

A Comparative Analysis on Sector-based SMEs in terms of Loan Disbursements by Financial Institutions in Bangladesh

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Abstract

The amount of disbursed loans in the SMEs of Bangladesh is higher than the determined target, but the existing literature indicates that there is limited access to institutional loans for SMEs. It is a matter of research if any specific sub-sector in SMEs is getting a higher amount of disbursed loans compared to other sub-sectors in proportion to the number of loan recipients. The findings reveal that the trade sub-sector in SMEs had been getting a much higher amount of disbursed loans previously in comparison with the service and manufacturing sub-sectors. But now under new rules of the concerned authority of Bangladesh, as there is no existence of trade sub-sector in medium industry, the growth rate of the amount of disbursed loans in manufacturing and service sub-sectors has increased compared to the growth rate for manufacturing sub-sector.

Keywords: SME Loan Disbursement, SME Financing, SMEs in Bangladesh, Sector-based SMEs.

1.0 Background

Small and medium enterprises have been regarded as the lifeblood of local trade, commerce and industry (Uddin, 2014). SMEs play an important role in the generation of employment as well as accelerating the nation's economic development (Noor and Arif, 2011). They are contributing to the alleviation of poverty and accelerating quick industrialization for the developing countries (Chowdhury and Ahmed,

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2011). Along with poverty alleviation, SMEs also can decrease urban migration and increase the cash flow in rural and remote areas (Rouf and Islam, 2015). They help in generating adequate employment, increasing aggregate production and maximizing the resources (Qamruzzaman and Jianguo, 2018).

SMEs are contributing around 25% of GDP in Bangladesh (Uddin, Mollah and Rubina, 2015) and they have important impacts on the growth of the economy too (Hoque, Sultana and Thalil, 2016). Bangladesh government has been emphasizing the rapid growth of the SMEs because of their significant role in poverty alleviation, employment generation and economic development (Hoque, Sultana and Thalil, 2016). Many new small enterprises have been being established each year, but most of them do not transform into a medium stage (Abdin, 2016). Numerous SMEs have been closing down in Bangladesh within a few years of their start-up due to lack of finance, proper strategy and poor relationship (Hoque, 2018).

Access to finance means that SMEs have no hindrances and barriers in getting financial help and assistance such as deposits and loans, at an affordable cost (Chowdhury and Alam, 2017). Financing is a crucial aspect that helps SMEs through the way of development and acceleration (Khatun and Rahman, 2012). One of the main problems in SMEs is the lack of formal financing and credit constraints (Rahman, Rahman and Kljucnikov, 2016).

Not only in developing countries but also in developed countries, any barrier in getting easy access to finance is considered a major problem and this happens due to some reasons such as information asymmetry between the loan recipients and loan providers (Rahman, Rahman and Ključnikov, 2016). As we know, in the modern and advanced financial system, reliable and sufficient information are the key tools for having a safe and sound investment. The information gap can cause investment more risky and vulnerable (Anwar, 2016).

SMEs have lacked in access to government and institutional financing facilities, also they have lack of incomplete accounting records and the inefficient use of accounting systems (Jahur and Quadir, 2012). Almost two decades ago, half of the SMEs had no access to formal sources of funds and 35.79% of SMEs enjoyed unrestricted access to formal credit and the rest of SMEs (13.68%) had restricted access to institutional credit (Chowdhury and Ahmed, 2011). In 2015, it was shown in a paper that only 30% of SMEs have access to institutional finance (Chowdhury, 2015).

1.1 Definition of SMEs in Bangladesh

From country to country, the definition of SMEs varies (Chowdhury and Alam, 2017). In the National Industrial Policy of Bangladesh 2016, the Ministry of Industries defined SME as the business entities which are not public limited companies and have the following criterion.

