

**00159**  
**BBA**

# **PROJECT REPORT**

**On**

**Small & Medium Enterprise Financing-  
An Evaluation of National Bank Limited**



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BBA  
16 August 2007

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Subject: Submission of Project Paper on “**SME of Financing Evaluation of National Bank Ltd.**”

Sir,

It gives me the immense pleasure in presenting the report on “**Small & Medium Enterprise Financing-An Evaluation of National Bank Limited**”. I tried to follow your instructions while preparing this report. I have paid a painstaking effort to prepare this report and concentrated on the entire parts.

It may be mentioned here that while preparing this report, I had gained a lot of knowledge and practical experience that might be helpful and beneficial in future. I have observed lending activities closely and tried to learn practically.

I sincerely expect that this report will meet your approval and appraisal would demonstrate our ability to prepare formal report. We would be pleased to answer any query you think necessary as when needed.

Sincerely yours,

Susanta Roy

## Acknowledgement

Small & Medium Enterprise Financing-An Evaluation of National Bank Limited– the topic itself defines purpose and scope. I am grateful to almighty Allah for the successful accomplishment of this report. I would also give thanks to my Supervisory teacher M Sayeed Alam for assigning me such a topic that demanded an intensive analysis of the various lending procedures in SME sector by the respective financial institution and in Bangladesh perspective. As a result, I now have the high theoretical idea about SME financing modes and importance of it in our economy. I am also grateful to the respective officials of National Bank Ltd. Including Board of directors, Branch Manager, Branch & Head office staffs for providing all possible assistance and information to complete this internship report.



## Executive Summary

Small and Medium Enterprise (SME) Financing is a topic of significant research interest to academics, business students and an issue of great importance to the policy makers around the world. This paper focuses on the scopes and the financial constraints of SME in Bangladesh and an evaluation of SME financing will be done in this report and National Bank Limited is the key organization for this study. For convenience of preparing this report, the whole report is divided into 5 chapters.

CHAPTER 1 is containing the introductory part of the report that explains background of the report, objectives of the report, methodology used and limitations faced in preparing this report. The report is aimed to analyze and evaluate the performance dynamics of SME financing activities of National Bank Limited and also to portray current situation and prospects of SME financing in Bangladesh.

CHAPTER 2 has introduced National Bank Limited in brief by its objectives, mission, vision, management structure, performance at a glance and products offered. Established as the first private sector Bank fully owned by Bangladeshi entrepreneurs, National Bank Limited has been flourishing as the largest private sector Bank with the passage of time after facing many stress and strain. Banking is not only a profit-oriented commercial institution but it has a public base and social commitment. So, NBL introduced National Bank Monthly Savings Scheme (NMS), Special Deposit Scheme, Consumer's Credit Scheme and NBL Housing Loan, NBL Small Business Loan, Small House Loan Scheme, Festival Small Business loan etc. to combine the people of lower and middle-income group.

CHAPTER 3 has defined Small & Medium Enterprise Financing and SME financing by National Bank Limited. Though SME financing is a new concept in our country, banks now are segregating SME sector for loan sanctioning purpose. Banks define SME as per some criteria. In simple words, following general criteria for eligible to get SME loan, banks provide loan facilities to SMEs in their own limits and procedures is called SME Financing. National Bank's SME products are mainly divided in to three parts- Existing Loan Products, Newly opened Loan Products and Upcoming Loan Products. In year 2006, NBL has disbursed 52 crore taka in SME projects and Manufacturing sectors get

60%, Trade sectors get 30% and Service sectors get 10% of total disbursements. Although the SME Banking is a new concept in National Bank Limited, this is growing faster than the other division in NBL.

CHAPTER 4 has described précised condition of SME financing in Bangladesh. Bangladesh is a labor abundant but capital scarce country and SMEs have a natural comparative advantage. SMEs have high potential for employment generation; require much lower investment per worker compared to large industries and high return on investment capability. According to Bangladesh Bank source, 9 banks have already signed an agreement to benefit from the SME fund facility. SMEs have 25 percent contribution to country's GDP. Together, the various categories of SMEs are reported to contribute between 80 to 85 per cent of industrial employment and 23 per cent of total civilian employment.

CHAPTER 5 has concluded the report with some recommendations which may add value to research programs by National Bank and as a whole by SME research groups to expand SME sectors and SME Financing scopes. National bank has started SME banking just before 1 year and differentiated portfolio is being created. So, this sector needs special attention. A vibrant SME sector is considered as one of the principal driving forces in the development of a market economy.

We need to develop various credit products and services, such as credit lines, risk sharing activities, leasing, credit scoring and expert decision, efficient credit bureaus. Banking norms and attitudes towards SME financing should be changed. This is all because SME Financing is demand of time today.



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# CHAPTER 1

## Introductory Part



# SME Financing-An Evaluation of National Bank Limited

## 1.1 Introduction

Small and Medium Enterprise (SME) Financing is a topic of significant research interest to academics, business students and an issue of great importance to the policy makers around the world. Economic, as well as technical and social arguments warrant the promotion of SMEs, as they create large scale, low-cost employment opportunities, use locally available inputs and technologies, mobilize small and scattered private savings, develop entrepreneurship, and correct the regional imbalance in development that exists in developing countries. This paper focuses on the scopes and the financial constraints in Bangladesh. In Bangladesh, among the formal sources, commercial banks are not interested because of the high risk and high supervision cost associated with this type of financing. Some of the commercial banks have some innovative products or services targeting at SMEs only, while others have repackaged. Some of their existing products are used as SME products. The contribution of commercial banks is now expanding in SME sector to meet accelerated demand for SME loans.

## 1.2 Origin of the Report

This report has been prepared as a course "Project Work" (BUS -498) of Bachelor of Business Administration program of the Business Administration Department of East West University. Mr. M Sayeed Alam, Senior Lecturer, Business Administration Department has assigned this report at 6 June 2007. The topic name of the report is "SME Financing An Evaluation of National Bank Limited". The Instructor has authorized the task of writing this report and he has approved this topic.

## 1.3 Objective of the Report

The report is aimed to analyze and evaluate the performance dynamics of SME financing activities of National Bank Limited and also to portray current situation and prospects of SME financing in Bangladesh. Another objective of the report is to prove my experience through internship program.

The following areas are pointed out in the report:

- To examine out the SME financing exercises by National Bank Limited.
- To evaluate SME financing performance of National Bank Limited.
- To find out the level of market opportunities for SME.
- To find out the credit potential and risks involved in SME.
- To list the financial & non-financial lending products for SME.
- To sum-up upgrade information about Relative size and Contribution of the SME in Bangladesh Economy.
- To find out present condition in the context of SME access to the financial sector.
- To sum-up the study findings on contribution & limitations to promote SME financing by Commercial banks.

These were the objectives, driven me towards report fulfillment.

## 1.4 Methodology

### **Data collection & Sources of Information**

Data collection sources for the study are both Primary and Secondary in nature. And the process involved both direct and indirect ways. Primary source includes Banks and members of the banks from where relevant information are collected and are to be collected. Secondary sources include related journals, paper cuttings, census reports, text books, websites, annual reports etc. Information are collected directly where I have gone physically and indirectly from websites.

### **Research Design**

To prepare the thesis paper, exploratory research design will be used and a two-stage design will be used to complete the study by which objectives of the study will be fulfilled. Techniques will be used to reach the end results of the study are:

- *Quantitative (Loan processing, quantitative data analysis & evaluation etc.)*
- *Qualitative (SWOT analysis, Comparison with leading PCBs etc.)*

For quantitative analysis, financial data will be summed up and graphical presentation will be included in different categories. Tables and graphs are prepared for financial performance analysis and evaluation of NBL.

For qualitative analysis, scopes and limitations will be shown in the context of indirect contribution of SME financing in the economy.

And lastly the report is furnished with the guidelines given by my supervisor professor. I have tried to include all possible data required by my topic to make a complete report. All other procedures of a conventional report are considered carefully.

## 1.5 Limitations

‘There are thousands of many reasons for not to do a task, but to do so, only one reason is enough’. In fact stating limitations faced undermines my capability in the sense that I am avoiding our responsibilities. Thus better I can say this as challenge(s).



**Time Constraint:** Main constraint was time. That the internship program was as like 9 to 5 jobs and started only a month ago, it was difficult to start the report making at that time. So I had to prepare it during the internship program which made me confused about some procedures and analytical figures.

**Information Constraint:** Information constraint aroused when I looked for 7 years data and it is the major limitation of this report. Another problem was that no separate financial reports are maintained by the branch for SME financing. And also SME financing is just segregated before a year ago by NBL. So it was hard to evaluate the performance of SME sector financing of NBL. Some information could not be collected for bank's restrictions for security.



# CHAPTER 2

## Introducing National Bank Limited



## 2.1 Background of National Bank Limited

**National Bank Limited** has its prosperous past, glorious present, prospective future and under processing projects and activities. Established as the first private sector Bank fully owned by Bangladeshi entrepreneurs, NBL has been flourishing as the largest private sector Bank with the passage of time after facing many stress and strain. The member of the board of directors is creative businessman and leading industrialist of the country. To keep pace with time and in harmony with national and international economic activities and for rendering all modern services, NBL, as a financial institution automated all its branches with computer network in accordance with the competitive commercial demand of time. Moreover, considering its forth-coming future the infrastructure of the Bank has been rearranging. The expectation of all class businessman, entrepreneurs and general public is much more to NBL. Keeping the target in mind NBL has taken preparation to open new branches by the year 2007.

The emergence of **National Bank Ltd.** in the private sector is an important event in the Banking arena of Bangladesh. When the nation was in the grip of severe recession, Govt. took the farsighted decision to allow in the private sector to revive the economy of the country. Several dynamic entrepreneurs came forward for establishing a bank with a motto to revitalize the economy of the country.

### 2.1.1 Inauguration & Operation of NBL:

**National Bank Limited** was born as the first hundred percent Bangladeshi owned Bank in the private sector. From the very inception it is the firm determination of **National Bank Limited** to play a vital role in the national economy. The bank is determined to bring back the long forgotten taste of banking services and flavors. We want to serve each one promptly and with a sense of dedication and dignity.

The then President of the People's Republic of Bangladesh Justice Ahsanuddin Chowdhury inaugurated the bank formally on March 28, 1983 but the first branch at 48, Dilkusha Commercial Area, Dhaka started commercial operation on March 23, 1983. The 2nd Branch was opened on 11th May 1983 at Khatungonj, Chittagong.

At present, NBL has been carrying on business through its 91 branches spread all over the country. Besides, the Bank has drawing arrangement with 415 correspondents in 75 countries of the world as well as with 32 overseas Exchange Companies. NBL was the first domestic bank to establish agency arrangement with the world famous Western Union in order to facilitate quick and safe remittance of the valuable foreign exchanges earned by the expatriate Bangladeshi nationals. NBL was also the first among domestic banks to introduce international **Master Card in Bangladesh**. In the meantime, NBL has also introduced the **Visa Card** and **Power Card**. The Bank has in its use the latest information technology services of **SWIFT** and **REUTERS**. NBL has been continuing its small credit programme for disbursement of collateral free agricultural loans among the poor farmers of Barindra area in Rajshahi district for improving their lot. Alongside banking activities, NBL is actively involved in sports and games as well as in various Socio-Cultural activities. Upto September 2006, the total number of workforce of NBL stood at 2239, which include 1689 officers and executives and 550 staff.

Since the very beginning, the Bank exerted much emphasis on overseas operation and handled a sizeable quantum of homebound foreign remittance. The Bank established extensive drawing arrangement network with Banks and Exchange Companies located in important countries of the world.

The year 2006 marked the addition of yet another golden stair in the chronicle of NBL's success story. Compared to 2005, Foreign exchange business of the Bank increased by 34.40% to Tk. 5186 crore, of which export, import and remittance business increased by 34.16%, 31.27% and 56.50% respectively. Total assets of the Bank stood at Tk. 4483 crore on 30.09.2006. The Bank invested 25% equity in Gulf Overseas Exchange Company LLC, a joint venture Exchange Company in Oman, operating since November, 1985 under the management of our Bank. The Bank received Riyal Omani 11875 equivalent to Tk.2.10 million as dividend for the year 2006.

Now NBL is on line to establish trade and communication with the Prime International banking companies of the world. Bank has been drawing arrangement with well conversant money transfer service agency "Western Union".

Banking is not only a profit-oriented commercial institution but it has a public base and social commitment. Admitting this true NBL is going on with its diversified banking



activities. NBL introduced National Bank Monthly Savings Scheme (NMS), Special Deposit Scheme, Consumer's Credit Scheme and NBL Housing Loan, NBL Small Business Loan, Small House Loan Scheme, Festival Small Business loan etc. to combine the people of lower and middle-income group.

