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VISITING SME FINANCING INDUSTRY OF BANGLADESH

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ABSTRACT

This paper emphasizes on the efficiency of small and medium scale assets for the social development agendas like entrepreneurship development, poverty alleviation etc. We will scrutinize the overall effectiveness of the Bangladesh Bank (2014) financing industry of the country. Informative resource has been collected by an original field survey and from secondary resources. The field survey includes 100 stakeholders regarding SME financing 60 of who were direct loan facilitators of the financiers. The results conclude that almost all factors related to SME financing industry of the country are satisfactory except some of them. However, some recent contradictory occurrences are taking breath on the neck of this industry. The industry is running without a concrete framework and without an acceptable asset recovery system. On the other side the industry is facing imperfect competition. This work will be successful only if the financiers will rejuvenate the overall financing system by fortifying our results. This research paper has an emphatic gaze on entrepreneurship development by alleviating poverty by SME financing.

Keywords: Bangladesh, Collateral free lending, Days past due, Gross domestic product, Least developed country, Non performing loan, Small and medium enterprise.

Contribution/ Originality

This research paper is based on empirical data and reveals some results to exhibit that how SME financing effects on some socio-economic phenomena of Bangladesh like entrepreneurship development, poverty alleviation, women entrepreneurship development etc. considering the context of Bangladesh.

1. INTRODUCTION

Let's consider a fact- "A poor woman of a countryside village introduced a small business. She got some lending from a Non Government Organization (NGO). After operating her business some days she needs to improve the portfolio why she seeks more assets from the NGOs. But, the

NGOs have some legal obligations. They cannot finance after a certain limit. Eventually, that poor lady finds difficulty to continue her business. As a result, she has to sell her existing property or has to take loan from unsecured financier to continue her business. Can she continue it? However, she has to go under poverty line again. If the situation would be like that she would get more money from any authorized organization so that she could continue her business!"

In Bangladesh a lot of NGOs are operating their activities like BRAC, ASA, and PROSHIKA etc. They are micro financing the poor people in the rural areas. But they cannot finance after a certain limit. Secured financiers can mitigate this problem. They can lend some money with or without mortgage to those people facing difficulties to run their own businesses. This will create some assets to them by creating cash flow also. An intermediate financier is required that inspires to deposit the surplus money and disburse those assets into the areas of investment. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links customers that have capital deficits and customers with capital surpluses together. In Bangladesh banks are doing this job successfully. Along with this, some other financiers e. g. Industrial Development Leasing Company (IDLC), International Finance Corporation (IFC) etc. have also come ahead to carry this responsibility. In this process interest rate is also higher so that banks could be more profitable by assisting the economic growth of this developing country.

2. REVIEW OF RELATED LITERATURE

While the resurgence of the [Bangladesh Bank \(2014\)](#) began in the early 1970s, the trend continued well in the 1990s and has been maintained ever since. The recent global outburst of interest in SMEs has brought the issue on to the center-stage of academic discourse as well as of governmental policy making process, especially backed by proactive donor support ([Siddiquee et al., 2006](#)). In recent times, ([Bangladesh Bank, 2014](#)) have come into the forefront of development agenda due to the recognition of their contribution in fostering growth, sustaining global economic recovery, generating employment and reducing poverty ([OECD, 2004](#)). [SEAF \(2004\)](#) report identifies a number of channels through which SMEs can have positive impact on poverty reduction. According to the budget speech of the Finance Minister; this would cause an estimated Bangladesh taka (BDT) 11 billion (US\$ 186 million) loss of revenue to the government; but there are no estimates yet about likely losses to the domestic trade and economy of the country from the flood of imported consumer and industrial products- cosmetics and toiletries, food and beverages, textiles and apparels, footwear and leather goods, chemicals and pharmaceuticals, light engineering products, machine tools, hand tools and so on. All these products fall under the SME category, and the rate at which the glittering multistoried shopping malls are springing up in Dhaka and other major cities of the country is perhaps a good indicator of the rate of displacement of domestic products by imported merchandise ([Minto, 2004](#)). Since the closure rate of SMEs is higher than larger enterprises, the financial service providers tend to consider SME

financing risky (Caves, 1998). The very idea of microfinance has changed banking as we knew it (Abed and Matin, 2007).

3. HYPOTHESES

First of all, we will assume some hypotheses. The hypotheses of this research are-

H1= Level of poverty alleviation by SME financing is satisfactory.