Table 1
Definition of SMEs in Bangladesh

Sector	Sub-sector	Fixed Assets Excluding Land & Buildings	Employees	Loan Limit
Small	Service	BDT 10 lakhs-2 crores	16-50	BDT 5 crores
	Trade	Less than BDT 10 lakhs	0-15	BDT 25 lakhs
	Manufacturing	BDT 75 lakhs-15 crores	31-120	BDT 20 crores
Medium	Service	BDT 2 crores-30 crores	51-120	BDT 50 crores
	Trade	BDT 10 lakhs-2 crores	16-50	BDT 5 crores
	Manufacturing	BDT 15 crores-50 crores	121-300; for garments, minimum 1000	BDT 75 crores

(Ministry of Industries, 2016)

1.2 Volume & Growth Rate of the Contribution of SMEs in the GDP of Bangladesh

In the below table, it is seen that the growth rate of the contribution of small-cottage and medium-large manufacturing enterprises in the GDP of Bangladesh is up-warding. In 2013-14, the rate decreased a little bit but since then, the SME sector has been attaining much growth in contributing GDP of Bangladesh.

Table 2
Volume & Growth Rate of the Contribution of Manufacturing Sub-sector in GDP (Crore BDT)

Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Small-Cottage	22,569	24,558	26,113	28,343	30,909	33,946	37,456
Growth Rate	6.58%	8.81%	6.33%	8.54%	9.06%	11.20%	13.18%
Medium-Large	97,998	1,08,436	1,18,540	1,31,225	1,47,314	1,63,820	1,86,372
Growth Rate	10.76%	10.65%	9.32%	10.70%	12.26%	9.82%	13.77%
Total Amount	1,20,567	1,32,994	1,44,653	1,59,568	1,78,223	1,97,765	2,23,828
Growth Rate	9.96%	10.31%	8.77%	10.31%	11.69%	10.97%	10.34%

(Ministry of Finance, 2018)

1.3 Recent Financing Policies & Loan Disbursement in SMEs of Bangladesh

According to a Ministry of Finance report in 2018, SME loan disbursement target has been revised to 20% of the total loan portfolio for 2017 which should be increased to 25% by 2021 with a minimum of 1% increment per year. A target for at least 40% of the total SME loan portfolio for manufacturing, 25% for service and a maximum ceiling of 35% for trading have been instructed to be obtained by FIs and banks within 2021 (Ministry of Finance, 2018). The trade sub-sector from medium industry has been abolished and therefore, there has been no loan disbursement in that sub-sector since 2018 (Ministry of Finance, 2018).

There are three main aspects of SME loan disbursement in Bangladesh like for (a) start-up capital, (b) working capital and (c) fixed capital. Problems in access to these types of capital affect the growth and acceleration of SMEs in Bangladesh. For this reason, access to finance by SMEs has been remained one of the biggest problems for start-up new SMEs and operating existing SMEs in Bangladesh (Chowdhury and Alam, 2017).

The whole financial sector of Bangladesh has been playing an important role in financing SMEs under the rules, regulations and supervision of Bangladesh Bank (Uddin, 2016). The financial sector of Bangladesh is comprised of banking and non-banking financial institutions. Except for the formal sector, there are semi-formal and informal sectors too for SME financing in Bangladesh. The semi-formal sector encompasses the institutions which are regulated but do not fall under the criteria of Bangladesh Bank such as specialized financial institutions, NGOs etc. The informal sector is comprised of private intermediaries that are fully unregulated and unregistered in most cases (Bosri, 2016). In this report, SME financing from only the formal sources will be described and analyzed.

Table 3
Banking System Structure of Bangladesh

Bank Type	Number of Banks	Number of Branches	Total Assets (Billion BDT)	Share of Industry Assets	Deposits (Billion BDT)	Share of Deposits
SCBs	6	3721	3379.52	25.88%	2700.63	27.35%
DFIs	2	1407	317.59	2.43%	273.32	2.77%
PCBs	40	4758	8758.30	67.07%	6508.19	65.9%
FCBs	9	69	603.86	4.62%	392.75	3.98%
Total	57	9955	13059.27	100%	9874.89	100%

(Bangladesh Bank, 2018)

As the following table demonstrates, in recent years, the achieved status for disbursing loans in the SMEs of Bangladesh is higher than the determined target.

