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FACTORS AFFECTING ACCESS TO FINANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs) OF BANGLADESH

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Abstract:

This study addresses the issues that impede SMEs of Bangladesh in obtaining finance from the financial institutions. To accomplish our goals we collected data from a sample of 86 SMEs to investigate the problems and suggest policy recommendations. We collected data by directly interviewing the respondents with the help of a questionnaire for self-guidance. We also used secondary data for this purpose. Findings revealed that the size and age of the firms, education and skills of the owners, and unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials etc. are some of the biggest hurdles that SMEs in Bangladesh face in getting loans from financial institutions. The limitation is that the study has included one city in its sample population. A nationwide study where there are SMEs in large numbers could lead to better results for this kind of study. The implication is that small businesses, as opposed to the larger ones, face funding obstacles and are discriminated by the financial institutions in granting loans. Built on current literatures and research on SMEs, specially in regard to their ability to access finance, this study captures the information relating to problems identified by SMEs in having access to finance and suggesting the ways and means needed for strengthening the SMEs access to finance for their expansion and growth.

Key words: small and medium-sized enterprises, finance, collateral, entrepreneurial skills, corruption, bureaucracy.

JEL classification: G00, M13, M19

1. INTRODUCTION

Several studies (for example, Chowdhury et al (2013); the Daily Star (2017) suggest that Bangladesh possesses different types of small and medium sized enterprises such as village handicraft makers (weaving, embroidery etc.) potteries, dying, small machine shops, restaurants, plastics, knitting, small dairy process, toys, leather goods, live stocks, fisheries, chemical, transport, construction etc. Of these SMEs about 45 percent belong to manufacturing value addition, 80 percent to industrial employment, 90 percent to total industrial units and about 25 percent to total labor force, contributing to export earnings ranging from 75 percent to 80 percent and making up 75 percent of the domestic economy (Abdin, 2017) The SMEs, including the tiny and micro enterprises, comprise approximately 99.8% of business enterprises outside agriculture in Bangladesh (Chowdhury et al, 2013).

Therefore, we can aptly say that the SMEs have become the engine of growth of Bangladesh. The SMEs are now the best source of job creation and potent instrument in expanding the economic base of the country and has become a source of inspiration for the investors to invest their dollars in this industry. The Bangladesh Government sees this industry as an important part of its vision of creating a competitive and an export-oriented economy.

Definition of SMEs:

SMEs can be defined based on the number of employees (see Chowdhury et al, 2013). Though the definition varies from country to country, the SMEs for industrialized countries, based on the number of employees may be defined as follows (see Dhakachambers.com cited in Chowdhury et al, 2013))

- Large – Business firms that have 500 or more workers; medium – firms that have 100-499 workers; small firms- firms that have 99 or less workers.

The classification given for developing countries is as follows:

- Large – Business firms that have 100 or more workers; Medium- firms with 20-99 workers; Small - firms that have 5-19 workers; Micro - firms are those that have less than 5 workers.

Definition of SMEs in Bangladesh

The Ministry of Industries and Bangladesh Bank (Central bank of the Country) define SMEs as the business firms, which are not public limited companies and follow the following criteria, as depicted in table 1

Table 1: Small Enterprises (criteria)

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.) (Tk known as Taka is the name of Bangladesh Currency). 1USD = 80Tk (source: U.S. Treasury)	Employed Manpower
01.	Service	50,000-50,00,000	Not above 25
02.	Business	50,000-50,00,000	Not above 25
03.	Industrial	50,000-1,50,00,000	Not above 50

Medium Enterprises (criteria)

Serial No	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower
01.	Service	50,00,000-10,00,00,000	Not above 50
02.	Business	50,00,000-10,00,00,000	Not above 50
03.	Industrial	1,50,00,000-20,00,00,000	Not above150

Source: Small and Medium Enterprise (SME) Credit Policies & Programs, SME & Special Programs Department, Bangladesh Bank Head Office, Dhaka

Though SMEs are instrumentals in the economic development of Bangladesh that has enormous potential for the growth of this industry, it has not yet been able to fully realize its potentials. Inadequate access to finance has been one of the stumbling blocks for SMEs to realize its full potentials. That means that for the vast majority of SMEs in this country access to finance for investment and growth has become very limited and unpredictable, thus affecting the growth and success of SMEs in this country.

