

Financing Small and Medium Enterprises: Results from a Branch Level Study

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Abstract

This study aims at providing an overall analysis of financing SME: A Study of FSIBL, City University Branch. The data for the study were collected both from secondary as well as primary sources. The important documents of FSIBL were consulted to collect secondary data. The primary data were collected by using non probability sampling method Forty respondents who are the regular customers of the branch were surveyed to know their performance as SME loan recipients.. The significant variables like age, experience and income of the loan recipients were tested by using Chi-Square to find out the impact on repayment of the loan. Finally, the study concluded with the summary of findings, recommendations and conclusion

1.1 Background of the Study

Development of small and media enterprises (SMEs) in developing country is generally believed to be a desirable end in view of their perceived contribution to decentralized job creation and generation of output. SMEs constitute the dominate source of industrial employment in Bangladesh (80%), and about 90% of the industrial units fall into this category. The actual performance of SMEs, however, varies depending on the relative economics efficiency, the macro-economic environment and the specific promotion policies pursuit for their benefit. In Bangladesh SMEs are playing a significant role for the development of our economy by creating employment opportunity and producing important alternative machines and machinery parts for saving huge foreign currency for our country. SMEs are the starting point of development in the economic towards industrialization. However, SMEs have their significant effect on the economic distribution, tax, and revenue employment, efficient utilization of resources and stability of family income. The proposed study on “Financing Small and Medium Enterprises: Results from a Branch Level Study” is modest attempt by the researchers. It is hoped that the study will help bank management to handle SMEs financing more efficiently. The future researchers will find new way specially the financial aspects and added to new knowledge.

1.3 Objective of the Study

1.3. Specific Objectives

- To give an overview of SME Loan Procedure of FSIBL
- To know the internal strength of SME related services of FSIBL
- To analyze SME loan repayment Behavior of Loanees
- To suggest policy implications arising out of the study

1.4 Limitations

While nothing comes along without problem, the researchers also faced some problems, which were picked up below:

- Respondents were busy as well as reluctant to go through the process of questionnaire.
- The respondents sometimes did not agreeable in providing accurate statistics and information.
- The communication gap between the different personnel due to workload and unavailability of data, which were confidential and lack of sufficient co-operation from employees.
- Lack of knowledge to the client about the SME loan.
- No available information about the SME banking system to the website specially Branch wise.

1.5 Review of Literature

With respect to the SME sector of Bangladesh, foreign and national experts undertook some studies. Some of the notable ones are:

Mahmud, W. Institutional Reform and the Informal Sector (IRIS) (2006), Dhaka: The SMEs have very limited bank finance, which is only around 10 percent, while self-finance remains the major source of their finance contributing 76.5 percent of fixed capital and 51.8 percent of working capital.

Berger, A. N. and G Udell. Policy Research Working Paper

4481. (2005): Bangladesh's SMEs identified lack of finance as the major issue, with 55% SMEs reporting it. Bribes (21%), orders/marketing of product (28%), lack of knowledge (12%), and license for work (8%), along with new technology (8%) were also considered as major issues. Without the much vital capital, they have little chance of growth or even sustenance in this mobile world. This study has tried to pinpoint, through empirical research, the major, problems faced by SMEs and banks in Bangladesh in relation to financing and has provided recommendations based on the findings to improve the situation

Hallberg (2002), a stable macro-economy, an open trade and investment regime, and a competitive financial sector are argued to be most essential ingredients for a vibrant private sector. But with a law and order situation below the optimum level, corruption well above the level of acceptance and unstable political situation, the domestic environment of Bangladesh does not come to any help, rather hinders the prosperity of SME in this country.

S. M. Nasrulquadir and Dr. Mohamad Saleh Jahur (2011):

They are argued that SMEs of Bangladesh have been vulnerable to frequent policy changes of Government from time to time. Besides, they are facing severe competition in and outside the

country. As a result, the profitability of SMEs has got squeezed and many of them have got financially distressed. Besides, Entrepreneurs of SMEs.

Iftikhar Akhtar Hussain, Zeeshan Farooq and Waheed (2012): They are opined that Across the South Asia, the contribution of SMEs to the overall economic growth and the GDP is high. It is estimated that SMEs contribute 50% of Bangladesh's industrial GDP and provide employment to 82% of the total industrial sector employment. In Nepal, SMEs constitute more than 98% of all establishments and contribute 63% of the value-added segment. In India, SMEs' contribution to GDP is 30 %.

3 Methodology of the study

3.1 Sources and collection of Data

Both primary and secondary source of data are used to complete this study. These two sources are explained below:

3.1.1 Primary Data Sources:

- Face to face conversation with the bank officers and staffs.
- Conversation with the clients.

3.1.2 Secondary Data Sources:

- Producer manual published by the First Security Islami Bank Ltd.
- Files and documents of the Branch.
- Different Annul report of First Security Islami Bank Ltd.
- Different paper of First Security Islami Bank Ltd.
- Unpublished data.
- Different text books.
- Questionnaire.
- Web side of the Bank.
- Different manuals of First Security Islami Bank Ltd.
- Different circulars of First Security Islami Bank Ltd.

3.2 Sample Frame

The sample frame of this study has been consisted of the bank employees, clients, account holders, and debtors of FSIBL. The sample frame was derived from FSIBL, City University branch, Ashulia. To obtain a probability sample, effort was concentrated for Stratified Random Sampling procedure for conducting questionnaire survey to general clients and account holders of FSIBL. Also Non-Probability Sampling procedure was applied to conduct the interview and survey of bank officials.

3.3 Sampling Plan

After preparing the sample frame, requests were made to the Manager In-charge FSIBL, City University branch, Ashulia for seeking interviews to all bank personnel and clients of FSIBL.

Population: A total of 60 respondents have been conducted. Where,

- Element: Existing Individual customers and officials of First Security Islami Bank Ltd.

