

Role of Working Capital Finance in the Growth of SME Sector in Bangladesh

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Abstract— The main objective of this research is to highlight the SMEs working capital requirement and access of finance and related issues, as experienced by SME Entrepreneurs in the Bangladesh. Our study also indicates that the existence of trust between organization and bank improves access of financing and reduces the borrowing costs. This paper helps to think the SME owner/Manager to arrange alternative access of finance to meet up working capital finance. Bangladesh has huge potential in SMEs sector, it is a labor intensive sector but requires optimum level of current assets. Most of the time the SMEs entrepreneurs couldn't arrange the current assets from their own capacity, So they requires support either from financial institution or from unorganized sources. This study tries to find out the source of working capital finance and its easy access among the SME owners who are highly ambitious to go forward the SMEs business and try to contribute economic development in Bangladesh

Index Terms—Banks, Finance, SMEs, Working Capital

I. INTRODUCTION

There are enormous potential sector of SMEs in Bangladesh. People in Bangladesh both male and female engages themselves to do the SME business as it is the labor intensive sector and investment of capital comparatively low. Small and Medium Enterprises plays pivotal role in overall economic sustainable growth in Bangladesh. As the SME sector is highly labor intensive with short gestation period, it is highly potential to generate more national income as well as create employment opportunities. SME can help for Millennium Development Goals especially reduction of extreme poverty and hunger. SME sector has played a pivotal role in economic development of Bangladesh. SME sector is called now 'employment generating machine'. SME development is required for sustainable economic growth, reducing the gap of income inequality and alleviating of poverty. Bangladesh government has also emphasized more on the development of SME sector as it is the driving force for industrialization. Government of Bangladesh provides overall support to the SMEs sector. The SME leads to diversify the business sector and try to provide strong base of the economy. In SMEs, huge employment opportunities are created and employee deployment cost is low. Refinance scheme has been introduced by Bangladesh Bank for aiming to give financial support at low interest rate, especially to facilitate SMEs women entrepreneurs. Besides, Bangladesh Bank has taken advance steps like opening of SME Dedicated Desk, women entrepreneurs Dedicated Desk and SME Service Centre in the banks. Special credit facilities for the

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women entrepreneurs will be ensured from Banks with comfortable terms and conditions. Due to some problems, fruitful outcomes have not been found in this sector.

II. LITERATURE REVIEW

SME sector is the center point of economic development of a country which is the subject of many studies and research endeavors among the scholars throughout the world. Some of the relevant studies are being pointed below-

Small and medium-sized enterprises (SMEs) are regarded as the engine of economic growth in all economies of the world (Amin et al, 2007).

Naiduet al, (n.d) points out that owners of small and medium enterprises face a wide range of financial problems, such as inability to obtain internal and external financing, insufficient capital, start up costs, high interest rates on loans etc

Financing is viewed as a critical element for the growth of small and medium enterprises (Nixson et al, n.d).

With low capital base and little or no access to institutional financing they heavily rely on inefficient informal sources which are family, friends, pensions etc (Firkin, 2001)

Morris (1998) mentions that resources are a vital part of the entrepreneurial process. And a key role of the entrepreneur is to identify, collect and utilize the necessary and appropriate resources. However, it is generally agreed that the principal resources required for any entrepreneurial event is money.

Almost every part of the world limited access to finance is considered as a key constraint to private sector growth (Alamet al, 2006)

Small and medium enterprises have less access to traditional sources of capital (Hoy, n.d)

SME mobilizes small and scattered private savings, develops entrepreneurship, creates low-cost employment opportunities, and uses locally available inputs and technologies. Link between small firm and entrepreneurship is clear at the intuitive level(Burns & Dewhurst, 1994).

III. NEED FOR STUDY

There are some momentous factors that demands for SMEs research in Bangladesh which are given below-

- Working Capital finance is highly required for SMEs growth & sustainable development
- Spontaneous participation in SMEs sector
- Diversification of SME Business & adoption of technology
- Working capital is treated as the Blood circulation of the SME business
- To seek alternative way of working capital finance arrangement from different sources.

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IV. OBJECTIVE OF THE STUDY

- The study will seek to answer the following the key questions:
- To evaluate the different paths through which SMEs seek financial supports;
- To identify the available & preferential sources of finance at different stages of SMEs life cycles
- To analyze financial needs in family controlled, women-led, and ethnic minority administered firms

V. RESEARCH QUESTIONS

- Do SMEs maintain sufficient working capital for their daily operations?
- Are the Entrepreneurs of SMEs receiving working capital finance?
- How do the SMEs attain sustainable growth by getting Working capital finance?

VI. RESEARCH HYPOTHESIS

- There is a significant relationship between SMEs access of Finance and SMEs growth in Bangladesh.
- There is a significant relationship between SMEs growth and the development of Bangladesh.

VII. RESEARCH METHODOLOGY

- To collect & analysis of Sampling: First of all, collecting data and analyzing it in a proper manner.
- Analysis of different literature regarding the SMEs
- To observe of SMES in capital city Dhaka.
- To survey of different Banks in Dhaka City.
- Sampling Unit: The customer's age, sex, race, location, income, region, educational background is included here.
- Nature of Data: Primary data & secondary data
- Method of Data collection: Personal interview with respondents
- Type of questionnaire: Structure questionnaire with proper scaling
- Type of questions: Open ended, close ended, likert scale & multiple choice questions.
- Pretesting & qualitative judgment

VIII. DEFINITION OF SME IN BANGLADESH

Small Enterprise definition is varies in different sectors like trading sector, service sector and Manufacturing sector.