The adequate access to financing is, therefore, vital for the sustainable economic development of the nation like Bangladesh. Given the importance of SME sector we feel the need to have a deeper look at the factors impeding access to finance and to develop policy recommendations for those constraints. With this background in mind this study was undertaken. Although there are many studies on SMEs in Bangladesh, not enough studies exist relating mainly on identifying the factors impeding the access to finance that SMEs face. The current study aims to fill this gap. Thus the study constitutes an aid to the policy makers, researchers, SMEs owners, academia, and the government for improving various financial aspects of SME sector in this sector. Hence the objective of this study is to examine the factors that hinder SMEs in obtaining finance.

What is meant by access to finance?

This means that SMEs will have no hindrances in obtaining financial products (e.g. deposits and loans) and services (e.g. insurance and equity products) at an affordable cost. Access to finance means that an SME can have good physical access to lenders that want to lend, but the cost and suitability of products make borrowing impractical. The lack of finance is universally accepted as one of the obstacles in the growth of the SMEs. World bank (2012) reported that the availability of external finance was positively associated with productivity and growth. Realizing this importance the United Nations (UN) committee called on the central banks of the countries for adopting the goal of universal financial access (World Bank, 2014). Many countries, in response to this call, have adopted the goal of universal financial access for the SMEs. For this study we define "access to finance" as the degree to which SMEs in Bangladesh have access to formal lenders who are willing to offer affordable and suitable financing.

Present Scenario of SMEs' access to financing in Bangladesh

Basically there are three purposes for which SMEs in Bangladesh require financing. These are (1) for start-up capital, (2) for working capital, and (3) for fixed capital. Poor access to these three types of capital may affect and limit the growth of the vast majority of SMEs in Bangladesh. Access to finance by the SMEs has, therefore, remained obviously one of the biggest obstacles to the start-up of the new SMEs and fueling up existing SMEs as well in this country.

The banks (state-owned and private) and non-bank institutions play a dominant role for SMEs in Bangladesh under the supervision and regulation of Bangladesh Bank (Central bank of the Country). Collateral based lending is the most common approach for SME financing. Private banks and state owned commercial banks are the dominant supply sources of finance for the SMEs in Bangladesh.

The latest data, according to Bangladesh Bank (BB), reveals the following information (see table 2) in regard to the number and classification of banks and the target of loan disbursement by banks and non-bank institutions.

Table 2: Loan disbursement by banks and non-bank institutions in Bangladesh in crore (billion) taka.

Classification	Number of Banks	2016	2017
State-owned commercial banks	04	13, 434	15,508
Specialized banks	04	816	1030
Private commercial banks	30	44,564	52,887
Islamic banks	08	47,215	55,947
Foreign commercial banks	09	2, 015	1,306
Non-banks financial institutions	28	5457	7172
Total	83	113,501	133,850

Source: SME and Special Program Department: Bangladesh Bank

Above data show that banks are contributing greatly in the development and growth of SMEs sector by providing credit facilities. The data show an upward trend of commercial bank's financing in the SME sectors in Bangladesh. Loan disbursement target in 2017 is 17.9% higher than the target set of 2016. On the other hand other financial institutions are also contributing but by a small margin. Table 2 reveals that the foreign commercial banks, however, cut their SME loan disbursement target to Tk 1,306 crore for 2017 from Tk 2,015 crore for 2016. This table further reveals that the SME business of the non-banking financial institutions continues to be narrowing in comparison to the banks in Bangladesh. The banking sector in Bangladesh continues to be the largest provider of credit to the SME sector.

The irony is that large and larger industries procure 63 % of the loan distributed by the banking and non-banking financial institutions. SMEs receive only 37.8% of the total loan disbursed (Bosri, 2016). This is because of the difficulties faced by SMEs in getting finance from the lending institutions of the country.

