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Role of the Banking sector for SMEs financing in Bangladesh: An Analysis

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Bangladesh is transiting from low income group to an upper middle income group country, for which contribution from the small and medium business sectors is required. This is due to the fact that Small and Medium Enterprises (SMEs) can create employment generation; reduce income inequality and purchasing power capability. Though SMEs work in the formal sector but it also work in the shadow economy as a complementary. As such research question is to evaluate whether role of the banking sector to SMEs finance in Bangladesh is playing due diligence? The study considers both primary and secondary source of data. From the logit regression model we observed that SME loan has positive impact on creation of employment opportunity. Further, the study will analyze internal and secondary data to evaluate the current scenario of SMEs financing in Bangladesh. Policy makers of the country ought to keep supporting SMEs through enhanced institutional support, infrastructural support, ease of rules and regulations for application procedure of SMEs.SME finance in the green business and environmental friendly industry, creation of more women entrepreneurs, corruption free banking system, corporate governance and favorable guidelines and policies regarding SMEs funding and expansion of businesses at domestic and global arena will assist Bangladesh in achieving the required status for which bank should take holistic approach for SMEs financing.

Keywords: Formal and informal sectors, Shadow economy, Entrepreneurship, Bangladesh Bank

Introduction

Bangladesh became sovereign country in the year 1971after a strong battle against Pakistanis. After forty four years of sovereign country Bangladesh became lower middle income country as recognized by World Bank. When Bangladesh became independent, private enterprises were confined to only two percent of the total population. It was irony that the at that time non-Bangles especially West Pakistans largely controlled industries-banks-insurances etc. Bangladesh was called as Second colonial era from 1947 to 1971 by Faaland and Parkinson (2003).To achieve low income group of middle income country, most important part of contribution is small and medium businesses. This is due to the fact that SMEs can create employment generation. Currently banking sector of Bangladesh is trying to work as a connecting hub on SME financing as a profitable industrial sector. Susman (2007) argued that small and medium-size enterprises are trying to raise economic productivity and benefits through changing in traditional role as well as increasing competitiveness in the global economic process.

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Bangladesh has a magnificent model of entrepreneurial activities especially in the area of small and medium businesses from the ancient time period to till seventeenth century. At that time it had small and cottage industries, shipping industries, textile industry especially Moslin Shari, gold and silver smithy, milk products, making of combs and buttons from animal bones, treatment of raw hides, papermaking, sugar, salt industries etc. The then Bengal was augmented with shipped of commodities among different parts of the world. After seventeen century this entrepreneurial activities turned to become darkness of shadow. Domestic people of the country inclined to work as entrepreneurial activities due to political and historical reason. Unequal exchange worked at that time. As a result, in this geographical location, entrepreneurship developed by the domestic people was almost destroyed.

However, after independence of the country, small and medium enterprises are gradually working with more zeal, creativity, innovativeness, and dynamic characteristics, which contribute both the rural and urban areas of the country to accelerate the economic growth rate. Governor of Bangladesh Bank Rahman (2015) commented that Micro, small and medium enterprises (MSME's) contribution to GDP is 30 percent. 90 percent of private sector enterprises are MSMEs, employing 25 percent of the total labor force covering 80 percent of industrial

jobs and hence, reducing rural-urban gap with faster poverty reduction. Virtually, Small and Medium Enterprises (SMEs)are generating employment opportunities and contributing in the economic benefits of the country. Banking sector of the country is now trying to expedite the process of SMEs. SMEs can help both formal sector and informal sector of the economy as they can act complementarily. Bangladesh Bank is now giving importance on financial inclusion which has positive impact on the formal economy of the country. However, shadow economy is still playing vital role in the economy.

Watson (2010) commented that variety of SMEs definition of success and failure creates confusion. He opined that actually SMEs varies from country to country a regulated by each countries rules, regulations, financial institutions approaches, social attitude, and breadth of the economy etc. Definitely definition of SMEs of Bangladesh and UK won't be the same. Successes of SMEs are largely related to failure provided cost of failing is bounded (Watson, 2010).However, banking sector of Bangladesh as a whole is trying to finance SMEs for expansion of employment generation .Environment friendly SMEs are being required for which green financing by the banking sector in practice should rise.

Table:1: Different criteria of Small Enterprises

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,000-50,00,000	25
02.	Business	50,000-50,00,000	25
03.	Industrial	50,000-1,50,00,000	50

(website: bb.org,bd , 2011)

From Table:1 we observe that both service and business sector employed member will be maximum 25 while for Industrial sector it will be 50.