- Unit: 20 bank loan officials and 20 female SME clients, 20 male SME Clients, which has been selected using the justification method under non-probability sampling technique.
- Extent: City University Branch in Ashulia.

3.4 Analysis of Data

Relevant data for this report has been collected primarily by direct investigation of different records, papers, documents, operational process and different personnel. Questionnaire has been used. Information regarding office activities of the bank has been collected through consulting and discussion with bank personnel.

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. Hypotheses were tested to derive a meaningful conclusion from the empirical data. Based on the analysis the researchers made some findings, recommendation and conclusion.

2.1 Back ground of the company

The First security Islami Bank Limited is the third generation private sector Bank in Bangladesh. FSIBL is fully owned by Bangladeshi entrepreneurs. The bank was opened on August 29, 1999 but the first branch at 23, Dilkusha Commercial Area, Dhaka started commercial operation on August 29, 1999. The 2nd Branch was opened on 11 November 1999 at Khatungonj, Chittagong.

Table: Braches of FSIBL

Years	Numbers of Branches
2008	29
2009	52
2010	66
2011	84
2012	100
2013-2014	125

At present, FSIBL has been carrying on business through its 125 branches. FSIBL was the first domestic bank to establish agency arrangement with the world famous Western Union in order to facilitate quick and safe remittance of the valuable foreign exchanges earned by the expatriate Bangladeshi nationals. FSIBL was also the first among domestic banks to introduce international Master Card in Bangladesh. In the meantime, FSIBL has also introduced the Visa Card and Power Card. The Bank has in its use the latest information technology services of SWIFT and REUTERS. FSIBL has been continuing its small credit program for disbursement of collateral free agricultural loans among the poor farmers of Agrabad area in Chittagong district for improving their lot. Alongside banking activities, FSIBL is actively involved in sports and games as well as in various Socio-Cultural activities.

Where the city university branch was established 19th December 2011, which is gotten highly profit by investment as if these are staying rural area.

2.2 Organizational Analysis

2.2.1 Strategic Posture

2.2.1.1 Mission

- To contribute the socio-economical development of the country.
- To attain highest level of satisfaction through extension of services by dedicated and motivated professional.
- To maintains continuous growth of market share ensuring quality.
- To ensure ethics and transparency in all levels.
- To ensure sustainable growth and establish full value of the honorable shareholders and
- Above all, to add effective contribution to national economy.

2.2.1.2 Strategies

- To strive our customers best satisfaction & win their confidence.
- To manage & operate the bank in the most effective manner.
- To identify customers' needs & monitor their perception towards meeting those requirements.
- To review & updated policies, procedures & practices to enhance the ability to extend better customer services.
- To train & develop all employees & provide them adequate resources so that
- The customers' needs reasonably addressed.

2.2.1.3 Corporate Profile of FSIBL.

Name of the Company	First Security Islami Bank Ltd.
Chairman	Mohammad Saiful Alam
Vice Chairman	Alhaj Mohammad Abdul Maleque
Managing Director	A.A.M. Zakaria
Company Secretary	Abdul Hannan Khan
Legal Status	Public Limited Company
Date of Incorporation	August 29, 1999
Date of Commencement of Business	August 29, 1999
Date of Permission from Bangladesh Bank	September 22, 1999
Date of Opening of First Branch	October 25, 1999
Corporate Head Office	House-SW(I) 1/A, Road-8, Gulshan-1, Dhaka
Registered Office	23, Dilkusha, Dhaka-1000, Bangladesh

Line of Business	Banking
Authorized Capital	Tk. 4,600 Million
Paid up Capital	Tk. 3,740 Million
Date of Consent of IPO	04 June, 2008
Branches in the Country	92 Branches
Phone	88-02-9560229 (Hunting), 9550334,7171029-30
Fax	88-02-9561637
E-mail	bcs@fsiblb.com , info@fsiblb.com
Website	www.fsiblb.com

2.2.1.4 Products & Services:

First Security Islami Bank has two type of product.

- Deposit Schemes
- Investment Schemes

FSIBL also provide some services.

- Online Banking
- SMS Banking
- Locker Services etc.

Product under Deposit Schemes:

- Al-Wadiah Current Deposit
- Mudarabah Savings Deposit
- Mudarabah Short Term Deposit
- Mudarabah Term Deposit.
 - One Month
 - Three Months
 - Six Months
 - Twelve Months
 - Twenty Four Months
 - Thirty Six Month
- Foreign Currency Deposit
- Mudarabah Savings Scheme
 - Monthly Savings Scheme
 - Monthly Profit Scheme
 - More than Double the deposit in 6 year

3.0 Definition of SME & Financial Procedure at FSIBL

SME: An SME is defined as, “A firm managed in a personalized way by its owners or partners, which has only a small share of its market and is not sufficiently large to have access to the stock exchange for raising capital”. SMEs ordinarily have few accesses to formal channels of finance and depend primarily upon savings of their owners, their families & friends. Consequently, most SMEs are sole proprietorships & partnerships. As with all definitions, this one is not perfect. Depending on context therefore definition of an SME will vary.

Despite the common features globally, countries do not use the same definition for classifying their SME sector. Also, a universal definition does not appear feasible or desirable. SMEs have been defined against various criteria. The three parameters that are generally applied by the Governments to define SMEs are:

Capital investment in plant and machinery

Number of workers employed

Volume of production or turnover of business

Other definitions are based on whether the owner of the enterprise works alongside the workers, the degree of sophistication in management, and whether or not an enterprise lies in the "formal" sector. The definitions in use depend on the purposes these are required to serve according to the policies of the respective countries/Governments.

3.1 SECURITIES

Consequent to the regulation stated in Regulation -5, facilities provided to SEs shall be secured by banks as follows:

For investment amounting Tk. 1.5 lace to Tk. 5 lace

As a minimum banks must take charge over assets being financed.

