

Borrowers' Perception: SMBEs Financing by the Banking Sector of Bangladesh

Muhammad Mahboob Ali¹

Abstract: *Bangladesh is trying to transform her economy from low income group to upper middle income group economy. Small and Medium Business Enterprises (SMBE) will be the key driver, steering this transformation of the Bangladesh Economy. This is due to the fact that Small and Medium Business Enterprises (SMBEs) can not only be enterprising and innovative, but also create employment, purchasing power capability, raise overall per capita income, empower the owners of SMBE- specially women and improve standard of living. Though SMBEs operate directly in the formal sector, but they also form indirectly a part of the informal sector and have a multiplier effect on the formal sector. The main purpose of this study is to investigate whether SMBEs financing through the formal banking sector, to the borrowers, is supportive as per their perception? Quantitative and Qualitative methodology were adopted to analyse both, the primary and secondary sources of data. Time period of the study was from 15th November, 2014 to 31 March, 2015. A questionnaire was prepared which was divided into three parts: demography; simple binary data and Likert Scale were applied. Total numbers of respondents were 308. On the basis of binary data, logit regression model was also tested. Result shows that SMBE loan has positive impact on creation of employment opportunity and income generation. From the Likert scale we observed borrowers' perception and mindset. Further, we analysed the secondary data which indicated that there was a direct positive relationship between the number of women entrepreneurs' and the recovery rate- that is lower the number of women entrepreneurs, lower is the recovery rate. The paper suggested a model for SMBEs. This paper further provides few policy implications and recommendations such as; policy makers of the country ought to keep supporting SMBEs through enhanced institutional support, infrastructural support, ease of application procedure of SMBEs. SMBEs financing should be raised in the green business and environmental friendly industries, creation of more women entrepreneurs, corruption free banking system, corporate governance and favourable guidelines and policies regarding SMBEs funding and expansion of businesses at domestic and international level.*

Keywords: Formal sector, Informal sector, Entrepreneurship

JEL classifications: 017, L26

1. Introduction

Small and Medium business enterprises (SMBEs) are playing vital role to expedite the process of economic growth and fulfillment of basic needs of Bangladesh. The country became lower middle income country recently as recognized by the World Bank (2015).

¹ Professor, Department of Business Administration and Director, Institutional Quality Assurance Cell, Daffodil International University, Dhaka, Bangladesh. Email: mahboob@diu.edu.bd

When Bangladesh became independent, private enterprises were confined only two percent of the total population. It was irony that at that time non-Bangladesh especially West Pakistanis 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 SMBEs can create employment generation. Currently banking sector of Bangladesh is trying to work as a connecting hub on SMBE financing to create proper industrial sector of the country. 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 SMBE client.

Wibe (2015) described that United Nations expected to launch a ground-breaking set of global Sustainable Development Goals (SDGs) in 2015, business will have a newly relevant framework to guide their strategic priorities and efforts towards society – representing a huge opportunity to drive sustainable business. Bangladesh is trying to achieve target and focused oriented development procedure for which SMBEs can be utilized as an important tool and can act as a vehicle for attaining sustainable development goal starting from reducing worse effect of climate change or skill manpower etc.

After independence of Bangladesh in 1971, small and medium enterprises are gradually functioning with more zeal, creativity, innovativeness, and dynamic characteristics, which contribute economically both rural and urban areas of the country. 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 (Islam et al., 2008). Banking sector of the country is now trying to expedite the process of SMBEs. SMBEs 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) remarked 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 SMBEs for expansion of employment generation as Bangladesh bank as a central bank is trying heart an soul to encourage financing in this sector and to create new

entrepreneurs .Environment friendly SMBEs are being required for which green financing by the banking sector in practice should rise. As per Bangladesh Bank's SME(Small and Medium Enterprises) definition we have adopted following table from their publication:

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

(Source: <https://www.bb.org.bd/sme/smepolicye.pdf>)

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.

SMBEs are contributing in the economic development of the country. However, there is a general belief that SMBEs help poverty reduction and create ability to purchasing power. SMBEs mostly run under private sector. Lion shares of the owners of SMBEs 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 SMBEs financing will help to achieve women empowerment. As such the study intends that whether borrowers' are satisfied with SMBEs. However, the study will try to cover both male and female borrowers to assess whether SMBEs financing through the banking sector is actually helpful for them?