H2= SME loan is assisting the entrepreneurship development program.

H3= Customers are satisfied with the interest rate.

H4= SME financing for the women is satisfactory.

H5= Total Quality Management (TQM) of the SME financiers is satisfactory.

H6= Customers are satisfied with the overall SME financing activities.

4. RESEARCH METHODOLOGY

This paper is divided into two sub sections. One is qualitative or discussion part, another is quantitative or analysis part. For the qualitative research section secondary data were used mainly from the websites and journal publications. Primary data applied in the discussion section were collected from the face to face interviews and field work etc. Our sample number is 100 who are direct or indirect stakeholders of the SME financiers. 60 of them were direct SME loan facilitators. Interviewees were the stakeholders of BRAC Bank Limited, Standard Chartered Bank Limited, Prime Bank Limited, Sonali Bank Limited and Industrial Development Leasing Company who are the market leading SME financiers in this country. For the survey, an organized research framework has been followed. The research methodology was conducted by following steps:

4.1. Measurement and Scaling

Primary scales: For analysis the data a questionnaire was formed by nominal, ordinal and interval scales (Malhotra, 2008).

Non comparative scales: The questionnaire was based on likert scale for the ease of the interviewees. Along with this, staple scale and semantic differential scale were used according to the necessity.

4.2. Questionnaire Form Design

Questionnaire form was designed based on structured and unstructured questions.

Structured questions: Structured questions were based on scales which was likert scale basically. Dichotomous scales were used somewhere.

Unstructured questions: Some open ended questions were also used to collect some static data from the interviewees.

4.3. Sampling

A provability sampling technique called simple random sampling method was used for sampling.

Target population: Target population was the stakeholders of the SME financiers. They might be employee or the clients or even unbanked people of Bangladesh as the report topic is SME financing.

Sampling frame: Collection of data was done inside the Dhaka city, the capital of Bangladesh.
Sample size: Size of sample was 100.

4.4. Data Collection

A diagnostic field work has been done as the topic is mostly related with the customers rather than the employees. Majority of the borrowers were unbanked people before taking the loan. As well as some bank employees were interviewed.

Sources of data: As stated above most of the data were from primary sources for the analysis purpose. However, the overall sources of data are as following-

- a) Primary sources: Questionnaire, personal work and face to face conversations etc.
- b) Secondary sources: Documents provided by the banks and other financiers, annual reports, Bangladesh Bank SME guide, Wikipedia and other related websites.

Telephone interview, mail interview were also conducted.

4.5. Data Preparation and Analysis

Data were input into SPSS (Statistical Package for the Social Sciences), MS Excel and STATA and some calculations were done to reveal the results.

4.6. Limitations of the Study

The main hindrance of this study is the existing incomplete framework of this industry. Other limitations could be as follows-

- a) Internal policy disclosure agreements of the banks and other financiers.
- b) Using of obsolete infrastructure comparing this modern lending system.
- c) Scarcity of related data in this third world developing country.
- d) Lack of knowledgeable and skilled manpower in this industry.

5. RESULTS AND DISCUSSION

5.1. SME Finance

[Bangladesh Bank \(2014\)](#) or small and medium-sized businesses (SMBs) are companies whose personnel numbers fall below certain limits. According to [The Business Finance Mawrket \(2008\)](#), SME finance is the funding of small and medium sized enterprises, and represents a major function of the general business finance market – in which capital for different types of firms are

supplied, acquired, and cost or priced. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; and asset-based finance such as factoring and invoice discounting. In a nutshell, SME finance is the supplying of money by the recognized or unrecognized lender which encourages small and medium enterprises to start and run by persuading the small scale production towards medium and large scale. It is a successful tool for entrepreneurship development for the Least Developed Countries (LDCs) like Bangladesh. However, not all business finance is external/commercially supplied through the market. Much finance is internally generated by businesses out of their own earnings and/or supplied informally as trade credit, that is, delays in paying for purchases of goods and services. SME banking refers to the SME finance other related SME operations operated by a bank through lending, making over draft, small and medium business deposit functions etc. Although there have been numerous schemes and programs in different economic environments, there are a number of distinctive recurring approaches to SME finance (Berger and Udell, 2005)-

- Collateral based lending offered by traditional banks and finance companies is usually made up of a combination of asset-based finance, contribution based finance, and factoring based finance, using reliable debtors or contracts.
- Information based lending usually incorporates financial statement lending, credit scoring, and relationship lending.
- Viability based financing is especially associated with venture capital.
- Reliable for all of the small ticket loans.

