



**FINANCIAL DEVELOPMENT AND POVERTY REDUCTION IN
BANGLADESH THROUGH SMALL AND MEDIUM ENTERPRISE
(SME) BANKING**

**BY
NAWAZEESH MUHAMMAD ALI**

**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR
THE DEGREE OF DOCTOR OF PHILOSOPHY
IN INTERNATIONAL POLITICAL ECONOMY
AND DEVELOPMENT
FACULTY OF ECONOMICS**

**GRADUATE SCHOOL, RANGSIT UNIVERSITY
ACADEMIC YEAR 2024**

Dissertation entitled

**FINANCIAL DEVELOPMENT AND POVERTY REDUCTION
IN BANGLADESH THROUGH SMALL AND MEDIUM
ENTERPRISE (SME) BANKING**

by

NAWAZEESH MUHAMMAD ALI

was submitted in partial fulfillment of the requirements
for the degree of Doctor of Philosophy in International
Political Economy and Development

Rangsit University

Academic Year 2024

Prof. Lt. Gen. Somchai Virunhaphol, Ph.D.

Examination Committee Chairperson

Wanasin Sattayanuwat, Ph.D.

Member

Assoc. Prof. Narong Petprasert, Ph.D.

Member

Assoc. Prof. Sitanon Jesdapipat, Ph.D.

Member

Asst. Prof. Wannakiti Wanasilp, Ph.D.

Member and Advisor

Approved by Graduate School

(Prof. Suejit Pechprasarn, Ph.D.)

Dean of Graduate School

April 5, 2025

Acknowledgements

I express my heartfelt gratitude to my supervisor, Asst. Prof. Dr. Wanakiti Wanasilp, and the dissertation committee members for their invaluable guidance and support throughout my research. I am also deeply thankful to the commercial banks in Bangladesh, such as Sonali Bank PLC, Pubali Bank PLC, and organizations like Grameen Bank, BRAC, ASA, along with the Central Bank of Bangladesh, for providing essential data and allowing me to conduct interviews for qualitative analysis.

I extend my gratitude to Rangsit University for the opportunity to pursue my Ph.D. and acknowledge the profound lessons gained from my battle with cancer, which strengthened my resilience and personal growth. Special thanks to TJ Academy and EViews software for their role in facilitating my quantitative analysis.

Finally, I hope this research contributes to the ongoing efforts in financial development and poverty alleviation in Bangladesh. My deepest appreciation goes to everyone and every organization that supported and enriched this journey.

Nawazeesh Muhammad Ali

Researcher

6305205 : Nawazeesh Muhammad Ali
 Dissertation Title : Financial Development and Poverty Reduction in
 Bangladesh through Small and Medium Enterprise (SME)
 Banking
 Program : Doctor of Philosophy in International Political Economy
 and Development
 Dissertation Advisor : Asst. Prof. Wannakiti Wanasilp, Ph.D.

Abstract

This research aims to examine the factors influencing the adoption of SME banking programs, explore their role in poverty reduction and financial development in Bangladesh, and assess their impact on the country's economic growth and job creation. The study employs a mixed-method approach, combining both quantitative and qualitative research methodologies. Quantitatively, data was collected from five commercial banks over a 20-year period (2004-2023) and analyzed using the Auto Regressive Distributed Lag (ARDL) model. Qualitative data was gathered through interviews with SME beneficiaries and experts, which were analyzed using content analysis and PESTLE analysis. The study found that commercial banks under the SME banking scheme may develop a participatory and inclusive model to remove the ultra-poor, reducing poverty through financial development where small and medium enterprises get access to financing, marketing, and creating employment through growth with equity and decreasing income inequality, and boosting SME export earnings, paving the way for Bangladesh's LDC graduation in 2026.

(Total 121 pages)

Keywords: Poverty Reduction, Financial Development, Political Economy,
 Entrepreneurship, Formal Banks, Microfinance, SME Banking

Student's Signature Dissertation Advisor's Signature

Table of Contents

	Page
Acknowledgements	i
Abstracts	ii
Table of Contents	iii
List of Tables	v
List of Figures	vi
Abbreviations	vii
Chapter 1 Introduction	1
1.1 Background of the Study	1
1.2 Research Question	10
1.3 Objectives of the Study	10
1.4 Hypothesis Testing	10
1.5 Usefulness of the Research	11
1.6 Limitations of the Study	12
1.7 Conceptual Framework	13
Chapter 2 Literature Review	16
2.1 Financial Development	16
2.2 Poverty Reduction	20
2.3 Economic Growth and Development	26
2.4 SME Banking and Microcredit	28
2.5 Diversified View	35

Table of Contents (Cont.)

		Page
Chapter 3	Research Methodology	51
	3.1 Methodology	51
	3.2 Reason for Selecting Dataset	53
	3.3 Research Variables	54
Chapter 4	Results	57
	4.1 Quantitative Analysis	57
	4.2 Qualitative Analysis	68
Chapter 5	Conclusion, Recommendations, and Future Research Work	74
	5.1 Conclusion	74
	5.2 Recommendations	78
	5.3 Future Research Work	83
References		85
Appendices		100
Appendix A	Models On Micro-Finance That Laid the Foundation for SME Banking	101
Appendix B	Case Study Analysis on Grameen Bank	111
Biography		121

List of Tables

Tables		Page
4.1	Correlation Matrix	57
4.2	Bound Test for Co-integration	58
4.3	Breusch-Godfrey Serial Correlation LM Test	58
4.4	Heteroskedasticity Test: Breusch-Pagan-Godfrey	59
4.5	Augmented Dickey-Fuller (ADF)	59
4.6	Unit Root Test: Phillips-Perron (PP)	60
4.7	Long Run ARDL Model	62
4.8	Short Run ARDL model	64



List of Figures

	Page
Figures	
1.1 Rate of Poverty Declined over the period	4
1.2 Conceptual Framework (External Analysis)	13
1.3 Conceptual Framework (Internal Analysis)	14
4.1 Hannan-Quinn Criteria (top 20 models)	61
4.2 Bangladesh's increasing trend of per capita GDP	69



Abbreviations

Abbreviations	Meaning
ASA	Association for Social Advancement
BDT	Bangladesh Taka
BRAC	Bangladesh Rural Advancement Committee
DSS	Department of Social Services
FCBs	Foreign Commercial Banks
GDP	Gross Domestic Product
GO	Governmental Organizations
GSP	Generalized System of Preference
HBFCs	House Building Financial Corporation
HDI	Human Development Index
ICB	Investment Corporation of Banking
LDC	Least Developed Country
MFI	Microfinance Institutions
NBFIs	Non-Bank Financial Institutions
NCBs	National Commercial Banks
NGO	Non-Governmental Organization
PCBs	Private Commercial Banks
PESTLE	Political, Economic, Social, Technological,
RDRS:	Rangpur Dinajpur Rural Service
SCBs:	Specialized Commercial Banks
SME:	Small and Medium Enterprise
TSOs:	Third-sector organizations
WTO:	World Trade Organization
USD:	United States Dollar

Chapter 1

Introduction

1.1 Background of the Study

1.1.1 Poverty reduction in Bangladesh

International political economy considers the wealth and power of a nation within the global index. Financial development and poverty reduction of an economy are necessary to achieve both wealth and power. Bangladesh's economy is progressing through financial inclusion reducing poverty and creating employment by entrepreneurs in the formal, semi-formal, and informal sectors. Since independence in 1971, Bangladesh has come a long way in terms of financial development and poverty reduction. According to the Ministry of Finance, Government of Bangladesh as reported in 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 an increase in wealth and power of the nation which is pivotal for the political economic development of a nation. As poor people who previously could not find work becomes income generators they will not only uplift themselves from poverty but in a bottom-up approach will raise the per capita income of the nation leading to both poverty reduction and financial development. For this success numerous development initiatives were undertaken. One such initiative to achieve this was the Microfinance system provided by NGOs, later adopted by formal banks as Small and Medium Enterprise Banking, i.e. "SME Banking". Under the microfinance system and SME banking provision through the gradual process of introducing small and medium banking programs ultra-poor people and disadvantaged groups of the lower income stratum were able to take a small amount of loan and invest it for income-generating purposes (such as opening various types of shops) and become small and medium entrepreneurs and uplifted themselves from poverty. Through welfare gain, poor people may change their livelihood and

lifestyle, improving their living standards. Other poor people got employment opportunities in these SMEs and also got uplifted from poverty, leading to the overall financial development of Bangladesh in a bottom-up approach as the per capita income of the nation increased resulting in Bangladesh becoming wealthier than in the past and also improving its geo-political position in the global index. As a result, financial development is enhanced due to financial deepening and the inclusion of financial accessibility. In 2021 the United Nations General Assembly, during its 76th session, adopted a resolution on Bangladesh's graduation from the Least Developed Countries (LDCs) category; scheduled to be effective in 2026. Bangladesh is expected to graduate from a Least Developed Country (LDC) to a Middle-Income Country by 2026.

1.1.2 The development in poverty reduction in Bangladesh

Previously the present-day region of Bangladesh suffered from cases of extreme poverty and lack of financial development due to years of colonial exploitation by foreign rulers from 1757 to 1971. The region was previously prosperous, especially during the Nawab rule initiated by Nawab Murshid Quli Khan in 1717 who ruled till his death in 1727. 30 years later in 1757, during the regime of Nawab Mirza Muhammad Siraj-ud-Daulah, the British took over Bengal. In 1943-1944 the devastating Bengal famine killed over 3 million people in the region and people suffered from mass starvation and lack of financial support. After the British partition of India and Pakistan in 1947, East Bengal (present-day Bangladesh) fell under the colonial rule of Pakistan until 1971, a period which saw mass discrimination of Bengali people and the flight of capital to Pakistan. During the 1971 War of Independence, Bangladesh achieved independence from Pakistan. However, the war-torn country saw slow economic growth and a high level of poverty as well as periods of political instability. Father of the Nation Sheikh Mujibur Rahman had recognized that one of the root causes of poverty in Bangladesh was overpopulation. Bangladesh despite a small land and limited resources had a huge population thus after winning the 1973 General Election the Awami League Government led by Sheikh Mujibur Rahman, besides taking numerous good development initiatives, set the first five-year plan (1973-1978) with the main objective

being “the necessity of immediate adoption of drastic steps to slow down the population growth”. However, his development policies were hampered by his assassination in 1975. President Ziaur Rahman initiated development policies through industrialization and trade liberalization 1977-1981, but in 1981 he too was assassinated and in 1982 the country came under dictatorship of the Lieutenant General HM Ershad until 1990, during this time (1982-1990) development was hampered due to persistent political instability.

Papa, M., Singhal, and Papa, W. (2006, p.72) observed that during this period of political instability, Dr. Muhammad Yunus considered the pioneer of microfinance decided to help the poor people of the nation, with the pilot project in Jobra village which started in 1976. Previously poor villagers had to take loans from rich influential people who used to charge very high interest, and the inability to repay their debts caused them to lose their homes. Muhammad Yunus helped the poor villagers repay their loans from his own pocket money and in 1983 formally established The Grameen Bank implementing the microfinance system by which people were able to take small amounts of collateral-free flexible loans and use them for income generation to uplift themselves from poverty. Yunus (2017, pp. 84-85) stated his belief that entrepreneurship through microcredit programs can not only help in poverty alleviation and developing countries like Bangladesh but also in well-developed countries like the United States. Microcredit programs help to alleviate poverty through entrepreneurship development.

After the restoration of democracy with the 1991 Bangladesh General Election, political stability was restored in the country. In the 2000s formal banking adopted their own microfinance scheme to build small and medium entrepreneurs, this came to be known as SME banking and has been successful due to cooperation and collaboration of subsequent democratic governments and helped in poverty reduction and financial development of Bangladesh. Now below the study will see the Percentage of Poverty Incidence from 1990 to 2015 in Figure 1.1.

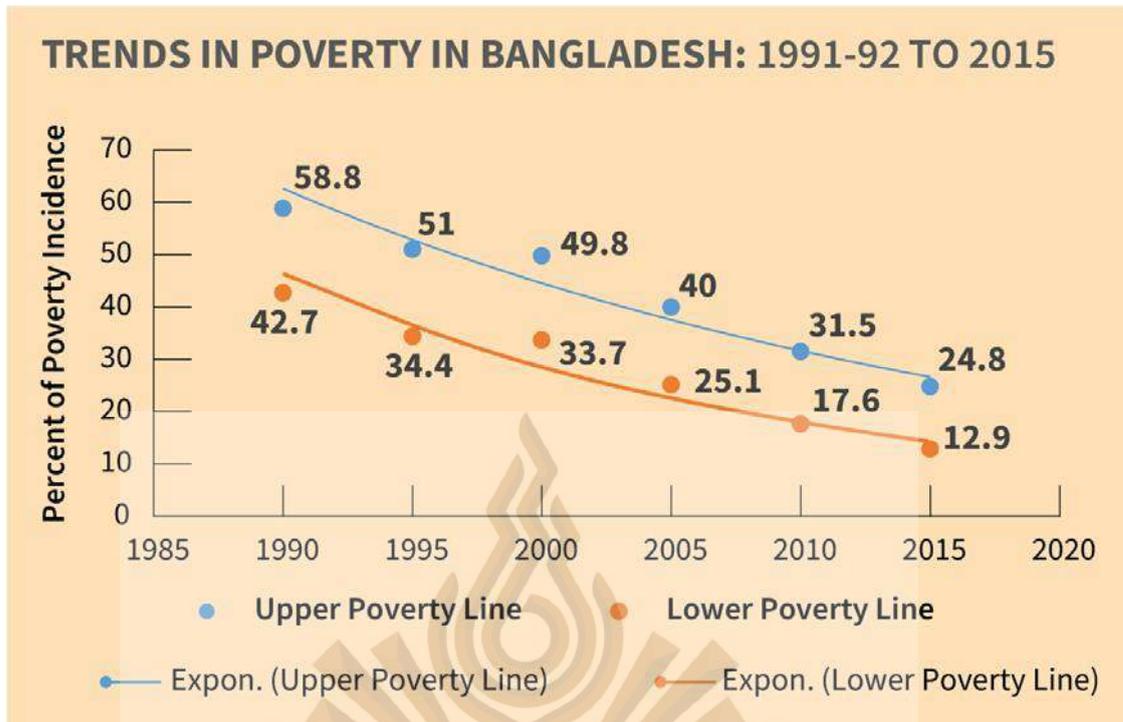


Figure 1.1 Rate of Poverty Declined over the period

Source: Nuruzzaman, 2019

The World Bank defines the international poverty line as \$2.15 per day (as of 2021) for lower-middle-income countries like Bangladesh. The World Bank defines extreme poverty as living on less than \$1.90 per day (as of 2021) for lower middle income countries like Bangladesh.

1.1.3 The role of the financial sector in poverty reduction

Microfinance was traditionally provided by Non-Governmental Organizations (NGOs) and various Micro Finance Institutions (MFIs) and later formal banks adopted the system under their Small and Medium Enterprise (SME) banking scheme since the 2000s. Banks follow a capitalist system. Although driven by profit motives, in a mutually beneficial win-win situation they help people uplift themselves from poverty. Both the public sector and private sector along with numerous development organizations such as NGOs which are seen as the third sector of the economy have

taken numerous financial development initiatives that have helped Bangladesh achieve tremendous success in terms of poverty reduction.

Microcredit banking is working in the formal sector in a limited sphere which is short-run only and a maximum BDT 50,000 loan can be provided but from the 2000s and onward SME banking has been working for financial inclusion, financial deepening, arranging working capital, and sometimes advocacy also for cottage, micro, small and medium enterprises. SME banking is capable of providing comparatively larger loans to the poor with the exclusive target of creating small and medium enterprises that help in further job creation within the SMEs and in the long run help in economic growth. As such the study requires to understanding of how SME banking plays a significant role in Bangladesh in reducing poverty, financial development, creation of employment, achieving gender balance, and attaining women's empowerment.

As reported by the Bangladesh Tribune (22 January 2023), 35 million people in Bangladesh are living below the poverty line - a detail that came out in the Bangladesh Poverty Watch Report 2022. When the country wants to accomplish sustainable development in Bangladesh, it has to issue development ethics in expansion rationally and preparation and try to fulfill 17 Sustainable development goals and their 169 targets. Given Bangladesh's overpopulation problem and limited employment opportunities, entrepreneurship is the key to income generating and poverty reduction. Branko (2011, p.196) depicted that the principle of the credit sluiceways is to pacify the intermediate classes which were desirable as in an autonomous arrangement, a disproportionately unequal prototypical of expansion cannot exist with partisan constancy.

Since the start of the 21st century, formal banks have come forward by following the NGO's microfinance model and are offering SME banking opportunities for the creation of small and medium entrepreneurs. Small and Medium Enterprises (SMEs) are playing a vital role in the country's economic growth in higher employment opportunities and income generation through job creation, industrialization, and reducing poverty. Those who set up SMEs employ other people to run and grow their

opportunities, and there is a positive correlation between the growth of SMEs and several people employed at the SMEs leading to higher income generation and reduced unemployment, two main criteria for both poverty reduction and financial development. Besides microcredit, microfinance also includes micro-savings, micro-investment, micro-insurance and fund transfer. Converting micro-savings to micro-investment is essential for stable SME creation.

SME banking refers to the provision of financial services, such as lending, deposits, and other banking products, that are specifically tailored to the needs of small and medium-sized businesses, typically provided by formal banks, involving larger loan sizes, more comprehensive financial services, and a more personalized approach, in contrast to microcredit, which focuses on providing small, collateral-free loans to individuals, often those who lack access to traditional banking services, to help them to start or expand micro-enterprises. SME banking differs from microcredit in several key aspects - SME banking typically involves comparatively larger loan sizes, more comprehensive financial services, and a more personalized approach catered to the specific needs of small and medium-sized businesses, while microcredit focuses on providing small, collateral-free loans to individuals, often those who lack access to traditional banking services, to help them start or expand micro-enterprises with a focus on serving the underserved or unbanked population. Main aim of SME banking is to create small and medium enterprises. The Central Bank of Bangladesh, Bangladesh Bank is working together with the SME Foundation to develop flexible SME policies in the country. Commercial Banks, Government Organizations, NGOs, and various other financial institutions are providing the necessary funds to establish SMEs and finance crucial projects and business ventures for the economic development of the nation.

SME banking is feasible through the provision of SME loans, targeted to vulnerable groups such as widowed/divorced women with children and disabled people. Banks are the first financial institution in Bangladesh to provide speedy finance to the Asian SME sector. A huge number of small business loans have been added as part of this procedure, giving banking services a new dimension. Marginalized people are being

given special support through banking agents. To expand small and medium businesses, the banks have taken steps to promote customers' products in Asian trade shows, which play an essential role in product marketing. The bank's Asia-based entrepreneurship development department generates revenue to promote the management of SMEs. MFIs have been ready to release a portion of the SME package as loans to cottage and micro business owners with a lower interest rate. The SME sector is recognized as being crucial for Bangladesh's LDC graduation by 2026. A swift democratically stable political situation is also necessary for the success in creating entrepreneurship and development of the SME sector.

SMEs are also contributing to the economic growth of the country by boosting export earnings through selling their products abroad. This is very beneficial in the European Union where Bangladesh has a GSP facility. However, after the US stopped its GSP facility for Bangladeshi products in 2013 after the Rana Plaza Disaster, citing unsafe working conditions SME exports have faced challenges. It is recommended that the US restores its GSP facilities as in recent years the working conditions of Bangladesh have been proven to be much safer and appropriate. In this way, SME exports can be further boosted and contribute to the economic growth of the country. As SMEs have helped increase exports by selling their products into the international market, this leads to increasing GDP, as we know from the expenditure approach that $GDP = \text{Consumption} + \text{investment} + \text{Government Expenditure} + (\text{Exports} - \text{Imports})$.

However, the development of SMEs through SME banking has a few major challenges such as:

- 1) Loan default (so far, the biggest challenge of SME banking in Bangladesh).
- 2) Inadequate funding (funding of SMEs is inadequate to generate benefits for SMEs to their full extent).
- 3) Technology lag (Bangladesh lags in various business technologies relevant to functioning SMEs).

4) High interest rate (this discourages many aspiring entrepreneurs from taking loans for establishing SMEs).

5) Unskilled human resources (people of the nation do not have sufficient knowledge and skills to properly function SMEs).

6) Family pressure, especially on women, despite women being highly prioritized in SME banking (gender inequality).

Since March 2020, the adverse effects of the COVID-19 Pandemic have hampered development in Bangladesh. Thus, the NGOs and SME sectors are working hard to reverse the adverse effects of the pandemic and restore it. As more and more commercial banks adopt SME banking, financial inclusion and enhancement of the livelihood of the poor people is taking place, and as they become small and medium entrepreneurs and allowing for job creation within the SMEs, the per capita income of the country is rising. Thus, by comparing the performance of selective banks practicing SME banking it is possible to see the overall growth of the SME banking sector and its contribution to the social, political, and economic development of Bangladesh. 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 and poverty reduction of the country in its path to LDC graduation by 2026.

In the formal sector, there are a total of 62 scheduled banks in Bangladesh, of which 9 are government banks, 43 are private banks and 9 are foreign banks. Out of these 62 banks, nine foreign commercial banks, SME banking is very much low. Karim (2018) described that these nine banks disbursed only BDT 7.50 billion whereas total SME loan is BDT 775.15 billion which is only 0.96% during January to June, 2018. As it has negligible impact so the study did not consider them. Moreover, following banks started from the year 2013: NRB Commercial Bank Ltd., South Bangla Agriculture and Commerce Bank Ltd., Meghna Bank Ltd., The Farmers Bank Ltd., Union Bank Ltd., Midland Bank Ltd., Modhumoti Bank Ltd., NRB Bank Ltd., NRB Global Bank Ltd.

Simanto Bank was established in 2016. As the study covers from 1993, so these 10 private commercial banks cannot be used to collect data.

Community Bank Bangladesh Limited was established in 2018, Bengal Commercial Bank was established in 2020, Citizens Bank PLC was established in Bangladesh in 2020. As such out of 40 commercial banks (9 foreign commercial banks and 13 private commercial banks established after 2013 which were excluded), the study will choose 5 commercial banks who are doing SME banking since the 2000s. Currently banking sector has set up a benchmark in the provision of credit to SME banking as central bank of the country Bangladesh Bank trying to provide SME loans in different areas of the country. The fourth industrial revolution led to technological innovation in cottage, micro, small, medium, and large enterprises. This is expected to bring changes in the business environment in Bangladesh. Digital economic activities have played an important role during the COVID-19 pandemic and afterward. Digital entrepreneurs are becoming the game changers in this situation. SME banking provides mobile banking and online transaction services that NGOs who lagged in technology could not provide under their microcredit program. However, the poor and underprivileged people do not have sufficient access to technology. Bangladesh also experiences technological lag. Banks are ahead in terms of technology compared to NGOs and beneficiaries of SME banking are far more equipped to become digital entrepreneurs. Loan amount of SME banking is greater than microcredit. In addition, banks provide mobile banking facilities, so people can get all sorts of financial services from any place at any time through their phones (Bangladesh Bank, 2024).

Macrotrends (2022) showed that before the onset of the COVID-19 pandemic, Bangladesh reached the zenith of Economic Growth in 2019 with an Economic growth rate of 8.15%. However, loan defaulting in the country has a high prevalence and is a key factor in raising inflation in the country as defaulters steal money from the nation which they utilize to settle abroad and force the Government to print more nominal money but it does not raise the real assets of the country and decreases the value of money pushing up the price levels in the country and leads to inflationary crisis. As

mentioned earlier, Bangladesh despite being a small country with an area of 148,460 km² has a huge population of approximately 170 million people. Everyone in this overpopulated country can't obtain employment. Thus, creation of entrepreneurship through SME banking and job creation in these SME ventures is a key tool to combat the country's unemployment crisis.

Overall process of SME banking ultimately leads to an increase per capita income of the nation through a bottom-up approach which is a crucial indicator of both poverty reduction and financial development of the country and will ultimately lead to Bangladesh's LDC graduation in 2026 helping Bangladesh to achieve socio-political-economic development by becoming a wealthy middle-income country by entrepreneurship creation through SME banking.

1.2 Research Question

How does SME Banking help Bangladesh in achieving Financial Development and Poverty Reduction through Entrepreneurship creation?

1.3 Objectives of the Study

To analyze the impact of SME Banking in Financial Development and Poverty Reduction in Bangladesh through the creation of Entrepreneurship.

1.4 Hypothesis Testing

On the basis of research question, for the study following hypotheses testing were prepared to evaluate the findings.

1.4.1 Null Hypothesis

H0₁: There is no relationship between the increase in no. of SME loan borrowers and poverty reduction.

H0₂: There is no relationship between increase in no. of SME loan disbursed and poverty reduction.

H0₃: There is no relationship between increase in no. of SME loan interest rate and poverty reduction.

H0₄: There is no relationship between increase in no. of bank branches (bank growth) offering SME loan and poverty reduction.

H0₅: There is no relationship between the increase in total exports which vastly comprise of SME products and poverty reduction.

1.4.2 Alternative Hypothesis

Ha₁: Increase in the no. of SME loan borrowers leads to poverty reduction.

Ha₂: Increase in the no. of SME loan disbursed lead to poverty reduction.

Ha₃: Decrease in interest rate on SME loan led to poverty reduction.

Ha₄: Increase in the no. of SME bank branches (bank growth) offering SME loan led to poverty reduction.

Ha₅: Increase in total exports which vastly comprised of SME products leads to poverty reduction.

1.5 Usefulness of the Research

This research aims to analyze the role of one of the most significant drivers of financial development and poverty reduction in Bangladesh, which is “SME banking”. So far most research works have been done on the role of NGO’s and other third sector organizations, this research is unique in that it specifically analyzes the impact of formal bank’s SME banking identifying its pros and cons in creating entrepreneurs and jobs in the SMEs they establish making people income generators, uplifting them from poverty

and in a bottom-up approach increasing the per capita income of the nation contributing to financial development. Policymakers can use this research to identify the benefits of SME banking and take decisions on further investment on SME banking and to overcome the barriers SME banking faces in its role of poverty reduction and financial development. SME banking can foster entrepreneurship and drive financial inclusion, The findings can help us in establishing a roadmap for the integration of SME banking into the formal financial system allowing poor people who were previously deprived from formal banking services to get access in formal banking by taking up loans for the purpose of establishing SMEs and this study links the contribution of SME banking to the rapid decline in the poverty rate in Bangladesh and financial development of the nation which policymakers can utilize in policymaking and future research work on SME banking and its role. The findings of this research will be useful literature for future researchers and policymakers who wants to see the impact of SME banking in enhancing and upgrading Bangladesh's economy and improving the living standards of the people helping the nation active its goal of LDC graduation in 2026.

1.6 Limitations of the Study

1.6.1 Financial Constraints.

1.6.2 Limited Access to the formal banks for information.

1.6.3 Very few previous works on formal bank's SME banking, most previous works considered NGO's microcredit programs only which over the period become scanty.

