

# **Contribution of Equity Entrepreneurship Fund towards Development of S.M.E Sector in Bangladesh**

by

Md. Shahid Reza

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Examination Committee: Dr Juthathip Jongwanich (Chairperson)  
Dr. Sundar Venkatesh  
Dr. Sununta Siengthai

Nationality: Bangladeshi  
Previous Degree: Masters in Business Administration  
University of Dhaka  
Dhaka Bangladesh

Scholarship Donor: Bangladesh Bank

Asian Institute of Technology  
School of Management  
Thailand  
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## Abstract

The specific purpose of this project is to develop a picture on the development of the SME sector of Bangladesh through contribution of Equity Entrepreneurship Fund (EEF). Three key sectors are chosen for the analysis, namely (1) Software and ICT Sector; (2) Agro-based Sector; (3) Food Processing & Others Sectors. Bangladesh economy is showing an overall growth trend during the last two decades. Per capita income is rising from USD 200 in the early 1990s to more than USD 700 in 2010. It is because of the growing of SME sector in Bangladesh during this period. The Govt. of Bangladesh has taken some significant initiatives to develop sector. Initialization of EEF and SME foundation are the best two initiatives taken by the Govt. The report is about the contribution of these three sectors to the Bangladesh economy and how the sectors are patronized by the EEF assistance. The industry profile of the sectors is:

The agro-based and-food processing sectors are very promising sectors of Bangladesh economy. Especially the shrimp hatchery situated in the south region of the country and white fish hatchery situated in the north region of the country brings a revolutionary change in the fishing industry of Bangladesh. Most of the hatcheries in this part are established by the assistance of EEF. During the financial year 2010-11 the sector earns 5.67 crore USD. This sector totally changes the socio-economic behavior of the local people. The percentage of unemployed people is decreasing year by year. The cheap labor force of the country is the heart of this sector.

ICT sector is a relatively new one in comparison to other business sectors in Bangladesh. The huge potentiality of the ICT sector has commended inquisitive interests from all concerned. In the recent years, the local ICT sector has grown enviably.

The size of Bangladesh ICT industry at present stands at USD 180 million with over 3,500 local enterprises operating in hardware, software and ISP segments. The hardware segment dominates the market share (65 per cent) while the relatively late entrant, software segments command about 15 per cent of the total market.

The software segment is showing healthy growth in terms of export earnings. According to BB sources, export earnings from Software were USD 43.41million in 2008-09, registering a growth of 25.43 per cent from the previous year.

The strengths of Bangladesh ICT sector is the human resources. An educated, trainable and young workforce working in this sector possesses the required skill sets to compete in the global scenario.

**Key words:** Equity Entrepreneurship Fund (EEF), SME, ICT, Agro-based & Food processing sector, GDP, Economic growth.

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## **List of Abbreviations**

AIT	Asian Institute of Technology
ADB	Asian Development Bank
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BSCIC	Bangladesh Small and Cottage Industrial Corporation
CBA	Central Bargaining Agency
EEF	Equity Entrepreneurship Fund
EU	European Union
FI	Financial Institutes
GDP	Gross Domestic Product
ICB	Investment Corporation of Bangladesh
ICG	International Consultancy Group
ICT	Information and Communication Technology
IRR	Internal Rate of Return
MSE	Medium scaled Enterprise
PBP	Payback Period
SME	Small & Medium Enterprises
SSE	Small Scaled Enterprise
WB	World Bank

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background**

This paper is based on the development of Small & Medium Enterprises (SME) sector of Bangladesh through contribution of Equity Entrepreneurship Fund (EEF). In Bangladesh, development of SME sector can be treated as the vital instrument to alleviate poverty and for industrialization of the country. But still after 40 years of its independence, the country failed to attract adequate investment on the process of industrialization. Due to lack of necessary support and patronization, the big number of new small and medium entrepreneurs could not thrive as per expectation even though they have had the potential. To overcome the problems the Govt. of Bangladesh introduces a fund named EEF in the year 2001 to inspire the potential investor to invest in SME sector. EEF is an equity support program sponsored by Bangladesh Bank (BB) with a view to inspire the risky but potential SME sectors like:

- ✓ Software industry
- ✓ Food processing &
- ✓ Agro-based industries

The Government of Bangladesh authorizes the Bangladesh Bank to manage the EEF by the agreement on 26 December 2000 between Bangladesh Bank and Ministry of Finance. But later, according to the circular of Ministry of Finance on 24/02/2009, the Investment Corporation of Bangladesh (ICB) is authorized to perform all the task of EEF except the task of Fund Management, Policy Making, Monitoring & Performance Audit.

### **1.2 Problem Definition**

Even though the government introduces EEF funds but so far there has been no clear evidence whether this fund helps SMEs in the country. In particular, whether productivity and growth of SME has been changed has still been not clear.

### **1.3 Objectives**

The specific purpose of this project is to develop a picture on the development of the SME sector of Bangladesh through contribution of EEF. Three key sectors are chosen for the analysis, namely (1) Software and ICT Sector; (2) Agro-based Sector; (3) Food Processing & Others Sectors

The specific objectives of this report are -

- To have an overview on the EEF and its area of concentration.
- To have an overview on the SME and its area of concentration.
- To evaluate the performance of SME under EEF.
- To evaluate the productivity of SME Sector of Bangladesh through employment generation and industrialization.
- To make a comparison between the performances of SME with and without the contribution of EEF.
- To find out the contribution of SME in total Gross Domestic Product (GDP) over the years.

## 1.4 Scope and Limitations

I have specially focused for data collection on SME and EEF related to the economic development of Bangladesh through employment generation, industrialization as well contribution to overall GDP. My scope is to explore the SME sector as a vital and potential sector to eradicate the poverty of Bangladesh. Bangladesh is the world's most populated country in the context of people living per square km. About 55% of the total population of the country is living under the poverty level. To eradicate this huge amount of poverty, development of SME sector can be the most vital one.

The limitation of this study is as follows:

- (1) Not all SME sectors are included in our analysis. Only three sectors, which are Software industry, Food processing industry and Agro-based industries
- (2) With time limitations, no qualitative is conducted from SME side in this study, especially problems that SMEs could face from applying funds from EEF. Interviews are conducted only from the officials and stuffs.

## 1.5 Methodology

For the preparation of the final report a methodical arrangement is required from topic selection to preparation of the different part of the report. For writing the report identification and collection of data sources, classification of data, analyzing, interpreting and presenting the data in an organized manner is very important. The above system is only helpful to reach in the desired conclusion. This overall process of methodology is given here in the form of flow chart:

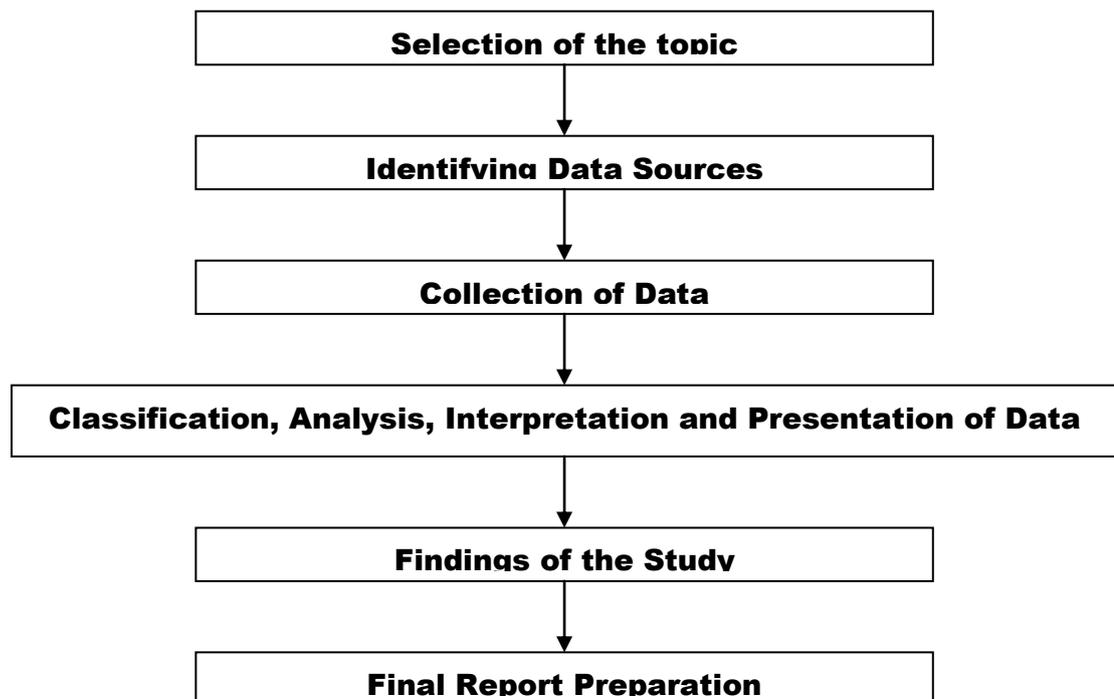


Figure 1: Flow chart of methodology

- A. **Selection of the topic:** AIT management assigning the job for me to select a topic for my project. According to their desire I have consulted with my supervisor of Bangladesh Bank to select the topic for my project. According to his opinion I

have selected the topic and submit to Asian Institute of Technology (AIT) management for approval.

