

EFFECTIVENESS OF SME LOAN PROVIDED BY RUPALI BANK LIMITED IN MIRPUR AREA OF DHAKA NORTH CITY CORPORATION

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Abstract

This study is an effort to examine the effectiveness of SME loan of Rupali Bank Limited (RBL) through the adequacy, utilization and repayment of credit, profitability of SMEs and impact of loan among the borrowers. One hundred SME borrowers of the RBL in Mirpur area of Dhaka North City Corporation were randomly selected out of which 25 were from each of hotel and restaurant, beauty parlor, readymade garments and construction shop. Both tabular and econometric techniques were used to analyze the collected data. The study revealed that the construction shop owners' saving were more satisfactory compared to other SMEs because of good earning capability. The adequacy and time requirement for getting loan were satisfactory which reflected RBL's urge and sincerity to work in favor of small and medium entrepreneurs of the country. SME borrowers were found conscious about purposive utilization of loan money and their repayment performance was more or less satisfactory. Considering all SMEs together, impact of SME loan on family income was ranked the highest. Readymade garments' cost was largest while it was lowest for the construction shop to obtain loan from the bank. Profitability of SMEs was moderate and the relationship between credit and profitability reflected the valuable contribution of credit in SME business. Corruption at loan sanctioning, lower productivity and contraction of market demand for the product were the major problems of SME financing. The RBL needs to apply flexible formalities and lower rate of interest for SME loans in order to bring effective impact among the borrowers.

Keywords: SME loan, loan adequacy, utilization, repayment, profitability, effectiveness.

Introduction

SME (Small and Medium Enterprises) means enterprise that requires relatively small amount of capital with relaxed terms and condition. SMEs are the sources of livelihood of people that lacks capital but have strong business competency. SME financing has been identified as a major obstacle to SME growth (Akterujjaman, 2010). There is an issue of interest rate charged by banks and other financial institutions for SME finance (Ahmed, 2006). SMEs contribute significantly in poverty reduction programs and potential contribution to the overall industrial and economic growth (Chowdhury, 2013). Many of the people that had no earning now being employed in SME by taking loan under SME schemes from different banks and other SME organization. SMEs includes hotel and restaurant, saloon and beauty parlor, construction shop, readymade garments, grocery shop, tailoring, etc. which have quick turn over (RBL, 2014). During FY 2014-15, all banks and NBFIs have disbursed altogether an amount of Tk.1,09,473 crore credit against Tk. 6,99,957 SMEs which scored a 20.82 percent growth as compared to that of FY 2013-14 (BER, 2015). SME loan is getting popularity day by day and expanding from urban to rural areas of the country. These loans are somewhat different from normal loan programs in terms of interest rate, security requirement, installment, etc. There are several studies on normal loan of different organizations, but the studies exclusively dealing with SME loans are scarce in the country. As a different loan it requires exclusive study for its smooth expansion and expected beneficial effects. Mirpur is an area of Dhaka North City Corporation where different bank branches including public and private disbursing SME loan to the borrowers. Among them Rupali Bank Limited holds a pride position. Therefore, the overall objective of the study is to investigate the SME loans of Rupali Bank Limited in Mirpur area. The specific objectives of the study are to examine the adequacy, utilization

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and repayment of SME loans by the borrowers, to determine the profitability of SMEs and to analyze the effectiveness of SME loans provided by the Rupali Bank Limited among the borrowers.

Materials and Methods

Mirpur area of Dhaka North City Corporation was selected purposively for this study. Data were collected randomly from 25 entrepreneurs out of selected 100 samples from Rupali Bank Limited close to the selected area from where borrowers had contracted SME loan in 2014. The respondents were selected from four enterprises namely hotel and restaurant, beauty parlor, construction shop and readymade garments under Mirpur area of Dhaka metropolitan city. Both tabular and econometric techniques were applied for the analysis of collected data to achieve the objectives of the study.

Multiple regression technique:

To assess the effects of key variables in SME loan repayment process, the multiple regression technique was used in the study. The specification of the technique is as follows-

$$Y_i = a X_1\beta_1 X_2\beta_2 X_3\beta_3 X_4\beta_4 X_5\beta_5 X_6\beta_6 X_7\beta_7 X_8\beta_8 e_i^u$$

Alternatively in log-linear form the technique can be expressed as-

$$\ln Y_i = \ln a + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \beta_6 \ln X_6 + \beta_7 \ln X_7 + \beta_8 \ln X_8 + u_i$$

Where,

Y_i = amount of repayment (Tk)

X_1 = received amount of loan (Tk)

X_2 = respondent income (Tk)

X_3 = purposive utilization of loan (Tk)

X_4 = unreported use of loan (Tk)

X_5 = respondent age (years)

X_6 = profit from SME (Tk)

X_7 = education of the respondent (years of schooling)

