

Determinants of SME Business in Mymensingh

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Abstract

The objective of this study is to examine the role of Small and Medium Enterprises (SME) to reduce poverty and unemployment in Mymensingh. Unemployment is major problem in Bangladesh. The unemployment rate is about 4.5 % in Bangladesh. The Small and Medium enterprise growth are about 26% and 8% respectively. Small and Medium enterprise employment growth are about 17% and 12 % respectively during the time between 2003 and 2013. The poor is about 50% and extreme poor is 30% in Mymensingh. So, Mymensing is the important place to study. To serve the purpose, the data have been collected from 252 (SME) owners from three upazilas of Mymensingh. This upazilas are Trishal, Valuka and Mymensingh Sadar during the time between 3rd December 2020 to 3rd January 2021. In this study OLS method is used to determine the determinants of SME turnover. The results show that access to SME credit, education, total investment and initial investment are positively and significantly related to turnover. Another important finding is that the more the educated SME owners are the higher the turnover is. This encourages educated person to start SME business. This indicates that if SME credit is increased the turnover will be high. It is also seen that the higher the initial and total investment is the higher the turnover is. The R² is 0.50. This indicates that the explanatory variables can 50% explain the variables. It is also seen that women entrepreneur is only 8% in the study area. In addition to this, the SME owners receive more loan from private banks than the public banks although the rate of interest was high in private banks during the study time in the study period. So, policy should be taken to increase women entrepreneur and public banks officials behaviour is to be improved.

Key words: SME credit · Women entrepreneur · National SME Policy 2019

Introduction

Small and Medium Enterprises (SMEs) are considered as a potential sector for solving unemployment problem through new employment generation. This sector

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has been playing a significant role in achieving economic growth and earning foreign currency by encouraging and expanding the business activities. Small and Medium Enterprise (SME) can play an important role to generate employment, investment, export and economic growth. The contribution of broad industry to GDP is about 35.36 percent (BBS) in fiscal year 2019-20. Industry consists of cottage, micro, small, medium and large industries. Among these five industries Small and Cottage Industries contribute a large portion to GDP in Bangladesh. For rapid industrialization government announced National Industrial Policy-2016. The objective of this industrial policy is to generate employment and increase number of entrepreneur by providing loans to the appropriate entrepreneur. SMEs help to expand large scale industry through forward and backward linkage. Many developing countries including Taiwan, Vietnam, South Korea, China has successful story of SME. SME can play vital role for the industrial development of Bangladesh. The sub industries of SME can be defined as follows: Rice Mills, Bakery, Flour Mills, Light Engineering Works, Printing & Publishing, Readymade Garments, Saw Mills, Soaps, Plastic Products, Automobile Servicing & Repairing. The challenges of SME are financing and marketing. The advantage of financing in the SME is taken by the owners of Medium Entrepreneur because the medium enterprise always keep their record and documentation. According to the National Industrial Policy 2016, the definition of Small and Medium Enterprise (SME) are as follows.

The definition of SME can be summarized in the following table :

Industry	Sector	Capital	Number of Workers
Small Industry	Manufacturing	75 lakh to 15crore	31 to 120
	Service	10 lakh to 2crore	16 to 50
Medium Industry	Manufacturing	15 crore to 50 crore	121 to 300
	Service	2 crore to 30 crore	21 to120

Source: Bangladesh Industrial Policy, 2016

Small and Medium Enterprises (SME) are categorized into three parts which are trading, service, and manufacturing

The poor is about 50% and extreme poor is about 30 % in Mymensingh (BBS). The national unemployment rate is 4.5% (labour force survey) The data has been collected from the following enterprises : Fisheries, Horticulture, Feed Mill, Automobile service center and workshop, Auto Rice Mill, Hachery, Bekary, Printing and Press, Muri Manufacturing Dairy farm, Trading Business.

Poverty is multidimensional and complex issue but the dynamics of poverty are indeed very much complex involving many inter-related and often interaction variables. Poverty is defined as the condition of lack of education, Inequality in land ownership landlessness, inequality in income distribution lack of income

opportunities and poor government policies.

Small and Medium Enterprises:

SME is engine of growth in Bangladesh like any other developing countries. This sector's contribution in terms of employment generation, economic value addition and business activities is enormous.

