



Development of Bangladesh through SMEs Financing: A Case Study on IDLC Finance Limited

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General Note



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ABSTRACT

SMEs (Small and Medium Enterprises) is very much crucial for overall development of the economy. Several banks and other non-banking financial institutions are now concentrating on this sector very actively. Industrial Development Leasing Company (IDLC) of Bangladesh Limited started its operation in the year 1985 as the pioneer leasing company as to facilitate lease- financing and capital investment in industrial sector. Over the years, the company has evolved itself as a multi-product non-banking financial institution providing wide range of products and services. Over the last two decades IDLC has contributed relentlessly in the country's transition into a developing country and has emerged as Bangladesh's leading multi product financial institution. The company now offers a multitude of diverse financial services and solutions to both institutional and individual clients to cater for their unique requirement. In this research paper, I have tried to focus on various role and aspect of the SMEs banking. The product and service offered for the SMEs clients, portfolio structure of the SMEs banking, marketing strategy for the SMEs clients and the total credit operation of the SMEs banking by IDLC Finance are covered through this research.

Keywords: Development of Bangladesh, SMEs Financing, IDLC Finance Limited

1. INTRODUCTION

The development of small and medium enterprises (SMEs) in developing countries is generally believed to be a desirable end in view of their perceived contribution to decentralized job creation and generation of output. In Bangladesh, SMEs playing a significant role for the development of our economy by creating employment opportunity and producing important alternative machines and machinery parts for saving huge foreign currency for our country. So as a part of our development strategy, we should intensify our efforts to develop this sector to grow industrial base and volume of foreign trade. As we know that in this age of globalization, it is impossible to stop the flow of foreign goods to any country. Only quality products can meet the challenges in global market. For meeting this situation SMEs need to upgrade their technological capabilities and production facilities in order to produce quality products at a competitive price.

With the changing world economic condition Least Developed Countries (LDCs) and developing countries have been moving to the rapid industrialization. In this industrialization Small and Medium industries are contributing much along with the large industries. Small and medium enterprises (SMEs) occupy unique position in most of the countries especially in a developing country. There is a primary target for many countries desiring to stimulate economic growth and development as they are fueling the economic growth. SMEs require fewer amounts of resources but they can be managed more efficiently. How SMEs can be used to change the economic horizon of a country can be seen from the case of The Asian Tigers. The Asian Tigers such as Singapore, Taiwan, South Korea, Honk Kong and Malaysia were economically like Bangladesh in few decades ago. But by ensuring the enormous development in the small and medium industries they have become able to bring them out of the developing class. Due to the changing global economic horizon after the world recession an enormous opportunity has come to Bangladesh to increase its export. That can be ensured by nurturing its small and medium industries carefully.

2. LITERATURE REVIEW

Alam and Ullah (2006) in their study "SMEs in Bangladesh and Their Financing : An Analysis and Some Recommendations" found that lack of medium to long-term credit, limited access to market opportunities, technology, and expertise and business information. Lack of suitable incentives, inefficient and limited services from relevant government agencies as well as poor capacity of entrepreneurs are other reasons for the slow growth of SMEs. Study recommend that flourish, SMEs will create new entrepreneurs, generate more jobs and contribute to a great extent to the national economy.

In Philippines, Hapitan (2005) recognized the access of SMEs to credit divided by two: those banks who are obliged to set aside a portion of their loan portfolios, and those institutions that have actively pursued direct financing program for SMEs. She studied thirty SMEs in Philippines to analyze whether credit access due to competition has indeed increased, furthermore, its impact on SME lending in terms of the number of credit facilities availability and quite possibly lower interest rates. Some worth noted from the observation are banks and other financial institutions should realize that many SMEs are not aimed to achieve stability in terms of operations and earnings rather opportunity taking. The situation occurred due to most of the SMEs are entrepreneurial-driven which had to enrich their product line or even change it from the original product. To fuel these opportunities, financial assistance and loans are needed. However, some SMEs do not realize that financial statement is not only a requirement but also as part of good governance. The non-provision of audited financial statements is one of the main reasons why many SMEs are unable to benefit financial assistance from banks and other institutions.

Difficulty in obtaining funding for businesses is still considered as the major problem of SMEs' operation as quoted by Joubert (1998). She conducted a case study to analyze the problems faced by SMEs in Swaziland. The result indicated that generally, the SMEs' owners believed that their successful business is mainly because they can manage to sustain them. However, the term success here differs from the widely used measurement of successful business, such as productivity level, profitability ratio, and rate of return.

In order to optimize their capital structure, Moro, Lucas, Grimm, & Grassi (2010) suggested that SMEs should only focus on bank financing. Keasey and McGuinness (1990) argued that in spite of the fact that bank financing is more expensive in comparison to other sources of finance, it generates a higher rate of return for SMEs. They further conclude that bank finance can help SMEs accomplish better performance levels than other financing sources can do. The explanation given by them is that SMEs employ the funds more efficiently when they are monitored by, and answerable to banks.

