

An Opinion Survey of SME Banking Systems: Problems and Prospects in Bangladesh

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Abstract

The Small and Medium scale Enterprise (SME) working as the engines of economic growth. Promotion of SME especially in the developing countries like Bangladesh include their relatively high labor intensity, dependence on indigenous skills and technology, contributions to entrepreneurship development and innovativeness and growth of industrial linkages. The present study is conducted to analyze the opinion of different respondent group regarding the importance of various item of SME service. Data were collected 60 different user groups through planned questionnaire by using direct interview method which has been selected using the justification method under non-probability sampling technique. Finding of the study indicates that terms and condition of SME loan is not easy, SME loan application and disbursement procedure is complex and high charges of interest on SME loan.

Keywords

SME, Loan Officer, Customers, Bank

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1. Introduction

Small and Medium Enterprises (SMEs) act as a vital player for the economic growth, poverty alleviation and rapid industrialization of the developing countries like Bangladesh. SMEs are significant in underlying country's economic growth, employment generation and accelerated industrialization. Government of Bangladesh has highlighted the importance of SME in the Industrial Policy-2005. SMEs have been identified by the Ministry of Industries as a 'thrust sector'. As the SME sector is labor intensive, it can create more employment opportunities. For this reason government of Bangladesh has recognized SME as a poverty alleviation tool. SMEs also foster the development of entrepreneurial skills and innovation. Along with poverty alleviation SMEs can reduce the urban migration and increase cash flow in rural areas. As a result they will enhance the standard of living in rural areas.

(Zaman and Islam 2011) Studies on the subject noted that women contribute around 26 per cent in total deposit of the banking system but their access to credit is below 2 per cent of the total outstanding loans. This is an unfortunate situation. Access to finance is one of the most critical constraints faced by women entrepreneurs. Although most of the banks have SME banking, few women apply for the bank loans as they need to submit a number of statements such as bank statement of the enterprise, reference of guarantor etc. for collateral free loans. Problems were more pronounced for women entrepreneurs in the informal sector. A recent study noted that about 79 percent of women entrepreneurs in this sector had no access to formal financial institutions and depended on own savings and family as source of capital to start a business (Chowdhury, Farzana, 2008).

The recent available estimates obtained from two major micro surveys, International Consulting Group (ICG) study and South Asia Enterprise Development Facility (SEDF)

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survey suggest the SME contribution to manufacturing value added to be in the range of 20 to 25 percent (Ahmed 2008; Bahar and Uddin 2007). The micro, small and medium enterprises (MSMEs) together employ a total of 31 million people, equivalent to about 40 per cent of the population of Bangladesh, aged 15 years and above. More than three quarters of the household income in both urban and rural areas are provided by the MSMEs (Zaman and Islam 2011).

This paper analyzes the results of the questionnaire survey among a sample of bank loan officer, male SME loan customer and female SME loan customer. The main trust of this paper is to focus the perception of the various groups of importance of various source of information in making their decision, response for using personal information, their perceived importance regarding various parts of a SME loan sector of the bank for build the annual report and their opinions regarding the adequacy and reliability of information of annual report. This study mainly highlight that the SME banking system of FSIBL and finally this survey help to find out the leakage situation of the SME service of this bank and also help for evaluate the finding and recommendation.

2. Literature Review

Raihan (2001) observes that the 50.53 percent of SMEs have no access to formal source of finance. Only 35.79 percent of SMEs enjoy unrestricted access to the formal credit. The rest (13.68 percent) of them have restricted access to the formal credit. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6 percent) seek finance for their working capital needs from banks, although only a half-of them get loan from banks.

Islam, M.N. (2005) observes that the micro- enterprises face serious difficulties in obtaining credit from the formal banking system. Again, as they are highly vulnerable to risks, the local moneylenders, friends and even relatives in many instances show reluctance to give or lend them money. All of these help keep deprived the micro-enterprise sector from getting financial support both from formal banking system and from the informal credit market. More importantly, commercial banks are rarely interested to provide start-up capital. If they do that, then is excessively selective.

Ahmed (2006) states that there is an issue of interest rate charged by banks and financial institutions for SME finance. Very often it is argued that the interest rate on SME loans is too high and needs to be lowered. Under the liberalized interest rate regime central bank's intervention to reduce interest rate for a particular sector will not be in order and involve the risk of being construed as a retrograde policy. For

entrepreneurs, though the supply of and access to finance is very important, the cost of fund is also a factor for their sustainability and expansion. The banks and financial institutions should consider the fact that if the rate of interest is too high, then the profitability of entrepreneurs, especially for those of the innovative projects will be adversely affected.

