

Internship Report
On
Small and Medium Business Enterprise Loans by
Premier Bank

Course Code: BUS 499

Prepared For

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East West University



Letter of Authorization

Date: 20 August, 2008

Students

BUS 499

Summer '08

East West University

Dear Students

I am here to inform you that as a part of your course I have assigned you with a report based on the company that you are currently doing your internship in. As the topic goes: Small and Medium Business Enterprise Loans by Premier Bank, the report should mainly focus on the company profile, it's mission, vision, commitment, it's lending procedures, problems faced in financing the SMEs. By Premier Bank etc. This report is due on 20th of August and should be complete on the due date.

You may collect information using any source that is convenient for you regarding the report and if you need any help of mine, my door is always open.

Thank you

Mr. S.I. Nusrat A. Chowdhury

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August 15, 2008

Mr. S.I. Nusrat A.Chowdhury
Associate Professor
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Subject: Submission of Internship Report

Dear Sir,

It is with great pleasure that I submit to you my Internship Report titled “**Small and Medium Business Enterprise Loans by Premier Bank**” which was prepared from the job experience in The Premier Bank Limited (Elephant Road Branch).

I had to learn and work a lot to know the overall Banking and get the relevant data to prepare the report. I express my deep gratitude to you for giving me scope and help me to prepare this report properly.

I hope you will find it satisfactory.

Sincerely yours,

Nehreen Chowdhury
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Executive Summary

As the topic of my internship is Small and Medium Enterprise Loans by Premier Bank, this report focuses on various aspects of SME loans – its prospects in Bangladesh, problems faced by banks in giving these loans, the lending procedures, the condition of SMEs in Bangladesh overall etc. According to Bangladesh Bank, the recent definition for SME is: The companies which are not public limited and have total assets from BDT 50,000 to BDT 50, 00, 000 excluding building and land, and the total number of employees of the companies is highest 25 ,only then it will considered small business enterprise. The companies which are in industrial sector must have total assets BDT 50,000 to BDT 1,50,00,000 excluding building and land and the total number of employees of the companies must be highest 50 to be considered a small business.

As Bangladesh is a developing country, the development of small and medium enterprises (SMEs) is a key element in it's economic growth ,so recognizing the demand in financing of the companies operating small and middle sized business,The Premier Bank Ltd. offers a simplified scheme to entrepreneurs for increasing SME finance. Small and Medium size industries which have total assets (excluding land & building) between TK. 50,000/- to Tk. 1 Crore are eligible under this scheme. The SMEs' contribution to GDP remained within the range of 4.4 percent to 4.7 percent during the last five years. Despite the great potentialities of the SMEs in our economy, 49 Commercial Banks of the country have not yet come forward with a definite vision to extend financial help to the millions of entrepreneurs of this sector. There are approximately 6,000,000 micro, small and medium enterprises in Bangladesh, which include up to 100 workers at most. These enterprises consist primarily of wholesale retail trade and repairs *(40 percent), production and sale of agricultural goods (22 percent) and manufacturing (14 percent). Out of these enterprises, 35 percent received credit from informal source and another 35 percent from formal source. Nongovernmental Organizations (NGOs) were the most common source of formal credit. The Premier Bank Ltd., like other private commercial banks, has already undertaken some projects of SMEs. Within these SME scheme Project Finance,Working Capital Finance, Lease Finance/Hire Purchase,Work Order Finance, Bai-Muazzal (Commercial), Bai-Muazzal (Term Loan),Rural Credit Scheme (e.g. Goat fattening) are the most important .As a new bank the PBL mainly finances the Small and medium scale business enterprises because it is easier to finance

and maintain the small and medium scale business enterprise than large scale industries because large industries are mostly failure because of poor technology or unskilled workers. Also the SMEs contribute nearly 85 per cent to the country's total export earnings and 87 percent of the country's total industrial workforce is employed in the SMEs with the sector creating over 33 percent of industrial value added goods, so financing these SMEs is vital if our economy needs to be flourished. But despite such immense contributions, the growth of SMEs in Bangladesh is being fostered by multi-various problems, both in micro and macro levels. Lack of material testing facilities required for quality production, inadequate skilled labor force, poor marketing, inadequate knowledge of many entrepreneurs about the existing lending system, absence of necessary training facilities for small enterprise, high hidden cost are just a few of them. . The SME entrepreneurs usually have a very good business sense but may be unable to communicate in the language of a financier. These are the reasons why a separate business process is required for Commercial Banks to successfully operate in this segment. The process need to be simplified and made friendly to needs of SMEs. A product-based solution, which meets SME needs, is required. For financing SMEs, PBL has already soft-launched a product-based solution offering loans of BDT 02 Lac to BDT 05 Lac targeting at the mid-market players. Market response has been quite good and customers have appreciated PBL's simple documentation requirement and swift loan processing. With time these customers will take to relationship-based banking (instead of product-based one) that will give a further boost to the sector.



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Chapter 1

Introduction:

Early banking system served mainly as depositors for funds, while the more modern system consider supplying of credit their main purpose. A Bank not only accepts money or deposits, but it also lends money and creates its own credit. Crowther has defined a bank as “a dealer in debts- his own and of other people.” Sawyers states, “We can define a bank as an institution whose debts (bank deposits) are widely accepted in settlement of other peoples debts to each other.”

Banks are financial institutions or financial intermediary that collect fund from people as deposit and lend this fund as loans and advances to the borrowers in different sectors of the economy against interest for a certain period. Banks play a very important role in both National and International trade. Nowadays no country can survive without international trade. Moreover, banks provide some other non-traditional services like factoring, issuing bank guarantees etc., which are very much supportive to modern business.

In Bangladesh, there are Government Banks, Private Banks and Foreign Banks and The Premier Bank is one of the leading private sector commercial bank in Bangladesh.

1.1 Origin of the Report:

This report titled “Financing Small and Medium Business Enterprises by Banks- Problems and Prospects” is prepared for fulfilling a partial requirement for both the B.B.A. and the Internship Program. The Premier Bank Limited is the host organization for my 3 months Internship Program, which began on June 5th, 2008 and ends on September 5th, 2008.

1.2 Objectives of the Report:

The objectives of this report are two-fold:

- Fulfillment of one of the B.B.A. Programs and Internship Program requirements.

The specific objectives of this report are :

- To give an overview of operations of PBL.
- To evaluate the lending operation of The Premier Bank Limited to Small and Medium Enterprise (SME).
- To give an insight to Small and Medium Enterprise (SME).
- To Identify the contributions of SME to the economic development.
- To study and identify the problems and prospects of financing Small and Medium Enterprise (SME) by bank.
- To draw recommendations for further development of SMEs.

1.3 Importance of the Study:

A large industry set-up requires a huge amount of capital. But Bangladesh is a poor country. It is very difficult for a developing country like Bangladesh to finance large-scale industries. It is easier to finance small and medium business enterprises rather than large industries. If the small and medium business enterprises are upgraded, the economy must be developed. Japan is the best example of this sector. The economic miracle of Japan has attracted great attention to all the developing countries of the world and they have used them for their own rapid economic development. This is particularly so in the case of economic planners in developing countries concerned with development of small and medium business enterprises.

1.4 Methodology:

This report has been prepared on the basis of the experience gained during the period of the internship. The important feature of the report is the use of both primary and secondary data.

Sources of Information:

The data was collected from two sources:

Primary Source:

- Personal experience gained by visiting different desks.
- Personal investigation with bankers.

Secondary Source:

- Different "Procedure Manual", published by The Premier Bank Ltd.
- Newspapers
- Journals
- Internet
- Annual Reports

1.5 Scope of the Study:

The report will mainly focus on the problems and prospects of Small and Medium Enterprises (SMEs). It will also focus on operation of loans and advances, structural position of loans and advances.

After studying that whole report anyone can learn and get huge knowledge about SMEs that will be help them to further development.

1.6 Limitations of the Study:

Time was a major limiting factor while preparing the report. The report had to be prepared in three-months of my Internship period. There were scarcity of written

documents about the facilities and other related things. Much information couldn't be gathered for the reason of confidentiality. Therefore, it is very difficult to carry out detailed analysis of the Banks problems and prospects of Small and Medium Enterprises (SMEs) financing. The study was limited to the Premier Bank Ltd. and paper documents.

1.7 Report Preview:

This report contains six chapters. Chapter One is about relevant introductory information about the report. Chapter Two will provide some useful organizational information about The Premier Bank Ltd. Chapter Three covers Lending Procedure of Premier Bank Ltd. Chapter Four is an Overview of Small and Medium Business Enterprise (SME). Chapter Five is Problems and Prospects in Financing Small and Medium Business Enterprise (SME). Chapter Six draws Conclusion, Recommendations and Bibliography.



Chapter 2

The Premier Bank Ltd. At a Glance:

The Banks play an important role in the economy of the country. After liberation war all foreign banks were nationalized. These banks were merged and grouped into six commercial banks. Of the total six commercial banks Uttara and Pubali were transferred to private sector from 1985. The financial system of Bangladesh consists of Bangladesh Bank (BB) as the central bank, 04 nationalized commercial banks (NCB), 5 government owned specialized banks, 30 domestic private banks, 10 foreign banks and 28 non-bank financial institutions are existing in our country at present.

2.1 Profile of the Premier Bank Ltd. (PBL):

The Premier Bank Limited has created a new way of its own banking arena of Bangladesh in terms of service to customer and value addition to its stakeholders. The Premier Bank Limited is incorporated in Bangladesh as banking company on June 10, 1999 under Companies Act.1994. Bangladesh Bank, the central bank of Bangladesh, issued banking license on June 17, 1999 under Banking Companies Act.1991. The Head Office of The Premier Bank Limited is located at Banani, one of the fast growing commercial and business areas of Dhaka city. Still now it has opened 27 branches in different areas of the country.

2.2 Corporate Information:

The Premier Bank Limited is managed by a group of dynamic Board of Directors drawn from different disciplines. They hold very respectable positions in the society and are from highly successful group of Businesses and Industries in Bangladesh. The Bank has a very competent Management Team who have long experience in domestic and international Banking. The Bank upholds and strictly abides by good corporate governance practices and is subject to the regulatory supervision of Bangladesh Bank.

Authorised Capital : BDT 2000.00 Million

Paid up Capital : BDT 557.55 Million

2.3 Board of Directors:

The Board consists of 10 (ten) Directors. The members of the Board of Directors of the Bank hold very respectable positions in the society. They are from highly successful group of Business and Industries in Bangladesh. Out of 10 members one is from Taiwan. Each member of the Board of Directors plays a significant role in the socio-economic domain of the country.

2.4 PBL's Values:

PBL's value statement is "Service First". PBL's hold the following values:

Strong customer focus and building relationships based on integrity superior service and mutual benefit-

- Work as a team to serve the best interest of the group.
- Relentless in pursuit of business innovation and improvement.
- Value and respect people and make decisions bases on bank's interest.
- Recognition and rewards based on performance.
- Open and honest communication.
- Responsible, trustworthy and law abiding in every activity.

2.5 Vision of the Bank:

To be the best amongst the top financial institutions.

2.6 Missions of the Bank:

- To be the most caring and customer friendly provider of financial services, creating opportunities for more people in more places.
- To ensure stability and sound growth while enhancing the value of shareholders investment.
- To aggressively adopt technology at all levels of operation to improve efficiency and reduce cost per transaction.
- To ensure a high level of transparency and ethical standards in all business transacted by the bank.
- To provide congenial atmosphere, this will attract competent work force.
- To be socially responsible and strive to uplift the quality of the life by making effective contribution to national development.

2.7 Objectives of the Bank:

- To encourage and motivate new entrepreneur to establish industries and business in line with development of the national economy.
- To boost up investment in private sector by financing independently or under syndication arrangement.
- To financing foreign trade of the country both in export and import.
- To enhance savings tendency of the people by offering attractive and lucrative new savings scheme.
- To develop the standard of living of the limited income group by offering consumer credit scheme.
- To boost up mobilization of savings both from urban and rural areas.
- To develop the model of participatory banking.

- ❑ To develop competitive, most modern scientific and social welfare oriented banking institution on the country.
- ❑ To finance the industry, trade and commerce through conventional way as well as by offering various customers friendly credit products.

2.8 Functions of the Bank:



The Bank offers:

- ❖ Term loans and working capital loans to industries.
- ❖ Full-fledged commercial banking service including collection of deposit, short term trade finance, working capital finance in processing and manufacturing units and financing and facilitating trade.
- ❖ Loans to Small and Medium Enterprises (SMEs).
- ❖ Micro credit to the urban poor through linkage with Non-Government Organization (NGOs) with a view to facilitating their access to the formal financial market for mobilization of funds.

2.9 Future Direction:

The objective for the years ahead is to become a highly professional and profitable bank to contribute to the economic development of the country. Priorities have been identified for implementation in the near future. These include looking out for new business lines, developing more products & services, widening branch network and introducing newer banking technology.