X_8 = savings of the respondent (Tk)

a = Intercept

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8$ = co-efficient of the respective variables to be estimated and

u_i = error term

Results and Discussion

Adequacy of SME loan

Adequacy generally means the sufficiency of loan to meet the need of the borrowers. It is usually expressed in terms of percentage of requirement or amount applied for by the borrowers. The adequacy of SME loan among the borrowers under investigation is shown in Table 1. Requirement of loan in an enterprise is influenced by the nature, size and earning power of the business. It is evident from the table that both the requirement at any applied for were the highest for construction shop enterprise followed by readymade garments, beauty parlor and hotel and restaurant. The amount received by the respondents followed the same order scoring Tk 456986.00 for construction shop, Tk 451080.00 for readymade garments, Tk 432985.00 for beauty parlor and Tk 420984.00 for hotel and restaurant. But, while considering the receipt of loan as percentage of requirement or amount applied for, the order reversed quietly.

The highest percentage of receipt was found in hotel and restaurant followed by beauty parlor, readymade garments and construction shop. On an average, 89.02% of the requirement of the borrowers was satisfied. In the case of average time of getting loan from Rupali Bank Limited, beauty parlor received loan within the least possible time of 18.72 days followed by construction shop of 21.12 days, hotel and restaurant of 22.56 days and readymade garments of 35.76 days. Thus, average time required for getting loan was 24.54 days. Both the figures of adequacy and time requirement are more or less satisfactory in the present credit context of Bangladesh, i.e., the borrowers received satisfied amount within reasonable time. It further reflects Rupali Bank's urge and sincerity to work in favor of small and medium entrepreneurs of the country.

Table 1. Adequacy and time taken to obtain SME loan

SMEs	Average amount of SME loan					Average time required (days)
	Required (Tk)	Applied for (Tk)	Received			
			Amount (Tk)	% of amount required	% of amount applied for	
Hotel and restaurant	456580.00	460580.00	420984.00	92.20	91.40	22.56
Beauty parlor	480575.00	490575.00	432985.00	90.10	88.26	18.72
Readymade garments	516585.00	520585.00	451080.00	87.32	86.65	35.76
Construction shop	528570.00	530570.00	456986.00	86.46	86.13	21.12
All	495577.50	500577.50	440508.75	89.02	88.11	24.54

Source: Field Survey (2014)

Utilization pattern of SME loan by the respondents

SME loan can play a significant role in increasing family income, savings, consumption, etc., if it is properly utilized. But if it is used for unreported purposes it will result in loan default and weakens the financial viability of the concerned lending institution. The tendency of misutilization of loan is common among all types of people in general and people in developing countries in particular. The respondents generally use to divert loan money for consumption purposes as they cannot avoid the subsistence needs of the family. Proper supervision of loan used by the lending agencies however, at present can ensure productive loan use to a greater extent in the country. Table 2 shows that construction shop borrowers utilized the highest portion of their loan money (97.90%) for reported purpose which was followed by hotel and restaurant (95.34%), beauty parlor (90.84%) and readymade garments (90.14%). It indicates construction shop covers more favorable attitude towards SME loan utilization in the study area. Considering all SMEs together, 93.56% of total loan money was utilized for reported purposes and only 6.45% was used for unreported ones. So, it can be said that SME borrowers of the study area were conscious about purposive utilization of loan money and rate of purposive utilization was more or less satisfactory compared to present loan utilization scenario of the country.

Table 2. Utilization of SME loan by the respondents

Utilization	SMEs									
	Hotel and restaurant		Beauty parlor		Readymade garments		Construction shop		All	
	Average Amount (Tk)	%	Average Amount (Tk)	%	Average Amount (Tk)	%	Average Amount (Tk)	%	Average Amount (Tk)	%
Reported Purpose	401384.00	95.34	393305.00	90.84	406620.00	90.14	447386.00	97.90	412173.75	93.56
Other Purposes	19600.00	4.66	39680.00	9.16	44460.00	9.86	9600.00	2.10	28335.00	6.45
Total	420984.00	100	432985.00	100	451080.00	100	456986.00	100	440508.75	100

Source: Field Survey (2014)

