

# Where Do You Go for Loans?

## Sonali Bank

Credit for Urban Women Micro Enterprise Development (CUMED) is an urban women entrepreneurship development initiative of Sonali Bank. This special credit programme is introduced by Sonali Bank to help flourish the productive potentials of those women who have little access to formal bank's fund because of their inability to offer collateral. The main objectives include, *inter alia*, creation of employment opportunities and development of entrepreneurial skill of the women.

### The terms and conditions of loan:

#### Legal Status of the Project

- Proprietorship
- Partnership
- Private Limited Company

#### Loan Size

Tk 50,000/- to Tk 200,000/-

#### Loan Eligibility

\* Experience, skill, potential and integrity, reputation and good conduct in money transaction. Not a bankrupt/insolvent/insane.

#### Interest Rate

\* 14% per annum (simple)

#### Rebate on Interest

\* 10% of interest for timely repayment of loan.

#### Loan Repayment Period

\* 1-3 years

#### Project Implementation Period

\* 3 months (maximum)

#### Security of Loan

\* Personal guarantee of the entrepreneur  
\* Personal guarantee in favour of entrepreneur from an acceptable person.

#### Hypothecation of project assets

\* Collateral for loan exceeding Tk 200,000.

#### Loan Application Fee

\* Tk 100 (non-refundable)

#### Project Appraisal Fee

\* 1% of loan amount (non-refundable)

## Agrani Bank

**BACKGROUND**  
The Employment Generation Project for the Rural Poor (EGPRP) financed through IFAD Loan No. 378-BD has come into operation upon signing of a Loan Agreement in June '95 by IFAD and GoB. The project is designed to reinforce the efforts of the Government of Bangladesh (GoB) to meet its strategic objectives of increasing output and employment through nationwide development of small enterprises, to which it accords high priority.

#### LENDING TERMS AND CONDITIONS

**Target Group:** The target group for ownership/operation of micro-enterprises consists of four sub-groups:

(a) Owner/operators of existing micro-enterprises who have proven managerial and technical skills in self employment and who wish to expand, upgrade or diversify their business.

(b) Persons who have acquired on their own the skills and capacity to operate micro-enterprises, undergoing an apprenticeship or working as skilled labourers and who want to start their own business.

(c) Persons capable of 'graduating' from ongoing poverty alleviation schemes supported by NGOs viz., BRAC, Proshika, ASA and Grameen Bank in related sectors and interested to expand their on-going small income generating activities.

(d) The unemployed landless, who fall into two categories: (i) persons, such as graduates from universities or schools of higher education, and capable of starting commercially viable micro-enterprises after undergoing supplementary training and (ii) those seeking wage employment in preference to self-employment.

**Eligibility:** The target group entrepreneurs should be aged between 18 to 45 years having net yearly income within Tk 10,000 to Tk 30,000. They should have experience or skills in micro-enterprise operations and should not be a defaulter of loans.

**Loan Size:** The minimum and maximum loan size under the project is Tk 20,000 and Tk 250,000 respectively.

**Security Requirements:** For loans up to Tk 50,000, the borrowers do not require to offer any collateral security against the loan. However, for loans above Tk 50,000, collateral security is required. The credit retailers are normally required to offer collateral securities against loans taken from bank for on-lending to the target group borrowers. However, liberal conditions (including relaxation of security requirements) are applied in lending to the NGO credit retailers by the bank.

**Interest Rates:** Under the direct lending by the bank branches, interest rates on short and long term lending are 12% and 14% respectively. The Credit Retailers (NGOs) are allowed a maximum 3% discount from the rates as mentioned above on loans taken by them for on-lending purpose.

**Loan Repayments:** Repayment terms of all the loans are flexible that are determined based on practical cashflow situation. The credit retailers apply their own terms and conditions for collection of loans from the ultimate borrowers.

**Loan Supervision:** As the loan sanctioning authority under the project is decentralized to branch and regional levels, the concerned officials at branch and regional/zonal levels supervise each and every loan case regularly and advise the borrower entrepreneurs in proper management of their cashflow and repayment of loans. They also assist in establishing linkages with the marketing channels and technology dissemination services available within the reach of the project.

