Loan Scheme for ISO Consultancy and Certification





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EXECUTIVE SUMMARY

Small and Medium Enterprises (SMEs) play a dominant role in the economy of Bangladesh (currently contribute around 20-25% of GDP). But most of the enterprises have problems in finance, marketing and management. These enterprises face serious impediments in respect of marketing. In a globalized world, trading in the international market requires certification of the enterprises producing the goods and services in respect of its quality and reliability. There is institutional arrangement in Bangladesh for providing ISO certification after due auditing, checking etc by reputed consultancy and audit firms. SMEs face considerable problem in arranging finance for such certification due to non-existence of any financial arrangement in the banking system. There is therefore a felt need for financing such certification which usually cost around Tk.3-4 lacs. In view of this, it is contemplated that if commercial banks come forward with a suitable scheme for financing for certification, the SMEs will be in a position to operate in the international market as also compete with established firms at home from a firmer standing. The most widely used standard is ISO 9000 which refers to a set of standards regarding the quality aspects of management systems in companies. ISO standards are specific to a particular product, material, as well as specific to industries. Certification refers to compliance with ISO standards, and to management systems and processes (i.e. the way the work is carried out) and not to specific products. The certification process involves step-by-step documentation of the procedures used to manufacture or produce a product. The ISO itself is not a certifying body, but rather the certification given by an independent entity that audits a company's management systems. When a company is found to comply with ISO standards that company is issued a written certificate. ISO Certification is recognized throughout the world.

The Service Division of KATALYST, a business promotion and development initiative for small and medium enterprises (SMEs) is working in the private sector in Bangladesh to improve its growth and competitiveness. KATALYST supports the development of markets for business services for SMEs and tries to enhance the enabling environment in which the SMEs operate. KATALYST is operating in the following five markets for cross-sector business services:

(i) Accounting, Financial Consultancy and Tax Consultancy (AFT);
(ii) Marketing;
(iii) Quality Management Systems (QMS);
(iv) Information and Communication Technology (ICT); and
(v) Media.

A study of the QMS service market has revealed various impediments that act as barrier to the growth of the service market in Bangladesh. One such barrier lies in the area of financing ISO Consultancy and Certification which costs around Taka 200,000 to Taka 300,000. This amount is considered to be too expensive for the SMEs. The idea of this study is to explore the possibility of persuading commercial banks to bring out loan schemes (especially ISO 9000 consultancy and certification) that can offer funding for such ventures.

The specific objectives of this study are as follows:

(i) Conduct literature survey to determine whether Loan Schemes for ISO Consultancy and Certification exist in the selected developing countries; if yes, understand the schemes completely.

(ii) Develop a Prototype Loan Scheme for the Commercial Banks.

(iii) Establish contact with top management of several Commercial Banks and Financial Institutions, especially those that have a considerable SME portfolio, and explore the feasibility of such schemes.

(iv) Draw up a broad action plan for launching of loan scheme with interested Commercial Banks and Financial Institutions.

(v) Signing MOU with interested Commercial Banks.

The methodology followed in of the study involved conducting Key Informant Interviews (KIIs) on the relevant institutions/ persons; adopt qualitative technique supported by secondary data in the relevant areas, interviewing the top executives of the selected banks and non bank financial institutions, and collection of information from internet and websites on related issues.

It transpired from the interviews that although these institutions are not involved in financing ISO Certification due to the fact there are not much demand for such type of financing at present, in the event of introducing a suitable loan scheme they are expected to get a good response form amongst SMEs for ISO Certification. The reasons for lukewarm demand for ISO Certification are that SMEs are involved in trading in domestic market which is almost a protected captive market largely insulated from external competition. They are not major players in foreign markets. It transpired from the interview that if there is loan product instrument meant for financing ISO Certification, the Bank and Financial Institutions will come forward for such financing.Following globalization SMEs are increasingly getting involved in international market for marketing their goods and services. Foreign buyers feel encouraged to buy goods and services with ISO Certification and our internal market is also getting exposed to competition from foreign goods and services.

All the 10 Banks and Financial Institutions interviewed have SMEs portfolio of considerable size. They are aware of the financial constraints of the SMEs with regard to ISO certification. None of them extended any such finance to the SMEs. They are however agreeable to finance their SME clients having operative (unclassified) loan accounts under a new loan scheme. But they feel that the unmet demand for such finance would be considerable in view of the fact that SMEs are likely to operate vigorously both at home and international markets in days to come.