1.6.4 Asymmetric Information-All information should be available without imperfection to the borrower and lender.

1.7 Conceptual Framework

1.7.1 Conceptual Framework (External Analysis)

On the basis of previous discussion, the study tried to build conceptual framework of the study. Below we shall describe conceptual framework of SME model:

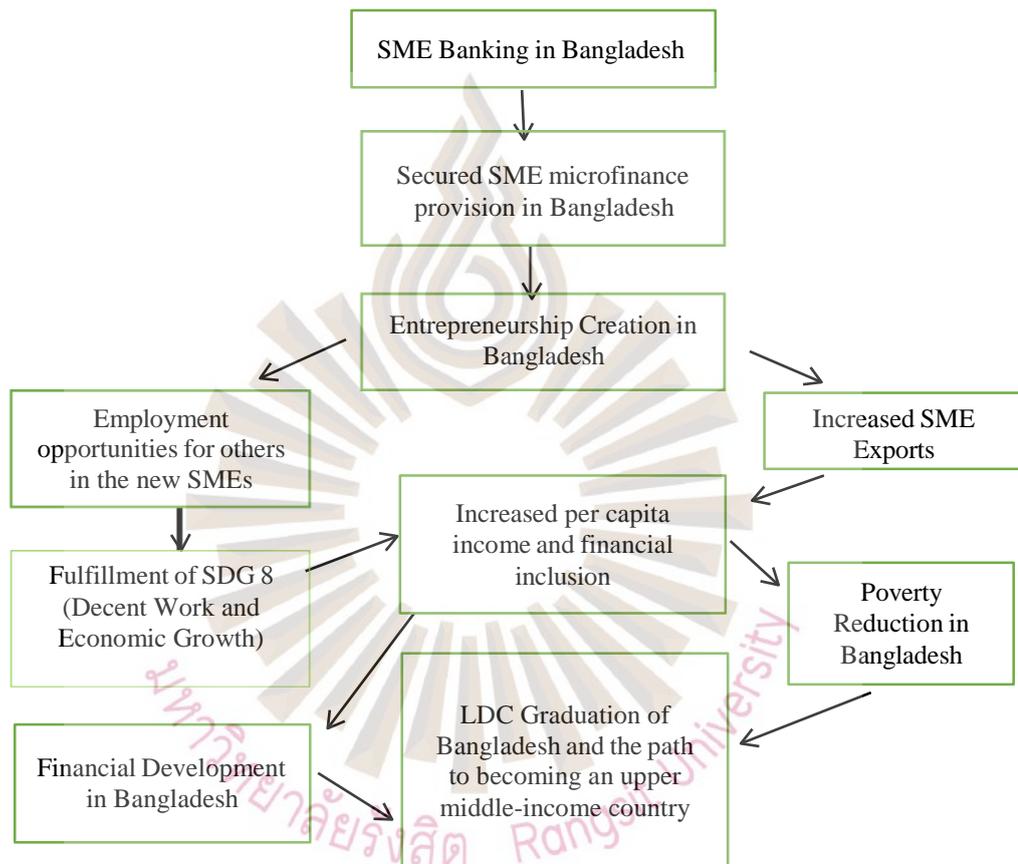


Figure 1.2 Conceptual Framework (External Analysis)

Source: Researcher

SME banking aims at providing microfinance to the population of Bangladesh in a larger amount than the microfinance. In Figure 1.2, the study dealt with the external factor of SME banking's conceptual framework. However, the target group exceeds household levels. The loan takers utilize their loans to become entrepreneurs and create their own income-generating small and medium enterprises which will employ more people as the SMEs grow and expand, leading to both higher employment rates and

higher income generation. SMEs also sell their product abroad thus contributing to higher export earnings in the country. Proper utilization of SME banking will lead to fulfill SDG 8, decent work and its related targets. LDC graduation of the country in the year 2026 is a goal. While this conceptual framework focuses on the ultimate external outcome of SME Banking, here is a more in-depth figure relating to the internal mechanism within SME Banking which will be described in conceptual framework 2 in Figure 1.3.

1.7.2 Conceptual Framework 2 (Internal Analysis)

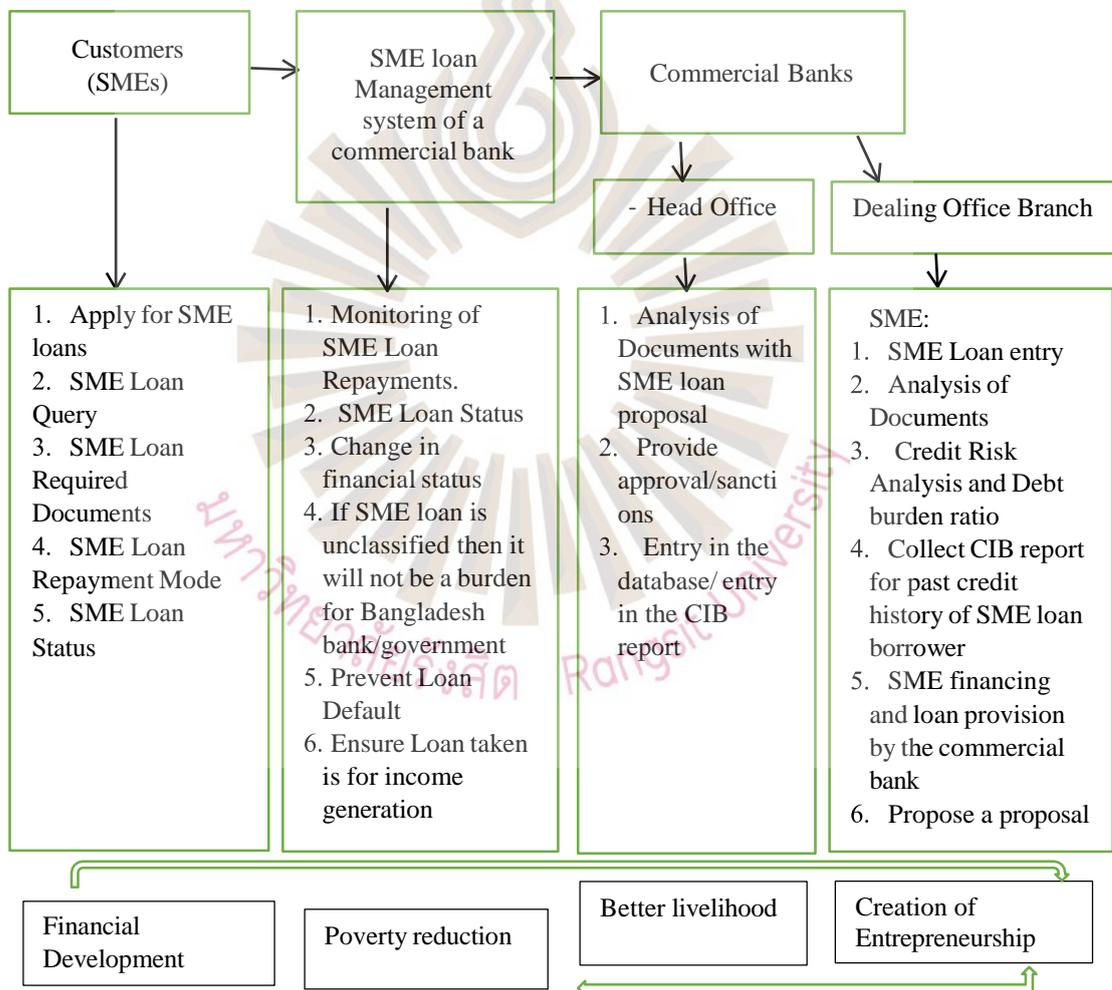
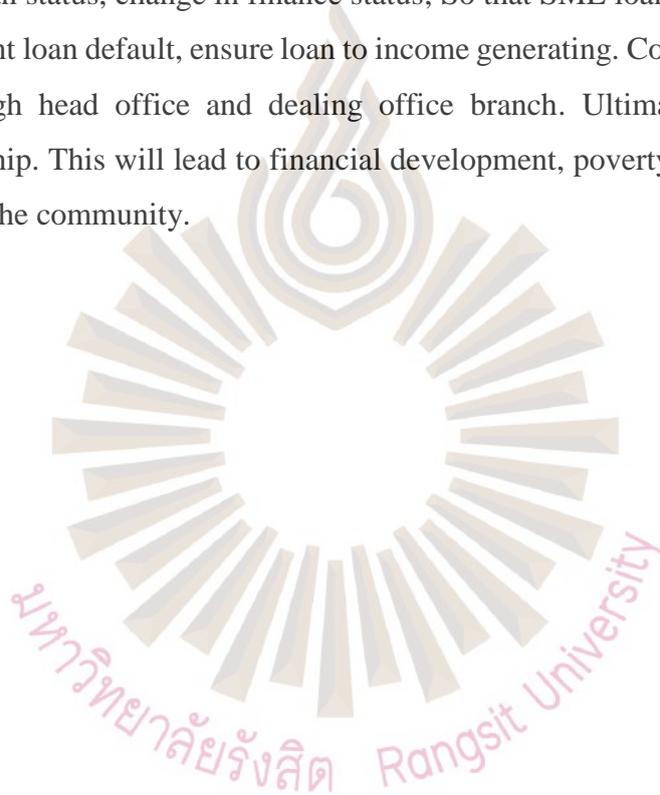


Figure 1.3 Conceptual Framework (Internal Analysis)

Source: Researcher

Note: Debt burden ratio (DBR) = (Equated monthly installment (EMIs)+ Credit Limit)/(Income) x 100

In Figure 1.3, the study shows internal analysis of conceptual framework. SME loan Management system of a commercial bank is related to customers and Commercial Banks. Customer will have to follow banking rules and regulations to apply for SME loan. SME loan Management system of a commercial bank needs to monitoring SME loan, SME loan status, change in finance status; So that SME loan remain unclassified, steps to prevent loan default, ensure loan to income generating. Commercial banks must engage through head office and dealing office branch. Ultimate goal is to create entrepreneurship. This will lead to financial development, poverty reduction and better livelihood of the community.



Chapter 2

Literature Review

The review of the literature will be divided into five segments which will be described below based on the research question. The topics covered in this chapter are organized as follows:

- 2.1 Financial Development
- 2.2 Poverty Reduction
- 2.3 Economic Growth and Development
- 2.4 SME Banking and Microcredit
- 2.5 Diversified View

2.1 Financial Development

Goldsmith (1969, p. 369) was the first to show empirical evidence of a positive relationship between financial development, economic growth, rising per capita GDP, and poverty reduction. He argued that due to financial development poverty will decline and people have better livelihoods. He also depicted that financial institutions are generally easier to liquidate than primary debt securities. They have the extra excessive benefit of being entirely separable, whereas primary securities are usually issued in fixed sums and frequently in amounts that make them very difficult to purchase and sell when lenders have slight resources and when numerous individual purchase and sale transactions are involved. Goldsmith (1969) did not consider SME banking 's use and entrepreneurship development in the study.

McKinnon (1973, p.60) observed that if the real return on holding money increases, so will self-financed investment over a significant range of investment opportunities. The increased desirability of holding cash balances (for the poor) reduces the opportunity cost of saving internally for the eventual purchase of capital goods from

outside the firm household. The financial 'conduit' for capital accumulation is thereby enlarged. McKinnon (1973) in the particular study did not discuss impact on entrepreneurship development.

Bhattacharyya, Lovell, and Sahay (1997, pp. 332-345) analyzed the impact of liberalization of banks and the subsequent impact on the economy of a Developing Country and its role in financial development and poverty reduction. Through the liberalization process of banks, monetary progress of the economy can be attained which in turn helps people to have better employment opportunities and well-being of the society. Bhattacharyya et al. (1997) did not consider the impact of SME banking. Kirkpatrick, Sirageldin, and Aftab (2000, pp. 363-364) depicted that financial market imperfections are a key constraint on pro-poor growth and that public policy directed at the correction of these financial market failures is needed to ensure that financial development contributes effectively to growth and poverty reduction. Kirkpatrick et al. (2000) did not discuss ways to improve financial development appropriately.

Beck (2013, pp. 27-29) depicted that financial deepening can benefit ease SMEs' funding restraints in addition by this network decrease poverty then generate superior occupations. Nearly strategy modifications include a trade-off amid financial steadiness and deepening besides political choices remain essential to choose on these trade-offs. In attendance remains a serious interface amid diverse strategies and involvements i.e. rivalry and foreign bank entrance take dissimilar influences on SMEs' admittance to economics contingent happening the pledged too evidence agendas in the individual state. Beck (2013) did not describe how SME banking model can be helpful for financial development. Islam (2015, pp. 167-176) found that banks do not ever go to the public and they don't deliver business strategy, training, inspiration, and analysis provisions to the public; banks don't have community systems. As such communication with the customers of the banks has hindrances. Banks should be proactive in attaining financial inclusion. Islam (2015) did not describe ways to financial development by SME banking.

Islam (2017, p.84) described that in Bangladesh, SMEs are performing an important part for the growth of the economy through generating employment opportunities and creating significant substitute technologies and equipment's accessories aimed at protecting huge expense of foreign currency of the country. However, he discussed Industrial Development Leasing Company (IDLC) of Bangladesh Limited is a non-bank financial institution. Kheir (2018, p. 41) opined that the existing literature offers a set of explanations for the role of financial development in driving economic growth. Theory suggests that financial development forms an important mechanism for achieving long-lasting growth. Kheir (2018) did not describe financial development by the SME banking. Golder, Sultana, Hossain, M. K., Hossen, and Hossain, M. (2021, pp. 961-971) 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." This study also inferred the interconnectivity of economic development and financial development, through converting savings to investment in the form of small and medium enterprises. He found the integration relationship of financial development and economic growth and as there is no direct measure of financial development which is a multidimensional concept, it is as proxies by private sector loans and broad money supply, augments economic growth in the long run. Though Golder et al. (2021) discussed financial development but did not consider SME banking model.

De Haan, Pleninger, and Sturm (2022) stated that Financial development may affect poverty directly and indirectly through its effects on economic growth, income inequality, and financial instability. They found that previous studies did not consider the correlation between them. The overall effect of financial development on poverty may be positive or negative, depending on which indirect effect i.e. that of income inequality or growth, is stronger. However, they did not consider the impact of SME banking to remove poverty and not related to Bangladesh. Eusuf, Rana, and Rabi (2022, p. 43) argued that banks and financial institutions find it more profitable to offer bigger

loans to small and medium women entrepreneurs at a lower operating cost than to offer smaller loans to cottage and micro women entrepreneurs at a higher operating cost. They commented that financial institutions should reduce the operating costs of small loans through SME banking. Eusuf et al. (2022) did not discuss the process of creating entrepreneurship through financial development and to reduce poverty.

Akber, Shabnam, and Roy (2023) described that SME loans are like those quality products through which they offer an excellent quality banking service to small and medium-sized entrepreneurs and earn the maximum profit as the demand for SME loans is high now a day. Banks are investing their deposited money in the growth of society, disbursing loans such as microfinance and women's entrepreneurship, and making profits from this industry. This business is being launched based on a rising young entrepreneur. However, the study did not discuss the ways to reduce poverty through financial development.

Bayar (2023, p.13) observed that financial development has a positive impact on poverty and inequality reduction and the development of financial services leads to poverty alleviation and improvement in income inequality as it allows an enhancement for the limited access of the poor to financial services. Through developing the financial sector, poverty reduction can be done. Bayar (2023) did not test the effectiveness of SME banking process in the financial development.

Singh and Jha (2023, p. 2001) found that financial development has greater effects on poverty alleviation in a more fragile financial system and vice-versa; financial stability is associated with lower levels of poverty; the effect of financial development on poverty is homogeneous at various levels of poverty; financial development and financial stability both exert heterogeneous effects on poverty depending on the level of poverty considered. Singh and Jha did not discuss on SME banking for financial development.

2.2 Poverty Reduction

Galbraith (1958, p. 261) commented that “Poverty reduction and financial development have also been useful to those who have needed a formula for keeping the suffering of others from causing suffering to themselves”. He emphasized the continued poor in the public sector, lacking social and physical infrastructure, and perpetuating income disparities. Galbraith (1958) did not explain process of entrepreneurship creation. O’Brien (1975, p. 361) argued that classical economists had detailed, and well-articulated, views on a wide range of policy issues, and that they recognized a substantial role in the state’s poverty reduction, wealth generation, and economic development. Classical Economist Thomas Malthus wrote to David Ricardo the pioneer of Political Economy in a letter in 1817 as mentioned in Landes (1999, p. 11) “The causes of the wealth and poverty of nations-the grand object of all inquiries in Political Economy”. The poverty gap is growing; some countries are not gaining and are getting poorer, relatively and sometimes absolutely. Others cannot hold to their wealth. Peace and wealth depend in the long run on the well-being of others. By uplifting people from the state of poverty, the wealth of a nation can be achieved. O’Brien (1975) did not discuss poverty reduction through SME banking and also entrepreneurship creation. Ahlburg (1996) pointed out that first, rapid population growth is likely to reduce per capita income growth and well-being, which tends to increase poverty. Second, in densely populated poor nations with pressure on land, rapid population growth increases landlessness and hence the incidence of poverty. Finally, the adverse effects of rapid population growth on child health, and possibly on education, will likely increase poverty in the next generation. Ahlburg (1996) explained various points but ways to reduce poverty by SME banking was not discussed.

Ahmed (2004, p. 80) opined that neither the poverty reduction strategy paper nor any other ideas or proposals derived from the now-ruling paradigm can promote participatory, cohesive development. As such, sustainable development is necessary. Sustainable development is required through proper planning so that a paradigm shift can be attained. Ahmed did not include SME banking to reduce poverty by creating

entrepreneurship. Sen (1981, pp. 22-23) argued that poverty is a way, a substance of deficiency. Poverty and inequality relate closely to each other, but they are distinct concepts and neither subsumes the other. Sen's proposition can be applied to Bangladesh as poverty arises due to a deficiency of resources. But it should include impact on financial and entrepreneurship development. Shorrocks (1995, pp. 1225-130) described the Sen index (1976) as a measure of poverty noting the traditional headcount index was too simplistic and said nothing about the distribution of wealth, the Sen index as stated earlier is as follows:

$$S = HI + \frac{q}{q+1}(1-I)Gp \quad (2-1)$$

Where S = Sen index
 H = Headcount ratio
 I = Income gap ratio
 q = number of the poor persons
 Gp = Gini coefficient

If this is used, it can look deeper into the state of poverty, inequality, and distribution of wealth.

Maloney (1986) said that nobody has tried before to identify specific qualities of behavior that cause persisting poverty in so large a part of the population in 20th Century Bangladesh. Bangladesh can try to better off by reducing poverty among the downtrodden people. Maloney (1986) deliberated poverty reduction strategy in the light of 20th century which is relatively changed in 21st century and also did not include creating entrepreneurship. Honohan (2004, p. 19) found that finance-intensive growth through empirical observation related to lesser poverty ratios. As such finance - exhaustive progress can help to reduce poverty ratios and betterment of poor income groups. The researcher emphasized financial access for poverty reduction. But did not consider measures financial development to create entrepreneurship.

Bhattacharya and Khan (2008, pp. 48-49) found that the worsening inequality has a greater impact on the pace of poverty reduction of poorer among the poor, such unfavorable changes in income distribution would make the faster reduction of poverty in Bangladesh more challenging. Bangladesh must effectively confront the dual challenges of maintaining sustained high growth and containing further deterioration of income inequality. Though Bhattacharya and Khan (2008) discussed poverty reduction but did not consider impact of financial development to create entrepreneurship.

Barkat, Karim, and Hussain (2011, pp. 128-129) opined that social protection measures are required for poor people to eradicate poverty. Aside from poverty, the poor and other groups are also vulnerable as a result of life cycle events and /or more aggregate /climatic shocks affecting a community. Barkat et al. (2011) did not consider impact of financial development to create entrepreneurship. Lewis (2012, p. 161) described that from a political economy perspective, an additional problem is that poverty–reduction efforts have preferred to focus on individualized approaches that seek to strengthen. He described that the institutions of government have continued cumbersome, fragile, and unresponsive to people's needs is rooted in the colonial period, which was further aggravated during the Pakistan period. Lewis (2012) did not consider impact of financial development to create entrepreneurship.

Raihan and Khondoker (2012, pp. 247-263) poverty is the single most important socio-economic policy challenge for Bangladesh and the poor of the lagging region are especially vulnerable in terms of access to employment and income options. When purchasing power capability can be raised and employment opportunity raised then poverty will be reduced. Raihan and Khondoker (2012) did not include ways to develop financial sector to create entrepreneurship. Chowdhury, Azam, and Islam (2013, pp. 109-116) found that Bangladesh SMEs have assumed special significance for poverty reduction programs and potential contribution to the overall industrial and economic growth. Thus Government, associations of Chambers of Commerce and Industry, Credit Information Bureau (CIB), Bangladesh Bank, and Stock Exchange Commission (SEC) should take necessary measures to overcome the problems faced by

SME sectors and must implement policies to make SME sector more efficient. Chowdhury et al. (2013) in their study did not discuss ways to reduce poverty. Inchauste and Olivieri (2014) observed that a significant contributor to poverty reduction was the growth in labor incomes, stanching from non-farm employment in the first half of the decade, and from farm employment throughout the second half of the decade. Labor income growth was driven by higher real wage premiums, pointing to productivity upsurges and a rise in the relative price of labor as the powerful services in arrears of poverty decreased. Inchauste and Olivieri (2014) impact of poverty reduction by the financial development to create entrepreneurship.

Ahmed (2015, p. 265) opined that the disaggregation of poverty sketch by position in terms of rural and urban and by divisions show considerable dissimilarities in Bangladesh. However, the pattern may be different but the poor income stratum suffers from malnutrition. Ahmed (2015) did not discuss use of financial development through poverty reduction. Mohiuddin, Islam, and Uddin (2017, pp. 220-221) found that the incidence of poverty by the Cost of Basic Needs method was found higher than that by the Direct Calorie Intake method in Bangladesh. Suggested for sustainable food security by adopting new adapted technologies and alternate income generating sources along with increasing crop productivity and real income of farm households. The study lacks implication of financial development to create entrepreneurship.

Khanam, Mohiuddin, Hoque, and Weber (2018) depicted that micro-loans have a statistically important positive influence on the poverty easing index and so to recover the existing standard of borrowers through growing their income level and contribute to aggregate national wealth increase. They opined that poverty reduction by income rising can help the well-being of the people. Khanam et al. (2018) did not discuss to assess the process of financial development to create entrepreneurship. Pomi (2019) described that the study disclose that borrowers are able to improve their level of living standard by generating more income and upgrading consumption expenditure due to receipt and proper utilization of microcredit. Hence, positive impact of microcredit on poverty

alleviation is further corroborated from the overall findings of the study. The author did not discuss how SME banking act to create entrepreneurship.

Sutter (2019) noted how various scholars have identified entrepreneurship as a key solution to extreme poverty. Developing and emerging economies all over the world have been able to reduce poverty through entrepreneurship creation. Extreme poverty is currently associated with people living below USD 1.90 per day. However, poverty is typically measured in economic terms, poverty, in reality, is multidimensional. Besides economic vulnerability, poverty may include other problems such as lack of access to health care, discrimination, marginalization, and capability deprivation. The poor have been denied loans from formal sector banks due to a lack of collateral. However, NGOs and various microfinance institutes under their microfinance schemes have provided people with small amounts of loans to engage in entrepreneurship and income-generating activities to uplift them from poverty. With the right entrepreneurship opportunities, the poverty of a nation can be reduced. There must be a particular focus on the acquisition of resources, particularly in the form of financial capital including microfinance. Though Sutter (2019) discussed microfinance but it lacks to discuss financial development processes to create entrepreneurship.

Nursini (2020) described following equation to reduce poverty:

$$Pov_i = \alpha_0 + \alpha_1 MSMEs_j + \alpha_2 L_j + \alpha_3 Gr + \alpha_4 Gov + \alpha_5 Op + \alpha_6 I + \mu_1 \quad (2-2)$$

Where:

- Pov = Measure of the Poverty
- MSME=Micro, Small and medium enterprises
- L = the growth of labor in Micro and small enterprises
- Gr = Economic growth
- Gov = Government
- Op = Economic Openness
- I = Private investment

The author found that SMEs play a bigger role in alleviating poverty than MSEs as they reduce not only the percentage of poor people but also the Poverty Gap and Severity Index. However, Nursini (2020) did not include SME banking to reduce poverty and to create entrepreneurship.

Morris (2022, p. 1) noted that poverty is more than a lack of money or an inability to afford necessities. It is 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. Employment opportunities in an overpopulated nation and the age of automation are scarce. Labor-intensive production must be maintained by poorer countries to allow for uplifting people from poverty. The problem of poverty is global in nature. Entrepreneurship, or the creation of businesses, by those experiencing poverty, is one potential pathway to a better life. Entrepreneurship is a powerful tool for poverty alleviation, income generation, and improvement of the living standards of the people, which are the basic requirements for Economic Development. Morris (2022) talked about economic development but did not talk about financial development to create entrepreneurship.

Prasetyo and Thomas (2021, pp. 2754-2755) described that poverty is the most fundamental problem in human life and development, hence it is difficult to eliminate. Researchers found that Keynesian theory which states unemployment as the cause of poverty is still valid and acceptable. The main research results conclude that the role of spending on education and public health as reflected in the Human Development Index (HDI) aspect can be used as a simple mitigation model that is more effective and efficient in mitigating the occurrence of new unemployment and poverty, and at the same time to reduce the related problem. Meanwhile, other macroeconomic variables such as investment, government spending, Gross regional domestic product (GRDP), and income per capita, as aspects of economic growth are not directly able to mitigate and reduce unemployment and new poverty that occurs significantly. Prasetyo and Thomas (2021) did not discuss impact of financial development to create entrepreneurship.

Sun (2022, p.2370) described that neoliberal development projects, such as the microcredit programs in Bangladesh and the bottom of pyramid inventiveness characterized by Avon in South Africa, imitated appearances of neoliberalism and have an opposing influence on development preparation. He argued that for human beings, it is valuable to pay attention to neoliberal practices in the global south in which the effects of neoliberalism are geographically evident, not only because the neoliberal practices have permeated in these places and become the mainstream, but also because the global south has become innovative borders of capitalism. Sun (2022)'s research did not consider ways to create entrepreneurship.

Sulemana, Fuseini, and Abdulai (2023) described that in Ghana significant areas of concern is repayment difficulties and staff-related issues. These challenges have the potential to undermine the strides achieved in the realm of poverty reduction and hamper the overall success of the programme. They highlight that the credit is not a gift or political favor rather a financial commitment that must be repaid. However, the study did not consider ways to create entrepreneurship.

2.3 Economic Growth and Development

Lipton (1986, p. 3) commented that the ultra-poor – a group of people who eat below 80 percent of their energy requirements despite spending at least 80 percent of income on food – are most vulnerable to seasonal fluctuations in food supply and wage employment, and seasonally induced nutrition and health risks. Low energy intakes are linked with greater seasonal instability and seasonal fluctuations in employment. High growth of the population with low levels of food production and income opportunities is bad for the economy. The study did not consider financial development to create entrepreneurship.

