and projects are profiting the company as a whole and also performing into the industry.
- He created a clear vision for me and planned standards for me to increase a well understanding.

Chapter 4

SME Division of BRAC Bank

4.1 Overview on SME loan of BRAC Bank

The most valuable natural resource of Bangladesh is its people. As a nation we struggled for our independence and now the attainment of economic uplift is the main goal. Micro lenders are working here in the financial field, providing very small amount and on the other hand regular commercial banks have been providing bigger amount of loans to larger industries and trading organizations. But the small and medium entrepreneurs were overlooked. This missing middle group is the small but striving entrepreneurs, who because of lack of fund cannot pursue their financial uplift, as they have no property to provide as equity to the commercial banks. With this end in view-BRAC Bank was opened to serve these small but hard working entrepreneurs with double bottom line vision. As a socially responsible bank, BRAC Bank wants to see the emancipation of grass-roots level to their economic height and also to make profit by serving the interest of missing middle groups. 50% of its total portfolio usually collected from urban areas, are channeled to support these entrepreneurs who in future will become the potential strength of our economy. Brac Bank is the market leader in giving loans to Small and Medium Entrepreneurs. They have been doing it for the last five years.

The importance of SME Loan

The main focus of BRAC Bank is to develop human and economic position of a country. Its function is not limited only to providing and recovering of loan but also try to develop the economy of a country. So reasons for this program from the viewpoint of BBL:

- **Support Small Enterprises**

The small enterprise, which requires 2 to 30, lacks Tk. loan, but they have no easy

access to the banks/financial institutions. For example: In case of Anonno loan, an amount of 3 to 8 lacs is provide without any kind of mortgage.

- **Economic Development**

Economic development of a country largely depends on the small and medium scale enterprises. Such as, if we analyze the development history of Japan, the development of small & medium scale enterprises expedite the development of that country.

- **Employment Generation**

The bank gearing employment opportunities by two ways: Firstly, by providing loan to the small enterprises expanding, these businesses require more workers. Secondly, Small & Medium Enterprise (SME) program requires educated and energetic people to provide support to entrepreneurs.

- **Profit Marking**

SME program is a new dimensional banking system in the banking world. Most of the CROs are providing door-to-door services to the entrepreneurs. Entrepreneurs are satisfied by the service of the bank and make profit.

- **Encourage Manufacturing**

The focus of BRAC Bank is to encourage manufacturing by the entrepreneurs who produce by purchasing various types of materials. CRO try to educate them to produce material if possible because if they can produce in line of purchase profits will be high.

- **Spread the experience**

Another reason of BRAC Bank is to spread the knowledge on the importance of SME banking regarding various businesses. The customer services officer share their knowledge from various businesses and tries to help the entrepreneurs who have shortage of the gathered knowledge. CRO's who are the driving force of SME division of BRAC Bank also gather knowledge about various businesses and make stronger knowledge base.

4.2 SME products of BRAC Bank

Types of SME Loans	Features	Eligibility
ANONNO SME Loan	<p>Business loan to meet any kind of business needs, which starts from BDT 2 Lac to 15 Lac.</p> <ul style="list-style-type: none"> • No Security Required. • Easy Installment • Easy loan processing. 	<p>(a) Any kind of business having valid trade license, which has been operating at least 2 or more years. (b) Sole proprietorship or Partnership (c) Small sized businesses (Production, Trading, Service, Agro based products and others)</p>
APURBO SME Loan	<p>Loan facility for Small Entrepreneurs. To meet any kinds of business needs, APURBO is offering BDT 1 million to BDT 30 million loan against registered mortgages.</p> <p>Specialty of this loan:</p> <ul style="list-style-type: none"> • Term loan, short term loan, revolving loan, bank guarantee, and overdraft based on your business needs • Limited documents • 10 Lac to 3 Crore Loans • Easy installment and overdraft facility 	<p>(a) Any kind of business having valid trade license, which has been operating at least 3 or more years. (b) Those who have property/land/building.</p>

