



UNIVERSITI PUTRA MALAYSIA

***DETERMINANTS AND IMPACT OF BANK FINANCING ON THE
ECONOMIC AND NON-ECONOMIC PERFORMANCE OF SMEs IN
BANGLADESH***

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**DETERMINANTS AND IMPACT OF BANK FINANCING ON THE
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BANGLADESH**

By

NAFIZA AKTHER

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
in Fulfilment of the Requirements for the Degree of Master of Science**

November 2020

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DEDICATION

The first dedication is to Almighty Allah, who always blesses me with courage and hopes. I specially dedicate this thesis to my respective supervisor, who patiently corrected all my mistakes, assisting me with her words of assurance, advice, and best wishes. I am also thankful to my beloved husband for being supportive of me always.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Master of Science

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November 2020

Chairman : Zariyawati binti Mohd Ashhari, PhD
School : Business and Economics

Small and Medium Enterprises (SMEs) are seen as the most important drivers of country economic. Lack of capital will affect the contributions of SMEs to economic development. Thereby, bank financing may help SMEs in getting more funds to expand their business. However, some SMEs do not believe that this type of financing can help to improve their businesses. Hence, this study aims to identify the determinant factors of SMEs' bank financing. This study also examines the impact of bank financing on SMEs' economic and non-economic performances in Bangladesh.

In pursuit of these objectives, this study adopts a quantitative method by distributing 403 questionnaires to the SMEs in Bangladesh. The data are collected explicitly from the owners and managers based on the availability and easy access to the SMEs. In doing so, this study uses a non-probability sampling technique. Besides, the Statistical Package for the Social Sciences (SPSS) is used to run the analysis. Furthermore, the Pecking Order Theory and Agency Theory are applied to support the study's proposed relationships between variables and hypotheses.

The results of this study show that all the hypotheses are supported. The first seven hypotheses are developed under hypothesis one, revealing a significant relationship between determinants and bank financing. It indicates that SMEs take into account both internal and external factors during decisions on bank financing. Moreover, the results of hypotheses two and three are also supported and reveal that bank financing has a positive impact on SMEs' economic and non-economic performances in Bangladesh.

The study has significant theoretical and contextual contributions and implications on the banks' governing authorities, the central bank's financial policymakers, and SMEs. Conclusively, the findings also provide a series of guidelines to the SMEs in Bangladesh regarding on the determinant factors and considerations for availing bank financing.



Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

PENENTU DAN KESAN PEMBIAYAAN BANK TERHADAP PRESTASI EKONOMI DAN BUKAN EKONOMI PKS DI BANGLADESH

Oleh

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November 2020

Pengerusi : Zariyawati binti Mohd Ashhari, PhD
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Perusahaan Kecil dan Sederhana (PKS) merupakan pemacu utama kepada ekonomi sesebuah negara. Kekangan modal akan mempengaruhi sumbangan PKS dalam pembangunan ekonomi. Dengan itu, pembiayaan bank dapat membantu PKS meningkatkan lagi dana untuk mengembangkan perniagaan mereka. Walau bagaimanapun, terdapat sebilangan kecil PKS yang tidak percaya bahawa jenis pembiayaan ini dapat membantu meningkatkan perniagaan mereka. Oleh itu, kajian ini bertujuan untuk mengenal pasti faktor penentu pembiayaan bank oleh PKS. Kajian ini juga mengkaji kesan pembiayaan bank terhadap prestasi ekonomi dan bukan ekonomi PKS di Bangladesh.

Bagi mencapai objektif tersebut, kajian ini menggunakan kaedah kuantitatif dan sebanyak 403 borang soal selidik telah diedarkan kepada PKS di Bangladesh. Data ini dikumpulkan secara eksplisit daripada pemilik dan pengurus berdasarkan ketersediaan dan akses mudah kepada mereka. Dalam kajian ini, teknik persampelan bukan kebarangkalian telah digunakan. Selain itu, data yang diperolehi juga dianalisis menggunakan Statistical Packages for the Social Sciences (SPSS). Sementara itu, kajian ini turut menggunakan pendekatan Teori Pecking Order dan Teori Agensi untuk mengukur hubungan antara pembolehubah dan hipotesis.