Small Enterprise			Medium Enterprise	
Categories	FA* (Tk.)	No. of MP	FA* (Tk.)	No. of MP**
Trade	5.00 lac to 1.00 Crore	06-10	1.00 Crore to 15.00 Crore	11-50
Service	5.00 lac to 1.00 Crore	10-49	1.00 Crore to 15.00 Crore	50-100
Manufacturing	50.00 lac to 10.00 Crore	25- 99	10.00 Crore to 30.00 Crore	100-250

*Fixed assets are considered by excluding Land & Building [Source SMESPD circular No.1 dated 07.01.2016]

** MP- Manpower

IX. BOOSTING SECTOR OF SMES

The Ministry of Industries, Government of Bangladesh has been identified following 11 booster sectors;

- Electronics and electrical
- Software-development
- Light engineering and metal-working
- Agro-processing/agro-business/plantation agriculture/ specialist farming/tissue-culture
- Leather-making and leather goods
- Knitwear and ready-made garments
- Plastics and other synthetics
- Healthcare & diagnostics
- Educational services
- Pharmaceuticals/cosmetics/toiletries
- Fashion-rich personal effects, wear and consumption goods

X. POTENTIAL SECTOR OF SMES IN BANGLADESH:

SL No.	Name of the sector
1	Agro-based and agro-processing industry;
2	Agro-based activities such as fishing, fish preservation and marketing;
3	Artificial flower making;
4	Agro-tools making and marketing;
5	Optical frame manufacturing;
6	Silkworm and silk industry;
7	Nakshi Kanta and handloom;
8	Food seed preservation and marketing;
9	Stuffed toys;
10	Electronics
11	Fishing boat building;
12	Flattened and fried rice production by machine;
13	Ice mill
14	Bakery
15	Iodized salt production;
16	Hatchery
17	Flattened and fried rice production by machine;
18	Dry fish processing
19	Rice mill/Auto rice mill
20	IT-based activities
21	Wholesale and retail shop;
22	Computer software and ICT goods;
23	Drug house/Pharmacy
24	Cyber cafe;
25	Phone-Fax
26	Entertainment such as, documentary film, cinema and DVD production;
27	Local transport;
28	Forestry and furniture
29	Cinema hall
30	Horticulture, floriculture & flower marketing
31	Chatal business;
32	Cold storage
33	Trading
34	Construction business such as,

	construction industry and housing
35	Old Iron goods;
36	Hospital and clinic
37	Mobile set and accessories business;
38	Hotel, restaurant and tourism;
39	Electronics business;
40	Telecommunication
41	Various small business
42	Mobile phone accessories
43	Agro machinery/tools business
44	Printing and packaging
45	Fertilizer business
46	Renewable energy such as, solar power, windmill
47	Jute trading
48	Light engineering industry
49	Clothing and shoe business
50	Plastic industry
51	Rod and cement trading
52	Cosmetics and toiletries
53	Hardware business
54	Cosmetics and toiletries;
55	Hardware business
56	Handicrafts
57	Crockery business
58	Herbal medicine industry
59	Grocery and chaff goods business
60	Jute goods and jute mixed goods
61	LP gas businesses
62	Stationery goods industry
63	Warehouse and container service
64	Frozen food
65	Commercial plantation
66	Leather and leather products;
67	Photography

XI. IDEA ABOUT WORKING CAPITAL:

Working capital may be called the blood circulation of SME business. It can also be called the business running capital. Working capital consists of account receivable, cash, inventory/stocks, short term securities etc. Inventory can be different form in different way like inventory as a raw material inventory can be kept in process, finished goods etc. Every SMEs organization should maintain a certain level of working capital to run the business successfully. It depends on nature of business. SMEs entrepreneurs face some difficulties to manage the working capital to complete the business cycle. Inventories & book debts usually absorb the cash. It has a tide up periods. So, SMEs requires maintaining certain level of stock and keeping minimum amount of receivable in the market. As a result, Small & Medium Enterprise seeks working capital finance. Working capital is two types one is Gross working capital & another is net working capital. Gross working capital means the aggregate

of total current assets. On the other hand net working capital refers to excess of current assets over current liabilities.

XII. STRATEGY OF CONTROLLING THE CURRENT ASSETS IN SMEs:

Cash: The first element of current assets is cash, SMEs must maintain the sufficient level of cash to run the everyday business operations. A business should have strategic cash budget & cash flow budget.

Two strategies of cash Management, like spreading cost over the year and prolonging payment until sufficient cash flow.

Account Receivable/Debtors: Account receivable is another important component of SMEs current assets. It is highly important for current & acid test ratio of the organization. Strategy for Management

- SMEs should offer discount for early payment
- Factoring the debt
- Extending credit to valued customer.

Inventory/Stocks: The common factor of working capital. Inventories are expensive and comprise about 50.00 to 55.00 percent of working capital. Nature of SMEs business & nature of customer demand will determine how much to stock to be kept in the goodown. Besides, SMEs adopts some strategies:-JIT is the most effective & efficient strategies.

- To keep the inventory low
- To adjust inventory with fluctuation of seasonal demand.
- To consider the frequent of delivery in a particular week to the same route customer

XIII. SOURCES OF WORKING CAPITAL FINANCE FOR SMEs

Equity Financing: The important source of collection fund of the organization is equity financing. Equity financing means the sales of sheared to others to raise the fund to meet up daily working capital requirements.

Venture capital: Venture capital is the financing where investors usually financial institutions, investment Banks or any other high net worth individual to see the potentiality of the existing business.

Business Angels: Business angel can be the alternative and attractive method of collecting finance for the organizations. Business Angels means the informal investor who take share of the organization over the existing partners by contributing cash, experience, merit etc.

Short term debt Financing : Debt financing is a particular types of collecting money or arrange money by way of selling bills, bonds, notes etc. to others. This is the alternatives way of SMEs financing to meet working capital requirements. The rate of interest of debt financing is determined by the market.

