Key Messages

SME growth represents a cornerstone of a successful economic development policy -

- Access to financing represents a major driver for growth of SME's
- Appropriate financing policy can motivate sustainable SME lending

Financing SMEs constitutes a significant opportunity for Banks & NBFIs, providing the risk and returns are managed appropriately –

- SME Banking can be attractive and profitable
- However, the right competences need to be put in place
- Sustainable business model for SME banking can support the development of these competences

The Seminar

SME Financing in Bangladesh is yet to be considered the profitable and sustainable business to the bankers. But SME Banking business can yield attractive returns, one of the best, on risk adjusted return basis. Profitably serving the SME sector requires not just a deep understanding of the best segments to serve, but also of the financial needs and revenue drivers for each customer segment. Seminar will widen the banking facilities of the SMEs of Bangladesh through the profitable business model from the perspective of Banks & NBFIs.

Through the presentations and session discussions, the seminar will focus on how the Banks & NBFIs officials can make SME Banking more profitable through a Sustainable Business Model. Furthermore, presentation will try to make understand the Banks and NBFIs about the importance of SME financing towards the national economic development.

Editorial Advisor:
S M Shaheen Anwar
General Manager, SME Foundation

Supervision:
Md. Nazeem Hassan Satter
Deputy General Manager, SME Foundation

Editorial Assistant:
Suman Chandra Saha
Program Manager, SME Foundation

Sazu Mitra Barua
Assistant Program Officer, SME Foundation

Design & Compilation:
Md. Monjurul Haque
Program Assistant, SME Foundation

Published by:
SME Foundation

Date of Publication:
6 May 2014, Tuesday

Printing:
Adhunik Packages & Printers
01819869348, 01687250762

CONTENTS

Governor
Bangladesh Bank

MESSAGE

I am happy to know SME Foundation is going to organize a national seminar on "Sustainable Business Model for SME Banking" in association of SME & Special Programs Department of Bangladesh. This is obviously a timely initiative for inspiring the banks and other financial institutions taking necessary programs and policy measures for SME banking.

SME financing in recent years has got a remarkable momentum with the dynamic leadership of Bangladesh Bank and active supports and participation of banks and non-bank financial institutions. Still bringing SMEs under the coverage of formal financial services, particularly the small entrepreneurs of rural areas is the key challenge for SME development. Coordinated efforts are needed to overcome the challenge where banks and other financial organizations have the vital role. They should further be motivated towards enduring engagement in SME financing with the understanding of needs and prospects of SMEs.

I hope the Banks and NBFIs would take tailored and explicit strategy for SME banking in order to build a solid SME banking policy to facilitate sound growth and profitability in SME banking and a much better credit evaluation mechanism, product design, marketing skills and knowledge of customer and product profitability,

Finally, I believe the seminar shall contribute significantly in creating a conducive environment for SME banking. I also believe the outcome of the seminar would go a long way in developing the SME sector.

I wish success of the seminar.

Dr. Atiur Rahman

Deputy Governor
Bangladesh Bank

MESSAGE

It is appreciating that SME Foundation is going to organize a national seminar on "Sustainable Business Model for SME Banking" with the support of SME and Special Programs Department of Bangladesh Bank.

SME sector plays key role in economic and social development of a developing country like Bangladesh where the financial sector has the pivotal role in overcoming the financial constraints of SMEs. Bangladesh Bank has already prioritized SME development with necessary policies and programs. Banks and NBFIs have also come forward with different tailor-made financing program for SMEs.

Banks and NBFIs commonly face some limitations in getting genuine entrepreneurs where SME Foundation could play the necessary role. SME Foundation could take programs and initiatives in preparing entrepreneurs throughout the country. This would definitely help Banks and NBFIs in increasing their portfolio to SMEs.

SME development needs joint initiatives both nationally and internationally. I believe such joint initiative of Bangladesh Bank and SME Foundation would lead the Bankers in focusing and preparing for SME Banking.

I wish success of the seminar.

Md. Abul Quasem

Dr. Muzaffer Ahmad Chair Professor, BIBM &
Former Deputy Governor, Bangladesh Bank

MESSAGE

It is a great pleasure to convey my greetings to the distinguished bankers, entrepreneurs, academicians, and policymakers etc. who shall be gathered to mark the national seminar on "Sustainable Business Model for SME Banking" on 6 May 2014.

The economic and banking importance of SME sector is well recognized in academic and policy literature. It is also acknowledged that these actors in the economy may be under-served, especially in terms of finance.

SME banking as an industry is yet in transition. Banks have begun to turn their attention towards this untapped market and their service to SMEs is a major factor in increasing SME access to finance. SME banking appears to be growing the fastest in emerging markets like Bangladesh where this gap has been the widest.

I expect the seminar will provide immense opportunity to the participating bankers to assess the importance of SME banking in national SME development with sustainable & profitable business model.

My best wishes for the success of the entire endeavor.

Khondokar Ibrahim Khaled

Director General
Bangladesh Institute of Bank Management

MESSAGE

I am pleased to know SME Foundation has organized a seminar on “Sustainable Business Model for SME Banking” aiming to motivate the bankers to take necessary steps for financing SMEs in a sustainable and profitable manner.

Financing SMEs is sometimes considered an unattractive undertaking to the bankers as SMEs are commonly regarded as high risk borrowers to them. Of course, there are some Banks and NBFIs which are observed lending to SMEs in an increasing rate by adopting the SME financing as a sustainable banking model.

The development of financial institutions in light of their SME lending practices must, undoubtedly, be complemented with further development in human resources. This, in turn, requires plans for training and developing trainers to enable financial institutions to undertake their important role in serving the national economy. Thus, as the financial sector is expected to serve the growing financing needs of the SMEs, the availability of well-trained human resources would undoubtedly become one of the preconditions for successfully handling of SME banking operations.

I appreciate SME Foundation for arranging such a well-timed and essential seminar with the presence of the top level executives of all banks and NBFIs of Bangladesh. I hope the seminar will be effective in motivating the bankers to focus their attention on SME Financing.

I wish every success of the seminar.

Dr. Toufic Ahmad Choudhury

Managing Director
SME Foundation

MESSAGE

I am delighted that SME Foundation is going to organize the seminar titled “Sustainable Business Model for SME Banking” on 6th April, 2014 at A.K.N. Ahmed Auditorium of Bangladesh Bank Training Academy, Mirpur-2, Dhaka. I am pleased that the SME & Special Programs Department of Bangladesh Bank is providing necessary supports and co-operations for making the seminar successful.

SME Financing in Bangladesh is yet to be considered the profitable and sustainable business to the bankers what leads them not giving enough importance and concentration to the sector. This results huge potential entrepreneur throughout the country is still remaining out of the financial services and coverage. Nevertheless, we observed some banks and non-bank financial institutions have come forward with their own innovative and effective strategies, tools & mechanism for funding to SMEs in particular what have been evident successful and sustainable model for SME banking. We strongly feel and believe, if their strategies & models including world practices and successes are shared and demonstrated before the banks and non-bank financial institutions, they must be interested and get convinced to unveil their own strategies and models for SME banking which would eventually help SMEs in getting loans and develop the sector.

Considering the above facts and scenario the seminar has been designed only for the Managing Director, Additional Managing Director, Deputy Managing Director, Head of SMEs and also the Head of CRM of all Banks and NBFIs who could play the necessary role in launching the models in their institutions. I would like to welcome all of them to the seminar and also request to please put their best effort in formulating the separate SME banking models in their own institutions.

I must be grateful to the Honorable Governor, Bangladesh Bank due to his kind consent to be present in the seminar as the Chief Guest despite his busy schedule. We must say his gorgeous presence shall make the program successful and meaningful one. I would like to thank the Special Guests and the Session Chair for their kind consent and gracious presence in the seminar.

I would like to thank Mr. Ali Reza Ifthkhar, Managing Director & CEO of Eastern Bank Ltd and Mr. Selim R. F. Hussian, Managing Director & CEO of IDLC Financing Ltd for their valuable time and efforts in preparation and presentation of the keynote papers. I would also like to thank the distinguished discussants for their valuable inputs and recommendation on the papers.

Bangladesh Bank Training Academy has provided us great supports and co-operation particularly in providing their venue. I must be thankful to them.

Finally, I firmly hope and believe the seminar shall be a milestone for turning banks and non-bank financial institutions to SME banking and also be regarded as a useful reference to many financial institutions willing to engage more actively with SMEs.

I wish this seminar a great success.

Dr. Syed Md. Ihsanul Karim

Seminar Papers

Seminar Paper-1
"Sustainable Business Model for SME Banking" from Bank Perspective
Ali Reza Iftekhar, Managing Director & CEO, Eastern Bank Limited

Seminar Paper-2
"Sustainable Business Model for SME Banking" from NBFI Perspective
Selim R. F. Hussain, Managing Director & CEO, IDLC Finance Limited

Ali Reza Iftekhar

Managing Director & CEO, Eastern Bank Limited

A visionary banker and a dynamic leader, Ali Reza Iftekhar is currently leading Eastern Bank Limited (EBL), one of the most valuable banking brands in Bangladesh, as Managing Director and CEO. Iftekhar has always been a team person and believes in developing human capital. Employee first is the bracing motto of his life.

He has been an achiever all through his banking career. In his 25 years in banking, both in foreign and private banks, Iftekhar has earned major achievements such as Credit Specialist Certificate by world reputed Omega in UK. Obtained certificate in International Trade Skill Assessment Program (This is an International Program jointly conducted by Standard Chartered Group London and ICC.) He was awarded Chief Executive's Special Award for Revenue Generation, Asset Growth, Recovery of Bad debts.

During his tenure as MD and CEO, EBL has witnessed great initiatives taken in the field of art and culture, sports and education. In human capital management EBL has experienced innovative moves from the man at the helm of affairs. He has initiated performance culture in the bank by inspiring people to perform. He believes in branding ourselves and has adopted employee first policy for the bank and also promoted the culture of relying on people's skill set. He is a firm believer of the concept value creates value. For him employees are the best brand. A great performer himself his brand mission is winning for today is building for tomorrow.

In his chequered career, Iftekhar has attended as many as 50 overseas trainings and seminars on Corporate, Retail and Credit mainly in the Middle East, Europe and the Far East. He is one of the co-author and member of Core Risk Management of the central bank.

He attended the Harvard Business School program on Leadership in Financial Organizations in 2012. Widely regarded as an expert on Credit & Risk Analysis, he has conducted several training programs for different organizations.

In 2011 he was accorded CEO of the Year Award at Asian Leadership Award held in Dubai.

He is currently the chairman of the Association of Bankers, Bangladesh (ABB), the country's apex body of the banking professionals, for the term of 2014 – 15.

Born on April 19, 1961 Iftekhar graduated from University of Dhaka in Marketing in 1982. He is quite known for his wanderlust and visited around 27 countries and 56 cities of the world.

Humility in success and courage in failure makes Iftekhar one of the most successful leaders in banking industry.

Seminar Paper-1

Sustainable Business Model for SME Banking (Bank Perspective)

- Ali Reza Iftekhar, Managing Director & CEO, Eastern Bank Limited

Introduction

The financing of small and medium enterprises (SMEs) has been a subject of great interest for all concern intended to explore the business opportunity. It has already been recognized worldwide that Small and Medium Enterprises (SMEs) have an important role to play in industrialization, employment and income generation and economic growth of the country. In the present world economic situation, bank especially commercial bank is treated as the lifeblood of economy of any developed or developing country. With the tremendous increased need of time, commercial banks play an important role in case of overall economic development of any country. From this timely realization, commercial banks are relentlessly trying to provide better service to their clients in order to ensure higher profitability. Commercial banks need to find a sustainable way to get high profitable venture to satisfy its shareholders. Different survey result indicates that the perceived profitability of the SME segment is the most important drivers for banks' involvement with SMEs.

Industrialization in Bangladesh are mostly surrounded by the medium and large industries. The pie of growth is now narrowing the part of large industries. Due to high competition the margin to finance in large and medium scales industries and business ventures are also thinning day by day. Thus the missing middle and small enterprises are taking the place of long cherished development of Bangladesh. Most development Experts are in favor of patronizing SME for rapid growth of Bangladesh economy. The government established the SME Foundation in 2006, the National Association of Small Cottage Industry of Bangladesh works as the apex trade body for SMEs in Bangladesh. Bangladesh Bank introduced a refinancing scheme in 2004 to overcome the financial constraints. The scheme was started with three sources of funds; Bangladesh Bank own fund, International Development Association and Asian Development Bank. In the last year another funding agency Japan International Cooperation Agency (JICA) is added for low cost pre and refinancing. So the SME patronizing as a mean of development is very much thought process of the policy maker of Bangladesh. This paper along with the power point presentation tries to inform the top management of the banks and Non Bank Financial Institutions (NBFIs) about why and how the SME financing is a sustainable model for Bangladesh.

SME Banking - Global View

There is a growing acknowledgment worldwide that small and medium enterprises (SMEs) have a significant role to play in the present context given their greater resource-use efficiency, capacity for employment generation, technological innovation, promoting inter-sectoral linkages, raising exports and developing entrepreneurial skills. Their positioning flexibility is an important advantage in reducing regional imbalances. The future of SMEs is of major policy concern given their strategic importance in any discussion of reshaping the industrial sector.

SME banking is an industry in transition. From a market that was considered too difficult to serve, it has now become a strategic target of Banks worldwide. Leading banks reported ROAs of 3-6% for their SME compared with 1-3% bank-wide. SMEs are estimated to account for at least 95% of registered firms worldwide; in Europe, this number is well over 99%. Defined by the employees less than 250. There are 36-44 million formal SMEs globally. Contribution towards GDP of Malaysia (70%), Thailand (70%), Korea (90%) Philippines (70%) economies are dominated by SMEs. In term of employment SMEs are contributing 50%, 40%, 50%, & 40% respectively of the mentioned countries (Sources: Kuait Finance House in 2007).

Globally SMEs play very important role in all economies. In developed economies SMEs are working as the feeder vessels or as support to the large corporate. In developing economies, it works as the engine to ultimately create large corporate. In UK SME lending is at its highest level since 2008. Currently it is recognized that the UK economy can only be flourished if SMEs are given the backing to succeed.