Hasil kajian menyokong kesemua hipotesis. Tujuh hipotesis pertama telah dibangunkan di bawah hipotesis pertama, mendedahkan terdapat hubungan yang signifikan antara faktor penentu dan pembiayaan bank. Ini menunjukkan bahawa PKS mengambil kira faktor dalaman dan luaran dalam membuat keputusan pembiayaan bank. Selain itu, dapatan juga telah menyokong hipotesis kedua dan ketiga dengan menunjukkan bahawa pembiayaan bank memberi kesan positif terhadap prestasi ekonomi dan bukan ekonomi PKS di Bangladesh.

Hasil kajian ini memberikan sumbangan dan implikasi secara teori dan konteks yang penting kepada pihak bank, penggubal dasar kewangan bank pusat, dan PKS. Kesimpulannya, hasil kajian ini dapat dijadikan panduan kepada PKS di Bangladesh bagi mengetahui faktor penentu serta mempertimbangkan memanfaatkan pembiayaan bank.



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Leaving family and country to come abroad for the higher study was not easy at all. Nobody encouraged me in this regard, so I was worried and started feeling demotivated. At The morning of my proposal seminar, my supervisor Dr. Zariyawati texted me, "Nafiza I know you can do it, best of luck," hence, this one sentence acted like medication to continue my rollercoaster-like master's journey.

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Last but not least, I would like to thank my husband for giving me mental support throughout my master's journey.

This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Master of Science. The members of the Supervisory Committee were as follows:

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter focused on the background of the study, development of SMEs in Bangladesh, SMEs and financial institution in Bangladesh. Problem statement, research questions, research objectives, significance of the study, and structure of the research also has been highlighted elaborately. However, this chapter also focused on the aim of the proposed study and the role of SMEs financing to develop SMEs in Bangladesh.

1.2 Background of the Study

SMEs are the popular entity in developing countries, which plays an active role in developing globalization of the world economy. SMEs are ruling the developing economics businesses by providing substantial employment opportunities, contributing to poverty reduction, and generating significant incomes (Hassan & Mollah, 2018 and Aborampah, 2012). All over the world, SMEs have been playing an essential role in defending economic development along with increasing industrial productions. Particularly in less developed countries, SMEs are providing the necessary foundation for sustainable growth and income to their economics.

Also, updated data are showing that across the world, 95% of the enterprises are SMEs who generate jobs for approximately 60% of private-sector employment (Ayyagari, Demirguc-Kunt, & Maksimovic, 2011 and Quartey, Turkson, Abor, & Iddrisu, 2017). Among the industrialized countries, 99% of total enterprises were in Japan (D'imperio, 2015). Besides, according to the ministry of MSMEs in India, the country had 13 million SMEs, which is equivalent to 80% of the whole country's business (Fischer & Ghatak, 2010).

In South Africa, 91% of the private businesses are SMEs (Abor and Quartey 2010). It has been proven that SMEs are essential for economic growth in both developed and developing economies worldwide. However, from the global economic crises of 2008, SMEs are critically affected in developing countries. Although some SMEs have continuously struggled with revenues, lack of financial access and increased cost of credit, but other SMEs managed to recover fast (D'imperio, 2015). According to three-year data of the EU, the lack of adequate financing miserably affects SMEs growth rate (Figure 1.1).