Trade Credit: Trade credit is one of the highly important tools for SMEs growth & meeting demands of short term requirements. Trade credit is the credit provided by the seller to buyer; the concept of trade credit is buying now & pays later. Trade credit usually prolongs the payment of goods. SME entrepreneurs can buy goods, materials, equipment etc.

and delivering the same as immediate without paying cash on the spot. Trade credit can increase through following way:

- Entrepreneur to keep the commitment
- Excellent relationship with seller
- Reputation of the buying organization
- Strong financial position

NBFIs: Non-bank financial institutions are such type of formal financing institution formed by obeying legal procedures but they have no full fledged operations like Banking sector. They are also provides the financial services to the SMEs sector to boost up the economic condition in Bangladesh

List of NBFIs in Bangladesh:

1) Investment Corporation of Bangladesh 2) Agrani SME Financing Company Limited 3) Bangladesh Finance and Investment Company Limited 4) Bangladesh Industrial Finance Company Limited 5) Bangladesh Infrastructure Finance Fund Limited 6) Bay Leasing and Investment Limited 7) CAPM Venture Capital and Finance Limited 8) Delta Brac Housing Finance Corporation Limited 9) Far-east Finance & Investment Limited 10) FAS Finance & Investment Limited 11) First Finance Limited 12) GSP Finance Company (Bangladesh) Limited 13) Hajj Finance Company Limited 14) IDLC Finance Limited 15) Industrial and Infrastructure Development Finance Company Limited 16) Industrial Promotion and Development Company of Bangladesh Limited 17) Infrastructure Development Company Limited 18) International Leasing and Financial Services Limited 19) Islamic Finance and Investment Limited 20) LankaBangla Finance Limited 21) Meridian Finance and Investment Limited 22) MIDAS Financing Limited 23) National Finance Limited 24) National Housing Finance and Investments Limited 25) People's Leasing and Financial Services Limited 26) Phoenix Finance and Investments Limited, 27) Premier Leasing & Finance Limited, 28) Prime Finance & Investment Limited, 29) Reliance Finance Limited 30) Saudi-Bangladesh Industrial & Agricultural Investment Company Limited, 31) SEAF Bangladesh Venture Limited 32) The UAE-Bangladesh Investment Company Limited 33) Union Capital Limited 34) United Finance Limited 35) Uttara Finance and Investments Limited

XIV. WORKING CAPITAL FINANCE BY BANK OR OTHER FINANCIAL INSTITUTION TO SMEs:

There are thirty two private conventional commercial Banks, six state owned Banks, eight Islami Sarih based commercial Banks and nine foreign commercial Banks working across the county. Besides, seven numbers of Specialized Banks are also working in Bangladesh. Commercial Bank offers different types of loan product to the SMEs to meet up their working capital requiems. The name of short term credit product is varied Bank to Bank. The most common working capital financing form are:

Cash Credit: Cash credit is most common types of products provides almost all commercial Banks to the SMEs sector. The main objective of the cash credit is to meet up the

working capital requirement of organization. Such facilities are approved against hypothecation or pledge of stock and Bank seeks the additional security as registered mortgage of immovable properties. Bank usually sanctions such type of loan with easy terms & conditions and disbursement makes so faster. It has a particular validity usually 01 year. Bank approves a continuous limit in which customer can withdraw up to the limit and allow to deposit every day from realization of the proceeds.

Overdraft: Overdraft means the Bank allows the certain amount of money as a debt over the current account balance. Now a day's Overdraft general is considered as separate products in different Bank and provides this loan as continuous basis with validity of one year against hypothecation or assignment of Book debts/receivable to meet up working capital requirements, especially of Service oriented SME business.

Secured overdraft: Secured overdraft is another kinds of loan facility in where Banks allow the loan against financial instrument like Fixed Deposit receipt, Deposit pension Scheme, Wage Earners Development Bond, ICB unit certificate, Share, Saving Certificate, Life insurance Policy etc. Banks usually allows the 80.00 to 95.00 percent of the loan of said instruments value in continuous basis with validity of 01 year.

Temporary Overdraft: Banks allow the SMEs customer to meet up huge demand arise for some certain occasion like Eid Ul Fitre, Eid Ul Azha, Durga Puja. Besides, there some SME entrepreneurs who deal with seasonal products, in that particular season, the SME owner is allowed Temporary overdraft to meet up working capital finance. Usually it's validity ranging from 30 days to 90 days.

Besides, There are many banks who has arrived in the market with new offer for SMEs entrepreneurs to meet up continuous working capital requirements. We may pointed out as example:

Eastern Bank Limited SME loan: There are following loan products is available for SMEs entrepreneurs

- i) EBL Asha ii) EBL Agrim iii) EBL Uddom iv) EBL Nobodoy v) EBL Krishi Rin vi) EBL Uddog vii) EBL Unnoti viii) EBL Udoy ix) EBL Utkorsho

Brac Bank SME loan products: Brac Bank introduce the following loan product specially for SMEs

- i) Anonno Rin ii) Apurbo Rin iii) Prothoma Rin iv) Shomriddhi Rin v) Shompod Rin

City Bank SME Loan: City Bank introduced 03 SMEs loan products which are: i) City Shulov ii) City Muldhan iii) City Sheba

Standard Chartered Bank special SME loan: Standard Chartered Bank is doing operation in Bangladesh and introduced different loan products for SMEs to meet working capital requirements:

- i) Orjon ii) Business Installment loan (BIL) iii) Loan Against Property.

United Commercial Bank SME Working capital loan product: The traditional SMEs loan products like CC(H/P), OD (Gen), Time loan, Secured overdraft etc. Besides, new SMEs working capital finance products are i) UCB Dhrubo

ii) UCB Jyoti[For women Entrepreneur] iii) UCB Dipti [For women Entrepreneur] iv) UCB Onkur

XV. CENTRAL BANK GUIDELINE FOR SMES

In perspective of recent global recession and changed business circumstances, it is essential to include all segments of people in the flow of growth process. Sector wise or cluster wise development programs to be formulated and then credit support to be provided to meet up working capital of SMEs. Bangladesh central Bank recently has been established a department namely SME and Special Programs Department' which main objective to formulate the policy & strategy, facilitating credit access, monitoring, supervision etc. to SMEs sector.