<p>PROTHOMA SME Loan</p>	<p>Term loan for small scaled business operated by women entrepreneur, Maximum BDT 1 million is offered to meet business needs.</p> <ul style="list-style-type: none"> • No security required • As low as 10% interest rate. • Easy Loan Processing. 	<ul style="list-style-type: none"> (a) Any kind of business having valid trade license, which is at least 2 years of old. (b) Sole proprietorship, Partnership or Private Limited Company (c) Small sized business (Production, Trading, Service and others)
<p>Types of SME Loans</p>	<p>Features</p>	<p>Eligibility</p>
<p>SHOMRIDDHI SME Loan</p>	<ul style="list-style-type: none"> • To meet import-export related expenses, post import expenses, tax/duty payment, local bill purchase, working capital ,and fixed asset finance, SHOMRIDDHI loan is offering BDT 1 Lac to BDT 50 million. <p>Letter of Credit (LC)/Loan against trust receipt (LATR)</p> <ul style="list-style-type: none"> • LC opening facility: from BDT 1 Lac to BDT 50 million • Up to 90% loan against LC <p>Revolving Loan</p> <ul style="list-style-type: none"> • Import duty payment or goods purchase facility • Loan up to BDT 20 million <p>Local Bill Purchase</p> <ul style="list-style-type: none"> • Loan up to BDT 30 million in export <p>Specialty of this loan</p> <ul style="list-style-type: none"> • Easy loan processing 	<ul style="list-style-type: none"> • Any kinds of businesses having valid trade license and which has been operating for at least 3 years • Sole proprietorship, Partnership or Private Limited Company.

	<ul style="list-style-type: none"> • Convenient interest rate • Loan payment facility up to 180 days. 		
Types of SME Loans SHOMPOD SME Loan	Features Business loan facility starting from BDT 1 million to BDT 35 million against home or business premise mortgage. Specialty of this loan: <ul style="list-style-type: none"> • Term loan with monthly installment repayment facility for maximum up to 10 years. • Overdraft facility to meet your working capital need. • Loan is also available to purchase business premises. 	Eligibility SMEs having valid trade license and has been operating for at least 3 years in Dhaka & Chittagong Metropolitan area	
SHOKTI SME Loan	Business loan under which you can avail BDT 1 million to BDT 10 million to meet your any kind of business needs. No security required <ul style="list-style-type: none"> • Loan against partial cash security • At least 1 year bank statement. • Term loan and Overdraft Facility 		

Table 5 : SME Loan Products

4.3 SME Network coverage

4.3.1 Security Documentation against Loan:

A document is a written statement of facts and a proof or evidence of particular transaction between parties involved. While allowing any disbursements against credit facilities to borrowers, it should be ensured that prior to any disbursements; security documentation is fully and properly completed.

4.3.2 Purpose of Documentation and its Importance

Documentation is necessary for the acknowledgement of a debt and its terms and conditions by the borrower and the creation of charge on the securities in favor of the bank by the borrower. Correct and proper documentation allows a bank to take legal measures against the default borrowers. If filing a suit with the courts against a default borrower becomes necessary, the court will first review all documents. If any of the documents is found to be defect or incomplete, the purpose of security documentation will be defeated and a court ruling in favor the bank cannot be expected. Proper care should, therefore, be taken while completing security documentation.

4.3.3 Type of Securities

The following listed securities may be obtained from borrower against loan to enterprises, either individually or in a combination. It is really up to the bank what they would like to accept as security from the borrower as not all the securities stated below are suitable:

- Mortgage of loan and other immovable property with power of attorney to sell
- Lien of Fixed Deposits receipts with banks and other non-banking financial institutions, lined, these have to confirm by the issuer.
- Lien of Pratirakshaysanchaypatra, Bangladesh sanchaypatra, ICB unit certificates and wage earner development bond, all considered Quasi or Near cash items
- Lien of shares quoted in the stock exchange (This is rarely accepted)
- Pledge of goods (Banks are akin to stay away from such securities now a days)
- Hypothecation of Goods, Book Debt & Receivables, Plant & Machineries
- Charge on fixed assets of a manufacturing enterprise
- Lien of cheque, Drafts and order
- Lien of work orders, payment to be routed through the bank and confirmed by the issuer.
- Shipping documents of imported goods

4.3.4 Land Related Securities Documentation Process

Each SME unit offices are lilies with at least two local lawyers who will work on behalf of the bank. These always will be employed whenever a borrower and where the security will be landed and immovable property accept a loan sanction. Any one of the lawyers will be provided with photocopies of all the relevant land related documents and while handing over show the original documents to them, the lawyers will carry out checks of the originals and if satisfied returned to the borrower. The documents generally provided are:

- Title Deeds or Deed of conveyance otherwise known as ‘JomeerDalil’ which signifies ownership of a particular land.
- BayaDalil or Chain of Documents, which signifies that the conveyance of titles has been proper and legal.
- Mutation Certificate if Khatian which signifies that the title if the land has been duly registered in the Government/Sub-registrar’s records.
- Duplicate Carbon Receipt or DCR
- Latest Khajna or land rent receipt

- Purchase such as CS Khatian, SA Khatian and BS Khatian
- Mouja Map
- Municipal rent receipts if the land falls within a municipal area

The lawyer will then carry out a search at the Sub-registrar of land's office to check if the proffered land is actually registered in the name of the proposed mortgagor and whether the said land is free from any encumbrances. The Sub-registrar's office, which means that the land or immovable property can be mortgaged to the bank, then the lawyer will provide his own opinion on the acceptability of the property, whether it is legally held and explain the chain of ownership. If all is acceptable, the lawyer will draw up the Mortgage Deed that will be registered, the irrevocable power of attorney to sell the land and the Memorandum of Deposit of Title Deed. The lawyer will have the borrower or the Mortgagor, if different or 3rd party, sign the documents in front of the Sub-registrar of land to register the mortgage, The CRO must ensure that the receipt for the original Mortgage deed must be signed off (Discharged) at the back of the receipt so that the bank may obtain the originals in the future. The borrower will bear all the charges and will pay directly at the Sub-Registrar's office including the cost of the stamp paper required. The cost of the lawyer will also be realized from the borrower by an account payee cheque in favor of the lawyer and handed over to the lawyer straight away. The charges related to the creation of mortgages and other associated costs are incorporated in a separated sheet and are attached herewith. The CRO will have all other security documents, as sent by SME HO, signed by the borrower and hand carry all the security documents including all the original land documents and deliver those to the credit administration officer who will check the list of documents and receive those through a check list in writing. The credit administration officer once satisfied will prepare the disbursement memo to disburse the loan.

4.3.5 Mortgage

I) Equitable Mortgage or Memorandum of Deposit of Title Deeds

It is created by a simple deposit of title deeds supported by a Memorandum of Deposit of Title Deeds along with all the relevant land documents. All the searches and verification of documents as stated above must be carried out to validate the correct ownership of the

property. This deed also provides the bank power to register the property in favor of the bank for further security, if needed.

ii) Registered Mortgage

It is created by an execution of a Mortgage Deed registered irrevocably in favor of the bank at the Sub-Registrar of land's office. This virtually gives the bank the right to possess and sell if accompanied with a registered irrevocable power of attorney to sell the property executed by the owner of the property, in case of default.

4.3.6 Basic Charge Documents:

i) Sanction Letter

Once a loan is approved, the borrower is advised by a 'Sanction or offer letter' which states the terms and conditions under which all credit facilities are offered and which forms an integral part of the security documentation. If the borrower accepts, then a contract between the bank and the borrower is formed and which both parties are obligated to perform. Accordingly, all other charge documents and securities are drawn up and obtained. A standard sanction letter is attached herewith. All documents shall be stamped correctly and adequately before or at the time of execution. An un-stamped or insufficiently stamped document will not form basis of suit. Stamps are of 4 (Four) kinds. These are Judicial, Non-judicial, Adhesive and embossed impressed. Documents to be executed (Signed) by the borrowers concerned must be competent to do so in official capacity.

Following precautions should be taken at the time of execution of the security documents:

- The signature on the documents should be made in the presence of the CRO. The CRO should sign as witness on all charge documents. The documents are to be filled in with permanent ink or typed.
- If the document consists more than one page, the borrower should sign on each page.
- If the signature of any third party is required to be obtained whose specimen signature is not available, then the main applicant should verify the specimen signature of the third party.

- No document or column in any document should remain blank.
- As far as possible there should be no erasure, cancellation or alternation in the document. If, however, there is any correction, overwriting or alteration, then that must be authenticated by a full signature of the signatory.