Table 4
Target Accomplishment for Loan Disbursements in SMEs of Bangladesh
(Crore BDT)

Year	Targeted Amount	Disbursed Amount	Achieved Target
2010	38,858.12	53,543.93	138%
2011	56,940.13	53,719.44	94%
2012	59,012.78	69,753.42	118%
2013	74,186.87	85,323.25	115%
2014	89,030.94	100,910.15	113%
2015	104,586.49	115,870.48	111%
2016	113,503.00	141,935.39	125%
2017	133,853.59	161,768.30	121%

(Ministry of Finance, 2018)

1.4 Scope

There are lots of papers about financing as well as loan disbursements in SMEs of Bangladesh (Islam, Yousuf and Rahman, 2014). The papers about SME financing in Bangladesh have been discussing lack of finance or limited access to finance, but the SME financing report shows us that in recent years, the loan disbursed in SMEs had been even being much higher than the determined target as discussed earlier. Can it be a reason that the amount of loans disbursed by different types of financial institutions in a particular sub-sector of SMEs is much higher than other sub-sectors in proportion with the loan recipients in each sub-sector considering the loan limit? In this study, the number of loan recipients and the amount of disbursed loans in each sub-sectors of SMEs by different types of financial institutions will be shown to have a clear understanding of the fact that whether the amount of disbursed loans in a particular sub-sector is much greater or not than other sub-sectors of SMEs in Bangladesh. The data for categorized year-wise SME loan disbursement by different types of financial institutions can be collected from the Bangladesh Bank SME financing database. After the collection of data, it will be processed and analyzed by software programs.

1.5 Objectives

The main objective of this research is to assess the present loan disbursement scenario in the three sector-based SMEs in Bangladesh and to analyze whether there are any barriers in disbursing loans to these. The specific objectives are the followings:

- ❖ Assess the recent scenario of SMEs in accessing loans from the formal sources of funds provided by different types of financial institutions in Bangladesh.
- ❖ Compare and analyze the amount of disbursed loans in sector-based SMEs (service, trade and manufacturing) by banks and FIs in response to the number of loan recipients.
- ❖ Expose the problems in SME financing and provide recommendations for superior SME financing performance in response to the current policies in Bangladesh.

1.6 Methodology

This is an extensive study about the SME loan disbursements in its all sub-sectors with analyses by the different types of financial institutions in Bangladesh. The quantitative data have been collected from the secondary sources and processed through the MS Excel software program to make the research more informative, useful and analytical for the concerned ones. The tables are demonstrated elaborately to understand and compare the differences whether there is any barrier in providing loans to the three different sub-sectors of SMEs.

2. Literature Review

Considering a noticeable contribution of SMEs to GDP like other developing countries, SMEs in Bangladesh are getting the distinctive attention of policymakers, financial specialists and economic analysts. Still, SMEs cannot perform according to their full potential due to some constraints, particularly due to limited access to financing. So many studies have been suggesting that the limited access to financing is the most critical negative force that hindrances SMEs' performance in Bangladesh in full potential (Qamruzzaman and Jianguo, 2018). Earlier studies also suggested that access to finance was the main constraint for the development of SMEs (Siddiquee, Islam and Rahman, 2006).

In many studies, it has been being shown that banks and financial institutions disburse SME credit to different sub-sectors of SMEs like service, trade and manufacturing. In 2016, the SME loan disbursements increased up to 23.11% compared to the previous year in 2015 (Maniruzzaman, 2017). Though the amount of loan disbursed in SMEs has been increasing day by day, SMEs only get 37.8% of the total amount of disbursed loans, the rest 62.2% of the amount of loans is procured by the large industries in 2016 (Bosri, 2016). Also, in 2017, the amount of disbursed loans in SMEs was higher than the previous year by

9.77%, although the disbursed amount was 121% higher than the determined target (Ministry of Finance, 2018).

SMEs are not preparing proper financial statements that create problems for banks to judge financial standings and therefore, there is a problem in financing. Also, SMEs are not maintaining proper licensing that makes SMEs difficult to trace, create more problems and decrease SMEs' credibility to bankers and credit providers (Roy *et al.*, 2015). Even in another study before, it was found that SMEs were not maintaining and keeping all the records of their financial transactions in a systematic method. Therefore, they were facing problem to provide adequate financial information to the bankers and loan providers in FIs about their organization and had lacked in their managerial capabilities to run the organization (Jahur and Quadir, 2012). Not only keeping the records of financial transactions but also SMEs are not eager to register in concerned authority. But it had been found before there is no significant evidence that the main reason behind this is lack of information, rather it is thought that this situation is because of the indirect costs involved in registration and/or they perceive low benefits from it (Giorgi and Rahman, 2013).