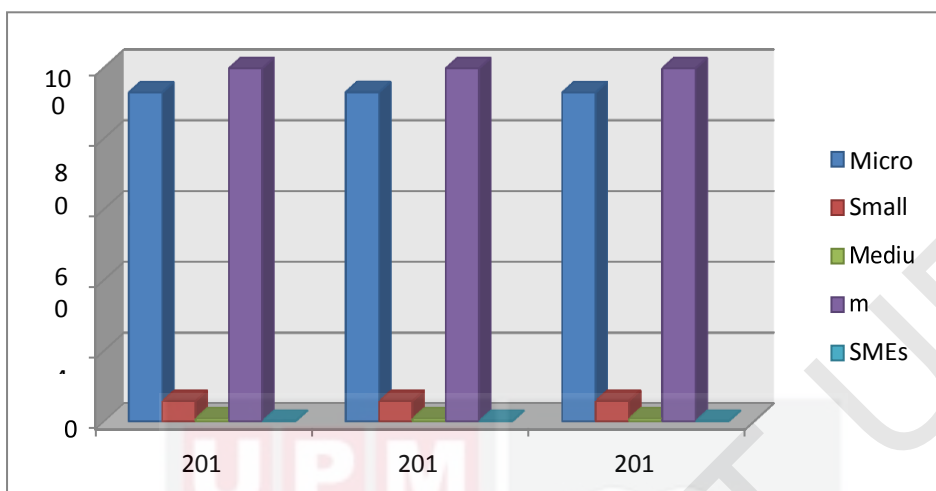


Figure 1.1 : Annual growth percentage for number of enterprises of EU-27, from 2017-2020

[Source: Hope, (2019) “Annual Report on European SMEs 2018/2019.”]

Further, the EU data for the three years from 2016 to 2018 shows that SMEs get limited opportunity to grow for the financial crises. The study also shows that the growth rate of total SMEs is stuck and affected, where it can be clearly seen that the large businesses are growing compare to small and medium enterprises. Hope (2019) stated that the lack of financing remains the major constraint for SMEs and their growth. Hence, it generally negatively impacts SMEs performance on employment and GVA (D’imperio, 2012).

Table 1.1 : Annual growth percentages for number of enterprises, employment and gross value added.

	Micro	Small	Medium	Total SMEs	Large
Enterprises					
2016	93.0	5.8	0.9	99.8	0.2
2017	93.1	5.8	0.9	99.8	0.2
2018	93.0	5.9	0.9	99.8	0.2
Employment					
2016	29.8	20.0	16.7	66.6	33.4
2017	29.4	20.0	17.0	66.4	33.6
2018	29.7	20.1	16.8	66.6	33.4
Gross Value Added					
2016	20.9	17.8	18.2	56.8	43.2
2017	20.8	17.6	18.3	56.8	43.2
2018	20.8	17.6	18.0	56.4	43.6

[Source: Hope, (2019) “Annual Report on European SMEs 2018/2019”]

Also, the contribution of SMEs to the economic fundamentals varies extensively across the countries. The SME's economic fundamentals contribute 16% of GDP in developing countries, where the SME sectors are typically large but informal. Additionally, the contribution increases by 51% of GDP in the high-income countries. Even then, limited access to finance remains the main restriction to SMEs in almost every developing country, which is the most typical scenario of Bangladesh (Chowdhury, 2015). Becoming a middle-income country is the current dream of Bangladesh. Bangladesh SME's contributions in this regard are incredible. In Bangladesh's national economy, SMEs play an essential role by developing over 90% of enterprises, which are creating job opportunities for 4 out of 5 industrial workers and have a value-added contribution to the country's GDP. However, some challenging factors are making Bangladeshi SMEs performance below the global standards (Bank, B. 2016). There are several kinds of factors affecting SME's access to formal financings. Additionally, Chowdhury, Azam, & Islam (2013) reported that SMEs could play a much more significant role in economic development. However, they are held back by the lack of ready access to institutional finance like; bank sectors (Table 1.2).

Table 1.2 : The disbursement of finance to SMEs by the banking sector in Bangladesh FY2016-17

	Total Amount (Taka billion)	Number of accounts	Average per account (Takamillion)	Number of enterprises	Average per enterprise (Takamillion)
Small	328.31	163,482	2.01	859,318	0.4
Medium	392.1	49,881	7.86	7,106	55.2
SMEs	720.41	213,363	3.38	866,424	0.8

[Source: Andrianaivo, Skamnelos, & Ndiaye. 2018.]

Table 1.2 presents the total disbursement of finance to SMEs by the banking sector in Bangladesh FY 2016-2017. In which the extreme indifference of SME financing of the banks of Bangladesh is visible. However, the total financing amount for small enterprise accounts to a mere 19%, which reveals that there are numerous small enterprises are financially un-served by the bank sector of Bangladesh.

