An Appraisal of the Problems and Prospects of Small and Medium Enterprises (SMEs) Financing in Bangladesh: A Study on Selected Districts

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The views expressed in this publication are those of the author(s) and not necessarily those of the Center for Research and Training.

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ABSTRACT

In the process of economic development Small and Medium Enterprises (SMEs) play a pivotal role in poverty alleviation and rapid industrialization of the developing countries like Bangladesh. In this paper we tried to appraise the Problems and Prospects of SMEs in Bangladesh. We observed from the research that non availability of adequate credit, complex loan granting procedure, inadequate infrastructure facilities, problems of collateral requirements, paucity of working capital, non availability of skilled work force, poor salary structure, lack of coordination among SME related organizations, lack of appropriate marketing strategies etc. are the major hindrances to the development of the SMEs in Bangladesh. In order to overcome the problems researchers have tried to provide some recommendations for the developments of SMEs in Bangladesh based on sound reasoning.

KEY WORDS

Small and Medium Enterprise (SME), Finance, Working Capital, Workforce, Modern Technology, Physical Infrastructure

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Small and Medium Enterprises (SMEs) act as a vital player for the economic growth, poverty alleviation and rapid industrialization of the developing countries like Bangladesh. SMEs are significant in underlying country's economic growth, employment generation and accelerated industrialization. Government of Bangladesh has highlighted the importance of SME in the Industrial Policy-2005. SMEs have been identified by the Ministry of Industries as a 'thrust sector'. As the SME sector is labor intensive, it can create more employment opportunities. For this reason government of Bangladesh has recognized SME as a poverty alleviation tool. SMEs also foster the development of entrepreneurial skills and innovation. Along with poverty alleviation SMEs can reduce the urban migration and increase cash flow in rural areas. As a result they will enhance the standard of living in rural areas.

1.2 RESEARCH QUESTION

What are the Problems and Prospects of SME Financing in Bangladesh?

1.3 OBJECTIVES OF THE STUDY

The objectives of the research are to identify the factors that influence the development and growth of the SME sector. Thus the specific objectives of the study are as follows:

1. To appraise the present situation of SMEs in Bangladesh.
2. To evaluate the financing performance of SMEs in Bangladesh.
3. To identify the financing problems of SMEs in Bangladesh. Regarding the identification of financing problems, we have tried:
    - ➤ to find out whether lack of investment and operating funds hinder the growth of the SME sector
    - ➤ to find out whether lack of modern technology hinders the growth of the SME sector
    - ➤ to find out whether poor physical infrastructure and high transportation cost undermine the competitiveness of SMEs
    - ➤ to find out whether shortage of skilled workforce hinders the development of SMEs.

4. To identify the prospect of SMEs in Bangladesh.
5. To recommend solutions to the problems.

1.4 JUSTIFICATION FOR THE STUDY

From the sequence of our analysis it seems that for the economic development of Bangladesh SMEs can play a vital role. Small and medium Enterprises act as the most cost-effective and worthwhile means of providing employment and injecting dynamism into industrial growth, both for poverty alleviation and for contribution to the GDP. At present SME sector is facing a lot of problems. Bangladesh government is trying to develop the SME sector through different policy measures even though the rate of development is not up to expectations. Among the different problems, financing is considered as the vital problem. Existing studies about SME financing problems are not adequate. Hence, a detailed study regarding the financing problems of SME sector is of great importance. This study is an attempt to this end.

1.5. LIMITATIONS OF THE STUDY

During data collection the researchers have faced lots of difficulties due to the non-cooperation of the executives from financial institutions. Some of the SME entrepreneurs were also reluctant to answer some of the questions and due to this reason errors have occurred at the time of analysis of some data.

Due to the fund constraints, this research project is conducted in three districts of Bangladesh. The study could not also cover a wide number of entrepreneurs and institutions. The Centre for Research and Training, East West University (EWU) sanctioned an amount of TK 100,000 only, which was not at all sufficient to conduct the study on a wide number of entrepreneurs, districts and institutions. Another major problem the researchers faced was that there was no long vacation for the faculty members of EWU to conduct research on a large number of areas /sample size.

In the field investigation i.e., interview of the entrepreneurs, the difficulty we faced was that some of them were reluctant to provide the information and we had to convince them with great efforts. The other difficulty faced in the process of survey was that the executives of some financial institutions were not much free to supply the necessary data. However, in spite

of the difficulties mentioned above, sincere efforts were made to complete the study, to make it possible to come up with the present work.

This study has focused on the financing problems of SME sector. The regulatory environment, marketing environment, human resource management and other SME related problems have not been considered in this project.

CHAPTER 2

AN OVERVIEW OF SMEs

2.1 AN OVERVIEW OF SME

2.1.1 SMEs: around the world

According to the **European Union** (2003) SMEs are defined as enterprises which have at most 250 employees and an annual turnover not exceeding 50 million Euros. Further, there is the distinction of small enterprises — they have fewer than 50 staff members and less than 10 million Euros of turnover — and micro-enterprises (less than 10 persons and 2 million Euros of turnover).

According to the **World Bank** (2006) medium enterprises are defined as enterprises which have at most 300 employees and an annual turnover not exceeding 15 million US dollars. Further, there is the distinction of small enterprises — they have fewer than 50 staff members and up to 3 million US dollars of turnover — and micro-enterprises have up to 10 persons and $100,000).

In the **UK,** sections 382 and 465 of the Companies Act 2006 define SMEs for the purpose of accounting requirements. According to this a small company is one that has a turnover of not more than £5.6 million, a balance sheet total of not more than £2.8 million and not more than 50 employees. A medium-sized company has a turnover of not more than £22.8 million, a balance sheet total of not more than £11.4 million and not more than 250 employees. It is worth noting that even within the UK this definition is not universally applied.

In the **USA,** the definition of a small business is set by a government department called the Small Business Administration (SBA) Size Standards Office. The SBA uses the term "size standards" to indicate how largest a concern can be in order to still be considered a small business, and therefore be able to benefit from small business targeted funding. The concern cannot be dominant in its field, on a national basis. It must also be independently owned and operated. Unlike the UK and the European Union which have simple definitions applied to all industries, the US has chosen to set size standards for each individual NAICS coded industry. This variation is intended to better reflect industry differences. The most common size standards are
- 500 employees for most manufacturing and mining industries
- 100 employees for wholesale trade industries
- $6 million of annual receipts for most retail and service industries

- $28.5 million of annual receipts for most general & heavy construction industries
- $12 million of receipts for all special trade contractors
- $0.75 million of receipts for most agricultural industries

Canadian Government defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business. (www.about.com)

Ministry of Trade and Industry, Government of India defines the Small Scale Industries (SSIs) as those industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire purchase, does not exceed Rs. 10 million. The Small Scale Service and Business (Industry related) Enterprises (SSSBEs) are industry related service and business enterprises with investment in fixed assets, excluding land and building up to Rs. 1 million.

According to the SME bank of **Pakistan,** an SME means an entity, ideally not a public limited company, which does not employ more than 205 persons (if it is manufacturing concern) and 50 persons (if it is trading/service concern) and also fulfils the following criteria of either 'a' and 'c' and 'c' or 'b' and 'c' as relevant; (a) A trading/service concern with total assets at cost excluding land and buildings up to Rs 50 million. (b) A manufacturing concern with total assets at cost excluding land and buildings up to Rs 100 million. (c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.

2.1.2 SMEs in Bangladesh

Different countries and organizations define SMEs differently. The Government of **Bangladesh** has categorized SMEs into two broad classes

- Manufacturing enterprises
- Non Manufacturing activities

(a) Manufacturing enterprises

Manufacturing enterprises can be divided into two categories:

Small enterprises : an enterprise is treated as small if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, are to up to Tk. 15 million;

Medium enterprises : an enterprise is treated as medium if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, are to up to Tk. 100 million;

(b) Non-manufacturing activities (such as trading or other services)

Non-manufacturing activities can be divided into two categories;

*Small enterprises***:** an enterprise should be treated as small if it has less than 25 workers, in full-time equivalents;

*Medium enterprises***:** an enterprise should be treated as small if it has between 25 and 100 employees.

