A Study of the Impact of Small and Medium Enterprise Financing on the Lifestyle of Small and Medium Enterprise Loan Borrowers

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Abstract

Small and medium enterprise (SME) financing plays a very important role in Bangladesh Economy. This paper tries to capture the impact of SME loans on the lifestyle of the borrowers. For this, a random survey was run on 250 SME borrowers both male and female from Bhawal Mirzapur, Kaultia and Gazipur Sadar, Bangladesh. Surely, this paper cannot draw the whole picture of the country but still it will give us an idea how people’s lifestyle is changing through SME financing. This paper is focused on SME loan holders’ lifestyle improvement parameters such as number of school going children of those families, food expenses, and health care and nutrition expenses of those families. It also tries to find out the correlation with some other parameters such as attitude toward savings and adaptation of technology of the SME loan holders.

Keywords: Small and Medium Enterprise Financing; Lifestyle; SME Loan Holders; Adaptation of Technology

1. Introduction

SME means small and medium enterprises. SME plays an important role in the country’s industrial sector and economic development. It provides the largest number of employment and, indeed, constitutes the foundation of the private sector. The SME sector is also considered both a thrust sector and a pillar of the country’s economic growth. Actually, SME works as the platform for job creation, income generation, and development of forward and backward industrial linkages and fulfillment of local social needs. SMEs occupy a unique position in the economy of Bangladesh. Mainly, private sector development depends on them. According to Small Enterprise Assistance Funds (2004), report identifies a number of channels through which SMEs can have a positive impact on poverty reduction. Growth of SMEs can reduce poverty through acceleration of economic growth, creation of employment opportunities for the low-skilled workers and render flexibility to the economy. According to Organization for Economic Cooperation and Development (Appendix 1) (2004), SMEs have come into the forefront of development agenda due to the recognition of their contribution in fostering growth, sustaining global economic recovery, generating employment, and reducing poverty.

Moreover, in this paper, we tried to examine how true is the concept is.

2. About SME and SME Financing

The Industrial Policy 1991 defined “Small Industry” as an industry whose total fixed investment excluding the price of land, expenses for inland transportation and commissioning of machinery and appliances, and duties and taxes, was not more than Taka 30 million, and it includes initial working capital and it had fewer than 50 employees. According to this, policy medium industry covered enterprises that have between 50 and 99 workers and/or had a fixed capital investment between Taka
100-300 million. However, in the industrial policy announced in 2005, significant changes have been brought about in the definition of the various size categories (Alam and Ullah, 2006).

“In this report, SME and SME Financing are used simultaneously,”

Bangladesh industrial policy 2005 defines small and medium industries in two sectors; one is manufacturing sector, and another is non-manufacturing sector. According to the industrial policy 2005 in manufacturing sector, medium industry means an industry, in which the value/replacement cost of durable resources excluding land and factory buildings is between 15 million and 100 million Taka; small industry indicates an industry, in which the value/replacement cost of durable resources without land and factory buildings is under 15 million taka. SMEs and informal enterprises account for over 60% of gross domestic product (GDP) and over 70% of total employment in low-income countries, whereas they contribute about 70% of GDP and 95% of total employment in middle-income countries.

In China, SMEs are responsible for the 40% GDP growth of their country. Similarly, SMEs have become very prevalent in other countries such as Japan, Korea, and all other industrialized economies by creating employment, reducing poverty, and increasing the more welfare and development of their society and country (Fida, 2008).

3. Literature Review and Historical Framework of the Study

There is no precise estimate of the contribution of SME to GDP. Sender (2000) reported around 20%, whereas Daniels (2003) estimated (based on survey) 25% as SME’s contribution to GDP in Bangladesh. Such contribution is expected to grow further with the expansion of the size of microenterprise and small business.

It is stated in a report of the World Business Council for Sustainable Development (WBCSD) that SMEs are important for the economy, government, large enterprises, and communities. SMEs are a source of employment and wealth. They contribute to the general tax revenue and improving social stability system by reducing black market scenario. Local SMEs can work as an important source of supply and services provision to the large enterprise of both national and internationals. SMEs can enjoy the huge unexplored market in the developing countries, where large corporate have difficulties in access. SMEs are also good for communities. Through employment creation and growth, they improve the standard of living of the communities.

In a report of SEAF regarding development impact of SMEs, they focused on the SME development such as SMEs generate many new jobs in the economy. Since many of these jobs are suitable for semi-skilled or unskilled workers, they can be taken up by the poor. SMEs introduce business methods, products, and services that help restructure weak agricultural sectors or other uncompetitive transition economies, thereby absorbing labor that would otherwise drop into the ranks of the poor. SMEs help spread the benefits of the economies grown by engaging low-income groups in national development (Anisuzzaman et al.).