Even through global and national economy offers no immediate sign of fast growth, there is an apparent advantage of our bank in attracting business by offering better service at competitive terms. We believe the bank is well structured, well focused and in right platform to become a top ranking bank of the country within few years.

2.10 Business Philosophy of PBL:

The philosophy of PBL is to develop the Bank into an ideal and unique banking institution. The bank should be quite different from other privately owned one-managed commercial bank operating in Bangladesh. PBL is to grow as a leader in the industry rather than a follower. The leadership will be in the area of service constant effort being made to add new dimension so that clients can get additional value in the matter of services to commensurate with the needs and requirements of the country's growing society and developing economy.

2.11 Divisions of PBL:

The M.D. is the head of the operational area, of the bank and is its chief executive. The M.D. is appointed by the board of directors with prior permission of Bangladesh bank. All policy formulation and subsequent executions are done in the Head office. It comprises the following divisions. Financial Administration Division (FAD), GSD, ID, ITD, Establishment, Accounts.

2.12 Products of the Bank:

Premier Bank is always conscious of the changing needs of the customers and strives to develop new and improved services for its valued customers. Bank offers various Deposits and Lending Products & Services to meet all kinds of financial needs of our customers.

Deposit Products:

- Monthly Savings Scheme (MSS)
- Monthly Income Scheme (MIS)
- Education Savings Scheme (ESS)
- Special Deposit Scheme (SDS)
- Fixed Deposit (FD)
- Saving Account (SB)
- Current Account (CD)
- Corporate Savings Account (SB)
- Short Term Deposit Account (STD)
- RFCD/ NFCD Account
- Premier 50+ Account

Premier Bank is paying interest on daily balance of the Savings & Corporate Savings Accounts as well.

Lending Products:

- Consumer Credit Scheme
- Rural Credit Scheme
- Student Credit Programme
- Special Credit Scheme on RMG
- Doctor's Loan
- Lease Finance
- SME Finance
- Hire Purchase
- Trade Finance
- Working Capital Finance
- Project Finance

- Finance for Agroprocessing Industry
- Other Commercial Lending such as: Cash Credit, PAD, LIM, LTR

Islamic Banking Operation:

In order to serve those Customers who neither Receives or Pays Interest, PBL has decided to open separate branches based on **SHARIAH PRINCIPLES**. The activities & book keeping will be kept separate from the Conventional Branch Operations.

Islamic Banking service is now available at **MOHAKHALI BRANCH** and **SYLHET BRANCH**. These two branches are run under Islamic Shariah Principles. Chairman of Islami Bank Limited, former Secretary of Government of Bangladesh and former Deputy Governor of Bangladesh Bank - Mr. Shah Abdul Hannan is also the Chairman of Islamic Shariah Council of Premier Bank. The council also consists of renowned Islamic scholars like Dr. A.R.M. Ali Haider, Professor of Department of Islamic Studies, University of Dhaka, Moulana Ruhul Amin Khan, Executive Director of the Daily Inqilab and others who determine the guiding principles for operation of our Islamic Branches.

The performance of Islamic banking branches during the year 2007 is Deposits of 876.53, Investments of 282.42 and Profit of 1.05 (*Taka in Million*).

2.13 Services of the Bank:

Locker Service:

For safekeeping of customers' valuables like important documents and goods like jewelries and gold ornaments, Premier Locker Service is available in most of the Branches in urban areas.

Nature of Service	Nature of Charges	Rate of Charges
Custody of Locker / Safe	Rent	a) Yearly TK.1,000/= for small size locker b) Yearly TK.1,200/= for medium size locker c) Yearly TK.2,000/= for big size locker

Online Branch Banking:

PBL has set up Wide Area Network using Radio, Fibre-Optics & other available communication systems to provide any branch banking to their customers.

Customer of one branch is now able to deposit and withdraw money at any of the branches except Barishal Branch. The Barishal Branch will be included in the Wide Area Network shortly.

No TT/DD or cash carrying will be necessary.

Online branch banking service is designed to serve its valued clients. Under this system, you shall be able to do the following types of transactions :

- Cash withdrawal from your account at any branch of the Bank.
- Deposit in your account at any Branch of the Bank.
- Transfer of money from your account to any other account with any Branch of the Bank.

Transaction Limit

Unlimited transaction.

Online Transaction Membership Fee

No Membership fee is required.

Charges for Online Transaction

No charges for online transaction.



ATM:

PBL has plans to install ATMs around the country to enable our Account Holders & Card Members to draw cash, do fund transfer, payments and balance inquiry on line. Currently there are 4 ATM booths of PBL around the country.

Banking Software:

A robust banking software which will integrate the Total Banking Operation and provide total solutions to customer needs is under selection. Implementation is expected soon.

SWIFT

Premier Bank Limited is one of the first few Bangladeshi Banks which has become member of SWIFT (Society for Worldwide Inter-bank Financial Telecommunication) in 2002. SWIFT is members owned co-operative, which provides a fast and accurate communication network for financial transactions such as Letters of Credit, Fund transfer etc. By becoming a member of SWIFT, the bank has opened up possibilities for uninterrupted connectivity with over 5,700 user institutions in 150 countries around the world.

SWIFT No.: PRMRBDDH

Credit Card:

Premier Bank holds the principle member License from VISA International to issue & acquire the world's most widely used Credit Card. Premier Bank is the first local private bank to offer VISA International credit card in the country. The Bank is offering both Local International Cards.

2.14 Performance of the Bank at a Glance:

(TK. In Million)

Particulars	2002	2003	2004	2005	2006	2007
Authorized Capital	1000.00	1000.00	1000.00	1000.00	1000.00	2000.0
Paid-Up Capital	222.00	222.00	222.00	239.76	408.91	557.55
Reserve Fund	0.00	2.86	25.30	98.24	130.00	301.08
Deposits	1424.24	1856.13	2206.39	5373.75	10030.52	18005.20
Advances	11.21	1089.22	2057.96	4280.73	8095.57	15383.93
Investment in Govt. Securities	60.00	140.15	270.13	680.09	1330.20	2750.00
Foreign Trade Business	54.27	2348.20	6158.43	11782.80	20934.30	34108.50
Foreign Remittance	-	24.62	57.51	54.80	364.50	1408.00
Income	20.68	224.36	415.41	576.78	1251.76	2395.45
Expenditure	31.43	199.18	291.27	380.54	851.03	1464.52
Operating Profit	-10.75	25.18	124.14	196.24	400.73	930.93
Fixed Assets	6.71	46.79	48.59	73.29	107.90	149.57
Total Assets	1852.02	2832.25	3448.94	6036.92	11096.30	20100.25
Book Value per Share (Taka)	100.00	100.00	121.68	140.97	168.12	207.69
Earning per Share (Taka)	0.00	3.85	26.09	28.30	67.02	84.40
Dividend	-	-	13.50%	13.70%	36.35%	36.84%
Loan as a % of total Deposits	0.79%	58.68%	93.27%	79.66%	80.71%	85.44%
Non-Performing Loan as % of total Loan	-		0.64%	1.16%	0.36%	0.43%
Capital Adequacy Ratio	-	17.13%	12.47%	9.27%	11.76%	10.69
Number of Branches	2	6	7	12	17	21
No. of Foreign Correspondents	72	103	131	156	238	297
Number of Employees	286	427	564	681	835	954

2.15 The Premier Bank Ltd., an Overview:

The Premier Bank has completed five years of operations and we found the Bank at the top slot in terms of growth, quality services and image building to the customers and value addition for the shareholders. The Bank made tremendous growth progress in all spheres of business operations including profitability in 2007. The trademark "service first" associated with our Bank's name is not a mere slogan any more, rather a practice and way of life in Premier Bank's day-to-day operation. The Bank remained focused on customer service during the whole year and ensured delivery of 'Total Quality Services' in its dealings with the customers.

The bank closed the year under review with a number of achievements.

- Registered significant growth (2.5 times over 2006);
- Captured leading position in the industry with capital adequacy ratio of 10.69 percent, assets quality (non-performing loan 0.43 percent), proactive management, earnings (ROA 4.63 percent) and liquidity maintenance (CRR 4.98 percent, SLR 16.54 percent, loan-deposit ratio 85.44 percent).
- Issued 14200 VISA Credit Cards this year, highest ever in the banking industry of the country.

The Bank further expanded and consolidated its customer base in both of its core business and retail banking. During the year, the network of branches increased to 27 with three new branches - one in Mirpur of Dhaka city, one in Savar Bazar and one in Rajshahi. We have already planned to add few more branches to our network, which will give the Bank strategic advantages in terms of operations and business potentials.

In a challenging market conditions and also to fetch/explore post-MFA globalization effects, the Bank continued to provide more innovative products and best quality services to retain the market share. The strategic direction for the Bank has been clearly identified and laid down in the corporate plan and Budget for 2008. Priorities identified in the corporate plan include expansion of business lines in new areas such

as house building loan, investment & portfolio management, lease finance, overseas remittance business and acquisition of other many more.

Capital Funds:

Authorized Capital of the Bank has been increased from Tk. 1000.00 million to Tk. 2000.00 million during the year and Paid-up Capital at Tk. 557.55 million as on December, 2007. Reserve Fund of the Bank stood at Tk. 301.08 million, Retained Earnings Tk. 301.40 million, General Provision for unclassified advances at Tk. 152.60 million and this amount is also available for calculating capital adequacy requirement. Thus, total capital funds stood at Tk. 1312.63 million as on December 31, 2007. The Capital Adequacy Ratio of the Bank as on December 31, 2007 worked out at 10.69 percent as against the minimum requirement of 9 percent, which testifies to the sound capital base of the bank. The Capital Adequacy Ratio in 2006 was 11.76 percent.

Deposits:

The deposit base of the Bank registered a significant growth of 79.50 percent and stood at Tk. 18005.20 million at the end of 2007 as against Tk. 10030.52 million in preceding year.

Loans and Advances:

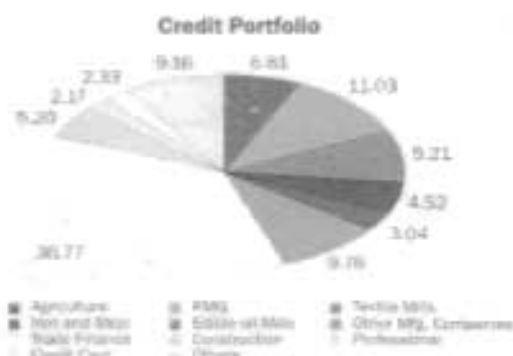
Loans and Advances are focal point of all the activities of every bank and in Premier Bank this is even more seriously dealt with to uphold the "Zero classification" policy of the bank. Credit activities of the bank are being administered by the Management Committee (MANCOM) at Head Office by strict separation of the responsibilities between assessment of risk, lending decisions and its monitoring functions.

At the end of 2007 total loans and advances stood at Tk. 15383.93 million, a 90.03 percent increase compared to Tk. 8095.57 million from the preceding year. While growth in loans and advances were our major focus, under no circumstances there was any compromise on quality of advance. Total non-performing loans remained low at

0.43 percent in 2007. Loan to deposit ratio as on December 31, 2007 was 85.44 percent, which is within the acceptable tolerance of Bangladesh Bank.

Portfolio of Loans and Advances as on December 31, 2007 is given below:

Sl. No.	Sector	Million Taka	Percentage
1	Agriculture (Fishing, Dairy & Poultry)	1048.39	6.81
2	Ready Made Garments	1696.71	11.03
3	Textile Mills	3416.52	9.21
4	Iron and Steel	894.6	4.52
5	Edible oil Mills	487.4	3.04
6	Other Manufacturing Companies	1500.63	9.76
7	Trade Finance	5657.44	36.77
8	Construction	809.72	5.20
9	Professional & Self Employed	333.25	2.17
10	Credit Card	358.46	2.33
11	Others	1409.81	9.16
	Total	15383.93	100.00



Trade Finance

Trade finance is an important constituent of the service portfolio of Premier Bank and enhanced capacity to handle even more volume of business. We played a leading role among the private sector banks in this area. The import and export position of the Bank stood at Tk. 20592.70 million and Tk. 13515.80 million respectively, compared to Tk. 12756.18 million and Tk. 8178.12 million in preceding year, which reflects an increase of 61.43 percent and 65.26 percent respectively.

Treasury:

Treasury operations had long been considered as an important avenue for income generation purpose within the Head Office guided by Asset and Liability Committee (ALCO). Treasury operation played a major role in raising the Bank's income and recorded an income of Tk.203.00 million in 2007.

The Bank ensures available funds to meet its obligations of maintaining Statutory Liquidity Ratio (SLR) and investment of liquid assets in a profitable manner. We had liquid assets of Tk. 4449.30 million and as on 31 December 2007 our ratio of liquid assets to total asset was 22.14 percent.