Factors affecting SME loan repayment by the respondents

An endeavor was made to identify the contribution of different factors in the process of repayment made by the respondents in the present study. If basic principles of prudential banking are adhered to repayment rates can be good even in poor and remote communities (Sharma and Zeller, 1997). The results of the econometric analysis are furnished in Table 3. It is evident from the Table 3 that except savings, all other explanatory variables had positive contribution in repayment process of hotel and restaurant SME loan. But among them loan amount and purposive utilization contributed significantly. Coefficients of these two variables were significant at 5% level indicating that other thing remaining the same, repayment performance would be increased by 0.623 and 0.276% if loan amount and purposive utilization were increased by 1% respectively. The value of R^2 indicates that the fitness of the model was good as all the independent variables jointly explained more than 98% of the total variation of the model. The F-value also significant at 5% level which means that all the selected independent variables are necessary to explain variation of the model. Contributions of affecting variables in the process of repayment made by the beauty parlor borrowers are given in the same table. So, it is revealed that except education and savings, other variables had positive contribution in the repayment process but only profit of the SME contributed significantly. The coefficient of the variable was 0.263 and it is significant in 5% level. It means that keeping other factors constant, repayment could be increased by 0.263% if profit of beauty parlor was increased by 1%. Value of R^2 indicates the good fit of the model and significant F-value implies the necessity of all independent variable of the model. Again, results of readymade garments furnished in Table 3 shows that income, unreported use, age and education were negatively and the rest of the independent variables are positively related with repayment. Again among the variables, only loan amount had significant coefficient at 5% level. It means that repayment could be enhanced by 0.904% if loan amount could be increased by 1%. R^2 value and 5% significant level, F-value shows the good fit of the model and appropriateness of the independent variables respectively. Moreover, the results of construction shop indicates that among the independent variables coefficients of loan amount, income and SME profit were positive and significant at 5% level. It means that other factors keeping constant, 1.338, 0.129, and 0.079% repayment could be increased if loan amount, income and SME profit would be increased by 1% respectively. Value of R^2 indicates the good fit of the model and significant F-value reveals the importance of the independent variables in the model. Lastly, it can be said that income, loan amount, purposive utilization and profit of SME were the important affecting and contributing factors in the process of repayment of SME loan by the borrowers in the study area.

Table 3. Estimated values and related statistics regarding repayment by the selected SMEs

Explanatory variables	Hotel and restaurant enterprise			Beauty parlor enterprise			Readymade garments enterprise			Construction shop enterprise		
	Estimated values of co-efficient (α_i)	Standard error (S_e)	t-values	Estimated values of co-efficient (β_i)	Standard error (S_e)	t-values	Estimated values of co-efficient (δ_i)	Standard error (S_e)	t-values	Estimated values of co-efficient (ψ_i)	Standard error (S_e)	t-values
Constant (α_0)	-0.559	0.746	-0.749	-0.921	1.402	-0.657	1.024	0.889	1.152	0.053	0.171	0.312
Received amount of loan (X_1)	0.623**	0.150	4.139	0.465	0.249	1.866	0.904**	0.350	2.579	1.358**	0.363	3.744
Respondents Income (X_2)	0.023	0.152	0.151	0.131	0.314	0.417	-0.011	0.032	-0.332	0.129**	0.054	2.397
Purposive utilization of loan (X_3)	0.276**	0.125	2.205	0.348	0.220	1.582	0.091	0.315	0.291	-0.458	0.360	-1.272
Unreported use of loan (X_4)	0.004	0.003	1.393	0.007	0.007	0.963	-0.003	0.006	-0.432	-0.003	0.002	-1.826
Age (X_5)	0.085	0.092	0.922	0.302	0.150	2.017	-0.341	0.214	-1.591	-0.051	0.035	-1.474
Profit from SME (X_6)	0.111	0.090	1.233	0.263**	0.106	2.476	0.030	0.100	0.303	0.079**	0.036	2.198
Education of the respondents (X_7)	0.031	0.094	0.332	-0.316	0.284	-1.111	-0.316	0.284	-1.111	-0.029	0.042	-0.681
Savings (X_8)	-0.008	0.110	-0.076	-0.197	0.270	-0.729	0.015	0.030	0.483	-0.081	0.044	-1.848
R ²	0.982	-	-	0.981	-	-	0.979	-	-	0.999	-	-
Adjusted R ²	0.972	-	-	0.971	-	-	0.971	-	-	0.997	-	-
F-value	101.920**	-	-	107.442**	-	-	114.815**	-	-	3462.366**	-	-

Source: Field Survey (2014); Note: **Significant at 5 percent level

Comparison profitability of the selected SMEs

To observe the profitability of the selected SMEs at a glance, results of the previous table are summarized in Table 4. The table shows that construction shop ranked the highest securing top position in both BCR and net return. The following SMEs were readymade garments, beauty parlor and hotel and restaurant. The respective profitability of these SMEs stood at 17.18, 13.04, 10.99 and 8.46% respectively. So, beauty parlor enterprise earned a minimum profit, construction shop became able to generate a reasonable profit and others were enjoying a moderate profit. Considering all SMEs together, profitability was found to be 12.42%. So, profitability of SMEs under Rupali Bank Limited was more or less moderate in the study area.