Table : 2 : Different criteria of Medium Enterprises

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,00,000-10,00,00,000	50
02.	Business	50,00,000-10,00,00,000	50
03.	Industrial	1,50,00,000-20,00,00,000	150

(Source: ibid)

From Table : 2 we observe that both service and business sector employed member will be maximum 50 while for Industrial sector it will be 150.

International Finance Corporation (2010) described that if very few SMEs have a positive awareness of a bank, capturing large segments of the market may be more of a challenge. More broadly, each of the activities of the competitor landscape evaluation will deepen a bank's competitive and client intelligence, and enhance its ability to position itself strategically and develop a tailored customer experience for the SME client.

In World Bank (2012) argued that SMEs play a key role in economic developmentand make an important contribution to employment. Financial access is critical for SME growth and development, and the availability of external finance is positively associated with productivity and growth. However World Bank (2012) also argued that more work is needed to evaluate the wide variety of SME finance policies, and international organizations are well suited to fill in these knowledge gaps.

SMEs are contributing in the economic development of the country. However, there is a general belief that SMEs help poverty reduction and create ability to purchasing power. SMEs mostly run under private sector. Lion shares of the owners of SMEs are private entrepreneur. Women at the grass root level are being capable to do non-farm activities, getting benefits and have the ability to raise purchasing power. Proper SMEs financing will help to achieve women empowerment. As such the study intends that whether borrowers' are satisfied with SMEs. However, the study will try to cover both male and female borrowers to assess whether SMEs financing through the banking sector is actually helpful for them or not?

Asian Development Bank (2014) urged that increasing bank efficiency is a common shared problem in Asian and OECD countries, although the problem is more acute in Asia. Nevertheless, both areas present the challenge of improving the instruments and enhancing the supply of bank options for SMEs.

Since SMEs financing is gradually becoming important through the banking sector, the study intends to know therole banking sector is playing for SMEs loan. As a resultant factor, research question of the study intends to see whether SMEs financing through the banking sector is helpful to expedite the economic process of the country or not?

Literature Review

The study has done following literature review to assess whether any justification for new study in the intended research area:

Sardar(1999) found that all government agencies are overly bureaucratic in their functioning unlike private support agencies. He suggests that some sort of institutional networking, which is absent, is required to ensure effective support to the SME sector in the context of Bangladesh. Khan(2000) argued that in Bangladesh lack of political commitments and absence of creation of healthy environment required for entrepreneurial growth are the limiting factors in the process of adequate supply of reasonable number of entrepreneurs. Hisrich and Peter(2002) argued that each entrepreneur needs to establish both a moral and a professional support network. These contacts provide confidence, support, advice and information. Ali(2003) mentioned that price should be fixed on the basis of analyzing the international market properly. Costing, promotional campaign should get wider recognition. When international contract is made at that time information regarding legal, ethical, and socio-cultural background of the investing country also may be collected.Hoque (2004) observed that as a development bank, the Bangladesh Shilpa Bank delivered industrial credit was not accompanied by adequate and efficient entrepreneurial guidance, supervision and direction. Jahur and Azad(2004) mentioned that in Bangladesh, small business enterprises are believed to have employed 87% of the total working forces and to produce large number of goods and services.

According to Khan and Hyder (2006) small enterprises are the lifeblood of any economy and are at the forefront of Government efforts to promote entrepreneurial activities, innovation and increased productivity. Khanka(2006) argued that creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. Moazzem(2006) argued that Government has to adequately distribute its resources through different budgetary measures in different sectors, preferably on SME-related and employment-enhancing activities. Considering the extent of importance of various sectors, priority is usually given to some important sectors, such as RMG, agriculture, livestock, agro-based industries, textiles, and jute industry etc. Susman(2007) described that the continuing worldwide trend to eliminate trade barriers and expand global trade presents SMEs in developed countries with an opportunity. Ganbold (2008) described that in developing countries, many of the innovations were originated in serving clients at the lower end of the private sector spectrum using microfinance technologies. These innovations consisted of providing small, uncollateralized working capital loans; promising access to larger amounts for longer terms based on repayment performance; and permitting small savings accounts that were safe, convenient, and flexible in terms of withdrawal. The key characteristic cutting across developing country commercial banks applying microfinance principles to SME finance is that they have focused on relationship-intensive banking rather than more traditional transactions banking.