For investment amounting Tk. 5 lace to Tk. 50 lace

- a) Hypothecation on the inventory, receivables, advance payments, plant & machineries.
- b) Equitable mortgage over immovable properties with registered Power of Attorney.
- c) Personal Guarantees of Spouse/Parents/other family members.
- d) One third party personal guarantee,
- e) Post dated cheques for each installment and one undated cheque for full investment value including full mark-up/rein.

3.2 AGGREGATE EXPOSURE OF A BANK ON SMALL ENTERPRISE SECTOR

The aggregate exposure of a bank on SME sector shall not exceed the limits as specified below:

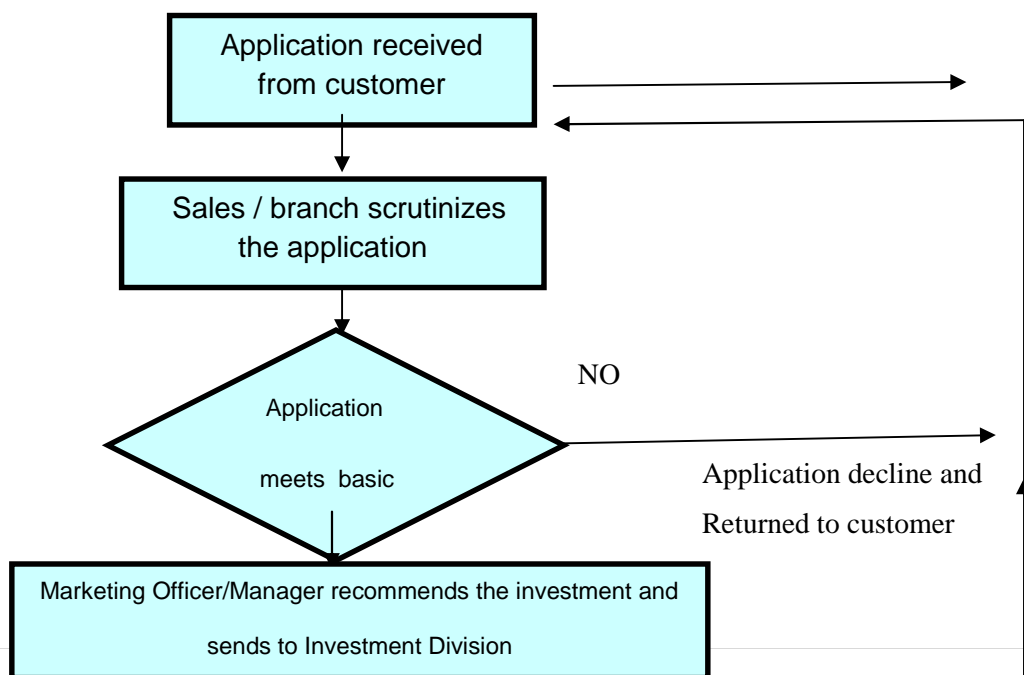
% OF CLASSIFIED SE ADVANCES TO TOTAL PORTFOLIO OF SME ADVANCES	MAXIMUM LIMIT

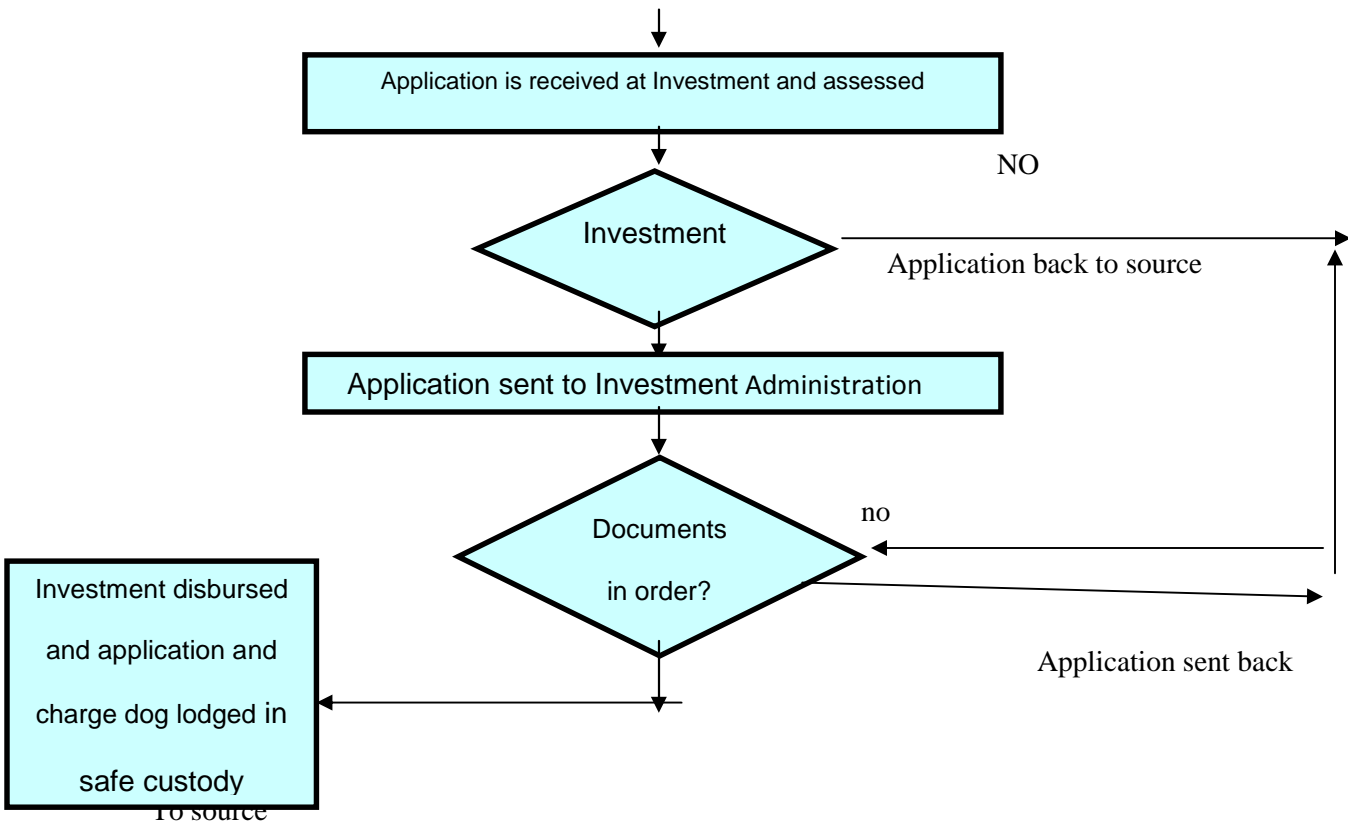
a.	Below 5%	10 times of equity
b.	Below 10%	6 times of the equity
c.	Below 15%	4 times of the equity
d.	Up to and above 15%	Up to the equity

