

An Assessment of the Contribution of Private Commercial Banks to the Growth of Small and Medium Enterprises in Bangladesh

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Abstract: At present small and medium enterprises (SMEs) have become an important sector that is supposed to play a pivotal role in boosting the economy of Bangladesh. Access to finance is important for SMEs because the growth and survival of SMEs are highly depend on their ability to invest in restructuring, innovation etc. Banks are the key role players in funding SMEs. This paper investigates the contribution of private commercial banks (PCBs) to the growth of SMEs in Bangladesh between the periods of 2010 to 2014. Descriptive methods of analysis were employed. Secondary data were used and simple statistical tools such as ratio, trend, charts etc. were used to match the approach. The work therefore, discussed the contribution of private commercial banks (PCBs) to providing funds to SMEs as revealed from these data. It was found that PCBs contribute to financing SMEs but the proportion of contribution varies among the banks. Continuous effort from Bangladesh Bank and Government, PCBs also reluctant to finance SMEs due to avoid high risk, lack of collateral, proper documentation and monitoring etc. Along with other recommendations, the paper recommend that PCBs should decrease it interest rate, increase SME loan product and increase monitoring so that SMEs can benefit by using bank loan as large scale organizations do.

Keywords: Private Commercial Bank, SME, Ratio and Bangladesh.

I. Introduction

People in Bangladesh have a strong sense of entrepreneurship. According to Asian Development Bank, there are more than 6 million SMEs in Bangladesh ^[1]. When we compare it with Japan, with 3.85 million, we can see significant difference. SMEs have an important role as the backbone of the economy in almost all developing countries. In Bangladesh SME contributes to 25% of GDP, employs 75% to 85% of the labor force in the industrial sectors. SMEs need money to start-up, expansion, material purchase, purchase of equipment and machineries and maintain sound working capital requirements. SMEs in Bangladesh collect their fund from various sources like personal savings, family, friends and close relative, loans from financial institutions and NGOs. All the above mentions sources PCBs provide a vital role in financing SMEs as well as non financial services. Previous study on SME showed that, on an average banks provide near about 20% percent loan in SMEs sector from their total loan disbursement each year. Continuous effort from Government and central Bank to promote SMEs finance, the number of loans products and loans balance for SMEs finance in banks is increasing substantially. The banking systems of Bangladesh comprised of Bangladesh bank is the central bank of Bangladesh, four state-owned commercial banks (SCB), five specialized banks (SB), thirty nine private commercial banks (PCB), one land development bank and nine foreign banks (FB). As we can see private commercial bank holds a major portion of banking systems, which are main players in the financial systems have the potential to pull financial resources together to meet the credit needs of SMEs. Banks loan portfolio includes commercial loan, industrial loan, consumer loan and SME loan. All of these loans have significant impact on the banks performance and profitability, now-a day's SMEs financing is getting more importance because it is the way of boosting our economy and creating employment opportunities. The aim of the study is to access the contributions of the PCBs to financing the SMEs in Bangladesh for the period 2010-2014 and also highlight the problems encounter by banks in this regards.

II. Literature Review

Sulaiman (2005) observed that the 50.53 percent of SMEs had no access to formal source of finance. Only 35.79 percent of SMEs enjoy unrestricted access to the formal credit. Of the rest 13.68 percent have restricted access to formal credit. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6%) seek finance for their working capital needs from banks, although only a half-of them get loan from banks ^[2].

Islam et. al (2005) observed that bank is the most widely used source (accessed by 54% of the SMEs) while self-finance is the source for 46% of the SMEs and family and friends' sources are accessed by 21% of them^[3].

