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BBA

Project Report On

***Problems and Prospects of
Financing Small & Medium Enterprises in Bangladesh***

Submitted To

M. Sayeed Alam
Assistant Professor
Department of Business Administration
East West University

Submitted By

Saad Mahmud
ID. 2008-2-10-186

Date of Submission: December 22, 2011



EAST WEST UNIVERSITY

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ACKNOWLEDGEMENT

At first I would like thank my honorable instructor M. Sayeed Alam for giving me such an important task like SME sector in Bangladesh as a project report. I would like to place my gratitude to the Supervisor of some SMEs Bangladesh to enable me to complete my project in their esteemed sector. Without their helpful guidance, the completion of this assignment was unthinkable. Very special thanks go to Mr. IFTEKHAR AHMED, Economists and SME specialist in Bangladesh Bank, Bangladesh for helping me in all phase of the assignment. His overwhelming support for this assignment gave me the inspiration to do a better report.



December 22, 2011

M. Sayeed Alam
Assistant Professor
Dept. of Business Administration
East West University

Subject: Submission of project on “Problems and Prospects of Financing Small & Medium Enterprises in Bangladesh”.

Dear Sir:

Here is the report on the “Problems and Prospects of Financing Small & Medium Enterprises in Bangladesh”.

I found this report to be truly challenging in many aspects and indeed very interesting in relation to the various interpretational and engrossing exercises. I revealed significant differences in areas such SME in Bangladesh.

I have tried my level best to complete the report with respect to the desired requirements. However, if any explaining is required, I would be honored to oblige. Kindly accept this humble effort of bringing forward my research and findings on the subject matter.

Yours sincerely,

Saad Mahmud
ID: 2008-2-10-186

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1.0. Introduction



BACKGROUND OF THE STUDY:

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

ORIGIN OF THE REPORT:

This thesis report is the outcome of three month's research work which is better known as Project Paper. It is the requirement for the completion of the BBA program of the East West University, Bangladesh. The purpose of doing this project paper is to having field experience & also having an opportunity to transform theoretical conception into real world of application of knowledge. For this reason, I, Saad Mahmud done a research on **Problems and Prospects of Financing Small & Medium Enterprises in Bangladesh** under the guidance of my faculty advisor M Sayeed Alam.

Objectives:

The report is prepared based on the following objectives:

1. To know about the SME programs of Bangladeshi banks.
2. To explore the problems of financing SMEs.
3. To find out the prospects of SMEs.
4. To recommend some solutions of the problems of providing credit facilities to the SME.

SCOPE OF THE STUDY:

Scope means the area on which the study has to be done. The study is only related in Bangladesh banks. Since the research is done only for academic purpose only, scope is limited to some selected area and to some selected sectors.

LIMITATIONS:

This report is subject to some shortcomings or limitations. They are as follows:

- Time was very short to do this type of research. Due to limitation of time, it was very difficult to acquire proper knowledge related with SME loan. The research could have been better if the time was more than three month.
- The employees of the bank are remaining very busy throughout the office hour. They hardly find any leisure time to describe or make me understand what they are doing as well as why they are doing this rather not doing that. For this reason, it is not possible to acquire accurate information related with some particular matter as well as to get all sorts of information due to official confidentiality.
- As Money being a sensitive issue, so some response of the respondent are likely to be biased.
- Some of the questions in the questionnaire were sensitive by nature. So, most the respondents were uncomfortable in disclosing exact facts, as a result it was difficult to extract exact result from the survey.
- Lack of authoritative power of the surveyor also was also played a significant role. Due to this fact most of the respondents especially the employees tend to provide biased or pleasing information rather than exact facts.
- Non-response error took place because of no response from the respondents to some specific questions.

METHODOLOGY:

Methodology comprises of all the activities that is required to conduct the study and generate it into a report.

From the view point of Objective, This research was conducted under applied research. Because, before conducting this research, I have set some objectives or question. To answer this question, I had to conduct applied research.

From the view point of Function, This research was conducted under descriptive, Exploratory & also causal research.

The topic itself demands to conduct Descriptive research. Under descriptive research, I have described about Small and Medium Enterprise (SME).

Then, after conducting descriptive research I need to conduct exploratory research. Because, for my second objective which is find out the Problem through evaluating the existing procedure, I need to know how much consumers are satisfied with the existing procedure as well as how much employees are satisfied with that. Under exploratory research, I have conducted questionnaire with consumers and focus group discussion with the officials.

After conducting descriptive and exploratory research, I need to conduct causal research for my forth objectives which is recommend some solutions of the problems of providing credit facilities to the SME.

From the view point of nature of data, both qualitative and quantitative data were used for my research

From the view point of research place, both field and desk research had conducted.

RESEARCH DESIGN:

How the data will be collected is the aspect of research design. This report is based on both survey method and secondary data study. Regarding the survey method, Types of information collected under the survey method were both: Qualitative information & Quantitative information. From the view point of questionnaire the question was both: Structured questionnaire & unstructured questionnaire. From the view point of communication the survey was conducted by: Human interactive media.

SAMPLING PLAN:

➤ In case of focus group discussion, which is conducted with the officials who are concerned with SME loan as well as credit department, probability sampling was used. It's because the target population for the research was all the employees of credit information bureau of various Bangladeshi banks. The size of population was 15 respondents.

➤ In case of the survey conducted on the customers, Target population was studied. That is all the clients of SME loan of Premier Bank Ltd., Prime Bank Ltd., DBBL, Bank Asia Ltd. were surveyed. This is due to the fact the number of SME clients are less and to know the whole picture as well as to know clients opinion regarding SME loan. The size of population is 25 respondents.

SAMPLING DESIGN:

- **Target population:** All the employees of credit information bureau of Premier Bank Ltd., Prime Bank Ltd., DBBL, Bank Asia Ltd. All the clients of SME loan of Premier Bank Ltd., Prime Bank Ltd., DBBL, Bank Asia Ltd.
- **Sample Size:** The sample size of the employees is 15 and the sample size of the clients of SME loan is 25.

DATA COLLECTION:

This report is based on both primary source and secondary source.

PRIMARY SOURCE:

The data for the questionnaire have been collected from primary sources by conducting field research. The survey method was chosen for data collection. Face to face conversations with the officials have been done in order to get primary data.

