

## Working Capital Financing for MSMES: A Case Study on the Offerings of BRAC Microfinance

**S. Jobayear Ahmed\***

Management Information Systems (MIS), BRAC International, Bangladesh  
E-mail: jobayear2017@gmail.com

### Abstract

The Micro, Small and Medium Enterprises (MSMEs) play a pivotal role in the socio-economic development of Bangladesh by covering about 99% of the total industrial sector in the country. In spite of the growth opportunity offered by the MSMEs the growth opportunities of the enterprises are usually stagnated due to the absence of proper financing opportunities particularly in the formal system. Particularly, the MSMEs suffer most to arrange the working capital from the financial institutions. In light with that financing opportunities BRAC (Bangladesh Rural Advancement Committee) NGO the largest in the world offers various collateral free loan facilities for the development of the MSMEs. The objectives of the study are to: Understand the current offerings of the BRAC Microfinance products and comparative advantages of using the BRAC Micro Finance Products, Identify the factors affecting the loan approval and Understand the risk and reward factors associated with the Products.

The study is explorative in nature and is primarily based on the qualitative and quantitative data collected from secondary literature. Qualitative data was derived from various books, journals, business reports from renowned organizations like: World Bank, Bangladesh Bank and BRAC studied. The quantitative data used throughout the report were either sourced from: BRAC Annual Reports, BRAC Website (www.brac.net) and received from the Microfinance Product Development Team. The quantitative data was tabulated, analyzed, graphed and reported using MS excel and the guidelines of standard report writing was followed strictly. Besides the qualitative data was used for supporting the claims of the quantitative data. The study found that the interventions are profitable but risky. Particularly during the COVID pandemic when the loan recovery rate has lowered RAC should be cautious to handle the risky ventures and devise the protective instruments accordingly that will offer a win-win situation.

**Key Words:** MSME, Loan, Interest, Borrower, Microfinance.

### PAPER/ARTICLE INFO

RECEIVED ON: 15/01/2022

ACCEPTED ON: 03/03/2022

Reference to this paper should be made as follows:

Ahmed, S. Jobayear (2022), "Working Capital Financing for MSMES: A Case Study on the Offerings of BRAC Microfinance", *Int. J. of Trade and Commerce-IJTC*, Vol. 11, No. 1, pp: 1-15

\*Corresponding Author

DOI: 10.46333/ijtc/11/1/1

## **1. INTRODUCTION**

MSMEs are described as source of innovation and employment, the seeds of several big businesses, the fuel of national economic engines, and their dynamic relationship of interdependence with larger firms, even in the developed industrial economies (Ackah & Vuvor, 2011). The micro (having < 10 workers), small (10–49 workers), and medium (50–99 workers) (MSMEs) sector plays a pivotal role in the socio-economic development of Bangladesh (Uddin, 2021), since they, cover about 99% of the total industrial sector in Bangladesh (World Bank, 2019). There is growing recognition of Micro, Small and Medium Enterprises (MSMEs) as important contributors to the economic development in the modern economy. In almost every economy, MSMEs have been singled out as the sole contributors to the private sector (Raheema & Meerab, 2018). The financing need is prerequisite to the growth of the any firm (Jameel & Hasan, 2018) but access to finance is perceived as one of the crucial obstacles for the Small and medium firms in Bangladesh (World Bank, 2019). Instead of the potentials of the sector to provide employment opportunities and encourage young entrepreneurs to investment and innovate the sector has been stagnated by the confiscated financing procedures of the traditional banking system of the country. In Bangladesh, the sector particularly suffers to meet the working capital requirement from the traditional sources of financing usually due to high costs, complex procedures, lack of mobility, awareness and many other reasons. Normally, working capital refers to that part of firm's capital which is required for financing short-term or current assets such as cash, marketable securities, debtors and inventories. (KOVELSKIY, 2015). In order to ease the sufferings of the loaners the Micro Finance Institutions, namely: BRAC, ASA, Grameen Bank etc play significant roles by bridging between the demand and supply of finance to the remote areas of the country and promoting financial inclusion. The current study is aimed to explore different offerings of rank which are commonly termed as the working capital by many MSME entrepreneurs directly affiliated with it.