## Micro Enterprise Development Initiative (MIDI)

Micro Enterprise Development Initiative (MIDI) is a special credit programme introduced by MIDAS in 1993. MIDI provides short-term loans on easy terms for the development of micro enterprises in the country. The main objectives of MIDI are to create employment opportunities and develop entrepreneurship skill, especially among women entrepreneurs.

#### The terms and conditions of loan:

#### Legal Status of the Project

- Proprietorship
- Partnership
- Private Limited Company

#### Loan Size

\* Tk. 50,000-Tk. 500,000

#### Total Project Cost

\* Tk. 2.0 million (maximum)

#### Debt-Equity Ratio

\* 80:20 (maximum)

#### Interest Rate

\* 14% per annum (simple)

#### Rebate on interest

\* @ 10% of interest for timely repayment of loan

# Starting Your Own Business: How to Get the Finance

## Excerpts from Speakers' Deliberations



### Mr. A. Karim, Managing Director, MIDAS

- Briefly described the Micro Enterprise Development Initiative (MIDI) of MIDAS
- Encouraged women to opt for entrepreneurship in different fields of business
- Said that there is a crisis in the entrepreneurship development process in Bangladesh. The crisis has nothing to do with money, rather it stems from the lack of trust. "Bankers can not trust entrepreneurs and entrepreneurs can not trust the sincerity of bankers", he remarked.
- Emphasized on the fact that enough funds for loans are available with banks but the problem lies with the confidence gap that exists between a banker and an entrepreneur. For numerous reasons, bankers have lost confidence in the borrower and borrowers also perceive bankers in a negative light.
- Pointed out that at MIDAS they not only appraise the project idea but also the individual in terms of his or her honesty, integrity and commitment.
- Welcomed interested individuals to pay visits to MIDAS office in Dhanmondi, Dhaka.



### Akhter Ayesha Khanom, DGM, Agrani Bank

- Highlighted Agrani Bank's numerous credit portfolio: from large industrial loans to small collateral-free loan in rural areas under the Employment Generation Project for the Rural Poor which is an IFAD-supported project for development of micro-enterprise sub sector.
- Emphatically mentioned that the present lack of trust between a bank and an entrepreneur can be attributed to unscrupulous practices of certain bankers as well as businessmen.
- Informed the audience that bankers, by their very nature of work, are busy professionals and hence a prospective client should always make appointments and then discuss something concrete and meaningful. Often bankers go through the experience of people dropping by and to inquire about loan without much

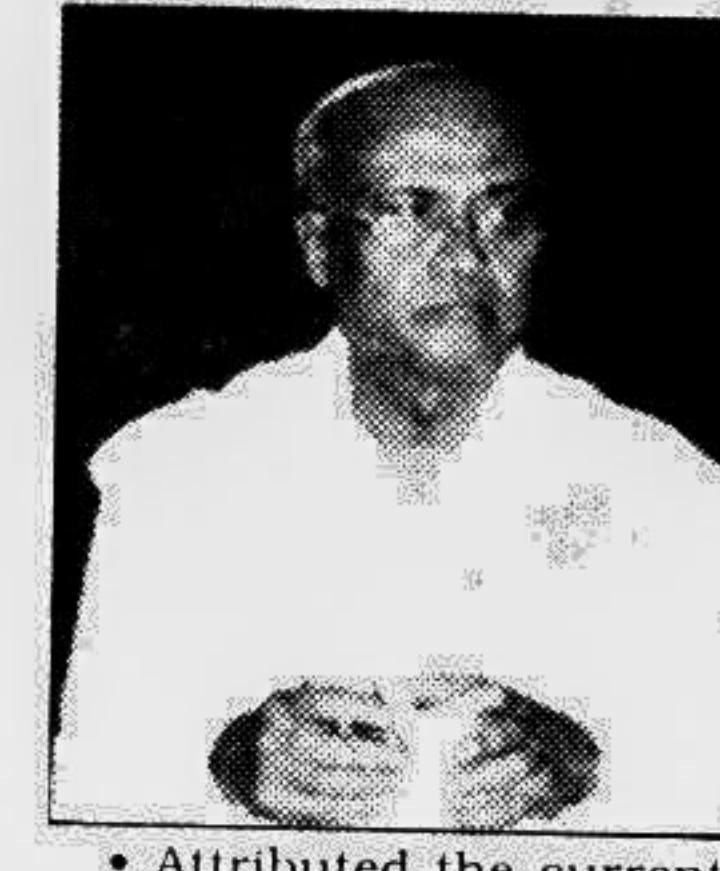
- Dispelled the idea that bankers are a happy bunch: "Every other week a banker loses job here and another banker loses job there" she said. "We bankers are also judged by our superiors in terms of professionalism, etc."
- Concluded by saying that it is best if the entrepreneur himself or herself develops the business plan as opposed to paying a so called "consultant" to do the job for the entrepreneur.