Questionnaire Design: The questionnaires were prepared consisting both open and close ended questions (a copy of the questionnaires are attached in the appendix). The closed ended questions employed five point scales. Open ended questions were minimal.

SECONDARY SOURCE:

These are the data that have been previously collected for some other projects than the one at hand. They can be collected from books reports, internet, etc. In secondary data analysis, I have collected data from:

- Financial records of the bank
- Files and leaflets of the bank
- Different books on banking
- Internet

DATA ANALYSIS

After collecting all the relevant data, analysis has been done with the help of statistical operations. Soft wares such as Microsoft Excel have been used to calculate the data and present the results in graph. The tools that were implied for this study are as follows:

- i. Frequency analysis
- ii. Percentage

METHOD OF QUESTIONNAIRE SCORING

The data obtained through the questionnaire was assigned numerical values, so that they can be scored. As the questionnaire was based on Likert scale each question has a highest score worth 5 and a lowest score worth 1. In case of the customer satisfaction survey, the remarks “Highly satisfied” is assigned a score worth 5, “Satisfied” is assigned a score worth 4, “neutral” is assigned a score worth 3, “Dissatisfied” is assigned a score worth 2 and “Highly dissatisfied” is assigned a score worth 1.

2.0. Literature Review



PROMOTING SMALL AND MEDIUM ENTERPRISES WITH A CLUSTERING APPROACH; A POLICY EXPERIENCE FROM INDONESIA:

In this article, the writer said that according to their level of development there are three types of clusters in Indonesia. The first one is called “artisanal” cluster, which dominated clusters in Indonesia, indicating that the process of clustering in the country is still at an infant stage. This type of cluster displays many characteristics of the informal sector with level of productivity and wages being much lower than those of clusters dominated by SMEs. The second type is called “active” clusters which have developed rapidly in terms of skills improvement, technological upgrading and successful penetration of domestic and export markets. The third type is modern or “advanced” cluster in which many active clusters are more developed and become more complex in structure.

In addition, the writer demonstrated that SME development policies with a clustering approach are important from a public policy perspective. This strategy makes it more effective and more efficient for government to provide technical assistance and general facilities to a group of firms in one place than individual firms in dispersed locations. Also, from a regional economic development policy perspective, this approach is important, as development of a cluster in a region will also promote development of other local sectors in that region and hence economic growth of the region.

Again in many cases, it has found that cluster development policies in Indonesia have not been successful. Hence, most failures can be attributed to (1) neglecting cluster linkage to markets ;(2) neglecting or even eroding SMEs’ self –organization potential and (3) Limited support from local government and private organizations.

CURRENT OPERATIONAL PRACTICES OF U.S SMALL AND MEDIUM-SIZED ENTERPRISES IN EUROPE:

This article provides a “snapshot” of the globalization practices of U.S SMEs in Europe. This was carried out by using empirical data collected from a survey of all U.S. SMEs that have moved beyond exporting to setting up physical operations in Europe. While differences between SMEs and MNCs have been noted before, research has tended to focus on differences in overall structure and responses to different economic environments. This article shows distinct differences of a daily operational nature. It also point specific areas for further research. These include:

- Regarding entry drivers for European expansion, it was found that many times SMEs are pulled over seas by being required to follow their clients. Thus, SMEs may need to be proactive in determining what the long-term plans are of the firms they supply. This would provide them with some degree of ‘Heads up’ planning about the possibility of expanding overseas.
- Regarding entry barriers, International communications between overseas facilities is the second biggest barrier that SMEs face, whereas MNCs list this very low on their problem list.
- U.S SMEs did not take advantage of outsourcing of operational functions such as logistics even though it has been argued for years that this is an efficient operations strategy. However it is necessary to determine what barriers SMEs face in logistics outsourcing and what factors help support its use.
- Another major differences between SMEs and MNCs was found in strategic alliances
- SMEs in Germany have begun to deal with environmental issues such as reverse logistics. Yet other SMEs throughout the EU delay resolving these issues until required by law. As reverse logistics is “Fast becoming a competitive necessity”. There are need to determine if there are other governmental policies or business inducements that can facilitate SMEs in embracing environmental issues.

SME WOMEN ENTREPRENEURS: ACCESS TO FINANCE:

In this article, the writer said that entrepreneurial qualities are same for men and women to succeed as entrepreneurs. Compared to men, women have to put in more labor and to combat social obstacles to succeed and continue with their ventures. Firstly, the use of needs for scope of access to financial services of women entrepreneurs needs to be determined. SME foundation will boost up the economy and help to mainstream the women's economic activities. The challenges to entry, growth and survival should be constantly monitored and addressed. Formation of women entrepreneurs' forum will be the platform to pave the way to develop an enabling environment for women entrepreneurship development.

Since this type of research is not yet conducted by any researcher. That's why it encouraged me to do this type of research.

3.0. Findings and Analysis

ABOUT SME (PBL PERSPECTIVE):

Bangladesh is a high densely populated and one of the poorest countries of the world.

Per capital income of our country is \$385(app). Job opportunity is very scanty.

Unemployment rate is approximately 45% and population below poverty line is 36%.so, it is a prime issue for the nation to generate income through creation of job opportunity & employment. It is not easy to create job opportunity at large scale. As a financial institution we can increase self-employment through financial support.

There are many small and medium entrepreneurs in our country who have innovative ideas, spirit and potentiality to do something productive for local consumers as well as export abroad. They can generate income and contribute to the GDP. They may also provide employment to other people. Development and growth of Small and Medium Enterprises is playing a vital role in the National Development. Such type of entrepreneurs can not go a long way for want of financial support because they have no access to institutional credit facilities as they cannot provide collateral security as demanded for such credit facility.

The entrepreneurs who have no scope to avail any credit facility from formal financial institutions they are bound to take credit facility for maintaining their entrepreneurship from non-formal institutions/individuals with high rate to continue their effort.

The Bangladeshi banksis committed to play positive role in the socio-economic development of the country. So, they introduce Small and Medium Enterprises (SME) Credit Scheme to contribute their effort in the socio-economic development of the country.



