



Current Scenario of SME sector in Bangladesh: Performance, Problems and Prospects

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Abstract

Nowadays, small and Medium Enterprises (SMEs) have become an essential sector that is supposed to play a significant role in enhancing the economy of Bangladesh. The role of the SME sector can be immense in poverty reduction from the country. However, the SME sector is still facing significant challenges that reduced its potential in developing the economy. Such situations can be tackled by introducing Proper Implementation and Monitoring of Policy Measures, government initiatives and Enhancing Access to SME Finance to accelerate the further development of SMEs. This study mainly aims to assess the present scenario and performance of SME sector in Bangladesh especially in terms of employee turnover rate, quality assurance, allocation of funds, marketing activities, etc. and also identify the problems of SME sector in Bangladesh and suggest recommendations to overcome the problems. This study uses various literature, Bangladesh Bank data for FY 2010-18, and publications from Bangladesh Economic Review 2017, Ministry of Finance, Export Promotion Bureau (EPB), Bangladesh Agro-Processors' Association (BAPA) and Bangladesh Bureau of statistics.

Keywords: SMEs, Challenges, Financing, Economic development, Government initiatives

1.0 Introduction

Small and medium enterprises (SMEs) all over the world have been playing a vital role in promoting economic development. SMEs provide the necessary foundations for sustainable growth in the developing economies by generating low-cost employment opportunities, improving locally available inputs and technologies, output diversification, developing local entrepreneurship and forward integration with large-scale industries. There are a few other major driving factors to promote SME sectors. SMEs can play a dominantly important role in poverty reduction especially in the rural areas by fighting back income inequality and unleashing the potential of the rural economy to exit from the vicious poverty circle and socio-economic deprivation of the rural population. SMEs are spread over many unconventional manufacturing processes and service sectors to cater to today's dynamic needs of the market even in the developed countries driving new business creation and employment generation. Similarly, it has a natural comparative advantage for a country like Bangladesh, where labor is abundant, capital is scarce, income inequality is rampant, and the market is underserved. The government alone cannot address all these issues alone.



The SME entrepreneurs aggregately can stage a central role in this regard and can support to achieve Millennium Development Goals (MDGs) especially in the area of eradication of extreme poverty and hunger, gender equality, and women empowerment. Despite all these potentials, SMEs are disappearing, abandoning the potential role they could have played in economic development which has become a key topic of interest among researchers, academicians, and policymakers.

Access to financing continues to be one of the most significant challenges for the growth and survival of SMEs, especially for innovative ones. Almost every part of the world, limited Access to institutional finance is one of the most significant challenges for the growth and survival of SMEs. This is especially true in the case of Bangladesh as they are facing different types of problems for availing institutional finance. A sound business environment is also a prerequisite for the SME sector to become a source of innovation and productivity. Bangladesh and many other developing countries around the world have a lot of potential around the SME sector.

Our Study here is to comprehend the Performance, Problems, and Prospects of the sector so that the ways to minimize the obstacles of the SME sector becomes clearer.

1.1 Definition of SME

Bangladesh Bank (BB) has updated its definition and set a limit to the amount of credit they can gain in line with the National Industrial Policy 2016.

The loan amount, total employees and fixed assets of a micro, cottage, small and medium enterprises is shown in Table

Enterprise	Fixed Assets	Employees	Loan Limit
Micro	Tk 10 lakh-Tk 75 lakh (Manufacturing)	16-30 or less	Tk 1 cr
	Less than Tk 10 lakh (Service)	15 max	Tk 25 lakh
Cottage	Less than Tk 10 lakh	15 max	Tk 10 lakh
Small	Tk 75 lakh- Tk 15 cr (Manufacturing)	31-210	Tk 20 cr
	Tk 10 lakh- Tk 2 cr (Service)	16-50	Tk 5 cr
Medium	Tk 15 cr- Tk 50 cr (Manufacturing)	121-300 (Garments 1000 min)	Tk 75 cr
	Tk 2 cr- Tk 30 cr (Service)	51-120	Tk 50 cr
Trading sector	Less than Tk 10 lakh(micro enterprise)	15 max	Tk 25 lakh
	Tk 10 lakh- Tk 2 cr (Small Industry)	16-50	Tk 5 cr



2.0 Objectives of the Study

In summary, this paper intends to measure the Performance of SME, to identify Prospects of SMEs of Bangladesh, and to explore various constraints that SMEs face in Bangladesh. To this effect, this paper has focused on following objectives in details -

- i. To assess the present scenario and performance of the SME sector in Bangladesh especially in terms of employee turnover rate, quality assurance, allocation of funds, marketing activities, etc.
- ii. To highlight the prospects of the SME sector in Bangladesh.
- iii. To identify the problems of the SME sector in Bangladesh and suggest recommendations to overcome the problems.

3.0 Literature Review

At present small and medium enterprises (SMEs) are the most important topic of significant research interest to different scholars and an issue of great importance to the policymakers of Bangladesh and all over the world. Bangladesh Economic Review, Bangladesh Bureau of Statistics, Bangladesh Bank has taken initiatives to define SMEs for Bangladesh and analyze its Performance, Problems, and Prospects.