Musonera(2008) commented that cheap labor in Rwanda is an opportunity but this can exploit as there is a tendency of shifting manual operations ,which requires less skills by the developed / developing countries to the poorer countries. Negrusa and Ionescu(2009) argued that Romanian SMEs need help for improving their knowledge of foreign markets, in attracting funds and also in improving their competitiveness to face to strong and global competition. Despite of limited resources, lack of production and Marketing capabilities many entrepreneurs are interested to expand their involvement in international operations.

Islam, Yousuf and Rahman (2014) described that conventional banks provided most of the SME loans to the entrepreneur. But in recent time Islamic banks are investing in SME sectors to develop the economy in halal way. SME investment is mainly concentrated in Dhaka division, but outside Dhaka there are many potential areas where raw materials for Small and Medium Enterprise are easily available to set up SME organization. Harif et al.(2010) observed that in Malaysia the range of financial management tools used by SMEs in Malaysia is still low. Many of the SMEs still use only predictable and often used components such as financial accounting and working capital management. Out of the six components of financial management, only the financial planning and control, financial accounting, and working capital management tools were being practiced by a high percentage of the SMEs in the study. Yannopoulos(2010) found that in a number of managers of small and medium sized Canadian firms revealed the degree of usefulness which was found that not all support services are equally useful or used to the same degree by Canadian exporters as some of these services are found more and others are less useful to the firms that participated in the study. Yahya et al.(2011) observed in Malaysia the characteristics of more innovative SMEs manufacturing firms are perceived to be different as compared to the less innovative SMEs manufacturing firms.

Nowduri (2012) described that more or less all SMEs are regional specific. In general, they design, develop and serve according to the local community needs and demands. Attitudes to sustainable SMEs development are varying significantly from region to region. At the same time, one cannot conclude that opportunities are not available for some SMEs. This is because the local priorities and pressures play an important role in the particular benefits being experienced in those regions. Looi (2014) argued that international entrepreneurship is not necessarily driven by both desirability and feasibility. The path coefficients from control belief strength to export intention between Malay and Chinese SMEs are significantly different, thus in the research framework this path is not generalizable across the two ethnic groups. Overall, Malay SMEs reported significantly higher level of motivations and export intention than their Chinese peers.

Uddin (2014) described that small and medium enterprises are recognized as a 'thrust sector' by the Ministry of Industries because of the contribution of this sector in the social advancement and economic growth. Though it is highly labor intensive but still major portion of job opportunity is generated by this sector. For the balance development of all over the country it plays a vital role. As a result the standard of living in country areas is increased.

Qamruzzaman(2015) observed that SMEs have noteworthy contribution to GDP , employment generation, poverty alleviation and women empowerment. He also opined that performance of SMEs did not fulfill the expectation of the country may be due to merely lack of access to institutional financing, lack of consumer base market for SMEs products and non-availability of formal SMEs entrepreneur development .

From aforementioned analysis, we observe that there is a gap between the role of the banking sector of the SMEs financing and borrower's perception about the fund. As such we have undertaken the study.

Objectives of the study

The study has been undertaken with the following objectives:

i) To assess the present role of the banking sector for SMEs financing in Bangladesh;

ii) To evaluate borrowers' satisfaction on the SMEs loan system of Bangladesh;

iii) To provide some recommendations on the basis of findings of the study.

Methodology of the Study

The research is based on both primary source and secondary sources. For primary sources, a questionnaire has been prepared. Total number of distributed questionnaires is 400 out of which 308 were recieved from the borrowers of the SMEs loan from various commercial banks of the country. Random sampling technique was used to select respondents. These respondents have been selected from following districts of the country: Tangail, Jessore, Sylhet, Rangpur, Patuakhali, Rangamati, Begarhat and Gazipur .

In the questionnaire there are three parts: i) Demography of the borrowers'; ii) Four questions based on the binary system i.e. yes or no; iii) Eleven questions measured in the likert scale.

For four questions Logit model has been used to assess whether success of SMEs loans prevails or not. Logit model is a regression model where the dependent variable is definite and we consider the Independent variables results as binary. The study has considered dependent variable as SME loan has positive impact (SMEL).

The following hypotheses are proposed:

Ho: SME Loan has positive impact on what?

Ha: SME loan has negative impact on what?

The study will examine following logit model:

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SMEL=f(PSLC,IRR,SMESE)

Where SMEL= SME loan has positive impact on the economy.

PSLC= Procedure of sanctioning loan is cumbersome

IRR= Interest rate is reasonable

SMESE= SME loan helps to achieve self-employment

A priori relationship of the aforesaid model is that cumbersome loan procedure (PSLC) will have negative effect, reasonable interest rate (IRR) should exert positive effects, and creation of self-employment opportunity (SMESE) will have a positive effect on success of SME loans (SMEL).