Hasan and Islam (2008) identifies that banks usually do not express interest towards SME financing. The reason behind this conservativeness is higher operational cost, less return and high risk associated with the SME financing. Due to small loan size the operational cost is higher and they require intensive monitoring and supervision. The main reason for higher risk is that the small and medium entrepreneurs are highly unlikely to comply with the collateral requirements as typically they do not have immovable properties. With the excuse of collateral sometimes banks and non-bank financial institutions are reluctant to finance SMEs^[4]. Chowdhury et. al (2013) has made a study on "Problems and Prospects of SME Financing in Bangladesh". The study found that SMEs contributes significantly in poverty reduction programs and potential contribution to the overall industrial and economic growth and 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^[5].

Akterrujjaman (2010) conducted a study "problems and prospects of SMEs loan management: A study on Mercantile Bank Limited, Khulna Branch" where major findings are related to the high interest and loan duration rates, reasons for SMEs relatively informal way of doing business in contrast to bank's formal procedures and prerequisites, bank's relative inexperience in this field^[6].

Chowdhury and Ahmed (2011) have made a working paper on "An Appraisal of the Problems and Prospects of Small and Medium Enterprises (SMEs) Financing in Bangladesh: A Study on Selected Districts". They observed that non availability of adequate credit, complex loan granting procedure, inadequate infrastructure facilities, problems of collateral requirements, paucity of working capital, non availability of skilled work force; poor salary structure, lack of coordination among SME related organizations, lack of appropriate marketing strategies etc. are the major hindrances to the development of the SMEs in Bangladesh. They recommended easy loan application and disbursement procedures; fix the minimum salary, adequate finance for modernization, expansion and technological advancement of SMEs etc for the development of SMEs^[7].

A number of studies have been conducted by various research scholars on a number of issues pertaining to SME financing such as financing SMEs in Bangladesh-challenges & issues, problems & prospects of SME financing in Bangladesh, the landscape of SME financing in Bangladesh, SME financing in Bangladesh: Comparative analysis of conventional and Islamic banks and so on. However none of these studies highlighted the contribution of PCBs in SME financing. So in this study the authors' attempt to show the contribution of PCBs to the growth and development of SMEs in Bangladesh.

III. Objectives Of The Study

In this paper we have tried to assess the overall contribution of PCBs in the growth and development of SMEs. Thus the specific objectives of the study are as follows:

- 3.1** To highlight the SMEs financing status in Bangladesh;
- 3.2** To analyze the proportion of SME loan of the sample bank to their total deposits and total advances between the periods of 2010 to 2014.
- 3.3** To find out the problems of SMEs financing in Bangladesh;
- 3.4** To recommend solution to flourish the SMEs smooth operation in Bangladesh;

IV. Methodology

The study is based on secondary data. Secondary data derive from the publications of Bangladesh Bank; published statistical data from reliable and recognized sources were used in this regard. Several books, articles and some news papers have been reviewed to get clear idea about the topic of the study with the respect to objectives mentioned above. The data is for five years covering 2010 to 2014. Among 39 PCBs of Bangladesh 8 banks selected and presented here.

V. Definition Of SME

A business may be categorized as either large, medium or small scale depending on capital investment, number of employees and production volume and so on. The World Bank defines SMEs as those enterprises with a maximum of 300 employees, \$15 million in annual revenue and \$15 million in assets.

5.1 Definition of Small Enterprise

Under Bangladesh Bank's regulations Small Enterprise refers to the firm/business which is not a public limited company and meets the following criteria:

Table-1, definition of small enterprise

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
1	Service	50,000-50,00,000	25
2	Business	50,000-50,00,000	25
3	Industrial	50,000-150,00,000	50

Source: Bangladesh Bank

5.2 Definition of Medium Enterprise

Medium Enterprise refers to the establishment/firm which is not a public limited company and meets the following criteria:

Table: 2, Definition of Medium Enterprise

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

Source: Bangladesh Bank

VI. SME Financing Status In Bangladesh

Banks and NBFIs play major role for SMEs financing in Bangladesh under supervision and regulations of Bangladesh Bank. Considering SME development as one of the important development agenda of the country, Bangladesh Bank has been set the target of SME loan disbursement for financial sector for the first time in 2010. According to the target SMEs loan shall be disbursed to the small, medium and women entrepreneurs. Following table shows the SMEs loan disbursement target and achievement during the years 2010 to 2014.