### **1.1 Objective**

The objective of the study is to:

- Understand the current offerings of the BRAC Microfinance products and comparative advantages of using the BRAC Micro Finance Products
- Identify the factors affecting the loan approval
- Understand the risk and reward factors associated with the Products

## **2. LITERATURE REVIEW**

BRAC (Bangladesh Rural Advancement Committee) NGO, was founded in 1972 to respond to Bangladesh Liberation war refugee humanitarian response and has been a forerunner in post liberation war development cooperation since its inception (Ahsan, 2005). BRAC is the biggest NGO formed under the societies registration act in Bangladesh and operates across 11 countries in the world (BRAC, 2020). Currently it is the Market Leader in the industry. BRAC undertakes various initiatives for the socio economic empowerment of the landless people (particularly women) subjected to poverty, illiteracy, disease and malnutrition wherein the economic empowerment is the foremost priority. BRAC's development efforts are conducted in six main sectors: Economic Development Program, Health Program, Education Program, Social

Development Program, Human Rights and Legal services and Disaster Management, Environment and Climate Change (BRAC, 2020). BRAC Microfinance provides the unbanked people, access to a suite of financial services including loans, savings, and micro insurance. Microfinance provides an alternative to high-interest loans from informal lenders. BRAC Microfinance recognizes the heterogeneity among people living in poverty, and carefully develop customized financial products and services that best meet their varying needs. The range of financial services serves various demographics in Bangladesh, including smallholder farmers, micro and small entrepreneurs, migrant worker households and jobholders, particularly women. Besides the Programme also provides short and long-term savings, insurance, and access to mobile money services. The common Products are mostly group loans and the individual loans. The group loans are given to individuals who are registered under small groups of 15 to 40 members named Village Organizations (VO). On the other hand the individual loans are given to different individuals. In view of the economic needs collateral free loans are disbursed to more than 7.1 Million borrowers, 87% of whom are women (BRAC, 2018). In 2019 alone BRAC Microfinance had disbursed a total of USD 5.09 Billion (BRAC, 2019). The loan recipient members mostly engage, according to their own choice, in various income generating activities such as poultry, livestock, vegetable cultivation, fish culture, plantation, sericulture, small trade including grocery shops and restaurants (Islam, 1996) and thus use the loans as working capital. But in particular the individual loans provided for agribusiness and trade can be termed as the working capital in this context. The 'spontaneous financing' of the 'net working capital' has been considered which are mostly short term and are dedicated to finance the current day to day operational needs of the business. (James C. Van Horne, 2008)

### **3. MATERIALS AND METHODS**

The study is explorative in nature and is primarily based on the qualitative and quantitative data collected from secondary literature. Qualitative data was derived from various books, journals, business reports from renowned organizations like: World Bank, Bangladesh Bank and BRAC studied. In order to get an insight of the 'Working Capital Financing' three processes were adopted. Firstly, the relevant literature, BRAC annual reports were studied in order to generate insight and develop the theoretical background of the report and identify the key areas to frame a specific questionnaire. After that three managers were interviewed both over phone and physically. The quantitative data used throughout the report were either sourced from: BRAC Annual Reports, BRAC Website ([www.brac.net](http://www.brac.net)) and received from the Microfinance Product Development Team. The quantitative data was tabulated, analyzed, graphed and reported using MS excel and the guidelines of standard report writing was followed strictly.

### **4. ANALYSIS OF THE FINDINGS**

Based on the analysis the findings are reported in specific Sub Headings based on the questionnaire.

#### **4.1 Scenario for Working Capital Financing for the MSMEs**

The major findings indicate that about 72% small enterprises got the access into banks for working capital loan although all of them face a lot of problems while obtaining such loan while contrarily Bankers encountered different problems and challenges related to working capital

financing in SMEs (Hossain & Ibrahim, 2017) According to the World Bank report (World Bank, 2019) the problems and constraints faced by the MSME financing is hardly addressed which is reflected in the limited use of formal finance, perception of access to finance as an obstacle, poor quality of collateral, inadequate documentation and ill-defined business plans and bank dominated financing system. Particularly the necessity of the Micro Credit Programmes is very high in Bangladesh MSME Financing. On the other hand the same study reported a wide variety of gaps, namely: paucity of appropriate credit appraisal policies, credit infrastructure and risk management tools leading to a high risk-aversion on the part of financial institutions in lending to MSMEs. The vibrancy of microfinance sector in the financial system have altogether facilitated a total of 37.7 million members have benefitted from microcredit programs, of which over 80 percent are rural female members, as of June 2016. Rabaya Bosri (Bosri, 2016 ) identified that the common financing sources for the SMEs were: Informal sector 41%, Family members 20% (interest free), 4% (with interest), NGO 17% and Bank 18% due to the following factors namely: Lack of access to and High cost of finance, Large collateral requirements, Credit information gap, Cumbersome documentation process, Limited spread and reaches of banks, less skilled borrowers, Insufficient Training Academy and Lack of Women Participation in entrepreneurship. Wajid Hasan Shah (Shah, 2014) found that while political turbulence, lack of business capital, stiff competition and slow seasonal business, fund diversion and willful default, rough behavior by credit relations officers were the main factors contributing to a high rate of SME loan default, borrowing from multiple sources, lack of awareness by borrowers regarding various fees and charges for loan and awareness were a few key factors impeding the efficient capital financing administration for the MSMEs.