According to Bangladesh Bureau of Statistics different enterprises are defined as;

Enterprises	No of employees
Micro	0-9
Small	10-49
Medium	50-99
Large	Above 99

The Ministry of Industries, Government of Bangladesh has identified the following 11 booster sectors;

    I.   Electronics and electrical

   II.   Software-development

  III.   Light engineering and metal-working

  IV.   Agro-processing/agro-business/plantation agriculture/ specialist farming/tissue-culture

   V.   Leather-making and leather goods

  VI.   Knitwear and ready-made garments

 VII.   Plastics and other synthetics

VIII.   Healthcare & diagnostics

  IX.   Educational services

   X.   Pharmaceuticals/cosmetics/toiletries

  XI.   Fashion-rich personal effects, wear and consumption goods.

2.2 Present Scenario of SMEs in Bangladesh

In 2003 the International Consultancy Group (ICG) of the UK, in collaboration with the Micro Industries Development Assistance and Services (MIDAS), conducted the National Private Sector Survey of Enterprises in Bangladesh. The survey results drew the conclusion that there were approximately 6 million small and medium enterprises (SMEs), which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above. The survey also found that the industrial structure of SMEs consisted of primarily wholesale and retail trade and repairs (40 per cent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing only (14 per cent). Thus the survey brought out very prominently the fact that the large untapped potential for expansion in manufacture and production could be exploited (or contributing more significantly to the national economy. Another vital finding of the survey under discussion was that SMEs contributed BDT 741 ($ 12.5) billion i.e. nearly 25 per cent of the GDP (BDT 2,996 billion) in 2003. It is reflected from this survey that enterprises employing 2-5 workers contribute 51 percent share of the total SME contribution to the economy, followed by 26 percent by those having only one

worker and 10 per cent by those having 6-10 workers. For LDCs like Bangladesh, SMEs are a highly cost-effective route to industrial development.

Table - 1: Contribution of SMEs in the GDP of Bangladesh

Numbers of workers	Total Contribution to GDP (Taka)	Percentage of Total contribution (%)
0-1	193,996,555,714	26
2-5	379,663,897,358	51
6-10	73,120,983,681	10
11-20	45,183,240,157	6
21-50	33,960,498,076	5
51-100	15,138,922,373	2
Total	**741,064,097,360**	**100**

Source: ICG/MIDAS Survey, 2003

It is observed from Table - 1 that micro enterprises containing up to 10 workers contribute the most which is 86% of the total contribution from SMEs to GDP of Bangladesh.

Table - 2: Sector wise contribution of SME in GDP of Bangladesh (Taka)

Sector	Total Contribution to GDP (Taka)	Percentage of Total Contribution (%)
Agriculture	177,729,637,637	24
Fishing	32,872,674,464	4
Manufacturing	282,344,700,575	38
Construction	7,196,460,200	1
Wholesale and Retail trade and Repairs	171,335,861,390	23
Hotels and Restaurants	28,599,263,975	4

Transport, Storage and Communication	8,950,171,356	1
Real state, Renting and Business activities	13,771,436,794	2
Education	151,808,506	0
Health and Social Work	2,743,049,893	0
Other Service activities	15,632,094,785	2
Total	**741,327,159,609**	**100**

Source: ICG/MIDAS Survey, 2004

Table - 2 provides information regarding sector wise contribution of SMEs to GDP. It is reflected from the table that manufacturing sector contributes the highest percentage in GDP i.e. 38%. It is also observed from the table that agriculture wholesale and retail sectors contribute more than 22 percent in the GDP of Bangladesh.

Table - 3: Growth Pattern of SMEs

Year	Growth Rate of Small Enterprises
2001-02	7.69 %
2002-03	7.21 %
2003-04	7.45 %
2004-05	7.93 %
2005-06	9.21 %
2006-07	9.69 %
2007-08	7.1 %
2008-09	6.6 %

Source: Bangladesh Economic Review 2008-2009

Table - 4: Growth Pattern of Manufacturing Sector

Year	Growth Pattern of Manufacturing Sector
1972-2005	6.4%
2001-02	5.48 %
2002-03	6.75%
2003-04	7.10 %
2004-05	8.19 %
2005-06	10.77 %
2006-07	9.7 %
2007-08	7.2 %
2008-09	5.9 %

Source: Bangladesh Economic Review 2008-2009

Table - 3 and Table - 4 show the growth patterns of SMEs and Manufacturing sector respectively. Previously it is reflected from Table - 2 that the contribution of manufacturing sector is highest in the GDP. From Table - 4 it is observed that the manufacturing sector faces the increasing trend of growth.

CHAPTER 3

REVIEW OF LITERATURE

REVIEW OF LITERATURE

With respect to the SME sector of Bangladesh, foreign and national experts undertook some studies. Some of the notable ones are:

Raihan (2001) observes that the 50.53 percent of SMEs have no access to formal source of finance. Only 35.79 percent of SMEs enjoy unrestricted access to the formal credit. The rest (13.68 percent) of them have restricted access to the formal credit. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6 percent) seek finance for their working capital needs from banks, although only a half-of them get loan from banks.

In a study Micro Industries Development Assistance and Services (2004) identifies that sources of finance are mostly friends and family members in case of SMEs. Micro Industries Development Assistance and Services (MIDAS) identified fund sources of SMEs, which are as follows:

Sources of Fund	Percentage
Informal sector	41%
Family members	20% (interest free) 4% (with interest)
NGO	17%
Bank	18%

Ahmed (2004) points out that due to the lack of national quality policy and adequate support system, and also the lack of credibility of the quality certification authority, SMEs of Bangladesh have failed to ensure the quality of products and services both in domestic and international markets. He also argues that access to finance prevails as one of the most important problems for the SMEs in Bangladesh. Lack of investing or operating funds remains as one of the most prominent complains of almost all the SMEs in Bangladesh.

Azad (2004) observes that the micro-enterprise sector itself is a subset of informal economy. These self-owned tiny enterprises in both urban and rural areas are not registered or required to be registered with any taxation or regulatory bodies. They are not covered by uniform regulations. The main features of the informal sector are ease of entry, self-employment, small-scale production, labor-intensive work, lack of access to organized markets, and lack of access to traditional forms of credit due to supply-deficits and high cost of borrowing. As very small in size, micro-enterprises often employ less than 10 people, who are usually the entrepreneurs' family members, and can be based at or out of their home. Micro-enterprises are often the single source of family income of the poor entrepreneurs. Because of their alignment with the informal sector with inability to provide collaterals, the micro- enterprises face serious difficulties in obtaining credit from the formal banking system. Again, as they are highly vulnerable to risks, the local moneylenders, friends and even relatives in many instances show reluctance to give or lend them money. All of these help keep deprived the micro-enterprise sector from getting financial support both from formal banking system and from the informal credit market. More importantly, commercial banks are rarely interested to provide start-up capital. If they do that, then is excessively selective.

The reasons that make the formal banks reluctant to lend to micro-enterprises are summarized by Azad (2004) as:

a) Lending to small enterprises is perceived as very risky. The uncertainties that face a small industry, the high mortality rate, the susceptibility to market changes, and to economic fluctuations, make banks reluctant to deal with these clients. Non-payment, or even delayed payment, by a few major clients can cause the collapse of a small business. The mortality rate of small businesses is indeed high.

b) Parallel to the reluctance of banks to lend to small enterprises is the reluctance of these enterprises to borrow from banks. The administrative and costly formalities of obtaining bank finance, particularly the time and paper work involved, are a formidable deterrent to smaller businesses.

c) There is a distinct institutional bias on the part of banks towards lending to the larger corporate sector. In many cases there are links in directorships, joint ownerships and various

other common financial dealings between banks and the large enterprises and automatically this induces preference for directing finance to these borrowers.

d) The administrative costs of lending to small enterprises are high, which cuts deep into the profitability of such transactions for lending institutions. This is undoubtedly the case and has been borne out in studies.

e) Small enterprises are unable, or unwilling, to present full accounting records and other documentation called for by banks. In most cases such records just do not exist, making appraisal of loan applications difficult.

f) Usually such small borrowers are unable to provide the collateral and security demanded by lending banks and other institutions before approving loans.

g) Enterprises in the "informal sector" lacking any legal status face even greater problems in obtaining finance.

So there is always a large gap between the demand and supply of funds for the operation and development of individual micro-enterprises and the micro-enterprise sector as a whole.

Ahmed (2006) observed that availability of finance is 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 of the SME operation becomes necessary.

Ahmed (2006) states that 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 loans is too high and needs to be lowered. 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. In a study about SME sector of Bangladesh Miah (2007) stated credit constraints is one of the major problems of Bangladeshi SMEs.

Chowdhury (2007) highlights that in the context of Bangladesh SMEs are characterized by Low capitalization and limited assets, geographical diversity and high mortality, poor credit knowledge, very limited access to formal source of credit, cash intensity in transactions, very limited record keeping habit, poor financial disclosure on account of tax issues. High risk perception has led to high borrowing costs.