Table: 3, Sector wise SME Loan Target (BDT in Crore), Disbursement (BDT in Crore), & Achievement (%).

Year	SME Sector									Total		
	Service			Trade			Manufacturing			Target	Disbursement	Achievement
	Target	Disbursement	Achievement	Target	Disbursement	Achievement	Target	Disbursement	Achievement			
2010	4643.32	3355.68	72.27%	22042.59	35040.53	158.97%	12172.21	15147.72	124.45%	38858.12	53543.93	137.79%
2011	7489.78	3530.85	47.14%	30310.23	34382.64	113.44%	19140.12	15805.95	82.58%	56940.13	53719.44	94.34%
2012	7971.44	3630.90	45.55%	30463.81	44225.19	145.17%	20577.53	21897.33	106.41%	59012.78	69753.42	118.20%
2013	8623.42	4602.89	53.38%	39681.06	56703.72	142.90%	25882.39	24016.64	92.79%	74186.87	85323.25	115.01%
2014	11706.85	7896.77	67.45%	46442.81	62767.18	135.15%	30881.29	30246.20	97.94%	89030.95	100910.15	113.34%

Source: SME and Special Program Department (SPD), Bangladesh Bank^[8].

Table-3 reveals that in 2010 total target of SMEs loan disbursement was Tk. 38858.12 (crore) and corresponding disbursement was Tk. 53543.93 (crore), of which Tk. 3355.68 crore in service sector, Tk. 35040.53 crore in trade sector and Tk. 15147.72 crore in manufacturing sector respectively. During 2014 total target of SME loan was Tk. 89030.95 (crore) and corresponding disbursement was Tk. 100910.15 crore of which Tk. 7896.77 crore in service sector, Tk. 62767.18 crore in trade and Tk. 30246.20 crore in manufacturing sector. Table-3 also reveals that disbursement of SMEs loan gradually increased from year to year. Following figure shows the total target and disbursement trend of SMEs loan of total financial sector for the year 2010-2014.

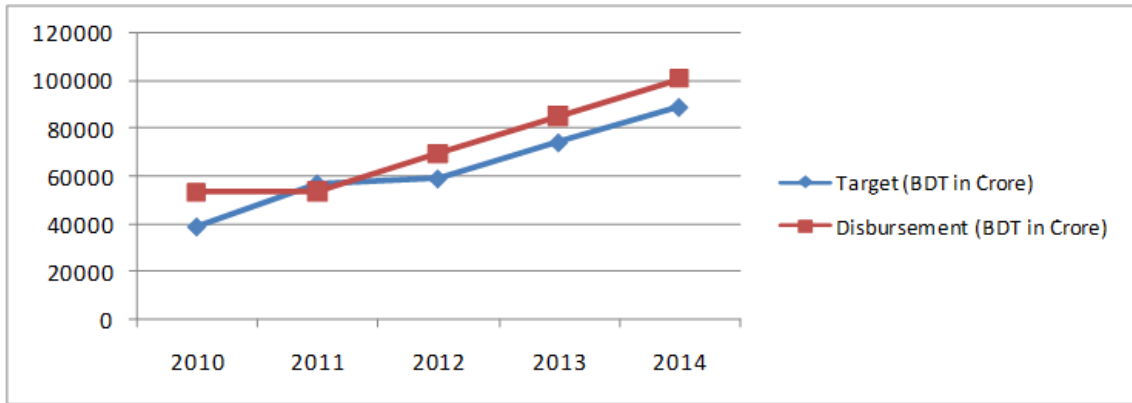


Figure-1: SMEs loan target and disbursement trend during the year 2010 to 2014.

Fig.1 shows that the trend of SMEs loan disbursement were beyond the target in the year 2010, 12, 13 & 14 except 2011.