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 SMBEs financing is gradually becoming important through the banking sector, the study intends to know what borrowers are thinking about the SMBEs loan. As a resultant factor, research question of the study intends whether SMBEs financing through the banking sector is supportive to the borrowers as per their mindset.

The study has been undertaken with the following objectives:

- i) To assess the present SMBEs loan system as per the perception of the customer;
- ii) To evaluate borrowers satisfaction on the SMBEs loan system;
- iii) To examine impact of SMBEs through the banking sector in the economy;
- iv) To provide some implications of the findings.

The reminder of the study is organized as follows: Section 2 depicts Review of the Literature; Section 3 explains Methodology of the study; Section 4 consists of analysis of primary data; Section 5 demonstrates the empirical results ; Section 6 describes analysis of the findings; Section 7 illustrates a model for SMBEs and Section 8 provides conclusion and recommendations.

2. Review of the Literature:

Wennekers and Thurik (1999) described that entrepreneurs need a vehicle transforming their personal qualities and ambitions into actions. Small firms where the entrepreneur has a controlling stake provide such a vehicle.

Abdullah (2000) commented that if government policies were more favorable and if adequate financing, technical assistance, extension and advisory services as well as infrastructure support were available and economical, a more prosperous growth and development of individual small-medium enterprises in the Asia-Pacific region should be expected.

Chowdhury (2001) depicted that in Bangladesh, importance of women's entrepreneurship development will lead to women's development in general and their participation in income generating activities in particular.

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) found that Bangladesh Shilpa Bank as a development bank was delivered industrial credit but the bank 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 Govt. 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) argued that small and medium-size enterprises were trying to raise economic productivity and benefits through changing in traditional role as well as increasing competitiveness in the global economic process. Virtually, after 2015 when millennium development goal will be expired then sustainable development goal will start.

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 is available in Rwanda which is an opportunity but can exploit lots 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.

Harif et al. (2010) observed that in Malaysia that the range of financial management tools used by SMEs in Malaysia 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.

Punyasavatsut (2011) depicted that SMEs perceived that important obstacles to their financial access are lack of information and advice from financial institutions, complexity and cumbersome processes in loan applications and inadequate collateral. Financial institutions identify the main obstacles for SME lending as follows: inadequate collateral, lack of business experience, lack of sound business plans, non-performing loan history, and high transaction per loan application. In addition, Thai banks have traditionally had collateral-based lending system.

Teng (2011) opined that an important element or aspect of good critical success factors (CSFs) emerges from the role being played by the government. The existence of good government or public policies that are pro-business is vital for the success of firms.

Calice, Chando and Sekioua(2012) argued that at East African countries were given the crucial importance attributed by banks to SME -specific constraints, priority might be given for example to the collection of statistics and data on their characteristics in order to better understand the demand-side perspective, which is equally important in the development of the SME lending market. Measures in this domain might include the scaling up of capacity building programs and the introduction of incentives for SMEs to formalize.

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.

World Bank (2012) argued that SMEs play a key role in economic development and 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.

Saravanan (2013) argued that in the growth and progress of any country, its small scale sector is of equal importance as of other large scale sectors because a country cannot progress in its true sense unless its small scale sectors progress. Be it a developed country like Japan and USA or a developing country like Thailand and India, they form the backbone of the economy.

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.

Islam , Yousuf and Rahman (2014) commented that though conventional banks provided most of the SME loans to the entrepreneur but in recent time Islamic banks are also investing SME sectors .However, SME investment is mainly concentrated in Dhaka division, but out Dhaka there are many potential areas where raw materials for Small and Medium Enterprises are easily available to set up SME organization.

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.

Mills and McCarthy (2014) observed that in USA fast funding and online and mobile applications are crucial competitive advantages of the alternative lending business model, desired credit from banks are turning to alternative sources of credit.

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 to lack of access to institutional financing, lack of consumer base market for SMEs products and non-availability of formal SMEs entrepreneur development .

From aforesaid analysis we observed that there is a gap between the borrowers' perception about the effectiveness of SMBEs loan provided by the banks. Specifically borrowers' perception regarding SMBEs loan taken from overall banking system of Bangladesh has not been studied earlier. As such to fill up the research gap, we have undertaken this study.