However, Table number 1.3 presents the average financing demand and supply balance based on the average finance disbursements FY 2016-2017 of small and medium enterprises that have access to the bank financing in FY 2016-17. The table has shown that although the finance demand to the bank sector is 1,727.2, the supply is very diminutive according to demand. Thus, the gap is 1398.9, which means that SMEs receive only 1.23 percent of their demand from the Bangladesh banking sector (Andrianaivo, Skamnelos, & Ndiaye, 2018).

Table 1.3 : Financing Gap of small and medium enterprises FY 2016-17

	Average Demand (Taka million)	Number of SMEs	Total Demand (Taka billion)	Demand- supply balance (Taka Billion)
Demand	2.01	866,424	1,727.2	1,727.2
Supply				328.3
Financing gap				1,398.9

[Source: Andrianaivo, Skamnelos, & Ndiaye. 2018]

1.2.1 Overview of SME in Bangladesh

In many countries, SMEs are defined as firms employing people between 10 and 250. Firms with ten employees are known as micro firms. However, the definition of SMEs varies from country to country. SMEs' definition is defined by ranging from producer and business natures with non-tradable services as they are 'born global' suppliers of sophisticated products (Secretariat, 2016). Further, in Bangladesh, the current definition of SMEs is endorsed by Better Business Forum and approved as a consistent one by Bangladesh Bank and the industry's ministry. The existing definitions of small and medium enterprises are given below:

- a) Small enterprise is a kind of business, which is not the public limited company but must maintain the following criteria;

S.L.	Sector	Fixed asset other than land and building (Taka)	Employed manpower (not above)
1.	Service	50,000 – 50,00,000	25
2.	Business	50,000 – 50,00,000	25
3.	Industrial	50,000 – 1,50,00,000	50

[Source: Bangladesh Bank (BB) Small and Medium Enterprise (SMEs) Credit Policies & Programs.]

- b) Medium enterprise is the establishments or firm which is not the public limited company but must maintain the following criteria;

S.L.	Sector	Fixed asset other than land and building (Taka)	Employed manpower (not above)
1.	Service	50,00,000 – 10,00,00,000	50
2.	Business	50,00,000 – 10,00,00,000	50
3.	Industrial	1,50,00,000 – 20,00,00,000	150

[Source: Bangladesh Bank (BB) Small and Medium Enterprise (SMEs) Credit Policies & Programs.]

The total number of SMEs in Bangladesh is estimated to be 866,424, which contributes to the GDP up to 20% to 25% (Islam, Yousuf, Rahman, 2014, and Bangladesh Bureau of Statistics, BBS; 2013). The proposed study attempts to show Bangladeshi bank's contributions and inabilities to the SME sector. The research will also investigate the bank financing impact on SMEs' economic and non-economic performance in Bangladesh. The questionnaire will be included in the methodology as the data collecting tool, while primary sources will use for collecting the data.

SMEs are performing a crucial role in economic growth and industrialization in Bangladesh. In Bangladesh, SMEs are the vast potentials that create employment opportunities and work as the engine of GDP growth. SMEs have been established their positions in several production systems and have been getting immense appreciation in Bangladesh. Thus, it has been a proven fact that the SME sector is a significant medium of social cohesion and increasing wealth distribution in the country. Furthermore, SMEs recruit up to 70 to 80 percent of industrial workers and comprise over 95 percent of the businesses, where the large industry's coverage is three to four percent in Bangladesh. It is still not clear how much SME have expanded to the next level from their actual SME level.

However, from 1986 to 2002 the increased rate of SMEs was by 1900 every year, which proves the slow growth of the SMEs in Bangladesh (Uddin, 2014). Although SMEs are essential to Bangladesh's economic development, they are still not able to fully achieve their potentials due to inadequate access to finance. Limited financial access is the most detrimental factor affecting the growth and success of SMEs in the country (Chowdhury, & Alam, 2017)

1.2.2 SMEs and Financial Institutions in Bangladesh

It is globally acknowledged that SMEs are the significant powerhouse of increasing GDP, export business, unemployment reduction, and developing a socio-economic profile. More than ninety percent of firms outside agriculture are SMEs, who generate a significant portion of GDP in the developing countries (Anand, 2015). Bangladesh Bank (The central bank of Bangladesh) is trying to make institutional finance easier and safe for SMEs as they are playing a significant role in economic, employment, and industrialization growth in Bangladesh (Bangladesh Bank annual report, 2016).