Since the year 2010 an indicative target for SME loan disbursement has been set by Bangladesh Bank for financial sectors. According to the target, SME loan were disbursed by SCBs, SBs, PCBs, FBs and NBFIs. Following table shows the SMEs loan target and disbursement total of financial sectors during the years 2010 to 2014.

Table: 4, Total SMEs loan target and disbursement of financial sectors during the years 2010 to 2014 (BDT in Crore).

Year	Financial Sector										Total	
	Banks								NBFIs			
	SCBs		SBs		PCBs		FBs		NBFIs			
	Target	Disbursement	Target	Disbursement	Target	Disbursement	Target	Disbursement	Target	Disbursement	Target	Disbursement
2010	5083.10	7523.98	1210.00	2694.66	30144.67	40494.57	731.69	1133.93	1688.66	1696.79	38858.12	53543.93
2011	7668.00	4154.88	3365.00	2563.55	42303.90	44109.72	1197.43	1241.35	2405.80	1645.94	56940.13	53719.44
2012	5120	3941.28	4065	3671.79	45928.47	59070.13	1216.30	1579.26	2683.01	1490.96	59012.78	69753.42
2013	5820.02	5147.92	5565.00	3690.36	58973.72	73411.89	1356.46	1187.04	2471.67	1886.04	74186.87	85323.25
2014	5683.56	5961.01	5800.00	3065.12	72020.81	88097.20	1334.64	909.62	4191.94	2877.20	89030.95	100910.15

Source: SME and Special Program Department (SPD), Bangladesh Bank [8].

Table-4 reveals that PCBs are the major suppliers of SMEs loan. In year 2010 PCBs disbursed Tk. 40494.57 crore which was 75.63% of the total loan disbursement in SME sector. During year 2014, PCBs disbursed Tk. 88097.20 crore which was 87.30% of the total loan disbursement. Table- 4 also reveals that loan disbursement in SME sector by PCBs is gradually increasing.

VII. Private Commercial Banks (PCBs) As Fund Providers To SMEs

In response to the policy guidelines of Bangladesh Bank, some positive changes have taken place in the area of bank financing to SMEs of the country. The total SMEs loan increased for around 20% to 25% of their total credit portfolio in between 2010 to 2014. Of the broad bank groups, performance of PCBs, is relatively better. The contribution of PCBs to SMEs was analyzed on the basis of SMEs loan proportion to their total deposit and loan and advances of each of the five years. From these it is exposed to what extent PCBs provide fund to SMEs in Bangladesh with a specific interest rate such as 13% to 18%, except 10% for women entrepreneurs.

7.1 SMEs loan disbursement to total deposit of the sample banks

Bank is the financial intermediaries that collects fund from surplus unit and provide the same to the deficit unit. In each year the PCBs provide fund to SME entrepreneurs from their total deposit. Following table shows the SMEs loan disbursement to total deposit of the respective banks for the year 2010-2014.

Table: 5, SMEs loan disbursement to total deposit during year 2010 to 2014.