The empirical literature on bank financing to SMEs emphasises some mechanisms, techniques and models developed and adopted by banks to lend to SMEs such as relationship lending (e.g., Petersen & Rajan, 1994), factoring (e.g., Soufani, 2002) and scoring (e.g., Frame, Srinivasan, & Woosley, 2001) just to mention some relationship lending is a powerful mechanism used to reduce problems related to opaqueness in firms especially SMEs. Under relationship lending, "soft" information is gathered by a

financial institution (usually small local bank) through continuous contact with the firm (usually SME) in the provision of financial services (Berger & Udell, 1998, p. 645). The information will be then used to evaluate the creditworthiness of the entrepreneur as a part of the loan process to ensure that the potential loan will be repaid. The strength of the relationship lending, measured by its duration or the breadth of the relationship, was found positively correlated to the availability of funds for SMEs (Petersen & Rajan, 1994). In addition to this, the literature reports other benefits including; lower cost of credit, protection against credit crunches and the provision of implicit interest rate or credit risk insurance (Berger & Udell, 1998). Other study suggested that in order to increase credit supply for SMEs trust-based relationship lending is more effective than the establishment of longer or more concentrated bank-borrower relationship (Hernández-Cánovas & Martínez-Solano, 2010).

Akterrujjaman (2010) conducted a study "problems and prospects of SMEs loan management: A study on Mercantile Bank Limited, Khulna Branch" where major findings are related to the high interest and loan duration rates, reasons for SMEs relatively informal way of doing business in contrast to bank's formal procedures and prerequisites, bank's relative inexperience in this field.

Zaman and Islam (2011) in their article "Small and Medium Enterprises Development in Bangladesh: Problems and Prospects" considered smooth and sustainable development of SMEs all over the country will be one of the vehicles for poverty alleviation, and generation of more employment. They found Lack of Investment Finance and Working Capital Finance, Inability to Market SME Product, Lack of Skilled Technicians and Workers, Non-Tariff Barriers (NTB) and Changes in World Trade Regimes are the major financing constraints faced by SMEs in Bangladesh. And suggested Enhancing Access to SME Finance, Development of SME Infrastructure, Quality of SME Products, and Training Facilities for SME workers and Entrepreneurship etc are as some policy measures to overcome those constraints.

Chowdhury and Ahmed (2011) have made a working paper on "An Appraisal of the Problems and Prospects of Small and Medium Enterprises (SMEs) Financing in Bangladesh: A Study on Selected Districts". They observed 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. They recommended easy loan application and disbursement procedure; fix the minimum salary, adequate finance for modernization, expansion and technological advancement of SMEs etc for the development of SMEs.

Chowdhury et al. (2013) have made a study on "Problems and Prospects of SME Financing in Bangladesh". The study found that SMEs contributes significantly in poverty reduction programs and potential contribution to the overall industrial and economic growth and suggested Venture Capital, Bank Syndication Scheme, HRD in Financial institutions and in Government offices, Training and Development etc as potential tools of eliminating the constraints of SMEs financing.

3. OBJECTIVE OF THE RESEARCH

- To study is to measure and analyse the functional, operational and financial performance of Small and Medium Industries (SMEs) in Bangladesh.
- To find out the practices of Small and medium Industries in Bangladesh
- To propose some policy recommendations to mitigate the problems surrounding with SMEs

4. RESEARCH METHODOLOGY

Sources of Data

The information has gathered by two sources of data. Majority of the information were collected from the secondary sources, which include books, publications, reading materials and various circulars and reports published by Different financial and non-financial institutions.

Primary Sources: Interviews of executives, officers and employees of IDLC, Writer's observation of the approval process, Study of relevant documents, Monitoring techniques of small and medium industries, Discussion with the supervisor

Secondary Sources: Annual report of IDLC Finance (5 Years), Websites of IDLC Finance, Newspapers, journals, etc., SME guideline provided by Bangladesh Bank, Different books and periodicals related to the SME.

The Way Small and Medium Industrialization Helps to Develop an LDC's Economy

SMEs are very important to almost all economies in the world, but especially to the LDCs. LDCs have a great challenge in increasing employment and distribution of income. SMEs help LDCs to overcome these challenges. The ways how Small and Medium Industrialization helps an LDC to overcome its economic challenges and develop its overall economy are discussed below:

Helping LDC Economies***Technology Choice by SMEs***

Part of the contribution of the SME sector both to the overall total factor productivity (efficiency, as usually defined) of an economy and to employment generation and distributional equality comes by virtue of its pattern of technology choice. SME technology tends to be intermediate between the highly labor intensive technologies of micro enterprise, which as a result achieve only low average labor productivity, and the highly capital intensive technologies of large firms which thereby achieve high labor productivity, but use more capital per worker than is available for the economy as a whole.

Increasing Employment

Its intermediate technology characteristic is what gives the SME sector a special role (together with small-scale agriculture) in the generation of adequate or decent employment. When most jobs are in the micro enterprise sector, too many of them are destined to be low productivity and hence low income in character. SME firms can be substantially more productive, so in terms of the potential to generate "decent" jobs this sector competes with large private firms and the government, but it has the advantage of being able to generate many more such jobs for a modest input of capital. The key mechanism in generating decent employment in most developing countries involves the expansion of this sector fast enough to absorb people previously unemployed (a few) or engaged in low productivity informal sector jobs (the bulk).