- B. **Identifying data sources:** Essential data sources are identified which is very important for completing the entire workout of the project. To reach the objective secondary data are used while the study also requires interviewing the officials and staffs where necessary.
- C. **Collection of data:** Data are collected from the concerned departments of Bangladesh Bank, Investment Corporation of Bangladesh (ICB) and SME Foundation of Bangladesh as there is no provision and scope for using sampling technique.
- D. **Classification, analysis, interpretation and presentation of data:** To classify, analyze, interpret and presentation of data I used some arithmetic and graphical tools to understand them clearly.
- E. **Findings of the study:** After scrutinizing the data problems of the study are pointed out and they are shown under concerned heads. Recommendations are suggested thereafter to overcome the problems.
- F. **Final report preparation:** On the basis of the suggestions of my project supervisor some deductions and additions are made and final report is prepared thereafter.

## **1.6 Presentation of the report**

The entire report will contain five chapters.

Chapter 1 will contain the introductory part of the report i.e. background, problem definition, objectives, scope and limitation & methodology of report.

Chapter 2 will be the review part of the report. It will contain overview of SME and EEF of Bangladesh.

Chapter 3 will describe the factors contributing the development of SME sector of Bangladesh and the role of EEF towards the development of SME.

Chapter 4 will contain the analysis part of the report. It will describe the effect of EEF on the development of SME sector. It will also contain the contribution of SME sector on employment generation and contribution to GDP of the country.

Chapter 5 will be the conclusion and recommendation part of the report. It will contain the findings and some policy inference.

## CHAPTER 2 OVERVIEW OF SME SECTOR & EEF

### 2.1 Historical background of the SME sector of Bangladesh

#### 2.1.1 Bangladesh-An Overview

Bangladesh is a densely populated small country, located in the south region of greater Asia. The country has got its independence on December 16, 1971. Its total area is 1,47,570 sq. kilometers, surrounded by India on the west, the north and the north east, Myanmar on the east south and the Bay of Bengal on the south. The cultivable land amounts to approximately 63% of the total land area, of which 17.5% is single cropped, 54.7% double cropped, 20.4% triple cropped and remaining 7.4% is fallow land. The cropping intensity is approximately 180%.

The country has a population of 142 million. In terms of population Bangladesh is the eighth largest populated nation in the world. The population density is about 964 persons per sq. Km. Population is growing at 1.48% per annum. The sex ratio is 100.27 males to 100 females.

#### 2.1.2 Geo-Socio-Economic Background

Bangladesh is a least developed country. Agriculture is the main occupation of the people of the country. Therefore, the economy is predominantly agro-based and rural in nature. So, agriculture has a major share in the Gross Domestic Product (GDP). But the share of agriculture sector in GDP is declining and share of industrial (i.e., SMEs) sector as well as service sector is increasing. In testimony of this fact, share of Agriculture, Manufacturing industry & Service Sector in GDP over the period from 2004-05 to 2010-11 is shown in the following table-1 & 2:

**Table 1: GDP Agriculture, fishing, manufacturing & Service Sector in Bangladesh.**

Figure in million Tk.

Industrial Origin sector	Year						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	501,617	558,003	632,479	726,966	804,355	915,579	1,033,872
Fishing	154,564	163,168	177,827	197,901	218,138	242,229	269,928
Manufacturing (Medium & small scale)	387,952	489,227	511,780	572,008	658,902	753,081	884,296
Service	338,763	382,832	435,676	502,002	578,778	684,655	750,607
<b>Total GDP</b>	<b>3,707,070</b>	<b>4,157,279</b>	<b>4,724,769</b>	<b>5,458,224</b>	<b>6,149,432</b>	<b>6,943,243</b>	<b>7,874,950</b>

Source: Bangladesh Bureau of Statistics

**Table 2: Agriculture, fishing, manufacturing & Service Sector's share in GDP.**

Industrial Origin sector	Year						
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	13.53	13.42	13.39	13.32	13.08	13.19	13.13
Fishing	4.17	3.92	3.76	3.63	3.31	3.49	3.43
Manufacturing (Medium & small scale)	10.47	11.77	10.83	10.48	10.71	10.84	11.23
Service	9.14	9.20	9.22	9.20	9.41	9.86	9.54

As well as the other developing countries of the world manufacturing industry and service sector is gradually increasing and its contribution to GDP is rising in Bangladesh. As a result, these sectors are becoming more competitive, so improvement in the productivity of this sector through application of information and communication technology has become the order of the day.

### **2.1.3 Brief scenario of SMEs in Bangladesh**

With a view to achieving its millennium development goals such as eradication of extreme poverty, developing a global partnership for development etc., the government of Bangladesh has given highest preference toward the development of Small and Medium Enterprises (SMEs) in Bangladesh. At present SMEs in Bangladesh provide its 80% industrial employment. SMEs are in fact the very backbone of the economy of Bangladesh to generate work opportunities especially for young people and females workers who want to work.

Of the total industrial units about 90% are the SMEs. Recent estimate has revealed that there are 0.6 million SMEs in Bangladesh which are gradually occupying a remarkable position in the competitive market structure. These SMEs are the breeding ground of the large enterprises through a process of natural selection. The highly successful and innovative SMEs of today grow into the large firms and multinationals of tomorrow. The policy makers, donor agencies and researchers are now expressing their commitments towards the development of the SMEs. It is due to the fact that:

- SMEs enhance competition and entrepreneurship, and hence they have external benefits on economy-wide efficiency, innovation and aggregate productivity growth. Thus direct government support to SMEs might help Bangladesh to exploit the social benefits from greater competition and entrepreneurship and boosting up her economic growth and development;
- SMEs are more labor intensive; they are generally can create more employment opportunities. From this point of view, SMEs may be considered as a poverty alleviation tool and the seedbed for the development of entrepreneurial skills and innovation. Requirement of small capital provides SMEs easy entry and exit in their respective industries;
- Liberalization of the economy along with rapid globalization has posed severe challenges for the SMEs not only in international markets but also in the domestic

markets. As SMEs are based on relatively smaller investment, their survival depends on readily available markets with easy access.

- The characteristics of SME sector enterprises and prevailing business environment in which they operate make it difficult for them to upgrade their technologies. The technological upgrading of the SME sector in Bangladesh is an urgent requirement for the vast number of SME operators requiring transforming themselves to meet the new challenges and emerging opportunities.

#### **2.1.4 Classification and Definition of Industries**

The Industrial Policy-1999 of Bangladesh provides the following size and classification of industries.

- Large industry: employees more than 100 workers and/or has capital assets in excess of 300.00 million taka;
- Medium industry: employees between 50 to 99 workers and/or has fixed capital assets in excess of 100.00 million taka but less than 300.00million taka;
- Small industry: employees less than 50 workers and/or has capital assets less than 100.00 million taka;
- Cottage industry: engaged in manufacturing activities with mostly family members

#### **2.1.5 Key Organizations**

Many governmental, semi- governmental & non-governmental organizations/institutions at the national and regional levels are responsible for providing assistance to entrepreneurs of SMEs in the country. Industrial credit in Bangladesh is financed through multi-agency system consisting of

- a) Entrepreneurship & Equity Fund (EEF) financed by Bangladesh Bank on behalf of government especially for the venture types of investments in agro-based and ICT/Software sectors.
- b) Govt. sponsored Industrial Banks- Bangladesh Shilpa Bank, Bangladesh Shilpa Rin Sangshtha
- c) Commercial Banks both nationalized & private,
- d) Specialized financial Institutions like Bangladesh Krishi, Bank, Bank of Small Industries & Commerce,
- e) Bangladesh Small & Cottage Industries Corporation (BSCIC) e) Other Govt. organizations etc. Credit operations are carried out under different programs of SMEs industries. These are mainly i) Normal program ii) Special credit program & iii) Grants from the donor agencies.

