

Policies and Strategies of Basic Bank Ltd. for Entrepreneurship Development of SMEs in Bangladesh: An Evaluative Study

Dr. Kamrul Hasan

Associate Professor

Department of Business Administration

Southern University Bangladesh

Email: kamrul6205@yahoo.com

Abstract

The current study has investigated the policy framework of BASIC Bank Ltd. for the entrepreneurship development of SMEs in Bangladesh. SMEs are regarded as the engine of growth and development of a country. The study has covered 42 SMEs financed by BASIC bank in Chittagong district to evaluate the policies and strategies of BASIC Bank on entrepreneurship development of SMEs. The study has revealed a number of problems involved in policy frameworks of BASIC bank like unfavorable interest rate policy, centralized loan approval system, grace period is ignored, high collateral, rigid and cumbersome documentation, delay in loan processing and the like.

Key Words: *Entrepreneurship Development, SME Policies and Strategies.*

Received 17th October 2017

Accepted 24th October 2017

Published 2nd January 2018

INTRODUCTION

BASIC Bank Limited was established as a scheduled commercial bank with particular attention to provide financial assistance for promotion of small scale Industries (SSI). Later on financial assistance for medium scale industries was also included. Basically, BASIC bank promotes entrepreneurship development in SMEs through financing in different maturities such as short term, midterm and long term basis. It is stipulated in the Memorandum and Articles of Association of the Bank that at least 50% of the banks loanable fund shall be used for financing small and Micro Scale Industries. This mandate is the key policy guideline for BASIC bank's credit decision. BASIC Bank also gives equal attention to finance to commercial business including trade finance.

In the economy of Bangladesh, SMEs play a vital role as it is involving relatively simple technology and small investment, producing goods mostly for domestic consumption and capable of generating larger employment opportunities (Rahman, 1985). Contribution of Industrial Sector to GDP was 30.12 percent, 31.35 percent, 32.75 percent, 32.78 percent and 33.23 percent in the year 2012, 2013, 2014, 2015 and 2016 respectively, where the contribution of small scale industrial sector was 5.08 percent, 5.16 percent, 5.35 percent, 5.66 percent and 6.03 percent respectively (Bangladesh Economic Review, 2016). Thus SMEs have been contributing about 4 percent to the industrial sector and generating a huge employment to the labor intensive economy like Bangladesh.

RELATED LITERATURE REVIEW

Biswas (2014) in his study on "Role of Financing Policies and Financial Institutions for Micro, Small and Medium Enterprises (MSMEs)" examined the major financing policies, specially drafted for MSMEs. Small Industries Development Bank (SIDP) has been consistently involved with promotion, financing and development of the MSME sector since its inception in 1990. The study found that MSMEs with effective use of networks, associations and Government supports become more sustainable and make a greater contribution to the economy.

Mamun et al. (2013) in their article entitled "Investment of Banks in Small Enterprise Financing: Problems and Issues for Bangladesh", investigated the problems encountered by the small enterprises in getting loans from the banks. The study found that SME faced major problems viz., high interest rate, complexity of documentation, non-availability of loan in due time, non-availability of required amount, banker's reluctance and negligence and the like. The study also identified the major problems faced by banks in financing small enterprises. Of them non-availability of required documents, absence of good transaction record with bank, bad repayment history, inadequate net worth, lack of security and guarantee, lack of managerial quality, unstructured financial information were more significant.

Ahmed (2009) presented a paper on "Policies and Institutions concerning Promotion of Rural Industries in Bangladesh,". The paper deals with different policy implications and institutions relating to promotion of rural industries from different angles of the problem. For effective use of the policies, the author felt that the concerned manpower should be properly trained and motivated.

Chowdhury (1985) made a commendable contribution to the literature in this field. In his study titled "Some Aspects of the Policies of Financing Small Scale Industries in Bangladesh," he observed that the rate of interest charged under different credit programmed were high and the security policy was rigid and cumbersome. The negative and restrictive conditions of the credit policies hampered the smooth running of the enterprises of the borrowers.

Rahman (1985) in his article pointed out that small scale entrepreneurship in Bangladesh is faced with many problems and the major problems are; lack of industrial policy, lack of adequate financial support, lack of awareness of the facilities and incentives offered for SMEs, lack of training facilities, inadequate institutional finance and the like.