Rahman and Mahmood (2007) mentions that Small and Medium Enterprises are the backbone of the economy in countries like Bangladesh. SMEs suffer from common constraints such as lack of capital, difficulties in procuring raw materials, lack of access to relevant business information, low technological capabilities, problems caused by cumbersome and costly bureaucratic procedures, and policies and regulations that generate market distortions. However, with proper domestic policy support from the government, and an eye towards global market trends, SMEs can build capacity and reap the rewards of globalization.

Hasan and Islam (2008) identifies that banks usually do not express interest towards SME financing. The reason behind this conservativeness is higher operational cost, less return and high risk associated with the SME financing. Due to small loan size the operational cost is higher and they require intensive monitoring and supervision. The main reason for higher risk is that the small and medium entrepreneurs are highly unlikely to comply with the collateral requirements as typically they do not have immovable properties. With the excuse of collateral sometimes banks and non-bank financial institutions are reluctant to finance SMEs.

Bangladesh Bank Report (2008) says, the key reasons behind the SMEs are not entering into manufacturing but are financial constrains, dismal state of utilities, technology and policy discriminations. On the other hand, Bank and others financial institutions generally prefer large enterprise clients because of lower transition costs, and greater availability of collateral. The SMEs also fall outside the reach of micro finance schemes, and thus are compelled to

depend on formal sources of funds at much higher interest rates, the Bangladesh Bank report said. The BB report, however, said that other interrelated problems like shortage of short and long term finance, lack of modern technology and lack of promotional support services are major obstacles in the way of development of the SMEs sector. Higher growth of the Small and Medium Enterprises (SMEs) can help cut poverty to a satisfactory level by eliminating various prejudices against labour intensive and creating jobs for the skilled manpower in the SME sector.

Hasan and Islam (2008) mentions that the microfinance industry in Bangladesh has reached a mature stage over the last three decades. During this time, Micro Finance Industry (MFIs) has created many entrepreneurs and a large portion of them are women. If we critically analyze the enterprise landscape of a Least Develop Countries (LDCs), we will find there are five layers of the pyramid. At the bottom of the pyramid micro-business or micro enterprise is located, which constitute 65-75% of the total market, small businesses capture 20% market share, medium businesses cover 5-10%, large businesses cover 0.9% and corporate and multinationals cover 0.1% of the total market share. The bottom clients of Micro-business of pyramid are financed by the MFIs. The target clients of mainstream financial institutions like banks and NBFIs are the top two layers of the   pyramid, which consist of large businesses, corporate and multinationals. But the middle two layers of the pyramid where small and medium businesses are located are usually untapped both by the mainstream financial institutions and also the MFIs. This group has been named the missing middle. To bridge the gap between microfinance and SME financing, this missing middle is to be addressed by both the mainstream financial institutions as well as MFIs. The banks and NBFIs should downscale their SME financing activities in a way that addresses at least the upper portion of the missing middle. So that there will be a bridge between the clients of bottom layer of the pyramid and upper layer and there will be no gap. If the missing middle could be eliminated by absorbing them through financing by both mainstream financial institutions and MFIs then there will be no gap and when the enterprises of microfinance clients expanded then these enterprises could be linked with mainstream financial institutions.

Munusamy (2008) observes that SMEs concentrate in small-scale production requiring less capital and catering to the domestic demand. Due to its size, SMEs are relatively less efficient than larger companies. SMEs in their pursuit to be more competitive in terms of efficiency and productivity need to acquire up-to-date technology to facilitate smoother processes and to

upgrade the skills of the workforce in order to grow. However, difficulties in obtaining financial assistance and services because of rigid requirements and extensive paperwork constrain the overall expansion plans of SMEs.

Faruq (2009) has pointed out some drawbacks of SME loans. SMEs are high risk borrowers because of their inability to meet with the collateral requirements of the banks. Bankers issue loans based on the ownership of immovable property as collateral risk. So if the SMEs are unable to repay the debt, there is a chance that the bank will take ownership of their asset. For businesses that are not performing well, owing to the repayment schemes, SME loans create a burden for them rather than helping them to grow. Interest rates of SME loans are high in comparison to general loan.

CHAPTER 4

METHODOLOGY

4.1 METHODOLOGY

The study has been carried out to evaluate the performance of SME sector in Bangladesh. The data was collected from both primary and secondary sources. Secondary information was collected from Ministry of Industries, SME Foundation, Bangladesh Bureau of Statistics, MIDAS, some financial institutions and from other SME related organizations.

In order to collect primary information we have prepared 2 types of semi-structured questionnaire i.e. one for entrepreneurs and the other for financial institutions. The first set of questionnaire was administered to individual entrepreneurs to assess their financing situations regarding their SMEs. For entrepreneurs our survey areas were Dhaka, Munshigonj and Barisal districts. For collecting information 50 entrepreneurs were selected purposively. Financial and time constraints along with ease of communication played the major role in selecting the study area. We chose the three districts because it was easier for us to collect data as Dhaka was our work place and Munshigonj and Barisal were the home districts of the two researchers.

The second set of questionnaire was administered for collecting information from senior executives of 8 financial institutions who work for the SME division to assess the loan procedure for SMEs and their views about the borrowing practices of SMEs. Information was collected from Prime Bank Limited, Mutual Trust Bank Limited, BRAC Bank Limited, City Bank Limited, Standard Chartered Bank, IDLC Finance Limited, Dhaka Bank and Eastern Bank Limited. These financial institutions are trying to develop the SMEs of Bangladesh by extending capital financing and working capital financing facilities to the SMEs. Most of the institution also established SME Division in their institutions to expedite the SMEs of Bangladesh.

When the questionnaires were collected, the information on different aspects were systematically tabulated and grouped for appropriate analysis. Information on entrepreneurs and executives of financial institutions were analyzed through tables and frequency distribution. Frequency distribution was conducted among different groups of respondents with regard to disclosure score for each group. Collected data were analyzed using Statistical Package for Social Science (SPSS). Because of the fact that the samples were not random, statistical test could not be performed to test any hypotheses. Therefore, conclusions were made on the basis of the analysis of data supported by tables.

Some of the respondents did not answer some particular questions because those questions were not applicable for them. Those respondents were considered as missing at the time of analyzing the data/table.

CHAPTER 5

AN INSIGHT into SME FINANCING in BANGLADESH

5.1 SALIENT FEATURES OF LOANEES

To find out whether the 'lack of investment and operating funds hinder the growth of SMEs, the following analysis is conducted:

From table- 5 in annexure it is reflected that 90% of the respondents are male entrepreneurs and only 10% are female. It seems that SMEs are dominated by the male entrepreneurs in the investigated area.

From table- 6 in annexure it is observed that 40% of the respondents are more than 50 years old and 12% are in the age group of 40 to 45 and only 10% are less than 30 years old. So, it is reflected that most of the entrepreneurs are in high age group.

From table- 7 in annexure it is reflected that the educational level of 30% of the respondents is graduate and 24% have post graduate degrees and 16% have completed secondary education. It seems most of the respondents are highly educated.

Table 8: Distribution of respondents by their location

Location	Frequency	Percent
DHAKA	17	34.0
MUNSHIGONJ	18	36.0
BARISAL	15	30.0
Total	50	100.0

It is observed from table – 8 that 36% of the respondents are from Munshigonj, 34% are from Dhaka & 30% are from Barisal district respectively.

Table 9: Distribution of respondents by their number of employee

Number of Employees	Frequency	Percent
1-9	38	76.0
10-49	7	14.0
50-99	5	10.0
Total	50	100.0

It is observed from table 9 that 76% of the investigated SMEs have less than 10 employees and 10% of the SMEs have 50 – 99 employees. It seems most of the SMEs are small in nature.

Table 10: Distribution of respondents by their amount of capital

Amount of Capital	Frequency	Percent
BELOW 10 LAC	26	52.0
10 - 20 LAC	14	28.0
20 - 40 LAC	6	12.0
40 LAC - 1.5 CRORE	3	6.0
1.5 - 10 CRORE	1	2.0
Total	50	100.0

Table 10 shows that 52% borrowers have taken loan of less than Tk.10 lac, 28% borrowers have taken loan of Tk. 10 lac to Tk. 20 lac, 12% have taken loan of Tk 20- 40 lac and only 2% have taken loan of Tk.1.5 core and above. It is reflected from the table that most of the borrowers have taken small quantity of loan and only a small percentage of borrowers (2%) have taken a large amount of loan. It seems most of the investigated SMEs are very small in size.