#### **2.1.6 Sectors of SME**

There are about 132 sectors are identified as the SME sector of Bangladesh. Among them the most important sectors are:

- ✓ Agriculture and agriculture processing industry
- ✓ Fishing industry
- ✓ Preservation of Food seed
- ✓ Hatchery
- ✓ Processing of dry fish

- ✓ Information and Communication Technology (ICT) based industry
- ✓ Horticulture and flower cultivation
- ✓ Light engineering industry
- ✓ Handicrafts
- ✓ Leather and leather based industry
- ✓ Crockery
- ✓ Photography
- ✓ Food processing
- ✓ Poultry and Dairy firm
- ✓ Fish feed industry
- ✓ Mushroom cultivation
- ✓ Agricultural accessories
- ✓ Cyber café

### **2.1.7 Initiative taken by Bangladesh Bank**

- ✓ All scheduled Banks and FIs will have to engage in the activities of SME.
- ✓ Settlement of loan application of women SME entrepreneur within very short time.
- ✓ Priority will have to given in service and agriculture-based industry sector.
- ✓ Priority will have to given to the small entrepreneur.
- ✓ Every scheduled Banks and FIs will have to establish of SME helpdesk in
- ✓ Bangladesh Bank will refinance 100% of the fund invested by the women entrepreneur.
- ✓ Group based loan distribution to women entrepreneur.
- ✓ Upto 25 lakh loan sanction to women entrepreneur with only personal guarantee.
- ✓ The interest rate will be maximum 10% for the loan distributed to women entrepreneur.
- ✓ Make easier installment process for the investor.
- ✓ The investor will be able to contact directly with SME and special program unit of Bangladesh Bank.

## **2.2 Introduction to EEF**

Equity and Entrepreneurship Fund (EEF) started its journey with a fund of Tk. 100.00 Crore (Taka One hundred crore) in the Budget of the Gov. of Bangladesh for the financial year 2000-2001. Bangladesh Bank is authorized by the Government to manage the EEF. A sum of Tk.200.00 (Taka two hundred crore) has been earmarked in the budget of the GOB for financial year 2003-2004.

### **2.2.1 Background of EEF**

Bangladesh Bank according to the ordinance of 16(18) b of Bangladesh Bank order 1972 was performed all the activities of EEF by the order of the Agency Agreement signed on 26 December 2000 with Ministry of Finance. But later, according to the circular of Ministry of Finance on 24/02/2009, the Investment Corporation of Bangladesh (ICB) is authorized to perform all the activities of EEF except the task of Fund Management, Policy Making, Monitoring & Performance Audit. According to the circular a sub-agency Agreement was signed on 01/06/2009 between Bangladesh Bank and Investment Corporation of Bangladesh (ICB). From then ICB is operating the EEF.

### **2.2.2 Objectives of EEF**

The objective of EEF is to develop the risky but otherwise promising sectors, viz, software industry and food processing & agro-based industry (including fisheries & excluding the conventional sub-sectors such as rice mills/flour mills/fishing trawlers, cold storage for potato etc.) by encouraging investment in these sectors. Govt. of Bangladesh has given importance to the development of Agricultural sector and declares the ICT sector as a thrust sector. To create employment opportunity for young educated and skilled people of the country is another objective of EEF. Adequate budget is sanctioned for investing in the EEF project by the EEF authority. Investors who are creative, skilled, potential and unable to get bank loan or unable to invest in a new project for shortage of capital, this type of promising investor are encouraged by EEF for investment.

### **2.2.3 Application procedure**

The interested entrepreneurs who are willing to get assistance from EEF are asked to submit Expression of Interest (EOI) by the notice published in daily newspaper or in the website. The interested entrepreneurs who are willing to start agricultural based project will collect EOI form from the website of ICB or from the office of ICB and will submit the form to the ICB by filling accurately. The entrepreneurs who are willing to start software based project will have to collect the form from ICB with the charge of 5000 Tk. (Non-refundable) and will submit the form to the ICB by filling accurately.

The entrepreneurs who are non-resident Bangladeshi, freedom fighter, women and tribal will get priority to get EEF assistance.

### **2.2.4 Project sanction process**

The application submitted by the entrepreneur will be short listed by ICB. The short listed Company will then prepare a complete project report through a Bank, Insurance Company or other financial institute and will submit the same to the ICB. The ICB will then submit the report to the technical & financial sub-committee according to first come first service basis for evaluating the technical and financial viability of the project. A final report has been prepared by ICB according to the rules & regulation fixed by the concerned committee for those projects which are approved by this committee. ICB may inspect the concerned for the sake preparing the actual report about the project. The appraisal report by ICB then submits to the project evaluation committee for final decision. The project evaluation committee then analyzes every aspect of the project such as property valuation, cost of machineries, quality of machineries, financial and technical ability of the entrepreneur. After analyzing the committee recommends the project for approval or for disapproval. After getting the recommendation from this committee the afresh project proposal are sent to the sanction board for final approval. The board approves the project by analyzing the evaluation report and recommendation of the committees. After getting the approval from the sanction board a sanction letter is issued to the concerned company.

### **2.2.5 Money sanction process**

Money is sanctioned to the approved project after fulfilling the condition narrated in the sanction letter and the general condition of EEF. After being sure that 51% of total capital

is invested by the entrepreneur the ICB then sanction the rest 49% of the capital. The money is distributed in 3/4 installment in case of Agri-based industry and in 4 installment in case of ICT based industry.

### **2.2.6 Money return process**

The company will buy-back the share issued in the name of the Govt. of Bangladesh within 08 years from the date of first installment. Within three years the company will be able to buy-back the share in face value but for the next five years the company has to buyback the share in face value/break value which one is higher.

In case of Agri-based project 20% of the total Govt. share will have to buy-back within four years from first installment. The rest share will have to buy-back at the rate 20% in the next four years.

In case of ICT-based project total Govt. share will have to buy-back at the rate 10% for first four years and 15% in the fifth year and at the rate 25% for the next three years.

### **2.2.7 General condition of EEF**

- ✓ The entrepreneur will have to be citizen of Bangladesh.
- ✓ The project will have to Agriculture or ICT based.
- ✓ The company will have to be a private limited company.
- ✓ The entrepreneur will have to be creative, potential and skilled.
- ✓ Total project cost will be minimum 0.50 crore to maximum 10.00 crore for agricultural based industry and minimum 0.20 crore to maximum 5.00 crore for ICT- based industry.
- ✓ The project with bank loan will not be considered for EEF assistance.
- ✓ The ICT based entrepreneur should have at least 03 year experience.
- ✓ The amount of EEF assistance is 49% of total project cost. The rest 51% will have to invest by the entrepreneur himself.

### **2.2.8 Sectors & Sub-sectors been encouraged**

EEF is an equity support program sponsored by Bangladesh Bank (Central Bank) with a view to inspire the risky but potential sectors like:

Software Industry (for the projects costing not less than Taka 10.00 million).

- ✓ Food Processing and
- ✓ Agro-based Industries (excepting the traditional sub-sectors like Rice / Flour Mills, Fishing Trawlers, Potato Cold Storages etc.) for the projects costing not less than taka 15.00 million.

A n existing list of potential Food Processing and Agro-based Industrial Sub-Sectors are given below:

- ✓ Fish hatchery
- ✓ Poultry feed industry
- ✓ Dairy (Cow/Goat/Sheep) feed industry
- ✓ Cultivation and marketing of mushroom
- ✓ Production and marketing of potato flakes and popcorn baby food
- ✓ Production and marketing of juice, jam, jelly, tomato ketchup and sauce
- ✓ Canning, packaging, preserving and marketing of dehydrated fruit

- ✓ Commercially viable food industry for normal water fish and shrimp
- ✓ Packing / canning of project for govt. approved agricultural products
- ✓ Cultivation and marketing of Spirulina
- ✓ Production and marketing of fertilizer (Bio-fertilizer, mixed, urea etc.)
- ✓ Pesticide manufacturing project
- ✓ Bio pesticides, Neem based pesticide etc.
- ✓ Farming and marketing of Orchid etc.

## **CHAPTER 3**

### **FACTORS FOR THE DEVELOPMENT OF SME**

#### **3.1 SME in Bangladesh before 2001**

The Govt. of Bangladesh approved the industrial policy in 1982 as the industry sector was collapsed for liberation war and its aftermath. The new policy allowed to handover the Govt. owned enterprise to private owners. As a result of this about 1076 industry were handed over to private owners. Unfortunately as a result of privatization the industries became less competitive because the inexperienced owner. The situation was severe as a number of firms were close down in many industries, e.g. 50% of food manufacturing, 70% of textile, 100% of jute, 60% of paper and paper board, 90% of leather and rubber products, 50% of chemicals and pharmaceuticals, 65% of glass and ceramics, and 80% of engineering industries.

