

Development of SME Sector in Bangladesh

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Executive Summary

Small and medium enterprises (SMEs) can play a key role in industrial development, employment creation and economic growth in Bangladesh through the development of indigenous skill and technology, promotion of entrepreneurship and innovativeness, enhancing exports, and also building a sound industrial base.

Growth of SMEs is, however, constrained by a number of factors. Lack of utility facilities, for example, electricity, gas and water, frequent changes in the prices as well as shortage of raw materials, inadequate infrastructure, high interest rate on borrowing, high transportation cost, lack of adequate finance, and political unrest are the major constraints to the development of manufacture-based SMEs in the country.

The paper argues that initiatives like developing necessary infrastructure, ensuring utility services, reducing interest rate, and ensuring regular supply of raw materials can change the total scenario.

These initiatives will help the SMEs as well as the broader manufacturing sector to grow, and thereby boost the overall industrial development of the country. SME growth can thus be expected to contribute to the country's economic development and enhance welfare through raising employment and reducing poverty.

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1. Introduction

SMEs play an important role in the country's industrial sector, and thus in its economic development. They provide the largest number of employment and, indeed, constitute the foundation of the private sector. The SME sector is also considered both a thrust sector and a pillar of the country's economic growth.

A well developed SME sector is a pre-requisite to attaining higher growth of large-scale industry and the services sector as well. According to a CIDA report, quoted in the Daily Independent on August 1, 2010, there are about 6 million SMEs in Bangladesh, which contribute about 50 percent of the country's industrial output, employing about 80 percent of its industrial labour force. SMEs are labour intensive and also need less capital. They are also significant contributors to backward linkage to heavy industries. About 60 to 65 percent of SMEs are located outside the metropolitan areas of Dhaka and Chittagong, where business costs are low and which also have easy access to labour and a more conducive physical environment. Therefore, SMEs can grow overtime and contribute to enterprise creation, private entrepreneurship development and employment generation.

While the overall contribution of SMEs to the national economy is easily recognized, opinions differ on the extent of the contribution of this sector. Various categories of SMEs together contribute 80 to 85 percent of industrial employment and 25 percent of total civilian employment. Apart from employment generation, SMEs also contribute significantly to the creation of value added in manufacturing activity. Figures quoted by different sources ADB (2002), WB (2003), Planning Commission (2008) and BIDS (1998) on value added contributions of the SMEs are closely similar, varying between 45-50 percent of the total manufacturing value added.

Despite their pre-eminence, SMEs have not been able to grow to their full potential in the country due to various constraints, such as the lack of medium and long-term credit, limited access to market opportunities, technology, expertise and information, lack of suitable incentives, inefficient and limited outreach of government services, and weak capacity among SME entrepreneurs in managing functional areas of business.

The Government is committed to promoting SMEs as vehicles for improvement in the quality of life, economic growth, and poverty reduction of the common people. To that end, the primary role of the government has been, firstly, that of a facilitator, removing policy obstacles and neutralizing market failures and, secondly, that of providing necessary promotional support. The SME Policy 2010

was formulated to assist in the achievement of Millennium Development Goals (MDGs) and targets. The Government constituted a National Taskforce on SME development to draw up a realistic strategy for promoting rapid growth and vigorous competitiveness among SMEs for accelerating the growth of the economy and reducing poverty in the country. The Government also constituted an SME Advisory Panel and an SME Foundation. Experienced specialists and entrepreneurs of relevance have been working together with the SME Cell of the Ministry of Industries (MOI). In turn, the country's central bank, the Bangladesh Bank (BB), for the first time, released a 'Small and Medium Enterprise (SME) Credit Policies and Programmes' with a disbursement target of around Tk.240 billion for the calendar year 2010. The policy has focused on encouraging more women entrepreneurs in business and investment across the country. The central bank announced to set up a three-tier monitoring system to ensure growth of the SME sector in the country.

Implementation of employment and income generation and poverty reduction programmes and strategies has been a systematic and continuous effort in Bangladesh. Rapid and sustainable growth of SMEs is undoubtedly an important vehicle for accelerating national economic growth, which is an indispensable condition for raising employment and reducing poverty in the economy.

2. Objectives

The general objective of the study is to assess the significance of the promotion of the SME sector in Bangladesh's economy in terms of its contribution to raising employment and income as well as reducing poverty.

The specific objectives of the study are as follows:

- Indication of the increase in capital investment in selected SME sub-sectors in the last 5 years;
- Gather information about how gross output in the selected sub-sectors has changed in the last 5 years;
- Produce evidence of how employment has changed in the selected SME sub-sectors in these 5 years;
- Examine if there is any positive relationship between investment and output/value added in SMEs in the one hand and employment on the other;
- Assess the impact of SME growth on poverty reduction in light of the observed changes in SME workers' income and expenditure on basic needs, including education and health;

- Highlight the prospects of SMEs for (1) increasing the income of the poor through self-employment by using indigenous resources and technology; (2) generating employment through entrepreneurship development; (3) promoting sub-contracting linkages with various types of large and medium scale industries; (4) meeting the local demand for essential commodities; and (5) encouraging production of export-oriented and import-substitute products;
- Identification of the obstacles faced in SME promotion and possible steps to eradicate some of the obstacles in terms of credit facilitation, registration, obtaining license etc.; and
- Suggest strategies to solve the problems, including government's programmes in both public and private sectors.

3. Scope

The study presents an overview of the development of SME Sector in Bangladesh. It also seeks to identify the SME sector's potential as means of raising employment and reducing poverty in the country and suggest measures to be taken in that regard.

4. Methodology

Data have been gathered from both primary and secondary sources. The secondary data contained in available reports, documents and other published materials have been reviewed and analysed. Primary data have been collected by administering two sets of structured questionnaire, one for the employees of SMEs and another for the firms. The respondents were mainly the owners of the SME units and workers of the respective firms.

The sample for the primary data has been so chosen as to cover the major sub-sectors of SMEs in the country. SMEs have been selected through information available from BSCIC/SME foundation, on the basis of such inherent characteristics as lower capital investment, lower capital-output ratio, lower infrastructure requirement, lower consumption of energy, shorter start-up time, and less environmental risk. A total of 20 firms have been selected purposively from different SME sub-sectors in order to collect firm level information.

Different SME sub-sectors have their own business strategies, opportunities, problems and limitations. There are also differences in the level of capital investment of different firms within the same sub-sector, for which reason their business tactics and operations also vary. The 20 firms selected for purpose of this

study belong to 10 sub-sectors, which together are representative of the entire SME sector of the country. Firms have been selected from manufacturing and services sub-sectors that are different in the nature of their operations. The selected firms, their type and number, and percentage distribution in the sample are depicted in Table 1.

