



SWOT Analysis of Small and Medium Enterprise Banking for Financial Development and Poverty Reduction through Enterprises in the Emerging Market

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Abstract

SME Banking is playing a crucial role in poverty reduction and financial development of an emerging country like Bangladesh. The study considers SWOT (Strength, Weakness, Opportunity, Threat) analysis of the financial development and poverty reduction through small and medium enterprise banking in the emerging market. SWOT analysis delivers a complete appearance at together inner and exterior influences that can influence on SME banking in Bangladesh. SME banking can play important tool to create entrepreneur, uplift livelihood of poor income stratum, reduction of poverty and development of financial sector especially in the emerging market.

Key Words: Financial Development, Formal Banks, Microfinance, Poverty Reduction, SME Banking, Enterprises, SWOT analysis.

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1. INTRODUCTION

Financial development and poverty reduction of an economy is necessary to achieve both wealth and power. Emerging country like Bangladesh is progressing through financial inclusion and reducing poverty and creating employment by the entrepreneurs both in formal and informal sector. According to the Ministry of Finance, as reported on Bangladesh Economic Review (2022) Bangladesh's headcount poverty rate was 56.7% in 1991 which fell to 20.5% by 2019. Reduction in poverty means increase in wealth and power of the nation which is pivotal for the political economic development of a nation. Bangladesh is expected to graduate from a Least Developed Country (LDC) to a Middle-Income Country (MIC) by 2026. Since the 1990s following the NGO's and MFI's Microfinance model formal banks of the country implemented SME banking in the country with aim to create entrepreneurs in the formal sector. Peredo, & Chrisman (2006) described that community-based enterprise provides a potential strategy for sustainable local development in poor populations.

Since the 2000s SME banking has been playing a pivotal role in poverty reduction through small and medium entrepreneurship creation support in Bangladesh. Banks play major roles in poverty reduction, creation of employment and entrepreneurship opportunities. There are private and public sector working jointly for the economic development of the nation. In the formal sector there are total 61 scheduled banks in Bangladesh, of which 9 are government banks, 43 are private banks and 9 are foreign banks. Many banks were established in the post- independence era. The fourth industrial revolution led to technological innovation in cottage, micro, small, medium and large enterprises. This is expected to bring changes in business environment in Bangladesh. Digital entrepreneurs are becoming the game changers under this situation. The poor and underprivileged people do not have sufficient access to technology. To enhance productivity, self-reliance and living standards of the people entrepreneurship is crucial for the financial development of the nation and SME banking is a key tool to achieve this. Eton, Mwosi, & Okello-Obura, et al. (2021) argued that financial inclusion is significant in supporting SME growth.

Over 50% of the population does not have access to formal banking service. SME banking ensures financial inclusion people of all walks of lives and economic classes irrespective of whether their social class, age, gender, religion, ethnicity, religion and political views, even those who are handicapped, etc. are welcome to SME banking facilities to use SME loans to become entrepreneurs as beneficiaries of SME banking. SME banking is also highly inclusive of transgender people and respects their rights and have allowed transgender loan takers to become entrepreneurs. SME banking has also ensured financial deepening through wider choice of services and better access for different socioeconomic groups. As people become income generators through SME banking, their per capita income rises, also as they sell their products abroad this leads to tremendous export earnings in Bangladesh and in a bottom up approach this leads to the overall long term sustained financial development of the country. Thus, SME banking in Bangladesh contributes to financial inclusion by providing access to financial services and credit to small and medium-sized enterprises (SMEs) that were previously underserved or excluded from traditional banking channels. Haan, Pleninger, & Sturm (2021) stated that a drawback of financial development is that it can increase income inequality. It is recommended to

use IMF composite index of financial development as proxy for financial development instead of the private-credit-to-GDP ratio. SME banking in Bangladesh also contributes to financial deepening by fostering the growth and development of the SME sector, enabling them to expand their operations, invest in new technologies, boosting export earning, and contribute to economic productivity and job creation.

The Research Question: How SME banking can help an emerging economy in achieving Financial Development and Poverty Reduction in Bangladesh through Enterprises?

2. OBJECTIVE OF THE STUDY

To analysis SWOT so that understanding the nature of SME banking for financial development and poverty reduction through enterprises creation.