THE MAJOR FEATURES OF THE POLICY OF SME CREDIT SCHEME WILL BE AS FOLLOWS:

a) **Objectives of the Scheme:**

- i. To provide credit facilities to the small and medium size entrepreneurs located in urban & Sub-urban areas and easily accessible by our Branches.
- ii. To flow credit for creation of employment and generation of income on a sustainable basis through development of small & medium enterprises.
- iii. To assist potential entrepreneurs to improve their living standard.
- iv. To reduce dependence on money lenders.
- v. To make self-reliant small and medium enterprises.
- vi. To develop savings habit and making social contact with banking facilities.
- vii. To inspire for undertaking small project for creation employment through income generation activities.
- viii. To participate in the socio-economic development.

b) **Concepts:** Small and medium Business enterprises refers to those enterprise-

- i. Where goods are produced, recycled, repaired or traded in traditional way.
- ii. Where bank investment is limited between tk.1.00Lac to 75.00Lac.
- iii. Where 20 or less workers are engaged on wages or commission basis.
- iv. The net fixed assets (excluding land and buildings) of borrowers may not exceed equivalent of US\$ 250,000 (Tk. 150.00Lac app.)

c) **Target Group:**

Initially, Small and Medium Size Entrepreneurs located within the vicinity of our branches will be the target area under this program. The Entrepreneurs should have an existing profitable business or a viable business plan.

d) **Eligibility for credit facilities:**

The following criteria have to be met by the applicant to qualify for a loan From the various Bangladeshi banks under its SME credit scheme:

- i. The entrepreneurs must be literate.
- ii. The entrepreneurs should be skilled in managing his/her business and has experience of successfully managing the business for at least 5 years at the same location. If they have moved their business location before 5 years, satisfactory reason must be available. The age of the entrepreneurs must be between 20 years to 55 years.
- iii. The age of entrepreneurs should be between 20 years to 55 years.
- iv. If the applicant is an individual, the borrower must be a national or permanent resident of Bangladesh. If the borrower is a company / firm or other business entity it must be register in Bangladesh and majority shares owned by Bangladeshi's.
- v. The applicant must be 100% privately owned, controlled and operated.
- vi. The applicant's principal place of business must be in Bangladesh.
- vii. If acceptable collateral security cannot be provided, the borrower should arrange for 2 acceptable personal guarantees. The type of guarantors

depends on size of the loan and business. In accepting a person as guarantor his social standing, income and asset shall be considered. Any default borrower or unreliable person shall not be accepted as guarantor. However, guarantor will be determined on a case to case basis. The decision whether collateral will be required or not shall rest with the bank.

viii. If the applicant is a member of social organization/association, he should arrange a corporate guarantee of the association /organization through formal regulation (if any).

ix. The applicant should arrange to execute a tripartite agreement with the bank and any third person who is financially related with him directly (if any).

x. The project shall be financially viable and socially desirable.

xi. The Sponsor / applicant shall have reputation in the society.

xii. There should be some innovation / creativity I n the project.

xiii. Proper utilization and timely repayment of previous will be considered as a proven track record of the applicant for renewal & enhancement of credit facility.

e) Restricted Business:

i. Production, marketing, trading of alcohols, narcotic, and other intoxicating drug or liquor.

ii. Production and Trading of any item banded by the government.

iii. Any activity not permissible by the law of the land.

f) Loan Ceiling: for urban area

i. Minimum Tk 1.00 Lac.

ii. Maximum Tk 75.00 Lac.

g) Purpose:

- i. Working Capital.
- ii. Capital Machinery.
- iii. Delivery van / Transport for business purpose.
- iv. Refurnishing office / Business premises.

h) Mode of Finance:

- i. Cash Credit.
- ii. Hire Purchase / lease Finance.
- iii. Term Loan.

i) Loan renewal:

Successive Loans depend on track record of previous loan. Usually, repayment behavior and expansion of business by the borrower are the main consideration for renewal and enhancement of the loan account.

j) Interest Rate:

8% p.a.(flat). True rate will be charged with monthly rest.

As per loan period the following interest to be imputed in computer at the time of opening a SME loan account for the interest rate of 8% flat.

Declared Flat Rate	Loan Period	Rate to be imputed in Computer
8% flat	1 year	14.45%
	2 year	14.70%
	3 year	14.55%
	4 year	14.35%
	5 year	14.15%

k) **Supervision Charge:** 1% on loan amount will be realized at the time of disbursement.

l) **Risk Fund:** 1% loan amount will be realized at the time of disbursement.

m) Securities:

It is a supervisory credit scheme. Tangible security in the form of mortgage may not be available in all the cases. Security will be stipulated on a case to case basis inter-alia as under (one or several are the following):

- i. Registered mortgage of land and building.
- ii. Equitable mortgage / Assignment of position right.
- iii. Assignment of contract and / or Trade receivables not older than 90 days.
- iv. Hypothecations of machineries, equipment, vehicles, stock in trade, raw materials, work in process and finished goods.
- v. Personal Guarantee from person(s) acceptable to the bank.
- vi. If the applicant is a member of any social organization / association, he should arrange a corporate guarantee of the association / organization through formal resolution.
- vii. Tripartite agreement with bank and any third person who is financially with the applicant directly.
- viii. Post-dated check covering all installments / total due.
- ix. Lien on deposits / saving certificates / financial obligations.

x. Any other securities deemed suitable by the bank depending on the situation like insurance guarantee, corporate guarantee, assignment of contract, security money etc.

xi. Guarantee of USAID for 50% of the exposure or any other authority acceptable to the bank management(subject to availability).

n) Period of loan;

i. In case of continuous loan: 01(one) year.

ii. In case of term loan: maximum 05(five) years.

o) Mode of Repayment;

iii. In case of continuous loan credit turnover in the account must be equal to the limit in a quarter and full adjustment within the validity period.

iv. In case of term loan, the loan should be repaid by monthly installment through post-dated cheques.

p) Rebate: 1% of the loan amount will be waived for the customer who repays the loan regularly.

q) Loan monitoring and review:

This is a supervising credit scheme. The success of the scheme depends on the extensive and intensive post disbursement supervision, follow-up and monitoring. It must be ensured that the loan fund is not diverted, the sponsors are very serious to the operation of the project, quality is updated and marketing effort is effective. Regular repayment must be ensured.

Visit to the establishment must be done at least one in a month & findings of the visit must be recorded in writing. The visit should be done for strengthening the spirit & loyalty of the customers.