The difficulties faced by SMEs in getting the finance has been a regular feature of discussion among the owners of SMEs, the banks, the academia, the researchers and the government as well. The government reform strategies have not gone enough and the financing gap is still large. Access to finance means that an SMEs are willing to have good physical access to lenders that want to lend, but the cost and suitability of products make borrowing impractical. The other side of the token is that SMEs may be willing to accept the cost and types of products being offered, but the lenders may not be willing to supply the loan because of the history of loan default (most common in developing country like Bangladesh), thus limiting the availability of finance.

For Bangladesh SMEs are instrumental for poverty reduction programs and potential contribution to the overall industrial and economic growth. For sustainable growth and poverty reduction of Bangladesh it is vital that SMEs have access to finance on easy terms and conditions. Thus, the purpose of the study, building upon related literatures, is to establish the factors that impede access to finance by SMEs.

2. RELATED LITERATURES

SME financing, because of its special significance in the economic development of a nation, has drawn attention from academia, researchers and policy makers around the world. In Bangladesh, access to SME financing has remained one of the biggest hurdles to the start-up of new business, business innovation and to keep running existing business as well. International Finance Corporation (2011) documents the limited access to finance as one of the biggest obstacles to the growth of SMEs in both developed and developing nations. In Bangladesh, though micro credit plays influential role in providing small amount of finance with high interest rate to the development of new business, virtually it is limited to micro enterprises and small amounts of capital provided by micro-credit may not be enough for a business start-up. SME finance is, therefore, gaining attention as a possible alternative to microcredit investment in the fight for poverty reduction, notably because SMEs provide more employment than microenterprises supported by microcredit (Bauchet and Morduch; 2012)

For running the business and for fixed capital investment, capital shortage has remained an internal limitation that hinder the SMEs to succeed and grow (Kristiansen et al, 2003 cited in Chowdhury and Amin (2011). Alauddin and Chowdhury (2015) reported non-availability of adequate credit, complex loan granting procedure, inadequate infrastructure facilities, problems of collateral requirements and paucity of working capital as obstacles to obtaining loans from the financial institutions. Akhtaruzzaman (2010) reported higher interest and loan duration rates, SME's relatively informal way of doing business in contrast to bank's formal procedures, bank's relative inexperience in this field as some of the most important obstacles to getting loan from financial institutions in Bangladesh. All these indicate that SMEs are less likely to have limited access to finance, thus limiting abilities to grow and become productive (World Bank Enterprise Survey report, 2013-2014). In Bangladesh smaller firms rely on informal sources as opposed to medium and large enterprises – a factor that also limits the growth and performance of the smaller firms.

Chowdhury (2007) reported that supply of capital was the biggest hurdle for obtaining finance. Because of this problem many SMEs owners face difficulties in getting bank loans when they require it. This means SMEs have very limited access to bank finance and counts for only around 10% of their needs (see Mahmud, 2006). Some studies s (e.g., Chowdhury et al, 2015; Islam et al, 2011) found that SMEs in Bangladesh faced obstacles to their access to finance because of complex and cumbersome processes in loan application, higher interest rate and their failure to obtain proper information and advice from financial institutions etc. Several other studies (Bosri, 2016; Rahman et al , 2016; Uddin, 2014) reported that higher transaction costs, higher interest rate, poor business plan, lack of ability to repay the loan were some of the influential factors that impeded majority of SMEs of Bangladesh in getting access to finance. SMEs have difficulty in producing collateral that is acceptable to the lenders. This is because they either do not have the proper assets for use as collateral or lack skills and experience of how to manage and maintain their assets for borrowing needs. Rocha et al (2011), based on a survey of 139 banks in 16 countries of the Middle east and North African (MENA) countries, found that the region remained largely underserved by the government though a very high positive perception for the attractiveness of SME segment prevailed in this region whereas government's support programs for SMEs all over the world have been instrumental in poverty alleviation and growth of the small firms (Charbonneau and Menon, 2013). Unfortunately the government support services, needless to mention, remain insignificant for the proper nourishment and the growth of SMEs sector in a country like Bangladesh.

