

Constraints in accessing bank finance for SMEs In Bangladesh

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Abstract

This qualitative study extends to outline the investigation concerning the key constraints associated with bank financing for small and medium enterprises (SMEs), and the challenging factors in SME credit appraisal for the banks in Bangladesh. This study intends to fill the previous literature gap on SMEs' external financing through a comprehensive impediment view from both demand (SMEs) and supply (bank) perspectives and the common factors that are faced by both sides. Grounded in the agency theory and information asymmetry theory, it investigates how information opacity influences or restricts the SME's financing behavior. Semi-structured interviews with 25 SMEs, and 15 SME bank loan officers were carried out and content analysis was used for analyzing the interviews. The findings highlight the factors like reliable financial and asset analysis, good bank-customer relationship, corruption and bureaucratic complexity, higher interest rates, etc. affect bank financing for SMEs while factors like effective credit scoring assembling the hard and soft information, sufficient collateral requirement, and regulatory environment, etc. create challenges on the SMEs credit assessment that restricts SMEs in bank financing. Among them, the common factors that are faced by both SMEs and banks are reliable financial analysis, a history that contributes to enhancing the confidence of the bank, guarantee or collateral requirement, and corrupt behavior of banks on sanctioning loans. The finding signifies the development of the SME industry with the implication of innovative tools that can reduce the existing financing gap and ensure the effective implication of the regulation or law that can ensure the growth of SME bank financing in Bangladesh.

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Introduction:

Due to significant implications for sustainable economic development, the difficulties of SME financing have drawn great attention from academia, policymakers, and government (Oshora et al., 2021; Bangladesh Bank, 2018; Shen et al., 2009). According to the ITC (2019) and World Bank (2019) report, SMEs contribute an average of 60–70% of total employment and 50% of GDP in the world. This is because, SMEs serve as an engine for economies by fostering an entrepreneurial spirit, offering potential employment (Toke & Kalpande, 2020), and assisting in reducing poverty (Maksimov et al., 2017), which ultimately has a major contribution to the achievement of the SDG goals. But regrettably, SMEs face insufficient resources and support especially a lack of bank financing from banks (Khattak, 2020; Duygan-Bump et al., 2015) as banks dominate in the financial systems and the constraints of informal finance when it appears to facilitate the higher end of the SME market (Berg, 2013). Globally, more than 200 million SMEs exist without access to banking services (Ernst and Young, 2017), and Harith & Samujh (2020) also argue that access to credit is among the barriers to the development of SMEs. Consequently, due to a lack of external financing, SMEs who have high growth potential face constraints in making capital investments which creates obstacles to the growth of SMEs and for extension of the economy as well. However, it is seldom clear what factors act as hindrances and deepen the challenges ensuring financial inclusion from both SMEs' and banks perspectives with policy measurements (Lussuamo & Serrasqueiro, 2020).

The controversy around the accessibility of bank financing is extremely divisive: while SME owners complain that banks have funding deficiency to small companies (i.e., supply effects), banks argue that SMEs pose weak credit demand (i.e., demand effects) (Harrison et al., 2022). This is because Information asymmetry, as well as agency problems between banks and SMEs associated with the use of a loan, generates conditions where banks tend to ration credit and demand high interest rates on SME loans (Zecchini & Ventura, 2009; Thampy, 2010). Besides, Nilsson & Öhman (2012) demonstrated that loan applications from SMEs may be evaluated defensively by bankers to a significant amount in a risk-averse banking environment which may also manifest through stricter collateral requirements, imposing a larger risk premium caused by an ambiguous lending strategy because severity of the loss from credit risk has been a major reason for bank failure (Bogatsu, 2019).

Hence, this study aims to signify the restrictive factors faced by SMEs (demand side) and Banks (supply side) caused by information opacity which creates hindrances to accessing bank financing for SMEs. As a result, the major objective of this investigation is to broaden the existing understanding of what are the challenging factors affecting the supply and demand sectors to interact efficiently. It also contributes to other bodies of literature on the quality of SME bank financing in the geographic context, emerging economies like Bangladesh since Bangladesh Bank (2018) has pointed out the existing huge discrepancies between the supply and demand of funds in the SME sector of Bangladesh. Moreover, the study highlights the significance of implementing a qualitative method through content or thematic analysis that was adopted by a few studies to assess the barriers to bank financing for SMEs, especially in Bangladesh.