A signboard shall be displayed at the shop / factory with writing “Financed By The Bangladeshi banks Limited” with Bank’s Logo/

r) Recovery System:

- i. If any borrowers fail to adjust the loan within the validity period or to repay his monthly installment then the responsible loan-monitoring officer of the concern branch will arrange for adjustment of the overdue installments from the borrowers savings account if there is adequate balance. The officer shall regularly follow-up for recovery and takes necessary measure for recovery.
- ii. If any borrowers fail to repay his consecutive 2(two) monthly installment then loan monitoring officer will investigate into the actual causes of defaults and report to the branch manager with a copy of head office,

Credit division for further action and advice for recovery / regularization of the loan.

s) Other conditions:

- i. The borrower shall maintain a non-withdrawal savings account with the concerned branch where he shall make compulsory monthly deposit. The branch will fixed the monthly savings account by mutual understanding with the customer. The customer can withdraw 25% of year end balance amount from this account by withdrawal slip in each business year.
- ii. The borrower must not change the nature of business and place of business without prior permission of the Bank.



- iii. The Bank reserves the right to alter / amend the terms & condition of the policy wholly or partly at its direction.

t) **Processing of credit proposal under the scheme:**

Initially, SME Cell, Head Office shall process the credit proposal under the scheme and Head Office Credit Committee shall approve the same. As per desire of the customer the sanction advice will be sent to the concerned branches for documentation and disbursement.

Problems of financing Small & Medium Enterprises:

Under this objective, I was basically trying to know to what extent, the SME clients are satisfied with The Bangladeshi banks's existing procedure. To know the customer satisfaction, I did questionnaire with the clients. The findings and analysis from the questionnaire are described below:

1. Please select the nature of your organization?

Findings & Analysis: Out of the sample size of 12, 5 customers were engaged in proprietorship business, 3 customers were found engaged in the packaging business which is a private limited company, and 4 customers were engaged in partnership business.

2. Please select your education level?

Findings & Analysis: In response to this question, 5 customers responded that they have completed their post graduation program. 6 customers responded that they have completed their under-graduate program. 1 customer responded that they have passed HSC/A-level exam.

3. In total how long have you been in business?

Findings & Analysis: During the survey, it was found that out of 12 respondents, 4 individuals have been found in business for one to under three year, Besides 3 other

individuals have been found in business for three to five year, 3 person other individuals have been to be in the same occupation for five to ten year, Moreover, the remaining 2 individuals have been doing business for Ten years or above.

4. In total, how long have you been a customer of PBL?

Findings & Analysis: During the survey, it was found that out of 12 respondents, 3 consumers were banking with PBL for less than a year, 4 of them were with PBL between 1 to 3 years, and 2 customers were with PBL between 3 to 5 years, 2 customers were with PBL between 5 to 10 years. And only one consumer has been with PBL for more than 10 years.

5. How satisfied are you with the representative's overall knowledge of your problem or question of PBL for SME loan?

Findings: Among the 12 respondents, 7 customers are highly satisfied with the bank's representatives/employees overall knowledge of their problem or question for SME loan. 3 customers are satisfied with the bank's representative/employee regarding their problem or question for SME loan and 2 customers expressed their opinion regarding the bank's representative/employee as "neutral". No respondents were found who are either "dissatisfied" or "highly dissatisfied" with the representatives/employees overall knowledge of their problem or question for SME loan.

	Frequency	Percent (%)
Highly Satisfied	7	58.33
Satisfied	3	25
Neutral	2	16.67
Total	12	100

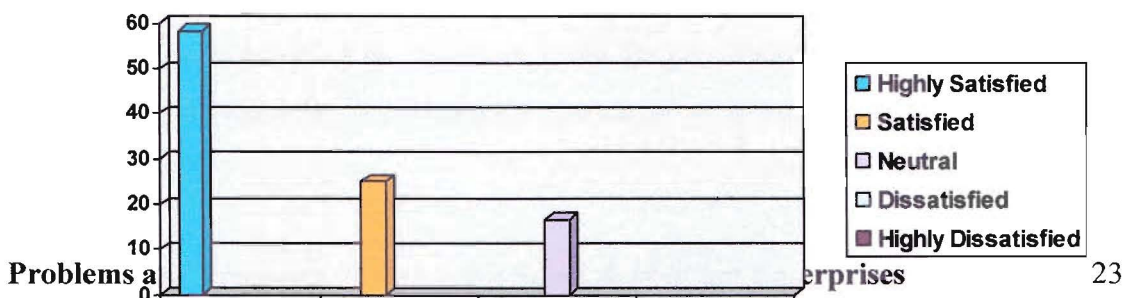


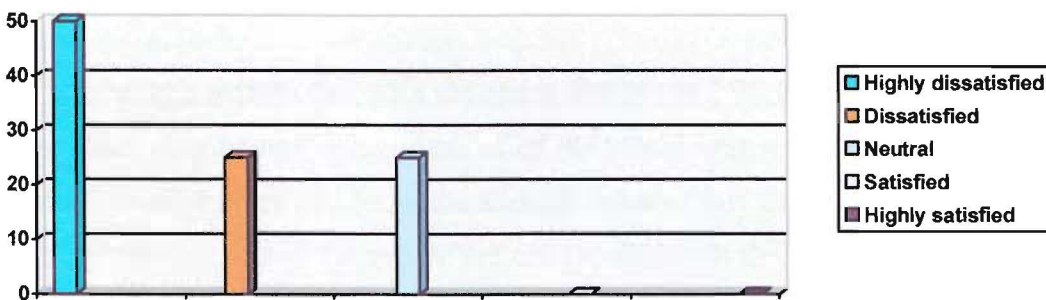
Fig: PBL employees overall knowledge of Customer problem

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 4.4. As the average score of this answer is 4.4, it can be said that the majority part of the sample said that the bank’s representative was efficient and capable to solve their problems.

6.How satisfied are you with the Interest rate of PBL for SME loan?

Findings: Among the 12 respondents, 6 customers are highly dissatisfied with the interest rate of PBL for SME loan, 3 customers are dissatisfied with the interest rate of PBL for SME loan and 3 customers are found neutral with the interest rate of PBL for SME loan.