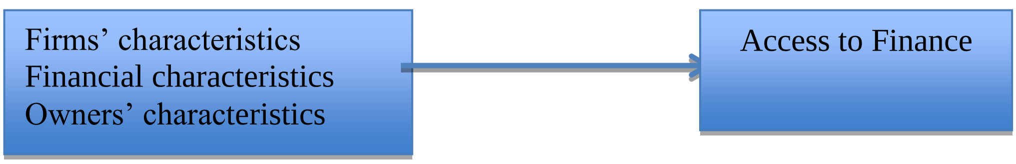
Financial access is, therefore, vital for the growth and development of SMEs in Bangladesh. The availability of external finance directly impacts the productivity and growth of this industry (World Bank 2012). It is a well recognized all over the world that banks are the main external capital provider for SMEs sector in both developed and developing countries (Vera & Onji, 2010; Wu et al., 2008; Carey & Flynn, 2005). In East African countries, banks are the main instruments of lending to SMEs (Calice et al., 2012). In Asia and the Pacific access to bank finance by SMEs resulting from government support measures such as credit and mandatory credit lending have gradually improved (ADB-OECD 2014). In Bangladesh lack of access to institutional financing, lack of consumer base market for SMEs products and non-availability of formal SMEs entrepreneur development program are some of the biggest hurdles to the emergence of new business and growth of existing business (Chowdhury et al (2013). Dhaka Chamber of Commerce and Industries (DCCI) in its economic policy working paper of 2004 enumerated the demand side (lack of collateral, lack of limited business experience, lack of information etc.) and supply side (terms and conditions, lack of access to start up finance, availability of funds to banks etc.) as the problems in getting access to finance for SMEs in Bangladesh.

Empirical findings from past studies suggest that some SMEs exhibit certain characteristics, which makes it more likely that they will fail to secure the funding that they need. For example, some previous studies suggest that some businesses may find it difficult in accessing business finance-due primarily to their characteristics like age, size, and location (Kira and He, 2012; Fatoki and Asha, 2011), entrepreneurial characteristics like education and previous experience (Islam et al, 2011; Kapkiyai & Kimitei, 2016) or because of financial characteristics like adoption of business plan, loan duration, track record, business structure, higher transaction cost, high interest rate ((Bosri, 2016; Rahman et al 2016).

The above literature review suggests that obtaining finance from the financial institutions is very limited and unpopular since the financial intuitions impose tough conditions (for example, collateral, higher transactions costs, loan duration etc) on SMEs when seeking loans. Management's relationship and track record of payment to the bank or financial institutions, presenting collateral and capacity of the Small Medium Enterprises to repay the loan are some of the factors that are assessed by the credit officers of the banks or financial institutions when issuing out the loan. On the supply side, banks refuse to lend due to risks arising from track record of performance, risk of default, and lack of collateral. On the demand side many entrepreneurs do not like to borrow long-term loan because of high rate of interest that is compounded annually. While this may be true for some, most SMEs are refused finance by banks because of lack of collateral, lack of management knowledge and experience, poor presentation of the business plan, among others, for funding.

But no single factor, as we argue, can explain why SMEs have limited access to obtaining funds. From the foregoing literature review we can categorize these constraints mainly under three categories viz., (a) firms' characteristics, (b) financial characteristics, and (c) owners' characteristics. This paper attempts to investigate to see if these constraints impede the access to finance by SMEs in Bangladesh and offer ideas and recommendations for improvement. Therefore, we propose the following theoretical framework

Figure 1: Theoretical framework



The above framework posits that firms' characteristics, financial characteristics, and owners' characteristics (independent variables) affect the accessibility to finance (dependent variable). Hope is that a better understanding of these variables will advance our current literature in SMEs access to finance. These three characteristics and their operational definitions are depicted in table 3.

Table 3. Dimensions of constraints and their operational definitions

Firms' characteristics	Distinguishing features of the firms like age and size, business, ability to produce collateral that can impede access to finance.
Financial characteristics	Financial characteristics include capacity to repay the loan, willingness to repay the loan, ability to present a business plan, current status of capital, interest rate, and original capital invested in the business etc.
Entrepreneurial characteristics	Entrepreneurial characteristics include educational background, managerial competency, networking etc.

Source: authors' compilation

Research Objectives:

General: The general objective of this study is to identify the factors that affect the accessibility to finance with reference to medium and small business enterprises in Chittagong port city area of Bangladesh.