At present "Invoice finance is a fantastic way for SMEs to maintain a steady cash-flow". Japanese financial institutions and state agencies are working to promote more investment in SMEs especially in the steel, automobile, consumer electronics, and machinery and equipment industries. In USA SMEs were more export oriented than large farm. Exporting SMEs total revenue grew faster than the large exporting farm (i.e. SME 64%, Large 24%). Today, governments worldwide recognize the importance of SMEs and their contribution to economic growth, social cohesion, employment and local development. SMEs account for over 95% of enterprises and 60%-70% of employment, and generate a large share of new jobs in (The Organization for Economic Cooperation and Development) OECD economies. As globalization and technological change reduce the importance of economies of scale in many activities, the potential contribution of smaller firms is enhanced.

SMEs are the true backbone of the European economy and are accountable for the wealth and economic growth of the region. They also play a key role in innovation and R&D in the region. There are over 23 million SMEs representing around 99.8% of all the enterprises and 57% of them are sole proprietorships. They provide two third of the total private sector employment, represent 80% of total job creation and produce more than half of EU's added value. (http://www.eisbc.org/EU_SMEs.aspx).

It is evident that small and medium enterprises (SME) account for about 50% of GDP and 60% of employment worldwide. SMEs are estimated to contribute between 25-35% of all manufactured export. In terms of industrialization, Japan drew special attention to the professionals and policymakers in the international arena. Statistics show that Japan has achieved its industrial development heavily based on SMEs. Some of the worlds' best performing economies, notably Taiwan and Hong Kong, are heavily based on the small enterprises. In much of the developing world, the private sector economy almost entirely comprises of SMEs. Contribution of the SMEs of some selected countries shows that it has provided very significant portion of GDP and employment in their national economy.

Country	SMEs as % of all enterprises	Contribution of SMEs to GDP %	Contribution of SMEs to Employment %
Bangladesh	80.00	20-25%	40%
India	97.60	80%	-
Pakistan	60.00	15%	80%
China	99.00	60%	92%
Japan	99.70	69.50%	72%
Hong Kong	-	-	61.50%

Source: Asian Business Review, Volume 2, Number 2/2013 (issue 4)

SME in Indian Economy

SME sector of India is considered as the backbone of economy contributing to 45% of the industrial output, 40% of India's exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. With approximately 30 million SMEs in India, 12 million people expected to join the workforce in next 3 years and the sector growing at a rate of 8% per year, Government of India is taking different measures so as to increase their competitiveness in the international market. With this huge potential, backed up by strong government support; Indian SMEs continue to post their growth stories. Despite this strong growth, there is huge potential amongst Indian SMEs that still remains untapped. Once this untapped potential becomes the source for growth of these units, there would be no stopping to India posting a GDP higher than that of US and China and becoming the world's economic powerhouse.

(http://www.eisbc.org/Definition_of_Indian_SMEs.aspx)

How SMEs are Perceived Globally

Across the world, nowadays, Banks are considering SMEs as a potential sector to do business with. Some are already in the business with SMEs and some are planning to enter. We can highlight a report on a study in international level published in the Journal of Banking & Finance.

The quantitative data of the study says banks have significant credit exposure to the SME segment. For example, the ratio of SME loans to total outstanding private sector loans (including retail) reached 37% in Argentina and 14% in Chile in 2006. In Colombia, the national bankers' association (Asobancaria) estimates a rapid increase in SME lending from a low base in 2003, with the share of SME lending in the total commercial loan and lease portfolio of credit institutions almost doubling in less than four years to reach 25% by 2006.

In terms of interest and participation in doing business with SMEs it is revealed that large banks including foreign ones are the main players in SME market. Private domestic banks are highly exposed and public banks are a bit behind. The Study says level of exposure of private banks is 56% in Argentina and 16% in Chile. In Argentina, private domestic banks are followed by public banks (31%) and foreign banks (27%), while in Chile they are followed by foreign banks (12%) and public banks (6%). It was believed that foreign banks are mainly focused on the large corporate business. But now they are also finding SMEs as a potential sector and expanding their business accordingly.

The SME market is Competitive and not Saturated. Based on that banks are finding profitable growth prospect in SME Financing. Banks expand their engagement with SMEs by deepening both relations with existing clients and targeting untapped pools of new clients. Even the banks are not going with specific sectors or geographic focus. They are trying to extend their market as wide as possible considering this sector is in a growing trend.

There is another important factor driving banks' desire to become involved with SMEs is Profitability of the sector. Not only that profits in the SME sector are attractive, but importantly that they are attractive relative to the alternatives after controlling for risk. For example, banks have experienced a thinning of margins in the corporate sector because of intensified competition from local and international capital markets, and in the consumer sectors because of strong competition from other financial and non-financial institutions (such as department stores). Similarly, with more stringent fiscal policies improving government access to capital markets, the opportunities for lending to the government at a spread over the cost of funds have shrunk significantly, particularly in Argentina and Chile.

Banks are considering the relationship of the SMEs with the large corporate client-the chain relationship of suppliers, outsourcers and distributors/dealers with the large corporate. From their existing corporate clients bank can have information about the SMEs which helps reducing the problem of asymmetric information banks face in approaching new SMEs. This way banks are sorting out the potential SMEs and doing business with them more efficiently. From the large corporate point of view if they use strong SMEs in their supply or outsourcing they can have more flexibility in focusing their main business and reduce their fixed operating costs. Ultimately, banks are increasingly engaged in the SME sector is consistent with the hypothesis that the mentioned changes in industrial organization, with less vertical integration and greater modularity and network economies via supply chains and outsourcing, generate new demands of financial products and services for SMEs that large banks are better able to provide.

There are opportunities of exploring scale effects, synergies, and linkages. Using the relationship of the SMEs with banks large corporate clients bank can go for cross selling opportunities. Bank can offer customized bundle products, fee based services, advisory service, software service to the SMEs that usually they don't have. This way bank can broaden their income generating areas and diversify risk in terms of lending to a new type of firms and deriving income from non-lending activities. This also limits the burden that lending imposes on banks' limited capital.

As per Policy Research Working Paper on Drivers, Obstacles, Business Models, and Lending Practices of Bank Financing for SMEs around the World, the survey includes a number of questions related to how banks perceive the SME segment. Figures show that most banks (80% or more), independent of where they operate and of their ownership type, perceive the SME segment to be big and with good prospects. In terms of drivers, it reveals that the perceived profitability of the segment is the most important driver for banks' involvement with SMEs. 81% of banks from developed countries and 72% of banks from developing countries indicate that this is the most important determinant for their involvement. While private and foreign-owned banks point to the profitability of the segment as the key driver, government-owned banks are less driven by the profitability of the market (only 47% rank profitability as the key driver compared to 83% of foreign and 75% of private banks).

Most banks perceive prospect in SME segment financing is very good. But what are the obstacles in SME segment. There is disagreement regarding the obstacles to SME financing. As per the study mentioned above among banks in developed countries, the top 6 obstacles are Competition in the SME segment (45% of banks in developed countries give the highest rating to this obstacle). On the other hand, among banks in developing countries, the top rated obstacle is the macroeconomic environment (39% of banks indicate this as the top reason impeding their growth in the SME segment). Surprisingly, only 8% of developing country banks rate the legal and contractual environment as the top obstacle. This suggests that perhaps banks adapt to the legal and contractual environment in which they operate by offering instruments that allow them to circumvent existing deficiencies. Government-owned banks rank regulation and the macroeconomic environment as the most important obstacles, while foreign-owned and privately-owned domestic banks rate the degree of competition in the SME segment along with the macroeconomic environment as the most prominent obstacles.

In general, banks in developed and developing countries have a positive perception of government programs to support SMEs. In developing countries more than 70% of banks rate the impact of interest subsidies, guarantee programs, and directed credit program as positive. Regulatory subsidies are less popular with only 47% of banks rating them as having a positive influence. Among, developed countries more than 50% of banks rate government programs as having a positive effect on their involvement with SMEs. Comparing banks by ownership type, reveals some differences in how banks rate guarantee programs. While more than 80% of government and foreign banks rate guarantee programs positively, only 52% of private domestic banks do so. On the other hand, more than 70% of government, private and foreign-owned banks give a positive rating to interest rate subsidies and directed credit programs.

SME Banking – Bangladesh Perspective

Though Bangladesh is an agricultural based country (85% people are living at the village), the Small and Medium Enterprises (SMEs) has been termed as the “engine of economic growth” for Bangladesh and contributing largest portion of the employment. This sector has played a great part in the economic development for an economically challenged country like Bangladesh. In modern concept of SME, they are not only concentrating on low tech, low cost technologies rather they are focusing on non-traditional manufacturing and service sector as well. Indeed, the growth has been aided by many bi- lateral, multilateral and other national institutions who have worked tremendously for the growth of SMEs in the country. Due to Governmental liberal policy and central bank support, banks are playing a significant role but there is still opportunity to contribute more for sustainable development of SMEs.

The purpose of finance in this sector is to bank the “un-banked” micro, small and medium enterprise. SMEs have a significant role in employment generation, poverty reduction and over all economic growth, especially for a developing economy like Bangladesh. SMEs are typically labor intensive industries with relatively low capital intensity and growth opportunity. As such for a country like Bangladesh which is labor abundant and capital scarce, SMEs have a natural comparative advantage. In recognition of the strategic importance of the development of SMEs in promoting industrial growth, employment generation and poverty alleviation the SME sector has been declared as a priority sector in the Government's Industrial Policy 2010 and various measures have been initiated to help maximize the SMEs growth potential.

Bangladesh Bank, IFC, SME Foundation, European Union and different chamber bodies are working a lot to identify the real challenges and opportunities of the SME sector development in Bangladesh. According to the survey conducted by the National Private Sector Enterprise Survey in 2003 there are estimated 6 million micro and SME enterprises in Bangladesh. At the same time, it is also estimated that there are some 31 million people (around 25% of the total workforce) are involved in SME sector. Other data suggest that the SME sector accounts for around 95% of all registered enterprises in the country. SMEs have been identified in the Poverty Reduction Strategy Paper (PRSP) as one of the seven critical sectors for economic growth in a country like Bangladesh. According to the PRSP, the thrust in the SME segment should be on the “modern” SMEs rather than the traditional ones. It is evident in the industry as most of the commercial banks are financing to these modern SMEs.

Small and Medium Enterprises (SMEs) are the single largest industrial sector of the Bangladesh economy. Moreover, sustainable SMEs development of Bangladesh can also role to achieve above vision by 2021. According to vision 2021 of Bangladesh Government, GDP can be raised 8% by 2015 and 10% by 2021. Hence, Contribution of industrial sector mainly SMEs to national GDP can be doubled by 2021. The growth of the manufacturing sector will have to be attained through improvement of existing enterprise and also by creating new ones. SMEs are playing a fundamental role of the economic development and also for furthering growth, innovation and prosperity. In this perspective Government of Bangladesh (GOB) has taken industrial policy 2010 to increase the industry sector‘s share in GDP 40 percent from 28 percent by 2021, with the proportion of the workforce employed in the sector concurrently rising 25 percent from 16 percent of the country’s total labor force. Hence, SMEs can link for over 99 percent of private sector industrial establishments providing job opportunities to around 70 to 80 percent of the non-agricultural labor force, if hinders of SMEs can be removed . In Nepal, SMEs constitute more than 98% of all establishments and contribute 63% of the value added segment. SMEs contribution in Bangladesh Economy:

Aspects	Role of SMEs
National Gross domestic product	25%
Gross manufacturing output	40%
Industrial Jobs	85%
Total labor force	25%
Total exporting earning	89%
Percent of business	Over 95%
Absorbed industrial workers	70% to 80 %

Source: http://beioa.org.bd [16]

SME Banking is growing very rapidly in recent years for economic development. In any country SMEs are holding the majority shares of economy and represent a significant share of employment. SMEs are more financially constrained than large firms and importantly, lack of access to external finance is a key obstacle to firm growth. In most of the countries, there are a large number of initiatives have been taken to foster SME financing including government subsidized lines of credit and public guarantee funds. Furthermore, most of the large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper. The ‘‘conventional wisdom” on SME finance argues that ‘‘supply- side” factors are at the root of the inadequate financing of SMEs. In particular, the way in which financial institutions operate is biased against offering SME financing due to the higher NPL and monitoring cost. Thus, many banks and other financial institutions are not interested in serving SMEs and they think that lending to SME is not profitable.

For not getting finance from Bank or NBFIs, one of the main obstacles is difficult to ascertain the SMEs if firms have the capacity to pay (have viable projects) and/or the willingness to pay (due to moral hazard). This problem particularly undermines lending from institutions that engage in more impersonal or arms-length financing that requires hard, objective, and transparent information to take decision. This problem can be managed by offering relationship based banking. Relationship lending can mitigate opacity problems because it relies primarily on ''soft" information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community in which they operate.

Business models for SME Banking

The Least Development Countries (LDCs) in the east started refocusing their attention on SME to enhance their role in bringing about structural changes in their economy through accelerating bank finance. Most of the Banks have set up separate departments to manage their SME Banking business. In the developed countries, most of the private and foreign owned banks distinguished between small and medium sized business but state owned banks are somewhat less likely to have separate their SME department. The greater number of banks operating both in developed and developing countries have decentralized their selling of non-lending products to small and medium-sized enterprises. Comparing to the foreign and government-owned banks, private commercial banks are somewhat less likely to decentralize the sale of non-lending products. In contrast to sales, banks' loan approval process, risk management, and handling of non-performing loan recovery functions tend to be more centralized particularly in developing country. The financial assessment of the business is the most important consideration across all firms, although it is more important for large enterprise than for small enterprise lending. A firm's credit history with the bank is the second most important criterion, with the owner's characteristics and the purpose of the loan being next in importance.

The differences are particularly striking for loan approval and risk management. Comparing banks across ownership types, government-owned banks are significantly more likely to decentralize loan approval, risk management, and the recovery of non-performing loans. Banks from developed and developing countries are more prone to use scoring models in making decisions regarding small rather than medium-sized enterprise loans.

In developing countries, a higher percentage of banks are not using credit score cards because they tend to operate in less sophisticated markets with less information available about the borrowers. To use the scoring model, adequate information, sophisticated IT system and credit history is mandatory. Foreign-owned banks are somewhat more likely to rely completely on scoring for credit decisions than domestic banks, for both small and medium-sized enterprises. This might reflect that foreign banks have better statistical models and/or have less direct contact with borrowers and, hence, have to rely more on arms-length lending techniques. But scoring is used primarily as one input in the lending decision process. Among banks in developing countries, only few banks are approving small (medium-sized) business loans purely based on scoring & majority portion of banks are using scoring as an input for small (medium-sized) business lending. Among banks in developed countries, maximum banks are using scoring model only as an input into loan decisions for small businesses.