Miah (2007) stated that there are various types of constraints for SME financing. The major constraints for SMEs are lack of satisfactory investment and modern technology, high rate of interest against loans, lack of power supply, absence of proper physical infrastructure and high transportation cost, lack of information about market demand, unavailability of raw materials, lack of skilled manpower, inappropriate research & development, lack of transparent legal system, high credit constraints without collateral and rapid changes in government policy.

Rosen (2003) mentioned that SMEs generate the largest portion of employment in many developed and developing countries and often the foundation of the local private sector. The entrepreneurs must play a vital role in development but often are hampered due to the lack of financing from local formal sector financial institutions.

IFC (2004) Annual Review report mentioned that all over the world inadequate access to finance is one of the largest barriers to private sector growth and development. This is especially true for small and medium firms that have minimum influence on policy development.

Bhattacharya and Chowdhury (2003) mentioned that Bangladesh Bank encourages the other banks to give loans to various projects for diversified industrial development. From the point of view of restricting the credit risk exposures of the banks having a higher level of classified loan, the new rule is justified. However, to consider large loans as risky loans (by the new rule) is not



rational. Moreover, for growing the volume of lending to the SME sector, this sort of supply-side policy is not sufficient.

Hossain (1998) found that the most critical constraint that small and medium scale manufacturers mention is the lack of sufficient funds to run the business. The common thing is that maximum small businesses started with their own savings and borrowing from friends and relatives, while banking source come. On the other hand, due to procedural hazards and requirements of a long time, many potential small scale entrepreneurs are not so much interest in taking a loan from banks. Thus, the procedure of bank loans needs to be simplified for small entrepreneurs.

S. M. Nasrulquadir and DR. Mohammad Saleh Jahur (2011) argued that due to frequent policy changes of Government from time to time SMEs of Bangladesh have been vulnerable. Besides, they are facing severe problems in and outside the country. As a result, the prosperity and productivity of SMEs have got squeezed and many of them have got a financial crisis.

Ahmed, (1999) pointed out the absence of national quality policy, reliability of the quality certification authority and enough support system SMEs of Bangladesh have failed to ensure the products and services quality of both in domestic and international markets. Lack of investment funds or easy access to finance without collateral remains as one of the most majors complains of the SMEs in Bangladesh.

Hasan and Islam (2008) identify that banks usually do not say any kind of interest in SME financing. The small and medium entrepreneurs are not fulfilling any kinds of collateral requirements as typically they do not have fixed properties. Due to the lack of collateral sometimes banks and non-bank financial institutions are unwilling to finance SMEs.

According to Wickham and Van Aardt,(1997)failure usually, the results if expectations are not meet, even though the concept of failure means different things to different people. Business failure also can be classified under four directions. There are several reasons behind the failure of a business such as poor plan, poor preparation, poor management, lack of finance, lack of location, lack of inventory control, lack of experience, failure to invent proper strategic plan, not successfully make an entrepreneurial transition and poor plan (Wright 1995) proposes that the business manager should read as much as possible in the field of small businesses to acquire knowledge, skills, and competencies about management practices. But if the manager or entrepreneur doesn't have enough skill to conduct the business he or she can take a partner for conducting the business.

According to (wright,1995) there are several reasons behind the lack of proper cash flow management such as sometimes credit terms of the business are too generous and credit is very



easily provided, also there is no strict policy to collect the credit.

According to (Abdelsamad & Kindling, 1978) Small and medium entrepreneurs, many times start an undercapitalized business and fail to maintain the cost of conducting in the future. Business owners very often make the mistake of making business on a shoestring capital base which might be dangerous for the business. It happens because most of the time business entrepreneurs become very hopeful about the future success of their business and make a misjudgment about the financial conditions of the business.

4.0 Methodology of the Study

This study attempts to be a descriptive research to assess the performance of the SME sector, to unearth the problems this sector faces and to explore the area of prospect that it can further harness. Therefore, this research paper purely relies on the descriptive statistical tool and on the information from secondary sources with appropriate acknowledgment and references. Relevant articles, magazines, books, journals, various newspapers, relevant online academic resources, research documents and literature from various recognized sources – for example, Bangladesh Bank publications, Bangladesh Economic reviews, SME Foundation publications, etc. have been reviewed. In this paper, different data on SME have been combined and necessary inferences were made to illustrate a broad scenario of SME in Bangladesh.

4.1 Limitations of the Study

The main limitation of this study is that it is based on other study papers which are mostly qualitative and a quantitative study that relied on the surveys conducted by the World Bank to understand the business constraints. The World Bank, however, included these constraints only because they are easily measurable and because, according to them, these are the basic problems any business could face in any part of the world. Still, the limitations of the study include not being able to quantify the effect of constraints and rank them accordingly. Also, the various studies make use of a different definition of SMEs used from different authority relevant to their respective study. The lack of adequate comparable data on SMEs is another drawback of this study as most of the statistical data published by different authorities used their own classification that does not readily fit the SME definition. The only comprehensive firm-level data on the constraints faced by the SMEs was the one used in this study. The rest are either qualitative studies providing little or no data, policy notes and limited data on the number of different SMEs and their productions.

