

Exploring the Role of Private Commercial Banks in Increasing Small and Medium Size Enterprises' Financial Accessibility in Developing Countries: A Study in Bangladesh

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Abstract : It is widely recognized that the formal financing of Small and Medium Size Enterprises (SMEs) by Private Commercial Banks (PCBs) is restricted. Due to changing financial market competition, SMEs are now important customers to PCBs in the member countries of the Asian Development Bank (ADB). Various initiatives in enhancing the efficiency of risk assessment of PCBs have failed in increasing financing accessibility in the traditional financing system where information asymmetry is a key constraint. In this circumstance, PCBs need to undertake a holistic approach. Holistic approach refers to methods that attempt to fundamentally change established traditions. To undertake holistic approach, this study intends to find the entire established financing culture between PCBs and SMEs in a new lens beyond the tradition on the basis of two basic questions: "What is the traditional lending culture between PCBs and SMEs" and "What could be potential role of PCBs to develop that culture where focusing on SME financing to PCBs". This study considered formal SME financing in Bangladesh by focusing on SMEs applying for their first loan. Bangladesh is a member country of ADB. The data collection method is semi-structured and we utilized face-to-face interviews with in-depth branch managers, higher officials and owner-managers of SME customers of PCBs and higher officials of SME Foundation and the Bangladesh central bank. Discourse analysis method was used for data analysis on the frame of thematic discussion fully based on participants' views. The research found that branch managers and loan officers have a high level of power in assessing and financing decision-making. There is a changing attitude in PCB sector in requiring flexible collateral assets. Branch managers (Loan Officers) consider value of business prospect of owner-managers as complementary of collateral assets. However, the study found the assessment process of business prospect is entirely unstructured and linked with socio-cultural settings that does not support PCBs' changing manner in terms of collateral requirement. The study redefined and classified collateral assets to include all financing constructs in a structure. The degree of value of the collateral assets determines the degree of business prospects. This study suggested applying an outside classroom-learning paradigm such as "knowledge tour" to enhance the value of the kinds of collateral assets. This is the scope of PCBs in increasing SMEs' financing eligibility in win-win basis. The findings and proposition could be effective in other ADB member countries and audiences in the field.

Keywords : CCA, financing, information asymmetry, PCA, PCB, financing

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