Literature Review:

Information asymmetry is a great concern for external financing (Fasano & Cappa, 2022) that creates the problem of adverse selection and moral hazard in credit assessment for SMEs creditworthiness (i1). However, all firm and industry-level studies showed that large firms appeared with less constrained than SMEs because of riskiness and high failure rate (Lussuamo & Serrasqueiro, 2020; Kumar & Rao, 2015; Beck & Demirguc-Kunt, 2006).

Theoretical integration:

The presence of Information asymmetry and agency problems has a relation to loan conditioning for SMEs where banks tend to credit rationing and impose high interest rates (Zecchini & Ventura, 2009). Moreover, agency theory states that borrowers (agents) and lenders (principals) have to deal with asymmetric information (Lin et al., 2020) while excessive discrepancies in the information lead to the unwillingness of lenders to lend as they perceive the business as hazardous (Liu et al., 2022). Thus, one consequence is that moral hazard where the lender is hidden from the information about lack of reliable financial information of the firm's severe business risks and another is that the adverse selection lenders reluctance to lend. Lussuamo & Serrasqueiro (2020)

Thus, information asymmetry has an impact on transaction cost as SMEs with the need for smaller loans suffer greater transaction costs and risk premiums (Myers & Majluf, 1984) because they are frequently opaquer and have less available collateral (Beck & Demirguc-Kunt, 2006), and unreliable financial report (Harvie, 2011). As such, larger firms get priority in financing than the SMEs although SMEs are more dependable on bank financing compared to large or publicly listed companies as SMEs cannot access the credit market (Lin et al., 2020). Ultimately, SMEs finds bank financing unattractive as a high-risk premium increase the probability of not being able to service loan or payment difficulties.

SMEs Financing Gap: Supply and demand side effects

According to the estimation of IFC estimates that 40 percent of formal SMEs, or around 65 million businesses, in developing nations have a funding gap of \$5.2 trillion annually, which is equal to 1.4 times the amount of money given to MSMEs globally (World Bank, 2019). This is because SMEs face challenges due to institutional insufficiencies, lending technologies, market imperfections, asymmetry of information, and high levels of operational costs (Cheng, 2015).

While the demand factor represents the funding sought by businesses from external sources- either debt or equity, the supply sector is influenced by the cost of obtaining that fund (Kumar & Rao, 2015). Esho & Verhoef (2018) point out that the Financing gap was created from two perspectives. The first one is attributed primarily to the supply side because of information opacity, even when the fund is available banks are reluctant to lend. Consequently, it becomes unprofitable due to increasing the transaction costs. Another perspective is the demand side dimension due to SMEs' preferences and knowledge gaps on the available financial resources. A stream of literature found different factors of the gap like poor financial infrastructure, macroeconomic factors, infrastructural, and contextual factors (Lussuamo & Serrasqueiro, 2020; Thampy, 2010; Soledad & Peria, 2009). Thus, when SMEs require external financing as they can't access formal capital markets, consequently they are prone to this financing gap.

SME lending in Bangladesh:

According to the Bangladesh Bureau of Statistics (BBS) in 2020, Like other emerging economies, due to noticeable contribution to GDP (25%) in Bangladesh, SMEs account for 70 to 80% of the non-agricultural sector employment and 40% of the manufacturing output (Partners, 2020). SMEs in Bangladesh are hastening the country's industrialization since the economy poses with cheap labor and swift employment generation (Aghaei & Sokhanvar, 2020). Evidence from Asian countries, Bangladeshi SMEs constitute almost 99% of the enterprise,

