

# Present Condition & Contribution of SME Financing in the Economy of Bangladesh: A Study on Three Selected Banks

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Received September 01, 2023; Revised October 02, 2023; Accepted October 09, 2023

**Abstract** Small and medium-sized businesses, or SMEs, are often capital-light and labour-intensive sectors of the Economy. SMEs have a natural comparative advantage in a country like Bangladesh, where labour and capital are cheap. This industry significantly contributes to economic growth, creating jobs and eradicating poverty in Bangladesh. The study will break down the SME banking activities of three different chosen banks: Brac Bank, DBBL, and Dhaka Bank, all private banks. The financial statements and websites of the individual banks were the sources of all the information and data. In this study, SME expenses from several banks were grouped into a unified structure but presented in various ways. The study aims to comprehend SME operations, loan disbursement, and net profitability of individual banks over five years. It decides which sector they prioritize, which banks are spending more, and their expenses with time. It also aims to identify which banks are providing priority to which sectors. This paper presents all the information and data graphically and in tabular form so the reader can fully understand the issue.

**Keywords:** *small and medium enterprises (SME), loan disbursement, net profitability, and labor-intensive sectors*

**Cite This Article:** S.M. Akber, Shaila Shabnam, and Aditi Roy, "Present Condition & Contribution of SME Financing in the Economy of Bangladesh: A study on three selected banks." *Journal of Finance and Economics*, vol. 11, no. 4 (2023): 182-194. doi: 10.12691/jfe-11-4-1.

## 1. Introduction

Small and medium-sized enterprises (SMEs) are one of the most critical aspects of the world's economy now. They are granted the most importance because of their enormous multidimensional involvement in a country's socio-economic area. Entrepreneurs quickly start with minimal money, hire many workers, fulfill local demands, and add to export earnings. SMEs played an essential role in providing job prospects and even manufacturing machinery and machinery parts to save our nation a large amount of foreign currency. It has the vision of lowering poverty, creating jobs, and generating the country's economic growth. With intensified globalization, it is typical for imported imports to flood the sector, so small and medium-sized businesses must improve their manufacturing processes and skills to manufacture quality items at a reasonable price. While the SME sector in our Economy is becoming a booming manufacturing field and contributing tremendously to the country's GDP, for which SMEs provide fast loans to their customers.

The sector is genuinely reshaping the Economy in Bangladesh. SMEs are essential to the nation's accelerated industrialization, economic growth, creation of jobs, and poverty reduction. Today, SMEs play a significant role in

the national Economy. Roughly 80% of industrial employment, 90% of all industrial units, approximately 45% of manufacturing value added, and about 25% of the labor force are all accounted for by them. Their overall contribution to export revenue ranges from 75% to 80%. Most of the SMEs that comprise the industrial sector, which accounts for 31% of the country's GDP, are small and medium-sized businesses [1].

According to estimates, Bangladesh has 79 00,000 small and medium-sized businesses. 93.6% of them are negligible, and 6.4% are medium-sized. According to the 2003 Private Sector Survey, there are around 6 million micro, small, and medium-sized businesses with less than 100 employees. Most SMEs—60 to 65%—are dispersed throughout regions other than Chittagong and Dhaka. 15 lakh employment was created in the SME sector of the nation between 2009 and June 2014 [2].

## 2. Objectives of the Research

The particular objectives of this research are:

- To know about SME banking conditions of the selected banks in Bangladesh.
- To evaluate the SME performance of the banks in terms of their net profitability, loan disbursement, and investment portfolio in recent years

- To assess the SME sector's economic contribution.
- To find out the obstacles in SME banking faced by the banks.
- To discover the COVID-19 impact on those banks in Bangladesh.

### 3. Literature Review

One kind of review article is a narrative or literature review. The most recent research on a topic, including significant findings and theoretical and methodological improvements, is summarized in a literature review, an academic article. Reviews of the literature are secondary sources that don't present new or unique experimental work. Such reviews, which are most frequently seen in academic publications and are distinct from book reviews, which may also appear in the same journal, are most commonly connected with academically oriented literature. The foundation of research in almost every academic discipline is a literature review.

#### 3.1. SME Financing

Small and medium-sized businesses (SMEs) can aid in reducing poverty to a manageable level. By dispelling numerous stereotypes about labor-intensive industries and generating opportunities for skilled labor in the SME sector, the study aims to assess the effectiveness of SME banking tools in reducing poverty in our nation. Access to capital is still seen as the main barrier to SME growth in Bangladesh, as it is in most developing and underdeveloped countries. Small- and medium-sized businesses can alter society and inspire future businesspeople [3].

In the context of Bangladesh, Chowdhury [4,5] noted that SMEs are characterized by Low capitalization and Limited Assets, Geographic Diversity and High Mortality, Poor Credit Knowledge, Very Limited Access to Formal Sources of Credit, Cash Intensity in Transactions, Very Limited Record-Keeping Habit, Poor Financial Disclosure on Account of Tax Issues, High-Risk Perception has led to High Borrowing Costs.

According to Md. Ariful Islam, Salahuddin, and Imtiaj, enterprise financing transactions lack collateral and contain informational asymmetries. The ability to obtain information about their companies from potential lenders or outside investors is a luxury given to entrepreneurs. SMEs are riskier than large corporations due to higher failure rates and more unpredictable rates of return. Banks' databases of SME transactions are not very robust since they are not concerned about the possibility of profits from SME financing.

The usefulness of using optional activities as capital for small and medium firms based on digitalization in the crisis was examined by Sutrisno, Fachrunnisa, O., and Widodo in a study published in 2022. They employed a qualitative descriptive method with surveys as their primary data-gathering tool to guide decision activities with individual performance in groups. The study focuses on 300 small and medium-sized businesses (SMEs) directly impacted by the COVID-19 pandemic in five industrial regions of Central Java: Semarang, Pekalongan, Tegall, and Brebes. They concluded that the social

responsibility of the business, innovation, and training are essential and beneficial sustainability components. SME business owners have not yet significantly adjusted how they run their companies. By examining what has been done in the past, it is still operating under the outdated concept and ideology passed down from its forebears. Islamic banks have the same issues with information asymmetries and a lack of collateral when lending to small businesses. Islamic banks have enormous potential for SME banking, but these opportunities are not highlighted. They have recently increased their investments in SME banking. Regression analysis shows the bank's dependence on commercial loans to be considerable (Salahuddin, Mr. Ariful Islam) [6].

The main conclusions of a study by Akterrujjaman (2010) include high interest and loan duration rates, the causes for SMEs' informal business practices as opposed to banks' formal requirements and processes, and the relative inexperience of banks in this industry [7].

In his 2001 study, Paul Cook examined the literature on financing and the small- and medium-sized firm (SME) market in emerging nations. The paper claims that this field has theoretical insights. Research on the supply and demand for finance concerning SMEs in developing countries has been empirically based. It has been more concerned with learning about the characteristics of lending institutions and SMEs than with putting theoretic ratios to the test, which would help us better understand the relationship between finance and SMEs.

Syed Manzur Quader and (2008) [8] noted that although SMEs are crucial to the growth of an underdeveloped economy, they continue to face several challenges regarding raw materials, power, land, marketing, transportation, technological infrastructure, and financing. Due to these limitations, increasing the country's GDP is becoming more challenging. This article seeks to identify the main obstacles SMEs in Bangladesh face using the varimax normalization method and a primary questionnaire survey. The barriers are ranked according to their severity.