#### 4.2 Types of Offerings

BRAC Microfinance mainly offers two types of loans, namely: Group Loans and Individual Loans. The group loans are given to individuals who are registered under small groups of 15 to 40 members named Village Organizations (VO). On the other hand the individual loans are given to different individuals.

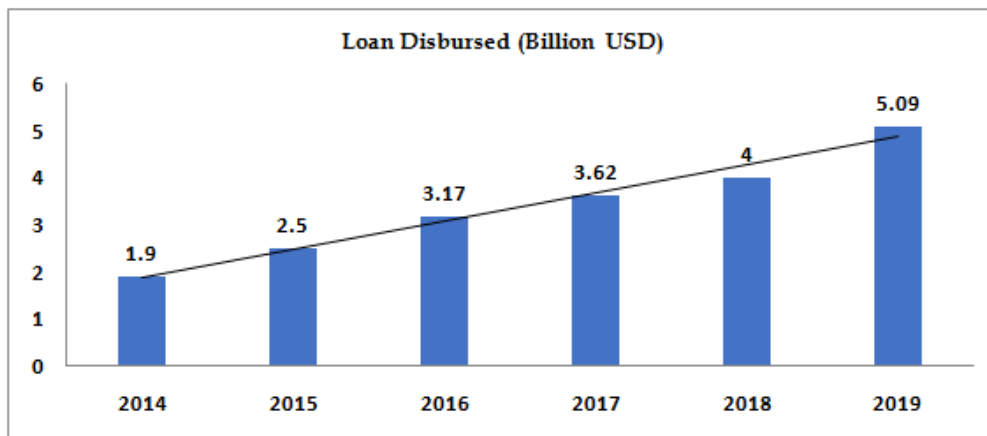


Figure 1: Status of Loan Disbursed  
Source: Data analysis of BRAC Annual Reports (2014-2019)

#### 4.2.1 The Group Loans

The group loans are provided to women grouped in Village Organizations (VOs) living in Rural/Semi Urban settings with special consideration of vulnerability. The loans are classified into two broad categories:

##### 4.2.1.1 Teenager Loan

The teenager loans are provided to vulnerable but striving teenaged girls and adolescents grouped in Village Organizations (VOs) living in Rural/Semi Urban areas.

##### 4.2.1.2 General Loan

The general loans are the provided to vulnerable but striving rural women grouped in Village Organizations (VOs).

#### 4.2.2 The Individual Loans

The individual loans are provided to different individuals for various purposes living in Rural/Semi Urban/Urban settings. The loans are classified into five broad categories:

##### 4.2.2.1 Agribusiness Loans

The agribusiness loans are provided to farmers (both male/female) living in Rural/Semi Urban areas.

##### 4.2.2.2 Trade Loans

The trade loans are provided to business persons (both male/female) living in Rural/Semi Urban/Urban settings.

##### 4.2.2.3 Job Holders' Loan

The Job Holders' loans are provided to government/private job holders (both male/female) living in Rural/Semi Urban/Urban areas.

##### 4.2.2.4 Migration Loan

The migration loans are the provided to migrant aspirant people (both male/female) willing to migrate to abroad for work

##### 4.2.2.5 Remittance Loan

The remittance loans are provided to people (both male/female) against the remittance funds provided by the migrant Bangladeshi nationals.

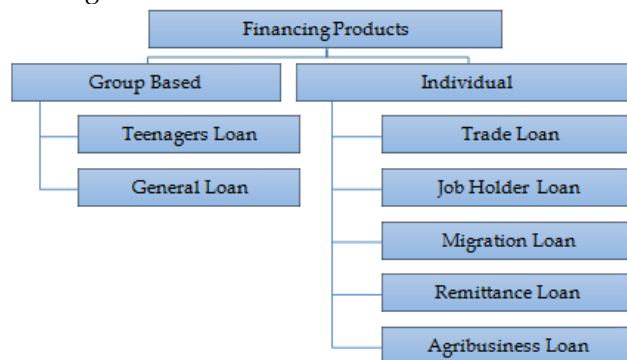


Figure 2: Financing Products of BRAC Microfinance  
Source: Interview of the BRAC Microfinance Product Team

### **4.3 Relative Overview of the Products:**

#### **4.3.1 The Group Loans**

The group loans are provided to women grouped in Village Organizations (VOs) living in Rural/Semi Urban settings with special consideration of vulnerability. The loans are classified into two broad categories:

##### **4.3.1.1 Teenager Loan**

The teenager loans are provided to vulnerable but striving teenaged girls and adolescents grouped in Village Organizations (VOs) living in Rural/Semi Urban settings within a range of BDT 3000 to BDT 15000.