We have also taken published data from the secondary sources. Moreover, from internal sources we have collected data from SME and Special Programs Dept., Bangladesh Bank. Time period of the study is from 15th November, 2014 to31March, 2015.

Present Status

SMEs are growing impetus in Bangladesh as banks here are trying to emphasise on financial inclusion. Banking loan is required not only for doing business but helps to get logistic services. Bangladesh Bank has identified total numbers are 132 sectors as SMEs main sectors.).Asian Development Bank (2014) described that SME access to banks has gradually improved because of the various government support measures such as credit guarantees and mandatory lending in Asia and the Pacific. Among participating ASM countries, the lending scale to SMEs is relatively large (double-digit ratio to GDP) in the Republic of Korea (38.9%, 2012), Thailand (33.7%, second quarter of 2013), and Malaysia (20.1%, 2012). Bank lending to SMEs is still small (single-digit ratio to GDP) in Cambodia (7.8%, third quarter of 2013), Bangladesh (6.7%,2012), Indonesia (6.4%, 2012), and Kazakhstan (4.7%, 2012).From aforesaid study we observe that Bangladesh needs to push SMEs through the banking channel so that lending scale to SMEs in Bangladesh can be double digit ratio to GDP rather than 6.7% in the year 2012.

From Table :3,it is observed that while in the year 2009-10 ,contribution of Small and cottage industry is 8.17% while in the year 2013-14 (Provisionally) it is 6.60%. But small and cottage industry has relatively labour intensive and generates employment opportunities specially poorer section of the society. On the other hand for 2009-10, medium and large industry has 6.27% which is estimated to become 9.16% in the year 2013-14 (provisionally). Ratio of medium and large industry in terms of small and cottage industry in the year 2009-10 is 3.97 while it is estimated as 4.52 in the year 2013-14(provisionally).

Bangladesh Arthanaitic Samikhya, 2014(p.109) described that, in the bank and non-bank financial institutions, up to December 2013 at total number of 6,42,674 organizations total 177,020,05 crore taka was disbursed as SME loan. On the other hand in favor of women Entrepreneur against total number of 89,874 organizations total 6,078.03 crore taka was disbursed.

Unnayan Onesha (2013) argued that although disbursement of total SME Loan given by state owned commercial banks, foreign banks, and non-bank financial institution, except the specialized banks sector, increased to Tk. 473242.7 crore at the end of September, 2013 from Tk. 466162.3 crore at the end of June 2013, SME loan as a percentage of total loans has been increasing at an insignificant amount. Even though the total SME loan decreased by Tk. 9451.91 crore at the end of September 2013 from Tk. 24398.34 crore at the end of September 2012, the rate of growth of SME loan was negative at 5.25 percent in March, 2013. Especially, state owned banks observed a negative growth of 38.47 percent

Below in Table: 3, Size and Growth rate of GDP at manufacturing sector in Bangladesh.

Table : 3 Size and growth rate of GDP at Manufacturing sector in Bangladesh

(in Crore Taka)

Industry	2009-10	20010-11	2011-12	2012-13	2013-14 (provisional)
Small and Cottage industry	20039.0 (8.17)	21176.0 (5.67)	22569.1 (6.58)	24557.9 (8.81)	26179.4 (6.60)
Medium and large industry	79631.4 (6.26)	88475.3 (11.11)	97998.3 (10.76)	`108436.2 10.65)	118364.0 (9.16)
Ratio of Medium and large industry in terms of Small and Cottage industry	3.97	4.18	4.34	4.42	4.52

(Bangladesh Arthanaitic Samikhya ,2014, p.108)

Note: Ratio(Fourth Row) is calculated by the author

at the end of September 2013 compared to September 2012. According to the historical track record, total loans and SME loans might increase to Tk. 480342.4 crore and Tk. 110319 crore in December 2013, from Tk. 473242.7crore and Tk. 108599.5 crore in November2013, respectively. Lower disbursement of credit as well as lower recovery in agricultural, industrial, and SME sector not only impact in the present time and increase the default loan but also might impact on the medium term in the economy results in contracts the economy.

Below we have given summary of SMEs loan disbursement from 2010 to 2015(Jan-March) in Table:4.