Institutional constraints, such as a weak and ineffective legal and regulatory environment, severely hamper adequate finance. When it comes to lending to SMEs, banks have a variety of challenges, the most significant of which are information asymmetry and granularity—the quantity of information on which to base business choices. An important issue for SMEs is the high cost of financing.

It is widely believed that loan repayments are not borrowers' friendly. Because lending systems rely more heavily on borrowing secured by assets than projected earnings and cash flow, banks are infamous for asking for significant sums of collateral from SMEs (Shamsul Alam and Anwar Ullah, M.) [9].

Researchers Hashem, F. N. R. and Hashem, A. N. R. explored how management accounting could support organizational risk management plans in 2023. They adopted a quantitative strategy and provided (257) financial and accounting managers from Small and Medium Enterprises in Jordan and the GCC countries with a questionnaire. The researchers concluded: "Management accounting competency has a statistically positive influence on risk management strategies within Small and Medium Enterprises in Jordan and GCC countries [10]."

According to Uddin [11,12,13], the effectiveness and development of the SME sector in developing nations depend on how successfully these businesses can advance their goals in terms of both making money and going to society.

There is evidence for both similarities and differences between SME funding in China and the UK. Many respondents solely relied on financial assistance from their immediate family for initial (start-up) finance (Javed G. Hussain, Harry Matlay, and Cindy Millman).

### 3.2. Evolving SME Banking

Government and financial institutions must support modernization and technological development. To build Bangladesh's infrastructure, the government of Bangladesh must adopt the proper policy measures. To produce a uniform definition for the formulation and execution of policy, the government should take the initiative to define each category of SMEs uniformly (Khanfia Ahmed).

EBL offers the most SME lending products overall. It provides the most collateral-free credit offerings of any country. BBL has the highest average interest rate of 23%, which could be a problem for SMEs. Since banks were founded at various times and operate effectively in multiple industries, it is challenging to obtain a precise picture of the company's financial situation (Tanbir Ahmed Chowdhury).

BBL has the second-highest quantity of products, with 13, including eight loan products and five deposit products. However, ABL, PBL, and DBBL solely offer loan facilities to SMEs; they do not offer deposit facilities. While PBL and DBBL each offer six loan items (Kashfia Ahmed, Tanbir Ahmed Chowdhury).

As is well known, one of Bangladesh's most dynamic economic sectors is the SME sector. The statistics show that total loan volume and SME segment disbursement increased dramatically over a year. It shows that more businesspeople are aware of and interested in SME loans and is giving a unique product called "Purnota" that empowers female entrepreneurs.

The most appealing characteristic of IDLC Purnota is that women can borrow up to 25 lakh BDT without providing a mortgage, cash security, or any other form of protection. Additionally, the maximum loan amount is 50 lakh BDT, and the interest rate is 9%, significantly lower than any other SME loan offered by IDLC. IDLC has a relatively good NPL ratio compared to its enormous loan portfolio. The NPL ratio for IDLC is currently 2.77% in 2017 compared to 2.98% in 2016. Although their portfolio has a significant markup of 70,000+ million BDT, they are still cautious about their NPL because it is negatively connected with the expansion of their portfolio (Md. Zahidul Haque, a Robin).

According to Jahangir H. Khan, Abdul Kader Nazmul, and others (2012), Bangladesh's institutions and organizations are perceived differently, and the research includes the necessity for conceptual and perceptual growth in Bangladesh's current enterprise/entrepreneurship development practices. The executive summary and conclusion stressed the significance of thorough training for all involved organizations for the SME sector's development.

BBL has a lower profitability ratio than the other four banks. Despite having more considerable revenue than

DBBL and EBL, BBL's NP is more melancholy than theirs since it has more loans, advances, and deposits. The return on assets (ROA) ratio demonstrates how effectively a company manages its costs and uses its resources. It is related to both profit margin and asset turnover. Although BBL is using its resources successfully in this situation, it might not be able to manage its costs effectively. According to the other four banks, BBL's liquidity ratios are in good shape.

The cash ratio is within the norm compared to the other four banks, demonstrating its ability to promptly liquidate assets and pay short-term liabilities, among other things. Compared to the other four banks, BBL has a more excellent Asset Activity Ratio, which shows that it employs its assets effectively to generate revenues and is in a normal position. Thanks to the excellent fixed asset turnover ratio, BBL has less money locked up in fixed assets for each sales unit (Mr. Harry Matlay).

For a personal loan, the borrower must have a minimum wage that can be paid from a bank account. It was detrimental to everyone in the sector who was not receiving benefits from the bank due to their low salaries. Not beneficial, especially for financially vulnerable customers. All loan types need specific paperwork. Due to consumer expectations and personal relationships, accurate documentation may occasionally be impossible. A mortgage loan requires proper plan approval, and since the DAP maximum area does not apply to this loan, no one has profited from it (Javed G. Hussain, Harry Matlay, and Cindy Millman).

According to Mohammad Saleh Jahur and S.M. Nasrul Quadir (2012), financial distress is a widespread phenomenon that has interested academics, professionals, and the government. Although SMEs contribute to the Economy by creating jobs, providing goods and services using local technologies, fostering social entrepreneurship, and generating money. SMEs are particularly vulnerable to macroeconomic and internal management crises. They thus experience financial hardship. In light of this, a study has been conducted to determine the root reasons for financial difficulty in Bangladeshi SMEs. The study's analysis of the data gathered for the survey used financial and statistical methods. The study pinpointed a few probable trouble spots associated with financial difficulty, including rate sufficiency, sales trends, managerial aptitude, and financial planning. The survey also identified some of the most significant drivers of economic hardship, including weak accounting systems, lackluster production, executive succession, and resource shortages. Finally, the study recommended several strategic and policy-related actions for profitable and financially troubled SMEs to shield them from financial and operational risk exposure.

### 3.3. Prospects & Challenges of SME Banking

The SME sector's situation is complicated, and the data analysis revealed no clear market trend. The NCBs currently dominate the market in the SME sector. The market share of PCBs is steadily growing, and EBL has enormous potential to dominate the SME market soon.

From 2013 to 2015, the growth rate of EBL's SME loans was 172.12%. EBL's SME Banking growth rate

dropped from 470.72% in 2013 to 48.61% in 2015. As the firm develops, this can appear entirely reasonable. The main question for any prosperous business is whether it can continue to grow. EBL has failed to do so (Hossen and Forhad).

According to Bangladesh Bank and the SME Foundation, no collateral security is required to obtain an SME loan. However, very few banks approve SME loans to entrepreneurs without collateral deposits. The primary sources of funding for SMEs are banks. Bankers are not interested in lending to SMEs since it takes more investment, time, and continuous supervision than an industrial loan. SME loans are more likely to be problematic than other loans (Raisul Islam and Minhajur Rahman, Md.).

Ahmed [14] noted that the availability of financing is a significant barrier to establishing and expanding SMEs in Bangladesh. Banks are hesitant to do so because they do not view extending credit to small and medium-sized businesses as an appealing and lucrative venture. SMEs are seen as high-risk borrowers because of their low capitalization, insufficient assets, and inability to meet the bank's collateral requirements. Administrative costs are considerably higher because it becomes required to monitor and supervise the SME operation closely.