4.2 Data Analysis and Commentaries

According to Bangladesh Bureau of Statistics (BBS) estimates, the contribution of the broad industry sector to GDP stood at 33.66 percent in FY2017-18 which increased to 35.14 percent in FY2018-19. Among the fifteen sectors of GDP, the broad industry sector includes four sectors namely mining and quarrying, manufacturing, electricity gas and water supply and construction.



In FY2017-18 the contribution of manufacturing sector to GDP was 22.85 percent which increased to 24.21 percent in FY2018-19. The volume and growth performance of the manufacturing sector from FY2010-11 to FY2018-19 is shown in Table 1.1.

Table 1.1: Volume and Growth Rate of Manufacturing Sector

(At constant prices of 2005-06) (In Crore Tk.)

Type of Industry	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Small and Cottage	21176.0 (5.67)	22569.1 (6.58)	24557.9 (8.81)	26113.1 (6.33)	28342.6 (8.54)	30909.4 (9.06)	33945.8 (9.82)	37086.4 (9.25)	40891.9 (10.26)
Medium-Large	88475.3 (11.11)	97998.3 (10.76)	1084362 (10.65)	118540.3 (9.32)	1312254 (10.70)	147313.5 (12.26)	163819.5 (11.20)	187183.7 (14.26)	216411.2 (15.61)
Total	1096514 (10.01)	120567.4 (9.96)	1329941 (10.31)	144653.4 (8.77)	159568 (10.31)	178222.8 (11.69)	197765.3 (10.97)	224270.1 (13.40)	2557303 (14.73)

Source: Bangladesh Bureau of Statistics. **Note:** Figures in parentheses indicate rate of growth.

4.2.1 Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are considered as a potential sector for solving unemployment problem through new employment generation. This sector has been playing a significant role in achieving economic growth and earning foreign currency by encouraging and expanding the business activities. For the expansion and development of the sector to enhance the standard of lifestyle of the mass people and ensure women empowerment to diminish gender discrimination, Bangladesh Bank has been continuing its refinancing facilities during FY2018-19 for Banks and Non-Bank Financial Institutions (NBFIs) against their financing to SMEs. In this regard, Bangladesh Bank is providing refinance facilities to Banks and FIs from different Refinancing Schemes for Agro-based Product Processing Industry; Refinancing Scheme for Small Enterprise; New Entrepreneurs in Cottage, Micro and Small Industry; Islamic Shariah-based Financing; Revolving Fund Account of JICA assisted Financial Sector Project for the Development of SME (FSPDSME) Fund and JICA assisted Urban Building Safety Project (UBSP Banks and NBFIs altogether have disbursed an amount of Tk.115, 654.84 crore against 512,539 SMEs in 2018 (Up to September). On the other hand, 46,162 women led SME enterprises received financing of Tk.4,146.37 crore in the same period from Banks and FIs.

4.2.2 Disbursement of SME loan

A self-determined year-wise lending target (calendar year basis) in SMEs sector for banks and NBFIs was first introduced in 2010. In 2018 (Up to September), Banks and NBFIs altogether disbursed Tk.115,654.84 crore to 512,539 SMEs which was 72 percent of 2018's annual target of Tk.161,031.89 crore. Table-1.2 reveals the disbursement of category-wise SME credit.

**Table 1.2: SME Financing by Banks and NBFIs**

Year	Target	Trading	Manufacturing	Service	Total	Women Entrepreneur	Achievement against target
2010	38858.12	35040.53	15147.72	3355.68	53543.93	1804.98	138
2011	56940.13	34382.64	15805.95	3530.85	53719.44	2048.45	94
2012	59012.78	44225.19	21897.33	3630.90	69753.42	2244.01	118
2013	74186.87	56703.72	24016.64	4602.89	85323.25	3346.55	115
2014	89030.94	62767.18	30246.20	7896.77	100910.15	3938.75	113
2015	104586.49	73551.78	30462.02	11856.68	115870.48	4226.99	111
2016	113503.00	90547.57	35168.63	16219.19	141935.39	5345.66	125
2017	133853.59	96934.79	42334.87	22507.66	161777.32	4772.99	121
2018	161031.89	51330.34	37993.25	26331.26	26331.26	4146.37	72

Source: Bangladesh Bank.*Up to September 2018

From Table below, it is clear that both the SME sub-sector and Large Manufacturing unit has significantly contributed to the GDP growth as their growth rate is higher than overall GDP growth and has been improving over time. In FY 2007-08 SMEs was growing by 7.1% which was 9% in FY 2015-16. On the other hand, large unit has posted healthier improvement in growth rates. This disparity in performance improvement draws specific attention for deeper analysis to explore underlying reasons for the phenomenon.