Sl. No.	Particulars	Million Taka
1	Cash in hand	187.74
2	Balance with Bangladesh Bank	892.98
3	Balance with other Banks	75.96
4	Money at Call	540.00
5	Investment in Liquid Assets	2752.62
	Total	4449.30

Consumer Credit:

The Bank is extending credit facilities through its Consumer Credit Scheme to cater the credit needs of the fixed income group for household durables and cars/automobiles. Total outstanding in this segment stood at Tk. 196.94 million and recovery rate was 94 percent as at December 31, 2007.

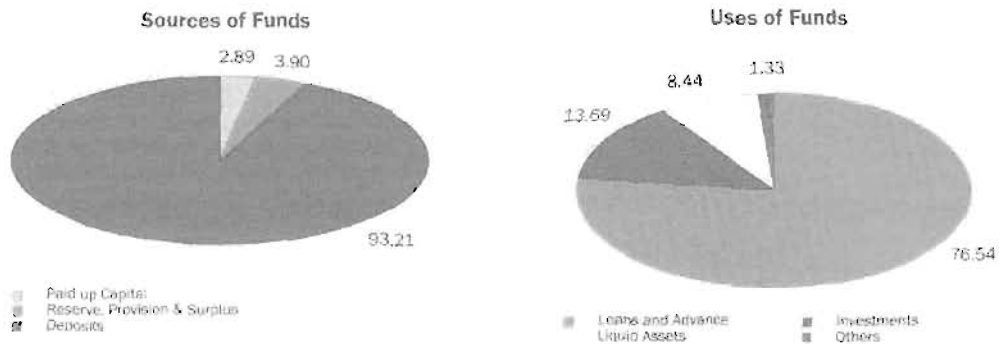
Credit Card:

Premier Bank launched VISA Credit Card (Local & International) at the beginning of 2004 as New Year bonanza - first time in Bangladesh by a local bank. We issued 14,200 cards just in 11 months with accumulated revenue of Tk. 78.10 million and profit of Tk. 35.00 million by the end of the year under review. Card Division is now conducting its operation as an independent vital profit centre of the bank and steps have been taken for extending merchant network for acquiring more business as well.

Operating Result:

The year under review was a successful year in terms of profit and turnover. The Bank made an operating profit of Tk. 930.93 million in 2007, compared to Tk. 400.73 million in 2006 registering a significant rise of 132.30 percent over the preceding year. After necessary provision net profit stood at Tk. 470.54 million as on December 31, 2007. An amount of Tk. 385.35 million has been set aside for our tax contribution

to the National Exchequer. Our Return on Asset (ROA) was 4.63 percent which was well above the industry average. As a dynamic institution, we always stressed on sustainable growth. During the year, we have given more of consolidation in different segments of business and our relationship with customers. We introduced Credit cards, Corporate Banking, Treasury and a separate Leasing Division as vital profit centres.



Lalclighirpar, Sylhet on Islamic Shariah-based profit & loss sharing principles. Premier Bank Shariah Council, under the chairmanship of Mr. Shah Abdul Hannan, determines the guiding principles for operation of these two branches. The Bank is maintaining a separate set of accounting system for Islamic banking branches which is completely different from conventional banking branches to conform to the standard adopted by Financial Accounting & Auditing Organization for Islamic Financial Institutions.

The performance of our Islamic banking branches during the year 2004 is given below:

	<i>Taka in Million</i>
Deposits	876.53
Investments	282.42
Profit	1.05

Automation in Banking Operation:

The Bank continued to bring all the branches under one network in order to facilitate 'Real Time Online Banking' services to its customers. As a result, customers are enjoying the advantage of any branch banking facility. Very soon, the Bank is going to provide SMS banking facility allowing its customers to make query regarding account balance, cheque payment and deposit status and also delivery requests for account statement.

Human Resources:

Premier Bank considers its employees as the most valued resources and the focal point of all its activities. The Bank tried to assemble a pool of highly talented professionals coupled with fresh university graduates and built the finest team in the industry and is providing them an environment in which team spirit, creativity and excellence thrives. As a service industry, the bank is constantly trying to improve quality of its human resources where performance excellence is always encouraged by reward and recognition. The bank conducted comprehensive training sessions and workshops through its own Training Institute and Bangladesh Institute of Bank Management (BIBM) with the vision of developing Human Resources to the highest professional level and boosting productivity across the Bank. Employees' compensation package and other welfare schemes are kept in line with the prevailing market levels. The total number of employees of the Bank as on December 31, 2007 stood at 954 corresponding to 835 in 2006. Net earning per employee was Tk. 1.67 million in 2007 reflecting a significantly high productivity.

Correspondent Relationship:

The Bank has established correspondent relationship across the globe. The number of foreign correspondents is 297 as of December 31, 2007. We are maintaining adequate number of nostro accounts in major convertible currencies to facilitate export and import payment needs of our valued customers.

Premier Social Activities:

As in the previous years, Premier Bank is involving its activities in social arena more vigorously. The Bank extended financial assistance to the victims who were affected by natural disaster. During the year 2007, the Bank donated Tk.4.00 million to the Chief Adviser's relief fund for rehabilitation of flood affected poor people. The Bank also donated Tk.1.00 million to the 'Sidr' affected people. These are all aimed at helping the victims of natural/ national disasters & for the well being of the society.

The Bank has set up 'Premier Bank Foundation' for extending benevolent services to the society. The Bank will contribute to the foundation out of its operating profit each year.

2.16 Special Features of the Bank:

- Real Time Banking Facility** allowing transactions at any branches of the Bank irrespective of the Branch where a customer opens his account.
- They pay interest on **daily balance** of the Savings Account that also operates like a current account.
- They are one of the principal members of **VISA International** & offer **VISA Credit Card** both local and International ever first by a local bank in Bangladesh.

2.17 Commitment:

- Service First**

“Service First” is not just motto, Premier Bank really means it. Premier Bank knows that, by responding to customer needs, one can provide better service. Bank trains employees to use their own initiative to satisfy customer's needs, resolve problems quickly and make suggestions about how to serve them better.

- Easier Banking**

Providing customers with a comfortable environment and up to date technical facilities to do their banking is an important aspect of the customer service at Premier Bank. Goal is to make banking easier through one to one communications.

Better Relationship

Premier Bank view banking to be a long-term relationship with customers. The business they transact with Bank help to understand their goals and expectations and bank respond proactively to their financial needs.

Ensured Confidentiality

At Premier Bank, great care are taken for customers, to make sure that all banking transactions are done in a confidential & Professional manner.

Chapter-3: Lending Procedure of The Premier Bank Ltd.

The primary function of the banking system in any country is to mobilize people's savings and channelize the same in the form of loans and advances to the productive sectors of the economy. In this way banks impart liquidity to the society and economy and thereby promote capital formation in a country. Moreover, efficient credit management is vital to the banks themselves as the source of their revenue income to pay there from the expenses of deposits and other costs and ensures reasonable profit to them. Against this background and attempt has been made to evaluate, first to examine the loan management policy of the PBL followed by evaluation of lending performance of the bank.

3.1 Submission of Application for Loan by the Borrowers:

A number of formalities are to be observed in sanctioning loans, disbursement of credit and recovery of loans. A brief description of such procedure is now in order.

- Standard Loan Application Form (LAF) along with guidelines for submission of project proposal is issued to prospective entrepreneurs only after First Information Sheet (FIS) filled tip by the promoter establish

primary facilities case as to the credit worthiness and acceptability of project and promoters capability of raising equity fund. On receipt of the application, analysis is made as to declare assets and liabilities vis-à-vis relevant ratio, proposed and past family/business background/track record and other bank's report etc.

- ❑ Viability of each and every project recommended for financing is further subjected to through scrutiny and detailed appraisal. The feasibility report must cover the basic/principal areas of project viability.
- ❑ A project is considered if benefit is likely to accrue to the economy and is expected to create sufficient employment. "Innovative projects and projects having both domestic and export market is given preference. In this context the Govt.'s priority and discouraged list of sectors published from time to time list need to be consulted.
- ❑ Priority is given to labor-intensive, export-oriented and local resource based projects.
- ❑ Bank Is reportedly made out a list of preference/priority sectors of investment every year in line with Govt.'s Industrial policy for Board's approval. In preparing the list it takes into account the utilization position of provision (both monetary and physical) made in Investment Schedule of Govt. of Bangladesh and actual capacity utilization of the existing industry/Sub sector as available statistics and exploring new investment opportunity.

These procedures seemed to be logical and that preliminary selection based on FIS is reportedly minimizing unnecessary work on bad cases.

3.2 Appraisal of Loan Application:

Financial institution grants credit to the borrower after evaluating credit worthiness of the customers. 5C's of credit are in general taken as a guide in this respect. These are credit character, capacity to repay, capital, collateral and condition.



Credit Character:

Credit character refers to reputation of the prospective borrower in meeting obligations of the bank upon maturity. This includes certain moral and mental qualities of integrity, fairness, responsibility, temperance, trustworthiness, industry and the like credit character is a relative matter. When a person is willing to repay his debts even during hard times with poor business and low profits he will be said a person with high credit character. To assess the credit character of the borrowers the bank manager can observe the borrower's previous transactions with the bank, previous loan recovery mood of the borrowers with the same bank or other bank.

Capacity:

Capacity refers to ability of the potential borrower to repay debt when it falls due and is indicative of the borrower's competence to utilize the loan effectively and profitably. Banks are always interested in loan repayment out of earnings because repayment of debt through sale of assets is expensive and time-consuming process and may strain relations with the borrower. In assessing earning capacity of an applicant the bank is more interested to ascertain net earnings that would be available for repayment. High earnings of a firm should not always suggest that prospects of repayment are bright because it is possible that bulk of the earnings will be used to repay other debts having claims on this income and very little is left for the assumption of other obligations.

Capital:

Capital represents the general financial position of the potential borrower's firm with special emphasis on tangible net worth and profitability (which indicates ability to generate funds continuously overtime). The net worth figure in the business enterprise is the key factor that governs the amount of credit that could be made available to the borrower. Here the lending officer has to find on amount of immediate liabilities that is due for retirement and the relation these bear to its assets available. A true estimate of capital has to take market value rather than the book value of assets.

Collateral:

Assets that may be offered as pledge against loan extension represent collateral. Collateral thus serves as a cushion or shock absorber if one of several of the first three 'Cs' are insufficient to give reasonable assurance of repayment of the loan on maturity. Collateral in the form of a pledged asset serves to compensate for a deficiency in one or several of the first three 'Cs'.

Conditions:

Conditions imply economic and business conditions that affect the borrower's ability to earn and repay debt and that are beyond the control of the borrower. Economic conditions include all these factors which have bearing on economic processes of production, distribution and consumption. Borrowers may have high credit character and potential ability to produce income but existing or ensuing conditions may be such as to render the extension of credit imprudent. In periods of economic recession banker may be averse to loan because greater chance of dissipation of capital, shortfall in income and undermining of character of the borrower. In contrast with this, men with limited ability to earn income may secure loan from the bank because it is expected that the borrower would fare well in an improved business environment of the country. For proper evaluation of credit worthiness of borrowers lending officer of a bank should, therefore, keep his hand on the economic pulse of the nation. Alongside this, an analysis of the conditions obtaining in the industry to which the firm belongs should also be under-taken to ascertain whether the industry has good growth vis-a-vis other industries in the country. A study of growth rate of the firm over a period of past few years and its comparison with other firms engaged in the same line would provide an insight into prospects of the firm. If the applicant firm is not faring well relative to other firms of the like size and age, the bank may not favor extension of credit to the applicant.

The bank officials reported they consider all these factors and based on these factors they evaluate the proposed proposal. Over and above these general guiding principles, following are the criterion through which loan applications is evaluated and credit is sanctioned after proper evaluation.

a) Feasibility criteria:

- Project location should have necessary infrastructure facilities and environment aspect should be carefully examined.
- Project land must be free and unencumbered.
- Project should be designed with appropriate and balanced machinery.
- Technology transfer in case of borrowed know-how should be ensured.

In this connection, it may be pointed out that besides, export oriented and Import substitution products, certain types of manufacturing/servicing industries (like essential consumer goods, goods based on indigenous raw materials, products for linkage industries, export oriented industries, etc.) may also receive due consideration of the bank.

b) Financial Eligibility Criteria:

- The debt-equity composition should be determined after due consideration of debt servicing capacity of the project, security coverage of term loan, availability of fund, etc.
- The period of loan should be determined based on cash flow potential and back period should normally be 5 years (depending on availability of long term loan it may be relaxed) excluding usual grace period which must not exceed 1.2 months.
- Debt service coverage ratio should normally be around 2 times.
- Return of capital and equity at the optimum level of production should not ordinarily be less than 15% and 20% respectively.
- Production costs as well as proposed selling prices must be reasonably competitive with alternative sources of Supply.

c) Security Requirement Criteria:

- Registered mortgage is to be ensured by creating first charge/mortgage on the land, building/structure of the project.