It is observed from various sources, comparing SME to large firm financing for all banks and countries combined, banks are less exposed to SMEs due to the experience of more defaults on loans to these firms and charge them higher fees and interest rates. The share of bank loans to small (medium) firms averages 11% (13%), while banks' exposure to large firms averages 32%. Fees on small (medium) business loans average 1.11% (0.96%), while they average 0.76% for loans to large firms. The share of non-performing loans for small (medium) business loans is 7.4% (5.7%), while it averages close to 4% on loans to large firms. Banks in developing countries tend to provide a lower share of investment loans and to charge higher fees and interest rates.

Conventional model

Most of the banks strategically decided to have the existing Corporate Loan Department also handle the SME lending and the Loan officers make it part of their portfolio. Because of the personalized, community-based nature of the contacts that relationship lending implies, the conventional wisdom argues that it is difficult for large and foreign banks to engage in this type of lending. Moreover, there is the perception that large and foreign banks are relatively less capable of processing and quantifying ''soft" information and transmitting it through the formal communication channels of large/complex organizations for which the headquarters are far away. As a result, the segment has to rely on small or niche banks, which are close to the relevant sector, community, or neighborhood and, therefore, are typically domestic.

Contrary to the perception that banks in general are not interested in lending to SMEs, we find that most banks do indeed want to serve SMEs and find this segment profitable, especially as margins in other banking markets narrow due to intensified competition. In particular, as the public sector and large corporations gain access to local and international capital markets and as competition in the retail sector (among banks and retail chains) increases, banks have greater incentives to incur the switching costs needed to pursue new business in the ''middle" market of SMEs. In this context, SMEs emerge as a strategic sector for most banks—including large and foreign banks, not just small and niche banks. As a result, the SME market in the sample countries has become competitive, yet is still far from saturated.

Strength of the Conventional model: To start the SME business under the existing relationship model has some advantages like lower administrative cost, can develop the market quickly, capable to capture existing market, easier to learn by experience, they can test it first, can lowering the risk by taking adequate collateral like corporate lending.

Weakness: Under the conventional approach, there is no specific policies to run the SME business, time consuming decision making (lengthy procedure), weak monitoring tends to possible bad loans, no training/knowledge for SMEs, just thinking about corporate clients which creates customers dissatisfaction/lots of rejections, big problem with risk department, lack of diversification, they do not know how to evaluate.

Modern Concept/Model

Lending is just one part of a larger overall package that banks provide to SMEs. Banks find SMEs profitable through a combination of services; and this places cross-selling at the heart of the banks' SME business strategy. In effect, banks have developed a wide range of fee-based, non-lending products and financial services for SMEs. These products and services can be very attractive in terms of profitability; in fact, the evidence suggests that lending is not always the main or the first product offered to SMEs and that it is often offered as a way to eventually cross-sell other lucrative fee-based products and services, including payments, savings, and advisory services. Cross-selling is a way for banks to maximize their scarce resource (capital). Moreover, selling products and services to SMEs deepens the engagement of banks with the firms, is part of the efforts of banks to become the principal bank the SMEs engage with, and may thus facilitate increasing the amount of lending to each SME while attracting other clients (like the SME employees, the owners, and their families).

Some of the technologies applied to lending to SMEs (other than relationship lending) benefit from the effects of economies of scale and scope. For example, credit scoring models that rely on statistical properties to assess risk need a large number of clients and loans, which tend to increase with bank size. Also, dealing with large corporations allows banks to reach out and offer loans to good SMEs that have long-term relations with those corporations (thereby reducing principal-agent problems and improving risk management). Moreover, large banks can seize the benefits from scale in supplying non-lending products and services to a large number of firms, taking advantage of their service platforms, technical expertise, and IT and back-office infrastructures.

SME focused banks decided to have the SME lending be handled out of the Retail Division and handled at the branches. To show the market the commitment to this sector, they decided to open up a SME center. Anytime someone would come into the center there would be someone to serve the SME customer.

Strength: For the modern concept of SME, Top management focused particularly on SME segment, set a dedicated platform, well staffing & wider distribution channels, offering good customer service & cross selling, high penetration & loyalty, easy categorization of loans, less rejections due to skilled manpower, well defined product marketing & employee understanding, faster approval process which meet the customer's want, can develop a culture & market perception.

Weakness: To run the dedicated SME, you have to deploy the dedicated manpower for business booking, approval and monitoring which is very costly than the conventional relationship based model. Since the sales executive focuses specifically on the product base lending, as such they have the limited credit knowledge as the product is parameterized. Under this approach, some banks have no clear approval policy which hampers the credit quality.

Why Banks go for SME Banking?

There are so many attractive reasons for Banks to enter the SME Banking market. Perhaps the most important of these is volume as SMEs typically make-up more than 90% of the registered businesses in any country. There are several other reasons as well, however, including:

a) Diversification of revenue: The Bank is not wholly dependent upon revenue from larger businesses or from a consumer market; within the SME sector the businesses are in a variety of industries, so a downturn in a single industry is not felt as sharply.

b) Diversification of Credit Risk: The SME Loans are relatively smaller; the bank has less exposure in the event of default of a single borrower. From a risk point of view the performance of the port-folio is more important that the performance of individual loans. The portfolio is less risky because the customers are in different lines of business, and are not interdependent.

c) Opportunity to cross – sell a range of products: There is huge opportunity to generate revenue by cross selling of multiple products because the business owner is making all the decisions for the business, a call on the business can result in deposit, fee based services, and loan sales to the owner, his family, employees, and the owner's network of contacts. SME business owners are a great source of referrals.

d) Good for the Economic growth of the community: This is the Engine of Growth as the bank makes more loans to local SME Businesses, those businesses can increase their sales, buy more assets, and hire more employees, which in turn benefits more businesses and the community as a whole.

e) High Profit Margin: Typically there is no interest rate restriction for the SME lending and Banks earn more by taking higher interest and fees against SME lending. Though there is higher administrative cost but banks can manage that cost by ensuring the quality of asset, cross selling and mobilizing low cost deposit

f) Incentive from Central Bank: In Bangladesh, general provision for SME lending is only 0.25% comparing to the large corporate (1%) and consumer lending (5%), classifying SME loans up to Tk 1 million after 180 days instead of 90 days and allowing refinance facility @5% interest which help to lowering the cost of fund as well as cost of capital.

g) Incentive from SME Foundation: SME Foundation is working hard for SME sector development. They are educating customers to make them bankable by extending training & awareness building program like seminar, road show product display etc. and offering low cost fund @4% for lending to the manufacturing concerns as well as cluster development.

What SMEs Want?

SMEs largely are looking for reliability, flexibility and convenience. In particular:

a) Relationship with the bank: The SME is willing to make an investment to get this and in many way is looking for an enhanced relationship,. The bank and the banker are sources of advice and education. The bank and the banker are sources of advice and education on financial matters for the SME.

b) Reliable and consistent availability of credit: In the west banks tend to route staff more than the business owner would like. SMEs want a bank /loan officer who understands the risk and opportunities of the business, so that the business owner does not have to explain this again and again (and re-incur the fixed cost of establishing the relationship).

c) Quick, local decisions: SME planning timetables are often quite quick – loan funds are needed immediately, and a long decision time is a major problem. The closer to the client that the decision is made (few approval levels) the faster the decision can be made.

d) One size does not fit all: SMEs need a banker who can recognize credit needs and provide appropriate credit. There should be flexibility in bank products to meet client needs.

Definition of SME

The central bank has come up with a new definition for small and medium enterprises in line with the government's industrial policy of 2010 vide their circular no. SMESPD/01 dated June 19, 2011. The summery of the definition is as under:

Sector	Trading/Services	Manufacturing
Micro & Cottage	Fixed Assets: Below Tk 0.5 Million & Staff 1-10	Fixed Assets: Below Tk 0.5 Million & Staff 10-24
Small Segment	Fixed Assets: BDT 0.5 Million - BDT 10 Million & Staff 10-25	Fixed Assets: Tk 5 Million– BDT 100 Million & Staff 25-99
Medium Segment	Fixed Assets: BDT10 Million – 150 Million; Staff 50-100	Fixed Assets: Tk 100 Million – 300 Million & Staff 100-250

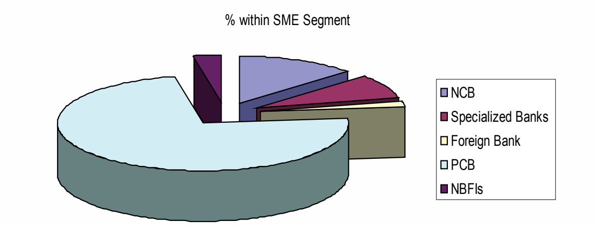
Note : Fixed Assets excluding land & building. And definition conflict between cottage and micro industry will make the entity a micro enterprise. A woman, who owns a private firm as the proprietor or she holds 51 percent stake in a private firm run jointly or registered with Joint Stock Company, will be treated as 'women entrepreneur.'

Bank & NBFI information of Bangladesh

In Bangladesh we have 5 (five) category of Banks & Non-Bank Financial Institutions. As of December, 2013, the total SME loan outstanding comparing to the total portfolio of various categories is appended below for your information:

Tk in crore

Bank Category	Total Loans	SME Loans	% of SME Loans	% within SME Segment
NCB	84,039.89	15,445.43	18.38%	13.32%
Specialized Banks	31,213.60	9,269.20	29.70%	7.99%
Foreign Bank	23,853.26	2,265.08	9.50%	1.95%
PCB	3,15,328.57	85,333.22	27.06%	73.65%
NBFIs	31,449.30	3,571.94	11.36%	3.09%
Total	4,85,884.62	1,15,884.87	23.85%	100%



As on December, 2013, the overall industry portfolio of SME Banking was Tk 1,15,884.87 crore approximately, which is about 23.85% of the total outstanding balance of the industry loans and advances, i.e Tk. 4,85,884.62 crore. The overall percentage of banks' exposure on SME Banking is increasing which is going to create saturation and Bank wise SME loan disbursement Target & Achievement for year 2013.

Figure in (BDT) crore

Nature	Loan Disbursement Target- 2013	Loan Disbursement Achievement-2013	% of Achievement
State owned Banks	5,820.02	5,147.92	88.45%
Specialized Banks	5,565.00	3,690.36	66.31%
Foreign Banks	13,56.46	1,187.04	87.51%
Private Commercial	58,973.72	73,411.89	124.48%
Non-Bank Financial Institutions	2,471.67	1,886.04	76.31%
Gross Total	74,186.87	85,323.25	115.01%

In the year 2013, the overall target of SME Loans was Tk. 74,186.87 crore and the achievement in terms of loan disbursement was Tk. 85,323.25 crore, where the achievement was 115.01%.

SME Classified Loans as of December, 2013:

Category of Banks	Total Loans	SME Loans	Total SME CL outstanding	% of CL with SME Loans
State owned Banks	84,039.89	5,445.43	2,656.88	17.20%
Specialized Banks	31,213.60	269.20	1,281.53	13.83%
Foreign Banks	23,853.26	265.08	226.81	10.01%
Private Commercial	315,328.57	5,333.22	4,567.02	5.35%
Non-Bank FI	31,449.30	571.94	420.69	11.78%
Gross Total	485,884.62	15,884.87	9,152.93	7.90%

Issues to be considered for SME lending:

There are some issues for lending to SMEs, and these must be addressed for sustainable SME business. The issues may be discussed as under:

a) Cost to serve: The cost of analyzing an SME loan is the same as analyzing a large loan. Since this cost of lending is fixed, large loans are relatively more profitable. This can be addressed through changing analysis procedures and expense control by adopting credit score card model or deploying dedicated SME Credit Risk officers under Risk Management department.

b) Less information available: The smaller the business, the less likely it is to have audited statements and important information is often in the owner's head. Trained Loan officers can mitigate this problem by preparing financial statement using entrepreneur's sales register. This is addressed by using substitutes for formal financial statements.

c) Higher failure rate for small business: While this is generally true, failures are more common at startup (within the first three years of the business life). However, the bank can avoid this problem by not lending to start up business. However, under the credit guarantee scheme bank can finance to start up business.

d) Higher Interest rates are counterproductive: SMEs are willing to pay higher interest rates to cover the additional costs. However, if the interest rates are raised too much, the better businesses may (not the worse businesses) drop out and portfolio becomes riskier. If the SME entrepreneurs use the fund efficiently then they can minimize the cost at significant level.

Recommendations

SME business is not rocket science. Any Bank or Financial institution having clear vision & strong will can successfully perform SME Business. To establish successful SME operation, bank may adopt following measures:

Board and Top Management's Support – Financial and non-financial resources: Firm support from the Board & top management is required to set up dedicated SME department in structured way. Clear understanding from the top level management is very important. Posses a clear, well- defined strategy that is supported by key members of the institution is key success factor to set up the structured SME.

Demonstrated commitment throughout the senior level: Since the model is top down approach, the senior level management is well aware of the mission and vision. They should have adequate knowledge to run the business. They should review the progress time to time. Senior management should have clear understanding about the SME market, where the bank plans to operate.

Dedicated Relationship Team/Division: There should be dedicated Sales (may be contractual) & Relationship team to serve the SME customers. They solely work for SME no other works of the branch. They may sit in the branch with separate reporting line to SME Unit Head/SME Head rather reporting to Branch Manager.

Selling Versus Risk: Bank intended to do SME business, should develop the appropriate lending as well as depository products for SME customers. SME Head will ensure selling of appropriate products effectively. As there is aggressive sales model, hence bank must establish a good credit control team (SME Risk) under Credit Risk Management. This risk team can ensure the qualitative growth. Side by side strong credit monitoring is important to manage the risk effectively.

The strategy must fit within the bank's overall strategy: There must be a real commitment from the Board and management. There should be a stable and profound support from the Board and Management for an extended period of time throughout the design, testing and implementation of the process. In addition to the financial resources, other resources need to be prioritized as well –e.g. allocation of staffing, systems, training.