Transparency and accountability of a financial institution is reflected in its Annual Report containing its Balance Sheet and Profit & Loss Account. In recognition of this, NBL was awarded **Crest** in 1999 and 2000, and **Certificate** of Appreciation in 2001 by the Institute of Chartered Accountants of Bangladesh.

### **2.1.2 Mission of the Bank:**

To ensure best customer service by best use of modern information system and establishing itself as one of the leading banks nationally and internationally by contributing remarkably in national economy.

### **2.1.3 Vision of the Bank:**

Expanding business allover the country and overseas by adding more timely products and services. By transparency, customer service and social welfare activities, the bank is trying to reach their goal and positioning it in peoples' heart.

## 2.2 Objectives of NBL

Objectives of National bank Ltd. are specific and targeted toward its vision and positioned itself in the mindset of the people as a promising bank.

- ✦ **To ensure best and prompt customer service by best use of modern information system.**
- ✦ **Developing Bank-Customer relationship as to contribute in national economy.**
- ✦ **To ensure highest dividend sharing for the shareholders by best use of equity.**
- ✦ **To follow strategic planning properly for sustained growth.**
- ✦ **To gain competitive strength by creative banking services.**
- ✦ **To develop skilled manpower by giving intensive training.**
- ✦ **Expanding bank's investment by taking part in syndication financing for large loans.**
- ✦ **To increase loans & advances in agro-based industries and agricultural sector by rural credits.**
- ✦ **To contribute in national economy by expanding financing facilities in Small & Medium Enterprise (SME) projects.**
- ✦ **Establishing bank's goodwill in the country and overseas by timely banking services.**
- ✦ **To achieve sufficient capital, liquidity reserve, asset quality and highest profit position, introducing Management Core risk.**

## 2.3 Special Features of NBL



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- For uplifting socio-economic condition of the limited income group, bank has introduced consumer credit schemes with financial assistance in the form of loan for procuring households, which has attained huge responses.
- The bank has wide range of rural credit facilities.
- Fully computerized system is used by the bank. The Bank has in its use the latest information technology services of **SWIFT** and **REUTERS**.
- The bank has online banking, Utility Bill Clearing, ATM, Credit Card, Master card, Visa card facilities.
- The bank has introduced customer relationship management to asses and fulfill customer needs to walk with the trends.
- Research and Development section is working continuously to grow faster than the trends.
- **Management Core risk** is maintained by the bank to ensure highest profitability along with asset quality.

## 2.4 NBL in Brief – year 2006

1. Date of incorporation	: March 28 <sup>th</sup> , 1983
2. Date of Inauguration of Operation	: 17 <sup>th</sup> April, 1995
3. Capital Fund	
Authorized	: Tk. 1000 million
Paid-up Capital	: Tk. 1000 million
Reserve Fund	: Tk.2468.79 million
4. Deposit	: Tk.40350.87 million
5. Loan & Advances	: Tk.32709.68 million
6. Net Profit before tax	: Tk.1058.73 million
7. Loan as % of total Deposit	: 81.06%
8. Global Reach-correspondents worldwide	: 400
9. Number of employees	: 2270
10. Capital adequacy ratio	: 10.10%
11. Ratio of classified loan to total loans	: 6.01%
12. Return on assets	: 2.50%
13. Return on Investment	: 5.62%
14. Name of the Chairman of the board	: Ms. Parveen Haque Sikder
15. Name of the Managing director	: Mr. M. Aminuzzaman
16. Number of Branches	: 91 (ninety one)
17. Publicly traded Company	: Share quoted daily in DSE & CSE
18. Credit Card	: Member of Master Card, Visa card.
19. Banking Operation System	: Conventional banking system.
20. Technology Used	: Member of SWIFT, On line Banking
21. Head Office	: <b>National Bank Limited</b> 18 Dilkusha C/A Dhaka-1000 Bangladesh

Tel 88-02-955-7045, 955-1200

Telex: 642791 NBL HO BJ, 642410 NBL HO BJ

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## 2.5 Performance at a Glance 2000-2006

**Table 1: Performance of NBL 2000-2006**

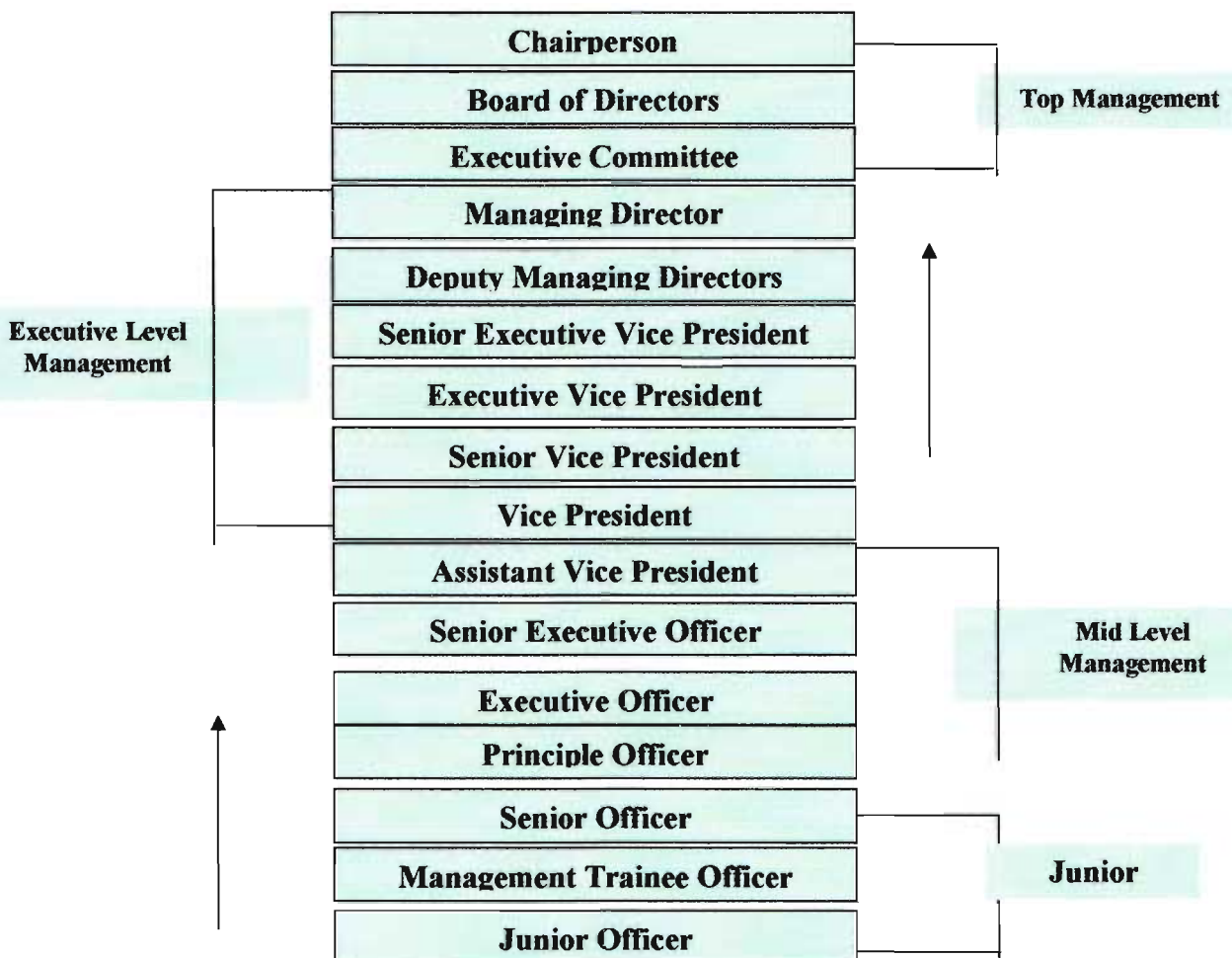
In million taka

Particulars	2000	2001	2002	2003	2004	2005	2006
Paid Up Capital	430.27	430.27	430.27	430.27	516.33	619.59	805.47
Reserve	1126.21	1142.48	1198.70	1270.63	1345.99	2115.03	2468.79
Deposit	23616.28	24896.64	26276.26	27762.12	28973.39	32984.05	40350.87
Loans & Advances	18553.36	20200.64	21677.96	22257.15	22640.44	27020.21	32709.68
Investment	2626.62	2891.97	3839.60	4044.20	4374/17	3564.82	5730.38
Export	21670.80	22071.00	17771.00	16341.80	17105.30	21344.10	28019.20
Import	22420.04	20773.20	19245.70	19264.50	22028.30	32648.20	42458.50
Remittance	4662.10	4979.80	6458.10	7637.50	9035.50	13618.20	21311.10
Total Earnings	2988.90	3288.00	3343.55	3622.31	3715.21	4202.52	5728.82
Total Expenditure	2064.75	2271.36	2473.23	2677.22	2980.06	3351.19	4582.04
Net Profit before tax	333.75	400.64	250.32	336.09	735.15	581.13	1058.73
Net profit after tax	228.62	274.44	146.19	88.12	170.02	271.67	507.49
Fixed Assets	485.64	797.81	878.46	889.61	895.35	1431.23	1627.29
Total Assets	47148.08	48732.10	45719.10	47929.57	48024.96	55046.14	66533.80
Loan to Deposit ratio	74.62%	79.02%	82.50%	80.17%	79.83%	81.92%	81.06%
Return on Assets	2.49%	2.31%	2.58%	2.61%	2.09%	2.22%	2.50%
Capital Adequacy Ratio	10.23%	10.43%	10.90%	11.13%	10.55%	10.45%	10.10%
Earning per Share	53.13	63.38	33.98	17.07	32.93	43.85	63.01
Book Value per share	361.74	365.52	378.59	395.31	360.68	441.36	410.37
Market Value Per Share	212.00	287.28	238.86	226.61	475.25	746.50	760.50
Dividend	30%	30%	20%	20%	20%	30%	50%
Branch network	66	75	76	76	76	76	91
No. of Employees	2025	2073	2171	2185	2133	2183	2270
No. of Shareholders	8960	9052	9521	9276	9491	9564	10240
Foreign Correspondences	326	328	358	358	410	391	400

## 2.6 Management Structure of NBL

From top to bottom management body of the bank can be divided into 4 parts:

- Top Level Management
- Executive Level Management
- Mid Level Management
- Junior Level



## 2.7 Products & Services of NBL

### 2.7.1 Consumer Credit Scheme:

National Bank's Consumer Credit Scheme gives great opportunity to buy household and office items on easy installments. Television, Refrigerator, VCR, Personal Computer, Photo-Copier, Washing Machine, Furniture, Microwave Oven, Car, and a number of other expensive items are now within your buying range. With this scheme NBL makes better living possible for people living on fixed income. Customers can buy those home and office equipment's without over taxing their budget.

### 2.7.2 Special Deposit Scheme:

For most of the people on fixed income the opportunity to supplement their monthly earning is a golden one. And NBL Special Deposit Scheme gives a customer just that.

Under this scheme, customers can deposit, money for a term of 5 years. The deposited money is fully refundable at the expiry of the term. At the same time, during the term period they can enjoy a monthly profit corresponding to their deposited amount. As for instance, under this scheme a deposit of Tk,55,000/- gives a monthly income of Tk.500/-.

**Table 2: Special Deposit Scheme and Benefits**

Deposited Amount	Monthly Benefits
Tk. 55,000/-	Tk. 500/-
Tk. 1,10,000/-	Tk. 1,000/-
Tk. 1,65,000/-	Tk. 1,500/-
Tk. 2,20,000/-	Tk. 2,000/-

### 2.7.3 Monthly Savings Scheme:

This scheme is specially designed for the benefit of the limited income group members. This helps to accrue small monthly savings into a significant sum at the end of the term. A monthly deposit of Tk.500/- or Tk.1000/- for 5 or 10 years period earns in the end Tk.40,100/- or Tk.2,24,500/- respectively.

**Table 3: Monthly Deposit and Return**

Monthly Instalment	Return after 5 years	Return after 10 years
Tk. 500/-	Tk. 40,100/-	Tk. 1,12,500/-
Tk. 1,000/-	Tk. 80,100/-	Tk. 2,24,500/-

### 2.7.4 Credit Card:



Through its Credit Card, National Bank Limited has not only initiated a new scheme but also brought a new life style concept in Bangladesh. Now the dangers and the worries of carrying cash money are memories of the past.

### 2.7.5 NBL ATM Service:

National Bank Limited has introduced ATM service to its Customers. The card will enable to save customers from any kind of predicament in emergency situation and time consuming formalities. NBL ATM Card will give distinguished Clients the opportunity to withdraw cash at any time, even in holidays, 24 hours a day, 7 days a week.

### 2.7.6 Western Union Money Transfer:

Joining with the world's largest money transfer service "Western Union", NBL has introduced Bangladesh to the faster track of money remittance. Now money transfer between Bangladesh and any other part of the globe is safer and faster than ever before.



