

# **SME: An Instrument for Encouraging Rural Employment Generation and Contributing More to Export Earnings**

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***Abstract:** The main thrust of this study is to expose the present status of SMEs in Bangladesh with emphasis on employment generation in rural Bangladesh and how increasingly can SME products find place export basket. It has been shown that during the period 1980-81 to 2012-13, the structure of the economy has changed substantially-the contribution of industry in GDP has doubled from 17% to 33%, (and as usual the contribution of agriculture is decreasing continuously). As usual, as seen in many countries, industrialization starts from small-scale industries and then move to medium and large-scale industries and this is true in case of Bangladesh also. Since our agriculture is already over-crowded, and for absorbing the increasing people, our dependence is on industry and more specific on SMEs both for employment generation and local resource mobilization. Government, in its policy formulation and investment programs allowing investors/entrepreneurs for investment outside cities. An effort has been made here to discuss in depth and from different angles, the prospects and problems faced by SMEs in our country and to suggest appropriate policies and actions at various level for accelerating development. These exercises boil down to ultimately selecting the new lead (thrust) sectors and opportunities in the context of current and emerging situations. Then comes, taking necessary actions at various levels by concerned authorities and program implementers. It was felt that vigorous attempts should be made in exploring, finding and organizing wider market for our products, both at home and abroad..*

*Since we are eager to boost-up both production and see our products in world market, an analysis of structure and growth of exports and imports to identify the scope of diversification is required. The study concludes with the findings and some recommendations.*

**Keywords:** *SMEs, BSCIC, Quantum Index of Production, Globalization, Thrust Sectors and PPP.*

## **Introduction**

It is recognized now that the small and medium enterprises (SMEs) are playing increasingly important role as the engines for economic growth and employment in many countries including Bangladesh. Therefore, vigorous attempts should be made in respect of adopting appropriate policies and actions to develop SME and especially to find out product-markets to new areas, both home & abroad. Such exercise involves a number of steps:

- (a) Very carefully selecting the SMEs new sectors and new opportunities in the context of current and emerging economic situations,
- (b) With the increased participation by different stakeholders- the entrepreneurs, government, donor agencies, financial institutions, it is high time to formulate a long-term strategy for the SME sector development.
- (c) All out attempts will be made to identify causes and situations creating hindrances in our efforts, particularly in capturing both home and foreign markets in the midst of hard competition both locally and globally.
- (d) Highlight how far SMEs are employment- friendly in a transitional economy of Bangladesh.
- (e) An analysis of growth and structure of exports and imports of SME products was felt necessary for searching market for our products.

That is, meeting the challenges of expanding competitiveness will be a priority task of our study. For the economic development of Bangladesh we should take note of the existence of current high labor intensity and for that matter cheap availability of labor which may not continue for long in Bangladesh already that symptoms are apparent both farm and non-farm sectors. But considering the phases of dependence on indigenous genius, skills and the technological skills to entrepreneurship development, innovativeness and growth of industrial linkages, the role of SME

should be quite dominant in Bangladesh irrespective of its accurate number of all industrial units. Adoption of modern technology by replacing the existing (traditional) ones will take some time. Such steps should be taken pragmatically with the expansion of technology, because SME sector is still predominantly dominated by the poorer and less educated people (with larger participation of women) of the society. Even though, the entrepreneurs of Bangladesh, especially in the SME sector, have shown tremendous success in various sectors and levels amidst innumerable constraints. Their creativity and innovativeness in entrepreneurial initiatives deserve encouragement and admiration; patronization through providing easy-term loans, in finding markets especially in neighboring big countries and all necessary support are needed at different stages.

## **Objectives**

The objectives of the paper are to:

- i) Determine the prospects of SME sector in Bangladesh in the context of globalization & regional connectivity across Bangladesh
- ii) Detailed analysis of various SME products (both old and new ones) now has been made available and how those are capturing the markets both home and abroad constituted the main chunk of discussion which led to
- iii) Identifying the thrust sectors /products in SME sectors for considering priority order and also for identifying the major constraints of SME in Bangladesh,
- iv) Show how employment generation could accelerate from the traditional low-productivity to modern sector higher productivity.
- v) Analyze the structure and growth of exports and imports, specially SME products and show the scope diversification, and
- vi) Suggests some policy implication arising out of the study in the form of recommendations and conclusion.

## Methodology

The paper has been prepared mainly based on articles/papers published recently, information collected from web-sites. Some books, articles presented in conference and of journals, findings of private research organizations and government documents like Industrial Policies of GOB have been used for writing the paper. Various daily newspapers often publish news and a good number of those are referred here.