### Md. Awal, SPO and Coordinator, Micro Credit, Sonali Bank

- Straight went into the 3 innovative credit products of Sonali Bank.
- Expressed his surprise to see that no housewives were present at this workshop.

- Briefly described the first among the 3 innovative credit products which goes by the following name: Credit for Urban Micro Enterprise Development (CUMED). This is for women who don't have collateral but has initiative and dynamism. The loan amount ranges from Tk. 50,000 to Tk. 20,000/- with an interest rate of 14%. Then he elaborated on the software loan scheme and finally talked on the linkage program with NGOs such as Grameen fisheries and Shakti Foundation.
- Shared the good news that the linkage program with NGOs are reaping very good results: a surprising 100% loan recovery has been possible.



### Dr. M. Shamsul Haque, Director, MBA Program, North South University

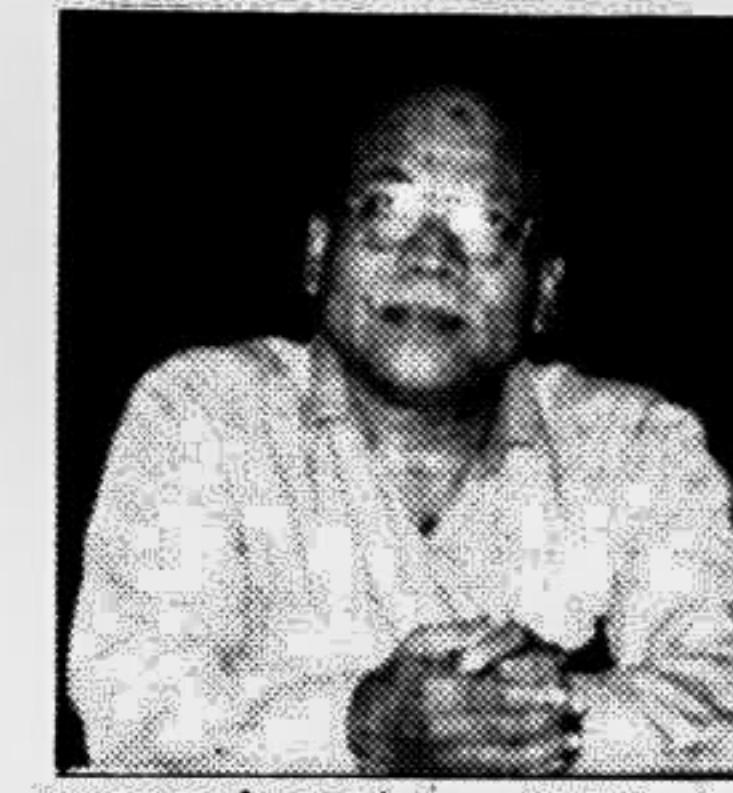
- Drawing on his teaching, training and research experiences in North America, he mentioned that since the late seventies an entrepreneurship revolution has been taking place in the USA and Canada, among other countries.
- Attributed the current success of North American economy to the country's entrepreneurial culture.
- Pointed out that educational institutions play significant role in those countries. Speaking of

Bangladesh, efforts are underway to incorporate entrepreneurship curriculum in the HSC and beyond.

