

## **Co-operative Investment policy for Growth and Development of Small and Medium Size Businesses and Improve the Poverty Condition in Bangladesh**

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### **Abstract**

The research focuses on the assessment of SMEs (Small and Medium Size Enterprises) & its impacts on socio-economic spheres; it focuses on the effective ways for growth & development of SMEs in Bangladesh for socio-economic development. Bangladesh is one of the poorest countries in the world with low GDP/capita and minimum purchasing power. 24.8% of the total population of the country does live below the national poverty line (\$2/day), while 6.5% of them do live in extreme poverty [4]. To bring the vast population out of the vicious circle of poverty and accelerate the economic growth are the target and attention of the country. To pave the way for first & foremost task is either to create direct employment or create condition to create employment to reduce the unemployment rate & accelerate the source and level of disposable income. Growth & development of SMEs, which create self-employments and employments for low and semi-skilled workers, are the target and attention of the country. But the ways for growth & development of SMEs in Bangladesh are not smooth enough. They are frequently confronted with structural, managerial, financial, and social challenges. For sustainable development large population groups are needed to get the ways for their own development. The research was conducted by structural and semi-structural questionnaires and face-to-face interview of 150 recipients of social classes and ages in rural and urban areas in Bangladesh. The aim of the paper is to analyze the effect of Co-operative Investment Policy through “Co-operative Society Micro-saving Bank” and “Innovative SME Model” for growth and development of SMEs and MIAs (Micro Industrial Activities) and its impacts on socio-economic development. The target is to aggregate impoverished individuals’ micro saving, limited capability, little working skills & experiences to create them depositors, investors, successful entrepreneurs & skills workers through establishing co-operative society micro-saving bank and involving them in entrepreneurial activities.

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**Keywords:** Co-operative investment policy, Co-operative society micro-saving bank, Innovative SME model, Economic growth, Poverty alleviation.

### **Cause of high rate of poverty and way to overcome**

Permanent economic downturn & tremendous poverty are the remarkable national issues in Bangladesh and mandatory tasks are to accelerate the economic growth and bring the nation out of the vicious cycle of poverty. There are 3 fundamental reasons which are accountable for permanent economic downturn and prolong poverty in Bangladesh, are: firstly, the poor people don't have permanent regular jobs to earn enough money to support their families, as they are illiterate & lack of working skills and experience to secure formal regular jobs. Secondly, they don't have sufficient investment capital to introduce their own businesses or other income generation activities to change their financial status. And thirdly, they don't have proper entrepreneurial and managerial knowledge & experience to introduce and operate their own businesses perfectly profitably. For these reasons they are not able to lift themselves & their families out from the vicious cycle of poverty either by working capitals or entrepreneurial capabilities and they are poor from generation to generation. These factors impose huge pressure on national economy, infrastructural and economic growth plan & potentiality.

For sustainable development large population groups are needed to get the ways for their own development.

When poor are encouraged to save & the capital is associated with an increase in assets & money liquidity is accelerated effectively, when borrowers are encouraged and patronized to invest in low risk income generation activities; the vulnerability of the poor people is reduced & improve the poverty conditions & national economy.