The SME and Special Programs Department provides necessary guideline to the schedule banks to comply which is pointed below:

- To set a target for SME loan to the schedule Bank and provides guideline to disburse the lon among SMEs entrepreneurs including women entrepreneurs.
- To ensure proper allocations of target branch wise, sector wise and region wise by area approach method.
- Banks/Financial institutions should follow different strategy for financing SME loan with prompt approval and disbursement process.
 - Small entrepreneurs will get more priority.
 - Priority shall be given to small entrepreneurs.
 - Small entrepreneurs credit ceiling will be ranged from Tk. 0.50 lac to Tk. 50.00 lac
 - Potential women entrepreneurs will get priority in case of loan disbursement for increasing involvement of women entrepreneurs in industrial development of the country and for conducting business activities by women entrepreneurs in large number.
 - SMEs entrepreneurs will get priority in case of loan sanctioning and faster disbursement from Banks/Financial institutions.
 - Each bank and other financial institution shall establish a separate 'Women Entrepreneurs Dedicated Desk'
 - Banks and financial institutions may sanction up to Tk. 25.00 lac to women entrepreneurs against personal guarantee. In that case, group security/social security maybe considered.
 - The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of SME/Agriculture Branch instead of SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture.
 - Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank/financial institution will inform Bangladesh Bank sector/sub-sector wise rate of interest immediately and ensure disbursement of refinanced fund to the clients (women entrepreneurs) at Bank rate +5% interests.
 - Training programs shall be arranged for the entrepreneurs.

XVI. SPECIAL PROGRAMS FOR WOMEN ENTREPRENEURS:

There are about more than 49.00 percent population in Bangladesh is women. Thus, the participation of women in different sector of economic development is very vital for achieving sustainable economic growth & poverty alleviation. But It is matter of sorrow that the women involvement in institutional business sector is not adequate enough and the participation rate of women entrepreneurs is very low in Bangladesh compare to male involvement. Therefore, Sustainable balanced growth is hampered without ensuring the maximum participation of women in the institutional economic system. There are some obstacles found for less participation of women in Bangladesh like lack of innovative thinking, previous mindset for serving the family only, lack of family motivation, lack of family support, social constraint, religious confined, lack of pragmatic strategies, lack of education & training system, inadequate financial supports etc. In the above back drop, Central Bank of Bangladesh has taken some pragmatic strategies and formulated a guideline for the banks & financial institutions to ensure more institutional financial facilities for women entrepreneurs in SME sector. For making substantial industrial growth and ensuring institutional credit facilities, at least 15.00 per cent of total refinance fund of central Bank (Bangladesh Bank) for SME sector has been distributed for women entrepreneurs. Rate of interest for women entrepreneurs will be Bank rate (which is at present 5%) plus additional maximum 5%; i.e. not more than 10% per annum. Banks/Financial Institutions will accept and settle all types of loan applications of SME women entrepreneurs with priority basis. Banks and financial institutions shall take initiative to take promotional efforts and advertise all the facilities for women entrepreneurs in both electronic media & print media and BFIs & FBFIs may allow a maximum loan facility of Tk.25.00 lac against personal guarantee or social guarantee if borrower is woman or majority of the owners of the enterprise are women. Banks/Financial Institutions shall establish special customer care unit and service centre for women entrepreneurs in selected branches and ensure service friendly approach towards women entrepreneur

XVII. METHODS OF WORKING CAPITAL ASSESSMENT

- Operating Cycle Method
- Drawing Power Method.
- Turnover Method.
- MPBF method
- Cash Budget method

Some Banks use the following working capital assessment format for SMEs [**Trading sector**]

Projected Sales	***
COGS	***
Inventory	***
Receivable	***
Payable	***
Inventory turnover in days [Inv/COGSx360]	***
Receivable turnover in days [Rec/Sales x 360]	***

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Payable turnover in days [Payable/COGSx360]	***
Cash Cycle [Inv+Rec-Pay] turnover in days	***
Working Capital Requirement [COGS/360 x CC]	***
Proposed working capital	***
Equity	***

Some Banks use the following working capital assessment format for SMEs [Manufacturing sector)

Particulars	Tied up Periods in days	WC
Raw Materials	40	****
Receivables	10	****
Work in Process	03	****
Finished Products	15	****
Operating Expenses	20	****
Sub-Total	-	****
Less: Account Payable	15	****
Working Capital Requirement	-	****
Proposed Working Capital	-	****
Debt: Equity	-	****

sources of fund of Tk.100.00 Million of Bangladesh Bank's own fund, USD20.00 Million from IDA under the enterprise growth & Bank Modernization projects and USD30.00 Million from ADB. Later The Bangladesh Bank raised their own fund to Tk.500.00 Crore. All Schedule Banks and Financial Institutions can take this facility at the Bank rate subject to fulfilling the stipulated terms & conditions against their financing of SMEs. Under the Bangladesh Bank's refinancing scheme for the small enterprise sector, any industry/business entity having a maximum total fixed investment up to TK.10.00 Million has been considered as a small enterprises. Disbursement made by financial institutions and leasing companies into small enterprises were refinanced from the proceeds of the SEF. ADB provided loan from its special funds resources with a term of 32 years, including 8 years grace period, with an interest of 1 percent per annum during the grace period & 1.50 percent per annum thereafter. The loan agreement between the Government of Bangladesh and Asian Development Bank had an explicit gender dimension. At least 10 percent of the funds of the SEF would be earmarked for women borrowers and women borrowers will be provided with assistance and advisory service for their loan applications. Bangladesh Bank reserved 10 percent of its SME sector refinancing fund for women entrepreneurs at a maximum annual interest rate of 10 percent in an attempt to enhance more female participation in trade, service & manufacturing sectors. At least 15 Banks and other financial institutions have been distributing loans from the fund outside Dhaka & Chittagong

XVIII. SME LOAN DISBURSEMENT IN 2016 IN BANGLADESH BY BANKS/NBFIS:

The ratio of disbursement of loan by BFIs & Non – BFIs positively increased in 2016 by 24.49 per cent to Tk.141935.38 crore in 2016 compared to previous year but 63.79 percent of the loan went to trade or unproductive sectors. According to Bangladesh Bank data Banks and other Non banking financial institutions disbursed Tk.115870.48 Crore to SMEs in 2015. In 2016, It was improved by 23.11 per cent to Tk.90,547.57 Crore against Tk173,551.78 crore in 2015. Banks and the NBFIs disbursed Tk.35,168.63 crore and Tk.16,219.19 crore in SME loans to manufacturing sector and service sector respectively in 2016 against Tk.30,462.02 crore and Tk.11,856.68 crore in 2015. Manufacturing sector received 24.77 per cent of the total SMEs loan in 2016 while the service sector received 11.42 per cent. SME loan disbursement increased significantly in 2016 but it put a little impact on the countries industrialization. The central Bank data also prevailed that the defaulted loans in the SMEs sector also increased by 23.25 per cent to Tk.23,324 crore in 2016 from Tk.18924 crore in 2015.