Sharma S.C. (2012) in his article entitled "Institutional Support functions to Small Entrepreneurs in India" examined the role of different financial institutions in developing entrepreneurship in small scale units. The study found that the institutions not only provide financial assistance but also provide other support such as assistance for marketing the product, ensuring quality, training of workers, assistance in up-gradation of technology, develop industrial estates and the like.

Ahmed and Chowdhury (2009) in their article have tried to identify the problems of SMEs in Bangladesh. The study found that the performance of SMEs of Bangladesh, specially in terms of employee turnover rate, quality assurance, allocation of funds, marketing activities was below the international standard. The sector gets negligible support from government. The study in conclusion, given some policy recommendations, viz., Government and

financial institution must provide adequate finance for modernization and technological advancement, infrastructure development should be updated, Research and development work should be increased.

OBJECTIVE AND METHODOLOGY OF THE STUDY

The objective of the study is to critically evaluate the policy frameworks of BASIC bank in developing entrepreneurship of SMEs in Bangladesh. Both primary and secondary have been used in the study. 41 SME entrepreneurs from different sectors financed by BASIC bank Ltd have been selected randomly in the current study. Primary data have been collected through the structured questionnaire. The main sources of secondary data have been the Loan Manual, Government policy, Annual report and the like. The collected data have been presented through different tables and analyzed by using qualitative and descriptive statistical tools like, average, 5 point Likert Scale to make the study more informative to the readers.

BASIC bank's financing Policy to Enhance Entrepreneurship Development:

BASIC Bank's financing policy covers from the loan approval, supervision to monitoring function. To do the functions smoothly, banks have different committee, viz, Recommending authority, Approval authority credit assessment authority and the like. The details of the policies and procedures are discussed below:

Loan Application Policy

Applications for loans under the scheme are made in prescribed forms by an entrepreneur.

Loan applications are to be duly filled in and submitted to the concerned financing bank which is forwarded to the Member-Secretary of the Executive

Committee for initial appraisal. The application must be supported by the following documents:-

Certificate of existence of the industry from BSCIC or Chairman of the concerned Union Parishad.

Copy of the import license, if any. Any other document in support of credit requirements.

Previous year's balance-sheet or statement of income and expenditure (for running concerns) or statement of projected income and expenditure (for new concerns).

The same application form is used for both new projects and on-going projects, for both fixed capital finance and working capital loan. The table-1 shows the respondents perception about loan application form. It was observed in the field study that, the loan application form is lengthy to some extent and some parts are redundant. 26 percent respondents supported the view. Field study further revealed that, the paucity of relevant data relating to small industries is a serious problem and the entrepreneurs have to move from pillar to post in search of relevant data. About thirty two percent of the respondents interviewed subscribed to the view. Twenty seven percent of the respondents opined that the banks sought some unnecessary information for which data were not kept. Some of the information sought in the application form was non-specific to the project.

Project Appraisal Policy

The Members of Loan Approval Committee of the BASIC BANK conducts the initial appraisal of the loan application in consultants with the representative of the concerned branch manager. All relevant/necessary information data are to be called from the applicant promptly. After completion of initial appraisal, the loan application is placed before the MD

within one month at the latest from the data of receipt thereof for final decision. The MD processes the application in the light of the following consideration:

Besides the technical, economic, financial and managerial feasibility yardsticks applied by the institution, it is commonly believed that the acceptance of an investment proposal is also considerably influenced by the political power structure in existence at the time. The officials interviewed, by and large, confirmed this impression.

Having been satisfied about the feasibility of the projects and the genuineness of its credit requirements established on the basis indicated in (1) and (2) above, the MD selects the loanee.

The table-2 shows the respondents opinion about project appraisal. Field study revealed some practical problems. It is revealed that twenty five percent of the entrepreneur opined that red-tap is involved in project appraisal. Twenty nine percent of respondents opined that there is undue delay in processing the plan. Twenty seven percent of the entrepreneurs interviewed stated that there is a long delay in project appraisal. Twenty two percent of the entrepreneurs interviewed stated that the bank did not have professional experts at districts level to handle the technical task of projects appraisal. All the aspects of feasibility study, technical, economic, financial and managerial, were done by the same person of BASIC bank. As a result, in most cases the project evaluation was found to be unqualified. Twenty two percent of the respondents opined that the project appraisal done by the officials was unrealistic and far away from practical situation. The stipulate time of the entire dill from the date of receipt of application to final decision on the loan proposal should not take more than two months.