Table 1: Distribution of Selected SMEs by type of firm

<i>Sl. #</i>	<i>Type of Firm</i>	<i>Number</i>	<i>Percent</i>
01	Printing	3	15.0
02	RMG	3	15.0
03	Light Engineering	3	15.0
04	Electric Industry	2	10.0
05	Real Estate	2	10.0
06	Telecommunication	1	5.0
07	Plastic Industry	2	10.0
08	Tourism	1	5.0
09	Furniture and fittings	2	10.0
10	Food processing	1	5.0
<i>Total</i>		<i>20</i>	<i>100.0</i>

Besides, 85 workers have been selected from the same SME sub-sectors to collect worker level information. Out of these 85, 75 persons are male and 10 are female. As regards the nature of their job, 81 out of the 85 are full time and the rest (4) are part time workers.

5. Definition of SME

In this study, the definition of SME given by Government of Bangladesh in its Industrial Policy 2010 in terms of size of capital and employment of labour has been followed. The definition is given in Table 2.

Table 2: Definition of SME

	<i>Capital</i>	<i>Manpower</i>	<i>Condition</i>
Manufacturing:			
Small industries	Tk 50 lakh to	25 to 99 workers	Excluding land and factory building, but including replacement value.
Enterprises	Tk 10 crore		
Medium-size industry	Tk 10 crore	100 to 250 workers	Excluding land and factory building, but including replacement value.
Enterprise	to		
Services industry and businesses:			
Small enterprises	Tk 5 lakh to	10 to 25 workers	-
	Tk 1 crore		
Medium enterprises	Tk 1 crore to	50 to 100 workers	Excluding land and factory building.
	Tk 15 crore		

Note: 1 Lakh=0.1 million; 1 Crore=10 million

Source: GOB, Industrial Policy 2010

According to the definition, in case of manufacturing, small industries/enterprises are those that have assets worth Tk.50 lakh to Tk.10 crore (excluding land and factory building, but including replacement value) and/or employ 25 to 99 workers. In services industry and business, small enterprises are defined as those that employ 10 to 25 workers and have assets worth Tk.5 lakh to Tk.1 crore. On the other hand, in the manufacturing sector, industry/enterprises are considered as of medium size if they have assets worth Tk.10 crore to Tk.30 crore (excluding land and factory building, but including replacement value) or employ 100 to 250 workers. In services industry and businesses, the medium enterprises are those that employ 50 to 100 workers and have assets worth Tk.1 crore to Tk.15 crore (excluding land and factory building).

5.1 Industrial Policies and SME

Industrial Policies announced so far in Bangladesh since the mid-1980s have been designed to promote industrial growth, driven essentially by the private sector. Integration with the global economy is now high on the government's policy agenda. To that end, a number of changes have been brought in the country's policies, including in the industrial policy, for embracing economic as well as financial integration to achieve targeted growth (MIDAS, 2009).

Before independence, SMEs were seriously neglected and there was no policy support whatsoever. In the First Industrial Policy (1971-1975), SMEs were neither given any incentive nor did they face any threat. All major industries were nationalized following an inward looking policy. SME was defined as an enterprise having maximum investment of Tk.20.5 million. The Second Industrial Policy (1975-1981) did hardly have anything related to the development of the SME sector. There was, however, a planned shift from public to private sector led growth, heading towards a 'free enterprise system'. The Third Industrial Policy (1981-1990) was relatively SME friendly. However, the policy remained only on paper due to no or weak implementation in practice. A greater emphasis was given on 'free enterprise system', privatization, and export oriented industrialization. In this phase, the definition of SME remained the same as in the First Industrial Policy. A modest change in the policy environment was seen during the Fourth Industrial Policy (1991-1995) but it produced some policy induced constraints hindering SME development. Preparedness for globalization, privatization and export oriented industrialization was given a higher priority in the industrial policy. Investment ceiling was extended up to Tk.30 million. Strong emphasis on globalization, privatization and export oriented industrialization continued in the Fifth Industrial Policy (1996-2001) as well, resulting in more policy induced constraints that hindered the development of SMEs.

In the Sixth Industrial Policy in 2002, small industries were defined as enterprises with fixed capital investment of less than Tk.250 million. Medium industries were defined as enterprises with fixed capital investment between Tk.250-500 million. The Seventh Industrial Policy accorded almost the same treatment to SMEs as by its predecessor. In the Eighth Industrial policy in 2004, the SMEs received more attention. The definition of SMEs was clarified following observations by specialists and business chambers. In the policy, SMEs were classified into manufacturing and service providing SMEs. In the manufacturing industry, small enterprise was defined as small if, in current market prices, the replacement cost of plant machinery and other parts/components, fixtures, support utility and associated technical services by way of capitalized costs (of turn key consultancy services, for example), excluding cost of land and building, were up to Tk.15 million. An enterprise was treated as medium if in current market prices replacement cost of plant machinery and other parts/components, fixtures, support utility and associated technical services by way of capitalized costs (such as turn key consultancy services), excluding cost of land and building, were up to Tk.100 million. In non-manufacturing activities (such as trading or other services), an enterprise was treated as small if it had less than 25 workers, in full time equivalents, whereas the enterprise was treated as medium if it had between 25 and 100 employees. The government had formulated a comprehensive industrial Policy in 2005 by putting special emphasis on developing SMEs as a thrust sector for balanced and sustainable industrial development in the country to help deal with the challenges of free market economy and globalization. Almost the same objectives, policy strategies, definitions of SMEs were followed in the subsequent Industrial Policies.

In the 2009 Industrial policy, the SMEs received more attention. In the case of manufacturing activity, small industry included enterprises with either the value (replacement cost) of fixed assets excluding land and building in the range of Tk.0.5 million to Tk.15 million or enterprises having between 10 and 50 workers, and medium industry included enterprises with either the value (replacement cost) of fixed assets excluding land and building in the range of Tk.15 million to Tk.200 million or enterprises having between 50 and 150 workers. In the case of non-manufacturing industrial activity, small industry included enterprises with either the value (replacement cost) of fixed assets excluding land and building in the range of Tk.0.5 million to Tk.5 million or enterprises having between 10 and 25 workers, and medium industry included enterprises with either the value (replacement cost) of fixed assets excluding land and building in the range of Tk.5 million to Tk.100 million or enterprises having between 25 and 50 workers. If one

criterion puts an activity in the small category while the other criterion puts it in the medium category, the activity was considered to belong to the medium category.

Industrial Policy 2010 aimed at achieving the MDGs and, above all, reducing unemployment and the proportion of the population afflicted by poverty and hunger to less than a half by 2017 through the adoption of short-, medium- and long-term programmes that help build a modern and vibrant industrial sector. Industrial Policy 2010 also pledged that no effort will be spared in raising the growth rate of the Gross Domestic Product (GDP) to 8 percent by 2013, further to 10 percent between 2017 and 2021, and thereby to elevate Bangladesh to the cherished rank of 'middle-income country'. As in the previous ones, the present industrial policy has given due emphasis on the SME sector and targeted to create employment opportunity for at least one person from each household in order to reduce poverty and unemployment. There is no alternative to providing for a flourishing environment and vigorous development of SMEs in attaining that goal. Recognizing the importance of SMEs, Industrial Policy 2010 has declared the SMEs as a thrust sector, considering the planned and balanced development of these labour-intensive industries as the engine of growth.