Gürel (2017) argued that "SWOT Analysis is an analysis method used to evaluate the 'strengths', 'weaknesses', 'opportunities' and 'threats' involved in an organization, a plan, a project, a person or a business activity. In this qualitative and descriptive study, firstly the position of SWOT Analysis in the strategic management process is explained, secondly the components of SWOT Analysis are examined." The study will include concrete steps to connect the SME banking's strengths and target the opportunities identified and weakness in this research work putting emphasis on qualitative analysis. These four mechanisms deliver a complete appearance at together inner and exterior influences that can influence on SME banking in Bangladesh. Based on SWOT analysis, confrontation matrix can be prepared. "S" is "+", "W" is "-", "O" is "+" while "T" is "-". After combining SWOT analysis confrontation matrix may be positive or negative. Jenčo, & Cernak (2019) described that after designing a confrontation matrix, it is possible to evaluate the interaction between internal and external dimensions.

3. LITERATURE REVIEW

Goldsmith (1969) was the first to show empirical evidence of a positive relationship between financial development, economic growth, rising per capita GDP and poverty reduction. Galbraith (1958) commented that "It has also been useful to those who have needed a formula for keeping the suffering of others from causing suffering to themselves. "Lipton (1986) commented that the ultra-poor – a group of people who eat below 80 per cent of their energy requirements despite spending at least 80 per cent of income on food – are most vulnerable to seasonal fluctuations in food supply and wage employment, and seasonally induced nutrition and health risks. Maloney (1986) said that nobody has tried before to identify specific qualities of behavior that case persisting poverty in so large a part of the population in the 20th Century Bangladesh.

Salahuddin (2001) opined experience shows that in the rural areas the poorest households are critically dependent on female earnings. It is observed that economic self-reliance sets the stage for improving the status of female. Gentry & Hubbard (2004) recommended that expensive outward financing for entrepreneurial investments and possibly high returns on those investments have significant consequences for the saving performance for well-off families. Quoting Stubbs & Underhill (2006) "We need to focus on determining the political constituencies that need to be challenged in order to correct the balance of costs and benefits of aspects of global

economic integration, particularly the problem of inequality and poverty."Bakht (2008) describe SME foundation was established for successful administer, financing, and success of small enterprises. MIDAS (2009) noted in its study highlights followings: women entrepreneurs used their saving for business development (70.1%). The next use was for family requirements mentioned (64.8%). 24% kept their money in the banks, while 1.7% bought land or assets, and 1.5% invested their savings in other activities. International Finance Corporation (2010) stated that SME banking differs from commercial banking, as the primary purpose of retail banking is to "lend." In contrast, the primary purpose of SME banking is to "invest. "It is essential for SME banking to link savings and investment. Deposits and savings are crucial financial management tools, while various assets, aid in creating business opportunities and allowing for earnings for excess capital.

Galbraith (1973) as described by Dunn (2011) described that Galbraith anticipated require of legislative and institutional changes: "Equal access to jobs requires the support of the law. It also requires a series of companion reforms....(1) provision of professional care of children...(2) Greater individual choice in the work week and work year....(3) An end to the present monopoly of the better jobs in the technocrats by males(4) provision of the requisite educational opportunity for women" (49).Mehta & Das(2012) found that employment is said to protect women from violence, but there is mixed evidence, while some studies suggest that employed women are less likely to be victims of violence, other studies suggest that women contributing significantly to household income make them more vulnerable to violence by other household members. According to Hatten (2012), entrepreneurs are the people who look at the larger picture, think big, take risk and have a lot of confidence. Small businesses generate a great deal of innovation, profit and efficiency for people. Diversity within the work force helps improve the efficiency of a small business. Arasteh, Enayati, & Zameni (2012) noted that the difference between male and female entrepreneurs. Male entrepreneurs scored higher on measures of adaptability, risk tolerance, time management, extroversion, and thinking, while female entrepreneurs scored higher on measures of planning, goal orientation, intuition, and perceiving

Boyles (2012) stated that entrepreneurs are the game changers in financial development and poverty reduction in the 21st Century. The four mandatory skills required for entrepreneurs are: i) Information, media, and technology literacy, ii. Inventive thinking, iii) Communication and collaboration and iv) Productivity and results. Chowdhury, Azam, & Islam (2013) found that "Bangladesh SMEs have assumed special significance for poverty reduction programmes and potential contribution to the overall industrial and economic growth. Osmani, & Latif (2013) found that enterprises begun to exercise their full potential, becoming more proactive, efficient and creative, they begun to grow and create income generating activities, thus poverty begun to decline and the overall economy started to improve with accelerated growth.

Shah (2014) stated that although official data indicate that the SME loan default rate is around 2%, it is widely known that total SME loan default rates in Bangladesh might be as high as 5% or 6%. Political turmoil in the form of general strikes and blockades, lack of business capital, stiff competition and slow seasonal business were the main factors contributing to a high rate of SME loan default, issues such as fund diversion and willful default due to being turned down for a

larger non-SME loan sanction and rough behavior by credit relations officers were also significant factors.