The lack of access to capital, infrastructure constraints, unstable power, low levels of technological competency, challenging market access, and regulatory restrictions continue to be problems for the SME sector. Intense market competition in both existing and new markets is another significant obstacle. Complex customer preferences, market norms, and several non-price considerations, including product and process quality, health and safety, and ecological compatibility that determine competitive advantage, also present considerable challenges. Lack of electricity appears to be a severe barrier that can negatively impact the general and some instances of econometric analysis. Most respondents from India, Pakistan, and Bangladesh reported that an energy shortage is a primary obstacle to effective SME expansion (Minhajur Rahman, M.).

It demonstrates the lack of electricity supply in various regions of the world, demonstrating the need for significantly better electricity production and supply to support the growth of SMEs. Additionally, the SMEs in the countries must have access to adequate power supplies. Additionally, it appears that tax rates are still another barrier for Bangladeshi SMEs, as the majority of SME owners polled ranked this issue as the most serious. Many Bangladeshi SME owners cited political uncertainty as another significant issue. This analysis shows that the SME sector does not use a specific funding mix. An organization's requirements and internal elements will determine the financing mix that best supports its goals and offers the lowest cost of capital (Raisul Islam & Minhajur Rahman, Md.)

The paper also shows that partnership firms benefit more from commercial bank loans than self-raised funds when encouraging growth. The study examines the variety of corporate financing practices used by partnership firms. Most of the time, partnership firms have used a variety of sources of funding to manage their affairs with the best possible mix of financing deemed appropriate to maintain

consistency in a low cost of capital on capital employed (Paul Quaisie Eleke-Aboagye).

### 3.4. The Perceived Impact of the COVID-19 Epidemic

Most employees could not return to work, contributing significantly to the delay in resuming work. As a result, less than 70% of the SMEs in the survey had a rework rate. Regulations on epidemic management by the local authorities were another factor in the projected low rework rate. A never-before-seen amount of pressure was placed on SME production and operations by the lack of human resources and the rise in human costs brought on by the low employee rework rate. Government and financial institutions must support modernization and technological development. A considerable drop in market demand due to the outbreak was cited by 35.5% of SMEs and nearly 40% in the primary and tertiary industry sectors because they could not find new employment. Almost 30% of SMEs in the primary and secondary industries were also concerned about a lack of raw materials, and 35.9% of SMEs in the primary sector and 29.5% of SMEs in the new Economy were concerned about a lack of cash flow (Yi Lu, Jing Wu & Junlin Peng).

### 3.5. Wealth Creation Through Micro Financing

A study titled "Wealth Creation through Micro Financing: Evidence from Small Scale Enterprises in Ghana" was done by Aboagye and Acheampong in 2013. They discovered that confidential sources were the primary funding sources for Small Scale Enterprises' (SSEs) establishment and growth. They concluded that MFIs should ensure they comprehend their client's businesses to create goods and services that satisfy their requirements.

In their article from 2013, Electrin et al. investigate the contribution of microfinance services to the fight against poverty. The study recommended that the MFIs functioning in the nation be strengthened by the availability of funds that can be extended to citizens as a credit to support quick economic growth.

Regarding the first goal, "To examine the various sources of finance needed by SSEs for start-up, survival, and future expansion," it can be said that private sources, money from family, and money from friends are the primary funding sources for SSE start-up and expansion. Compared to these sources, other sources like commercial and microloans greatly aid start-ups and development (Eleke-Aboagye & Paul Quaisie) [15].

It was discovered that the second objective, "To ascertain the current MFI arrangements to finance SSEs towards wealth creation and poverty reduction," covers subs loans, commercial loans, short-term credit, fixed deposits, super-golden SME loans, fast-track loans, travel loans, group loans, clearance loans, and consumer loans. The SSE operators, however, only readily mentioned four of these products: SME loans, group loans, fixed deposits, and fast-track loans [16,17].

The third goal is "To identify the key obstacles MFIs face in providing credit to SSEs." It can be said that the



most significant difficulty MFIs encounter in providing credit to SSEs is default and their inability to recover loans as a result of loan diversion, information asymmetry, posing as other businesspeople, providing phony collateral, frequent fire outbreaks, and revenue leakage as a result of financial illiteracy (Paul Quaisie Eleke-Aboagye).

According to Kashfia Ahmed and Tanbir Ahmed Chowdhury [18,19], the growth of small and medium-sized businesses can be seen as a crucial tool for reducing poverty and ensuring rapid industrialization. This report's authors have tried to pinpoint the issues facing Bangladeshi SMEs. The performance of SMEs in Bangladesh is far below the international average, particularly in terms of personnel turnover rate, quality assurance, funding allocation, and marketing activities.

For Bangladesh's overall economic development, SMEs play a crucial role. This industry, which rewards labor, has the potential to boost national GDP and create jobs. It decreases hunger and poverty and promotes women's empowerment and gender equality. The success and growth of the SME sector in developing nations depend on how well they can advance their objectives in generating profit and societal advancement.

## 4. Methodology of the Research

The definition of research methodology is the specific methods, processes, or equipment employed to locate, collect, and evaluate data about a particular subject. For the research report, this paper utilized pertinent data from primary and secondary sources and used MS Excel to analyze it. It then discusses the other three banks used to compare them to one another in light of various SME operations.

### 4.1. Research Design

**Primary Data:** Raw data, usually called preliminary data, is a phrase for data collected from sources without processing or exploitation. This paper made an effort to gather as much data as it could to create a detailed picture of the bank, its departments, SME loans, and the unusual behavior of its customers, borrowers, and other stakeholders about SME financing, the SME loan processing system, SME loan recovery rate. Through personal conversation, it has gathered information from a few SME clients to learn more about their experiences, loan repayment habits, and other factors.

**Secondary Data:** The purpose of secondary data is to gather information on our area of interest utilized by other organizations, such as nonprofits or government bodies. Secondary data's correctness, precision, and validity level depend on how information was gathered and evaluated from specific sources—the entire set of secondary data sources used in this investigation. The following sources of data have been used for this purpose:

- i. Annual Reports of Brac Bank, DBBL, Dhaka Bank from (2015-2019)
- ii. Various Reports and journals
- iii. Newspaper and Websites

**Research Type:** This study is descriptive research. It is a fusion of qualitative and quantitative methods.

### 4.2. Data Collection

From among the 62 banks in our nation, the study has chosen a random sample and three banks at random: Brac Bank, DBBL, and Dhaka Bank. This study employed numerous tables, figures, and charts with serial numbers to better visualize the diverse numerical data. Here, data for the previous five years is gathered from the websites of the relevant banks and annual reports from 2015 to 2019. It has made an effort to learn more about the SME branches of the individual banks, their clients, the loans they disbursed, SME financing, investment portfolio, and the revenue they brought from this industry.

### 4.3. Data Analysis

This paper compares Brac Bank, DBBL, and Dhaka Bank in the data analysis section of the report to determine which bank performs better in the SME sector in terms of functions, branch count, customer count, loan disbursement amount, financing, investment portfolio, and amount of revenue generated from this sector on an individual basis. To determine which bank invests more, disburses loans more frequently, earns more profit, and ranks among the top three banks, it compares the banks' loan disbursement, income from SMEs, and investment portfolios. These private commercial banks significantly changed how SME functions met potential borrowers' various needs and created different loan products based on their requirements.