Strong MIS: To run by a sales team approach there would be a lot of people, products, segmentation within the SME division. To measure success, failure, quality and profitability bank must have strong MIS support. To ensure this state of the art IT platform is mandatory.

Centralized vs decentralized credit approvals: To have better credit control centralized approval system bank more effective. In a bank under centralized platform it is possible. But for bank within small to moderate size it is possible. For large banks, especially the State owned banks, it is very difficult to standardize centralize process. In those banks regional approval process would work well. Centralized approval process may sometimes become lengthy if there is limited manpower comparing high volume of submission.

Separate marketing from credit risk: The best practice is separate marketing team from the credit risk department. There should not be any approval authority under business unit. Because business unit has a target and there is scope of compromise if they have the delegation for approving loan.

Dedicated Credit Administration & Collection Team: Bank should have separate Credit Administration Department who will complete the documentation without any compromise and ensure disbursement after completing 100% perfection of documentation. Dedicated collection team will ensure timely repayment by the customer. They should demonstrate proactive attitude in collection to manage the portfolio quality.

Separate small business and medium business: Approach to small enterprise is not similar to the medium business. Generally, Banks offer lending product (term loan) to the small business and relationship based approach offer to the medium business. To satisfy the different segment customer, Bank should separate the small from medium business. Medium business client is handling like corporate customers; small segment is terminating in nature.

Focus on getting ample data to make a good decision: Vintage analysis and detail information of the borrower, market as well as the related industry will help to take prudent and prompt decisions. Credit related information is available from central bank through CIB and one can obtain detail information from the market.

Focus on cost effectiveness: Bank should ensure the cost control. Since the small segment loan is supervisory credit in nature and huge administrative cost involves there to manage the portfolio. Hence cost control is the vital part to make the segment profitable.

Team approach: A team approach is very important to serve better to the SME customers. SME customers are very sensitive and want very faster service. If team cohesiveness is prevail across the process then it will be easier to serve the customers which establish more customer loyalty.

Linkages with other areas of the Bank (consumer and corporate) and through value chain: Supply chain and value chain with corporate and consumer will ensure the bank's to get more profit and to support the all customers under the value chain.

SME Banking as Focus for growth: Since the corporate clients are very limited and a new corporate house cannot grow overnight. Due to main focus on lending corporate business by most of the banks, growth prospect in this segment is now very low. But in SME banking, growth prospect is still in very high trend. Banks should focus more in SME Banking. Even a big part of SMEs in Bangladesh are still un-banked. If SMEs get proper attention from banks they will grow as corporate clients.

Focus on the liability side: Most banks' SME Banking usually focuses only on SME lending side and ignores the liability side. Bank should focus on deposit/transactional account of the SME customer which will help to mobilize low cost deposit. The balance growth of asset and liability improve the profitability of any bank's SME department.

Primary screening: There should be primary screening process which helps faster disposal process and also reduce the processing cost. Credit score card can help in this regard.

Alternative Distribution Channel (ADC): SME customers want faster decision and service. To serve the SME, alternate distribution channel is very essential. Some banks manage the huge customers through call center. Though it is critical but if it can be managed efficiently, it will create value to differentiate one from others.

Industry Specialization: Segmental approach needs specific expertise in particular sector. To serve the particular cluster/industry, proper training on the specific industry is essential. If RM (Relationship Manager) has the adequate knowledge on the particular industry, then he can extend advisory support which help to build stronger relationship.

Standard products with limited flexibility: Bank need to standardize the products for lending as well as deposit. SME customers prefer standard product. Bank can also offer bundling and packaging products to serve the SME customer as per their requirement.

Pro-active sales approach: A few customers come to the bank for their requirement. The modern concept suggests the Hunter-Farmer model. The sales executives will go to the SMEs to assess their needs and offer banking solutions. Relationship managers can manage the existing clients by sitting in the branch. Pro-active sales approach will help the sustainable growth with stronger relationship.

Building the commitment needs to be managed through effective communication and participation. In addition, it will be critical to have the support of other areas of the Bank such as HR, IT, Legal etc. It is important to have these areas involved early on as part of the design process to aid in the design and build commitment.

Again, it has been demonstrated that having strong leadership and commitment at the head of the SME banking is completely critical. This person(s) will need to drive the process to ensure success. There must not be competition between units and divisions in the bank. It should be clear which market the SME sector/unit will focus on.

A key stumbling block at many banks is getting the commitment of the Risk Department. This is especially true for SME lending as the risk criteria will be different from what the bank may used to. Senior staff throughout the bank, such as Branch managers, should have their responsibilities clearly adjusted to include the activities of SME Banking, as it relates to them individually. It is even better if compensation is tied to performance and linkages with the SME Banking.

Showcasing the Success Story of Eastern Bank Limited:

With a vision to become the bank of choice and to be the most valuable financial brand in Bangladesh, Eastern Bank Ltd. (EBL) began its journey in 1992. Over the years EBL has established itself as a leading private commercial bank in the country with undisputed leadership in Corporate Banking and a strong Consumer and SME growth engines. EBL's ambition is to be the number one financial services provider, creating lasting value for its clientele, shareholder, employees and above all for the community it operates in.

To ensure long term growth prospect of the Bank, Honorable Board of Directors of Eastern Bank Limited has approved to launch Small Enterprise [SE] financing with following objectives since July, 2006:

- To enter into vast and untapped customer segment with structured lending process
- To increase lending in Small Business segment for sustainable asset growth
- To earn high interest margin
- To increase fee & commission by offering cross selling activities
- To avail the benefits of SE development funds
- To increase the diversification of Bank's overall credit risk

Although the SE market is not totally new to EBL, but a generalized lending policy and traditional products could not bring much success in this segment. The management realized the opportunities exist in the segment and thrived for a proven SE financing model for long term growth prospect. In June 2005, EBL responded to the Technical Assistance (TA) offered by SouthAsia Enterprise Development Facility (SEDF) for establishment of Small Enterprise Financing Model at EBL by Horus Development Finance (HDF), a leading French consulting firm (who implemented the SE Financing model in Eastern European Countries under kfw the German Development Finance Organization). With their (HDF) assistance, EBL has developed the following in order to enter in to the SE Financing:

a) SE Credit Policy & Process
b) SE Credit Products and Program Guides
c) Credit Appraisal Manual
d) Human Resource Guidelines for SE lending officers

EBL started it's structured SME operation through only 9 (nine) SME centers by appointing 34 employees including sales executive. There is dedicated business team who are calling to the clients, preparing the proposals, managing the portfolio under relationship manager concept. After preparing the proposal, the business team send the same to the Credit Risk Management Department (CRM) centrally. Under CRM, there is a dedicated team work only to assess the SME proposals. In the branch/region, there is no delegation, rather the proposals assess and approve centrally.

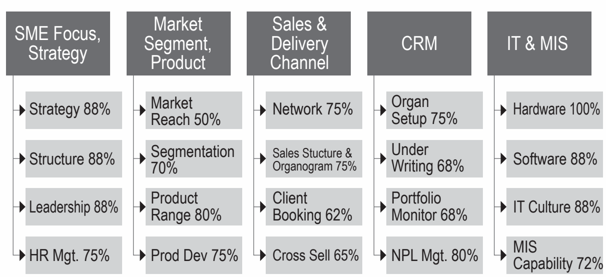
After approval, the same will be sent to the Credit Administration Department who are responsible to complete the documentation perfection, limit loading and disbursement. CAD specialized team is dedicatedly work for SME.

Collection responsibility is lying with Relationship team up to 90 days of the past due loans. After 90 days, the file transfers to the Recovery team for taking legal action as well as for negotiation. EBL has introduced 14 lending and 3(three) depository products to meet the SME customer's demand. You can visit the website of EBL to get the detail information. EBL website: www.ebl.com.bd.

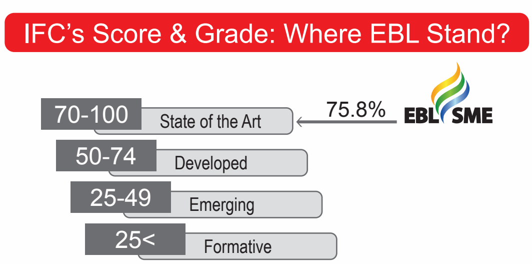
The success story of EBL SME Banking is directly tied with the growth of its customers. EBL wants qualitative and sustainable growth in SME unit. EBL always try to serve their customer with world best services with zero tolerance in delivering services to their clientele as like their strategy with the 'beyond lending' approach. This approach is to serve the client not only in financial services but also to serve them in need based approach.

SME Business is based on the self dependent model, where it is expected that the lending will be made from funds sourced by SME Liability Team. Now a day's SME Banking is not only confined in lending solution but also involves self sufficiency in business i.e. SME now want to mobilize deposit as well as to lend in the same pace without being dependent on other segment of the Bank for fund management.

In the year 2013, SME Banking has strengthened it foothold by ensuring portfolio growth while maintaining quality of assets. The new provisioning arrangements for all types of loans created a negative impact for the short-term on the profit margin of the commercial banks, but it will bring greater benefits to the economy in the near future. EBL SME Banking has proved it's strength to manage the port-folio in a good manner.



81%	69%	69%	73%	87%
EBL Score	75.8%	State of the Art Bank		100%



Strength of EBL SME identified by IFC

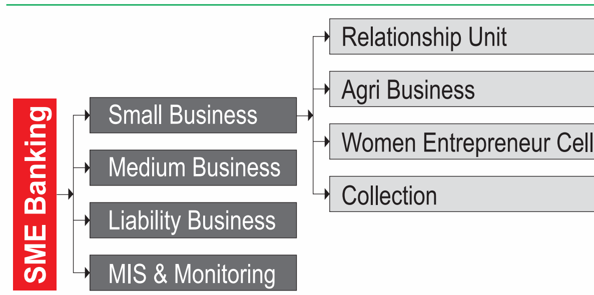
1. Credit Culture: EBL has a strong credit culture. From the top, the CEO sets the tone by emphasizing the need to focus on strict credit granting criteria and pro-actively focuses attention on any credit segments that show indications of rising NPLs. The message has been to grow the portfolio only as long as the general high credit quality can be maintained. In the annual report, the top listed strategic priority is to 'focus on asset quality'.

2. Organization and Management Team: There is a logical organizational split between retail (Consumer and "S" SME) and larger loans (Corporate and "M" SME) that enables different skills and different systems to be applied based on the size and complexity of loans. Further, the centralization of the credit functions seems to work well for EBL in building a high quality portfolio with uniform credit analysis and strong oversight and controls. Some credit decisions might take a little longer using this centralized model but for now, with the current size and composition of the portfolio, the structure works well. The management team has very strong credit experience and is able to provide the required oversight of credit risk management.

3. Reporting: The MIS system enables segmentation of loans in various categories and provides inputs for reports that give adequate information and analysis of performing and problem loans. For instance, the quarterly 'Portfolio Watch' report is a clear and comprehensive exposition of the composition of the portfolio of both performing and non-performing credits, including trends. It provides a good use of the available data to provide an overview of the quality of the portfolio and concentrations. However, as discussed more below, the richness of the analysis can be further improved by increasing the amount and type of data being collected and performing stress tests.

4. Policies and Procedures: EBL has a comprehensive credit policy and an operations manual. The policies are well written and appear effective in directing sound credit risk practices, including loan restructuring and collections, within EBL.

To ensure access to finance with innovative financial solutions, EBL SME Banking has been divided into 3 (three) segments i.e. Small Business, Medium Business & Liability Business. There are some sub-divisions within the Small Business i.e. Small Segment unit, Women Entrepreneur Cell, Agri loan unit & Recovery unit. In addition to above we have a MIS team and an independent monitoring department at Head office level. Every business Unit has separate segmental Head. The present organizational structures are as follows:



Acknowledgments

- Robert Patterson- SME Banking Expert, Canada
- Imran Bashir - SME Consultant, Pakistan
- Mathew Hanna – SME Banking Expert, USA
- Md. Ashraful Alam- Deputy General Manager, Bangladesh Bank

References

1. *The SME Banking Knowledge Guide, IFC Publications*
2. *Bank Financing for SMEs around the World by Thorsten Beck, Asli Demirguc- Kunt & Maria Soledad Martinez Peria (November,2008)*
3. *Bank Involvement with SMEs: Beyond Relationship Lending, Journal of Bank & Finance 34(2010)2280-2293, www.elsevier.com/locate/gbf*
4. *IFC /WBI SME Banking Training Program by International Finance Corporation*
5. *Some Issues on SME Finance in Bangladesh by Dr. Salehuddin Ahmed, Governor, Bangladesh Bank*
6. *Proposed Research Direction for Sustainable SMEs in Bangladesh by Md Mamunur Rashid*
7. *Problems and prospects of SME Financing in Bangladesh by Md. Shahnur Azad Chowdhury, Kazi Golam Azam & Serajul Islam, Asian Business Review, Volume 2, Number 2/2013 (issue 4)*

IDLC Finance Limited

financing happiness

Selim R. F. Hussain

Managing Director & CEO, IDLC Finance Limited

Mr. Selim R. F. Hussain is a career banker, with an Honors degree in Accounting from Dhaka University and an MBA (Major in Finance) from the Institute of Business Administration, also from Dhaka University. Mr. Hussain worked in various roles with the two largest multi-national banks in Bangladesh, ANZ Grindlays Bank and then Standard Chartered Bank, for twenty four years, before moving to the IDLC Group in 2010. Mr. Hussain was the CFO for Standard Chartered Bank, Bangladesh, from 2002 to 2007. He has resided in and worked in India and Australia for significant periods of his career and prior to taking over the helm at IDLC Finance Limited, was the Head of Finance & Strategy for Standard Chartered Bank's Consumer Banking Division in Mumbai, India.

Mr. Hussain has been IDLC Finance's Managing Director since January 2010. He was also the Chairman of IDLC Finance's two wholly-owned subsidiaries, IDLC Investments Limited and IDLC Securities Limited from 2010 to 2012 and is currently a Board Member of those two cos. Mr. Hussain is the Vice-Chairman of the Bangladesh Leasing & Finance Companies Association (BLFCA), a post he has held since 2012.