while 35% in Malaysia, more than 50% in South Korea, and 95% in European countries (SME Foundation, 2021). Thus, the SME sector has been recognized as the "driving force for industrialization" by the Bangladeshi government. Still, Bangladeshi SMEs are struggling with a wide range of causes like capital shortages, and lack of access to bank financing (Chowdhury, 2007) where on the capital access index, Bangladesh ranked 92 out of 122 countries (CIPE & CGS, 2022). Besides, Bangladesh Bank (2018) pointed out the existing extensive financing gap in Bangladesh between the demand and supply side. However, although some additional market participants, such as Non-Banking Financial Institutions (NBFIs), Non-Governmental Organizations (NGOs), Micro Finance Institutes (MFIs), multipurpose cooperatives, informal money lenders, Samities, etc., finance SMEs to some extent, these are insufficient in comparison to meet their financing demands compared to banks in Bangladesh (Mamun et al., 2013)

Even previous literature (Uddin Ahmed, 2018; Habib, 2015; Ekpu, 2016) pointed out that Limited access to capital seems to be a major and crucial barrier to the growth of SMEs, it's still questionable what factor drives this constraint in Bangladesh (CIPE & CGS, 2022). However, (Lussuamo & Serrasqueiro, 2020; Ekpu, 2016) investigated SME constraints from a demand perspective and a supply perspective (Akther, 2022; Erdogan, 2018). However, there is a lack of theoretical clarity on how demand and supply side factors affect this impediment view (Ekpu, 2016) as well as commonality constraints faced by them.

Thus, as far as existing literature regarding SME constraints on bank financing that face banks and SMEs simultaneously through the adoption of qualitative approach and general factors among them, so far as our best knowledge, very few investigations have been conducted on SME financing literature on emerging markets. Hence, the current research is sought to study the insights on how to eradicate the financing gap and credit rationing of SMEs.

The paper is organized as follows: in Section I, the study presents some study background with the aims of the study. Section II contains the details about literature reviews with the theoretical background. Section III deals with research data and methodology, and data analysis, findings of the result and discussion are explained in detail in Section IV and finally, the conclusion and limitation of the study are in detail explanation in Section V, appendix is attached in Section VI.

Methodology:

Study context and sample:

This study follows a qualitative approach with exploratory nature, through semi-structured face-to-face interviews to have a greater phenomenon under analysis (Basri, 2014). Following the studies of Wong et al. (2018), this research was undertaken to trace out the objective regarding constraints on SMEs on bank financing, and this study reports the challenges faced on SME loan assessment that will represent impediment view from both supply and demand perspective. The study adopted convenience sampling where Interviewees were selected as 25 SME owners from 3 industry sectors (table 1), and 15 SME bank loan officers (LOs) in Chattogram district which has the second largest contribution in the SME sector of Bangladesh. A focus group interview session and a questionnaire survey were used to perform the study during 10 December 2024 and 24 December 2024.

Thus, to better comprehend the aim of this study and seek to reach greater systematization, two different sets of questionnaires were adopted addressing the barriers to SMEs' access to bank finance and challenges faced in credit appraisal by LOs. This combination of approaches was necessary to explore the LOs' knowledge and further develop their understanding of SME loan evaluations and SME constraints in bank financing through conversational engagement.

Sector of activity	No. of firms	Category of business	No. of firms
Automotive- buses and trucks	9	Micro	13
Chemicals- lubricant recycling	6	Small	8
Metal	10	Medium	4
Total	25		

Table 1: Sample SMEs' sector of activity

Data collection and analysis:

The questionnaire incorporated open-ended questions for LOs and SMEs that were collected through direct interviews to express themselves freely regarding the subject. To ensure validity and reliability, Pretesting was

done on the questionnaires, and credible sources were employed to get the information. Though the original was structured in Bangla for better reach and understanding (Brislin, 1970). With the interviewees' consent, interviews were recorded to facilitate transcribing. As a way to protect their confidentiality, the names of the firms that were questioned have been withheld. In the initial stage, an interview guide was created for this study to uncover the obstacles experienced while trying to receive external finances, such as bank loans. In the subsequent phases, Bank LOs were inquired about the challenges faced during credit appraisal and observed changes toward possible future-oriented information.