At the time of liberation Bangladesh was mainly large industrial based country. In 1984, Bangladesh had 58 textile mills which were suffering for lacking of adequate managerial performance as well as lacking of skilled workers. Shortage and availability of raw materials were another reason to failure of textile industry. At that time Bangladesh had 70 jute mills which were in threat from increasing competition with India and changes in demand of jute goods internationally. The reason for changes in demand was from changes in the customer preference to cheap and durable plastic products instead of using jute goods.

The Govt. of Bangladesh then started some large industry like glass factory, fertilizer industry, steel industry, paper mill and sugar industry. But these state owned industries were failed for lacking of proper management, politicization and for the destructive mentality of the CBA leaders and workers.

As a result of failure of large industry the Govt. of Bangladesh give emphasis on the development of small and medium industries which were 932,200 units in number during the year 1984. Among these units handloom were about 20.7%, bamboo and cane works were 15.4% and carpentry were about 8.1%. Before the period in 1985 the development of new industries like ceramics, cement, and light engineering were very slow.

After 1990's the govt. of Bangladesh has taken the strategy to act as the "free player" with the market forces. For this strategy a reasonable growth is shown in manufacturing industry and the share of this industry in country's GDP rose in 11% by the year 1996. By the year 1997 the investment in the sector was Tk. 57.8 billion where as it was only 22.5 billion during the year 1991. In the backdrop of the above strategy the govt. sector investment in this sector is drop by 37.03% in the year 1991 and it was further drop about 8.63% upto 1997.

#### **3.2 Initiative taken by the Government**

The actual development of industrialization was marked after 2001 when govt. started to emphasis the development of SME sector of Bangladesh. The Govt. takes various initiatives to develop the SME sector. Such as:

### **3.2.1 Refinance scheme for SME sector:**

The Central Bank of Bangladesh introduces a refinance scheme to help the entrepreneur who is interested to invest in SME sector. The objective of the scheme is to overcome the financial constraints of this sector. Through this scheme BB encourage the banks and other financial institute to extended loan facilities to the investor of SME sector. Later BB will reimburse the whole amount of the loan to the concerned bank and FIs. The scheme was started on May 01, 2004 with a budget of Tk. 100 million. This scheme was also funded by the WB and the ADB. The amount of their funding was USD 10 million and USD 30 million respectively. About three thousand SME industries will receive credit under this scheme.

### **3.2.2 Development of Equity Entrepreneurship Fund (EEF):**

The Govt. of Bangladesh allocated Tk. 100 million for this fund in the revised budget of 2005-06. This fund was allocated among 212 projects. The fund was enhanced to 200 million in FY 2006-07. The objective of developing this fund is to finance the agro-based and ICT based SME industries.

### **3.2.3 Agro-based industries assistance programme:**

Tk. 150 million was allocated for this scheme to develop Agro based industries. Under this scheme the banks and FIs will apply their usual interest rate on the loans provides to the borrowers but BB will charge the Bank rate i.e. 5%. Till 2005 about 2681 enterprises have been financed through this scheme.

### **3.2.4 Credit distribution package:**

The SME cell of BB announces that about 80% of the total resources allocation will be distributed to the small entrepreneurs.

### **3.2.5 Selection of lead Bank:**

The SME cell also declares two Banks i.e. the BASIC bank and BRAC bank as the leading bank. The responsibility of these two banks will be distribution of credit among the SME entrepreneur.

### **3.2.6 Formulation of SME foundation:**

The best initiative taken by the govt. is to develop a foundation for SME sector which will be the apex body for this industry. The Asian Development Bank support s to the govt. of Bangladesh to set the foundation. The foundation will perform all activities for the development of SME sector i.e. the foundation will formulate the development plan, arranging financing facilities, perform the awareness raising activities, evaluates the performance of the sector and will deliver the advocacy services to the entrepreneur. The role of the foundation will be to act as the one-window delivery channel for delivering promotional and administrative facilities for SMEs in the country.

### 3.3 Present Scenario of the SME Sector in Bangladesh

A national private sector survey of Enterprises in Bangladesh was conducted in the year 2003 by International Consultancy Group (ICG), in association with the Micro Industries Development Assistance and Services Bangladesh. The result of the survey shows that about six million SMEs are operating in Bangladesh. The enterprises have 31 million work forces which represent the 40% of the total work force of age 15 years and above of the population of the country.

Besides it, the survey result shows that the industrial structure of the SMEs are 40% of wholesale and retail trade, 22% of Agricultural industries, 15% of service and 14% of manufacturing industry. The find out of the surveys was that as the agricultural, services and manufacturing industry have little market share in comparison with wholesale and retail trade. So there is a huge potential to boost up the agricultural, service and manufacturing sector which can contribute more significantly to the national economy.

The contribution of SME sector in country's GDP was about 25% (Tk. 2996 billion) in the year 2003 and this contribution is reached to about 39% (Tk.29,387 billion) of the total GDP in the fiscal year 2010-2011. So it is clear that SME is the best potential route for Bangladesh for industrial development.

The last Economic Census conducted by Bangladesh bureau of statistics (BBS) shows that there are about 26 thousand small industries is operating in Bangladesh and there are about 0.5 million workforces are engaged in those small industries. The medium scale industries are 2311 in number and about one lakh fifty six thousand people are engaged in those industries. The numbers of small & medium industries are increasing and it was about 58 thousands by the year 2010. The small industries are operated by 3-10 people whereas the medium industries are operated by 10-100 people. The following table is showing the contribution in GDP by SMEs on the basis of their no. of workers.

**Table # 3 Contribution of SMEs in the GDP on Bangladesh**

Numbers of workers	Total Contribution to GDP (Taka)	Percentage of Total contribution
0-1	193 996 555 714	26
2-5	379 663 897 358	51
6-10	73 120 983 681	10
11-20	45 183 240 157	6
21-50	33 960 498 076	5
51-100	15 138 922 373	2
<b>Total</b>	<b>741 064 097 360</b>	<b>100</b>

Source: IGC/MIDAS survey.

After the year 2001 the growth of SME sector is significantly increasing. The reasons behind this are proper initiative taken by the govt. as I discuss earlier in this chapter. The following table is showing the growth pattern of SME from the year 2001-02 to 2009-10.

**Table # 4 Growth Pattern of SME**

<b>Year</b>	<b>Growth Percentage of Small Enterprises</b>
2001-02	7.69
2002-03	7.21
2003-04	7.45
2004-05	7.93
2005-06	9.21
2006-07	10.28
2007-08	11.52
2008-09	12.13
2009-10	13.68

Source: Bangladesh Economic review

### **3.4 Factors for the Development of SME sector in Bangladesh:**

#### **3.4.1 Adequate Training and experience:**

Most of the SME entrepreneurs are novice i.e. they have not proper managerial training and experience. They introduce their own style and approaches to conduct the business. They mainly focus on the short term gain approaches which give some benefit in the beginning but in the context of long run existence of the business their style and approaches are not perfect. They only emphasis on the simple calculation of the business but when complex situation arises they face difficulty to handle the situation. Another fact is that most of the time they are now aware about the changes of the business environment and changes in the technology. So, adequate training and experience of the entrepreneur is one of the vital factors for developing SME sector of Bangladesh.

#### **3.4.2 Sufficient Education and Skills**

Proper education and necessary skills are very important to run an enterprise. Unfortunately it is true that entrepreneurs who are operating SMEs in Bangladesh have not proper education and necessary skills. It is obvious that to be a successful entrepreneur education and skill are the main component. Entrepreneurs must have knowledge about the industry, managerial skill and technological knowledge to be a successful one.

#### **3.4.3 Availability of Credit**

The key problems towards the development of SMEs are the lack of access to credit. Before 2001, the only source of credit for the entrepreneur was family, friend, and other non-organizational sources. After 2001, the govt. of Bangladesh has introduces EEF, refinance scheme for the SME sector, develop SME foundation with the help of WB and ADB to make availability of credit for the SME sector. Lack of credit mainly affect to the entrepreneur to bind them to adopt inappropriate technology to run their business. As a result they do not able to cope with challenges with the stiff situation. Availability of credit helps the entrepreneur to adopt up-to-date technology and help them to cope with challenges.

There are other financial barriers for the enterprises. It includes high rate of interest, high bank charges and fees, difficult to access in credit, briberies etc.