Table 1.3: Contribution of Large and Small Industries to the GDP Volume at constant price base year 1995-96

Industry (By Volume)	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Small and Cottage	17,265	18,525	20,040	21,176	22,569	24,558	26,113	28,343	30,909
Medium-Large	70,331	74,934	79,631	88,475	97,998	108,436	118,540	131,225	147,314
Total	87,596	93,459	99,671	109,651	120,567	132,994	144,653	159,568	178,223
Industry (By % Volume)									
Small and Cottage	20%	20%	20%	19%	19%	18%	18%	18%	17%
Medium-Large	80%	80%	80%	81%	81%	82%	82%	82%	83%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

For sustainable and comprehensive industrial growth and development some challenge has been further addressed in the formulation of Industry Policy 2016 that has focused through generation of productive employment to create new entrepreneurs, mainstreaming women in the industrialization process and international market linkage creation. To this end, special emphasis was laid on SME development since cottage; micro, small and medium industries are considered as a potential sector for new employment generation through encouraging and expanding the business activities.



Rapid industrialization is required to achieve a desired level of economic growth of an agro-based developing country like Bangladesh. To promote SMEs along with the large-scale industries, the government of Bangladesh has been providing various supporting roles in last couple of years. As a result, the volume of industrial loan disbursement and recovery has been increasing gradually Year-wise disbursement and recovery of industrial loans from FY2005-06 to FY2018-19 (up to September 2018) is presented in Table 1.4

Table 1.4: Year wise Disbursement and Recovery of Industrial Credit

(In crore taka)

Fiscal Year	Disbursement			Recovery		
	Working Capital	Term Loan	Total	Working Capital	Term Loan	Total
2005-06	28,449	9,650	38,099	22,976	6,760	29,735
2006-07	31,651	12,395	44,046	23,791	9,068	32,859
2007-08	39,963	20,151	60,114	28,850	13,624	42,474
2008-09	45,028	19,973	65,001	36,598	16,302	52,900
2009-10	59,172	25,876	85,048	45,232	18,983	64,214
2010-11	71,300	32,163	103,464	56,695	25,016	81,711
2011-12	76,675	35,278	111,953	64,400	30,237	94,637
2012-13	103,166	42,528	145,694	85,496	36,549	122,046
2013-14	126,103	42,311	168,414	113,291	41,807	155,098
2014-15	155,747	59,784	215,530	117,960	47,541	165,501
2015-16	199,349	65,539	264,888	149,763	48,225	197,988
2016-17	238,517	62,155	300,672	185,532	52,094	237,627
2017-18	275,629	70,768	346,397	202,980	70,193	273,173
2018-19*	75308	19111	94419	65417	16378	81795

Source: Bangladesh Bank

It is observed from the credit disbursement and recovery trends during FY2005-06 to FY2018-19 that the credit disbursement and recovery in the industrial sector increased gradually over this period. In FY2018-19, the amount of credit disbursement and recovery for the first three months (up to September 2018) stood at Tk.94,419.65 crore and Tk.81,795.40 crore respectively. It is expected that the incremental disbursement of industrial credit will contribute significantly towards maintaining the growth of the industrial sector of the country and will ensure a sustainable economic development as well.

In nut-shell, the whole industrial sector is demonstrating a healthy growth over the decade. However, the SME sub-sector has demonstrated weaker growth than its large capital sub-sector. Therefore, it is important to understand the challenges that SME faces and making it unable to



equally harness the benefits of general, structural and policy support provided to Industrial sector as a whole.

5.0 Prospects

Several surveys have been conducted in Bangladesh focusing on the impacts and prospects of SMEs. The survey found that the SME sector is largely dominated by wholesale and retail trade and repairs business whereas manufacturing is at the bottom of the list of SME players. It indicates that there is a large unused potential for expansion in the manufacturing and production sub-sector that SME can penetrate and contribute more significantly to the national economy. Even today millions of new job seekers are still looking for employment. To compare the relative cost of employment for new job seekers, one can simply look at similar data for a large manufacturing unit. For example, fertilizer factories require about BDT 11 to 14 million creating a job on average whereas micro-enterprises, set or encouraged by the NGOs for self-employment of the very poor, can create one employment opportunity with the investment of just BDT 5,000 or less (SDC & BUP, 1998).

The comparative situation puts a very clear idea about the functional and potential contribution of SMEs in eliminating unemployment and reducing poverty together with yielding national economic advancement. This is also suitable for countries like Bangladesh where skilled labors are not readily available. Moreover, SMEs use little foreign material for their production thereby driving new backward linkage sectors within the domestic economy. They usually become successful in meeting the varying degrees of consumer demand as they can tailor products & services to customer's choices through close relations with each other. Thus, SMEs, with their flexibility and adaptability to changing the environment, are set to offer ample growth potential if they are financed adequately and perfectly.