Specific Research Objectives are:

- To investigate firms' characteristics that impact SMEs' accessibility to finance.
- To examine the financial characteristics that affect SMEs' availability of funding.
- To identify and assess the entrepreneurial characteristics that influence the SMEs' access to finance.

Research Questions

- Do the firm's characteristics impact SMEs' access to finance and to what extent?
- Do entrepreneurial characteristics impact SMEs' accessibility to financing and to what extent?
- Do the financial characteristics influence the availability of SMEs' finance and to what degree?

3.MATERIALS AND METHODS

Sample Populations and Study Area:

To achieve the objectives of the study we selected a sample of 86 SMEs from village handicraft makers (weaving, embroidery etc), potteries, dying, small machine shops, restaurants, plastics, knitting, small dairy process, toys, leather goods, chemical, transport, constructions etc.

The study was conducted in Chittagong region of Bangladesh. Chittagong was chosen because it is the main industrial city and the main seaport of the country through which most SME products are exported. We used convenience sampling since the SMEs located in the region of our study are too many that it is impossible to include every SME within a short duration of time.

Data Collection:

To collect data we directly interviewed the sample population with the help of a questionnaire for self-guidance. A five-point Likert type scale statements were used to measure the variables where 1 stands for strongly disagree/very low and 5 stands for strongly agree/very high effect on the statements.

Mostly questions were asked to collect the data relating to research objectives keeping in mind the time factor and the variation in educational background among the respondents. We derived the variables of the survey instrument from exploratory study, and the relevant theoretical and empirical literatures pertaining to (1) firms' characteristics; (2) financial characteristics; and (3) owners' characteristics. Firms' characteristics included three variables, namely, size, years of operations, and ability to produce collateral of the business; financial characteristics on SMEs' funding have six variables, namely, start-up capital, current status of capital, interest rate, banking process, repayment period, and business plan; entrepreneurial characteristics consist of four independent variables, namely, education, experience, management skills and relationship building. Access to finance (dependent variable) has one item, namely denial of the loan.

We also used the secondary sources like newspapers, magazines, books, and journals based on the relevance to the research. Primary data sources were used to collect the information relating to problems identified by SMEs in having access to finance. The questionnaire was handed to the managers and owners of 86 SME firms, numbering 172. All participants responded correctly and hence valid with a response rate of approximately 100%.

We used 20 well-trained interviewers skilled in their business and knowledgeable in SMES (not participants in this study) from the field area to pre-test the questionnaire. We ran the reliability analysis by Cronch's alpha. All the alpha values were greater than 0.6 and hence considered to be acceptable (Nunally, 1978).

Data Analysis

Data analysis centered on frequency method. In most cases, this study used simple statistical tools like tables and percentages for the precision of the data analysis. The secondary data were collected from a number of literatures, government publications, statistical yearbooks, books and journals etc.

4. FINDINGS AND ANALYSIS

This section provides analyses and interpretations of the raw data gathered for the research project. These analyses and interpretations relate to the specific objectives that guided the researchers throughout the course of the research and the questions developed in the questionnaire.

Firms' Characteristics

This section included three variables, namely, size, years of operations, and ability to produce collateral of the business. The information came from the respondents' answers to the question statement as shown in the table 4. The questions were used to collect the information on relations between the size and age of the firms as well as their ability to produce collateral and their access to funding.

How do the age (years of operation) and the size of the firms impede the access to finance?

Table 4: Data on age and size of the firms

Size and years of operations	Very young (below 2 years)	Young (below 12 years)	Medium (below 25 years)	Old (large)- above 25 years)	Total
Small	10	26	0	0	
Medium	0	0	32	0	
Large	0	0	0	0	
Total	10	26	32	18	86

Source: Field survey

Of the total 86 SMEs 42 % were small enterprises. Of them 12% were very young and 30% were young. 38 % were medium enterprises. The rest 20 % comprised large businesses. SMEs below 2 years were considered to be very young and those below12 years were considered to be young. Medium were firms below 25 years while old (large) were those above 25 years of operation. Table 5 shows the data on responses on firms' characteristics containing question statement.