#### **3.4.4 Favorable state Policy and Regulatory Environment**

The favorable state policy and regulatory environment is very important for the development of the industry of any country. It has a significant impact on technology adaptation at the enterprise level. The govt. of Bangladesh has declared the SME as the priority sector and advised the central Bank to take care of the sector. The Central Bank has opened a special unit name “SME unit and special program cell” for looking after the SME. This cell will directly monitor the lending activities performed by the various commercial banks and FIs in favor of SME sector. The activities and steps taken by the Department are given below:

- ✓ Formulation of SME credit policy and programmes
- ✓ Banks and Financial Institutions have been advised to disburse sector-wise target based lending in manufacturing, service sector and women entrepreneurs.
- ✓ Announced BDT 62000.00 crore target for 2011 of which BDT 6790.00 crore for cluster based
- ✓ Priority to women entrepreneurs for disbursing more credit
- ✓ Establishment of “women entrepreneurs dedicated desk” by Banks and FIs.
- ✓ Banks/Financial Institutions have been advised to enhance disbursement in manufacturing, service sector and SME women entrepreneurs.
- ✓ With the initiative of this department, a new department for SME inspection has been created namely “Department of Banking Inspection-3”.
- ✓ Refinance Scheme on Agro processing Industry

The above initiative is playing a vital role for the development of SME sector of Bangladesh.

#### **3.4.5 Adaptation with the technological Change**

The main nature of technology is that it is changing continuously. So it has great impact on SME business. In Bangladesh technology has begun to play a vital role after 1990’s when ICT industries are introduced. From then every business started to adopt the new technology. But for lacking of proper knowledge and technological know how many small business entrepreneurs remains unfamiliar with new technologies. Even those who hold better position in their business are unaware about this technology and reluctant to adopt the technology though there is no alternative without adopting it.

#### **3.4.6 Development of proper Infrastructures**

Poor and inadequate infrastructure is a major problem for the SME sector in Bangladesh. Bangladesh is a land of river but most of the river are now facing draught situation which narrowing the water transport facility in Bangladesh. The road transport is still need huge development for better communication and transport. Another major problem of the country is inadequate electricity supply. At present the shortage of electricity is so severe that most of the portions of the night the village of the country were in the dark. The industries are facing discontinuity in production due to severe load shedding.

### **3.4.7 Availability of Markets Information**

Market information is very important for the development of the SME sector. This is the era of information technology. Vast trade-related online information is available in national and international databases. But in Bangladesh most of the entrepreneurs still heavily dependent on private or physical contact for trade related information. The reason behind this is their inability to understand the data and poor connectivity in the rural areas.

As the information is available online the only steps needs to take increasing the technological know-how for the entrepreneur and developing the understanding capability of the entrepreneurs.

Making strong internet connection is also influential factors to develop better infrastructure. Some of the telecommunication company of the country is trying to make strong internet connection all over the country.

### **3.4.8 Presence of a perfectly competitive market**

The market system of Bangladesh is still to develop. Market is not perfectly competitive. The entrepreneurs are not getting the actual prices for their product. The strong influence of the intermediaries is responsible for the situation. The intermediaries are so strong that they are getting the skim from the market and both the produces and consumer are losing their actual right. So the govt. should take some initiatives to develop a perfectly competitive market for the sake development of the SME sector.

## CHAPTER 4 CONTRIBUTION OF EEF FOR SME SECTOR DEVELOPMENT

### 4.1 EEF demand side:

At the time of its inception during the year 2001-02, the initial demand of EEF was not momentous to the potential entrepreneurs due to lack of adequate promotional activities by the Central Bank or by the Government. But later the scenario was totally changed. The demand of EEF was increased year by year for the following reasons:

- ✓ The rules were made easier and the process of releasing fund was made speedier than before.
- ✓ BB introduced a maximum time frame (three weeks) to decide on project proposals on receipt from commercial banks.
- ✓ The central bank took a number of other steps to popularize the EEF among entrepreneurs.

#### 4.1.1 Applicant (Total)

Over the years the overall interest on EE Fund has been increasing. Table # 5 has shown the total applicants for EE Fund from the fiscal year 2001-02 to 2011-12.

**Table # 5 Total applicant over the year**

Fiscal year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Total no. of enterprise	10	43	183	181	88	39	30	2379	3150	3856

Source: ICB

#### Analysis:

1. During the year 2003-04 and 2004-2005 a significant improvement was seen but later the no. of applicant decreased because of some doubtfulness of the Govt. as well as the BB. The reason behind doubtfulness was that BB was not confident enough about the correct utilization of the fund.
2. After the year 2007-2008 the Govt. has decided to appoint a separate body Investment Corporation of Bangladesh (ICB) for distributing the fund and appointed BB as the supervisor of the fund.
3. ICB starts a huge promotion of the fund and asked a large no. of application from the potential SME entrepreneurs. A huge improvement was seen after the financial year 2007-08.
4. Another reasons was that a huge interest shown by the SSEs. Because of the ease of procedure, the small investors are ready to grab these opportunity more frequently.

#### 4.1.2 Applicant (Category-wise)

Over the years the overall interest on EE Fund has been increasing. Table # 6 has shown the category-wise applicants for EE Fund from the fiscal year 2001-02 to 2011-12.

**Table # 6 Category wise applicant over the year**

Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Small Scaled Entrepreneurs	4	20	114	126	65	27	19	1563	2207	2789
Medium Scaled Entrepreneurs	6	23	69	55	23	12	11	816	943	1067

Source: ICB

#### Analysis:

1. During the last three consecutive financial years no. of category wise applicant increased rapidly.
2. No. of small scale entrepreneurs was more than double from the medium scale entrepreneurs.
3. Reason behind this is appointing a separate body (ICB) for distributing the fund and appointed BB as the supervisor of the fund.
4. As ICB has a wide experience in investment they start huge promotion of the fund among the potential SME entrepreneurs and takes some easy steps to fund release process.
5. Another reasons was that a huge interest shown by the SSEs. Because of the ease procedure, the small investors are ready to grab these opportunity more frequently.
6. The government policy has also focused to invite more participation from the SSEs in numerous potential sectors by this period.

#### 4.1.3 Applicant (Sector-wise)

It is mentioned earlier that, EE Fund has focused on risky and potential sectors to promote. Till to date, it has encouraged three sectors' entrepreneurs-agro-based sector, software sector and food processing sector. Table-7 has shown the sector-wise applicants for EE Fund from the fiscal year 2001-02 to 2011-12.

**Table-7: Applicants (Sector wise)**

Fiscal year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10	2010-11	2011-12
Agro-based sector	6	21	115	131	48	21	16	1764	2239	2561
ICT Sector	2	11	32	22	19	6	6	358	358	830
Food processing & other	2	11	36	28	21	12	8	257	553	465

Source: ICB

**Analysis:**

1. The figure shown that last three consecutive years' sector wise demands increased so much.
2. Among the three sectors agri-sector demand was huge. Possible reason for that Govt. decision to appoint a separate body ICB for distributing the fund and appointed BB as the supervisor of the fund.
3. Agri-based product has a huge demand in EU market, so entrepreneurs are interested to invest in this sector especially in hatchery plant.
4. ICT and Software sector mainly relies on software sub-sector. Being the small scaled sector, software is progressing but at very steady pace.
5. There is an interesting trend for food processing and such other sectors' applicants. Here the medium scaled entrepreneurs are showing more interest than the small scaled entrepreneurs. Fruit processing, Meat processing, Iodized salt etc are leading sub-sectors here.

**4.2 Supply side of EEF**

Supply side for EE Fund will mainly focus on the allocation side of EE Fund. We will discuss on the number of allocated projects and at the same time the amount of allocation for those projects.

**4.2.1 Allocation (total no. projects)**

Over the years the overall allocation on EE Fund has been increasing. Table-8 has shown the category-wise allocations for EE Fund from the fiscal year 2001-02 to 2010-12.

**Table # 8 Total No. of project sanctioned by year**

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
10	83	129	22	2	1	0	124	504

Source: ICB

**Analysis:**

1. During the year 2003-04 and 2004-2005 no. of sanctioned project was huge in respect of applicant. The fund was then under the authority of BB and most of the potential entrepreneur was unaware about the fund at that time. So to encourage the entrepreneur BB has sanctioned more projects.
2. During the year 2005-06 to 2007-08 BB was careful to sanction new fund and starts monitoring the fund strongly as they were thinking the fund is mis-utilized.
3. During the year 2008-09 the Govt. has decided to appoint a separate body (ICB) for distributing the fund and stop releasing new fund on that year.
4. ICB starts a huge promotion of the fund and asked a large no. of application from the potential SME entrepreneurs. As a result no. of total applicant was. But ICB was careful to choose the potential entrepreneur so no. of sanctioned project was not increased in the same ratio as it was increased in total no. of applicants.