Table:4 Summary of SMEs loan disbursement from 2010 to 2015(Jan-March)

(Crore Taka)

Description	2010	2011	2012	2013	2014	2015 (Jan-March)	Total (2010-2015)
Target to Distribute Loan (Tk.) Total Credit	38,858.12	56940.13	59012.78	74186.87	89030.95	104586.49	422615.34
Disbursement(Tk.) (Bank and Financial Institutions)	53,543.93	53719.44	69753.42	85323.25	100910.15	26140.08	389390.27
Target in terms ofDistribution(%)	137.79%	94.34%	118.20%	115.01%	113.34%	24.99%	--
Distribution in the service sector	3355.68	3530.85	3630.90	4602.89	7896.77	2989.80	26006.89
Distribution in the businesssector (Tk.)	35040.53	34382.64	44225.19	56703.72	62767.18	16394.61	249513.87
Distribution in the industrialsector(Tk.)	15147.72	15805.95	21897.33	24016.64	30246.20	6755.67	113869.51
Disbursements in terms of total disbursements(Tk.)							
Service	6.27%	6.57%	5.21%	5.39%	7.83%	11.44%	
Business	65.44%	64.00%	63.40%	66.46%	62.20%	62.72%	
Industry	28.29%	29.42%	31.39%	28.15%	29.97%	25.84%	
Distribution only through Commercialbanks (Tk.)	51,847.14	52073.50	68262.46	83437.21	98032.95	25319.73	378972.99
Distribution only through Financial institutions (Tk.)	1696.79	1645.94	1490.96	1886.04	2877.20	820.35	10417.28
Total Number of organizations received loans	308236	319341	462513	746610	541656	210800	2589156
Service organizations	16033	11964	14722	25758	39181	8450	116108
Business Organizations	228969	243895	290035	630109	440456	113845	1947309
Industrial Organizations	63234	63482	157756	90743	62019	88505	525739
Loan amount Distributed to women entrepreneur(Tk.)	1804.98	2048.45	2224.01	3351.17	3938.75	886.73	14254.09
Service organizations(Tk.)	171,22	198.52	230.21	313.63	489.77	122.58	1525.93
Business Organizations(Tk.)	1258.13	1160.04	1352.27	2061.66	2132.11	357.22	8321.43
Industrial Organizations(Tk.)	1258.13	689.89	641.53	975.88	1316.87	406.92	5289.22
No. of Organizations of Women Entrepreneur	13233	16697	17362	41719	42730	80370	212111
Loan amount disbursed in small organization(Tk.)	23034.89	25856.11	37828.46	44312.32	52584.55	10716.96	194333.29
Disbursement of loan amount in Rural area(Tk.)	---	14390.15	16617.16	19817.41	25412.88	2598.10	78835.70
Loan disbursed among New Entrepreneurs(tk.)	---	----	4835.52	13334.70	17690.30	4687.30	40547.82
Service Organizations(Tk.)	----	----	257.40	1022.74	1426.47	477.22	3183.83

Business Organizations(Tk.)	----	----	3685.23	9850.88	12276.48	3284.97	29097.56
Industrial Organizations(Tk.)	----	-----	892.89	2461.08	3987.35	925.11	8266.43
Loan disbursed amount among new women entrepreneurs(Tk.)	---	----	182.72	395.59	824.04	143.07	1545.42
Number of New Entrepreneurs organizations	---	----	26687	65802	84270	31674	208433
No. of Service organizations	---	---	1277	4181	5598	1718	12774
No. of Business Organizations	---	---	23009	54503	70213	27580	175305
No. of Industrial Organizations	----	---	2401	7118	8459	2376	20354
Number of New Women Entrepreneurs organizations	----	---	1273	3322	3673	1782	10050
Cumulative Balance of total loan and advances(Tk.)	329950.31	390728.10	451096.74	485884.57	554635.26	563100	---
Cumulative Balance of SME loan (Tk.)	69526.58	81099.20	100813.20	115884.87	136148.50	132405.63	---
Amount of Recovery(Tk.)	--	34276.20	45452.78	41935.90	69172.31	25607.12	216444.31
Rate of Recovery(%)	---	71.88	84.49	77.37	73.44	61.46	--
Classified loan in SME sector(%)	--	3.61	6.83	7.90	13.09	12.66	--

(Source: SME and Special Programs Dept., Bangladesh Bank)

In Table:4, we have shown a brief description of SMEs loan disbursement, creation of new entrepreneurs including of women entrepreneurs and recovery rate etc. From the table:4,it is observed that both banking sector and other financial institutions both are trying to encourage financing of SMEs .It is interesting to point out that in case of providing SMEs loan ,amount of loan is being provided is higher than target amount. Highest sector of loan is disbursed in business sector which is 62.72% in 2015(Jan.-March) where as in the industrial sector it is 25.84% and in the service sector it is 11.44% during the same time period. During the period of 2010 to 2015(Jan. to March) amount of loan disbursed to new women entrepreneur is BDT 1545.42 crore. Total number of new Entrepreneurs of SMEs is208433 out of which number of new women entrepreneurs are 10050 i.e. only 4.82% new women entrepreneurs in terms of total number of new entrepreneurs were created. Distribution only through Commercial banks during the entire period is (Tk.) 378972.99 while distribution through financial institutions is much lower as (Tk.) 10417.28 only.