Singh (2009, p. 183) argued that McClelland's analysis leads to a take-off into economic development which requires a large number of individuals with the entrepreneurial motivation multifaceted and predominantly through top to bottom

“Need-for -achievement Motivation”, and for this, a long period of is required to start psychological prerequisites. Singh (2009) discussed psychological factors but did not tell about ways to create entrepreneurship.

Nawaz, A. and Nawaz F. (2008, p. 67) observed that socioeconomic development in Bangladesh, industrial development on both small and large scales are essential and SME is a vital one. However, they suggest that if the decision maker as well as the proper authority of BRAC bank takes it into consideration and corrective action the socio-economic development in Bangladesh will be achieved at an optimum level. Nawaz, A. and Nawaz F. (2008) did not discuss creation of entrepreneurship. Schumpeter (2008, p.10) described that economic activity may have any motive, even a spiritual one, but its meaning is always the satisfaction of wants. Schumpeter emphasized creativity and innovativeness to explore entrepreneurship for downtrodden people. Economic development is related to profit, capital, credit, and business cycle. Schumpeter (2008) did not relate his aforesaid study on poverty reduction. Todaro and Smith (2012, pp. 7-8) described that development economics considers adding to the existence of the well-organized distribution of current fruitful resources and through their continuous advancement over the period, its necessity arrangement by the economic, social, political, and institutional actors, with joint public and private sector partnership is essential to carry out around quick and significant enhancements in standards of living for the peoples of multifarious countries. They also argued that political economy is the efforts of combining economic investigation with practical politics so that opinion of economic movement can be cutting-edge to the condition at an inflexible situation and implement pro-poor policies empower people with tools of income generation leading to poverty reduction. This helps to reduce poverty, lowering income inequalities, and also aids to attain social justice which may be earned through growth with equity contributing to the rising wealth of a nation. As a resultant factor macro-economic scenario of an emerging economy is meticulously related to the financial stability of a country for which financial development can lead to transformation through political economy and economic development. Not only financial inclusion but also it relates to the economic development of a country like

Bangladesh. As a subsequent influence, financial sectors' development led to economic development as a result of strong and proper utilization of political economy and led to macroeconomic stability of a country like Bangladesh and increasing its national wealth in a bottom-up approach as the people's income increase. Todaro and Smith (2012) did not discuss SME banking in the chapter.

Adenutsi (2023, p.1597) observed that economic growth which can be largely attributed to entrepreneurship is not a sufficient condition for income equality and poverty reduction at the macro level. For sustainable poverty reduction, aside from the empowerment of the capitalist class, it is imperative to implement specific policies largely by the policymakers. Adenutsi (2023) did not consider financial development process in his study.

2.4 SME Banking and Microcredit

Khaled (1995, pp. 5-6) argued that Grameen Bank organizes rural poor informal self-help groups prepares group members for undertaking small income-generating activities, and monitors small economic activity. Grameen Bank mobilizes savings from self-help group members and also borrows money from national and international agencies at a lower rate and lends to group members at a higher rate, keeping a reasonable spread to meet its operating expenses. Khaled (1995) did not discuss financial development to create entrepreneurship. Habibullah (1996, p. 35) described that Grameen Bank deserves to be proud of being the first bank in the world to bring its services virtually to the doorsteps of its clients, who are vulnerable in society. Many of its beneficiaries have managed to, prove their standard of living through proper utilization of Grameen bank loans. Habibullah (1996) did not discuss creation of entrepreneurship to reduce poverty. Mamun, Hoque, and Ahmad (2002, pp. 47-48) opined that the replication of Grameen's experiences suggests that human beings have more to share than to differ. Poverty, whether it is in Asia or South America or, in Africa, is an insult to human dignity. Concerns about poverty, and the widening gap between the "haves" and "have-nots" in developing and developed countries have prompted

institutions and individuals to replicate the Grameen model. But Mamun et al. (2002) did not discuss SME banking to create entrepreneurship.

As stated by Quadrat-I Elahi and Lutfur Rahman (2006) using microcredit the people get wealthier their wealth in a bottom-up approach contributes to the overall increase in the per capita income of a nation making it wealthier and more powerful within a global index. Thus, the procedure leads to positive geopolitical influence due to a rise in the nation's overall wealth as people secure income through entrepreneurial activities using microfinance tools such as NGO's microcredit and formal bank's SME banking. Quadrat-I Elahi and Lutfur Rahman (2006) did not discuss poverty reduction through financial development.

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. But contrary to the article International Finance Corporation (2010) in Bangladesh commercial banks are doing SME banking in the formal sector. Siakwah (2017, pp. 105-107) opined that microcredit assumes that beneficiaries would become empowered even after loans have stopped. Microcredit affords women who could not under normal conditions be granted credit by traditional banks, an opportunity to access credit to increase the capital base of their economic activities. Although microcredit could serve as a safety net for poverty reduction, it might not necessarily eradicate it and any pontification of microcredit as a panacea for development might make the efforts at poverty reduction a fantasy. Siakwah (2017) did not discuss SME banking to reduce poverty.

Rahmatullah, Mukul, and Islam (2014, p.19) argued that micro, small and medium Enterprises (MSMEs) value addition accounts for 20 to 25 percent of Bangladesh's GDP. Bangladesh government is generating stress on exporting business

foremost helping of which is donated by trading, manufacturing and service-oriented business. Also, SME manufacturing enterprises are causative about 45 to 50 percent in the total manufacturing sector. Rahmatullah et al. (2014) did not measure the impact of SME banking on poverty reduction. Shah (2014) described that assuming the status of the SME in the economic sector and employment creation; it is imperative to generate a supportive environment for SMEs to prosper and for banks to provide the credit requirements of SMEs and recommended the proper implementation of SME banking facilities. He 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. Shah (2014) did not discuss ways to creation of entrepreneurship by financial development process.

Ahammed and Seddiqe (2015) opined that a significant program of GOs (Government Organizations) and NGOs (Non-Government Organizations) of Bangladesh to alleviate poverty and socio-economic expansion in Bangladesh. SME banking aims the provide small loans to poor people at low interest rates for overall persistence and productive events like agriculture and associated activities, artisans, handicrafts, small businesses, and self-employment activities in rural, semi-urban, and urban areas. In Bangladesh, SME banking is charging very nominal interest rates in comparison with other sectors of lending. Ahammed and Seddiqe 's (2015) article did not clarify any entrepreneurship development through SME banking. Obokoh, Monday, and Ojiako (2016, p. 117) commented that in Nigeria considering the challenge of high interest rates, the government should provide intervention funds to enable microfinance banks to draw from it for long-term loan disbursement to SMEs. Obokoh et al. (2016) did not discuss how financial development can help to create entrepreneurship.

Nemoto, Yoshino, Okubo, Inaba, and Yanagisawa (2018, p. 23) found that if bank account information can be used systematically, then the expansion of loans for SMEs may happen. SME loans should be properly disbursed by the banking sector for which all information may be available to the bank. Nemoto et al. (2018) discussed microcredit but not SME banking. Rashid (2019, p. 90) depicted that the following five major participants all played one role or another in the emergence of Grameen Bank, its transformation from the Grameen Bank project under the Bangladesh Bank to Grameen Bank under the Government; the participants' banks; the Bangladesh Bank; the government, the project's management; the borrowers. Grameen Bank played a key role during the starting time through microcredit loans which needed to raise in amount with the period. Rashid (2019) also discussed on Grameen bank not SME banking. Hasan (2019, p.54) described that loans from BASIC bank in Bangladesh, the sample enterprises have been able to increase their sales, profit, assets, and the like, through proper utilization of the finance. The author pointed out that availability to banks loans, no substance the greatness, meaningfully affects firm's performance. Four aspects of performance were considered profitability, sales and number of employee and productivity. The author found that firms that receive banks loans significantly increase their performance. Hasan (2019) did not discuss ways to reduce poverty through entrepreneurship development.

Manzoor, Wei, Nurunnabi, and Subhan (2019) found that SME banking in the SAARC region has helped achieve poverty alleviation in SAARC countries by creating Small and Medium Entrepreneurs (SMEs). SMEs can attain the social welfare of society by attaining accessibility to downtrodden people so that well-being can be attained. Manzoor et al. (2019) did not discuss financial development. Qamruzzaman and Jianguo (2019, p. 521) described that the government should encourage financial institutions to bring new ways of SME financing by ensuring cost-effective financial services with a uniform cost structure at large. They argued that at a higher rate, poor people will suffer as they have to bear the extra cost of high rate of loans. Qamruzzaman and Jianguo (2019) did not discuss to reduce poverty through creating entrepreneurship. The World Bank Group (2019, p.31) suggested that in Bangladesh payment schemes, in particular,

embrace the potential of increasing micro, small, and medium enterprises (MSME) financial access through digital financial services (DFS). Digital financial services are the need of the time. The World Bank Group (2019) discussed digital financial services but not linked with poverty reduction and SME banking. 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. Small enterprises lack access to finance due to them possess constrictions as well as the financial institutions' observation of high threat and expensive expenditure. Ensuring access to various financial offers for small and medium enterprises (SMEs) is critical to accelerating inclusive financial growth and achieving Bangladesh's goal of becoming a middle-income country. However, banks face numerous challenges during SME financing. Commercial banks are lagging behind NGOs and MFIs in terms of providing SME loans. However, banks have tighter security measures compared to non-bank financial institutions and thus collecting SME loans from banks is comparatively more difficult due to numerous prerequisites before loan provision. The high interest rate also remains a challenge. Thus, the Government and Bangladesh bank must relax their policies for commercial banks for the sake of providing more flexible SME loans. Billah (2021) did not discuss poverty reduction to create entrepreneurship.

Kumar (2021, p.4) described that creating and expanding SME banking can deepen financial markets which means more finance at lower costs. Part of the financial deepening results from the demonstration effects of the viability of lending to the SME sector which crowds in other lenders. This can increase SME activity, and growth, and achieve an optimal size for business. Growth and expansion, in turn, will impact SME income and job creation, which are powerful paths out of poverty. As SMEs expand, they start recruiting other people in the SME ventures leading to increased employability which is crucial for poverty reduction and financial development. Not only do SME loan takers uplift themselves from poverty, but they also create income-generating opportunities for others in their SMEs. An enterprise is an institution that combines different elements to function in various ways, each serving a specific purpose for the betterment of the community in diverse ways. Contributing to social, political, and

economic welfare. Since the 2000s following the NGO's and MFI's Microfinance model formal banks of the country implemented SME banking in the country to create entrepreneurs in the formal sector which is very much aligned to serve the political and economic scenario of the country. Kumar (2021) did not discuss creation of entrepreneurship through financial development and poverty reduction. Ibnat (2022, p. 1) noted that Grameen Bank, a Bangladeshi microfinance institution, has become an important tool for poverty alleviation, women's empowerment, and entrepreneurship in developing countries. They examined the influence of Grameen Bank's micro-credit facilities in eliminating poverty and empowering women, particularly targeting the rural poor who lack land ownership by making them small and medium entrepreneurs. Ibnat (2022) did not consider SME banking for financial development and creation of entrepreneurship. Yuwei and Hanshu (2019) opined that with the advancement of the marketisation process, the increased density of large bank outlets and activity of SMEs, the 'U-shaped' curve between the proportion of small banks and SME financing will become flatter. They also commented that with the influence of internet technology and other factors, the density of large banks outlets may decrease. However, the density of outlets in the traditional sense reflects the bank's ability to obtain soft information from SMEs. Yuwei and Hanshu (2019) did not consider creation of entrepreneurship for reducing poverty. Al-Amin and Mamun's (2022) observation on the Grameen Bank model is quite applicable in Bangladesh though the still authors argue that with the time dimension, there is a need to alter the model concerning the needs and wants of the beneficiaries. Grameen Bank has brought financial services nearer to the communities, creating it nearer for individuals to the right of entry of loans, savings accounts, insurance, remittance, and other financial products. Grameen Bank is a kind of financial intermediary to facilitates financial services to low-income citizens who would otherwise be excluded from finance. Grameen Bank includes the provision of training that is not fully satisfied by the need-based as commented by the beneficiaries and their activities are a technique to offer capital to low-income business owners who may be barred from conventional banking systems both credit and lending options. Al-Amin and Mamun (2022) did not consider poverty reduction through SME banking.

Begum et al. (2022) estimate the contribution of SMEs output on GDP growth in Bangladesh. The econometric specification can be represented as follows

$$(\ln GDP)_t = \alpha_0 + \beta_1(\ln SMEO)_t + \beta_2(\ln GE)_t + \beta_3(\ln DC)_t + \beta_4(\ln OPEN)_t + \varepsilon_t \quad (2-3)$$

Where

- GDP = Gross domestic Product
- SMEO = Small and medium enterprise output
- GE = Government expenditure
- DC = Domestic credit to private sectors by banks
- Open = Trade openness

The study found that a positive and significant impact of SME output on GDP growth. This study has consequences for articulating economic policies to enhance the economic growth in Bangladesh. However, the study did not consider financial development to reduce poverty. Akber et al. (2023) found that SME banking in Bangladesh has positive actions through their three studied banks which indicated that banks are advancing their deposited money in the progress of society, paying loans such as microfinance, women's entrepreneurship, and creating profits from these investments. As such SME banking is employed as a catalyst to progress the means of support and benefit of the lifestyle and advancement of purchasing power capability. Akber et al. (2023) did not discuss impact on poverty reduction through financial development. Hossen and Uddin (2024) depicted that Bangladesh's plans vis-a vis its SME sector are intended to strengthen progress and SMEs are exclusive mixture of custom and innovation. They point out that numerous businesses take benefit of the country's skilled workers to variety unique handcrafted products, while the family-run typical cultivates a robust effort ethos and flexibility. Hossen and Uddin (2024) did not discuss entrepreneurship development to reduce poverty.

2.5 Diversified View

Knight (1925) observed that the rudimentary trouble in economic theory is the logical problematic of the sense of clarification in assembly with human conduct. Reason or want in humanoid behavior is the equivalent of strength in procedure. The knowledgeable uncomfortable but inevitable detail of purposiveness, in supposed by way of healthy as per behavior. The residence of reasons and their action in economics, which takes to be serious by way of healthy as per animated besides rational, — a subdivision of esthetics then ethics in place of well by way of science. He observed that the impartiality of economic action and the opinion of interpretation of social censure of the financial instruction. Knight (1925) did not see the impact on poverty reduction for which creation of entrepreneurship. Baumol (1968, p.71) described that encouragement of the entrepreneur is the key to the stimulation of growth which must await the slow and undependable process of change in social and psychological climate is a counsel of despair for which there is little justification. All we can do to reduce spending in an inflationary period is to hope for a revival of the Protestant ethic and the attendant acceptance by the general public of the virtues of thrift! He suggested that without awaiting a change in the entrepreneurial determination showed in the society, we can try to learn how one can rouse the volume and strength of entrepreneurial action, thus creation the furthestmost of what is allowable by existing mores and attitudes. Baumol (1968) did not discuss how entrepreneurs can help to reduce poverty with the SME banking.

Kirzner (1973) described that an entrepreneur is a decision-maker whose entire role arises from alertness to unnoticed opportunities or knowledge about market data. Within the context of entrepreneurial activity, he offers a neo-Austrian redefinition of the concept of monopoly and competition. Since for Kirzner entrepreneurship involves no element of resource ownership, monopoly is defined as the impact of input ownership on the competitive process, and not the shape of the demand curve facing a firm. A monopoly position can be won by an alert entrepreneur. In the light of his theory of competition, Kirzner provides a new theoretical place for advertising and selling costs.

Advertising, which promotes and calls attention to product differentiation, is the "weapon" of competition, which allows competitive-entrepreneurial adjustments in the type of products placed in the market in disequilibrium. Kirzner (1973) did not consider the impact of entrepreneurs on poverty reduction and financial development. Nabi (1995, p. 190) commented that the socio-economic environment –especially in the backward areas –has not been conducive to the emergence of entrepreneurial talent. The socioeconomic environment may be transformed into pro people development process through inclusiveness as per his suggestion. Nabi (1995) did not consider SME banking to create entrepreneurs through financial development and poverty reduction.

Streeten (1999, pp. 78-79) described that well-designed public expenditure programs, that contain both a vision of a good society and a careful analysis of the political economy, can contribute substantially to improving the human condition. The study opined that necessity be applied to safeguard an increasingly appropriately circulated number of belongings, together with private and public segments, if primary requirements remain to be fulfilled. Streeten (1999) did not include SME banking for financial development and reduction of poverty in the arena of political economy. Hye (1999, p. 72) observed that in Lao PDR, commencing the profit made in income-generating activities, a development fund resolves to situated for added persistence and spreading out of the project. Immense stress on training the farmers in Lao PDR in a variety of focuses to build capacity and improve their skills was highlighted. Hye (1999) did not quantify how skill can be transform for financial development and reduction of poverty.

Salahuddin (2001, pp. 111-113) 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 females. Females' empowerment through decision-making processes is very important for economic benefits. Salahuddin (2001) did not discuss impact on entrepreneurship creation through financial development and poverty reduction. Ali (2001, p.43) observed that the economy of Bangladesh suffers from the problems of both the supply and demand sides.

Real variables are affected by the monetary and external variables. Monetary and fiscal policy can affect GDP, Government spending, investment, consumption, and the balance of trade. The change in the exchange rate has affected the relative price and net export. Ali (2001) did not consider SME banking to reduce poverty reduction to create entrepreneurship. Gentry and Hubbard (2004) recommended that expensive outward financing for entrepreneurial investments and possibly high returns on those investments have significant consequences for the saving performance of well-off families. Well-off families should emphasize saving which in turn is used in the investment sector. Gentry and Hubbard (2004) did not mention SME banking to create entrepreneurship and reduce poverty.

MIDAS (2009) noted in its study highlights the following in Bangladesh: women entrepreneurs used their savings 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. But the study did not describe impact of reducing poverty through financial development. Singh (2009, p. 193) depicted that community development programs contributed significantly in India towards the creation of the rural development machinery and infrastructure in the country, and helped expand and improve the production base of the rural economy of the country. He argued that rural development will be helpful for productive economic progress which in turn helps community advancement. Singh (2009) did not describe how to develop financial sector.

Caporale, Rault, Sova, A., and Sova, R. (2009, pp. 1-43) reviewed the main features of the banking and financial sector in 10 new EU members and then investigated the relationship between financial development and economic growth. They found that financial depth is found to be lacking in all 10 countries, and therefore, the contribution of the relatively underdeveloped credit and stock markets to growth has been rather limited, with only a minor positive effect of some indicators of financial development. This might be a consequence of the large stock of non-performing loans and the banking crises experienced by these economies at the beginning of the transition period.

Caporale et al. (2009) did not describe creation of entrepreneurship for reducing poverty.

Nehereen (2010, p. 89) commented that the bottom line is not only the profit but also building better relationships with SME clients which is the generator of golden eggs. It is expected that the golden eggs will eliminate poverty in Bangladesh by developing the economy through the circulation of its value and its radiance in the life of the people. Nehereen (2010) did not describe how bottom line people can improve their livelihood through entrepreneurship development. Dunn (2011, p. 49) described Galbraith (1973) as pronounced by the anticipated requirement 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. Dunn (2011) did not describe SME banking to reduce poverty. Ali (2011) commented that many NGOs in Bangladesh have been providing micro-insurance services in one form or another to their members outside the rather of the regulatory framework. In Bangladesh, micro insurers should offer group policies for the poor. Apart from micro-credit borrowers, group term insurance cover can be made available to other poorer sections of society like landless, agricultural laborers, handloom workers, rickshaw pullers, artisans, taxi drivers, cooperative milk producers, tailors, barbers, masons, carpenters, etc. Ali (2011) did not establish relationship between micro insurance and SME banking.

The World Bank (2011, p. 167) argued that women today are doing better than their mothers' generation along a range of outcomes that include health, education, voice and visibility, and, to an extent, participation in the labor market. As such women must get better access to finance and participate in different areas of the economic development of the country like employment generation, better health, participation in education, and equality basis. The World Bank (2011) in the particular study did not describe SME banking to reduce poverty and entrepreneurship creation. Arasteh,

Enayati, Zameni, and Khademloo, (2012) in their study noted 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. Arasteh et al. (2012) did not describe the ways to reduce poverty through SME banking.

Boyles (2012, pp. 44-55) 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: 1) Information, media, and technology literacy, 2) Inventive thinking, 3) Communication and collaboration, and 4) Productivity and results. Boyles (2012) did not discuss SME banking for creation of entrepreneurship. Ghobakhloo, Hong, Sabouri, and Zulkifli (2012, pp. 36-37) emphasized the importance of identifying technology requirements specific to different sectors to facilitate the adoption of technology by small and medium-sized enterprises (SMEs) and enable them to become technologically advanced. They proposed that the categorization of IT acceptance factors and addressing SME-related issues through an established and integrated framework and recommended model for effective IT adoption can assist organizations, managers, and IT consultants in gaining a comprehensive understanding of the factors that influence IT acceptance. Ghobakhloo et al. (2012) did not discuss financial development for creating entrepreneurship.

According to Hatten (2012), entrepreneurs are people who look at the larger picture, think big, take risks, and have a lot of confidence. Small businesses generate a great deal of innovation, profit, and efficiency for people. Depending on the type of business being operated, the size and standards of a small business may vary. Diversity within the workforce helps to improve the efficiency of a small business. Hatten (2012) did not discuss creativity of entrepreneurship to reduce poverty. Mehta and Das (2012) found that employment is said to protect women from violence, but there is mixed evidence, while some studies suggest that income-generating 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. Mehta and Das (2012) did not study how poverty can be reduced by employment generation. Zaman, Narayan, and Kotikula (2012, p. 22) opined that improving labor productivity in agriculture would be critical to raising the earnings of agricultural wage workers who have a high incidence of poverty. While some productivity gains are possible within the sector, achieving higher agricultural labor productivity would require accelerated growth in the non-agricultural sectors to absorb workers from agricultural wage employment. As such poverty will be reduced. Zaman et al. (2012) did not discuss how SME banking can reduce poverty. Osmani and Latif (2013) found that small and medium enterprises began to exercise their full potential, becoming more proactive, efficient, and creative, they began to grow and create income-generating activities, thus poverty began to decline and the overall economy started to improve with accelerated growth. Poverty reduction is needed so that people can attain welfare of the society. Osmani and Latif (2013) did not include financial development to reduce poverty and to create entrepreneurs. Ahammed and Seddiqe (2015, pp. 2-9) 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. NGOs have also helped preach the institutionalization of democracy promotion and engaged their beneficiaries in political decision-making. Ahammed and Seddiqe (2015) did not discuss poverty reduction and creation of entrepreneurship.

Dixit and Agarwal (2015) detected that psychologists have identified several variables that appear to have a major influence on entrepreneurial success. These psychological factors motivated entrepreneurs to establish enterprises with entrepreneurial spirit and forecasting so that social obligation could be mitigated. Dixit and Agarwal (2015) did not discuss financial development to reduce poverty. Rahman (2015) in "The Daily Stars" noted that in Bangladesh, "SMEs are crucial to the national economy. They account for about 45 percent of manufacturing value addition, about 80 percent of industrial employment, about 90 percent of total industrial units, and about

25 percent of the labor force. Their total contribution to export earnings varies from 75 percent to 80 percent. The industrial sector makes up 31 percent of the country's gross domestic product (GDP), most of which is coming from SMEs. The total number of SMEs in Bangladesh is estimated to be 79,754, of which 93.6 percent are small and 6.4 percent are medium.” Rahman (2015) did not include SME banking to reduce poverty in his study.

Karim (2016, p. 398) commented that if a person taking a loan is persistently under pressure and tensions to repay the amount in predetermined weekly installments, they would remain under pressure and cannot expand the activities. If the member is helped to earn some confidence about his /her capability with the use of the ‘funds’ as effectively as s/he can, facilitated by other assistance such as skill training, access to technology, and marketing support, it may then be possible for him/her to improve their economic conditions and also repay the loan without fail. Karim (2016) did not discuss how SME banking to reduce poverty through creating entrepreneurship.

Abdin (2016, pp. 1-5) 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, and exporting their products abroad are tremendously contributing to the economic growth of the nation through increased export earnings. Abdin (2016) did not discuss SME banking to reduce poverty. Hart, Sharma, and Halme (2016) described that management theory and research have not advanced at the identical step with the bottom of pyramid business revolution, and subsequently, knowledge about parameters aimed at effective join in business, poverty alleviation and maintain a stable expansion remains uncertain. Ong, Habidin, Salleh, and Fuzi (2016) showed in their study in Malaysia how women entrepreneurs can improve their Business Performance through Entrepreneurship Practice leading to increased efficiency and productivity. Women entrepreneurs must practice business acts to raise the efficiency and productivity of a country.

Gautam and Faruqee (2016, pp. 134-135) implied that credit constraint is a significant issue for rural non-farm enterprises (RNFE). Those with a lack of excess credit are more likely to rely on their resources as internal savings and investment processes are time-consuming. There is a dilemma about whether to use one's savings for expenses or investments. Participants of MFIs who are less dependent on their resources show more involvement in RNFE activities and are more likely to use their savings for investment purposes. Lack of education, wealth, access to electricity, transportation, etc., results in credit constraints and hampers the savings-investment mechanisms within RNFEs. Gautam and Faruqee (2016) did not discuss poverty reduction through SME banking.

Carter, Kuhl, Marlow, and Mwaura (2017) pronounced that the entrepreneurial household's paradigm is a logic of shared economic ease, specified the characteristic of business ownership, and emphasized how to tackle economic risk and uncertainty proficiently. As such they suggested that financial risk and ambiguity requirements be moved competently so that entrepreneurs can work efficiently to reduce poverty for which accessibility of finance is required. Carter et al. (2017) though discuss about entrepreneurship but did not tell about SME banking. Fatima and Ahmed (2017) argued that the SME sector has the highest opportunity to create employment in Bangladesh because of easy access to finance, strong driving force to become entrepreneurs and employ others in their business ventures, strong credit whole selling and various matchmaking programs. Fatima and Ahmed (2017) did not discuss about SME banking for poverty reduction. Sahoo and Yadav (2017) commented that entrepreneurs and practitioners would make better and more effective decisions about implementing total quality management practices. Without improvement of total quality management processes administrative and operational inefficiencies will occur. Sahoo and Yadav (2017) did not discuss poverty reduction through utilizing SME banking.

Ahmed, Hossain, M., and Hossain, I. (2018) compared the status of Bangladeshi women entrepreneurs in 2018 with the previous status as compiled in the report 'Women Entrepreneurs in SMEs: Bangladesh Perspective, 2009' and 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. Ahmed et al. (2018) did not discuss about SME banking to reduce poverty. Aksakal (2018, p. 337) argued that the institutional, social, political, and environmental, seem to be used as a concept allowing the expansion of neoliberal policies to sweep through governments, especially those highly indebted to the World Bank. The development discourse of the World Bank defined by the new institutional school of economics and its main principles represents the recycling and modulating its neoliberal agenda, enhancing and refreshing it in responsive areas. Aksakal (2018) did not discuss SME banking, financial development and entrepreneurship creation to reduce poverty.