Jawaid, & Raza (2014) in their study showed the positive effect of remittances on economic growth in India, Bangladesh, Sri-Lanka and Nepal. These countries should create friendly policies to reduce the transaction cost to ensure the continuous inflows of workers' remittances.

Ong, Habidin, Salleh, & Fuzi (2016) showed in their study in Malaysia that how women entrepreneurs can improve their Business Performance through Entrepreneurship Practice leading to increased efficiency and productivity. Ma'ruf, & Aryani (2019) analyzed the relationship between Financial Inclusion and Achievements of Sustainable Development Goals (SDGs), noting that financial inclusion is crucial for achievement of the SDGs, implying the importance of financial development and poverty reduction where there should be non-excludability, and everyone should be able to ripe the benefits of financial development.

Ahammed, & Seddiqe, (2015) depicted that NGOs have been instrumental in the poverty reduction and social development in Bangladesh through the microcredit program and sustained a paradigm shift in social mobility as they helped the people achieve higher standards of living, especially through their microcredit system. Ali et al. (2017) argued there was significant association between NGOs role for removing poverty and fulfilling towards SDG1 and SDG 5 which work for zero poverty and disparity removing among inequality of poor group has been also occurring. Becker, Kominers, Murphy, & Spenkuch (2018) rationalized that low intergenerational mobility at both ends of the income distribution, all the while allowing for a mobile middle class and societies in which human capital is less equally distributed exhibit, on average, lower rates of intergenerational mobility.

Ahmed, Hossain, & Hossain (2018) found that SME Foundation can support women by helping them build knowledge to become successful entrepreneurs by provision of training in entrepreneurship development, bank readiness, business and account management, development of their goods and services, marketing strategy, business laws and regulations, etc. Abdin (2016) noted SMEs are vital for the Economic Growth of Bangladesh and being labor intensive creates numerous employment opportunities for the overpopulated people of Bangladesh. SMEs participating in international trade, exporting their products abroad are tremendously contributing to the economic growth of the nation through increased export earnings.

Fatima & Ahmed (2017) noted that according to Center for Policy Dialogue (CPD), The SME sector has the highest opportunity to create employment in Bangladesh because of easy access to finance, strong driving force to become entrepreneur and employ others in their business ventures, strong credit whole selling and various match making programs. Khanam, Mohiuddin, Hoque, & Weber (2018) noted that microfinance has been an effective tool in creating entrepreneurs since the 1970s. By helping to create micro entrepreneurs through provision of micro loans, non-government micro finance institutes have helped alleviate poverty and increase per capita income within the nation.

Sutter (2019) noted that the poor have been denied loans from formal sector banks due to lack of collaterals. However, NGOs and various Micro Finance Institutes under their microfinance schemes have provided people small amount of loan to engage in entrepreneurship and income

generating activities to uplift them from poverty. Manzoor, Wei, Nurunnabi, & Subhan (2019) found that SME banking in SAARC region has helped achieve poverty alleviation in SAARC countries through creating Small and Medium Entrepreneurs. Chowdhury et al. (2020) depicted that the NGOs are working at the state in the procedure of widely varied agendas and schemes which (i) generate community and dogmatic consciousness amid the collection of disadvantaged besides on a social basis of weak groups, (ii) measure the wants and request of the cited collection of persons, and (iii) train and strengthen them to societal, partisan, and economic progresses.

Erlando, Riyanto, & Masakazu (2020) stated that "The need for a good understanding of the relationship between financial inclusion and economic growth has become a significant concern in national development. Both sectors play an essential role in formulating income distribution policies and reducing poverty, evidence from Eastern Indonesia." Iheonu, Asongu, Odo and Ojiem (2020) described domestic credit to private sector as the biggest indicator of financial development. It should be given the utmost priority when considering investing in the cause of financial development in a country. Ali, & Wanasilp (2021) recommended that Bangladeshi NGOs expand their business ventures by opening business ventures abroad and meet the 21st century needs of Globalization in compliance with SDG 17 "partnership for the goals." Billah (2021) noted that SMEs play a very momentous role in the economy in terms of economic augmentation, employment manufacture, entrepreneur improvement, and export take-home pay.