5.2 Entrepreneurship in Bangladesh

Entrepreneurship is universally regarded as one of the important determinants of industrial growth. It is one of the indispensable ways to economic self-sufficiency around the world. In a developing country like Bangladesh, where well-paid employment is scarce, entrepreneurship may be the only way that may empower most individuals to rise above the poverty. This problem is particularly severe for women. Society in Bangladesh tends to grant women limited access to material resources, land capital, and education. It is historically true that when half of the country's population cannot be involved in any formal or informal economic activities, the country will not progress further.

Now the time has come when one should emphasize on creating self employment opportunities and on expansion of employment-generating in small and medium business enterprises and at the same time on active involvement of women in the economic development process (MIDAS, 2009).

6. Literature Review

A substantial part of the available literature on Bangladesh's SME sector, some of which are contributed by foreign and national experts, has been reviewed for

purpose of the present study. Some of the notable ones are: Uddin (2008), Chowdhury (2007), Miah (2007), Ahmed (2001), Ahmed (2004), Ahmed (2006), Razzaque (2003), MIDAS (2009), Hallberg (2002), UNECE (2003), World Bank (1998), and Ahmed (2003).

Uddin's study (2008) notes that economic efficiency and overall performance of SMEs especially in developing countries are considerably dependent upon macroeconomic policy environment and specific promotional policies pursued by government. According to Chowdhury (2007), the dominant SME characteristics are their low capital requirements and limited assets, geographical diversity and high mortality, poor knowledge especially on credit, very limited access to formal sources of credit, cash intensity in transactions, very limited record keeping habit, and poor financial disclosure on tax issues. Lenders' high risk perception about them has led to their high borrowing costs.

The study by Miah (2007) identified a number of impediments to SME growth. These are: lack of adequate investment, lack of modern technology, high rate of interest on bank loans, irregular/inadequate supply of power, poor physical infrastructure and high transportation cost, poor information about market opportunities and requirements, inadequate availability of raw materials, lack of skilled technicians and workers, lack of research and development facilities, fierce competition, absence of effective and transparent legal system, difficulties in accessing technology, credit constraints, low access to business services, lack of quality human resources, low awareness, low lobbying capacity, rapid changes in policy environment etc.

Ahmed (2006) considers the lack of timely availability of the required finance a major constraint to the formation and growth of SMEs in Bangladesh. Banks are reluctant to expand their SME credit portfolio because they do not consider SME lending an attractive and profitable undertaking. This is so because SMEs are regarded as high risk borrowers because of their low capitalization, insufficient assets and their inability to comply with collateral requirements of the banks. Administrative costs are also high because close monitoring and supervision of the SME operation becomes necessary.

A study by Micro Industries Development Assistance and Services (MIDAS) reveals that sources of finance are mostly friends and family members in the case of SMEs (MIDAS, 2009). The sources of funds identified in the MIDAS study are: banks (18%), NGOs (17%), informal sectors (41%), family members without interest (20%), and family members with interest (4%). Hallberg (2002) argues that a stable macro-economy, an open trade and investment regime, and a

competitive financial sector are the most essential ingredients for a vibrant private sector. But with the law and order situation below the optimum level, corruption well above the level of acceptance, and unstable political situation, the domestic environment of Bangladesh does not come to any help, rather hinders the growth of SME in this country.

Studies cited in the foregoing indicates that SMEs stimulate private ownership and entrepreneurial skills, are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports in addition to meeting local demand. Even in the developed market economies SMEs account for a large share in output and employment (UNECE, 2003). Bangladesh has thus far failed to maximize the benefits derived from the SME sector, which needs to play a pivotal role in promoting and sustaining the industrial as well as overall economic growth (Ahmed, 2003). The role and contribution of SMEs differ from industry to industry and from country to country. Similar to other businesses, SMEs face sector-specific problems, which may affect their profitability and growth. In order to cope with the constantly changing business environment, therefore, having a well-versed good business manager is vital to the enterprise. Drawing on the lessons derived from observations on SMEs made in the few studies noted hereinabove, the task at hand of the present researcher is to suggest measures for the development of SMEs in Bangladesh for raising employment, reducing poverty, and ensuring a rapid industrialization of the country.

7. Present Scenario of SME in Bangladesh

Presently, SMEs play a significant role in the economy of Bangladesh. They account for about 45 percent of manufacturing value added, 80 percent of industrial employment, 90 percent of total industrial units, and employ about 25 percent of the total labour force. Their total contribution to export earnings varies between 75 percent and 80 percent. According to ADB, there are about 6 million SMEs and micro enterprises in Bangladesh, which contribute around 25 percent of the GDP (ADB, 2002). About 60 to 65 percent of SMEs are located outside the metropolitan areas of Dhaka and Chittagong. SMEs have easy access to labour in these non-urban areas, where business environment is better than in the congested urban centres and business costs are also low.

Data on the number of SMEs in Bangladesh available from different sources vary widely. For example, a recent DCCI-CIPE study (Economic Policy Paper on Benchmarking of Regional SME Policies: Identification of Policy Intervention

Areas for Bangladesh, 2000) finds a wide variation in the statistics on SMEs supplied by the BSCIC and Bangladesh Planning Commission. The aforementioned study notes that according to BSCIC data, which covers only manufacturing units, there are 55,916 small industries and 5,11,612 cottage industries, excluding handlooms. The number of cottage units shoots up to 6,00,000 units if the handloom sector is included, which indicates the numerical superabundance of small and cottage industries (SCIs) in Bangladesh. According to Bangladesh Planning Commission, on the other hand, the number of medium enterprises (undefined) in the country is around 20,000 and that of SCIs between 1,00,000 - 1,50,000. This wide variation in the BSCIC and Planning Commission estimates of the number of SMEs might be due to at least two reasons: (i) different definitions of the SMEs, and (ii) different coverage of the SME sector.

Whatever the correct number, the SMEs are undoubtedly quite dominant in the industrial structure of Bangladesh, comprising over 90 percent of all industrial units. This numerical dominance of SMEs in Bangladesh's industrial sector is evident in all available sources of statistics (Ahmed, 2001). However, the wide variation in their number as indicated by different sources strongly suggests the need for adopting and using a uniform set of definitions for SMEs by all government agencies to help formulation of pro-active SME promotion policies. As new definitions have been adopted in the Industrial Policy 2010 of the country, it would be necessary and appropriate to harmonize the definitions followed by all relevant institutions, viz., Bangladesh Bureau of Statistics, Finance Division of the Ministry of Finance, Planning Commission, Bangladesh Bank and all financial institutions, Export Promotion Bureau, the Ministry of Commerce, and of course, the Ministry of Industries.