3. Methodology of the Study:

The researcher will undertake the study based on both primary source and secondary sources. Quantitative and Qualitative methodology will be adopted to analyze both, the primary and secondary sources of data. For primary sources, a questionnaire has been prepared. Questionnaire tries to cover objectives of the study. 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. In the Likert scale we use strongly agreed= 5, agreed=4, neutral=3, disagreed=2, strongly

disagreed=1. We shall also do Reliability test to observe internal consistency of data. Demography will be reported as a tabular form in the Empirical results and analysis part.

Total number of distributed questionnaires is 400 out of which we received 308 questionnaires from the borrowers' of the SMBEs loan, who have taken loan from various commercial banks of the country. Respondents will be selected by taking random sampling technique and following eight districts have been chosen randomly: Tangail, Jessor, Sylhet, Rangpur , Patuakhali, Rangamati, Bagarhat and Gazipur to collect data from the SMBEs borrowers'.

Logit model is a regression model where the dependent variable is definite and in the data set of the questionnaire, independent variables results as binary. The single period logit model tries to predict the probability of success of SMBEs loan 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 . Time period of the study was from 15th November, 2014 to 31 March, 2015.

Regression equation:

For binary data based questions, the study will do Logit model. This model will assess whether success of SMBEs loans have been prevailing or not. The study will consider dependent variable as SMBEs loan has positive impact (SMEL).

Hypothesis Testing:

We assume following hypothesis:

Ho: SMBE Loans of the banks have positive impact on the economy

Ha: SMBE Loans of the banks have negative impact on the economy

Logit Model:

The study will examine following logit model:

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SMEL = f (PSLC, IRR, SMESE)

Where SMEL= SMBEs loan of the banks

PSLC= Procedure of sanctioning loan is cumbersome

IRR= Interest rate is reasonable

SMESE= SMBEs 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 SMBEs loans of the banks (SMEL).

With the help of Likert scale type of questions, the study will examine eleven questions in the line of objectives of the study and summary of the findings will be reported in the Empirical results and corresponding figure will be given in the Appendix.

We have also used published data from the secondary sources. Exact source will be mentioned. Moreover, from internal sources of the Central Bank of Bangladesh, we have collected data which was from SME and Special Programs Dept. of Bangladesh Bank.

Further, a model will be suggested for SMBEs.

4. Analysis of primary data

SMBEs are growing impetus in Bangladesh as Bangladesh bank is trying to emphasize 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 SMBEs as main sectors (<https://www.bb.org.bd/sme/smesector.pdf-Bangladesh>).

Below in Table: 3, we have shown 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	2010-11	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

(Source: Bangladesh Arthanaitic Samikhy ,2014, p.108)

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

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 Samikhy 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 through total number of 89,874 organizations total amount of BDT 6,078.03 crore was disbursed.

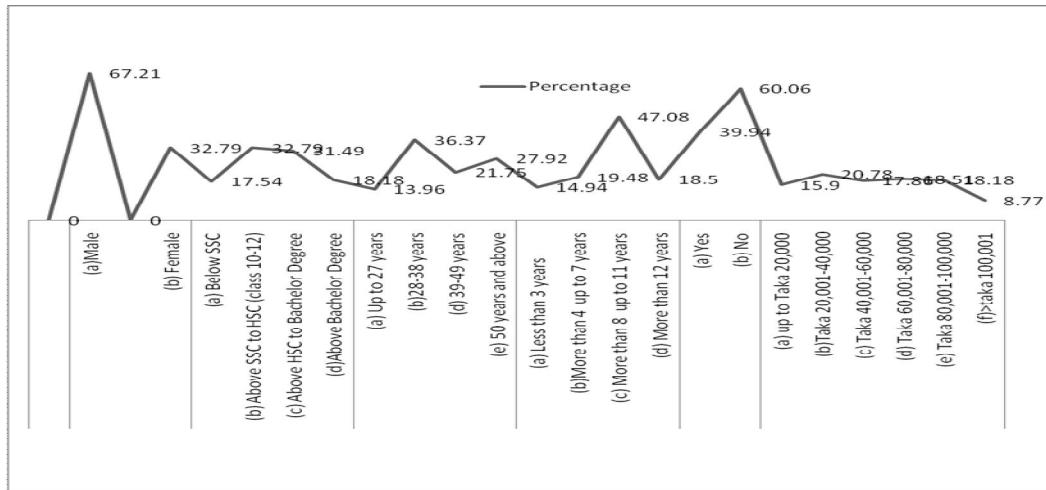
According to the Perspective Plan of Bangladesh 2010-2021(2012), the poverty profile measured by head count ratio using the cost of basic needs approach revealed that 31.5 per cent of the 2010 population ,lived below the poverty line. The projected higher growth of around 9.2 per cent during FY 16 and FY 21 is expected to reduce head count poverty rate at about 13.5 per cent of 2021 population. Actually to reduce poverty SMBEs should be given more emphasis so that starting from possessing low education to higher education so that job seekers can get alternative source of income becoming self-employed and creating new jobs through not only bank financing but also getting appropriate knowledge ,skill and training for doing businesses at domestic and global level from the bank. Role of financial intermediaries including banks must be positive and effective implementation of the strategy should be done.