Seminar Paper-2

Sustainable Business Model for SME Financing (NBFI Perspective)

- Selim R. F. Hussain, Managing Director & CEO, IDLC Finance Limited

The importance of the SME segment as a driver of GDP growth, job creation and poverty alleviation is recognized across all disciplines; this is particularly relevant for developing economies. SME entrepreneurs have to be much more flexible and creative than large corporates to survive and those that do, naturally, provide impetus to innovation across the globe.

A study conducted by Bradley University and the University of Tennessee has shown that 25% of start-ups are shut down within the first year of establishment. No experience in record-keeping, poor credit granting practices, over expansion and lack of knowledge of suppliers have been identified as the major reasons for failure.

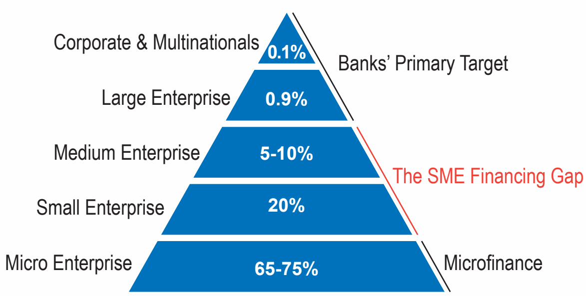


Figure 1: Typical Business Landscape in Emerging Economies

The main challenges faced by Financial Institutions in servicing SMEs are cited as an inability to provide collateral security, inadequate documentation and unstructured business planning. Higher interest rates for SME lending, along with stringent collateral and guarantee requirements, are considered major barriers SMEs face when trying to access finance. In fact, most Financial Institutions generally do not provide any credit to new borrowers. As a result a large number of entrepreneurs remain underserved by most financial sectors.

SME Financing – A sustainable revenue stream

While it is true that the success rate of the small enterprises are empirically lower and many entrepreneurs exit the market every day, there are also many successful SMEs with excellent growth prospects. In many cases, SMEs can react faster to changes in market dynamics. At IDLC, we believe the key towards being successful in this arena is to nurture a relationship with the SME entrepreneur – a relationship that extends 'beyond business'.

Mostly proprietorship concerns	Growth hungry	Proven resilience	Fast decision Making
Innovative	Low cost-structure	Little or No Collateral To Offer	Poor Book Keeping
Low Bargaining Strength	Key Person Dependency	Influence of Seasonality	Geographically dispensed

Figure 2 Typical Profile of SMEs in Bangladesh

IDLC's SME Division is based on sound commercial justification and goals. This is a business which we started back in 2006 and in which we have found a particular niche. We have found Bangladeshi SMEs to be growth hungry, innovative and resilient. Most importantly, they value trust and respect, the same core values on which IDLC Finance functions.

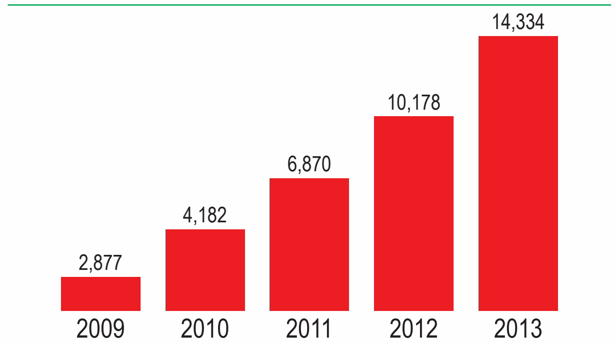


Figure 3: IDLC SME Loan Portfolio in BDT Millions

The IDLC SME Division was conservative in its formative years as management and staff took time to understand how the sector operated and which services SME clients truly value. IDLC's SME asset portfolio was BDT 1,758 Million at the end of year 2009. As of 31st December 2013, SME portfolio at IDLC grew to BDT 14,334 Million. The SME Division represented just 19% of the company's total customer advances in 2008; by 2013 this figure had doubled! IDLC's Non-performing asset ratio was 1.59% at end 2013 – easily one of the best, if not the best, in the country.

Building Blocks of a successful SME Financing Model

IDLC's business growth in the SME segment is based on a sustainable business model that is now tried and tested over an eight year period. It is a model that is flexible, stretchable, scalable, profitable and future ready. The key elements of this model are people, product, process and technology. By isolating our focus specifically in these aspects with the basic objective of making life easier for clients, we have been able to move forward with strong momentum every year.

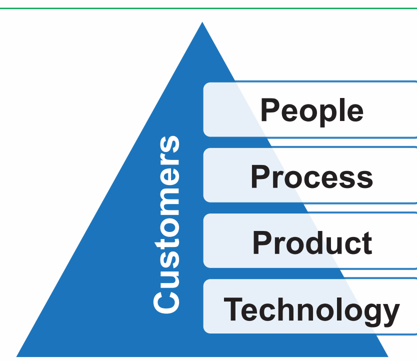


Figure 4: Building blocks of IDLC SME

We recognize that customer-centricity is essential to the pursuit of the SME opportunity. The SME customer wants a relationship with a Bank/FI; a relationship that will offer them sound, trustworthy advice on products and services, along with a range of other issues. In other words, the FI has to act like an advisor, as well a friend. Our experience suggests a strategy based on price alone will not deliver a sustainable advantage, but one based on a strong relationship results in a more resilient customer base that is extremely loyal. Building relationships require front-end staff that are motivated and committed to the company. At IDLC, we focus on employee motivation and capacity enhancement, through various employee engagement programs and training sessions. Our organization structure and work-processes are designed to ensure that employees take greater ownership for client relationships and customer service. We heavily empower our people to ensure that they can respond to customer needs quickly and this, in turn, helps motivate them to do more business.

One must understand the SME client if one is to cater to his needs. At IDLC, we focused on five areas whenever we provide financing solutions to SME clients

- Customized repayment opportunity – Many SMEs are affected by variants caused by seasonality. As a result, cash flow crisis is a common issue across SMEs. Our products are tailored in such a way so that the customer is sheltered during periods when cash flow is at a premium.
- Sector specific products – Over the years, we have worked hard to understand particular sectors and businesses. Our products are adjusted and priced, based on the nuances of these industries.
- Flexible in Credit Assessment – Our credit managers are friendly and down-to-earth and directly interact with clients. They are empowered to respond to client needs.
- Flexible collateral system– Collateral is of secondary importance to us – our focus is the cash flow, the 'ability and willingness to repay'.
- Simple documentation – Our loan application form are simple and easy to complete. IDLC SME's endeavor has always been to make life simple and easy for our valued clients.

The financing needs of SME clients often tend to be unpredictable. Market volatility dictates their business making decisions. In most cases, they require funds urgently, perhaps owing to their unstructured business model. Our process flow is flexible and efficient, providing simple, quick and hassle free service delivery, making the lives of SME clients easier. Strong relationship with the client, along with superior service quality has helped us maintain extremely low client default and attrition rates.

IDLC is the only NBFI in Bangladesh to use an internationally recognized banking platform. Leveraging the power of this core banking system, our on-ground team extensively utilizes business analytics and develops insights for business growth and portfolio management.

Challenges for NBFIs in SME Financing

The SME business does require scale and commitment of resources and investment. At initial stages, such investment can be difficult for smaller companies to commit to.

Often NBFIs struggle to finance SMEs, since they cannot offer transactional accounts and trade finance. Product innovation is therefore key to supporting the client's cash conversion cycle.

Expanding the geographical coverage to serve more clients is another challenge faced by NBFIs. Almost all NBFIs in Bangladesh are urban centric, with only a limited number of branches in rural areas. Thanks to the rapid advancement made by the financial sector over the last decade, SMEs in the urban areas are well served. The financing gap is greater in semi-urban and rural areas of the country. NBFIs have almost little or no footprint in such areas. Coverage can indeed be extended with less cost intensive distribution points such as SME branches, booths and kiosks.

The Way Forward

The SME sector is very dynamic, with many new SMEs entering and, unfortunately, exiting the market every day.

SMEs in our country encounter many challenges. They are geographically dispersed all around the country and FIs often struggle to cater to these entrepreneurs due to their limited reach. Moreover, SMEs rarely receive products that meet their requirements. Their growth potential is hindered by poor infrastructure (e.g., power, roads, telecommunications etc.) which, in effect, increases their cost structure, thereby making their products less competitive. Their lack of knowledge on product innovation, talent management techniques, lack of access to technology prevent them from reaping the benefits of globalization.
The issue of unorganized structure and geographical diversity can be handled by creating 'clusters' or 'specialized SME zones' with appropriate infrastructure support and providing incentives for the SMEs to be part of those 'clusters'. The incentives can come in the form of reduced time for regulatory approvals, continuous supply of essential utilities and lower interest on credit etc. These can be 'packaged' in the same way as industries in EPZs are supported.

As far as infrastructure is concerned, the government should prioritize the supply of the basic inputs to SMEs, especially those that are in the export sector. Lack of supportive infrastructure not only discourages existing SMEs, but also deters potential new entrepreneurs.

Finally, if the SMEs of Bangladesh are to grow and remain competitive, they need access to market information. The Government can collaborate with trade bodies to arrange national and international fairs and exhibitions. SMEs can also be offered training & assistance from the government agencies/ relevant ministries on R & D, technology up-gradation etc.

From a Financial Institution point of view, we believe there are significant opportunities in the SME market space. There is an enormous chunk of the market that is grossly underserved. The nature of the economy in Bangladesh is such that SMEs will continue to grow, most likely at a percentage higher than the national GDP. Serving this thriving sector will not only offer a sustainable and profitable revenue stream for the Financial Institutions, but will also contribute to the country's overall developmental goals.

Discussants' Comments

Dr. Momtaz Uddin Ahmed, Professor of Economics, University of Dhaka

Dr. Fahmida Khatun, Head of Research, Center for Policy Dialogue (CPD)

Syed Mahbubur Rahman, Managing Director & CEO, BRAC Bank Limited

Sukamal Sinha Choudhury, SME Faculty Consultant, BIBM

Asad Khan, Managing Director, Prime Finance & Investment Limited

Dr. Momtaz Uddin Ahmed
Professor, Department of Economics
University of Dhaka

Discussant's Profile

Dr. Momtaz Uddin Ahmed is an eminent Professor at the Department of Economics, University of Dhaka, a premier public university of Bangladesh. He is a very senior professor and a reputed researcher since many years. Professor Ahmed has formerly been a Member of the Bangladesh Planning Commission and Director of Research, CIRDAP, an intergovernmental organization headquartered in Dhaka. He also served as the Member of the Board of Directors, Bangladesh Bank, Chairman of the Board of Directors, Rupali Bank Ltd, Member of the Board of Directors, Small and Medium Enterprise Foundation and also the Member of Board of Directors, Palli Daridro Bimochon Foundation in different tenures.

SME development is a subject on which Professor Ahmed is specialized and has frequently published on its different aspects in scholarly journals in Bangladesh and abroad have always been at the centre of his research agenda.

COMMENTS ON THE PAPERS PRESENTED AT THE SUSTAINABLE BUSINESS MODEL FOR SMALL & MEDIUM ENTERPRISES

Sustainable SME development is currently at the center stage of policy discussions in Bangladesh. The SME Foundation deserves commendations for organizing a very timely seminar on the subject of "Sustainable Business Model for SME Banking". I congratulate EBL and IDLC for making presentations on this all important subject which remains a contentious issue for long, inviting continued debates for finding a sustainable solution.

Both presentations are thought provoking and highly stimulating to arouse scholarly debates towards finding a sustainable solution of the SME financing problems in Bangladesh.

A notable theme commonly featuring in the two presentations is a welcome change in the perception of the formal sector financial institutions about high growth potentials of the SME sector and the high perceived probability enticing banks to invest in the sector as a source of revenue earning. This is in stark contrast with the long prevailing conservative attitude of the banks towards positive SME segment. A reflection of this notable change in the mindset of the bankers should facilitate greater flow of investable funds to the SME sector and act as a booster to their sustained growth and dynamism.

The IDLC management seems to be overtly candid about targeting the SME sector as a vibrant market segment offering tremendous opportunities for sustainable and profitable revenue streams. The EBL paper also talks enthusiastically about SMEs to emerge as strategic targets for earning high returns on investments. At the same time, cautions are urged about the obstacles involved in SME financing, especially through using the conventional unmovable collateral based and profit seeking approach practiced by the commercial banks, based on narrow product based direct lending methods.

Instead a modern lending concept is advocated by the EBL presentation which is a "packaged" approach, combining products and services offered through "cross-selling" and "non-lending" of lucrative financial products and services for the SMEs. This proposed new approach to serve the SME clients is expected to broader the client base, increase overall SME lending and enhance banks profitability and revenue earnings. While profit maximization is certainly the thumb rule for commercial banking, the guiding principle should be to reduce costs by increasing efficiency which is to be determined by the principle of "revenue minus profit" as against "revenue minus costs".

Both presentations emphasis "aggressive sales" efforts accompanied by good credit control and efficient risk management techniques. However, the vital element underlying development of a sustainable SME Financing Model is to create a strong SME client base through continuously nurturing intimate relationship with the SME entrepreneurs, a relationship extending "beyond business". The model being practiced by IDLC in this regard follows the principle of "customer centricity" to meet the demand side problem through appropriate supply side responses.

Based on the five principles of flexibility, sale ability, profitability and future readiness the IDLC SME Financing Model practices simple documentations, sector specific product delivery, flexible credit assessment techniques, flexible collateral system and flexible repayment procedures which have fostered rapid expansion of SME assets portfolio and total customer advances.

In contrast, the EBL model appears to be preoccupied more with supply side issues designed to ensure bank's revenue and profit maximization, ignoring present demand side issues (i.e. SME scale barriers and their characteristics disabilities to access bank credits) which often prohibit them to access formal credit markets.

Further, sticking to traditional collateralization methods, inadequate decentralization of SME lending practices including approval, collection, recovery and risk management etc. may frustrate the desired results obtainable from sustainable SME Financing Solution Model.

Dr. Fahmida Khatun
Research Director
Centre for Policy Dialogue (CPD)

Discussant's Profile

Dr. Fahmida Khatun is the Research Director and Head of Research at the Centre for Policy Dialogue (CPD). She has accomplished Masters and PhD in Economics from the University College London (UCL). Prior to joining CPD she worked as a Research Fellow at the Bangladesh Institute of Development Studies, as an Environment Specialist for the United Nations Development Programme (UNDP), and as an Economist for the USAID Mission in Bangladesh. She also taught economics at universities in Bangladesh and England. She was a Visiting Fellow at the Christian Michelsen Institute (CMI), Norway in 1994. She received fellowship of the Asia Foundation and conducted research at the Korea Institute for Industrial Economics and Trade (KIET), Korea in 2012.