Reducing Income Inequality

A larger SME sector is best thought of as the alternative to a highly dualistic economy with most of the capital in the large scale sector and most of the workers in the very small-scale sector. An economy which is dominated by SMEs, as Taiwan's has been, can generate a low level of inequality in the distribution of primary income (before tax and transfer) whereas the dualistic economy characterized by the combination of much large enterprise and much micro enterprise typically generates a high level of primary inequality. SMEs can help in decreasing income inequality in Bangladesh as it is rising gradually.

Generation of Economic Growth

Apart from being the sector to which one would like to see a high share of resources allocated at a given point of time, for the above reasons, the SME sector also plays a key dynamic role in generating growth, especially pro-poor growth.

Creating Base for Large Industries

At the other end of the size spectrum, most large firms have grown out of the SME sector, so its health helps to determine the future supply of large firms. Possibly those large firms with an SME background will be more likely to engage in subcontracting with other SMEs, an additional benefit to overall economic efficiency.

Creating Dynamism in the Economy

SMEs tend to dominate a country's new and fast growing industries. Economies which discourage SMEs in any general sense are therefore likely to discourage some newer dynamic industries from putting down the roots they might otherwise do. In this respect, and in others, SMEs are associated with dynamism.

Building Market Competition

Economists emphasize, with the good reason, the importance of competition for efficiency. Except in large markets (whether defined by country, by region/ metropolitan area or whatever) there is not enough "space" for many large firms, perhaps only for a couple or perhaps only for one. In such cases the large firm or firms can exercise monopoly or oligopoly power. If there is to be price-lowering and quality-improving competition, it will come from SMEs.

Providing Backup for Large Industries

The importance of an efficient collaboration between large firms and SMEs through subcontracting is at its peak in outward oriented countries especially those competing in international markets in products involving a good deal of labour. Being able to rely on efficient low-cost subcontractors can substantially increase the competitiveness of the large exporters, and has been an important factor underpinning the successes of Japan, Taiwan and Korea. It can also increase the efficacy of Bangladeshi large companies.

Reasons of SMEs' Efficiency in Developing Countries

The technical efficiency of SMEs is central to the debate about the role of small scale industries in economic development. SMEs are unlikely to be an important source of growth and employment generation if they turn out to be relatively inefficient, with limited ability to compete, survive and grow into larger firms. Some studies find SMEs to be more efficient than large firms in some industrial sectors but not in others, while other studies find them to be less efficient overall. There are some inherent reasons which make SMEs more efficient than large scale industrialization in developing countries like Bangladesh. The reasons are-

- Lower Capital Investment
- Moderate Infrastructure and Technology Requirement
- Labor intensiveness
- Shorter Start up period
- Lower cost per employment
- Lower capital output ratio
- Lower energy cost
- More environmentally friendly
- Easy value addition
- Promotion of agro-industrial linkage etc.

Our results, based on large samples of firms from six developing economies, suggest a possible explanation for the mixed findings in these earlier studies. Because SMEs are so heterogeneous, simple comparisons of the mean efficiencies of different size firms can be very misleading. Thus, while we find that SMEs are less efficient on average than their larger counterparts in all five economies, we also find a significant number of highly-efficient SMEs that are more productive than many large firms. For policy makers, the latter is the more important finding since it indicates that SMEs are not inherently inefficient as compared to their larger counterparts.

Highly-efficient firms, both large and small, have several technological, work force, and organizational characteristics that can, in principle, be emulated by other less-efficient SMEs. Efficient firms have better access to new technology through know-how licensing agreements, joint-ventures with foreign partners, and export contacts with foreign buyers and suppliers. They have a more educated work force, and are more likely to provide formal structured training to their workers. Their work organization is characterized by greater automation and quality control in production, and by human resource management and compensation practices that emphasize job stability and skill acquisition. The wide dissemination and adoption of these best practices will have productivity-enhancing benefits to less efficient firms, SMEs in particular.

Contribution of SMEs in the Economy

In view of present economic development effort in Bangladesh the SME sector plays an important role. These are reflected in the following performance /activities of this sector:

- During the Fourth Five year plan, a total of 0.35 million jobs were created against the target of 0.4 million.
- Contribution of SME sector to GDP remained above 4.5% during the period from 2000-01 to 2004-2005 despite decline in the amount of advances by the banking sector to this sector and it's growing day by day.
- SME sector employs 25% of the total labour force. As a result, this sector is the present available sector for creation jobs.
- SME sector help alleviate poverty, increase income level of rural people and promote agro-industrial linkage in Bangladesh.
- SME sector requires lower energy supply, lower infrastructure facilities and this sector imposes less environmental risk. They contribute towards better utilization of local resources and skills that might otherwise remain unutilized.
- Small industries being labour oriented are capable of generating more employment.
- They are necessary to maintain and retain traditional skills and handicrafts.
- They are the only medium for diversification of rural economy and for peaceful and concurrent socio-economic development of all classes of people. From the above discussion, we can say that SMEs are playing an important role in our economy in various ways.