Table 5: Data on responses on firms' characteristics containing statement (in percentage)

Statement	SD	D	N	A	SA
Years (operations age) impacts access to finance	6	6	35	45	8
The size of the firms impacts access to finance	6	10	37	42	5
Collateral impacts access to finance	0	0	23	71	6

Note: SD stands for Strongly Disagree; D for Disagree; N for Neutral; A for Agree; SA for Strongly Agree

On the influence of age the firm (s) on accessibility to funding, 35% were neutral, 45% agreed with only 6% disagreed, 6% strongly, and 8% strongly agreed with the statement. Concerning the size of the firms and its influence on accessing finance 37% remained neutral while most agreed with the statement. This means that longer time in business operations by SMEs, their size and presenting collateral may significantly influence the availability of funding. Considerably very young and smaller firms found themselves disadvantaged while trying to obtain funds from the bank. This was true for start- up businesses. Concerning the ability of the firms to produce collateral for funding 71% agreed while 6% strongly agreed with 23% remaining neutral.

There was no response on strongly disagree or disagree on the collateral question. When asked about it, most respondents said that practically they began as very small entities, with low amounts of capital drawn from their savings or borrowings from friends and relatives. They further said that corrupt bankers were funneling loans worth billions of taka to businessmen backed by the country's political bosses, accepting forged documents and waiving the collateral rules.

Among the respondents who were neutral to all statements (see table 5) were found to be either lacking proper knowledge and information about the products and service availability from the financial institutions or did not consider borrowing. We can, therefore, conclude that overall firms' characteristics directly affect the firms' access to finance.

Financial Characteristics:

We used, for financial characteristics on SMEs' funding, variables like start-up capital, current status of capital, interest rate, business plan etc. We describe these variables as follows:

Start-up capital:

Most firms started their business with small amount of capital, as depicted in table 6. In regard to start-up capital 52% of the respondent reported that they started their business with the amount of capital not exceeding Taka 5 million, 23% reported their start with a capital ranging from Taka 5 million to 15 million, 17% began with a capital ranging from Taka 15 million to 20 million while only 7% reported their start-up capital was over 25 million. This shows that small businesses can be established with small amount of capital at the beginning even though they need finance for their working capital during operations and to expand business later on.

Table 6: Data on Start-up capital of SMEs

Start-up capital	Amount of capital	Frequency	Percent
How much was the amount of capital invested when you started the business?	Less than Taka 5 million	45	52
	Taka 5 million to 15 million	20	23
	Taka 15 million to 25 million	15	18
	Above 25 million	06	07
	Total	86	100

Source: Survey data

In regard to the current status of capital of SMEs we see, as depicted in tale 7, that while operating the business number of SMEs using the capital less than Taka 5 million and SMEs using the capital in between Taka 5 million to 15 million declined to 15% (table 7) from 52% (table 6). The SMEs with Taka 5 million to 15 million increased to 30% (table 7) from 23 % (table 6) while the number of SMEs using capital in between Taka 15 to 25 million and over 25 million increased to 36% (table 7) from 18% (table 6) and the number of SMEs using Taka over 25 million increased to 19% (table 7) from 7%(table 6).

Table 7: Data on current status of capital

Current status of capital	Amount of capital	Frequency	Percent
What is the current status of your business in terms of capital growth?	Less than taka 5 million	13	15
	Taka 5 million to 15 million	26	30
	Taka 15 million to 25 million	31	36
	Above 25 million	16	19
	Total	86	100

Source: Survey data

The data (table 7) shows overall capital growth. The implication is that overall capital growth enables the businesses to gain more working capital so it can invest that money for purchasing new and better equipment on a long-term basis and expansion of the business as well. When asked about the sources of their finance for the start-up capital 55% their start-up finance came from their personal savings, 24% get financed by friends and relatives, !7% obtain their finance from short –term bank draft while only 04% obtain their loan from banks (see table 8)

Table 8: Major source of start-up finance

Sources of funds	Frequency	Percentage
Banks		04
Personal savings		55
Family/friends		24
Short-term bank draft		17

Source: Field survey

Data in table 8 show that only 4% borrowed from banks. When asked about not borrowing from the banks, most respondents (small businesses) reported that repayment in shorter period of time and the pre conditions (e.g., 3-year statement of financial report, business plan, collateral of assets) attached to a bank loan were the main reasons for not borrowing from banks. We found that 17% (table 8) who took loan on short-term were commonly the medium enterprises.