These banks initially launched different SME products in the commercial banking market, which helps poor people in both rural and urban areas to set up their businesses. SME loans are like those quality products through which they offer an excellent quality banking service to small and medium-sized entrepreneurs and earn the maximum profit as the demand for SME loans is high now a day.

## 5. Data Analysis & Findings

In addition to having the potential to contribute to the overall industry, create jobs, meet the Millennium Development Goals, eliminate gender inequalities, and inspire women, small and medium-sized businesses around the world have played a critical role in promoting sustainable growth, structural reform, the reduction of malnutrition, and the alleviation of poverty. The SME industry is crucial to Bangladesh's efforts to expand its Economy. 25% of all employment is in the SME sector. Small and medium-sized businesses have less environmental impact and require less infrastructure support and electricity. They encourage higher use of locally available services and knowledge that might otherwise go unused.

Their main objective is to recognize the role of banks in expanding the SME market. We are also attempting to learn more about the current position of banks in development. Small and medium-sized companies are the

breeding ground for developing entrepreneurial skills and inventiveness. Low capital requirements simplify entry and exit, and private-sector entrepreneurship practices have several significant spillovers and positive externality effects.

According to the central bank, at the end of December of last year, the total amount of consumer finance was Tk71,000 cores, or around 10% of all loans in the banking industry. For the benefit of the Economy, the scope of consumer finance would need to be increased along with the growth of the SME segments because Bangladesh's Economy relies heavily on local activity rather than just exports. The government set a target to increase private investment from 12.7% to 25% in this year's budget for FY21. At the same time, private sector loan growth is anticipated to increase from 8% to 16.7%.

Since small and medium-sized businesses are dispersed across the nation, it takes an extensive delivery network and sufficient employees to meet, assess, and keep track of the borrowers who have signed up. Compared to private enterprises, this makes funding them more challenging. Banks would be cautious when lending to the private sector because doing so resulted in losses for the retail and SME segments. Domestic demand would surely suffer; as a result, undermining the nation's ambitious 8.2% GDP growth projection for the upcoming fiscal year (The Business Standard is the source) [20,21].

## 5.1. Theoretical Aspect

### 5.1.1. Concept of Small and Medium Enterprise (SME)

"Small Business with Large Possibility" is another way to define SME. Small enterprises are defined as those where resources are allocated, reused, serviced, or exchanged customarily, where financial institution investment is limited to Tk. 2,50,000, and less than ten people are employed hourly or on commission. Bangladesh Bank Regulations define a small Enterprise as a firm or business that isn't even a public company and satisfies the following criteria:

Medium enterprises create, reuse, rebuild, or trade commodities utilizing specific capital equipment.

**Table 1. Criteria and Sector of Small Enterprise**

SL No.	Sector	Fixed Assets other than Land & Building (Tk)	Employed Manpower (Not Above)
01	Industrial	50,00,000 – 10,00,00,000	25-99
02	Services	5,00,000 – 1,00,00,000	10-49
03	Business	5,00,000 – 1,00,00,000	6-10

(Source: www.bb.org.bd/sme/index)

**Table 2. Criteria and Sector of Medium Enterprise**

SL No.	Sector	Fixed Assets other than Land & Building (Tk)	Employed Manpower (Not Above)
01	Industrial	10,00,00,000 – 30,00,00,000	100-250
02	Services	1,00,00,000 – 15,00,00,000	50-100
03	Business	1,00,00,000 – 15,00,00,000	11-50

(Source: www.bb.org.bd/sme/index)

### 5.1.2. Present Scenario of SME Sector in Bangladesh

Since the early 1980s, the SME sector in Bangladesh has grown gradually in response to the Economy's demands. Even still, according to data from July, the launch of the Covid-19 stimulus measures has helped the private-sector loan growth rebound to 9.20%.

Creditors shall count at least 10.62% of the interest rate on CMSME deposits, considering the weighted average cost of deposits, operational expenses, minimum cost of credit defaults, and general provisioning. Banks will apply 4 to 5% to the calculation if they wish to benefit from SME loans [22].

The Refinancing Scheme for the Agro-based Food Manufacturing Industry in the Rural Area, the Refinancing Scheme for Young Entrepreneurs, and the Refinancing Fund for New Entrepreneurs in the Cottage, Micro, and Small Industries, and the Refinancing Fund for Islamic Shariah-based Financing are examples of programs that address this issue. Bangladesh Bank has introduced a Taka loan guarantee program, enabling banks to provide loans to micro, cottage, and small companies-2,000,000 Indian Rupees.

The Bangladesh Bureau of Statistics (BBS) estimates show that the broad industry sector's contribution to GDP increased from 35.00% in FY2018-19 to 35.36% in FY2019-20. Out of the 15 GDP sectors, the general industrial sector consists of four: mining and manufacturing, gas and water supply and installation, and manufacturing [23].

**Table 3. Volume and growth rate of the manufacturing sector**

Type of Industry	(In Crore Tk.)								
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20*
Small and Cottage	22569.1 (6.58)	24557.9 (8.81)	26113.1 (6.33)	28342.6 (8.54)	30909.4 (9.06)	33945.8 (11.20)	37086.4 (9.25)	41148.0 (10.95)	44347.6 (7.78)
Medium-Large	97998.3 (10.76)	108436.2 (10.65)	118540.3 (9.32)	131225.4 (10.70)	147313.5 (12.26)	163819.5 (9.82)	187183.7 (14.26)	214969.9 (14.84)	226719.6 (5.47)
Total	120567.4 (9.96)	132994.1 (10.31)	144653.4 (8.77)	159568.0 (10.31)	178222.8 (11.69)	197765.3 (10.97)	224270.1 (13.40)	256117.9 (14.20)	271067.2 (5.84)

(Source: www.bb.org.bd/sme/index)

### 5.1.3. Importance of SMEs in Bangladesh

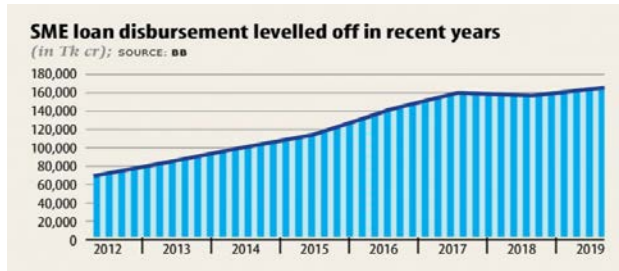


Figure 1. SME Loan Disbursement Levelled off in Recent Years

In 2019, the bank's retail portfolio expanded by 12%, accounting for 42% of its operating profit, Tk 278 crore, the most significant earnings in the retail sector of all lending groups, including SMEs and corporates. The lender launched small-ticket loans for cottage, micro, small, and medium-sized enterprises (CMSME) to directly put grassroots businesses under the umbrella of structured banking services.

The ongoing economic effects were more severe on the SME sector than on the large corporations. Before the two most prominent religious celebrations for Muslims, Eid-ul-Fitr and Eid-ul-Azha, SMEs typically make much of their profits. However, they could not do so for the last two festivals due to the pandemic.