Further, a survey of Bangladesh Bank's annual report (2016) stated that the loan disbursement for SMEs increases by 30.66 percent, and 67.15 percent between 2009 and 2010. Meanwhile, the report also stated that though between 2009 and 2014, the number of small enterprises increased by 43.14%, and medium enterprises increased by 28.48%, the expected growth outcome of the SME sector has not been achieved yet. Currently, Bangladesh has seven state-owned banks, thirty-two commercial banks, nine Islamic shariah based commercial banks, ten foreign commercial banks, and nine non-scheduled banks. So the total number of banks in Bangladesh is 58 except the central bank and non-scheduled banks. Nevertheless, still, the complications of financings to the SMEs are not

significantly decreased.

Additionally, the bank for the poor "Grameen Bank" is known for the micro-financing to the farmers and women entrepreneurs in Bangladesh. Grameen Bank provide microcredit to poor entrepreneurs without requiring collateral. The primary concern of Grameen Bank is to provide micro-financing to the poor farmers, women entrepreneurs, and micro-enterprises of the village.

However, non-bank financial institutions are giving some financial break to the SMEs. Non-bank financial institutions finance SMEs, especially when the SMEs turn from the complexity of the banks. In Bangladesh, there are approximately 35 non-bank financial institutions (Bangladesh Bank small and medium enterprise credit policies & programs, 2016). Not only banks but many other organizations like; SME foundation (SMEF), SME cell, Bangladesh small and cottage industries corporation (BSCIC), and the business promotion council are working for SMEs development.

Despite having so many national taskforces, Bangladeshi SMEs are still drowning in the unsuccessful business pool due to the lack of adequate financial access. However, eligible SME sectors for formal financing are also decided by Bangladesh Banks, and the list of eligible SMEs are given below.

Table 1.4 : The eligible SMEs sectors for the financings from banks and non-bank financial institutions in Bangladesh

Service	<ol style="list-style-type: none"> 1. Cyber café 2. Hospital and clinic 3. Hotel, restaurant and tourism 4. Transport and communication 5. Laboratory 6. Community center 7. Diagnostic center 8. Cable operators 9. Phone-Fax 10. Local transport 11. Warehouse and container service 12. Photography
Business	<ol style="list-style-type: none"> 1. Agro-based activities such as fishing, fish preservation and marketing 2. Agro-tools making and marketing 3. Nakshi Khata and handloom 4. Bakery 5. Hatchery 6. Dry fish processing 7. IT-based activities 8. Computer software and ICT goods 9. Horticulture, floriculture & flower marketing
	<ol style="list-style-type: none"> 10. Telecommunication 11. Mobile phone accessories 12. Handicrafts 13. Jute goods and jute mixed goods 14. Jewelry 15. Tailoring 16. Digital color lab 17. Electronics 18. Artificial flower making 19. Stuffed toys 20. Wholesale and retail shop 21. Drug house/Pharmacy 22. Phone-Fax 23. Local transport 24. Chatal business 25. Mobile set and accessories 26. Electronics business 27. Agro machinery/tools business 28. Fertilizer business 29. Clothing and shoe business 30. Hardware business 31. Crockery business 32. Grocery and chaff goods business 33. LP gas businesses 34. Commercial plantation 35. Molasses production 36. Fish cultivation (shrimp, telapia, pangas)

Table 1.5 : Continued

Industrial	<ol style="list-style-type: none">1. Agro-based and agro-processing industry2. Light engineering industry3. Plastic industry4. Stationery goods industry5. Leather and leather products6. Welding industry7. Partex industry8. Biogas plant9. Mini sugar mill10. Jute trading11. Silkworm and silk industry12. Stuffed toys13. Ice mill14. Iodized salt production15. Rice mill/Auto rice mill16. Rod and cement trading17. Oil and pulse mill18. Mini sugar mill
	<ol style="list-style-type: none">19. Cold storage20. Fishing boat building21. Old Iron goods22. Printing and packaging23. Cosmetics and toiletries24. Herbal medicine industry25. Stationery goods industry26. Frozen food and27. Optical frame manufacturing

[Source: Bangladesh Bank Small and Medium Enterprise Credit Policies & Programs, 2016.]