Based on a report earlier in the previous decade, SMEs were not much entering in manufacturing sub-sector because of limited access to credit (Alauddin, Rahman and Rahman, 2015). Still, nowadays the most amount of disbursed loans in SMEs goes to the trade sub-sector (Bangladesh Bank, 2019). But it has been recently found that the sector-wise growth rate of SME financing is somehow uncertain due to various reasons (ACMA, 2015). But that is not a matter of worry because it contained the data of SME financing only for two years.

Another important barrier of SMEs' access to finance in the formal sector is the lack of diversified and customized products available at banks and many other leasing companies (Hossain, 2013). Also, there are specific bureaucratic processes to accelerate the availability of funds to SMEs (Khatun and Rahman, 2012). Sometimes, the SME loan is disbursed based on nepotism and favoritism which are common practices in Bangladesh (Khan *et al.*, 2012). Therefore, it was suggested that better lending processes and infrastructures can make important improvements in SME loan availability mainly by having the scope to use various lending technologies (Bhuiya and Uddin, 2007).

For instance, it was also recommended that the banks and FIs can adopt m-banking for SME loans because of low-cost service as the internet is

now available in most of the places in Bangladesh (Ahad, Dyson and Gay, 2012). Still, it is suggested that only well-functioned SME financing is a necessary condition but not sufficient for achieving the full potential of Bangladeshi SMEs. So, the government must try to establish a more cost-effective and innovative way for SME financing (Qamruzzaman and Jianguo, 2018).

The adoption of e-commerce has been regarded as a cost-effective way to finance SMEs in Bangladesh by many studies at present and earlier (Hossain, 2016). But still, some of the loan recipients think that SME banking services are dissatisfactory in Bangladesh (Rouf and Islam, 2015). Lack of awareness regarding the benefits of e-finance, limited access to ICT, insufficient infrastructure, lack of appropriate rules and regulations and insecurity of online transactions, all together act as barriers for the application of e-finance system in SMEs of Bangladesh (Riyadh, Bunker and Rabhi, 2010).

Another important reason that hinders SMEs to get loans from the FIs is because of their inability to produce collateral of fixed assets to the FIs (Chowdhury and Alam, 2017). Collateral is not useful for SMEs to have access to credits from the small banks and also there is not enough evidence that collateral is not going to help reduce the SME loans' default rates (Rahman, Rahman and Ključnikov, 2016). More diversified collateral-free loans should be provided and the government needs to revise the rates of interest for the loans disbursed in the SMEs (Rahmatullah, Mukul and Islam, 2014). The interest rates should be lowered and it is a must for the entrance of SMEs towards availability of credits (Uddin, 2014). Furthermore, the proper bridging between microfinancing and SME financing shall ensure the sustainable growth of the SME sector that will have a significant positive impact on the overall macroeconomic growth of the nation (Hasan and Islam, 2008).

3. Data Analysis and Presentation

3.1 Comparison between the Percentage of the Number of Loan Recipients & the Amount of Disbursed Loans

Table 5
Percentage of the Number of Loan Recipients from & the Amount of Disbursed Loans by Different Types of Financial Institutions in All Sub-sectors of SMEs in Bangladesh