Iftikhar Hussain, Zeeshan Farooq, and Waheed Akhtar 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% (Hussain et al., 2012).

Chowdhury et al. (2013) found that SMEs contribute significantly in poverty reduction programs and potential contribution to the overall industrial and economic growth and suggested Venture Capital, Bank Syndication Scheme, Human Resource Development in Financial institutions and in Government offices, Training and Development, etc., as potential tools of eliminating the constrains of SMEs financing.

Electrin et al. (2013) in his article examine the effect of microfinance services on poverty reduction. The study suggested that the MFIs operating in the country be empowered through the provision of finances which can be advanced to the locals as credit to facilitate rapid economic growth.
Akterrujjaman (2010) found that where major findings are related to the high interest and loan duration rates, reasons for SMEs relatively informal way of doing business in contrast to bank’s formal procedures and prerequisites, bank’s relative inexperience in this field.

Akterrujjaman came to a conclusion that SMEs are a fundamental part of the economic fabric in developing countries, and they play a key role in furthering growth, innovation, and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint (2010).

Asta and Zaneta (2010) examined the growing importance of SMEs and their influence on the economic development of Lithuania’s demand special attention given to processes, tendencies, perspectives in them and encouraged the search for the effective SME performance improvement measures. They noted that to improve their environmental performance, economic and social effectiveness, the integrated, based on financial analysis, decision-making model is needed which would be oriented to strategic sustainability goals, not requiring significant time, financial and human resources. The integration of sustainability management accounting and composite sustainable development index methodologies makes the basis of sustainable development decision-making model for SMEs.

Chowdhury and Ahmed (2011) observed in their paper that non-availability of adequate credit, complex loan granting procedure, inadequate infrastructure facilities, problems of collateral requirements, paucity of working capital, non-availability of skilled workforce, poor salary structure, lack of coordination among SME-related organizations, lack of appropriate marketing strategies, etc., are the major hindrances to the development of the SMEs in Bangladesh. They recommended easy loan application and disbursement procedure; fix the minimum salary, adequate finance for modernization, expansion and technological advancement of SMEs, etc., for the development of SMEs.

Zaman and Islam considered in their article smooth and sustainable development of SMEs all over the country will be one of the vehicles for poverty alleviation and generation of more employment. They found Lack of Investment Finance and Working Capital Finance, Inability to Market SME Product, Lack of Skilled Technicians and Workers, Non-Tariff Barriers, and Changes in World Trade Regimes are the major financing constraints faced by SMEs in Bangladesh. Moreover, they suggested that Enhancing Access to SME Finance, Development of SME Infrastructure, Quality of SME Products, and Training Facilities for SME workers and Entrepreneurship, etc., are as some policy measures to overcome those constraints.

Alam and Ullah found some problems and recommendations on SME that lack of medium to long-term credit, limited access to market opportunities, technology, and expertise and business information. Lack of suitable incentives, inefficient and limited services from relevant government agencies as well as poor capacity of entrepreneurs are other reasons for the slow growth of SMEs. Study recommend that flourish, SMEs will create new entrepreneurs, generate more jobs, and contribute to a great extent to the national economy.

Quadir and Jahur 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 (2011).

SMEs are beginning to be extolled for their greater dependence on labor-intensive production techniques, lower requirements of imported inputs and better geographical dispersion. In both developed and under-developed economies, commercial banks play a very useful and dynamic role. Capital is the main factor of modern production and entrepreneurs are helpless without adequate funds. Banks should help them and mobilize the capital of the country for productive purposes responsible for economic development and government also should come forward to patronize the entrepreneurs (Chowdhury et al.).

Business failure also can be classified under four headings. There are several reasons behind the failure of a business such as poor plan, poor preparation, poor management, lack of finance, lack of location, lack of inventory control, lack of experience, failure to invent proper strategic plan, not successfully make an entrepreneurial transition and poor plan (Van Aardt and Van Aardt, 1997).
Small and medium entrepreneurs many times start under-capitalized business and fail to maintain the cost of conducting in future. Business owners very often make the mistake of making a business on a shoestring capital base which might be dangerous for the business. It happens because most of the time business entrepreneurs become very hopeful about the future success of their business and make a misjudgment about the financial conditions of the business (Wright, 1995).