• Echoing Mr. Karim of MIDAS he said "Perhaps we don't have dearth of money, but we certainly are suffering from poverty in terms of the trust that we have in each other." But we don't have to sit idle; the universities and other educational institutions can play a major role in nurturing and developing that lost trust.

• Told that many people don't realize that a proper and appropriate training is no less than an investment and that is why it is as asset too. Urged all to take advantage of this increased availability of training and development activities.

• Concluded by saying that if you want to take entrepreneurship seriously, then you must invest time and energy on developing a proper business plan. And a good business plan not only makes you to think seriously but it also a better chance of getting accepted by a banker.



### Mr. A.J. Masudul Hoq, Managing Director, Employment Bank

- Introduced Employment Bank as an exceptional bank in true sense of the word. Unlike any other bank, Employment Bank disburses loans only to unemployed people aged not more than 40 years. Both educated people and those who could not study can apply and are eligible for the Bank's loans.
- Informed that anyone who has a source of income, however small that may be, is not eligible for the loan from the Employment Bank.
- Indicated that projects have to be productive and the person interested to secure Employment Bank's loans must receive training from government approved training institutions such as youth directorate-run course on fisheries, poultry, etc.
- Assured that no collateral is required up to a loan amount of Tk 50,000. In such a case the academic certificates must be kept with the Bank until the last installment of the loan is paid. And with collateral an individual can receive as much as Tk. 5,000,000. A group of professionals such as doctors and engineers may take as much as Tk. 50,000,000 (fifty lakh).
- Mentioned that repayment period ranges from 2 to 5 years. Can be paid in easy weekly, fortnightly or monthly installments.

# Financing Small Business: Myth vs. Reality

## Quazi Mahmud Ahmed

### Unemployment, Training and Finance

All of us know that unemployment is a serious national problem in Bangladesh today. Many efforts by the government, NGOs and even private sector institutions are underway to reduce its adverse impact—whether through skills training in various trades or simply through providing entrepreneurship development training. But a careful observer will point out that there are only a very limited number of jobs available in a certain year. And that is why we seek refuge in entrepreneurship development and self-employment training. In recent years, the donor community also has been emphasizing on this training aspect under the technical assistance argument. The idea is to help people switch from the all-pervasive "employment mentality" to the "entrepreneurship mentality". Among many others, the CEFE Approach (CEFE) stands for "Competency-based Economics Through Formation of Entrepreneurs" of the Private Sector Promotion, Component-B (PPS-B) Project of the German Technical Cooperation (GTZ) is a very good case in point. More recently we have seen the encouraging entry of the JOBS

Program—a dynamic USAID initiative working with micro-, small- and medium-size enterprises to expand their businesses—which, among other services, has started imparting training programs for both bankers and their clients in significant numbers.

Interestingly enough, most people involved with entrepreneurship development training now realize that training is only one side of the story and that's why is not enough; these young men and women who receive training need money to turn their dream ideas into reality. Simply put, they need loans from banks and other financial institutions. And any man or woman in the street knows how difficult it is to secure a loan from a bank. Unlike in the USA or in Western Europe, the loan scenario for a start-up entrepreneur in Bangladesh is very bleak. It is common knowledge that bankers, by tradition as well as by training, are conservative and can rarely be called "client friendly". Probably because of the default culture of the recent past, bankers are often trained on how to say "no" to a prospective client, whether that particular entrepreneur's proposal has merit or not. Many believe that this "ultra-conservative" attitude of typical bankers (especially in the public sector, and certainly

not all of them, though) needs a change if we want to create entrepreneurs in this country as we approach the new millennium. This, however, does not mean that suddenly bankers will start giving loans to anyone and everyone who approaches, but there is a clear need to go for a balance between bankers' professional responsibilities and the need for placing trust on the entrepreneur and the entrepreneurship development system.