##### **4.3.1.2 General Loan**

The general loans are provided to rural women grouped in Village Organizations (VOs) consisting 15 to 40 members living in Rural/Semi Urban settings within a range of BDT 15000 to BDT 200000.

#### **4.3.2 The Individual Loans**

The individual loans are provided to different individuals for various purposes living in Rural/Semi Urban/Urban settings with special consideration of payment capacity. The loans are classified into five broad categories:

##### **4.3.2.1 Agribusiness Loans**

The agribusiness loans are provided to farmers (both male/female) living in Rural/Semi Urban settings within a range of BDT 100,000 to BDT 20,00,000.

##### **4.3.2.2 Trade Loans**

The trade loans are provided to businesspersons (both male/female) living in Rural/Semi Urban/Urban settings within a range of BDT 100,000 to BDT 20,00,000. But it can reach up to BDT 80,00,000 if the trader has a factory.

##### **4.3.2.3 Job Holders' Loan**

The Job Holders' loans are provided to government/private job holders (both male/female) living in Rural/Semi Urban/Urban settings within a range of 12 months total pay or up to BDT 500,000.

##### **4.3.2.4 Migration Loan**

The migration loans are provided to migrant aspirant people (both male/female) willing to migrate to abroad for work. Based on the nature of the work permit, destination and the visa validity loans are offered within a range of BDT 100,000 to BDT 20,00,000.

##### **4.3.2.5 Remittance Loan**

The remittance loans are provided to people (both male/female) against the remittance funds provided by the migrant Bangladeshi nationals whose remittances are channeled to Bangladesh through BRAC and its range is BDT 100,000 to BDT 20,00,000.

The categories are further elaborated in Table 1 where the mentioned agribusiness and trade loans can be considered to have financed the working capital of Business (to be Discussed separately).

Overview of the Offerings							
Features		Group Based Loan			Individual Loans		
	Teenagers Loan	General Loan	Agribusiness Loan	Trade Loan	Job Holder Loan	Migration Loan	Remittance Loan
Extent of Use	Limited	Mostly Used	Seasonal/ During the Crop Harvesting	Rural and Urban Trade Financing and Factory Loans	Financing the need of the job Holder	Loan for going abroad	Loan against Remittance
Loan Size	3000 to 15000	15000 to 200000	100000 to 2000000	100000 to 2000000 (Upto 8000000 for special cases)	10 times of total Salary (upto 500000)	100000 to 2000000	100000 to 2000000
Average Interest rate Charged	24% declining balance	24% declining balance	Upto 5 Lacs-24%, 5 to 10 Lacs-22% and More than 10 Lacs-20%	Upto 5 Lacs-24%, 5 to 10 Lacs-22% and More than 10 Lacs-20%	24% declining balance	Upto 5 Lacs-24%, 5 to 10 Lacs-22% and More than 10 Lacs-20%	Upto 5 Lacs-24%, 5 to 10 Lacs-22% and More than 10 Lacs-20%
Loan Repayment	12 months	12 months	12 months	12 to 24 months	12 to 24 months	12 to 24 months	12 to 24 months
Customer Base	Teenagers aged 15 to 18	Adult Women living in Villages and Suburbs	Both Men/Women Adult living in Villages and Suburbs	Business Men/Women to finance the working capital	Working persons with a secured job	Any individual with the valid visa and work permit	Any Individual with remittance income
Context of releasing such funds	Teenager, Female, Rural, Vulnerable Community, Entrepreneur	Female, Rural/Peri Urban, Group Member	Female, Rural/Peri Urban, Group Member	Male/Female, Business, Capable to Payback, Ownership of Assets	Male/Female Secured Job	Valid Visa, Work permit, Ownership of Assets	Remittance recipient, Ownership of Assets
Need for Collateral or other forms of security	No	No	No	Yes (the Documents of Land)	No	Yes (the Documents of Land)	Yes (the Documents of Land)
Legal Enforceability of the Collateral	No	No	No	No	No	No	No