The SME sector continues to suffer from lack of access to finance, infrastructure bottlenecks, unreliable power and low levels of technological competence, difficult market access, and regulatory barriers. Other important challenge includes sharp market competition both in existing and new markets. Sophisticated consumer preferences and market standard and various non-price factors such as quality, health and safety and ecological compatibility of products and processes also pose a significant challenge on SME sector. In the changed market perspective, introduction of new products and processes, more innovative design, shorter product cycles and smaller output batches, greater mass customization, and more just-in-time delivery, etc., have become the critical determinates of survival and growth of the SMEs (Rashid, 2012).

The government in most of the countries have made regulations for the financial sectors to provide different types of financial and non-financial helps to the SMEs to flourish the development of SME sector. However, in our country, most of the banks are limited to providing only different types of monetary help to their SME customers instead of providing different types of quality buildings helps. However, to foster the rapid growth of the SME sector, different types of entrepreneurial qualities should have been built in themselves by providing them necessary training and guidelines (Ferdausi).

Aremu and Adeyemi (2011) claimed that their findings have shown that most SMEs particularly in Nigeria die within their first 5 years of existence. It was also revealed that smaller percentage goes into extinction between the 6th and 10th year, whereas only about 5-10% of young companies survive, thrive, and grow to maturity. Many factors have been identified as likely contributing factors to the premature death. They include insufficient capital, lack of focus, inadequate market research, overconcentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper bookkeeping, irregular power supply, infrastructural inadequacies (water, roads, etc.), lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, and cut-throat competition.

Aremu and Adeyemi (2011) examined that SMEs have been considered as the engine of economic growth and for promoting equitable development. It was noted that the SME sector is the main driving force behind job creation, poverty reduction, wealth creation, income distribution, and reduction in income disparities.

4. Methodology of the Study

This study is mainly based on the survey through a structural questionnaire which was developed to get the responses from different people. Data have collected from 250 general people including male and female using simple random techniques, who have taken loan either before marriage or after marriage. The place of the sampling area was Baowal Mirzapur and Kaultia, Gazipur Sadar, Gazipur.

4.1. Analysis of the study

4.1.1. Graphical representation of the data

The present study is conducted on the impact on economic development of Bangladesh through SME financing. As a whole ratio, there are about 70% male and about 30% female. Among these people, 86% are married and 14% unmarried. 94% people are parents and about 6% people who have no children. Among of them, about 84% people are become the new parents after taking loan (Figure 1).
4.2. Impact of loan

4.2.1. Loan duration

From the study, we have seen that people take loan before marriage about 16%, after 1 year of marriage about 12%, after 2 years of marriage about 20%, and after 3 or more years of marriage, it is about 52%. As a whole ratio, they take the loan before marriage about 16%, and after marriage, they take loan about 84%. That percentage shows that people are taking much loan for increasing their earning, and their extra earning certainly has a great impact on their living standard.

4.2.2. Parenting

There are about 94% people who have children and about 6% people who have no children. People have become parents about 16% before taking loan and about 84% after taking loan.

4.2.3. Impact of loan on school going children and their nursing

From the study, we have also seen that children of them go to school about 86% and do not go to school about 14%. People having children and takes the loans bear children’s educational expenses. About 60% people can finance for children’s educational expense without problems (Figure 2).

**Figure 1:** (a-c) Borrowers gender, marital status, and having children

**Figure 2:** (a-d) Loan duration, parenting, impact of loan on school going children and their nursing
4.2.4. Food expenses

About 84% people expenses only Taka 1000 or less for food/week before taking the loan, but after taking the loan, the percentage declined to 46%. 16% people expenses only Taka 1000 more for food/week before taking the loan, but after taking the loan, the percentage increases to 54% (Figure 3).

4.2.5. Health-care and nutrition expenses

About 76% people expenses only Taka 500 or less for health/monthly before taking the loan, but after taking the loan, the percentage declined to 34%. About 24% people expenses only Taka 500% more for health/monthly before taking the loan, but after taking the loan, the percentage increases to 66%. That means after getting loans people generate income more and can also expense more for health care. However, as a researcher, we are not very much convinced about the percentage as we need to take the data from pure personal experience of the interviewers. No evidence they can showed us about their expenses. However, we believe taking loan has a greater impact on their health care and nutrition (Figure 4).

4.2.6. Using technology

Mobile is the most important too, for communication in these days and also plays an effective role for better living. We have interviewed different types of people who are using mobile either before taking loan or after taking loan. The ratio is about 72% people used mobile before taking loan. However, after

Figure 3: (a and b) Weekly food expense before taking loan and after taking loan

Figure 4: (a and b) Monthly health care before taking loan and after taking loan
taking loan, this ratio is improved. Now, mobile is used by 100% people. Among of them, about 48% people is utilized the internet. Through mobile about 79% and laptop about 21% people are using the internet. The smartphone is purchased by 32% people after taking loan (Figure 5).