To further the reason behind SMEs difficulty in obtaining funds, we procured their responses by distributing a four-item questionnaire (see table 9) containing the statement)

Table 9: Data on responses on financial characteristics containing statement (in percentage)

Question Statement	SD	D	N	A	SA
Lack of ability to draw business plan	09	16	35	25	15
Higher interest rate	02	06	0	45	47
Lack of collateral of assets	0	0	21	33	46
Short duration for repayment of loan	0	0	0	56	44
Lengthy banking process	0	0	26	38	36

SD=Strongly Disagree; D= Disagree; N=Neutral; A = Agree; SA= Strongly Agree

Data in table 9 show that on each every question statement the majority of participants either strongly agreed or agreed. There was no response on strongly disagree and disagree on the ability question regarding collateral, short for repayment of loan and lengthy banking process. They further said that corrupt bankers are funneling loans worth billions of taka to businessmen backed by the country's political bosses, accepting forged documents and waiving all the rules relating to each question statement, thus raising the cost of finance.

Owners' Characteristics

Finally we got to establish if the owners' characteristics impede the access to finance. In accomplishing this objective the variables that we included were education and experience, managerial competency and building relationship with banks.

Table 10: Data on statements regarding responses on owners' characteristics (in percent)

Statement	SD	D	N	A	SA
Educational background and experience influence access to finance	00	00	26	39	35
Management skills affects access to finance	00	05	12	34	49
Building relationship with the lender influences funding availability.	05	06	14	35	40

SD stands for Strongly Disagree; D stands for Disagree; N for Neutral; A for Agree; SA stands for Strongly Agree

Educational Status of owners/managers:

Education levels of owners /managers have been categorized into four such as high school, higher secondary, bachelor and master degree (see table 11)

Table 11: Levels of education of SMEs owner/manager

Education level of owner/manager	Frequency	Percent
High school	04	05
Higher Secondary	14	16
Bachelor degree	40	46
Master degree	28	33
Total	86	100

Source: Field survey

In regard to educational level 46% had bachelor degree and 33% had master degree. While asked about their area of study 95% replied that their study was in business or business related studies. This means that the population was made up of learned and experienced owner/ managers. 74% respondents agreed that education background and experience were important for obtaining finance and for managing the borrowed fund as well. The rule of thumb is that the financial institutions are always unwilling to provide funds to those business entities that are not running well in terms of utilizing the borrowed money for productive purposes. The respondents who are educated and experienced stated that they were good at keeping books of accounts, preparing paper work for applying for loan and preparing document like business plan. Those who remained neutral (26%) stated that education did not matter, what did matter were their inabilities to produce collateral and bribe to the corrupt bank officials to get the loan.

It is an undeniable fact that business education equips a person with relevant skills that would lead him /her to better performance in his/her chosen career. The bachelor and master degree holders expressed their education were helping them prepare different financial statement, understanding internal and external users of their firms, understanding and recording business transactions et. All these, in turn, increased their skills to manage the business effectively and efficiently. The education and experience may well be linked with the reasons for venturing into business on a small –scale basis (Chowdhury and Amin, 2011).

Skills of the entrepreneurs:

On the relationship between management skills and accessibility to funding, 49% strongly agreed, 34% agreed while 12% remained neutral (see table 10). This means that the owner/managers needed to have the management skills to run and manage the business and the borrowed funds properly and seeking funds as well. This result is in consonance with numerous studies (see Chowdhury et al (2013) and Zarrok et al (2013) that revealed the importance of managerial skills for successful running of the small businesses.