XIX. REFINANCING SCHEME OF BANGLADESH BANK:

Over 3000 SMEs benefited by Bangladesh Bank's refinancing scheme. More than 3000 SMEs is enjoying this scheme by receiving about Tk.2.06 billion. Bangladesh Bank introduced a refinancing scheme for SMEs in 2004 using 03

XX. SMES GUIDELINE BY BANGLADESH CENTRAL BANK

In perspective of recent global recession and changed business circumstances, it is essential to include all segments of people in the flow of growth process. Sector wise or cluster wise development programs to be formulated and then credit support to be provided to meet up working capital of SMEs. Bangladesh central Bank recently has been established a department namely SME and Special Programs Department' which main objective to formulate the policy & strategy, facilitating credit access, monitoring, supervision etc. to SMEs sector.

The SME and Special Programs Department provides necessary guideline to the schedule banks to comply which is pointed below:

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- To ensure proper allocations of target branch wise, sector wise and region wise by area approach method.
- Banks/Financial institutions should follow different strategy for financing SME loan with prompt approval and disbursement process.
- Priority shall be given to small entrepreneurs.
- Small entrepreneurs credit ceiling will be ranged from Tk. 0.50 lac to Tk. 50.00 lac
- Potential women entrepreneurs will get priority in case of loan disbursement for increasing involvement of women entrepreneurs in industrial development of the

country and for conducting business activities by women entrepreneurs in large number.

- SMEs entrepreneurs will get priority in case of loan sanctioning and faster disbursement from Banks/Financial institutions.
- Each bank and other financial institution shall establish a separate 'Women Entrepreneurs Dedicated Desk'
- Banks and financial institutions may sanction up to Tk. 25.00 lac to women entrepreneurs against personal guarantee. In that case, group security/social security maybe considered.
- The success in SME loan disbursement will be considered as yardstick for further approval of new branches of the concerned bank. License for New Branches will be issued for financing the priority sectors like SME and agriculture from 2010 in the name of SME/Agriculture Branch instead of SME Service Centre; in order to involve banks in financing priority sector like SME and Agriculture'.
- Each bank/financial institution shall fix the interest rate on SME loan sector/subsector wise. However, bank and other financial institutions will inform Bangladesh Bank sector and subsector wise interest rate without delay and ensure disbursement of refinanced fund to the clients at prescribed rate.
- Training programs shall be arranged for the entrepreneurs

XXI. SME CONTRIBUTION ON GDP

Now-a-days, SMEs is the subject matter of discussion in business arena in Bangladesh as the SMEs contribution more on economic development in Bangladesh. There are about 06 million of SMEs are doing their works actively across the country. SMEs contribution on GDP about 25.00 to 30.00 per cent per year. Different categories of SMEs together contribute about 80.00 to 85.00 per cent of industrial employment and 23.00 to 25.00 per cent of total employment in Bangladesh. In spite of having more dependence on agriculture, other sectors are growing significantly & rapidly. It has been observed that the share of Agricultural sector has been declining day by day. On the other hand services sector is becoming significant of economic Development. Manufacturing sector in Bangladesh has been contributing at consistent rate over the last decades around 15.00 per cent. SMEs in servicing and manufacturing combined have more than 19.00 per cent of Share of GDP. These enterprises are providing employment more than 15 million people aged 15 years and above.

About 60 to 65 per cent of SMEs are located outside the metropolitan areas of Dhaka and Chittagong SMEs are providing job opportunities about 70 to 80 per cent of the non agriculture labor force

XXII. REASON BEHIND SME BANKING

There are so many fascinating reasons for Banks to do the SMEs Banking. It is speculated that typically SMEs make-up more than 90% of the registered businesses in any country. There are several reasons for SME Banking in Bangladesh:

a) Diversification of revenue: Banks require diversified revenue earnings from different sources. SMEs are the most

potential and growing sector in Bangladesh. There are many important sectors of SMEs in Bangladesh. Through proper financing, growth of SMEs sector can be ensured.

b) Diversification of Credit Risk: Risk is always involved with Loan and advances. But risk can vary from sector to sector. In case of large loan, risk & uncertainty is more than small loan. The probability of repayment is high in SMEs sector. So, Banks would like to diversify the investment to cover the loss occurred in future.

c) For Economic Growth: SMEs is the growth Engine of economic in Bangladesh. Through SMEs finance by the Bank, this sector improve their business opportunity like increase sales, increase volume, increase profit etc.

d) High Profit Margin: As the SMEs loan portfolio is large in the current condition in Bangladesh and Bank can take higher rate of interest rate and processing fees from the SMEs customer.

e) Low provisioning: Provisioning is very low in SMEs sector than any other sector. Only 0.25 per cent provisioning is maintained for standard and special mention account (SMA) loan which is comparatively lower than any other financing.

f) Support from SMEs foundation: The activities of SME foundation include advising, training, seminar, symposium, awareness building etc. SME Foundation is working hard for SME sector development. SMEs foundation offers low cost fund at 4.00 per cent for lending to the manufacturing concerns as well as cluster development.

XXIII. SMEs NEEDS & REQUIREMENTS

The SME entrepreneurs want for favorable support, flexible loan, easy conditions & covenants.

Besides, the SME customers want to expect the following things -

a) **Mutual relationship:** SMEs owner would like to invest more on SMEs sector to get maximum output and expect the banks favor in case of financing, advising, training etc.

b) **Constant Financial Support:** Working capital requirement of the Bank is very important and requires everyday to run the business. SME owners feel the financial requirements in their everyday business life as our SMEs entrepreneurs are not so rich to conduct the business by their own sources. So, continues financial support from the banks is required for smooth operation of business.

c) **Faster loan processing:** SMEs require loan as immediate because of fulfilling urgent requirements of the Business like purchasing inventory, pay wages & salary and to face the tied up period until the collection of receivable.

d) **Understanding SMEs credit needs:** Different sector of SMEs requires form of credits in different term of period and sometimes requires grace period. Working capital finance can also be the continuous mood or term loan basis with equated monthly installment.