Generally, these sectors get financing facilities from banks and financial institutions in Bangladesh. Due to the different types of credit facilities, the progress of small and medium entrepreneurs is increasing, but this improvement is not optimistic as the SMEs are still facing the high-interest rate problem and much other complexity.

1.3 Problem Statement

The role of small and medium enterprises (SMEs) is crucial for all overall economic development of a country, especially for developing countries like Bangladesh. SMEs are also playing a vital role in some wealthy countries in Asia. However, at present, SMEs in Bangladesh have been hard hit by the global economic crises. SMEs have limited capital to access for their businesses, which may harm the performances of SMEs. Additionally, the global economic crisis makes a lot of inflexibility for SMEs in terms of getting finance from the banks. Hence, they have to go for other external financial excesses such as; financial institutions and non-bank financial institutions (Jackowicz, & Kozłowski, 2019 and Oecd, 2009).

Generally, the SMEs get financing for capital from three ways in Bangladesh. One of them is the informal sector, such as a loan from relatives, and the other two are from formal sectors, such as banks and non-bank financial institutions. However, SMEs are less interested in taking finance from the banks rather than the financial institutions because the financial institutions take less interest than the banks (Chowdhury, Azam, & Islam, 2015). Approximately, 80% of SMEs are more dependent on the financial institutions, NGOs and internal funds than the banks due to the high-interest rate charged by the banks. For example, non-bank financial institutions (NBFIs) charges a minimum of 11-16 % for SMEs compared to banks charges minimum 15-20 % per annum for several small and medium enterprises lending products (The Daily Star, 2017).

Further, SMEs also prefer to get the loan from relatives (Quartey, Turkson, Abor, & Iddrisu, 2017 and De la Torre, Martínez Pería & Schmukler, 2008) because it involves no cost and no procedure than formal sectors. Most SMEs are not interested to get financings from banks and financial institutions because of their procedure or financing and requirements. SMEs are required to prepare a lot of paperwork (Chowdhury, Azam, & Islam, 2015) in terms of getting finance from the formal sectors in Bangladesh, especially from banks. For example, SMEs need to fill-up lots of forms, prepare document papers, and provide proof of evidence papers for the application of financings.

In addition, the banks and financial institutions offer limited tenure financing to SMEs. They provide short term finance to SMEs. For example, in Bangladesh SMEs are requiring to pay the finance, which granted to them for six months to a maximum of 2 years (Rahmatullah, Mukul, and Islam, 2014). However, SMEs need a longer repayment period for granted the finance, because sometimes they have limited cash flow due to fluctuating profit.

On the other side, some bank cannot provide long-term financings due to limited sources because of assets decreases. In the past few years, some banks have faced financial corruption. For example, BASIC banks, Jonota Bank, Sonali Bank, Krishi Bank, finally Bangladesh Bank (the Central Bank of Bangladesh) are amongst the victim of this financial corruption. The emergence of political instability is a threat to most industry including the banking industry. Due to political instability, sources of investments and the number of bank assets are decreasing to finance SMEs for a longer period (Rahmatullah, Mukul, 2014).

Further, high collateral demand and even then not getting the desired or applied amount is also core issue between the banks and SMEs in Bangladesh. For example, to apply for \$1 million SMEs have to show the asset as collateral more than \$1 million to get the finance. Furthermore, most SMEs are less interested to get financings from banks because of their lengthy process. Banks take more than 10 months to approve and grant the financing to SMEs, though the tenure of financing is approved only for short periods such as not more than six months to two years (Chowdhury, Azam, & Islam, 2015).