Golder et al. (2021) stated that "Financial institutions, especially banks, diversify their portfolios by collecting deposits from the public and by investing in various industries. Thus, it boosts consumers' financial stability while also providing a stable source of income. Moreover, small- and medium-sized businesses promote economic development through the financial sector by taking credit and boosting their earnings." Chikwira, Vengesai, Mandude (2022) described that the long-run model showed that poverty can be alleviated by the growth of SMEs and agriculture output in the long run. Morris (2022) noted that a multidimensional phenomenon that includes challenges related to food security, underemployment, literacy, housing, health, transportation, safety, fatigue, limited social networks, and limited access to many opportunities available to those in other income categories. Gama, Sol Murta, & Vieira (2024) described that in Portugal regulations that strengthen and promote the cooperative banking sector may favor SMEs' access to external resources

4. RESEARCH METHODOLOGY

The study will do SWOT analysis to see whether it will act for SME banking and poverty reduction in Bangladesh. As such the study selects five commercial bank and try to analysis qualitative manner.

Time period of the study is from 1990 to 2021.Exact sources of citations and literature review will be discussed.

5. ANALYSIS OF THE FINDINGS

(SWOT Analysis)

5.1 Strengths (Internal Factor)

- [i] **Strong Government Support:** The importance of SME banking has been recognized by the Government of Bangladesh which has implemented numerous policy reforms since the 1990s to promote entrepreneurship and SME development through SME banking, providing a conducive environment for SME banking. In 2021 the Government acknowledged the importance of entrepreneurship to tackle the challenges of unemployment in this overpopulated nation.
- [ii] **Microfinance Institutions:** Bangladesh has a strong microfinance sector, providing financial services to the unbanked population, including micro-entrepreneurs. Formal banks have leveraged the existing microfinance infrastructure to reach a wider customer base through SME banking.
- [iii] **Local Market Knowledge:** Bangladesh's banking institutions possess extensive knowledge of the local market landscape, cultural intricacies, and unique obstacles encountered by entrepreneurs. This expertise empowers them to customize their offerings and solutions in alignment with the specific needs of their aspiring SME loan takers.
- [iv] **Better Technology Adoption and Digital Banking:** Banks are better equipped with modern technology and financial facilities (such as mobile banking) compared to NGOs and MFI. The increasing adoption of digital banking solutions and mobile payment platforms in Bangladesh can enhance the accessibility and convenience of SME banking services, and SME banking as of 2021 has a wider reach than NGOs and traditional MFIs. This was observed in the COVID-19 period.

5.2 Weaknesses (Internal Factor)

- [i] **Limited Access to Formal Financing:** Banks are not as flexible as NGOs and SME banking requires collaterals and strict credit history monitoring which wasn't a challenge in the sense of traditional microfinance. The strict attitude of banks may be discouraging for small and medium entrepreneurs in Bangladesh, especially those in rural areas, who still lack access to formal financing options.
- [ii] **Technological Lag of General Population:** The vast majority of poor people in Bangladesh lack access to smart phones and use traditional cell phones which prevent them from utilizing the benefits of mobile SME banking. Bangladesh is also listed among the nations with the slowest internet connectivity in the world.
- [iii] **Skill Gaps:** Some entrepreneurs especially the poor rural people may lack the necessary business management and financial literacy skills to effectively utilize SME banking services, requiring efforts to improve financial education and entrepreneurship training programs.

- [iv] **Regulatory Constraints:** The intricate regulations and compliance obligations associated with SME banking in Bangladesh can present complexities that hinder the growth and scalability of financial services, limiting their ability to reach a broader spectrum of entrepreneurs among the poor people of Bangladesh.

5.3 Opportunities (External Factor)

- [i] **Financial Inclusion:** SME banking can play a vital role in expanding financial inclusion by reaching out to underserved entrepreneurs and providing them with access to formal financial services, enabling them to grow their businesses and contribute to poverty alleviation. SME banking ensures that no one is depriving from their financial benefits and people from all walks of life regardless of age, gender, ethnicity, religion, etc. are eligible for their loans.
- [ii] **International Trade:** As mentioned earlier, SME banking contributes to 75% to 80% of the country's total exports. As SME banking expands the no. of SMEs in the country increases and can sell their products abroad contributing to boosting the country's exports and raising the GDP of the nation. This characteristic makes SMEs attractive investments and encourages SME banking.
- [iii] **Sector-Specific Financing:** SME banking allows to invest in wide diversity of sectors such as agriculture, garments, local vendor shops, textile, information technology, etc., allowing for wide diverse job creation for other people in these sectors as the SME ventures expand.
- [iv] **Partnerships and Collaborations:** Both private banks and government banks are providing SME loans enhancing public-private partnership in Bangladesh and contributing to the financial development of the country.