Table 11: Distribution of respondents by their nature of organization

Nature of Organization	Frequency	Percent
ELECTRONICS & ELECTRICAL PRODUCT	7	14.0
SOFTWARE MAKING	3	6.0
LIGHT ENGINEERING & METAL WORKING	6	12.0
AGRO PROCESSING / AGRO BUSINESS / - PLANTATION AGRICULTURE	9	18.0
LEATHER PRODUCT	1	2.0
KNIT WARE & READY MADE GARMENTS	6	12.0
HEALTH CARE & DIAGNOSTIC	8	16.0
EDUCATION SERVICE	1	2.0
PHARMACEUTICALS / COSMETICS / TOILETRIES	3	6.0
FASHION DESIGNING & FASHION WARE	6	12.0
Total	50	100.0

Table 11 shows the distribution of respondents by the nature of their organizations. It is reflected that 18% is agro-based in nature, 16% relates to health care and diagnostic,12% does light engineering & metal work, another 12% is involved in knitwear and readymade garments and again another 12% is related to fashion designing. It seems SMEs are diversified in nature. The highest number of SMEs are of agro-based in nature. It is also reflected that growth of health care and diagnostic is also showing an encouraging picture. So it is observed that SMEs are involved in diversified production and service activities.

Table 12: Distribution of respondents by their source of capital

Sources of Capital	Frequency	Percent
OWN FINANCE ONLY	15	30.0
PARTIAL OWN FINANCE AND BORROWING	35	70.0
Total	50	100.0

Table 12 shows that only 30% of the respondents have invested capital from their own sources and remaining 70% of the respondents have collected capital from their own sources and borrowing.

Table 13: Distribution of respondents by their reason of self finance

Reason of Self Finance	Frequency	Percent	Valid Percent
PERSONAL REASON	6	12.0	40.0
COMPLEXITY OF TAKING LOAN	7	14.0	46.7
REJECTION OF LOAN APPLICATION	2	4.0	13.3
	15*	30.0	100.0
MISSING	35		

The total frequency is 50. Out of 50 respondents only 15 respondents have not taken loan. So the rest 35 respondents are considered as missing in this table.

We tried to investigate the reasons for self financing. About 47% of the respondents mentioned that due to complex loan sanctioning procedure they were reluctant to take loan and 13% mentioned that their loan applications were rejected and the remaining 40% were reluctant to take loan for their personal reasons. Hence, financial institution may try to minimize the complexity of loan sanctioning mechanism.

Table 14: Distribution of respondents by their sources of loan

Sources of Loan	Frequency	Percent	Valid Percent
COMMERCIAL BANK	17	34.0	48.6
KRISHI BANK / KORMO SHANSTAN BANK	1	2.0	2.9
MICRO CREDIT PROVIDER INSTITUTION	9	18.0	25.7
LOAN FROM FRIENDS	8	16.0	22.9
Total	35*	70.0	100.0
MISSING	15		

The total frequency is 50. Out of 50 respondents only 35 respondents have taken loan. So the remaining 15 respondents are considered as missing in this table.

It is reflected from Table 14 that among the respondents about 48% have taken loan from commercial banks, 25% have taken loan from micro credit institutions, 23% have taken loan from friends and 2% have taken loan from Krishi Bank. It seems the role of Krishi Bank is negligible in the development of SMEs.

Table 15: Types of loan

Types of Loan	Frequency	Percent
COLLATERAL	14	40.0
NO COLLATERAL	21	60.0
Total	35*	100.0
MISSING	15	

* The total frequency is 50. Out of 50 respondents only 35 respondents have taken loan. So the remaining 15 respondents are considered as missing in this table.

Among the borrower**s,** 40% provided collateral at the time of taking loan and remaining 60% did not require providing any collateral.

Table 16: Time requirements of getting loan

Days/ Months	Frequency	Percent
7 - 15 DAYS	4	12.0
15 - 30 DAYS	19	54.0
2 - 3 MONTHS	11	31.0
ABOVE	1	3.0
Total	35*	100.0
MISSING	15	

* The total frequency is 50. Out of 50 respondents only 35 respondents have taken loan. So the remaining 15 respondents are considered as missing in this table.

Table 16 shows the length of time required to approve the loan. It is reflected that 12% of the loanee received loan within 7-15 days, 54% of the loanee received loan within 15-30 days. It is also observed that 31% of the investigated loanees received the loan after 2 months.

Table 17: Procedure of loan application

Loan Application Procedure	Frequency	Percent
EASY	19	54
TOUGH	16	46
Total	35*	100.0
MISSING	15	

* The total frequency is 50. Out of 50 respondents only 35 respondents have taken loan. So the remaining 15 respondents are considered as missing in this table.

Table 17 tries to identify the procedure of loan application. Among the respondents 54% mentioned that loan application procedure was easy but 46% mentioned the procedure to be tough.

Table 18: Assistance of others to get the loans

Source	Frequency	Percent
RELATIVES & FRIENDS	17	48.5
EMPLOYEE OG THE INSTITUTIONS	14	40
THROUGH BROKER	4	11.5
Total	35*	100.0
MISSING	15	

* The total frequency is 50. Out of 50 respondents only 35 respondents have taken loan. So the remaining 15 respondents are considered as missing in this table.

It is reflected from Table 18 that about 49%, 40% and 11.5% of the loanees received assistance from relatives, bank employees and brokers respectively. It indicates assistance from banks and brokers is not sufficient.

Table 19: Getting loan within reasonable time period

Reasonable Time	Frequency	Percent
YES	27	77
NO	8	23
Total	35*	100.0
MISSING	15	

The total frequency is 50. Out of 50 respondents only 35 respondents have taken loan. So the remaining 15 respondents are considered as missing in this table.

Table 19 shows the picture of time requirements of availing loan facility. 77% of the respondents mentioned that they received the loan in reasonable time. But 23% mentioned that they did not receive the loan in reasonable time. So, it is needed to ensure that financial institutions should expedite the loan sanction procedure.

Table 20: Collection of working capital by the organization

Sources of Working Capital	Frequency	Percent
FROM ORGANIZATION'S OWN FUND	23	46.0
COMBINATION OF OWN FINANCE & LOAN	27	54.0
Total	50	100.0

Table 20 shows the sources of working capital of the SMEs. It is reflected that about 54% of the respondents collected working capital from own finance and 46% collected loan from financial institutions.

Table 21: Problems of working capital finance

Problems of Working Capital	Frequency	Percent
YES	17	34.0
NO	33	66.0
Total	50	100.0

About 66% of the respondents have mentioned that they are not facing any working capital problem. But 34% have mentioned that they are facing problems in collecting working capital. So, financial institutions may offer more working capital loan under reasonable conditions for the development of SMEs.

To find out whether lack of modern technology hinders the growth of SME sector the following analysis is conducted:

Table 22: Types of machines are used in production

Types of Machines	Frequency	Valid Percent
VERY LATEST	7	14.0
LATEST	26	52.0
OLD	17	34.0
Total	50	100.0

Table 22 shows 52% SMEs are using machines of latest technology and 34% are using old technology. It seems still a significant number of SMEs are using old technology.

To assess whether poor physical infrastructure and high transportation cost undermine the competitiveness of SMEs the following analysis is conducted:

Table 23: Hindrance to the development of infrastructure

Hindrance	Frequency	Percent
LACK OF ELECTRICITY SUPPLY	20	40.0
LACK OF WATER SUPPLY	5	10.0
UNDEVELOPED COMMUNICATION AND TRANSPORTATION SYSTEM	18	36.0
INADEQUATE PLOT FOR INFRASTRUCTURE AND OPERATION	7	14.0
Total	50	100.0

Table 23 indicates the hindrance to infrastructure development of SMEs. Among the respondents 40% have mentioned that they are facing problems due to lack of electricity supply and 36% have mentioned about poor transportation system. 14% respondents have also mentioned that they are facing problems in getting good industrial plots. It seems it is indispensable to improve power supply and transportation systems for the development of SMEs.

Table 24: Showing hindrance due to inadequate infrastructure

Hindrance	Frequency	Percent
Create Barrier	34	68.0
Does not Create Barrier	16	32.0
Total	50	100.0

It is reflected from Table 24 that 68 % respondents opined that inadequate infrastructure create hindrance to product or service distribution of SMEs.