The time taken in processing the application from submission to final decision is shown in Table 3.

Only in 28 percent cases, the loan application had been processed within the stipulated period of 2 months. In 72 percent cases, there was a delay in processing the loan application. The average time taken in all these cases was up to 6 months.

Time is the essence of the matter in the completion of the project schedules. The respondents felt that to process a loan application of maximum Taka 2 lakh, a period of 2 months prescribed by the programme was sufficient.

Documentation Policy

Documentation is a process involving execution of security documents by the sponsors prior to disbursement of loan/opening of letter of credit by the bank in terms of sanction letter. The table-4 shows entrepreneurs' opinion about documentation of loan. Thirty five percent of the entrepreneur interviewed considered the documentation formalities of the financing banks under the scheme to be lengthy. While thirty seven percent of the entrepreneur opined that documentation formalities were large and cumbersome. They opined that insistence on such dilatory and patience-exhausting formalities dampen their energy and enthusiasm. Moreover, the absorption of time in documentation delayed the disbursement of money which, in its turn, distorted the whole process of project implementation. All the entrepreneurs suggested that the documentation procedure should be simplified made easy and that the genuine cases should be dealt without so much documentation.

Disbursement Policy

The financing bank is to disburse the loan within one month from the date of decision by the MD after completion of the requisite formalities.

All the entrepreneurs interviewed complained that the financing banks took more than one month after the sanction letter to disburse the loan. The officials, on the other hand, stated that the entrepreneurs, in many cases, failed to submit missing information and execute the documentary formalities in time which caused delay in disbursement of loan. Timely disbursement of loan, among other conditions, is a sign-qua-non for the completion of the project as per schedule. Any factor that stands in the way of speedy release of funds should be removed without loss of time.

Follow-up and Inspection Policy

The concerned branch of the financing bank is responsible to supervise the end-use of the funds provided to the party concerned and to ensure recovery of the loan as per repayment schedule. In case of capital finance, the bank is concerned with the implementation process to ensure safety of funds and their full utilization. The financing authority is solely responsible for the recovery of the loan.

Entrepreneurs interviewed, were stated that the bank officials hardly visited their projects after implementation. They opined that if the officials inspect and supervise their projects at some running stage, it would be helpful to the healthy growth of the business because they would get chance to exchange ideas, views and express their problems of running business.

Recommending Authority:

The RM is the key person of the customer relationship and he is held responsible for the accuracy of the entire credit application submitted for approval. Generally, RMs are familiar with banks credit policy and procedural Guidelines and he conducts due diligence on borrowers, principals and guarantors. After screening out the proposal, respective division at Head

Office level, will process the proposal for placement and discussions at the meeting of Head Office Credit Committee (HOCC) and Board of Directors. The composition of the Credit Committee at Head level, and Branch Credit Committee are shown in the following chart.

Duties and Responsibilities of Credit Committee:

Credit Committee analyzes the credit proposal to see whether the proposal is consistent with the banks credit policies and credit norms, guidelines/regulations of Bangladesh Bank, Government relevant law, etc., has been presented observing all the required formalities. The committee, in the light of its analyses considers the positive and negative side of the proposals and gives its opinion and recommendation. It is to be mentioned here that credit committee gives recommendation about a proposal but finally credits are sanctioned by authorized executive Board as a delegation of authority.

Approval Authority:

Approval authority of all loans and advances rests on the Board of Directors and the Managing Director. But considering the time factor for sanction of loans and advances and to ensure proper and orderly conduct of credit business of the Bank, the authority to sanction approved loans and sanction is delegated to senior executives of the bank by Board on certain terms and conditions. Following chart shows the structure of approving authority:

Credit Risk Assessment Authorities:

Credit risk assessment is an important aspect of lending policy from the viewpoint of safety and thus need to be managed well in order to minimize losses and earn in acceptable level of return for the bank, A thorough credit risk assessment is conducted prior to granting

loan. As per organizational structure of the bank, Relationship Manager (RM) is the key person for the customer relationship. RM is the direct contact person of the bank with the customer and it is essential that he will know the customer and conduct due diligence on new borrowers, principals and guarantors. RM with his some credit officers are responsible to ensure the accuracy of the information given in the credit application for approval of any loan.