Relationship with Banks:

In regard to the influence of building relationship with the lenders on access to funds, three-fourth of respondents (40% strongly agreed, 35% agreed) agreed with statement question (see table 10). This suggests that SMEs with a long-term relationship have more access to finance than those who do not have. The more a lender understands the purpose and vision, the easier it will be for the lender to prepare an accurate and appropriate loan presentation for the bank's credit team. When the relationship works right, trust, and honesty prevails, it is argued, a business owner will find the relationship with the lenders to be crucial to his/her business success. In fact, a firm's motivation to conceal negative information creates information asymmetry (Boot, A, 2,000), which could be reduced by having a relationship with firms (Peterson and Ranjan, 1995).

Finally, in regard to access to finance, we asked the respondents if they were ever rejected from obtaining loan (see table 12).

Table-12: Rejection of Loan from Formal Sources of Finance

	Responses	Frequency	Percentage
Have you ever been rejected from loan (s) by financial institutions?	Yes	57	66
	No	29	34
	Total	86	100

66 percent of the respondents (see table 12) replied that the formal financial institutions such as banks rejected their request for loan. 34 percent reported that they were granted a loan (see table 15). The reason for rejection was attributed to many factors such as lack of collateral of assets, which may be provided as a security, the perceived high-risk nature of these MSEs, lack of ability to adopt a business plan, short duration for repayment of loan.

5. CONCLUSION

Findings revealed that there was a significant positive association between access to finance and firms' characteristics, financial characteristics, and owners' characteristics. The size and age of the firm and their inability to produce collateral were found to be affecting the firms' access to funding In other words, overall firms' characteristics directly affect the firms access to finance This study also concludes that financial characteristics like start-up capital, current status of capital, interest rate, business plan etc. directly affect the access to finance by SMES. Among the owners' characteristics, the skilled and educated entrepreneurs with the ability to build up relationship with the financial institutions had access to credit and were able to manage the borrowed funds for business purposes.

The results are, therefore, consistent with existing literatures that unfavorable terms and conditions such as high interest rate, lack of collateral security, short repayment periods, lengthy bureaucratic process, and corruption by the bank officials are some of the biggest hurdles that

SMEs under this study face in getting loans. That means that easy credit accessibility by SMEs facilitates further growth and expansion of the business.

6. IMPLICATION (S)

The implication is that SMEs face innumerable hurdles in obtaining loans from the financial institutions and lion share of loans from the credit market go to larger industries. The lack of adequate funding means that SMEs will experience difficulties in generating profits that is necessary to sustain its business activities on an on-going basis.

Limitation (s) of the Study

In a relatively small amount of time we had to employ a small size of 86 SMEs from one region (Chittagong) that limited our ability to generalize the issues raised in this study. A nationwide study in all areas where there are SMEs could lead to better results for this kind of study.

7. RECOMMENDATIONS AND DIRECTION FOR FUTURE RESEARCH:

One of the main factors that hurdles SMEs to obtain loan from the financial institutions is because of their inability to produce collateral of fixed assets to the banks. That means lending by banks and other financial and non-financial institutions is collateral based lending. The future study may be undertaken to find the ways and means (for example, using cash flow) that enable SMEs to access finance from formal institutions like banks without provisions for collateral so the SMEs can expand. The government has to set up packages for formal financial institutions that could provide large amount of loan to MSEs without collateral if the SMEs purpose of intended loan is considered feasible.

In the survey result corruption by bank officials has come out as another obstacle in obtaining loans from the banks. The bank officials want money under the table (bribe) from the borrowers for obtaining loans from the banks. Further study may be undertaken to bring necessary reforms in this corrupt system of financial institutions. In the absence of this kind of study the SMEs will continue to bear the brunt of this institutional malice, thus failing them to repay the loan amount.

Another recommendation is that the government should be actively supporting and developing SMEs by providing finance on suitable terms (lower interest rate and longer loan repayment period, reducing transactions costs) and should create separate financial institutions like BSIC (The bank for Small Industries and Commerce) that should deal exclusively with SMEs financing. This would help in creating a SME friendly environment that would boost up economic prosperity and stability of the nation like Bangladesh. The situation warrants further study in this direction.

Finally the study has looked into the factors affecting access to finance by SMEs and did not link it to the growth and development of SMEs. Therefore, we do not know if getting access to finance would bring about the desired growth and development of SMEs. That demands further study in that direction as well.

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