**Sources of Finance**  
For many small firms, or start-up entrepreneurs certain sources of finance are not available due to entry barriers. Needless to say, they can not raise capital through the stock exchange, and face difficulties raising certain types of finance such as long-term loan because of the automatically higher risk associated with firms who have little equity in the form of share capital. In majority of cases, the only equity is going to be that of the proprietor.

It is often the case that start-up entrepreneurs and small firms are likely to rely heavily on personal savings and equity. Well, there are a variety of sources of finance available to the entrepreneur and small- and medium-sized firm. These can be classified as internal and external sources. Internal sources of

finance include the personal equity of the entrepreneur, usually in the form of savings, or perhaps money raised from family and friends. Of course, after the start-up of the firm, retained profits and earnings provide internal capital. External finances can be drawn from a number of sources. The principal sources for the SME and entrepreneur are going to be advances from banks, equity from venture capitalists (in the absence of formal venture capitalists or as they are more popularly known as 'business angels', it is again the most generous relative or someone in the vicinity comes along the way), and short term trade credit. As many are aware these days, other external sources may include leasing and hire purchase.

In addition to these sources, in Bangladesh, the small firm entrepreneur may qualify for "soft" loans (sometimes without collateral if the amount is small) from the following programs and projects: Micro Enterprise Development Initiative (MIDI) of MIDAS (Micro Industries Development Assistance Services), Employment Bank, Micro Enterprise Development Unit (MEDU) of Agrani Bank, Credit for Urban Micro Enterprise Development (CUMED) project of Sonali Bank and the like.

for the bank to control. Once an entrepreneur has taken the bank loan, there is no guarantee that she or he will act in the best interests of the bank. In theoretical terms, this is an example of a principal-agent situation, with the bank as principal, who engages the borrower as agent to undertake the venture, resulting in a profit for both sides. This is why, moral hazard is a monitoring problem and for relatively small amounts of finance it is not economically feasible for banks to monitor performance closely. For this reason, as we can rightly guess, banks usually require security, yet this contributes to the problems facing entrepreneurs.

**Training: Back to the Basics?**  
Against the above backdrop one can safely conclude that in order to give birth to the much-needed entrepreneurial culture in Bangladesh, attempt should be initiated to reduce the confidence gap that exists between the banker and the entrepreneur. To do this, we not only need more frequent open-minded exchanges between these two parties but we also need to train both sides so that each can empathize with the other.

**A core group member of the YEP Forum, the author teaches entrepreneurship and management at the School of Business, North South University.**

**Financing the Venture: The Bankers' Perspective**  
As already noted, by training, bankers in Bangladesh are conservative. Some say that bad experiences with some defaulting entrepreneurs have led bankers to master the fine art of refusing credit requests.

Whether in Bangladesh or in Burundi, bankers face some problems when they deal with loans to SMEs and start-up entrepreneurs. The first problem has to do with what is known as "adverse selection" which happens when either the bank provides finance for a venture that subsequently fails or refuses finance for a venture that would have been successful. Now it may occur because the typical bank here in Bangladesh does not have all the available information, often the data are imperfect. The difficulty here is that the information required by the bank to assess the risk of the business proposal is not only difficult but also expensive. However, it can be argued that banks should reduce the mistakes they make, since they are supposed to have the skills and resources necessary to increase the frequency of correct decisions.

The second issue in financing small firms has to do with "moral hazard" which is even more difficult

for the bank to control.

Net worth position of the client that may include other personal assets to repay the loan, in case the project fails to generate enough cash to service the loan.

Very few unsecured loans are given to the client because of visible indication of the small business owner's towards his dedication to make the venture a success.

**Conditions**  
Potential growth in the market, competition, location, form of ownership, loan purpose, shape of the overall economy, interest level, rate, demand for money. If there is not adequate supply of raw materials, if the government policies are against your proposed business and if a cheaper substitute of your product is about to be marketed.

**Prepared by : M. Zakir Hossain, CEO of Young Consultants**

## Participation Summary

### No. of participants [101]

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