Bangladesh Economic Survey Report 2014 and The Sixth Five Year Plan FY 2011-2015 were also used as sources of required information.

## SMEs: Past and Present

There is no common and widely acceptable definition of SME that has been applied world- wide. The definition of SME varies from country to country and even within the same country. So there is a definitional ambiguity in cases of SMEs in Bangladesh also. Various organizations define it in the context of their own objectives and conveniences. Even, the Industrial Policy of Govt. of Bangladesh, 2005 and Industrial Policy, 2010 defined SM differently. Since we are concerned with the term enterprise, an working definition Micro and Small Enterprises (private limited companies) in the context of Bangladesh as has been accepted by the Ministry of Industries and also by the Bangladesh is in Table-1 as follows:

**Table 1: Micro and Small Enterprise**

Category	Micro Enterprise		Small Enterprise	
	Amount of Fixed Asset( Other than Land and Building) In Million Taka	Workforce (Number)	Amount of Fixed Asset (Other than Land and Building) In Million Taka	Workforce (Number)
<b>Manufacturing</b>	0.05-5.0	10 -24 ( or less than 10)	5.0 -100.00	25 -99
<b>Service</b>	< 0.05	or < 10	0.50 -10.00	10 -25
<b>Trading</b>	< 0.05	Or <10	0.50 -10.00	10 -25

Source: Bangladesh Bank (Circular Issued on 19 th June 2011)

Note: A small business, therefore, includes a one-person business, where the business owner and manager is self-employer, or where the owner/manager employs a few others. However, the word “enterprise” has a valuable role when seen in a process, a collection of actions associated with developing or managing a business.

Bangladesh Small and Cottage Industries Corporation (BSCIC) was established as a key public sector agency for the development of SME and cottage industry in private sector as well as provide necessary services and facilities to the private entrepreneurs. In FY 2010-11 the number of small and cottage industrial units established under direct and indirect assistance of BSCIC up to January 2011 stood to 1250 small industries and 2485 cottage industries have invested tk 271,04 crores including their own tk 128,45 crores (being 47.39%).

But it could not expand its promotional activities in these areas due to its weak and inefficient management and administrative inefficiency and other bottlenecks. Although for the last few years different private sector agencies have come forward to participate in the SME sector through the development of MIDAS, BASIC, some NGOs like Grameen Bank, BRAC, ASA, although contributed much, but could not yet perform up to the desired level in the promotion of this sector. It is essential to give serious attention both by the public and private agencies for promoting SMEs, more so for the poverty alleviation of the poorer people thorough employment generation of the vast number of people unemployed in the rural and urban areas of the country.

Cottage industry refers to family based/owned small sized production units with small amount of capital whose production process is based mostly on local raw materials, inherited artistic skills and simple indigenous technology. These units operate in both rural and urban areas of Bangladesh. Cottage industries engage manufacturing and servicing activities mainly run by family members either as full time or part time with or without power-run machinery irrespective of location and these products are available within affordable prices.

Cottage industries provide employment and income opportunities for the poor or middle income section of people though employment and income generation schemes all over the world and especially in low income and technologically under developed countries such as Bangladesh. Traditionally, cottage industries have been rural-based, but in the courses of time and with the

technological advancements, they spread to urban areas to avail small scale industrial support and transport and marketing facilities. The areas of cottage industries have now broadened remarkably from simple indigenous technology based and home made products to sophisticated handicrafts of wide varieties.

Cottage industries which exist in our country from a long time used to be classified in nine broad categories; handloom, black smithy, pottery, bamboo and cane works, carpentry products, brass products, jute and cotton products, ghani (oil press) and others. The British rules imposed series of repression regulations by which they controlled price and production of textiles and other cottage industry goods. Many indigenous artisans gave up their profession in protest.

Among the cottage industries of this part of the world, cotton is the most important and has a history of at least two thousand years. One of the striking characteristics of Bengal's handloom cotton textile and silk industry was their exceptional diffusion throughout the country.

Following the partition of Bengal in 1947, the government of Pakistan took some measures to revive and reinvigorate the declining position of cottage sector. But capital investment in cottage industries was negligible and was restricted to simple implements. An estimated 3 million agriculturalists were engaged in cottage industries. Of them approximately 65% were in East Pakistan.