Through NBL - Western Union Money Transfer Service, money reaches its destination within a few minutes.

## 2.7.8 Saving Insurance Scheme:

This NBL scheme gives family protection against the insecurities of the world. This scheme is the first of its kind in Bangladesh. It combines the benefits of regular savings and insurance scheme. Under this scheme, beneficiaries get equal the deposit in case of natural death of the account holder whereas in the event of accidental death of the account holder the beneficiaries will receive twice the deposit. As for example, if a customer picks up Easy Class (Tk.50,000/-) he/she will get Tk.50,000/- for natural death and Tk.1,00,000/- for accidental death apart from his/her deposited amount and interest.

**Table 4: Saving Insurance Scheme**

<b>Class</b>	<b>Deposit</b>	<b>Normal Death Benefit (Including Own Deposit)</b>	<b>Accidental Death Benefit (Including Own Deposit)</b>
Easy	50,000/-	1,00,000/-	1,50,000/-
Convenient	1,00,000/-	2,00,000/-	3,00,000/-
Classic	2,00,000/-	4,00,000/-	6,00,000/-
Standard	5,00,000/-	10,00,000/-	15,00,000/-

## 2.7.9 Other Loan Products:

<b>Overdrafts</b>	<b>Payment against documents</b>
<b>Cash Credits</b>	<b>Industrial loan</b>
<b>SOD (General)</b>	<b>Working Capital Loan</b>
<b>SOD (Financial Obligation)</b>	<b>NBL Small Business Loan</b>
<b>Housing Loan</b>	<b>Festival Small Business Loan</b>
<b>Loan against trust receipts</b>	<b>Import/ Export financing</b>



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## **CHAPTER 3**

### **SME Financing of National Bank Limited**



## 3.1 Defining SME & SME Financing

There is no universally accepted definition of SME (Small & Medium Enterprise); in fact it is not possible. Because it depends not only on investment level and number of workers but also on technologies and technical complexities of production, degrees of skills demanded from workers and managers, end use of products and so on, which varies from country to country.

### 3.1.1 Different SME Definitions

The World Bank defines SME in Bangladesh as any working entity or business employing *five persons* or less

The industrial Policy 1999 (IP- 1999) defines “**Small Industries**” as “industrial enterprises employing less than *50 workers* and/or having a fixed capital investment of less than Tk. 100 million.”

Industrial Policy 1999 also defines “**Medium Industry**” as enterprises employing between *50 and 99 workers* and/or having a fixed capital investment between Tk. 100 and 300 million.

Though SME financing is a new concept in our country, banks now are segregating SME sector for loan sanctioning purpose.

Banks define SME as per some criteria. If business fall under these certain characteristics, they are called Small & Medium enterprises. Definitions following these criteria are given in the next page:

**Small Enterprise means an entity, ideally not a public limited company which follows –**

**Table 5: Category of Small Enterprise Business**

Type of Business	Total Asset	Total No. of Employees
Service	At cost excluding land & building from tk. 50,000 to tk.30 lac.	Less than 30 persons.
Trading	At cost excluding land & building from tk. 50,000 to tk.50 lac.	Less than 20 persons.
Manufacturing	At cost excluding land & building from tk. 50,000 to tk.1 crore.	Less than 60 persons.

**Medium Enterprise means an entity, ideally not a public limited company which follows –**

**Table 6: Category of Medium Enterprise Business**

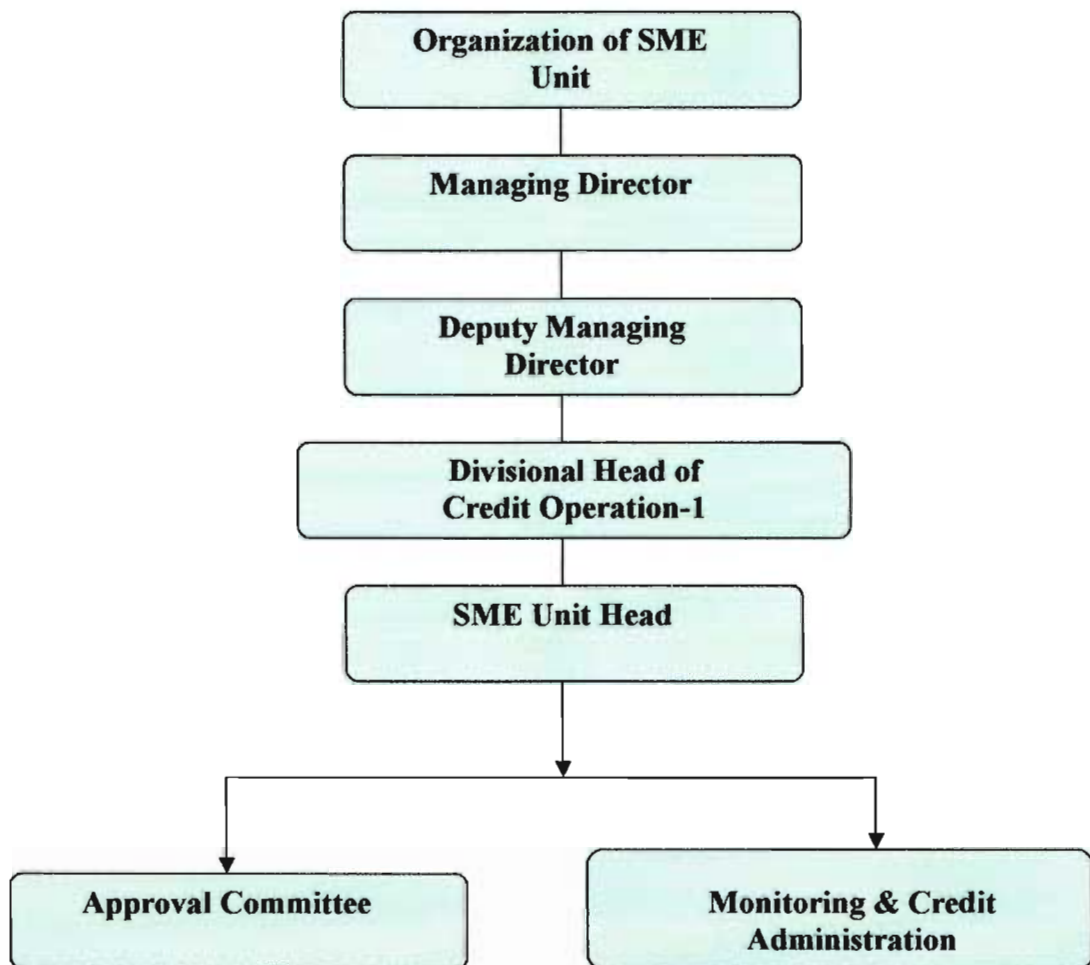
Type of Business	Total Asset	Total No. of Employees
Service	Above 30 lac to 1 crore excluding land & building.	Less than 50 persons.
Trading	Above 50 lac to 2 crore excluding land & building.	Less than 50 persons.
Manufacturing	Above 1 crore to 5 crore excluding land & building.	Less than 100 persons.

### 3.1.2 SME Financing

SME Financing indicates providing various loan and other facilities to the SMEs by the banks. Small & Medium Enterprise loan is kind of corporate loan, mostly needed for developing countries like ours. In simple words, following general criteria for eligible to get SME loan, banks provide loan facilities to SMEs in their own limits and procedures is called SME Financing.



### 3.2 NBL SME Units



Regional managers are the head of SME division for other branches than head office.

### 3.3 SME Financing Areas of NBL

Any business fallen within any of these categories:

- Manufacturing
- Trading
- Service

Existing and prospective areas of NBL SME Banking generally are in the following businesses:

**(i) Manufacturing:**

- Packaging
- Flour Mills
- Suppliers to MNC / LLC
- Printing & publishing
- Garments accessories
- Furniture Pharmaceuticals

**(ii) Trading:**

- Distributors of Multinational Company (MNC) / Large local Corporate (LLC), Supplier of MNC / LLC.
- Importer of food & grain, dyes & chemicals, milk powder, motor parts, bicycle parts, motor car, electrical and electronic goods, hardware & machinery, poultry feed, garments accessories, construction materials, water pump and generator, cotton yarn, seed distributor, steel sheet, edible oil and crude oil.
- Retailer of readymade garments and boutiques
- Restaurant & fast food
- Super market
- Stationary items
- Furniture & wood seller
- Drug & medicine seller

**(iii) Services:**

- Educational institute
- Grocery
- Laundry
- Advertisement firm
- Shipping agents
- Transport / container mover
- Clearing & forwarding agent
- Gas stations
- Real estate companies
- Contractors
- Non profit organization
- Clubs



## 3.4 SME Loan Products of NBL

Banking products are introduced for convenient banking by the clients. As per demand of these years, banks have started Small & Medium Enterprise loans for businessmen. National Bank Limited as a promising private commercial bank in our country also has opened SME loan section very recently. As SME loans are given considering some specific criteria, some existing loan facilities are brought under SME loan section. Some other loan products are to be started very soon and some are opened.

So, SME loan products of NBL are divided into three categories. They are:

### 3.4.1 Existing Loan Products

#### 3.4.1.1 SME Deposit Accounts:

##### Current Account

Transactional account with chequebook and debit card facilities, along with Online and internet banking.

### **Short Term Deposit (STD) Account**

Interest bearing account that can be linked to the current account to combine the facilities of both accounts.

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### **Fixed Deposit (FD)**

High interest bearing time deposit that has to be kept with the bank for a time period to earn the interest.

### **3.4.1.2 Lending Products:**

#### **Overdraft/Cash Credit**

Fully secured line of credit with a tenor of 12 months and can be renewed on maturity.

#### **Demand Loan**

Loan for financing inventory procured locally or financing duty/tax against hypothecation of inventory and book debts.

#### **Time Loan (Work Order Financing)**

Loan for short term need against work order from reliable benefactor.

#### **Term Loan**

Long term loan to finance fixed asset against hypothecation of the fixed asset.

### **3.4.1.3 Import/Export banking services:**

#### **Letter of Credit**

Financing of import of goods against title of the documents or sales.

#### **Import Loan**

Financing of imported merchandise against hypothecation or pledge of inventory or book debts.

#### **Guarantee**

Bid bond, performance guarantee, and payment guarantee for contractual obligation.

#### **Local Bill Purchase**

Purchase or discount of local usance L/C with upfront realization of interest.

#### **Foreign Bill Purchase**

Cash against documents or negotiation of export document against sight.



**Most important loan facilities by National Bank Limited are:**

-3

**Table7: Most important loan facilities by National Bank Limited**

<b>Name</b>	<b>Description</b>	<b>Purpose</b>	<b>Risk/Repayment</b>	<b>Tenor/Validity</b>
<b>SOD</b>	Secured Overdraft	General Purpose	-100% cash covered -No Credit Risk -Ever Green	12 months
<b>CC Hypo</b>	Cash Credit Against Hypothecation of inventory Debts	- To finance Inventory - Other business operations - General purpose	- Recourse on pledged Inventory - Ever green	- 12 months It can be renewed by bank on applied request of the customer.
<b>SOD general</b>	Secured Overdraft against work order.	-General Purpose -To finance business operation as per work permit	Bills are paid through bank's account and the power of attorney is given to the bank for the work order.	12 months
<b>SOD financial obligation</b>	Line of credit	General Purpose	Secured	12 months Can be renewed
<b>LC</b>	Letter Credit of	To finance import of goods on behalf of the client as per the specified contract.	100% or more security/Cash Margin.	3 to 6 months

**Table 8: CREDIT PRODUCTS AT A GLANCE**

NAME	DESCRIPTION	PURPOSE	RISK / REPAYMENT	TENOR / VALIDITY
PAD	- Payment Against Document	- Advance against Sight L/C - Forced Loan	- Recourse on title to Import document	- 21 days per Bangladesh Bank
LTR	- Loan Against Trust Receipt	- To finance import L/Cs	- Recourse on Sales - Clean finance	- 180 days
CC (HYPO)	- Cash Credit Against Hypothecation of inventory Debts	- To finance Inventory - Other business operations - General purpose	- Recourse on pledged Inventory - Ever green	- 12 months
CC (PLEDGE)	- Cash Credit Against Pledge of Inventory and Hypothecation of Book Debts	- To finance pledged Inventory	- Recourse on pledged Inventory - High monitoring risk - Ever green	- 12 months
ACCEPTANCE	- Acceptance against ULC	-To finance assets thru Banker's Acceptance	- Resourse on sales	- 12 months
OAP	- Own Acceptance Purchase	- To refinance Bank's Acceptance - Forced Loan	- No recourse - Clean finance - Ever green	- 12 months
LBPD	- Local Bill Purchased Documentary	-To purchase/discount against Local usance L/C -Upfront interest to be realized	- Recourse on Banks thru acceptance - Residual on client	- 180 days
FBPD	- Foreign Bill Purchased Documentary	-To purchase/discount/negotiate export doc. against Sight/Usance Export L/C -Upfront interest to be realized (diff. in FX rate)	- Recourse on Banks - Residual on client	- 45/180 days
LAFB (CLEAN)	- Loan Against Foreign Bill Clean	- To finance Export Contract	- Clean finance -Performance risk	- 120 days
LAFBD	- Loan Against Foreign Bill Documentary	- To finance export doc. against Export Contract Sight/Usance	- Recourse on export doc - Payment risk	- 45/180 days
SLC	- Sight Letter of Credit	- For importation	- Resourse on title to import document	- 12 months
ULC	- Usance Letter of Credit	- For importation	- Recourse on sales	- 12 months
LG	- Letter of Guarantee -BB/PG/APG/RB/Pay. Gtee	- For Contractual Obligations	- Performance risk -Ever green	- Specific Period - Open ended