3.3 The process of SME loan

Financial and development assistance designed especially for small and medium enterprises in Bangladesh is a new and upcoming trend. After the surge of micro-finance in the last two decades, small and medium enterprises have come to the limelight in the financial sector on account of their contribution to economy and yet limited access to finance. Both micro-finance institutions and banks are beginning to realize the potential of this market and designing new financial products for it. The city university branch of FSIBL Bank started providing credit to small and medium enterprises in 2011 in recognition of their special needs. With this end in view this branch Bank was opened to serve these small but hard working entrepreneurs with double bottom line vision. As a socially responsible bank, FSIB Bank wants to see the discharge of grass-roots level to their economic height and also to make profit by serving the interest of missing middle groups. This Bank is the market leader in giving loans to Small and Medium Entrepreneurs and they have been doing it for the last four years since 2011. The City University branch of FSI Bank’s SME Unit is the first of its kind to provide financial services on a national scale to small and medium sized entrepreneurs

3.4. Process Flow Chart of Small Enterprise Investment processing (sample)





3.5.2 PREFERRED ORGANIZATIONAL STRUCTURE

An appropriate structure for Investment must be in place to ensure that the segregation of the marketing / sales function from Approval / Risk Management where administration functions will be under Operations umbrella.

Investment approval should be centralized within the Investment Unit or regional investment centers where reporting should be Central / Head office Investment Unit. All applications must be approved by the Head of Investment or delegated Head Office investment executive.

The following chart represents the preferred management structure:

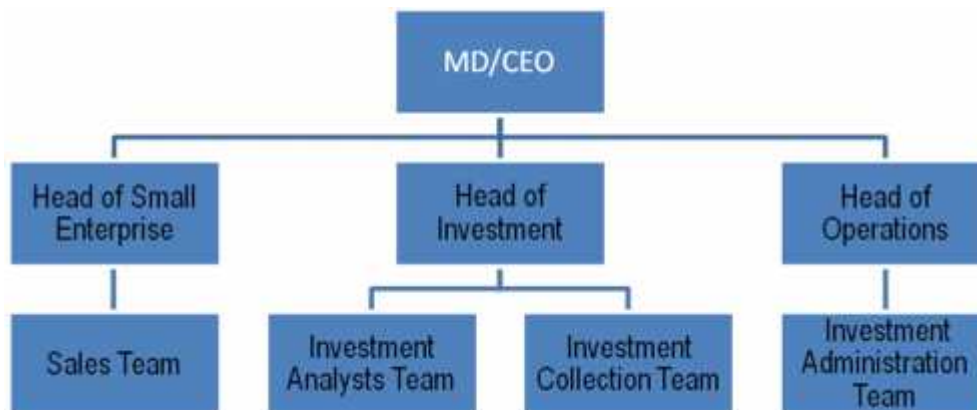


Figure: PREFERRED ORGANIZATIONAL STRUCTURE

3.6	○ Loan amount	○ Loan processing fee
	○ 1.5 lacs-2.99 lacs	○ Tk 5000
	○ 3 lacs-5 lacs	○ Tk 7500
	○ 5.01lacs-15 lacs	○ Tk 10000
	○ 15.01 lacs- 30 lacs	○ Tk 15000

Terms and condition of SME loan

The SME department of FSIBL will provide small loans to potential borrower under the following terms and condition:

The potential borrowers and enterprises have to fulfill the selection criteria

- The loan amount is between Tk. 1.5 lacks to 10 lacks.
- Loan can be repaid in two ways:
- In equal monthly loan installment with monthly interest payment, or
- By one single payment at maturity, with interest repayable a quarter ends
 - Residual and majority.
- Loan may have various validates, such as, 3 months, 3 months, 6 months, 9 months, 12 months, 15 months, 18 months, 23 months, 30 months and 36 months.
- SME will impose loan processing fee for evaluation as loan proposal as following
- The borrower must open a bank account with the same bank and branch where the SME has its account.
- Loan that approved will be disbursed to the client through that account by account payee cheque in the following manner: Borrower name, Account name, Banks name and Branch’s name.
- The loan will be realized by 1st every month, starting from the very next month’s whatever the date of disbursement, through account payee cheque in favor of FSI Bank Limited A/C. With Bank’s named and branches name
- The borrower has to issue an account payable blank cheque in favor of FSI Bank Limited before any loan disbursement along with all other security.
- The borrower will install a signboard in a visible place of business of manufacturing unit mentioned that financed by “FSIBL”.
- The borrower has to give necessary and adequate collateral and other securities as per bank’s requirement and procedures.
- SME, FSI Bank may provide 100% of the Net Required Working Capital but not exceeding 75% of the aggregate value of the Inventory and Account Receivables. Such loan may be given for periods not exceeding 18 months. Loan could also be considered for shorter periods including one time principal repayment facility, as stated in loan product sheet.