Table 25: Showing the cost of infrastructure

Cost	Frequency	Valid Percent
HIGH	35	70.0
LOW	15	30.0
Total	50	100.0

Table 25 indicates the cost of infrastructure. 70% of the respondents have argued that cost of infrastructure is high and 30% of the respondents have mentioned that the cost is reasonable. It is reflected by the table that most of the respondents are facing difficulties for the development of their SMEs due to high infrastructure cost.

So, Government may take necessary steps to minimize the cost of infrastructure for the development of SMEs.

To assess availability and efficiency of the employees working in SMEs the following analysis is conducted:

Table 26: Adequate skilled worker

Workers	Frequency	Percent
Skilled Worker	24	58.5
Unskilled Worker	17	41.5
Total	41*	100.0
MISSING	9	

* Out of 50 respondents 9 respondents have not answered this question. So, these 9 respondents are considered as missing in this table.

It is observed from the table that about 59% of the work forces of the SMEs are skilled and 41% are unskilled. It is reflected that a large portion of workers are unskilled. Many entrepreneurs argued that due to financing problem they failed to provide on job training to the workforce.

Table 27: Vocational knowledge of worker

Vocational Knowledge	Frequency	Percent	Valid Percent
Institutional	13	26.0	30.2
Not Institutional	30	60.0	69.8
Total	43*	86.0	100.0
MISSING	7		

Out of 50 respondents 7 respondents have not answer this question. So, these 7 respondents are considered as missing in this table.

From table 27 it is reflected that 30% labor force has institutional training but the remaining 70% do not have any institutional training. In Bangladesh number of vocational training institute is very few. Due to the scarcity of vocational training centers SMEs fail to get skilled workforce.

Table 28: Steps to increase skills of worker

Training	Frequency	Percent
Training In Own Institution	43	86.0
Training Through Other Institution	3	6.0
Training Through Technical / Vocational Institution	4	8.0
Total	50	100.0

From the table 28 it is observed that 86% of the workers get training from their own institutions. Only 6% acquired training form other institutions and the rest 8% took training from vocational institutions.

Table 29: Cause of inadequate skilled labor

Causes	Frequency	Percent
Lack of technical knowledge of workers in high tech. Sector	23	45.0
Supply of new worker is less than demand	14	29.0
Low wages	8	16.0
Skilled worker are reluctant to work at small institution	5	10.0
Total	50	100.0

It is observed from the above table that 45% respondents have mentioned that most of the workers are inadequately skilled because the workers in high tech sector do not have technical knowledge, 29% of the respondents have argued that supply of labor is less than the demand. 16% of the entrepreneurs think that due to low wages SMEs fail to retain skilled labor. The rest 10% entrepreneurs have mentioned that skilled labors are reluctant to stay in small organizations due to the lack of future growth of career.

Table 30: Lack of skilled worker is the

main barrier of success of institution

Yes/ No	Frequency	Valid Percent
YES	30	60.0
NO	20	40.0
Total	50	100.0

From the table 30 it is reflected that 60% of entrepreneurs think that the main barrier to the success of their institutions is lack of skilled labor force.

5.2 SALIENT FEATURES OF LENDERS

We have interviewed 8 senior executives of SME division of 8 commercial banks with structured questionnaire.

They have pointed out the following issues:

1. The selected commercial banks have sanctioned about 20% to 25% of total loan portfolio as SME loan.
2. The selected banks have disbursed 85% - 90% as SME loan from the yearly allocation of SME loan.
3. SME Loan Recovery Rate of selected commercial banks is about 95%. It seems recovery rate of SME loan is very high.
4. The selected banks have introduced SME loan for the last 5 to 10 years. Due to the demand of SME loans almost all the selected commercial banks have established an independent SME division.
5. Some executives have highlighted that SME entrepreneurs are not properly aware about SME credit facilities.

The executives have also pointed out some problems they are facing at the time of granting SME loans. The problems are as follows:

1. They observe that most of the SMEs are not maintaining book of accounts and other related trade documents properly. It creates barrier for assessing borrowers' financial position at the time of evaluating SME credit proposal.
2. Banks also observed that the borrowers' use SME loan for other purposes instead of using in the SMEs. Fund diversion hinders the optimum growth of SMEs.
3. The executives also point out that most of the commercial banks receive more SME credit applications at the time of business seasons.
4. In many instances SME applicants/borrowers fail to provide adequate documents at the time of loan application. Due to this reason it takes extra time for sanctioning SME loans.
5. As SMEs are not maintaining proper book of accounts, the practice creates barrier in forecasting the actual sales of SMEs.
6. Sometimes SMEs are not able to provide required collateral. Due to this reason banks face problems in granting credit.
7. SMEs are reluctant to conduct financial transactions through financial institutions.

CHAPTER 6

PROBLEMS AND PROSPECTS OF SME FINANCING

6.1 PROBLEMS

From the sequence of our analysis we have observed some problems that create barriers to for the development of SME sector in Bangladesh. These problems are analyzed in this section.

1. Non-Availability of finance hinders the growth of SMEs in Bangladesh. From table 13 it is reflected that about 47% of the investigating entrepreneurs mention that loan granting procedures are very complex and about 13% entrepreneurs mention that their loan applications have been rejected.

2. Most of the entrepreneurs mention that due to the low salary structure most of the skilled employees leave SMEs.

3. One of the main barriers to the development of SME in Bangladesh is inadequate technologies. Many SMEs have failed to adopt modern technology due to the shortage of adequate fund.

4. Most of the entrepreneurs have mentioned that commercial banks ask for collateral at the time of granting loans. It hinders the entrepreneurs to get credit from the institutional sources.

5. It is reflected from table 17 that about 46% of the respondents mention that banks take a long time to grant SME loans. It seems that the loan procedure system is lengthy.

6. The respondents also mention that loan application procedure is tough. Due to this reason some of the entrepreneurs are reluctant to take loan from financial institutions.

7. About 35% of the respondents have mentioned that they are facing problems of paucity of working capital.

8. Numbers of institutions offering micro credit facilities are inadequate in our country. Even it is reflected from our study (Table 14) about 23% respondents have collected loans from non institutional sources.

9. Banks consider SMEs as high risk borrowers because of their inability to comply with the bank's collateral requirements. Most of the banks investigated have mentioned that SMEs are not able to provide required collateral. Due to this reasons banks face problems in SME financing.

10. Some executives have highlighted that SME entrepreneurs are not properly aware about SME credit facilities.

11. Inequality of opportunity is a major problem for SMEs. Female entrepreneurs are treated with discrimination. They are not well represented in business organizations. We have observed from our study that only 10% respondents are female entrepreneurs. Government and our society do not provide adequate institutional assistance and encouragement to the women entrepreneurs.

12. For SMEs, owing a retail space is very expensive in the major cities in Bangladesh. As a result, many customers are not interested to buy products and services from SMEs. Because they can't judge the quality until they physically examine the products.

13. Inadequate government supports are top ranking constraints for SMEs. Unnecessary layers of bureaucracy and red-tapes are reducing the competitiveness of SMEs and raising the cost of transactions and operations.

14. It is reflected from table 23 that investigating entrepreneurs have pointed out that inadequate supply of necessary utilities like electricity, water, roads and highways hinders the growth of SME sector.

15. Most of the investigating entrepreneurs do not have adequate international exposure. To keep pace with international competition, firms face challenges to improve and innovate their products processes constantly. But in Bangladesh SMEs are still not stressing the importance of satisfying and retaining customers by offering novel and desired benefits.

16. In most of the cases SMEs in Bangladesh are not able to use the Integrated Marketing Communication (IMC) tools. But these tools play the role of important stimulus in motivating the customers and retaining them. The country does not have enough marketing capability and resources to invest in marketing.

17. Govt. has failed to frame a national quality policy, provide adequate support systems and establish a national quality certification authority. As a consequence SMEs of Bangladesh have failed to ensure the quality of their products and services both in local and international markets.

6.2 PROSPECTS

Lower amount of capital investment to start business

To start SMEs it requires a small amount of fund. So, people with a little capital may start their business. Growth of SMEs may have a positive impact on the overall economic development of Bangladesh.

Low risk involvement

Capital requirement is low in SMEs. SMEs are also diversified in nature. As a result, SMEs are considered as low risk organization**s**.

Low cost products in domestic market

SMEs are providing a diversified range of products at a lower price in local market. **P**eople are getting SME products at a lower price.

Accelerated growth of SMEs

It has been observed that in the last decade almost every year SME sector has experienced positive growth rate in each year. The yearly growth rate is about 8%.