#### 4.2.2 Allocations (Category-wise)

Over the years the category wise allocation on EE Fund has been increasing. Table-9 has shown the category-wise allocations for EE Fund from the fiscal year 2001-02 to 2010-12.

**Table # 9 Category wise allocation amount**

Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Small Scaled Entrepreneurs	4	55	86	13	2	1	0	74	312
Medium Scaled Entrepreneurs	6	28	43	9	0	0	0	50	192

Source: ICB

#### Analysis:

1. No. of sanctioned small scale industries are almost double than that of medium scale enterprise.
2. No project was sanctioned during the year 2008-09.
3. After taking the charge of the fund ICB starts huge funding in the SME sectors.
4. Maximum no. of project was sanctioned during the year 2010-11.

#### 4.2.3 Allocation (Sector wise)

The focus of the equity sharing fund is to provide equity capital to the risky and potential sectors, thus its' focus were the entrepreneurs from agro-based sector, software sector and food processing sector. Table-10 has shown the sector-wise allocations for EE Fund from the fiscal year 2002-03 to 2010-11.

**Table # 10 Sector wise allocation of projects**

Fiscal Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10	2010-11
Agro-based Sector	55	87	12	2	1	0	78	322
ICT sector	8	19	4	0	0	0	16	55
Food Processing & other	20	23	6	0	0	0	30	127

Source: ICB

#### Analysis:

1. There is a significant increase in small agro-based sectors' allocations for the last couple of years. By this time, the number of Fishing & Hatchery has grown up tremendously (Table-7). Also some promising small agro-sector like Orchid and Bagda pona is growing the attention.

2. Medium agro-based sector also shown steady encouraging allocation through EE Fund over the years. Especially the areas of Poultry feed, Fertilizer has been encouraged more to invest.
3. Fate of ICT and Software sector is not looking very bright in recent time. Being the small scaled sector, only the software is progressing but at very steady pace. All other sub-sectors which require more investments as well as technical expertise are not encouraging in recent context.
4. There is an interesting trend for food processing and such other sectors' applicants. Here the medium scaled entrepreneurs are being allocated more in number than the small scaled entrepreneurs. Fruit processing, Meat processing, iodized salt etc are leading sub-sectors here.

**Table-11 Allocations in Sub-sector (Agro-based)**

Area	Type	2002-03	2003-04	2004-05	2009-10	2010-11
Fishing & Hatchery	S	26	52	8	42	157
Fish Feed	M	3	4	0	3	15
Poultry Feed	M	14	7	0	5	23
Cattle & Goat Feed	M	1	0	0	0	1
Raw material for Feed mills	S	1	0	0	0	4
General Poultry Hatchery	M	2	1	1	4	12
Grand Parent Hatchery /Poultry Feed	M	1	1	1	1	21
Golda Pona	S	5	7	0	5	22
Bagda Shrimp	S	1	1	2	10	41
Dairy/ Milk Processing	M	1	2	0	2	5
Fertilizer	M	0	5	0	2	3
Orchid	S	0	3	0	1	10
Spirulina	M	0	2	0	1	3
Crocodile	S	0	1	0	1	5
Ostrich Hatchery	M	0	1	0	1	0
<b>TOTAL at Agro-based Allocation</b>		<b>55</b>	<b>87</b>	<b>12</b>	<b>78</b>	<b>322</b>

Source: ICB

### 4.3 Allocation Amount (total)

The table-12 has shown the total sanctioned amount vs. total distributed amount for EE Fund from the fiscal year 2002-03 to 2010-11.

**Table # 12 Total allocation amount**

Figure in crore taka

Total sanctioned	Total distributed
1807.95	613.58

Source: ICB

**Analysis:**

1. Total distribution amount is cumulative from the year 2001-02 to 2010-1. The figure shows that about 33% funds are distributed among the sanctioned project. Every project approved on condition that the entrepreneur will have to share the total capital on 51:49 percentage basis. When ICB ensure that the entrepreneur has invested his 51% portion then ICB releases their portion at three or four phases upon successful completion of a desired investment.
2. Total 613.58 crore taka already injected in the SME sector of Bangladesh and another 1807.95 crore taka is going to be injected. This huge amount of taka is able to change the SME sector performance of the country.

**4.3.1 Allocation Amount (sector wise)**

Over the years the overall allocation on EE Fund has been increasing. Table-13 has shown the category-wise allocations for EE Fund from the fiscal year 2001-02 to 2010-11.

**Table # 13 Sector wise allocation amount**

Sector	Amount sanctioned	Figure in crore
		Distributed Amount
Agro-based & food processing	1728.11	561.6

Source: ICB

**Analysis:**

1. There is a significant increase in allocation to agro-based sectors' for the last couple of years. By this time, the number of Fishing & Hatchery has grown up tremendously. Some promising small agro-sector like Orchid and Bagda pona is also growing.
2. Medium agro-based sector has given most demanding and encouraging allocation through EE Fund over the years. Especially the areas of Poultry feed, Fertilizer has been encouraged more.
3. There is an interesting trend for food processing and such other sectors' applicants. Here the medium scaled entrepreneurs are being allocated much more than the small scaled entrepreneurs. Fruit processing, Meat processing, Iodized salt etc are leading sub-sectors here.

**4.3.2 Allocation Amount (Sector wise)**

Though ICT sector is treated as the priority to finance by ICB but distribution amount in this sector is not as much as it was expected. The table # 14 shows the total distributed amount in this sector.

**Table # 14 Allocation amount sector wise**

Sector	Amount sanctioned	Figure in crore
		Distributed Amount
ICT	79.84	51.98

Source: ICB

**Analysis:**

1. Fate of ICT and Software sector is not looking very bright in recent time. In fact the allocation has been restrained over last couple of years.
2. Though the ICT sector is very potential and promising but still there is a lack of credentials i.e. skilled entrepreneur is the main hindrance to develop the sector.
3. According to the ICB official there preferential sector is ICT but lack of real entrepreneur is still the main hindrance to invest in the sector.

**4.3.3 Allocation Amount (year wise)**

The total allocation amount of the above 3 sector is increasing year by year except the interim period the fund was handover from BB to ICB. Table # 15 shows the allocation amount in agro-based & food processing industry from the year 2002-03 to 2010-11.

**Table # 15 Year wise allocation of amount****Agro-based & Food processing Industry**

Year	Amount sanctioned	Amount distributed
2002-03	56.22	31.72
2003-04	236.05	45.49
2004-05	227.7	127.63
2005-06	40.86	101.86
2006-07	2.04	70.99
2007-08	0.85	51.62
2008-09		39.38
2009-10	191.6	9.1
2010-11	799.19	69
2011-12	173.6	14.81
<b>Total</b>	<b>1728.11</b>	<b>561.6</b>

Source: ICB

**Analysis:**

1. During the year 2004-05 and 2005-06 the distributed amount was significant in compare to total sanctioned amount. Even in 2005-2006 it was more than the sanctioned amount. It was because the project was sanctioned in the previous year and fund was distributed during this time.
2. The same scenario is continuing throughout the next three years because these years no new project were sanctioned but fund is distributed for the previously sanctioned project.
3. The scenario was changed during next three consecutive years. During this time new project were chosen for funding and a huge amount was sanctioned for various projects.
4. Distribution amount during above three is not as much as sanctioned amount because of the condition of ICB is that every new project will have to invest their 51% equity portion before they claim fund from ICB.

#### 4.3.4 Allocation Amount (year-wise)

The total allocation amount of the above three sectors is increasing year by year except the interim period the fund was handover from BB to ICB. Table # 16 shows the allocation amount in ICT industry from the year 2002-03 to 2010-11.

**Table # 16 Allocation amount year wise**

Year	Amount sanctioned	Amount distributed
2002-03	10.16	9.39
2003-04	33.89	6.82
2004-05	14.36	19.93
2005-06	-	4.78
2006-07	-	2.48
2007-08	-	0.65
2008-09	-	0.7
2009-10	18.98	0.11
2010-11	2.45	6.07
2011-12	-	1.05

Source: ICB

#### **Analysis:**

1. A reverse scenario can be seen in case of ICT industry. Here the significant portion of equity fund was providing during the year 2002-03 to 2004-05. The reason behind this initially BB wants to promote the ICT sector. So it chooses no. of ICT industry for funding. But later they discover that most of industries are not their up-to-date business as the entrepreneur is not skilled enough to run the business.
2. During the year 2004-05 and 2005-06 the distributed amount was significant in compare to total sanctioned amount. Even in 2005-2006 it was more than the sanctioned amount. It was because the project was sanctioned in the previous year and fund was distributed during this time.
3. While ICB takes the responsibility of equity funding it also tried to boost up the ICT industry but the result was same because by this time the entrepreneur's quality was not changed enough.