Chowdhury and Salman (2018, p.54) described that it is found that the trade sub-sector of SMEs in Bangladesh was getting a higher amount of disbursed loans compared to the service and manufacturing sub-sectors. That ultimately shows that the service and manufacturing sub-sectors in SMEs were having limited access to the disbursed loans by different types of financial institutions. Parker (2018, pp. 417-418) described that entrepreneurship is a key mechanism of driving aggregate wealth accumulation, savings, and wealth inequality in modern economies. Financial intermediation costs drive a wedge between borrowing and lending rates, increasing incentives for entrepreneurs to save. Parker (2018) did not describe how SME banking can improve livelihood by reducing poverty. Sen and Wider (2018, p. 6) argued the importance of power and politics in understanding institutional change and persistence. They play a central role in maintaining the savings-investment balance and stimulating economic growth. Political philosophy must work for pro-poor people so that they have a good livelihood and a better life. Sen and Wider (2018) did not discuss impact of financial development to reduce poverty.

Ma'ruf and Aryani (2019) analyzed the relationship between Financial Inclusion and the Achievement of Sustainable Development Goals (SDGs), noting that

financial inclusion is crucial for the 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 reap the benefits of financial development. Financial inclusion has become an influential agenda at the international and national levels. Poverty alleviation has been hampered by the lack of access of poor people to financial services, thus financial inclusion is necessary. Ma'ruf and Aryani (2019) did not integrate SME banking with poverty reduction. Ali (2020) opined that there is no extra alternative to sustainable development goals but original alternative banking schemes in the rural parts. Poor people are fortified to save and invest locally. The political economy in Bangladesh needs to lead to economic progress due to income-generating programs in the country's rural areas through innovation, creativity, and entrepreneurship with stimulating economic growth as was seen with NGOs' income-generating programs. Ali (2020) did not describe entrepreneurship creation for betterment of the livelihood through poverty reduction.

Omede, Ibekwe, and Nte (2020) opined that active and well-organized placement of their funds allows enterprises to repeatedly expand a modest advantage completed by their contestants to safeguard existence and growth. Enterprises need to be sustainable to mitigate social obligations. Omede et al. (2020) did not discuss SME banking to create entrepreneurship. Ngo and Chi (2020) discovered that the accessibility of proper credits is minimal for small firms. In most cases, small firms invest in their business through their savings, retained earnings, or borrowing from friends and family. Comparatively, medium firms have better access to credit than small firms which rely on these alternatives. Ngo and Chi (2020) did not describe SME banking to reduce poverty.

Chowdhury, Das, Chakraborty, and Barai (2020) depicted that the NGOs are working at the state in the procedure of widely varied agendas and schemes which 1) generate community and dogmatic consciousness amid the collection of disadvantaged besides on a social basis of weak groups, 2) measure the wants and request of the cited collection of persons, and 3) train and strengthen them to societal,

partisan, and economic progress. Chowdhury et al. (2020) did not describe role of SME banking to reduce poverty through creating entrepreneurship. Erlando, Riyanto, and Masakazu (2020, p. 1) 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, as evidenced by Eastern Indonesia.” “The relationship between the financial and real sectors based on economic growth develops into the concept of a "trickle-down effect," which means that it encourages growth, and poverty alleviation due to an income distribution.” Erlando et al. (2020) did not consider financial development and SME banking to reduce poverty in the entrepreneurship development.

Iheonu, Asongu, Odo, and Ojiem (2020) described domestic credit to the 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. Iheonu et al. (2020) did not discuss SME banking to reduce poverty and to create entrepreneurship. Asratie (2021, p. 11) opined that in Ethiopia to variety the progress of the economy sustainable and maximize social welfare enlightening the recital of the financial sector is vital. However financial development is little and unequally dispersed. Consequently, classifying cause issues of financial development takes a dominant position. Asratie (2021) to create entrepreneurship through poverty reduction.

Ali and Wanasilp (2021, pp. 97-126) noted how NGOs with their microfinance services such as DESHA have been crucial to creating entrepreneurs and raising per capita income in the nation, leading to the social, political, and economic development of Bangladesh. DESH has focused mostly on creating entrepreneurs in the agricultural sector but also have helped build nonagricultural enterprises. They 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.” They also recommended formal institutions such as Banks

to provide microfinance services which they do under the banner of SME banking. However, Ali and Wanasilp (2021) did not consider SME banking to reduce poverty to create entrepreneurship.

Shkodra, Ymeri, and Ibishi (2021, pp. 120-129) found that savings are crucial for women's entrepreneurship. Successful women entrepreneurs mostly manage and finance their businesses through their savings. Those who use borrowed money for the family budget or their inherited capital for investment purposes are less successful than those who invest from their savings. Shkodra et al. (2021) did not consider SME banking to reduce poverty. Dzingirai (2021) study implied the Zimbabwean government and microfinance institutions in designing policies and programs to reduce poverty in marginalized agricultural communities through the creation of agro-entrepreneurs. Agro entrepreneurs should work for diversified agro businesses where a lot of people can be employed and their livelihood can be attained from working in the business processes. Dzingirai (2021) did not discuss role of SME banking to reduce poverty.

Ibrahim, Muhamat, Ahmad, Hassan, and Bakar (2021) found that the COVID-19 pandemic has hampered the development process of poor people, including beneficiaries of government agencies, local NGOs, and Social Entrepreneurs (SE), as restrictions induced by the pandemic are acting as a barrier to the income generating process of the beneficiaries and is hampering the overall socio-economic development of the nation. Thus, it is crucial to use digitalization to reactivate the income generation of the beneficiaries and create digital entrepreneurs. Ibrahim et al. (2021) did not consider SME banking to reduce poverty. Hossain, Yoshino, and Taghizadeh-Hesary (2021) found that bank branch expansion in Bangladesh at an optimal level at sub-district level improves firm performances. They found that local financial development with an optimal branching strategy of the banks at the sub-district level improves. Hossain et al. (2021) did not see how SME banking can create entrepreneurs to reduce poverty.

Purbasari, Muttaqin, and Sari (2021) found that due to strict social policies and regulations in Indonesia, regarding the creation of digital SMEs the Digital User Citizenship (DUC) element is still in a fairly weak position. However, Digital Technology Entrepreneurship (DTE) and Digital Multisided Platform (DMP) elements of digital SMEs are growing at a rapid pace. The government needs to reconsider several policies for a smooth transition of SMEs into digital platforms. Fast internet and digital security are necessary, as is necessary for the skill development of aspiring entrepreneurs and the provision of proper technology and infrastructure. Purbasari et al. (2021) did not discuss SME banking to reduce poverty through creating entrepreneurship.

According to Reddy (2021), small savings have paved the way for self-reliance in a command economy. India used small savings to finance its crisis rather than depend on foreign aid. But neoliberal economists are discouraging small savings, advocating for a more extensive reach of globalization which hampers India's reputation as a self-reliant economy. The interest rate is being reduced, and monetary policy is adjusted to stimulate people to make more investments rather than hoarding their savings. Reddy (2021) did not include SME banking to reduce poverty.

Bayar (2023) observed that financial development has a positive impact on poverty and inequality reduction and the development of financial services leads to poverty alleviation and improvement in income inequality as it allows an enhancement for the limited access of the poor to financial services. He depicted the correlation between poverty alleviation and financial development for which greater accessibility to financial activities is required. However, Bayar (2023) did not discuss creation of entrepreneurship through SME banking. Msomi (2023) argued that the data suggests that SMEs face significant challenges in accessing affordable credit, and that interest rates are a major factor. The results of this study clearly indicate a negative correlation between interest rates and SMEs'. However, the study did not discuss SME banking to reduce poverty.

Thathsarani, Jianguo, and Alariqi (2023) observed that the financial inclusion index for SMEs is weighted equally by access and quality of the financial services as the pillars which in turn help for financial development and reduction of poverty of the country. Financial inclusion must be spread out on the grassroots level and the vehicle of financial inclusion is SMEs. Thathsarani et al. (2023) did not explain SME banking in their model for financial inclusion and creation of entrepreneurship. Ajide and Dada (2023, p. 199) found that in Africa entrepreneurship increases poverty decreases and has a noteworthy influence on economic growth. Economic growth can benefit to achieve poverty reduction. Ajide and Dada (2023) though discussed economic growth but did not consider financial development to reduce poverty. Wang, Xiang, and Han, (2023, p. 981) proposed that policymakers ought to consider consolidation investor defense on encouragement of SME progress and expansion. SME extension will help to raise economic benefits for the poor income stratum. Wang et al. (2023) should discuss impact of SME banking in their study to reduce poverty.

From the aforesaid discussion, in this chapter, the study tried to review literature from different authors considering the research question. Then based on the review, the study discussed gaps in different literature and justifications for the study. Most of the previous work has stuck with Grameen Bank and NGO's microfinance programs, thus in-depth the evolution of SME banking in the country has not been analyzed. Two of the biggest obstacles to NGO's microfinance program and SME banking are loan defaulting and the impact of high interest rates, which have not been previously discussed in the aforementioned studies. The studies focused on uplifting people from poverty but not sustaining the improvement of social status by becoming self-sufficient entrepreneurs. Combined effort of creating entrepreneurs by financial development and poverty reduction through SME banking did not discuss in maximum articles.

The overall impact of SME banking on the socio-political-economic development of Bangladesh, and how it will help Bangladesh achieve LDC graduation by 2026 has not been mentioned. The impact of the COVID-19 pandemic has not been

observed in previous studies related to the topics. Most past works on microfinance focused mainly on NGOs but there are very few studies on formal bank's SME banking by formal banks which provides opportunities to become small and medium entrepreneurs through their SME banking schemes similar to NGOs and other MFIs microfinance schemes. As this research focuses on the role of formal banks in creating entrepreneurs through SME banking, this paper is relatively unique. The previous studies did not show how vital SME banking is for poverty reduction, financial development, financial inclusion, and LDC graduation in Bangladesh. The research aims to overcome these shortcomings and link up the creation of Entrepreneurship through SME banking to the social, political, and economic development of the nation. Knight's (1925) observation problems in economic theory along with human conduct is not implied in the financial development of the country. As Kumar (2021, p. 4) described creating and expanding SME banking can deepen financial markets which means more finance at lower costs. However, he did not describe the impact on poverty reduction. Golder et al. (2021) as financial development is multi-dimensional and has no direct way to measure, it will be proxied here by growth in SME banking leading to poverty reduction and rising per capita income of SME investors that contribute to the economic growth of the nation in a bottom-up approach. Morris (2022) noted that Poverty is more than a lack of money or an inability to afford necessities but did not consider how SME banking can lead to financial development and in turn help to reduce poverty. Though Singh and Jha (2023) showed the relationship between financial development and poverty reduction but they did not consider SME banking's role in financial deepening, inclusiveness, removing income inequality and reduction of poverty in Bangladesh.

Effective business management techniques and strategies for micro and small enterprises in Bangladesh to reduce poverty were not discussed in most articles. The role of financial inclusion through SME banking to micro and small enterprises is important for financial stability for rural poor and urban slum dwellers to improve their livelihood by reducing poverty which needs to be discussed. Constraints and opportunities of micro and small enterprises management can be linked with monetary

and non-monetary benefits so that the micro and small business units, as well as employees' benefits, can be significantly attained in Bangladesh also most of the articles to be discussed. There has been no report on whether formal Banks offering SME banking facilities are creating successful entrepreneurs and enhancing their livelihoods or not. There was also no integrated analysis regarding the success of SME banking along with poverty reduction and financial development to create entrepreneurship. PESTLE (political, economic, social, technological, and legal) factors have not been discussed in the aforesaid works. There has been no research related to the growth of SME banking in Bangladesh.

As such the research aims to link SME banking with the overall financial development and poverty reduction process in Bangladesh. The research aims to do a comparative study of five selected banks offering SME banking and their overall contribution to the social, political, and economic development of the nation. In the context of this thesis, it is worth noting that the concept of microcredit persists, albeit with a different label when provided by formal banks, referred to as SME banking. Unlike NGOs, formal banks primarily started microcredit disbursement for SME creation but from the Nineties in Bangladesh, SME banking was launched in the formal banking channel to cater to the services of the poor income stratum and downtrodden people wider perspective to create financial deepening. While there have been numerous studies conducted on NGOs and microcredit, our research distinguishes itself by specifically focusing on the SME Banking provided by formal banks to create entrepreneurs under the framework of "SME banking" to develop the financial sector and help to reduce poverty. This unique aspect sets our study apart from the existing research papers on financial development, poverty reduction, economic growth and development, SME banking, and diversified areas of discussion. The study will provide a detailed explanation of this special case in this thesis.

Chapter 3

Research Methodology

Based on Chapter 1 and 2, the study wants to discuss the methodology of the study. The methodology is related to the research question of the study which is “How does SME Banking help Bangladesh in achieving Financial Development and Poverty Reduction in Bangladesh through Entrepreneurship creation?”.

3.1 Methodology

Based on the research gap found in the literature review the study aims to answer the research question with both quantitative and qualitative methods. Shorten, and Smith (2017) argued that “Mixed methods” is a research tactic whereby investigators assemble and examine both quantitative and qualitative data in the same research work. As such the study used mixed methods to substantiate findings between quantitative consequences and qualitative results. Etikan, Musa, and Alkassim. (2016) also described that convenience sampling can be used in both qualitative and quantitative studies. The study took the data of SME banking as from the nineties it has been working rapidly in the formal sector in Bangladesh while microcredit banking is working as a scanty manner.

Five banks were selected for this study to observe “BLUE” (Best, linear, unbiased estimator) out of 40 effective banks who did SME banking during data set period. Data related to SME banking were collected from these five banks. The five selected banks offering SME banking are: 1) Sonali Bank PLC (established in 1972), 2) Pubali Bank PLC (established in 1959), 3) The City Bank PLC (established in 1983), 4) Agrani Bank PLC (established in 1972) and 5) United Commercial Bank PLC (established in 1983). As discussed in Chapter 1, the study selected aforesaid five commercial banks who are effectively doing SME banking since the 2000s. The data

sets from the banks were summed up accordingly to see the overall impact from 2004-2023. A qualitative analysis based on PESTLE (Political, Economic, Social, Technological, Environmental and Legal) analysis was conducted.

Besides, brief discussion on Grameen Bank, the study also did ten case studies on beneficiaries of the non-scheduled bank -Grameen Bank which was given in the appendices. To prepare case studies, as a researcher from ten branches of Grameen Bank ten participants were selected using the following combined format: Documents; Interviews; Direct observation; and Participant observation. Try to portray a real picture of each beneficiary. Ethical code of standards was maintained. Beneficiary's personal name was kept hidden for which pseudonym will be used. These case studies will be given in Appendix.

For quantitative analysis, data was collected from five different banks for comparative analysis of their SME banking facilities. As SME banking contributes significantly to the total exports of Bangladesh the additional variable Total Exports was selected from World Bank website data on Bangladesh. Additionally, the data for the Poverty Rate of Bangladesh was collected from the World Bank website. Bangladesh's central bank introduced a new division named Small and Medium Enterprise and Special Program Division in the 2000s, as such the study will collect data from five banks out of 62 commercial banks (40 commercial banks have been effectively providing SME loans) from 2004 to 2023, before that there was no data availability on SME banking in Bangladesh in the formal sector. 5 commercial banks out of 40 commercial banks who were operating during data set indicated that 12.5% sample size was covered from the population i.e. out of 40 commercial banks at that time operating as SME banking in Bangladesh.

Period of the study is used of five commercial banks from 2004 to 2023 on SME banking considering data set period for twenty year.

Sam, McNown, and Goh (2019) argued that Pesaran, Shin, and Smith (2001) introduced the augmented autoregressive distributed lag (ARDL) bounds test for examining cointegration and this test consents regressors to take mixed or unknown orders of integration, $I(0)$ or $I(1)$, which orthodox cointegration tests do not allow. As such this study shall use Autoregressive Distributed Lag (ARDL) regression analysis, as the model works for both stationary and non-stationary time series data sets. Thus, the stationary test is not necessary. EViews 10 software was used for ARDL regression analysis.

3.2 Reason for Selecting Dataset

Nazamuddin (2023) argued that “It is possible only after passing several checks; stationarity check. As the variables are of mixed stationarity degrees, e.g. some $I(0)$, others $I(1)$ and none $I(2)$, then use ARDL with both short-term and long-term estimates, plus speed of adjustment indicated by cointegrating term.” As such the study took twenty years’ data set for doing the research.

As we are aware, this research intends to identify the causes of the decline in the poverty rate in Bangladesh. Many ideas attempt to explain the success, some are mutually opposing or supporting. A good range of politicians believe that it is the outcome of the prudent macroeconomic policies taken by the authority, and some others highlight the overwhelming endeavors of the Banks in the SME banking hypothesis. Accordingly, the study has structured model consisting of the explanatory variables that can explain both sides. The log-log model is used in ARDL analysis to capture elasticities, linearize nonlinear relationships, stabilize variances, and address non-stationary, enhancing the interpretability and reliability of the estimated coefficients.

3.3 Research Variables

In Chapter 2, Nursini (2020) tested on poverty reduction in the SME sector. Pomi (2019) described borrowers 'of SMEs role to improve their living standard. Begum et al. (2022) considered one of the variable total domestic credit of the private banks. Akber et al. (2023) argued that poverty reduction is important. As such the study consider it as a variable. Msomi (2023) considered accessing credit and interest rate as variable. Hossain et al. (2021) considered bank branches for SME loan disbursement optimally. Chowdhury and Salman (2018) considered trade sector for which the study considers total national export variable in the study. Based on aforesaid discussion, the study selects following variables.

3.3.1 Variables

1) Dependent Variables:

LPOVERTY (the natural log of the Poverty Rate, collected from the World Bank)

2) Independent variables:

LBORROWERS (the natural log of the Number of Borrowers of SME Loan, collected from data provided by the five banks under study summed up)

LDISBURSED (the natural log of Total loans Disbursed for SME banking annually, collected from data provided by the five banks under study summed up)

INTEREST (Interest Rate on SME loans, collected from data provided by the five banks under study averaged)

LBANKBRANCHGROWTH (the natural log of Growth in no. of Bank Branches offering SME loans, collected from data provided by the five banks under study summed up)

LEXP (the natural log of Total National Exports, collected from the World Bank)

All values are in USD, the World Bank data have been intact in USD, and the five banks' data have been converted using the May 2023 exchange rate of USD 1 = BDT 104.390.

To test for the existence of a long-run equilibrium relationship among time-series variables, this study employs the Autoregressive Distributed Lag (ARDL) bounds testing approach to co-integration. Based on the unrestricted error correction mechanism (UECM), the ARDL model used to examine the long-run and short-run relationships among variables takes the following form:

$$\begin{aligned} \Delta \ln POVERTY_t = & \alpha^0 + \sum_{i=1}^p a^{1i} \Delta \ln POVERTY_{t-i} + \sum_{i=0}^q a^{2i} \Delta \ln BORROWERS_{t-i} + \sum_{i=0}^q a^{3i} \Delta \ln LDISBURSED_{t-i} \\ & + \sum_{i=0}^q a_{4i} \Delta \ln INTEREST_{t-i} + \sum_{i=0}^q a_{5i} \Delta \ln BANKBRANCHGROWTH_{t-i} + \sum_{i=0}^q a_{6i} \Delta \ln TOTALEXPORTS_{t-i} + \varepsilon_t \end{aligned} \quad (3-1)$$

The ARDL long-run models are as follows:

$$\begin{aligned} \ln POVERTY_t = & \beta_0 + \sum_{i=1}^p \beta_{1i} \ln POVERTY_{t-i} + \sum_{i=1}^q \beta_{2i} \ln BORROWERS_{t-i} + \\ & \sum_{i=1}^q \beta_{3i} \ln LDISBURSED_{t-i} + \sum_{i=1}^q \beta_{4i} \ln INTEREST_{t-i} + \sum_{i=1}^q \beta_{5i} \ln BANKBRANCHGROWTH_{t-i} + \\ & + \sum_{i=1}^q \beta_{6i} \ln TOTALEXPORTS_{t-i} + \varepsilon_t \end{aligned} \quad (3-2)$$

The error correction models are specified as follows:

$$\begin{aligned} \Delta \ln POVERTY_t = & \alpha_0 + \sum_{i=1}^p \alpha_{1i} \Delta \ln POVERTY_{t-i} + \sum_{i=0}^q \alpha_{2i} \Delta \ln LBORROWERS_{t-i} \\ & + \sum_{i=0}^q \alpha_{3i} \Delta \ln LDISBURSED_{t-i} + \sum_{i=0}^q \alpha_{4i} \Delta \ln INTEREST_{t-i} + \sum_{i=0}^q \alpha_{5i} \Delta \ln BANKBRANCHGROWTH_{t-i} \\ & + \sum_{i=0}^q \alpha_{6i} \Delta \ln TOTALEXPORTS_{t-i} + \lambda ECM_{t-1} + \varepsilon_t \end{aligned} \quad (3-3)$$

The study will employ the cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares of recursive residuals (CUSUMSQ) tests to estimate

the structural stability of the equation in the ARDL model. The ARDL model will help see the overall impact of small and medium entrepreneurship creation through SME banking in poverty reduction and financial development of Bangladesh.

The study in appendices discusses some NGO models (Grameen Bank, BRAC, ASA) and also ten case studies based on Grameen Bank's beneficiaries. Case studies are collected as Grameen bank originated micro credit loan formally and then from 2000s SME banking is stated at a greater sphere.



Chapter 4

Results

4.1 Quantitative Analysis

The study will provide results of quantitative analysis based on the research question “How does SME Banking help Bangladesh in achieving Financial Development and Poverty Reduction in Bangladesh through Entrepreneurship creation?”, objectives of the study, literature review, and methodology of the study.

4.1.1 Estimated Results

Table 4.1 Correlation Matrix

	LPOVERTY	LBORROWERS	LDISBURSE	INTEREST	LBANKBRANCHGROWTH	LTOTALEXPORTS
LPOVERTY	1.000000					
LBORROWERS	-0.937920	1.000000				
LDISBURSE	-0.974688	0.944658	1.000000			
INTEREST	0.974640	-0.977305	-0.962817	1.000000		
LBANKBRANCHGROWTH	-0.942363	0.918929	0.969983	0.928951	1.000000	
LTOTALEXPORTS	-0.991679	0.955041	0.972156	0.980527	0.938861	1.000000

From the correlation Matrix it is evident that Poverty Rate has a strong negative correlation with Total Number of Borrowers, Total loan Disbursed annually, Growth in no of Bank Branches offering SME loan and Total Exports while a strong negative relationship with Interest Rate on SME loans. This indicates the strength in relationship of SME banking and financial development in the country leading to poverty reduction.

AS SME banking expands annually, poverty rate is diminishing; however, interest rate must be lowered to sustain it.

Table 4.2 Bound Test for Co-integration

Test	Computed Value	Critical Value At 0.01 (1%)		Critical Value At 0.025 (2.5%)		Critical Value At 0.05 (5%)		Conclusion
		I(0)	I(1)	I(0)	I(1)	I(0)	I(1)	
		F-statistics	5.5573	2.62	3.77	2.33	3.42	

The Bound Test for Co-integration was conducted to assess the presence of a long-run relationship among the variables. The results indicate that the computed F-statistic of 5.5573 exceeds the critical values at all significance levels, providing evidence of a significant long-run relationship. This finding suggests that the variables under investigation are co-integrated and exhibit a stable and consistent relationship over time. The existence of a long-run relationship has important implications for understanding the interdependencies and dynamics among the variables, providing valuable insights for the study.

Table 4.3 Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test			
F-statistic	1.542002	Prob. F(2,11)	0.2568
Obs*R-squared	6.350191	Prob. Chi-Square(2)	0.0418

The presence of serial correlation in the residuals of a regression model was examined using the Breusch-Godfrey Serial Correlation LM Test. The test results indicated mixed evidence regarding the existence of serial correlation. The F-statistic, which measures the overall significance of the test, was not statistically significant ($F(2,11) = 1.542002$, $p = 0.2568$), suggesting no strong evidence to reject the null

hypothesis of no serial correlation. However, the Obs*R-squared statistic, a Lagrange Multiplier test statistic, yielded a significant p-value (Chi-Square (2) = 6.350191, $p = 0.0418$), indicating a potential presence of serial correlation. Consequently, the findings are inconclusive, warranting further investigation through additional diagnostic tests or alternative methodologies to ascertain the existence and nature of serial correlation in the residuals.

Table 4.4 Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.512925	Prob. F(15,13)	0.8916
Obs*R-squared	10.78205	Prob. Chi-Square(15)	0.7679
Scaled explained SS	2.646650	Prob. Chi-Square(15)	0.9998

The presence of heteroskedasticity in the regression model was examined using the Breusch-Pagan-Godfrey test. The results of the test indicated no significant evidence of heteroskedasticity. The F-statistic ($F(15,13) = 0.512925$, $p = 0.8916$) and the associated p-value suggested that the null hypothesis of no heteroskedasticity could not be rejected. Similarly, the Obs*R-squared statistic (10.78205 , $p = 0.7679$) and the scaled explained sum of squares (2.646650 , $p = 0.9998$) provided further support for the absence of significant heteroskedasticity. Consequently, the findings implied that the assumption of homoskedasticity can be reasonably upheld for the regression model.

Table 4.5 Augmented Dickey-Fuller (ADF)

Test Variables	ADF at Level		ADF at 1st Diff		Decision
	t-statistic	Prob.	t-statistic	Prob.	
LBANKBRANCHGROWTH	-3.0687	0.0455	-4.8155	0.0018	I(0)
LBORROWERS	-3.1047	0.0424	-4.6811	0.0017	I(0)
LDISBURSE	-1.7567	0.3895	-2.8621	0.0734	I(1)
INTEREST	-1.2832	0.6162	-6.2745	0.0001	I(1)
LTOTALEXPORTS	-2.1625	0.2244	-0.6687	0.8293	I(2)

This study uses two types of unit root tests, ADF test and the and PP, to determine whether any of the variables employed in the study are combined into the second order.

The Augmented Dickey-Fuller (ADF) test was conducted to examine the stationarity properties of multiple variables. The results indicate that the variables LBANKBRANCHGROWTH and LBORROWERS are stationary at both the level and after the first difference, suggesting they do not possess a unit root and are suitable for time series analysis. Similarly, the variables LDISBURSE and INTEREST exhibit stationarity after the first difference, implying they are integrated of order 1 and can be made stationary through differencing. However, the variable LTOTALEXPORTS does not show station behavior even after differencing, indicating it is integrated of order 2. These findings have implications for understanding the dynamics and modeling of these variables, highlighting the need to consider appropriate differencing techniques when analyzing LDISBURSE, INTEREST, and LTOTALEXPORTS.