	Frequency	Percent (%)
Highly dissatisfied	6	50
dissatisfied	3	25
Neutral	3	25
Total	12	100



Customer’s satisfaction with the Interest rate of PBL for SME loan

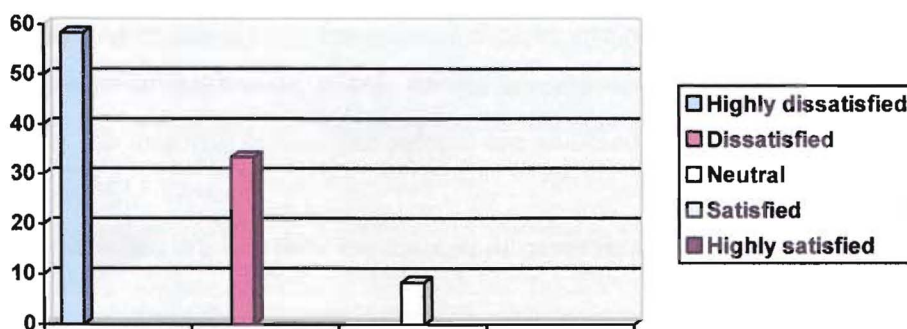
Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 1.75. As the average score of this answer is 1.75, it can be

said that the majority part of the sample are not satisfied with the interest rate of PBL for SME loan.

7. How satisfied are you with the other charges of PBL for SME loan?

Findings: Among the 12 respondents, 7 customers are highly dissatisfied with the other charges of PBL for SME loan, 4 customers are dissatisfied with the other charges of PBL for SME loan and 1 customer is found neutral with the other charges of PBL for SME loan

	Frequency	Percent(%)
Highly dissatisfied	7	58.34
dissatisfied	4	33.33
Neutral	1	8.33
Total	12	100



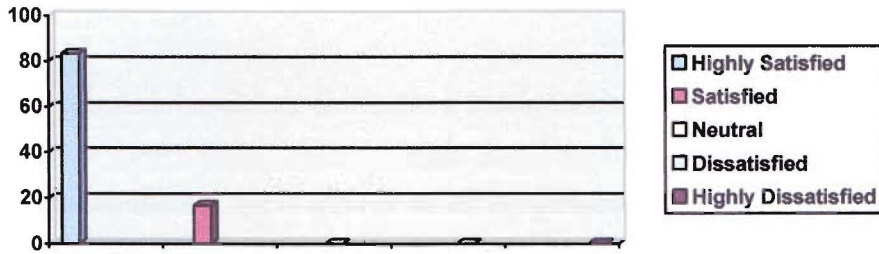
Customer's satisfaction with the other charges of PBL for SME loan

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 1.5. As the average score of this answer is 1.5, it can be said that the majority part of the sample are not satisfied with the other charges of PBL for SME loan.

8. How satisfied are you with the legal documents requirements of PBL for SME loan?

Findings: Among the 12 respondents, 10 customers are highly satisfied with the legal document requirement of PBL for SME loan, 2 customers are satisfied with the legal document requirement of PBL for SME loan no customers are found neutral with the legal document requirement of PBL for SME loan.

	Frequency	Percent (%)
Highly satisfied	10	83.33
Satisfied	2	16.67
Neutral	0	0
Total	12	100



Customer's Satisfaction with the legal documents requirements of PBL for SME loan

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 4.8. As the average score of this answer is 4.8, it can be said that the majority part of the sample are satisfied the legal documents requirements of PBL for SME loan.

9. How satisfied are you with the amount of paper required by PBL for SME loan?

Findings: Among the 12 respondents, 2 customers are highly satisfied with the amount of paper required by PBL for SME loan, 1 customers are satisfied with the amount of paper required by PBL for SME loan, 6 customers are found neutral with the amount of paper required by PBL for SME loan, 3 customers are found dissatisfied with the amount of paper required by PBL for SME loan.

	Frequency	Percent (%)
Highly satisfied	2	16.67
Satisfied	1	8.33
Neutral	6	50
Dissatisfied	3	25
Total	12	100

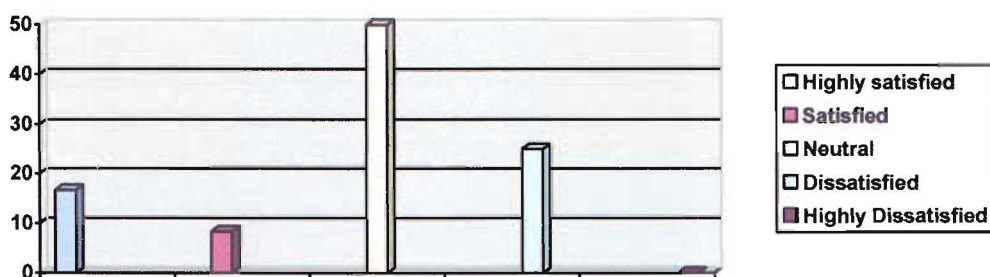


Fig: Customer's satisfaction with the amount of paper required by PBL for SME loan

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 3.16. As the average score of this answer is 3.16, it can be said that the majority part of the sample are being neutral in case of paper required by PBL for SME loan.

10. How satisfied are you with the amount of time required from the date of application to the date of disbursement by PBL for SME loan?

Findings: Among the 12 respondents, 9 customers are highly dissatisfied with the amount of time required from the date of application to the date of disbursement by PBL for SME loan, 2 customers are dissatisfied with the amount of time required from the date of application to the date of disbursement by PBL for SME loan, 1 customers are found neutral amount of time required from the date of application to the date of disbursement by PBL for SME loan.

	Frequency	Percent (%)
Highly dissatisfied	9	75
dissatisfied	2	16.67
Neutral	1	8.33
Total	12	100

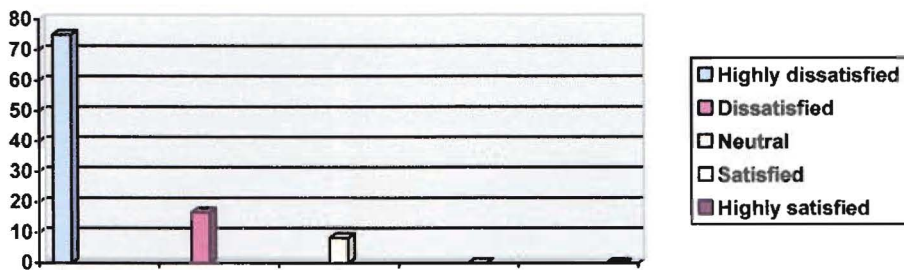


Fig: Customer's satisfaction with the amount of time required from the date of application to the date of disbursement by PBL for SME loan

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 1.3. As the average score of this answer is 1.3, it can be said that the majority part of the sample are not satisfied with the amount of time required from the date of application to the date of disbursement by PBL for SME loan.