Dr Khatun sits regularly in various policy-making bodies of the government. She was a Director of Janata Bank Limited during 2008-2011. Dr Khatun has been a member of several government bodies including the following: Advisory Committee on Services of the Ministry of Commerce, Expert Committee on Identifying the Environmental Goods in Bangladesh, Ministry of Environment and Forest, National Steering Committee on Evaluation of the Implementation of Paris Declaration, Phase II, Aid Effectiveness Unit, and Economic Relations Divisions.

She was a member of the government delegation to the United Nations Conference on Sustainable Development (UNCSD) Third Preparatory Meeting and Rio+20 Conference in 2012 in Brazil.

Dr Khatun has undertaken research for several international organizations author of several articles and research papers published in Bangladesh and abroad.

Syed Mahbubur Rahman
Managing Director & CEO
BRAC Bank Limited

Discussant's Profile

Mr. Syed Mahbubur Rahman, Managing Director & CEO of BRAC Bank Limited has been in this position since June 2010. Before that he served as Deputy Managing Director of the Bank. Prior to joining BRAC Bank, he served with Prime Bank as the Deputy Managing Director. He also worked with IDLC Finance, Standard Chartered Bank, ANZ Grindlays Bank and Citibank in different capacities. He started his career with Saudi Bangladesh Agricultural and Industrial Investment Co. (SABINCO).

Besides being the Managing Director & CEO of BRAC Bank Limited, he is also the Director of BRAC-EPL Investments, BRAC-EPL Stock Brokerage, BRAC Saajan Exchange (FSA, UK), bKash (mobile financial service), BRAC IT Services Limited (biTS), Industrial and Infrastructure Development Finance Company (IIDFC) and The Bangladesh Rating Agency Limited (credit rating agency). He has over 25 years of experience in Banking & Financial Institutions. During his banking career, he attended numerous trainings, seminars and workshops on different aspects of banking held in the country and abroad. He is also the President (2012-2013), Rotary Club of Metropolitan Dhaka.

Mr. Syed Mahbubur Rahman obtained MBA from Institution of Business Administration, University of Dhaka.

COMMENTS ON THE PAPERS PRESENTED AT THE SUSTAINABLE BUSINESS MODEL FOR SMALL & MEDIUM ENTERPRISES

Financing the small and medium enterprises (SMEs) has become a subject of great interest in recent times. Ali Reza and Selim – colleagues in the industry – have succinctly presented overview of SME Banking in their papers and have outlined the required steps in making it a sustainable business.

SME Financing for some is a regulatory obligation, for some a simple follow-the-trend practice, but for few – most importantly – is a true business opportunity.

Ali Reza has pointed out very rightly that cross-selling is at the heart of the banks' SME business strategy. On one end, banks have opportunities within the forward and backward network around current large corporate clients; on other end we have varied clients to attract within the SMEs with different solutions.

Selim has identified appropriately that for the financial institutions, the biggest challenge inservice the SME is their inability to provide collaterals and structured business plan. The trick, as Selim pointed out, is to properly understand the SME client and provide a flexible mix of product and process designed around his true strengths and needs.

But the TRUE purpose of finance in this sector is to bank the "un-banked" micro, small and medium enterprise. While both the papers identified this to be a business opportunity, we need to also acknowledge that the 'sustainability' is not only meant for the banks or financial organisations but more for the small entrepreneurs (fondly termed 'SME') and thus the economy.

SME Financing, hence, also makes true social sense – but it needs a bank to step out of traditional banking while balancing its risk factor.

At BRAC Bank, we have experienced consistent business growth in financing SME sector ever since our inception as we had been having over 50% of our portfolio in SME. And we concentrated into the 'small' segment, with average ticket size of Taka 8 lacs or less.

Yes, financing this segment has it's challenges, and both Ali Reza and Selim has identified them in their papers. The biggest challenge for the banks is to extend loans without any collateral to this rather unstructured segment.

But we have seen, with SME portfolio peaking at over 5,000 crore of which 92% is collateral-free, small entrepreneurs generate a sustainable business with double-digit growth almost every year. If banks could embrace the apparently risky, unorthodox small entrepreneurs, address their needs of collateral-free loans with varied financial solutions, we could achieve 'inclusivity' in a true term.

What is more rewarding is that we have seen what change we could bring to these small entrepreneurs. BRAC bank has so far financed over 435,000 SME Entrepreneurs, creating an estimated 1.6 million employment. Independent research has showed that SME Banking has resulted into direct, positive up liftment in the quality of lives. That — as we see — is sustainable financing.

Sukamal Sinha Choudhury
SME Faculty Consultant
Bangladesh Institute of Bank Management

Discussant's Profile

Mr. Sukamal Sinha Choudhury is serving as SME Faculty Consultant in Bangladesh Institute of Bank Management (BIBM) since February 2014, and providing advice and consultancy to SMESPD, Bangladesh Bank (BB). He served different departments of Bangladesh Bank in different capacities since February, 1979. Mr. Choudhury served as General Manager of SMESPD, BB since its inception, and supervised the overall SME financing and promotional activities in Bangladesh. He attended a conference in Denmark and shared experience with the world class SME-Cluster experts. He recently initiated a joint program involving three leading MSME organizations -- NSIC, SIDBI & IamSME of India -- of India in cooperation with the High Commission of India in Bangladesh. He also undertook another joint initiative with CIRDAP to share best practices of SME development among the CIRDAP countries.

Mr. Sukamal Sinha Choudhury obtained M.Sc. in Statistics degree from Dhaka University. He attended many trainings at home and abroad.

COMMENTS ON THE PAPERS PRESENTED AT THE SUSTAINABLE BUSINESS MODEL FOR SMALL & MEDIUM ENTERPRISES

SME Banking in Bangladesh is not being regulated since long. From January 2010, SME banking in Bangladesh has got special emphasis and priority by Central Bank of Bangladesh. The priority have been given by creating a separate department on SME in Bangladesh Bank and this has been specially done by outstanding initiative of Honorable Governor Dr. Atiur Rahman. Earlier, some banks in Bangladesh financed in SME sector but that was not under special consideration and regulation of Bangladesh Bank.

The papers presenters have made efforts to give a thorough idea of global SME initiatives and side by side they have raised some points for SME baking in Bangladesh. SME banking in Bangladesh is to be taken very specially taking into consideration prevailing demand and supply position and SME environment of the country. In the mean time, we have got an experience about SME banking in Bangladesh, its possible pros and cons and on the basis of that experiences, we are to go for modification and changes wherever suitable. We are to streamline all the efforts and make a well accepted SME banking model in Bangladesh.

Some banks in Bangladesh are following different models (conventional and modern) but financing under these models are to be reviewed and possible remedies are to be taken for implementing sound SME banking system in Bangladesh. We are to open our eyes, we are to see what is being done by different SME dedicated banks out of Bangladesh, what are their products, how they are designing their products, how their products are fulfilling satisfaction of their customers. We are to develop suitable model and devise suitable SME products to satisfy the demand of our customers.

Each and every bank and financial institution are to think very deeply in this regard, work very devotedly and proceed on with SME initiatives to fulfill the desire of their customers.

The following points are very important to streamline SME banking in Bangladesh:

Target in SME Lending:

- Target based SME lending
- Devising target by sector (Manufacturing, Trade and Service) wise
- Target to be fixed by the head office and to be allocated separately for region and branch wise on the basis of the demand of that area
- To give emphasis to the cottage, micro and small enterprises and women entrepreneurs in target setting

SME dedicated Team and separate SME department:

- Dedicated SME team in each bank branch, region and head office
- Define the roles, responsibilities and functioning of the dedicated team
- Head Office, regional office and branch offices should have separate SME department with dedicated officials who will perform the SME activities with initiatives, drives and commitment
- Proper leadership on SME to be created in head office, region and branch offices and dedicated officials to be given responsibilities under proper leadership

Capacity building:
The SME dedicated team must be properly trained up and they should be equipped with all sorts of knowledge essential for SME banking

Special Service and behavior:
- Ensure service oriented cordial behavior to the entrepreneurs and try to make the entrepreneurs friendly so that they may be interested to come to bank with enthusiasm and mental urge
- Considering the condition of the Bangladeshi entrepreneurs documentation, forms, necessary papers should be in Bengali and easily understandable to the cottage, micro and small enterprises
- Banks should cooperate the SME borrowers in making business plan, projects, and help him in such a way so that the customers may very easily collect the documents and comply with the bank's requirements
- Sometimes, applicants are being harassed by the banks by not visiting the project in time, making unnecessary delay, not going to the project side by the bank's initiatives, rather harassing the applicants in different ways and deprive them from the real necessity

Monitoring:
- Strong monitoring system has to be established
- Supervision and monitoring to be streamline so that credit disbursement and recovery process may be prosecuted without any delay by any corner

Quick and transparent credit disbursement:
- Receiving of applications, processing of applications and sanction and disbursement of the loan should be completed very quickly
- After getting application of credit, any changes or any decisions are to be taken by the bank should be subject to consultation with the borrower/applicant. Credit should not be imposed upon the borrowers, credit should be given exactly according to the demand of the enterprise
- Nothing to be concealed to the borrowers. He should be informed of everything. Amount of credit, rate of interest, grace period, installment size, any other charges, recovery schedule everything should be clear and transparent and should be intimated to the borrower
- Disbursement of right amount of credit in right time and to the right entrepreneurs should be ensured

Selection of the borrowers:
- Selection of the borrowers is to be given top priority and a sophisticated system (example-CART of SIDBI) has to be adopted so that genuine borrowers cannot be deprived of getting credit
- Dedicated team is to work at field level and develop such a system so that genuine entrepreneurs can be selected very easily

Sanction of credit:
- Branch manager also should have the power to sanction Credit up to certain amount. In this way, credit may be sanctioned by regional and head office up to a certain limit

Credit Discipline:
- Full credit discipline with honesty and integrity is to be established
- Inspection, audit, intimating the board and involvement of board is very necessary
- Bank management is to give top priority to SME and should work with dedication, positive mind and with special emphasis

Data base for SME:
- A sound data base system to be evolved
- Information and dedicated desk to be established and made effective in each and every branch
- A web site on SME to be developed by each banks
- Online application submitting, online reporting and online information dissemination to be established

Overall SME Development initiatives:
- Research, impact study and evaluation are also very important
- Publicity, awareness building, promotion and development activities are to be continued
- Communication, interaction and collaboration with related are to be continued

Central Bank's initiatives:
- Central bank's supervision, monitoring and strategy should be developed in a standard way and strong monitoring system has to be established
- Central bank should supervise and monitor all the SME activities of the banks and NBFIs,
- BB has to ensure implementation of policies and directives and ensure a total discipline in the SME financing

Asad Khan
Managing Director
Prime Finance & Investment Limited

Discussant's Profile

Mr. Asad Khan, assumed the position of Managing Director of Prime Finance & Investment Limited on June 01, 2011. Before joining Prime Finance, Mr. Khan served as the Managing Director in Fareast Finance & Investment Limited from October 2005 till May 2011.

All through his professional career, Mr. Khan occupied a good number of prestigious and high profile offices in different organizations. Starting his career in the year 1980 in an industrial organization, Mr. Khan moved into the financial sector in the year 1993 when he joined United Leasing Company Limited. In 1998, he joined Prime Finance & Investment Limited as Senior Vice President and in the year 2003, he joined Industrial Promotion & Development Company of Bangladesh Limited as Director - Investment.

Mr. Asad Khan completed his Masters in Business Management from Institute of Social Welfare and Business Management under the University of Kolkata. For outstanding academic result in MBM, he was awarded with a distinction certificate. He also completed M. Com in Accounting from the same university. Apart from academic attainment, Mr. Khan is associated with many social organizations. He was elected as Chairman of Bangladesh Leasing and Finance Companies Association for two consecutive terms, initially in the years 2011-13 and subsequently in the years 2013-2015.

Mr. Asad Khan served as the Honorary Literary Secretary of the Muslim Institute (Kolkata) and the Honorary Secretary of Rotary Club of Islamabad, Chittagong. The National Service Scheme of India awarded Mr. Khan in recognition of his services to Don Bosco Night School, India.

COMMENTS ON THE PAPERS PRESENTED AT THE SUSTAINABLE BUSINESS MODEL FOR SMALL & MEDIUM ENTERPRISES

Small & Medium Enterprises (SME) have been the engine of growth for the entire world. Even in the United States of America, when there is a presidential debate, the issues presented are linked to sustainability of the SME sector.

Surge of the SME Sector in Bangladesh

Bangladesh has had its own success stories in the SME Sector. In the 80s and 90s, there was a surge of small garment and small textile units. This was the decade when small garment units were started in rented premises in Narayanganj for as low as Tk 30 lac and a 20 loom textile mill for around Tk 40 lac. Today, the SME units are playing a supportive role in manufacture and supply of accessories and auxiliary items.

PAPER PRESENTED BY MR. ALI REZA IFTEKHAR & MR. SELIM R F HOSSAIN

In his paper, Mr. Iftekhar has set the right tone for sustainable growth and development of the SME sector. Starting with Europe, the level of penetration has been traced right up to Philippines in the Fareast.

Mr. Selim R F Hossain has mentioned inability to provide collateral security to be the main impediment of SME. In fact in the case of NBFIs, in a vast majority of cases, SME financing is being made without any collateral security. The essence is based on judgmental factor and character lending. He also says, SMEs on account of their size have the ability to quickly react to changing environment. Time and again SME's have shown their resilience in the face of global economic volatility. Their dexterity and adaptability to changing economic fortunes are greater than their larger counterparts.

It is the case of the whale and the minnow. The whale takes a very long time to react. On the contrary, the minnow can dart from one place to another in no time. Mr. Hossain further goes to say that customer is the key to success and feels that it is important to serve the specific needs of the clients.

Move for value addition
Mr. Iftekhar further states that in Least Developed Countries, the focus is mostly on trade and commerce, being involved in the supply distributive chain. However, as the economy matures these units move for setting up their own manufacturing base.

There are evidences in our own country also. In the 80's, many of the distributors of foreign mosquito coils and cement industries subsequently moved into manufacturing. In Thailand many of the world's leading car manufacturers have relocated some of their industries.