All interviewees were questioned about their company's demographics, i.e., the number of banks they currently use, the major factors that led them to finance from their main bank, and the time taken for approving loans by LOs. During the collection of data, it was ensured that the SMEs had experienced the bank loans before and the LO was experienced in sanctioning loans with a minimum of 5 years to make the analysis more valid, reliable, and consistent of the data regarding the context.

Content analysis was adopted to analyze the interview information because it is regarded as an effective method for systematically evaluating the symbolic content of all forms of recorded communications (Kolbe & Burnett, 1991). The technique of content analysis is a means of coding, 'the process by which the relevant characteristics of the content of a message are transformed into units that allow its precise description and analysis' (Lussuamo & Serrasqueiro, 2020). Thus, seeking new insights and practical guides to action is suitable in the field where previous research is limited (Lam & Burton, 2006). However, the study finds this technique as suitable as it explores the dimension and factors behind impediment to bank financing that contributes to the generalization of previous literature. In this manner after identifying several themes from analyzing interviews, they were coded. Then, several categories have been formed using the method proposed by Holsti (1968) to group the codes.

Findings and discussion:

The businesses were coded following their industry of operation to keep their anonymity. Thus, at first, respondents were categorized, and then content analysis was performed. The automotive firms are A1, A2, A3, A4, A5, A6; the chemicals firms are C1, C2, C3, C4; the metals firms are M1, M2, M3, M4, M5; and the Loan officers are L1, L2, L3, L4, L5, L6, L7, L8, L9. The demographic data for the respondents' organizations are compiled in Table 2.

SME Respondents' Profile:	
Avg age	47.4 years
Avg experience	24.5 years
Capital Structure	Only Equity- 36% Both equity & debt- 64%
Average no. of bank account	3.3
The average length of time with a bank	12 years
The transactions with banks per week	Daily- 55% 2-3 days- 36% Single day- 9%
Have you ever applied for a bank loan	91%
Have you taken loans being aware of the terms and conditions?	Yes- 82%
Do you agree getting a loan is difficult?	Yes- 55%
Loan Officers Profile:	
Experience as SME loan officers	8.4years
Do you have any inspection team to examine the information regarding the disbursement and recovery of SME loans?	Yes- 100%
Does your branch adopt any kind of SME-related advertisements?	Yes- 80%

Table 2: participants characteristics

- Analysis of **demand side** responses- *constraints to bank financing*:

Factors	Categorization	Representative quotes
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Firm-specific	Financial and asset analysis	<i>'They do detail analysis, indeed. Even after submitting the necessary paperwork, they still do warehouse checks. But it truly irritates me when they weigh assets with a lower value rating' (Representative C1)</i>
	Guarantees	<i>'I have encountered harassment while presenting guarantors since they ask for more than is reasonable. Bank puts us under pressure to provide well-known guarantors, and it is quite difficult to manage' (Representative A4)</i>
	History/confidence	<i>'Previous transactions and dealings can put you in a favorable position in financing. Because it facilitates in credit appraisal for banks to differentiate regular and non-regular customers based on history' (Representative M1)</i>
Bank specific	Bank–client relationship	<i>'We tend to have good relations with banks. But compared to those who have long-standing ties with banks, we seldom use them as references or benefits when applying for loans, especially in terms of the documentation (Representative C2)</i>
	Industry sector of activity	<i>'See, we seek a bank loan only when we face any financial difficulties. We, thus approached the bank during the Covid-19 shock, but they refused to provide us with a loan instead of giving it to those companies or other industries, whose loan was regular during COVID-19 also' (Representative M2)</i>
Macro level	Corruption	<i>'As far as I know, there is some corruption at the government bank in the financing, and political figures are given preference because of their positional power or bribes' (Representative A2)</i>
	Interest rates	<i>'The rate often keeps high. To some extent, the interest rate is tolerable though it limits the rate of return, making it difficult to obtain loans' (Representative A3)</i>