SMEs are less interested to get the bank financing if they can establish their businesses by using internal funds. Though SMEs do not want to bear the burdensome procedures bank financing but only the banks can finance the SMEs a larger amount of money. Thus, more funds for SMEs' capital will expand their business and increase their performance (Beck, & Demirguc-Kunt, 2006). Hence, it is important to examine the determinant factor of SME financing by the bank and how they affect SMEs' performance. To date lacks, limited numbers of study have been reported on this issue, especially between SMEs and bank financing in Bangladesh. Therefore, this study will examine the factors that influence bank financing to SMEs in Bangladesh and its impact on the economic and non-economic performances of SMEs.

1.4 Research Questions

The proposed study will answer the following research questions;

- What are the internal and external factors that affect the SMEs financing from the banks in Bangladesh?
- How does bank financing can have an impact on the economic performances of SMEs in Bangladesh?
- How does bank financing can have an impact on the non-economic performances of SMEs in Bangladesh?

1.5 Research Objectives

The general objective of the study

To identify and analyze the factors that affects the small and medium enterprise (SMEs) borrowings from the banks in Bangladesh.

Specific objectives:

- To identify the determinant factors of small and medium enterprises (SMEs) financings from the banks in Bangladesh.

This objective is to identify the determinant internal and external factors, which are affecting SMEs financing in Bangladesh from the banks. The effecting internal determinant factors are like; collateral, internal capitals and documentations. Meanwhile the external factors are like; interest rate, lengthy procedures of bank financing, tenure financings and reducing bank assets.

- To examine the impacts of banks financings on the economic and non-economic performance of small and medium enterprises (SMEs) in Bangladesh. Another core objective of this study is to examine, what is the impact of bank

financing on the economic performance, such as; sales and profits and market penetrations in nationally and internationally. This study also examines the impact of banks financing on non-economic performance of SMEs, such as; food and health, education and reduce unemployment.

1.6 Operational Definition

An operational definition is the narrative of the research variables that a researcher will use to quantify the particular variable (Ribes-Iñesta, 2003). The following operational definitions have been defined to understand and clarify the variables used in this study.

Bank Financing

Bank financing is a form of lending money to any business activities with the agreement of repaying the money with an amount of interest. Approximately all bank financing is made at an interest rate and maturity period (Dictionary, F. 2009). Bank financing is one of the common ways of financing small and medium enterprises for their business start-up or working capitals.

Collateral

Collateral refers to the physical or elusive asset that a borrower (SMEs) provides to the lenders (Banks) to secure the finance. If any borrowers fail to meet their agreements about repayment of the finance, the lenders have the legal right to confiscate the collateral and try to sell it to recover the financed money (Kislat, Menkhoff, & Neuberger, 2013).

Internal capital

Internal capital refers to informal financing, which is a self-enforcing finance system without formal legal procedures. Internal capitals encourage an entrepreneur to take personal finance or loans from family and friends for the business's start-up and working capital (Mohamad, Sidek, Ghee, Abdullah, Ismail, & Mustapha. 2015).

Documentation

Documentation refers to the documentation process or paperwork requirements for borrowing finance from traditional sources like; banks (Chowdhury & Alam. 2017). It is a major discouraging factor that small and medium enterprises face to borrow money from banks (Kouser, Durani, Hussain & Hassan. 2012).

Interest rate

Interest rate is a percentage on the principal amount for using their money, which is charged by the lenders and has to pay by the borrowers. Depending on the financing category, the interest rate is applied over a different period, such as; monthly or annually (Dothan. 1978).

Lengthy process

A lengthy process is referred to the time of sanction the finance to the borrowers. The process of sanctioning the finance is held by the lenders such as; banks. Sometimes the borrower has to wait for an extended period of time to get the financing (Chowdhury, & Alam, 2017)

Tenure of financing

Tenure of financing is the time which is approved by the banks to repay the finance. The time approved for repay the finance can be shorter or longer period of time which the borrowers have to follow to avoid any legal complications (Sitharam and Hoque, 2016).