- Arrangement is to be made for hypothecation/pledge of machinery, equipment and other inventories and floating charge on all other assets (both present and future).
- Personal guarantee of the sponsors is to be ensured.
- Comprehensive insurance cover on the project assets and goods need to be ensured.
- Life insurance on the life of the promoter/sponsor(s) of the project to the extent of 20% of individual's share-holding and deposit of share-certificate of sponsors' equity by executing blank transfer instruments may be asked if so required.

d) Project size:

Eligible project must be small business enterprise with total capital investment of not more than Tk. 10 crore and total number of employees not more than 50. Eligible project must be medium business enterprise with total capital investment of not less than Tk.10 Crore but not more than Tk. 30 Crore and total number of employees not less than 50 but not more than 99.

The appraisal process however, is found lengthily and cumbersome. It not only takes time but also seen complex resulting is delay in the sanction of loan. The time consumption also adversely affects cost estimates and profitability. Any attempt to simply these procedural aspects may be worth rewarding.

3.3 Conditions Governing Lending Operations:

In sanctioning loans and advances, Premier Bank has some of their own guiding principles, which are formed by the Board. These relate to interest rate, maximum quantum of loan that can be provided by the bank and the like. To this end following are found to be the governing guidelines at present:

a) Lending Rate:

Lending rate for Small industry at present is 13.50% and for medium industry is 15% per annum. The rate is subject to change at the discretion of the bank or as per

instruction of the Bangladesh Bank, Premier Bank maintains the following Lending Policy:

b) Maximum Investment & Assistance:

- Aggregate loans and advances shall not exceed .10 times the bank's net worth (this includes paid up capital, subordinated loans, capital notes, unencumbered reserves, inappropriate profits) or 80% of customers' deposit whichever is lower. Of this generally 50% shall be deployed In financing small industries both as term loan against fixed assets for the expansion of an existing unit or the setting up of a new project and working capital loans.
- No credit shall be extended to customer entity, which exceeds in total commitment more than 10% of the Bank's capital and free reserve except with the approval of the Board of Directors.
- All credit extension to one customer or group exceeding Tk. 3.00 crore of equivalents shall require the prior approval of the Board.
- All credit extension to one customer or group exceeding Tk. 1.00 crore or equivalent shall require the prior approval of the Board.
- Loans should be dispersed to cover wide sectors of industries. However loans to a particular sector shall not exceed 25% of its total loan at any given time. Exception will require prior approval of Board.

Lending rate, investment ceiling etc. seemed objectively set. The PBL is found to operate satisfactorily under the given autonomy set by Bangladesh Bank and Ministry of Finance.

3.4 Loan Sanctions Procedure:

After preliminary scrutiny of the loan application and relevant matters if the bank finds it worth consideration the next steps are taken for granting credit. Here the bank is to follow its rules and regulations and that borrower are to fulfill certain conditions in this regard. A summarized picture of the governing conditions is cited below:

A. General Guidelines:

The application for small and medium industry financing should preliminary be scrutinized taking into account credibility, integrity and managerial capabilities of the proponent, availability of owner's equity, account/deposit relationship with the bank, past history of activity, other bank's transaction, etc.

- ❑ If the project on prima facie appears viable and acceptable to the bank then full dressed appraisal report should be carried out taking into account the management, technical, marketing and financing aspects.
- ❑ In order to build-up sponsors' stake and to have ready liquid assets for investment in the project and as practiced by other DFIs of the country, the bank ask for equity deposit as under:
 - a) 10% of the proposed equity along with loan application form to be deposited.
 - b) Balance equity amount as per terms of sanction to be realized after sanction of loan.
 - c) While considering the sanction of loan the debt-equity ratio of 70:30 should form basis of financial plan. However, in exceptional cases higher debt-equity ratio may be considered judging merits of the proposal/credibility of the sponsors, etc.
 - d) Technical aspects should include location advantages, product mix, process flow-chart, production capacity, capital machinery and equipment, process technology, raw materials, spares, utilities, etc. Estimates for cost of machinery should be based on lowest evaluated cost of 3 quotations from three different suppliers from different countries.
 - e) Market aspects should include existing & potential demand and supply analysis, existing capacity utilization, marketing and sales strategies and arrangement, availability of inputs and its pricing and related tariff aspects, etc.
 - f) Financial aspects should include estimate of project cost, working capital requirement, draw down financial plan, forecast of profitability, break-even point, internal rate of return and financial ratios, etc.

- g) The bank may seek the help of outside consultants/experts in preparing technical report/market report at cost which would be borrower.
- h) Besides net worth of the sponsors, the managerial capabilities also stressed to be analyzed to judge their ability to mobilize the proposed equity. Net worth of the sponsors should be satisfactory.
- i) All loan proposals shall require approval by the Managing Directors, Board of Directors, after examination and recommendation by Head Office Credit Committee (HOCC) unless otherwise directed/delegation of authority given.

B. Procedure for Valuation of Land and Building:

- In choosing the right location, suitable site should be inspected from the technical viewpoint like availability of utilities, means of transports, availability of manpower, etc. Price of land should be determined based on present sale value of the land. In case, if felt so, value of land may be determined through spot survey of the land by a surveyor and or as determined by the manager.
- The covered area of the factory should be determined on the basis of actual requirement for production process, storage facilities and other necessary structures. Master plan of the proposed factory with breakdown estimates of cost is obtained from the sponsors. If required, consulting engineer may be hired for assessing the cost.
- Clearance from environment pollution control authority should be taken where necessary.

C. Conditions to Procedure for Procurement of Machinery:

- The borrower must submit machinery specification along with quotation/bid from at least 3-reputed supplier/manufacturer. Party's choice will be taken into consideration in justifying technically.
- Except where exemption is given by bank machinery shall be procured through public tender.

- ❑ Care should be given in selecting appropriate technology for the project from outside expertise or professional. Bank may also try to obtain direct quotation from 'machinery supplier or manufacturer.
- ❑ Credit verification of foreign supplier/manufacturer invariably is evaluated.
- ❑ Machinery contract/sale contract should be examined with regard to specification and price as envisaged in the appraisal report. Exception may be allowed by HOCC for executing such contract.
- ❑ Performances Guarantee @ 10% of L/C value is obtained from the supplier/manufacturer of machinery so as to ensure smooth installation, commissioning & performance of the plant. Exception may be allowed by HOCC if otherwise found highly secured.
- ❑ Before opening L/C for impact of machinery, project building should normally be ready or near ready.
- ❑ The clause like pre-shipment Inspection to determine quality and price of machinery, proper insurance coverage to cover marine and transit hazards, clearance by approved agent of the bank, etc. should be added in the L/C.

Procedure relevant to final approval and sanction of loan seemed strict which however, seems to be necessary in the backdrop of default culture in Bangladesh.

3.5 Disbursement of Loan:

The final step in loan section is the disbursement of credit. The PBL has its own rule formed as to procedure of loan disbursement and follow up action such as-

a) Guidelines as to Disbursement of Loan:

- ❑ Disbursement of sanctioned loan will be made available to the project after satisfactory, initial utilization of substantial portion of sponsor's investment and creating approved physical facilities. A disbursement schedule is drawn up to facilitate injection of fund from both equity and loan portion matching wise for unhindered progress of work. Every request of borrower for disbursement of loan shall accompany statement of

expenditure of works. Inspection by official of the bank shall also be carried out at regular interval of time.

- The project in case of time over-run may be considered for scheduling for repayment of term loan.
- All requests for disbursement shall be governed by guideline, procedure of Head Office.

b) Supervision of Project:

- Officer entrusted with the project shall make close supervision of the project under implementation by way of periodical visits, personal contact once in a month and make report thereon.
- A completion report is prepared jointly by the Bank and sponsors to indicate implementation of the project with regard to approved provision. Periodical operational and financial report should be obtained and analyzed and report made thereon.
- For recovery of installment, credit office~ concerned must maintain constant pressure both by letter and by personal contact and also by calling the borrower to the branch/ Head Office.
- Clients shall be required to submit monthly report on production, sales, income and expenditures in format to be designed by the bank. Credit Officer shall help the borrower through visits and/or compiling of relevant data in preparing such reports if so required.
- In case of problem faced by the projects branch shall adopt prompt remedial measures in consultation with Head Office.

Chapter 4

An Overview of Small and Medium Business Enterprise (SME):

The term small-scale industry is used everywhere, both in developed and developing countries, to denote the character of a particular size of industry. But its implications vary from country to country on the basis of this section importance in the economy, the nature of the economy or its stage of economic development, the type of industry, period in question, nature of the research object or the researcher's objective and many other considerations. Even in a single country the definition varies from time to time, due to changes in the above factors. This makes it difficult to make an international comparison of small-scale industries. Of course, in recent years there have been attempts to give a unified universal definition of small-scale industry. But this can be possible only with reasonable similarity of stage of economic development.

There is no denying the fact that the Small and Medium Enterprises (SMEs) can contribute much to the development of our nation. Common sense tells us that a nation with limited capital should invest in many small enterprises in diverse industries rather than a few large enterprises, failure of one of which can dampen the economy. Moreover, given our meager personal wealth per capita, individuals can only bring limited amounts of assets to new ventures. Needless to say, the nation will be able to attract more entrepreneurs to the small and medium enterprises than to large ones. There are also facts to support the importance of SMEs. According to the Government, SMEs provide over 87% of the total industrial employment. Yet, SMEs are afflicted with an array of constraints: lack of access to financial resources, inferior and unskilled manpower, lower level of technology, difficulty in obtaining quality raw materials, poor marketing and management, stiff competition from illegal imports and various infra-structural problems. Many SME products have limited domestic demand, as our consumers cannot afford them. Entrepreneurs who try to enter foreign markets face stiff competition.

4.1 Definition of Small and Medium Business Enterprise in Bangladesh:

The first systematic definition of small industry in Bangladesh was given by the East Pakistan Small Industries Corporation Act XVII of 1957. As adopted in Bangladesh, a "Small industry means an industrial establishment or unit which is run mainly by hired labor and not using mechanical motive power but does not normally employ more than 50 workmen and whose land, building and machinery do not exceed Tk. (Taka) 250,000 in value in either case". The definition was necessary at least for two purposes: One for the creation of the Corporation and, two, to undertake the survey of small industries. The definition, however, did not distinguish between small and cottage industries. It only stated that a cottage industry does not use mechanical motive power and depends mostly on family workers, whereas a small-scale industry may use mechanical motive power and mostly depend on hired labor. This amalgamation of the definition of small-scale and cottage industries by the East Pakistan Small Industries Corporation may be due to the similarity of operation as well as their common problems.

In 1965, the Factories Act of Pakistan defined a small industry as any premise including the precincts thereof wherein ten or more workers are working in any part of which a manufacturing process is being carried on with or without the aid of power, excluding a mine Subject to the operation of the Mines Act, 1923 (IV of 1923). The Factories Act is mainly for administrative purposes and also to include a set of industries for industrial discipline. Naturally, a wide area is covered by this definition. Since it did not specify any limits for the size of the Industry.

Recently the Bangladesh Bank (BB) has defined SME newly. According to BB the companies which are not public limited, such companies must have total assets from BDT 50,000 to BDT 50,00,000 excluding building and land or if the total number of employees of the companies is highest 25, then it will considered small business enterprise. The companies which are in industrial sector must have total assets BDT 50,000 to BDT 1,50,00,000 excluding building and land or the total number of employees of the companies must be highest 50, only then it will considered small business.

4.2 Definition of Small and Medium Enterprise (SME) by The Premier Bank Limited (PBL):

“ Innovative loan programs to help you achieve your dreams”

Banladesh as a developing country has been trying for its overall economic growth. The development of small and medium enterprises (SMEs) would be the key element in this regard. Recognizing the demand in financing of the companies operating small and middle sized business, The Premier Bank Ltd. offers a simplified scheme to entrepreneurs for increasing SME finance.

Objectives of the Scheme:

- To flow credit for creation of employment and generation and income on a sustainable basis through development of SMEs.
- To assist potential entrepreneurs to improve their living standard.
- To make self-reliant SMEs.
- To develop savings habit and making social contact with banking facilities.
- To inspire for undertaking small projects for creation employment through income generating activities.
- To participate in the socio-economic development of the country.

Who Can Apply :

Initially, Small and Medium size industries which have total assets (excluding land & building) between TK. 50,000/- to Tk. 1 Crore will be eligible under this scheme. The applicant should have an existing profitable business or a viable business plan.

PBL SME Products:

- Project Finance
- Working Capital Finance
- Lease Finance/Hire Purchase
- Work Order Finance

- Bai-Muazzal (Commercial)
- Bai-Muazzal (Term Loan)
- Rural Credit Scheme (e.g. Goat fattening)
- VISA Credit Card

Loan Ceiling:

- Minimum Tk. 2,00,000.00
- Maximum Tk. 50,00,000.00

**Tenure of Loan Payment:**

01 (one) year to 5 (five) years.

