

A Study of Financing Small and Medium Enterprise of Bangladesh

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Abstract

The study identified the success and failures of a SME loan borrower. The borrower took SME loan from a branch of Bangladesh Krishi (Agriculture) Bank. The branch was located at the Farashganj of the Dhaka city. The SME borrower was interviewed through structured questionnaire. The collection of primary data was descriptive type. The name of the borrower is Shamol Pol and he was owner of a drug store. He was asked about his business activities prior to the access of SME loan. He was also interviewed about his feelings after his access to the SME loan. This study also consulted with the official of the Krishi bank of the Farashganj branch about SME loan transactions. The study derived some problems and solutions from the SME loan beneficiary.

Keywords

SME Loan, SME Loan Borrower, Bangladesh Krishi Bank, Case Study

1. Introduction

Among the many compelling reasons why SMEs fail to realize their full potential in Bangladesh, inadequate access to finance is prominent and most commonly cited. With limited capital base of their own and limited access to institutional financing, most SMEs rely on inefficient financing service from informal sources (Shah Ahsan Habib 2015). In the past, the Bangladesh government has attempted to provide small and medium enterprises with access to finance through targeted lending. A separate bank, namely, the Bank for Small Industries and Commerce (BASIC) was set up in 1988 with the objective of financing the small and medium enterprises. Of the other support bodies, Bangladesh Small and Cottage Industries Corporation offers loans to individual entrepreneurs and it has collaborations with Bangladesh Bank. SME foundation has linkage with different banks to finance SMEs. In recent times, Bangladesh Bank has undertaken some measures to ensure greater access to bank finance by the SMEs. For the first time in Bangladesh, an indicative target for SME loan disbursement has been set from 2010 by the banks and financial institutions considering SME development as one of the most important development agenda of the country (ibid).

In response to the policy initiatives, some positive changes have taken place in the area of bank financing to SME sectors of the country. Total SME credits increased from around 20 per cent to 27 per cent of their total credit portfolio in between 2009 and 2013. Of the broad bank groups, performance of private commercial banks is relatively better. Of the total outstanding credit to the SME clusters, private commercial banks' exposure was three-fourth of the total. Banks are facing common difficulty in SME lending due to the informal nature of many SME transactions and high cost of small loan administration (ibid).

2. Importance

In the context of Bangladesh, involvement of additional cost discourages banks in undertaking SME financing. Bangladesh Bank has significantly expanded its CSR activities in recent years, with pledging financial support to a number of projects. Besides, Bangladesh Bank has been encouraging and offering incentives to banks and financial institutions to undertake CSR activities to attain sustainable development (ibid). It is noted that Bangladesh is a country of immense potential with around five crore youths who can be converted into human capital (Muklesur 2015). It is also added that both the youth and overall economy can be

benefitted by promoting and facilitating small and medium enterprises like China, Malaysia, Taiwan, Hong Kong and Singapore which became rich by developing their SMEs (ibid). It is expected that SMEs of Bangladesh will generate much needed employment and push the GDP of the country onto a higher growth path. It is also raised question whether bank needs to lend more to the SMEs (ibid). With this regard, the present study will be useful for the SME think tanks since it is conducted in order to understand the actual situation of a SME loan borrower of the Bangladesh Krishi Bank.

3. Literature Review

Several studies have been done with a view to evaluate the problems and prospects of SME loan etc. It is evident from Mian and Asifah et al. (2014) that approaches of performance evaluation in Pakistan are not much popular. It is assumed from their study that researchers of Pakistan use those approaches in order to measure performance of small business which are commonly used in Pakistan. The study used quantitative type primary data.

Khalid and Kalsom (2014) determined the factors of apply for SME loan to bank. The study was based on quantitative type primary data gathered from survey with the help of questionnaires. Results indicate that business plans of firms and start up relationship with bankers were positively related to the applying bank loans of firms.

Akoja and Hasret (2010) addressed the financing of industrial development in Nigeria's SME sector. It examined the ownership structure, entrepreneur's capacity development and sub sector type of the SME, source of startup capital, business information and membership of business termed the core indices. The method of analyses was descriptive type statistical tools and chi square. It is concluded that ownership structure, capacity development of entrepreneur, SME sub sector type, source of seed capital are few among those which have significant effect in financing of SME in Kwara State.

It is very difficult to identify the differences of the previous studies since their objectives, methods, locations etc. are not similar. Despite this, the present study can differentiate itself with others because, 1) what kinds of benefits are provided to SME loan user; 2) if so what kinds of problems and prospects are experienced by the SME loan user and 3) what are the feelings of the officials of the SME loan provider institutions, such answers are missing from previous studies. Moreover, any study of financing SME loan to it's user by any specialized bank like Bangladesh Krishi Bank is also scant either in Bangladesh or elsewhere. It is thus expected that the present study will provide to demonstrate the above answers compared to other studies.