XXIV. FACTORS TO BE CONSIDERED FOR SMEs LENDING

Some issues have been taken into considerations for working capital financing to SMEs and these factors should

be aimed at conducting sustainable SME business. The issues may be discussed as under:

a) Cost of loan service: The analyzing cost is most of the time same and the documents collection cost is not differ from other loan processing & collection. For this side the large loan is more profitable than the small loan. The cost & time is the same as analyzing the large loan.

b) Less formal information: As the SMEs sector is a smaller organization, so accounting system is not so organized at all. Some of the SMEs organization don't maintain ledger and don't prepare final account. So, banks face trouble to analyze these financial positions.

c) Failure rate: Banks see the previous records of nonperforming loan & default customer of the SME sector. So, credit analyst has to think and select the borrower on the basis of risk Management criteria, analysis Credit risk grading and credit score of the respective customer.

d) Central Bank Direction: Every commercial bank is compelled to obey the order of Central Bank policy, guideline, circular etc. Bangladesh central bank issues different directories and guide lines regarding SMEs financing and identified the potential sector of SMEs in Bangladesh which help to accelerate the development of the countries economics.

e) Environmental factor: Every business has its own environment where it operates. Environment can be internal & external. So, Environmental factor is to consider in the time of loan processing.

f) Legal factor: There are some legal factor influence the Bank to change the decision to sanction of loan amount, rate of interest, priority of the sector etc.

XXV. QUANTITY OF LOAN DISBURSEMENT IN SMEs SECTOR

According to Bangladesh Central Bank, More than 70.00 percent of money had been disbursed from the SME refinancing scheme to small enterprise where above 85.00 to 90.00 percent of the loan recipients were small entrepreneurs. Bangladesh Central Bank said that banks and others financial institutions, in 2015 disbursed a total of Taka 789.00 crore 97.00 lac among 4,455 borrowers. Taka 557.43 crore was given to 4,375 entrepreneurs who borrowed Taka 10 thousand to 1 crore out of total amount. On the other side Taka 232.54 crore was disbursed among 80 entrepreneurs who borrowed Taka more than 1.00 crore.

XXVI. CHALLENGES OF SME FINANCING IN BANGLADESH

SMEs sector is very growing sector in Bangladesh. It is treated as a creaming sector in Bangladesh. Gradual growth can be brought with the hand of SMEs sector. There are some crucial problems of SMEs which is pointed below

a) Lack of access to finance: SMEs spread all over the country, it is located not only urban or town but also remote village. In the city or town area, SMEs get some priorities but in village entrepreneurs are deprive from institutional finance. Often they take finance from unorganized sources with high rate of interest rate. Besides, Banks and non Banking financial institutions often harass the SME

entrepreneurs by wanting different types of unusual documents and huge amount of collateral in the form registered mortgaged. As a result, SME owner is often unable to give mortgage as they have no sufficient free land. Moral hazard is another important factor, It is cognizable that SMEs perceives higher risk than any other companies. Therefore, government should take necessary steps for implementing a mechanism in which SMEs are mandated to provide accurate, standard, reliable, faithful and quality information to banks so that lenders can carry out precise risk assessments.

b) High cost of finance: High cost creates the high risk in SMEs sector. SMEs are often borrowed loan from co-operative society, NGO's, Middleman, local union group, relatives etc. at high interest rate. In remote area it has been observed that this unorganized lender offered loan about 30.00% to 50.00% per annum but it is matter of sorrow that The SMEs entrepreneurs could not be made profit by taking such types of higher rate of interest rate. Besides, Banks offer credit card to the SMEs entrepreneurs with interest rate of 30.00% to 36.00% per annum. SMEs demand to keep down the interest rate of SMEs loan at single digit i.e maximum 9.00 per cent but commercial Bank didn't give such types of interest rate due to their high cost of fund.

c) Large collateral requirements: Borrowing of SMEs from Banks or financial institutions are backed by valuable collateral but Many times the SMEs owner can't arrange the land or valuable assets to take the loan. Bank always wants to safeguard the bank from future contingent by taking collateral. But, Bank should also be seek the sound & smooth operation of SMEs business and should grants the loan against personal guarantee, corporate guarantee & social security. Collateral based financing often overlooks the quality of borrowers and the potentiality of the sector. Credit information gap: Credit rating agency (CRA) in SMEs assessment is hardly seen in effective analytical role. Now a day Credit Rating Agency is being formed widely and involvement with SMEs is increasing day by day. The absence or limited track record of Credit Rating Agency (CRA), with regard to SME ratings, low analyst coverage of SMEs, and limited or no access of information are some of barriers to credit appraisals of SMEs.

d) Massive documentation process: Borrowers face problems more on completion of the huge documentation formalities which stipulated by the lenders. Very often these documents are very conditional, complex and easy to understand.

e) Distance of Bank branch: Though the huge Banks and financial institutions are operating in Bangladesh but most of the Branch located in city or town areas which is so far from different upazila, village or other remote area. As a result, they face difficulty to make frequent transaction with this Bank. On the other hand Branch officials are also keep slight or no idea about remote entrepreneurs from the Branch site.

f) Borrowers are less Skilled: Most of the SMEs borrowers are not well skilled in all area. They don't properly use their credit fund .Several studies shows that most of rural areas borrower utilized their money unproductive sector.

g) Insufficient Training Facilities: Training is very impotent to aware about the SMEs product, its price, working capital

collection, analyze, utilization and Management of working capital in everyday business life of SMEs. Training Center for SMEs is not sufficient enough and those do exist not effective for the borrower.

h) Lack of Women Participation: The half of total population in Bangladesh is women but in reality there are no representing figures in women entrepreneurship

XXVII. SMEs DEVELOPMENT WAYS

a) Development of SME Infrastructure:

Infrastructure development is a precondition of developing the SMEs. In remote area, there are many small & medium enterprise are conducting their operations but they are deprived from different types of facility like road, gas facility, electricity and other utility facility. Besides, the SMEs is still the backward in using of technology. So, Infrastructure development and faster communication is to be ensured for SMEs development.

b) Quality of SME Products:

Poor quality or defective quality is the hindrance of SMEs development. SMEs expansion & development depends on their quality products and buyer attraction. Buyer attracts when the products quality is exceeded the expectations of the customer. So, total quality Management to be ensured through expert and through slandered testing organization like BSTI.

c) Learning & Training facility:

There is no alternatives way to develop the entrepreneurs, managers, and other workers of the SME organizations without continues learning & training facility. Training can be different way like on the Job training, lecture method, seminar, Symposium and others. In this purpose, there is some organization like BSCIC provides effective training facility to the SME owner, Manager & workers to do the best thing and show the way out for doing it. SME foundation in Bangladesh arranges from time to time to develop the SME entrepreneurs. It is to be told that there are many people involve with the SME having no proper idea of the business and never take any idea or training from others. So they have no innovation skills at all.

d) Organizing Trade Fairs, Symposiums, and Workshops on SMEs in Regular Basis:

At present Seminar, discussion, gathering, training, workshops and symposiums on SME business and SME products are organized by different private & government organization. We all to be come forward to make SME growth through collective effort from the self edge with best efforts and it will be taken as a endless journey.

e) Faster Bank Service & Special Care:

Faster Service will be ensured by the commercial Bank to develop the SMEs sector. Banks can play very pivotal role in SMEs growth & sustainable development. SMEs require finance to meet up working capital requirements. In every SME, there is some shortage of working capital and for that reason SME owner knock to the door of the Bank by wanting some help for his business. So bank should accept and process the SME proposal in most priority basis. In this regards special SME desk to be set in every Bank to serve the SME customer

f) Use of modern technology: Technology can do the work faster than the manual process. The production, processing, grading, and other function can be easier with the help of technological advancement. SME owner should adopt the new technology and train up the workers to operate the technology. As a result, huge production is possible within short possible of time

g) Regular basis marketing of SMEs products: Marketing plays pivotal roles in the SMEs sector which help to assess need & demand of the customers and try to deliver the standard products with value laden relationship. Marketing research also help to know the customer sensitivity, desires, agreeing price payment, suitable time to delivery, frequency of product use etc. Besides, through Marketing SMEs inform their products, persuade to purchase, making long time relationship. As a result, Brand loyalty is created. SME Innovative Marketing encapsulates the core variables of newness, market centered, product enhancement, change, vision, profit, altered marketing mix and distribution channels, uniqueness, marketing integration, customer centric, unconventional, permeation through all organizational functions and protection.

h) Effective Management of working capital: It has already been told that Working capital is so important in SMEs business like the blood circulation of animal body. SMEs business can't conduct its business effectively & efficiently without sufficient level of working capital. So Management of working capital is very significant in SMEs. Strategic plan of utilization of fund is to be formulated and also be determined how much stock is to be maintained and how long will be tied up period. Entrepreneurs have to clear idea about the market receivable and innovates the new strategy to collect the receivable.

i) Proper implementation of SME policy: Government of Bangladesh formulated different policy and strategy for SMEs which can help the SMEs sustainable growth & development. Bangladesh Bank provides different guideline to the commercial Bank to give priority for accepting & processing the SME loan proposal with or without collateral. Besides, Bangladesh Bank, introduced refinancing scheme for SMEs to sustainable development of this sector.

SMEs can change the condition of the country like Bangladesh as the Bangladesh has huge opportunities to develop them. SME is the labor intensive sector where labor involvement is more than capital investment. In this sector, investment of capital is comparatively low but output is more. We have to come forward to implement the government strategy and policy for developing the SMEs.

XXVIII. ROLE OF NGO'S IN SMEs

There are huge numbers of NGOs are operating in the county with the objective of doing benevolent works to the society. So, NGOs, NBFIs and other similar organization can take proper steps to ensure uninterrupted financial support to the potential SMEs sector. NGOs should motivate to the villagers even village housewives to involve themselves with SMEs sector. SMEs are the important instrument which can help to increase GDP and increase the living standard of the poor people. Sometimes, SMEs calls the Small Machine for

huge employment generation within the country. Poverty is the number one problem in Bangladesh but SMEs provide the easy solution of the poverty alleviation.

XXIX. ROLE OF MEDIA IN SMES

The role of print & electronic media in Bangladesh is certainly outstanding. Many people don't know the vitalization power of SMEs. They don't know the SME can change the life, change the society, change the economy and change the per capita income. SMEs are the missile of economic development in under develops countries and equipment of standard living in developing countries. But the people of Bangladesh are not so conscious about the power of SMEs even they didn't realize the it can be the alternative method of income and employment generation. So, Television, Radio, Internet, News paper, Magazine are to be circulated the necessity of the SMEs, role of SMEs, SMEs development, How SMEs help to change the life, society and country. Besides, social media like Face book, Viver, IMO, Twitter, Skype etc. can play the pivotal roles to aware the people to involve in SMEs.

XXX. APPROACH OF SMES DEVELOPMENT

a) Selective approach to SME development: An essential element of a strategy for the development of the SME sector in Bangladesh will involve identifying niches where small and medium enterprises have comparative advantage and higher growth potential. This will mean exploring market opportunities on a sustained basis and mobilizing the required support services for the promotion of these industries once such niches are identified.

Strategic planning is to be formulated by collecting data, analyzing the data, disseminating the data and selecting the best alternatives to use in SMEs development. SME foundation was establish with aiming of development of SMEs strategy, to give necessary training and support. The capacity of the SMEs foundation to be strengthened more to this end.

b) Creating an enabling environment for private investment: Effective enable environment is highly required for SMEs development. Favorable environment for private investment can be categorized under three broad headings

- i) Policy induced constraints
- ii) Structural constraints
- iii) Poor business support system and weak governance

Government should be established investment friendly laws and order situations, supportive, legal & regulatory framework for private investment and SMEs development. Government should patronize to the SME sector to develop its infrastructure and other necessary support.