5.4 Threats (External Factor)

- [i] **Political and Economic Instability:** Bangladesh faces political and economic uncertainties that can impact the business environment and investment climate, potentially affecting the growth and stability of SME banking operations. Political imbalances may create problem for instability in the economy of the country.
- [ii] **Competition from Informal Sector:** The informal sector, including unregulated lenders and moneylenders, poses competition to formal SME banking by offering quick and flexible financing options. Addressing this challenge requires offering competitive products and services.
- [iii] **Environmental and Climate Risks:** Bangladesh is vulnerable to hydro meteorological hazards such as flooding cyclones and climate change impacts, which can disrupt business operations and create additional risks for entrepreneurs and SME banking institutions. This is an additional burden for agro- entrepreneurs who rely on farming and their cultivation gets damaged during such environmental hazards.

- [iv] **Cyber security Risks:** As SME banking is one of the largest investments in digital entrepreneurship transactions, this makes it vulnerable to hackers and crackers which could lead to potential online money theft.
- [v] Bottomup approach should work for the SME banking facilities to improve financial development and to reduce poverty.

From the aforesaid SWOT analysis, if the study prepares confrontation matrix by considering both internal and external factors then it will indicate positive impact of SME banking.

6. CONCLUSION

Bangladesh has come a long way in terms of poverty reduction. In 1991 headcount poverty rate was 56.7% which fell to 20.5% by 2019. This has been feasible through financial development of the nation by helping the poor people of the country. Initially provided by NGOs and MFIs, in the 1990s formal banks undertook the program under their SME banking scheme. From aforesaid study, it is found that SWOT analysis has four mechanisms to deliver a complete appearance at together inner and exterior influences that can influence on SME banking in Bangladesh to reduce poverty and financial development. Gürel (2017) observation is correct and given a guideline. Not only did they ensure the access to credit for the poor and underprivileged people, they ensured that micro loans taken under SME banking scheme would be properly utilized to create small and medium entrepreneurs in the nation through strict monitoring and records of the utilization of micro loans under the SME banking scheme. SME banking is seen as one of the most successful tools in the process of poverty reduction and financial development. One reason for slow progress could be loan defaulting, which is not only a huge problem for SME banking but also hampering the banking sector of the nation, as defaulters launder money abroad forcing the Central Bank to print more money devaluing Taka and causing inflationary crisis. SMEs banking are not only helping alleviate poverty and achieve financial development by allowing the loan takers to become entrepreneurs, these loan takers also recruit other people in their SME ventures and as their production increases they tremendously boost export earnings for the nation. This in a bottom up approach is leading to raising per capita income of the nation and is paving the way for Bangladesh's LDC graduation into a wealthy middle-income country which is targeted by 2026 as observed by the United Nations. As political economy deals with the power and wealth of a nation, by reducing poverty and achieving the status of a middle-income country Bangladesh can strengthen its global geo-political position and achieve SDG 1 "No Poverty" to its fullest extent with the aid of SME banking.

7. RECOMMENDATION

Following recommendations are given below:

- [i] Continue both joint public-private partnership support for SME banking and entrepreneurship creation in Bangladesh for poverty reduction and financial development of the nation.

- [ii] Take full advantage of digitalization in the era of 4th industrial revolution. SME banking remained strong due to digital and mobile banking facilities and SME loan takers were able to make necessary transactions sitting at home.
- [iii] Make more media-based advertisements to promote SME loans for the poor people to become SME loan takers and engage in SME building to uplift their livelihoods from poverty.
- [iv] Provide creativity, innovativeness, entrepreneurship and vocational training to the SME loan takers so that they can properly utilize their SME loans to become sustainable small and medium entrepreneurs.
- [v] Encourage SMEs to hire more workers to help combat the unemployment crisis in the nation.
- [vi] Reduction in poverty should come hand in hand with reduction in inequality for financial development of the nation highlighting financial inclusion.
- [vii] SME banking should continue to build entrepreneurship and employment opportunities for people post Bangladesh's LDC graduation in 2026, so that as per "Vision 2041" Bangladesh can progress to a wealthy Developed Country by 2041.
- [viii] In Bangladesh, endorsing superior inclusiveness of women and speaking about the unique challenges they express is non impartial a substance of social justice nonetheless a vital plan for operative poverty reduction. SME banking must be vigorous part in this endeavor.

Future studies should give a road map to an emerging economy like Bangladesh's attainment of the status of a wealthy prosperous high-income country by 2041 which will give the country greater geopolitical power due to increase in wealth and income of the population that will in a bottom-up approach lead to a wealthy financially empowered prosperous nation. An in-depth study using the Sen index provided by Nobel Laureate Economist Amartya Sen for measuring of poverty adjusted for inequality rather than simple headcount index of poverty to ensure fair distribution of wealth and income and growth with equity in an emerging country need to be done. In the index, SME banking may be added as one more of the determinates.

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