### 5.1.4. Role Played by The Central Bank

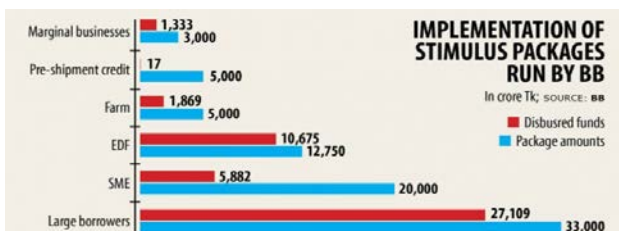


Figure 2. Implementation of Stimulus Packages Run by Bangladesh Bank

Although the government unveiled stimulus packages for small and medium enterprises (SMEs), farmers, and low-income groups more than six months ago, their implementation has been slow due to the hesitation of banks, even though they were the most severely affected when the coronavirus pandemic hit the country in March. Large companies have also timely submitted their business continuity plans to banks, which has sped up the decision-making process for lenders. However, a central bank official says implementing the stimulus plans for the farm and SME sectors has been sluggish since lenders are unwilling to publicize the programs. Since September, banks have distributed over Tk 5,882 crore to 26,664 borrowers as part of the stimulus package, with Tk 20,000 crore set aside for the SME sector, which is regarded as the Economy's engine [24].

The following is a list of the policies developed by the recently established department for banks and other financial institutions to follow to support the growth of the SME sector:

- For the first time, banks and other financial institutions in Bangladesh set an indicative goal for

disbursing SME loans in 2010, citing SME development as one of the nation's top development priorities. The aim calls for SME loans for women, minorities, and small businesses.

- Banks and financial institutions will use the "Area Approach Method" to divide their indicative targets into branch, region, and sector categories to achieve them independently.
- To provide a simple and quick loan sanction and disbursement procedure, each bank or financial institution must follow a unique business strategy when funding SME loans with the fewest formalities in completing documents.
- Small businesses will be given priority.
- The credit limit for small business owners would vary from Tk.50, 000 (Fifty Thousand) to Tk. 50, 00,000 (Fifty Lac).

### 5.1.5. Contribution of SMEs to the Economy

Businesses (SMEs) are a possible field for solving unemployment through new job generation. The gross unpaid loan in the SME sector at the end of 2019 was Tk.2, 19,293.97. Banks and NBFIs charged Tk.1, 67,970.67 in 2019 against 774,122 SMEs. On the other side, 56,706 women-led SMEs obtained support from Tk. 6.108.99 crore in the 2019 term [25].

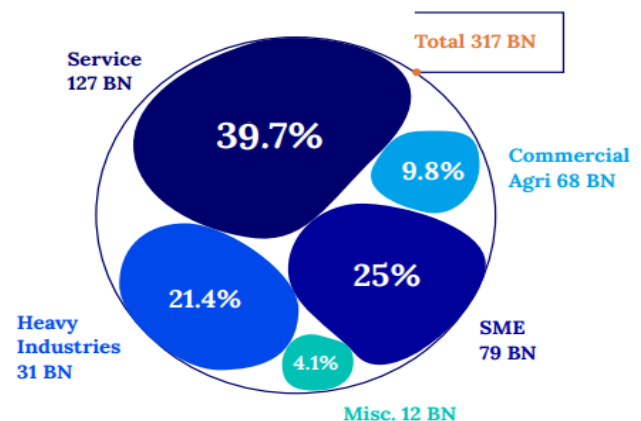


Figure 3. Contribution of SME to the Economy

#### Critical Stats on SME Contribution

- 40% of manufacturing output,
- 70-80% of non-agricultural job growth and 56% of SMEs are service-based, 39.7%
- SMEs account for two out of every three private sector jobs.
- There are more than 6 MN SMEs and Micro Enterprises.

#### Disbursement of SME Loan

In 2019, banks and NBFIs paid out Tk.1, 67,970.67 to 5, 12,539 SMEs, 94.95% of Tk.1, 76,902.00's annual target for 2019. The table shows the disbursement of category-wise SME loans from 2010 to 2019.

#### Response of the Government of Bangladesh to the crisis relative to other economies

In the context of the stimulus package, Bangladesh has allotted a total of Tk 93 trillion (USD 10.9 BN) as stimulus packages. Small businesses in rural areas would

receive subsidized loans totaling Tk 3,000 crore as part of the Tk 20,000 crore stimulus package put up by the government to aid small and medium-sized businesses.






Additionally, a new stimulus plan of Tk 5,000 crore was unveiled on April 12 to financially aid small and medium-sized farmers in rural areas as they deal with the COVID-19 aftermath and advance agricultural development. It reduced the interest rate on agro-loans from 5% to 4%.

Banks approved 44.43% of the Tk 3,000 crore stimulus package for microbusinesses, marginal farmers, and low-income professionals. If state lenders had acted promptly, the disbursement from the package would have risen. The GOB has given Tk 760 crore (Tk 2,000 in cash to each of the roughly 40 lakh families whose breadwinners have lost their jobs due to the lockdown) to day labourers, mechanics, construction workers, newspaper hawkers, hotel workers, rickshaw or van pullers, and day labourers [26].

Table 4. Disbursement of SME Loan from 2010-2020

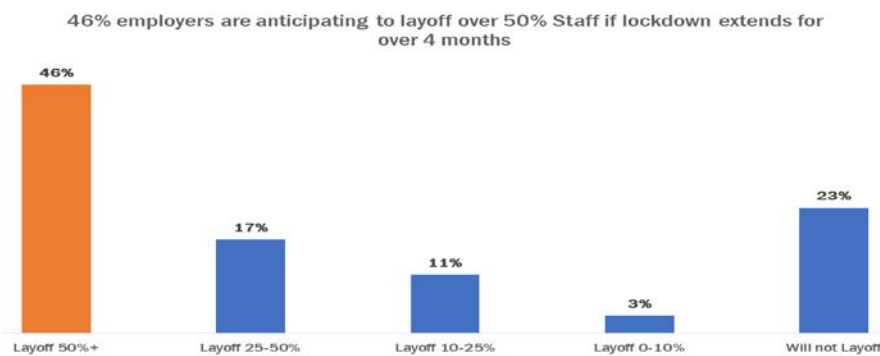
Period	Target	Actual Disbursement				Women Ent.	Achievement%
		Trading	Manufacturing	Service	Total		
2010	38858.12	35040.53	15147.72	3355.68	53543.93	1804.98	138
2011	56940.13	34382.64	15805.95	3530.85	53719.44	2048.45	95
2012	59012.78	44225.19	21897.33	3630.90	69753.42	2224.01	118
2013	74186.87	56703.72	24016.64	4602.89	85323.25	3351.17	115
2014	89030.95	62767.18	30246.20	7896.77	100910.15	3938.75	113
2015	104586.49	73551.78	30462.02	11856.68	115870.48	4226.99	112
2016	113503.43	90547.57	35168.63	16219.19	141935.39	5345.66	125
2017	133853.59	96934.79	42334.87	22507.66	161777.32	4772.99	121
2018	161031.89	66936.21	55739.61	36834.25	159510.07	5517.09	99.05
2019	176902.00	72522.37	58715.31	36723.99	167970.67	6108.99	94.95
2020	198670.00	81765.22	63526.77	41556.99	216789.98	7134.22	96.76

(Source: Bangladesh Bank)