After stamping and execution of documents, the question of registration comes up. However, not all documents are required to be registered. For the extension of any type of credit/loan facility, the following loan documents, which are considered basic, should be obtained from all borrowers:

(a) Demand Promissory Note

(b) Letter of Continuity (This is not always taken if there is only loan disbursement)

(c) Letter of Arrangement

(d) General Loan Agreement

(e) Letter of Disbursement

(f) General Loan Agreement

4.3.7 Other Basic Charge Documents

i) Demand Promissory Note (DP Note)

It is a written promise by a borrower to pay the whole amount of existing or future loans/credit facilities on demand. It also gives the banks power to ask the borrower to repay the loan amount with interest without any prior notice. Section 4 of the Negotiable Instrument Act 1881 defines a promissory note as an instrument in writing, signed by the maker, to pay a certain sum of money only to, or the order of, a certain person, or to the bearer of the instrument, following precautions are to be taken while preparing a promissory note. Type the amount of the credit facility/loan in words and in figures. Type the rate of interest for the loan, which the borrower will subject to verify the signature of the borrower.

ii) Letter of Continuity

This instrument is used in conjunction with the demand promissory note. This is to secure rights of recovery for existing and future credit facility, which are advanced in parts or on a

recovery basis. Loan accounts may from time to time be reduced or even the balance in the said loan account may be in credit so this instrument, validates the said D.P Note, for making further drawings under the facility continuously possible.

iii) Letter of Arrangement

This is a right given by the borrower to the bank to cancel the facility at any time without having to assign any reason. This is also an acknowledgement by the borrower that the credit facility has been approved in his favor and the borrower has to execute all necessary documents to avail credit facility.

iv) General Loan Agreement

A loan agreement is an agreement of contract stating the general terms for the extension of a loan or credit facilities. The General loan agreement sets out the general standard terms and conditions governing the existing or future extension of loan or erudite facilities to the borrower.

v) Letter of Disbursement

This is simple a letter requesting disbursement of the loan/credit facilities at the agreed rate of interest.

4.3.8 Other Security Documents

i) Letter of Undertaking

This is a Deed of agreement executed by the borrower agreeing to commit to carry out any or a particular obligation to avail of loan/credit facility.

ii) Letter of Hypothecation of Goods & Stocks and Book Debt and Receivable

These letters Hypothecation are actually two different sets of documents but because of their similarity, these are being explained together. These documents create an equitable or floating charge in favor of the bank over the goods and services and/ or book debts and receivables that are being financed where neither the ownership nor the possession is passed to the bank.

Under this agreement, the borrower undertakes to keep the percent stock of goods and that, which may increase from time to time in good condition in future, in good condition. This hypothecation gives the bank the power to possesses and sell the mentioned goods and stocks or claims the book debts directly from the debtors in order to settle the borrower's dues to the bank.

iii) Letter of Hypothecation of Plant & Machinery

Under this agreement, the Borrower undertakes to keep the present plant and machinery at the present location in good condition and which gives the bank the power to posses and sell the mentioned plant and machinery to meet the borrower's dues to the bank. In case of limited company, both private and public, these Letters of Hypothecation with schedules are usually registered with the Registrar of Joint Stock of Companies (RJSC) that provides more security to the banks.

iv) Letter of Lien

A lien the right of one person to retain property in his hands belonging to another until certain legal demands against the owner of the property by the person in possession are satisfied. Thus a bank or a creditor who has in its possession a lien over the goods in respect of the money due by the borrower, as a general rule has the right to exercise certain powers to hold on to the security. In addition, if the bank has right to set off the value of the said goods or instrument in its possession, then the bank can sell the goods or encase the instrument to liquidate the dues by the borrower.

V) Right to Set Off

This deed of agreement gives the bank the right to offset the value of the goods or financial instrument in its possession and which has been discharged by the owner of that asset, against dues owned by the borrower.

vi) Letter of Disbursement

This agreement gives the bank the right to possess goods and other assets in rented or leased premises of the borrower despite the fact that owner or the premises may be unable to realize dues from the borrower himself.

vii) Personal Guarantees

This is a guarantee of a person or third who is not the direct beneficiary of the loan/credit facility but is equally liable for the loan. The involvement of a 3rd party creates additional pressure on the borrower to minimize the risk. The guarantor is the person who has to pay the entire outstanding loan and interest if the borrower fails to pay for any reason.

4.3.9 Selection of Potential Enterprise for SME

Enterprise Selection Criteria:

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

- The business must be in operation for at least one year
- The business should be environment friendly, no narcotics or tobacco business.
- The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
- The business should be in legal trade, i.e.; smuggling will not be allowed or socially unacceptable business will not be entertained.
- The business must have a defined market with a clear potential growth.
- The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required.

- Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.

Entrepreneur Selection Criteria:

In order to understand the capability of the management behind the business, the following should be assessed:

- The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not.
- The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business.
- The entrepreneur must have and acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat anyone, generally helps people), and morally sound (Participates in community building).
- The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
- Suppliers or creditors should corroborate that he pays on time and is general in nature.
- Clear-cut indication of source of income and reasonable ability to save.