11. How satisfied are you with PBL on being competitive with other banks in terms of meeting expectations on your need?

Findings: Among the 12 respondents, 3 customers are highly dissatisfied in terms of meeting expectations on their need, 2 customers are dissatisfied in terms of meeting expectations on their need, 5 customers are found neutral in terms of meeting expectations on their need and 2 customers are found satisfied in terms of meeting expectations on their need.

	Frequency	Percent (%)
Highly dissatisfied	3	25
Dissatisfied	2	16.67
Neutral	5	41.66
Satisfied	2	16.67
Total	12	100

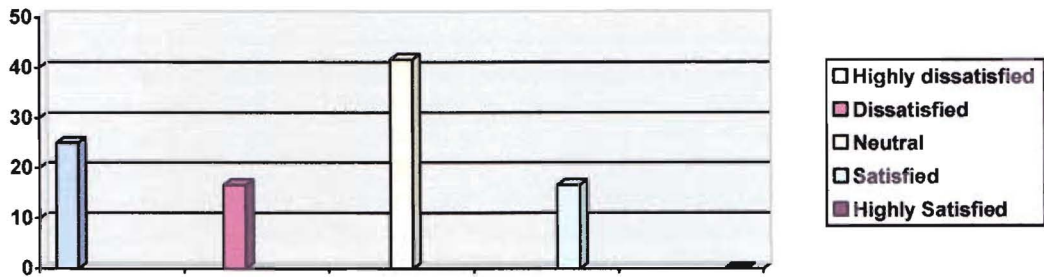


Fig: Customer's satisfaction with PBL on being competitive with other banks in terms of meeting expectations on their need

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 1.9. As the average score of this answer is 1.9, it can be said that the majority part of the sample are not satisfied in terms of meeting expectations on their need,

12. How satisfied are you with PBL's existing SME loan processing system?

Findings: Among the 12 respondents, 8 customers are highly dissatisfied with PBL's existing SME loan processing system, 3 customers are dissatisfied with PBL's existing SME loan processing system, 1 customer are found neutral with PBL's existing SME loan processing system.

	Frequency	Percent (%)
Highly dissatisfied	8	66.67
dissatisfied	3	25
Neutral	1	8.33
Total	17	100

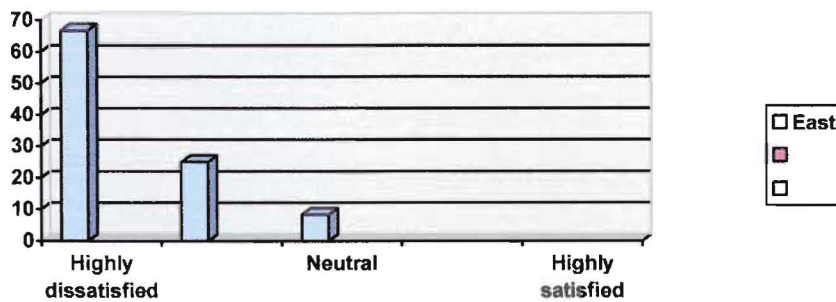


Fig: Customer's satisfaction with PBL's existing SME loan processing system

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 1.4. As the average score of this answer is 1.4, it can be said that the majority part of the sample are not satisfied with the PBL's existing SME loan processing system.

13. How likely are you to recommend PBL to a friend or relative for SME?

Findings: Among the 12 respondents, 7 customers said that the likelihood of their recommendation is "excellent", 3 customers said that the likelihood of their recommendation is "very good", 2 customers expressed their opinion regarding the likelihood of their recommendation of PBL to their friends and family as "neutral",

	Frequency	Percent (%)
Excellent	7	58.33
Very Good	3	25
Neutral	2	16.67
Total	12	100

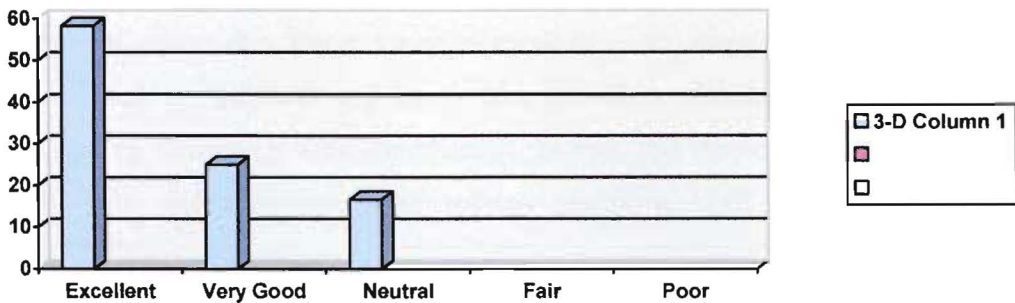


Fig: Customer’s likely hood of their recommendation of PBL to their friends and family members

Analysis: After calculating the responses of all the participants regarding this question, the obtained average score is 4.4. As the average score of this answer is 4.4, it can be said that the majority part of the sample said that the likely hood of their recommendation of PBL to their friends and family members is “very good”.

14. If you feel there is / are means for improvements in this sector, feel free to enter your response below:

Findings & Analysis: This was an open ended question. SME clients of The Bangladeshi banks feel that regarding SME loan the following things should improved or Bangladeshi banks should look after on these issues in order to provide better service for their client:

1. Interest rate should be lower
2. SME loan is very much time consuming
3. Insurance on undertaking.
4. Other Charges (Loan processing fee)

Evaluating the Existing Procedure

Focus Group Discussion with the officials:

To evaluate the existing procedure of SME loan, I had to conduct FGD with the officials, who are associated with the SME loan. FGD is defined as face to face as well as depth

discussion between the Internee and the person who are being in charge of SME loan. The purpose of doing this focus group discussion is to know, to what extent the concerned officials are satisfied with the existing procedure of SME loan. To know this, I did focus group discussion with the officials. During this discussion, they talked lot about SME loan and expressed their opinion regarding SME loan. Their opinion regarding SME loan are as follow:

- i. The Branch should have some sort of discretionary power in case of disbursing loan in order to reduce the time required for disbursing a loan.
- ii. Another important thing, they mentioned about SME loan is that Insurance on stocks. They feel that it is a burden for client and it will create pressure on them which might lead them to become defaulter. Their opinion is that, if a client has to incur the cost of insurance on stock, which will increase their cost of borrowing, and then what is the purpose of introducing SME loan. Because, the main purpose of introducing SME loan, is to provide loan to the consumer as the cheapest possible way. But, at present it is no longer become cheapest way of borrowing money from bank.