Country	Total Stimulus Package (USD)	Startups and/or SMEs (USD)	Package Type and Mechanism	Package Details
 Bangladesh	10.9	2.35 BN	<ul style="list-style-type: none"> <li>Concessional Loan</li> <li>Refinancing Loan</li> <li>Working Capital Finance</li> </ul>	The stimulus package caters to CMSMEs, Low-income People, Farmers and Micro/Marginal business by varied type of schemes and financing.
 India	34	13 BN (Proposed)	<ul style="list-style-type: none"> <li>Refinancing Loan</li> <li>3-month moratorium of loan repayments</li> </ul>	The primary focus has been to back workers in the informal sectors who have experienced a steep decline in income or have lost jobs.
 Malaysia	9.47	2.31 BN	<ul style="list-style-type: none"> <li>Working Capital Loan</li> <li>Refinancing Loan</li> </ul>	The declared amount will be available for early stage and growth stage Malaysian companies.
 Indonesia	8.7	Included in the main package	<ul style="list-style-type: none"> <li>Tax Relief</li> <li>Soft Loans</li> <li>2-month moratorium on loan repayments</li> </ul>	The package provides a range of fiscal and non-fiscal incentives in addition to a special stimulus for startups and small and medium-sized (SMEs) businesses.
 Thailand	46.3	15.4 BN (SMEs)	<ul style="list-style-type: none"> <li>Soft Loans @ 2% with initial 6 months interest payment deferred</li> <li>6 months loan payment holiday for SMEs &amp; Tax Reliefs</li> </ul>	Package to support SMEs, specially tourism-related businesses, allowances worth USD 305 million is approved.

(Source: Bangladesh Bank, Media Room Circulars & IMF, Policy Responses to Covid-19; Retrieved on April 24 2020)

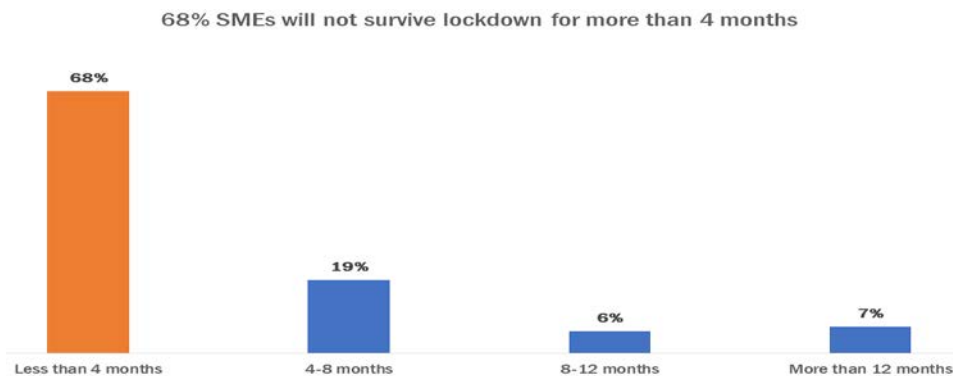
Figure 4. Summary to Response of the Government of Bangladesh to the Crisis Relative to Other Economies



(Source: Light Castle Partners and Sheba.XYZ Primary Survey conducted on April 6-8, 2020 (n=230))

Figure 5. Employer’s Anticipation to Layoff for Extending Lockdown





(Source: Light Castle Partners and Sheba.XYZ Primary Survey conducted on April 6-8, 2020 (n=230))

Figure 6. Chances to Survive SME for Extending Lockdown

### 5.1.6. COVID-19 Impact on the SMEs of Bangladesh

The lifeblood of Bangladesh's Economy, small and medium-sized companies directly employ 7.8 million people and sustain the livelihoods of 31.2 million more. Small and medium-sized firms provide 25% of our GDP, but they have the potential to offer more. The contribution of SMEs to GDP in our comparable economies, Vietnam, Sri Lanka, and Cambodia, is 40%, 52%, and 58%. The government and Bangladesh Bank pledged stimulus packages to assist the SME sector in overcoming its challenges during this pandemic. To help this sector recover, the government, banks, financial institutions, and all other SME sector partners must cooperate. Finding out exactly where the difficulties are right now is crucial for that [27].

Small businesses are more leveraged, have smaller financial reserves than significant corporations, and rely primarily on short-term loans and retained earnings. Small firms are experiencing severe cash flow shortages during this "crisis unlike any other" and have few options for borrowing. Following the Tk 5,000 crore stimulus package for the farming sector, banks had given Tk 1,869 crore to 87,526 borrowers as of September 30. Pre-shipment credit for the export sector, part of a Tk 5,000 crore stimulus package, has had the worst start, with only Tk16.61 crores distributed thus far [28].

Bangladesh's GDP, which experienced exponential growth at a pace of 8.15%, must have seen a significant slowdown due to Covid-19. The Economist Intelligence Unit (EIU) estimates that the GDP will decline by maybe 4%. The market for small businesses will suffer the most. 35–40% of our jobs and 20.25% of our GDP growth are generated by this sector. The government and the private sector must also take particular measures to ensure the sustainability of small enterprises/businesses. The persistence of the 4-month pandemic would cause the bulk of small companies to shut down. The industry hires more than 50 million workers. Global agencies have committed US\$50 billion to tackle the pandemic. At least 1.5 billion will be made open to small companies worldwide. The government must establish policies to recover small business enterprises in the post-pandemic environment.

Stimulus injections announced by the Prime Minister to be small and medium-sized equitably allocated, and the end-use must be assured. (Source: Daily Star August 01 2020).

More than 50% of SMEs' employees will be let go to reduce costs, accounting for 46% of all SMEs. In other ways, 31% of enterprises will engage in some form of a layoff (1–50% of employees) to reduce expenses and maintain their operations. Positively, we may note that 23% of businesses avoided any form of layoffs, showing that they have sufficient cash on hand to weather tough times.

#### The status quo of the SMEs and Their Current Hurdles

- 52% of SMEs have locks hanging over their doors and are producing no revenue, while 28% have suffered a revenue decline of at least 50%.
- Less than four months remain for 2/3 of the SMEs to continue operating as usual before using up all their cash reserves. (Source: Sheba.XYZ & Light Castle Partners)

#### Measures Taken by SMEs to Tackle the Pandemic

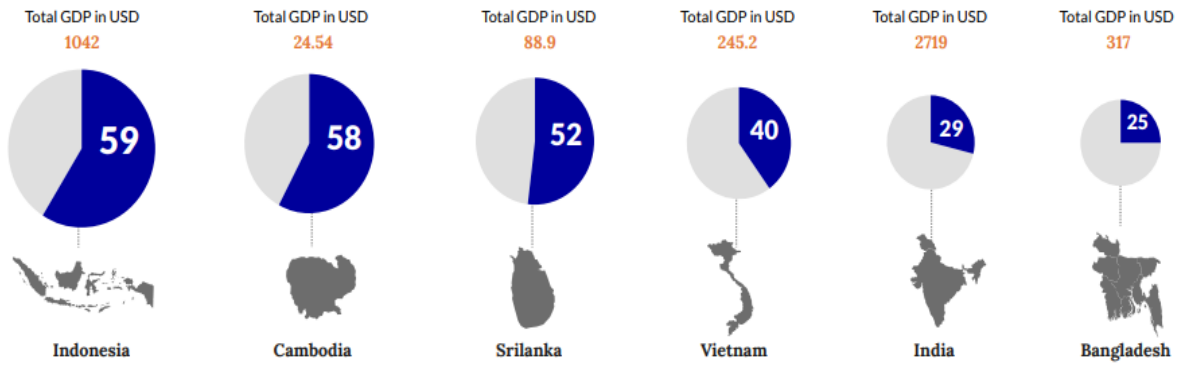
- Businesses are drastically reducing expenses by cutting corners; 46% of SMEs anticipate letting go more than 50% of their staff during the next four months if the situation does not change.
- 42% of businesses have eliminated all marketing spending. (Source: Sheba.XYZ & Light Castle Partners)