Classified loan of SMEs sector in the year 2014 is 13.09% while in the year 2015(Jan.-March) is 12.66%.Rate of classification loan should be decreased for which proper monitoring and supervision and efficient banking is required.

However, Bangladesh economy is still growing. As such proper SMEs financed by the banking sector may be helpful to reduce poverty, creating employment generation and fulfillment of basic needs along with GDP growth rate. More emphasis should be given on industrial loan under SMEs rather than business sector. In case of financing SMEs projects banks should be cautious about green business and environmental friendly industry. Furthermore, products of SMEs may be exported to abroad for which strategic alliance with international companies are required. Techno entrepreneurs should get SMEs financing. In this case banks may have special wings so that those who want to export, they can get special advise from the how to export their products at abroad. On the other hand to mitigate the domestic need, import substitution industrialization should be set up under SMEs. There should be vertical and horizontal coordination between import substitution industrialization and Export led growth strategy. This is vital to achieve upper middle income economy of Bangladesh.

Empirical Results

Below we have summarized demographics of the SMEs borrow from the banking sector who respond the questionnaire in Table:5 :

From aforesaid Table:5 , we observed that out of 308 respondents ,male borrowers are 67.21percent while female borrowers are 32.79 percent. In case of level of education highest ranking falls within the range of above SSC to HSC which is 32.79 percent. Second highest is above HSC to Bachelor degree is 31.49 %.In case of the age of the respondents, highest number of response we get for the criteria of the age in between 29 and 39 years i.e.36.37 percent. In case of experiences more than 8 years up to 11 years, respondents are 47.08 percent. 39.94 percent thinks that social prestige rises due to SMEs business while 60.06 per cent does not think so. In case of net income received per month we observed that in between Taka 20,001 and 24,000 respondents are 20.78 percent.

We have shown the demography's diagram in the appendix at Fig:1.

Logit Model for assessing SMEs loans

The single period logit model tries to predict the probability of success of SME loans with a binary dependent variable *y*i, which takes the value 1 for firm *i* if its loan helps fostering the business and 0 if firm *i*fails, conditioned on a set of covariates *z*i. Modeling this with a logit makes the regression equation:

Our results at Table:6 show that cumbersome loan procedure is notably hindering success of SME loans, while reasonable interest rate has insignificant impact. Further, the results show that SME loans are successful in self-employment creation. Probability of success in SME loan can be seen from the results placed above. As such null hypothesis is accepted i.e. Ho: SME Loan has positive impact.

Table : 5 Demographics of the SMEs borrowers(Respondents) from the Banking sector

Description	Category	Total Number	Percentage
Gender	(a)Male	207	67.21
	(b) Female	101	32.79
Level of education	(a) Below SSC	54	17.54
	(b) Above SSC to HSC (class 10-12)	101	32.79
	(c) Above HSC to Bachelor Degree	97	31.49
	(d) Above Bachelor Degree	56	18.18
Age	(a) 18 to 28 years	43	13.96
	(b) 29-39 years	112	36.37
	(d) 40-50 years	67	21.75
	(e) 51 years and above	86	27.92
Experience	(a) Less than 3 years	46	14.94
	(b)More than 4 up to 7 years	60	19.48
	(c) More than 8 up to 11 years	145	47.08
	(d) More than 12 years	57	18.50
Social prestige rises due to SME s business	(a) Yes	123	39.94
	(b) No	185	60.06
Net income received per month	(a) up to Taka 20,000	49	15.90
	(b)Taka 20,001-40,000	64	20.78
	(c) Taka 40,001-60,000	55	17.86
	(d) Taka 60,001-80,000	57	18.51
	(e) Taka 80,001-100,000	56	18.18
	(f)>taka 100,001	27	8.77

(Source:Survey)

Appendix:

Fig : 1 Demographics of the SMEs borrowers(Respondents) from the Banking sector

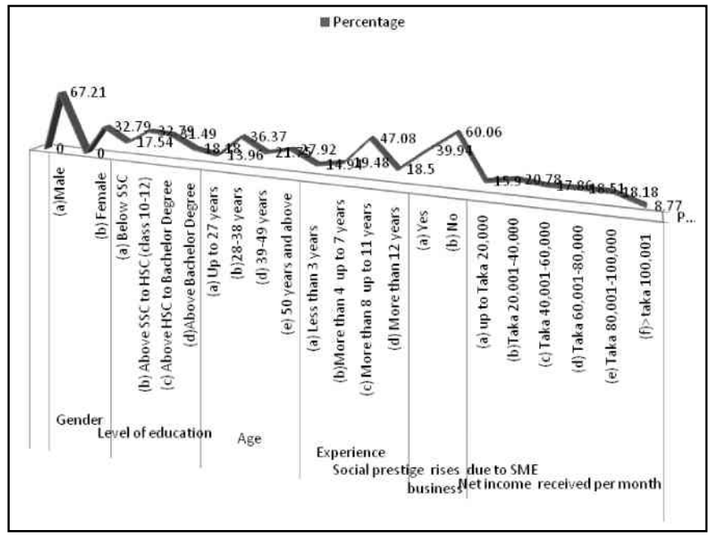


Table: 6 Result of the Logit model

Dependent Variable: SMEL				
	C	**PSLC**	**IRR**	**SMESE**
Coefficient	1.29	-2.09	0.47	2.63
Std. Errors	0.78**	0.77*	0.38***	0.32*
McFadden R-squared	0.304712	LR	statistic	118.7589
Total obs	308			
*p=.001, **p = .09. ***p = .20				

(Source : Estimated)

Now we shall show the results of the likert scale in Table:7 based on eleven questions:

Table: 7 Compilation of the result of the respondents answer starting from strongly agree to Strongly disagree

Sl. No.	Statement	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Loan application and supporting documents are huge and time consuming	126	89	33	27	33
2.	Start up cost is easily arranged	21	27	41	82	137
3.	Financial problems may cause to loan default	43	75	69	64	57
4.	Non-financial problems may also create loan default	34	69	46	73	86
5.	Conflict of partners may create problem	52	64	46	75	71
6.	Adequate support received from the bank to expand business	19	28	44	92	125
7.	Requires extra money/bribe for getting SME loan	77	128	51	29	23
8.	Behavior of the bank personnel with borrowers are excellent	39	14	59	75	121
9.	Loan repayment schedule is appropriate	19	30	77	83	99
10.	SME loans rule and regulation of bank should be easy	105	83	47	41	32
11.	Expectation from the bank for more logistics, operational, marketing and export services etc.	79	111	63	45	10

(Source: Survey)

From table:7,the study observes that in case of the question on loan application and supporting documents are huge and time consuming strongly agreed was 126 while strongly disagreed 33 respondents. In case of the startup cost is easily arranged was supported strongly agreed by 21 while 137 respondents strongly disagreed. Financial problems may cause to loan default 75 respondents agreed while 68 remains neutral. Non-financial problems may also create loan default disagreed by 73 respondents while 86 respondents strongly disagreed. Conflicts of partners may create problem agreed by 64 respondents wile 75 person disagreed. Adequate support received from the bank to expand business strongly agreed by 19 respondents while 125 respondents strongly disagreed that they do not have any support to expand.

In case of question, requires extra money/bribe for getting SME loan strongly agreed by 77 respondents while 123 respondents agreed. Behavior of the bank personnel with borrowers are excellent strongly agreed by 39 respondents while 14 only agreed but strongly disagreed by 121. Loan repayment schedule is appropriate is strongly agreed by 19 while 99 respondents strongly disagreed. SME loans rule and regulation of bank should be easy is strongly agreed by 105 respondents while 83 agreed. For the question expectation from the bank for more logistic, operational, marketing and export services etc. 79 respondents strongly agreed while 111 respondents agreed. This means that expectation of the borrower is not limited to the access to the loan but also other related services of their small and medium businesses.

From table:4 we observed that borrowers want more innovative, corruption bribe free services, good behavior, easy loan processing , helping attitude services from the banking sector. Corresponding Fig. of Table: 7 is also given in the appendix.

Now we shall see reliability statistics in table:8.

