

SME Financing in Bangladesh: A Comparison between BASIC Bank Limited and BRAC Bank Limited

Jobayra Afsana*

Afroza Parvin**

Md. Nazim Sherazi Sumon***

Abstract

Small and medium enterprise (SME) is playing a vital role for the economic development of any country especially country like Bangladesh but sometimes SME faces problems due to lack of fund. For this reason, banks are extending their helping hand through SME financing. This study has addressed the SME financing practices in Bangladesh with special emphasis on a comparison between BASIC Bank Limited and BRAC Bank Limited. In this study, both primary and secondary data have been used. The collected data have been analyzed through different statistical tools. The paper has found that both the borrowers and the bankers face several problems related to SME financing. SMEs face problems like high interest rate, high collateral requirement, low grace period, problem in valuation of collateral etc. On the other hand, bankers face problem like inexperienced management of the SMEs, inability of the SMEs to generate cash flow, inadequate guarantee, poor credit history, non-profitable venture etc. It has also been found that BASIC bank SME financing is better than BRAC bank. After all, it may be inferred that SME financing has a positive impact on different business factors of SMEs.

Keywords: SME Financing, Comparison, BASIC Bank Limited, BRAC Bank Limited, Bangladesh.

Introduction

Now a day's unemployment problem is a curse for the economic development of a country. To reduce this problem SME sector has been trying a lot for last few years and is already being considered as the engine of growth. SME plays an important and obvious role in both the developed and the developing countries including Bangladesh, socially as well as economically. Therefore, it can be said smooth and sustainable development of SMEs all over the country will be one of the vehicles for poverty alleviation, and generation of more employment. SMEs provide low cost employment opportunities and render flexibility to the economy (Zaman and Islam, 2011). However, this sector suffers a lot for the limited access to finance which ultimately hinders economic development. To solve this problem banking sector has come forward and is providing different dynamic services for its different type of customers. As a result, SMEs are also depending largely on banks to overcome their financing problem. To

*Lecturer, Department of Business Administration, Northern University Bangladesh

**Assistant Professor, Department of Business Administration, Northern University Bangladesh

***Executive Officer, Janata Bank Limited, Khulna, Bangladesh

increase SME financing, Bangladesh government and Bangladesh Bank have issued order to the banks of Bangladesh. Therefore, it is a demand of the time to know how the banks are financing the SMEs of Bangladesh. The study has paid an attention to explore the picture of SME financing practices in Bangladesh by taking one private bank (BRAC Bank Limited) and one specialized bank (BASIC Bank Limited) as the sample. From this study, the gross picture, a comparative picture between two banks, effect of SME loan, and problems of SME financing in Bangladesh have been depicted. At last, there will be some recommendations considering the most probable solutions of the problems faced by the SMEs and the banks in Bangladesh.

Literature Review

- Abereijo and Fayomi (2005) in the research paper on “Innovative approach to SME financing in Nigeria: A review of small and medium industries equity investment scheme (SMIEIS)” have shown that SMEs face different problems in financing their activities especially for equity financing. That is why the authors have tried to review the innovative approach to SME financing all over the world as well as the small and medium industries equity investment scheme (SMIEIS) in Nigeria and they have discovered there are still many challenges that the banks in Nigeria need to tackle before a successful implementation of the scheme.
- Afrin et.al. (2008) conducted a study on “A Multivariate Model of Micro Credit and Rural Women Entrepreneurship Development in Bangladesh”. The study revealed the factors related to the development of entrepreneurship among the women borrowers through micro credit programs. In the study, by using a multivariate analysis(factor analysis) they showed that financial management skills and the group identity of the women borrowers have significant relationship with the development of rural women entrepreneurship in Bangladesh.
- Ahmed and Chowdhury (2009) in the article on “Performance Evaluation of SMEs of Bangladesh” have shown that SMEs are playing very much vital role for the economy of developing countries like Bangladesh. That is why; government of Bangladesh has recognized SME sector as a poverty alleviation tool but SMEs are facing some problems and its performance has come below the international standard level.
- Alam and Ullah (2006) in the article on “SMEs in Bangladesh and Their Financing : An Analysis and Some Recommendations” have shown that SMEs are contributing 25 percent of GDP, 80 percent of industrial jobs, and 25 percent of the total labor force in Bangladesh but this sector gets negligible facility and faces different constraints. In this article, the researchers have provided an academic analysis towards policy formulation in respect of SME financing.
- Alamgir (2015) in the research work on “An Analysis of SME Development Framework of Bangladesh” has attempted to analyze the present regulatory framework of SMEs in Bangladesh for developing SMEs with a view to provide an understanding of the issue in the context of the country by taking data on the current SME financing status of Bangladesh and the constraints they face. The findings of this paper are certain issues and options explaining mechanisms and supports related to the SME financing and