4.3 Factors Essentials for Growth of SMEs:

The right technology is related to the characteristics of the sub-sectors of small and medium enterprises (SMEs) and the markets both present and potential. In fact, it should be capable of being modified to suit local needs and local imports. Technology, which is economically acceptable, should be identified and disseminated in an appropriate manner without which economic objectives could not be achieved, on which rests socio-economic stability of paramount nature.

There is a need to bring a sound and systematic approach to the SMEs and promote larger use of appropriate and less complex technologies. They may be simple in operations and low cost in production, so that larger markets may be captured. The technological function of SMEs includes selection and sourcing, adaptation and absorption in the process of technology transfer and development of technology through local- innovation. Governments provide policy incentives for indigenous technological development, while regulating the nature and extent of technology transfer from abroad.

SMEs - should keep three points in mind when assessing and selecting technologies:

(a) Domestic Demand:

Small business should avoid rushing to penetrate the more difficult export markets. Domestic market may be, the first preference, and for this, such technologies should be selected which are domestically available. However, it may be ensured that the products produced, on this basis, meet the quality requirements of the domestic market.

b) Domestic Economic Resources:

The dependence of certain technologies on foreign resources often constitutes a serious weakness for small business in developing countries. Hence, technologies that use domestic raw materials, energy sources etc., may be advantageous and may be supported or enforced by public policies.

(c) Technology Transfer:

It may be noted that if technology has to be borrowed from a large domestic or foreign firm, the smaller partner is usually too weak, to negotiate satisfactory conditions for the acquisition and transfer. A joint venture or licensor participation in the venture may reduce this risk; however it may also limit the independence of the licensee.

Production technologies, both in consumer and intermediate industries are fast changing SMEs production system is flexible, as they can afford to scarp production plants and can retain their work force for applying new technologies. Hence, SMEs production quality remains high and new designs can be more quickly adopted, both for consumer as well as intermediate industries. This provides SMEs a clear edge over large enterprise in adaptation of new technologies. Meanwhile, business environment keeps changing dynamics of international competition, shrinking bottom line and a tough economic situation has thrown many new challenges and opportunities today's management. Low levels of skills and lack of training led to serious manufacturing problems in SMEs in many countries.

Variations in quality of output and the substandard design and quality of many SMEs is a problem of inadequate expertise and skills at several levels; managerial,

intermediate supervisor, under-trained and under skilled. This skills gap especially at the intermediate supervisor level means that the owner / manager become involved in sorting out simple problems because the intermediate skill level is missing or inadequate. Low skills also results into low productivity by ruling out sophisticated technologies. Most SMEs managers, do not perceive that their companies are lacking in quality of skills in part because they are part of the low skill syndrome,

The performance of an enterprise is the product of qualifications of its people and continued training serves the purpose of improving intellectual capital. Effective training can help individuals improve their current job skills, learn new skills and eventually provides an edge to the organization in the form of increased output. When designing a training programme, it should be strategically aligned with the organizational vision.

Customer services training programmes is a very effective communication tool. Enhancing intellectual capital of SMEs is one of the very critical tools for survival and growth. It helps increase productively and can serve as an effective marketing tool.

With the birth of the Internet, communication means emerged as a universal platform for everybody to meet, exchange information, and to ultimately make deals and is far less expensive and easily affordable by SME- sized businesses, eventually making it much easier for them to invest in. This capability arising out of the availability of the Internet to handle business transactions with supreme ease has resulted electronic commerce attractive to small and medium sized businesses.

Smaller firms may in fact benefit from the opportunities offered by electronic commerce as they are unencumbered by existing relationships with traditional retail outlets or a large sales force. They may adopt a business model that forces larger, established competitors to restructure their existing relationship.

The Internet can level the competitive playing field by allowing small companies to extend their geographical reach and secure new-customers in ways formerly restricted too much larger firms. At the same time, however, there are significant barriers to the

participation of SMEs in the global electronic marketplace. The lack of awareness of electronics commerce, the lack of suitable products and integrated system, and the lack of a sound legal basis, combined with the newness and continued evolution of the market, the complexity and cost of electronics commerce, and uncertainty about its benefit and security, are perceived as significant barriers and obstacles to the use of electronic commerce by SMEs.

The core element of any country is the creation and development of SMEs. They are considered as one of the principal driving forces in economic development. They generate the majority of jobs, promote diversification of economic activities, support sustainable development and make a significant contribution to exports and trade.

4.4 Strategic Alliances for SMEs:

The creation and accumulation of knowledge-based competencies are decisive factors for a firm's long-term survival in a knowledge-driven economy. For SMEs, however, these can be difficult to achieve as their lack of functional expertise and their limitations in investment capital often hamper the identification and leverage of resources and competencies needed to yield new opportunities. SMEs are characterized by competitive capabilities in proprietary technologies and talented engineers. These capabilities are their core competences, with which they can differentiate their positions from LEs and other competitors. On the other hand, their

focus on specific competences may cause them to lose out on other management resources necessary to survive competition, and this is their most important challenge.

All enterprise, whether an SME or an LE (large enterprise), is a bundle of management resources, assets and capabilities. There are several categories of management resources -financial, human, technological, physical, managerial and organizational - not to mention reputation. Generally, management resources owned by SMEs are limited in terms of size or scope in comparison with LEs. This is especially true about their financial and physical resources. If these missing resources cannot be built internally at an acceptable cost or within an acceptable timeframe.

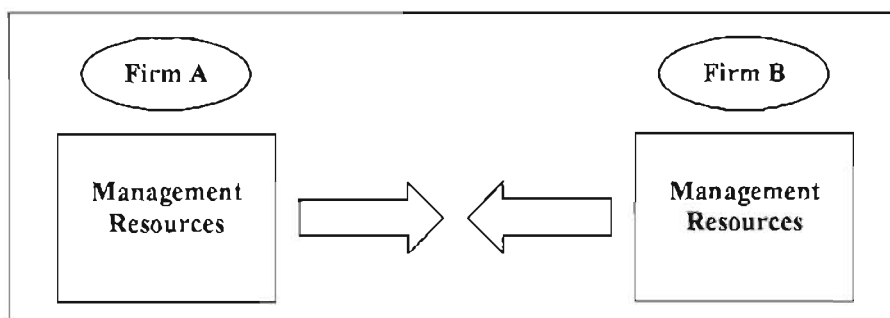
SMEs need to make up for them through collaborations with LEs or other partners, and utilize their resources for their own business purposes. This is the rationale of strategic alliances.

Strategic alliances are effective ways for SMEs to get access to more diverse capabilities, to acquire external knowledge, to sustain the ability to learn from partners, to Internationalize and to be exposed to new opportunities. Strategic alliances are important for SMEs to be competitive in a knowledge-driven economy and that their ability to adopt such strategies are essential for success. The following sections therefore discuss how strategic alliances work for SMEs.

Symmetrical and Asymmetrical Alliances:

There are several useful definitions of strategic alliances proposed by researchers. Gulati defines them as an “independently initiated interfirm link that involves exchange, sharing, or co-development”, while Hitt et al see them as “cooperative arrangements between two or more firms to improve their competitive position and performance by sharing resource”. These definitions pay attention to the perspective of management resources, and capture the substance of strategic alliances exchange or sharing (Figure 1).

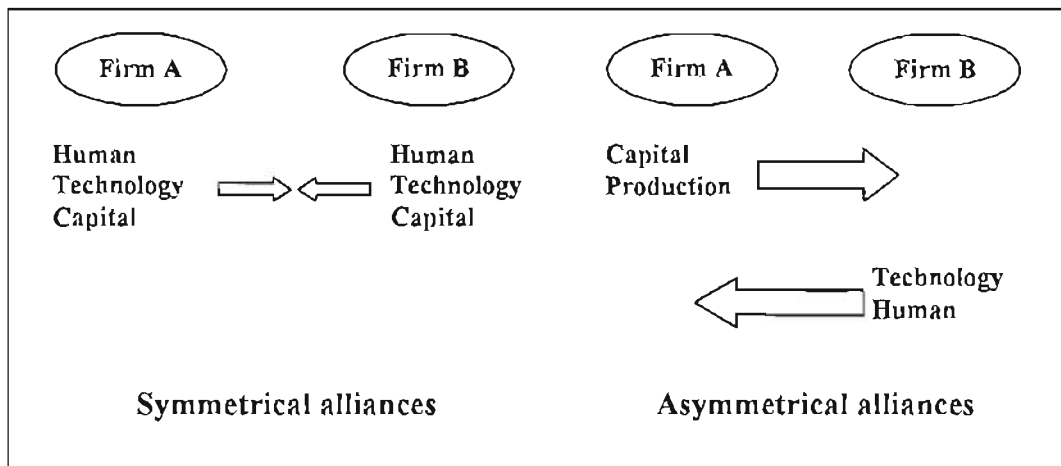
Figure 1: Exchange or sharing of management resources



Subject to the nature of management resources to be exchanged, strategic alliances are categorized into two groups, referred to as symmetrical alliances and asymmetrical alliances. In symmetrical alliances, the same kinds of management resources are exchanged, while in asymmetrical alliances different kinds of management resources are exchanged (Figure 2). Thus where two firms undertake joint development by contributing their respective human resources (such as engineers), technology or

capital, the management resources being exchanged are the same, and this would be categorized as a symmetrical alliance. On the other hand, if an SME and an LE undertake joint development in -which the SME contributes technology know-how and talented engineers, while the LE contributes capital and production capabilities, the resources being contributed are different. Accordingly, this is categorized as an asymmetrical alliance.

Figure 2: Symmetrical alliances and Asymmetrical alliances



The major purpose of symmetrical alliances is to supplement those resources of a firm that are insufficient by utilizing resources available with their partners. It is often necessary for resource utilization to reach a certain level of magnitude to be effective. For example, when a firm establishes a factory, there is a certain optimal point of production size that balances economies of scale with market demand. If one firm alone cannot afford to contribute sufficient resources to reach this optimal level, it could try to supplement the missing portion of resources with the help of its alliance partner. The other firm also faces the same difficulty, and needs to supplement its own missing resources. A joint venture for production is established in this manner. The purpose of the arrangement is to enable the firms to access each other's management resources, which are of the same kind as the resources that they- can contribute. Thus, in a symmetrical alliance, the partners share the same kind of resources to achieve their respective goals.

On the other hand, in a symmetrical alliances the primary purpose is to complement resources. In such a case a firm cannot achieve its business goal because it lacks certain kinds of resources, and so it tries to access them from other firms. An SME may own excellent intellectual properties but lacks the capital for product development and manufacture. Such an SME may collaborate with an LE that has development and manufacturing capabilities, which would enable the SME's intellectual properties to be commercialized in the form of products. The LE also benefits by getting access to innovative technology owned by the SME, which enable the LE to enter new areas of business. Under such an alliance the SME contributes intellectual properties, while the LE contributes development and manufacturing capabilities and the exchange of management resources is asymmetrical. In this case, the business goals that each firm tries to achieve through the alliance are different, and accordingly the resources required by each firm are also different.

As mentioned earlier, one of the characteristics of SMEs is their focus on specific competences, such as proprietary technologies and talented engineers. Owing to limitations of scale and scope, however, they are likely to miss other management resources that are necessary for them to compete. As a result, alliances that are most effective for SMEs will be asymmetrical, in which they contribute their competent resources to the partner firm, while accessing their missing resources from the partner.

Asymmetrical Alliances for SMEs:

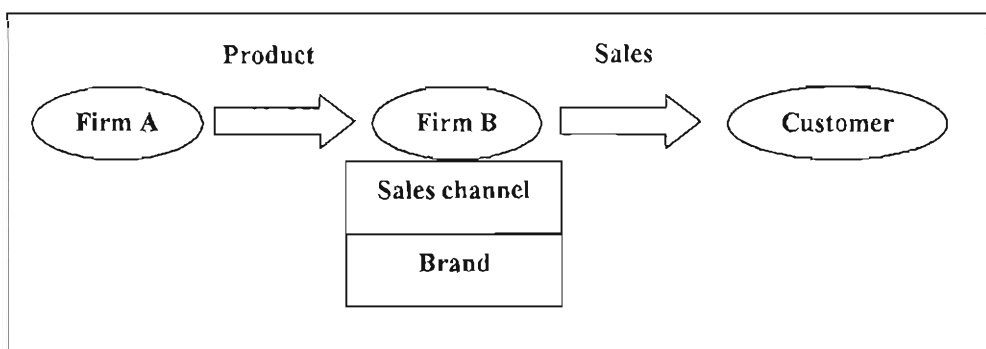
Strategic alliances are essential management tools for SMEs because they can make up their missing management resources through collaborations with partners. Usually, SMEs enter into asymmetrical rather than symmetrical alliances because of their characteristic of focusing on specific fields. There are several types of asymmetrical alliances - based on the various management resources to be exchanged - that are frequently and effectively used by SMEs in the technological industry.