SMEs are labour-intensive and have a low capital base. This twin characteristic of SMEs encourages individual entrepreneurs to invest, mainly in manufacturing products that appeal to the general public but are also significant contributors to backward linkage to heavy industries. The significant increase in SME loans over the last few years indicates that production in SMEs has been on the rise. Total SME loans increased by Tk.15,820.07 crore or 27.89 percent to Tk.72,540.25 crore at the end of June, 2011, as compared to Tk.56,720.18 crore at the end of June, 2010. Category-wise institutional SME loans increased at the end of June, 2011 in specialised banks (+43.46%), private banks (+34.21%), non-bank financial institutions (+46.52%), foreign banks (+10.02%) and state owned banks (+14.80%), as compared to June, 2010. Banks and the NBFIs are currently responding favourably to the government initiatives towards channelling more funds to the SME sector as conduits for raising employment and reducing poverty.

The SME sector is gradually becoming a rising industrial sector in the country and is contributing more and more to exports. SMEs' contribution to national exports through such industries as ready-made garments, jute, and leather is significant, though scarcity of raw materials hinders the ability of SMEs to be export oriented and limits their ability to reach more advanced stages of international business. Cheaper supply of goods and inputs in India, Taiwan, China, Thailand and Korea stimulate SME growth in those countries, raising competition faced by the Bangladesh SMEs, which also suffer local constraints such as shortage of electricity and water, and weak road and highway infrastructure. This sector also faces several common problems like lack of technical know-how, shortage of long-term financial support, lack of skilled workers and marketing links, dearth of knowledge about safety measures, hygiene, environmental pollution etc.

The central bank of Bangladesh, Bangladesh Bank (BB), has given the highest priority to SME sector development and established a new Department named SME & Special Programmes Department in 2009. According to a recent report (Bangladesh Bank, 2011), the Department was mainly created to strengthen the SMEs for alleviating poverty and hunger, ensuring gender equality, empowering women, generating employment, ultimately to achieve the overall economic development of the country. The main activities and steps taken by the Department were:

- a) **Road-show:** Department successfully participated in Road show programme from Teknaf to Tetulia in March-April, 2011 for raising awareness.
- b) **Target based Lending:** To achieve the target and encourage banks and financial institutions for investment in productive sector, BB instructed target based lending and disburse sector/cluster-wise lending in manufacturing, service sector and women entrepreneurs. BB achieved 138 percent of target in 2010 and announced Tk.62,000 crore target for 2011, of which Tk.6,790 crore was cluster based.
- c) **Progress of disbursement in manufacturing and services sector:** As productive sector investment is beneficial for national economy, BB has disbursed 65 percent of total in manufacturing and services, of which 35 percent in manufacturing and 25 percent in services sector in 2010.
- d) **Priority to women entrepreneurs for disbursing more credit:** To encourage participation and empowerment of women entrepreneurs, TK.1,805 crore SME loans were disbursed among 13,723 women entrepreneurs in 2010. Moreover, some women friendly policies were adopted. These were: 15 percent of total SME refinance fund to be allocated

for women entrepreneurs; provision of loan facility of up to Tk.25 lakh against personal guarantee; limiting interest rate to a maximum of 10 percent per annum; all types of loan applications of SME women entrepreneurs to be dealt with the highest priority; establishment of 'women entrepreneurs dedicated desk' by Banks and FIs; and ensuring service friendly approach towards women entrepreneurs.

- e) **Timely changes in SME credit policy:** Some changes in SME credit policy were made to help small entrepreneurs. These were: refixing the lower limit of small credit to Tk.50 thousands, introducing Rubber Roler system in Rice-Mills, group lending to women entrepreneurs, nominating 'focal officer' by each Bank and Financial Institution, informing 'Board of Directors' of Banks/FIs on SME activities regularly, and forming 'Monitoring Cell' at BB Head Office, offices of BB in different districts and also at Banks and Financial Institutions level.

Fiscal policy support extended to SMEs through such measures as tax holiday, reduction of turnover tax, expansion of the coverage of entrepreneurs' equity fund (EEF) to include SMEs, and reduction of duties on necessary raw materials will have a positive impact on the development of the SMEs. Adoption of these fiscal policy measures will be crucial for promotion of the SME sector, keeping in mind the important role it can play in accelerating economic growth, generating employment and reducing poverty.

8. Survey Results

8.1 Firm Level Information

8.1.1 Distribution of Firms by Experience in Business Operation

Firms, which are much older, have more experience in business operation than the firms that have been in business for fewer number of years. Most of the firms of our sample have been in operation for 11-20 years. Eight (8) out of the 20 selected firms fall in this group and account for 40 percent of the sample (Table 3). Firms that have been in operation for less than 11 years are 7 in number and constitute 35 percent of the sample, while only 5 firms, or 25 percent of the sample, have been in business for more than 20 years.

8.1.2 Initial Investment by Firms

The size of initial investment of a firm depends on the type and nature of the firm. We have excluded the value of land and buildings while calculating the capital

Table 3: Distribution of Firms by the Number of Years in Operation

Sl. #	Type of Firm	Operation of Firm						Total	
		Less than 11 years		11-20 years		More than 20		Numbe	Percent
		Numbe	Percent	Numbe	Percent	Numbe	Percent	Numbe	Percent
01	Printing	1	33.3	2	66.7	-	-	3	100.0
02	RMG	2	66.7	1	33.3	-	-	3	100.0
03	Light Engineering	1	33.3	1	33.3	1	33.4	3	100.0
04	Electric Industry	-	-	2	100.0	-	-	2	100.0
05	Real Estate	2	100.0	-	-	-	-	2	100.0
06	Telecommunication	1	100.0	-	-	-	-	1	100.0
07	Plastic Industry	-	-	-	-	2	100.0	2	100.0
08	Tourism	-	-	-	-	1	100.0	1	100.0
09	Furniture and fittings	-	-	2	100.0	-	-	2	100.0
10	Food processing	-	-	-	-	1	100.0	1	100.0
	Total	7	35.0	8	40.0	5	25.0	20	100.0

investment. Average initial investment by type of firm can be seen in Table 4. The average initial investment of the firms ranged from Tk.20 lakh to Tk.197 lakh. Our study shows that the plastic industry requires the lowest initial average investment, which was Tk.20 lakh, and RMG industry requires the highest initial average investment, which was Tk.197 lakh.

Table 4: Initial Average Investment by Firms

Sl. #	Type of Firm	Initial Average Investment (in lakh Tk.)	
		Number of Firms	Mean
01	Printing	3	38
02	RMG	3	197
03	Light Engineering	3	47
04	Electric Industry	2	70
05	Real Estate	2	40
06	Telecommunication	1	50
07	Plastic Industry	2	20
08	Tourism	1	25
09	Furniture and fittings	2	23
10	Food processing	1	110
	Total	20	67

8.1.3 Sources of Fund for Initial Investment

Most of the entrepreneurs do not have enough funds of their own to start small and medium sized enterprises. They therefore have to depend on outside sources of fund. Different firms require different level of minimum initial investment. The entrepreneurs used formal and informal sources of fund to start their business. For firms that require lower initial investment, the proportion of own capital is higher than borrowed capital. On the other hand, for firms requiring higher initial investment, the proportion of borrowed capital is much higher than own capital. For example, the RMG industry's initial average investment is Tk.197 lakh of

which 58 percent is met by own funds. On the contrary, tourism industry's initial average investment is Tk.25 lakh, of which 100 percent is met by own source (Table 5). The telecommunication sub-sector appears to be an exception, where initial investment is not very large (Tk.50 lakh), but only 30 percent of its investment came from own funds and the other 70 percent from borrowed funds. The second source of funds for initial average investment was bank loan.