<b>One-time Commitment or repetitive agreement</b>	Repetitive upto the age of 18	Repetitive	Repetitive	Repetitive	Repetitive	Repetitive	Repetitive
<b>Requirement of (auto) Renewal</b>	Not Required	Not Required	Not Required	Not Required	Not Required	Not Required	Not Required
<b>Default Risk</b>	Low	Low	High	High	High	High	Medium
<b>Other Risks</b>	Accidental, Slump in Business, Death, Disease	Accidental, Slump in Business, Death, Disease	Accidental, Slump in Business, Death, Disease	Accidental, Slump in Business, Death, Disease	Accidental, Slump in Business, Death, Disease	Accidental, Slump in Business, Death, Disease	Accidental, Slump in Business, Death, Disease
<b>Grant or Refusal</b>	Non compliance of the terms	Non compliance of the terms	Non compliance of the terms	Non compliance of the terms	Non compliance of the terms	Non compliance of the terms	Non compliance of the terms
<b>Interest Rate</b>	No	No	No	No	No	No	No
<b>Protective Covenants needed</b>	No	No	No	No	No	No	No
<b>Offering revolving or one-time credit</b>	No	No	No	No	No	No	No
<b>Collection procedure or strategy</b>	Monthly through Mobile Bank Account	Monthly through Mobile Bank Account	Monthly through Mobile Bank Account	Monthly through Mobile Bank Account	Monthly through Mobile Bank Account	Monthly through Mobile Bank Account	Monthly through Mobile Bank Account
<b>Possibility of swapping with other loans (sources of finance)</b>	No	No	No	No	No	No	No

Table 1: Overview of the Loans

Source: Interview of Product Team of BRAC Microfinance

#### 4.4 Decisions Influenced by Various Factors

Loan approval decisions are subjected to the consideration of relative factors which influence the in the following decisions. The factors are:

##### 4.4.1 Grant or Refusal of WC Finance

The approval or grant of WC finance depends upon the following factors:



#### 4.4.1.1 Loan Behavior

In order to approve loans the previous loan history of the client to make sure that the loan approved will be paid off properly. If there is any fluctuation in the previous records in that case the loans are either not approved or delayed or approved in reduced amount.

#### 4.4.1.2 Savings Status

Before loan the clients have to save a small portion of the loan (usually 5%) in the concerned BRAC Office which usually helps in two ways: two offset the risk of non payment and to reduce the cost of capital for BRAC. If the client does not have sufficient amount of savings in such cases also the loans are not approved.

#### 4.4.1.3 Associated Risk

If the clients have associated risks, like: loan, potential risk of loss, and disease in that case the loans are not offered.

#### 4.4.1.4 Property Documents

If the clients don't own valid property documents in that case also they are refused for loan approval.

#### 4.4.1.5 OD/NIBL/Write Off

If the client cannot pay the loan within the stipulated time (usually 12 months) in that case the loan is considered as overdraft for first Six months and for one year as non interest bearing loan. If the loan cannot be recovered within that stipulated time in that case the loan is written off. If a client has any history of such nature in that case also the loans are refused.

#### 4.4.2 Interest Rates Offered

Usually the interest are similar for both the loans. The interest rates change in case of amount of loans approved. The interest are:

Loan Type	Agribusiness Loan			Trade Loan		
Loan Range	BDT 100000 to BDT 2000000			BDT 100000 to BDT 2000000( 8000000 for factory)		
Loan Size	Upto 500000	500000 to 1000000	More than 1000000	Upto 500000	500000 to 1000000	More than 1000000
Average interest	24%	22%	20%	24%	22%	20%

Table 2: Interest Rates of the Working Capital Loans

Source: Interview of Product Team of BRAC Microfinance

#### 4.4.3 Protective Covenants

Usually no protective covenant is asked for, unlike the banks. Usually the only protective mechanism sought for is the property documents which are not enforceable by the court. The ownership is not transferred and the repayments cannot be ensured.

#### 4.4.4 Offering Revolving or One-Time Credit

Usually the offerings are revolving in nature and the one time credit depends upon the will on the clients, unless: irregular payment pattern, less savings, has associated risks, cannot provide necessary property documents or cease the ownership, or fell in Overdraft, Non-interest Bearing Loan or the Write Off Category.

#### 4.4.5 Collection Procedure or Strategy

The collection procedure is same for all loans, monthly collection through Mobile Bank Accounts.

#### 4.4.6 Possibility of Swapping with Other Loans

Currently there is no regulation of swapping the loan with the other loans.

### 4.5 Factors Influencing the Loan Approval Rate

The factors which influence the approval rate for an average loan demanded of about BDT 210000 in agribusiness and around 275000 in the Trade loans are as follows:

#### 4.5.1 Industry

The nature, profitability and the risk of business influence the decision of the loan approval.

#### 4.5.2 Ownership Structure

If the ownership is subjected to question the loans are not approved. Besides in case of joint ownership the loans are approved to both the partners by dividing it equally.