4.2.7. Impact of saving

In general, when people take loan, they cannot take saving scheme, but from our study, we have seen that they can take saving schemes when they take SME loan. Hence, the impact of saving for taking SME loan that about 74% people go to take the saving scheme and about 26% people do not have any saving scheme. About 38% people had taken the saving scheme before taking loan and after taking loan, this ratio is increased by 62%. Hence, it can be said that after taking loan people’s income rise and maintain the overall costs regarding food expense, health care and education expense, etc., that why they can be taken more saving scheme. It is a good and positive impact on economy (Figure 6).

**Figure 5:** Using technology

![Using Mobile](image1)

**Figure 6:** Impact of saving

![Starting Saving](image2)
4.3. Finding of the study

From our study, we have seen that married persons take loan more than unmarried. 84% people have become parents after getting loans although many of them become parents before taking loans. At that time, they faced some problems to convey their children’s educational expenses, such as, cannot provide necessary things of children’s educational purpose. However, after getting the loan, this scenario changes mean they do not face problem to bear their children’s educational expense. Although 40% people say that after getting loan, they cannot properly bear their children’s educational problem, but from our study, we have seen that they have increased their food expense, health care expense, etc.; basically, they have said that after increasing their comport level, they face problem and 60% people say that it does not make any problem. That means people income rises and employment creates after taking loan. They can soundly bear their children educational expenses and other expenses. Now, children go to school without problem and parents are more conscious about their children’s education. As a result, SME helps to increase the literacy rate and decreases illiteracy rate.

Hence, we can be said that SME has a positive impact on the children education of the loan holders and keeps the positive impact on economic development by increasing literacy and creating employment either male or female.

We have also seen that before taking loan people expense less amount of money for food, but after taking loan, it increases. That means their income rises for doing business by taking loans. They can expense more on the food. So that, they are getting the nutrition more and they can have a good health. This is also important for mother. They are getting the nutrition. That’s why they are healthier now, and they can bear more healthy children. So, the condition of the family health has increased. It also reduces their problem of the health and their health-care condition goes up. It means if they have any diseases or any other sick, and that time, they can expense more money on the healthy issue.

We know that basically the price of intact goods or healthy foods is higher than openly trading goods. Before taking loan, people did not purchase standard goods for consumes, but after getting loan, they can purchase standardized product, facing lower diseases, and improving their energy and health.

People expensed less money for their health care before taking the loan. At that time, their income was lower, that why they did not covey the expense for health care. If any normal diseases happened, they did not go to medical due to lack of money. They purchased medicine from some medicine corners without no rules and guidelines. However, after getting loans, this scenario has changed because now income is rising. People are eating healthy foods through paying high price. As a result, they do not face more diseases.

After taking loan, people are more using a mobile phone and the internet. They can transfer information from one place to another. As a result, their communicator increases, business increases, profit increases, and income rises. So, profit is the result of using the internet for taking loan. They can expense more money for the mobile purpose. Using the internet, they get all types of information when their required. Before taking loan, those facilities were consumed by fewer people because of lacking using mobile and the internet.

People have taken saving schemes either before taking loan or after taking loan. They have taken more saving scheme after taking loans. They take saving scheme when their income rises. So, it provides the future safety. So, it can be said that after taking loan people’s income rise and maintain the overall costs regarding food expense, health care and education expense, etc., that why they can be taken more saving scheme. It is a good and positive impact on economy.

5. Conclusion

SME has the positive impact on economic development by creating employment for both male and female and increasing literacy rate. It is also provided the good health by taking nutrias foods which are possible for SME. By taking loans, people generally start a business, boost-up their earning, and get the opportunity to have better life. People are using mobile and the internet more. They also take more saving scheme due to increase income. So, it can be said that SME has the positive impact on economic development.
We have worked with primary data, which present the narrow picture. Furthermore, we are not sure about certain percent purity data. However, we think that if we can work it with the bigger picture and with a lot of data, we will get the clearest picture which we believe that will consistent with our present findings from the narrow picture. From this narrow picture, we got that SME has a strong influence on economic development till now. If we can get the complete picture of whole Bangladesh, only that time, we can say that SME has a very positive impact on economic development. However, till now, it is a small case study, and it can be said that SME has a positive impact on economic development for Baowal Mirzapur and Kaultia, Gazipur Sadar, Gazipur which are representing a part of Bangladesh.

References


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