Firm-specific factors:

Information opacity leads to difficulties in credit appraisal and increment cost in terms of interest rate and collateral requirement. In this case, previous credit history facilitates further investigation (Erdogan, 2018). Lussuamo & Serrasqueiro (2020) asserts that unaudited financial statements produce unreliable information that increases the cost of financing and impedes SMEs from accessing credit creating an information asymmetry between SMEs and banks. Again, most SMEs choose to obtain loans from other market actors rather than banks because of the exorbitant collateral and third-party guarantee requirements despite the high-interest rate (Mamun et al., 2022). Hence, the respondents argue that banks should introduce effective credit assessment systems that will help in less harassment on documentation preparation during financing. Participants' statements pointed as follows:

'They perform credit analysis efficiently for their benefit but it's hard to make them believe that the submitted documents are everything which we left with. Unfortunately, they often become dissatisfied or try to misinterpret our financial abilities' (Respondent C3)

'Big SMEs are supposed to have loans without proper checking on the documentation while our applications have to go through long rigorous assessment or even cancellation despite having sufficient collateral' (Respondent A6).

Banks demand more than double guarantees, and especially demanding blood-related guarantors are quite painful to manage (Respondent A4)

The respondents also mentioned the complexities in financial documents sometimes extend the loan application to a certain extent when they overcome financial difficulties. One participant said that:

There is some complexity in approving a loan within a short time when we need the most. Finding no other ways, we have to borrow money from informal channels though the cost is high enough (Respondent M1).

Thus, the proper introduction of management information systems and effective financial intelligence assessment can bring more transparency in the asymmetric information, sanctioning loans in time, and ensuring favorable attitudes of SMEs in bank financing. Besides, the banks have to avoid charging collateral excessively or security to the prime borrower.

Bank specific factors:

Lussuamo & Serrasqueiro (2020) pointed out that banks examine the relationship of SMEs with their customers and suppliers to collect information about the firm's reputation and a long-term relationship provides a favorable position about the client's loan commitment, mutual trust, and work ethics of the companies. Moreover, having efficient and better relations with banks can facilitate in reducing the cost of financing and ensure more credit facilities. The respondents said that:

(...) Often our credit application has to wait for a long time, but I think those who are the well-known and big customers, get easy access to loans even without proper documents which creates discrepancies in financing (Respondent A5)

Moreover, the sector of activity and size of SMEs can influence the bank's lending decision as industries vary on liquidity or profitability. Hence, the vulnerable position of the industry influences the credit appraisal and borrower's creditworthiness. One respondent outlined as:

I think the industry which is liquid enough gets priority in financing. Besides, during the prospectus of our industry, the bank can trust us more and put us in a more favorable position in accessing credit than others (Respondent M5)

López-Espinosa et al. (2017) state that a close relationship between bank and customer can minimize the possibility of information asymmetry and favorable terms and conditions of the loan. Thus, a long-standing relationship provides positive credit scoring on the borrower's creditworthiness. Besides reputation, the prospectus of the firm's operation, and sector of activity provides significant information on the debt servicing capacity of the borrower.

Macro-economic factors:

Studies like Galli et al. (2017) state that banks cooperate with corrupt customers who undermine the entire banking system. These lead to a system of institutions that is too political, which is not promising for the growth of the economy. This factor became a major challenge in achieving SME sustainability (Oshora et al., 2021), as the funds are not circulated in the economy that needs the most and appropriate one. The respondent pointed as follows:

(...) Of course, giving 2%-5% of the total loan to the officers as a bribe can result in quick approval for the loan. In one of my friend's cases, I saw how the bank officials were legally charging bribes for approving loans as the loan amount was high (Respondent A3)

Furthermore, lending at a higher interest rate deteriorates the debt servicing capacity of the borrower and non-performing loan (NPL) is expected to increase (Bogatsu, 2019). Due to greater default rates, a loan's expected return would start to decline at a higher interest rate beyond a certain point. Therefore, in the context of information asymmetry in the loan market and costly monitoring, banks would not utilize interest rates alone to equalize demand and supply but would instead ration credit (Thampy, 2010). One participant asserted as follows:

Banks should work on reducing the interest rate as it is one of the main obstacles in the financing, we face which increases the cost of financing, and impedes our potential. (Respondent A6)

Thus, to maintain efficiency in the allocation of scarce capital in the banking channel, corruption should be minimized as it may create agency problems (Lussuamo & Serrasqueiro, 2020). This action also has an impact on the NPL as the prime borrowers can't get access to that capital, and cost like interest rate are charged high to them. Consequently, the sustainable financial growth of the SMEs remains questionable.