#### Implementation of the Stimulus Package to Uplift the Economy

- Refinancing and supplying cash at a low cost to these neglected SMEs is urgently needed.
- The SMEs said that they needed moratoria (6%) and soft loans (52%), as well as for existing loans to be rescheduled (15%) without incurring penalties. (Source: Sheba.XYZ & Light Castle Partners).
- SME Contribution to GDP (%)

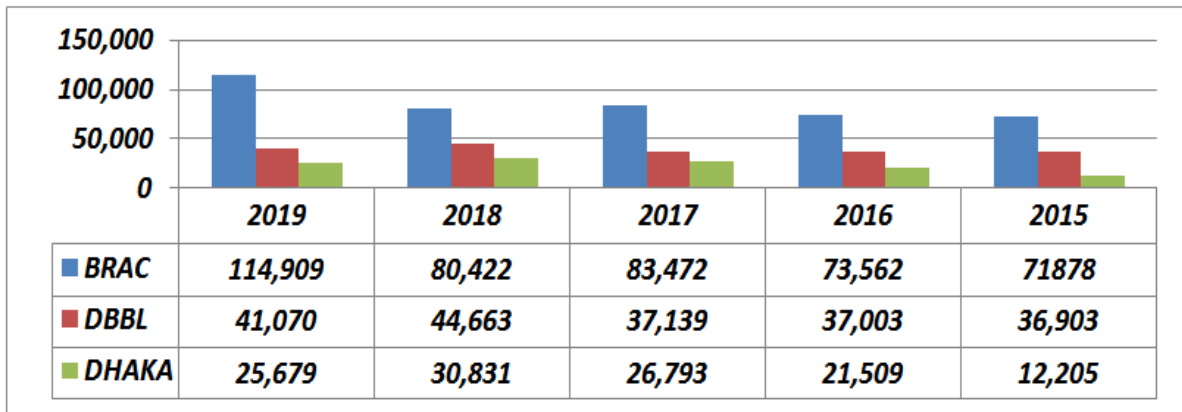
#### Cross-Country Comparison & Existing Hurdles

##### Comparison of SME Contribution to GDP (%)



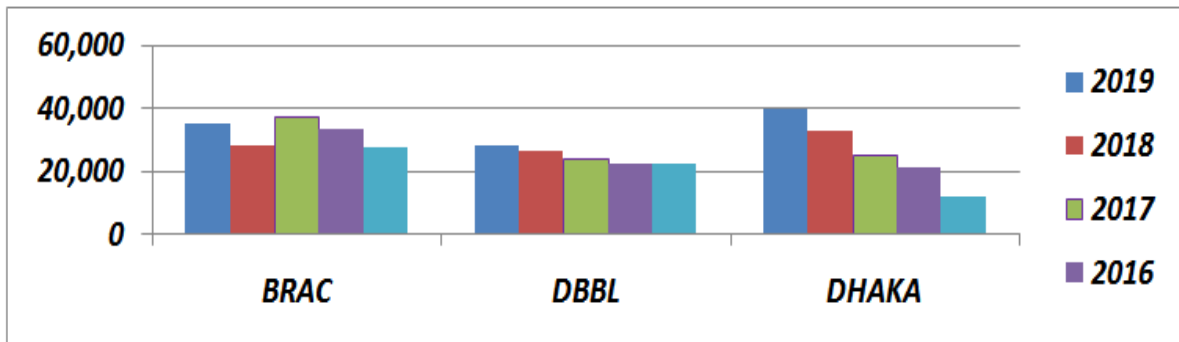
(Source: SME Finance, World Bank, 2020 & OECD Studies on SMEs and Entrepreneurship, 2020)

Figure 7. Comparison of SME Contribution to GDP (%)



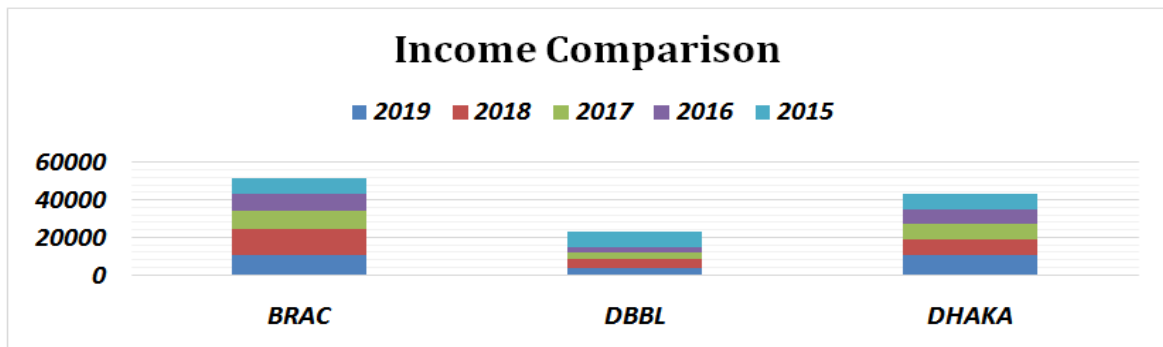
(Source: Annual Report, 2015-19)

Figure 8. Three Banks' Investment Portfolio Comparison



(Source: Annual Report, 2015-19)

Figure 9. Three Banks' Loan Disbursement Comparison



(Source: Annual Report, 2015-19)

Figure 10. Three Banks' Income Comparison

- The COVID-19 pandemic added to the already dire situation of the SME sector.
- SMEs depend on one cash cycle of sales to fund the next to maintain business operations. The current pandemic has hampered the distribution of completed goods and the acquisition of raw materials.

## 5.2. Discussion & Analysis

### 5.2.1. Comparison among Banks

Brac, DBBL, and Dhaka Bank were selected for the analysis. Here the banks are both a mixture of private banks in our country. The section compares banks based on their investment portfolio, Loan disbursement, and the profit earned from their SME operations.

### 5.2.2. Investment Portfolio

The investment portfolio shows that the five banks selected for the analysis were invested in the SME sector from **2015 to 2019**.

Brac Bank invested the highest portfolio, 114,909 million, in 2019 and the lowest in 2015 at 71,878 million. DBBL invested the highest portfolio, 44,663 million, in 2018 and the lowest in 2015, 36,903 million. In 2019, DBBL invested 41,070 million, which is lower than in 2018. Dhaka Bank invested the highest portfolio of 30,831 million in 2018, the highest from 2015 to 2019, and the lowest in 2015 at 12,205 million.

Among the three banks' investment portfolios, Brac Bank's investment portfolio has been higher over the years than the other two banks.

### 5.2.3. Loan Disbursement

Loan Disbursement shows that the five banks selected for the analysis disbursed loans in the SME sector from 2015 to 2019.