Good recovery rate

We have observed from the study that SME recovery rate of selected commercial banks is about 95%. It seems recovery rate of SME loan is very high.

Availability of labor at a lower wage

Bangladesh is a labor abundant country. A large number of laborers can be availed at a lower cost here.

Government and institutional encouragement

Government has established an independent SME foundation to help and encourage the development of SMEs. Recently Asian Development Bank (ADB) has provided some fund for SME sector development in Bangladesh.

Separate SME branches

It has been observed that recently many commercial banks have opened separate specialized SME branches. Among them most pioneers are Brac Bank (Prapti Current Account, Anonno Rin, Apurbo Rin), Standard Chartered Bank, Dhaka Bank, Eastern Bank Limited, The City Bank, Mutual Trust Bank and National Bank.

Women Entrepreneurs Loans

Some commercial banks have special SME loan schemes for women entrepreneurs, such as Orjon of Standard Chartered, Protyasha of IFIC, Mukti of Eastern Bank Limited, Prothoma Rin of Brac Bank and Nokshi of The City Bank. Through these schemes, women entrepreneurs may start their own businesses. This will help a lot of women entrepreneurs to become self dependent.

CHAPTER 7

RECOMMENDATIONS AND CONCLUSION

7.1 RECOMMENDATIONS

The following suggestions are recommended for the development of SMEs:

➢ SME loan application and disbursement procedure is complex. So the commercial banks and financial institutions must have to take necessary measures to make it easier. Government, financial institutions and non-government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh.

➢ Government needs to take appropriate measures to fix the minimum salary/wages of the employees of SMEs. That will help to minimize the employee turnover.

➢ In order to ensure the retention of skilled workforce the government and SME foundation should take necessary steps.

➢ Government and financial institutions may provide adequate finance for modernization, expansion and technological advancement of SMEs.

➢ Development of infrastructure is essential for the optimum growth of SMEs. So government of Bangladesh needs to take appropriate policy strategy for the infrastructure development of Bangladesh.

➢ Government and Central Bank may provide collateral free SME loans to prospective entrepreneurs. Government may establish one specialized SME Bank to provide collateral free bank loans to SME entrepreneurs.

➢ Government should take adequate measures to ensure the uninterrupted supply of raw materials for SMEs. We have observed that a large portion of SME organizations are facing paucity of working capital. So it is recommended that commercial banks/ financial institutions may extend working capital financing to the prospective SMEs.

- In order to take bank loans SMEs must have to maintain proper trade documents and book of accounts such as- trade license, financial statements, yearly sales record, tax certificate, bank statements etc.

- SME foundation may take appropriate marketing tools to popularize the SME products. Like Dhaka International Trade Fair it may try to organize a yearly trade fair for SME products.

- In order to encourage women entrepreneurship government should:
    a. Involve women entrepreneurs in policy formulation and implementation.
    b. Arrange funds for women entrepreneurs.
    c. Provide necessary training to women entrepreneurs in rural and urban areas of Bangladesh.

- For minimizing red tapes and accelerating the growth of SME, government may provide one roof service under the SME foundation. Appropriate legal framework is also necessary to ensure the development of SMEs of Bangladesh.

- In this era of intense competition continuous planning and quality improvement act as a prerequisite for the survival of SMEs. In order to improve the quality SMEs can follow the Just in Time (JIT) philosophy and use Total Quality Management (TQM) and can ensure the improvement of quality and productivity at a time.

- Government should establish a credible certification authority especially for SMEs, so that this sector can obtain a technical evaluation of the quality of their products within a shortest possible time. The certification of the authority should be accepted world-wide. Govt. may also provide assistance to SMEs during the certification process and promote the importance of product certification for international acceptance among the SMEs.

➤ Restriction may be imposed on imported products which are produced by the SMEs in Bangladesh.

➤ Research and Development (R&D) is a must for the development and growth of SMEs. So government must have to invest in R&D for ensuring the intensification of SME' of Bangladesh.

7.2. AREA OF FURTHER RESEARCH

Due to the fund and time constraints this research project has been conducted in three districts of Bangladesh. This study has focused on the financing problems of SME sector. A further research may be conducted to appraise the regulatory environment, marketing environment, human resource management and other SME related problems. In case of further study, researchers may conduct the research by covering more geographical areas.

7.3 CONCLUSION

Over the years the SME sector of Bangladesh has grown rapidly. In fact the SME sector of Bangladesh has widened but depth has to be achieved in true sense. Performance of SMEs in Bangladesh is found significantly below the level of international standard. The sector has to be made investor friendly, otherwise the depth of the SME sector can not be achieved. Although the government of Bangladesh has taken some initiative in ensuring the growth of SMEs but those steps are not enough at all. But the government has shown its positive attitude towards this sector. Bangladesh government should continue to give more focuses on some areas, such as financing, providing infrastructure facilities, framing appropriate legal framework, establishing national quality policy etc. We are quite optimistic that the SMEs of Bangladesh will get a boost if the suggested measures are implemented.

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Table 5: Distribution of respondents by their sex

Sex	Frequency	Percent
Male	45.0	90.0
Female	5.0	10.0
Total	50.0	100.0

Table 6: Distribution of respondents by their Age

Age	Frequency	Percent
20-25	1	2.0
26-30	4	8.0
31-35	8	16.0
36-40	4	8.0
41-45	6	12.0
46-50	7	14.0
ABOVE 50	20	40.0
Total	50	100.0

Table 7: Distribution of respondents by their Educational Qualifications

Education	Frequency	Percent
PRIMARY	4	8.0
SECONDARY	8	16.0
HSC	10	20.0
GRADUATE	15	30.0
POST GRADUATE / MASTERS	12	24.0
OTHERS	1	2.0
Total	50	100.0

Appendices-A

QUESTIONNAIRE FOR EXECUTIVES OF FINANCIAL INSTITUTIONS

A STUDY OF THE
PROBLEMS AND PROSPECTS OF SME FINANCING IN BANGLADESH
[Confidential: Data will be used only for research purposes]

1 Name:

2. In which kind of bank are you employed?

Nationalized ☐   Private Commercial ☐

3. What position are you holding in your bank?

   a) Officer/ Executive

   b) AGM/AVP

   c) D.G.M/ VP

   d) G.M/ S.V.P

   e) D.M.D

   f) M.D/President/ Chief

   g) Others

4. Your educational level:

   a) Masters and above ☐

   b) Graduate ☐

   c) Under graduate ☐

5. Length of your experience:
i. Banking:

   (a) Less than 5 years
   (b) 5 to 10 years
   (c) 10 to 15 years
   (d) 15 to 20 years
   (e) 20 years & above

(ii) SME Division:

   (a) Less than 5 years
   (b) 5 to 10 years
   (c) 10 to 15 years
   (d) 15 years and above

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6. Is your organization financing SMEs?

          Yes   ☐   No   ☐

If yes, how long has your organization been investing in SMEs

…………………………………………………………………………….

7. Is there any separate department in your bank for SMEs?

          Yes   ☐   No   ☐

8. Fund availability for providing SME loans by your bank

     Very good   ☐   Good   ☐

     Satisfactory   ☐   Unsatisfactory   ☐

9. What are the different forms of SME loans to the customers by your bank?

   (a) i. Local currency   ☐

       ii. Foreign currency,
          Facility   ☐

   (b) i. Private   ☐   ii. Public   ☐

10. Formalities followed for sanctioning of loans:

(i) Easy ☐   (ii) Complicated ☐   (iii) Appropriate ☐

11. What are the major problems you are facing at the time of granting SME loans?

Please
Specify…………………………………………………………………………..

12. Do you face any undue pressure while sanctioning loans?

          Yes   ☐   No   ☐

13. If yes, then please specify the type of undue pressure that you face?

     a) Pressure by the employer

     b) Pressure by the business counterparts

     c) Pressure by political personnel

     d) Others, please
        mention/…………………………………………………………………………
        …………….