5.2. SME Financing in Poverty Reduction and Entrepreneurship Development

As we know SME financing is a successful tool for entrepreneurship development, it has a huge impact on poverty reduction also. SME financing has a great impact on social and economic development. According to the Organization for Economic Cooperation and Development (OECD), SMEs represent more than 95% of enterprises and ensure 60-70% of the jobs. Importance of SME can be described as follows-

- a) Innovation takes place when there are more entrepreneurs. SME financing inspires entrepreneurship.
- b) SME drives the growth in international business. Developing warehouse keepers to promote international trade and create more job opportunities is feasible and indisputable (Liu, 2012).
- c) SME creates differentiated market for indigenous goods.
- d) SME boosts women entrepreneurship.
- e) SME creates and differentiates the classes of entrepreneurship. During January 2010 to March 2013, Total 1 lac 96 thousands 400 Crore Tk has been disbursed as SME credit to more than 13 lac entrepreneurs. Within this three years time, banks and non-bank financial institutions has disbursed Tk 6 thousand 700 Crore to 57 thousand 722 women entrepreneurs from their own

sources. In 2010, 13 thousand 831 women entrepreneurs received 1 thousand 800 crore tk, in 2011, 16 thousand 696 women entrepreneurs received 2 thousand crore Tk, and in 2012, 17 thousand 362 women entrepreneurs received 2 thousand 200 crore tk as SME credit. This indicates that disbursement towards women entrepreneurs has been increasing both in amount and numbers (Choudhury, 2013).

- f) Any type of entrepreneurship reduces the urban migration problem of a country which drives the economies of scale everywhere for a country.
- g) Entrepreneurship is the forefront factor of poverty alleviation.
- h) SME financing accelerates the GDP growth.
- i) Enhancing living standard is also a blessing of SME financing.
- j) Finally, SME helps a developing country by generating employment. SME sector must simultaneously absorb resources and workers from the large enterprise sector and at the same time help to create a labor market situation in which the process of reorientation and fundamental reorganization of the large enterprise sector can be carried through without threatening social peace (McIntyre, 2001).

5.3. SME Financing in Bangladesh

It is discussed that SME refers to small and medium enterprises fall below certain limit. There is no universally accepted definition of this limit. As per Bangladesh Bank (Table 1) those enterprises would be called small enterprises which have fixed assets from BDT 50,000 to BDT 5,000,000. But for the industrial purpose the range is BDT 50,000 to BDT 15,000,000. Employed manpower should not be above 25 for service business oriented enterprises but not be above 50 for industrial enterprises. Now we can have a look to the definition of medium enterprises. The range of asset is BDT 5,000,000 to BDT 100,000,000 for the service and business oriented organizations whereas it is from BDT 15,000,000 to BDT 200,000,000 for the medium scale industries. The employee range is up to 150 for industry based medium enterprises and up to 50 for service and business oriented enterprises. The number of employees and amount of fixed asset varies for industrial enterprises because of their portfolio. It should be noted that only fixed asset is counted where the formula is, Fixed Asset= Total Asset- Variable Asset. However, According to Bangladesh Bank, SME is defined below.

Table-1. Definition of Small and Medium Enterprise

Small Enterprise			Medium Enterprise		
Sector	Fixed Asset other than Land and Building (BDT)	Employed Manpower (Not Above)	Sector	Fixed Asset other than Land and Buildings (BDT)	Employed Manpower (Not Above)
Service	50,000-50,00,000	25	Service	50,00,000-10,00,00,000	50
Business	50,000-50,00,000	25	Business	50,00,000-10,00,00,000	50
Industrial	50,000-1,50,00,000	50	Industrial	1,50,00,000-20,00,00,000	150