We have given summary of SMBEs loan disbursement from 2010 to 2015(Jan-March) in Table:1 in appendix. In the Table, we have shown a brief description of SMBEs loan disbursement, creation of new entrepreneurs including of women entrepreneurs and recovery rate etc. From the Table, it is observed that both banking sector and other financial institutions both are trying to encourage financing of SMBEs .It is interesting to point out that in case of providing SMBEs 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 Bangladesh Taka (BDT) 1545.42 crore. Total numbers of new Entrepreneurs of SMBEs (From 2012 to 2015 Jan.-March) were 208433 out of which number of new women entrepreneurs were 10050 i.e. only 4.82% new women entrepreneurs in terms of total number of new entrepreneurs were created. Total amount of recovery for the period of 2011-2015 (Jan.-March) was BDT 216444.31.Classified loan of SMBEs sector in the year 2014 is 13.09% while in the year 2015(Jan.-March) is 12.66% but in the year 2011 it was 3.61% only. Rate of classification loan should be decreased for which proper monitoring and supervision and efficient banking system are required.

5. Empirical Results:

The study has summarized demographics of the SMBEs borrowers' from the banking sector who responded the questionnaire in the Table:2 in the appendix. However, we have shown below corresponding Figure: 1 of demographics of the SMBEs Borrowers' (Respondents) from the Banking sector:

Figure 1: Demographics of the SMBEs Borrowers' (Respondents) from the Banking sector



Source : Drawn on the basis of the Survey

From the Table: 2 in appendix, we observed that out of 308 respondents, male borrowers are 67.21 percent 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 SMBEs 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.

Logit Model

Our logit model result as estimated is placed below in Table:4

Table 4: Result of the Logit model

Dependent Variable: SMELE				
	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)