Chowdhury (2007) highlights that in the context of Bangladesh SMEs are characterized by Low capitalization and limited assets, geographical diversity and high mortality, poor credit knowledge, very limited access to formal source 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.

3. Objectives of the Study

The destination of this study is to focus the opinion of SME banking system of Bangladesh. Objectives of the study cover the following:

- a) To know the selected respondents attitude towards qualitative characteristic of SME banking system.
- b) To have an idea about the perception of different respondent group regarding the importance of various item of SME service.

4. Methodology

4.1. Data Collection

Responses of the respondents have been collected through planned questionnaire by using direct interview method of data collection. Identifying the opinion of various groups of users about the SME Banking service through a questionnaire survey constitutes an important part of the study, which has been used as the source of primary data collection.

4.2. Selection of Respondent Group

Our survey covers a sample of 25 Loan officers, 25 Female customers and 25 Male customers in Saver under Dhaka region, which have been selected using the justification method under non-probability sampling technique. Finally feedback their respondents of 20 Loan officers, 20 Female customers and 20 Male customers

4.3. Analysis of Data

A five-point Likert type scale statements were used to measure the variables where 1 stands for strongly disagree/very low and 5 stands for strongly agree/very high effect on the statements. Multiple-item measures were developed for each psychological construct. After collection

of primary data, hypotheses were formulated and χ^2 test is used to test the hypotheses with 1% level of statistical significance. For analysis of data SPSS software has been used. This operation performed by the χ^2 (chi-square test) and here also develop a H_0 (null hypothesis) based on the without significant difference between the opinions of the respondents

5. Hypotheses Test and Results

5.1. Opinion of the Respondents Regarding the Terms & Conditions of SME Banking

The respondents were asked to respond regarding the terms & conditions of SME banking service. The responses are summarized in table-1.

Table 1. The Terms & Conditions of SME banking

Particulars		Occupation			Total	Mode	χ^2	df	Sig.
		LO	FC	MC					
Strongly Disagree	Count	0	4	2	6	2	21.56	8	.376
	%	.0	20	10.0	10.0				
Disagree	Count	12	2	7	21				
	%	60.0	10.0	35.0	35				
Neutral	Count	1	9	3	13				
	%	5.0	45.0	15.0	21.7				
Agree	Count	7	5	7	19				
	%	35.0	25.0	35.0	31.7				
strongly agree	Count	0	0	1	1				
	%	.0	.0	5	1.7				
Total	Count	20	20	20	60				
	%	100	100	100	100				

Note: LO = Loan Officer; FC = Female Customer; MC = Male Customer.

Table-1 presets occupation among different user groups. The questionnaires suggested three possible categories of user groups. User-groups are loan officer, female customer and male customer. Table shows those 10% respondents are strongly disagree; 35% respondents are disagree; 21.7% respondents are neutral; 31.7% respondents are agree and only 1.7% respondents are strongly agree on the terms and conditions of SME Banking.

The significance of the differences was tested by undertaking a Pearson Chi-Square test (χ^2) to find any relationship between respondents' user groups and the terms and conditions of SME Banking. The following null-hypothesis was tested to ascertain whether there is a difference among user groups in this regard.

$H_0 =$ There is no significant difference among respondent groups regarding their opinion on the terms and condition of SME banking in Bangladesh.

The results of the Pearson χ^2 test showed that the terms and conditions of SME banking is not statistically significant among the respondent groups at the 5% level (Chi-

Square=21.56, df=8, P=0.376). This indicates that there is homogeneity in opinion on the terms and conditions of SME Banking between the respondent groups and mode value 2 indicate that opinion of the respondents group is disagree on the terms and conditions of SME Banking in Bangladesh. So the null hypothesis is accepted.

5.2. Opinion of the Respondents Regarding the Government Rules & Regulations of SME Banking

The respondents were asked to respond regarding the government rules & regulations to operate the SME banking system in Bangladesh. The responses are summarized in table-2

Table 2. The government rules & regulations of SME banking

Particulars		Occupation			Total	Mode	χ^2	df	Sig.
		LO	FC	MC					
Strongly disagree	Count	16	6	8	30	2	12.56	6	.861
	%	80.0	30.0	40.0	50.0				
Disagree	Count	4	11	10	25				
	%	20.0	55.0	50.0	41.7				
Neutral	Count	0	2	1	3				
	%	.0	10.0	5.0	5.0				
Agree	Count	0	1	1	2				
	%	.0	5.0	5.0	3.3				
Total	Count	20	20	20	60				
	%	100	100	100	100				

Note: LO = Loan Officer; FC = Female Customer; MC = Male Customer.