3.7 Procedure of FSI Bank SME Loan Sanction activities

- Select potential enterprise: For SME loan, in this step the CRO conduct a survey and identify potential enterprise. Then they communicate with entrepreneurs and discuss the SME program.
- Loan Presentation: The function of CRO is to prepare loan presentation based on the information collected and provided by the entrepreneur about their
- Business, land property (Where mortgage is necessary)
- Collect confidential information: Another important function of a CRO is to collect confidential information about the client from various sources. The sources of information are suppliers regarding the client's payment, customers regarding the delivery of goods of services according to order, various banks where the client has account, which shows the banks transactions nature of the client.
- Open clients accounts in the respective bank: When the CRO decided to provide loan to the client then he/she help the client to open an bank account where FSIBL bank has a STD a/c. FSIBL bank will disburse the loan through this account. On the other hand the client will repay by this account. Although there is some exception occur by the special permission of the authority to repay by a different bank account.
- Fill up CIB form: CRO give a CIB (Credit Information Bureau) form to the client and the client fill and sign in it. In some case if the client is illiterate then the CRO fill the form on behalf of the client. Then CRO send the filled and signed form to the SME, head office.
- Sending CIB to Bangladesh Bank: The SME, head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank return this CIB form within 10-12 days with reference no.

- CIB report from Bangladesh Bank: In the CIB report Bangladesh Bank use any of the following reference no:
- NIL: if the client has no loan facility in any bank or any financial institution then BB (Bangladesh Bank) use 'NIL' in the report
 - UC (Unclassified): if the client has any loan facility in any bank or financial institution and if the installment due 0 to 5.99 then BB use UC in the report 24











- SS (Substandard): if the client has any loan facility in any bank or financial institution and if the installment due 6 to 11.99 then BB use SS in the report
- DF (Doubtful): if the client has any loan facility in any bank or financial institution and if the installment due 12 to 17.99 then BB use DF in the report
- BL (Bad lose): if the client has any loan facility in any bank or financial institution and if the installment due 18 or above then BB uses BL in the report. This report indicates that the client is defaulter and the bank should not provide loan the client.

- Loan decision considering CIB report: Considering CIB report, FSIBL bank decide whether it will provide loan the client or not. If the bank decides to provide loan then the SME of head office keep all information and send all papers to the respective unit office to apply with all necessary charge documents.













3.8 Loan Sanction

The respective unit office sanctions loan to the client if it is 1.5 to 3 lacs, and then sends the sanction letter including all necessary charge documents to the loan administration division for disbursing the loan. If the amount is higher than 3 lacs then the respective unit office sends the proposal to SME, head office for sanction. The head of SME sanctions the loan and sends the sanction letter including all documents to the loan administration division for disbursement and inform the respective unit office regarding sanction of the loan






3.9 Initial requirement Of SME loan

-  Doing a application for take the loan
-  Need a personal Account into the branch who taken loan
-  Three witness account into the same branch
-  Five passport size photograph where borrower-2 & witness-3 copy
-  Need National id cart o borrower & witness also
-  Signature
-  Charges
-  Deed of asset
-  The photo graph of the firm or asset
-  Evaluate why taken the loan

3.10 The disbursement of SME loan

-  One copy deed (original)
-  Sanction advise insurance policy
-  One DP note (single)
-  Three DP note (double)
-  Three letter of guarantee
-  24,7,9 undated cheque (basses of loan amount)
-  Letter of installment
-  Letter of disbursement
-  Letter of arrangement
-  Letter of hypothecation
-  Schedule of the hypothecated goods
-  Sanction letter

3.11 The Charges amount of SME loan

-  Demand promising note (With stamp of Tk 30/-)
-  Letter of arrangement (With stamp of Tk 150/-)
-  General loan agreement (With stamp of Tk 150/-)
-  Letter of undertaken (With stamp of Tk 150/-)
-  Letter of stocks and goods (With stamp of Tk 150/-)

3.12 Total account of SME loan Borrowers

Table: Total account of SME loan holder

Application type	Accounts
Bai-Murabaha-SME loan	02
HPSM-SME loan	38
Total	40

Sources: the internal bank document of FSIBL in city university branch (2014)

3.13 Total account of SME loan Borrowers

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Bai-Murabaha-SME loan	02
HPSM-SME loan	38
Total	40

Sources: the internal bank document of FSIBL in city university branch (2014)

3.14 Total SME loan amount Of cu branch

Loan type	Amount (taka)
Bai-Murabaha-SME loan	152,387.23
HPSM-SME loan	2,229,913.25
Total	2,382,300.48

Sources: the internal bank document of FSIBL in city university branch (2014)

3.15 The segmentation of SME borrower of City university branch

Table: The segmentation of SME loan of city branch

Borrowers loan investing sector	Number of borrowers
Institution	02
Cosmetic shop	05
Firm sector	07
Flower cultivation firm	03
Employee	14
Retailer & Whole seller	09

Sources: The internal bank document of FSIBL in city university branch (2014)

4.0 Survey Findings

This section 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 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 to 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 helped to find out the leakage situation of the SME service of this bank and also help to evaluate the finding and recommendations

4.1 Opinion of the respondents regarding the terms of SME banking system The respondents were asked to respond regarding the terms of SME banking system. The responses are summarized in table 1.1

Table: 1.1
Opinion of the respondents regarding **the terms of SME** banking system

χ^2	df	Significant	Remark
21.564	8	0.006	null hypothesis is rejected

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 terms of SME banking service

The χ^2 value obtained from using SPSS software is 21.564 at .006Ssignificance level. Thus we observe that our null hypothesis is rejected which means that there is no significant difference among the opinion of respondents regarding the terms of SME banking system.

4.2 Opinion of the respondents regarding the government rules & regulation in SME banking system The respondents were asked to respond regarding the government rules & regulation to operate the SME banking system. The responses are summarized in table 1.2

Table-2

Opinion of the respondents regarding **the government rules & regulation** in SME banking system

χ^2	df	Significant	Remark
12.564	6	0.061	null hypothesis is accepted

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 government rules & regulation

The χ^2 value obtained from using SPSS software is 12.564 at .061 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 & regulation in SME banking system.