- development with an emphasis on replicating the best practices of the SME-enriched countries which could be a better mode of learning for Bangladesh.
- Bartoli et.al. (2013) in their research work on “SME financing and the choice of lending technology in Italy: Complementarity or substitutability?” have tried to show the SME financing in Italy where the banks use two main different lending technologies (LTs) for SMEs: transactional and relationship LTs and the researchers have found that banks lend to SMEs by using both LTs together, independently of the size and proximity of borrowers.
 - Bhuiya & Uddin (2007) have made a study on “Small and medium enterprises (SMEs) financing revisited: Lessons for Bangladesh”. The study mainly focuses on the comparative advantages of large vs. small financial institutions; foreign-owned vs. domestically-owned institutions, and state-owned vs. privately-owned institutions in lending to SMEs. The lending infrastructure includes the information environment; the legal, judicial and bankruptcy environment, and finally the tax and regulatory environments, all of which may directly or indirectly affect SME credit availability.
 - Chowdhury et. al. (2013) in the article on “Problems and Prospects of SME Financing in Bangladesh” have found that SMEs contribute significantly to poverty reduction programs as well as to the overall industrial and economic growth. They have suggested venture capital, bank syndication scheme, HRD in financial institutions and in government offices, training and development etc. as potential tools of eliminating the constraints of SMEs financing.
 - De la Torre et al. (2008) in the research paper entitled “Bank involvement with SMEs: Beyond relationship lending” has broken down the traditional wisdom of banking practices and have written that traditionally people think large and foreign banks are generally not interested in serving SMEs, rather small and niche banks take advantage here. This paper shows that there is a gap between this view and bank’s practice. Rather, banks perceive SMEs as a core and strategic business and seem well positioned to expand their links with SMEs. All types of banks are catering to SMEs and larger, multiple-service banks have in fact are getting comparative advantage through their new technologies, business models, and risk management systems.
 - Ferdousi et al. (2014) in the research article on “An Analysis of Strengths & Weaknesses of SME Financing Program in Bangladesh: A Study on Social Islami Bank Limited” have shown that SMEs are playing contributory role for Bangladesh and it has enormous potentiality for future growth and development but the enterprises need financial aid. The researchers have pointed out some strengths and weakness of SME financing practices of Social Islami Bank Limited. They have shown Social Islami Bank Limited provides enough capital to the customers and customers are satisfied about the collateral requirement but interest rate for SME loan is very high.
 - Mercieca et.al. (2009) in the research paper on “Bank market structure, competition, and SME financing relationships in European regions” have used a unique dataset on SMEs for selected European regions, and investigated the impact of increasing consolidation and competition on the number of lending relationships maintained by SMEs. They have