### **The Dynamic Role of SME in the Present Context**

Although the economy of Bangladesh is agrarian in nature, the contribution of the industry sector to the country's gross domestic product (GDP) is continuously increasing. This is evident from the Table-2

**Table-2 Trend of Structural Transformation of Broad Sectoral Shares in GDP and Growth Rate At Constant Prices (Base year: 1995-96)**

Sector	1980-81	1985-86	1990-91	1995-96	2000-01	2005-06	2010-11	2011-12	2012-13	2013-14
Agriculture	33.07	31.15	29.23	25.68	25.03	19.01	18.01	17.38	16.78	16.33
<b>Industry</b>	<b>17.31</b>	<b>19.13</b>	<b>21.04</b>	<b>24.87</b>	<b>26.20</b>	<b>29.03</b>	<b>29.86</b>	<b>29.93</b>	<b>31.13</b>	<b>31.99</b>

Service	49.62	49.73	49.73	49.45	48.77	49.14	49.66	49.78	49.45	49.30
Total	100	100	100	100	100	100	100	100	100	100
Average growth rate(percentage)										
Agriculture	3.31	3.31	2.23	3.10	3.14	4.94	5.24	5.13	3.11	2.17
Industry	5.13	6.72	5.57	6.98	7.45	9.74	6.46	6.49	8.16	8.99
Service	3.55	4.10	3.28	3.96	5.53	6.40	6.32	6.47	6.63	5.73
GDP (at producer prices)	3.74	3.34	3.24	4.47	5.41	7.02	5.90	6.22	6.75	6.06

Source: Ministry of Finance, Bangladesh Economic Review, 2014, p-22 (Bangla Version)

According to the GDP data released by BBS, in 2010-11, the contribution of manufacturing sector to GDP is 30.33 per cent, but this share was only 17.31 per cent in 1980-81. It is evident from Table 1 that steadily the structural transformation in GD2 is taking place, the contribution of agriculture is decreasing and that of industry is increasing, virtually it has become double in the last two decades.

Among the fifteen sectors identified for computing national income, the broad industry sector includes five sub-sectors such as mining and quarrying,; manufacturing; construction; electricity and gas; and water supply. Among the sub-sectors, the contribution of manufacturing sector is highest. According to the GPD data released by BSS, in FY2010-2011, the contribution of manufacturing sector to GDP is 18.41 per cent (planned), which is .47 per cent higher than last year ( 17.94 %). The Table 3 shows the size and growth performance of the manufacturing sector ( in segregating form such as , small & cottage and medium-large) in the country's GDP from FY 2002-03 to FY 2011.

**Table 3 Size and Growth Rate of Manufacturing Sector**

(At constant prices of 2005-06)

(Taka in crore)

<b>Industry</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Small & Cottage Industry	20039.0 (8.17)	21176.0 (5.67)	22569.1 (6.58)	24557.9 (8.81)	261794 (6.60)
Medium & Large Industry	79631.4 (6.26)	88475.3 (11.11)	97998.3 (10.76)	108436.2 (10.65)	118364.0 (9.16)
<b>Total</b>	<b>99670.9</b> (6.65)	<b>109651.4</b> (10.01)	<b>120567.4</b> (9.96)	<b>4.113299</b> (10.53)	<b>144543.8</b> (8.68)

Source: Same as above Table- 1, p-108 (Figures in the parentheses indicate rate of growth)

As envisaged in Vision 2021, Bangladesh will have, by 2021, a dominant industrial sector where it will account for at least 40 per cent of the gross domestic product (GDP) with a capacity to absorb 25 per cent of the workforce. The goal of development strategies of the government is to keep the contribution of the industrial sector to the GDP on increase gradually. The structure of the industrial sector will be consistent with the comparative advantage of the economy, which will make the sector globally competitive. From Table-2 it appears that in 2004-05 the growth rate was high and it was comparable to that of medium and large industries, but the growth rate is declining decreasing. The causes of such a situation deserve careful investigation, because this is adversely affecting the opportunities of large number of rural in their present and prospective employment generation. Viewed from the stand of poverty alleviation, all such attempts of men and women's entrepreneurial efforts should get supports, because any setback will hit them hard. Again, such a move will contribute to total performance of industries.

Since our interest lies in SMEs, let us try to find out the position and contribution of SMEs in the industry sector. SMEs are now playing an important role in the value addition of the



	108.76	117.50	127.47	135.01	157.89	174.92	195.19	205.45
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Source: As earlier tables, \* up to December, 2 013, p-109

It may noted here that, of late, only recently, both government and the private bodies and the individual entrepreneurs, particularly educated youth, especially women entrepreneurs are coming forward to the realm of enterprise and taking adequate. SMEs are more suitable for women folk, because its environment is befitting to their requirement, culturally convenient, and acceptable socially. This is the beginning and we will have to go long way, face challenges both home and foreign. *Bangladesh Economic Report -2013 (pages 109-10)* has recorded a large number of steps that has been takes to boost-up SMEs, but many of these steps deserve speedy implementation.