Sales Cooperation:

Compared with LEs, SME sales capabilities are limited. SMEs need to utilize sales resources available from partners if they wish to compete with LEs in certain business fields. There are two approaches if they try to utilize other party's sales resources,

namely, consignment sales and "original equipment manufacture" (OEM). Under the consignment sales arrangement, Firm A, which cannot meet market requirements with its own sales resources alone, gains access to sales channels or sales persons owned by Firm B (Figure 3). If Firm A wants to sell its product in a certain country but does not own a sales channel, it may consign the sales in that country to Firm B, which is a local firm that owns a strong sales channel there. The product will be sold under the brand name of Firm A. Firm A needs this kind of alliance because it does not own sufficient sales resources, such as a sales channel or sales persons, although its brand and credibility are well recognized.

Figure 3: Sales cooperation



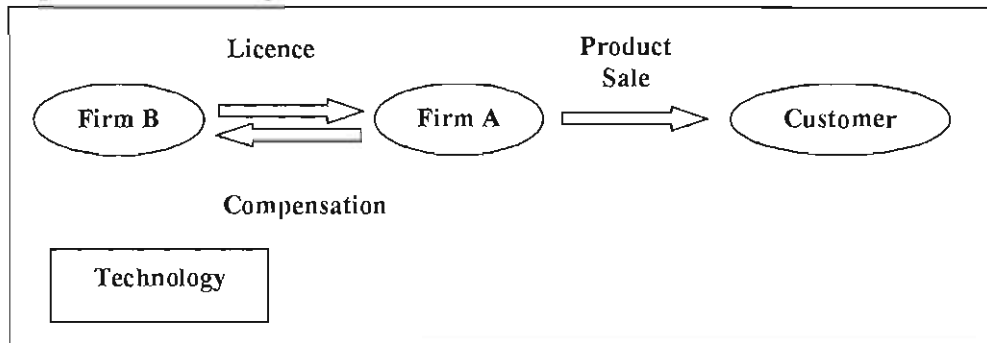
Under the OEM arrangement, Firm A sells its product, to Firm B, and Firm B resells it to the customer under the brand name and product responsibility of Firm B. From the viewpoint of Firm A, it utilizes Firm B's sales resources, not only its sales channel and sales persons but also its brand and credibility. The customer buys the product assuming that it is Firm B's own product, not being aware that it is manufactured by Firm A. This alliance is used where Firm B's sales channel as well as its brand recognition is strong compared to Firm A in the sales territory. This is an effective route for SMEs, because they are usually weak in both sales channels and brand recognition. Through this sales alliance, SMEs can focus their resources more on technology and product developments, which are core competences of technology-oriented SMEs.

Technology Licence:

Technology is an intangible resource, which is materialized as intellectual properties. Certain intellectual properties such as patent and trademark are protected with exclusive rights if registered, and others such as know-how and technical information

are also protected as trade secrets. It is necessary to get equitable rights if a firm wishes to use technologies owned by other firms. A technology licence is an arrangement in which Firm A gets the right to use technologies owned by Firm B (Figure 4).

Figure 4: Sales cooperation



In exchange for this right, Firm A pays compensation to Firm B. In other words, the technology licence is an exchange between technology resources owned by Firm B and monetary resources owned by Firm A. If SMEs own competitive proprietary technologies, they may license such technologies to their partners and get monetary returns. However, it is important to place appropriate conditions on the licence. SMEs are most likely to differentiate themselves from competitors by their proprietary technologies. If a firm gives a licence without restriction, the proprietary value of its technology will decrease. Licences from SMEs to LEs need to be carefully reviewed, especially if both are in the same industry. For example, the licence may restrict the LEs, use of the technology to specified fields or applications. Or it may be given to the LE after a certain period of commercialization by the SME, which can enjoy first-mover advantage for a while. There could be several other conditions, such as territorial or volume restrictions on manufacture and sales.

In some cases, the licensee (the licensed firm) is entitled to give sub-licences to other firms. If sub-licences are freely granted, however, the technologies will be

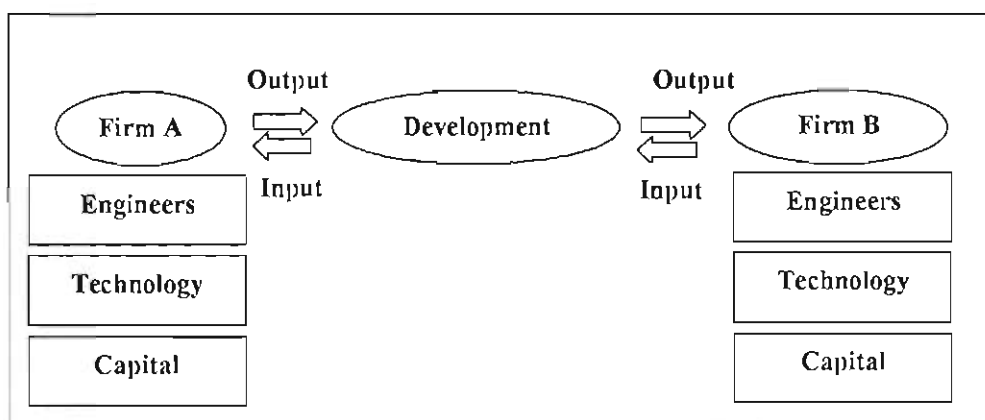
disseminated to many firms. To avoid this, an SME may debar its LE partner from sub-licensing altogether or permit sub-licensing only to the LEs subsidiaries.

Joint Development:

As technologies advance, their development and that of new products call for new kinds of resources. These could include intellectual properties, human resources, capital, management know-how, and so on. The scope of such resources keeps getting wider, and their quality and quantity requirements keep increasing. It therefore becomes difficult for any single SME to own all the required resources at the required levels. Indeed, if an SME tries to own all these resources, it may find its development unsatisfactory due to dispersion and weakening of its core competitiveness. It would be more sensible to focus its own technical resources on its specific core fields, and utilize other firms' resources to make tip the missing fields. This is the reasoning behind Joint development.

As mentioned earlier, joint development is a framework in which multiple firm's pool their technical resources for the development of technologies or products according to mutually agreed specifications and schedules (Figure 5). Partner firms provide various resources, such as intellectual properties, human resources and capital as inputs for their Joint development and enjoy the outputs, such as new technologies and products. How they will share the contribution of inputs and the enjoyment of outputs is specified in their development contract.

Figure 5: Join development



There could also be a case where joint development is intended to supplement a quantitative shortage of resources. Perhaps the development cost is too huge for a single firm to bear, in which case it may try to share it with partners. Or, say, 100 engineers is required to complete the development within a limited time-frame, but the firm can afford to provide only 50. In this case, the firm may try to make up the missing engineers from the partner firms. Here the intention is to combine the same resources to reach the required quantity level, and this kind of partnership is likely to form between firms of similar size with similar resources in a similar business. In this sense, they may compete in the marketplace and yet cooperate in joint development activities.

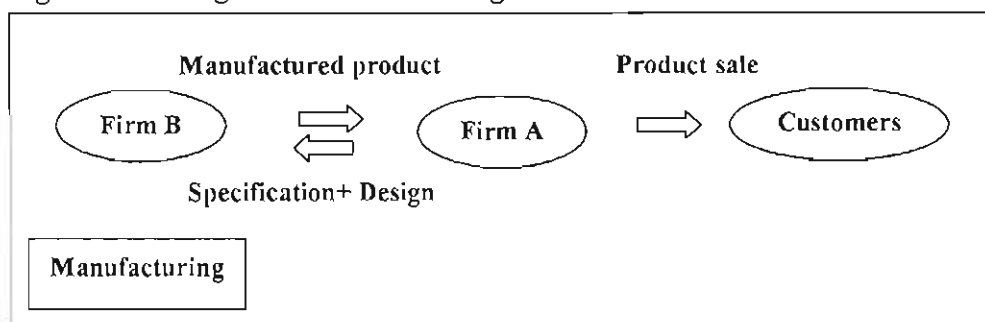
Joint development may also be undertaken to complement a qualitative shortage of resources. Suppose both design technologies as well as manufacturing technologies are needed to develop a product. A firm may own excellent manufacturing technologies, but lacks the required design technologies. Such firm may cooperate with another firm with good design capabilities, and complete the product development with its own manufacturing capabilities. Another firm may own key technologies and engineers but lacks the capital required to undertake development. Such a firm may cooperate with a partner with enough financial resources. The resources being contributed under this arrangement are different, and of complementary natures. Firms are likely to be of different sizes, with different resources and in different businesses. One example of such a combination might be between an SME with strong intellectual properties and an LE with strong financial resources. Normally, when firms are not direct competitors in the marketplace, or are competitive in different fields, they are more motivated and likely to work together. However, if the respective objectives of joint development were different between firms, it would be a tough challenge to mutually agree on goals of collaboration. It is therefore important to discuss, before starting Joint development the purpose of the alliance, the expectations of each party from the other, and the resources to be provided from both sides.

Consignment Manufacturing:

Manufacturing is the most fundamental activity for manufacturers: it also requires sizeable amounts of capital. Manufacturing requires land. Factory and equipment, besides reliable supplies of power, water, gas, and so on. Manufacturers need to hire operators and train them, create relationships with suppliers, and secure logistics to ship their products. The investments required are huge, especially for capital-intensive industries. These investments become fixed costs - it is not easy to reduce or stop operations even if market demand decreases. This is because, once the manufacturing investments are made, expenses such as depreciation and wages continue to be incurred. If a firm intends to own the manufacturing capabilities itself, it needs to evaluate the most appropriate size of investments, taking into consideration capital requirements and market demands.

Consignment manufacturing is a framework in which a firm develops products according to its own specifications, consigns manufacturing to other firms, and procures the manufactured products for its own sales (Figure 6). If a firm consigns manufacturing to other firms and is able to utilize manufacturing resources owned by others, it can respond more flexibly to market changes. If a firm in a cyclical industry invests in manufacturing equipment and operators to peak demand levels, it will find that these become surplus capabilities at the trough of the cycle. The right strategy therefore would be to own a certain level of manufacturing capability in-house and create a system of consignment manufacture at higher and peak demand levels. For SMEs, in particular, where resources are limited, consignment manufacturing is an effective measure. They can focus their management resources on their core capabilities such as technology and product development and utilize other firms' resources for capital-intensive manufacturing.

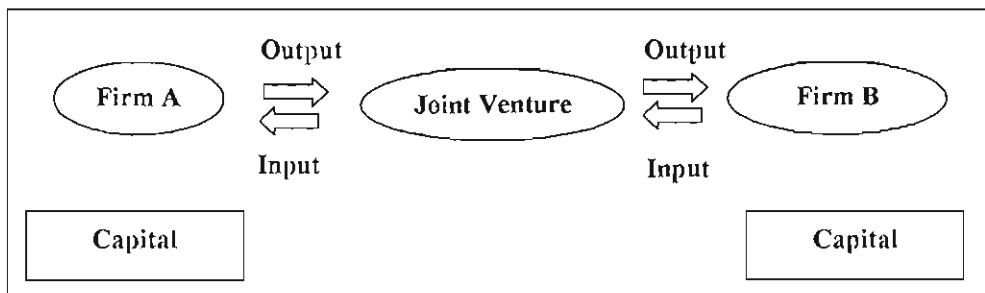
Figure 6: Consignment manufacturing



Joint Venture:

A Joint venture (JV) is an independent entity to which multiple firms provide the capital and other resources it requires to do business. In return they enjoy the output - products and services from the joint venture (Figure 7). Firms enter into a JV because it is more effective to manage business with partners rather than alone. For example, if the capital required for a business is too large, it would be preferable to share it, with other firms. Perhaps new value could be created through the combined talents of firms in the form of JV. In forming the JV, firms usually provide not only capital resources but also management people, employees, products, intellectual properties, management know-how, etc. In case firms provide engineers and technical know-how to a JV, the scheme is similar to the joint development alliance mentioned earlier. However, the big difference is that a JV is formed with capital fusion by firms and this new independent entity becomes the place of collaboration. In this ties between firms get stronger and JV dissolution unlikely. The capital contributions by firms strengthen their commitments to this collaboration. While the capital itself is a key resource in carrying out the business, it also strengthens the commitments between partners in the case of a JV.