SOD	- Secured Overdraft	- General Purpose	- 100% cash covered - No Credit Risk - Ever Green	- 12 months
OD	- Overdraft Against Other Collateral	- General Purpose	- High Credit Risk -Recourse on Sales - Ever Green	- 12 months
Import Loan (Hypo)	- Import Loan Against Hypothecation of Inventory and Book-Debts	- To finance Import L/C or against contract	- Recourse on Sales	- 180 days
Import Loan (Pledge)	- Import Loan Against Imported Merchandise pledged and Hypothecation of Book Debts	- To finance imported merchandise under pledge	- Recourse on pledged inventory - High monitoring risk	- 180 days
Demand Loan (Pledge)	- Demand Loan Against Pledged Inventory procured locally and Hypothecation of Book Debts	- To finance Inventory procured locally under pledge	- Recourse on pledge Inventory - High monitoring risk	- 180 days
Time Loan	- Time Loan against Other Security/Collateral/Support	- To finance fixed/other asset	- Recourse on Sales -Collateralise by fixed/other assets	- 12 months
Term Loan	- Term Loan against fixed assets	- To finance fixed asset	- Recourse on fixed asset -High risk	- Over 12 months - Max 7 years
PC	- Packing Credit against Export L/C & Export Order	- To finance Export L/C - Pre-shipment Finance	- Performance risk - Lien on Export L/C	- 180 days
BCP (Foreign)	- Bankers Cheque Purchase (Foreign)	- To purchase/discount foreign currency Drafts/Payment Order - Upfront interest to be realized (diff. in FX rate)	- Recourse on Banks - Residual on client	- 30 days
BCP (Local)	- Bankers Cheque Purchase (Local)	- To purchase/discount Bank Draft and Pay Order - Upfront interest to be realized	- Recourse on Banks - Residual on client	- 30 days
Fwd FX	- Forward Contract	- Cover exchange risk against Letters of Credit	- Performance risk	- 180/360 days

### 3.4.2 Newly Opened Loan Products

These loan products are designed to meet particularly the demand for small businessmen. In our country, 14 SME sectors are now covered by SME financing facilities by banks. National Bank Limited has started sanctioning loans to these sectors defined as SME.

**There are two loan products in this category:**

**NBL Small Business Loan  
NBL Festival Small Business Loan**

**Table 9: Features of these two loan Products**

Features	NBL Small Business Loan	NBL Festival Small Business Loan
Type of Business	Small Entrepreneurs	Small Entrepreneurs
Loan Amount	Up to 5 lacs	Up to 3 lacs
Tenure	5 years	3 months
Type of Loan	To establish or to run the existing business	Mainly Working capital Loan
Collateral	Without Collateral	Without Collateral
Security	Documents & Personal Guarantee	Personal Guarantee
Interest Rate	16% fixed	16% fixed
Repayment	Monthly Equal Repayment	Within specific time period at any installment.
Time to sanction	Anytime in a year	Only in the time of EID and Durgapuja

### 3.4.3 Upcoming Loan Products

**Table 10: Upcoming Loan Product**

Working Capital Loan	To run the business smoothly without interruption for unavailability of working capital.
Package Loan	To establish a SME and to run it primarily including import L/C facility.
Women entrepreneur Loan	Specifically for women entrepreneurs to establish and run their small businesses in easy terms.

## 3.5 NBL SME Financing Considerations & Procedures

SME financing is done by following some specific procedures and considers some specific criterion to be fulfilled. SME financing considerations and detailed procedures are given here below:

### 3.5.1 SME Financing Considerations

#### 3.5.1.1 Customer Qualification:

Any business fallen within any of these categories:

**Manufacturing**  **Trading**  **Service**

Experience required:

A businessman should have at least 2 years of business experience with proven track record.

The most important securities NBL looks at are:

- Business performance
- Industry reputation
- Experience

### **3.5.1.2 Rates and Fees:**

NBL SME interest rates are fixed and are applied to all SME business. Generally it is 16%. Charges and commissions are applicable as per schedule of charges by different products.

### **3.5.1.3 Collateral & Security:**

**Security is of two types:**

Primary Security – 50% Margin

Secondary Security – Collateral valued double of loan amount.

**Forms of Security are:**

- Hypothecation of Common Stock
- Cash in form of fixed deposit
- First party registered mortgage
- Third party registered mortgage
- Personal guarantee from third party acceptable to the bank.
- Personal guarantee from spouse or other family members and in case of unmarried borrower, guarantee will be obtained from parents
- Simple deposit of - *Possession Deed, Title Deed*
- Hypothecation of goods and book debts
- Post dated cheque of each installment
- Pledge of inventory
- One Undated cheque covering full amount of installments which is considered as Future Risk Covering instrument
- Hypothecation of machinery and equipment

### **3.5.1.4 Required Documents from the Customer:**

NBL SME division wants the following documents from the customer depending on customer's business and his/her proposed facilities.

- Letter of acceptance from the borrower

- Valid Trade License
- Demand promissory note (DP)
- Letter of disbursement
- Letter of hypothecation
- Letter of guarantee
- Undertaking from the borrower to pay loan in stipulated time
- Letter of authorization to debit the account when the loan money is credited
- Collateral Security
- Declaration from the RM or manager
- Articles of Association and memorandum
- Total investment details
- Product details
- Sales and marketing plan (details of main buyers)
- Details of imported items and main suppliers
- CIB undertaking of all directors
- Management details
- Bank account statements for the past one year
- Details of Master LCs & BB LCs for the past one year

### **3.5.1.5 Supplementary Requirements from SME Borrower:**

1. Last Three (3) years Income Statement and Balance Sheets
2. Statement of Household Income and Expenses
3. Last Three (3) months Credit Card Statements or Utility Bills Statements and corresponding payment receipts

Besides these main requirements NBL SME division can demand additional documents from the customer. In case of valued or regular customer the requirements can be relaxed.

### **3.5.1.6 Loan Sanctioning under following considerations:**

- ☑ Nature of limit
- ☑ Purpose of limit
- ☑ Amount of limit
- ☑ Rate of interest
- ☑ Percentage of Margin
- ☑ Mode of Repayment
- ☑ Mode of disbursement
- ☑ Expiry Date
- ☑ Security (Primary & collateral)
- ☑ Assessment of working capital
- ☑ Name and address of beneficiary
- ☑ Particulars of work order
- ☑ Percentage of finance required against work order value-govt. and other deductions

### **3.5.1.7 Other Conditions:**

- Excess over Limit/DP is strictly prohibited.
- Bank reserves the right to alter or amend any clause of the limit or cancel the same at any time without showing any cause.
- All formalities including documentations shall be completed before disbursement.
- Fortnightly stock report in bank's specimen to be submitted regularly. one responsible officer shall inspect the stock at least once in a month.
- The borrower will intimate the bank about any change of address within 24 hours of the actual 24 hours of the actual change.



### 3.5.2 SME Financing Procedures

SME financing procedures are as systematic as other financing procedures of the bank. To get SME financing facility from National Bank Limited, proceeding starts from pre-operation to approval. So, SME financing procedures are divided in to two parts. They are:

#### *Pre-Operation*

- Product Program Guidelines (PPGs) of SME has been prepared by the SME unit of the bank and presented to the Board of Directors.
- Presented PPGs are examined and duly accepted by the Board of Directors.
- To start and apply the SME products in financing step, a Data base/Management Information system is prepared.
- The data base system is prepared in a way that it can fulfill Monitoring, Supervision, Recovery, Credit administration purposes.
- SME financing modes, Application form, Approval criteria, Limits and renewal procedures are being fixed by SME unit and approved by due authority.

#### *Operation*

- Application in prescribed form served by NBL is received by the branch from SME client.
- SME loan proposal first gets recommendation from branch credit committee.
- SME loan proposal will be then presented and approved by the branch manager if it is within his delegated business power.
- If the proposal is beyond power of the branch manager: The proposal is prepared, analyzed, scrutinized and portfolio risk is assessed and if the fund risk is acceptable, the proposal is sent to the Regional office along with Branch manager's recommendations (where regional office is available). Otherwise it is sent to the head office directly.

- On receipt of the proposal from branch, the regional office verified and analyzed the proposal.
- If the credit unit is satisfied about the proposal, it is placed to the credit committee and the Regional Head approve it after obtaining recommendation from credit committee if it is within his power.
- If the proposal beyond the power of both Branch and regional office, the proposal will be forwarded to Head Office, SME unit.

**Application Form requires information are given below:**

- Name of the account
- Address of business office
- Account number and date of opening
- Deposit/Allied deposits with NBL
- First sanctioning information
- Constitution/Legal status
- Date of incorporation
- Capital structure including authorized and paid-up capital
- TIN, IRC
- Nature of business
- Investment in business (for individual & firm)
- Calculated business net-worth
- Area of operation
- Names of 5 suppliers
- Sales/Profitability for last 3 years
- Names of 5 large competitors
- Name of individual borrower or director
- Management of the company

- Details of Fixed & Floating Assets of the company
- Particulars of the guarantor
- Existing liability position of the client with the branch of NBL
- Particulars of proposed facility
- Liability position of allied concerns with NBL
- Liability position of allied concerns with other banks
- Total credit of the client/allied concern group with NBL
- Turnover in the account during last year
- Justification of requirement
- For advance against FDR/Share/MSS/Work order/Supply order
- Industry information includes Cost of the project, Details of machinery, Source of project finance and Production details.
- Assessment of working capital requirement
- Import performance of the client with NBL or other banks
- Export performance of the client with NBL or other banks
- Earning from the client/allied accounts during last 3 years
- Declaration in terms of all particulars and information given by the applicant to the Bank stated that those are all true and bank can verify any of those anytime.
- Last of all the application form is signed by the applicant.

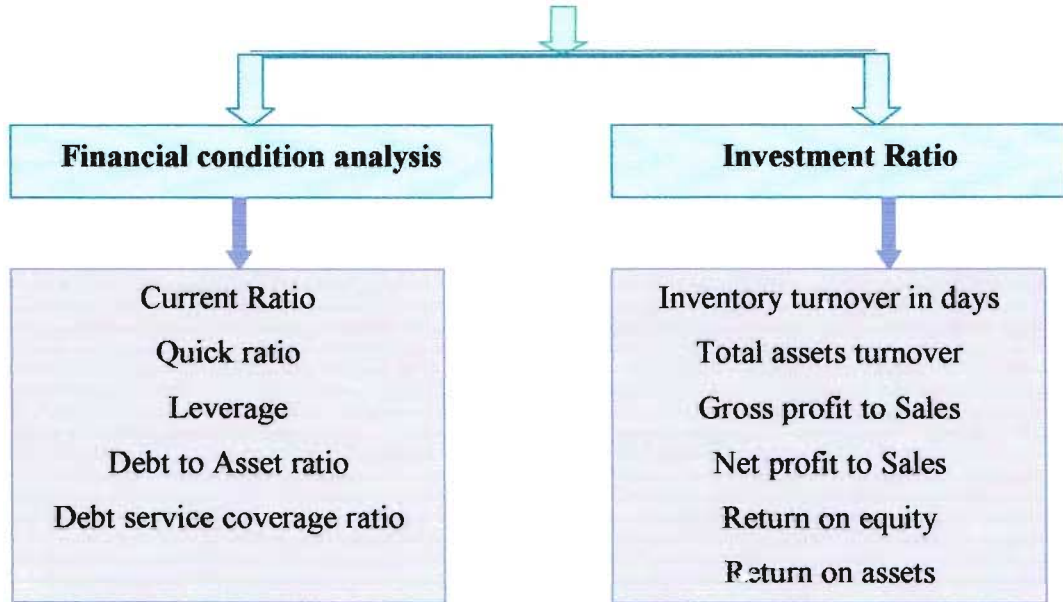
Then comes turn to approve the application. Bank has its own approval form which includes details of proposed limit, particulars of client and guarantor, client's existing liability position and earning positions along with any adverse comment from last inspection/audit report and financial documents.