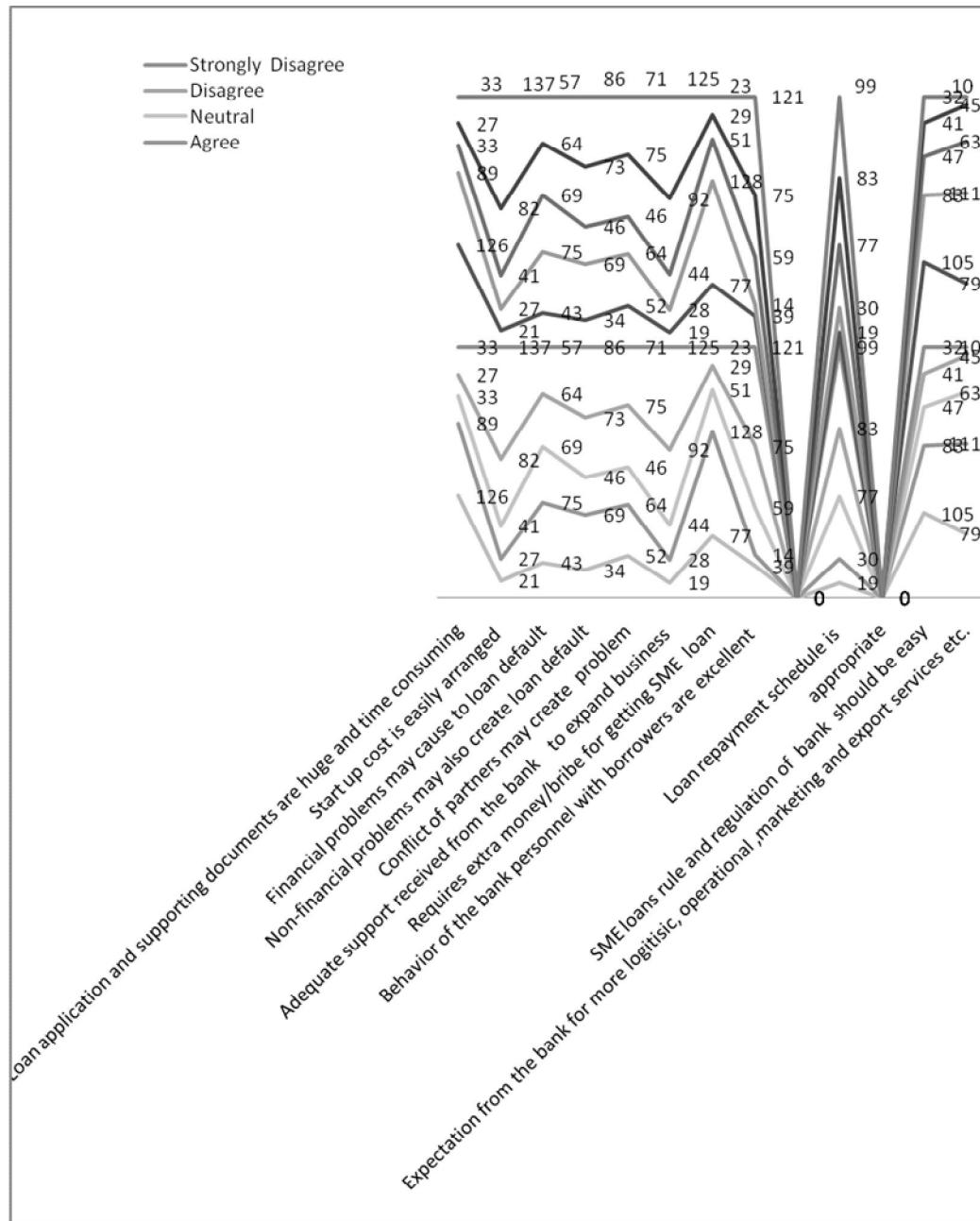
Our results at Table: 4 show that cumbersome loan procedure is notably hindering success of SMBE loans, while reasonable interest rate has insignificant impact. Further, the results show that SMBE loans are successful in self-employment creation. Probability of success in SMBE loan can be seen from the results shown above.

As such null hypothesis is accepted i.e. Ho: SMBE Loans of the banks have positive impact on the economy. This implies that due to SMBE loans effective utilization will create employment opportunity and generate income. However, cumbersome loan procedure should be eased which is curtailing good initiatives of disbursement of loan in SMBE sector.

Now we shall present the results of the Likert scale in Table: 3 in the appendix based on eleven questions of the questionnaire. From the table, it revealed 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 while 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 the question, whether requires any sort of extra money or bribe for getting SMBE loan were strongly agreed by 77 respondents while 123 respondents were agreed. Behavior of the bank personnel with borrowers were 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. SMBE 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:2 in appendix we observed that borrowers' want more innovative, corruption bribe free services, good behavior, easy loan processing, helping attitude services from the banking sector. In Figure: 2, respondents answer of eleven questions starting from strongly agree to strongly disagree is shown.

Figure 2: Respondents answer of eleven questions starting from strongly agree to strongly disagree.



Source : Ibid

Now we shall see reliability statistics in table:5.

Table:5 Reliability Statistics

Cronbach's Alpha	N of Items
.704	11

(Source: Estimated)

In table: 5 we observed that the Cronbach's alpha coefficient for the eleven items is .704, suggesting that the items have internal consistency.

6. Analysis of the Findings:

Bangladesh economy is still growing. As such proper SMBEs 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 SMBEs projects banks should be cautious about green business and environmental friendly industry. Furthermore, products of SMBEs may be exported to abroad for which strategic alliance with international companies are required. 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 SMBEs. 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.