Figure 7: Joint venture

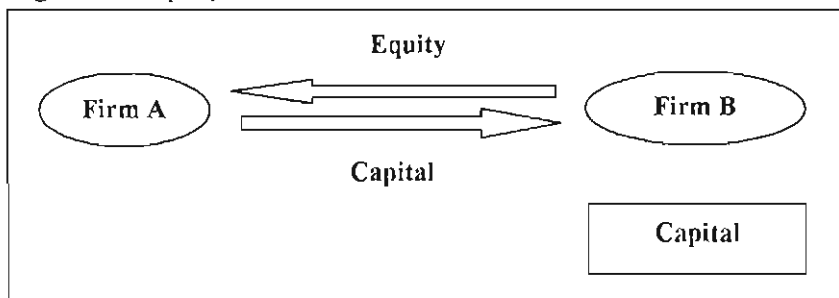


A JV often focuses on specific functional areas, and provides such services to parent firms. One example is a JV for manufacturing. The consignment manufacturing model mentioned above was the utilization of manufacturing resources owned by another firm, (the other end of the scale from in-house manufacturing). A JV for manufacturing is located in between these two extremes. In a capital-intensive industry, where the investment required for manufacturing is huge, a JV is often created. Under this arrangement, a firm can share the burden with partners.

Equity Investment:

This is an arrangement in which one firm receives capital from another firm and in exchange provides its equity to the other firm (Figure 8). The first firm's objective is to utilize the second firm's capital resources. SMEs can thus raise capital through equity investment to the extent necessary to carry on business. Even in a case where there is no need for additional capital, an SME may invite equity investment from another firm merely to create a relationship. The second firm's objective may be to assert some influence on the management policy of the first firm. For example, if an LE expects an SME with superior technical capabilities to play a key role in the formers development strategy, it may make an equity investment in the SME.

Figure 8: Equity investment



The level of equity investment depends on how much management influence is expected through the arrangement. If the equity investment is more than 50 per cent of the outstanding shares, the investing firm owns the majority portion of the invested firm and is able to control its management policy.

In the case of a minority investment (acquired shares of less than 50 per cent), the degree of control would vary according to the share distribution among other shareholders. The investing firm therefore decides the amount of its equity investment after evaluating how much strategic controllability it expects. The invested firm will also evaluate the amount of capital it needs and weigh this against the level of independence it intends to retain.

Where the equity investment is 100 per cent, this would be classified as an acquisition. Here the management of the invested firm is completely controlled by the investing firm. Because of the lack of independence, such an arrangement is not regarded as strategic alliance.

This strategic alliance as an exchange of management resources, and discusses symmetrical and asymmetrical alliances. It points out that symmetrical alliances are suitable for SMEs, and presents several types of asymmetrical alliances from the perspective of effective utilization by SMEs. These include sales cooperation, consignment manufacturing, technology, licensing, joint development and equity investment. The discuss finally presents an actual case of an alliance between a SME and a LE, in which the relationships between the firms steadily widened and deepened.

Chapter-5

Problems and Prospects in Financing Small and Medium Business Enterprise (SME):

No one model can take into consideration all the circumstances including the financial requirements facing business entities and therefore delineate the boundaries of small or medium enterprises. The criteria for segmentation of businesses in the category of SME differs from country to country and even within a country from one time to another, depending on the pattern and stage of economic development, government policy, and administrative system of that particular country.

As per 'Prudential Regulations for Small Enterprises Financing (First Edition-2004)' prepared by the Focus Group Team of Bangladesh Bank, a Small Enterprise means an entity, ideally not a public limited company, which does not employ more than 60 persons (if it is a manufacturing concern) and 20 persons (if it is a trading concern) and 30 persons (if it is a service concern) and which also fulfills the following criteria:

- a) a service concern with total assets at cost excluding land and buildings, investing from Taka 50,000.00 to Taka 3,000,000
- b) a trading concern with total assets at cost excluding land and buildings, investing from Taka 50,000.00 to Taka 5,000,000
- c) a manufacturing concern with total assets at cost excluding land and buildings, investing from Taka 50,000.00 to Taka 10,000,000.

In many banks, Small Enterprises are considered as business enterprise where banking financing ranges from Taka. 25,000.00 to Taka 500,000.

In promoting rural economic advancement, the contribution of the Small and Medium-scale Enterprises (SMEs) in Bangladesh can never be denied. The SMEs' contribution to GDP remained within the range of 4.4 percent to 4.7 percent during the last five years. Despite the great potentialities of the SMEs in our economy, 49 Commercial Banks of the country have not yet come forward with a definite vision to extend financial help to the millions of entrepreneurs of this sector. Meanwhile, though, the Central Bank introduced refinance facilities for banks to encourage them to give more and more loans to SMEs under some special schemes and programmes. There are approximately 6,000,000 micro, small and medium enterprises in Bangladesh, which include up to 100 workers at most. These enterprises consist primarily of wholesale retail trade and repairs *(40 percent), production and sale of agricultural goods (22 percent) and manufacturing (14 percent). Out of these enterprises, 35 percent received credit from informal source and another 35 percent from formal source. Nongovernmental Organizations (NGOs) were the most common source of formal credit.

The Premier Bank Ltd., like other private commercial banks, has already undertaken some projects of SMEs. Within these SME scheme Project Finance, Working Capital Finance, Lease Finance/Hire Purchase, Work Order Finance, Bai-Muazzal (Commercial), Bai-Muazzal (Term Loan), Rural Credit Scheme (e.g. Goat fattening) are the most important.

5.1 Banks-Prospects in Financing Small and Medium Business Enterprises:

Main function of a bank is to collect fund as deposit and provide this fund as loans and advances to the borrowers. As interest is the main source of earnings of the bank, the authority of The Premier Bank Ltd. always tries to provide loans and advances to the prospective borrowers. Bright future of the bank depends on the performance and condition of the borrowing firms. If the borrowing firms can run their business well,

the borrowers will pay their interest regularly to the bank and if they are not able to run well they will not be able to pay their interest. In that case, sometimes bank has to realize a huge amount of bad debt. One thing is that the large scale industries in Bangladesh become failure because of poor technology and skilled or efficient worker. For this reason, as a new bank the PBL mainly finances the Small and medium scale business enterprises. Also it is easier to finance and maintain the small and medium scale business enterprise than large scale Industries.

With further development and modernization, the contribution by the small and medium business enterprise to the Bangladesh economy can increase manifold. It would be of interest to discuss the present and future contribution of these industries to the economy of Bangladesh. These are discussed under the following headings:

- a) Accumulation of capital and small and medium business enterprise;
- b) Employment consideration;
- c) Contribution to the production of consumer goods;
- d) Balanced regional growth and geographical dispersal of industries;
- e) Small and medium business enterprise as feeders to large scale industries;
- f) Development of entrepreneur's managers.

a) Accumulation of Capital and Small and Medium Business Enterprise:

Modern large-scale industries based on western technologies are all capital intensive. They require huge amounts of capital investment both in local and foreign currencies. As a poor country with very limited savings, Bangladesh is faced with the problem of shortage of capital in both the currencies. Therefore the promotion and development of modern large-scale industries is not possible in the foreseeable future for a number of reasons. The development of these industries are time consuming, requiring a large number of highly skilled modern management personnel for their operation and this is in short supply in Bangladesh. Further, the large scale industries will be totally dependent on the foreign supplies of spares and components for the machines, till the domestic production of these spares and components are developed. The Chronic shortage of foreign exchange has forced a reduction in the import of spare parts and

components. All these taken together make it difficult to establish more and larger scale industries.

An essential argument in favor of the development of small and medium business enterprise is that it is one of the best means of capital formation and utilization. The main source of funds for the proprietors in these industries is usually their own funds, reinvested earnings or money borrowed from.

If the small and medium business enterprise can survive and develop, the small savings of the thousands of villagers can be used and invested for productive purposes. The importance of this investment is great because it taps sources of capital which would not be tapped by large firms or by any means other than independent entrepreneurship". The capital that goes into independent small and medium business enterprise is largely additional capital, which would otherwise remained uncommitted to productive investment. Generation of savings and utilizing them effectively will be possible only through the promotion of small and medium business enterprises. This in turn, will encourage the rural poor in Bangladesh to save more and then to invest in these industries.

b) Employment Consideration:

Of all the problems in Bangladesh, perhaps the population problem is the most serious one to tackle. At present the total population in Bangladesh is about 13.5 Crore and the annual rate of growth of population is over 2.36 percent. Further, the vast majority depends on agriculture for a living. Overcrowded, primitive and subsistence agriculture has long before reached the saturation point whereby it is impossible to absorb any more workers in this sector. On the other hand, the future development of agriculture, if there be any, will produce more surplus workers in the agriculture sector.

The present economic situation in Bangladesh demands absorption of surplus workers from agriculture and the normal increased population. Further to sustain the growth of the economy, there is needed to create more employment opportunities in the

economy. Along with all other means of creating employment we assume that the industrial sector has the highest potential capacity. The large scale industry, because of its specialized requirement of finances, lead time and personnel, is unable to help in this area. At the same time, the importance of large-scale industry has to be recognized in certain manufacturing activities, due to its inherent technical and economic strengths.

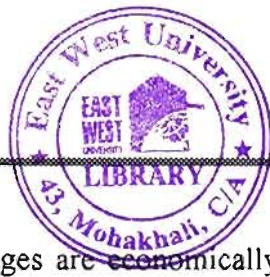
In a capital scarce country like Bangladesh the capital intensity of enterprises is normally expected to be less in comparison to industrialized countries like the USA, the UK and Japan. But in contrast to these notion industries in Bangladesh is more capital intensive as shown in Table 4. Such a high capital intensity imports of technology through tied aids and loans and engineering and entrepreneurs biases. For this reason it was not possible for the country to resort to labour intensive techniques of production so that each unit of capital could engage more labour and create gainful occupations for millions.

Another important aspect of the small and medium business enterprises sector in the context of Bangladesh is that they are the largest provider of employment of women. In many other countries this may not be a factor for discussion at all but in Bangladesh because of conservatism and fanatic religious feelings, women cannot work outside the home - a recent study shows that

Table: 1 Capital labor ratio in manufacturing industries:

Bangladesh, Japan and the USA :

Sectors	Bangladesh	Japan	USA
Cotton textiles	1.00	0.38	2.18
Jute textiles	1.00	-	-
Paper	1.00	0.07	0.85
Leather goods	1.00	0.59	1.40
Rubber goods	1.00	0.32	4.40
Fertilizer	1.00	-	-
Other chemicals	1.00	-	-
All chemicals	1.00	0.33	2.49
Basic metals	1.00	4.04	13.60
Machinery	1.00	0.20	1.96
Wood products	1.00	0.40	-



only 3 per cent of women of all ages are economically active and they are mostly active in agricultural work. The same study shows that when women come from a similar class background they are more efficiently mobilized for joint economic ventures such as growing vegetables, raising poultry or making fish nets etc. A recent study of the Bangladesh Institute of Development Studies shows that among women 59 per cent of the workers are engaged in industries compared to only 17 per cent among men. This is because the men are mostly engaged in outdoors-agricultural work and women due to socio religious factors work within their homes in non-agricultural activities. Thus the development of small and medium business enterprises will not only generate employment for the unemployed millions but will also provide more women with work without disturbing the existing social system very much.

The small and medium business enterprises in Bangladesh is the second largest area for employment only after agriculture. Since agriculture in Bangladesh is already overcrowded with very little scope of extra employment small and medium business enterprise, if properly developed can expand - employment opportunities enormously.

c) Contribution to the Production of Consumer Goods:

Industrial investment in Bangladesh is not remarkable. At the time of partition of the Indian Subcontinent in 1947, the area now comprising Bangladesh had very few large-scale industries. At that time the country had a few cotton textiles mills, a cement factory, factories processing raw agricultural produce for export, tea factories and jute bailing. The small and medium business enterprises accounted for over 75 percent of the contribution of industrial sector to the total output. Since then, although its percentage contribution to the total was falling in absolute terms small and medium business enterprise expanded nearly by 50 percent between 1950 and 1966. As the then East Pakistan was less industrialized than West Pakistan, it was natural that the contribution of small and medium business enterprise in the East was more in the West. Though after Liberation some large-scale industries were set up and some were in the process of development, their share in the production of consumer goods has not changed very much.

The heavy reliance of the Bangladesh economy on its small and medium business enterprise for the production of most consumer goods is evident from Table 5. In fact the total number of establishments was much higher than the 330,435 units covered by the Bureau of Statistic (BOS) Survey and consequently the contribution of these industries was also more.

Among the various types of industries, the textile sector had the highest percentage (27.45) and this was, largely due to the large number of handlooms (both cottage, small and medium business enterprise). In terms of value, textiles were predominant with 54 percent of the total value ads followed by food manufacturing with 22 per cent.

Table: 2 small and medium industry establishments by type of industries and by employment size.