4. Objectives and Methodology of the Study

The objectives of the study are to analyze a small business

entrepreneur financed by the Farashganj branch about the benefit of SME loan and problems including suggestions arising out from this study.

In order to fulfill these objectives, the study is conducted on primary data qualitative in nature through a case study. This case study was done through personal interview upon a borrower of Farashganj branch of Bangladesh Krishi Bank (BKB), Dhaka, with the help of structured questionnaire. The name of borrower was Samaol Pol, owner of a drug store. Interview was conducted about the owner's past and present status of the business, benefits and problems faced by the owner for SME loan and comments of the BKB officials about SME loan. The selection of Bangladesh Krishi Bank, its Frashganj branch and the borrower were done purposively. Secondary sources were research articles, newspapers and websites.

The nature of this research article is case study based. The advantage of the case study over other methods is that it attempts to be comprehensive and involves the researcher in describing and analyzing the full notes and results (Ayesha 2011). The basic problem in the use of case material is theoretical analysis but it can do a whole variety of things (Mitchell 1999). Due to many constraints, it was not possible to conduct intensive interviews and surveys which could make the research paper more informative. Bonoma (1985) argues that case studies prove valuable in situations where existing knowledge is limited, often providing in-depth contextual information which may result in a superior level of understanding.

5. Historical Background of Bangladesh Krishi Bank

Bangladesh Krishi Bank was established under President's Order No 27 of 1973 (Manual of Krishi Bank). It is a fully government owned specialized bank engaged in lending in agriculture sectors, such as, all sorts of crop production, development of horticulture, live-stock rearing, fisheries development, purchase of irrigation equipment, establishment of agro-based industries etc. It also provides working capital for agro-industries and cash credit for trading of agricultural produces and engages itself in socio-economic development activities through micro-credit for poverty alleviation and also provides all kinds of commercial banking services including foreign exchange business. It puts priority in extending loans to small and marginal farmers and also gives emphasis on providing loans for establishment of small and medium enterprises (SME). SME of BKB has already earned a reputation for the bank and has attracted lots of potential customers around the country.

5.1. Overview of SME Banking of Bangladesh Krishi Bank

5.1.1. Definition of SME

Existing definition of SME is recommended by Better Business Forum and accepted as a uniform one by Ministry

of Industry and Bangladesh Bank. Criteria of the definition of SME are given below (BKB SME manual):

5.1.2. Definition of Small Enterprise

Small Enterprise refers to the firm/business which is not a public limited company and comprises the following criteria (ibid):

Table 1. Definition of Small Enterprise.

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

* 1US\$= BD Taka 80(approx.)

5.1.3. Definition of Medium Enterprise

Medium Enterprise refers to the establishment/firm which is not a public limited company and comprises the following criteria (ibid):

Table 2. Definition of Medium Enterprise.

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

* 1US\$=BD Taka 80(approx.)

5.2. Preference for Small Entrepreneurs

It is the small entrepreneurs among the SME entrepreneurs/enterprises of the country that have much potentiality of employment creation and eliminating unemployment and obtaining economic growth. To this end at least 40% of the loan giving target in the SME sector will be disbursed among the small entrepreneurs by the branches and the rest should be disbursed among the medium entrepreneurs.

6. A Case Study of SME Loan in Krishi Bank Farashganj Branch, Dhaka

6.1. Profile of the Entrepreneur & Enterprise

Every SME client of Krishi Bank Farashganj Branch, Corporate Branch had to fulfill a certain criteria before getting the approval of enjoying their SME facilities. Shamol Pol also had to fulfill those criteria before getting his loan; the following are a snapshot of his personal and professional profile:

Table 3. Profile of the Entrepreneur & Enterprise.

Name of Entrepreneur	Shamol Pol
Father's Name	Late Shoshto Bihari Pol
Mother's Name	Late Shibbibala Pol
Name of Business Organization	Mashars Lohar Pul Pharmacy 35, Malakartola lane, Farashganj, Dhaka Sadar Post, Suttrapur, Dhaka-1100
Type of Business	Medicine business
Year of Established	1977
Constitution	Proprietorship
Accounting Opening Date	01.08.2010

Source: Author's Survey

6.1.1 The Motivational Force

Shamol Pol grows up middle class family. He passes on HSC in 1979. He is a married person and he has one son, two daughters. He is an only earning person of his family. So, he has a big responsibility on his family. So, Shamol Pol was always thought that he must do something for his family. The whole negative situation changed into positive force and it was his fortitude and self-esteem that he accepted the challenge thrown to him from time with a smile.