Table 4.6 Unit Root Test: Phillips-Perron (PP)

Test Variables	PP at Level		PP at 1st Diff		Decision
	t-statistic	Prob.	t-statistic	Prob.	
LBANKBRANCHGROWTH	-3.0687	0.0455	-7.8222	0.0000	I(0)
LBORROWERS	-3.1168	0.0414	-4.8514	0.0012	I(0)
LDISBURSE	-1.7570	0.3894	-5.3563	0.0004	I(1)
INTEREST	-0.8928	0.7689	-6.6918	0.0000	I(1)
LTOTAL EXPORTS	0.7159	0.9893	-12.9446	0.0000	I(1)

The Phillips-Perron (PP) unit root test was employed to assess the stationarity characteristics of multiple variables. The results reveal that LBANKBRANCHGROWTH and LBORROWERS exhibit stationarity at both the level and after the first difference, signifying the absence of a unit root. Similarly, LDISBURSE, INTEREST, and LTOTAL EXPORTS become stationary after taking the first difference, indicating they are integrated of order 1. These findings have important

implications for time series analysis and modeling, shedding light on the dynamics of these variables. ADF test suggests LTOTALEXPORTS is integrated of order 2 but the PP test suggests it is integrated of order 1. Thus, we proceeded with these explanatory variables to undertake the ARDL model.

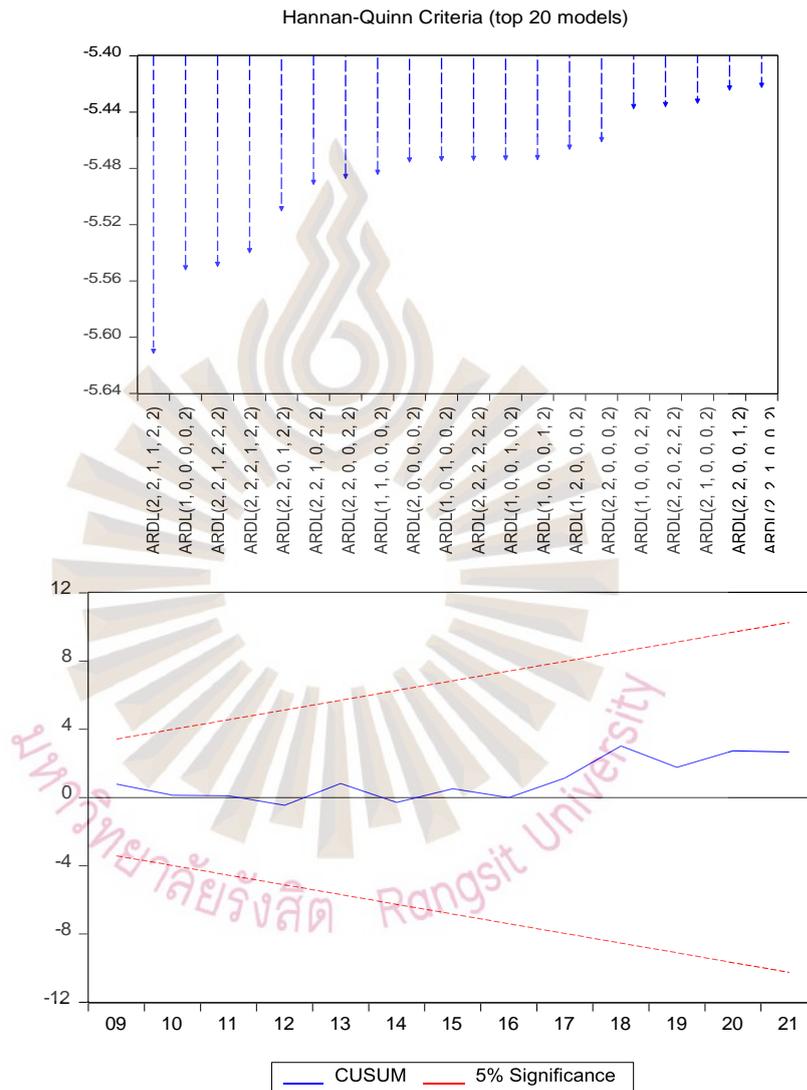


Figure 4.1 Hannan-Quinn Criteria (top 20 models)

Figure 4.1, Hannan-Quinn information criterion procedures the goodness of fit and used as a standard for typical variety amid a finite set of models. It is connected to Akaike's information standard.

Table 4.7 Long Run ARDL Model

Long Run ARDL Model				
Levels Equation				
Case: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LBORROWERS	-0.031477	0.073826	-0.426369	0.6768
LDISBURSE	-0.135354	0.057372	-2.359220	0.0346
INTEREST	-0.005449	0.003455	-1.576984	0.1388
LBANKBRANCHGROWTH	-0.050507	0.035493	-1.422998	0.1783
LTOTALEXPORTS	-0.566648	0.063255	-8.958132	0.0000
C	4.856199	0.620914	7.821055	0.0000

EC = LPOVERTY - (-0.0315*LBORROWERS -0.1354*LDISBURSE -0.0054
*INTEREST -0.0505*LBANKBRANCHGROWTH -0.5666*LTOTALEXPORTS + 4.8562)

In the long-run ARDL model with a restricted constant and no trend, the coefficients of the explanatory variables can be interpreted as follows for the dependent variable, Poverty Rate:

LBORROWERS: The coefficient for LBORROWERS is -0.0315. However, the coefficient is not statistically significant at the 10% level (t-statistic = -0.4264, p-value = 0.6768). This suggests that LBORROWERS does not have a statistically significant long-run effect on the Poverty Rate.

LDISBURSE: The coefficient for LDISBURSE is -0.1354. It is statistically significant at the 10% level (t-statistic = -2.3592, p-value = 0.0346). This implies that LDISBURSE has a statistically significant negative long-run impact on the Poverty Rate. Specifically, as LDISBURSE increases, the Poverty Rate tends to decrease, holding other variables constant.

INTEREST: The coefficient for INTEREST is -0.0054. However, it is not statistically significant at the 10% level (t-statistic = -1.5769, p-value = 0.1388).

Therefore, INTEREST does not have a statistically significant long-run effect on the Poverty Rate.

LBANKBRANCHGROWTH: The coefficient for LBANKBRANCH GROWTH is -0.0505. Similar to LBORROWERS and INTEREST, this coefficient is not statistically significant at the 10% level (t-statistic = -1.4230, p-value = 0.1783). Hence, LBANKBRANCHGROWTH does not have a statistically significant long-run impact on the Poverty Rate.

LTOTALEXPORTS: The coefficient for LTOTALEXPORTS is -0.5666. It is highly statistically significant at the 10% level (t-statistic = -8.9581, p-value = 0.0000). This indicates that LTOTALEXPORTS has a strong negative long-run effect on the Poverty Rate. As LTOTALEXPORTS increases, the Poverty Rate tends to decrease, holding other variables constant.

Constant (C): The constant term (C) has a coefficient of 4.8562, which is highly statistically significant at the 10% level (t-statistic = 7.8211, p-value = 0.0000). This suggests that the constant term has a significant long-run impact on the Poverty Rate, even when all other independent variables are zero.

In summary, based on the 10% level of significance, LDISBURSE and LTOTALEXPORTS have statistically significant long-run effects on the Poverty Rate. LBORROWERS, INTEREST, and LBANKBRANCHGROWTH, on the other hand, do not have statistically significant long-run effects. The constant term (C) also has a statistically significant long-run impact on the Poverty Rate. This shows while the SME banking scheme's role in poverty reduction is not as strong in the long run as it is in the short run, the fact that SME Loan disbursed is significant and its increase simultaneously causes reduction in poverty this means SME loan under SME banking schemes is used to establish SMEs by the poor people of the country who themselves can generate income and can also make employment opportunities for other people in their SMEs to help them increase income as a result increasing the per capita income of the nation

contributing to the poverty reduction and financial development of Bangladesh. Moreover, SME banking loan disbursement are playing a significant role in income generation of the people both by creating entrepreneurs and allowing these entrepreneurs to recruit people into their businesses. SME exports contribute between 75% to 80% of the total exports of Bangladesh which is increasing the GDP of the nation. Together the combined effect of SME loan disbursement and SME export earnings in a bottom-up approach is leading to rising per capita income of the nation contributing top financial development and poverty reduction of the country.

Table 4.8 Short Run ARDL model

Short Run ARDL model				
ECM Regression				
Case: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LPOVERTY(-1))	0.678319	0.146792	4.620962	0.0005
D(LBORROWERS)	-0.193573	0.099800	-1.939612	0.0744
D(LBORROWERS(-1))	-0.399530	0.096791	-4.127755	0.0012
D(LDISBURSE)	-0.084416	0.039250	-2.150742	0.0490
D(INTEREST)	0.000157	0.002504	0.062615	0.9510
D(LBANKBRANCHGROWTH)	0.012062	0.026835	0.449497	0.6605
D(LBANKBRANCHGROWTH (-1))	0.091882	0.024681	3.722700	0.0026
D(LTOTALEXPORTS)	-0.457332	0.157249	-2.908325	0.0122
D(LTOTALEXPORTS(-1))	-1.441972	0.229627	6.279642	0.0000
CointEq(-1)	-1.426271	0.181185	-7.871902	0.0000
R-squared	0.802735	Mean dependent var		-0.016552
Adjusted R-squared	0.709294	S.D. dependent var		0.017171
S.E. of regression	0.009258	Akaike info criterion		-6.259886
Sum squared resid	0.001628	Schwarz criterion		-5.788405
Log likelihood	100.7684	Hannan-Quinn criter.		-6.112224
Durbin-Watson stat	2.423853			

D(LPOVERTY(-1)): The coefficient is 0.678319 with a standard error of 0.146792. This indicates that a one-unit increase in the lagged change in poverty (poverty reduction in the previous period) leads to a 0.678319 unit increase in the current poverty rate. The coefficient is statistically significant at the 0.05 level (p-value = 0.0005), suggesting a significant relationship between the lagged change in poverty and the current poverty rate.

D(LBORROWERS): The coefficient is -0.193573 with a standard error of 0.099800. This suggests that a one-unit increase in the change in the number of borrowers leads to a decrease of 0.193573 units in the current poverty rate. However, the coefficient is not statistically significant at the 0.05 level (p-value = 0.0744), indicating that the relationship between the change in the number of borrowers and the poverty rate may not be statistically robust.

D(LBORROWERS(-1)): The coefficient is -0.399530 with a standard error of 0.096791. This indicates that a one-unit increase in the lagged change in the number of borrowers leads to a decrease of 0.399530 units in the current poverty rate. The coefficient is statistically significant at the 0.05 level (p-value = 0.0012), suggesting a significant relationship between the lagged change in the number of borrowers and the current poverty rate.

D(LDISBURSE): The coefficient is -0.084416 with a standard error of 0.039250. This suggests that a one-unit increase in the change in disbursements leads to a decrease of 0.084416 units in the current poverty rate. The coefficient is statistically significant at the 0.05 level (p-value = 0.0499), indicating a relationship between the change in disbursements and the poverty rate.

D(INTEREST): The coefficient is 0.000157 with a standard error of 0.002504. This indicates that a one-unit increase in the change in interest rates leads to a negligible increase of 0.000157 units in the current poverty rate. The coefficient is not statistically

significant at the 0.05 level (p-value = 0.9510), suggesting that the relationship between the change in interest rates and the poverty rate may not be statistically meaningful.

D(LBANKBRANCHGROWTH): The coefficient is 0.012062 with a standard error of 0.026835. This suggests that a one-unit increase in the change in the growth rate of bank branches leads to a small increase of 0.012062 units in the current poverty rate. However, the coefficient is not statistically significant at the 0.05 level (p-value = 0.6605), indicating that the relationship between the change in bank branch growth and the poverty rate may not be statistically robust.

D(LBANKBRANCHGROWTH(-1)): The coefficient is 0.091882 with a standard error of 0.024681. This indicates that a one-unit increase in the lagged change in the growth rate of bank branches leads to an increase of 0.091882 units in the current poverty rate. The coefficient is statistically significant at the 0.05 level (p-value = 0.0026), suggesting a significant relationship between the lagged change in bank branch growth and the current poverty rate.

D(LTOTALEXPORTS): The coefficient is -0.457332 with a standard error of 0.157249. This suggests that a one-unit increase in the change in SME product exports leads to a decrease of 0.457332 units in the current poverty rate. The coefficient is statistically significant at the 0.05 level (p-value = 0.0122), indicating a significant relationship between the change in SME product exports and the poverty rate.

D(LTOTALEXPORTS(-1)): The coefficient is -1.441972 with a standard error of 0.229627. This indicates that a one-unit increase in the lagged change in SME product exports leads to a decrease of 1.441972 units in the current poverty rate. The coefficient is statistically significant at the 0.05 level (p-value = 0.0000), suggesting a significant relationship between the lagged change in SME product exports and the current poverty rate.

CointEq(-1) is the “Error Correction Term”: The coefficient is -1.426271 with a standard error of 0.181185. This variable represents the error correction term (ECT) lagged by one period. The negative coefficient suggests that there is a tendency for the current poverty rate to adjust downwards to correct any deviations from the long-run equilibrium. The coefficient is statistically significant at the 0.05 level (p-value = 0.0000), indicating a significant adjustment towards long run equilibrium after the system deviates temporarily from equilibrium due to external shock.

R-squared: The R-squared value is 0.802735. This indicates that approximately 80.27% of the variation in the dependent variable Poverty Rate can be explained by the independent variables included in the model. In this case, the independent variables are the lagged changes in poverty, the number of borrowers, disbursements, interest rates, bank branch growth, and SME product exports.

Adjusted R-squared: The adjusted R-squared value is 0.709294. This is a modified version of the R-squared value that takes into account the number of independent variables and the sample size. It provides a more conservative estimate of the model's explanatory power, accounting for potential over-fitting. In this case, the adjusted R-squared value suggests that approximately 70.93% (a significant coverage) of the variation in the dependent variable is explained by the independent variables.

4.1.2 Hypotheses Testing:

Based on the short run and long run model the study accepted:

Ha1 (increase in no. of SME borrowers leads to financial develop to decrease in poverty).

Ha2 (increase in SME loan disbursed leads to financial development and decrease in poverty), and Ha5 (increase in SME exports lead to financial development and decrease in poverty).

However, null hypothesis H03: There is no relationship between increase in no. of SME loan interest rate and poverty reduction is accepted.

H04: There is no relationship between increase in no. of bank branches (bank growth) offering SME loan and poverty reduction is accepted

4.2 Qualitative Analysis

4.2.1 PESTLE (Political, Economic, Social, Technological, Legal and Environmental) Analysis

4.2.1.1 Political Factors

(1) Government Support: The government of Bangladesh has implemented policies and initiatives to promote SME banking and financial inclusion. This includes establishing dedicated institutions, such as the SME Foundation and the Bangladesh Bank's SME and Special Programs Department, to provide support and financing options for SMEs. Since the restoration of democracy in 1991 the Government has encouraged more people to become entrepreneurs stating the Government has equipped them with the necessary tool and made it easier for banks to do SME banking which was implemented from the year 1993. As such increase in no. of SME borrowers leads to financial develop to decrease in poverty.

(2) Regulatory Environment and Diplomacy: The government has created a favorable regulatory environment for SME banking, including relaxed lending requirements, simplified loan procedures, and incentives for banks to allocate a certain portion of their portfolio to SMEs. This encourages financial institutions to focus on SME lending and enables easier access to credit for small businesses. Better relation with neighboring countries is needed to boost SME exports further to increase the GDP. The European Union provides GSP facilities to Bangladesh but the US stopped doing so in 2013 due to the Rana Plaza disaster. No such industrial hazards have taken place since and it is recommended that the US resumes GSP facilities.

(3) Policy Stability: Consistency and stability in government policies are essential for the long-term development of SME banking. However, due to frequent clashes and conflicts of interest among the political parties in Bangladesh and also pressure from foreign powerful countries, political instability often persists especially in the election years often leading to violent clashes between the country's three major political parties, namely the Bangladesh Nationalist Party, the Bangladesh Awami League and the Bangladesh Jamaat-e-Islami that leads to deaths and destructions while frequent general strikes by the political parties hamper day to day business activities causing economic losses.

4.2.1.2 Economic Factors

(1) Sustainable Economic Growth: Bangladesh has been experiencing tremendous long-term economic growth, which provides a sustainable environment for SME banking. The expansion of SMEs contributes to overall economic development, job creation, and increased income levels, which in turn can help alleviate poverty and promote financial development. The figure by world bank illustrates Bangladesh's increasing trend rising per capita GDP.

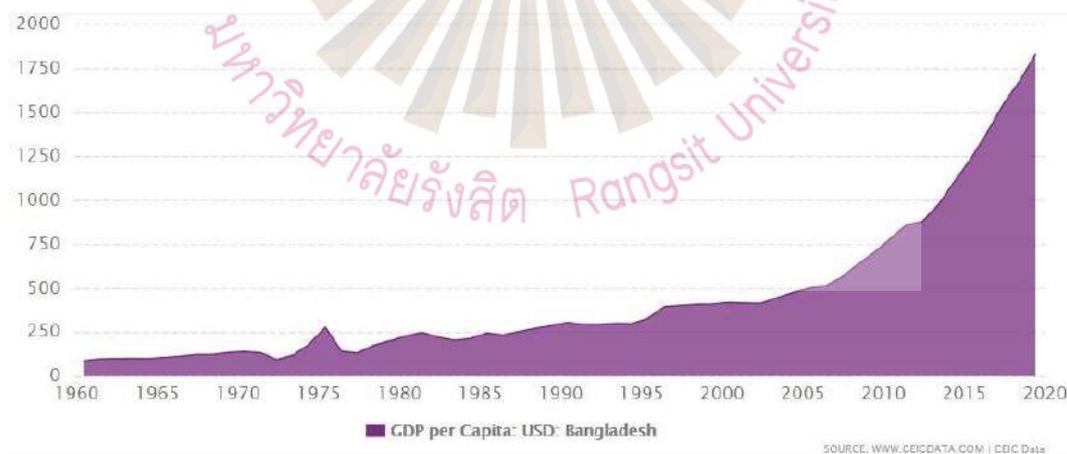


Figure 4.2 Bangladesh's increasing trend of per capita GDP

Source: CEIC, 2022

(2) Easy access to Finance: SME banking increases access to finance for small businesses, enabling them to invest in productive activities, expand

operations, and create employment opportunities. By providing tailored financial products and services, such as microcredit, working capital loans, and business advisory services, SME banking helps foster entrepreneurship and economic self-sufficiency and promotes the ease of doing business by investing the SME loans through SME banking and creating entrepreneur.

(3) Financial Inclusion: SME banking plays a vital role in promoting financial inclusion by reaching previously underserved segments of the population, including women entrepreneurs and rural communities. By extending financial services to these marginalized groups, SME banking helps reduce income inequality and provides opportunities for social and economic mobility. It is highly recommended that deprived transgender people also be prioritized under the SME schemes so that entrepreneurs will be created at a faster rate.

(4) Opening of New Bank branches: Though opening of new bank branches may lead to provide better services to the clients, but if SME banking is not properly disbursed and effectively monitored and evaluated by the new bank branches then no. of bank branches cannot have impact on poverty reduction. There is no relationship between increase in no. of bank branches (bank growth) offering SME loan and poverty reduction is accepted.

(5) Export sector: When SME products being exported to the abroad then it will have positive impact on the foreign exchange earnings. After sales service, export proceed should be come into the country by the official channel. Proper steps to export by the SME sector needs advocacy and technical knowledge. This will in turn help to rise living standard and reduce poverty. Increase in SME exports lead to financial development and decrease in poverty.

4.2.1.3 Social Factors

(1) Social Stratification: SME banking contributes to poverty reduction by providing access to finance for small and medium enterprises, which are often owned by low-income people. By offering affordable credit, savings accounts, and financial literacy programs, SME banking empowers these individuals to start businesses, generate income, and improve their living standards within the social

stratification. Have nots get priorities when SME banking is done effectively and efficiently.

(2) Unemployment Reduction: Small and medium-sized enterprises are significant contributors to job creation in an over populated country like Bangladesh where it is difficult to secure formal employment. SME banking facilitates access to capital for these businesses, enabling them to expand operations, hire more employees, and contribute to employment generation, which is crucial for poverty reduction. As such increase in the no. of SME loan disbursed lead to poverty reduction.

(3) Women Empowerment and Gender inclusiveness: SME banking played a crucial role in promoting gender equality and women's empowerment in keeping with SDG 5. By providing financial services directed to the requirements of women entrepreneurs, such as microloans and training programs, SME banking encourages and enables women to participate in economic activities, gain financial independence, and contribute to poverty reduction. However, as men and women succeed in the SME sector, the transgender community is lagging behind and special SME banking credit schemes for the transgender community is recommended.

4.2.1.4 Technological Factors

(1) Digital Transformation: The progress of technology, including the introduction of mobile banking and digital financial services, has the capability to improve SME banking in Bangladesh. Through the utilization of technology, small and medium-sized enterprises (SMEs) can conveniently avail themselves of financial services, resulting in decreased transaction expenses and enhanced operational efficiency and effectiveness so that innovative entrepreneurs can play catalyst role.

(2) Financial Technology Innovation: The emergence of financial technological startups and innovative financial technologies can complement SME banking services. One of the biggest barriers of NGOs and MFIs in Bangladesh is technological lag. Formal banks are better equipped with technology and provide special online solutions for SME investment such as mobile banking, online product sales, peer-to-peer lending platforms, online payment systems, and digital credit scoring, can

expand the reach of SME banking, particularly in underserved areas, and improve financial access for small businesses.

(3) Infrastructure Development: Continued investment in infrastructure, including reliable internet connectivity and digital infrastructure, is essential for the growth of SME banking. Access to technology and digital platforms is crucial for expanding financial services to remote areas and reaching a larger number of SMEs, thereby contributing to financial development and poverty reduction. The Padma Bridge is an embodiment of the Financial Development of Bangladesh as it increased connectivity between the north and south and paved the way for easier SME business facilities. Now railway in the Padma bridge has been started.

4.2.1.5 Legal Factors

(1) A supportive legal and regulatory framework is essential for the development of SME banking. Clear and transparent regulations, consumer protection laws, and proper enforcement mechanisms ensure the stability and integrity of the financial sector, fostering trust and confidence among SMEs and financial institutions. Favorable legislation and policies for SME banking and SME operations are crucial for financial development and poverty reduction in Bangladesh. Bangladesh suffers from problems of loan defaulting and money laundering.

(2) Anti-Money Laundering (AML) and Know Your Customer (KYC) Compliance policies must be implemented to create a corruption-free atmosphere that is favorable for business in Bangladesh and that will encourage both domestic and foreign investors to have faith in SMEs and other business ventures within the nation. Intellectual property rights protection plays a role in promoting innovation and creativity in the SME sector. Safeguarding intellectual property rights encourages SMEs to invest in research and development, fosters technological advancement, and promotes financial development and poverty reduction. Any form of legal restrictions on SME banking should be lifted and made flexible and SME banking should also have legal protections from frauds, extortionists, and cybercriminals. More business-friendly legislations are needed along with cyber laws that cater to the needs of the 21st-century

digital revolution and the COVID-19 pandemic showed how online business SME banking helped sustain economic growth.

4.2.1.6 Environmental Factors

In the 21st century in response to the adverse impact of climate change, SME banking is increasingly focusing on establishing ecofriendly green SMEs. But this is a new phenomenon and its potential impact is yet to be observed. An example of a Green SME is Bamboo Home. They Produce home goods made from bamboo, a highly renewable resource, including kitchenware and textiles that are eco-friendly and biodegradable.

4.2.2 SME Banking Needs Following Technique

- 1) SME Banking Strategies, Rules and Regulations.
 - (1) Recognizing the Goal.
 - (2) Shaping Loan Proportions and Persistence.
- 2) Set Reasonable Interest Rates and Charges.
 - (1) Provided that Elastic Repayment Terms and conditions.
 - (2) Contribution Monetary literacy.
- 3) Measurements Structure.
- 4) Safeguarding Loans with Elastic Choices.
 - (1) Loan Distribution and Intensive care, Evaluation.
 - (2) Avoiding Avoidances and Contribution.
 - (3) Provision Teamwork with SME banks.
- 5) Incessant Upgrading Procedure.
- 6) SME loan taker's performance evaluation in building SMEs.

Chapter 5

Conclusion, Recommendations, and Future Research Work

This chapter is written based on research question “How does SME Banking help Bangladesh in achieving Financial Development and Poverty Reduction in Bangladesh through Entrepreneurship creation?” of the study and consequently discussion on Chapter 1-5.

5.1 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 the financial development of the nation by helping the poor people of the country through the Microfinance system after the independence of the country. By the 21st century formal banks undertook the program under their SME banking scheme. Not only did they ensure access to credit for the poor and underprivileged people, but they also ensured that SME loans taken under the SME banking program would be properly utilized to create small and medium entrepreneurs in the nation through strict monitoring and records of the utilization of SME loans under the SME banking program. As Bangladesh is a small country but overpopulated nation which causes high unemployment and underemployment in the nation try to remove poverty through creation of entrepreneurship development.

Inchauste and Olivieri (2014) suggestion regarding poverty reduction in Bangladesh may be considered to imply at the policy level. Baumol (1968) described that reassurance of the entrepreneur is the important to the inspiration of progress which needs to establish in Bangladesh for which financial inclusion is being needed by SME banking which in turn reduce poverty and develop financial sector. Corruption free financial sector is being needed for the country for which strategic plan must be taken

by the Ministry of Finance, Government of Bangladesh and the plan must be executed through using P-D-C-A (Plan-Do-Check-Act).

The Government of Bangladesh has encouraged more people to become entrepreneurs. As there is already so much work on microcredit programs of NGOs and MFIs, this study especially focused on SME banking is provided by formal banks. SME banking is seen as one of the most successful tools in the process of poverty reduction and financial development. Under the qualitative analysis, the study found the Strengths (Strong Government Support, Microfinance Institutions, Local Market Knowledge, and Better Technology Adoption and Digital Banking Services) and weaknesses (Limited Access to Formal Financing, Technological Lag of the General Population, Skill Gaps, and Regulatory Constraints), Opportunities (Financial Inclusion, International Trade, Sector-Specific Financing, and Partnerships and Collaborations) and Threats (Political and Economic Instability, Competition from Informal Sector, Environmental and Climate Risks and Cyber Security Risks).

The PESTLE analysis gave an elaborate review of the optimal conditions for the optimal functioning of SME banking within the political, economic, social, technological, and legal landscape of Bangladesh a qualitative analysis support quantitative analysis. A community development can well work through combined effort among anthropology, sociology, economy, and development studies to achieve better livelihoods and generate expansion challenges from the core to the periphery of Bangladesh. Sustainable development and poverty reduction critical challenges to finding a new balance between economic goals and the social protection in the Bangladesh's population. SME banking platform does is applications that ease the process of investment by enabling users to save and invest small amounts of money periodically which ultimately give scope for financial access and create the opportunity of financial development. Schumpeter (2008) highlighted the need for creativity and innovativeness to attain economic development for reduction of poverty. As such new idea must be generated and entrepreneurial financing is necessary. SME banking may play laudable venture provided that financial inclusion of the bottom of the pyramid is

needed. Good governance and strong development performance, fairness, transparency and accountability, rule of law, efficient and effective service delivery, administrative competence, civil liberties, and participation must be guaranteed in Bangladesh.