Table-2 shows those 50% respondents are strongly disagree; 41.7% respondents are disagree; 5% respondents are neutral and only 3.3% respondents are agree on the government rules & regulations of SME banking system in Bangladesh.

In order to test whether there is significant difference between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

$H_0 =$ There is no significant difference between the opinions of the respondents regarding the government rules & regulations of SME banking in Bangladesh.

The χ^2 value obtained from using SPSS software is 12.564 at 0.861 percent of significance level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of the respondents regarding the government rules & regulations of SME banking in Bangladesh. Mode value 2 also indicates the opinion of the respondents group is homogeneity of disagrees.

5.3. Opinion of the Respondents Regarding the Interest Charged for SME Banking

The respondents were asked to respond regarding the interest rate charged for SME banking service in Bangladesh. The

responses are summarized in table-3

Table 3. The Interest Rate Charged for SME banking

Particulars		Occupation			Total	Mode	χ^2	df	Sig.
		LO	FC	MC					
Disagree	Count	9	2	1	10	1	34.35	6	.764
	%	45	10.0	5	16				
Neutral	Count	1	15	13	29				
	%	5.0	75.0	65.0	48.3				
Agree	Count	10	3	6	19				
	%	50.0	15.0	30.0	31.7				
strongly agree	Count	0	2	1	3				
	%	.0	10	5.0	4				
Total	Count	20	20	20	60				
	%	100	100	100	100				

Note: LO = Loan Officer; FC = Female Customer; MC = Male Customer.

Table-3 shows those 16% respondents are disagree ; 48.3% respondents are neutral; 31.7% respondents are agree and only 3.3% respondents are strongly agree on the interest rate charged for SME banking service in Bangladesh.

In order to test whether there is significant difference between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

Ho: There is no significant difference between the opinions of the respondents regarding the interest rate charged for SME Banking in Bangladesh

The χ^2 value obtained from using SPSS software is Chi-Square = 34.357, df=6, P=0.764 is not statistically significant at 1%, 5% and 10% level. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of the respondents regarding the interest rate charged for SME banking and mode value 1 indicates the opinion of the respondents is disagree.

5.4. Opinion of the Respondents Regarding the Loan Application and Disbursement Procedure for SME Banking

Table 4. The Loan Application and Disbursement Procedure for SME

Particulars		Occupation			Total	Mode	χ^2	df	Sig.
		LO	FC	MC					
Strongly disagree	Count	11	2	2	15	2	32.51	8	.215
	%	55.0	10.0	10.0	25.0				
Disagree	Count	4	8	12	24				
	%	20.0	40.0	60.0	40.0				
Neutral	Count	0	9	5	14				
	%	.0	45.0	25.0	23.3				
Agree	Count	5	1	0	6				
	%	25.0	5.0	.0	10.0				
strongly agree	Count	0	0	1	1				
	%	.0	.0	5.0	1.7				
Total	Cunt	20	20	20	60				
	%	100	100	100	100				

Note: LO = Loan Officer; FC = Female Customer; MC = Male Customer.

The respondents were asked to respond regarding the loan application and disbursement procedure for SME banking

service in Bangladesh. The responses are summarized in table-4.

Table-4 shows those 25% respondents are strongly disagree ; 40% respondents are disagree; 23.3% respondents are neutral and only 1.7% respondents are strongly agree on the loan application and disbursement Procedure for SME banking service in Bangladesh. In order to test whether there is significant difference between the opinions of the respondents, we conducted χ^2 test using SPSS software. Accordingly we develop a null hypothesis as follows:

Ho: There is no significant difference between the opinions of the respondents regarding the loan application and disbursement Procedure for SME Banking in Bangladesh

The χ^2 value obtained from using SPSS software is 32.51 and p value is 0.215. Thus we observe that our null hypothesis is accepted which means that there is no significant difference among the opinion of the respondents regarding the loan application and disbursement Procedure for SME service and mode value 2 indicates disagree of the respondents group.

5.5. Opinion of the Respondents Regarding the Loan Recovery System of SME Banking

The respondents were asked to respond regarding the loan recovery system of the SME banking in Bangladesh. The responses are summarized in table-5.