With about 7.8 million SME units. This sector is contributing almost 25 percent of GDP, 11 percent of total industrial investment, 30 percent of total industrial employment and 40 percent of total manufacturing outputs. Basically, most of the establishments of the SMEs are labour intensive. Which create employment opportunity for available and cheap labour force. At the same time the cheap labour has made the SMEs the fastest growing sector. The growth trajectory of SMEs shows that small industries grew faster with 26.55 percent growth during 2003-2013 followed by medium industries. Employment generation growth is also larger in small industries between 2003 and 2013.

The National SME Policy, 2019 has been framed creating equal opportunities for all and ensuring equal opportunities for all and ensuring economic empowerment through increased involvement of women in the SME sector. The Cluster based SME Development is going to be adopted by identifying 117 clusters throughout the country. The government is putting its endeavor to enhance the contribution of this sector to 32 percent by 2014. A broad based strategy has been set in the 8th five year plan 2020-24 which are top most attention will be given to protect the jobs and enhance new jobs in the cottage. Micro and small enterprises (CMSE) that presently employ an estimated 21 million people.

Table 1: SME Establishments and total Persons Engaged by categories:

Type	Establishments		Total person Engaged			
	Total	%	Total	%	Male	Female
Small	859318	10.99	6600685	26.34	5844088	756597
Medium	7106	0.09	706112	2.88	538526	167586

Source: Economic unit census-2013, Bangladesh Bureau of statistics

Table 2: Growths of SME in Bangladesh

Economic	2013	2003	Annual Growth Rate 2003-2013
Small	770063	72935	26.58%
Medium	7105	3236	8.08%

Source: Economic Units Census-2013, Bangladesh Bureau of statistics

Table 3: Employment (TPE) Growth in SME in Bangladesh.

Economic Units	2013	2003	Annual Growth Rate
Small	6330577	1304935	17.22%
Medium	706111	221123	12.31

Source: Economic Units Census-2013, Bangladesh Bureau of statistics.

The above tables shows that the Small and Medium enterprise business growth is about 26 % and 8% respectively during the time between 2003 and 2013. In addition to this Small and Medium Enterprise employment growth rate is about 17% and 12 % respectively during the time between 2003 and 2013. So small and Medium enterprise can play an important role to generate employment in Mymensingh as well as in Bangladesh.

Significance of the study

Bangladesh is a country where poverty and unemployment main economic problem. In 2018-19 poor was 20.5% and extreme poor was 10.5% (BBS). According to labour force survey, the unemployment rate is about 4.5%. The contribution of SME to GDP is about 26%. This SME generates substantial employment opportunity in Bangladesh. This sector has been playing an important role to reduce poverty and unemployment. In Mymensingh, extreme poor is 30% and poor is about 50 % in 2018-19 (BBS). So, SME can play an important role to reduce poverty and unemployment in Mymensingh

Limitation of the study

The role of SME is very important to generate employment and output of Bangladesh. This study is conducted in only one district and only 252 samples are collected due to shortage of fund. This study is conducted based on UGC and Jatiya Kabi Kazi Nazrul Islam University's budget. The budget is only 2,34,000 (Two lacks and Thirty four thousand taka). If the budget is more we can take at least 1000 sample from at least eight divisional headquarters of Bangladesh. Then, this study can be representative for whole country of Bangladesh. In addition to this we did not get up to date article of the world. The library facility of our university is not enough to conduct up to date study on research. Along with this, the main copy of Econometric software such as Eviews, STATA, R, Pythone are not available. We use pirated copy to conduct this study. That's why we faces lot of problem to analyses the results. Fake SME loan receiver are not able to pay the loan. So, Actual SME businessman cannot get loan. SME Loan recovery problem. Political Reference is required to get loan in public bank. Private Bank should participate in the National Industrial Policy 2016, and SME Policy, 2019. Direct relationship between SMEs and poverty reduction is not found in the study area. That's why we examine the determinants of SME business.

Literature Review

SME policy 2019 shows that the government will provide the required assistance to the concerned organizations in order to create a favorable climate and expand the essential infrastructure for the SME sector's growth. The government is aiming to increase funds in this sector and has the policy to find skilled labor. The government would take appropriate efforts to enhance loans, credit risk reduction, and credit transaction through Bangladesh Bank, commercial banks, and SME in order to expand the scope of institutional funding facility in the SME sector. The government will also take the necessary step of collaborating with the private sector and providing money to improve the training program for small and medium Enterprises.