#### 4.3.5 Allocation (Category-wise)

The focus of EEF is to share equity capital with the real potential Small and Medium entrepreneurs. Though it focuses on sector wise development but it prefers the project which has a small capital portfolio and is promising. Table #17 reflects the category wise allocation trend of the fund.

**Table # 17 Allocation category wise**

<b>Fiscal Year</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Small Scaled Entrepreneurs	30.13	158.19	151.78	29.26	1.13	0.85	103.07	476.76	106.89
Medium Scaled Entrepreneurs	26.09	88.02	109.81	25.96	0.91	0	107.51	324.88	147.55
<b>Total</b>	<b>56.22</b>	<b>246.21</b>	<b>261.59</b>	<b>55.22</b>	<b>2.04</b>	<b>0.85</b>	<b>210.58</b>	<b>801.64</b>	<b>254.44</b>

Source: ICB

#### **Analysis:**

1. Total number of allocations has been increasing rapidly over the years. Because of some inconvenience and complex procedure this EE Fund was not able to make available for more venturous investors. But after 2002-03 the rate of expansion is significant.
2. Up to 2002-03, the Small Scaled Entrepreneurs (SSE) was not seemed to be contented with the EE Fund. That's why the number of allocations was below the number of applicants for Medium Scaled Entrepreneurs (MSE).
3. After 2007-08, SSEs has been showing interest in huge number. At the same time, because of the ease of procedure and as the economy has been growing sustainable during this period, the small investors are given more priority and allocation than earlier.
4. Also the government policy has focused to invite more participation from the SSEs in numerous potential sectors by this period.

#### **4.4 Performance criteria**

In case of project appraisal, it demands most of the financial ratios like-liquidity ratio, profitability ratios, efficiency ratios, investment ratios, and break-even ratio. But for the concern of evaluating the performances of entrepreneurs in this part only the most informative two factors have been considered. They are-

1. Payback period
2. IRR

For such practical data it needs to calculate all the projects' financial statements throughout the years. By this time many projects have started in full swing and providing their yearly statements in regular basis. So to make a comparison among all the sectors and sub-sectors data are collected from ICB.

##### **4.4.1 Payback period analysis**

Payback period indicates the period by which the total initial investment of a project will return back in terms of cash inflows. However PBP will depend on 2 factors-

**Nature of business:** how quickly it could start production and would give returns.

**Size of initial investment:** PBP certainly will inversely correlate with the size of initial investment.

For getting EEF assistance the main condition of the fund is that the initial life time of the project is assumed eight years. From these eight years three years are considered as the base period. During this period no entrepreneur will have to pay interest for the equity fund. After three years ICB asked the entrepreneur to buy back the project. If the entrepreneur is not willing to buy back the equity share, ICB will offer other potential entrepreneur to buy the project at market price. So payback period is a very important criterion to evaluate a project.

**Table # 18 Average PBP for agro-based sub sectors**

Area	Total Projects	Avg. Project Cost (Crore Taka)	Average Pay Back Period (year)
Fishing & Hatchery	138	4.06	2.5
Fish Feed	12	12.30	3
Poultry Feed	34	14.57	4
Cattle & Goat Feed	7	11.42	4.2
Raw material for Feed mills	2	8.13	4
General Poultry Hatchery	13	11.47	3
Grand Parent Hatchery & Poultry Feed	4	24.17	2.8
Golda Pona	29	4.47	3
Bagda Shrimp	3	3.94	4
Dairy/ Milk Processing	14	17.94	3.5
Fertilizer	8	11.44	5
Orchid	4	8.67	4.5
Spirulina	2	14.46	4.5
Crocodile	2	4.96	7
Ostrich Hatchery	1	19.00	6

Source: Bangladesh Bank

From the table, it can be indicated that, following entrepreneurs are performing better as the PBP is lower for their projects. The sub sectors are-

- Fishing & Hatchery
- Grand Parent Hatchery & Poultry Feed
- Fish Feed
- Golda Pona

From payback period analysis we accept that project which average payback period is lower. The above project has its payback period lower than the other project. The investor will invest in such project from which he will get his money-back within a short period of time. The above project has small initial investment and huge market demand. The EU is importing Bagda and Golda shrimp from Bangladesh. The investor is interested to invest in these projects as they are getting the return quickly.

Whereas the following sub sectors are to wait longer to pay their investment amount back.

- Crocodile
- Ostrich Hatchery
- Orchid
- Cattle & Goat Feed

It is also noticeable that most of the small scaled projects have lower PBP. That may be the reason behind the upward trend of small scaled entrepreneurship development through this EE Fund.

### **PBP (Food Processing sub sectors)**

**Table # 19 Average PBP for food processing sub sectors**

Area	Total Projects	Avg. Cost (Crore Taka)	Pay Back Period (Year)
Potato Chips	1	4.41	2
Potato Flex	3	3.94	3
Fruit Processing	10	11.63	4
Wooden Goods	1	34.81	5
Meat Processing	4	12.71	6
Food Processing	3	5.07	3
Specialized Cold Storage	2	11.04	3
Baby Food	1	12.92	3
Iodized Salt	2	47.89	4.5
Fish Storage	3	9.03	5
Spice	2	4.06	4
Potato Starch	1	31.33	3

Source: Bangladesh Bank

From the table, it can be indicated that the following entrepreneurs are performing better as the PBP is lower for their projects. The sub sectors are-

- Potato Chips
- Potato Flex
- Food Processing
- Baby Food

The above projects PBP is lower and the demand of this kind processing food is increasing day by day in the domestic market as well as the foreign market. So these kind of project is performing than the other.

Whereas the following sub sectors are to wait longer to pay their investment amount back.

- Meat Processing
- Wooden goods
- Fish storage
- Iodized Salt

**Table-20: Average PBP for Software/ ICT sub sectors**

Area	Total Projects	Avg. Cost (Crore Taka)	Pay Back Period (Year)
Cartoon Animation	1	16.15	5
Data Backbone	1	11.64	3.5
Software	29	3.02	2.5
Call centre	2	17.12	4

Source: Bangladesh Bank

From the table, it can be indicated that, following entrepreneurs are performing better as the PBP is lower for their projects. The sub sectors are-

- Software
- Data Backbone

Software and data processing industry is growing worldwide. Bangladesh has a huge no. of skilled programmer and they are developing various type of software. The software is exporting in Europe and America because the development cost is very cheap in Bangladesh.

Whereas following sub sectors are to wait longer to pay their investment amount back.

- Cartoon Animation
- Call centre

#### 4.4.2 IRR Analysis

Internal Rate of Return (IRR) is another important criterion to evaluate the performance of a project. It refers to that discount rate for which the Net Present Value becomes zero. Higher the rate, better the position of the project is.

Following table has shown the IRR for Agro-based sub sectors.

**Table # 21 IRR (Agro-based sub sectors)**

Area	IRR (%)
Fishing & Hatchery	27
Fish Feed	23
Poultry Feed	22
Cattle & Goat Feed	20
Raw material for Feed mills	22
General Poultry Hatchery	24
Grand Parent Hatchery & Poultry Feed	25
Golda Pona	24
Bagda Shrimp	22
Dairy/ Milk Processing	21
Fertilizer	20
Orchid	20
Spirulina	21
Crocodile	22
Ostrich Hatchery	24

Source: Bangladesh Bank

From the table, it can be indicated that, following entrepreneurs are performing better as the IRR is higher for their projects. The sub sectors are-

- Fishing & Hatchery
- Grand Parent Hatchery & Poultry Feed
- Ostrich Hatchery
- Golda Pona

From IRR analysis we can identify the expected rate of return of a project. The higher the rate is, the higher the return. The investor will invest in such project from which he will get maximum profit. The above project has small initial investment and huge market demand. The EU is importing Bagda and Golda shrimp from Bangladesh. The investor is interested to invest in these projects as they are receiving a handsome margin form their investment.

Whereas following sub sectors are not doing well as the IRR is lower

- Fertilizer
- Orchid
- Cattle & Goat Feed
- Crocodile

**Table # 22 IRR (Food Processing sub sectors)**

Area	IRR (%)
Potato Chips	32
Potato Flex	28
Fruit Processing	25
Wooden Goods	24
Meat Processing	22
Food Processing	28
Specialized Cold Storage	33
Baby Food	26
Iodized Salt	26
Fish Storage	20
Spice	24
Potato Starch	27

Source: Bangladesh Bank

From the table, it can be indicated that, following entrepreneurs are performing better as the IRR is higher for their projects. The sub sectors are-

- Specialized Cold Storage
- Potato Chips
- Potato Flex

Whereas following sub sectors are not doing well as the IRR is lower

- Fish Storage
- Meat Processing
- Wooden Goods

Following table has shown the IRR for Software/ICT sub sectors.