▪ Analysis of **supply-side** responses- *Challenges on credit appraisal:*

Dimension	categorization	Representative quotes
Micro level		
Bank specific	credit scoring	<i>SMEs often try to mislead us through false information to make themselves more eligible for credit. in this case, relying on hard information rather than soft information results in poor credit scoring and assessment of SMEs' creditworthiness which is really challenging to estimate. (Representative L9)</i>
	Networking	<i>'I think, in the banking industry, we pose the threat of information asymmetry due to competition. More automated systems and networks among different branches of banks, and head offices, as well as the central bank, would help to reduce it' (Representative L1)</i>
SME specific	Collateral requirement	<i>'Since physical address verification of collateral is the most challenging issue to assess the real capacity of borrowers before approving any loan SMEs tend to provide an insufficient guarantee. (Representative L5)</i>
	History/trust	<i>'The overall client strategy of the banks has a significant impact because we offer additional room for negotiation for the customers who have the SME's market reputation and repayment capacity with considerable credit rating can improve a better relationship.' (Representative L2)</i>
Macro level	Regulation	<i>'Despite having a considerable number of laws, they are not regulated strictly. For example, the existing NPL recovery law isn't implemented swiftly for those bankrupt people or companies. In the meantime, they escape from the shackle fraud, which is exemplifying others to motivate those who have such types of intentions' (Representative L6)</i>
	Political intervention/ corruption	<i>'In certain cases, banks are compelled to authorize the loan despite the borrower's poor credit rating due to the client's political influence and connection with government bodies, which eventually deprives the financing needs of others' (Representative L1)</i>

Micro-level Dimension:

Bank specific factors:

Mismatching between the bank's requisition and the accounting and management practices common among SMEs as well as the lack of suitable credit scoring mechanisms for the SMEs (Wendel & Harvey, 2006). Reliable credit scoring tends to boost SME access to debt financing as it facilitates reducing information asymmetry. Thus, the accessibility of credit ratings for SMEs leads to greater use of transaction technology and improves the quality and reliability of financial information enabling more lending to the SME sector (Thampy, 2010). One participant stated that:

I think the proper balance and amalgamation between hard and soft information is quite challenging to produce reliability in credit scoring which impedes sustainable funding for the sector (Representative L4).

Additionally, following the financial crisis in 2007 the credit losses for banks, LOs are recommended to place a strong emphasis on future repayment capacity, which would include a change from historical to future-focused information-based evaluations (Nilsson & Öhman, 2012). Thus, as a facilitator of the credit appraisal process, overall client strategy has received a greater significant role in the bank's control and support system. Hao et al. (2020) pointed the adverse impact of the failure of larger banks through the network can propagate more banks to default in a domino effect. One respondent said that:

The cooperativeness among banks and effective communication channel brings more transparency to the credit assessment of the borrower which can save the economy from bank run (Representative L5)

Hence, to make a more concentrated resilient financial system, banks should strive to assess the credit scoring of the borrower in an automated and stable networking system among banking channels.