Source: Bangladesh Bank

Small and medium enterprises contribute a greater portion in our GDP (Table 2). Most of the SME enterprises are manufacturing enterprises. We find that contribution of SME in the GDP of Bangladesh increased during the last three fiscal years and it is expected that it would increase in the future also. Here we see that the amount from small scale was BDT 269,543 million in 2009-10 year whereas it increased to BDT 300,494 million in 2010-11, increased by BDT 34,807 million in 2011-12 and finished at BDT 386,790 million where the average increase was BDT 39,082 million. On the other hand contribution of the medium and large scale industries was BDT 1,016,187 million in 2009-10, which climbed at BDT 1,164,533 million in 2010-11, to 1,343,974 million in 2011-12 and picked at BDT 1,584,482. If this trend continues in the next years it will need more financing for the small and medium scale industries. However, average total contribution was BDT 1600326 million during those years. Here is a data set of small and medium scale manufacturing sector contribution to our Gross Domestic Product (GDP)-

Table-2.GDP of Bangladesh at current prices (BDT in millions)

Type of Industry	2009- 10	2010- 11	2011- 12	2012-13
Large and Medium Scale	1,016,187	1,164,533	1,343,974	1,584,482
Small Scale	269,543	300,494	335,301	386,790
Total	1,285,730	1,465,027	1,679,275	1,971,272

Source: Bangladesh Bureau of Statistics

Contribution of small and medium enterprises to the GDP is increasing day by day (Table 3). It creates a necessity to accelerate this growth. At first we will discuss about the share of GDP at current price. For small scale industries we see that it was about 3.54 percent in 2009-10, 3.46 percent in 2010-11, 3.36 percent in 2011-12 and 3.39 percent in 2012-13. For large and medium scale industries the contributions were 13.35 percent, 13.40 percent, 13.46 percent and 13.88 percent respectively. Now we will analyze the growth rate of GDP for last four fiscal years. For small scale industry the participatory percentages were 11.38, 11.48, 11.58 and 15.36 in 2009-10, 2010-11, 2011-12 and 2012-13. For large and medium scale industries it does not exhibit such kind of constant increase. Contribution of that sector is increasing with a greater rate which denotes that the country is flourishing more in medium and large sector industries comparing to small scale industries.

Table-3.GDP at current prices (%)

Type of Industry	Share of GDP				Growth rate of GDP			
	2009- 10	2010- 11	2011- 12	2012-13	2009- 10	2010- 11	2011- 12	2012-13
Large and Medium Scale	13.35	13.40	13.46	13.88	10.46	14.60	15.41	17.90
Small Scale	3.54	3.46	3.36	3.39	11.38	11.48	11.58	15.36
Total	16.89	16.86	16.82	17.21	10.65	13.95	14.62	17.39

Source: Bangladesh Bureau of Statistics

Bangladesh Bank (BB) along its normal and women entrepreneurship fund, International Development Association (IDA) and Asian Development Bank (ADB) refinanced about BDT 3814 million to the 334560 number of facilitators up to 2012 (Table 4). The amount of total working capital is BDT 6203 million, total mid term loan is BDT 14704 million and the total amount of long term loan is BDT 27350 million. The numbers of beneficiaries are 101920 from industry, 183000 from commerce and 49740 from service. The amount of Bangladesh Banks working capital, mid term loan and long term loan is BDT 3376million, BDT 7558 million and BDT 3228 million respectively which creates a total fund of BDT 14163 million. However, BBs women entrepreneurship fund contributes BDT 3814 million among the total fund. IDA, ADB-1 and ADB-2 contribute BDT 313 million, 3350 million and 2898 million respectively. The number of BBs women facilitator was 52620 where the number of normal beneficiaries is 158500. Among the women borrowers 17840 of them were from industry, 27410 of them were from commerce and 7370 of them were from service. On the next, facilitators of IDA were 31600 and beneficiaries of ADB- 1 and ADB- 2 were 32640 and 59200 respectively. It is seen that a large amount of SME refinancing has been done by the BB and other international banks into Bangladesh up to June, 2012. It proves that the enterprises getting the SME loan once can utilize it can make it portfolio bigger. Here we will see a data of SME refinancing collected from Bangladesh Bank.