**Important financial documents required to assess risk involved in approval credit are given in the next page:**

**Financial Statement of the customer for the last 3 years**

**Cash-flow from operating activities**

**Ratio analysis**



**Working Capital assessment**

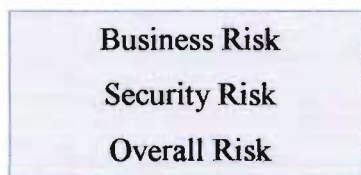
**Credit rating**

**Contact point verification**

**Comments on Financial Statement**

**Comment on Cash flow**

**Lending risk analysis**



**Future Business Projection**

**Branch comments and recommendations**

**Declaration**

**Loan Monitoring and Recovery:**

Loan is continuously monitored by RMs. Due amount is recovered according to the tenor of the facilities. RM is responsible for recovering the amount after 180 days of expiry of the facilities. If the loan is not recovered after the 180 days of the maturity, a special recovery team handles it. To monitor the loan, banks fill up CIB form designed by Bangladesh Bank containing all related information of the loan applicant.


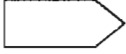
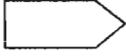




And depending on loan recovery position of outstanding loans, loan classification and provisioning are done which helps in loan monitoring and recovery decision making.

**Table 11: Loan Classification and provisioning by NBL**

<b>Loan Classification</b>	<b>Criteria</b>
<b>Superior</b>	<b>Fully secured by cash equivalent Government guarantee</b>
<b>Good</b>	<b>Fully secured by collateral other than cash collateral</b>
<b>Acceptable</b>	<b>When interest or principle amount is overdue for 1-59 days or more</b>
<b>Marginal</b>	<b>When interest or principle amount is overdue for 60-89 days or more</b>
<b>Special mention account</b>	<b>When interest or principle amount is overdue for 90-179 days or more</b>
<b>Sub-standard</b>	<b>When interest or principle amount is overdue for 180 days or more</b>
<b>Doubtful</b>	<b>When interest or principle amount is overdue for more than 12 months</b>
<b>Bad debt</b>	<b>When interest or principle amount is overdue for more than 2 years</b>

**Provisioning:**

For SME financing, National Bank Limited keep provision – ↷

Superior		at the rate of 2% of outstanding amount
Good		at the rate of 2% of outstanding amount
Acceptable		at the rate of 2% of outstanding amount
Marginal		at the rate of 2% of outstanding amount
Special Mention		
Account		at the rate of 5% of outstanding amount
Doubtful		at the rate of 50% of outstanding amount
Bad debt		at the rate of 100% of outstanding amount

**To recover these classified loans, NBL takes following actions:**

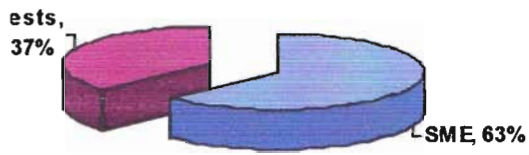
- Send letter of reminder to the borrower
- Discussion and meeting in branches for recovery decision making
- Takeover and sale collateral securities of the borrower
- Law suits against the defaulter
- Approval from the head office



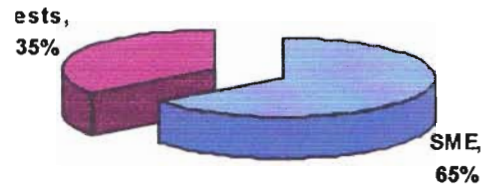
### 3.6 NBL SME Financing Evaluation 2000-2006

**Table 12: NBL SME banking at a glance for 2006 2005 2004 2003:**

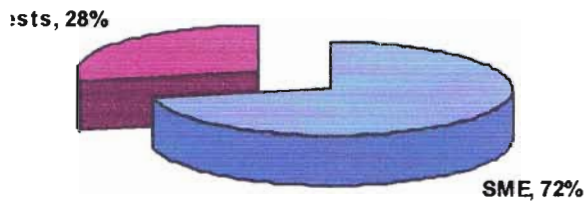
Indicators	Measure	As of Dec 31, 2006	As of Dec 31, 2005	As of Dec 31, 2004	As of Dec 31, 2003
Overall NBL portfolio	NBL lending portfolio value	32,709,675,950	27,020,205,114	22,840,436,542	22,257,153,235
	Number of clients	5,724	3,816	3,295	3,011
Number of SME borrower -by loan size	Taka 0.1 million to 1 million	1,950	1,250	1,745	1,554
	Taka 1 million to 10 million	875	325	528	437
	Taka 10 million to 100 million	15	10	10	8
	<b>Total Number of Borrower of SME</b>	<b>2840</b>	<b>1585</b>	<b>2283</b>	<b>1999</b>
	<b>SME Clients as % of NBL Clients</b>	<b>50%</b>	<b>42%</b>	<b>69%</b>	<b>66%</b>
Present SME portfolio – by loan type	Overdrafts	5,054,197,340	5,728,123,500	6,392,862,102	7,534,765,976
	Cash Credit	8,144,065,783	7,180,324,410	6,094,507,170	5,469,576,692
	Term loans	6,816,392,984	4,776,296,724	3,868,235,275	4,171,166,233
	Small Business loan	520,000,000	.....	.....	.....
	<b>Total Portfolio Size of SME</b>	<b>20,634,656,107</b>	<b>17,684,744,634</b>	<b>16,355,604,547</b>	<b>17,175,508,901</b>
Portfolio profitability	<b>SME Portfolio as % of NBL Portfolio</b>	<b>63%</b>	<b>65%</b>	<b>72%</b>	<b>77%</b>
	Weighted average lending rate on SME portfolio	16%	16%	16%	16%
	Overall weighted average cost of fund of NBL	7.46%	8.25%	8%	8.36%



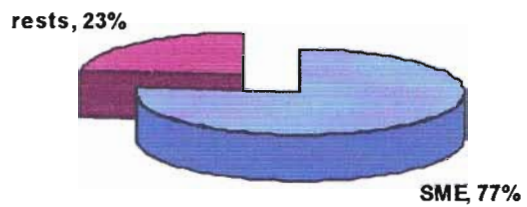
**Figure 1: SME Portfolio as % of NBL Portfolio 2003**



**Figure 2 : SME Portfolio as % of NBL Portfolio 2004**

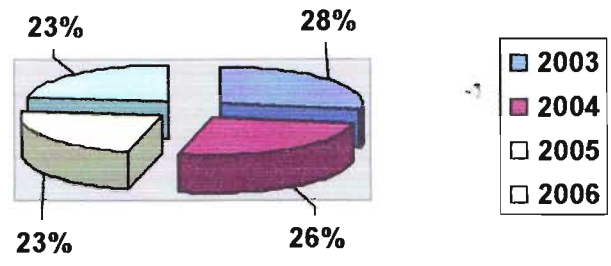


**Figure 3: SME Portfolio as % of NBL Portfolio 2005**



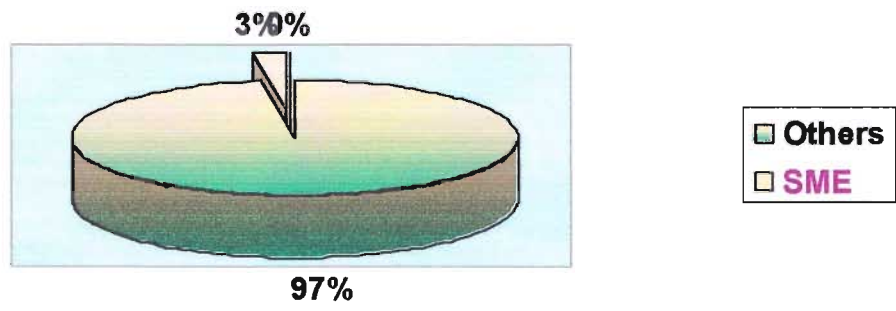
**Figure 4: SME Portfolio as % of NBL Portfolio 2006**





**Figure 5: SME portfolio size 2003-2006**

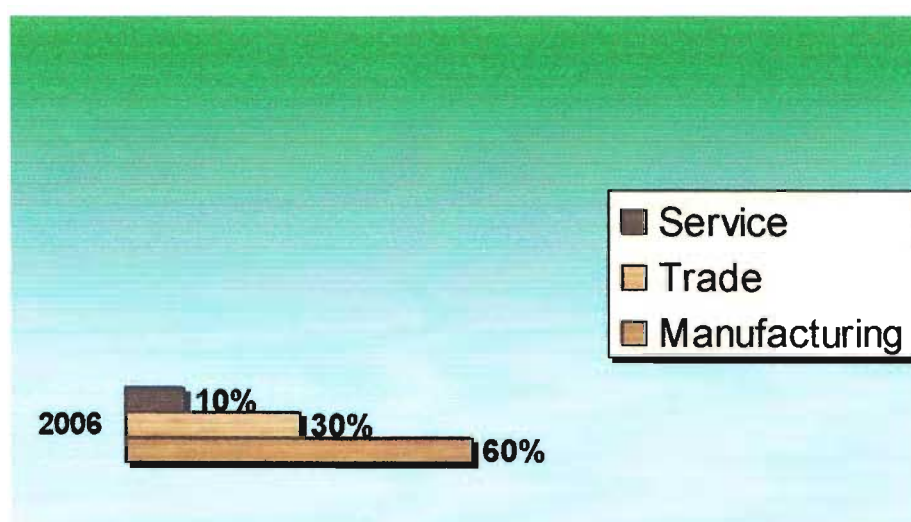
From the above table and graph it is found that SME portfolio from 2003 to 2004 drops down the percentage. This is because, SME portfolio contained general credits before 2006 and from 2006, SME loans are considered as different financing category by National Bank Limited. And it is decided that from the year 2007, SME financing category will just include SME loans, not other general credits like SOD, CC hypo etc. If we consider only SME loan in contrast with loan portfolio including overdrafts, cash credit and general credit, the following picture comes out:



**Figure 6: SME portfolio (small business loan) size in relation to other loans for Year 2006**

**Table 13: In year 2006, SME loans are disbursed in to three sectors in percentages:**

Sector	Percentage	Amount
Manufacturing	60%	312,000,000
Trade	30%	156,000,000
Service	10%	52,000,000

**Figure 7: Percentage of disbursement in SME sectors**

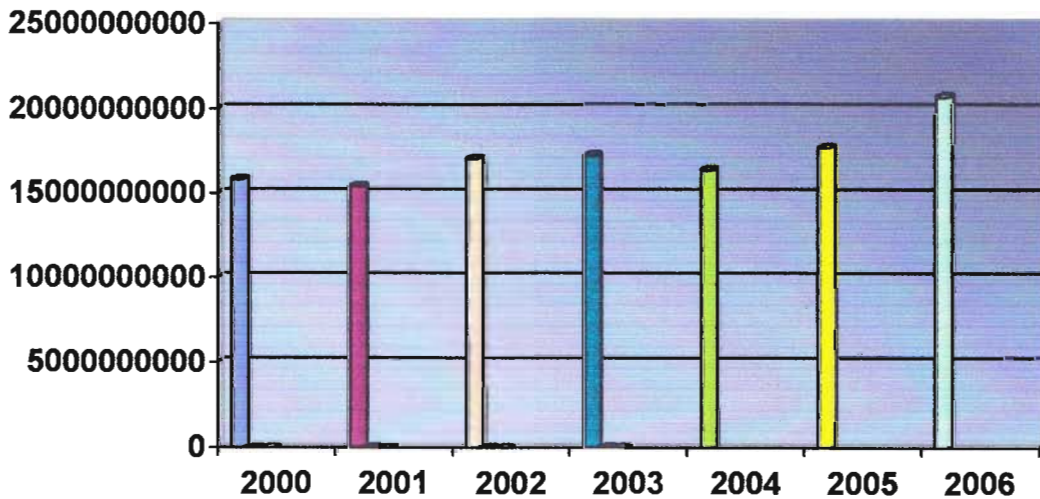
In SME financing, National Bank gives manufacturing sector priority as risk weighted return in this sector is high. Trading sector gets moderate priority and the least priority is given in service sector as this sector is generally small establishments and earns comparatively low and inconsistently.

Loan disbursement in SME sector is segregated from total loan disbursement for last 7 years by National Bank Limited which has shown the disbursement practice of NBL in SME sector.

**Table 14: disbursement loan of NBL in Sme Sector**

Year	2006	2005	2004	2003	2002	2001	2000
loans	20,634,656,107	17,684,744,634	16,355,604,547	17,175,508,901	17,015,324,233	15,365,528,301	15,813,267,412

Though SME loan disbursement in contrast with total lending shows fluctuations and only SME loan disbursement also, from year 2003 to year 2006 it is growing consistently. But from this year SME disbursement will show very low ratio as SME sector is extracted from rests.