- found that the negative effect on the number of lending relationships arising from more concentrated banking systems is offset by a positive impact from increased competition.
- Quadir and Jahur (2011) in the research paper on “Determinants of success and failure of entrepreneurs of SMEs in Bangladesh” have written that although entrepreneurs and entrepreneurship are significantly correlated with the economic development of a country, they cannot easily succeed in doing successful business venture without facing risk that arises from internal and external conditions. They have tried to identify the factors contributing to the success and failure of entrepreneurs of SMEs in Bangladesh by employing sophisticated multivariate technique-Varimax Rotated Factor Analytical Technique by using only primary data. The study has identified that relationship factor and organization factor are contributing to the success of entrepreneurs of SMEs whereas sustainable factor, supply factor, and product related factor are producing failure for them.
 - Reza (2012) in the unpublished Master’s thesis on “Contribution of Equity Entrepreneurship Fund towards Development of S.M.E Sector in Bangladesh” has developed a picture on the development of the SME sector of Bangladesh through contribution of Equity Entrepreneurship Fund (EEF) by taking three key sectors, namely (1) Software and ICT Sector; (2) Agro-based Sector; (3) Food Processing & Others Sectors.
 - Riyadh et.al. (2010) conducted a study on “Barriers to E-finance adoption in Small and Medium Sized enterprises (SMEs) in Bangladesh”. The study has shown that in recent times the adoption of internet-mediated financial services (e-finance) have been highlighted as an area of growing importance for small and medium sized enterprises (SMEs). The authors think this has happened due to the importance of the SME sector and the suitability of e-finance for solving the problems of SMEs. This study also discusses barriers to e-finance adoption by SMEs. In addition, they have developed a framework for e-finance adoption by SMEs in Bangladesh, which has the applicability to other developing as well as developed countries.
 - Shamsuddoha and Nasir (2011) have made a study on “Micro Credit Program of Selected NGOs: An Empirical Study on Rural Poor Women” and analyzed the entrepreneurial program of reputed Non-government organization (NGO). The study identifies the difficulty in getting loan such as inadequate and insufficient supply of fund, higher rate of interest, premature recovery of loan which are faced by the selected women entrepreneurs.
 - Uchida et.al. (2006) in the research paper on “SME financing and the choice of lending technology” have collected data from a unique survey in Japan and investigated the relevance of different lending technologies which are utilized in lending to small- and medium-sized enterprises. The writers have characterized loans from a technology point of view, and asked to what extent different lending technologies are used, as well as how complementary the technologies are and what determines the choice of each technology. The researchers found that although the financial statement lending technology is the mostly used technology but multiple lending technologies are also used at the same time.

- Uddin (2014) in the research article on “A Study on Financing of SME’s in Bangladesh” has written that in Bangladesh, SME contributes a lot for the development of the country but those SMES face many hurdles like limited financing, high interest rate, poor infrastructure, credit information gap etc. The researcher also suggested some recommendations to improve the situation.
- Uddin and Bose (2013) in the study on “Factors Affect the Success of SME in Bangladesh: Evidence from Khulna City” have explored the business success factors of SME in Khulna city (based on a survey). They found business plan, channel of distribution, management skills and government support are statistically significant in determining success of SMEs in Khulna City of Bangladesh.
- Zaman and Islam (2011) in the research article on “Small and Medium Enterprises Development in Bangladesh: Problems and Prospects” have mentioned Small and Medium enterprises (SMEs) as the engine for economic growth. They have also highlighted the need of different policy for SME, identified the major financing constraints faced by SMEs in Bangladesh and suggested some policy measures to overcome those constraints.

Objectives of the Research

- To know the SME financing practices of BRAC bank limited and BASIC bank limited.
- To know the viewpoint of the borrowers and bankers about SME financing of BASIC bank limited and BRAC bank limited.
- To make a comparison between different factors of SME financing of the two banks.
- To find out the change in different factors of SMEs after receiving SME loan from the banks.
- To identify the problems of SME financing in these two banks and provide the solution to overcome those problems.

Research Methodology

Data Collection: In order to accomplish the study, data has been collected from both the primary and secondary sources. Primary data has been collected by using Judgment sampling method directly from 40 SME loan borrowers of BASIC Bank Ltd. and BRAC Bank Ltd (20 from each bank) and 20 credit officers of the banks’ credit department (10 bankers from each bank) through a structured questionnaire which has been made by utilizing five point Likert scale(where 5= strongly agree, 4=agree, 3 = neutral, 2= disagreed, 1= strongly disagree). As a secondary source, different journals, reports and banks’ files of those selected SMEs have been used.