Ancillary Units
One of the papers coined the term 'feeder vessels' for ancillary units. Giant industrial enterprises, whether it is Boeing, Toyota, Samsung, Hyundai or even Tata, there are increasing evidences of reliance on the 'feeder vessels'. Tata's Rs 1 lac Nano would not have been possible without integration of the ancillary units and tightening the belts of these units.

SME in global economy
Dwindling spreads have increasingly forced the banks to move into the hitherto uncharted territory of SMEs, develop a viable unique model and move towards sustainable business model. This is again true in the case of Bangladesh. Intensified competition, excess liquidity in the money market, slowdown in investment activities has driven the banks towards the SME sector.

Business Model for SME
A study of the models followed by different banks in the LDC has been mentioned. In many cases SME funding is being handled by the Corporate Loan Department. SMEs are a different breed of enterprises and to do justice to them, a separate department has to be established. In this case, more than the quantitative analysis, qualitative judgement takes precedence. Here comes the value of Scoring Models followed by many multinational banks.

Monitoring
Ultimate success of SME financing depends largely on monitoring of the clients. Relationship is of paramount importance. The Relationship Manager must have close interaction and must be able to guide the enterprise. He must act as their confidante and advisor.

NBFI SME banking
For the NBFI sector, SME financing is not a matter of choice but one of compulsion. Narrow spread (now around 3%) is forcing them to move towards a sector where more than 90% of the registered industrial units exist. This is also the case of the NBFIs in the Southeast Asian countries where they are mostly subsidiaries of banks.

RECOMMENDATIONS

- **Linkages**
  It is time to move towards linkages with larger industrial units. The garment sector has had varying degree of success in this regard through integration with accessories suppliers.

- **Mini industrial units**
  In India there are Government sponsored mini industrial units in selected industrial zones around Delhi. These units in most cases are between 1000 to 2000 sft in size manufacturing screws, nuts, bolts, wire drawing, bright shafting etc.

- **Industrial areas for Women entrepreneurs**
  Woman Entrepreneurs understand fashion better than their male counterparts. Some areas in the mini industrial zones may be earmarked for Women Entrepreneurs specially in the handloom, boutiques and fabric printing areas.

- **Small is beautiful**
  One interesting concept to study is the Weekend and Weekday Market in the urban areas of Southeast Asia. The women move from one place to another in the evening setting up small makeshift shops on pre-designated areas on specific dates. We may replicate this in our own country – it should be reserved for females.

- **Training centres for SME**
  In each of the industrial areas, formal training centres may be established in association with SME Foundation and NASCIB to give the SME's a basic knowledge about management, technological up gradation and access to finance. Regional representatives of Banks and NBFIs may have periodic interactive sessions with the entrepreneurs.

SME financing challenges and policy solutions

BB Governor Dr. Atiur Rahman's opening statement as panelist in AFI session

(Frankfurt, 28th June, 2013)

Access to finance is critical for SMEs to survive and eventually grow beyond their current size. In Bangladesh, SMEs are still struggling for greater access to finance. It is one of the core factors that determine SME development.

SMEs spur domestic demand through job creation, innovation, and competition; they are the key driving force behind an inclusive, resilient economy. SMEs involved in global production supply chains on the other hand encourage international trade.

High transaction and information collection cost and risks make financial institutions generally hesitate to finance SMEs. Bankers treat these as demand-side constraints. These results to steep collateral and guarantee requirements and higher interest margin for the SME entrepreneurs coming to take debt capital. Not surprisingly, SMEs tend to regard these measures as serious supply-side barriers. Supply-side barriers results in exclusion of marginal and socially vulnerable groups like cottage, micro and small entrepreneurs, women entrepreneurs and ethnic entrepreneurs.

In the back drop of such exclusion from financial services Bangladesh Bank has taken up initiatives for broadening financial inclusion. Bangladesh Bank's inclusive growth strategy views SMEs as crucially important drivers of sustained broad based output, employment and income generation. Government and civil society organizations are active in supporting and promoting SME initiatives, working for removal of the financial and non-financial impediments to their commercial sustenance in the supply chains of the goods and services they produce. Creating a banking ecosystem where financial institutions will be able to serve the SMEs sustainably is the key target of Bangladesh Bank.

Bangladesh Bank (BB), the country's central bank, is guiding facilitation and promotion of access to finance for SMEs, identifying the challenges and trying out policy solutions, where necessary in collaboration with the government, the private sector, and external development partners.

SME initiatives typically begin with small, often insufficient equity from entrepreneurs' own personal or family savings. Absence of track record in business and lack of real assets to offer as collateral make it difficult for SMEs to access debt finance on affordable terms. Banks and financial institutions primarily geared towards serving larger urban businesses are in general neither well motivated nor well equipped to serve SMEs in dispersed locations far off from branches. Besides higher risks in SME lending, they also find SME loan administration costlier. In these circumstances SMEs find it hard to get credit for inputs procurement and other expenses. SMEs often have also to sell their produces on credit, further burdening their precarious finances.

BB has adopted a comprehensive approach in trying to address the multifarious SME financing impediments and disincentives, covering from attitudinal orientation of the lending institutions to financial and non-financial services related to enhancing access to finance. The milestone initiatives are itemized below.

- For some years now, BB's Corporate Social Responsibility (CSR) mainstreaming initiative has been guiding institutionalization of socially and environmentally responsible financing in corporate ethos and objectives of lending institutions. This has successfully motivated and enthused the entire financial sector in financial inclusion initiatives of reaching out to all productive undertakings of all population segments including the SMEs.
- BB started its Target based credit initiative for SMEs in 2010. Under this initiatives banks and NBFIs are required to set their annual lending to SMEs segregated by gender, enterprise size and business sector. BB strongly monitors the target achievement and steady annual growth in target is being watched. The SME sector lending performance has been incorporated in the CAMELS rating of banks which has become an incentive for them and as such lending to SMEs are gradually increasing every year in the desired directions.
- Multi-pronged BB initiatives for bringing down lender's costs in financing of SMEs and other clientele in dispersed locations for bringing sustainability in SME banking include:
- Promotion of smart card/mobile phone based off branch financial service delivery through MFIs and other locally active area agents. To this end BB has steered major modernization of the financial sector IT infrastructure, introducing inter alia online interbank clearing and settlement of payments through diverse platforms interconnected by a national payments switch, and online access to credit information on borrowers including SMEs.
- Low cost refinance for lenders from BB against their SME financing. Bangladesh Bank supports lender with a low cost fund for small entrepreneurs, women, physically challenged and creative and innovative undertakings. Some of such facilities are funded largely by development partners like IDA, ADB and JICA has women's entrepreneurship promotion element, as only lenders with at least 10 percent of their SME loans to women entrepreneurs qualify for the refinance facility. Besides these externally supported refinance windows, another refinance line funded by BB itself supports lending to renewable energy and other environmentally benign projects including those of SMEs.

- Preliminary work is in progress for setting up an official Registry of moveable assets, to facilitate use of these assets as collaterals for institutional borrowing by SMEs and others.
- To help bring down borrowing costs for SMEs, setting up of a partial risk guarantee scheme for SME loans with fund support from an external development partner is at final stage.
- BB is promoting a 'clustering' approach of lending institutions in their SME financing, seeking to draw large number of SMEs in the same or linked sectors into suitable regional clusters where they can be supported conveniently with various financial and non-financial services by lenders and other concerned government and civil society organizations. (Such clustering also facilitates useful networking between the SMEs themselves, as well as with their value chain backward and forward linkages).
- BB is catalyzing partnerships between lending institutions and diverse public and private sector entities (such as BSCIC, DNet, EDCL, DCCI etc.) in integrated initiatives for training, grooming up and financing SME entrepreneurs in innovative undertakings like biomass based energy generation, IT services etc.
- Direct SME financing facilitation is being supplemented by 'factoring' or discounting of their receivables against credit sales to buyers of good credit standing, easing pressure on their finances. Growing use of external credit ratings of businesses in financing decisions of lenders is helping factoring practices catch on.
- Access to equity finance support for SME entrepreneurs is also widening. For over a decade now, a government financed Equity and Entrepreneurship Fund (EEF) is extending up to forty nine percent in equity support to agro based and IT sector enterprises, including those of SMEs (the EEF contributions are to be bought back by entrepreneurs within eight years, otherwise these get converted to debt). More recently, two similar venture equity support initiatives have also emerged in the private sector.
- BB's SME financing and other financial inclusion initiatives are conducted within the overall monetary growth envelop of a cautious monetary stance. The promotion initiatives aim at smoothing out the impediments to maintaining SME financing on adequate growth path (7.6 percent y-o-y in first three quarters of FY13) rather than at creating any undue surge in SME lending. End use surveys reveal satisfactory utilization; overdue (under 15 percent of outstanding) are lower than in farm credit.

BB initiatives are targeted for creating a sustainable SME Banking ecosystem in the financial sector of Bangladesh. Capacity building of both bankers and entrepreneurs are critical in achieving sustainability in SME lending. Promotion, communication, regulatory and government supports coupled with capacity building would help banks to manage risk, reduce transaction cost and reduce over dependence on collaterals.

Bangladesh's macroeconomic stability with decade-long above six percent annual average real GDP growth amply evidences that our SME financing promotion and other inclusive financing policy approaches have served the economy and financial sector well during and following the global financial crisis; protecting credit flows for productive activities and aiding stability both on the demand and supply sides amid global growth slowdown. We intend to pursue the promotional policy approaches further forward, also taking lessons from experiences elsewhere in global dialogue sessions such as this.

Bangladesh Bank (Central Bank of Bangladesh) Governor Dr. Atiur Rahman participated in the panel discussion and advocated that financial inclusion leads to financial stability. For that to happen banks and financial institutions need to be motivated which has been well done in Bangladesh. He also said Financial Inclusion encourages diversified loan base, discourages appealing ponzy schemes of savings, enhances income equality and adds to political legitimacy of financial sector. Developed countries can certainly learn from these positive lessons.

"BB initiatives are targeted for creating a sustainable SME Banking ecosystem in the financial sector of Bangladesh."

Sustainable SME Banking

Md. Masum Patwary

General Manager, SME & Special Programs Department, Bangladesh Bank

Small and Medium Enterprises (SMEs) play a key role in economic development of both developed and developing countries. SMEs account for significant share of employment and GDP around the world. According to Ayyagari, Beck, and Demirgüç-Kunt (2003), SMEs account for close to 60% of manufacturing employment in developing countries[i]. The contribution will be much higher if all firms (e.g. micro firms) except large are included in the definitions of SMEs. Many countries set their own SME definition and include micro firms under the purview of SMEs (e.g. EU). Under this definition, the vast majority of all businesses are SMEs. In Bangladesh, more than 90% of the total industrial units in Bangladesh belong to SME sector. Including cottage and micro industries, this sector is estimated about 98-99 percent of total industrial units/enterprises. The SME sector in Bangladesh contributes about 25% of GDP, 40% of employment, 80% of industrial jobs.

Even though, many SMEs in emerging markets rely on informal sources of capital at their beginning stage; however, they need access to formal financial services for their growing. Historically, SMEs access to finance has been severely constrained due to informality of SMEs and its lack of full financial reporting; financial institutions find it very hard to ascertain whether SMEs have the capacity or the willingness to pay. To deal with such opaqueness of SMEs, financial institutions preferably has been choosing "relationship lending" as an appropriate business model which relies primarily on "soft" information gathered by the loan officer through continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community in which they operate (Berger and Udell, 2006[ii]). However, the relationship lending practices require high labor costs to keep such information updated.

Due to these information asymmetry, lack of collateral and higher cost of serving smaller transactions, Banks and NBFIs traditionally viewed SME banking as risky. However, as a result of increasing competition within the industry the corporate banking margins are continually shrinking day by day. Therefore, SME banking is now a strategic target of Banks and NBFIs worldwide. Developing tailored approaches to overcome the historical challenges of high credit risk and cost to serve, financial institutions are now thriving for sustainable SME banking business models. The sustainable banking business model is not just about being environmentally and socially responsible; it is a practical model for running a competitive and profitable business even in a speculative market environment (Dr. Vasily Vysokov, Chairman of the Board of Directors, Center-invest Bank, Russia).

It is therefore, perceived that financial institutions should have a well developed approaches to SME segment for a sustainable banking strategy. The heterogeneous natures of SMEs require clarity and interactions in four areas for successful serving SME clients by financial institutions: segmentation, products, channels and services, and risk management (Figure-1).

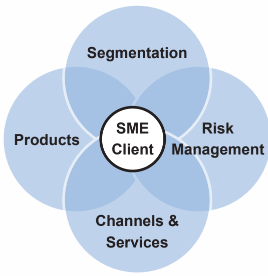


Fig-1: A Framework for SME Banking Clients
(Source: A. T Kearney Analysis)

- Segmentation: Banks should not only look for the size of the SME client; otherwise, opportunities to serve SMEs needs might be missed. Rather, targeted industry or behavioral-based segmentation (cluster) is more appropriate.
- Products: Products should ranging from basic (credit lines, overdrafts, deposit etc) to tailored made (asset loans, working capital loans etc) to serve different segment of SME.
- Channels & Services: From traditional branch banking to sophisticated mobile banking payment services.
- Risk Management: Banks should not follow one-size-fits-all approach to risk management for SMEs. Different approaches may be taken based on the size of firm.

In Bangladesh, many banks have been following this approach for SME banking. Introduction of mobile financial services and payment systems (BACH) help banks and NBFIs to serve SME clients promptly. Moreover, credit rating of SMEs helps Banks and NBFIs to manage risk associated with providing credit to SMEs.

In addition, the sustainability of the business model for SME banking requires that the financial institutions should set up separate business segment for SME, strategy and operational procedure, risk management etc. Most banks around the globe have set up separate business segment to manage their relations with SMEs (Beck, Demirgüç-Kunt, and Martinez Peria, 2008[iii]).

However, it should be noted that lending is just one part of a larger overall package devoted to SMEs. The cross-selling of services and products is at the heart of the banks' SME business strategy to profitably serve this segment. In fact, credit generates only part of the revenue (38%).The rest is divided between deposits (29%) and other products (32%) (Beck, Demirgüç-Kunt, and Martinez Peria, 2008).