Table 5. The Loan Recovery System of the SME Banking

Particulars		Occupation			Total	Mode	χ^2	df	Sig.
		LO	FC	MC					
Strongly disagree	Count	0	1	0	1	3	5.90	8	.658
	%	.0	5.0	.0	1.7				
Disagree	Count	7	4	5	16				
	%	35.0	20.0	25.0	26.7				
Neutral	Count	5	5	7	17				
	%	25.0	25.0	35.0	28.3				
Agree	Count	8	10	7	25				
	%	40.0	50.0	35.0	41.7				
Strongly agree	Count	0	0	1	1				
	%	.0	.0	5.0	1.7				
Total	Count	20	20	20	60				
	%	100	100	100	100				

Note: LO = Loan Officer; FC = Female Customer; MC = Male Customer.

Table-5 shows that 1.7% respondents are strongly disagree; 26.7% respondents are disagree; 28.3% respondents are neutral; 41.7% respondents are agree and 1.7% respondents are strongly agree on the loan recovery system of the SME banking system in Bangladesh. The significance of the differences was tested by undertaking a Pearson Chi-Square test (χ^2) to find any relationship between respondents' user groups and the loan recovery system of the SME banking. The following null-hypothesis was tested to ascertain whether there is a difference among user groups in this regard.

$H_0 =$ There is no significant difference among respondent groups regarding their opinion on the loan recovery system of the SME banking in Bangladesh

The results of the Pearson χ^2 test showed that the loan recovery system of the SME banking is not statistically significant among the respondent groups at the 5% (Chi-Square=5.90, df=8, P=0.658). This indicates that there is homogeneity in opinion on the loan recovery system of the

SME banking between the respondent groups and mode value 3 indicates opinion of the respondents is neutral.

5.6. Opinion of the Respondents Regarding the Benefited by SME Banking

The respondents were asked to respond regarding the benefited by SME. The responses are summarized in table-6:

Table 6. The benefited by SME Banking

Particulars		Occupation			Total	Mode	χ^2	df	sig
		LO	FC	MC					
Neutral	Count	2	6	6	14				
	%	10.0	30.0	30.0	23.3				
Agree	Count	6	11	11	28	2	13.07	4	.011
	%	30.0	55.0	55.0	46.7				
Strongly Agree	Count	12	3	3	18				
	%	60.0	15.0	15.0	30.0				
Total	Count	20	20	2	60				
	%	100	100	100	100				

Note: LO = Loan Officer; FC = Female Customer; MC = Male Customer.

Table-6 shows that 23.3% respondents are neutral; 46.7% respondents are agree and 30% respondents are strongly agree on the benefited by SME banking service in Bangladesh. The significance of the differences was tested by undertaking Pearson Chi-Square test (χ^2) to find any relationship between respondents' user groups and the benefited by SME banking. The following null-hypothesis was tested to ascertain whether there is a difference among user groups in this regard.

$H_0 =$ There is no significant difference among respondent groups regarding their opinion on the benefited by SME Banking in Bangladesh

The results of the Pearson χ^2 test showed that the benefited by SME banking is statistically significant among the respondent groups at the 5% level (Chi-Square=13.07, df=4, P=0.011). This indicates that there is no homogeneity in opinion on the benefited by SME banking between the respondent groups but mode value 2 indicates clients are benefited from the SME banking service in Bangladesh.

6. Major Findings

This analysis performed by the chi-square test by using SPSS software based on respondents opinion. After analyzing the paper revealed the following key findings Most of the respondents groups are opinion that (i) terms and condition of SME loan is disagree (ii) SME loan application and disbursement procedure is complex. So the commercial banks and financial institutions must have to take necessary measures to make it easier. (iii) High charges of interest on SME loan.

7. Conclusion

In this paper a comprehensive analysis has been made about the An Opinion Survey of SME Banking Systems: Problems and Prospects in Bangladesh. Respondents were categorized on the basis of their occupation and gender as like Bank Loan officer, female customer and Male customer. The Chi-Square tests were carried out to test the nominated null-hypotheses. It is observed from the analytical results that the respondents' opinion is dissatisfactory of the some aspect of the SME Banking Systems in Bangladesh. Such dissatisfaction indicates that the existing SME Banking services of Bangladesh are not capable of meeting the users' needs. It demands appropriate remedial measures for improving SME Banking service as early as possible.

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