Data Analysis: In this step, data have been processed and analyzed for the study by using descriptive statistical tools where percentage and mean have been used. Besides this, correlation has been conducted by using SPSS 16.0 to find out the relationship between loan amount taken and change in (i) sales, (ii) income, (iii) production volume) and (iv) number of employees.

Research Hypotheses: For conducting the study, the following hypotheses have been developed and tested:

For BASIC bank limited:**Hypothesis 1:**

H₀: There is significant positive relationship between loan amount taken and sales of BASIC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and sales of BASIC bank SMEs.

Hypothesis 2:

H₀: There is significant positive relationship between loan amount taken and income of BASIC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and income of BASIC bank SMEs.

Hypothesis 3:

H₀: There is significant positive relationship between loan amount taken and number of employees of BASIC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and number of employees of BASIC bank SMEs.

Hypothesis 4:

H₀: There is significant positive relationship between loan amount taken and production volume of BASIC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and production volume of BASIC bank SMEs.

For BRAC bank limited:**Hypothesis 1:**

H₀: There is significant positive relationship between loan amount taken and sales of BRAC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and sales of BRAC bank SMEs.

Hypothesis 2:

H₀: There is significant positive relationship between loan amount taken and income of BRAC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and income of BRAC bank SMEs.

Hypothesis 3:

H₀: There is significant positive relationship between loan amount taken and number of employees of BRAC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and number of employees of BRAC bank SMEs.

Hypothesis 4:

H₀: There is significant positive relationship between loan amount taken and production volume of BRAC bank SMEs.

H_a: There is no significant positive relationship between loan amount taken and production volume of BRAC bank SMEs.

Analysis and Findings

Table 1: Borrowers' Viewpoint about SME Financing

Variables	Number of Respondent(N)	Mean Value	
		BASIC Bank ltd.	BRAC Bank ltd.
Interest rate is reasonable	20	3.9	1.35
Service fee is reasonable	20	4.1	4.3
Time to obtain approval is acceptable	20	3.65	4.1
Guarantees required by the bank are good	20	4.65	4.6
Banker-customer has cordial relationship	20	4.8	4.85

Source: Field survey, 2013

Almost all the loan customers of BASIC bank limited have agreed about the reasonability of the interest rate of SME loan(mean value 3.9) whereas the respondents of BRAC bank limited have disagreed(with mean 1.35) in that respect. Most of the respondents of BASIC bank and BRAC bank have agreed with the statement of 'Service fee is reasonable' because the mean values are 4.1 for BASIC and 4.3 for BRAC respectively. In case of the statement of "Time to obtain approval is acceptable", the mean value 3.65 is for BASIC that means the respondents' response level is in between agree and neutral whereas the respondents of BRAC bank have agreed (with mean 4.1) in that respect. "Most of the respondents of both the banks have agreed for the statement "Guarantees required by the bank are good" with the mean value 4.65(BASIC) and 4.6(BRAC).The customers of the said banks think there is a good banker-customer relationship in their respective bank (mean value 4.8 for BASIC and 4.85 for BRAC).

Table 2: Bankers' Viewpoint about SME Financing

Variables	Number of Respondent(N)	Mean Value	
		BASIC	BRAC
The present system of borrower selection is reliable	10	4.2	3.2
The verification system of mortgage security against SME loan is reliable	10	2.9	3.3
Collateral required for SME is high	10	4.6	1.6
The SME loan interest rate, terms and conditions are good	10	4	2.8
The present credit monitoring and administration system is good	10	4.1	4.5
Grace period consideration is good	10	5	1
Internal cooperation level in SME loan processing and recovery in your branch is good	10	4.3	4.1