Year	Percentage of the Number of Loan Recipients in Service Sub-sector	Percentage of the Number of Loan Recipients in Trade Sub-sector	Percentage of the Number of Loan Recipients in Manufacturing Sub-sector	Percentage of the Number of Total Loan Recipients in All Sub-sectors of SMEs	Percentage of the Amount of Disbursed Loans in Service Sub-sector	Percentage of the Amount of Disbursed Loans in Trade Sub-sector	Percentage of the Amount of Disbursed Loans in Manufacturing Sub-sector	Percentage of the Total Amount of Disbursed Loans in All Sub-sectors of SMEs
Total Financial Sector								
2014	7.2%	81.3%	11.5%	100.0%	7.8%	62.2%	30.0%	100.0%
2015	7.1%	80.4%	12.5%	100.0%	10.1%	63.3%	26.6%	100.0%
2016	9.0%	78.8%	12.3%	100.0%	11.3%	63.2%	25.5%	100.0%
2017	10.5%	74.9%	14.6%	100.0%	14.6%	57.7%	27.7%	100.0%
2018	16.6%	66.1%	17.3%	100.0%	24.8%	39.1%	36.1%	100.0%
Banking Sector								
2014	7.0%	81.7%	11.3%	100.0%	7.4%	62.7%	30.0%	100.0%
2015	6.6%	81.0%	12.4%	100.0%	9.7%	63.9%	26.4%	100.0%
2016	8.4%	79.5%	12.2%	100.0%	10.9%	63.7%	25.3%	100.0%
2017	10.2%	75.3%	14.5%	100.0%	14.2%	58.2%	27.6%	100.0%
2018	16.6%	66.0%	17.4%	100.0%	24.8%	38.9%	36.3%	100.0%
State-owned Commercial Banks								
2014	10.8%	85.5%	3.7%	100.0%	4.8%	78.1%	17.2%	100.0%
2015	5.1%	82.8%	12.2%	100.0%	5.2%	69.1%	25.7%	100.0%
2016	4.1%	85.0%	10.9%	100.0%	5.4%	63.6%	31.0%	100.0%
2017	7.2%	76.9%	15.9%	100.0%	4.3%	63.9%	31.8%	100.0%
2018	4.5%	86.4%	9.2%	100.0%	6.2%	60.6%	33.2%	100.0%
Specialized Banks								
2014	4.2%	71.7%	24.0%	100.0%	5.6%	55.5%	39.0%	100.0%
2015	3.1%	90.7%	6.2%	100.0%	3.3%	73.4%	23.3%	100.0%
2016	5.5%	89.4%	5.1%	100.0%	6.9%	69.5%	23.6%	100.0%
2017	18.4%	71.9%	9.7%	100.0%	15.8%	64.0%	20.2%	100.0%
2018	32.3%	56.6%	11.2%	100.0%	14.4%	55.4%	30.2%	100.0%
Foreign Banks								
2014	30.2%	61.0%	8.8%	100.0%	16.7%	39.6%	43.8%	100.0%
2015	29.2%	54.1%	16.7%	100.0%	17.2%	37.6%	45.2%	100.0%
2016	19.1%	64.8%	16.1%	100.0%	16.8%	58.3%	24.9%	100.0%
2017	14.7%	56.3%	29.0%	100.0%	11.6%	55.2%	33.2%	100.0%
2018	11.6%	29.0%	59.4%	100.0%	16.5%	33.2%	50.2%	100.0%

Year	Percentage of the Number of Loan Recipients in Service Sub-sector	Percentage of the Number of Loan Recipients in Trade Sub-sector	Percentage of the Number of Loan Recipients in Manufacturing Sub-sector	Percentage of the Number of Total Loan Recipients in All Sub-sectors of SMEs	Percentage of the Amount of Disbursed Loans in Service Sub-sector	Percentage of the Amount of Disbursed Loans in Trade Sub-sector	Percentage of the Amount of Disbursed Loans in Manufacturing Sub-sector	Percentage of the Total Amount of Disbursed Loans in All Sub-sectors of SMEs
Private Banks								
2014	6.2%	82.2%	11.7%	100.0%	7.5%	62.1%	30.4%	100.0%
2015	6.6%	75.5%	17.9%	100.0%	8.7%	64.7%	26.6%	100.0%
2016	9.8%	71.6%	18.5%	100.0%	11.1%	63.6%	25.4%	100.0%
2017	12.7%	66.9%	20.5%	100.0%	15.3%	57.4%	27.3%	100.0%
2018	23.5%	50.5%	26.0%	100.0%	30.1%	35.5%	34.4%	100.0%
Islamic Banks								
2015	6.9%	86.4%	6.7%	100.0%	11.9%	62.0%	26.1%	100.0%
2016	7.8%	86.7%	5.5%	100.0%	11.9%	64.0%	24.1%	100.0%
2017	8.8%	83.2%	8.0%	100.0%	15.0%	58.1%	27.0%	100.0%
2018	12.3%	78.6%	9.1%	100.0%	22.7%	37.9%	39.5%	100.0%
NBFIs								
2014	17.9%	64.0%	18.1%	100.0%	22.9%	46.4%	30.7%	100.0%
2015	20.2%	63.8%	16.1%	100.0%	23.0%	45.5%	31.5%	100.0%
2016	21.2%	65.4%	13.5%	100.0%	19.9%	50.9%	29.2%	100.0%
2017	19.4%	62.8%	17.8%	100.0%	23.8%	46.0%	30.2%	100.0%
2018	17.2%	66.4%	16.4%	100.0%	24.1%	44.9%	31.0%	100.0%