From the quantitative analysis using the ARDL model, it has been observed that over the short-term SME banking plays a tremendous role in poverty reduction and financial development. However, in the long run, ARDL model, it has been observed that the role of SME banking in the poverty rate and financial development is rather uncertain. It is true with rising annual SME loan disbursement poverty rate is falling, however increase in no of SME bank borrowers and the growth of bank branches offering SME banking have minimal impact on poverty reduction in the long run. 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 the inflationary crisis. But as noted that SME products make up 75 percent to 80 percent of the total export earning of the country, and SME sector makes up 90 % of industrial employment, with the industrial sector contributing to 31% of the GDP of the nation as of 2021, we have observed that raising total exports of the country is leading to poverty reduction and financial development in the long run and SME product exports make up the lion share of total exports in the nation and create more employment opportunities for people in the SME ventures. Thus, SME banking is not only helping reducing 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 the 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. Beck's (2013) literature review gives an idea about how the banking sector helps the SME sector through financing which is important for financial development. 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” and its targets to its fullest extent with the aid of SME banking. Wang et al. (2023) suggestion to ensure strengthening investor protection to promote SME growth and development in Bangladesh must be executed to save poor people. Micro financial institutions and SME banking’s must work positively to enhance entrepreneurship which in turn helps to reduce poverty in Bangladesh and influence on economic growth as evident from the research work which support the findings of Ajide and Dada (2023). Without poverty reduction ,socio-ecological, anthropological balances and economic condition cannot be improved. Asratie (2021)’s observation in Ethiopia is partially found true in Bangladesh as short run the studied model of this research work is found significant. The reason is in Bangladesh, most of the policies are taken for short run procedure especially temporally to drive out poverty and on the basis of the ad hoc basis. The more people can come out vicious circle of the poverty, the stability of the society and corruption free society can be ensured. Gender balances and women empowerment may be achieved through SME banking. Entrepreneurship has a twin influence on welfare: economically, by generating income and employment, and socially, through nurturing empowerment, mostly among marginalized collections corresponding women which in turn helps development of the financial sector. These findings align with theories that posit entrepreneurship as a vehicle for social change and inclusion. Removing income inequality, attaining social justice, and growing with equity are essential to reduce poverty for which establishment of self-sufficient and market-driven small and medium enterprises need to be established by NGO-Bank integrated method for which financial inclusion is vital and in turn will help to continue financial development process of the country and as entrepreneurs generate income rising per capita income of the nation will pave the way for Bangladesh’s LDC graduation in 2026.

5.2 Recommendations

From this study researcher can recommend the following:

1) Keynesian, neo-Keynesian, classical, and neo-classical policies, as well as neo-liberalization policies, should be implemented based on the specific development needs of a country to effectively reduce poverty. These policies must align with the principles of community development and aim to maximize the appropriateness of interventions to address poverty-related challenges. Additionally, policymakers should act as key actors in formulating and implementing these policies, ensuring their relevance and effectiveness in achieving poverty reduction goals. To reduce poverty, financial inclusion is being required so that unbanked people get the opportunities to raise their income level, wellbeing and as such SME banking acts as a segment to help the deficit unit of the community by utilizing SME loans.

2) Continue both joint public-private partnership support for SME banking and entrepreneurship creation in Bangladesh for poverty reduction and financial development of the nation. Among State-owned private commercial banks and foreign commercial banks must provide SME banking facilities to needy people without any sort of corruption. Foreign commercial banks in Bangladesh must give more SME banking facilities. The banking sector of the country needs to be corruption-free and reform is needed. Out of the sixty-two commercial banks, those that are weak need to be merged and an ombudsman need to be assigned in the banking sector of the country. The banking sector must take the policy towards poor people and more financing cottage, micro, and small enterprises than the large volume of enterprises.

3) Reduce interest rate, as the recent hike in interest rates of many NGOs and MFIs is discouraging entrepreneurs, thus formal banks should take lead and provide SME banking facilities at a lower interest rate than NGOs and MFIs to attract more SME loanees.

4) Diminishing loan defaulting and other forms of corruption in the banking sector to attract more SME loan borrowers and investors in SME projects. Loan defaulting is causing inflationary pressure in the country and is also hampering SME bank loan provision due to the rich corrupt loan takers defaulting the poor SME loan

takers often fall victim to mistrust, and as the Government is forced to print more money to compensate it, the value of Bangladesh Taka diminishes as people's income become stale while the price of essentials including food rises.

5) Encourage more people to take SME loans and become small and medium entrepreneurs and provide other people employment opportunities in their SME ventures through proper advertisement tailored to their targeted business plans and industry expertise. Green investment must be encouraged by providing SME loans.

6) Reduce public-private disparity, as in recent years the private sector is being heavily undermined in favor of the public sector. Both sectors should be equally treated for the financial development and poverty reduction of the country and adequate investment in SME banking and its facilities can be spread to grass root people.

7) As SME products make up the lion's share of Bangladesh's total exports, it is recommended that the United States restore the GSP facilities they revoked in 2013 citing unsafe working conditions after the Rana Plaza Disaster, as no such structural disasters happened since then and it is requested that GSP facilities and other trade liberalization priority is given for the sake of the financial development of Bangladesh by trading SME products abroad. After 2026, so that facilities can be attained from Europe and the USA, measures need to be taken.

8) Take full advantage of digitalization in the era of the 4th Industrial Revolution. We have seen that formal banks offering SME banking are far ahead in terms of technology than NGOs and MFIs experiencing technological lags, which was a huge barrier for microfinance beneficiaries in the COVID-19 period. However, SME banking remained strong due to digital and mobile banking facilities and SME loan takers were able to make necessary transactions sitting at home. The SME beneficiaries should be exposed to online business platforms to sell their product online, which many have done during the COVID-19 pandemic and helped keep Bangladesh maintain a stable economic growth while other South Asian countries struggled during that period.

9) Make more media-based advertisements for the poor people to become SME loan takers and engage in SME building to uplift themselves from poverty. Conduct outreach programs to raise awareness about SME banking and its benefits.

Create networking opportunities and platforms for SMEs to connect with investors and industry experts.

10) Provide 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 and as their income increases so will the per capita income of Bangladesh contributing to the financial development and poverty reduction of the countries for which proper training in running and functioning SMEs is essential.

11) Conduct further research on SME banking and its role in poverty reduction and financial development of a nation and generate policies that would not only allow SME banking to thrive domestically but expand internationally taking lessons from the success stories of SME banking thus far and how prominent it has been in Bangladesh's journey towards achieving the status of a wealthy middle-income country. For the sake of poverty reduction and financial development through SME banking future research on the area is crucial for proper policy making and policy implementation.

12) Most Microfinance and SME Banking programs are financially inclusive and help achieve women's empowerment. It is time to focus on the deprived transgender community to help them build sustainable small and medium enterprises through SME banking facilities generate income and contribute to poverty reduction and financial development of Bangladesh.

13) Financial development plays a crucial role in supporting small and medium enterprises (SMEs) by enabling the emergence of entrepreneurs who can create job opportunities, both for themselves through self-employment and for others within their organizations. This process requires the collaboration and support of various stakeholders, including commercial banks, non-bank financial institutions, and non-governmental organizations (NGOs). By working together and complementing each other's efforts, these entities can facilitate the growth and success of SMEs. The third sector, consisting of NGOs and other non-profit organizations, has a vital role to play in fostering a positive environment and actively contributing to this collaborative endeavor.

14) The discourse on poverty eradication necessitates the inclusion of financial services and the upliftment of individuals in low-income brackets, enabling them to enhance their lifestyles through engagement in income-generating activities. Adopting a welfare-oriented approach, it is crucial to ensure at least Pareto optimality at the micro level, while concurrently strengthening the micro foundation of the macroeconomy. Political economy considerations should be considered to guarantee legality, employability, and sustainable economic dynamics that promote growth with equity.

15) For entrepreneurship development especially among the youth may get training and learning -education from different educational-vocational institutes must be established and after completion of education/learning /training youth must get finance from the banks or NGOs as seed money or start-up financing for which policy must be taken by the Govt. and target group must get the loan so that they can positively act to drive out poverty by engaging community development process and ultimately impact of financial development of the economy.

16) Continuous development programs must be ensured by the policymakers to decrease poverty-prone people through arranging lending from the market-based interest rate as per Mckinnon (1973) and financial literacy must be increased with the help of financial intermediation so that financial deepening may take place in the society.

17) Sustainable development goals and targets aligned with poverty reduction may be encouraged by the Government of Bangladesh so that both the top-down approach and the bottom-up approach can work jointly through horizontal and vertical integration. Growth with equity must be ensured.

18) In Bangladesh, endorsing superior inclusiveness of women and speaking about the unique challenges they express is nonimpartial a substance of social justice nonetheless a vital plan for operative poverty reduction. SME banking has a vigorous part in this endeavor. By concentrating on economic empowerment, enlightenment, health care, and encouragement, training SME banking can assist in generating a setting where women can flourish and contribute to the country's progress. As Bangladesh endures to attempt at financial development and community

advancement, participating women's requirements and abilities in strategy agendas can ensure that the assistance of expansion is justifiably collective, thus escalating the influence of poverty reduction efforts by financial development.

19) In light of the PESTLE analysis done by the researcher in this study, strategies must be formulated under the forthcoming National five-year plan of the country to create employment opportunities, especially in the formal sector and also informal sector which must be endorsed by the financial and non-financial institutions. Financial and non-financial institutions must work towards pro-poor people but not defaulters which the current trend of the country is visible.

20) Models of any NGOs and Banks should be modified with the advent of the time so that benefits can be enjoyed by the rural people and urban downtrodden people of the country. They can be uplifted their status to middle-income class people for which Indigenous people, widows, sex workers, third gender, coastal people, flood affected people, those who migrate from one place to another within the country due to pauper lifestyle etc. can get priority through access to the financial inclusion process. As their income level rises through creating income opportunities by establishing income-generating activities by entrepreneurship then a constructive financial development process can be attained.

21) Utilize the Sen index provided by Nobel Laureate Economist Amartya Sen for an in-depth measure of poverty adjusted for inequality rather than a simple headcount index of poverty to ensure fair distribution of wealth and income and growth with equity.

22) Commercial banks and NGOs should work collaboratively through microcredit and SME banking in the formal, semi-formal, and informal sectors so that grand utility can be ensured in the social indifference curve for maximizing the level of satisfaction of the population through increasing their wealth which will in turn increase the aggregate wealth of Bangladesh in its path to LDC Graduation in 2026.

23) Restore a free market economic system that will allow banks to function smoothly and provide SME banking opportunities at optimum efficiency, and SME loan takers can freely utilize their SME loans optimally to become successful entrepreneurs.

5.3 Future Research Work

In future research, scholars can conduct a comprehensive study to explore the implications following Bangladesh's LDC graduation in 2026. This research can involve examining the cross-country socio-economic scenario using simultaneous equations over a specific period to understand how enterprises, through financial development, can contribute to poverty reduction and address the basic needs of diverse socio-economic and cultural dimensions within countries that have varying political will and structures. Policy actors' role to reduce poverty through SME Banking for financial development must be assessed. Additionally, it would be valuable to investigate the structural changes occurring in different countries as a result of significant adverse events during the 2020s decade, such as the COVID-19 pandemic, the post-pandemic "new normal" situation, and the Russia-Ukraine war, and conflict between Israel and Palestine, which have all disrupted the global supply chain. These themes offer promising avenues for future research, shedding light on the interplay between economic development, poverty reduction, political dynamics, and global events. The attainment of the Sustainable Development Goals by 2030 needs to be continuously monitored and a comparative study to observe the progress of Bangladesh alongside other countries may be undertaken. Both qualitative and quantitative research methods can be employed to enhance the economic triangle. Additionally, exploring the potential of a circular economy as a positive catalyst for improving livelihoods, increasing purchasing power parity, and achieving a balance between aggregate demand and aggregate supply in the global context is essential. These research approaches can contribute to a comprehensive understanding of the factors influencing economic growth. Studies should be undertaken on the long-term sustenance of financial development through rising per capita income of the people through entrepreneurship creation using SME banking. Beside achieving financial development, there should be reduction in inequality and as suggested in the study the Sen index proposed by Nobel laureate Amartya Sen which incorporates inequality should be used to measure poverty rather than standard headcount index, the reluctance of global politicians to use it is frustrating, due to lack of annual data within this index it could not be utilized in present

studies as of 2023, the United Nation must standardize the Sen Index to measure poverty taking into account inequality to ensure financial inclusion and growth with equity for all and upon the achievement of Bangladesh's LDC Graduation and the achievement of the Sustainable Development Goals future studies on poverty reduction and financial development should use the Sen index as the ideal measure of poverty rate to ensure the equal fair distribution of wealth of the nation. As per Vision 2041 Bangladesh is expected to become a high-income country by 2041, this study focused on the roadmap to Bangladesh's LDC graduation by virtue of poverty reduction and financial development through Entrepreneurship by utilizing SME banking; future studies should give a road map to Bangladesh's attainment of the status of a wealthy prosperous high-income country by 2041 which will give Bangladesh 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.



References

- Abdin, M. D. J. (2016). Challenges to Internationalize Bangladeshi SMEs. *Arts and Social Sciences Journal*, 7(6). <https://ssrn.com/abstract=2897965>
- Adenutsi, D. E. (2023). Entrepreneurship, Job Creation, Income Empowerment and Poverty Reduction in Low-Income Economies. *Theoretical Economics Letters*, 13, 1579-1598. <https://doi.org/10.4236/tel.2023.136089>
- Ahammed, B., & Seddiqe, M. M. I. S. (2015). Impact of Micro-Credit Management System of an NGO in Socio-Economic Development of Rural Women in Perspective of Bangladesh. *Global Journal of Human-social Science: C, Sociology & Culture*, 15(2), 1-9.
- Ahlburg, D. A. (1996). Population growth and poverty. In *The impact of population growth on well-being in developing countries* (pp. 219-258). Berlin, Heidelberg: Springer Berlin Heidelberg. https://doi.org/10.1007/978-3-662-03239-8_7
- Ahmed, H. (2004). *Role of zakah and awqaf in poverty alleviation*. Jeddah: Islamic Development Bank, Islamic Research and Training Institute.
- Ahmed, N., Hossain, M., & Hossain, I. (2018). Women Entrepreneurs in SMEs: Bangladesh Perspective. *Dhaka, Bangladesh: BIDS*, 11, 6-30.
- Ahmed, S. (2015). *Growth with Equity: Contemporary Development Challenges of Bangladesh*. Dhaka, Bangladesh: Bangladesh Institute of Bank Management.
- Ajide, F. M., & Dada, J. T. (2023). Poverty, entrepreneurship, and economic growth in Africa. *Poverty & Public Policy*, 15(2), 199-226. <https://doi.org/10.1002/pop4.368>
- Akber, S. M., Shabnam, S., & Roy, A. (2023). Present Condition & Contribution of SME Financing in the Economy of Bangladesh: A Study on Three Selected Banks. *Journal of Finance and Economics*, 11(4), 182-194. doi:10.12691/jfe-11-4-1

References (Cont.)

- Aksakal, S. B. (2018). Neoliberalism after the Washington Consensus: An evaluation in the context of the World Bank's development discourses. *AkademikAraştırmalarveÇalışmalarDergisi*, 10(19), 364-380.
- Al-Amin, M., & Mamun, H. (2022). Exploring the Impact of Microfinance on Socio-Economic Development: Empirical Evidence from Balunnagar Village. *International Journal of Social Science and Human Research*, 05(04), 1278-1287. <http://dx.doi.org/10.47191/ijsshr/v5-i4-10>
- Ali, M. M. (2001). *Determinants of Supply and Demand for Money: A Case Study of Bangladesh*. Bangladesh: Student Ways.
- Ali, N. M. (2020). Political economy of role of income generating programs of selected NGO's creating entrepreneurs in rural Bangladesh: An empirical analysis. *International Journal of Trade & Commerce-IIARTC*, 9(2), 437-457.
- Ali, N. M., & Wanasilp, W. (2021). Role of the NGO "Desha" in creating entrepreneurship in Bangladesh: an empirical analysis. *ARF India: Journal of Global Economy, Trade and International Business*, 1(2), 97-126. <https://doi.org/10.47509/JGETIB.1.2.2021.97-126>
- Arasteh, H., Enayati, T., Zameni, F., & Khademloo, A. (2012). Entrepreneurial personality characteristics of university students: A case study. *Procedia - Social and Behavioral Sciences*, 46, 5736-5740. <https://doi.org/10.1016/j.sbspro.2012.06.507>
- Asratie, T. M. (2021). Determinants of financial development in Ethiopia: ARDL approach. *Cogent Economics & Finance*, 9(1), 1963063. <https://doi.org/10.1080/23322039.2021.1963063>
- Bangladesh Bank. (2023). *Banks & FCs*. Retrieved from <https://www.bb.org.bd/en/index.php/financialactivity/bankfi>
- Bangladesh Economic Review. (2022). *Poverty Alleviation*. Retrieved from https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/f2d8fabb_29c1_423a_9d37_cdb500260002/22_BER_22_En_Chap13.pdf

References (Cont.)

- Barkat, A., Karim A., & Hussain, A. A. (2011). *Social protection measures in Bangladesh: As means to improve child well-being*. Dhaka, Bangladesh: Pathak Shamabesh.
- Baumol, W. J. (1968). Entrepreneurship in Economic Theory. *The American Economic Review*, 58(2), 64-71.
- Bayar, A. A. (2023). The impact of financial development on income inequality and poverty. *Plos one*, 18(10), e0291651. <https://doi.org/10.1371/journal.pone.0291651>
- Beck, T. (2013). Bank financing for SMEs—lessons from the literature. *National institute economic review*, 225(1), R23-R38. <https://doi.org/10.1177/002795011322500105>
- Begum, L. A., Talukder, M. S., Rahman, M. M., Das, R. C., Bhattacharjee, P., & Miah, M. N. (2022). Estimating the contribution of SMEs output on GDP growth in Bangladesh: A VECM Approach. *Special Research Work-SP*, 2, 1-16. https://www.bb.org.bd/pub/special/smeoutputongdp_nov2022.pdf
- Bhattacharya, D., & Khan, T. I. (2008). Pro-poor Economic Growth in Bangladesh: Exploring Growth and Inequality Linkages in Poverty Reduction. In S. R. Osmani (Ed.), *Emerging Issues in Bangladesh Economy: A Review of Bangladesh's Development 2005-2006*(pp. 1-354). Dhaka: Centre for Policy Dialogue (CPD) and The University Press Limited (UPL).
- Bhattacharyya, A., Lovell, C. K., & Sahay, P. (1997). The impact of liberalization on the productive efficiency of Indian commercial banks. *European Journal of operational research*, 98(2), 332-345. [https://doi.org/10.1016/S0377-2217\(96\)00351-7](https://doi.org/10.1016/S0377-2217(96)00351-7)
- Billah, M. (2021). Bank's Participation in SME Financing: Obstacles to Small Enterprises in Bangladesh and its Remedy. *International Journal of Multidisciplinary Research and Publications (IJMRAP)*, 4(16), 12-19.

References (Cont.)

- Boyles, T. (2012). 21st century knowledge, skills, and abilities and entrepreneurial competencies: a model for undergraduate entrepreneurship education. *Journal of Entrepreneurship Education, 15*, 41-55.
- Branko, M. (2011). *The Haves and the Have-Nots. A Brief and Idiosyncratic History of Global Inequality*. New York: Basic Books.
- Caporale, G. M., Rault, C., Sova, A. D., & Sova, R. (2009). *Financial development and economic growth: Evidence from ten new EU members* (Discussion Papers No. 940). DIW Berlin: German Institute for Economic Research.
- Carter, S., Kuhl, A., Marlow, S. & Mwaura, S. (2017). Households as a Site of Entrepreneurial Activity. *Foundations and Trends in Entrepreneurship, 13*. 81-190. <https://doi.org/10.1561/03000000062>.
- CEIC. (2022). *Bangladesh GDP per Capita*. Retrieved from <https://www.ceicdata.com/zh-hans/node/1365>
- Chowdhury, M. A., & Salman, M. A. G. (2018). A comparative analysis on sector-based SMEs in terms of loan disbursements by financial institutions in Bangladesh. *International Journal of SME Development, 4*(1), 41-58.
- Chowdhury, M. S. A., Azam, M. K. G., & Islam, S. (2013). Problems and prospects of SME financing in Bangladesh. *Asian Business Review, 2*(2), 109-116. <https://doi.org/10.18034/abr.v2i2.111>
- Chowdhury, T. A., Das, A. B., Chakraborty, L., & Barai, M. K. (2020). NGOs for Development: Experience of Bangladesh. In M.K. Barai (Ed.), *Bangladesh's Economic and Social Progress - From a Basket Case to a Development Model* (pp. 351-379). Singapore: Palgrave Macmillan. https://doi.org/10.1007/978-981-15-1683-2_12
- De Haan, J., Pleninger, R., & Sturm, J. E. (2022). Does financial development reduce the poverty gap?. *Social Indicators Research, 161*(1), 1-27. <https://doi.org/10.1007/s11205-021-02705-8>

References (Cont.)

- Dixit, S., & Agarwal, M. (2015). A case study on microenterprise: The factors responsible for its growth and outcomes: Indian perspectives. *Daffodil International University Journal of Business and Economics*, 9(20), 50-64.
- Dunn, S. P. (2011). *The Economics of John Kenneth Galbraith*. New York, USA: Cambridge University Press.
- Dzingirai, M. (2021). The role of entrepreneurship in reducing poverty in agricultural communities. *Journal of Enterprising Communities: People and Places in the Global Economy*, 15(5), 665-683. <https://doi.org/10.1108/JEC-01-2021-0000>
- Erlando, A., Riyanto, F. D., & Masakazu, S. (2020). Financial inclusion, economic growth, and poverty alleviation: evidence from eastern Indonesia. *Heliyon*, 6(10), e05235. <https://doi.org/10.1016/j.heliyon.2020.e05235>
- Etikan, I., Musa, S. A., & Alkassim, R. S. (2016). Comparison of convenience sampling and purposive sampling. *American journal of theoretical and applied statistics*, 5(1), 1-4. <https://doi.org/10.11648/j.ajtas.20160501.11>
- Eusuf, M. A., Rana, E. A., & Rabi, R. I. (2022). The political economy of a COVID-19 stimulus package in Bangladesh: The case of women –owned enterprises. *International Journal of SME Development*, (05), 35-55.
- Fatima, K., & Ahmed, S. (2017). *The SME sector has the highest opportunity to create employment in Bangladesh: MustafizurRahman*. Retrieved from <https://cpd.org.bd/sme-sector-highest-opportunity-create-employment-bangladesh-mustafizur-rahman>
- Galbraith, J. K. (1958). *The affluent society* (2nd ed.). Harmondsworth: Penguin.
- Gautam, M., & Faruqee, R. (2016). *Dynamics of rural growth in Bangladesh: Sustaining poverty reduction*. Washington, D.C., USA: World Bank Group.
- Gentry, W. M., & Hubbard, R. G. (2004). Entrepreneurship and household saving. *Journal of Economic Analysis & Policy*, 4(1), 1-55.

References (Cont.)

- Ghobakhloo, M., Hong, T. S., Sabouri, M. S., & Zulkifli, N. (2012). Strategies for successful information technology adoption in small and medium-sized enterprises. *Information*, 3, 36-67. <https://doi.org/10.3390/info3010036>
- Golder, U., Sultana, F., Hossain, M. K. H., Hossen, M. A. & Hossain, M. (2021). Finance-growth nexus in Bangladesh: Is it important to quantify financial development? *Universal Journal of Accounting and Finance*, 9(5), 961-971.
- Goldsmith, R. W. (1969). *Financial structure and development*. USA: Yale University Press.
- Habibullah, M. (1996). A study on GB beneficiaries facing difficulties in obtaining loans. *Management Development*, 25(4), 35
- Hart, S., Sharma, S., & Halme, M. (2016). Poverty, business strategy, and sustainable development. *Organization and Environment*, 29(4), 401-415. <https://doi.org/10.2307/26164777>
- Hasan, K. (2019). SME Financing and Entrepreneurship Development in Bangladesh: An Impact Analysis. *European Journal of Business and Management*, 11(4), 51-55. <https://doi.org/10.7176/EJBM>
- Hatten, T. S. (2012). *Small Business Management Entrepreneurship and Beyond* (5th ed.). Florida, USA: South-Western, Cengage Learning.
- Honohan, P. (2004). Financial development, growth and poverty: how close are the links?. In *Financial development and economic growth: Explaining the links* (pp. 1-37). London: Palgrave Macmillan.
- Hossain, M., Yoshino, N., & Taghizadeh-Hesary, F. (2021). Optimal branching strategy, local financial development, and SMEs' performance. *Economic Modelling*, 96, 421-432. <https://doi.org/10.1016/j.econmod.2020.03.027>
- Hossen, A., & Uddin, M. M. (2024). *SME in Bangladesh-A Brief Overview of SMEs in Bangladesh: Challenges and the way forward*. Retrieved from <https://www.freiheit.org/bangladesh/brief-overview-smes-bangladesh-challenges-and-way-forward>

References (Cont.)

- Hye, H. A. (1999). *Loan Repayment Behaviour among the rural poor: action research experiences, Reducing poverty in Asia –Issues in Microcredit*. Dhaka, Bangladesh: CIRDAP press.
- Ibnat, N. (2022). *SME Activities of Grameen Bank*. Retrieved from <http://dspace.uui.ac.bd/handle/52243/2385>
- Ibrahim, S. S., Muhamat, A. A., Ahmad, M., Hassan, W. A. W., & Bakar, A. J. A. (2021). Empowering NGOs and Social Entrepreneur through Digitalization for Sustainable Socioeconomic Growth of the Society: Post Covid-19. *The Empirical Economics Letters*, 20(2), 215-225.
- Iheonu, C. O., Asongu, S. A., Odo, K. O., & Ojiem, P. K. (2020). Financial sector development and Investment in selected countries of the Economic Community of West African States: empirical evidence using heterogeneous panel data method. *Financial Innovation*, 6(1), 29. <https://doi.org/10.1186/s40854-020-00195-0>
- Inchauste, G., & Olivieri, S. (2014). Understanding Poverty Reduction in Bangladesh: A Micro-Decomposition Approach. *Bangladesh Development Studies*, 37(1-2), 21-56.
- International Finance Corporation. (2010). *The SME Banking Knowledge Guide: IFC Advisory Services, access to finance* (2nd ed.). Washington, D.C., USA: International Finance Corporation.
- Islam, K. A. (2017). Development of Bangladesh through SMEs Financing: A Case Study on IDLC Finance Limited. *Australian Finance & Banking Review*, 1(1), 78-90 <https://doi.org/10.46281/afbr.v1i1.1237>
- Islam, M. R. (2015). NGOs' social capital development initiatives for social welfare: Bangladesh experience. *Global Social Welfare*, 2, 167-176. <https://doi.org/10.1007/s40609-015-0034-0>
- Karim, A. (2016). Government-sponsored poverty reduction fund. In A. A. Muhith, Q. K. Ahmadand, & S. Ahmed (Eds.), *The PKSF experience, Bangladesh's Development* (p.398). Dhaka, Bangladesh: Palok Publishers.