Source: Field survey, 2013

Most of the respondents of BASIC Bank limited have agreed with the statement 'The present system of borrower selection is reliable' which has generated mean value 4.2 whereas the respondents of BRAC bank are neutral (with mean value 3.2).The bankers of both the bank are almost neutral about the reliability of the mortgage verification system against SME loan with mean value 2.9(BASIC) and 3.3(BRAC). The bankers of BASIC bank limited think that the collateral required for SME are high (mean value 4.6) but the respondents of BRAC have

disagreed (mean value 1.6) in the same aspect. It has also been observed from the above table that SME Interest rate, terms and conditions are better in BASIC bank than BRAC bank as the mean values are 4.0 and 2.8 for BASIC and BRAC respectively. All the respondents of both the bank have agreed that the present credit monitoring and administration system of their bank is good. The respondents of BASIC are highly agreed about the grace period (mean value 5) they provide but the respondents of BRAC are highly disagreed (mean value 1). Most of the bankers of the said two banks assume internal cooperation level in SME loan processing and recovery in their respective bank is good (mean value 4.3 for BASIC and 4.1 for BRAC).

Table 3: Borrowers' Viewpoint about Sources, Purpose, Obstacles of SME Financing

Variables		BASIC	BRAC
		Percentage of Respondents	Percentage of Respondents
1.Sources of Finance	Owners Financing	45	40
	Private financial institutions (NGO, Insurance, Cooperative Society)	20	25
	Bank financing	30	25
	Hire purchase and leasing	5	10
	Total	100	100
2. Purpose of Taking Loan	Real estate acquisition to house the business	25	15
	To increase the production	25	25
	Construction, renovation or leasehold improvements	10	10
	For the stock of inventory and for working capital	30	25
	For modernization and up gradation of technology	20	25
	Total	100	100
3.Obstacles	The frequent need to renew the equipment	15	25
	Instability of demand for product or service	40	30
	Obtaining adequate financing	40	40
	Low profitability of the sector	5	5
	Taxation level	0	0
	Total	100	100

Source: Field survey, 2013

To start and conduct any business fund is essential. When asked about source of fund, it has been found that a large percentage of SMEs use their own fund to conduct their business (45% of BASIC and 40% of BRAC) whereas 25% of BASIC and 20% of BRAC SMEs use private financing, and at last 30% of BASIC and 25% of BRAC SMEs use bank financing and the least used source for starting their business is hire purchase and leasing (only 15%).The above table also shows 25 % customer of BASIC bank and 15% of BRAC bank borrow loan for 'real estate acquisition to house the business', 25% customer of both the banks borrow loan to 'increase the production', whereas only 10% customer of both the banks borrow loan for 'construction, renovation or leasehold improvements'. The table also depicts that 30% respondents of BASIC bank and 25% of BRAC bank have borrowed loan from bank for the stocking of inventory and

working capital and it can be inferred that BRAC SMEs use more fund for modernization and upgradation of technology than BASIC SMEs. At last, the above calculation shows most of the time SMEs face different problems to conduct their business such as: (i) instability of demand for product and service, (ii) lack of adequate fund, (iii) the renewal of the equipment and (iv) low profitability of their business.

Table 4: Bankers' Viewpoint about Rejection of Loan Application

Reasons for rejecting an SME Loan application	BASIC	BRAC
	Percentage of Respondents	Percentage of Respondents
The management team of SMEs is too much inexperienced	10	10
The application does not meet the criteria	20	30
Poor credit history	20	10
The enterprises cannot provide enough guarantees	30	10
Not a profitable venture	10	10
The business does not have the ability to generate enough cash to repay the loan	10	30
Total	100	100

Source: Field survey, 2013

The most common reasons for rejecting a BASIC SME loan application are SMEs cannot provide enough guarantees for the loan, poor credit history and lack of fulfilling loan criteria whereas the least common reasons are inexperienced management of the SMEs, non-profitable venture and inability to generate cash flow to repay the loan. In contrast to this, the most common reasons for rejecting a BRAC SME loan application are lack of fulfilling loan criteria and inability to generate cash flow to repay the loan whereas the least common reasons are inexperienced management of the SMEs, poor credit history, insufficient guarantee and non-profitable venture.