Guarantor Selection Criteria

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

- The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth)
- The guarantor should be aware about all the aspect of SEDF loan and his responsibility
- Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college, teacher, doctor etc.
- Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor.
- The guarantor should know the entrepreneur reasonable well and should preferably live in the same community

4.3.10 Terms and Conditions of SME Loan

The SME department of BRAC Bank will provide small loans to potential borrower under the following terms and condition. The potential borrowers and enterprises have to fulfill the selection criteria. The loan amount is between 2 to 30 lacs.

SME will impose loan processing fees for evaluation / processing a loan proposal as following;

Loan Amount Loan Processing Fee

2 lacs to 2.99 lacs Tk. 5000

3 lacs to 5 lacs Tk. 7500

5.01 lacs to 15 lacs Tk. 10,000

15.01 lacs to 30 lacs Tk. 15,000

Loan can be repaid in two ways:

- a) In equal monthly loan installment with monthly interest payment, or
- b) By one single payment at maturity, with interest repayable a quarter end residual on

Maturity

Loan may have various validates, such as, 3 months, 4 months, 6 months, 9 months, 12 months, 15 months, 18 months, 24 months, 30 months and 36 months. The borrower must open a bank account with the same bank and branch where the SME has its account. Loan that approved will be disbursed to the client through that account by account payee cheque in the following manner: Borrower name, Account name, Banks name and Branch's name. The loan will be realized by 1st every months, starting from the very next months whatever the date of disbursement, through account payee cheque in favor of BRAC Bank Limited A/C. With Bank's named and branches name the borrower has to issue an account payable blank cheque in favor of BRAC Bank Limited before any loan disbursement along with all other security. The borrower will install a signboard in a visible place of business of manufacturing unit mentioned that financed by "BRAC Bank Limited". The borrower has to give necessary and adequate collateral and other securities as per bank's requirement and procedures. SME, BRAC Bank may provide 100% of the Net Required Working Capital but not exceeding 75% of the aggregate value of the Inventory and Account Receivables. Such loan may be given for periods not exceeding 18 months. Loan could also be considered for shorter periods including one time principal repayment facility, as stated in loan product sheet. In case of fixed asset Financing 50% of the acquisition cost of the fixed asset may be considered. While evaluating loans against fixed asset, adequate grace period may be considered depending on the cash generation after the installation of the fixed assets. Maximum period to be considered including grace period may be for 36 months.

Monitoring

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the build up of an information base for future reference.

Chapter 5

Recommendation and Conclusion

5.1 Recommendation:

In context of the economic and social scenario of Bangladesh, the concept of SME is essential as well challenging. For overall economic growth, it is really required for the economy to have small and medium enterprises, however, these are the loans which have a sharp tendency to go default. In this scenario, BRAC Bank Ltd. Should be more vigilant while giving out an SME loan.

Below are some recommendations for BRAC Bank Ltd. in case of SME and overall service:

- Efficiently utilization of resources for the growth of SME business.
- The authority must be more watchful for complete recovery of loans.
- Prepare the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan.
- Organize entrepreneurs meeting to train them up according to the business type.
- The loan approval procedure should be more defined.
- The media converge should be more extensive to attract the potential borrowers towards available products and services. TV advertisement and radio coverage could prove to be suitable medium of advertisement.
- A stricter attitude while giving SME loans to avoid the risk of default.
- The Customer Relationship Officers should be more adroit so that the customers are always content with the services of BRAC Bank Ltd.
- When it comes to recovery, it is better to put equal weightage to all the borrowers rather than focusing on a potential borrower just to meet the quarterly/half-yearly recovery target.
- BRAC bank can share common platform in order to provide SME loan. It can jointly work with other financial institutes without hampering profits. For example entrepreneur training season could be arranged jointly with SME Foundation.

- Product modification is extremely necessary in line with the changes in current economy and the position of the competitors.
- Employee remuneration package should be updated and upgraded. Since a company is all about its people, it is highly necessary in the interest of the bank to keep its employee satisfied and motivated.

5.2 Conclusion:

BRAC Bank Ltd has been established on the visionary to finance “missing middle” in order to bring economic development of the country. With its unique thinking and impressive business strategies it has proven small and medium enterprises as an emerging economic opportunity. Though it has some shortcomings, we can hope that they will recover those and rectify the errors in near future.