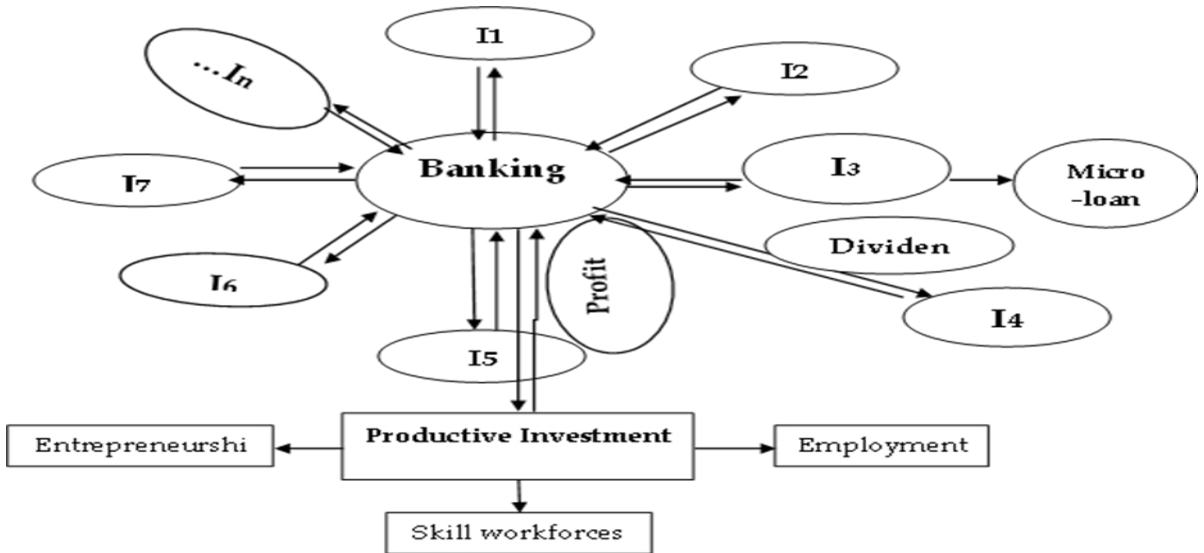
In these very condition **Cooperative Investment policy**, whereby little deposit capitals of many impoverished individuals are aggregated gradually in co-operative manner and invested in highly labors productive & profitable sectors as their (impoverished investors') own financial institutions (SMEs and MIAs) which the poor investors are employees with their shareholders status and receive salaries with dividends, could be a very potential breakthrough to accelerate the economic growth, generate employment and improve the poverty condition in Bangladesh. The proposed 'Co-operative Society Micro-saving Bank' and 'Innovative SME Model' are to apply the methods to examine the effectiveness of it on socio-economic development in Bangladesh.

### **A. Co-operative society micro-saving bank**

Co-operative Society Micro-saving Bank is an innovative micro saving banking and microeconomic activities. It's is a micro saving based dividend sharing bank. It is mainly a profit & lose sharing basis investment bank. Co-operative Society Micro-saving Bank is created by little & equal deposit capital of a large number of impoverished investors. The bank first aggregates month-month basis installment based little but equal deposit capital from a large number of impoverished investors and invests gradually in highly labor productive and profitable sectors as the impoverish investors' micro joint ventures. Moreover, the bank manipulates formal banking activities including saving, money transfer and lending activities.

The impoverished investors, who have neither sufficient investment capitals nor proper entrepreneurial knowledge to introduce and operate their own businesses or other financial activities, do deposit very little amount of credit (\$5/month) for a certain period of time (2 years). After 6 months, when sufficient investment capital is deposited, the bank goes to direct investment in highly labor productive and profitable sectors including, small cottage industries, micro industrial and other low risk commercial activities and employs maximum of its investors (Shareholders) to its financial activities. After a month they start receiving salaries as their first source of income since they are the employees of the financial institutes. They receive dividends of the profitable sectors as the second source of their income at the same time as they are the shareholders of the ventures. Moreover, they are allowed to receive low interest loan from the bank for productive investment, for example, to introduce SMEs or other income generation activities and it would be potentially the 3<sup>rd</sup> source of income. The bank recruits maximum of its shareholders in its incrementally growing job sectors. The impoverished investors are the depositors, the shareholders, the credit recipients and the employees of the bank. As the impoverished individuals neither have sufficient investment capital nor proper entrepreneurial knowledge and experiences to introduce and operate their own businesses or financial institutes, the bank deposits little investment capitals of large number of impoverished investors and invest them in low risk and labor productive income generation activities as micro industrial activities and conduct them properly as their representative. Whole systems is operated by a skilled governing body which is the employee of the bank and each member of the governing body may hold one and equal share like any other ordinary shareholders.