4.3 Opinion of the respondents regarding the interest charged for SME banking system

The respondents were asked to respond regarding the interest rate for SME banking system. The responses are summarized in table 1.3

Table: 1.3

Opinion of the respondents regarding **the interest charged for SME** banking system

χ^2	Df	Significant	Remark
34.357	6	.006	null hypothesis is rejected

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 charged for SME

The χ^2 value obtained from using SPSS software is 34.357 at .000significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the interest charged for SME banking system.

4.4 Opinion of the respondents regarding the visiting for loan approval in SME banking system

The respondents were asked to respond regarding the visiting for loan approval in SME banking systems. The responses are summarized in table 1.3

Table: 1.4

Opinion of the respondents regarding **the visiting for loan approval** in SME banking system

χ^2	df	Significant	Remark
13.056	6	.042	null hypothesis is rejected

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 visiting for loan approval

The χ^2 value obtained from using SPSS software is 13.056 at .042significance level. Thus we observe that our null hypothesis is rejected which means that there is no significant difference among the opinion of the respondents regarding the visiting for loan approval in SME banking system.

4.5 Opinion of the respondents regarding duration of SME processing in SME banking system The respondents were asked to respond regarding the duration of SME banking systems. The responses are summarized in table 1.3

Table: 1.5

Opinion of the respondents regarding **duration of SME processing** in SME banking system

χ^2	df	Significant	Remark
31.223	8	.000	null hypothesis is rejected

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 visiting for loan approval.

The χ^2 value obtained from using SPSS software is 31.223 at .000significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the visiting for loan approval in SME banking system.

4.6 Opinion of the respondents regarding the claim of SME banking system

The respondents were asked to respond regarding the claim of SME banking system. The responses are summarized in table 1.6

Table: 1.6

Opinion of the respondents regarding **the claim of SME banking system**

χ^2	Df	Significant	Remark
34.634	6	.000	null hypothesis is rejected

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 SME claim

The χ^2 value obtained from using SPSS software is 34.634 at .000significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the claim of SME banking system.

4.7 Opinion of the respondents regarding the disbursement charged for SME banking system The respondents were asked to respond regarding the disbursement charged for SME banking service in annual reports. The responses are summarized in table 1.7

Table: 1.7

Opinion of the respondents regarding **the disbursement charged for SME banking system**

χ^2	Df	Significant	Remark
32.5148	8	.000	null hypothesis is rejected

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 disbursement charged for SME.

The χ^2 value obtained from using SPSS software is 31.5148 at .000significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the disbursement charged for SME banking system

4.8 Opinion of the respondents regarding the beneficial by SME banking system

The respondents were asked to respond regarding the beneficial by SME banking system. The responses are summarized in table 1.8

Table: 1.8

Opinion of the respondents regarding **the beneficial by SME banking system**

χ^2	df	Significant	Remark
13.071	4	.011	null hypothesis is rejected

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 beneficial by SME

The χ^2 value obtained from using SPSS software is 13.071 at .011significance level. Thus we observe that our null hypothesis is rejected which means that there is no significant difference among the opinion of the respondents regarding the beneficial by SME banking system.

4.9 Opinion of the respondents regarding the recovery of the loan in SME banking system

The respondents were asked to respond regarding the recovery of the loan in SME banking system. The responses are summarized in table 1.9

Table: 1.9

Opinion of the respondents regarding **the recovery of the loan** in SME banking system

χ^2	df	Significant	Remark
5.906	8	.65	null hypothesis is accepted

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 recovery of the loan

The χ^2 value obtained from using SPSS software is 5.906 at .658significance 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 recovery of the loan in SME banking system.

4.10 Opinion of the respondents regarding the official reminder are needed in SME banking system

The respondents were asked to respond regarding the official reminder is needed in SME banking system. The responses are summarized in table 1.10

Table: 1.10

Opinion of the respondents regarding the official reminder are needed in SME banking system

χ^2	df	Significant	Remark
4.393	8	.825	null hypothesis is accepted

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 differences between the opinions of the respondents regarding the official reminder are needed.

The χ^2 value obtained from using SPSS software is 4.343 at .825significance 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 official reminder are needed in SME banking system.

4.11 Opinion of the respondents regarding the personal record of the borrower in SME banking system The respondents were asked to respond regarding the personal record of the borrower in SME banking system. The responses are summarized in table 1.11

Table: 1.11

Opinion of the respondents regarding **the personal record of the borrower** in SME banking system

χ^2	df	Significant	Remark
4.414	4	.387	null hypothesis is accepted

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 personal record of the borrower

The χ^2 value obtained from using SPSS software is 4.143 at .387significance 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 personal record of the borrower in SME banking system.


This analysis performed by the chi-square test by using SPSS software based on respondents opinion. After analyzing we can found that

In table-1.1 the χ^2 value obtained from using SPSS software is 21.564 at .006significance level. Thus we observe that our null hypothesis is rejected which means that there is no significant difference among the opinion of respondents regarding the terms of SME banking service of this report. Table 1.2 where the χ^2 value obtained from using SPSS software is 12.564 at