(Authors' own Calculations based on SME Financing Data, Bangladesh Bank, 2019)

In the above table, it is shown that from 2014 to 2018, the trade sub-sector received the highest portion of the amount of disbursed loans compared to the service and manufacturing sub-sectors of SMEs in Bangladesh. In 2018, as the trade sub-sector had been abolished from the medium industry, the amount of disbursed loans in trade sub-sector decreased dramatically. But the state-owned commercial banks and specialized banks are still focusing on the trade sub-sector though the ceiling for loan disbursement in trade sub-sector is 35% under new rules and regulations of the concerned authority. Also, under the new rules of loan disbursements, the trade sub-sector has a ceiling of 35% of the total SME loan portfolio, at least 40% for manufacturing and another 25% for service SMEs have been being followed by the banks and financial institutions as discussed in the paper.

3.2 Comparison between Growth Rate of the Number of Loan Recipients & the Amount of Disbursed Loans

Table 6
Growth Rate of the Number of Loan Recipients from & the Amount of Disbursed Loans by Different Types of Financial Institutions in All Sub-sectors of SMEs in Bangladesh

Year	Growth Rate of the Number of Loan Recipients in Service Sub-sector	Growth Rate of the Number of Loan Recipients in Trade Sub-sector	Growth Rate of the Number of Loan Recipients in Manufacturing Sub-sector	Growth Rate of the Number of Total Loan Recipients in All Sub-sectors of SMEs	Growth Rate of the Amount of Disbursed Loans in Service Sub-sector	Growth Rate of the Amount of Disbursed Loans in Trade Sub-sector	Growth Rate of the Amount of Disbursed Loans in Manufacturing Sub-sector	Growth Rate of the Amount of Disbursed Loans in All Sub-sectors of SMEs
Total Financial Sector								
2015	-26.9%	-26.6%	-18.7%	-25.7%	32.1%	4.3%	-9.1%	2.5%
2016	23.3%	-4.0%	-4.0%	-2.1%	35.2%	20.3%	15.6%	20.6%
2017	29.5%	5.3%	31.8%	10.7%	42.5%	0.6%	19.9%	10.3%
2018	36.8%	-23.8%	2.5%	-13.6%	70.7%	-31.7%	31.1%	0.7%
Banking Sector								
2015	-30.5%	-27.4%	-19.6%	-26.7%	33.8%	4.2%	-9.8%	2.2%
2016	22.3%	-5.0%	-4.5%	-3.2%	34.9%	19.0%	14.3%	19.3%
2017	37.8%	6.8%	34.0%	12.7%	42.6%	0.4%	19.8%	9.9%
2018	41.0%	-23.9%	3.8%	-13.3%	76.5%	-32.6%	32.8%	0.9%
State-owned Commercial Banks								
2015	-52.9%	-2.7%	229.5%	0.6%	86.2%	49.9%	154.2%	69.5%
2016	-27.6%	-8.6%	-20.2%	-11.0%	12.3%	0.2%	31.0%	8.8%
2017	186.0%	49.1%	139.8%	64.6%	-15.6%	5.4%	7.7%	5.0%
2018	-57.1%	-22.9%	-60.5%	-31.3%	56.9%	4.5%	15.0%	10.1%
Specialized Banks								
2015	-65.6%	-40.7%	-87.9%	-53.1%	-88.6%	-74.3%	-88.4%	-80.6%
2016	96.4%	9.3%	-9.1%	10.9%	90.8%	-14.4%	-8.4%	-9.6%
2017	-13.2%	-79.2%	-51.0%	-74.1%	60.5%	-35.7%	-40.1%	-30.1%
2018	69.7%	-23.9%	11.5%	-3.2%	54.9%	47.0%	153.4%	69.8%
Foreign Banks								
2015	-75.8%	-77.8%	-52.5%	-74.9%	-18.8%	-24.9%	-18.6%	-21.1%
2016	-33.0%	22.7%	-1.2%	2.4%	25.6%	98.5%	-29.5%	28.1%
2017	-16.6%	-6.2%	93.8%	7.9%	2.0%	39.6%	97.1%	47.5%
2018	-9.0%	-40.2%	137.8%	16.0%	38.9%	-41.2%	47.7%	-2.4%
Private Banks								
2015	-59.8%	-65.5%	-42.6%	-62.5%	-35.8%	-42.3%	-51.5%	-44.6%
2016	51.4%	-3.8%	5.1%	1.4%	41.1%	9.3%	6.2%	11.3%
2017	27.8%	-7.3%	9.6%	-0.7%	62.8%	6.1%	26.6%	17.6%
2018	83.0%	-25.7%	24.9%	-1.6%	109.6%	-34.0%	34.1%	6.6%
Islamic Banks								
2016	5.4%	-6.1%	-23.5%	-6.5%	31.8%	36.3%	21.9%	32.0%
2017	34.4%	13.7%	71.2%	18.4%	29.6%	-6.6%	14.9%	2.9%
2018	14.2%	-22.8%	-6.6%	-18.2%	38.8%	-40.1%	34.6%	-8.1%