Type of Industry	No. of establishments in various size groups				Total of all industries	
	1-3	4-6	7-9	10&above	No.	Percentage
Food	69707	13637	1989	710	86002	26.03
Beverage	63	-	-	-	63	0.82
Tobacco	2287	511	-	-	2798	0.85
Textiles	48165	36345	4415	90748	2746	27.46
Apparel & foot wear	18964	454	-	-	19418	5.88
Wood work	43949	5730	242	-	49921	15.11
Furniture	14957	2019	23	-	16999	15.14
Paper & Paper Products	685	207	-	-	892	6.27
Leather products	4807	779	-	-	4886	1.48
Chemical & chemical products	474	-	-	-	747	0.23
Non metallic minerals	7329	5171	1744	954	25198	7.63
Metal products	11058	477	-	-	11535	3.49
Non electrical machinery	3503	905	-	-	4411	1.33
Transport equipment	4121	1143	226	-	5490	1.66
Miscellaneous	11126	201	-	-	11327	3.43
Grand total	251471	66879	8569	3489	330,439	100.00
Percentage	(76.10)	(20.24)	(2.60)	(1.06)	(100.00)	

Toward the end of 1979 there were about 260,000 looms in the handloom section and in 1979-79 these looms produced about 400 million square yards of textile cloth. This was about 75 per cent of the textile produced within the country and large scale organized sector accounted for only 25 per cent of the total production.

Of the total of 11.02 per cent contribution of industries sector to the GDP of Bangladesh in 1972-73 the contribution of small and medium industry alone as shown in Table 10 was 5 percent. If the contribution from cottage industries is added, the share of small and medium industries would be increased substantially.

The role impact of small medium industries can be realized from the goods they are producing viz. food, beverage tobacco, textiles, warning apparel, foot wear wood works furniture paper and paper products leather products chemicals and electrical machinery transport equipment and the like.

The small and medium sized industries in Japan rose time and again in supplying important consumer goods and earning a large portion of the foreign exchange by exporting their goods whenever there was any economic crisis in the country. Similarly the small and medium industries in Bangladesh have also provided the market with most of the consumer goods from the pre industrial days to the present. Had there been no supply of such goods by this sector, the economy of Bangladesh would have collapsed by this time.

d) Small and Medium Industries as Feeder to Large Scale Industries:

There is a common belief in the minds of the people in most of the developing countries, including Bangladesh, that industrialization means development of large-scale industries only. But many including the planners fail to recognize that a modern manufacturing economy is not complete and not as efficient as it should be unless it has both the large units and small ones.

Many of the components and part required by large-scale industries are normally economically and cheaply produced by small and medium industries. This process reduces the cost of production specially by subcontracting the labour, intensive

portions. In developing countries, this is generally absent and thus the cost of production is high (specially fixed costs). An alert efficient small industry sector can substantially enhance the efficiency of large factories by relieving them of the necessity of making certain parts or performing certain operation which for one cost. Another important consideration is that large investment in heavy industries would cause an increased demand for consumer goods by creating additional income. Here lies the great contribution of small and medium industries by producing the necessary consumer and daily necessary goods for the consumers increased demand. Large scale industries are not normally developed for consumer goods and also because of their capital-intensive character they fail to be provided with the required employment. Since Bangladesh is facing a serious problem of unemployment, the development of small and medium industries as feeder or suppliers of labor Intensive operations can effectively solve this problem.

5.2 Banks-Problems in Financing Small and Medium Business Enterprises:

Nearly 87 percent of the country's total industrial workforce is employed in the SMEs with the sector creating over 33 percent of industrial value added goods. Medium enterprises (SMEs) employ around 10 per cent of the total manufacturing workforce of about four million people and contribute nearly 20 per cent of gross output. On the other hand, the small enterprises (SMEs) absorb about 8.5 percent of the total manufacturing workforce with the sector contributing the same portion of gross output and value addition to the economy.

The most important feature of the SMEs is that the sector contributes nearly 85 per cent to the country's total export earnings, according to a statistics. Despite such immense contributions, the growth of SMEs in Bangladesh is being impeded by multi-various problems, both in micro and macro levels.

The major problems include poor access to find due to rigid collateral requirements by the existing banking system and rampant malpractice in loan sanctioning process, lack of material testing facilities required for quality production, inadequate skilled labor force and poor marketing know-how.

Inadequate knowledge of many entrepreneurs about the existing lending system and absence of necessary training facilities for small enterprise, high hidden cost including Gross-corruption and extortion and high rates of value added tax (VAT) and unnecessary harassment due to highhandedness of tax/VAT officials and law enforcing agencies are also responsible for it.

On the other hand, absence of modern technologies, transfer policy, lack of necessary infrastructure and supporting services like ports, power, gas and telephone line, poor law and order and inadequate legal and policy have been identified as the key macro-level problems.

Besides lack of exposure to international markets and now negotiating capacity and a big gap between the government policy and the ground realities are also impeding the growth of the prospective SME sector.

The bank faces some problems in financing small and medium business enterprises. These are as follows:

- ❑ Most of the owners depend on non-institutional sources of credit. They mostly require small amounts of credit, which are very difficult for the bank to handle. Sometimes the bank has to provide loans and advances under political or bureaucratic pressure without conducting a proper credit analysis of the borrower. Often political decisions create problem in financing small and medium business enterprise.
- ❑ Lack of education & skill of the entrepreneurs. Most of the owners of small and medium business enterprises are not educated enough and don't have sufficient banking knowledge. They are not so interested to go to banks for taking loans. Often the potential borrowers don't understand the rules and regulations for taking loan properly and therefore are reluctant to take loan from the bank.
- ❑ Lack of adequate collateral securities. Bank always requires collateral securities against loans and advances. But sometimes borrowers are not able to provide proper 'collateral securities. Though the borrowers though the borrowers provide securities against loan. These Securities are often found to be inappropriate. Sometimes the quality of the securities deteriorates over time and the bank often cannot recover the loan by

selling those securities. For example-agricultural products are usually highly perishable Items, often their value diminishes over time. Some of the borrowers provide fake securities to the bank. Sometimes the value of the securities decreases and the bank is unable to recover the loan by selling the securities. Sometimes securities are uninsured. As a result the bank has to realize a huge amount of loss.

- ❑ Borrower selection is another great problem in financing small and medium business enterprises. It is more difficult for the bank officers to select or to identify an honest borrower because most of the borrowers are not well known to the officers. The bank officers have to provide loans and advances to the borrowers on trust or belief.
- ❑ Often it is found that the small and medium business enterprises fail to properly estimate their working capital requirement and often they take long term loan for purchasing capital machineries. But later on the unit stops production for lack of working capital and the banks that have provided those long term loans failed to recover that loan.
- ❑ Because of their size, however, SMEs face limitations that make them less resilient to risks and prevent them from attaining economics of scale. These limitations are particularly significant in the areas of human resources development, technological capability, and access to financing and information. Given these limitations, many SMEs, on their own, face difficulties arising from the liberalization and globalization of markets.

To become a successful entrepreneur, one must have the necessary experience in the line of business concerned. In addition, the entrepreneur should have inherent urge to do the business spontaneously. The commitment to run a business smoothly is also a pre-condition for a successful entrepreneur.

The banks are always in search of good entrepreneurs. If they can select a good entrepreneur who will be able to implement the project efficiently, utilizing the credit facilities, and meet repayments regularly, it is their real success. In fact, the only concern to the banks is the regular debt service of the project business since the money taken out for borrowing is actually coming from the depositors.

The bank officials are always ready to extend all necessary cooperation to an entrepreneur who comes to the bank for getting credit facilities for a project. It is the bank which always guides the entrepreneurs in writing business plans, financial reports and fill in the loan application forms properly, in addition to rendering other necessary assistance. If the merit of the loan proposal does not deserve approval of the Bank, it is rejected; otherwise the Bank always entertains any new good entrepreneur cordially.

Chapter-6: Conclusion & Recommendations and Bibliography

6.1 Conclusion:

SMEs play an important role in a knowledge-driven economy. They are characterized by their competitive capabilities in proprietary technologies and talented human resources. In order to enhance skills competitiveness, strategic alliances are important strategies and tools for SMEs, because these enable them to focus resources on their specific competences and access missing resources through collaboration with partners.

Small and medium-scale enterprises (SMEs) are the backbone of the industrialization process of many developed countries and play a crucial role in increasing a country's economy. To be able to survive and grow, SMEs must adopt strategic technologies and innovative management practices to survive. SMEs are the lifeblood of modern economies. The need for them to remain competitive and produce high quality outputs is important not only at a national employment level but also at industry level, where SMEs are often suppliers of goods and services to larger organizations.

Contrary to common belief, for Banks, lending to SMEs can be more expensive than large corporations. Banks will need to have access to lower cost funds to reduce their lending rates for SMEs, or the cost of funds will need to be lowered through state support. One way of achieving this is to allow the extra liquidity within the nationalized banks to flow into other Private Banks lending to SMEs. Given the

direction of Bangladesh Bank's imperatives, and right intentions of banks like PBL, entrepreneurs may expect better financing options in the near future.

Today's small and medium size entrepreneurs will mature in try tomorrow's lending corporate growth opportunities in Agro Processing, Textiles, Telecom, Light Engineering, Steel, Building materials and Construction, Food and Beverage and Pharmaceuticals. SMEs that are within this value chain are most likely to grow.

SMEs that can fit into the overall business chain and position themselves correctly can sustain their businesses over a long time. The most successful SMEs are the ones have done this correctly or that can serve a particular market niche efficiently.

In traditional banking system it is not possible to get loan facilities without collateral or guarantee, which most of the small and medium entrepreneurs cannot afford or manage. Owners of SMEs are mostly in small in nature hence they have no bargaining power in financing their ventures.

In the industrial policy of Bangladesh the policy-makers are not making any clear-cut policy for the development of small enterprise. Further frequent changes of industrial policies are another problem in this regard. Small business owners are also not getting any incentives such as tax holiday, low rate interest policy, relaxed loan repayment policy etc from the government. Thus it is strongly recommended that there should be a specific loan policy only for the SMEs where the entrepreneurs will get various incentives and care from the policy makers as well as credit providers. Lack of electronic and other media coverage and borrowers awareness about existing or new facilities are further added constraints for this sector. There is also lack of training programs and information about SME, its market and available facilities. Therefore proper institutional and non-institutional training programs by the government and non-government organizations should be offered to the investors. Further to combat the existing environment and help to accelerate sustainable growth of SMEs as well as overall economy, it is urgently needed to develop mass awareness in the society and change the traditional believe of concerned people.



6.2 Recommendations:

Lack of easy access and adequate finance are the overriding constraints for the growth and expansion of this sector. Therefore many SMEs failed to grow their business simply due to shortage of capital. Even some of them are thinking of closing their businesses. Further after overcoming all the hurdles, the sources from where entrepreneurs can manage funds are not even satisfactory in terms of cost, time, availability, convenience, and flexibility. Therefore the national policymakers should take a positive action to provide adequate funds with lower cost, faster disbursement, more convenience and flexibility. As this study has seen most of small and medium entrepreneurs prefer to have an easy access to the bank finance, therefore the banking norms, procedure and attitude regarding investing in this sector should be changed. Bank and other structured financial institutions should come forward from the traditional thinking and be proactive to the small business funding.

Banks play an important role in the development of the economy of a country. Without the help of banks it is not possible to run the business activities of that country and it will always have positive result on our economy. Bank's main function is to finance different business enterprises. But they face some problems in providing loans and advances. The terms and conditions of the bank for providing loans and advances to the potential borrowers are not so simple. Often the borrowers find it more difficult to fulfill the terms and conditions and become failure in taking loans.

In view of the problems and prospects of SMEs financing operation of Premier Bank Ltd., the following measures may be considered:

- **Proper Documentation of Credit Policy:**

The bank should prepare a formal credit policy in a documentary or manual form. This should cover the legal and operational aspects of lending as well as the strategic intent of the bank. For instance, it may identify the economic sectors towards which credit can be directed more profitably. The credit policy should be of an evolving

nature, reflecting the changes and trends taking place in the economic sphere. The good side is that, top management already appointed a renowned consulting firm to prepare the credit policy.

- **Quick Loan Processing:**

Instead of relying heavily on manual paper work, skillful use of computers and sophisticated, advanced financial software can shorten the loan processing time quite considerably.

- **Less Centralization of Loan Disbursement Authority:**

The Head Office should allow its branches to sanction project loans up to certain limits. It should deal with projects requiring large amounts of loan.

- **Development of Skilled Loan Officers:**

The bank should focus on recruiting loan officers having the right qualifications. They should also be trained up properly and allowed to specialize on the job. This will bring about qualitative improvement and efficiency in project financing operation.

- **Improvement of the Project Loan Appraisal System:**

Management should set up a unit, which will work under the supervision of credit division whose task will be to gather borrower information. This will help better assess the creditworthiness of a borrower. Also, the bank should change its approach towards the viability of a project. Instead of excessive reliance on the value of securities, it should attach due importance to the income generation capacity of the project as well.

- **Close Supervision and Monitoring of Project Loan:**

Officer entrusted with the project shall make close supervision of the project under implementation by way of periodical visits, personal contact once in a month and make report thereon. For recovery of installment officer concerned shall maintain constant pressure both by letter and by personal contact and also by calling the borrower to the bank.

- **Quick Processing in Loan Sanctioning and Loan Disbursement.**

- Provide Loans and Advances under Simplified Terms and Conditions.

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