Table 5: Sources of Fund for Initial Investment

Sl. #	Type of Firm	Initial Average Investment (in lakh Tk.)	Initial Average Investment % of			
			Own Capital	Borrowed from Bank/FI	Borrowed from Non-Bank Sources	Acquired from Other
01	Printing	38	87	13	0	0
02	RMG	197	58	42	0	0
03	Light Engineering	47	70	23	7	0
04	Electric Industry	70	68	32	0	0
05	Real Estate	40	95	0	5	0
06	Telecommunication	50	30	60	10	0
07	Plastic Industry	20	88	0	12	0
08	Tourism	25	100	0	0	0
09	Furniture and fittings	23	90	0	10	0
10	Food processing	110	80	20	0	0

8.1.4 Growth of Investment in the Last Five Years

The study shows that average investment of most of the enterprises increased over the last five years, from 2006 to 2010 (Table 6). Though the annual compound growth rate is not very impressive, it indicates that the expansion of SMEs in terms of size over the last five years is positive.

Table 6: Trends in Investment over the Last Five Years

Sl. #	Type of Firm	Average Cumulative Capital (in Lakh Tk.)					Annual Average Growth Rate
		2006	2007	2008	2009	2010	
01	Printing	52	62	74	79	81	11.7
02	RMG	447	447	447	447	563	5.9
03	Light Engineering	313	313	323	360	393	5.8
04	Electric Industry	310	310	330	330	330	1.6
05	Real Estate	68	85	115	160	180	27.5
06	Telecommunication	50	60	73	92	120	24.5
07	Plastic Industry	80	83	85	85	85	1.5
08	Tourism	150	180	180	200	200	7.4
09	Furniture and fittings	73	85	95	95	100	8.2
10	Food processing	2000	2100	2200	2300	2300	3.6

8.1.5 Employment Generated by SMEs in the Last Five Years

As the size of enterprises expands, the employment in the respective sectors is also expected to increase. The average annual growth of employment over the last five years was rather small, only 3.0 percent, but it signals a positive impact of SME growth on raising employment and reducing poverty of the employees of the SMEs. In the 20 sample firms, the number of employees in the firms on average was 71 in 2010, which was 63 in 2006 (Table 7).

Table 7: Growth of Employment in SMEs over the Last Five Years

Sl. #	Type of Firm	Number of Employees in Average					Annual Average Growth Rate
		2006	2007	2008	2009	2010	
01	Printing	19	22	24	24	26	8.1
02	RMG	150	122	124	122	160	1.6
03	Light Engineering	64	41	46	53	54	(-) 4.1
04	Electric Industry	48	48	53	55	56	3.9
05	Real Estate	12	15	18	23	25	20.1
06	Telecommunication	13	20	27	36	42	34.1
07	Plastic Industry	25	25	30	33	33	7.2
08	Tourism	24	26	28	30	30	5.7
09	Furniture and fittings	51	55	65	65	72	9.0
10	Food processing	250	250	250	250	250	0.0
<i>Average number of employees</i>		<i>63</i>	<i>57</i>	<i>61</i>	<i>63</i>	<i>71</i>	<i>3.0</i>

About the employment situation, 19 respondent firms out of 20 replied that employment increased in the respective SMEs over the last 5 years (Table 8).

Table 8: Number of Firms in Which Employment has Increased over the Last 5 ears

Employment Increased over the Last 5 Years	Number of Firm	Percent
Yes	19	95.0
No	1	5.0
Total	20	100.0

8.1.6 Annual Average Sale of SME Products during the Last Five Years

Annual average sale of SME products was Tk.275 lakh in 2006, which increased to Tk.1,009 lakh in 2010 at an impressive annual average rate of 38.4 percent (Table 9). In particular, the sale of products of telecommunications and food processing has increased significantly at annual average growth rates of 55.4 percent and 75.7 percent, respectively, over the last five years.

8.1.7 Net Return of SME Firms during the Last Five Years

The overall net return of all firms has increased by a paltry 4 percent over the five year period between 2006 and 2010 (Table 10). This means that the firms' net

Table 9: Annual Sale of Products over the Last Five Years

Sl. #	Type of Firm	Annual Average Sales (in Lakh Taka)					Annual Average Growth Rate
		2006	2007	2008	2009	2010	
01	Printing	45	51	56	63	65	9.6
02	RMG	211	208	199	189	286	7.9
03	Light Engineering	530	47	57	310	395	(-) 7.1
04	Electric Industry	134	134	148	154	155	3.7
05	Real Estate	82	101	119	119	125	11.1
06	Telecommunication	1152	1920	2880	4440	6720	55.4
07	Plastic Industry	75	80	92	101	101	7.7
08	Tourism	129	133	144	160	168	6.8
09	Furniture and fittings	110	111	137	138	145	7.1
10	Food processing	1060	1050	1050	9900	10000	75.7
	<i>All Firms</i>	<i>275</i>	<i>254</i>	<i>313</i>	<i>860</i>	<i>1009</i>	<i>38.4</i>

return has increased at an annual compound rate of just 1 percent during the survey period.

Table 10 : Trends of Annual Average Net Return of SME Firms over the Last Five Years

Sl. #	Type of Firm	Annual Average Net Return (in Lakh Taka)					Annual Average Growth Rate
		2006	2007	2008	2009	2010	
01	Printing	9	11	13	14	15	13.6
02	RMG	39	34	24	20	49	5.9
03	Light Engineering	107	11	14	61	78	(-) 7.6
04	Electric Industry	26	26	31	33	33	6.1
05	Real Estate	15	24	34	39	35	23.6
06	Telecommunication	10	16	23	36	54	52.4
07	Plastic Industry	13	14	16	18	18	8.5
08	Tourism	11	13	16	22	24	21.5
09	Furniture and fittings	11	12	17	17	19	14.6
10	Food processing	360	350	350	300	300	(-) 4.5
	<i>All Firms</i>	<i>49</i>	<i>36</i>	<i>38</i>	<i>43</i>	<i>51</i>	<i>1.0</i>

8.1.8 Annual Average Expenditure of SMEs during the Last Five Years

As annual average sale of products has increased and net returns have remained positive, the annual average expenses of all firms, with the exception of light engineering and food processing, have increased over the last five years (Table 11). The annual compound growth rate of expenses during these years is 9.1 percent, which is an indication of the growing ability of entrepreneurs to spend on basic needs and essentials.