Year	Growth Rate of the Number of Loan Recipients in Service Sub-sector	Growth Rate of the Number of Loan Recipients in Trade Sub-sector	Growth Rate of the Number of Loan Recipients in Manufacturing Sub-sector	Growth Rate of the Number of Total Loan Recipients in All Sub-sectors of SMEs	Growth Rate of the Amount of Disbursed Loans in Service Sub-sector	Growth Rate of the Amount of Disbursed Loans in Trade Sub-sector	Growth Rate of the Amount of Disbursed Loans in Manufacturing Sub-sector	Growth Rate of the Amount of Disbursed Loans in All Sub-sectors of SMEs
NBFIs								
2015	30.6%	15.6%	3.0%	16.0%	12.8%	10.3%	15.1%	12.3%
2016	32.3%	29.3%	5.8%	26.1%	38.9%	79.6%	49.3%	60.7%
2017	-34.5%	-31.5%	-5.9%	-28.7%	41.5%	6.9%	22.2%	18.3%
2018	-32.7%	-19.3%	-29.7%	-23.8%	-3.1%	-6.9%	-1.9%	-4.5%

(Authors' own Calculations based on SME Financing Data, Bangladesh Bank, 2019)

As it is seen in the above table, without trade sub-sector in medium industry, the number of loan recipients has decreased in it by 2018; but the growth rate of the total number of SME loan recipients is decreased too by 13.6% in the total financial sector which is alarming. Also with no trade sub-sector in medium industry, the growth rate of the amount of disbursed loans in service and manufacturing sub-sectors has increased. But still the growth rate for the amount of disbursed loans in manufacturing sub-sector is much lower than the service sub-sector as the number of loan recipients from manufacturing sub-sector has not increased like the service sub-sector.

4. Findings

4.1 The Priority of Trade Sub-sector in Accessing SME Loans Has Decreased

As demonstrated in the data analysis and presentation part, banks and financial institutions in Bangladesh are contributing vitally for the development of SMEs by providing institutional credit to different sub-sectors of SMEs. Also, most of the amount of disbursed loans were going to the trade sub-sector of SMEs. But, under new rules of government, the trade sub-sector should only have a maximum ceiling of 35% of the SME loan portfolio and this has been gradually being achieved by the banks and financial institutions. As shown in table 5, this rule is now being followed by the FIs and banks in Bangladesh in disbursing SME loans.