Table 5: Comparison between Change in Grand Percentage of Different Factors of SMEs after Taking SME Loan from BASIC and BRAC Bank Limited

Variables	Percentage Change		
	BASIC	BRAC	Net result
Sales	40.9%	29.3%	BASIC>BRAC
Income	36.25%	27.5%	BASIC>BRAC
Number of employees	41.2%	16%	BASIC>BRAC
Production volume	51%	34.8%	BASIC>BRAC

Source: Authors' own calculation from different registers of SMEs

The above table is showing for all the variables of SMEs, BASIC bank SME is holding better position than BRAC bank SME. The table also shows the positive results (percentage change) in sales, income, no. of employees and total production of SMEs after taking the loan from the banks.

Table 6: Correlation between Different Factors of BASIC SMEs
Correlations

		sales	income	employees	production	Loan amount
sales	Pearson Correlation	1	.057	-.787	.957*	.899*
	Sig. (2-tailed)		.927	.114	.011	.038
	N	5	5	5	5	5
income	Pearson Correlation	.057	1	-.185	.299	.195
	Sig. (2-tailed)	.927		.766	.625	.753
	N	5	5	5	5	5
employees	Pearson Correlation	-.787	-.185	1	-.878	-.811
	Sig. (2-tailed)	.114	.766		.050	.096
	N	5	5	5	5	5
production	Pearson Correlation	.957*	.299	-.878	1	.843*
	Sig. (2-tailed)	.011	.625	.050		.043
	N	5	5	5	5	5
Loan amount	Pearson Correlation	.899*	-.195	-.811	.843	1
	Sig. (2-tailed)	.038	.753	.096	.073	
	N	5	5	5	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Calculated from different registers of SMEs

In case of SMEs of BASIC Bank Limited, @ 5% significance level there is statistically significant positive relationship between loan amount taken and change in sales. Hence, H_0 is accepted and H_a is rejected. In case of income of SMEs of BASIC Bank Limited, @ 5% significance level there is no statistically significant positive relationship between loan amount taken and income level. Hence, H_a is accepted and H_0 is rejected. For employees of SMEs, there exists insignificant negative relationship, as the calculated significance level is greater than 5%. So, H_a is true and accepted and H_0 is rejected. At last, the table also shows significant positive relationship between loan amount taken and production volume of SMEs that means H_0 is true and accepted and H_a is rejected.

Table 7: Correlation between Different Factors of BRAC SMEs
Correlations

		sales	income	employees	production	Loan amount
sales	Pearson Correlation	1	.562	.651	.992**	.013
	Sig. (2-tailed)		.324	.234	.001	.983
	N	5	5	5	5	5
income	Pearson Correlation	.562	1	.423	.571	.029
	Sig. (2-tailed)	.324		.477	.315	.963
	N	5	5	5	5	5
employees	Pearson Correlation	.651	.423	1	.560	-.657
	Sig. (2-tailed)	.234	.477		.326	.228
	N	5	5	5	5	5
production	Pearson Correlation	.992**	.571	.560	1	.093
	Sig. (2-tailed)	.001	.315	.326		.881
	N	5	5	5	5	5
Loan amount	Pearson Correlation	.013	-.029	-.657	.093	1
	Sig. (2-tailed)	.983	.963	.228	.881	
	N	5	5	5	5	5

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

Source: Calculated from different registers of SMEs

In case of SMEs of BRAC Bank Limited, @ 5% significance level there is no statistically significant positive relationship between loan amount taken and change in sales. Hence, H_0 is rejected and H_a is accepted (because the calculated significance level is more than 5%). In case of income of SMEs of BRAC Bank Limited, @ 5% significance level there remains positive relationship between loan amount taken and income level but that is not significant. Hence, H_0 is rejected and H_a is accepted. For employees of SMEs, there exists negative and insignificant relationship, as the calculated significance level is greater than 5%. So, H_a is true and accepted and H_0 is rejected. At last, the table also shows positive relationship between loan amount taken and production volume of SMEs but that is insignificant as the calculated significance level is greater than 5% that means H_0 is not true and thus rejected and H_a is accepted.