Bangladesh bank as well as other banks and financial organizations have taken many programs to expand the SME enterprises. They are monitoring various SME sectors and listing them in order to provide loans with the fewest formalities and with the least credit risk. The government supports women who are engaged in the SME sector and gives them loans so that they can expand their business.

Ferdous Ara 2020 reported that the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the SME Foundation are the organizations in charge of implementing the SME Policy's strategic goals and action plans. BSCIC and SMEF would get both financial and non-financial support from the Ministry of Industries (MOI), which is in charge of reviewing progress and monitoring action plans. The government undertakes a number of time-bound activities to help the SME sectors thrive and to assist them in exporting their products to the international market.

Analysis of SME research project of Bangladesh

Mamunur Rashid (2012) analyzed that SME organizations are labor-intensive organizations in which capital is low. An SME's success or failure is determined by important internal and external activities and environments, such as management, marketing, financing, production, distribution, research and development, labor, government laws and regulations, and the business environment.

Aladdin & Chowdhury (2015) evaluated that SMEs are backbone of Bangladesh economy and this sector plays important rule to enhance our fragile economy. This industry contributes to the reduction of poverty and the creation of numerous job opportunities. They also find out that the different financial sectors are helping SMEs to expand their market opportunities.

Jahirul, (2011) analyzed that Small and Medium Enterprises (SMEs) provide low-cost employment and economic flexibility. Many of the SMEs are export-oriented, indicating that they are internationally competitive. Given the importance of the SME sector in Bangladesh's economy and an awareness of the restrictions that such businesses face, it is clear that measures to promote the development and expansion of SMEs are required. He also finds out that SMEs are situated in both rural and urban areas and create employment in both areas. He discovers that the government and other financial institutions are supportive of these industries.

Analysis of SME articles

Islam, Rahman, & Nisat, (2020) Evaluated that during the lockdown, the majority of small and medium enterprises were closed and others were partly opened. They conducted a survey of 18 districts in Bangladesh. During that time, their production also declined, as did demand for the product due to a shortage of transportation. Dropped demand and the burden of fixed costs to run the business were prominent reasons behind the fall in profit. They find out that impact of Covid-19 the workers losing jobs and widen the gender discrimination.

Khalil 2020, Reported that Covid-19's influence on the GDP rate is just 4%. SMEs in our country would barely suffer, because this sector generates 20% of our GDP growth and roughly 40% of employees in these areas. After the 4month lockdown 68 % of the small businesses were closing down. Though the government and various private sectors took substantial initiatives to revitalize SMEs after the lockdown, they were insufficient to cover all of the locations. This report mainly based on secondary data focused on Bangladesh.

Hossain June 2021, Showed that The COVID-19 pandemic has had a significant impact on various indicators of Bangladesh's economy, including the readymade garment sector, foreign remittance, bank and financial Institutions, food and agriculture, local trade, foreign trade, GDP, SDGs, government revenue, and so on. He also suggest that if the economy are continuing in such way the country will face a long term recession so government should take the sufficient policy to overcome the situation.

Md.Qamruzzaman 2020, Focused on SMEs in Bangladesh and found that the impact of Covid-19 the contribution of SMEs in the economy might be lower. In the lockdown time the SMEs are adversely affected by crisis persistent instability. The government of Bangladesh should support the people who are engaged to the SMEs business and solve the problem immediately. He also said that although the SMEs are the businesses most affected by the pandemic, they are also crucial for a sustainable economic recovery.

Methodology

This chapter deals with the research methodology which includes questionnaire design, method of data collection. The assessment includes quantitative methodologies using structured questionnaire.