References (Cont.)

- Karim, R. (2010). *Foreign banks hardly lend money to SMEs, The Financial Express*. Retrieved from <https://today.thefinancialexpress.com.bd/last-page/foreign-banks-hardly-lend-money-to-smes-1544378267>
- Khaled, K. I. (1995). NGO-FI cooperation in Bangladesh. *Journal of the Institute of Bankers Bangladesh*, 42, 5-6.
- Khanam, D., Mohiuddin, M., Hoque, A., & Weber, O. (2018). Financing micro-entrepreneurs for poverty alleviation: a performance analysis of microfinance services offered by BRAC, ASA, and Proshika from Bangladesh. *Journal of Global Entrepreneurship Research*, 8(27), 1-17. <http://dx.doi.org/10.1186/s40497-018-0114-6>
- Kheir, V. B. (2018). The nexus between financial development and poverty reduction in Egypt. *Review of Economics and Political Science*, 3(2), 40-55.
- Kirkpatrick, C., Sirageldin, I., & Aftab, K. (2000). Financial Development, Economic Growth, and Poverty Reduction [with Comments]. *The Pakistan Development Review*, 39(4), 363-388.
- Kirzner, I. M. (1973). *Competition and Entrepreneurship*. University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship. Retrieved from <https://ssrn.com/abstract=1496174>
- Knight, F. H. (1925). Economic Psychology and the Value Problem. *The Quarterly Journal of Economics*, 39(3), 372–409. <https://doi.org/10.2307/1882434>
- Kumar, R. (2021). *Poverty literature review summary: Small and Medium Enterprise (SME) finance and poverty reduction* (Working Paper No. 116593). Retrieved from <http://documents.worldbank.org/curated/en/948201500622368792/Poverty-literature-review-summary-small-and-Medium-Enterprise-SME-finance-and-poverty-reduction>

References (Cont.)

- Landes, D. S. (1999). *The Wealth and Poverty of Nations*. New York: W.W. Norton & Company Ltd.
- Lewis, D. (2012). *Bangladesh-Politics, Economy and Civil Society*. New Delhi, India: Cambridge University Press.
- Lipton, M. (1986). Seasonality and Ultrapoverty. *IDS Bulletin*, 17(3), 4-8.
<https://doi.org/10.1111/j.1759-5436.1986.mp17003002.x>
- Ma'ruf, A., & Aryani, F. (2019). Financial inclusion and achievements of sustainable development goals (SDGs). *Asean Journal of Business and Economics Review*, 4(4), 147-155. [http://dx.doi.org/10.35609/jber.2019.4.4\(1\)](http://dx.doi.org/10.35609/jber.2019.4.4(1))
- Macrotrends. (2022). *Bangladesh GDP Growth Rate 1961-2022*. Retrieved from <https://www.macrotrends.net/countries/BGD/bangladesh/gdp-growth-rate>
- Maloney, C. (1986). *Behavior and Poverty in Bangladesh*. Dhaka, Bangladesh: The University Press Limited (UPL).
- Mamun, A. A., Hoque, H. A. A. B., & Ahmad, S. (2002). International replication of Grameen Bank -A framework for poverty Alleviation. *Journal of the Institute of Bankers Bangladesh*, 49, 47-48.
- Manzoor, F., Wei, L., Nurunnabi, M., & Subhan, Q. A. (2019). Role of SME in poverty alleviation in SAARC Region via Panel data analysis. *Sustainability*, 11(22), 1-14. <http://dx.doi.org/10.3390/su11226480>
- McKinnon, R. I. (1973). *Money and Capital in Economic Development*. USA: Brookings Institution.
- Mehta, S. K., & Das, M. B. (2012). *Poverty and social exclusion in India* (2nd ed.). Oxford, United Kingdom: Oxford University Press.
- MIDAS. (2009). Women Entrepreneurs in Bangladesh: Opportunities, Challenges and the Way Forward. *SME Foundation*, 105-106
- Mohiuddin, M., Islam, M. S., & Uddin, M. T. (2017). Poverty, Food Security Status and Coping Strategies of Small Farm households in Mymensingh region of Bangladesh. *Bangladesh Journal of Political Economy*, 31(5), 220-221.

References (Cont.)

- Morris, M. (2022). *Entrepreneurship and the Poverty Experience*. *Oxford Research Encyclopedia of Business and Management*. Retrieved from <https://oxfordre.com/business/view/10.1093/acrefore/9780190224851.001.0001/acrefore-9780190224851-e-357>
- Msomi, T. S. (2023). The effect of interest rates on credit access for small and medium-sized enterprises: A South African perspective. *Banks and Bank Systems, 18*(4), 140-148. doi:10.21511/bbs.18(4).2023.13
- Nabi, N. (1995). Economic restructure and the smaller business: lessons of the UK and Gujarati experience with reference to small enterprise development in Bangladesh. In R. H. Greive & M. Huq (Eds.), *Bangladesh Strategies for Development* (p. 190). Dhaka, Bangladesh: University Press Limited.
- Nawaz, A. S. M. S., & Nawaz, F. (2008). Impact of small medium enterprise program on socioeconomic development of poor women in Bangladesh: A case study on SME program of BRAC Bank. *Independent Business Review, 1*(2), 54-70.
- Nazamuddin, B S. (2023). *Re: Is it possible to use the ARDL approach?*. Retrieved from <https://www.researchgate.net/post/Is-it-possible-to-use-the-ARDL-approach/646aaef60870da5e2a0aceac/citation/download>
- Nehereen, K. (2010). SME financing and its impact on financial performance: a case study on Dhaka bank ltd. *Management Development, 27*(3&4), 47-92.
- Nemoto, N., Yoshino, N., Okubo, Y., Inaba, D., & Yanagisawa, K. (2018). *Credit risk reduction effect on small and medium-sized enterprise finance through the use of bank account information* (No. 857). Retrieved from <https://www.econstor.eu/handle/10419/190278>
- Ngo, C. N., & Chi, M. (2020). The Political Economy of Small and Medium-Sized Enterprise Development. *Journal of Southeast Asian Economies, 37*(3), 291-312.
- Nursini, N. (2020). Micro, small, and medium enterprises (MSMEs) and poverty reduction: empirical evidence from Indonesia. *Development Studies Research, 7*(1), 153–166. <https://doi.org/10.1080/21665095.2020.1823238>

References (Cont.)

- Nuruzzaman, A. (2019, October 17). *Understanding Poverty in Bangladesh. The Business Standard*. Retrieved from <https://www.tbsnews.net/opinion/understanding-poverty-bangladesh>
- Obokoh, L. O., Monday, J. U., & Ojiako, U. (2016). Microfinance banks and small and medium sized enterprises access to finance: the Nigerian experience. *Banks & bank systems*, 11(4), 111-121. [https://doi.org/10.21511/bbs.11\(4-1\).2016.01](https://doi.org/10.21511/bbs.11(4-1).2016.01)
- O'Brien, C. P. (1975). Group therapy for schizophrenia: A practical approach. *Schizophrenia Bulletin*, 1(13), 119–130. <https://doi.org/10.1093/schbul/1.13.119>
- Omede, N. K., Ibekwe, E. M., & Nte, N. D. (2020). Competitive Intelligence and Entrepreneurship Survival in Emerging Economies: A review of Benin City, Edo State, Nigeria. *Int. J. of Trade and Commerce-IIARTC*, 9(2), 245-268
- Ong, S. Y. Y., Habidin, N. F., Salleh, M. I., & Fuzi, N. M. (2016). Relationship of entrepreneurship practice and business performance of women entrepreneurs in Malaysia. *International Journal of Academic Research in Business and Social Sciences*, 6(11), 95-109. doi:10.6007/IJARBS/v6-i11/2376
- Osmani, S. R., & Latif, M. A. (2013). The Pattern and Determinants of Poverty in Rural Bangladesh: 2000-2010. *The Bangladesh Development Studies*, 36(2), 1-41.
- Papa, M. J., Singhal, A., & Papa, W. H. (2006). *Organizing for social change: A dialectic journey of theory and praxis*. New Delhi, India: Sage Publications.
- Parker, S. C. (2018). *The Economics of Entrepreneurship* (2nd ed.). Cambridge, UK: Cambridge University Press.
- Pesaran, M. H., Shin, Y., & Smith, R. P. (2001). Bounds testing approaches to the analysis of level relationships. *J Appl Econom* 16(3), 289–326.
- Pomi, S. S. (2019). Impact of Microcredit on Rural Poverty Alleviation in the Context of Bangladesh. *International Journal of Economics and Finance*, 11(6), 1-70. <https://doi.org/10.5539/IJEF.V11N6P70>

References (Cont.)

- Prasetyo, P. E., & Thomas, P. (2021). A simple mitigation model of poverty reduction in Indonesia. *Open Journal of Business and Management*, 9(6), 2742-2758.
- Purbasari, R., Muttaqin, Z., & Sari, D. S. (2021). Digital entrepreneurship in pandemic Covid 19 era: The digital entrepreneurial ecosystem framework. *Review of integrative business and economics research*, 10, 114-135.
- Qamruzzaman, M., & Jianguo, W. (2019). SME financing innovation and SME development in Bangladesh: An application of ARDL. *Journal of Small Business & Entrepreneurship*, 31(6), 521-545.
<https://doi.org/10.1080/08276331.2018.1468975>
- Quadrat-I Elahi, K., & Lutfor Rahman, M. (2006). Micro-credit and micro-finance: functional and conceptual differences. *Development in practice*, 16(5), 476-483. <https://doi.org/10.1080/09614520600792481>
- Rahman, M. F. (2015, March 11). Potential of Small and Medium Enterprises. *The Daily Star*. Retrieved from <https://www.thedailystar.net/supplements/24th-anniversary-the-daily-star-part-2/potential-small-and-medium-enterprises-70927>
- Rahmatullah, N. M., Mukul, A. Z. A., & Islam, M. T. (2014). Visiting SME Financing Industry of Bangladesh. *Review of Knowledge Economy*, 1(1), 6-20.
<https://doi.org/10.18488/journal.67/2014.1.1/67.1.6.20>
- Raihan, S., & Khondoker, B. H. (2012). Poverty and inequality in Bangladesh. In A. Sadiq (Ed.), *Leading issues in Bangladesh development* (pp. 247–261). Dhaka: University Press Limited.
- Rashid, L. (2019). *Institutionalising Microfinance in Bangladesh-players, Games & Outcomes*. Dhaka, Bangladesh: University Press Limited.
- Reddy, A. S. (2021). *Small savings a big deal for Indian politics, economy*. Retrieved from <https://www.khaleejtimes.com/editorials-columns/smallsavings-a-big-deal-for-indian-politics-economy>

References (Cont.)

- Sahoo, S., & Yadav, S. (2017). Entrepreneurial orientation of SMEs, total quality management and firm performance. *Journal of Manufacturing Technology Management*, 28(7), 892-912. <https://doi.org/10.1108/JMTM-04-2017-0064>
- Salahuddin, K. (2001). *Income generation and savings of women and institutional credit arrangement in Bangladesh early initiatives*. Dhaka, Bangladesh: Palok Publishers & Bangladesh Women Writers Association.
- Sam, C. Y., McNown, R., & Goh, S. K. (2019). An augmented autoregressive distributed lag bounds test for cointegration. *Economic Modelling*, 80, 130-141. <https://doi.org/10.1016/j.econmod.2018.11.001>
- Schumpeter, J. A. (2008). *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*. London: Transaction Publishers.
- Sen, A. (1981). *Poverty and Famines-An essay on entitlement and deprivation*. Oxford: Clarendon Press.
- Sen, K., & Wider, U. (2018). *Institutions and Economic Development*. Retrieved from https://www.wider.unu.edu/sites/default/files/Events/PDF/Slides/ThinkDevConf-Sen-Kunal_0.pdf
- Shah, W. H. (2014). SME Loan Defaults in Bangladesh. *ARTNeT Policy Brief*, (41), 1-11.
- Shkodra, J., Ymeri, P., & Ibishi, L. (2021). Role of microfinance institutions for developing women entrepreneurship-the case study of Kosovo. *Economics & Sociology*, 14(1), 120-129. <https://doi.org/10.14254/2071-789X.2021/14-1/8>
- Shorrocks, A. (1995). Revisiting the Sen Poverty Index. *Econometrica*, 63(5), 1225-1230. <https://doi.org/10.2307/2171728>
- Shorten, A., & Smith, J. (2017). Mixed methods research: expanding the evidence base. *Evidence-Based Nursing*, 20(3), 74-75. <https://doi.org/10.1136/eb-2017-102699>

References (Cont.)

- Siakwah, P. (2017). Are natural resource windfalls a blessing or a curse in democratic settings? Globalised assemblages and the problematic impacts of oil on Ghana's development. *Resources Policy*, 52, 122-133.
- Singh, K. (2009). *Rural Development Principles, policies, and Management* (3rd ed.). New Delhi, India: SAGE Publications India Pvt Ltd.
- Singh, S. K., & Jha, C. K. (2023). Are financial development and financial stability complements or substitutes in poverty reduction?. *The European Journal of Finance*, 29(17), 2001-2031. <https://doi.org/10.1080/1351847X.2023.2166864>
- Streeten, P. (1995). *The political economy of fighting poverty*. Retrieved from https://www.ilo.org/employment/Whatwedo/Publications/WCMS_123382/lang--en/index.html
- Sulemana, M., Fuseini, M. N., & Abdulai, I. A. (2023). Effects of microfinance and small loans centre on poverty reduction in Wa West District, Ghana. *Heliyon*, 9(12). e22685. <https://doi.org/10.1016/j.heliyon.2023.e22685>
- Sun, Y. (2022). Reconsidering Neoliberal Solutions to Poverty from an Anthropological Perspective. In *2022 8th International Conference on Humanities and Social Science Research (ICHSSR 2022)* (pp. 2367-2371). Atlantis Press.
- Sutter, C. (2019). Entrepreneurship as a solution to extreme poverty: a review and future research directions. *Journal of Business Venturing*, 34(1), 197-214. <https://doi.org/10.1016/j.jbusvent.2018.06.003>
- Thathsarani, S., Jianguo, W., & Alariqi, M. (2023). How Do Demand, Supply, and Institutional Factors Influence SME Financial Inclusion: A Developing Country Perspective. *SAGE Open*, 13(3), 1-10. <https://doi.org/10.1177/21582440231187603>

References (Cont.)

- The World Bank Group. (2019). *Financing solutions for micro, small, and medium enterprises in Bangladesh*. Retrieved from <https://documents1.worldbank.org/curated/en/995331545025954781/Financing-Solutions-for-Micro-Small-and-Medium-Enterprises-in-Bangladesh.pdf>
- The World Bank. (2011). *Poverty and Social exclusion in India*. USA: Oxford University Press.
- Todaro, M. P., & Smith, M. P. (2012). *Economic Development* (11th ed.). New York: Addison-Wesley.
- Wang, H., Xiang, X., & Han, L. (2023). Financial development, legal systems and SME finance: Cross-country evidence. *International Review of Economics & Finance*, 88, 981-1002. <https://doi.org/10.1016/j.iref.2023.07.021>
- Yunus, M. (2017). *A world of three zeros: the new economics of zero poverty, zero unemployment, and zero net carbon emissions*. UK: PublicAffairs.
- Yuwei, W., & Hanshu, L. (2019). Banking structure and SMEs financing – evidence from micro and macro database. *China Journal of Accounting Studies*, 7(4), 489–503, <https://doi.org/10.1080/21697213.2019.1745996>
- Zaman, H., Narayan, A., & Kotikula, A. (2012). Are Bangladesh's Recent Gains in Poverty Reduction Different from the Past?. *The Bangladesh Development Studies*, 35(1), 1-26.





Appendix A

Models on Micro-Finance That Laid the Foundation

For SME Banking

มหาวิทยาลัยรังสิต Rangsit University

1. Some models on Micro-finance that laid the foundation for SME banking

Figure:1a Relationship between surplus income unit and deficit spending unit

Now the research will try to show the relationship between surplus income unit and deficit spending unit in the following figure1

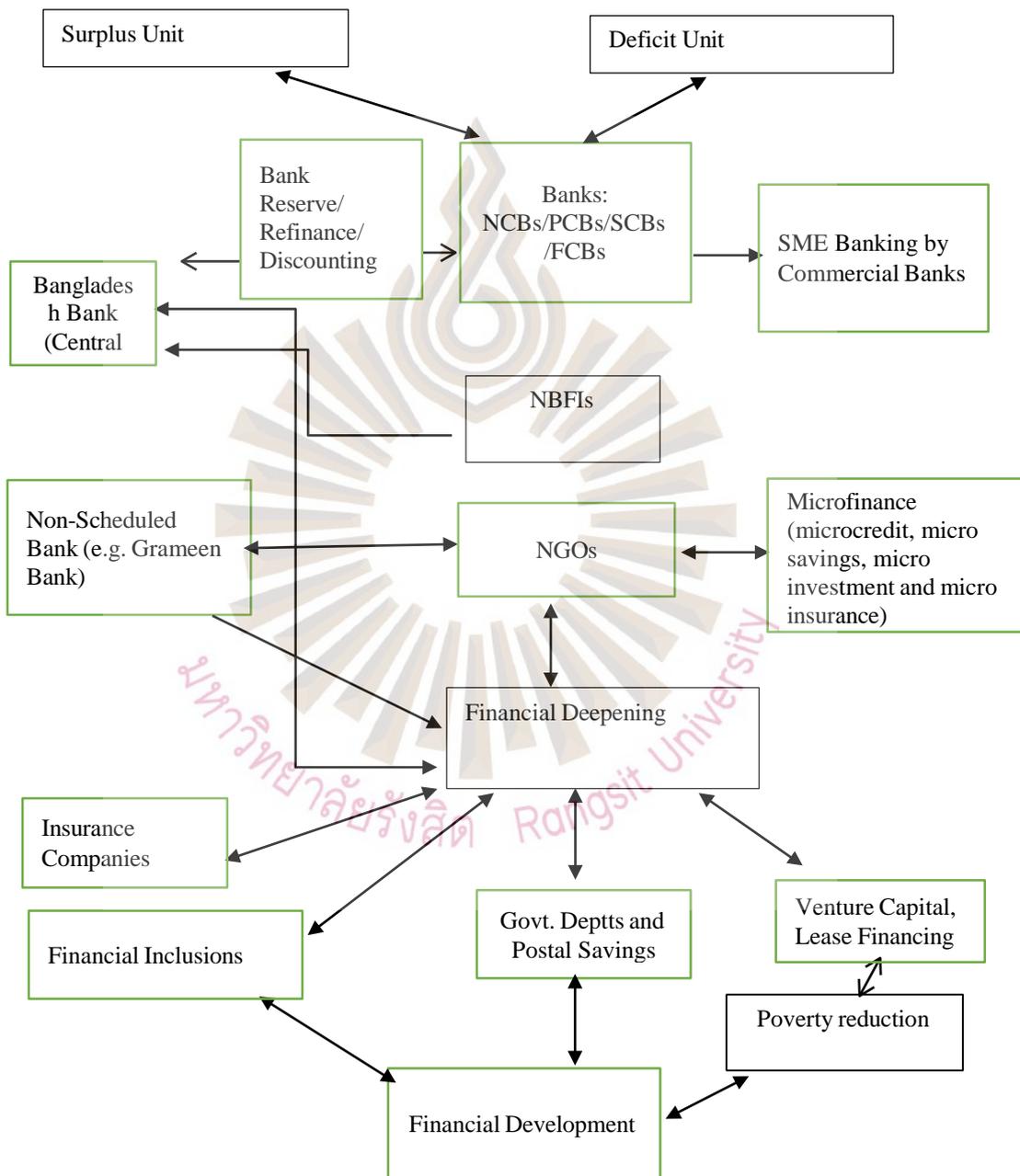


Figure:1 Financial Deepening Process in Bangladesh

Source: Author

Where,

NCBs: National Commercial Banks,

PCBs: Private Commercial Banks,

SCBs: Specialized Commercial Banks,

FCBs: Foreign Commercial Banks,

NGOs: Non-Governmental Organizations,

NBFIs: Non-Bank Financial Institutions,

HBFCs: House Building Financial Corporation,

ICBs: Investment Corporation of Banking

2. Grameen Bank Model:

Established by eminent Dr Muhammad Yunus in 1983, under microfinance scheme Grameen Bank has micro credit which can be known as micro finance as well. It can be called as Grameen credit too. Its main target is poor widowed/divorced women with children. It is not based on any kind of collateral or legally enforceable contracts which is a very good thing and can be a great benefit to the poor. People get door to door services rather than going to banks. The services can be availed through non-profit organizations or for-profit organizations. Furthermore, the interest rate is as same as market rate which is very important. Otherwise, many people will not get the opportunity to get benefit from that. It also tries to promote social capital by forming groups and centers. It encourages the borrowers to take decisions and likes to encourage them to develop social agenda. Grameen Bank inspires the clients to express their interest and according to that they are provided trainings well suited for their individual needs. The training programs arranged by the International Program Department. To take loan, borrowers form small homogenous groups. Each group consists of five members and they can interact with each other. They can contact the centers for the purpose and can take decisions of participating in the development process. These centers are closely connected to Grameen Bank and the field workers are required to

attend center meetings every week. Bank transactions take sure of the transparency as the transactions happen at the center meetings.

In rural areas, each bank branch consists of a branch manager and few center managers. Each branch covers 15 to 22 villages (grameenbank.org). They try to meet the villagers and try to find clients to form groups for providing loans. That is how the process happens. Yunus's work has empowered millions and earned him the Nobel Peace Prize in 2006 along with Grameen bank. He also introduced social business, promoting financially sustainable ventures to address social issues. Despite challenges and criticisms, Yunus's legacy is rooted in his commitment to creating positive social impact through innovative economic models. Grameen Bank is one of the non-scheduled banks in Bangladesh. Haber (2016, pp. 69) argued that the bank makes loans to artisans and others looking to rise out of poverty. Grameen Bank has enriched and changed lives, while moving people out of poverty. The bank's borrowers outperform the payback rate of almost any other bank in the world.

Grameen Bank's model: The bank operates through village solidarity groups, where a group of borrowers, typically women, take out loans together and are responsible for each other's repayments. This group-based approach helps to ensure high repayment rates, as group members have a vested interest in each other's success.

Impact: Grameen Bank has been credited with helping millions of people lift themselves out of poverty. The bank's borrowers use their loans to start small businesses, invest in education or healthcare, and improve their quality of life.

Challenges: Grameen Bank has faced some criticism for its high interest rates and for its focus on group lending, which can put pressure on individual borrowers, as some group members may be less productive while others do all the work.

Leadership Transitions and Turbulence: Internal Conflicts: Yunus's exit triggered internal power struggles and leadership changes, leading to a period of instability and concerns about the bank's future direction

Regulatory Scrutiny: Increased government scrutiny and regulations, while aiming for improved governance, also created bureaucratic hurdles for the bank's operations.

Continued Growth and Adaptation: Branching Out: Despite the challenges, Grameen Bank has continued to expand, now operating in over 90 countries and serving over 9 million borrowers worldwide.

Diversification: Recognizing the limitations of microcredit alone, Grameen has diversified its offerings, including savings accounts, insurance products, and support for climate-resilient livelihoods.

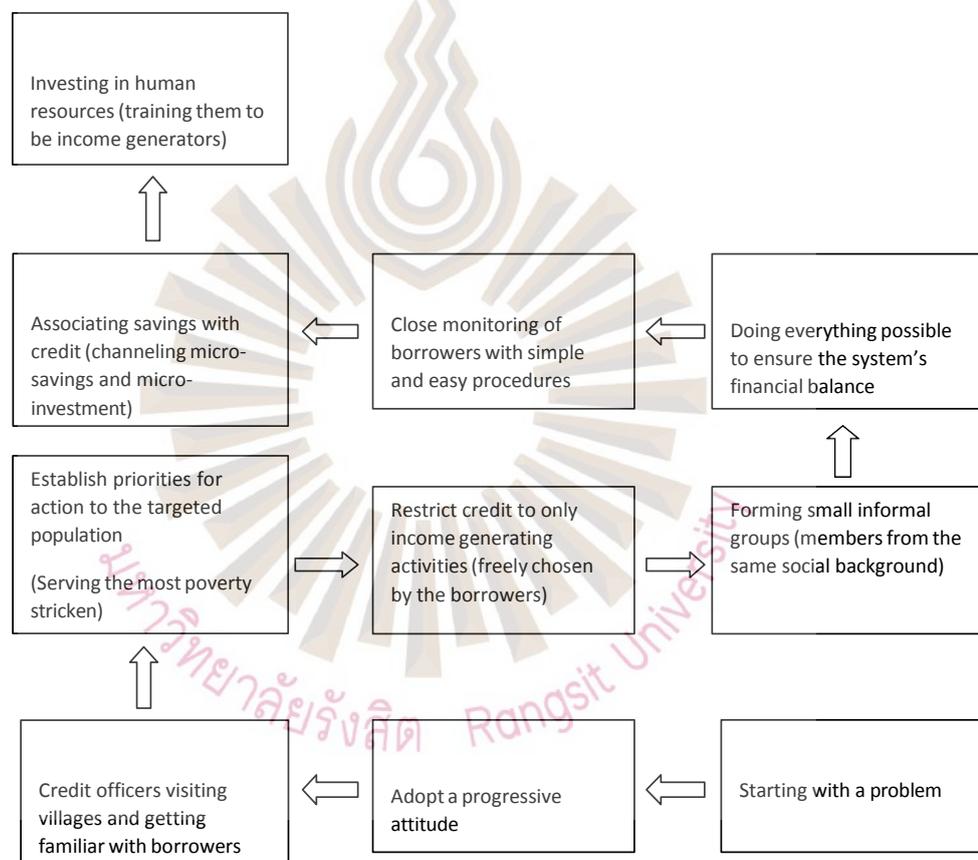
Innovation: Embracing technology, Grameen is implementing mobile banking and digital loan applications to improve accessibility and financial inclusion.

These complexities remind us that even the most well-intentioned solutions need constant evaluation and adaptation. What's undeniable, however, is the transformative impact Yunus has had. Grameen Bank's continued success, its diversification beyond microcredit, and its embrace of technology all speak to the resilience and evolution of his vision. He has sparked a global movement, inspiring countless initiatives to tackle poverty with innovative approaches. Ultimately, Yunus's legacy is a call to action – a reminder that with audacity, empathy, and a willingness to learn and adapt, we can weave a better tapestry for all. His story compels us to ask: how can we continue to empower the most vulnerable, build bridges of financial inclusion, and ensure that the threads of opportunity reach every corner of our world? This reflection is just a starting point. Whether we see Yunus as a visionary figure with flaws, his story invites us to engage in dialogue, challenge assumptions, and strive for a more just and equitable world. Let his legacy be a catalyst for continuous progress, reminding us that the fight against poverty is a collective endeavor, woven with threads of hope, innovation, and the unwavering belief in human potential.