Bank assets

Bank assets refer to its reserves or those instruments where other parties owe money to the banks, like; financing made by the banks, treasury bonds purchased by the banks and governments securities (Wagner, 2007). In the last ten years, Bangladesh has faced several gigantic financial scandals. Many commercial and public banks are in an acute liquidity crisis; therefore, they raised interest rates and collateral requirements for the financing schemes to overcome the liquidity crises (Alo and Ahmed, 2017). Thus, it demotivates small and medium enterprises to apply for bank financing with a large amount of interest rate.

Economic Performance

SMEs' economic performance is defined by the economic growth of SMEs, such as; their annual sales and profits also their ability to penetrate national and international markets (Rusu & Roman, 2017).

Non-Economic Performance

Non-economic development refers to the socio-emotional-wealth, corporate social responsibility or human resource practices. The non-economic performances define the socio-economic wellbeing of a SMEs, such as; education, food and health care, and contribution to unemployment reduction (Herrera, & de las Heras-Rosas, 2020).

1.7 Significance of the study

This study will carry special significance for different sectors and people in the context of Bangladesh. This study will be benefited for SMEs in Bangladesh, Bangladesh Bank (the central bank of Bangladesh), SMEF and the literature of SMEs.

Firstly, it will contribute to the SME sectors of Bangladesh. This study will try to find some solutions for external and internal factors, which are affecting SME financing. This study will bring up some necessary solutions for the determining factors by identifying the factors of SME financing from the banks in Bangladesh. SMEs of Bangladesh will feel more interested to take their finance from banks, which will also increase their performance. And no doubt that, the progress of SMEs will have a great and economic and non-economic impact in Bangladesh.

Further, according to the current scenario, in the absence of adequate borrowers in Bangladeshi banks, there internal economic discrimination is increasing. Through this study, the authority of Bangladesh Bank management could find some new and easy strategies for providing the funds to SMEs. The bank could get some idea about easy financing for SMEs, through which the safe financing facilities for SMEs will increase. The easy excess of bank financings will encourage SMEs to take the finance from banks rather than the financial institutions and relatives, which would be more formal and risk-free borrowing for SMEs. Thus, the banks can successfully increase financing to SMEs. And this way, SMEs could become more interested in borrowing from banks as a result banks can get more financing customers and could get rid of their internal economic discrimination.

Besides, The SMEF of Bangladesh could be benefited from this study. SMEs' inability to fulfilling the high collateral demand of banks and the inability to follow the excessive rules and do the excessive paperwork required by banks is the notable barrier among bank financings and SMEs. Lack of adequate business knowledge and technical inefficiency is especially responsible for these factors. This study will try to identify the internal factors. Through this, the SMEF could get some better idea to train the SMEs properly to deal with the formality of banks for getting the easy funding. Also on behalf of SMEs, SMEF can request Bangladesh Bank to review or amend its financing procedure. Thus, this study also can be a guideline for SMEF to review their guideline for SMEs. By this SMEF can increase the performances of SMEs as a result, unemployment can reduce, and the GDP of the country can increase.

Finally, this study will carry special significance for the literature of SMEs in the context of Bangladesh and also for other developing nations by adding determinants to the banks and SMEs. This study will also add value to literature by testing how Bangladeshi banks' financing develops the countries SMEs. This would be helpful for academicians and future researchers to study Bangladeshi banks' financing and SMEs. Lastly, the proposed study will be benefit future learners and practitioners because it will provide the knowledge and information regarding the chosen issue since there is a lack of research

on this topic in Bangladesh.

1.8 Structure of the Research

This thesis is organized into five different chapters: (1) Introduction (2) Literature Review (3) Research methodology (4) Results and discussions and (5) Conclusions. The first chapter briefly introduces the study's background and objective of the study. The second chapter will expand the literature on the topic, the internal and the external factor affecting the SME's financing also, the research framework and so on. The methodology of the following research will be described in chapter three. The chapter will also describe the study area of the research, sample selection, the procedure of data collection, development of the survey instruments, and the data analyzing process. Chapter four will report, the results. The results of hypotheses testing will also be in the mentioned chapter. The fifth chapter will give an overall summary, including contributions and recommendations. The limitation of this study will also be discussed in the mentioned chapter.

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