Table-4.Summary of SME refinancing in millions of BDT (up to June 2012)

Name of Banks/FIs Refinanced	Amount Refinanced				No. of Beneficiary Enterprises			
	Working Capital	Mid Term Loan	Long Term Loan	Total Loan	Industrial Loan	Commercial Loan	Service	Total
Bangladesh Bank (BB)	3376	7558	3228	14163	8696	47130	24410	158500
BB-(Women Entrepreneur Fund)	579	2234	1001	3814	17840	27410	7370	52620
IDA	803	1325	100	313	13680	13060	4860	31600
ADB-1	1445	1323	582	3350	8000	20960	3680	32640
ADB-2	-	2265	633	2898	15270	34610	9420	59200
Total	6203	14704	5445	27350	101920	183000	49740	334560

Source: Bangladesh Bank

Currently there are 6 million small and medium enterprises operating their activities. 60 percent of total employments are generated by them. They contribute about 25% of our total GDP now. A lot of domestic financiers are financing in this industry. Among them BRAC Bank Limited is the pioneer of SME financing in this country and it is the largest SME financier of this land. BRAC Bank holds 8.35% share of total SME portfolio among the 58 private commercial banks in Bangladesh and 5.28% in the entire industry by itself solely. Its outstanding loan is BDT 200,851 million and its SME asset contributes 47.49% among its total asset portfolio. However, the amount of outstanding loan is BDT 886,702.6 million in Bangladesh.

SME loan disbursement process has some calculations to determine the eligibility of the clients to get the loan. Some of them are stated below-

5.3.1. Debt Burden Ration (DBR)

A client can bear 80% of his net worth as 'Debt Burden Ration (DBR)'.

5.3.2. Secured Over Draft (SOD)

Another general practice for 'Secured over Draft (SOD)' is the client can get 90% amount of his SOD. Then the interest rate is 3% more than his Fixed Deposit or 15% whichever is higher.

5.3.3. Days Past Due (DPD)

'Days Past Due (DPD)' indicates the number of days of missing the installments. When the clients fail to deposit his EMI then they falls under DPD.

5.3.4. Non-Performing Loan (NPL)

'Non Performing Loan (NPL)' refers the loan which is bed debt. After 90 DPD a loan is considered as NPL.

Credit Information Bureau has classified the loans into 6 categories as follows,

Name	Payment Status
i. UC (unclassified)	Regular Payment Status
ii. SMA (Special Mentioned Account)	Due for 2 to 6 Months
iii. SS (Sub-Standard)	Due for 6 to 9 Months
iv. DF (doubtful)	Due for 9 to 12 Months
v. BL (Bad and Loss)	Due for 12 Months or More
vi. BLW (Bad and Loss Written-off)	Totally Unpaid

5.4. General Legislations of SME Financing

Every bank must follow the general SME guidelines of Bangladesh Bank-

- Each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process.
- Priority shall be given to small entrepreneurs.
- For small entrepreneurs credit limit will be ranged from BDT 50,000 to BDT 5,000,000.
- For more participation of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number, priority shall have to be given to potential women entrepreneurs in respect of SME credit disbursement.

- e) Banks & Financial Institutions shall put highest priority in receiving loan application from small and medium women entrepreneurs and settle the loan disbursement process within very reasonable time from the date of acceptance of the application.
- f) Each bank and financial institution shall establish a separate 'Women Entrepreneurs Dedicated Desk' with necessary and suitable manpower, provides them training on SME financing and suitably appoints a lady officer as chief of dedicated desk. Branch wise list of 'Women Entrepreneurs' Dedicated Desk 'should be sent to SME and Special Programs Department of Bangladesh Bank within two months from the date of declaration of this policy and program.
- g) Banks and financial institutions may sanction up to Tk. 25, 00,000 to women entrepreneurs against personal guarantee. In that case, group security/social security may be considered.
- h) The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of 'SME/Agriculture Branch' instead of 'SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture'.
- i) Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs) at Bank rate +5% interests.

5.5. Testing of Hypotheses

Now we will analyze the sanctity of our assumed hypotheses. We are aware that the SME financing is a large sector and our considered financiers are the market leaders in this industry. We have considered some perceptible and imperceptible features which have effects on quality SME financing. We have used One Sample T-Test for this analysis. It is stated that total sample number is 100.