Though Banks and NBFIs are following different SME banking business models in Bangladesh, from the performances of different banks it is clear that strong interactions of all four key areas-segmentation, products, channels and risk management- are equally important to ensure the long-term sustainability of SME banking business model. It is to be keeping in mind that there is some natural instability in SME business. To mitigate this issue and create a viable business model for SME banking, focusing on customized risk management practices harmonizing with Bangladesh socio-economic context is highly important.

---

i Ayyagari, Meghana and Demirgüç-Kunt, Asli and Beck, Thorsten (2003). Small and Medium Enterprises across the Globe: A New Database (August 2003). World Bank Policy Research Working Paper No. 3127.

ii Berger, A.; G. Udell (2005). "A More Complete Conceptual Framework for SME Finance"

iii Beck, Thorsten and Demirgüç-Kunt, Asli and Martinez Peria, Maria Soledad (2008). Bank Financing for SMEs around the World: Drivers, Obstacles, Business Models, and Lending Practices . World Bank Policy Research Working Paper Series, Vol. , pp. -, 2008.

Access to Finance for SMEs: Role of SME Foundation

Small and Medium Enterprise Foundation, widely known as SME Foundation, is a limited company licensed by the Ministry of Commerce as a not for profit organization and registered under the Companies Act (Act XXVIII) of 1994. It is running under the guideline as stated in the Memorandum and Articles of Association. SME Foundation is established by the Government of Bangladesh under Ministry of Industries as an apex institution for SME development in the country.

The major activities of SME Foundation are implementation of SME Policy Strategies, policy advocacy and intervention for the growth of SMEs, facilitating financial supports for SMEs, providing skill development and capacity building training, facilitating adaptation with appropriate technologies and access to ICT, providing business support services, etc. It is mentionable here that the Foundation is working for the development enterprises and entrepreneurs who belong to micro, small and medium categories as per Industrial Policy 2010.

Besides general supports to the development of SME enterprises and entrepreneurs the Foundation is providing diversified supports to the existing and potential women entrepreneurs in order to position them into the mainstream business community.

Vision

Promote Small and Medium Enterprises (SMEs) for alleviating poverty, generating employment and thereby accelerating economic growth.

Mission

Assist for promoting the growth of small and medium enterprises of all the productive and service-oriented enterprises of the national economy for facing the challenges of free market economy and globalization.

Objectives

Aligned with the Memorandum of Association the objectives of SMEF could be listed as below

a) To promote, support, strengthen and encourage the growth and development of SMEs.
b) To plan, program and finance interventions for delivery by private sector organizations.
c) To institute SME Awards in order to promote competitiveness among the SMEs.
d) To facilitate SME access to finance by creating and supporting appropriate strategies and institutions.
e) To rationalize public sector approaches and support structures for SME development.
f) To create a pro-growth and pro-poor business environment.
g) To create appropriate incentives, mechanisms and support structures to facilitate the formation of new enterprises.
h) To identify and report policy anomalies, market and institutional failures that is prejudicial to the legitimate interests of SMEs.
i) To create a database on SMEs and SME sectors.
j) To encourage linkage among the national and international institutions working for SME development.
k) To develop capacity of public and private sector SME service providers.
l) To enhance productivity, promote quality and viability of SMEs by designing appropriate interventions.

Major Activities of the SME Foundation

1. Conducting study on 6 SME sub-sector & SME women entrepreneurs in SMEs: SME Foundation conducted a comprehensive study six booster sectors such a s light engineering, Electrical & Electronics, Plastics, Agro Processing, Fashion Design and Leather & Leather goods. Besides, a study on Women entrepreneurs in SMEs; Bangladesh perspective is being conducted to identify the status of SME women entrepreneurship development in Bangladesh.

2. National SME Women Entrepreneur Award: The SME Foundation launched an award program for SME women entrepreneurs for their outstanding contribution to their regional economy to encourage more women entrepreneurs to come up with innovative businesses.

3. SME Cluster Mapping: From the realization of the importance of SME Clusters scattered across the country for the development of SMEs in Bangladesh, the Foundation felt the need to identify existing clusters throughout Bangladesh so that appropriate development interventions could be initiated. SMEF, in association with a consulting firm conducted the identification and Mapping of SME clusters throughout the country. The objective of the study is two-fold. Firstly, to identify the clusters of SME booster sectors throughout the country, and secondly mapping the clusters considering six-digit H.S code, product name, number of firms, employment, turnover etc. Foundation currently intervenes some clusters such as Bogra & Dolaikhal of Dhaka Light Engineering Cluster, Bhoirob of Kishorganj & Kaluhati of Rajshahi Footwear Cluster, Saidpur Garments wear Cluster, Shyampur-Kadamtoli of Dhaka Electronics Cluster, Chawkbazar-Lalbag of Dhaka Plastic Goods Cluster etc.

4. National SME Business Plan Competition: Business Plan Competition is one of the most effective ways to encourage entrepreneurs and potential entrepreneurs to come forward with their innovative business ideas. Foundation organizes National SME Business Plan competition to find out new and potential business plans and create new entrepreneurs and generate new sectors. Foundation links up the winning projects with financial institutions so that they can get loans and implement the projects. Through this initiative of SMEF, current students and fresh graduates of both public and private universities, who are looking for jobs, being motivated to be a successful entrepreneur.

5. SME Financing Fair & Banker-Entrepreneur Conference: SME Foundation organizes the SME financing fair, to bridge the gap between entrepreneurs and lenders. The fair is a part of the SMEF's attempts to extend the much-needed financial services to prospective small and medium entrepreneurs across the country. The aim of the fair is to create awareness among entrepreneurs about small and medium enterprises (SME) financing products that are available in the market. It facilitates financing through a display of loan products and procedures, and required documents for funding. It supports SMEs to prepare new, innovative and demand-driven projects; act as a platform for match-making between the SME entrepreneurs and financial institutions; offer spot advice and guidance to potential SMEs. Besides this, Foundation arranges SME Banker-Entrepreneur Conference to bridge the gap between entrepreneurs and financial institutions, facilitate loan procedures and documents, enhance responsiveness to customers and support SME entrepreneurs for preparation of new and innovative demand-driven projects.

6. Implementation of Food Safety Management System (FSMS) in SME Agro-processing Industry: To improve the quality of the products as well as to keep the environment safe and sound of agro based industries of SMEs, SME Foundation, in association with National Productivity Organization (NPO), Bangladesh and Asian Productivity Organization (APO) is implementing various programs to develop “Food Safety management System (FSMS) for ISO 22000:2005 certification” for SME Entrepreneurs engaged with Agro-Processing industry in Bangladesh. Four (4) organizations have been selected for establishing food safety management system and developed their infrastructure.

7. SME Entrepreneur Development Training Program: To improve the quality of the products as well as to keep the environment safe and sound of agro based industries of SMEs, SME Foundation, in association with National Productivity Organization (NPO), Bangladesh and Asian Productivity Organization (APO) is implementing various programs to develop "Food Safety management System (FSMS) for ISO 22000:2005 certification" for SME Entrepreneurs engaged with Agro-Processing industry in Bangladesh. Four (4) organizations have been selected for establishing food safety management system and developed their infrastructure.

8. SME Women Entrepreneurs Directory: Research findings shows that there is a lack of available and organized information of SME women entrepreneurs in Bangladesh. Against this backdrop, there is a felt demand for a publication/database containing information on women entrepreneurs. To meet this demand SME Foundation primarily published a database consisting of the information collected from various sources. In this database information about 3,500 women entrepreneurs in 11 booster sectors are published in the Directory. Al the information are collected from the women trade associations, banks, non-bank financial institutions, district chambers of Industries, district and divisional commissioner's office, and also from the individual entrepreneurs.

9. Establishment of SME Product Display & Information Center: The SME Foundation established an SME Product display & Information center at the foundation's premises with the support of SMESDP of Ministry of Industries to help small and medium entrepreneurs market their goods and products, bridging the gap between producers and consumers. Establishment of the display center is a unique way of familiarizing the products. It is the best way to promote products and showcase skills of the manufacturers. This will help manufacturers establish a bridge between buyers and sellers, both in local and international markets.

10. National SME Fair: The SME Foundation organizes National SME Fair in the Capital city aiming to promote small and medium enterprises in the country. A number of SME entrepreneurs from agriculture, agro-processing products, clothing, home textiles, handicrafts, leather, light engineering, foods, beverage, electrical and electronics, herbal, light engineering, foods and furniture sectors from across the country participates in the exhibition. Besides this, Foundation provides supports to different trade bodies & associations to organize the SME product fairs at different districts and divisional levels.

Credit Wholesaling Program

Credit Wholesaling (CWS) Program is a specialized credit program operating by SME Foundation (SMEF) through Banks and NBFIs aiming to channelize collateral free single digit rate of interest fund for the target clusters/groups/clientele and also to create a scope to access formal source of credit for MSMEs who are consider as missing middle in terms of access to formal source of finance due to lack of security, proper business information and right business plan. This program is also to encourage lending financial institutions to provide fund to the micro & small enterprises that are dissimilar in terms of requirement and treatment. SME Foundation has been continuing this program since 2009, started as a pilot basis, by disbursing BDT 50 lac to MIDAS Financing Limited for channelizing fund to small entrepreneurs of Bogra Light Engineering Cluster. During last five years SME Foundation provided credit to 5 Banks and 2 NBFI for channelizing fund to micro & small entrepreneurs of seven target clusters and two clientele groups around the country. Till to date BDT 19.8 million has been disbursed to 520 micro & small enterprises of that clusters/clienteles among them 259 are woman.

Features of credit wholesaling program

- Single digit rate of interest (maximum 9%)
- Service charge maximum 0.5% for legal papers charge and others
- No collateral requirement
- Loan size between 50.00 thousand to 10 lac
- Flexible mode of repayment with reasonable grace period (if necessary)

- Purpose of the loan for working capital, technology adoption/up-gradation/and capital machinery procurement and seasonal loan
- Tenure up to 5 years maximum
- Clusters/Clientele groups are identified and selected by SMEF
- Govt. declared booster sectors and women entrepreneurs are given preferences
- Banks, Non-bank Financing Institutes, Leasing Companies can join as a partner of the program
- All loans are monitored by SME Foundation
- Capacity & Quality development support for the entrepreneurs by SME Foundation

Eligibility of the Partner Financing Institutions (PFIs)

I. Licensed as a Bank/Financial Institute/Leasing Company under the relevant act being governed by Bangladesh Bank.
II. Cumulative recovery rate is minimum 95% and on-time realization rate is minimum 92% (of the respective loan range i.e. Tk. 50,000 to 1,000,000).
III. Fully compliant of Bangladesh Bank's Prudential Regulations including; a) loan loss provisioning and capital adequacies; b) minimum capital requirements; c) exposure limit to a particular customer; d) internal control system; e) risk management etc.
IV. Functioning MIS and internal evaluation system.
V. Satisfactory Credit Rating conducted by any authorized agency to do so as per permission of Bangladesh Bank.
VI. Dedicated and separate division for SME financing with special products for MSMEs

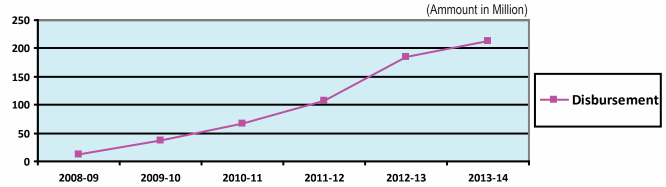
Selection Process of the Partner Financing Institutions (PFIs)

SMEF identified 177 clusters around the country through cluster mapping program. Needs analyzing of these clusters are going on by Research wing of SMEF. In the same way, SMEF recognizes other potential sectors/clienteles around the country following Industrial Policy-2010. SMEF offer to any Financial Institutions (FIs) eligible and ready to act by following the terms and conditions of Credit Wholesaling program as PFI and also convenient to intervene to that cluster in terms of capacity and branch location. Consequently, SMEF visit the cluster with that FI and engage it as a partner if agreed for financing. Later an agreement is signed mentioning terms and conditions and motilities for financing.

Name of Partner Financing Institutions (as on 30 April, 2014)

1. MIDAS Financing Limited: Bogra Light Engineering Cluster has been financed through MIDAS Financing Limited. Another exclusive loan product named "MFL-Gear" has been developed by MIDAS Financing Ltd. for financing small entrepreneurs of Dhola khal Light Engineering cluster.
2. NCC Bank Limited: Saidpur Readymade Garments Cluster at Nilphamary district and Kaluhati Shoe Cluster has been financed by NCC Bank Limited. Two different loan product, NCC Foot wear, NCC Garments wear have been developed under the Credit Wholesaling Program.
3. Mutual Trust Bank Limited: An exclusive loan product "MTB Gunabati" has been designed and developed by MTBL for financing women entrepreneurs under the Program.
4. Eastern Bank Limited: Leather Products Producers of Dhaka have been financed by EBL. A new loan product "EBL Udoy" has been developed for supply chain financing under this program.
5. Trust Bank Limited: Women entrepreneurs of Jessore and CHT area involved in "Nakshi Kantha" and "Suchi Silpo" production have been financed by Trust Bank Ltd. following the group financing policy of Bangladeh Bank. An exclusive loan Product "Trust- Sukonna" has been developed by TBL Under this Program.
6. Bank Asia Limited: Electrical and Electronic appliances producers of Shyampur, Kajla, Bangapress cluster in Dhaka have been financed by Bank Asia Ltd. A new loan product "Bank Asia-Probaho" has been developed under this program.
7. IDLC Finance Limited: Islambag, Chalkbazar Plastic Cluster is being financed by IDLC Finance Limited. An exclusive loan product named "IDLC Polymer" has been developed by IDLC for this cluster

Growth of Credit Wholesaling Program (as on 30 April, 2014):



SL No.	Caption
01.	Bangladesh Bank Governor Dr. Atiur Rahman distributing SME loan among the entrepreneurs.
02.	Bangladesh Bank Deputy Governor Mr. Md. Abul Quasem addressing the participants of Matchmaking Event.
03.	Managing Director of SME Foundation Dr. Syed Md. Ihsanul Karim in the inauguration ceremony of “SME Entrepreneurs - Banker Conference, Mymensingh”.
04.	The Agreement Signing Ceremony between SME Foundation & MIDAS Financing Limited under Credit Wholesaling (CWS) Program of SME Foundation.