.061 significance level. Thus we observe that our null hypothesis is rejected which means that there is no significant difference among the opinion of the respondents regarding the government rules & regulation in annual report. Table 1.3 where the χ^2 value obtained from using SPSS software is 34.357 at .000 significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the interest charged for SME in annual report. Table 1.4 where the χ^2 value obtained from using SPSS software is 13.056 at .042 significance level. Thus we observe that our null hypothesis is rejected which means that there is no significant difference among the opinion of the respondents regarding the visiting for loan approval in annual report. Table 1.5 where the χ^2 value obtained from using SPSS software is 31.223 at .000 significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the visiting for loan approval in annual report. In Table 1.6 Where The χ^2 value obtained from using SPSS software is 34.634 at .000 significance level. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the SME claim in annual report. In Table 1.7 Where the χ^2 value obtained from using SPSS software is 31.5148 at .000 significance levels. Thus we observe that our null hypothesis is rejected which means that there is significant difference among the opinion of the respondents regarding the disbursement charged for SME in annual report. In Table 1.8 Where the χ^2 value obtained from using SPSS software is 13.071 at .011 significance level. Thus we observe that our null hypothesis is arejected which means that there is no significant difference among the opinion of the respondents regarding the beneficial by SME in annual report. In Table 1.9 Where the χ^2 value obtained from using SPSS software is 5.906 at .658 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 recovery of the loan in annual report. In table 1.10 where the χ^2 value obtained from using SPSS software is 4.343 at .825 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 official reminder are needed in annual report. In table At the finally I justify that the four chi-square test are rejected because here significant value is .000. on the other hand I also justify that another seven chi-square test are accepted as here significant level is above the .000 or which is belongs to lower value .006-.8

5.0. Analysis of SME Loan Repayment Behavior

SME loan in fact, a small loan ranging from 1.5 lacks to 30 lacks given to small or medium enterprises not for initiating the business but for the purpose of working capital management or for purchasing any long term asset. Any sound organization after one year of their starting of business can apply for this loan. It almost a rare case for FSIBL Bank that an SME borrower will default to repay the loan he/she has taken even the loan is given without taking any collateral. There are several reasons for which the SME loan borrowers hardly default. These reasons may like:

-  The loan amount is not as large as it would be difficult to repay it.

- 🏠 Mediocre entrepreneurs hardly default to repay loans. They are very conscious about their reputation in the market.
- 🏠 As the loan is taken for meeting up of working capital, it can be easy to repay after the sales revenue is collected from respective customers.

However, from the observation of 30 SME loan borrowers' personal and repayment information we find the following results:

- 🏠 Average age of SME borrowers is 39
- 🏠 Average education of most of the SME borrowers is Class IX or X.
- 🏠 Average Experience (As a promoter of the business) is 11 years (along with some extreme values.
- 🏠 Average Experience(As an employee of the same business) is 8 years
- 🏠 Monthly income and expenditure of the Entrepreneur is around TK. 30000 and TK. 23000 respectively.
- 🏠 Average personal and family assets are around TK. 150000 and TK. 240000 respectively
- 🏠 Almost all of the borrowers are 55% retailer and 45% whole seller
- 🏠 Average number of employees they have is 3
- 🏠 Average Amount of loan taken by them is around TK. 379729.7 9Average time period of loan they take to repay is 26 months
- 🏠 Average amount of loan suppose to be paid is 275314.47
- 🏠 Average amount of loan currently repaid is TK. 286847.62 per person.
- 🏠 Average amount of loan due for recovery is TK. 6679.62 per person. We have gathered 8 variables to analyze the relationship of each variable with recovery rate. These variables are:
- 🏠 Experience of the borrowers related to their business.
- 🏠 Amount of loan taken by the borrowers

5.1 Relationship of recovery rate with Amount of loan taken:

Table: Relationship of recovery rate with Amount of loan taken

Amount of loan	Frequency	Recovery rate%
1,50,000	15	85%
2,00000	7	90%
2,50,000	4	97%
3,00000	3	100%
6,00000	1	92%

Sources: <http://www.fsbl.bd.com>

From the above chart we see that it's tough to make a relationship with both the recovery rate amount of loan taken by the borrowers. But still it can be said that loan amount ranging from 200000 to 300000 have a good recovery rate on an average. That's why maximum amount or size of SME loan the authority like to disburse is 300000

5.2 Relationship of Recovery Rate with the Personal Asset of the Borrower

Table: Relationship of Recovery Rate with the Personal Asset of the Borrower

Personal Asset	Frequency	Recovery Rate (%)
100,000-500,000	8	94%
500,001-10,00000	12	98%
10,00001-15,00000	5	99%
15,00001-20,0000	3	100%
20,0001-above	2	97%

Sources: <http://www.fsbl.bd.com>

Entrepreneurs who have sufficient personal assets and mortgage them for taking the loan have the record of higher recovery rate. They don't have the tendency to make a default in paying the installments. FSIBL Bank likes to pay SME loans after collecting title deeds of those personal or family assets. People who don't have much personal asset must show that they have sufficient family asset. Here from the above chart we see that entrepreneurs having lowest personal asset have the lowest recovery rate of 94%.

5.3.4 Relationship of recovery rate with age of the borrowers:

We can analyze the relationship sequentially:

The relationship of recovery rate with the age of the customers can be described from the following charts:

Table: Relationship of recovery rate with age of the borrowers

Age Group	Frequency	Recovery Rate (%)
21-25	1	76%
26-30	4	90%
31-35	6	100%
36-40	7	95%
41-45	5	98%
46-50	4	93%
51+	3	100%

Sources: <http://www.fsbl.bd.com>

From the above chart we can see that recovery rate increases as the age of the borrowers increases. Here the recovery rate is lowest at the age group of 21-25 for the lacking of experience and knowledge in the related business. They can't make the proper use of funds. And that's why their business fails. At the age of 31-35 recovery rate is 100%. At that age group people like to behave professionally and control everything with strict discipline. They are highly concerned about their career which brings success to their business. So at that time recovery rate is the

highest. Again at the age of 50 and above recovery rate is also 100% because of their huge experience and success in business.

5.4 Relationship of recovery rate with experience of the borrower:

Table: Relationship of recovery rate with experience of the borrower

Experience (year)	Frequency	Recovery rate (%)
1-5	10	94%
6-10	7	100%
11-15	5	100%
16-20	4	98%
20 above	3	99%

Sources: <http://www.fsbl.bd.com>

From the above table we see that recovery rate is highly affected with the experience of the borrowers in the business he is engaged with. In fact, it is all out true that a business and its success are greatly affected by the experience the entrepreneur have on the same line of business. At the initial periods of the business lack of experience can cause the business to fail which ultimately results in the default of loan repayments. So FSIBL Bank is always concerned about the related experience of the entrepreneur. They don't give SME loan to anybody having no experience or for initiating any business. And here also we see that recovery rate is lowest at the experience of 1 to 5 years.