**Figure 8: SME Loan Disbursement of NBL for 2000-2006**

## 3.7 SME Financing Performance Comparison

### 3.7.1 Competitors of NBL SME Banking: -7

Following Financial Institutions are the major competitors of NBL SME Banking:

- Eastern Bank Limited
- BRAC Bank
- Dhaka Bank Limited
- Industrial Development and Leasing Company of Bangladesh Limited (IDLC)
- Southeast Bank Limited
- The City Bank Limited
- United Leasing Company Limited
- Eastern Bank Limited
- Standard Chartered
- HSBC
- Prime Bank

Among the above competitors BRAC Bank, Eastern Bank, Prime Bank, Dhaka Bank, HSBC and Standard Chartered Bank are the largest competitors of NBL SME Banking. BRAC Bank's SME Banking total portfolio size is BDT 900 Million (approx), Standard Chartered's total SME Banking portfolio is BDT 3000 Million (approx) and Eastern Bank's SME loan portfolio amounts approximately 90 crore taka.

To evaluate performance of SME financing by NBL is not an easy task as SME financing is a new part of their total financing portfolio. And the other competitor banks have already started SME financing as a different category of financing for last 2 years.

So, here performance evaluation and comparison with leading two national and foreign banks are done mainly in terms of loan products, characteristics and loan size in SME sectors.

**Table 15: Performance factor comparison of three bank**

Performance factor	National Bank Limited	Eastern Bank Limited <sup>3</sup>	Standard Chartered Bank
<b>Launching</b>	July, 2006	In early 2005	in 2004
<b>Area of Financing</b>	Only lending & Deposit	Deposit, Lending	Installment loan, SME Deposit & SME multi-product
<b>Products</b>	Term loans, Overdrafts, L/Cs, Cash credit, Small business loan.	Term loans, Overdrafts, L/Cs, Cash credit, Small business loan in sizes.	SME installment loan, Savings deposits, Letter of guarantees, Pay order, etc.
<b>Interest Rates</b>	Fixed 16%	Flexible between 14% to 16%	Variable rate
<b>Small business loan in 2006</b>	520,000,000	899,671,384	6,352,548,000



**Figure 9: SME Portfolio**

## **SWOT Analysis of NBL**

The SWOT analysis comprises of the organization's internal strength and weaknesses and external opportunities and threats. SWOT analysis gives an organization an insight of what they can do in future and how they can compete with their existing competitors.

### **STRENGTH**

- ❖ As the first hundred percent Bangladeshi owned Bank in the private sector. for more than 24 years in Bangladesh, NBL is known to bear the Banking Experience that provides it the strength of being one of the market leader in the private banking sector.
- ❖ NBL first took Western Union Money Supply facility in Bangladesh which is the fastest money supply organization.
- ❖ Credit card, Debit card facilities were first launched among the national financial institutions by NBL. NBL is also the issuer and acquirer of Master card & VISA card in our country.
- ❖ NBL has a bulk of qualified, experienced and dedicated human resources.
- ❖ NBL is the fastest growing bank that has expert marketing development department to design products as per customer demand time to time. For example, SME products are developed after long market research.

### **WEAKNESS**

- ❖ Banks, who is offering better prospects, now enjoys customers switching to them as NBL offers low deposit rates and has set the minimum balances too high.
- ❖ NBL is not fully computerized in services still now.
- ❖ NBL is starting to lose its market share to its rivals due to low barriers to entry, and the local banks' increasing aggressiveness
- ❖ Product variation is not up to the level as other leading banks.

- ❖ SME financing has been launched very recently whereas other national private banks have started to finance before 2 years.

## **OPPORTUNITIES**

- ❖ By offering more attractive interest rates, and lowering the minimum balances eligible for interest, the bank can attract a lot of the old customers who have strewn away to other banks as well as new customers.
- ❖ NBL has opened new 15 branches in year 2006 among those 10 are in rural areas. So the bank has good opportunity to increase its market share in rural credits.
- ❖ NBL has just started SME financing as a different category and in the first year NBL has disbursed 52 crore taka which is showing great opportunity of business growth.
- ❖ NBL has excellent track record in foreign exchange services and every year remittance flow is increasing by NBL.

## **THREATS**

- ❖ Increased competition by other private banks is a threat to NBL. At present EBL, DBL and PBL are posing significant threats to NBL regarding retail and business banking respectively. With customers shifting to these banks, NBL's profits, as well as market share is falling, and it faces the threat of being wiped out by competition.
- ❖ In today's economy, substantial amount of savings is remaining idle. Currently foreign direct investment in the country is very low. These economic situations of the country indicate political threats.
- ❖ NBL lacks Islami Banking while other private banks target market by launching Islami Banking.
- ❖ Threat exists not to keep pace with other competitors in today's fast changing market.

### 3.7.2 Problem of NBL SME Banking:

Though NBL SME Banking is offering better products and services, it has some internal problem. During my Internship period I have found the following problems:

- There is shortage of human resources in NBL SME Banking Division to handle all the proposals coming from 91 branches. It takes a lot of time.
- Unusual requirements from CRM make the approval process lengthy and customer dissatisfaction.
- There is no SME center or unit.
- There is no unique collection team for SME Banking.
- Inadequate logistic support.
- Though NBL has different training program, SME Banking Division need more extensive training program.
- Interest rate is fixed in 16%. Some valued customers demand for 13%.
- Poor record keeping system. It is not a “paperless” office.
- Numbers of SME products are insufficient to meet the huge demand for SME loans.





## SME FINANCING PROJECTS OF NATIONAL BANK LIMITED

বরেন্দ্র বহুমুখী উন্নয়ন কর্তৃপক্ষ এবং  
ন্যাশনাল ব্যাংক লিঃ এর যৌথ উদ্যোগে 'ক্ষুদ্র ঋণ প্রকল্প'

মাছ চাষে অর্থায়ন



গবাদি পশু পালনে অর্থায়ন

পোষ্টি পালনে অর্থায়ন



### ব্যাংকের অর্থায়নে কতিপয় প্রকল্প

অমৃত ওয়েল এচ  
কুড পোডাক্টস লিমিটেড



কর্পোরেশন  
সিএস, পিএস, সিএ

# CHAPTER 4

## SME Financing: Bangladesh perspective



## 4.1 SME in Bangladesh

Like many other developing countries, Bangladesh has utilized the traditional blunt approaches to rural development, such as the green revolution in agriculture, which was once thought to be capable of eradicating poverty through trickle-down effects on income and employment for the poor. In the 1960s industrialization was also thought to be able to absorb the surplus labor released from agriculture following capital-intensive technological innovations, which was also failed. The policy makers failed to realize that we should develop labor-intensive industries rather than capital-intensive industries because Bangladesh is a labor abundant but capital scarce country and SMEs have a natural comparative advantage. And it is widely claimed that relative to large capital-intensive industries, SMEs are more labor-intensive, that is they employ more labor relative to capital than large enterprises producing the similar products. Moreover, SMEs have high potential for employment generation; require much lower investment per worker compared to large industries.

Bangladesh Small and Cottage Industries Corporation (BSCIC) estimate shows that BDT 50,000 and BDT 5,000 are required per worker in small industries and cottage industries respectively compared to BDT 500,000 in large scale industries (BSCIC Annual Report, 1997-98). Though the economic significance of the SMEs in our national development efforts has been ritualistically recognized in all the Five Year Development Plan of both pre- and post-independent Bangladesh, the sector received very little attention in terms of allocations of public investments or operational policy formulation and institution building (Sarder, 1995). SCIs were declared a priority sector for the first time in the Third Five Year Plan (1985-1990) and a set of promotional measures was envisaged to be offered facilitating their development. After a long time, SME sector has been declared as a priority sector. In the Industrial Policy, 2004 and various measures have been initiated to help maximize the SMEs' growth potential. Moreover, special emphasis has given to this sector in the Interim Poverty Reduction Strategy Paper (I-PRSP) of Government of Bangladesh. Despite all these initiatives, the entrepreneurs in this sector face a number of problems from initial financing of their enterprises to marketing of their final products comparing with their larger counterparts.

### 4.1.1 Financing SMEs in Bangladesh:

It is a common understanding that SMEs in Bangladesh are being, to some extent, excluded from the targeted clientele of both the formal and semi-formal sectors. However, this is not a unique phenomenon particular to Bangladesh.

Most SME ventures in Bangladesh depend on personal savings, family or other informal credit sources. In recognition of this failure of the financial market, attempts have recently been made to cater to it. A few of the more established MFIs (Microfinance Institutions) are scaling up to tap this market. ASA was one of the first NGOs to introduce its Small Entrepreneur Development Program with a loan limit of Taka 30,000 (\$870) in 1992. Proshika commenced its Small Economic Enterprise Development Program in 1996 with loans as large as Taka 400,000 (\$6,700). Other MFIs such as Buro Tangail and TMSS also scaled up their microcredit operations. Brac scaled up chiefly to cater to the needs of its micro-finance graduates. Brac's credit programs include *Ummoti* (loans size \$166–\$833) and MELA (loans size \$580–\$5,800) along with the standard microfinance (loans size \$17–\$345). However, these scaling-ups by MFIs are not large enough to meet the fund requirements of the SMEs.

Keeping the view, some financial institutions are giving finance to SMEs. These are given below:

Arab Bangladesh Bank Limited

BRAC Bank

Dhaka Bank Limited

Industrial Development and Leasing Company of Bangladesh Limited (IDLC)

Southeast Bank Limited

The City Bank Limited

United Leasing Company Limited

Eastern Bank Limited

Standard Chartered

Prime Bank

HSBC

National Bank Limited

## 4.1.2 Growth rates of Financial Institutions of Bangladesh in SME:

**Table 16: Growth rate of financial institution of Bangladesh in SME**

Particulars	Dec 03	Dec 04	Dec 05	Dec 06	Growth
No. of SME Clients	9,428	9,775	10,112	12,245	188.7%
SME Portfolio( Taka Million)	45,785	48,956	78,234	1,093,245	81.4%
Loan Processing Cycle(Days)	26	23	25	27	-12.5%
SME Staff	144	370	756	2245	257.1%

In the financial sector reform program of Government of Bangladesh, increased financing for SMEs by banks is a major component. Bangladesh Bank, the central bank, has introduced \$16 million refinancing scheme to promote lending to SMEs by banks and financial institutions. According to Bangladesh Bank source, 9 banks have already signed an agreement to benefit from the SME fund facility. Three institutions: BRAC, MIDAS and Prime Bank are seen to absorb more than 70% of the disbursements. A \$30 million project of Government of Bangladesh and ADB, is also in progress. However, these initiatives are still quite inadequate. Moreover, being an overlooked market for long, there is lack of knowledge about the clients and their needs reflecting in absence of appropriate lending methodology.

The Bangladesh Bank recently starts Equity and Entrepreneurship Funding to encourage the entrepreneurs for investing in risk oriented but potential industry development financed by the government. No interest! The profit/Loss of the project will be distributed among the entrepreneur and EEE according to ratio of their investment. The project cost including the net working capital should be minimum Tk. 10 million (Ten Million) for software industry and Tk. 15 million (Fifteen million) for food processing and agriculture-based industry. If Bank loan is available: The minimum one of 33.33% of project cost or 49% of total equity will be considered as upper limit and the equity fund will be calculated based on that. If Bank loan is not available: maximum of 49% of the total project cost will be considered as equity fund.

**Equity facilities are available for:**

1. Software Industry
2. Food Processing and Agriculture-based industry

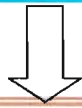


**AREAS & SECTORS of SME**

**Areas: SME**

**Sectors: SME**

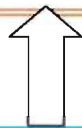
**Rural**



**Manufacturing**

**Trade**

**Service**



**Urban**

- Food & Allied
- Textile
- Jute prod & Allied
- Forest prod & Allied
- Paper, Board Printing
- Tannery & Rubber
- Chemical
- Glass & Ceramic
- Engineering
- Electrical & Electronics
- Service
- Miscellaneous Industries

## 4.2 SME Sector Overview

With the advent of the free trade regime under the WTO regulations, SME business in Bangladesh is poised at the threshold of an historic change. SME businesses will have to align to be more competitive in the new world order. Attached are brief notes on some of key sectors, which make the SME universe.

### 4.2.1 Pharmaceuticals:

There are over 240 registered pharmaceuticals manufacturers each having a number of suppliers who are typically SMEs. They supply the bigger companies with basic chemical ingredients, which go into the formulation process. The Bangladeshi pharmaceuticals are highly regulated with the government controlling the prices of a large number of bulk drugs & formulations. Uniformity in patent laws is being implemented under WTO regime. The WTO has decided upon a product patent life of 20 years in all countries unlike at present wherein all countries have different patent types & periods. Thus, Bangladesh will grant product patent protection from 2005 to all new chemical entities (NCE) i.e. bulk drugs developed thereon. The established local players will start to aggressively corner a larger part of the market before the entry of foreign players by launching new products & acquiring smaller players. This will lead to a consolidation in the fragmented market. Local companies can take up franchise, manufacturing & marketing for overseas. Joint ventures with MNCs in R & D may be entered to leverage on relatively low cost, efficient, skill base of trained pharmacists.