6.0 The Challenges faced by SME Sector

Numerous surveys have been conducted in Bangladesh to explore the challenges and future prospects of the SME sector. Only a few prior kinds of research on SME challenges relied on quantitative method and most of the SME studies are largely qualitative. Fortunately, the general consistency in the findings from qualitative study and quantitative study along with some available data sets under the annual "Enterprise Surveys" program conducted by World Bank provides cross-validation of their findings. With the thorough scrutiny of these findings, the core challenges that SME sector faces are sorted out in the subsequent discussion.

6.1 Lack of access to institutional finance

The institutional leaders face a number of issues in lending to SMEs, the most pronounced being information asymmetry and granularity, the level of detail available on which to base business decisions. Lenders cannot obtain the necessary information from a reliable system of records in place to quantify risk and differentiate between SMEs. Therefore, the central bank considers



SMEs as high-risk borrowers. This attitude has led to such a legal and regulatory framework that has posed significant barriers in a number of ways to effective institutional financing to SME. This paper identified the following dimensions that create a barrier to access to finance.

6.1.1 The high cost of finance

The common perception of SME as high-risk borrowers has led the financial institutions to charge higher levels of an interest rate for SME borrowers. The underlying reasons can be attributed to several factors - a) the lack of flexibility in loan repayments terms which are not borrower-friendly who mostly runs start-up business, b) application of standard repayment cycles which is not consistent with the different cash flow patterns of different businesses, e.g. poultry farm, cold storage companies, crop farmers, packing unit or foundries, etc.) relatively high monitoring cost by lender due to management of a large number of small debtors, and d) lack of proper documentation of business plan and actual financial results that can support authentic business needs for working capital - an area that does not provide itself as collateral.

6.1.2 Large collateral requirements

Banks are known to demand large amounts of collateral from SMEs. Collateral-based lending can prove a major barrier because of the difficulties faced in assessing the quality of land offered and in obtaining an unblemished ownership title and deed. On many occasions, banks also do not accept the same kind of collateral from SMEs (such as sales or project contracts) that they would accept from large borrowers. Another problem with SME lending is the mismatch between the loan size and the value of collateral as, in most cases; the price of the collateral is typically greater than the loan wanted. The challenge is further magnified due to SME's limited capacity to provide collateral against financial arrangements. This has resulted in tightened credit terms and in the inefficient allocation of resources

6.1.3 Cumbersome documentation process

Borrowers in the SME sector usually have a limited level of education. They rely more on their first-hand knowledge and experience in certain trade to undertake an entrepreneurial endeavor. Hence, during raising debt funds from the institutional financial institution, they face difficulties in comprehending documentation processes stipulated by institutional lenders, many of which have been found to be exhaustive and too complex for the SME sector.

6.1.4 Limited spread and reaches of banks

The limited network of banks in smaller towns and rural areas restricts borrowers' access to credit. Although the banking sector is the most important source of external financing for SMEs, they underserved the needs of the sector, since many SMEs are located in the small town or rural areas where Banks and other financial institutions are scarce. Hence, the SMEs are forced to rely on their retained earnings and informal avenues for borrowing that can take considerable time to



accumulate. Low penetration of Financial Institutions in rural areas could well be the primary impairment of the competitiveness and growth of SMEs in Bangladesh.

6.2 Lack of versatile skill required for SME entrepreneur

SME entrepreneurs in Bangladesh usually take an entrepreneurial endeavor from their technical area of expertise. However, they largely lack managerial skills and are not used in strategic planning. A casual attitude towards risk, lack of vision, inability to make a business plan and implementing those plans hinder the growth of SME business. Hence, most of the borrowers lacking the managerial skills cannot properly use any of their equity or debt fund. Several studies show that most of the SME borrowers from the rural area had spent part of their borrowed money in an unproductive activity. They also easily get a victim of any business cycle shocks due to not recognizing appropriate business risk upfront and not making prudent mitigation plan for those risks. Hence, it is natural that they become unable to survive in the event of any market failures or shock. Moreover, SME owners mostly cannot innovate products or services for a niche market and therefore they fall in tight competition with an established business.

6.3 Lack of Women Participation

The SME sector provides a good opportunity for women to participate in the economic activity of the nation. However, the challenges of SME sector make it more difficult for women to start or operate their own business. Female entrepreneurs are often discriminated against due to social taboo. Hence, they are not well represented in small business organizations.

6.4 High Employee Turnover

SME usually displays slow progress and is relatively easier to start-up. Thus, it provides good incentives for skilled employees to leave one SME in order to either join a different organization or to start a new one on their own.

6.5 Absence of modern technology

One of the main barriers to the development of SME in Bangladesh is the inadequate application of modern technologies. Surveys of the SME owner commonly cited a few reasons behind this challenge. Firstly, SME organization tends to rely on the labor of the entrepreneur mostly during start-up. When organizations start expanding and the SME owner starts adding more people in the lower hierarchy, they tend to minimize operating cost by focusing more on primitive business operation processes that only requires basic skills from its employees at a cheaper rate. Secondly, SME organizations are usually too small in size to deploy modern technology and associated operation process economically. Thirdly, the upfront investment required for adopting modern technology and process can be prohibitively high for small SME organizations. Finally, SME entrepreneurs may have limited or no knowledge of the trending technologies that can affect the competitive landscape of their business. They also may have limited awareness of how existing technology can add value to their business if organizational resources are invested in those



technologies. Therefore, many SMEs have failed to adopt cutting edge technologies and ultimately lag behind in the competitive market.