#### 4.5.3 Size of the Business

The size of the business is another factor since the size usually defines the future potential to pay off, offset risk and profitability.

Loan Demand and Disbursement Pattern								
Time	Trade Loan				Agri Business Loan			
	No. of Loan Disbursed	Amount Disbursed	Average Loan Size	Increase in Average Loan Size	No. of Loan Disbursed	Amount Disbursed	Average Loan Size	Change in Average Loan Demanded
Jan-2018	22278	5750765000	258137		12121	2279930000	188098	
Feb-2018	23181	5968650000	257480	-0.003	12352	2399510000	194261	0.033
Mar-2018	24051	6124330000	254639	-0.011	12662	2421885000	191272	-0.015
Apr-2018	26098	6811080000	260981	0.025	13109	2554170000	194841	0.019
May-2018	27667	7233265000	261440	0.002	13057	2590975000	198436	0.018
Jun-2018	19879	5088520000	255975	-0.021	10615	2120830000	199796	0.007
Jul-2018	23855	6133195000	257103	0.004	13165	2652770000	201502	0.009
Aug-2018	23394	6136785000	262323	0.020	12186	2513775000	206284	0.024
Sep-2018	23120	6009065000	259908	-0.009	12841	2590530000	201739	-0.022

Oct-2018	26047	6891045000	264562	0.018	14289	2992455000	209424	0.038
Nov-2018	27781	7412115000	266805	0.008	14654	3033660000	207019	-0.011
Dec-2018	25233	6772295000	268390	0.006	13836	2903445000	209847	0.014
Jan-2019	26121	7072880000	270774	0.009	15082	3210515000	212871	0.014
Feb-2019	27018	7392035000	273597	0.010	15019	3233565000	215298	0.011
Mar-2019	26751	7359075000	275095	0.005	14903	3125965000	209754	-0.026
Apr-2019	29374	8349685000	284254	0.033	16033	3537430000	220634	0.052
May-2019	29808	8097030000	271639	-0.044	16224	3448620000	212563	-0.037
Jun-2019	21444	5678730000	264817	-0.025	13056	2787815000	213527	0.005
Jul-2019	27972	7581785000	271049	0.024	16469	3511340000	213209	-0.001
Aug-2019	21841	5956810000	272735	0.006	12661	2727280000	215408	0.010
Sep-2019	27607	7611860000	275722	0.011	16476	3561725000	216177	0.004
Oct-2019	27387	7499965000	273851	-0.007	16236	3637455000	224036	0.036
Nov-2019	28078	7908790000	281672	0.029	16670	3687845000	221226	-0.013
Dec-2019	29174	8293480000	284276	0.009	17075	3867955000	226527	0.024
Jan-2020	27837	7770190000	279132	-0.018	16929	3821090000	225713	-0.004
Feb-2020	25598	7461500000	291488	0.044	14875	3414625000	229555	0.017
Mar-2020	25717	7528142000	292730	0.004	14463	3288570000	227378	-0.009

Table 3: Loan Demand and Disbursement Pattern

Source: Data analysis of the monthly MIS of Interview of Product Team of BRAC Microfinance

#### 4.6 Default Rate

The following type of data has been observed in case of the default rate:

- 4.6.1 Mr. Shaid Ullah (Ullah, 2020) mentioned that usually the loans are defaulted by 4-5%.
- 4.6.2 In order to offset the risk there is a two percent loan loss provision in the interest rates and arrangement of the micro insurance which covers the default loans partially in case of the death of the borrower or the insured person.
- 4.6.3 Usually the default rate varies across the year. Based on the analysis of the MIS data of BRAC microfinance it has been observed that the average rate in between 2% to 3% in case of the agribusiness and 4% to 5% in case of Trade.
- 4.6.4 Mr. Shahid Ullah mentioned that the loan recovery rate slumps during the rainy season due to monsoon flood and tidal surges since the agricultural productions are affected and the business situation also go in the similar direction.
- 4.6.5 He mentioned that they had the data but was not willing to share the information regarding the default rate of the loans.