Table 11: Annual Average Expenses of SMEs over the Last Five Years

Sl. #	Type of Firm	Annual Average Expenses (in Lakh Taka)					Annual Average Growth Rate
		2006	2007	2008	2009	2010	
01	Printing	36	40	43	49	50	8.6
02	RMG	171	173	175	169	233	8.0
03	Light Engineering	423	36	44	249	317	(-) 7.0
04	Electric Industry	108	108	118	122	122	3.1
05	Real Estate	68	77	85	80	90	7.3
06	Telecommunication	1142	1904	2857	4404	6666	55.4
07	Plastic Industry	62	66	76	83	83	7.6
08	Tourism	118	120	128	138	144	5.1
09	Furniture and fittings	99	99	120	121	126	6.2
10	Food processing	9700	9700	9700	9600	9700	0.0
	<i>All Firms</i>	<i>676</i>	<i>691</i>	<i>749</i>	<i>818</i>	<i>958</i>	<i>9.1</i>

8.1.9 Re-investment of Net Returns by SME Firms

The study shows that among the ten types of firms, the printing firms re-invested their net return in all five years but telecommunication, plastics industry, tourism and food processing industry did not re-invest any of their net returns at all (Table 12).

Table 12: Re-investment of Net Returns of SME

Sl. #	Type of Firm	Average Re-investment as % of Net Return				
		2006	2007	2008	2009	2010
01	Printing	12	45	3	40	10
02	RMG	0	0	0	0	33
03	Light Engineering	0	0	33	0	0
04	Electric Industry	0	40	0	0	0
05	Real Estate	0	50	50	33	40
06	Telecommunication	0	0	0	0	0
07	Plastic Industry	0	0	0	0	0
08	Tourism	0	0	0	0	0
09	Furniture and fittings	30	40	25	0	38
10	Food processing	0	0	0	0	0

8.1.10 Starting Own Business by SME Employees

We have asked all the 20 respondent firms of all 10 types whether any of their employees started their own business during the last 5 years. From their reply, we found that only 3 respondents, or 15 percent of all, have started their own business and these were: furniture shop, light engineering workshop, and tourism industry (Table 13 and Table 14).

Table 13: Number of Firms Whose Employees Have or Have Not Started Own Business

<i>Whether Any Employee Started Own Business</i>	<i>Number of Firm</i>	<i>Percent</i>
Yes	3	15.0
No	17	85.0
Total	20	100.0

Table 14: The Type of Business the SME Employees Have Started

<i>Type of Business Started by Employees</i>	<i>Number of Firm</i>	<i>Percent</i>
Furniture Shop	1	33.3
Light Engineering Workshop	1	33.3
Tourism Industry	1	33.4
Total	3	100.0

8.1.11 Sub-contracting Linkages

Regarding sub-contracting linkages of SME firms, only 10 percent or 2 respondents out of 20 said that they have sub-contracting linkages with other firms (Table 15) and these two respondents are from RMG industry. The reasons

Table 15: Sub-contracting Linkages of SME Firms with any Other Enterprises

<i>Sub-contracting Linkage with Other Firm</i>	<i>Number of Firm</i>	<i>Percent</i>
Yes	2	10.0
No	18	90.0
Total	20	100.0

behind the sub-contracts were: the subcontractors can start the work at short notice, can complete the work on time and can utilize their resources properly.

Table 16: Meeting the Local Market Demand

<i>Sl. #</i>	<i>Type of Firm</i>	<i>Current production and market demand almost same</i>		<i>Production falling short of local market demand</i>		<i>Production Exceeds local demand</i>		<i>Total</i>	
		<i>Numbe</i>	<i>Percent</i>	<i>Numbe</i>	<i>Percent</i>	<i>Numbe</i>	<i>Perc</i>	<i>Numbe</i>	<i>Percent</i>
01	Printing	2	66.7	-	-	1	33.3	3	100.0
02	RMG	3	100.0	-	-	-	-	3	100.0
03	Light Engineering	2	66.7	-	-	1	33.3	3	100.0
04	Electric Industry	1	50.0	-	-	1	50.0	2	100.0
05	Real Estate	1	50.0	1	50.0	-	-	2	100.0
06	Telecommunication	-	-	1	100.0	-	-	1	100.0
07	Plastic Industry	-	-	-	-	2	100.0	2	100.0
08	Tourism	-	-	-	-	1	100.0	1	100.0
09	Furniture and fittings	1	50.0	-	-	1	50.0	2	100.0
10	Food processing	-	-	-	-	1	100.0	1	100.0
Total		10	50.0	2	10.0	8	40.0	20	100.0

8.1.12 Meeting the Local Market Demand

Regarding the SME's ability to meet local market demand with current production of SME firms, the survey reveals that half of the respondents, i.e., 10 respondents, have not faced any problem to sell their products in the local market as demand is there. These firms have the ability to meet the local market demand. Also, 8 respondents or 40 percent of total mentioned that their production exceeds local market demand but only 2 respondents replied that they have produced much less than the prevailing demand for their products (Table 16).

8.1.13 Trade Orientation of SMEs

Regarding the trade orientation of SME firms, most of the firms i.e., 17 out of 20 firms were found to be import-substituting. Only 3 firms were found to be export-oriented (Table 17).

Table 17: Firms' Trade Orientation: Export-oriented or Import-substituting

Sl. #	Type of Firm	Products were				Total	
		Export-oriented		Import-substituting		Number	Percent
		Number	Percent	Number	Percent		
01	Printing	-	-	3	100.0	3	100.0
02	RMG	1	33.0	2	67.0	3	100.0
03	Light Engineering	1	33.0	2	67.0	3	100.0
04	Electric Industry	-	-	2	100.0	2	100.0
05	Real Estate	-	-	2	100.0	2	100.0
06	Telecommunication	-	-	1	100.0	1	100.0
07	Plastic Industry	1	50.0	1	50.0	2	100.0
08	Tourism	-	-	1	100.0	1	100.0
09	Furniture and fittings	-	-	2	100.0	2	100.0
10	Food processing	-	-	1	100.0	1	100.0
<i>Total</i>		<i>3</i>	<i>15.0</i>	<i>17</i>	<i>85.0</i>	<i>20</i>	<i>100.0</i>

8.1.14 Obstacles Faced in SME Promotion

For smooth running of the SME activities and promotion of the firms, the respondents faced various problems and obstacles. The survey responses indicate that firms faced obstacles of certain types to promote their own business. The responses also show obstacles that hinder the growth of particular SME sectors. These obstacles are related to credit facilitation, registration, obtaining license etc.

a) Own business: The respondents faced some obstacles to promote their own businesses (Table 18). The top five obstacles, ranked by the respondents in order of their importance were: high price of raw materials that leads to high production cost, serious power crisis, lack of financial resources, lack of skilled/highly skilled worker, and increased number of competitors.