Now-a-days, Bank management is working on these issues in order to improve their service as well as to satisfy their consumer also.

Prospect of SME Financing through growth analysis:

Growth analysis is one of the mean of evaluating a company's potentiality. Through this we can identify the percentage changes in every year and we can say that how much it is improving.

The approximate annual amounts of disbursed loans are given below:

YEAR	2002	2003	2004	2005	2006
AMOUNT OF DISBURSED LOAN	8,00,000	12,25,000	14,37,000	19,00,000	22,55,000

Basic formula:

(Current Year – Previous Year) / Current Year

Calculation:

For the Year 2003:

$$(12,25,000 - 8,00,000) / 12,25,000 = 34.70\%$$

For the Year 2004:

$$(14,37,000 - 12,25,000) / 14,37,000 = 14.75\%$$

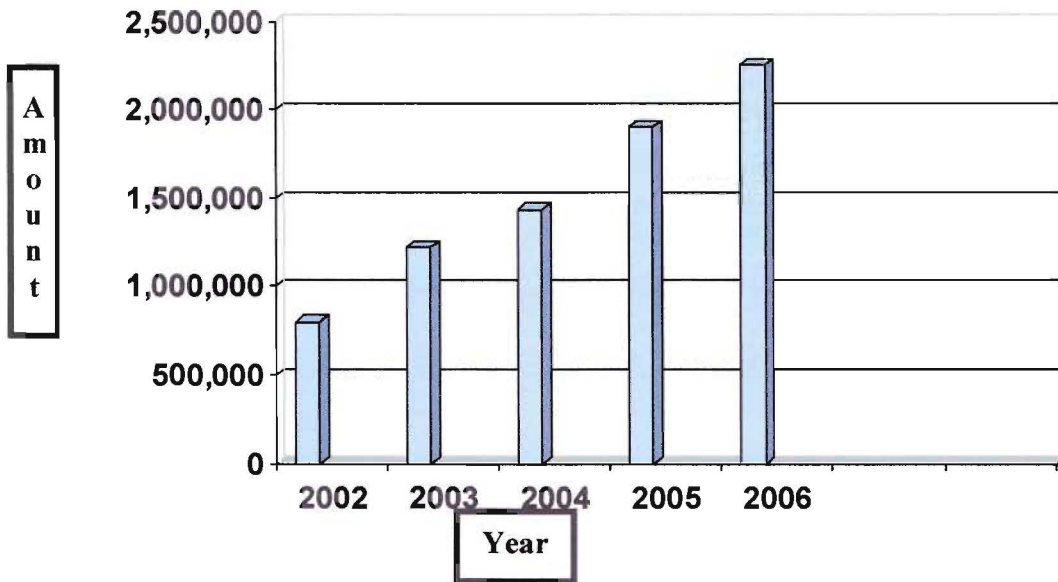
For the Year 2005:

$$(19,00,000 - 14,37,000) / 19,00,000 = 24.37\%$$

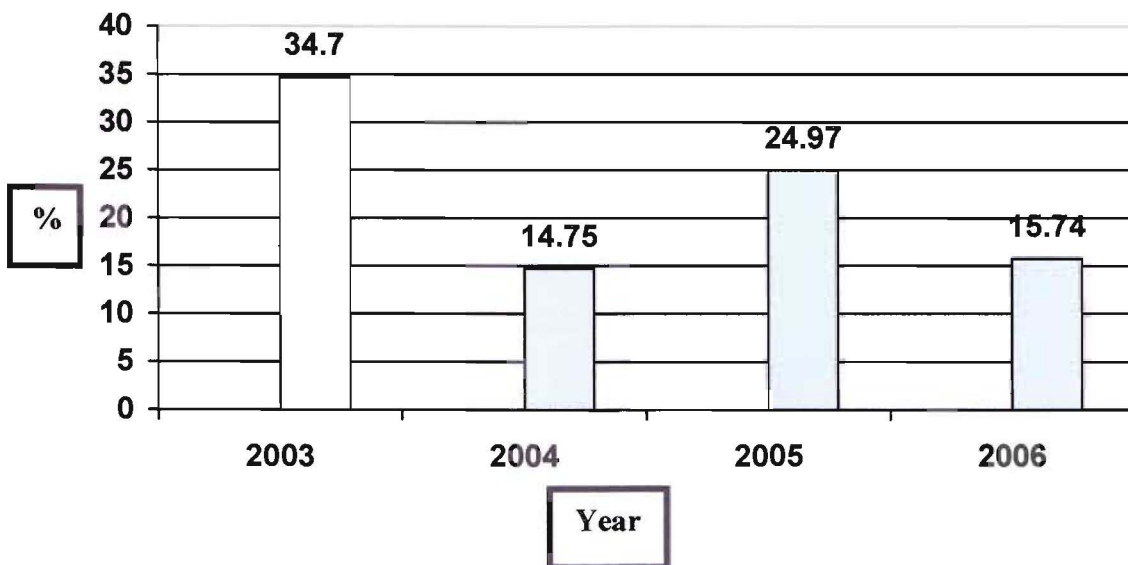
For the Year 2006:

$$(22,55,000 - 19,00,000) / 22,55,000 = 15.74\%$$

Analysis:



Figure#4.3.1: Shows the amount of annual disbursement



Figure#4.3.2: Shows the percentage change in annual disbursement

With the help of the above charts I have shown both the situation. First one is used to show the current trend according to the total amount of disbursement. Second chart also shows the current trend but in a different manner.

Though it looks very satisfactory that the amount of personal loan is increasing every year (from figure#4.3.1 and the table), but if we just consider the growth rate and compare with figure#4.3.2, then we will see that it is saying a different story.