In Bangladesh, SMEs playing a significant role for the development of our economy by creating employment opportunity and producing important alternative machines and machinery parts for saving huge foreign currency for our country. So as a part of our development strategy, we should intensify our efforts to develop this sector to grow industrial base and volume of foreign trade. SMEs in Bangladesh produce a multitude of labour intensive goods including, consumer items, toys small tools and paper products for the domestic market. Further development of these industries offers various investment opportunities. Export-oriented production in SMEs has gained momentum in the past few years. Entrepreneurs from Hong Kong, Japan and Korea have taken

advantage of Bangladesh's cheap and easily trainable labour and its infrastructure facilities to manufacture products for the export market.

Approaches of SME Financing by IDLC

Successful SME financing strategy is a key success factor for IDLC. For facilitating SME financing, IDLC had earlier established a separate division, namely 'Emerging Corporate Division', in early 2003. Basically under this division, IDLC has mainly financed smaller corporate clients. In 2006, this division was renamed to SME Division to reach out to really small segment of the market.

In order to tap the lower segment of the market and strengthen the SME financing, IDLC has launched Retail SME Finance Products. In this niche, IDLC has been able to do business with a higher spread, and the availability of cheap source of funds in the form of refinancing from Bangladesh Bank has contributed to greater profitability.

Around 78% of IDLC's clients belong to SME segment based on fixed capital investment size, and SME client share 56% of IDLC's total loan portfolio. Moreover, in late 2005, IDLC established branches at Bogra, Gazipur, Narshigdi, Imamgonj, Keraniganj, and Narayanganj, specially focused to SME financing.

Retail SME Finance Products of IDLC

At present, IDLC is selling five Retail SME Schemes, besides its regular SME lease financing facility, Machinery Loan.

Business Loan

Business loan is provided in the form of term loan or working capital loan. This loan is ranged from BDT 500,000/- to BDT 7,500,000/-. Track record of at least one year of successful operation is a must for availing this financing facility. This loan has been provided for the tenure of 12 to 36 months with repayment mode of monthly installments. This facility is devised to groom small entrepreneurs to future leaders in the industry. Upto BDT 1,500,000/- financing can be provided with no collateral under this scheme. Hypothecation of Inventory and machineries, and personal guarantee from two acceptable persons and any other security as deemed fit is taken as security under this scheme.

Business Loan (Cash security backed)

Under this product, loan facility is provided with 30% FDR of the loan amount if the business is found to be feasible, that further security may not be insisted on. This loan is also provided in the form of term financing, and the range of financing is same as business loan. The scheme provide financing for the maximum tenure of 48 months, and generally two years of successful business operation is required to be eligible to attain it. The security requirement is same as business loan.

Women Entrepreneurs Loan

This scheme is specially devised to finance the successful businesses of women entrepreneurs, and to contribute in the emancipation of women in the society. Any woman entrepreneur with at least two years of successful business operation can avail this loan, where no collateral is needed upto BDT 1,500,000/-. All the specification of this scheme is the same as business loan. Bangladesh Bank provides special refinancing facility for this scheme, making the borrowing rate significantly low.

Machinery Loan (Lease)

This is actually lease financing facility for SME clients. IDLC offers the most competitive and flexible lease financing for all types of manufacturing and service equipment. In Machinery Loan, the client has the full liberty to select the equipment and supplier and also to fix terms and conditions, including price. Lease rental is determined on the basis of acquisition cost and lease term. Lease term usually ranges from 1 to 4 years. Other conditions are same as business loan. Client is required to arrange for the insurance coverage on the leased equipment for the entire lease period. He is required to maintain the leased equipment in good operating condition, though insurance shall cover most of the abnormal risks.

Commercial Vehicle Loan

IDLC offers Commercial Vehicle Loan as a lease facility for the purpose of purchasing new or reconditioned vehicles for your business use. This is a lease financing facility for SME clients. Both new and recondition vehicles can be financed under this scheme. Loan limit starts from BDT 500,000 to BDT 1 crore. Truck, Trailer, Pickup Van, Covered Van, Microbus, Sedan etc. that are required for commercial purposes of businesses are financed under the scheme.

Supplier Finance

Supplier Finance is a revolving financing facility offered against receivables created due to supply of goods or delivery of services on credit. This short-term facility enables the suppliers/service providers to realize the maximum portion of the payment soon after the delivery has been made to the buyer.

Abashan Term Loan

ABASHAN is a loan facility extended to small businesses that will construct or already have permanent structure for commercial rent (popularly known as mess rent), that are located in places surrounding the industrial areas and EPZs across the country.