Table 4. Comparative overview of profitability of SMEs under study

SMEs	Summary				
	Total return (Tk)	Total cost (Tk)	Net return		Benefit cost ratio (BCR)
			Tk	% of total cost	
Hotel and restaurant	673519.94	620984.64	52535.30	8.46	1.08
Beauty parlor	758045.76	682985.64	75060.12	10.99	1.11
Readymade garments	849021.56	751080.64	97940.92	13.04	1.13
Construction shop	945626.94	806986.64	138640.30	17.18	1.17
All	806553.55	715509.39	91044.16	12.42	1.12

Source: Field Survey (2014)

Effectiveness of SMEs in the study area by amount

Effectiveness means the capacity of SME loan to bring expected change among the family of the respondents. Effectiveness was examined by percentage change of the selected variables on before-after basis. It is evident from Table 5 that family income increased the highest (25.00%) for readymade garments borrowers which was followed by the borrowers of hotel and restaurant (20.00%), beauty parlor (19.23%) and construction shop (8.70%) after taking SME loan from Rupali Bank Limited. Family expenditure also increased but it increased the highest (100%) for beauty parlor respondents followed by construction shop (28.57%), hotel and restaurant (23.00%) and readymade garments (12.50%). In the case of family savings, construction shop owners experienced the highest income of 66.67% and the following increases were 56.00% by beauty parlor owners, 52.50% by hotel and restaurant owners and 42.86% by readymade garments owners. So, effectiveness of SME loan in enhancing family income, expenditure and savings was more or less satisfactory as they increased irrespective of all types borrowers, through the increase was not the same for all of them. Again, after being involved with SME loan of Rupali Bank Limited, respondents become able to spend more both on their children's education and family health care. In the Table 5 it was stated that, expenditure on education increased the highest in the case of construction shop borrowers (65.22%) followed by beauty parlor owners (57.89%), hotel and restaurant (42.86%) and readymade garments owners (5.56%). The highest and the lowest increase in the case of health expenditure were found in the case of readymade garments and construction shop with change of 40.00% and 33.33% respectively. The following increases were hotel and restaurant and beauty parlor with respective percentage of 20.00 and 14.29. So, increase in education and health expenditure supports the effective role of Rupali Bank's SME loan among the borrowers in the study area. However, both of durable assets accumulation and profitability of SME have increased after taking loan under the SME loan program of Rupali Bank Limited in the study area. Table 5 shows that increase in durable assets accumulation stood the highest for the loanees of hotel and restaurant by 50.00% which was followed by beauty parlor by 25.00%, readymade garments by 14.29% and construction shop by 8.33%. On the other hand, readymade garments owners experienced the highest increased (30.00%) in the case of SME profitability and the following were hotel and restaurant (17.65%), construction shop (15.7%) and beauty parlor (7.14%). So, the performance of SME loan of Rupali Bank Limited in increasing assets and profitability of business was more or less satisfactory in the study area.

Table 5. Effectiveness of SMEs by amount

Effective variables	SMEs															
	Hotel and restaurant				Beauty parlor				Readymade garments				Construction shop			
	Before	After	Net change		Before	After	Net change		Before	After	Net change		Before	After	Net change	
			Tk.	%			Tk.	%			Tk.	%			Tk.	%
Family Income	50000	60000	10000	20.00	52000	62000	10000	19.23	52000	65000	13000	25.00	23000	25000	2000	8.70
Family Savings	4000	1900	2100	52.50	2500	1100	1400	56.00	7000	10000	3000	42.86	3000	5000	2000	66.67
Family Expenditure	9000	11100	2100	23.33	3000	6000	3000	100.00	8000	9000	1000	12.50	7000	9000	2000	28.57
Educational Expenditure	2100	3000	900	42.86	1900	3000	1100	57.89	9000	9500	500	5.56	2300	3800	1500	65.22
Health Expenditure	10000	12000	2000	20.00	7000	8000	1000	14.29	5000	7000	2000	40.00	1500	2000	500	33.33
Durable Assets	200000	300000	100000	50.00	400000	500000	100000	25.00	700000	800000	100000	14.29	120000	130000	10000	8.33
Profit from SME	17000	20000	3000	17.65	14000	15000	1000	7.14	10000	13000	3000	30.00	19000	22000	3000	15.79

Source: Field Survey (2014)

Conclusion

The study empirically examines the utilization pattern of SME loan and repayment behavior of the entrepreneurs of Mirpur area of Dhaka North City Corporation. It is observed that most of the loaned money has been utilized for reported purposes and SMEs consciousness towards productive utilization of SME loan in the study area. On the other hand, overall loan recovery during the study period is also satisfactory. Family income and education expenditure are the major factors of timely loan repayment. Received amount of loan, purposive utilization of loan, profit from SME, respondent income are the significant factors contributing loan repayment process of the SMEs. SMEs of the study area has showed positive attitude to repay the SME loan. More attention should be given for extending timely RBL SME loan to the SMEs under proper supervision. However, family income and educational expenditure should be on top priority target which in turn ensure timely loan repayment.

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