14. What type/s of loan do you sanction to your customers?

     a) Short term loan   ☐

     b) Long term loan   ☐

     c) Working Capital   ☐

15. Which type of loan have you sanctioned the most?

     a) Short term loan   ☐

     b) Long term loan   ☐

     c) Working Capital   ☐

16. What type of statements/ documents is required to be submitted by the borrower at the time of borrowing from your institution?

    a) Trade License

    b) Certificate of Income

    c) Others
        (specify)………………………………………………………………………………
        …………………………………………………………

17. Does you bank provide unsecured loans for SMEs?
                  Yes   □   No   □

18. If yes, in which area
………………………………………………………………………………………………….

19. At the time of allowing loans, do you collect information, from other businessmen/ banks about the behavior of your customers?
                  Yes   □   No   □

20. For security of loans, please rank the following assets in order of collateral preference for different types of loans:

	Short term	Intermediate term	Long term
1. **Land**			
2. **Real estate**			
3. **Industry**			
3. **Gold**			
4. **FDR**			
5. **Shares/debentures**			
6. **Raw materials**			

21. Do you think that establishment of more SME divisions in different banks is necessary in Bangladesh?
                  Yes   □   No   □

22. Is there any legal barrier to your organization on the investment in SMEs?
                  Yes   □   No   □

If yes, please specify the barrier
………………………………………………………………………………………………….

23. Do you think that SME financing is risky in Bangladesh?
                  Yes   □   No   □

24. Is this organization instructed by the Government/ Bangladesh Bank to invest in SMEs?
                  Yes   □   No   □

25. Do you think that our SME sector has problems regarding?

    a) Supply side   □

    b) Demand side   □

    c) Both Supply and demand side   □

26. What is the recovery rate of SME loans in your institution?
Please Mention…………………………………………………

27. What is the percentage of defaulters of SME loans in your institution?

(a) Less than 5%
(b) 5% - 10%
(c) 11% to 15%
(d) 16% to 20%
(e) 21% to 25%
(f) 26% and more

28. Would you please mention the percentage of disbursement of SME loans from the yearly allocation?
………………………………………………

29. What is the percentage of SME loans allocated by your bank from the loan portfolio?
………………………………………………..

30. Do you think SME entrepreneurs are not aware of different SME loan schemes?
Yes   No

31. If yes then what types of measures your institution has taken to publicize the SME loan schemes?
Promotion through
   a) TV

   b) Newspaper

   c) Seminars

   d) Sales Person

   e) Others…………………………..

Appendices-B

<u>QUESTIONNAIRE FOR ENTREPRENEURS</u>

Aa¨vq- 1

1| DËi `vZvi bvg t

2| DËi `vZvi wj½ t   K|☐ cyi“l   L|☐ gwnjv

3| DËi `vZvi eqmt

K| ☐ Abya©20   L|☐ 20-25   M| ☐ 26-30   N| ☐ 31-35   0| ☐ 36-40
P| ☐ 41-45   Q|☐ 46-50   R|☐ 50 Gi D‡aŸ©

4| DËi `vZvi ag©
K| ☐ Bmjvg   L|☐ wn›`y   M|☐ wLªÖvb   N| ☐ †eŠ×   0|☐Ab¨vb¨

5| DËi `vZvi wk¶vMZ   K| ☐ A¶i   L| ☐ cÖ_wgK wk¶v   M| ☐   gva¨wgK
†hvM¨Zv   Ávb wenxb   wk¶v
| N☐ D‡”P gva¨wgK/ GBP, Gm, wm 0 |☐   øvZK | ☐   øvZ‡KvËi/ gvóvm Q ☐   †gwWK¨vj / BwÄwbqwis
| R☐   wW‡cøvgv/cwj‡UKwbK   S |☐   Ab¨vb¨

6| K. e¨emvi cÖZôv‡bi bvg t

L| wVKvbv t
M| GjvKv t   ☐ XvKv   ☐ gyÝÄÄ   ☐ ewikvj
Aa¨vq- 2
e¨emvq cÖKwZ

7| Avcbvi KgPvixi msL¨v   K|☐ 1-9 Rb   L|☐ 10-49 Rb   M|☐ 50-99
                                             Rb

8| Avcbvi g‡ab

K| ☐ Abya©1.5 †KvwU   L|☐Abya©10
                                   †KvwU

9| Avcbvi cÖZôvbwUi aib
K|☐ Drcv`bgy‡K   L| ☐ e¨emv   M|☐ †mevgy‡K
                                                 e¨emv cÖZôvb

10| Avcbvi cÖZôvbwUi cÖKwZ †Kvb
ai‡bi
K| ☐ B‡j ±¶b·   Ges ‰`wnZK mvgMÖx

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L|□ mdUI qvi ˆZix

M|□ jvBU BwÄbqwwis Ges †gUvj I qwKs

N|□ G‡Mﬁ c⦿mwms/ G‡Mﬀ weR‡bm/ c⧏Ukb GwMﬂKvj Pvi

O|□ ‡¯úkwj ÷ dwgﬁUmÿ KvjPvi

P|□ PvgovRvZ mvgMﬁ

Q|□ bxUI qvi Ges †iwW‡gW Mv‡g⦿Um

R|□ cww÷K Ges Ab¨vb¨ wmb‡_wUK

S|□ ¯ﬁ¯‡mev Gs WvhwMbw÷K

T|□ wk¶v †mev

U|□ dvgﬁmDwUK¨vj m/Km‡gwU· /Uq‡jwUm

V|□ d¨vkb wWRvBwbs I d¨vkbI qvi

<center>Aa¨vq-3</center>
<center>A_ﬃ‡bi cﬄwZ</center>

1| Avcwb cﬄZôvbwUi g‡jab wKfv‡e msMﬁ K‡i‡Qb?

        K| m¤úb⦿wbR¯^A_ﬃ‡b

        L| m¤úb⦿F‡bi gva¨‡g

        M| AvswkK wbR¯^ AvswkK Fb

        wbR¯^A_ﬃ‡bi cwigvb.................

        F‡bi cwigvb..........................

hw` Avcbvi DËi L A_ev M nq Zvn‡j wb‡æv³ cﬀkﬁi DËi w`b

2| Avcwb †Kvb cﬄZôvb †_‡K Fb wb‡q‡Qb?

K|□ ewbwR¨K Gj¨vKv

L|□ Kwl e¨vsK/Kgﬁs¯ﬁvb e¨vsK (we‡klvwqqZ Aww_ﬃK cﬄZôvb)

M|□ ¶ﬂ¨ªFb cﬀ⦿vb Kvixms¯ﬁv

Mﬁgxb e¨vsK

Gb, wR, I

Ab¨vb¨

N|□ eÜzevÜe †_‡K Fb Mﬁb

3| m‡`¨i nvi...............

4| Fb cwi‡kv‡aai mgq mxgv

5| F‡bi aiY

K|□ RvgvbZ................Rvgvb‡Zi nvi/cwigvb

L|□ RvgvbZ wewnb

6| Fb gÄ‡ii Rb¨ KZw`b mgq †j‡M‡Q

K|□7-15 w`b          L|□15-30 w`b   M|□2-3 gvm   N|□3-6 gvm   O|□Z`ﬁﬄ©

7| F‡bi Av‡e`bc‡Î Rgv`vb I cw|⧸qv

K| mnR

□
L| □ RⱳUj

8| Fb Aⱴɫe`‡bi Rb¨ †Kⱱb ⱳdm ⱳ`‡Z n‡q‡Q?
K| □ nⱳ̈ cⱳɨgⱳb.........
L| □ bⱴ

9| Aⱳ_℟ cⱱ̈ZôⱴbⱳU Fb ⱳeZib K‡ɨ‡Q KZⱳU?
K| □ 1   L| □ 2   M| □ 3   N| □ Z`ₚⱰ̈©

10| Fb gÄ‡ɨ i Rb¨ mnⱴqZⱴ cₐ̈qⱴRb n‡q‡Q ⱳK?
K| □ nⱳ̈
L| □ bⱴ
hⱳ̃ DËi nⱳ̈ nq Zⱴn‡j Kⱴi mnⱴqZⱴq
K| □ Aⱴšⱨq I eÜₔ L|□cⱱ̈Zôⱴ‡bi KgⱭⱴix M|□Dɫ‡KⱴɫPi   N| □ ‡eₐ̈Kⱴ‡ɨ i   0| □Ab¨ⱴb¨
                                      gⱴa¨‡g   gⱴa¨‡g

11| Aⱴcⱳb m‡Šⱳ RbK mg‡qi g‡a¨ Fb ‡c‡q‡Qb?
K| □ nⱳ̈
L| □ bⱴ
hⱳ̃ bⱴ nq ⱳb‡æⱴ³ †Kⱱb Kⱴi‡b †`ⱳix n‡q‡Q
K| □ cⱱ̈Zôⱴ‡bi Zⱴij¨i ¯fZⱴ
L| □ cⱱ̈Zôⱴ‡bi RⱳUj Fb ⱳeZib cₐ̈ⱳqⱴ
M| □   cⱱ̈Zôⱴ‡bi KgⱭⱴixɫ`ⱳi Abxnⱴ
N| □   cⱱ̈Zôⱴ‡bi KgⱭⱴixɫ`ⱳi DsɫKⱴP Mₒ̈‡bi cⱰ̈bZⱴ
0| □   miKⱴɫi i Fb ⱳeZib bⱳⱳZ
P| □   Fb Mₒ̈‡bi cₐ̈KɫⱭv mgₒgZ cⱳb KiɫZ eⱳ̈_℟nlqⱴ