Appraisal Procedure of SME Client

After the marketing stage, appraisal procedure starts. In appraising, a comprehensive report has been prepared on the business performance of the client. The whole procedure is carried out through the following step by step procedure:

- Collecting preliminary information regarding the client: to collect the preliminary information, IDLC maintain a standard formatted checklist. This checklist is designed to collect the information regarding the necessary legal documents of the company, owners liability position, financials of the business and its sister organization and other necessary information. A sample checklist format is attached at the Appendix-1 for better understanding
- Collecting CIB report of Bangladesh Bank to know the liability status of the client: before any loan disbursement, Availing report from Credit Information Bureau (CIB) of Bangladesh Bank regarding the liability status of the client is mandatory.
- Writing the main report: ECD follows a standard format to write the appraisal report on its client. This report format contains the following part to investigate the credit worthiness of the client:
 - Client's name, address, business type and other preliminary information
 - In case of an existing client, the exposure status of the client with IDLC
 - Description of the financing proposal in details and client's previous track record (in case of an existing client)
- Financing rationales on client from different aspects like:
 - Background of the business and the main sponsors of the business
 - Analyzing the market potentials of the product client deals with
 - Analyzing the shareholding structure of the company to reveal whether any problem lies with it.
 - Keenly analyzing the previous 3 to 4 years financials of the client and make different comments on the changes he faced over the years
 - Analyzing the business and financial condition of the sister concerns, if any and its impact on the said concern.
 - Detail liability position of the client
 - Projection regarding the income statement and cash flow of the client at post financing period and calculating the Debt Service Coverage Ratio.
 - In case of lease, brief description of the leased equipment and its price verification

Credit Control Procedure

After the completion of appraisal procedure, the report is sent to the Credit Risk Management Committee to assess the risky ness of the investment. The risk of the investment is measured from different point of view. The major headline along with major risk parameters under which the riskiness of an investment is measured is described below:

Industry risk: Demand and supply condition, availability of the raw material, availability of the technology, extent of the competition, the growth pattern of the market, etc.

Company Risk: company's position in the market, strength of the company in the market, market coverage of the company's product, etc.

Management risk: Years of operation, Management structure, Experience of the key persons, status of any legal proceedings against the company, etc.

Loan Approval Procedure

After the appraisal is done, the appraisal report is submitted to the Credit Evaluation Committee (CEC). The member of this committee is the management people of Credit Risk Management and General Manager. After their approval, it goes to Deputy Managing Director (DMD) and to Managing Director (MD).

Use of Decision Models

IDLC Finance Ltd. uses several Decision Models to make the decision easy and more objective. Though there is a rule that IDLC SME Div won't finance any client more than BDT 1,000,000/- without having any Registered Mortgage sometimes management has to do contrary to that. Market is highly competitive and there are lots of players in the market. Moreover collateral is not always available. So sometimes financing is made without collateral. A Decision Model is used in that case to measure the strength of the client. A 10

point scale is used to measure the strengths. Any client scoring more than 7.25 is eligible for getting finance for more than BDT 1 million without Registered Mortgage.

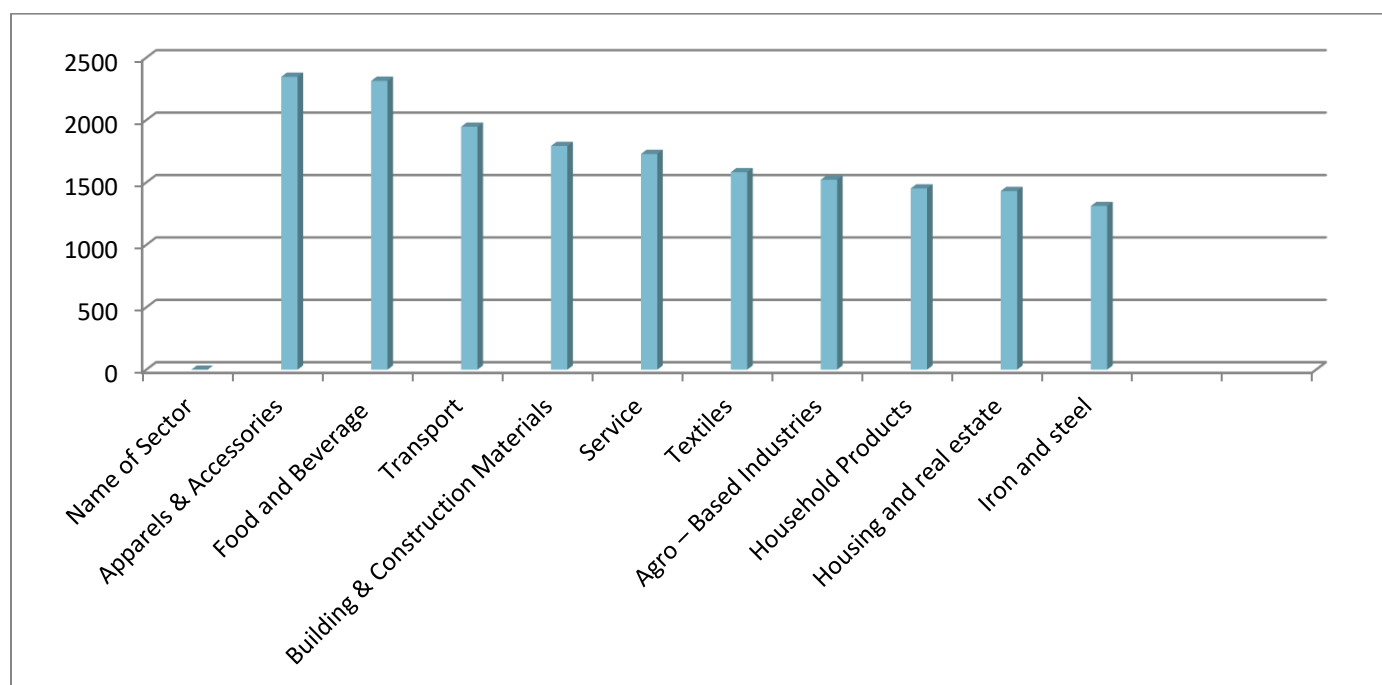
Sector Exposure

Sector wise distribution of the SME portfolio of IDLC in 2013 is given below. This distribution shows the distribution pattern of some of the important sector.