No	Name of the Bank	Deposits in BDT. Million & % of SMEs loan to total deposits					
		2010	2011	2012	2013	2014	
01	IBBL	Total Deposit	291935.00	341854.00	417844.00	473141.00	560696.00
		Total SME Loan	78456.00	108670.00	149214.00	170356.00	201127.00
		Percentage (%)	26.87	31.79	35.71	36.00	35.87
02	BRAC Bank	Total Deposit	88158.00	103797.00	134686.00	127892.00	148464.00
		Total SME Loan	37400.00	35590.00	39000.00	33676.00	43500.00
		Percentage (%)	42.42	34.29	28.96	26.33	29.30
03	Prime Bank	Total Deposit	124518.00	159816.00	182053.00	201907.00	204838.00
		Total SME Loan	3593.00	9429.00	12230.00	19532.00	20054.00
		Percentage (%)	2.89	5.90	6.70	9.67	9.80
04	IFIC Bank	Total Deposit	54660.00	73106.00	93433.00	110778.00	129746.00
		Total SME Loan	10841.00	14225.00	15464.00	16795.00	19629.00
		Percentage (%)	19.83	19.46	16.73	15.16	15.13
05	SEBL	Total Deposit	107253.00	127178.00	152901.00	177519.00	189473.00
		Total SME Loan	13061.00	14430.00	18126.00	26501.00	30878.00
		Percentage (%)	12.18	11.35	11.85	14.93	16.30
06	AB Bank	Total Deposit	95702.00	116152.00	140026.00	161846.00	198189.00
		Total SME Loan	2720.00	3102.00	3229.00	3755.00	4283.00
		Percentage (%)	2.84	2.67	2.31	2.32	2.16
07	SIBL	Total Deposit	44850.77	66852.55	93594.29	102104.48	124535.01
		Total SME Loan	1703.50	4370.00	6868.80	7164.30	21349.30
		Percentage (%)	3.80	6.54	7.34	7.02	17.14
08	Bank Asia	Total Deposit	86365.64	95131.10	110061.78	133489.37	140869.29
		Total SME Loan	2199.00	2257.00	2487.00	2606.00	2675.00
		Percentage (%)	2.55	2.37	2.26	1.95	1.90

Source: Authors' arrangement based on annual reports of sample banks ^[9].

Table-5 reveals that the disbursements of SMEs loan against total deposit were increased year to year. Average ratio of five years SMEs loan to deposit of the respective banks are as follows: IBBL 33.25%, BBL 32.26%, Prime Bank 6.99%, IFIC Bank 17.26%, SEBL 13.32%, AB Bank 2.46%, SIBL 8.37% and Bank Asia 2.21%. From the above table we also clear that on an average SMEs loan to deposit ratio of the sample banks is 14.51%.

Following figure shows the proportion of SME loan to total deposit of the banks for year 2010-2014.