Summary of Key Findings

- Mortgage verification systems of the banks are not so much standard.
- SME loan interest rate, terms and conditions of BRAC bank limited are not good.
- Credit monitoring and administration system of the banks is good.
- Grace period of BRAC bank limited is not satisfactory.
- Internal cooperation in these two banks is good.

- In both the banks service fee, loan approval time, guarantee and banker-customer relationship are good.
- Maximum SMEs use loan for increasing production and stocking of inventory.
- SMEs face problem due to lack of fund, instability of their product/service, equipment renewal etc.
- Banks reject loan application due to poor credit history of the SMEs, lack of guarantee, inappropriate application form, and low profitability of the SMEs etc.
- There is statistically significant positive relationship between and change in sales and production volume of BASIC bank limited SMEs. But loan amount has insignificant positive relationship with income and insignificant negative relationship with number of employees of BASIC bank limited SMEs.
- There is no statistically significant positive relationship between loan amount and change in sales, income, and production volume of BRAC bank limited SMEs but there remains insignificant negative relationship between loan amount and number of employees.

Conclusion

Small and medium enterprises financing is very much obvious for any country especially for developing country like Bangladesh which has a long path to be developed. Big enterprises are not born in a day rather small and medium enterprises gradually become big. So to get big enterprise and to be developed in business and commerce, it is mandatory to help SMEs in different way because in an earlier research paper it has been mentioned that the development of small and medium enterprises in developing country believed to be desirable end in view of their perceived contribution, decentralized job creation and generation output. In Bangladesh, small and medium enterprises are growing rapidly. So the growing up SMEs is very significant in our national income (Ferdausi et.al. 2010). The most common problem SMEs face is financing problem. That is why this paper has tried to go through the SME financing activities of one private bank and one specialized bank from which a small picture of SME financing in Bangladesh can be depicted. However, the unhappy matters for the SMEs are they face various problems from the bank when they want to take SME loan such as high interest rate, low grace period, high collateral requirement, unreliable mortgage verification system etc. At the same time, the banks also face some problems in SME loan processing, like inexperienced management of SMEs, non-availability of data, valuation of collateral, poor credit history of the enterprise and lack of enough guarantees for loan etc. For better function of SME financing, all the problems must be removed. At the same time, BASIC bank limited and BRAC bank limited should pay attention to make SME financing fruitful. If banks can ensure easy financing to the SMEs, the performance of SMEs will also be better day by day. This paper has shown the SME financing picture of only two banks. Therefore, there remains much scope to extend this research on the SME financing of other banks of Bangladesh.

Recommendations

The following recommendations are presented to solve the problems of SME financing activities in Bangladesh:

- Both the banks especially BRAC bank limited should reduce the interest of SME loan.
- Both the banks should provide easy and flexible financing schemes for SMEs.
- BRAC bank limited should use more reliable borrower selection criteria.
- Both the banks should make their loan disbursement and recovery process prompt.
- Both the banks should complete their mortgage verification process in proper way.
- BASIC bank limited should make their collateral requirement low to provide easy financing for their customers.
- BRAC bank limited should apply flexible terms and conditions for loan.
- Both the banks should maintain their existing banker-customer relationship, credit monitoring and administration system.
- BRAC bank limited should increase the grace period for its customer's convenience to repay the loan.
- For the development of SMEs, only banks are not sufficient for providing fund. Therefore, government and other related institutions need to provide more diverse sources of SME financing.
- Moreover, government of Bangladesh should take measures like different training programs, workshop and seminar for increasing skill of the SMEs and the bankers.