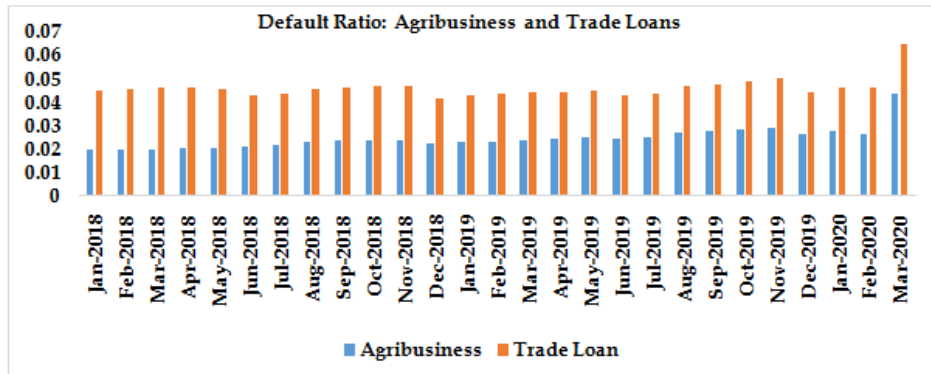


Figure 3: Default Ratio: Agribusiness and Trade Loans  
Source: Analysis of the BRAC Microfinance MIS Data

**4.7 Portfolio: WC Loan vs. Total Loan**

Based on the portfolio analysis of the years 2018 and 2019 it has been observed that the Working Capital is around 30% of the total loan portfolio. In 2018 it was slightly higher than the 31% while in 2019 it was slightly lower than 30%. The following table enumerates the data.

Year	Features	Agribusiness	Trade Loan	Total Agri and Trade	Total Loan
2018	Amount in Loan	31053935000	76331110000	107385045000	338815920000
	% of Total Loan	0.091654297	0.22528785	0.316942147	1
2019	Amount in Loan	40337510000	88802125000	129139635000	431143258200
	% of Total Loan	0.093559413	0.205968952	0.299528365	1

Table 3: Loan Demand and Disbursement Pattern  
Source: Data analysis of the monthly MIS of BRAC Microfinance

**4.8 Profitability: WC Loans VS. Long Term Loans**

Mr. Shaid Ullah mentioned that the profits are not calculated separately rather calculated in an aggregate and proposed to consider the income of Microfinance be considered as the profit from the Loans. Besides BRAC does not offer long term loans. In this perspective based on the income analysis the profit from loans has been found as follows:

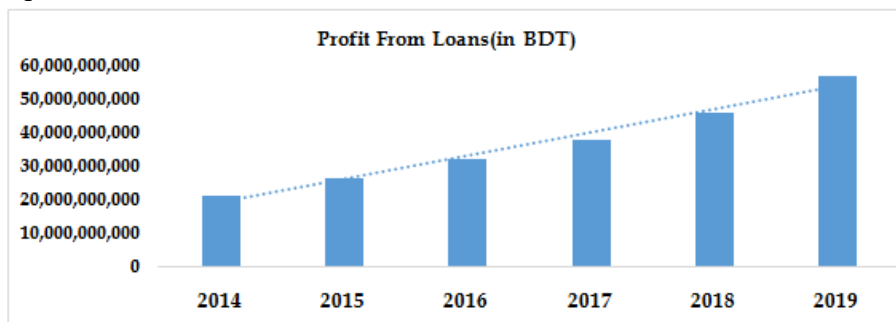


Figure 4: Profit from Loans  
Source: Data analysis of the monthly MIS of BRAC Microfinance



#### 4.9 Difference between BRAC Microfinance and Traditional SME Financing

Since BRAC Microfinance does not offer corporate loans therefore there is no point of difference.

But Mr. Shaidullah identified a few points like:

Point Of Difference	Corporate Loan (Banks)	Small and Medium Borrowers(BRAC)
Size of Loan	Big	Medium and Small
Mortgage	Mandatory	No Mortgage only land documents
Documentation Requirements	More	Limited Documentation requirement
Time Requirement	More Time is required	Comparatively less time required
Hidden Cost	Hidden Costs are there	No hidden cost
Communication with Client	Limited	Continuous
Default Rate	High	Low
Risk and Impact of Improper Selection	High	Low because the selection is very rigid

Table 4: Difference: Corporate Loan vs Small and Medium Borrowers

Source: Interview of the Product Team of BRAC Microfinance

#### 5. DISCUSSION AND CONCLUSION

BRAC Microfinance currently disburses around 30% of its total loan in Working Capital Financing with a 4 to 5 percent default rate. Profit from loans is quite high while the risk is relatively low. The risk is further offset by the savings of the members, loan loss provision and the support shield of the micro insurance mechanism. BRAC could very easily penetrate among the unbanked portion of Bangladeshi people through various financial services like: financial literacy, entrepreneurship training, mobile bank account, helping savings and DPS, loans for various purposes where the banks are stringent. Closeness to people has made BRAC a bank in the homes of people, where the traditional banking system is lagging behind. As a result although BRAC was not experienced to handle SME Loans but now the organization is managing the loans relatively more successfully than the traditional banks. But higher default rate is a risk for the trade loans and information hiding like: previous loans with other NGOs and Banks and chronic diseases is very likely. The interest rates and the repayment periods are two major drawbacks of BRAC Loan Mechanism. Besides collateral free loans are indeed a risk for the organization since it is not known that how long the status quo will remain unchallenged. Again the onset of COVID 19 has brought BRAC Microfinance to a new reality. Hence it is important to increase the portfolio of Working Capital Loan that will have lesser risk and will generate more profit.