If we consider the first chart the growth is highly satisfactory because it is shown that it is increasing (figure#4.3.1).

But from the figure#2 it is clear that the growth rate is not at all satisfactory because only in the year 2003 it was on the top but after wards it is declining. So we can say that the percentage of the growth is declining, which can not be visible if consider only the total amount of disbursal through the chart. That is why we can say that the growth is “*increasing at a decreasing rate*”

So PBL has to reconsider its marketing policies to regain the better growth rate again (some suggestions have been made in the recommendation part.)



4.0. Weakness & Recommendation

Weakness

After conducting questionnaire with the clients & focus group discussion with the officials, I was able to figure out several weaknesses regarding SME loan. The weaknesses are as follows:

- The SME loan procedure is time consuming, which is not the best interest of the borrower. As the loan sanctioning decision is totally centralized, so most of the time delay occurs from various correspondences between head office and Branch office.
- Due to increased cost of fund, the bank has to charge higher rate of interest. For this reason, bank will be unable to attract more consumers for investment.
- From the questionnaire survey, I have found that most of the consumers are not satisfied with the other charges such as loan processing fees. While sanctioning SME loan, consumer has to incur 1% of the total loan amount as the name of loan processing fees. As a result, it will increase their cost of borrowings and in future, it may increase the number of defaulter.

Recommendation

Since banking industry is being one of the most profitable and lucrative industries in Bangladesh, many new banks are entered in the market with more competitive packages than others. Besides these, existing banks are also offering more lucrative offer regarding SME loan to attract new consumer. The existing procedure of PBL regarding SME loan is good enough to run the bank, but as the competition is increasing day by day in these sector, they have to work on several issues in order to improve their facilities as well as to attract new consumer also. As a result, they can distinguish their offering from others:

- The Head office should provide some sort of discretionary power regarding sanctioning SME loan to Branch office. As a result, the amount of time required for sanctioning a SME loan will be reduced. Consumer will be able to fulfill their needs and will become satisfied also.
- The bank management can think about reducing higher rate of interest. Because, higher rate of interest may lead some good loans into bad loans. In addition, many new consumers will be attracted to their SME product because of lower rate of interest.
- The bank management should also think about reducing other charges associated with SME loan. Because, other charges are treated as burden for a client in addition to the higher rate of interest. The purpose of introducing SME loan is to provide loans to the consumer as the cheapest possible way. But if a consumer has to incur other charges such

as loan processing fees, insurance on stock etc, it will create pressure on consumer. As a result, it may possible to increase of defaulter.

Moreover, it is highly recommended to improve their existing facilities, in accordance with customer's expectations and need in order to become most popular SME service providing bank. The bank management should always thing what sort of service consumer want from them as well as they should always associated with the change of industry and offer their product with more competitive than others to attract new consumers.



5.0 Conclusion

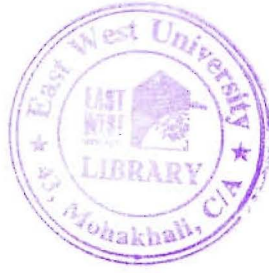
Conclusion

The nucleus part of the Bank Management is Credit Management. The continuation of a bank depends on the Credit management. This is because, if credit management fails to generate a well diversified loan portfolio for the bank, then the bank may lose their investments which are the savings of the depositors and owners equity. That's why, Credit management does all sorts of activity regarding SME loan, in order to remain their position safe as well as the existence of Bank also.

In the year 2001, SME loan had been added in the loan portfolio of Bangladeshi banks. In order to having a well- diversified loan portfolio, the bank must screen out the good borrowers among the loan applicants. This is because; good client selection may reduce the chance of default loan rather than the bad client selection. The tenor of this branch is just one year but they do not have any classified loan which indicates that their client selection is very good. Although they do not have any classified loan, but still they are unable to attract more SME client. At present, banking sector is becoming more and more competitive. In order to remain competitive Bangladeshi banks should take some steps in order to attract as well as increase the number of SME client.

From the credit Information Bureau (CIB) department of The Bangladeshi banks Limited, O. R. Nizam Road branch, I have learned a lot about credit management, more specifically SME loan. With the co-operation of the officer of the credit department, I was able to relate my theoretical knowledge with the real world. As a trainee, I was so fortunate in the sense

that I have got an opportunity to work with this wonderful people, who helped me throughout my internship.



6.0. Appendix

Appendix

Questionnaire:

1. Please select the nature of your organization?
 - Proprietorship
 - Partnership
 - Private limited company
 - NGO
 - Others
2. Please select your education level?
 - Post Graduate
 - Graduate
 - H.S.C/ A-level
 - S.S.C/ O-level
 - Below S.S.C/ O-level
3. In total how long have you been in business?
 - Less than one year.
 - One to under three year
 - Three to Five Year
 - Five to Ten Year
 - Ten years or above
4. In total, how long have you been a customer of PBL?
 - Less than one year.
 - One to under three year
 - Three to Five Year
 - Five to Ten Year
 - Ten years or above
5. How satisfied are you with the representative's overall knowledge of your problem or question of PBL for SME loan?
 - Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
6. How satisfied are you with the Interest rate of PBL for SME loan?
 - Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied

7. How satisfied are you with the other charges of PBL for SME loan?
- Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
8. How satisfied are you with the legal documents requirements of PBL for SME loan?
- Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
9. How satisfied are you with the amount of paper required by PBL for SME loan?
- Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
10. How satisfied are you with the amount of time required from the date of application to the date of disbursement by PBL for SME loan?
- Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
11. How satisfied are you with PBL on being competitive with other banks in terms of meeting expectations on your need?
- Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
12. How satisfied are you with PBL's existing SME loan processing system?
- Highly Satisfied
 - Satisfied
 - Neutral
 - Dissatisfied
 - Highly dissatisfied
13. How likely are you to recommend PBL to a friend or relative for SME?
- Excellent
 - Very Good
 - Good

- Fair
- Poor

14. If you feel there is/are means for improvements in this sector, feel free to enter your response below.

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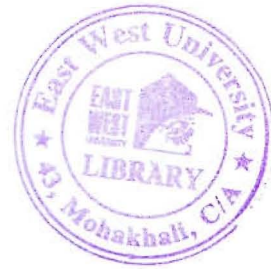
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