**Figure 1: Model for Co-operative Society Micro-saving Bank**



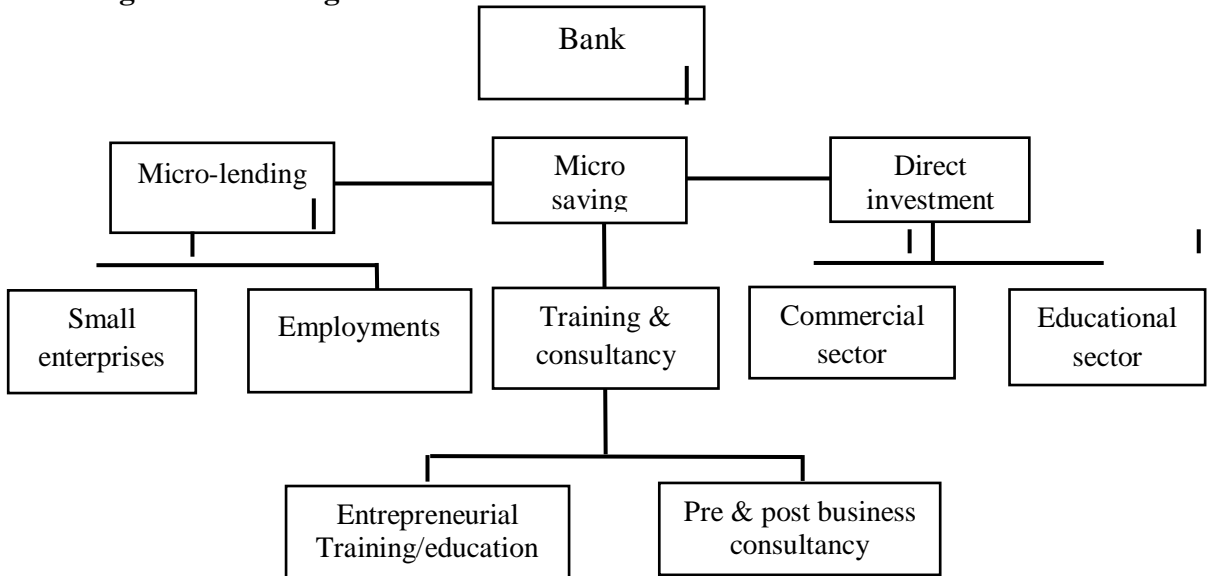
$$I^1+I^2+I^3.....In; (I=Investors)$$

Source: Computation by the Author 2015

**a. Banking structure of co-operative society micro-saving bank**

The principal objective and focus of the bank is to accelerate the growth & development of SMEs, MIAs and other income generation activities to bring the impoverished people out of the vicious cycle of poverty, utilizing their own capitals, own diligence, own capacities & capabilities. For this quest the bank pursues micro-saving based investment principle. Effective banking structure & investment policy are predominantly significant to reach its economic growth and poverty alleviation goal. The Bank adopts the 3 functional micro financial activities: Micro saving, Direct Investment, Micro lending (figure 2). The Micro saving creates the saving habit of the impoverished population which accelerate their money utilization and entrepreneurial activities. The direct investment policy of the Bank accelerates the revenue & leverage of institute and creates employments. The easy accessible low interest rate loan reduces underprivileged peoples' liquidity constraints and accelerates the growth of SMEs and disposable incomes. Moreover, training and consultancy program increases the entrepreneurial skills of underprivileged investors (shareholders). The bank adopts the following banking structure to encourage and increase entrepreneurial activities and reduce the investment failure rate and bring socio-economic sustainability (figure 2).

**Figure 2: Banking structure**



*Source: Computation by the Author 2015*

**b. Investment in productive sectors**

The banking concept was emerged with the idea that it would pursue micro saving & investment based dividend sharing principle. So, the bank directly invests in various profitable and labor productive sectors. It predominantly give priority to invest in low risk labor intensive income generation activities, including small & medium scale commercial, micro-industrial & educational sectors. Commercial sector includes, dairy milk processing, packaging, marketing, water purification & bottled, farming, fisheries etc. Micro-industrial investment includes, readymade garments, little handicraft etc. and educational investment includes, introduction and operation of commercial primary school, secondary school etc. A half of the profit is invested to set up new enterprises and to expand the existence ones for the first 2 years while the rest of the profit (50%) is provided to the shareholders as dividend every month. The investment activities contribute to accelerate revenue; generate employment, enhance disposable income and improve poverty conditions of the impoverished investors.

**c. Credit giving policy**

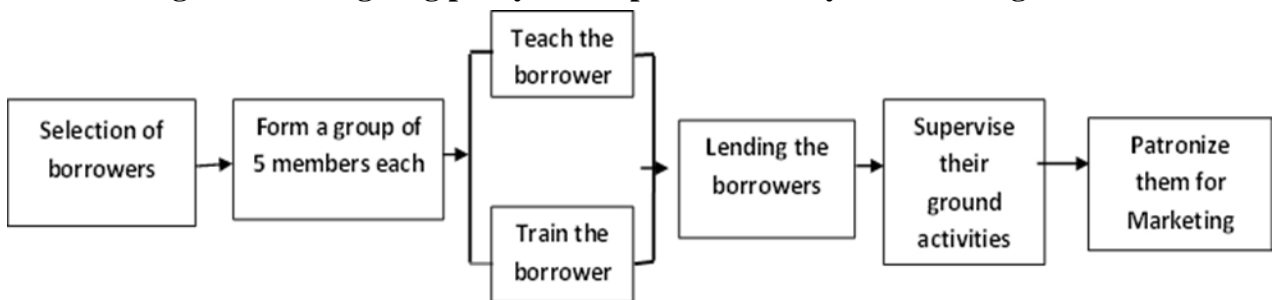
The ultimate goal & attention of the bank is to accelerate the economic growth activities and to lift the impoverished people & areas out of the vicious cycle of poverty through growth and development SMEs, MIAs and other income generation activities and involving them in the growth potentiality. To maximize the development, the bank provides low interest loan to its