4.2 Growth Rate of the Loan Disbursements in Manufacturing Sub-sector Is Low

Manufacturing sub-sector had a higher amount of loan limit, but most of the time, it could not get a higher percentage of the amount of disbursed loans in response to the percentage of their loan recipients which is similar to the findings of another study in 2015 (Alauddin, Rahman and Rahman, 2015). Under no existence of trade sub-sector in medium industry, the growth rate of the amount of disbursed loans in service and manufacturing sub-sectors of SMEs has increased as shown in table 6. But the growth rate of loan disbursements in the manufacturing sub-sector is still not up to the mark in comparison with the service sub-sector because the number of loan recipients in manufacturing sub-sector has not increased compared to the service sub-sector.

4.3 Number of Loan Recipients Has Decreased in All Types of Financial Institutions

As the trade sub-sector has been abolished by the concerned authority from the medium industry, it only exists in small industries. It had been receiving a higher amount of disbursed loans compared to the service and manufacturing sub-sectors of SMEs before and because of that, it was abolished from the medium industry. Now, as there is no existence of trade sub-sector in the medium industry, the total number of loan recipients in SMEs has decreased too which has been shown in table 6, because the loan recipients could not manage to switch to any other sub-sector of SMEs easily.

5. Recommendations & Conclusion

5.1 Recommendations

In a glimpse, the specific recommendations are the followings:

- ❖ The SME development and financing policies must be updated according to the demand. As the trade sub-sector was getting a higher portion of the amount of disbursed loans and therefore, this sub-sector had already been abolished from the medium industry. Therefore, the service and manufacturing sub-sectors of SMEs, particularly the medium industry will now get much easy access to institutional loans as shown in table 5. It is highly needed to have a different and flexible forecasted SME loan disbursement budget for each sub-sector in response to the demanded number of loan recipients.
- ❖ The growth rate of the amount of disbursed loans in the manufacturing sub-sector is still not up to the mark compared to

the service sub-sector of SMEs in Bangladesh as demonstrated in table 6. It needs to have a focus on it as the manufacturing sub-sector should nowadays receive 40% of the total SME loan portfolio and therefore, it needs to have an increased number of loan recipients.

- ❖ With no trade sub-sector in the medium industry, the total number of loan recipients in SMEs of Bangladesh has decreased by more than 10% as they cannot easily switch to any other sub-sector as shown in table 6. Policies can be taken and more facilities and subsidies can be provided to the loan recipients of manufacturing sub-sector so that people can be encouraged to start their business in manufacturing sub-sectors and to get easy loans with facilities.

5.2 Conclusion

This study tries to find the current situation of loan disbursements in the small and medium enterprises by different types of financial institutions in Bangladesh. As discussed and described in the literature review part, SMEs are facing a lack of access or limited access to institutional funds but the recent five years' data shows that the amount of disbursed loans in SMEs is higher than the determined target of the concerned authority in Bangladesh. Therefore, it is a matter of question that maybe any specific sub-sector of SMEs is getting a much higher amount of disbursed loans and others are not getting enough amount of loans with respect to the number of loan recipients and considering the loan limit for each SME in different sub-sectors.

From the data analysis and presentation part, it is found that the trade sub-sector of SMEs in Bangladesh was getting a higher amount of disbursed loans compared to the service and manufacturing sub-sectors. That ultimately shows that the service and manufacturing sub-sectors in SMEs were having limited access to the disbursed loans by different types of financial institutions that supports the existing and mentioned literature.

Recently, the trade sub-sector has been abolished from the medium industry and the loan disbursement limit for each sub-sector has been imposed. Therefore, the trade sub-sector now can only get a maximum of 35% of the total SME loan portfolio. Still, the manufacturing and service sub-sectors should be disbursed at least 40% and 25% of the total SME loan portfolio. Banks and FIs are instructed to achieve this status for SME loan disbursements and they are currently working on it.

It is here recommended that the SME development and financing policies must be updated as to the current demand and it is also needed to have different and flexible forecasted SME loan disbursement budgets for each sub-sector for avoiding the focus of financing in a specific sub-sector of SMEs. All the SMEs need to be registered, they have to take advantages of using ICT for their business success. So, the government of Bangladesh and SMEs both have to do a lot of work for making SMEs reach their full potential to accelerate the development of SMEs.

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