6.6 Poor physical infrastructures

Inadequate supply of necessary utilities like electricity, water, roads, and highways hinder the growth of any business endeavor. A study using both general analysis and the econometric analysis of Enterprise Survey data conducted by the World Bank has indicated that lack of electricity seems to be a very severe obstacle that can adversely affect the cost competitiveness and thereby sales of the products. Many respondents in the survey have indicated that lack of electricity to be the main barrier towards successful SME growth indicating that there is a need for much better supply and production of electricity for SME development. While the large organization has the financial muscle to fight back those challenges, the SME sector usually falls victim to those challenges due to its weaker financial power. Moreover, remote geographic locations of SME entities commonly contribute to this lack of physical infrastructure for SME businesses where the large business would never be set-up.

6.7 Lack of Access to Market and lack of awareness regarding the importance of marketing tool

The growth prospect of any product depends to a large extent upon the marketing movement. This requires having a marketing strategy which is well-planned including advertisement campaign as well as resources for implementing that strategy. Unfortunately, most SME entrepreneurs cannot afford broad marketing activities at a large scale for their size and thereby face challenges to access the market at a wider level.

They also lack the necessary marketing skills to use the Integrated Marketing Communication (IMC) tools that play the role of important stimuli to motivate the customers and retain them. They also lack creative ideas around micro-marketing tools that are more suitable for SMEs but are not leveraged by SMEs. Due to their inability to utilize versatile marketing tools, SME owners have to rely on retailing in the limited periphery for the continuation of the business. Unfortunately, owing to retail space is very expensive in the major cities in Bangladesh where the major market exists also. As a result, the majority of customers are not introduced to buy products and services from many SMEs in different areas as they can't judge the quality until they physically examine the product.

6.8 Lack of Quality Assurance

At present Bangladesh mostly produces common consumer goods using a labor-intensive process with relatively simple technology. But due to questionable quality, these products cannot compete with quality products from well-branded local or imported consumer goods. The challenge for SME today is to survive fair competition from its rival with quality products. The challenge is more severe from imported goods from China, Taiwan, Korea, India, and Thailand



that competes fiercely because they can offer quality at cheaper rates thanks to the comparative advantages they leverage from consistent regulatory support and coherent industrial landscape.

6.9 Lack of Research and Development Facilities

Most of the developed nations spend a good sum in the research for the development of this sector but we do not invest much in the research work for this sector.

6.10 Lack of Resources

In Bangladesh, scarcity of resources hinders the ability of SME to grow to compete at the global stage and limits its ability to export products to different countries. Access to Land was found as a very important constraint for the growth of SME since land plots are getting scarce in Bangladesh for its high population density and unreliable land registration process has made procurement of land more complicated that often leads to the legal battle to gain or retain physical possession. The country also lacks natural resources and lacks diversity in economic crops to enable basic processing industries of raw materials through SME.

6.11 Absence of transparent and fair regulatory system

There are several regulatory requirements to start and run business that creates high compliance costs and become barriers to SME development, growth and market entry. On the other hand, regulatory tax rates seem to be the biggest obstacle for SMEs of Bangladesh as revealed by one survey study. Rampant corruption in government offices has also been a big problem not only in Bangladesh but also in entire South Asia. However, corruption does not seem to have a very severe impact on SME growth since the respondents of the World Bank's Enterprise Surveys Program have not identified corruption, in general, to be as severe a problem as other constraints. The same study demonstrated through regression analysis that customs and trade regulations are also having negative and significant impacts on sales. This means that the government needs to follow pro-SME policies and eliminate any kind of tariff or non-tariff barrier for promoting and developing the SME sector.

6.12 Political Instability

The political instability was cited as another severe constraint by the respondents under the Enterprise survey of the World Bank. Their opinion underscored the vulnerability of both small business and start-up business to disruption in economic activity since this organization largely depend on a smooth flow of business activities to survive and grow to a sustainable size. However, it takes time to accumulate financial strength to be able to safely steer through such disruption at any point. Hence, they highlighted political stability as the main requirement for sound SME growth without which economic activity is sure to be disrupted.



7.0 Suggestions and Recommendations

For income and employment generation in Bangladesh SMEs will continue to be the major driving force. It is essential to further gear up the activities of the SME for the sake of poverty alleviation and also to address the widening gap in income distribution between urban and rural areas. Although SME is not the only solution for poverty alleviation and fair distribution of economic welfare, the supportive services of SME institutions for primary requisites (such as health, education, and infrastructure) and financial services (such as savings schemes, consumption, and investment and insurance services) are essential for creating vibrant economic activities in rural areas. The smooth operation of SME can ensure employment generation and increased earning for people in less-privileged areas. Consequently, the development of SMEs in Bangladesh can raise the standard of living of the common people of our country. In order to improve the performance of the SME, several studies have recommended numerous improvement measures as listed below:

7.1 Enhancing Access to SME Finance

Enhancing access to institutional finance by 50% of SME entrepreneurs may be a target within the next five years. To achieve this target, the following specific measures can be taken to bring in the intended effect.