Key Strategies Adopted by BASIC Bank for Entrepreneurship Development in SMEs

The study has examined the key strategies that have been adopted by BASIC Bank for entrepreneurship development in SME. Accordingly, the researcher has collected responses and articulated in Table-5. This table shows the key strategies that have been adopted by BASIC Bank in order of importance given by executives of BASIC Bank. It is revealed that expansion of network holds the most significant strategy (4.65) followed by Profitable growth (4.63), Steady and sustainable growth (4.24), Branch expansion (4.21), technical and advisory service (4.11), Investment in a cautious way(4.10), technological advancement(3.99), human resource development(3.85), need based financial services(3.73), co-operation and collaboration with other institutions(3.66), high standard customer service(3.44) and the like. It is reported that BASIC bank follows two types of strategies while providing loan to SMEs-One is **uncertainty avoidance strategy** relying up on sufficient collateral, highly certain business plans, close monitoring and legally reported documents. The other is **trust based strategy** which covers trust worthiness, collateral, business plans and documents monitoring.

Interest Rate Policy:

It may be noted that a judicious rate of interest acts as a stimulating factor in attracting industrial investment. The rates of interest on loans have been changed from time. Before, liberation, the rate of interest charged to small scale industries was two percent above the bank rate i.e. 7 percent per annum. It was enhanced to 11.50 percent per annum in the year 1976. Rate of interest was increased to 13 percent per annum in October, 1989. The results of field investigation regarding this rate of interest are depicted in Table-6

The table -6 reflects that about two thirds of the respondents (71.43%) considered 17 percent rate of interest to be too high and 28.57 percent of the respondents considered it to be high. None considered the rate as reasonable or low

Entrepreneurs argued that the cost of production went high because of the high rate of interest and the demand for their products reduced thereby. The respondents were asked to suggested a reasonable rate of interest from their point of view. Their opinion have been shown in table 7. The table -7 reveals that majority of the entrepreneurs (53.00%) suggested an interest rate of 7- to 8 percent per annum and 33.83 percent of entrepreneurs suggested 5 to 6 percent per annum while only 13.54 percent of the entrepreneurs favored the rate of interest at 9 to 10 percent per annum. None of the respondents opined for rate of interest above 10 percent per annum.

Evaluation of Financing source and their access to them by entrepreneurs:

An in-depth analysis was conducted in the case of access to loan financing. First, respondents were asked whether they thought access to debt financing today is hard or easy in general and whether it is harder or easier compared to past responses shown in

(Table 8). Second they were asked about their preference of financing for business operation responses shown in (Table-9) and Third they were asked whether they agree or disagree (using a Likert Scale) about potential obstacles to debt financing responses shown in (Table 10). Following tables show these findings respectively.

According to the respondents' perceptions (Table 8), access to debt financing today is relatively easy. In other words, they found it much easier today than it was in the past.

Table 9 reveals that majority of the respondents (60%) prefer funds from business partners as a source of financing for their business. Only 30 percent respondents prefer bank loan for financing their business. These may due to high interest rate or cumbersome process or other reasons. The answer to this can be seen from the table below:

Table 10 also reveals that the respondents answers about perceived obstacles to debt financing. They considered that high interest rates and bureaucratic loan procedures to be the most important obstacle. The important obstacles to debt financing includes high collateral requirement, more information required and the like. For this reason small entrepreneurs feel that there are no attractive financing programs specially designed for small firms.

Flaws involved in Policy of BASIC Bank:

Unfavorable Interest Rate Policy:

Most of the respondents opined that the interest rate (17%) (Annual Report,2012), is very much high for them. It tends to increase their cost of production and decrease their sales volume.

Centralized loan approval system:

BASIC bank follows centralized loan approval system at head office level. Branch level managers' do not have any

power to sanction loan which make them de-motivated about the loan monitoring.

Grace Period is ignored:

It is reported that with regard to grace period there was no definite instruction from the bank.

High Collateral:

The policy of high collateral requirement of the bank is very much unfavorable for the entrepreneurs. All the respondents agreed with this point.

Rigid and cumbersome documentation:

It is reported from the respondents that the official formalities are very rigid and the documentation is very much cumbersome.