Questionnaire Design

A structured questionnaire is constructed on the basis of literature review to conduct a survey. Before finalization of present research questionnaire a draft questionnaire was developed and pre-tested and on the basis of the field experience, necessary corrections were made. This questionnaire extracted information related to respondents household income, household expenditure, savings, credit,

Types of Data and Data Collection Method

The study used both primary and secondary data collected from various sources. The primary data are collected from the owner of various SME structured questionnaire using interview supported by key informants’ interview, focus group discussions and personal. Secondary data were obtained from published books and journal articles, as well as unpublished annual reports and records from government offices and other relevant organizations. There are many SME institutions in Mymensingh. For primary data collection the address of SME firms have been collected from Mymensing Chambers of Commerce and Industry (MCCI) and various bank of Mymensingh including Islami Bank, Trishal, Mymensingh. The secondary data have been collected from District Statistics Office, Mymensingh and Bangladesh Small and Cottage Industries Corporation (BSCIC), Mymensingh. All data collection processes are completed under close supervision of the researcher.

$$LnY = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \varepsilon \dots\dots\dots (1)$$

Where,

<i>LnY</i>	Log of Yearly turnover / Log of Yearly Production
<i>X₁</i>	Access to SEM loan (if access=1, 0 Otherwise)
<i>X₂</i>	Marital status of household (if yes=1; 0 Otherwise)
<i>X₃</i>	Level of education in year
<i>X₄</i>	Experience of business in year
<i>X₅</i>	Total member of household
<i>X₆</i>	Log of initial investment of enterprise in BDT
<i>X₇</i>	Log of total investment of the enterprise in BDT
<i>X₈</i>	Total number of worker in the enterprise
<i>X₉</i>	Access to training (if access=1; 0 Otherwise)
<i>β₀</i>	Constraint
<i>β₁ – – – – β_n</i>	Estimated parameter

The study apply both quantative (structural questionnaire and qualitative checklist). We conduct an small and medium enterprise (SME) survey of 252 firms in three upazilas such as Mymensingh Sadar, Trishal and Valuka of Mymensingh during the time between 3 December, 2020 to 3 January 2021. This study conducts 20 key Informant Interview (KII) with members of Bangladesh Small and Cottage industries Corporation officials, Officers of various commercial Banks including public and private banks representative. In this study, model- (1) is used to estimate

the impact of various variables on SME turnover. This model is estimated using economic software STATA.

Results and Discussion

The coefficient of access to SME loan is positive and statistically significant. This indicates that access to SME loan increase yearly turnover of enterprise. The coefficient of education of SME enterprises owner are positive and statistically significant. This means that the higher the level of education of enterprise owner, the higher the yearly turnover of the owner is. The coefficient of total investment, the coefficient of workers of the SME enterprises are positive and statistically significant. The magnitude of R^2 is 0.50 which indicates that independent variables of the model can explain 50% of the variations of the dependent variables. st

Empirical Model

Dependent Variable: Yearly Turnover

Variables	Coefficient
Gender	1.438 (1.29)
Access to SME Loan (T)	0.326* (2.09)
Education of SME Owner (edu)	edu 0.0461** (2.64)
Family Size (F_size)	F_size 0.00267 (0.14)
Experience of Enterprises (expri)	expri 0.000259 (0.03)
Initial Investment (In invest)	-0.0482 (-0.85)
Total Investment (T_invest)	0.602*** (8.22)
worker	0.0178** (3.25)
Train	-0.166 (-0.94)
_cons	5.189*** (4.00)
R^2	0.50
Adjusted R^2	0.48
F	24.66***

Factors influencing Yearly income of SME Enterprise

The independent variables used in explaining the yearly income of SME Enterprise were gender, access to SME loan, level of education of owner of SME enterprise family size of the respondents, experience of businessman, initial investment of the firm, total investment of firms, the number of workers, and access to the training

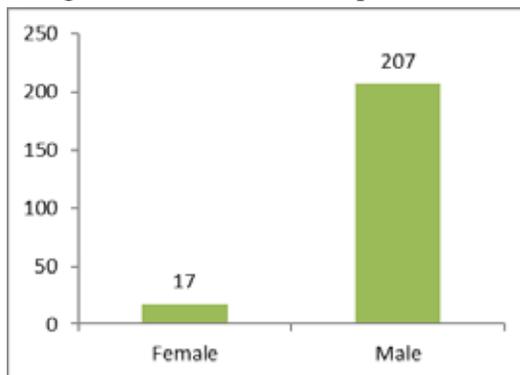
of the firm. Co-efficient having sufficient degrees of freedom were tested for significance level at 1 percent, 5 percent and 10 percent probability; Co-efficient of multiple determinations (R^2) indicated the total variations of output explained by the independent variables included the model; F-values were used to measure the goodness of fit for different types inputs.