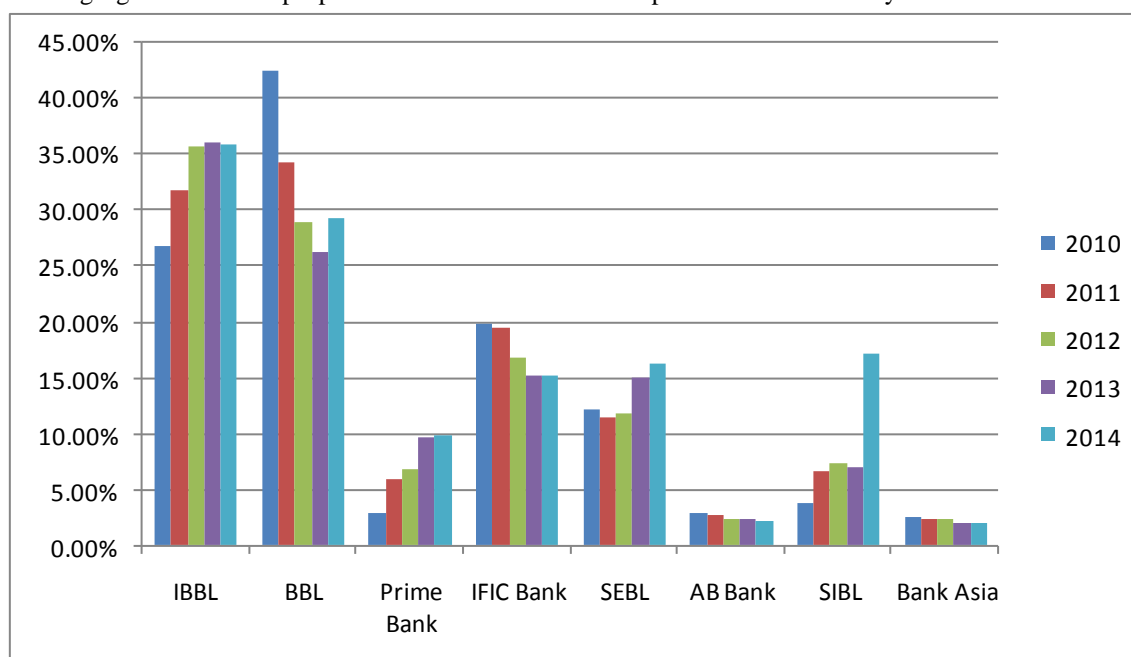


Figure 2: Proportions of SMEs loan to total deposit.

From fig.2 illustrate that disbursement of SMEs loan to total deposit of the banks were fluctuate between the periods 2010 to 2014. It was varies 42.42% to 1.90%. It is also illustrate that SME disbursement of AB bank, Bank Asia, Prime bank were below 10% of total deposit.

7.2 SMEs loan disbursement to total loan and advances of sample banks

Since the year 2010 an indicative target for SME loan disbursement has been set by Bangladesh Bank for all schedule banks and financial institution considering SME development as one of the most important agenda of the country. According to the target SME loan shall be disbursed by PCBs to promoting the development of SMEs of the country. Following table shows the disbursement of SMEs loan to total loan and advances of the sample banks for the year 2010-2014.

Table: 06, SMEs loan disbursement to total loan and advances/investment during year 2010 to 2014.

Sl No	Name of the Bank		Loan and Advances/Investment in BDT. Million & % of SME Loan to Total Loan and Advances/ Investment				
			2010	2011	2012	2013	2014
01	IBBL	Total Loan & Advances/Investments	263225.00	305841.00	406817.00	403195.00	463475.00
		Total SME Loan	78456.00	108670.00	149214.00	170356.00	201127.00
		Percentage (%)	29.81	35.53	36.67	42.25	43.40
02	BRAC Bank	Total Loan & Advances/Investments	84303.00	95167.00	111875.00	117111.00	121941.00
		Total SME Loan	37400.00	35590.00	39000.00	33676.00	43500.00
		Percentage (%)	44.36	37.40	34.86	28.76	35.67
03	Prime Bank	Total Loan & Advances/Investments	116057.00	138848.00	160890.00	153589.00	147367.00
		Total SME Loan	3593.00	9429.00	12230.00	19532.00	20054.00
		Percentage (%)	4.00	6.79	7.60	12.72	13.61
04	IFIC Bank	Total Loan & Advances/Investments	47563.00	64641.00	77160.00	84110.00	102282.00
		Total SME Loan	10841.00	14225.00	15464.00	16795.00	19629.00
		Percentage (%)	22.80	22.01	20.04	19.97	19.19
05	SEBL	Total Loan & Advances/Investments	93981.20	107288.58	126968.97	134863.82	147070.81
		Total SME Loan	13061.00	14430.00	18126.00	26501.00	30878.00
		Percentage (%)	13.90	13.45	14.28	19.65	21.00
06	AB Bank	Total Loan & Advances/Investments	88002.00	94638.00	106066.00	140121.00	177571.00
		Total SME Loan	2720.00	3102.00	3229.00	3755.00	4283.00
		Percentage (%)	3.09	3.28	3.04	2.68	2.41
07	SIBL	Total Loan & Advances/Investments	36680.28	53908.58	76024.97	85922.33	107899.96
		Total SME Loan	1703.50	4370.00	6868.80	7164.30	21349.30
		Percentage (%)	4.64	8.11	9.03	8.34	19.79
08	Bank Asia	Total Loan & Advances/Investments	79504.23	82819.97	92328.82	104911.26	116808.85
		Total SME Loan	2199.00	2257.00	2487.00	2606.00	2675.00
		Percentage (%)	2.77	2.73	2.69	2.48	2.29

Source: Authors' arrangement based on annual reports of sample banks ^[9].