BRAC Bank disbursed the highest loan 37,213 millions in 2017 and the lowest in 2015, 27,616 million, but in the last year, 2019, the bank's loan disbursement was 35,021 million lower than the 2018's loan disbursement. DBBL disbursed the highest loan of 28,478 million in 2019 and the lowest in 2015 at 22,478 million. Here we see that the DBBL's loan disbursement is increasing from 2015 to 2019, which is a good sign for the SME development of Bangladesh. Dhaka Bank disbursed the highest loan of 40,000 million in 2019, the highest in the last five years' data, and the lowest in 2015 at 12,218 million.

From this observation, every three banks' loan disbursement amount is increasing daily, which can significantly contribute to Bangladesh's Economy.

### 5.2.4. Income from SME

SME Income shows that the five banks selected for the analysis are income from the SME sector from 2015 to 2019.

From the income comparison Figure, we see that BRAC Bank gained the highest income of 13,890 million in 2019 and the lowest in 2015, 85.66 million, but in the last year, 2019, the bank's income from SME was 11,020 million lower than the 2018's income. DBBL's income was 4279 million in 2019 and lowest in 2015 at 4518 million. Here we see that DBBL's revenue is increasing from 2015 to

2019, which is a good sign for the SME development of Bangladesh; instead, there are ups and downs.

## 6. Findings

### 6.1. Major Findings

Afterwards, exploring the various SME performance of BRAC Bank, DBBL, and Dhaka Banks, some main findings are shown below:

- The SME banking activities of Brac Bank, DBBL, and Dhaka Bank signify that banks are investing their deposited money in the growth of society, disbursing loans such as microfinance and women's entrepreneurship, and making profits from this industry. This business is being launched based on a rising young entrepreneur.
- Brac Bank is the leading company among these three banks, and this bank has the most considerable SME revenue of 11020 million in 2019, spending 35,021 million this year compared to 28,310 million in loans in 2018. Throughout the case of deposit mobilization, the maximum interest rate is 0.1150 or 0.12 for most banks, and they still prefer to offer long-term loans instead of short-term loans for quick management and less regulation.
- In both micro and small industries, the bulk of the bank is not interested in providing the borrower with a loan due to high risk and low benefit. Per year the respective banks are moved to the most significant and the most inferior creditor or loan disbursements due to capital shortages. Banks cannot offer loans happily, and the default loan amount grows significantly yearly. As of 2018, Dhaka Bank is spending 771.11 million for 1154 women in entrepreneurship as a microfinance facility.
- The different bank's loan-providing systems & conditions are not simple and effective, it consumes much effort to approve this credit to the borrower, and they do not provide an opportunity to the applicant, so they are not encouraged to borrow from the bank and conduct their business. These are the big problems facing the SME business.
- Customers do not know clearly about the banks' different SME products for proper consulting and illiteracy. Many clients have no awareness of representing their organizations reasonably.

### 6.2. Other Findings

- In Bangladesh, small businesses do not appeal to the value of satisfying and maintaining consumers by providing novel and primarily financed.
- Owing to the restricted growth of small and medium-sized businesses, most eligible workers quit small and medium-sized enterprises. Small and medium-sized companies are information producers but low in knowledge preservation.
- Many of our SME entrepreneurs start their businesses by borrowing from banks. But these

same loans have a high-interest rate. It is impossible to increase fixed and working capital from banks since banks are not keen to provide small loans at a high cost.

- So that remains competitive with international competition, companies of all sizes are continuously supposed to create and innovate their product by adding. Although in Bangladesh, small businesses also do not appeal to the value of satisfying and maintaining consumers by providing novel and primarily financed.
- In our country, the lack of raw materials hampers SMEs' export-oriented capability and restricts their potential to enter more advanced stages of the international market.
- SME entrepreneurs in Bangladesh are very limited in administrative expertise and are not accustomed to the planning process.
- The high turnover of workers is a significant barrier to the growth of this industry.
- Almost all the loans are granted on a security and lengthy basis, and people cannot assign money to start their businesses because of the proximity of bank branches in their zone.

## 7. Recommendations

- The bank will need to focus more on start-ups that have been uneducated about and who need to get on with potential. Those who will track and control a range of workshops, educational programs, and digital tools to show them how to spend and handle enterprise. Banks personnel have little knowledge about SME customers and don't know what they need. So the bank can develop the most accessible loan sanctioning system for them.
- The need to provide a suitable infrastructure for the expansion of SMEs should be emphasized. The lack of resources (such as highways, gas, and electricity), restricted access to markets, technology, skills, and business knowledge and communication are severe barriers to developing small and medium-sized firms. The need to provide a suitable infrastructure for the expansion of SMEs should be emphasized.
- Additionally, virtually little institutional money is available to small and medium-sized firms. Only about 30% of SMEs could borrow money from institutions. Over the next five years, increasing the number of SME entrepreneurs with access to institutional financing by 50% might be a target. By strengthening the SME base, institutional sources of capital would be encouraged to grant access to credit-worthy applicants.
- Women have to create a comparative advantage in producing and contributing in our country, such as Bangladesh, and the SME-related bank could make a difference in business and be a good investment in this case.
- It is possible for the bank to introduce new services and goods and to object because the banking industry is constantly evolving. The bank is spending more capital on growing this field.

- One of the top priorities must be taking action to improve the uniformity and standardization of SME products. The BSTI could be far more effective in monitoring the material's quality for domestic and international trade.
- In both public and private banks, collusion influences the scheme of debt sanctions. With the support of BB, dishonest people will find out and pursue charges.
- To increase the reach of SME growth, particularly for female entrepreneurs, a Support Desk with computer and internet facilities should be established in each bank branch that deals with SME financing, as well as in all chambers of commerce and industry and other commercial promotion bodies.

## 8. Conclusion

Currently, the SME banking industry is a significant contributor to economic growth. The Economy's beating heart is the bank. SME is one of the commercial banking activities that Bangladesh Bank relies on to support economic growth, increase women's entrepreneurship, and reduce poverty. The two-day dynamic market in Bangladesh is well-suited for small and medium-sized businesses. This industry is constantly evolving to remain competitive and be the strongest. This research analyzes the SME banking operations of the three commercial banks, BRAC Bank Ltd, Dutch Bank Limited, and Dhaka Bank Ltd. SME banking in Bangladesh has previously had to cope with several adverse situations, and they still have many issues out of their control. These issues are caused mainly by the fact that Bangladesh is still in the early phases of growth, several industries are still in their infancy, and people are not very concerned with these industries. This study evaluated the SME clients of particular banks, loan disbursements, SME funding, and sector revenue. Then, after comparing the three banks side by side, determine which bank is the best of the bunch and offer recommendations based on your results.

Every bank has a few opportunities and challenges. More diversification is required, and they will undoubtedly succeed if they carefully monitor their regulatory and performance activity and receive the right advice. Therefore, reducing risk, increasing wealth, surviving in a cutthroat environment, and fostering economic growth in SME commercial banks is crucial. Examples include analyzing the transactional documentation of the borrowers, determining the market worth of mobile property, and other evaluation techniques. Bangladesh has a sizable working-age population. By offering its customers loans for the SME sector, the bank may significantly contribute to the growth of the national Economy. If the bank provides the most straightforward loans with the lowest interest rates, the least amount of collateral, and excellent monitoring and control, it can extract various innovative company organization ideas from the clients and future employees.

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