Small and Medium Enterprises-SMEs are considered as he most promising sector for employment generation and the solution of unemployment. It has been observed that in the present context of Bangladesh among the four agents/factors, the most crucial entrepreneur and by and large because of paucity of adequate of number of entrepreneurs, our industrialization and commercialization of agriculture is progressing slowly. The present education system creates excessive prone to seek employments even for petty jobs, whereas if our educated youths are guided and motivated to opt for entrepreneurial career, if they are encouraged and adequate support are ensured, the growers can be ensured adequate and reasonable prices of their products, many of these products will capture foreign markets, and earn more foreign exchange. In the whole process, female participation will multiply, because SMEs suit them more.

Many agricultural products which were at one time used to meet the local demands are now being exported. These items are vegetables, fruits, fish etc. Research on high-yielding varieties of agricultural products has opened new doors for exporting these to various neighboring countries and many other countries and also countries where there is high concentration of Bangladeshis. The farmers expect better prices for their products. On the other hand, the scope of

expansion of SME in agro-based sector is more prospective. We believe that efforts of boosting up exportable agricultural products and that of expansion of SME should be supportive to each other. Unfortunately the lack of data makes it very difficult to understand the role of SMEs, especially small industrial enterprises (Sixth 5 yr. Plan p-106).

An overwhelming majority—98 per cent of establishments—are micro units having less than 10 workers. Only 13 per cent are in manufacturing and remaining 87 per cent are involved in trade and services (as evident from a report of Survey published in 2005). Within manufacturing, 58 per cent of the enterprises are in the category of SMEs (less than 50 workers) employing about 20 per cent of the total manufacturing labor force.

### **Performance of SMEs**

The target of achieving double digit growth hinges largely on the performance of the small and micro enterprises. So far SME enterprises have contributed only about 5.2 per cent to the GDP in 2008-9 and this share has not increased much over the last decade (Table-5).

**Table-5 Contribution of Large & Medium scale and Small Scale Industries to GDP (%), (base year: 2005-06)**

Year	Large & Medium Scale Industry (%)	Small Scale Industry (%)	Total (%)
2005-2006	12.92	3.22	16.13
2006-2007	13.36	3.29	16.64
2007-2008	13.55	3.33	16.87
2008-2009	13.71	3.39	17.10
2009-2010	13.74	3.46	17.20
2010-2011	14.32	3.43	17.75
2011-12	14.86	3.42	18.28

2012-13	15.49	3.51	19.00
2013-14 prov.	15.93	3.52	19.45

Source: Bangladesh Economic Review, Ministry of Finance, GOB, 2014, p-290

## **Sect oral Performance**

SME now occupy an important position in the national economy of Bangladesh. They account for about 45% of manufacturing value addition, about 80% of industrial employment, about 90% of total industrial units, and about 25% of the labor force. Their total contribution to export earnings varies from 75-80%. The total number of SMEs is estimated at 79754 establishments, of which 93.6% are small and 6.4% are medium. The 2003 Private Sector Survey estimated that about 6 million micro, small, and the medium enterprises defined as enterprises (MSMEs), with fewer than 100 employees, which contributed around 25 percent of GDP. About 60 to 65 percent of SMEs are located outside metropolitan areas of Dhaka and Chittagong. SMEs have a easy access to labor in these non-urban areas, where business environment is better than congested urban centres and business costs are also low.

Although, the contribution of Small Scale Industries (SSIs) to GDP has remained almost static for more in earlier period, and showed a steady upward growth in recent years (Table-4). Lila Rashid (2013) in her study on the review of policies and programs for promoting youth employment and enterprise development in Bangladesh, provided a number of suggestions including 'best practices', which deserves our attention.

It is felt now that before taking up any development scheme of any sector, SME Foundation earlier took a right step for a comprehensive study for six key sectors, covering their various aspects and has prepared by on the basis of a survey carried out in 2006/2007. But the situation is changing, so under the present context, another study is needed for an insight in to the issue which is essential for formulating policies and its implementation. The sectors included in the study were:

- 1) Agro and Food Processing,
- 2). Designer goods,
- 3). Electrical and Electronics,
- 4) Leather and leather goods,
- 5) Light engineering,
- 6) Plastic.