Table 18: Obstacles Faced by Owner in Her/His Own Business

<i>Obstacles</i>	<i>Responses reported as</i>		
	<i>1st problem</i>	<i>2nd problem</i>	<i>3rd Problem</i>
High price of raw materials that leads to high production cost	8	2	6
Serious power crisis	3	2	3
Lack of financial resources	3	-	1
Lack of skilled/highly skilled worker	2	3	4
More competitors in this business	1	1	1
RAJUK (govt. agency) regulation on leaving 40% open space	1	-	-
Lack of govt. planning for tourism	1	-	-
Lack of workers	-	3	1
Environment related problems	-	1	2
Difficult to get approval from different departments	-	1	1
High labour wage	-	1	2
Malpractice done by the processors and suppliers	-	1	-
Easy availability of foreign product in local market	-	1	-
Political unrest	-	1	-
Workers change his/her job frequently	-	1	-
Lack of management knowledge	-	-	3
Water logged due to poor drainage system	-	-	1
Severe road traffic	-	-	1
Govt. are not providing utility connections to new apartments	-	-	1

b) Particular SME sector: The respondents faced some obstacles to promote a particular SME sector though these obstacles and ranking were almost the same as they faced in their own firms (Table 19). As the respondents mentioned and ranked, the top six obstacles were: high price of raw materials that leads to high

Table 19: Obstacles Faced by Particular SME Sector

<i>Obstacles</i>	<i>Responses reported as</i>		
	<i>1st problem</i>	<i>2nd problem</i>	<i>3rd Problem</i>
High price of raw materials that leads to high production cost	7	4	5
Serious power crisis	3	2	3
Lack of skilled/highly skilled worker	2	3	4
Lack of financial resources	2	-	1
Environment related problems	1	-	3
More competitors in the sector	1	1	1
RAJUK (govt. agency) regulation on leaving 40% open space	1	-	-
Capital remain blocked for 100% bank guarantee	1	-	-
Lack of govt. planning for tourism for tourism sector	1	-	-
Lack of workers	-	3	1
Difficult to get approval from different departments	-	1	1
Workers change his/her job frequently	-	1	-
Malpractice done by the processors and suppliers	-	1	-
Easy availability of foreign product in local market	-	1	-
Political unrest	-	1	-
Lack of management knowledge	-	-	3
High labour wage	-	-	3
Govt. are not providing utility connections to new apartments	-	-	1
Water logged due to poor drainage system	-	-	1
Severe road traffic	-	-	1

production cost, serious power crisis, lack of skilled/highly skilled worker, lack of financial resources, environment related problems, and the growing number of competitors.

8.1.15 Measures Suggested by Entrepreneurs to Boost SME Growth

In their responses, the SME entrepreneurs stressed the need for addressing the problems and obstacles mentioned in the foregoing (Tables 18 and 19, Section 8.1.14) and suggested several measures for promoting the growth of SMEs. The suggested measures are indicated in Table 20.

Table 20: Measures Suggested by Entrepreneurs to Promote SME Growth

<i>Measures</i>	<i>Number of responses</i>
Training should be imparted to increase management knowledge and other skills	8
Availability of power should be ensured	7
Import of foreign electrical and plastic product should be banned	3
Complex approval process from different agencies should be eased	2
Tourism and shrimp policy should be announced soon	2
Product quality should be ensured	1
Import tax should be reduced on raw materials	1
Industrial park should be established	1
RAJUK (government agency) regulation on leaving 40% open space should be withdrawn	1
Government should provide utility connection soon	1
Drainage system should be developed to remove water logging	1

Table 21: Obstacles to Access to Finance by SMEs

<i>Obstacles</i>	<i>Responses reported as</i>		
	<i>1st problem</i>	<i>2nd problem</i>	<i>3rd Problem</i>
High lending rate	8	4	7
Complex procedure to obtain a loan	6	7	1
No collateral no loan from bank	2	3	4
Tax is high	2	2	1
Bank donot provide loan against project	1	-	-
Terms and conditions are not suitable for finance	-	1	2
Lack of management knowledge	-	1	2
Land registration cost is high	-	-	1
Delay payment of LC by the bank	-	-	1
More time required to get a loan	-	-	1

8.1.16 Causes of Inadequate Access to Finance and Suggested Remedies

In the survey, the respondent firms cited a long list of obstacles to access to finance by SMEs and suggested several measures to remove these obstacles. The obstacles cited and measures suggested in the responses can be seen in Table 21 and Table 22.

Table 22: Measures Suggested by Entrepreneurs to Improve SMEs' Access to Finance

<i>Measures</i>	<i>Number of responses</i>
Lending rate should be reduced	19
Procedure to get loan should be smooth and simple	14
Banks should allow loan without collateral	4
Tax should be reduced*	3
Short term loan should be given within shortest possible time	1
Liquidity problem of banks should be solved	1
Tax benefit should be given to light engineering industry*	1

Note: *=No explanation given as to how tax reduction or tax benefits would improve credit access

8.2 Worker Level Information

8.2.1 Workers' Compensation Package: Salary and other Benefits

Interviews of 85 workers selected from 9 different types of firm reveal that the average monthly salary, including all benefits, of all the 85 workers was Tk.9,533 in 2010. Per capita income of these workers was Tk.5,833 in 2006. During this period, the workers' monthly income increased by an annual compound rate of 13 percent. Workers' starting salary in the 9 types of firm on average was Tk.4,485 per month even though they did not start work in the same year. Among all the 9 types of firm, average monthly salary of RMG workers increased the most during this period (by an annual average of 15.78 percent) and the lowest was tourism,

Table 23: Average Monthly Salary of Workers (including all benefits) by Type of Firm

<i>Sl. #</i>	<i>Type of Firm</i>	<i>Starting Salary (Tk.)</i>		<i>Salary in 2006 (Tk.)</i>		<i>Present (2010) Salary (Tk.)</i>	
		<i>Number of Respondent</i>	<i>Mean</i>	<i>Number of Respondent</i>	<i>Mean</i>	<i>Number of Respondent</i>	<i>Mean</i>
01	Printing	20	3865.00	20	4520.00	20	8025.00 (15.43)
02	RMG	15	4346.67	15	4926.67	15	8853.33 (15.78)
03	Light Engineering	5	3800.00	5	5700.00	5	8400.00 (10.18)
04	Electric Industry	5	3700.00	5	5200.00	5	7600.00 (9.95)
05	Real Estate	10	6020.00	10	7450.00	10	13300.00 (15.59)
06	Telecommunication	5	5100.00	5	5600.00	5	9200.00 (13.21)
07	Plastic Industry	10	5450.00	10	6400.00	10	9450.00 (10.23)
08	Tourism	5	3300.00	5	9600.00	5	14000.00 (9.89)
09	Furniture and fittings	10	4450.00	10	6250.00	10	9350.00 (10.59)
<i>Total</i>		<i>85</i>	<i>4484.71</i>	<i>85</i>	<i>5832.94</i>	<i>85</i>	<i>9532.94</i> <i>(13.07)</i>

Note: Figures in parentheses in the last column indicate annual compound growth rate between 2006 and 2010

which witnessed 9.89 percent growth per annum (Table 23). The rate of average annual growth of salary of all workers was 13.07 percent.

8.2.2 Workers' Expenditure Per Month in 2006 and 2010

We can see from Table 24 that worker's average monthly expenditure on basic needs, including savings, has increased significantly, at an annual compound rate of 12.60 percent between 2006 and 2010. From these data, one can infer that workers' living conditions have improved and that the incidence of poverty has also come down correspondingly.