Taka in million		
Name of Sector	Exposure (BDT)	% Exposure December 31, 2013
Apparels & Accessories	2,346	9.25%
Food and Beverage	2,314	9.12%
Transport	1,946	7.67%
Building & Construction Materials	1,792	7.07%
Service	1,728	6.81%
Textiles	1,582	6.24%
Agro – Based Industries	1,521	6.00%
Household Products	1,452	5.72%
Housing and real estate	1,431	5.64%
Iron and steel	1,311	5.17%

Source: Primary

Table- Top-10 Sector Exposure of SME Financing of IDLC



Source: Primary

Graph: Graph of top 10 sector exposure.

Current Status of SME Division

As of January 01, 2013 we had around 340 live contracts in the Small Business Financing-Dhaka portfolio. If the budgeted disbursement target of BDT 450 mln (for Dhaka) is to be achieved about another 500 contracts (considering average loan size of BDT 0.85 mln) need to be executed. So, the number of live contracts is expected to be around 790 at the end of 2013.

5. RECOMMENDATIONS

In order to overcome the above mentioned problems the following suggestions are recommended

- Government must have to take adequate measures to ensure the uninterrupted supply of raw materials for SME.
- Government needs to take appropriate measures to fix the minimum salary/wages of the employees of SME. That will help to minimize the employee turnover.
- Government and financial institution may provide adequate finance for modernization and technological advancement.
- Development of infrastructure is essential for the optimum growth of SME. So government of Bangladesh needs to take appropriate policy strategy for the infrastructure development of Bangladesh.
- Government, financial institutions and Non-Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh.
- Due to the absence of uniform definition the policy formulation and implementations are not possible. Government should take initiative to develop a uniform definition of each category of SMEs.
- Govt. of Bangladesh should take the initiative to develop web pages exclusively for SME and an integrated SME database. It will reduce the barriers to SME access to global market.
- In order to ensure the retention of skilled workforce the government should make the entrepreneurial career attractive by minimizing the uncertainty.
- In order to encourage women entrepreneurship govt. may; involve women entrepreneurs in policy formulation and implementation and arrangement of funds for women entrepreneur, providing necessary training to women entrepreneurs in rural and urban area of Bangladesh.
- SME foundation may take appropriate marketing tools to popularize their products.
- For minimizing red tapes and accelerating the growth of SME government may provide one roof service under the SME foundation.
- Appropriate legal framework is necessary to ensure the development of SME 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 worldwide accepted. Govt. may also provide assistance to SMEs during the certification process and promote the importance of product certification for international acceptance among the SMEs.
- Research and Development (R&D) is must for the development and growth of SME. So government must have to invest in R&D for ensuring the intensification of SME of Bangladesh.
- Restriction may be imposed on import of SMEs' products which are available in Bangladesh.

6. CONCLUSION

In Bangladesh, SMEs consist of almost 90% of the total industrial setup. SME contributes almost 80% to 85% industrial employment, which is the 25% of the total employment of Bangladesh. SME accounts for 25% to 30% of total GDP. In terms of value addition, SME contributes 45% to 50% of the total value addition of a year's total production. (Source: IDLC database). The banking system which constitutes the core of the financial sector of any country plays a critical role in transmitting monetary policy impulses to the entire economic system. Banking is a business built on risk. Yet, it is essential to manage and minimize that risk. From the view point of SMEs' importance to the overall economic growth and the opportunities that the financial institutions have in developing this segment, our central bank, other regulator as well as the policy makers should review the whole process in holistic approach as it is closely correlated with the economic emancipation of the general people of the country. Besides the regulators, financiers should also understand the potential this sector has in terms of profitable business generation and building customer base. With proper and efficient credit risk management and right business model, SMEs can surely fast track a financial institution into a major player in the market and contribute towards its growth. The astronomic development of BRAC Bank Ltd., since its inception in 2001, is a

prime example in this regard. Commitment to the economic development, attitude to treat credit risk in holistic perspective, proper control mechanism and regional or cluster base business model can go a long way in developing a healthy and profitable SME portfolio for any financial institution.