Though Bangladesh Bank is trying hard to expedite the process of financial inclusion as well as creation of new entrepreneurs and also women entrepreneurs, banks ought to be more pragmatic. Banks must have vision, mission and goal oriented activities regarding disbursement and recovery of SMBEs loan. As such conventional banking approach should be replaced by innovative banking. International Finance Corporation's (2010) idea regarding banks to put more emphasis on SMBEs for which using competitive intelligence and rivalry reaction is required. Actually SMBEs should work as a growth of engine. 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. Ganbold (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 SMBEs to provide services starting from the domestic market to the international market. SMBEs should be well acquainted with environmental friendly projects so that green industries can get importance. Under the umbrella of banking services not only providing loan is sufficient but also advices, strategic help as per need based for service/business and industry sector, training, proper monitoring, advocacy ,marketing, channel of distribution, recovery of loan properly in time and if needed then help to do international business etc.

Corruption free society is needed for the nation but at the same time policy makers of the country should be aware that in any transitional period there might be problem especially for the poorer section of the country. SMBEs financing should be required so that to create employment opportunities as well as purchasing power may be raised. If this cannot be arranged then this may create a vicious circle of poverty and lead to remain low level income country trap. As per vision 2021, the country needs to become upper middle income country. Marginal social benefit will have to be outweighed marginal social cost. 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.

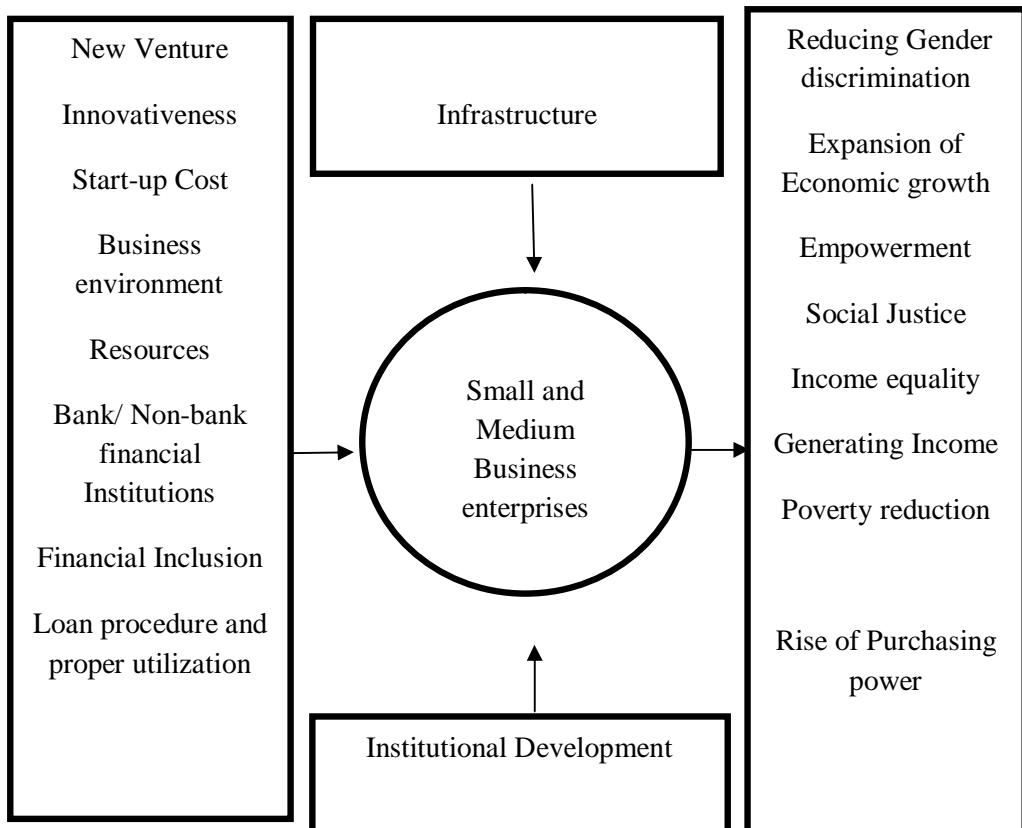
Proper initiatives from the private sector for SMEs financing is required as advocated by Khan and Hyder (2006). Actually, the country faces huge unemployment considering nature of underdevelopment so labour intensive industrial process may get more emphasis. Sardar's (1999) observation is partly accurate as the majority of the government agencies of the country is still suffering from bureaucratic mannerism which has negative cost but unfortunately private sector of the country is also mostly functioning under red-tapism, equally inefficient and corrupt. SMBEs can work more progressively if driven out of inefficiency and dishonesty like public and private sector, regulation control cost can be minimized and, supply chain management can be improved. Moazzem's (2006) observation is very important as not only taking appropriate plan is sufficient for the country but there should be a bridge between planning and implementation of the policy. Govt. has been going to undertake 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. In spite of the government's several mechanisms to giving more finance in SMBEs, creation of entrepreneurs especially women entrepreneurs are low. As such performance of this sector is still below in comparison to the international level for which policy makers should take more pro-active role under Seventh five year plan.