**Table-23: IRR for Software/ICT sub sectors**

Area	IRR
Cartoon Animation	29
Data Backbone	30
Software	32
Call centre	28

Source: Bangladesh Bank

From the table, it can be indicated that, following entrepreneurs are performing better as the IRR is higher for their projects. The sub sectors are-

Software

Data Backbone

Also the IRR is satisfactory for call centre and cartoon animation projects.

Software industry requires small initial investment and skilled manpower. In Bangladesh skilled manpower is available and it is cheap in comparison with Europe and American market. A data shows that number of IT professionals in Bangladesh was 25,200, in the year 2006, which was 12.5% higher than in 2005. The majority of this work force is engaged in programming and networking job.

#### **4.4.3 OVERALL ANALYSIS**

By considering both Pay Back Period and IRR, the following sub sector entrepreneurs can be considered as doing better.

Agro-based sector:

Fishing & Hatchery

Grand Parent Hatchery & Poultry Feed

Golda Pona

Food processing sector:

Potato Chips

Potato Flex

Software/ICT sector:

Software

Data Backbone

By considering both Pay Back Period and IRR, the following sub sector entrepreneurs can be considered as not doing better.

Agro-based sector:

Orchid

Cattle & Goat Feed

Crocodile

Food processing sector:

Meat Processing

#### 4.5 Growth of the particular sector:

Growth refers to rise in total production of a firm and its sales revenue. If the production of goods of a firm rises, by whatever means, and along with its average income increases, the firm has achieved “growth”. A country’s economic growth is the same, i.e. it means rise in national or per capita income. If the production of goods and services in a country rises, by whatever means, and along with its average income increases, the country has achieved “economic growth” The economic growth of a country depends on the growth of individual sector growth. The tables below show the growth of the three sectors described in this report. A sustained growth always indicates development of the particular sector.

##### 4.5.1 Growth of Agro-based & food processing industry:

**Table # 24 Growth trend of Agro-based & food processing industry**

Fiscal year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2009-10
Growth	22.13	21.04	20.14	19.61	19.24	21.09	22.73

Source: Bangladesh Bureau of Statistics

##### 4.5.2 Growth of ICT industry:

**Table # 25 Growth trend of ICT industry**

Fiscal year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Growth	19.7	14.01	13.85	9.38	12.5	17.06	21.15	24.68

Source: Bangladesh Bureau of Statistics

#### 4.6 Economic growth:

Economic growth depends on factor accumulation (increasing size of capital stock or the labor force) & productivity growth (by improving “efficiency” or “technology change”). The economic growth of a country depends on the growth of individual sector growth. The tables below show the labor force increasing status and performance of the three sectors described in this report.

##### 4.6.1 Employment opportunities:

SME sector generates large number of technical, supervisory and skilled-unskilled job opportunities. About 865 projects are financed through EEF assistance from fiscal year 2002-03 to 2010-11. A small scaled industry creates job opportunities for 10 to 25 people and medium scaled industries created 25-100 job opportunities. According to the data from ICB it was seen that about 73040 jobs are created by the project sanctioned by ICB. This amount is about 2.28% of total new employment creation (3202006 people) during these periods. Among this new employment about 800501 was in SME sector. (Source: Bangladesh Investment bureau)

#### 4.6.2 Earning foreign currency:

The data below are showing the foreign exchange earnings by year for the agro-based & food processing industry, but this is not reflecting the whole foreign currency earning by the agricultural sector.

**Table # 26 Earning of foreign currency by sector**

Fiscal Year	Figure in crore dollar			
	2006-07	2007-08	2009-10	2010-11
Agro based & food processing	2.3	4.68	5.31	5.67

Source: prothom alo

#### 4.6.3 Earning foreign currency:

The data below are showing the foreign exchange earnings through exporting software by the ICT industry, but this is not reflecting the whole foreign currency earning by the sector.

**Table # 27 Earning of foreign currency by sector**

Fiscal Year	Figure in million USD							
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
ICT	4.2	7.2	12.68	27.01	31.05	34.61	43.41	49.43

Source: Bangladesh Bank

#### 4.7 Contribution in GDP:

GDP is the major indicator to measure economic growth and development of a country. GDP is calculated by production of various sector of a country. Individual sector development cumulatively leads to the growth in GDP i.e. development of the national economy.

##### 4.7.1 GDP Sector wise:

The table below shows the contribution of the three sectors to the GDP. Here Agro-based & food processing is under the agriculture sector and fishing sector represent some food processing sector. Telecommunication sector represents the data for ICT sector. The data shows the overall figure of the sector.

**Table # 28 GDP Sector wise**

Sector	Figure in crore Taka					
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Agriculture</b>	56167	62223	70124	80201	89426	101917
<b>Fishing</b>	15456	16317	17783	19790	21806	24130
<b>Telecommunication</b>	4283	5467	6820	8314	9645	10880

Source: Bangladesh Bureau of Statistics

#### 4.7.2 Growth percentage in GDP by sector:

The table below shows the growth rate of GDP of the three sectors year by year. The rate fishing and agricultural growth is up warding and ICT sector growth is down warding.

**Table # 29 Growth in GDP by sector**

Sector	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture	10.78	12.7	14.37	11.5	13.97
Fishing	5.6	8.98	11.28	10.19	10.66
Telecommunication	27.64	24.75	21.9	16	12.8

Source: Bangladesh economic review

#### 4.8 Economic growth:

From the aspect of longer-term, the economy has gently upward from rate of growth year by year. A country's economy consists of some sector. So sector wise improvement cumulatively shows the economic development of a country. All sectors, especially the above three sector are growing year by year and showing a potentiality to expand the market for future development. The Government's initiative to sector reforms and policy to create a market-oriented economy is leading to overall development of Bangladesh economy. Introduction of EEF is one of the major initiatives taken by the Govt. for economic growth of the country. During the 2009-10 the overall GDP growth was 6% where as the growth rate of these three sectors was 12.48%. It was mentioned earlier that the above three sector is under the SME sector of Bangladesh. So we can conclude that the contribution of these three SME sectors to the overall economy is significant and in this process EEF assistance is playing a vital role.

## CHAPTER 5

### CONCLUSION AND RECOMMENDATION

From the study, it is obvious that for the sustainable and ensured economic development of Bangladesh small and medium enterprise sector (SME) must give intensive emphasis. Development from the grass root level needs to be ensured.

Our study shows that EEF has a significant contribution towards the development of SME sector of Bangladesh i.e. the economy of Bangladesh. From its inception EEF has financed about 961 projects and sanctioned about Tk. 1807.95 crore. These projects generate 73040 no. jobs as direct employment which was about 2.28% of total new employment creation (3202006 people) during these periods. These sectors earn USD 10.25 crore during the financial year 2010-11 in comparison with 1.53 crore during the financial year 2000-01. In case of foreign currency earning these sectors growth are about 670%. During the fiscal year 2004-05 the sectors cumulative contribution in GDP was about 75906 crore taka where as it was about 136927 crore taka during the financial year 2009-10. The growth in GDP was 55.45%.

With this view, the further encompassment of 'Equity & Entrepreneurship Fund' would be of great significance. For its proper utilization following suggestions and recommendations are made here.

- ✓ The amount of EEF should be increased as there is more and more increasing demand prevailing.
- ✓ More and more potential and promising sectors need to be explored and to give support. Some of the thrust sectors may be-
  - Agro-based Industry
  - Artificial Flower Production
  - Electronics
  - Flower Cultivation
  - Gift Items
  - Jute Goods
  - Jewelry and Diamond Cutting and Polishing
  - Leather
  - Cultivation of Silk worm and silk industry
  - Stuffed toys
  - Tourism Industry
- ✓ Technology based agricultural sectors are doing well. So more amount should be invested there
- ✓ Project appraisal and project selection should be of more ease and with lesser procedure.
- ✓ More professional private commercial bank should come forward with disbursing such fund.

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## APPENDIX

### Sources of Data

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Bangladesh Bureau of Statistics	<a href="http://www.bbs.gov.bd">www.bbs.gov.bd</a>
Investment Corporation of Bangladesh	<a href="http://www.icb.gov.bd">www.icb.gov.bd</a>
Ministry of Finance	<a href="http://www.mof.gov.bd">www.mof.gov.bd</a>
World Bank	<a href="http://data.worldbank.org/data-catalog">http://data.worldbank.org/data-catalog</a>