Appendix

Bank categorywise quarterly SAE loan Statement
As on 31.12.2011

Name of the Bank	Sub-Sector	Target	Disbursement in (Current Quarter)	Disbursement in (Current Quarter)	Achievement in %	Cumulative disbursement in of the year	Cumulative disbursement in of the year	Achievement in % (cumulative of the year)	Total loan outstanding as on quarter end (as per CL)	Cumulative balance outstanding SME loans upto current quarter	Percentage of SME loans to Total loans
			Number	Amount		Number	Amount				

(Rs. in Crore)

Total of Financial Sector											
Service		7489.78	2631	848.96	11.33%	11964	3530.85	47.14%	0.00	4847.41	
Trade		30310.23	71094	8775.88	28.95%	243395	34382.64	113.44%	0.00	48974.70	
Manufacturing		19140.12	11170	4153.99	21.70%	63482	15905.95	82.59%	0.00	27735.91	
Service[Female]		954.88	224	46.41	4.86%	1199	198.52	20.79%	1.36	205.55	
Trade [Female]		3003.22	4384	246.61	8.21%	11936	1160.04	38.63%	0.00	1618.70	
Manufacturing [Female]		1768.82	808	216.50	12.24%	3562	689.89	39.01%	0.00	887.22	
Male		51213.71	79490	13269.31	25.91%	302644	51670.99	100.89%	0.00	78408.74	
Female		5726.42	5405	509.52	8.90%	16697	2048.45	35.77%	0.00	2690.49	
Total SAE		56940.13	84895	13778.83	24.20%	319341.00	53719.44	94.34%	390728.10	81099.23	20.76%
Small Enterprise		26531.67	61969	6794.45	25.61%	225170	25856.11	97.45%	0.00	40576.99	
Percentage of Small Enterprise to SAE		46.60%	1	49.31%	49.31%	1	48.13%	103.30%	0.00	50.03%	

Total of Banks											
Service		6936.02	2311	746.04	10.76%	10695	3120.13	44.98%	0.00	4159.38	
Trade		29404.55	69927	8650.23	29.42%	238319	33690.10	114.57%	0.00	48987.41	
Manufacturing		18193.76	10798	4049.81	22.26%	61857	15263.27	83.89%	0.00	26229.85	
Service[Female]		870.14	195	42.88	4.93%	1101	186.72	21.46%	0.00	181.51	
Trade [Female]		2890.29	4328	240.99	8.34%	11654	1133.37	39.21%	0.00	1568.25	
Manufacturing [Female]		1649.36	730	208.98	12.67%	3295	657.18	39.84%	0.00	859.00	
Male		49124.54	77804	12953.23	26.37%	294821	50096.23	101.98%	0.00	75924.54	
Female		5409.79	5232	492.85	9.11%	16050	1977.27	36.55%	0.00	2603.31	
Total SAE		54534.33	83036	13446.08	24.66%	310571	52073.50	95.49%	369901.11	78572.85	21.23%
Small Enterprise		25276.81	60270	6611.02	26.15%	217483	24864.89	98.37%	0.00	39232.55	
Percentage of Small Enterprise to SAE		46.35%	1	49.17%	106.08%	1	47.75%	103.02%	0.00	49.96%	

Bank categorywise quarterly SME loan Statement
As on 31.12.2011

Name of the Bank	Sub-Sector	Target	Disbursement (Current Quarter)	Disbursement (Current Quarter)	Achievement in %	Cumulative disbursement of the year	Cumulative disbursement of the year	Achievement in % (cumulative of the year)	Total loan outstanding as on quarter end [as per CL]	Cumulative balance outstanding SME loans upto current quarter	Percentage of SME loans to Total loans
Stateowned Commercial Banks	Service	1187.00	202	24.02	2.02%	1357	135.88	11.45%	0.00	747.40	
	Trade	3635.96	4412	843.03	23.19%	24883	2438.89	67.08%	0.00	11077.72	
	Manufacturing	2845.04	252	294.72	10.36%	2047	1584.11	55.68%	0.00	11419.38	
	Service [Female]	369.70	54	5.13	1.39%	461	28.12	7.61%	0.00	45.39	
	Trade [Female]	667.57	217	19.59	2.93%	1950	84.16	12.61%	0.00	721.15	
	Manufacturing [Female]	547.00	16	15.35	2.81%	204	40.48	7.40%	0.00	298.80	
	Male	6083.73	4579	1121.70	18.44%	25672	4006.12	65.85%	0.00	22179.16	
	Female	1584.27	287	40.07	2.53%	2615	152.76	9.64%	0.00	1065.34	
	Total SME	7668.00	4866	1161.77	15.15%	28287	4158.88	54.24%	81405.37	23244.50	28.55%
	Small Enterprise	3577.90	4455	683.01	19.09%	26186	2374.81	66.37%	0.00	10406.28	
	Percentage of Small Enterprise to SME	46.66%	1	58.79%	0.00%	1	57.10%	0.00%	0.00	44.77%	
	Total of Specialised Banks	Service	330.00	28	10.93	3.31%	165	58.75	17.80%	0.00	346.18
Trade		1186.20	1711	338.99	28.58%	4467	1310.80	110.50%	0.00	1829.10	
Manufacturing		1848.80	1130	315.94	17.09%	4099	1194.00	64.58%	0.00	2593.02	
Service [Female]		57.00	1	0.03	0.05%	15	2.95	5.18%	0.00	5.88	
Trade [Female]		223.75	27	2.84	1.27%	123	27.70	12.38%	0.00	44.46	
Manufacturing [Female]		361.50	90	21.38	5.91%	255	63.28	17.50%	0.00	203.91	
Male		2722.75	2751	641.61	23.56%	8338	2469.62	90.70%	0.00	4514.05	
Female		642.25	118	24.25	3.78%	393	93.93	14.63%	0.00	254.25	
Total SME		3365.00	2869	665.86	19.79%	8731	2563.55	76.18%	22994.08	4768.30	20.74%
Small Enterprise		1376.00	2412	322.37	23.43%	6531	1190.48	86.52%	0.00	1834.19	
Percentage of Small Enterprise to SME		40.89%	1	48.41%	0.00%	1	46.44%	0.00%	0.00	38.47%	