12| Aⱴcⱳb ⱳKfⱴɫe Dcɫiⱴ³ mgm¨ⱴ mgⱴⱴⱳb K‡ɨ‡Qb?
K| □ cⱳɨⱳPZ ‡jⱴ‡Ki mnⱴqZⱴq
L| □ ‡eₐ̈Kⱴ‡ɨ i gⱴa¨‡g
M| □ Dⱳ‡KⱴɫPi gⱴa¨‡g
N| □ iⱴR‰bⱳⱳZK ‡bZⱴi mnⱴqZⱴq

13| MₒbKZ F‡bi gⱴa¨‡g Aⱴcbⱴi cₐ̈Kɨ̈U h_ⱳh_ fⱴɫe PⱱjⱳKⱴⱴ ⱳM‡ɨ‡Q?
K| □ nⱳ̈ L| □   bⱴ

14| DËi hⱳ̃ bⱴ nq eⱴKx A_℟Kfⱴɫe msMₒ̈ K‡ɨ‡Qb?
K| □ eⱳ̈ⱳ³MZ mÂq
L| □ m¤úⱳ̀ ⱳeₔ‡qi gⱴa¨‡g
M| □ Aⱴšⱨq eⱤzeⱤ̈Ue †_‡K F‡bi gⱴa¨‡g
N| □ Ab¨ †Kⱱb Aⱳ_℟ cⱱ̈Zôⱴb
15| Aⱴcbⱴi Kⱴ‡Q ⱳK Fb gÄj cₐ̈ⱳqⱳⱳU RⱳUj g‡b n‡q‡Q?

K| ☐ nüü   L| ☐ bv

16| Avcbvi Kv‡Q wK Fb ‡eZib c‡ÿuqwU RwUj g‡b n‡q‡Q?

K| ☐   nüü L| ☐ bv

(17) Avcbvi c‡ZôôvbwU PjwZ g‡j ab (IqwKs K¨wcUvj) wKf‡ute msMb K‡iY?

(K) ☐   c‡Zôô‡bi wbR¯^Znwej n‡Z
(L) ☐   F‡Yi gva¨‡g
(M) ☐   wbR¯^A_v‡®q b I F‡Zbi mswgk‡Zb

(18) Avcbvi DËi hw` ÔLÕ nq
(K) ☐   m‡Z` i nvi...................
(L) ☐   F‡Zbi cwi‡kv‡Zai mgqmxgv............
(M) ☐   F‡Zbi aiY

RvgvbZ, RvgvbZ‡Zi nvi..................
RvgvbZ wenxb

(19) Ach®ß PjwZ g‡j ab Avcbvi Drcv`b c‡ÿuqv evavMÖ¯’n‡q‡Q wKbv?

(K) ☐ nüü   (L) ☐ bv

Aa¨vq

Avcab K KwwiM ix

(20) Avcwb Drcv`‡Zbi Rb¨ wK ai‡bi h›šcwZ e¨env i K‡iY?

(K) ☐   AZ¨š—Avcab K
(L) ☐   Avcab K
(M) ☐   cjvb Zb

(21) Avcbvi c‡ZôvbwU‡Z wK †Kvb Avcab Kvq‡Zbi m‡thwM Av‡Q?

(K) ☐   nüü   (L) ☐   bv

(22) hw` nüü nq Zvn‡j †Kb Avcwb AvcabKvq‡Zb AvwMÖx bb (Avcbvi Rb¨ c‡ühvR¨ Kvib ¸‡jv evOvB Ki¨Y)

(K) ☐   Ach®ß Znwej / g‡j ab
(L) ☐   Avcab K h›šcwZ m¤ú‡K© ch®ß msev` Rvbv ‡bB
(M) ☐   KgPvix‡Z` i Avcab K h›šcwZ cwiPvjbvi ‡¶Zvi Afve

(N) ☐ Ach®B ‰e`ÿr mieivn Ava‡bKvq‡b evavM�Ö´K‡i‡Q

(0) ☐ hšçwZi D"Ogj¨

(P) ☐ ‡`kxq Avav‡bK hšçwZ Avg`vbx c‰ÿ‡uqv

(23) Avc‡b ‰K g‡b K‡ib Avav‡bK hšçwZ Af‡e Avcbvi c‡ŵÖô‡bi Dbq‡bi c‡_ Ab¨Zg Ašÿivq?

(K) ☐ nü¨   (L) ☐   bv

Aa¨vq

AeKvV‡gv

(24) Avcbvi c‡ŵÖô‡bi Rb¨ ch®B AeKvV‡gvi m 炬hvM Av‡Q ‰K bv?

(K) ☐ nü¨   (L) ☐   bv

(25) hw` DËi bv nq Zvn‡j Kvib mgn D‡j L Ki"Y

(K) ☐   Ach®B ‰e`ÿr mieivn

(L) ☐   Ach®B M¨vm mieivn

(M) ☐   Ach®B cvwbi mieivn

(0) ☐   Abüp‡ thvMv‡thvM I cwienb e¨e¯v

(P) ☐   c‡ŵÖô‡bi ¯vcb I cwiQvjbvi Rb¨ d‡Ui Ach®BZv

(Q) ☐   Avav‡bK d‡Ui D"Ogj¨

(26) Ach®B AeKvV‡gv ‰K Avcbvi cv¨/tmev ‰eZ‡bi evavi mÿó K‡i?

(K) ☐ nü¨   (L) ☐ bv

(27) hw` nü¨ nq Zvn‡j Kvib mgn D‡j L Ki"Y

(K) ☐ ‰eZ‡bi Rb¨ D"P cwienb LiP

(L) ☐ AcwiKwíZ thvMv‡thvM e¨e¯vi Kvi‡b ubafiZ mg‡qi g‡a¨ cb¨ ‰eZiY evav MÖ´nq

(M) ☐ AcwiKwíZ thvMv‡thvM e¨e¯v cPbkxj cb¨ ‰eZ‡bi evavi mÿó K‡i

(28) Avc‡b ‰K g‡b K‡ib AeKvV‡gv e¨env‡ii PvR©/ LiP ‡ekx

(K) ☐ nü¨   (L) ☐ bv

(29) hw` nü¨ nq Zvn‡j ‡Kvb ¸‡jv

(K) ☐   M¨vm e¨env‡ii PvR©

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(L) □ üe`ÿr e¨enýii PvR©
(M) □ cÙb e¨enýii PvR©
(N) □ mýqýiR e¨enýii PvR©

Aa¨vq

gýbe m¤ú`

(30) Avcbvi cÜZôýbi Rb¨ ch®ß `¶ Kgx©

(K) □ AvýQ   (L) □ bvB

(31) `¶ Kgx© K…viMix Ávb

(K) □ cÙZôÙbK
(L) □ AcÙZôÙbK

(32) Avcùb Kgx© `¶Zv eüØi Rb¨ uK üK e¨e¯ý üb‡qý‡Qb

(K) □ übR cÙZôý‡b cÙk¶ý‡bi e¨e¯ý
(L) □ Ab¨ cÙZôý‡bi gva¨g cÙk¶ý‡bi e¨e¯ý
(M) □ ‡UKübK¨vj/†fý‡Kkbvj cÙZôý‡bi gva¨g cÙk¶ý‡bi e¨e¯ý

DËi hü` bv nq

(33) `¶ Kgx©Afý‡ei Kvib

(K) □ D"P ‡m±ýi `¶ Kgx© Ach®Zv
(L) □ Pÿn`v Abýnvqx bZýp Kgx©Zixi übæ nvi
(M) □ übæ gRýix
(N) □ bZýb †QvU cÙZôýb KvR Kivi e¨vcvýi `¶ Kgx© Abxnv
(O) □ †QvU cÙZôýb `ýN©gqýý`i üUýK _vKvi m¤ýebv
(P) □ Kgx©`i PvKýixZ Dbqýbi ksKv

(34) Avcùn uK gýb KýiY `¶ Kgx© Afve Avcbvi cÙZôýbi Dbqýbi Ab¨Zg Aš‡vq?

(K) □ nüv   (L) □ bv

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