#### 6. LIMITATION

The paper is based mostly on the analysis of secondary literature and in depth interview of the Product development team of BRAC Microfinance. The client perspective was not acquired through any perception study.

## **7. ACKNOWLEDGEMENT**

The author hereby acknowledges his gratitude for the kind support of Product Development Team, BRAC Microfinance Programme, Dr. Shakila Yasmin, Associate Professor, Institute of Business Administration (IBA), University of Dhaka and Dr. Muhammad Mahboob Ali, Professor, Dhaka School of Economics, University of Dhaka for extending their kind support throughout the study and completion of the report.

## **References**

- [1] Ackah, J. & Vuvor, S., (2011). The Challenges faced by Small & Medium Enterprises (SMEs) in Obtaining Credit in Ghana. , Karlshamn, Sweden: Blekinge Institute of Technology.
- [2] Bosri, R., (2016). SME Financing Practices in Bangladesh: Scenario and Challenges Evaluation. *World Journal of Social Sciences*, 6(2). July, Special Issue, pp: 39-50.
- [3] BRAC, (2018). BRAC Annual Report, Dhaka, Bangladesh: BRAC.
- [4] BRAC, (2019). BRAC Annual Report, Dhaka, Bangladesh: BRAC.
- [5] BRAC, (2020). BRAC. [Online] Available at: [www.brac.net](http://www.brac.net)
- [6] Hossain, M. K., (2012). Measuring the Impact of BRAC Microfinance Operations: A Case Study of a Village. *International Business Research* , pp: 112-123.
- [7] Hossain, M. M. & Ibrahim, Y., (2017). Working Capital Financing by Banks in Small Enterprises: Problems and Challenges for Bangladesh. In: *Handbook of Research on Small and Medium Enterprises in Developing Countries*. s.l.: IGI Global, pp: 137-158.
- [8] Jameel, K. & Hasan, S. S. U., (2018). The Evolution of Financial Innovation and Challenges for Small and Medium Enterprises: A Case Study from South Asian Economies. *Research Journal of Finance and Accounting*, 9(3), pp: 13-25, ISSN 2222-2847 (Online).
- [9] James C. Van Horne, J. M. W., (2008). *Fundamentals of Financial Management 13th Edition*. Harlow, England: Pearson Education Limited.
- [10] Kumar, V. & Singhal, R.S., (2015). Mudra Bank And MSME : Challenges & Prospects. *International Journal of Trade and Commerce-IIARTC*, 4(2), pp: 453-458.
- [11] Kovelskiy, V., (2015). Comparative Analysis of Working Capital Management Of MSMEs In India. *WSEAS Transactions on Business and Economics*, Vol. 12, pp: 289-305, E ISSN 2224-2899.
- [12] Nte, N. D. & Ekpenyong, O., (2014). Financing Micro, Small and Medium Enterprises (MSMEs) and the Challenges of National Development in Nigeria: Lessons from India. *International Journal of Trade and Commerce-IIARTC*, 3(1), pp: 161-171
- [13] Raheema, M. M. & Meerab, A. K. M., (2018). A Case for a Shari'ah Compliant Alternate Credit System to Facilitate Working Capital Management for Micro, Small and Medium Enterprises in Malaysia. *Journal of Islamic Finance*, 7(1), pp: 26-37, ISSN 2289-2117(O).
- [14] Shah, W. H., (2014). SME Loan Defaults in Bangladesh, Policy Brief, Brief No. 41, June, s.l.: Asia-Pacific Research and Training Network on Trade.
- [15] Uddin, M. M., (2021). Understanding MSME-owned women entrepreneurs in Bangladesh: exploring motives, challenges, and success factors. *International Journal of Critical Accounting*, pp: 107-128.
- [16] Ullah, M. S., (2020). Working Capital Financing Products of BRAC Microfinance [Interview] (04 November 2020).

- [17] Parvez, M.S. & Shakil M., (2015). Study of Impact of Micro-Credit on Selected Area with Special Reference to Bangladesh. *International Journal of Trade and Commerce-IJARTC*, 4(1), pp: 172-193.
- [18] World Bank, (2019). *Financing Solutions for Micro, Small and Medium Enterprises in Bangladesh*, Washington, DC: The World Bank Group.