We obtained from the result (Table 5 & 6) that some of our hypotheses are accepted as the average value is 3, satisfactory value is 4 and value of the uttermost satisfaction is 5. We assumed our test value 4. However, our accepted hypotheses are H1, H2 and H6. We explored that effectiveness of SME financing in poverty alleviation has the highest mean value (4.1000) and it is also significant (.334). Thus, it has the highest impact on SME financing. Other mean values are Entrepreneurship Development (3.9700), Interest Rate (2.3000), Women Entrepreneurship (2.8200), Total Quality Management (3.6200) and Overall SME Financing (3.8200). The result of entrepreneurship development is also good though all of other factors are not satisfactory. Standard Deviations are- Poverty Alleviation (1.02986), Entrepreneurship Development (.89279), Interest Rate (.95874), Women Entrepreneurship (1.07666), Total Quality Management (.95113)

and Overall SME Financing (.83339) which denote that Standard Deviation of overall SME financing is the lowest and standard deviation of poverty alleviation is the highest. Standard Error Mean of women entrepreneurship is the highest and std. error mean of overall SME financing is the lowest value among the std. error mean values. Most of the t-values are negative. The Highest value of t is .971 which is denoted be poverty reduction or alleviation and the lowest value is exhibited by the interest rate as the condition of interest rate is worst among all the factors. Our result shows that SME financing has a relationship with the poverty alleviation although some argue that SME has no relation with the economy or with the poverty alleviation on some cases. Mean Difference is lowest for entrepreneurship development (-1.18). We can conclude that the overall scenario of SME financing of Bangladesh is not outstanding, but more or less satisfactory.

Table-5.One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Poverty Alleviation	100	4.1000	1.02986	.10299
Entrepreneurship Development	100	3.9700	.89279	.08928
Interest Rate	100	2.3000	.95874	.09587
Women Entrepreneurship	100	2.8200	1.07666	.10767
Total Quality Management	100	3.6200	.95113	.09511
Overall SME Financing	100	3.8200	.83339	.08334

Source: Computed Primary Data

Table-6.One-Sample Test

	Test Value = 4					
	t	Df.	Sig. (2-tailed)	Mean Difference	95% Interval of the Difference	Confidence of the
					Lower	Upper
Poverty Alleviation	.971	99	.334	.1000	-.1043	.3043
Entrepreneurship Development	-.336	99	.738	-.0300	-.2071	.1471
Interest Rate	-17.732	99	.000	-1.7000	-1.8902	-1.5098
Women Entrepreneurship	-10.960	99	.000	-1.1800	-1.3936	-.9664
Total Quality Management	-3.995	99	.000	-.3800	-.5687	-.1913
Overall SME Financing	-2.160	99	.033	-.1800	-.3454	-.0146

Source: Computed Primary Data

5.6. Component Matrix Analysis

We found only one component has been extracted (Table 7) which covers almost 46.704%. It denotes that all of our 8 factors Poverty Alleviation, Entrepreneurship Development, Installment Policy, Interest Rate, Product Diversification, Women Entrepreneurship Development, Total

Quality Management and Overall SME Financing Activities lie on only one component which can affect the SME financing. So, if we want to improve the condition of SME financing we have to give importance on all of the factors. Nevertheless, the only component counts 3.736 among all of factors.

Table-7.Total variance explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.736	46.704	46.704	3.736	46.704	46.704
2	.875	10.934	57.637			
3	.756	9.449	67.087			
4	.716	8.946	76.033			
5	.664	8.299	84.332			
6	.470	5.878	90.210			
7	.402	5.029	95.239			
8	.381	4.761	100.000			

Extraction Method: Principal Component Analysis.

6. CORRELATION

From the 100 samples, 60 of them were direct loan facilitators. In case of the borrowers, we found that the amount of loan, years of operation of a business and the type of business is highly correlated. Here is the correlation analysis among these sectors. The variables are described below-

Amount of loan- Normally, SME financiers of this country can finance from BDT 200,000 to BDT 100,000,000 for small and emerging businesses.

Years of operation- Most of the cases enterprises business years should be more than 3 however some financiers accept above 2 years.

Mode of business- There are three types of businesses e. g. service, manufacturing and trading.

Table-8.Correlations

	Amount of Loan	Years of Operation	Mode of Business
Amount of Loan	1	-.010	.357(**)
Years of Operation	-.010	1	.055
Mode of Business	.357(**)	.055	1

** Correlation is significant at the 0.01 level (2-tailed).

We see that the amount of loan has strong positive correlation (.357) with the mode of business (Table 8). It is significant at the level of 0.01. It means that the amount depends on whether the enterprise is service, trading or manufacturing. It is found that trading business needs more amount of loan comparing to the manufacturing and service. Years of operation is

negatively related with the amount of loan. Actually when the enterprises become older they should take more amount of loan but with the passing of time they become economically more solvent become tolerant after a certain period of time. However, the relation between years of operation and mode of business does not create any value.