References

- Abereijo, I. O., & Fayomi, A. O. (2005). Innovative approach to SME financing in Nigeria: A review of small and medium industries equity investment scheme (SMIEIS). *J. Soc. Sci*, 11(3), 219-227.
- Afrin, S., Islam, N., & Ahmed, S. U. (2009). A multivariate model of micro credit and rural women entrepreneurship development in Bangladesh. *International Journal of Business and Management*, 3(8), p169.
- Ahmed, K., & Chowdhury, T. A. (2009). Performance evaluation of SMEs of Bangladesh. *International Journal of Business and Management*, 4(7), p126.
- Alam, M. S., & Ullah, M. A. (2006). SMEs in Bangladesh and Their Financing: An Analysis and Some Recommendations. *The Cost and Management*, 34(3), 57-72.
- Alamgir, M. (2015). An Analysis of SME Development Framework of Bangladesh. *MERC Global's International Journal of Social Science & Management*, 2(3), 148-164.
- Bartoli, F., Ferri, G., Murro, P., & Rotondi, Z. (2013). SME financing and the choice of lending technology in Italy: Complementarity or substitutability? *Journal of Banking & Finance*, 37(12), 5476-5485.
- Chowdhury, M. S. A., Azam, M. K. G., & Islam, S. (2015). Problems and Prospects of SME Financing in Bangladesh. *Asian Business Review*, 2(2), 51-58.
- De la Torre, A., Pería, M. S. M., & Schmukler, S. L. (2010). Bank involvement with SMEs: Beyond relationship lending. *Journal of Banking & Finance*, 34(9), 2280-2293.
- Ferdausi, T., Sarker, S., & Rahman, M. A. (2014). An Analysis of Strengths & Weaknesses of SME Financing Program in Bangladesh: A Study on Social Islamic Bank Ltd. *Research Journal of Finance and Accounting*, 5(2), 51-64.
- Mercieca, S., Schaeck, K., & Wolfe, S. (2009). Bank market structure, competition, and SME financing relationships in European regions. *Journal of Financial Services Research*, 36(2-3), 137-155.
- Quadir, S. N., & JAHUR, M. S. (2011). Determinants of success and failure of entrepreneurs of SMEs in Bangladesh-An Explorative Study. *European Journal of Business and Management*, 3(3), 1-15.
- Quadir, S. N., & JAHUR, M. S. (2011). Determinants of success and failure of entrepreneurs of SMEs in Bangladesh-An Explorative Study. *European Journal of Business and Management*, 3(3), 1-15.
- Reza, M. S. (2012). Contribution of Equity Entrepreneurship Fund towards Development of SME Sector in Bangladesh (*Master Degree dissertation, Asian Institute of Technology*).
- Riyadh, A. N., Bunker, D., & Rabhi, F. (2010). Barriers to E-finance adoption in Small and Medium Sized enterprises (SMEs) in Bangladesh. Available at SSRN 1726262.
- Shamsuddoha, M., & Nasir, T. (2011). Micro Credit Program of Selected NGOs: An Empirical Study on Rural Poor Women. *Journal's URL: www. soeagra. com/ijert. htm*, 2(1), 49-56.
- Uchida, H., Udell, G. F., & Yamori, N. (2006). SME financing and the choice of lending technology. *Research Institute of Economy, Trade, and Industry (REITI) working paper*.
- Uddin, M. R., & Bose, T. K. (2013). Factors Affect the Success of SME in Bangladesh: Evidence from Khulna City. *Journal of Management and Sustainability*, 3(3), p166.
- Uddin, M. T. (2014). A Study on Financing of SME's in Bangladesh. *Journal of Economics and Sustainable Development*, 5(11), 161-167.
- Uz Zaman, A. H., & Islam, M. J. (2011). Small and medium enterprises development in Bangladesh: Problems and prospects. *ASA University Review*, 5(1), 145-160.
- www.basicbanklimited.com (Retrieved on: 11.05.2014).
- www.bracbank.com (Retrieved on: 11.05.2014).