Table 24: Average Monthly Expenditure

Sl. #	Expenditure Head	Average Monthly Expenditure in 2006		Average Monthly Expenditure in 2010	
		Number of Respondent	Mean	Number of Respondent	Mean
1	2	3	4	5	6
01	Food	85	2247.06	85	3356.47 (10.55)
02	Clothing	85	209.41	85	352.35 (13.89)
03	Housing	85	2307.06	85	3449.41 (10.58)
04	Health	85	85.88	85	146.47 (14.28)
05	Education	85	256.47	85	640.00 (25.69)
06	Others	85	406.47	85	742.94 (16.27)
07	Savings	85	328.82	85	787.65 (24.41)
Total expenditure including savings		85	5762.35	85	9263.53 (12.60)

Note: Figures in parentheses in column 6 indicate annual compound growth rate between 2006 and 2010

9. Problems for SME Development

A dynamic and vibrant SME sector is not a luxury but a dire necessity. As the economy already faces a huge challenge to absorb some two million people entering the labour force annually, exports and job oriented manufacturing, especially the SME sector, must hold the key to national development over the next quarter century or so (World Bank, 1998). However, Razzaque (2003) argues that factors that pose serious problems/constraints to SME development are: poor product, quality and standards, weak marketing, paucity of investment and working capital, shortage of skilled workers, lack of entrepreneurship and management skills, poor conditions of physical infrastructure, rising of transport costs, inconsistent trade policy and incentives, information gap, weak legal and

regulatory framework and an unsound domestic environment. Ahmed (2004) suggests that it is necessary to reform the Government's industrial policy and technology policy to outline the Government's measures to support SMEs in technological upgradation.

The survey results indicate that the SME sector faces a lot of problems in Bangladesh which, inter alia, are the absence of adequate skilled manpower and modern technology, poor physical infrastructure, unfavorable geographical conditions, resources scarcity i.e., scarcity of raw materials, difficulty in exporting SME products etc., financial constraints, lack of information, lack of quality assurance, limited marketing capability and resources, lack of marketing opportunities, illegal imports, lack of research and development facilities, lack of participation of women entrepreneurs, lack of entrepreneurship skills, entrepreneurs' conservative attitude towards taking risk and lack of vision, weak law and order situation, poor capacity to make and implement plans, all of which hinder the growth of SME in Bangladesh.

10. Government and Non-government Programmes for SME Development

The government and the non-government organizations have initiated various programmes for the SME development in Bangladesh. As various types of industries and business enterprises have grown in the SME sector, the government has given priority to the promotion of this sector for expanding industrial production and boosting the country's economic development. Special emphasis has been given to the growth of women's entrepreneurship in SME and there are a variety of inducements to attract women in business. Initiating with the SME Task Force and later with the SME Advisory Panel, the SME Foundation was formed by the government and has been in operation since 2006 with specific objectives to look after policy, drawing up a reliable strategy for SMEs, and conducting country-wise study (MIDAS, 2009).

SME Foundation is a non-profit organization mandated to help growth, expansion and overall development of SMEs in Bangladesh. Over the years, the SME Foundation has been working in line with the government policy of reducing poverty through creating employment with the help of industrialization based on modern technologies. In particular, the Foundation is working on policy advocacy, capacity building of entrepreneurs, facilitating and financing, women entrepreneurship development, marketing management and expansion, creation of SME entrepreneurs, identification of SME sub-sectors, pre-and post-investment

counseling, quality certification for standardized products, SME Web portal development and Helpline Centre.

Among the non-governmental organizations (NGOs) involved with the SME development in Bangladesh are the related trade bodies, including the Chambers and the Associations, Training Institutes, private banks and financial institutions, and various forms of NGOs especially working for raising employment and reducing poverty.

11. Conclusions and Recommendations

11.1 Conclusions

SMEs can act as a vital player in a country's accelerated industrialization and economic growth, employment generation and reducing poverty. Government of Bangladesh has highlighted the importance of SME in the Industrial Policy 2010. SME has been identified by the Ministry of Industries as a 'thrust sector'. As the SME sector is labour intensive, it can create more employment opportunities; for this reason government has recognized SME as a poverty reduction tool. SME can also foster the development of entrepreneurial skills and innovation. Along with poverty reduction, SME can reduce the urban migration, increase cash flow in rural areas, and thereby enhance the standard of living of the rural people.

Notwithstanding its importance, the performance of SMEs in Bangladesh has been significantly below the performance at the international level. Although Government of Bangladesh has taken some initiatives to ensure the growth of SME, those steps are not enough. Bangladesh government should give more focused attention on some areas, such as, arrangement of finance, provision of infrastructure facilities, framing appropriate legal framework, establishing a national quality policy etc. We are quite optimistic that if these suggestions are implemented, the growth of SME sector in Bangladesh will accelerate.

11.2 Recommendations

In order to remedy the problems faced by SMEs, the study recommends the following:

- a) A uniform definition of SME has to be developed for the proper implementation of all SME programmes. Bangladesh Bank, Bangladesh Bureau of Statistics, and SME Foundation have different definitions of SMEs. Government may take necessary initiatives to make it uniform.

- b) Development of infrastructure is essential for the optimum growth of SME. So, the government needs to take appropriate steps for the infrastructure development of Bangladesh.
- c) Government must have to take adequate measures to ensure the uninterrupted supply of raw materials for SME.
- d) Government and financial institutions should provide adequate finance for modernization and technological advancement of SME.
- e) Government, financial institutions and Non Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh.
- f) Government needs to take appropriate measures to fix the minimum salary/wages of the employees of SME.
- g) Government should take the initiative to develop web pages exclusively for SME and an integrated SME database. This would reduce the barriers to SME access to global market.
- h) In order to encourage women entrepreneurship, government may involve women entrepreneurs in policy formulation and implementation, arrange funds for women entrepreneurs, provide necessary training to women entrepreneurs in urban and rural area of Bangladesh.
- i) Government through SME foundation may devise appropriate marketing tools to popularize the products of SME.
- j) For minimizing red tape and accelerating the growth of SME, government may provide one roof service under the SME foundation.
- k) Appropriate legal framework is necessary to ensure the development of SME of Bangladesh.
- l) In this era of intense competition, continuous planning and quality improvement are essential prerequisites for the survival of SMEs. In order to improve quality, SMEs can follow the 'Just in Time (JIT)' philosophy and use 'Total Quality Management (TQM)' and can ensure the improvement of quality and productivity at a time.
- m) Government should establish a credible certification authority especially for SMEs, so that the sector can obtain a technical evaluation of the quality of their products within the shortest possible time. The certification by the authority should be acceptable world wide.

Government may also provide assistance to SMEs during the certification process and promote the importance of product certification for international acceptance.

- n) Research and Development (R&D) is must for the development and growth of SME. So, government must have to invest in R&D for ensuring the intensification of SME of Bangladesh.
- o) Restriction may be temporarily imposed on the import of substitute SME products, which are domestically produced in Bangladesh.

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