6.1. SWOT Analysis of SME Financing in Bangladesh

6.1.1. Strength

Most of the strengths of SME financing industry in Bangladesh are-

Target market of SME Financing: Bangladesh is a populous country and few of them are rich. So, this industry has a great opportunity to succeed by utilizing the segment of corporate social responsibility.

Strong network: The financiers have strong network all over the country.

Experience of the financiers: The financiers are so much experienced now. They know how to reduce non performing loan, how to mitigate the problems etc.

Distinctive products: The financiers have a lot of customized products as deposit and loan products.

6.1.2. Weakness

Interest rate: Borrowers are not satisfied with the interest rate.

Economies of scale: Most of the financiers could not obtain economies of scale.

6.1.3. Opportunity

Patronization from the government: Our government is patronizing this industry. It is the most valuable advantage of this industry. Some of the SME sectors are even getting tax rebate also.

Technological advancement: Banks are improving their technology with the time which will enhance the opportunity of electronic financing.

6.1.4. Threat

Imperfectly competitive market: This industry is becoming larger with the passage of time by the increasing number of competitors. Decreasing rate of customer satisfaction: Another threat is decreasing rate of customer satisfaction. Banks could not cope up with the emerging pressure of increasing number of customers. As a result, some undesirable occurrences have been occurred.

Written off/ Bad debt: Financiers finance the poor and lower middle class people mostly some of the fund could be diverted or lost. As a result, the amount of written off loan becomes higher. It would be great threat to a financial organization.

Political instability: Political instability is a threat to any industry. Due to political instability sources of investment and amount of asset is decreasing.

7. CONCLUSION AND SUGGESTIONS

SME sector is flourishing day by day and government is patronizing this sector carefully. It is black and white that SME financing will be sprouting its beauty of paragon more in the future. A nationwide survey claims that Micro, Small and Medium Enterprises (MSMEs) value addition accounts for 20 to 25 percent of Bangladesh's GDP. Bangladesh government is giving emphasis on exporting business major portion of which is contributed by trading, manufacturing and service oriented business. Furthermore SME manufacturing enterprises are contributing about 45 to 50 percent in the total manufacturing sector. Various organizations like International Finance Corporation (IFC), Asian Development Bank (ADB), SME Foundation, Bangladesh Small and Cottage Industries Corporation (BSCIC) are working together to improve the situation of SME financing in Bangladesh. Financial organization should be praised as they raised their hands to help in such kind of risky sector. Bangladesh Bank has been taken different types of approaching methods to fulfill the SME target and the number of clusters. As our considered financiers are the market leaders of this sector they have great responsibility to make the backbone of SME financing stout and strong.

As we have discussed about the overview of SME financing in Bangladesh some unanimous suggestions for the betterment of SME financing in Bangladesh are-

1. Small entrepreneurs are the spine of SMEs. For improving the SME financing more steps should be taken.
2. More diversified collateral free loan products should be developed.
3. There is a huge difference between the interest rate of SME and retail assets. As the risk level is higher interest rate is also higher. Government can revise the interest rates for SME assets for the sake of entrepreneurship development.
4. Now, SME financing has a good stance and numbers of facilitators are also good. As a result, in most of the cases SME financing is acquisition of old assets rather than creating new assets. Thus very few employments are being created comparing to the expectation.
5. There are lots of assets which do not create any type of cash flow. Beside the number of fund diversification is becoming larger as most of the borrowers are needy. As well as when then SME enterprises especially medium enterprises becomes larger they prefer to reinvest their money abroad. Those reinvestments create money laundering. Credit Information Bureau should be more responsible for reducing violence in loan disbursement.
6. Bangladesh Bank should revise the SME financing guidelines frequently as the world as well as the need based product requisition rate is increasing with the globalization.
7. Public Private Partnership can fix the problems on the way of SME financing.
8. According to the performances on SME sector banks could be classified like 'A', 'B' or 'C' categories etc and the best bank could be awarded. As it is a competitive market more awards will drive more competition and more diversification as well as improvement in products.

Long and short sentence- Concerned agencies should be more accountable to avoid “Penny wise, pound foolish” situation as some recent occurrences are threatening the thriving phenomenon of this industry although this industry is still carrying over its sanctity with trustworthiness.

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