Table : 8 Reliability Statistics

Cronbach's Alpha	N of Items
.704	11

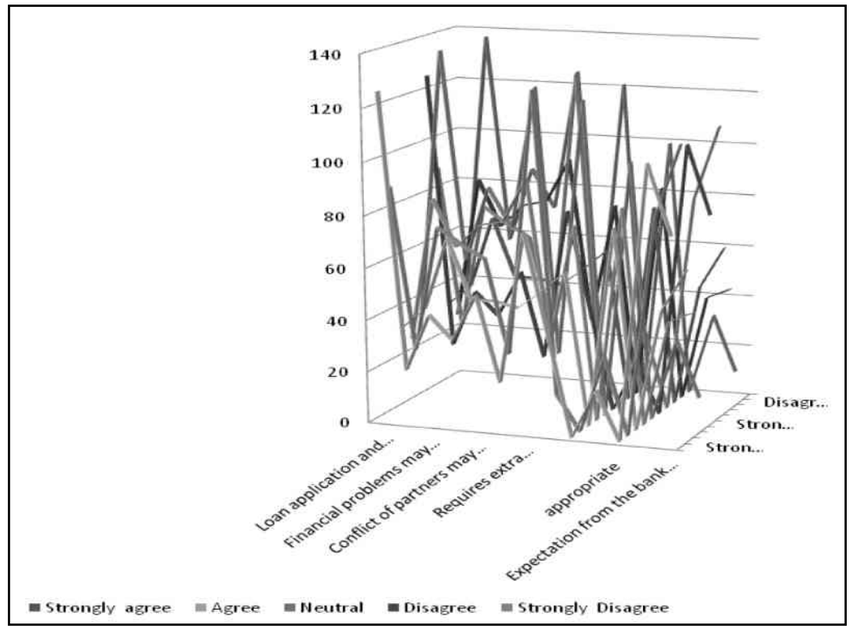
(Source:Estimated)

In table: 8 we observed that the alpha coefficient for the eleven items is .704, suggesting that the items have internal consistency.

Conclusion and Recommendations

Bangladesh must increase double digit ratio to GDP rather than 6.7% in the year 2012 from the contribution of the SMEs. Still commercial banks of the country are not sincere to SMEs financing of the country.As such despite financial inclusion policy of the Central Bank but progresses of creating new

Fig : 2 Respondents answer of eleven questions starting from strongly agree to Strongly disagree



entrepreneurs are not up to the mark.As such conventional banking should be replaced by innovative banking. Government already undertook seventh five year plan from 1st of July 2015.Plan should be properly implemented. Remarkable development in the progress of poverty reduction has been occurred which will be below 10% when Vision 2021 will be fulfilled. To attain international benchmark of SMEs,pro-SME rules and regulations, government initiatives and both physical and social infrastructural development including institutional development are required which will provide sustainable growth of SMEs. Not only central bank's (Bangladesh Bank) wish and guideline is sufficient but also commercial banks and other financial institutions which deals with SMEs must be efficient one as Asian Development Bank (2014) advocated for increasing bank efficiency.

International Finance Corporation (2010) 's idea regarding banks to put more emphasis on SMEs for which using competitive intelligence and rivalry reaction is required. Not only in the domestic sector but also in the global sector through export more income can be generated in the economy. On the other hand in the industrial sector if SMEs can be properly guided they can work as an import substitution industrialization sector. When holistic way financial sector will be restructured for SMEs financing then shadow economy of the country will be decreased and contribution of formal economy will rise and accelerate the economic growth which ought to be accompanied by the fulfillment of basic needs of the poorer section so that poverty can be reduced.

anbold (2008) rightly pointed out that SME finance is related to relationship-intensive banking. Banking sector as a whole should undertake holistic approach for entrepreneurs of the SMEs to provide services starting from the domestic market to the international market. SMEs should be well acquainted with environmental friendly projects so that green industries can get importance. Private sector of the country has under gone through a shift of paradigm especially through SMEs. Development of legal frameworks and pro SME friendly fiscal and monetary policy, modern banking mechanism and infrastructural development are essentially needed. Moreover, public and private partnership should be developed through eradication of bureaucratic mannerism so that SMEs of the country can be able to contribute in the economic expansion with greater enthusiasm and zeal. World Bank (2012) justifiably commented that financial right of entry is serious for SME expansion and progress, and the accessibility of outer finance is definitely linked with productivity and development. Up to certain level to become micro and small entrepreneur, formal education may not be essential but for expanding business, efficient and effectiveness and sustainable growth there is no alternative but have formal education. Further, those who want to become techno entrepreneur they must have good outcome based management education.

Policy makers of the country ought to arrange to obtain better institutional support, infrastructure, ease of rules and regulations of lending, corruption free banking system, corporate governance and eliminating gender biasness of SMEs funding. SMEs financing should be given more importance to the industry sector than the business sector. Creation of industry under environment friendly atmospheres will help to achieve the target of creating employment opportunities and generating income.

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