shareholders for entrepreneurial activities. As credit giving principle, the bank first surveillances the projects of the loan applicants and provides knowledge & training in the areas including entrepreneurial, managerial, marketing and bookkeeping spheres to accelerate the SMEs' profitability & success rate and reduce the failure rate (figure 3).

For effective utilization of loan capital & maximization of output of credit functions, the bank pursues the following pre & post credit allocation policy:

- Forming a group of five potential borrowers (credit recipients)
- Surveillances their planned projects and projects' survival & growth potentiality
- Effective entrepreneurial and managerial training
- Pre & post investment & business oriented consultancy
- Allocated loan capital range from \$2000-\$10,000

**Figure 3: Loan giving policy of co-operative society micro-saving bank**



*Source: Computation by the Author 2015*

#### **d. Collateral free credit program**

Access to easy financial services is very significant factors for sustainable growth and development of SMEs [1], [12], but access complexity to financial services is still the biggest challenge to SMEs in Bangladesh [11], [13]. Less than 20% of small businesses in Bangladesh have access to institutional financial services [13]. The main obstacle to access to institutional finance by small enterprises is the credit with collateral [13].

To alleviate the financial access interruption of SMEs' entrepreneurs and to enhance the growth and development of SMEs, the bank introduces easy accessible collateral free micro credit program with effective payback principle. The bank provides trust based micro credit to its shareholders for productive investment. The exclusive payback policy reduces the pressure on credit recipients and at the end of the loan period they can operate loan free business activities.

**e. Interest rate & pay back strategy**

**Short term & Long term loans, interest rate and repayment structure**

Effective credit giving policy and repayment structure are very significant for permanent economic growth by marginal entrepreneurs and improve the poverty conditions. The bank provides low interest micro-credit to encourage and increase entrepreneurs and spread entrepreneurial activities.

The Bank introduces two types of micro loans named; **Short term credit** and **Long term credit** and imposes different interest rates and payback strategies for different loan functions.

**Short term credit:** For short term credit, the bank imposes 5% annual interest rate and applies flexible installment based repayment principle. The bank gets the loan back with month to month basis 12 installments during a year. First installment is started after a month of receiving loan then every month gradually.

**Long term credit:** For long term credit the bank impose 7% annum interest. The total loan capital with interest is payback in single installment after a year of receiving loan.

The low interest rates minimize the pressure on credit recipients and payback principles enhance the time to invest and make profits which accelerate the small business's profitability and success rate. In Bangladesh, impoverished investors invest in mainly 2 types of income generation activities: 1. to introduce SMEs wherefrom revenue and profit comes daily basis and 2. to introduce farming including cattle fostering, poultry farming, fisheries etc. which take 9-12 months to get return on investment. Due to the investment factures of the small investors in Bangladesh, the bank pursues the different loan functions.

**Short term loan's repayment sample:**

**Repayment installment =total loan capital with interest/12**

If a client receive \$1200 loan on 1st of January, from the 1st of February his/her installment is started and installment capital is \$105 ( $\$1260/12=\$105$ )/month till January of the following year.

**f. Women empowerment**

Women make up almost half the total workforce of Bangladesh [49.586 (f): 50.414 (m)], but they are in lagging behind in outside financial activities in the open air, prominently because of religious and cultural settings. Only 31.6% of the female workforces were active in Bangladesh labor market against 81.7% of their male workforce counterpart [5]. Moreover, in term of entrepreneurial activities, they are also lagging behind of their male counterpart. As of 2014, 3 million SMEs are operated in Bangladesh. Of them only 7.2% are owned by female entrepreneurs [6]. Their



contribution to national GDP is only merely 6.85% of the total GDP [6].

Keeping a vast population out of income generation activities, sustainable development is impossible. Home based small businesses enhance women's involvement in economic activities and enhance entrepreneurial skills which accelerate household's income and reduce social discrimination.