Disadvantage: The amount of loan is very small. Though Grameen Bank claims that this small loan can meet the client's needs but this is not completely true. It cannot eradicate poverty completely. As mentioned above high interest rate and

unproductive members during group-based lending remain a huge challenge. Still, a huge amount of people has been excluded from the services. Moreover, some clients misuse the money that they receive or they even do not have proper knowledge about. Some have problems too. Grameen Bank needs to work on their clients' problems.

Grameen Bank on poverty alleviation and financial stability



Source: grameenbank.org

Figure 2 Grameen Model

3. BRAC (Bangladesh Rural Advancement Committee):

Established by Sir Fazle Hasan Abed in Bangladesh, today BRAC is one of the biggest global development organizations in the world. Around the world, there are so

many people who cannot enjoy the benefits of different financial services. Often, government alone cannot meet up their demands because it is not possible to do so. So, these people try to find informal means to earn their livelihood. But it is often not cheap enough or out of their affordability. And so, BRAC has actually introduced the micro finance services to help these needy people so that they can buy assets, fulfill their needs and engage in self-employment. Micro credit is also called as micro finance. Especially, women are the main beneficiaries of these financial services. In 2020, USD 4.5 billion loan has been disbursed where 87% clients are women in Bangladesh (brac.net). Micro insurance is also included in micro finance. In a family, any member can die suddenly. If the member is the only earning source of the family, there can a big shock to the other members. BRAC's micro insurance is introduced for this kind of situation so that the members can easily overcome financial shock and they will not have to worry. This includes Credit Shield Insurance which is a complementary service to microcredit. If any member dies, a fixed premium with extra cash will cover the expenses (brac.net). Then, there is another system where the nominee receives instant cash to cover the expenses of the hospital and funeral. Last but not the least, client's savings can be reimbursed with full benefits to the family members (brac.net). I think that the instant cash system is much better as it comes helpful in terms of the emergency. There are lots of people who are the only member of chief member of the family and they have no family members. For them, it is quite difficult to manage loan as BRAC select clients on the basis of their financial condition. Before joining, BRAC observes whether clients have borrowed loans from another place or not. It does not provide loan to very poor that cannot pay the debt (brac.net). The borrowers get involved in training about financial awareness before taking loan and there are also customer service assistants who can help with any kind of inquiries (brac.net). The clients are also taught about their rights and responsibilities at every Village Organization (VO) meeting. These VOs include 15 to 20 women from the community and they help to provide information and support on various issues (brac.net).

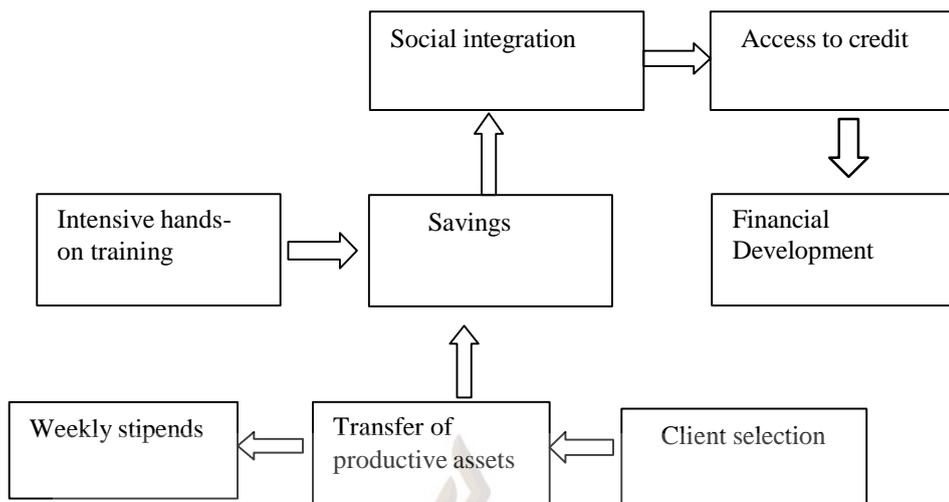


Figure 3 BRAC on poverty alleviation and financial stability
(Bottom-up approach)
Source: borgenproject.org

Photo snap



Figure 1 A participant of the Ultra-Poor Graduation Programme and her coach, in Bangladesh.

Source: BRAC © 2022

Disadvantage: BRAC's microfinance is not dependent on funding provided by donors. The funding comes from savings, retained earnings, and commercial banks. It is not a bank, rather it is a financial enterprise and for these reasons, the interest rate is much higher. It creates problems for disadvantaged people because they cannot repay that high interest rate. It can be seen that lots of people have sold their assets or lost their property to pay the debt. They have become homeless and lost everything. Furthermore, while BRAC has been a pioneer for women's empowerment through their microfinance program, they have completely ignored that men too need financial support, not just for themselves but for their families.

4. ASA (Association for Social Advancement):

ASA has been considered one of the largest MFIs in the world (asa.org.bd). The association was established in 1978 by Md. Shafiqul Haque Choudhury and a team of people who were then working for other established NGOs. It has provided financial services so that people can invest in different kinds of work. ASA's microfinance includes micro insurance which is known as Loan Security and Risk Fund. It also works like BRAC's micro insurance. In case of any sudden death or physical disability of a family member comes as a big financial shock to the whole family. This fund comes to the rescue in this kind of condition. To avail of this opportunity, all clients must take participate and get included in this fund. Otherwise, they will not be able to get the service. Borrowers have to pay the sum of money before receiving this kind of loan. They do not get any kind of training. Rather, they have to pay some money to avail of the coverage. A good thing is, during the 2020-2021 fiscal year, BDT 109 core was waived (ASA annual report).

Disadvantage: The loan is completely non-refundable which makes a big issue for poor people. This is a bad side of the service. Moreover, anyone cannot avail of this scope. They must be involved in this fund to get benefits.

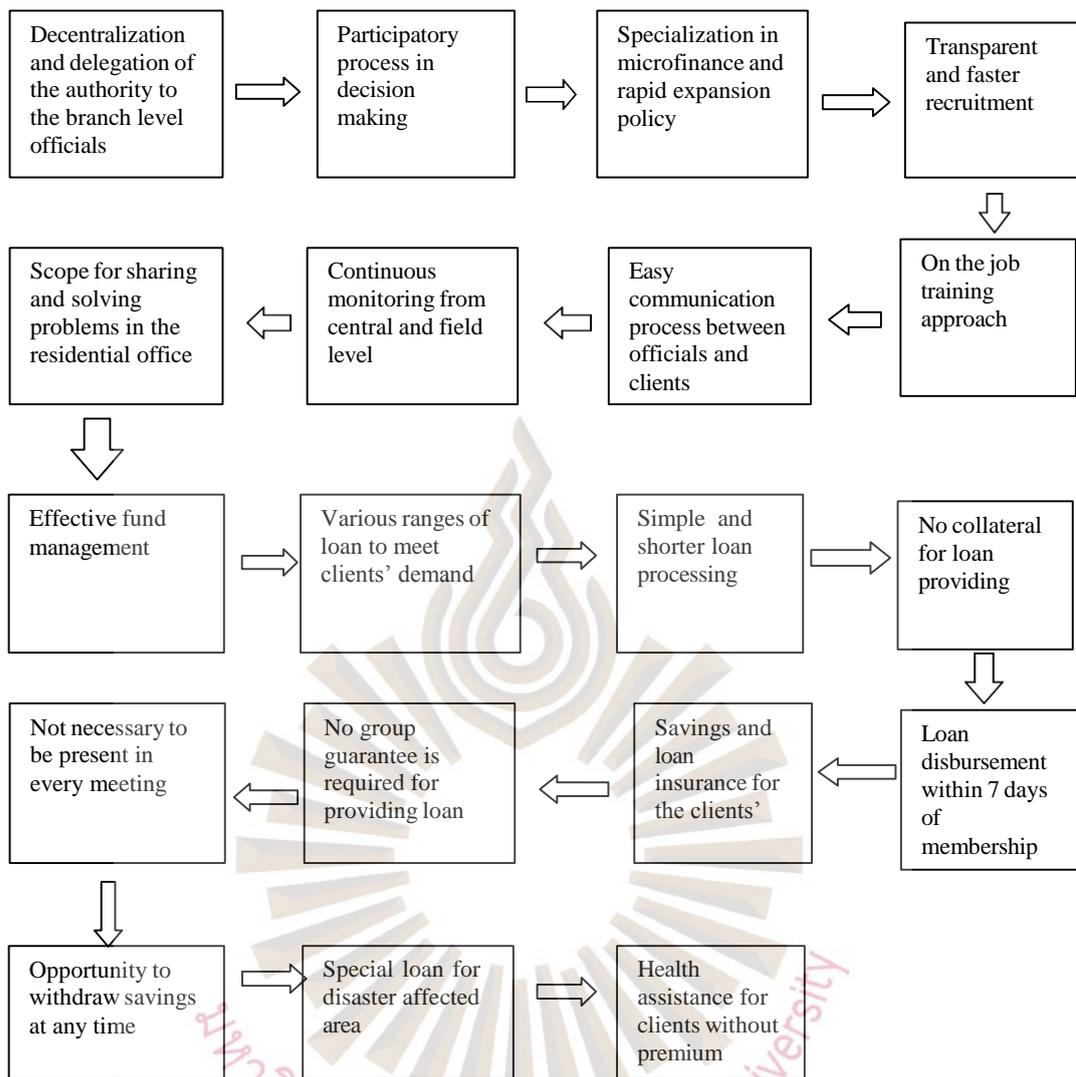
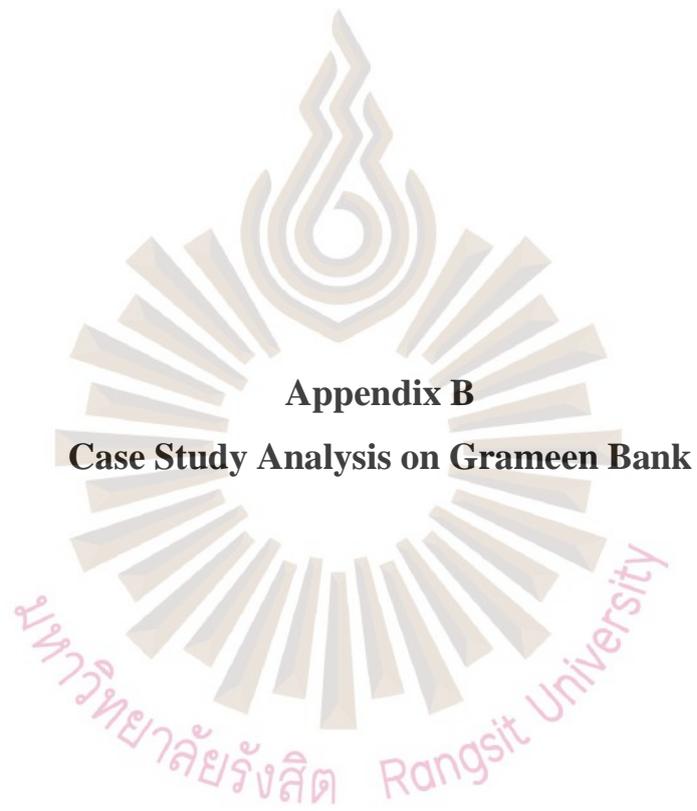


Figure:4 ASA on poverty alleviation and financial stability

Source: asa.org.bd



Appendix B

Case Study Analysis on Grameen Bank

มหาวิทยาลัยรังสิต Rangsit University

Case Study Analysis on Grameen Bank

Case Studies related to Grameen Bank beneficiaries to see their status before and after taking microcredit:

While our study focuses on formal banks, the SME banking scheme was originated by Grameen Bank's microcredit facilities. Thus, the study surveyed ten different beneficiaries of Grameen Bank and noted their response to see their correlation with the formal bank's SME banking scheme: The impact of microcredit on poverty alleviation, with a specific focus on the pioneering work of Professor Muhammad Yunus and the establishment of Grameen Bank. Subsequently, formal banks adopted Grameen Bank's microcredit model as "SME banking" providing small amounts of loans to aspiring small and medium entrepreneurs to start their income-generating SME ventures.

While non-governmental organizations (NGOs) also participate in microfinance, Grameen Bank stands out due to its stringent regulation and monitoring. Microfinance institutions (MFIs) generally employ similar loan disbursement and collection techniques, providing small, uncollateralized one-year term loans to individuals belonging to joint liability groups. A comparative analysis of the microfinance sector in Bangladesh reveals similarities and differences between the broader industry and Grameen Bank, including target customers, competitors, and operational activities. The research identifies challenges in the MFI sector, such as the need for external funding when loans are provided and the negative impact of rising interest rates on institutional operations. The author suggests that increased government funding for NGOs and microfinance institutions could benefit rural communities, as these institutions play a significant role in the economy by providing collateral-free loans. The author also highlights the need for Grameen Bank workers to improve their technological proficiency to enhance productivity and efficiency. Despite operational limitations, Grameen Bank's effective management, innovative approach, and decentralized institutional structure are commendable. It is noted that Grameen Bank

has the largest membership among microfinance institutes in Bangladesh, attributed to its innovative financing methods and continuous efforts to develop new products and services. The author expresses hope that the success stories in these case study will inspire banks providing SME banking facilities to achieve the same level of success as Grameen Bank as with these cases:

Case Study 1

Kajal Lata (pseudonym) is 25 years old. She is a rural entrepreneur and produces vegetables in her village. During her teenage periods, her family fell into financial problems because of poverty. Her family lost all of their arable land. She had to join agriculture by paying labor in the field and had to leave her school when her family faced a financial crisis. She wanted to relieve her family from poverty. After a few years, she started her journey with a loan from Grameen Bank and grew some vegetables on her land. She faced gender discrimination from her neighbor to grow her business. Despite this, she became a successful agro-entrepreneur and is the primary source of income for her family. Kajal made the argument that she requires more advanced agro-entrepreneurial training from Grameen Bank. Additionally, she expressed her belief that the interest rate should be reduced and group lending should be discontinued. She also stated that consultancy services for business expansion are necessary.

Case Study 2

Karimon (pseudonym) is a 45-year-old woman. She produces different kinds of crops and vegetables. At the age of fifteen, her father became sick and became unable to work. The only earning source was closed and her family fell into financial trouble. At that moment, being the eldest child in the family, she had to take all the family responsibility into her hands. To run her family, she engaged in agricultural crop production and paid labor in other lands. It was hard for her to borrow some loan from a neighbor. She faced financial problems getting a loan when she started her business by finally securing a loan from Grameen Bank. She highlighted that financial difficulties pose a significant obstacle to the development of women. Currently, her family is

financially stable, and she cultivates various crops and vegetables in her village. Based on this case study, it is evident that obtaining loans for women entrepreneurs is not straightforward. Karimon is encountering challenges in securing additional funding for her business and is also facing discrimination from society. She argued that her socio-economic status, political views within her community and family, and legal protection have all improved as a result of receiving micro loans from Grameen Bank.

Case Study 3

Jahanara (pseudonym) is a 37-year-old rural entrepreneur. At 17 years old, she was getting married in the same village. After three years of her marriage, her husband had a major accident. She became helpless with her two years old children. To earn money, she started to pay labor in the agricultural field with the help of microcredit from Grameen Bank and she leased a small piece of land with the savings and started cucumber cultivation on the land. Sometimes it was hard to work inside and outside simultaneously. She had to take all the responsibility from family earning to school going children. She encountered negative language and behavior from the staff when she enrolled in the training center. She believes that equal treatment of both males and females is essential for building a better society. She further emphasized the need to eliminate gender discrimination from society. This case study demonstrates that balancing household responsibilities with running a business presents challenges for the respondents. Additionally, she faces gender discrimination and the fear of business failure. Nevertheless, she has managed to generate a satisfactory income from her entrepreneurial venture. She hired poor female farmers to work in her farm and become income generators. Jahanara expressed her opinion that, considering the ongoing process of digitalization, training in modern digital techniques from Grameen Bank is necessary.

Case Study 4

Jannat (pseudonym), a 27-year-old woman, operates a small flower farm in her local area. In December 2019, she established her business using her modest savings and borrowed money from relatives at low interest rates. Since joining Grameen Bank's

microfinance program, she has experienced remarkable success. Initially, her business thrived, allowing her to repay some of her loans within the first month. However, during the COVID-19 lockdown, her business suffered a downturn due to decreased demand in the flower market. As a result, her source of income abruptly ceased. During this challenging period, she had to work diligently to save money and even sought employment on other farms to make ends meet. Unfortunately, she was unable to access any incentives to support her business during the pandemic. Through small loans obtained from Grameen Bank and her personal savings, she managed to restart her business. Jannat believes that financial constraints pose significant challenges for women entrepreneurs in building their businesses. Nevertheless, the initiatives undertaken by Grameen Bank have empowered women to seek loans and embark on entrepreneurial endeavors. She urges for the modernization of the Grameen model, considering the need for policy changes both domestically and internationally.

Case Study 5

39-year-old Jenni Rozario (pseudonym) runs her flower farming business for the last 10 years in Sylhet area. Her family lived their livelihood with the poor conditions and to raise her family income and she aspired to make a flower farm. She achieved great success since entering Grameen Bank's microfinance scheme. When she started her business, no male farmer wanted to cooperate for nursing the plant care technique. She lagged behind to learn about the farming technique. She faced information problems. Inferior educational knowledge made her lag behind from the competitive agro- business. She visited the Upazilla flower cultivation complex to learn about flower cultivator. In her first year, the product sold at a very cheap price. Mostly she had to bind to sell the product below the market price. However, when she sells her product, customers show great interest in purchasing flowers. She emphasized the importance of having knowledge about the competitive market and credited Grameen Bank for providing her with the necessary training to thrive in this aspect. She likened Grameen Bank to a spark of light in a dark cave and attributed her success as a small entrepreneur to the microcredit facility it offered. Jenni urged that male must get more micro credit from the Grameen Bank as she believes there is discrimination against

underprivileged poor destitute men. Beside women, she has also hired male vendors to sell her flowers. Jenni thought that political economy works in the process of lending as social values, lawfulness and economic scenario changes after getting her lending. She has a tremendous entrepreneurial spirit and mindset.

Case Study 6

27-year-old Subrita Roy (pseudonym) always wants to start her own business. With time, she managed to save some money, and took a small loan from her father which aided to mortgage land and start her flower farm in her village. She was a student pursuing her degree in a local college. She achieved tremendous success since entering Grameen Bank's microfinance scheme. When she started her business, she was looking for proper training on flower farming business but she was hopeless because there is no specific flower farming institution to help her. Every time she has to follow traditional farming business and depends on local farmers. Many times, she was frustrated and wasted her money with loss production in business. Therefore, she always wants to sell her product in capital but there is a communication gap in business. However, after receiving training from Grameen Bank, Subrita has become a more successful flower vendor. She believes that her business requires proper and effective training, and fortunately, Grameen Bank has fulfilled her needs in this regard. However, she expressed her opinion that it is time to change the lending procedure, as group lending imposes additional burdens.

Case Study 7

37-year-old Sakhina (pseudonym) is the owner of a small fisheries business. She produces fish in three ponds in her village and sells fish to local vendors but she desires to sell her fish in the market. In 2013 her husband died; she fell into trouble managing her family. She then went to seek help at Grameen Bank. She achieved remarkable success since entering Grameen Bank's microfinance scheme. She was earlier unable to educate her children. Initially, she started her business with 0.25-acre land where she used her micro land to build a fishing pool and she was much more dependent on personal networking. Though initially, she made losses because of

improper training and lack of communication, over time with collaboration with Grameen Bank she achieved greater success. She had trouble selling her fish to the capital due to transportation problems. She was making less money than male because she cannot physically deal with vendors and stay outside because she has to uphold family and business simultaneously. However, with Grameen Bank's micro loan she was able to afford a transportation vehicle and hired her brother as a driver and since then her fishery sales have experienced robust growth. According to Sakhina, the transport system and access to the market should be easy. She is against group lending procedure which she considers as extra burden to expand her business. Sakhina urged Grameen Bank to provide adequate entrepreneurship training and the Government to increase the ease of doing business in the country. This case demonstrates that the need for marketing management techniques, access to market facilities, and technology is crucial for sustainable business development.

Case Study 8

35-year-old Karimunessa (pseudonym) runs a small fishery at her village. She was related only to livestock rearing and after some years she invested in fishery. She achieved tremendous success since entering Grameen Bank's microfinance scheme. She had to depend on a bank to invest in fisheries. At the start, she struggled to run her fisheries. Training in fisheries was insufficient for her to start her business. Therefore, she had less knowledge and skill to sell products because in most of cases, no one wanted to work under female supervision. On the other hand, many times have to face price discrimination to sell the product. Formal bank staff demanded a male legal guarantor for the loan sanction. But with the help of non-scheduled Grameen Bank, she was able to overcome these obstacles. She was able to grow business in 2020 with a nominal amount of capital from Grameen Bank and now she is more successful in growing her business. However, like some others, Karimunessa faced gender discrimination. As such Karimunessa also believes that males and females should be treated equally. She hired both male and female workers in her business ventures. This case serves as an example of social injustice, highlighting the discrimination women

face in society. Additionally, this study underscores the significance of training for the development of agriculture and agro-based products for Agro-Entrepreneurs.

Case Study 9

Protima Pandya (pseudonym) is a 32-year-old woman with the owner of a poultry farm at Mothurapur village in Bondobilla Union, Jashore. She achieved tremendous success since entering Grameen Bank's microfinance scheme. She started a business with her small savings. She started 200 hundred poultry in front of her terrace. Now she has a 2000-capacity poultry farm. For running her business, she always used her network where she did not receive training activities from the Government of Bangladesh or MFI. Many times, she was discouraged by her neighbor from running the business. At the primary stage, she faces the problem of buying the poultry feed with a loan but no feed seller doesn't want to trust the female customer. Protima imagined that the Government should pay special attention to getting loans for women entrepreneurs so that financial problems could be removed. It has been specified that access to finance is a major challenge for the progression of women's leadership. The beneficiaries expressed the need for training programs, product marketing consultancy, and a modern networking system to enhance their business ventures. Protima suggested that Grameen Bank's management should prioritize ethical, moral, economic, legal, political, and environmental considerations. Grameen Bank should aid with legal issues relevant in doing business.

Case Study 10

42-year-old Zakiya (pseudonym) is a women agro-entrepreneur who achieved tremendous success since entering Grameen Bank's microfinance scheme. She lives with her two school-going children in her village. In 2016 she enrolled herself in the agricultural microcredit scheme of Grameen Bank with a small-scale vegetable farm after her husband died. Many times, neighbors didn't like her activity where a woman was working in the field and doing business in the market. She faces many challenges to come to her position. She added multiple agricultural activities like livestock rearing, fishery on a small scale, poultry farming etc. in the business. She faces a financial

problem to get the loan for her business purpose. Moreover, marketing for the farm was another challenge for her business. She always wanted to promote her farm but for being female she cannot get a positive response from the market. She claimed less education was her other obstacle to develop her business. Now she believed in informal education which she learns from her entrepreneurial skill. Moreover, financial problems were the other challenges of her business. This case identifies several problems like insufficient marketing information, less access to market facilities, lack of financial literacy and right of entry to technology are the reasons for women development in the small business. Over the time period she properly utilized her microcredit received from the Grameen Bank with adequate training to put her poultry farm on her area. Today she is one of the poultry sellers in her area. However, she thinks that if she gets more training on marketing strategies from the bank then she may get more scope to move forwards her business. One of the obstacles she thinks that group lending procedure of Grameen model. Overall, she is satisfied with Grameen Bank's microcredit program which has allowed her to become a successful entrepreneur by expanding her poultry farm and creating employment opportunities for poor destitute laborers in her poultry farm.

Inference:

These case studies comply with Sustainable development Goals: 1 ("No poverty"), 2 ("zero hunger"), 5 (Gender Equality), 8 (Decent Work and Economic Growth) and 10 (Reduce inequalities), 9 (Industry, innovation and Infrastructure) and 16 (Peace, Justice and Stability). SME is a crucial sector that contributes to our nation's sustainable development and plays a significant role in the economy. SMEs in Bangladesh provide more than 87% of the entire industrial workforce and is in charge of producing more than 33% of the industry's value. Microbusiness is a powerful tool for stimulating both social and economic development. The goal of microfinance is to empower underprivileged women. Microbusinesses are a crucial component of the strategy that has been developed to ensure the balanced growth of the impoverished women's economy. Rural females Involvement in agro-based activities is far higher than statistics suggest. This is mostly because due to the fact that the majority of the work done by women at home and on farms is covered up as everyday chores. Mechanization

and cheap access to labor provide active women more time to they take up self-employment or entrepreneurial endeavors. Women in rural areas are having human and nonhuman resources, one needs an imaginative intellect and ambition to start a business. One of the best ways to address the additional goals. A businessperson in Bangladesh. Compared to mature market economies, where women possess more than 25% of a company. Establishment of women's businesses began to expand during increased in the 1980s and 1990s, starting in the 1970s. The best track record in business establishment took place between 2001 and 2005, with over 50% of businesses being founded between 2000 and 2010. Bangladesh is a developing country with considerable human resources, where women make up the majority. A little under 50 percent of the populace. The bulk of them are poor, malnourished, and uneducated and impoverished. Additionally, there aren't enough jobs available for women. Therefore, self-employment has become crucial for prospective economic growth. Working females in actuality, "women in business" or women entrepreneurs have acquired significance and is a relatively new phenomena in Bangladesh. Despite having less possibilities, many women have found success in business, despite the fact that there are still very few of them. Although crucial to the economy, Women becoming entrepreneurs in SMEs is a relatively new phenomenon worldwide. In Women's entrepreneurship in Bangladesh actually began to grow after the Liberation. Despite essential to the economy, the Women becoming entrepreneurs in SMEs is a relatively new development worldwide. In Women's business development in Bangladesh really began after the Liberation of Bangladesh. Before the 1970s, very few women worked in the business sector. Bangladeshi women entrepreneurs must possess a certain trait called tenacity. As these qualities are required to combat challenging circumstances it seems female entrepreneurs face different challenges than their male colleagues.

Thus, keeping the response of these beneficiaries in mind the study aims to record similar success stories of formal Bank's SME banking facilities which has been influenced by Grameen Bank's microcredit model.

Biography

Name	Nawazeesh Muhammad Ali
Date of birth	November 2, 1994
Place of birth	Bangladesh
Education background	American International University-Bangladesh Bachelor of Economics, 2017 American International University-Bangladesh Master of Development Studies, 2018 Jahangirnagar University Master of Arts in Economics, 2019 Rangsit University, Thailand Doctor of Philosophy in International Political Economy and Development, 2024
Address	House:27, Flat:104, Road:4, Dhanmondi, Dhaka- 1205, Bangladesh
Place of work	University of Skill Enrichment and Technology
Work position	Lecturer