Chowdhury's (2001) comment is justified, as the country cannot develop its economy without empowerment of women at a larger scale. Women entrepreneurs are getting facilities relatively more than previous period but it will have to be extended as around 50% of the total population is women. However, from Table 1 in appendix, we observed that only 4.82% new women entrepreneurs were created in terms of total number of entrepreneurs during the period of 2012 to 2015(Jan-March). Bangladesh Federation of Women Entrepreneurs, Bangladesh Women Chamber of Commerce and Industry, Women Entrepreneur Association of Bangladesh etc. are claiming that they are encouraging to creation of women entrepreneurs. But real fact is that in practical field their activities are not very much pro-women oriented at grass root level for developing through SMBEs. Besides Govt., private sector must do strategic plan for creating women entrepreneurship at a grass root level. As such contribution towards GDP growth rate by the women entrepreneurs should be raised through public and private partnership.

7. A model for SMBEs:

A model for Small and Business enterprises has been suggested by the author in Chart:1 below:

Chart: 1 Model for SMBEs



(Source: Developed by the author)

Actually New Venture, innovativeness, Start-up Cost, Business environment, Resources, Bank/ Non-bank financial Institutions, Financial Inclusion, Loan procedure and proper utilization have positive impact on raising small and medium business enterprises. Further, infrastructure and institutional development has effective and efficient impact on SMBEs expansion. Growths of SMBEs will lead to following factors: reducing Gender discrimination, Expansion of Economic growth, Empowerment, Social Justice, Income equality, Generating Income, Poverty reduction and Purchasing power will rise.

8. Conclusion and Recommendations:

Policy makers of Bangladesh ought to arrange better institutional support, infrastructure, ease of rules and regulations of lending, corruption free banking system, corporate governance and eliminating gender biasness of SMBEs funding. SMBEs 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. Mills and McCarthy's (2014) observation for a developed economy has some effective implications for low income middle income country like Bangladesh. Loan application procedure and sanctioning procedure of loan including disbursement of loan may be digitized. A database may be created in all commercial banks for proper monitoring of the SMBE loans. Before classification if feasible proper advocacy, marketing, training and help to build capacity for doing the business may be arranged by the banks at a nominal price. Besides government sector, private sector must encourage small and medium business enterprises so that employment creation and income generation is being feasible.

Bangladesh needs to increase double digit ratio to GDP rather than 6.7% in the year 2012 from the contribution of the SMBEs. Financial inclusion policy of the Bangladesh Bank is quite good. Private sector of the country has under gone through a shift of paradigm especially through SMBEs. Development of legal frameworks and pro SMBE 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 SMBEs of the country can be able to contribute in the economic expansion with greater enthusiasm and zeal. By the year 2021, Bangladesh intends to become upper middle income country for which expansion and growth SMBEs financing are vital.