5.5. The interest rate of SME loan

Table: The interest rate of SME loan

Amount of loan	Interest rate (%)
150000	17%
300000	17%
400000	17%
600000	17%
700000-above	17%

Sources: The internal bank document of FSIBL in city university branch (2014)

6.0: Summaries of the Findings

FSIBL is one of the fastest growing banks in Bangladesh. SME banking which has made the performance of this bank so enlightened is its core product to offer to the small and mediocre business entrepreneurs.

However from the analysis of SME loan processing, providing system and loan repayment behavior the researchers can make the following findings by the relationship between the mean value and standard deviation value.

Q1: Do you think that the FSIBL is not caring for their customers in terms of SME Banking Service?

Mean	Standard Deviation
3.85	1.66

Above this mean result indicates that the respondents opinion is “Agreeable” and standard deviation also mentioned that here respondents opinion is no more strong of their respondents.

Q2: Do you think that FSIBL does not maintain Government rules and Regulations to operate their SME banking System?

Mean	Standard Deviation
1.51	0.72

Above this mean result indicates that the respondents opinion is “Disagree” That means the FSIBL maintain government rules and regulations by properly and where standard deviation also mentioned that here respondents opinion is medium strong of their respondents.

Q3: Do you think that the Interest rate charged for SME loan facilities by FSIBL is reasonable compare to other loan?

Mean	Standard Deviation
3.55	0.85

Above this mean result indicates that the respondents opinion is “Agreeable” and standard deviation also mentioned that here respondents opinion is so closely relationship of their respondents.

Q4: Do you think the field visiting is important for loan approval?

Mean	Standard Deviation
4.316	0.70

Above this mean result indicates that the respondents opinion is “agreeable” and standard deviation also mentioned that here respondents opinion is medium relationship of their respondents.

Q5: Do you think that the duration of SMEs processing of FSIBL is reasonable?

Mean	Standard Deviation
3.4	0.96

Above this mean result indicates that the respondents opinion is “Agreeable” and standard deviation also mentioned that here respondents opinion is so closely relationship of their respondents

Q6: Do you think that the authority ensured your claim when you chose the amount?

Mean	Standard Deviation
3.58	1.09

Above this mean result indicates that the respondents opinion is “Agreeable” and standard deviation also mentioned that here respondents opinion is no more relationship of their respondents

Q7: Do you think Disbursement charges for the SMEs loan is reasonable?

Mean	Standard Deviation
3.21	0.95

Above this mean result indicates that the respondents opinion is “Neutral” and standard deviation also mentioned that here respondents opinion is so closely relationship of their respondents

Q8: Do you think that the SME loan is actually beneficial for you?

Mean	Standard Deviation
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3.98	0.74
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Above this mean result indicates that the respondents opinion is “Agreeable” and standard deviation also mentioned that here respondents opinion is medium relationship of their respondents

Q9: Do you think that age & business experience has any impact on recovery of the loan?

Mean	Standard Deviation
3.90	0.85

Above this mean result indicates that the respondents opinion is “Agreeable” and standard deviation also mentioned that here respondents opinion is so closely relationship of their respondents

Q10: Do you think that the official reminder is need before the each monthly installment?

Mean	Standard Deviation
3.23	0.69














Above this mean result indicates that the respondents opinion is “Neutral” and standard deviation also mentioned that here respondents opinion is medium relationship of their respondents

Q11: Do you think that verifying the previous record or personal record of the borrower is important before approving the loan?

Mean	Standard Deviation
4.51	0.59

Above this mean result indicates that the respondents opinion is “Strongly Agreeable” and standard deviation also mentioned that here respondents opinion is medium relationship of their respondents

7.0 Recommendations

-  Redefine mission/vision towards achievement of “Double Bottom-line”
-  Commit resources specifically for growth of SME business.
-  Implement strict and continuous monitoring system of the whole recovery process.
-  Train the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the SME loan.
-  Analyze customers’ behavior that what type of customer makes default and stop giving them SME loan.
-  Risk Management department’s audit report should be more strict and reliable so that possible defaulter may not get the loan.
-  Whether the borrowers are utilizing the loan on the right purpose should be ensured.
-  Interest rate should be sweet able by the depend on business condition and amount.
-  Term and condition should be easy
-  Loan provide after justify the business policy and business condition.
-  Loan provides to this person whose have 6- 10 years experience.
-  Provide loan to those person whose age is 30 to 39 because they have enough business experience.
-  Should be creating pressure when installment not paid.

- 🏠 Inform daily, weekly bases for paid the loan.
- 🏠 Develop field visiting facility and collect correct information.
- 🏠 Should be increase satisfaction to the entrepreneur for take the loan.
- 🏠 Loan amount should be limited when provide firstly its can be (1,50000-3,00000)

8. 0: Conclusion

SME banking side is the most important side for a bank that which is increase profit easily. When SME loan increase and recovery also good then a branch could be fulfills their profit target. This bank first introduced the SME loan in commercial banking sector which help the people of poor society both in rural and urban area. SME loan is one of such quality product through which they offer the small and mediocre entrepreneurs a quality banking services and earn the maximum profit as well. The recovery rate of this loan is 97% which is extremely good in comparison to any other bank's recovery rate. FSIB Bank has made it possible as the loan is given to experienced, small and mediocre entrepreneurs most of whom are middle aged, slightly educated and having moderate income and this class of people is very loyal. a Finally the researchers commented that the city university branch of FSIB those are success to spread the SME loan service but they should be strong for their loan recovery for overall success.

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