Delay in Loan Processing:

A good number of respondents complained against long delay in processing loan application form and appraisal of project. Requirements of paying unofficial expenses were also reported to have dampened the enthusiasm of many enterprising entrepreneurs.

CONCLUSION

The study examined the financing policy of BASIC bank for promoting entrepreneurship in SMEs which includes loan approval, loan appraisal, loan documentation, supervision, follow-up and pricing policy of the bank and study has revealed the following findings:

It is revealed that twenty six percent of the entrepreneur opined that loan application form is lengthy and cumbersome. Twenty seven percent of the respondents agreed that the banks sought some unnecessary information for which data were not kept.

The study showed that in case of loan appraisal the entrepreneurs face different problems. Twenty percent of respondents opined that there is undue delay in processing the loan, while

seventeen percent of the entrepreneurs interviewed stated that there is a long delay in project appraisal.

It is also revealed that, twelve percent of the entrepreneurs stated that the bank did not have professional experts at districts level to handle the technical task of projects appraisal.

While analyzing the documentation procedure, the study found that twenty four percent of the entrepreneur agreed that documentation procedure was lengthy, large and cumbersome. All the entrepreneurs interviewed complained that the financing banks took more than one month after the sanction letter to disburse loan.

The study further revealed that, in case of follow up and supervision, bank officials were hardly visited the projects after implementation. The study also revealed concerning the factors considered by bank when granting loans include; taxation submission, secured property, credit scoring, debt percentage, types of ownership, profit perspective, types of industry, relationship with Government officer were important ones. In case of interest rate policy, seventy one percent of the respondent opined that bank's interest rate was very high for them. The entrepreneurs stated that, five to six percent of interest rate would be reasonable for them.

REFERENCES

- Ahmed, Q.K. (2009), "Policies and Institutions Concerning Promotion of Rural Industries in Bangladesh," pp.163-195.
- Annual Report (2013), BASIC Bank Limited.
- Ahmed, M. and Chowdhury, T.A. (2009), "Performance Evaluation of SMEs of Bangladesh," *International Journal of Business and Management*, Vol.4, No.7, pp.126-133.
- Bangladesh Economic Review (2016), Ministry of Finance, Government of Bangladesh.
- Biswas, A. (2014), "Role of Financing Policies and Financial Institutions for Micro, Small and Medium Entrepreneurs", *Express, An International Journal of Multi Disciplinary Research*, Vol-1, Issue-4, pp. 10-25.
- Chowdhury, R. K. (1985), "Some Aspects of the Policies of Financing Small Scale Industries in Bangladesh", *Chittagong University Studies, Commerce, Volume-1*, pp. 223-248.
- Credit Policy (2013), BASIC Bank Limited.
- Fourth Five Year Plan (1990-95), Government of Bangladesh (GOB)
- Industrial Policy (1986), Government of Bangladesh (GOB)
- Industrial Policy (1990), Government of Bangladesh (GOB)
- Mamun, A., Hossain, M. and Mizan, A.N.K.,(2013), "Involvement of Banks in Small Enterprise Financing: Problems and Issues for Bangladesh", *Conference Proceedings, Organized by Bangladesh Institute of Bank Management*, pp.143-153.
- Industrial Policy (2010), Government of Bangladesh (GOB)
- Rahman, A. H. M. (1985), "Towards Modernization of Small Scale Industries in Bangladesh," *The Dhaka University*
- Sharma, S. C. (2012), "Institutional Support Functions to Small Entrepreneurs in India", *International Journal of Research in IT and Management*, Vol. No.2, Issue-2, pp.1007-1017.
- Studies, Part-c, Vol. VI, pp.103-109.
- Second Five Year Plan (1980-85), Government of Bangladesh (GOB)
- Third Five Year Plan (1985-90), Government of Bangladesh (GOB)

Appendices

Table 1
Entrepreneurs opinion about loan application form

Variables	Frequency in percentage
Loan application is lengthy	26
Non availability of data of industry	32
Banks require extra information	27
Cumbersome loan processing	34

Source: Field Investigation

Note: percentage exceeds 100 because respondents mentioned more than one items (base:41=100%)

Table 2
Entrepreneur's opinion about project appraisal of Bank

Project Appraisal	Frequency in percentage
Red-tapism	25
Undue delay in processing the proposal	29
Unsympathetic attitudes of some of the officials	28
Lack of professional experts at district level	22
Long delay in project appraisal	27
Unrealistic project appraisal	22