7.1.1 Establishment of Specialized Financial Institution

For the sake of industrial development in general and the SME sector in particular, there should be created a separate financial institution to deal exclusively with SME financing and promotion of their goods and services, both in the domestic and foreign market. To make the proposed initiative effective in achieving its goals, the government may set up small business investment and lending bodies along with supporting policies through Acts and statutory legal framework. Such a body with perfect managerial and legal structure can solve the problems of SMEs effectively. The SME bank has a chance to have access to regional SME savings. Having a certain market share and a stable position, such an SME Bank can also start to compete with commercial banks.

7.1.2 Credit rating system

Alternative to existing financial tools and leasing, the “downgrading” of banks to preferred target groups, especially SMEs and “upgrading” of successful non- governmental organizations (NGOs) and private support organizations could help to provide finance to Microenterprises and SMEs. Such approaches can eliminate the need for credit guarantees.

7.1.3 Bank Syndication with NGOs

Government, financial institutions and Non-Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh. The government can set up special funds to raise the required equity capital for SMEs with



potential entrepreneurs. Close cooperation among banks and organs of the government and NGOs for social welfare activities is essential for the effective coordination of their activities. Forming bank syndication between microfinance institutions and commercial banks for SME financing can also complement this integration process since microfinance institutions can provide recommendations and credit history to commercial banks for SME development. Based on this information, they should provide mortgage and guarantee free loan up to a certain limit under the credit guarantee scheme. Further, they can also develop financial incentive schemes for SMEs through a ranking system for their sound business plan and feasibility study.

7.1.4 Sub-contracting arrangements

The government should make policies for collaborating with private organizations to link up SMEs and suppliers of manufacturers and raw materials under the same industry based on subcontracting / outsourcing agreement. If developed and implemented accordingly, this type of cooperatives would lead to higher value addition and economies of scale. Government, associations of Chambers of Commerce and Industry, credit information bureau (CIB), Bangladesh Bank and Stock Exchange Commission (SEC) and renowned accounting & Management consultancy firms should jointly prepare a reliable database, where necessary information about the existing and potential entrepreneurs and formal creditors will be available. The database will be accessible only to the concerned authorities. This would ensure transparency and accountability while choosing the right entrepreneur and the right project among the pool of applicants. Banks and non-bank financial institutions could create funds for the development of such useful subcontracting enterprises.

7.1.5 Seeking International Financing

Various international donor agency/bank extends financing to SMEs through National Development Financing Institutions (NDFIs). It is found that they are not explored properly. The procedure of those donor agencies/banks for loan facilities to SMEs through NDFIs may be reviewed and terms and conditions may be examined in order to make international financing more accessible to SMEs in the country.\

7.2 Training Facilities for SME workers and Entrepreneurs

Bangladeshi workers are sharp at learning new production skills. However, formal training facilities for SME workers and the development of entrepreneurial skills are not adequate in the country. Hence, periodical professional training courses should be arranged more frequently for the technical staff of SMEs. Such training programs should focus on the development of SME's capabilities to acquire enhanced knowledge and skills about how to choose, use and improve the technology. Now, there is no institution that exists except a project of the BSCIC called 'SCITI (Small and Cottage Industries Training Institute). IAT, BUET has also conducted several training programs for a few years. In Bangladesh, Special programs are to be undertaken for the establishment of training institutions for entrepreneurship development; Islamic Chamber was



found organizing different training workshops for the benefit of representatives of private enterprises and staff of member chambers in different regions of the Islamic World. Relevant associations of the Chamber of Commerce and Industries can also take a similar initiative in promoting SME's training and development. The government can also establish R&D Institute for Enterprise and Entrepreneurship Development, Training and Research Institute.

7.3 Use of modern technology

Most SMEs are characterized by indigenous technology and they are involved in improving their existing production techniques and processes. If there is no use of modern technology and innovation does not take place in an indigenous sector, enterprises become uncompetitive.

7.4 Help Desks in Banks and trade Promotion Bodies with Internet Facilities

To accelerate the SME development particularly in respect of women entrepreneurs, all bank branches as well as in all chambers of commerce and industry and other trade promotional bodies dealing with SME finance must have a Help Desk with computer and internet services. To help the SME sector, Bangladesh Bank has already established SME and Special Program Department as well as SME monitoring cells in its every branch. Moreover, each Bank and NBFIs also have SME monitoring cell in operation. To further aid the SME sector, Bangladesh Bank and the commercial banks should establish separate functional relations with the SME to provide the required guidelines, supervision and financial assistance.