Growth of SMBE financing especially for creating entrepreneur also depends on psychological and behavioral pattern of the society. The society itself is not able to encourage entrepreneurs of SMBEs in true sense as reported by 60.06 % of the respondents. Moreover, the nature of human being in a larger context is individualistic attitude. Both corporate governance and corporate social responsibility in this country is not still practiced in true sense. Service sector requires information about the current and prospective borrowers' needs and demands. Bank should not only provide loan but also assist through providing more logistic, operational, marketing and export services etc. to the entrepreneurs of the SMBEs. As such behavioral and psychological pattern of the society as well as banking services towards pro –borrower and helping attitude should be arranged. Behavioral pattern of the financial institutions especially banks should be changed. They should not only provide with the lending but they should also work as a facilitator i.e. involved in the process of creation of value chain which can be arranged through starting to doing business to product marketing at home and abroad. Effective cell in this regard must set up and in true sense they should systematically work to create new entrepreneurs for doing small and medium businesses especially women starting from grass root level to upper level. Both rural and urban areas should give equal importance of creating new entrepreneurs through SMBEs financing which ultimately

reduce poverty and help to attain employment opportunity, generating income and fulfillment of basic needs. As such integrated policy to achieve the target is being required.

SMBE is the sector which may be driven out disparity between urban and rural and create continuous source of employment and generating income through sustainable competitive advantage and adding value creation. SMBEs sector as a whole has immense potentialities for economic efficiency, localization of economy, cost advantages; superior capability for innovation, and better capacity should be built to the business, industry and also service area. But those who are the entrepreneur as well as bankers should be cautious so that fund cannot be misappropriated, default culture cannot rise, repayment schedule can be tightly maintained and recovery rate can be much higher than current scenario as we observed in Table:1 in the appendix. Argument made by Wennekers and Thurik (1999) to create entrepreneurship through small firms should be considered as a vital factor for economic growth, removing economic vulnerability and improving human development index.

The study was tried to cover only borrowers' perception regarding SMBEs loan disbursed by banks and sample size was only 308 borrowers' from eight districts which were randomly chosen. This method of study was done due to shortage of fund for doing research and time constraint. In future a study may be simultaneously done in the supply side considering view of the lenders including banks, non-bank financial institutions, NGOs and other lending organizations and on the other hand considering demand side such as the borrowers' perception and cognizance. The study may cover all the districts of the country. In-depth study on reason for nature of SMBEs loan with localization of economics may be included. Sample size should be large so that it may represent true population and estimator must be BLUE. Some case studies may also be given how effective and efficient utilization of SMBEs loan along with institutional support including logistic support and supply chain management helps to transform them as successful entrepreneur of the country. A special study may also be done on those entrepreneurs who utilize SMBEs loan for establishing import substitution and export growth industrialization processes. Furthermore, a comparative analysis between borrowers' of SMBE loans perception of Bangladesh and another middle income country can give better idea for the policy makers how to effectively, efficiently and competitively utilize.

To attain international benchmark of SMBEs, pro-SMBE rules and regulations, government initiatives, removal of bureaucratic mannerism, structural barriers of lending will be eliminated, training, capacity building and both physical and social infrastructural development including institutional development are required which will provide sustainable growth of SMBEs. Not only central bank's (Bangladesh Bank) wish and guideline is sufficient but also commercial banks and other financial institutions which deals with SMBEs must be efficient one as Asian Development Bank (2014) advocated for increasing bank efficiency. When integrated way financial sector will be restructured for SMBEs financing then shadow economy of Bangladesh will be decreased and contribution of formal economy will rise, employment will be created, generate income and accelerate the economic growth which must be accompanied by the fulfillment of

basic needs of the poorer section of the country so that poverty can be reduced and ultimately positive impact on economic development of the country can be attained. Post MDG, when sustainable development goal will be started SMEs may act as a key factor to improve social welfare, ensuring social justice and removing income inequality.

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Appendix

Table 1: Summary of SMBEs 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.)	38,858.12	56940.13	59012.78	74186.87	89030.95	104586.49	422615.34
Total Credit Disbursement (Tk.) (Bank and Financial Institutions)	53,543.93	53719.44	69753.42	85323.25	100910.15	26140.08	389390.27
Target in terms of Distribution(%)	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 business sector (Tk.)	35040.53	34382.64	44225.19	56703.72	62767.18	16394.61	249513.87
Distribution in the industrial sector (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 Commercial banks (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

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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	----	---	1273	3322	3673	1782	10050

Women Entrepreneurs organizations							
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)

Table 2: Demographics of the SMBEs 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)

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Table 3 : Compilation 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)