The two Trade Bodies namely, The Federation of Bangladesh Chamber of Commerce & Industry (FBCCI) and The Dhaka Chamber of Commerce & Industry (DCCI) were interviewed. Their views are that the 6,000 exporters of the country out of which 76% are

garments should be motivated to obtain ISO certification on the ground that it will have direct impact on their turn-over and profitability, and the 40,000 importers in Bangladesh should be motivated to ask their suppliers to provide ISO certification for their imported items to ensure an acceptable standard of the items.

One Certification Company and one Consultant were also interviewed. They felt that the proposed "Bangladesh Association for Quality Professionals" and the FBCCI may play a supervisory role on the consultant and auditors. They also felt that the Government should pass a law for creation of a regulatory body for supervision and control over such bodies. They are of the opinion that bank loan should be allowed for consultancy and certification. Banks may also play a supervisory role when loans are allowed by them.

At present the SMEs have access to the credit windows of the Banks and financial institutions. The commercial banks' credit portfolio for the SMEs is largely dominated by project finance and trade finance as per their usual credit norms. The Banks and Financial Institutions in Bangladesh have no arrangement for financing ISO certifications. In view of this, a Prototype Loan Scheme has been prepared for the banks and financial institutions for extending loans to the SME's for ISO consultancy and certification.

Amount of the loan would be to the extent of 80% of the cost of consultancy and certification. The SME clients of the Bank/FI will submit estimated cost and expenses from the consultant and certifying body to the financing Bank/FI subject to the prescribed loan limit.

Entrepreneurs of SMEs will avail the finance for ISO 9000 services Certification to meet the expenditure on account of consultancy, documentation, audit, certification fee etc.

Financing Banks/ Financial Institutions will extend term loan to their SME clients for ISO consultancy and certification. Consultants: They will provide consultancy services and prepare documents etc. against agreed fees to be paid by Bank/FI as per loan arrangement between Financing Institution and SME. Certification Bodies will issue ISO certificate on completion of the required formalities and assessment of the enterprise against mutually agreed fees to be paid by the respective Banks/FIs on behalf of the concerned SMEs. The cost involved will be: Tk. 300,000-Tk.400,000, while amount of the Loan/Investment will be Tk.200,000 – 300,000. The margin will be 20-25%. The Rate of interest/profit will be 10-12% depending on interest rate of individual bank/financial institution or rate of profit as the case may be.

Securities of the loan will be a) charge to be created on the fixed and floating assets of the project, b) additional charge to created on the project, c) personal guarantee of the sponsors of the project, and d) signing of the usual charge documents of the bank. Financing bank/ FI will disburse the amount to the respective consultant/certifying body in installments as per arrangement between the financing institution and SME. Repayment will be within 2 to 3 years in quarterly/monthly installments with interest/profit.

As per the proposed Memorandum of Understanding (MOU), the KATALYST and the Bank signing the MOU are supposed to exchange data and information in the related issues among themselves for promotion of the cause of the SMEs. While the Banks and Financial Institutions will like to finance ISO Certification to the SMEs, KATALYST will agree to work in the process to find out the suitable SMEs in need of such finance. Bank and the KATALYST will work hand in glove in advocating the cause of SMEs in their efforts. They would take assistance of trade bodies like FBBCI, DCCI, and BGMEA etc. for spreading the information of a new loan scheme to the length and breadth of the country.

Recommendations of the study are while for the present only two Banks may be selected for signing MOU with a view to promoting to cause of ISO financing with the SMEs, gradually increasing number of Banks and Financial Institutions should be persuaded to join the march for promoting the cause of ISO Certification. To familiarize the new loan scheme a battery of measures, such as, advocacy, advertisement and review of the position from time to time will be useful. To initially provide additional incentive to the SMEs for ISO Certification, rate of interest to be charged by the Commercial Banks and Financial Institutions should be concessional. Ways and means may be evolved to form a cluster of SMEs for marketing their products at home and abroad. Likewise the SMEs may consider syndicating their advertisement efforts goods/ service wise to reduce the cost of such advertisement. As the SMEs are the mainstay of our industrial sector, some concession, in terms of tax and duties may be considered by the government. To make the new loan scheme popular among the SMEs, Banks/Financial Institutions may consider quick decision in disposing off the loan cases through arrangement like “ONE STOP” service etc. There should be a strong effort for disseminating the information among various stakeholders about the new scheme and periodical review by the concerned parties should be made to assess the effectiveness of the new scheme.