6.1.2. The Beginning of the Business

There are many pharmacies in Farashganj. Many medical items and medicine are sold from here. A friend Shamol Pol purchases these medicines from whole sellers. One day Shamol Pol went to know about this business and asked them details. His friend said it is a profitable business but needs struggles and hardworking. He was also known after starting the business that it must need training on business subject. Shamol Pol one day went to the Medical Technology and admitted for 6 months training on medical theory and medicine. After a successful training, total Tk. 200000 he started his business. Firstly he rented a house which was in Farashgonj Dhaka. Then he started his business in 1977 and approval name of his business was Mashars Lohar Pul Pharmacy. Day by day his pharmacy became most popular in Farashgonj and he got lots of consumers.

6.1.3. Introduction with Krishi Bank SME Loan

Shamol Pol decided to expand but he was being extreme exhaustion to delivery all order for deficiency of money. One day he talked with his neighbor Shuvash Chondro about his problem and he was SEO of Krishi bank, Farashgonj. At that time, Shuvash Chondro said him about the Krishi Bank's SME loan. He took the suggestion seriously and visited Krishi Bank and firstly he opened his own account and then spoke about the offer, which are providing (SME Loan) by the bank. Bank's officer told him which paper will be submitted for loan and which types of requirement should be fulfilled. Then he applied for loan with an application. Then it was sanctioned his first SME loan in 2010, August.

6.1.4. Amount of Loan

Shamol Pol applies to only one time and amount of Tk 5 lac. Bank sanctioned Tk. 5 lac. This loan provides only 2 years.

Date of sanction of loan 2010 August and interest rate is 12% and date of expiry 2012 August (Paid).

6.1.5. Present Status of Business

Table 4. Present Business Status of Shamol Pol.

Starting investment TK. 2.00 lac*	
Asset Worth	TK. 15 lac(Above)*
Number of Shop /Factories	Own shop
Business Type	Medicine
Industry Type	Medicine
Target Market	Middle, lower and upper class people.
Business position/Coverage Area	35, Malakartola lane, Farashganj, Dhaka-1100.
Business process	Qualitative and quantitative

Source: Author's Survey; *BD Taka 10 lac= 1 million.

6.2. Future Plan

The future plan of Shamol Pol about the “Mashars Lohar Pol Pharmacy” is very much organized. Firstly, he wants to expand his business area all over the Dhaka City. Shamol Pol will also want to expand his customers. Only from Tk. 2.00 lac investment money, today Shamol Pol total asset increased to TK.15 lac, so it is possible for hardworking. For this reason, Shamol Pol also wants to continue his hardworking in future.

6.2.1. Problems of the Entrepreneur Regarding of the Bank

- Bank interest rate is high.
- Duration time of the pay off the loan is very short. So limited time is the very much burden for the entrepreneur.
- Loan amount is very low against securities.
- Without reputed introducer not possible to open the account and also not get the loan.
- Getting the loan is really extensive after applying the loan.

6.2.2. Objectively Analyses of the Entrepreneur's Problems

After consulting with the bank manager of the bank about the Shamol Pol's problems, it finds out some reasons which are existed behind the problems:

- Krishi Bank Limited is a specialized commercial bank. So it is strictly maintain some rules about all matters.
- Krishi Bank Limited follows the Bangladesh Bank's SME policy manual which contains the core principles for identifying, measuring, approving and managing credit risk revolving around the small enterprise financed by the bank.
- As a commercial bank, sanction of any kind of loan pass a lengthy process because when any loan proposal submitted in branch then branch sends it to the Head office. Head office takes 25 or more days and then Head office process the proposal with due diligence and take decision by the Board of Directors meeting.
- It is not possible to maintain the loan amount and the

securities values. Because most of the time it involves different types of risk. Bank keeps raw materials and machineries of business of Shamol Pol as well similar borrower as mortgages. So any type of mishap or accident creates a high risk for bank.

- For maintaining Bangladesh Bank rules and for safety, Krishi Bank Limited wants a reputed introducer because if any reason clients are not able to pay off the loan, that time introducer bears the loan.

6.2.3. Findings of the Case Study

Some Entrepreneur characteristic which are found in Shamol Pol:

- | | |
|-----------------|-------------------------|
| 1. Confidence | 4. Energy and Diligence |
| 2. Independence | 5. Risk Taking Capacity |
| 3. Honesty | 6. Intelligence |

6.2.4. Whether Shamol Pol Comparable to a Successful Entrepreneur

Shamol Pol is definitely comparable to a successful entrepreneur. He has all the qualities of an entrepreneur and is always optimistic to achieve good things. He is always looking forward to take up new challenges and is a good risk calculator. He has arranged his business systematically and driven it to a successful path with healthy profit. Shamol Pol has also future plans and he is hunger to success.