c) Hassle-free indirect tax system for SMEs: Structure is different between SMEs and large scale enterprise, So, tax should be imposed in differently and hassle free in SMEs. SMEs need the differentiated system of indirect tax that will help to pay the indirect tax. Graduated turnover tax system is to be introduced for this purpose. Some people argue that a differentiated tax system will discourage the growth of SMEs. Government should provide separate guideline about

tax & vat system in SMEs sector. Women entrepreneurs should get tax rebate for providing motivation by fulfilling the particular condition

d) Easy access of raw materials: Easy access of raw materials & imported inputs to be ensured for gradual growth of SMEs. SMEs development depends on many factors like available of raw materials, favorable market condition, creating products demand through using marketing tools. SME sector consumes the raw material for making finished goods specially in manufacturing sector of SMEs. Easy access of imported raw materials is also ensured by the authority.

e) Creating domestic demand: The important factor is that domestic demand can affect the growth of SMEs. If the consumption of domestic products is being increased, SMEs will be more attentive to trade the SMEs product across the county. Sales will be increased and profit will also be up.

f) . Access to credit: Credit availability and easy access of institutional credit is the most important factors for SME development. Small & Medium Enterprise requires working capital in everyday business life but own capacity to invest is limited of the SMEs entrepreneurs. To strengthen targeting of SME credit, we need to follow this

i) Conducting SMEs research & census with including detail information on inputs, output, management and technology

ii) Distributing the Identification card with prescribe number to SMEs,

iii) SMEs database to be created & updated periodically

iv) Identifying the SMEs cluster to the upazila level and defining the cluster problems & provide the probable solutions. Bangladesh Bank has emphasized more on SMEs credit of manufacturing sector. SMEs credit policy specially focused on SMEs manufacturing sector. Policy also says that 10.00 percent of total SMEs loan is mandatory for women entrepreneurs.

g) Human resource development: Human resources development is very urgent issues in SMEs development, SMEs requires skilled manpower for optimum level of output. The system of technical & vocational education is needed to be reshaped & revamped in the county. The government of Bangladesh should provide compulsory education up to the age of 14 and compulsory higher secondary education up to the age of 18 or 19. Besides, the government is conscious about technical knowledge of the people and build up the technical institute & training center to develop the Skilled of manpower. Now SMEs try to adopt new technology for which skilled operator is highly required. Skilled manpower can change the SME sector by innovating new ideas, new products and new marketing & distribution strategy.

XXXI. SUGGESTIONS & RECOMMENDATION

In order to solve the problems of SMEs, the following suggestions are recommended:

a. Government of Bangladesh shall have to take necessary steps to ensure the uninterrupted financial service.

b. Scope of working capital finance to be increased in SME sector and Central Bank should provide adequate disbursement target to the Commercial Bank Ltd.

c. Central Bank should keep under direct supervision to the commercial Banks/non Bank financial institutions as well as feedback from the SME owner and Manger from field level.

d. Special priority to be set for SMEs as well as implementation of each commercial Bank to be ensured.

e. Women participation to be increased gradually at maximum level and persuasion and motivation to be provided among them.

f. Wide campaign & advertisement of the positive side of SMEs involvement to be taken into front among the population.

g. Technological support to be provided among the SME owner

h. Government should establish a special separate department to assist the SMEs entrepreneurs

i. To fix the minimum wages and salary of the SMEs employees by the Government.

j. Appropriate and adequate legal frame is required for SME development

k. To understand the people SME is the machine of employment generation

l. Infrastructure development is essentially necessary for SMEs sustainable Development

m. Banks, other financial institutions and Non Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh.

n. Easy access of working capital loan, faster processing & disbursement to be ensured in SME sector

o. Huge marketing of the SME product all over the county

p. SME foundation has to be taken necessary steps to improve the SMEs entrepreneurs and workers.

q. Research & Development is to be continued on SMEs sector which help the SMEs sustainable development. Therefore, government must have to invest in R&D for ensuring the intensification of SME of Bangladesh

r. SME loan sanction procedure is complex and time consuming. So the commercial banks and financial institutions must have to take necessary steps to make it easier. Government financial institutions and non-government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh.

XXXII. SCOPE & LIMITATION OF THE STUDY

SME sector in Bangladesh is growing business sector. Now most of the peoples engaged in SME sector. Government of Bangladesh formulates a set of policy, guideline, and strategy to accelerate growth of SMEs in Bangladesh. There are huge potential sector of SMEs in Bangladesh and some are booster sector. Bangladesh is very small country on consideration of area but overpopulated. So, we have to bear in mind population is not liability rather It can be converted into assets. Now the problem in our county which are unemployment and poverty but If we make involvement the people in SMEs, It is speculated that these problem will be solved and living standard of the people will be increased. Population liability will be converted in valuable human resources. Now lots of SMEs cluster in

Bangladesh operate in the competitive market. The working capital finance requirement by the SME sector will be solved day by day as the government of Bangladesh patronizes this sector directly.

Every research works have some limitations, so this research work is not free from error or fairly accurate in spite of giving best efforts. We know that the secondary sources of data are not available. Every employee is busy with his/her regular activities. Therefore, most of the employees are not able to give the accurate information. Besides, time bound of the research is another factor of limitation

XXXIII. CONCLUSION

Now a days, It is recognized that SME considers as the engine of economic growth by offering large-scale employment and income earning opportunities at relatively low costs, especially in the rural areas. If the SMEs get the financial support constantly with relatively lower interest rate from Banks and others financial institutions, It is assumed that this sector will boost up with excellence and contribute a lot in GDP. SMEs development can develop per capita income and standard of living. The significance of the SMEs is that it helps to explore opportunity to do something new with relatively low investment. It can help to create employment opportunities and continuously contribute to GDP. The emergence of the SMEs in the developed world makes economic case for fostering development of these industries. Considering important contribution of SMEs on overall growth and sustainable economic development, it is essential to take necessary steps for facilitating growth of SMEs in Bangladesh, which includes:

- Enhancing Access to SME Finance in Bangladesh
- Easy condition to access of finance and SMEs will get priority to faster processing of credit proposal
- Relatively lower rate of interest rate fix up by the Bank.
- Development of SME Infrastructure in Bangladesh
- Comprehensive training program for SME workers, entrepreneurs and Mangers
- To ensure SME Promotional Drive & integrated communication
- To establish the holistic approach of Marketing

It is thought that this study will help to arrange the alternative way of working capital financing of SMEs and SME sector in Bangladesh to open new chapter of economic development. Customers will also be benefited to get customized products and services.

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