There may be hurdles as the production costs in Bangladesh are much higher due to high power tariff, transportation costs, taxes & others cost.

### 4.2.2 Garments & Textiles:

RMG is one of the most regulated sectors in the country with almost all activities reserved for the SSI industry. Non-SSI units can undertake the production of these items only after undertaking to export at least 70%. As per the Agreement on Textiles &



Clothing (ATC), the textile & garment sector will merge into the GATT in 2005. This will lead to phasing out of the bilateral quota restrictions & lead to two way access to textile products in the markets of both developing as well as developed countries. All member countries are obliged to remove all trade barriers including export subsidies.

Bangladesh already withdrawing to export subsidies in only after its per capita income reaches USD 1000. Even while the per capita income is below USD 1000, the export subsidy on the product that attains export competitiveness will have to phased out. The agreement on subsidies & countervailing measures (ASCM) prohibits the use of subsidies that have trade distorting effects. The insularity with which the Bangladesh garment industry has been functioning will be affected & all kinds of protection accorded to this sector is removed. It will have strident implications on factors like price, quality, productivity & competitiveness

### **4.2.3 Backward Linkage Industries:**

RMG sector are the main contributor of our economy. About 70% of the foreign exchange is coming from RMG. At present around 4500 garments are in Bangladesh. The growth of the RMG is fully related to the other accessories. Bangladesh need to be self reliance and reduce the import oriented by set up backward linkage industries. At present 60% of the total exported volume are utilized for import raw materials from abroad. The backward linkage industries are increasing every year to meet up the export market. Like Spinning, Textile, Dying, Button, Poly, Carton industries have got high demand in RMG sector. To meet up the demand in readymade garments the backward industries play major role. 90 % of the accessories supplier belongs from SSI.

### **4.2.4 Poultry & hatchery:**

Poultry & Feeds are one of the growing sectors for SSI. At present the turnover of the business in poultry sector are around 3000 crore. The poultry sector is meting up local demand. Around 5000 poultry are set up in the Bangladesh. The feeds are mainly imported. 30 % of the feed are produce in our country. The feeds are fully depending on

the cultivation land and seasons. The poultry sector booming with the massive change of using poultry chickens instead of local Chicken and Egg due to low price.

#### **4.2.5 Food processing:**

Since liberalization, a number of measures have been taken with regard to the food processing & agro industries. These have been accorded high priority with a number of relief & fiscal incentives. Customs duty rates have been substantially reduced on plant & machinery, as well as raw materials & intermediate goods. Many processed goods are exempt from excise duty.

Various export promotion measures have also been introduced. All profits from export sales are free from corporate taxes. Many export processing zones (EPZ) & free trade zones (FTZ) have also been set up.

In the WTO regime, the subsidies on agriculture have to be removed & converted into tariffs with a gradual reduction. There has to be minimum access to closed markets & commitment to reduce export subsidization over a phased period. All non-tariff barriers have also to be eliminated.

As agriculture protection is greater in developed countries, Bangladesh is expected to benefit from these provisions & its price competitiveness should increase for agricultural exports.

#### **4.2.6 Leather products:**

The finished leather-manufacturing units are predominantly SMEs wherein the technology status is almost obsolete.

Household or small units employing outdated technology carry out most of the tanning & processing facilities. The government has accorded several priorities for the development of this sector like reserving most leather products for exclusive production by SSI units. In the post WTO regime, there is a threat of cheap foreign goods flooding the country. A major drawback of the removal of the trade barriers may be the export of cheap raw materials from Bangladesh & dumping of cheap finished goods back into the market.

This will lead to misuse of the Bangladeshi raw material. This can also have an adverse impact on the Bangladesh local industry. But leather being a labor-intensive industry; the comparative advantage will lie in the availability of cheap & skilled labour force. With the improvement of the tanning & other processing facilities, Bangladesh should be able to maintain & improve from the current dominant status.

#### 4.2.7 Others:

Besides above SME sectors, Frozen Food/Fish Processing, Plastic Materials, Agro-Machinery, Agro-Processing, Software, Light Engineering, Shop Keeper, Women Enterprise are also the major SME sector in Bangladesh. A case study on women led small enterprise is given below:

##### Owner's Profile:

Ms. Taslima Siddik, 37 years old. She is the owner of her own business.

##### Business Profile:

Ittadi Handicrafts and Gift Fashion, 18/2 Gopibag Arai Lane (2nd Floor), Dhaka-1203. This respondent has been interviewed under the category of women led enterprise. The previous year's Sales of the business was Tk. 450,000.00. Total Assets of the business is Tk. 600,000.00. The number of employees is 19.

##### Why coming into this business?

A housewife of middle class family wanted to help her husband whose income was not sufficient to cater the needs of a joint family. To become economically solvent as well as independent she dreamt to own a fashionable cloth store. To materialize her dream one day she visited Jubo Unnoyon Audhidoptor (Youth Development Directorate) and took training on boutique and blocking the cloths. By employing her own Tk.30,000 she started the business in 1996 with two swing machine and three female employees.

##### Family background

Her family was a good place to learn all about the stitching, as her aunts and elder sisters did make their own cloth, there was also home competition among the sisters and cousins

on good handmade cloths and embroidered design. So Ms. Taslima thinks that her family environment induced her to take such a challenge.

### What are the successes factors that the respondent thinks to succeed in the business?

Her experience, training, unsatisfied demand of cloths and attractive handicrafts in the locality and continuous help from family as well as husband are the success factors.

### Relationship with the bank

She started banking with AB bank in 2003 and the amount of money borrowed was Tk. 100,000.00, she does her daily banking with Agrani bank. Her personal relation with the bank's second officer is good, but afraid of losing the support she is getting due to the officer's transfer to other branch.

### What were the problems in getting the bank loans?

According to her opinion the bank should not ask for any collateral as once she was refused in getting loan from Janata bank due to lack of collateral. She also believes that easy and speedy loan processing and lower interest could get her better position.

### What is the respondent's future plan i.e., to take loan in the coming three years?

If the business does well in the near future, then she will expand the capacity by increasing the number of machines those will be financed by both bank borrowing and self-finance.

## 4.4 Contribution of SME in Bangladesh Economy

SMEs are expected to boost efficiency and growth and lead to economic development of Bangladesh. Some **rationales** are given below on SME financing in Bangladesh:

- Financial services for the poor have proved to be a powerful instrument for poverty reduction enabling the poor to build assets, increase incomes and reduce

the vulnerability to economic stress. Today, access to credit is recognized as a 'right' of people globally. Over the years, there has been phenomenal growth in activities of microcredit in many countries of the world and a transition in the paradigm and modalities of microcredit. Microcredit Summit Meeting first held in Washington DC, USA in February 1997 has launched a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005.

- As the microcredit movement matures, we get a clearer idea of what its strengths are and what are its limitations. To move forward, we need to be more effective, and increase outreach, design products to include the poorest, and also provide finance for growth and employment oriented small and medium enterprises (SMEs) which are needed to spread the poverty alleviation net wider, so that significant decline in poverty takes place.
- A significant number of people around the world are excluded from full participation in the financial sector. Although the unbanked has been an issue for some time, the subject is now receiving greater attention, helped by the fact that 2005 is the United Nations' Year of Micro-credit. Banking the unbanked is about bringing banking and financial services to those people who, up to now, have not had access. Although the unbanked is usually thought of in terms of individuals, it is an important issue for small firms as well.
- Small and medium sized enterprises (SMEs) may not always have the same access to banks and financial institutions as big firms. Thus access of SMEs to the range of financial services is a key issue that needs to be considered in terms of banking the unbanked.
- It is generally recognized that SMEs have a significant role in employment generation, poverty reduction and over all economic growth, specially for a developing economy like Bangladesh. SMEs are typically labor intensive industries with relatively low capital intensity. As such for a country like Bangladesh which is labor abundant and capital scarce, SMEs have a natural comparative advantage. In recognition of the strategic importance of the

development of SMEs in promoting industrial growth, employment generation and poverty alleviation the SME sector has been declared as a priority sector in the Government's Industrial Policy 2005 and various measures have been initiated to help maximize the SMEs growth potential.

- Availability of finance is thought to be a major constraint to formation and growth of SMEs in Bangladesh. Banks are reluctant to expand their SME credit portfolio because they do not consider SME lending an attractive and profitable undertaking. This is so because SMEs are regarded as high risk borrowers because of their low capitalization, insufficient assets and their inability to comply with collateral requirements of the banks. Administrative costs are also higher because close monitoring and supervision the SME operation becomes necessary. Despite all these facts banks and financial institutions have been providing finance to the SME sector and the volume of finance is showing an increasing trend. Most importantly the share of private sector banks in disbursement of credit to the SME sector has been increasing in recent years comparatively at a higher rate than the NCBs and state owned DFIs.
  
- There is an issue of interest rate charged by banks and financial institutions for SME finance. Very often it is argued that the interest rate on SME loan is too high and needs to be lowered. In this regard it may be mentioned that following the interest rate liberalization policy as a part of financial sector reforms, the responsibility to determine interest on loans and advances has been left to the lending banks and financial institutions. Under the liberalized interest rate regime central bank's intervention to reduce interest rate for a particular sector will not be in order and involve the risk of being construed as a retrograde policy. For entrepreneurs, though the supply of and access to finance is very important, the cost of fund is also a factor for their sustainability and expansion. The banks and financial institutions should consider the fact that if the rate of interest is too high, then the profitability of entrepreneurs, especially for those of the innovative projects will be adversely affected. Bangladesh Bank (BB) has also undertaken programs to provide relatively cheaper funds to the banks and financial institutions which might encourage them for SME financing.

#### 4.4.1 Contributions of SME:

- According to the World Bank there are approximately *six million* entrepreneurs in Bangladesh included in SME sector. If these entrepreneurs can properly utilize SME financing, they can change their lot as well as the lot of the nation because society is formed by the individuals.
- SMEs have *25 percent* contribution to country's GDP. Here, banks also contribute indirectly in the form of SME financing.
- SME sector contributes *90 percent* of total export earnings. By SME financing, banks also contribute here.
- Local entrepreneurs have the ability to produce international quality products. By SME financing, banks help nourish the skilled people.
- Together, the various categories of SMEs are reported to contribute between *80 to 85* per cent of industrial employment and *23 per cent* of total civilian employment.
- SMEs are typically labour intensive industries with relatively low capital intensity. As such for a country like Bangladesh which is labour abundant and capital scarce, SMEs have a natural comparative advantage.
- The SMEs are undoubtedly quite predominant in the industrial structure of Bangladesh comprising over *95% of all industrial units*.
- Value added contributions of the SMEs are to between *45 to 50 per cent* of the total manufacturing value added.
- By considering the extent of contribution of the overall economic development, SME has been identified in the PRSP (Poverty Reduction Strategy Papers) as one of the *seven* critical sectors for pro-poor economic growth. Proper SME financing can ignite this growth.

- A study of the Dhaka Chamber of Commerce and Industry shows that **67 per cent** of industrial products in local wholesale markets, **56 per cent** in retail markets and **48 per cent** sent to foreign markets come from SMEs.

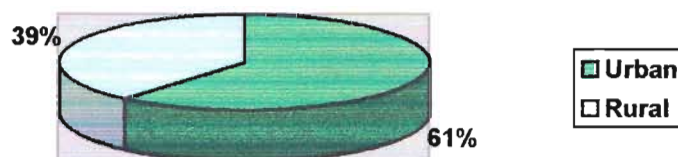
#### 4.4.2 Main Evolution over the last three years:

- The number of SME establishments has increased of 5.2% and the number of jobs of 6.04%.
- The number of SME establishments in manufacturing increased by 4.25% during the three years period.
- Finally, establishments over 95% of all enterprises belonged to the SMEs which accounted for nearly two-thirds of total employment generated by the total population of all establishments.

#### 4.4.3 General Profile of SME:

- The average age of SMEs is 11 years and median age is 7 years.
- 61% of the SME establishments and 77% of the jobs generated by the SME sector are in the urban areas.
- In the rural areas establishments are generated by 39% and jobs are generated by 33%.
- Segmentation is done in terms of sectors and employments or industry structure.