6.2.5. The Implied Reasons Behind Shamol Pol for Becoming a Successful Entrepreneur

Shamol Pol was in a very difficult position. Maintaining the family was difficult for him. He passed in Higher Secondary Certificate. At last he stopped his study and started to business for change their situation. At a very young age, he took the decision to fight against his poverty. The untimely catastrophe with his family urged him to become an entrepreneur.

6.3. The Lessons from Shamol Pol and How It Can Influence a Man to Be an Entrepreneur

The story of Shamol Pol, a Bangladeshi citizen, is a prime example of someone who has succeeded through determination, by asking for information and guidance and by making use of intellectual property. It shows also that cases of success are not confined to America or Europe alone, but that Bangladesh business or individual can just as well achieve success through development and help provided by various financial institutions. Shamol Pol set an example not only for the people like him but for the whole nation that determination, hard work, willpower, risk taking mentality, self confidence, never acknowledge defeated mentality, achieve more money and self-control can lead anyone to achieve the impossible. The lesson which learns from all his experience is; “Necessity is the father of all Inventions”.

6.3.1. Shamol Pol - an Opportunity Seeker with Examples

Shamol Pol is an opportunity seeker and has always grabbed the opportunity to go ahead in life. He initially grabbed the opportunity and to fully trained up about his business from Medical Technology. Then after gaining sufficient experience, it made the full use of experience by opening his own business and finally grabbing the opportunity provided by Krishi Bank. He made full utilization of the SME loan that brought him to this position today.

6.3.2. What Made Shamol Pol a Great Businessman

The determination, the dedication, the ability to motivate himself and others and the intelligence and integrity of Shamol Pol has made him a great businessman. Even in the most difficult situations, he has been able to find out the best solutions with good results to show for it.

7. Recommendations and Conclusion

7.1. Recommendations

On the basis of the above findings, following recommendations that BKB may take into considerations in order to exploit the potential SME market.

-As the survey and analysis have revealed, many SMEs require a smaller loan size. The current loan floor of Taka 2 lac is actually an excess of funds for them. Thus BKB can consider dropping the floor to Taka 1 lac. This will increase the market size as well as the prospect for faster growth.

-As is the case for retail products, SME can pursue a more segment oriented approach to capture a larger portion of the market. BKB can introduce new tailor-made products for the different sectors. New product with slight modifications in price can be introduced for the following segments:

- Clothes and footwear industry, which captures about 19% of the total portfolio.
- Grocery and household items, which captures about 15% of the total portfolio.
- The service sector, which has the highest growth rate among the four sectors.

-At present, the SME division is overly dependent on the trading sector, which has more than an 80% portfolio share. If this sector begins to under-perform, it will be reflected in the performance of the whole division. Thus BKB needs to diversify into other sectors to minimize risk. More focus should be put on the other sectors, specially the service sector. Promotional campaigns can be held to create market awareness in these sectors. New and modified products can be introduced to these sectors. A more diversified portfolio will reduce the risk associated with SME loans.

-Overdraft facilities can be introduced to the SME sector for clients with small loan requirements. This facility will enhance the prospect of working capital financing. The size of the facility may be smaller than the

existing loan sizes, but the interest rate will be higher. As the size of the facility will be small and the tenure very short, the higher interest rate will not affect the client much.

-There is an existing recovery team for the SME division to monitor the performance of SME loans, yet, the performance is declining. Therefore, BKB has to be more careful on this issue. In order to improve the performance of SME loans the following steps can be taken:

- An "Early Alert System" can be introduced. This will keep track of the probability of loans going bad. The system will consist of a detailed database of all loans outstanding and will be updated daily. It will also signal the repayment date, amount and client particulars of a loan ahead of time so that the credit division can then pursue the client to repay on time. A team can be allocated to constantly monitor the database. The existing system identifies non-performing loans only after installments become overdue. The database is updated monthly, which makes the recovery process slow.
- Whenever more than one consecutive installment is missed, the loan should be reviewed for rescheduling. This will increase the probability of repayment for the client. If more than six consecutive installments are missed, the rescheduling can be forced on the client with a rescheduling charge debited from his account.

7.2. Conclusion

BKB Bank is an SME focused bank. The prospects of the SME market are great and the market size is also huge. Research in this field has only begun recently and the areas of the market are still not clearly outlined. At the same time, this market is a risky market, as it involves dealing with entities which are prone to default. However, because of its tremendous potential, it is worth taking the risk. But in the process, BKB has to take care to minimize the risk involved in investing in this sector. As the SME sector is relatively new, the performance of the loans in this segment cannot be evaluated conclusively yet. A cautious approach to the SME market will enable BKB or similar SME loan providers to exploit the prospects of this segment in the world.

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