SME specific factors:

To differentiate between the prime and subprime borrowers, banks use collateral as a screening mechanism. Though larger companies have sufficient collateral, small businesses (even after having promising investment prospects) face restrictions to meet the collateral requirement (Erdogan, 2018). Rahman et al. (2017) also highlighted that banks charge more security or collateral that is adequate. This is because LOs focus on risk more than earning opportunities to avoid credit risk (Nilsson & Öhman, 2012). One respondent pointed as follows:

As collateral is the only weapon to get rid of the NPL burden, customers try to present a false statement or overvaluation of the assets. Before and after approval of the loan, mortgage or collateral inspection and monitoring should be emphasized efficiently. (Representative L7)

Moreover, (Lussuamo & Serrasqueiro, 2020) stated that the constraints on getting bank debt can be lessened by the reputation and trust of the bank. Therefore, a previous good tracking record on the borrower's transaction can put a favorable credit rating on the borrower. One respondent mentioned that:

Honestly, we are bound to make a maximum of a 3% spread on the loan but if the previous transaction dealings of the company are transparent enough and convey a positive rating, we would like to offer a rebate of 1% to 2% on the lending rate (Representative L6).

Thus, addressing the risk assessment technology to assess the future loan capability can reduce the chances of information opacity, and efficacy in charging risk premiums that can also alleviate the hindrance of bank financing for the SMEs who are compelled to finance in informal channels.

Macro-economic factors:

Beck & Demirguc-Kunt (2006) refers that the accessibility of SME financing is influenced by the banking market structure and regulatory laws. Therefore, the efficient execution of commercial laws like laws, regulations, registering, regulating collateral, and effective bankruptcy are crucial for financial dealings (Mamun et al., 2013). Without adequate controls, people (and groups of people) will be enticed to engage in corruption, and this conduct can become so ingrained in an organization that it is essentially accepted and continued (Akins et al., 2017). In this regard, one respondent pointed as follows:

Even if it is a matter of sorrow but true that there are some incidents in providing credit facilities without proper credit assessment and accountability when it comes to any superior authority of government (Representative L2)

Developing countries are facing sluggish growth in accessing finance due to poor governance and property rights, higher levels of corruption, and unstable political economy. This is because government officials and political parties try to exercise their power and influence to favor connected businesses which results in barriers for SMEs in accessing finance (Ullah, 2020).

To be precise, common factors that faced challenges by analyzing from both demand and supply perspectives have pointed were credit scoring by financial assessment as the bank deems that SMEs produce unreliable or inadequate information while SMEs regard that banks lack the proper lending technology to credit assessment due to information opacity; history/confidence where both of them agreed that attaining reputation and transparent transaction history can help to get prioritized, collateral requirement due to increasing transaction cost where banks are alleged to demand more and banks follows to implement more of the guarantees to revive to the burden of NPL; and corruption which is one of the main obstacles for the prime or good borrowers on accessing finance from the formal channel like bank.

Conclusion and recommendations:

The study seeks to investigate factors that act as constraints on accessing bank financing that appear in the SME sectors in Bangladesh from both a demand and supply perspective through the deployment of a qualitative approach. The results indicate three dimensions or factors dominate in the financing gap and they are firm/SME-specific factors, bank-specific factors, and macroeconomic factors. Among them, the common factors faced by both banks and SMEs were the complexity of financial assessment due to asymmetric information, history/trust

issues that contribute to positive credit scoring, a collateral requirement because of increasing transaction cost, and the existing bureaucracy or corrupted dealings that deprives the financing opportunity for the prime borrower.

The results contribute to the SME financing decision literature by integrating the agency problem theory and theory of information asymmetry and how information opacity can hindrance on accessing bank financing for SMEs. The findings are important for policymakers, and business leaders concerned with the financial soundness of the SMEs. However, effective introduction government government-supported training programs to SMEs at marginal levels to bring more transparency to the financial dealings and introduction of innovative market products/services that can reach the need, ensuring effective implication on the regulation or law can ensure the growth of SME bank financing in Bangladesh.

However, the study poses some limitations that can be mitigated by future research: At first, due to the adoption of qualitative content analysis, sensitivity biases of the data can be a concern in this context. Secondly, it represents the constraints to point out the impediment factors in other developed or underdeveloped economies. Hence, to address the limitation future studies are recommended to capture the view from regulators' perspective also through adopting a qualitative approach and the possible frameworks or models to deal with the challenges efficient

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