Source: Field Investigation

Note: percentage exceeds 100 because respondents mentioned more than one items (base:41=100%)

Table 3
Time Taken in Processing Loan Application under special Credit Programme as at Dec. 2013

Time (in Months)	No of Cases	Percentage of Total
Up to- months	23	28
2-4 months	10	12
4-6 months	35	42
6-9 months	15	18
Total	83	100

Source: Field Survey

Table4
Entrepreneurs' opinion about documentation

Documentation	Frequency in percentage
Lengthy documentation procedure	35
Large formalities in documentation	37
Cumbersome documentation	38

Source: Field Investigation

Note: percentage exceeds 100 because respondents mentioned more than one items (base:41=100%)

Table 5
Key strategies adopted by BASIC Bank for entrepreneurship Development in SMEs

Factors	Mean	Rank
Most Important Factor		
Expansion of Network	4.65	I
Profitable growth	4.63	II
Steady and sustainable growth	4.24	III
Branch expansion	4.21	IV
Technical and advisory service	4.11	V
Investment in a cautious way	4.10	VI
Important Factor		
Technological advancement	3.99	VII
Focus on core customer(customer relationship management)	3.88	VIII
Human resource development	3.85	IX
Need based financial services	3.73	X
Co-operation and collaboration with other institutions	3.66	XI
High standard customer service	3.44	XII
Search for newer avenues for investment	3.34	XIII
Cost effective delivery channel	3.23	XIV
Total Business Banking	3.33	XV
Least Important Factor		
Operational Excellence	2.78	XVI
Trust and Team spirit	2.69	XVII

Source: Field Investigation

Table 6
Responses of the Loanees Regarding 17 percent rate of interest rate per annum

Responses	No. of Respondents	% of Total
Very high	29	71.43
High	12	28.57
Reasonable	-	-
Low	-	-
Total	41	100

Source: Field Investigation

Table 7

Opinion of the Entrepreneurs Regarding the Reasonable Rate of Interest

Sl. No	Reasonable rate of interest	Responses	% of total
1.	5-6%	14	33.83
2.	7-8	22	52.63
3.	9-10%	5	13.54
4.	Above 10%	-	-
	Total	41	100

Source: Field Investigation

Table 8

Access to debt financing

	Mean	Financing Adequacy	
		Yes	No
Access to debt financing today	3.70	23	18
Access to debt financing compared without past	4.03	33	8

Source: Field Investigation

Table 9

Preferential Sources of financing as per respondent response

Sources of Financing as per preference	Percentage
Owners personal savings	40
Borrowing from friends and relatives	30
Bank Loan	40
Funds from business partners	60
Funds from external parties	30
Funds from internal employees	40