7.5 Development of SME Infrastructure

Infrastructure development is a prerequisite to the development and financing of SMEs. Currently, the most severe constraint that hinders the development of SMEs is the lack of infrastructure (e.g., roads, gas, and electricity), limited access to market opportunities, technology, expertise, and business information and communication. The government must have to take adequate measures to ensure the uninterrupted flow of raw materials and finished goods to and from SME businesses for smooth operation.

7.6 Developing an Institutional Network through Public-Private Partnership

The design of most government agencies appears to be overly bureaucratic and unsuitable for effectively supporting SMEs in Bangladesh to help access the market. The development of institutional networks through public-private support partnership would be more effective in supporting SME development. To make it viable, restructuring the existing public agencies, as well as the development of private support institutions, are required to establish an appropriate institutional network to facilitate trading operation. The objective behind this would be to utilize the strengths of public and private agencies while neutralizing the inherent limitations embedded in the organ gram, if any, to appropriately function in the competitive market.



7.7 Organizing Trade Fairs, Symposiums, Workshops on SMEs on a Regular Basis

Now a day's various trade fairs, workshops, and symposiums on SMEs are held by different organizations but these are held infrequently and not in any systematic manner. Organizing various types of seminars, workshops, trade fairs, etc. on a regular basis should be formulated by the competent authority in a coherent manner. There should be a business strategy in holding such activities that can uphold the performance of the SME business.

7.8 Quality Certification of SME Products

Uncertainty on the quality of SME products is a big drawback for the expansion of SME business and the sector. In this era of intense competition, continuous planning and quality improvement act as a prerequisite for the survival of any business. Hence, specific measures should be taken for quality improvement and standardization of SME products. In order to improve quality, SMEs can focus on the use of Total Quality Management (TQM) to ensure both quality and productivity at a time. The government should also establish a credible certification authority dedicated to SMEs with easy and fast processes suitable for the sector so that within the shortest possible time this sector can get evaluation of the quality of their products. The certification of the authority can help earn recognition and credibility of the quality of SME products across the globe.

7.9 Proper Implementation and Monitoring of Policy Measures for SMEs

Only policy prescription is not the end if it is not implemented through different measures timely and properly. It is imperative to regularly monitor how far policy measures are implemented and to assess after the implementation of how such policy measures have affected the development of SMEs to its original intent. An independent regulatory body is essential to monitor the activities of SME institutions in Bangladesh, besides internal regulation by themselves, through governance and transparency in the disclosure of all types of their accounts and documents. During the transition, BSCIC can temporarily bear this responsibility as well as driving this change for the betterment of the SME sector. Moreover, appropriate legal frameworks are also necessary to ensure the development of the SME of Bangladesh. Accounting systems, management information systems services, the calculation method of the recovery rate of the SME institutions should be rationalized and transparent for a fair assessment of the performance of the SME sector.

8.0 Conclusion

Nowadays, SMEs are beginning to be favored for their greater effectiveness and specific characteristics more suitable for developing nations like Bangladesh especially for its labor-intensive production techniques, lower dependence on imported raw materials and better utilization of indigenous production facilities for the domestic market. In this context, researchers and practitioners started to show more and more interest to devise the mechanisms to ensure the promotion and development of SMEs with a view to attaining sustainability of the



sector. What is noteworthy here is that the first and foremost importance of the sector can play a vital role in poverty alleviation of rural people and can ensure elevating rural economy and fair income distribution to the poor.

In this study, it has been shown that SMEs are generally not warmly welcomed by banks as well as to the FIs. Hence, financial support for setting up an enterprise, or to acquire new technology or to upgrade technologies in SME business are be hard to come by. It is thus very important that the Government should come forward on a massive scale to provide such financial facilities to promote technology-driven SME business. SMEs are still facing an identity crisis too as many are in confusion regarding the criteria to consider an enterprise as an SME. However, in this context, Bangladesh Bank has framed guidelines to be used by the banks and financial institutions in defining SMEs (Bangladesh Bank, 2004). Different other institutions may have different views that are nursing only confusion regarding this definition. A comprehensive effort of all concerned should remove it immediately. Experiences of other successful countries with SMEs may also be a guideline for countries like Bangladesh. In such countries, required support in the legal framework, logistics and finance to SMEs are provided both by the government and the private sector. Some institutional approaches are also essential as alternatives for an SME business-friendly environment. This situation calls for a holistic support system in Marketing, Production, skill development and financing mechanism specially designed for the SME sector. Identifying the technological needs of SMEs is also essential when formulating an appropriate technology management and support strategy. Support strategy in this front should consider how it supports the business strategy of the SME, how it can deliver competitive advantage for SME and what is the most effective technique that can achieve the organizational objectives at the lowest cost.

Bangladeshi entrepreneurs have proven their capacity in overcoming many business challenges and winning the market if they are properly supported by the government and a conducive atmosphere required for it. What they cannot do is solving problems at macro level that are beyond their capacity. Government should come forward to solve these problems with the highest priority. And, if the government can do so, the entrepreneurs can surely give their highest return for the natio

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