To encourage and increase the women in entrepreneurial activities, the bank provides them credit with beneficial banking they need to start up business ventures and actively participate in economy. It gives them confidence, improves their status and make them more active in decision-making, greater accession to financial resources, greater social network and greater freedom of mobility thus encourage gender equality. But just simply access to micro financial services of women doesn't empower them automatically; rather loan contribute women to support the family and society in large economically to empower them.

#### **g. Entrepreneurial training**

Every year 1/3 of new SMEs is introduced by the microcredit of MFIs in Bangladesh but 2/3 of them can't survive longer than 1 year because of low market share and low profitability [2]. These are due to lack of entrepreneurial, managerial, marketing and bookkeeping knowledge and experience of SMEs investors [11], [7], [13], [14]. Most of the SMEs in Bangladesh are introduced without any plan, outline or framework which lead high rate of small business failure. A survey conducted by Bangladesh Bank [3] showed that 89% owners of SMEs practically done the business plans by themselves without seeking consultation from professionals or experts.

To counter the impediment, the Bank establishes SMEs training & consultancy center to provide fundamental training, knowledge and consultancy in the identified areas including, entrepreneurial, managerial, marketing and bookkeeping spheres before providing them loan to reduce the SMEs failure rate and accelerate profitability & success rate.

#### **h. Setting helps desks in bank and business promotion bodies**

SMEs entrepreneurs are marginal, uneducated and disadvantage inhabitants of the society. But investment functions in Bangladesh are bureaucratic, corrupted and complicated with a lot of paper works and red tape barriers [8]. The poor entrepreneurs are not knowledgeable and experienced with the formal administrative procedures. Thus, they are often confronted with harassment, unexpected delay and side payment to get registration & business license. Thus, investment cost of SMEs goes unexpected high and investment plans of many potential investors are ended before introduction. To repel the impediments & extend the outreach of SMEs development, the



bank sets up help desks in bank branches to assist the SMEs investors for successful growth and development of SMEs.

**i. Regional raw material based production industries**

In Bangladesh investment and industrial policies and activities are mainly capital city Dhaka and financial capital Chittagong based. Almost all of the products and services are produced either in Dhaka and or in Chittagong and spread throughout the country for marketing. It hike the cost of products or services several folds due to high labor cost & high rent of space, transportation cost and other services. This policies also responsible for unhealthy rural-urban migration problem, rapidly growing city slams, contamination of city environment, rapidly growing crime rate as well as hindrance of urban development plan & potentiality and socio-economic growth potentiality of rural areas.

The bank mainly invests in regional raw materials based micro-industrial and commercial activities within the regions for the regional market. The investment policy reduces the cost of the products and creates employment in regional labor market which repel rural-urban migration problem and accelerate regional development.

**j. Investment in education sector**

Creation of an effective human nation that increases labor productivity and accelerates return to capital is one of the most important things for the long-term and sustainable development of a nation [9], [10]. Education is the single most significant component to create human nation [9]. But the education sector in Bangladesh lags behind the standard. Literacy and school attendance rate is relatively low and school dropout rate is very high, mostly among the impoverished population, as they can't effort to send their children to school rather send them to work. As of 2012, youth literacy rate is 77.1% for male compare with 80.4% female. Primary school attendance rate for male and female child is 72.2% and 81.2% respectively and secondary school attendance rate for male and female child is 42.2% and 47% respectively [15].

The Bank plays a significant role against the backdrop. It works through the current generation and build up the future generation. The bank's distinct investment policy and loan programs increase impoverished investors' economic and income generation activities, employments and households income which contribute them to send more children to school for longer time. Besides, its own educational program is to provide standard education, mainly to the children of underprivileged investors which bring a radical change in socio-economic spheres in Bangladesh. If a generation is possible to lift out of illiteracy cycle through up to date and education, it will bring tremendous changes in socio-economic spheres.