Table- 6 reveals that the disbursements of SMEs loan to total loan and advances were increased year to year. Average ratios of five years SMEs loan to total loan of the respective banks are: IBBL 37.53%, BBL 36.21%, Prime Bank 8.94%, IFIC Bank 20.80%, SEBL 16.46%, AB Bank 2.90%, SIBL 10.02% and Bank Asia 2.60%. From the above table it is also clear that on an average SMEs loan to total loan and advances ratio of the sample banks was 27.09%.

Following figure shows the proportion of SMEs loan to total loan and advances of the banks for 2010-2014

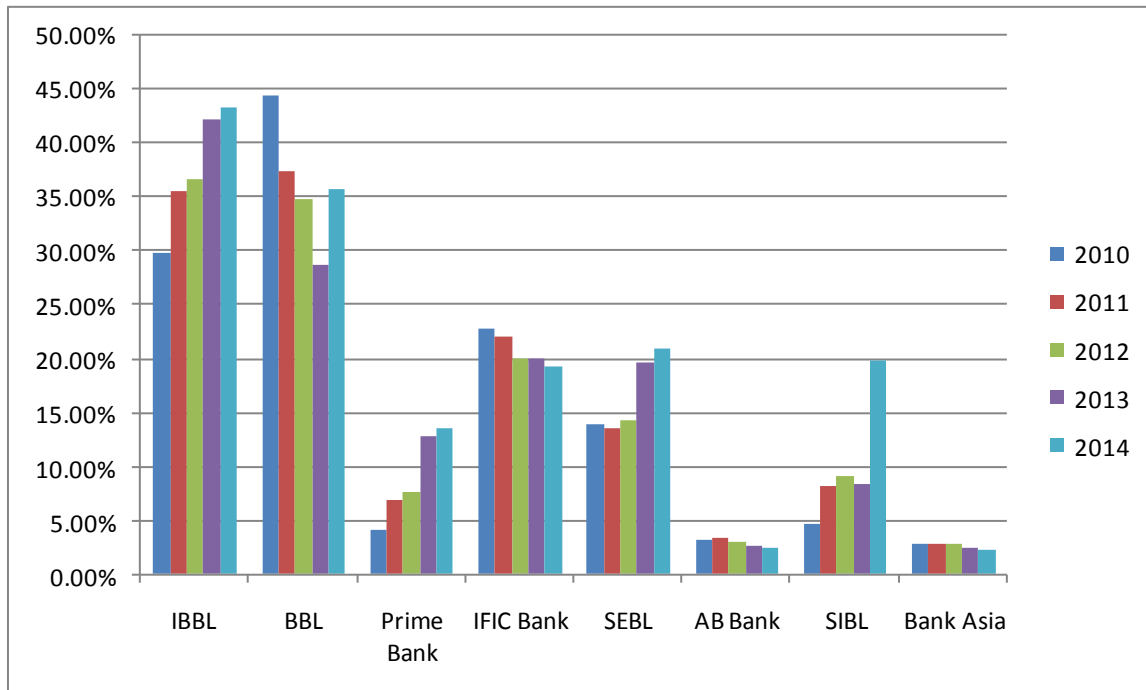


Figure 3: Proportions of SMEs loan to total loan and advances.

From fig.3 reveal that disbursement of SMEs loan to total loan and advances of the banks were fluctuate between the periods 2010 to 2014. It was varies 44.36% to 2.29%. It is also illustrating that SME disbursements of AB bank, Bank Asia were below 10% of total loan and advances.

VIII. Problems Faced By PCB In SMEs Financing

Reviewing previous literature, it was found that several problems hinder the SMEs financing of PCBs in Bangladesh.

8.1 Lack of proper collateral

Institutional loan provided to SMEs sector is inadequate due to proper collateral. Banks tend to less flexible about the collateral requirements in case of SMEs as they perceive SMEs to be more risky.