Above table shows that the intercept term was positive, which means that if all the independent variables gender, access to SME loan, level of education of owner of SME enterprise family size of the respondents, experience of businessman, initial investment of the firm, total investment of firms, the number of workers, and access to the training of the firm were absent, yearly income must happen. The estimated value of the coefficient of gender, access to SME loan, level of education of owner of SME enterprise, family size of the respondents, experience of businessman, total investment of firms, the number of workers income, were positive with SME enterprises yearly turnover, On the other hand, initial investment of SME enterprises and access to the SME training of owner of SME coefficient were negative with individual SME owner yearly turnover. The coefficient of gender, family size and experience are positive but statistically insignificant. The coefficient of initial investment and training are negative and statistically insignificant.

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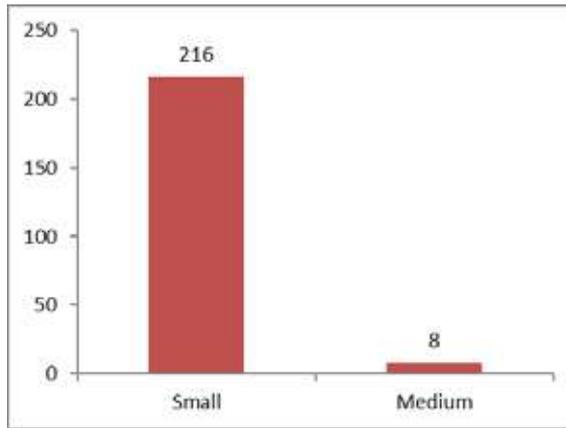
The Value of Inflated Factor (VIF) is 1.36 which is less than 10. This indicates that this model is free from multi collinearity problem.

Figure 1: Gender of the respondent



Among these SME firms 92.41% are male and 7.58% are female

Figure 2: Types of Business



Among the surveyed firms, the proportion of small firms is 96.42 % and medium firms is 3.57 % . Small firms are higher than medium firms.

Conclusions and Recommendations

The results show that access to credit, education level of the owners of small and medium enterprise play positive role to increase turnover of the SME business. So, SME loan should be provided to the right SME businessman with simple and easy conditions. The data shows that the SME loans disbursement have been increased over the years. But field experience of the study area shows different picture. The SME businessman claim that they faces lot of problems to get loan from government banks. In this banks behavior of the officers and staff are not good. Sometimes, political reference is required to get SME loan. In addition to this broker and agents or middleman take opportunity and take money to arrange SME loan. Some corrupted officers take bribe to sanction SME loan. It is seen that SME businessman take more loan from private banks than public or government banks although rate of interest is high private bank compared to the public banks. So, measures have to be taken to eradicate these irregularities. One of the solutions is to form economic intelligence agency to eradicate these corruption. Moreover, Punishment and justice have to be ensured.

In Bangladesh, educated persons unemployment is high. They want public and private job but job opportunity is limited relative to the number of persons seeking jobs. But they do not like to become entrepreneur. But the study shows that the educated SME businessman turnover is high. So, educated person can do business becoming an entrepreneur. The mindset of young educated people have to be changed. They should come forward to start business to get relief from curse of unemployment.

The total investment and number of workers are two more important determinants of SME business. If investment are high, the turnover is high. If number of workers are high, the turnover is high.

Recommendations

1. Since access to SME loan and higher total investment increases yearly turnover sufficient SME loan should be provided with easy conditions from Bank NGOs and Non-bank Financial institutions without any political Reference
2. Loan Should be provided to the actual SME businessman
3. Loan defaulters case should be solved within 6 months.
4. Government should take essential steps to make credit guarantee scheme effective.
5. Branches of commercial bank should conduct prospective business survey in their respective region and encourage young entrepreneur to start SME business.
6. Since higher level of education of SME owner increase turnover, educated person should encourage to start SME business.
7. In the study area, medium entrepreneur is only 3.57% more emphasis should be given to set up medium enterprise in the national industrial policy, because it create more employment opportunity.
8. In the study area, female entrepreneur is less than 8%, so special attention should be given to the female enterprise in the national Industrial Policy .

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