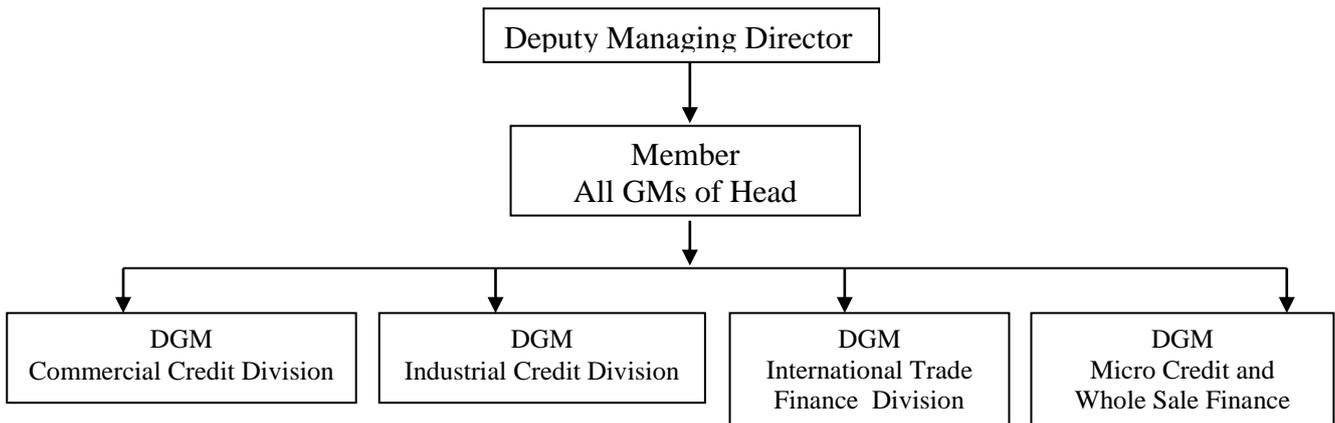
Source: Field Investigation

Table 10

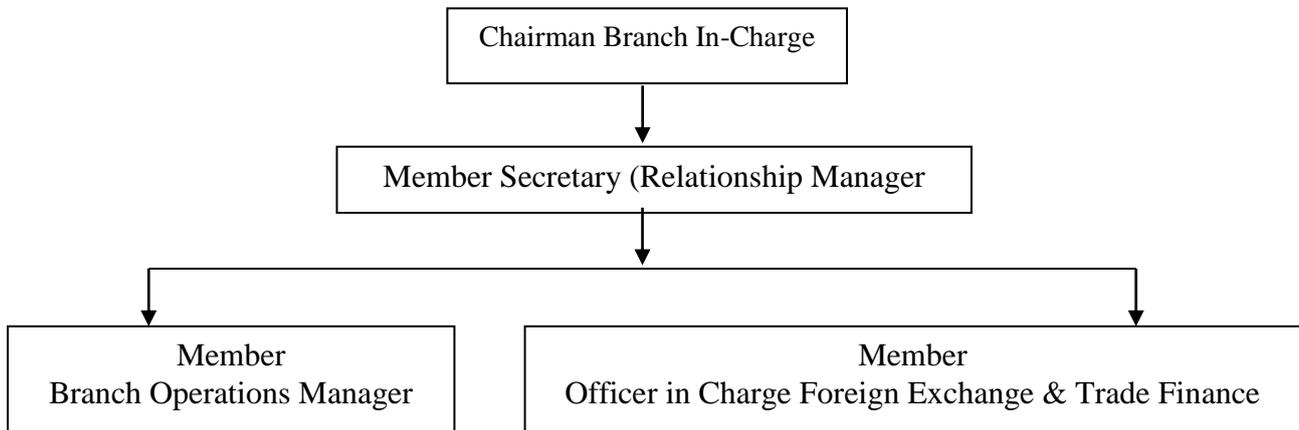
Obstacles to Loan financing

Factors	Weighted Mean
Most Important	
Interest rates are too high	4.27
Loan Procedures are bureaucratic	4.23
Important	
There are no attractive financial tools for small firms	3.80
Banks are not willing to bear the risks that a small firms involves	3.70
Banks require too high collateral to approve a loan	3.65
Banks require too much information to approve a loan	3.57
Least Important	
The period between the agreement and the granting of the loan is too long	2.90

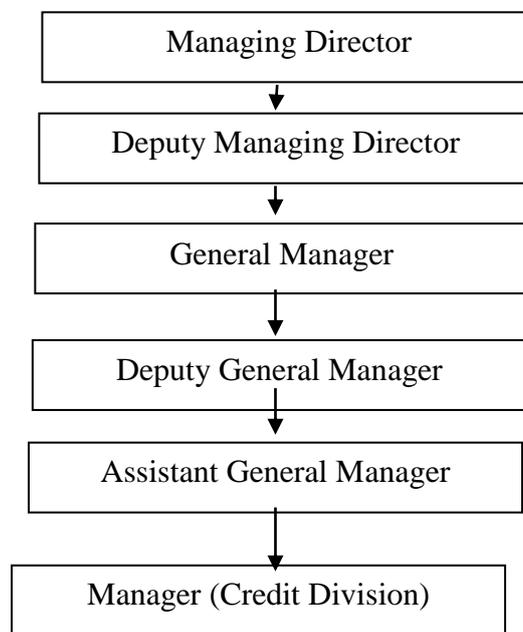
Source: Field Investigation

Figure1: Credit Committee (Head Office Level)

Source: Credit Policy Manual of BASIC Bank Ltd.

Figure 2: Branch Credit Committee:

Source: Credit Policy Manual of BASIC Bank Ltd.

Figure: 3 Approval Authorities:

Source: Credit Policy Manual of BASIC Bank Ltd.