8.2 Confusion with borrowing terms and conditions

Most of the SMEs entrepreneurs have little or no knowledge in banking rules and requirements of SMEs loan. So they often confused with the borrowing terms and conditions regarding SMEs loan policy.

8.3 Inaccurate information regarding the borrower

Credit Information Bureau (CIB) is the base for the information about the prospective clients of the bank. Currently the bankers are facing constant challenges due to inaccuracy in the CIB report of the borrowers.

8.4 Risks with documentation

Applying SME's loans from the banks with fake or faulty documents is a common phenomenon for the borrowers.

8.5 Monitoring activity

In most of the cases, lack of proper monitoring and supervision SME's loans causes default loans.

8.6 Project preparation and evaluation

In spite of directives from the central bank to follow standardized procedure, the loan application process has still remained lengthy and cumbersome. The entrepreneurs often unable to formulate a proper project proposal. There is no guarantee that the proposal will be considered properly by the financial institutions.

8.7 Non-maintenance of proper accounting records

At the time of granting SME's loan banks faced problems because of most of the SMEs are not maintaining book of accounts and other related trade documents properly. It creates barrier for assessing borrowers' financial position at the time of evaluating SME's credit proposals.

8.8 Lack of skilled manpower

Due to lack of skilled manpower banks do not give attention to SME lending and invest only in high-yielding corporate sectors.

IX. Findings & Recommendation

9.1 Findings of the study

From the data analysis it is revealed that PCBs have contributed to financing SMEs in Bangladesh but the proportion of SMEs loan to total deposit as well as SMEs loan to total loan and advances varies among the banks from year to year. Other findings are:

9.1.1 The main focus of PCBs on trade sector which has more than 70%-80% portfolio shared.

9.1.2 PCBs encounter several problems in financing SMEs.

9.1.3 PCBs play significant role in financing SMEs.

9.2 Recommendation

The study recommends the following suggestions:

9.2.1 To minimize risk, PCBs need to diversify into other sector. More focus should be put on the other sectors like manufacturing and service.

9.2.2 Banks should be flexible in case of collateral requirements. The limit of collateral free loan should be increased.

9.2.3 Banks should follow simple lending procedure as much as possible. Low documents loan program, which may allow SME to use a simple application for loans.

9.2.4 Information gap about loan financing should be lessening through organizing seminar and workshop.

Different training programs, seminar, symposium, workshop should be arranged frequently by Government, SME Foundation, Bangladesh Bank and Chamber of Commerce & Industries to increase the knowledge base regarding SME financing and development of SME sector.

9.2.5 Bindings should be given by Bangladesh Bank to PCBs about loan disbursement on 10% or single digit interest rate. It is must to make easy entrance SME financing.

9.2.6 PCBs should consider SME financing as their corporate social responsibility (CSR). So here consideration will not be profit maximization only rather social wellbeing.

9.2.7 Bangladesh Bank imposes a minimum percentage of total deposit and loan & advances should be disbursed as SMEs loan by PCBs in every year.

X. Conclusion

The SMEs are undoubtedly a dominant sector in the industrial structure of Bangladesh. The total number of SMEs is estimated at 79754 establishments, of which 93.6% are small and 6.4% are medium. In Bangladesh, SMEs account for about 45% manufacturing value addition, 80% of industrial employment about 90% of total industrial unit and 25% of total labor force. It plays a vital role in the socio-economic development of the country. It has bright prospects because labor is much cheaper here and huge market demand of SME product both at home and abroad. Bank is the crucial member of any nation's financial institution. The economic and commercial activities of a nation's are highly depend on the banking institutions. In line with other financial institutions, banks help the government in its fiscal policies and direct economic activity. The banking sector especially private commercial banks have various ways to get involved in SMEs financing from the creation or participation in SMEs investment funds, to the creation of a special unit for financing SME's within the bank. PCBs should consider SME sector as large scale industry they do which helps them to contribute more in SME sector as well as economic development of the country now and onwards.

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