**Repatriation of SME between Rural & Urban on Bangladesh**



**Figure 10: Repatriation of SME between rural & urban in Bangladesh**



### Structure of Industries in Bangladesh

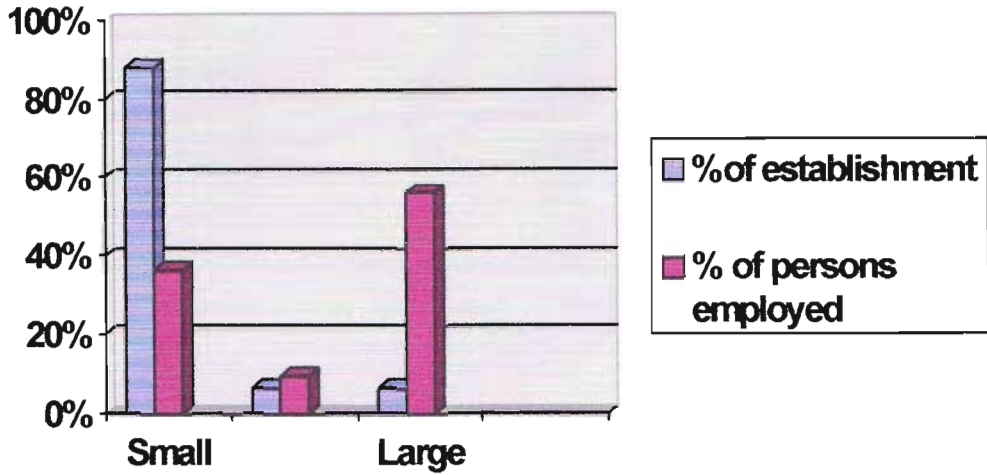


Figure 11: Structure of Industries in Bangladesh

#### 4.4.4 Productivity and Profitability:

Productivity growth of the SMEs and their consequent revenue earning capacity and future expansion possibilities is an important determinant of potential expansion of SME demand for credit. The small enterprises putting on the best performance in this regard present an optimistic scenario of continued future growth and hence important for credit demand market.

#### Value addition On Gross Output

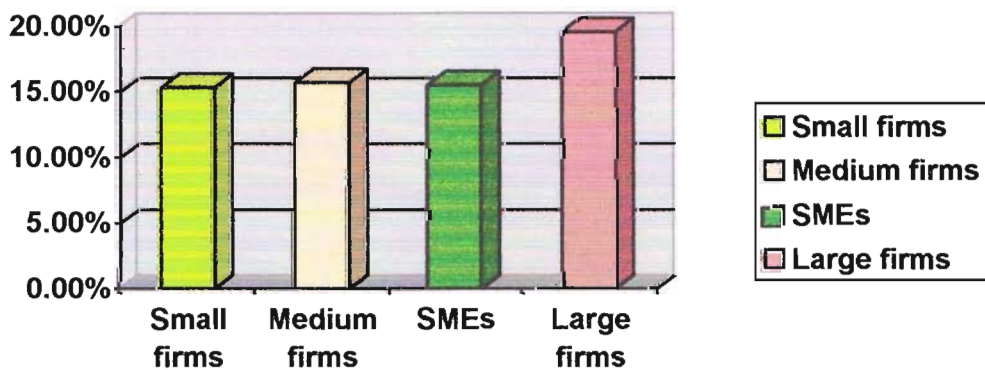
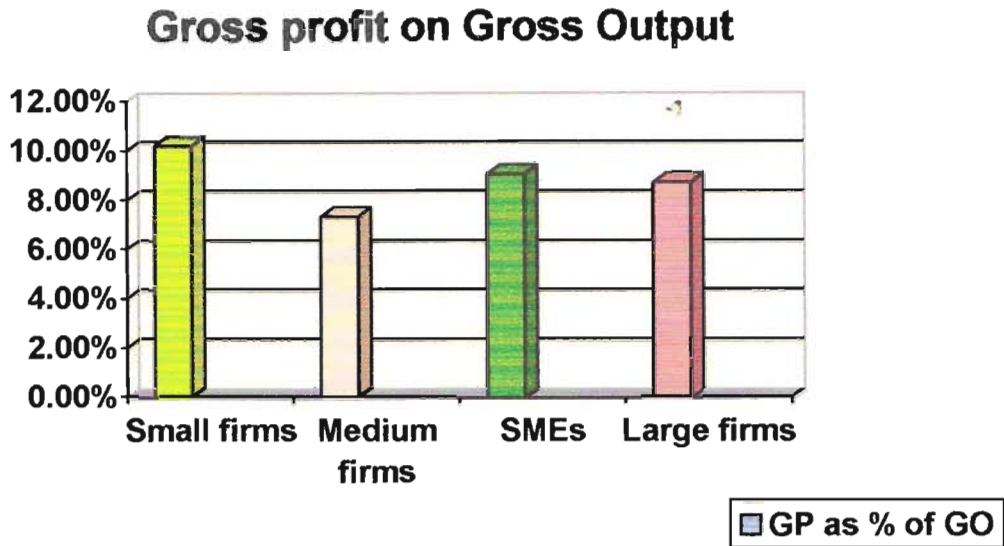


Figure 12: Value addition on Gross Output



**Figure 13: Gross Profit on Gross Output**

## 4.5 SME Access to Finance Sector

SME access to finance sector is crucial because expansion of these sectors highly depend on financing facilities. Most studies commonly identify a long list of problems relating to policy constraints discriminating against the sector such as-

- Lack of proper implementation of policies,
- Inefficient institutional mechanisms,
- Inadequate provision of finance,
- Restricted access to institutional credits due to collaterals,
- Complex loan sanctioning procedures,
- Information asymmetry,
- Limited market access, and
- Technological backwardness.

However, the general consensus in this regard is that of the various operational constraints confronting the SMEs, inadequate availability of credits from the institutional sources constitutes the most critical obstacle to SME growth in Bangladesh. BIBM survey is showing the picture clearly:

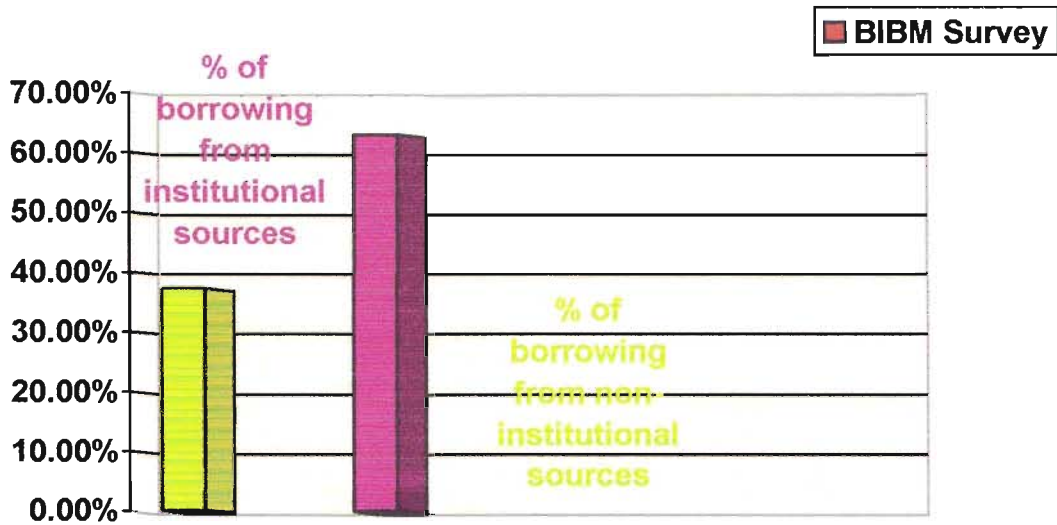


Figure 14: % of borrowing from institutional and non-institution sources

The reasons are not only that the SME sector faces only “lean supply” of institutional credit for both start-up and expansion capital especially from the banks they also receives **half or less than half** required credit amount.

### SME Financing by Banks

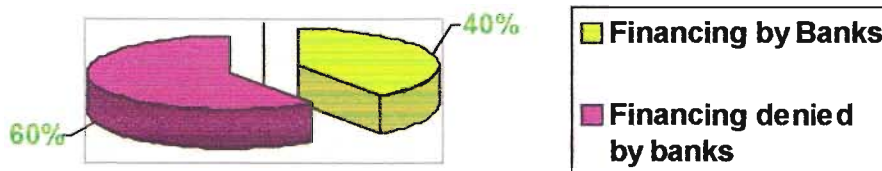


Figure 15: SME Financing by Banks

While information asymmetry sometimes prohibits SMEs to approach the financial institutions for loans available evidence suggest that more than 60% of the potential small borrowers tend to approach financial institutions to request loans, leases and other financial products and 75% of the 580 SME entrepreneurs from 14 industry sectors covered by the SEDF survey indicated their willingness to avail institutional lending facilities.

### Use of financial products:



**Figure 16: Use of Financial Product**

The reasons for restricted SME access to institutional loans generally include:

- High administrative and legal costs of lending to SMEs
- Information asymmetry
- Consequent unproven track record
- Inability to offer appropriate collateral security
- Low and unstable profits and high risks of SME failures
- Extensive documentation requirements and complicated bureaucratic procedure
- High interest rate



# CHAPTER 5

## CONCLUDING PART



## 5.1 Recommendations

Although the SME Banking is a new concept in National Bank Limited, this is growing faster than the other division in NBL. There are now enough efficient and effective SME staffs who are always trying to maximize the customer satisfaction through better service. The SME portfolio is being made up. Two new products (Working Capital Loan and Festive Small Business Loan) are coming soon which will increase the overall SME Banking performance of National Bank Limited.

### 5.1.1 Recommendations for National Bank Limited:

- Number of SME products should be increased.
- SME centers should be established in every branch.
- Operational support should be improved.
- SME products should be differentiated from existing products.
- Interest rate should not be fixed.
- SME financing modes should be clear and appropriate.
- Loan assessment and recovery procedures should be fixed.
- Sufficient training program should be arranged for the SME Banking employee.

National bank has started SME banking just before 1 year and differentiated portfolio is being created. So, this sector needs special attention. These recommendations may help to expand SME portfolio of NBL to keep pace with intense competition among the leading private banks of Bangladesh.

## 5.1.2 Recommendations for SME financing expansion:

SME financing is a high risk service with low profit, discouraging the banking sector to extend loans to this sector. However, banks cannot ignore an emerging sector like SMEs. That is why; banks are continuously endeavoring to evolve appropriate model(s) of financing SMEs. Generally, banks provide both working and other than working capital financing to large and medium as well as small industries. Unfortunately, information regarding financial contribution by banks to this sector is not segregated. To achieve and keep sustainable SME financing position in Bangladesh following recommendations may add value:

- Arrange the SME lending business within each bank in a way that creates value and that does not incur large opportunity costs.
- The banks and financial institutions should consider the fact that if the rate of interest is too high, then the profitability of entrepreneurs, especially for those of the innovative projects will be adversely affected.
- Putting in place cooperative arrangements that allow each SME lender to extend more credit with greater risk control than the lender could if active alone.
- Develop technology that reduces the cost of SME customer acquisition and servicing.
- Expand the range of lending product by financial institutions to cover a larger proportion of SME in Bangladesh.
- Financial Institutions will have to booster their SME Management capacity at three levels:
  - Creation of specialized SME banking department.
  - Development of SME training program for lending officers.
  - Development of an overall transaction management approach for SME lending.
- The Central Bank of Bangladesh as well as other government agency has to create more SME financing scopes and a regulatory environment favorable to SME lending.

## 5.2 Conclusion

A vibrant SME sector is considered as one of the principal driving forces in the development of a market economy. They stimulate private ownership and entrepreneurial skills, and are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade. Even in the developed market economies SMEs account for a large share in output and employment.

To meet the challenge and reduce the perceived risk in lending to SME sector, the Bangladesh Bank has embarked on a program to expand and redesign the existing refinance window of Bangladesh Bank into Small Enterprise Fund (SEF). The lending institutions should be encouraged to emphasize on the relationship lending technologies, which is based on soft Information. Monitoring of the banking sector in the aspects of loans and advances disbursement should be streamlined as nobody is following government directives. We need to develop various credit products and services, such as credit lines, risk sharing activities, leasing, credit scoring and expert decision, efficient credit bureaus. Banking norms and attitudes towards SME financing should be changed as because small enterprises differ considerably from the traditional clientele and do not conform to the norms detailed in the manual of banking norms and procedures.

National Bank Limited as the first fully private bank in Bangladesh bears responsibility to meet banking demand of bankable people. And SME Financing is the demand of today. So, NBL have to develop strong SME portfolio to serve with varieties of SME financing products. By giving access to financing to SME sectors, NBL can add value to stakeholders' growth as well as national growth. To keep in mind this fact, National Bank Limited as well as banking sector of our country should expand SME financing capacity to contribute in economic development of Bangladesh.



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### **Text Material:**

- **Text material on SME market and financing reality.**

### **Websites:**

- **Official Website of National Bank Limited (<http://www.nblbd.com>).**
- **Google search engine.**