Bank categorywise quarterly SME loan Statement
As on 31.12.2011

Name of the Bank	Sub-Sector	Target	Disbursement in (Current Quarter)	Disbursement in (Current Quarter)	Achieve- ment %	Cumulative disburse- ment of the year	Cumulative disburse- ment of the year	Achieve- ment % (cumulative of the year)	Total loan outstanding as on quarter end [as per CL]	Cumulative balance outstanding SME loans upto current quarter	Percentage of SME loans to Total loans
Total of PCs											
	Service	5153.49	1996	619.44	12.02%	8847	2740.95	53.19%	0.00	2696.36	
	Trade	23978.30	63580	7303.76	30.46%	207715	29340.14	122.36%	0.00	34035.90	
	Manufacturing	13172.11	9282	3346.85	25.41%	54393	12028.63	91.32%	0.00	11645.69	
	Service [Female]	400.05	139	37.05	9.26%	621	153.96	38.49%	0.00	123.03	
	Trade [Female]	1950.14	4083	217.31	11.14%	9575	1018.62	52.23%	0.00	788.23	
	Manufacturing [Female]	712.73	608	172.14	24.15%	2809	552.22	77.48%	0.00	353.51	
	Male	39240.98	70039	10843.55	27.63%	257950	42384.92	108.01%	0.00	47164.39	
	Female	3062.92	4819	426.50	13.92%	13005	1724.80	56.31%	0.00	1264.77	
	Total SME	42303.90	74858	11270.05	26.64%	270955	44109.72	104.27%	244335.67	48429.16	19.82%
	Small Enterprise	19561.03	53113	5426.57	27.74%	183212	20714.05	105.89%	0.00	26081.99	
	Percentage of Small Enterprise to SME	46.24%	1	48.15%	0.00%	1	46.96%	0.00%	0.00	53.86%	
Total of Foreign Banks											
	Service	265.53	85	91.65	34.52%	326	184.55	69.50%	0.00	369.44	
	Trade	604.09	224	164.45	27.22%	1254	600.27	99.37%	0.00	1144.69	
	Manufacturing	327.81	134	92.30	28.16%	1318	456.53	139.27%	0.00	571.76	
	Service [Female]	43.39	1	0.67	1.54%	4	1.69	3.89%	0.00	7.21	
	Trade [Female]	48.83	1	1.25	2.56%	6	2.89	5.92%	0.00	14.41	
	Manufacturing [Female]	28.13	6	0.11	0.39%	27	1.20	4.27%	0.00	3.68	
	Male	1077.08	435	346.37	32.16%	2861	1235.57	114.71%	0.00	2066.94	
	Female	120.35	8	2.03	1.69%	37	5.78	4.80%	0.00	18.95	
	Total SME	1197.43	443	348.40	29.10%	2898	1241.35	103.67%	21165.99	2085.89	9.85%
	Small Enterprise	761.88	290	179.07	23.50%	1554	585.55	76.86%	0.00	910.09	
	Percentage of Small Enterprise to SME	63.63%	1	51.40%	80.78%	1	47.17%	74.14%	0.00	43.63%	
Total of NBFI											
	Service	553.76	320	102.92	18.59%	1269	410.72	74.17%	0.00	668.03	
	Trade	905.68	1167	125.65	13.87%	5576	692.54	76.47%	0.00	887.29	
	Manufacturing	946.36	372	104.18	11.01%	1625	542.68	57.34%	0.00	996.06	
	Service [Female]	84.74	29	3.53	4.17%	98	11.80	13.92%	1.36	24.04	
	Trade [Female]	112.93	56	5.62	4.98%	282	26.67	23.62%	0.00	50.45	
	Manufacturing [Female]	118.96	88	7.52	6.32%	267	32.71	27.50%	0.00	27.32	
	Male	2089.17	1686	316.08	15.13%	7823	1574.76	75.38%	0.00	2484.20	
	Female	316.63	173	16.67	5.26%	647	71.18	22.48%	0.00	87.18	
	Total SME	2405.80	1859	332.75	13.83%	8470	1645.94	68.42%	20826.99	2571.38	12.35%
	Small Enterprise	1254.86	1699	183.43	14.62%	7687	991.22	78.99%	0.00	1344.44	
	Percentage of Small Enterprise to SME	52.16%	1	55.13%		1	60.22%	115.46%	0.00	52.28%	

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