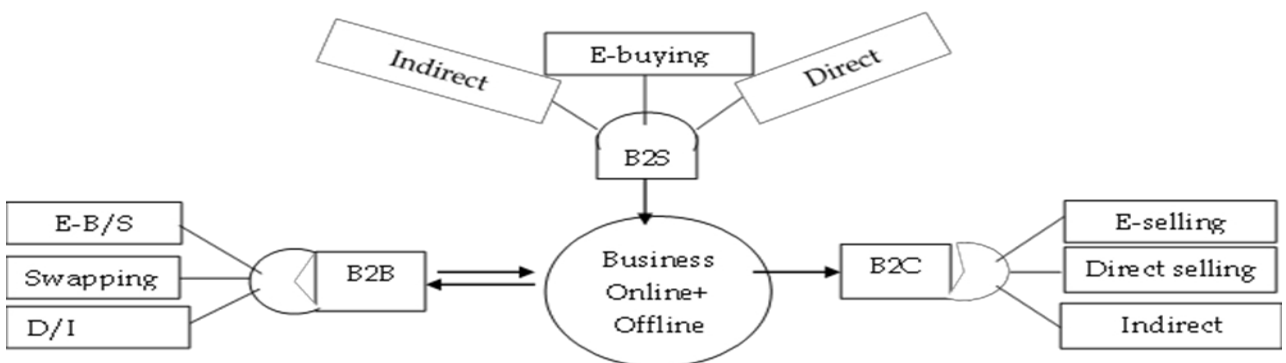
## B. INNOVATIVE SME MODEL

### Innovative SME growth & development model

Bangladesh has a track record of very high rate of (75%) new SMEs failure each & every year. Small customer volume which leads low market share and low return on investment is one of the most remarkable causes for high percentage of SMEs failure at the initial stage. ‘Innovative SME Model’, which accelerates the customer volume and market share in short order and minimizes the time between ‘Purchasing & Selling’, is a viable alternative to repel the constraints.

Innovative SME Model constitutes SMEs both online & offline formats and creates network among B2C (business to customers), B2S (business to suppliers) and B2B (business to business) and manipulates direct & distance purchasing & selling form the same space (outlet). The business model creates a ‘Customer-Business-Suppliers’ chain (figure 4). The Model accelerates the customer volume and market share in short order & minimize the cost of units and time between ‘order and supply’ and ‘receive and delivery’ (Purchasing-Selling). The model also designs to offer a large volume & varieties of products by low investment cost. The business first receive the order from the customers, contract with the customers according to the customers’ needs, receive the supplies and deliver to customers in time. The business also operates direct purchasing and selling like the conventional business outlets together with distance operations.

**Figure 4: Innovative SME Model**



*Source: Computation by the Author 2015*

#### a. B2C network

The format creates a ‘Business-Customers’ network which does coverage a large number & varieties of customers ranging from Government offices, NGOs, commercial institutes, educational institutes to household clients and contract with them both via online and directly by sale representative. The business receives distance orders online as well as

indirectly by sale representative and delivers the products(s)/ service(s) by minimum time. The business also maintains the conventional direct selling. The objectives of the network are:

- To accelerate customer numbers & sale volumes
- To accelerate the market share
- To reduce gap between purchasing & selling
- To increase profitability

**b. B2S network**

The format creates a ‘Business-Suppliers’ network which does coverage a large numbers and types of suppliers ranging from farmers, cosmetics, accessories, stationaries to commodities and communicate with them both online and by the representative directly. The objectives of the network are:

- To enhance the volume and variety of products by low investment cost
- To reduce the cost of the products
- To minimize the gap between order & supply
- To accelerate the profitability

**c. B2B network**

The format creates a ‘Business-Business’ network which does coverage a large number and types of business ranging from commodities, cosmetics, accessories, stationaries to groceries, mostly operating in the same area, and communicates with them both online and directly by the representative. The business network enter-sell, swap or exchange their product(s)/ service(s) according to necessity. The objectives of the network are:

- To increase sale volume
- To enhance mutual understanding and business ethics
- To accelerate profitability

**Conclusion**

When and how economic growth would be accelerated & poverty could be alleviated depends among the other things on whether and how successfully micro-economic policy address the real constraints faced by the poor in a certain context & area and how effective measures are taken to overcome the impediments. Effective strategies and proper implementation are indispensable to reach its economic growth and poverty alleviation goals.

For sustainable development, large population groups are needed to get the ways for their own development.

The 'Co-operative Society Micro saving Bank' accelerate impoverished people's saving habit & increase growth and development of SMEs, dynamic and diversify the economic activities, increase the employment growth and reduce unemployment rate.

The 'Innovating Small Business Mode' increases small business's profitability and success rate and reduces failure rate through enhancing customer volume & market share and minimizing the time between purchasing & selling and offer a large volume & varieties of products by low investment cost.

Effective policy, good working model and proper implementation of 'Co-operative Society Micro Saving Bank' and 'Innovative Small Business Model' accelerate the economic growth, alleviate poverty and bring socio-economic stability in Bangladesh.

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