In case of modern sectors like industries which is in competition with many other countries, the relevance of study depends on current situation and its analysis. Some more areas where there is demand may be considered for inclusion in the proposed study.

SMEs annual contributing to the national GDP is remarkable- 20-25% of the total in 2003 and then we find an increasing trend. Although manufacturing enterprises consisted of 18.41 % of the number of SMEs, their contribution of SMEs to GDP was highest in the sectoral contribution (Table-2). This fact gives birth to speculation that there is large untapped market in the manufacturing sector which can be exploited and will contribute significantly to the GDP.

### **How is SMEs employment- generation friendly in Bangladesh?**

Under the present context of Bangladesh, among the various development objectives, more emphasis should be given to expand employment generation opportunities among others. Theories of development economies with surplus labor/manpower and a dual economic structure points out that the process of development involves a transfer of labor from traditional economic activities characterized by lower level of productivity to modern sectors with high productivity. With the aim of existing the surplus labor in the traditional sector in the shortest possible time, what is needed is that the modern sectors need to be reorganized under carefully chosen policies and programs so that it can absorb labor at a highest rates. There lies the importance of the degree of employment intensity growth in modern sectors. In other words, modern sectors need to achieve rapid economic growth in output and employment simultaneously. The question that comes to our mind: how much our economy is ready for that? An well-designed survey is needed to be conducted to opine how traditional low productivity is changing towards higher productivity modern sectors in Bangladesh?

However, in this connection let go back to Table-1 which indicates that during last two decades, the pattern of structural change in the Bangladesh economy continued to similar to what one can observe: a decline in the share of agriculture and an increase in the share of manufacturing. Of course, it may be mentioned here that A R Khan (2007) has shown that average annual rates of growth for the small scale industries had been able to reverse the declining trends in their rates of growth during 2000-06.(as shown in his study in Table—4.1, p-44). If such rates of growth are compared with those of large scale, small-scales did fairly better. Average annual rates of growth, during 1995-2000, large scale industries achieved 5.5% whereas small scale 5.9%, again during 2000-2006 large scale 7.4% whereas small scale 7.8%. It is only after 2006, the average annual rate of growth of large scale manufacturing has exceeded those of small scale manufacturing. But why it happened so? An investigation may give us clue to such a declining trend and the nation can take proper steps to uphold the status of small scale manufacturing. An explanation has been given by Rizwanul (2007), who has characterized this shift as ‘symptomatic of the pattern of growth of industries that has unfolded since the introduction of economic reforms and trade liberalization since the 1980s.’ He also asserted that the small scale sector appears to have been one of the major losers in the process (as evident from Table-5). During mid 1980s Bangladesh has taken a wide ranging economic reform ostensibly to move towards a more open economy and promote economic growth through greater allocative efficiency and reliance on the market. But, if we look into the pattern of distribution of employed labor forces, it is evident that the potentiality of employment generation in small scale industries/SMEs in our country has always been high compared to other sectors. An analysis of Table-6 will clarify it.

**Table -6: Sectoral Distribution of the Employed Labor Force in Bangladesh since 1983-84 (Percentages)**

Sector	1983-84	1990-91	1999-2000	2002-03	2005-06	2010
Agriculture	58.7	51.7	50.7	51.7	48.1	47.3
Manufacturing	8.8	17.0	9.5	9.8	11.0	12.4
Construction	1.7	1.5	2.8	3.5	3.2	4.8
Trade, hotels & restaurants	11.6	12.3	15.7	15.1	16.5	15.5
Transport	3.9	4.6	6.4	6.8	8.4	7.4

Other services	8.7	6.3	14,.1	12.7	12.6	12.4
Others	6.3	6.6	0.8	0.4	0.3	0.4

Sources: Bangladesh Bureau of Statistics: Reports of Labor Force Survey s for various years.

The share of agriculture sector in total employment has declined over time, but the share of manufacturing sector has not registered a corresponding increase. In this context, if we closely examine the Table-5 employed labor forces increased in sectors like trade, hotels and restaurants, transport and other forms of services. So, it can be concluded that the employment structure of Bangladesh have moved towards greater informalization.

In Bangladesh, approximately 2 million people join labor force every year. The manufacturing sector is currently capable of absorbing less than 250,000persons (around 13 percent of the annual addition only, Rizwan, (2011).We require the expansion of manufacturing sector. In its absence the proportion of unpaid family helpers is increasing, indicating that many of the own-account workers may simply have reverted to becoming unpaid family helpers. Shafiqul (2012) has presented in his how employment is withering in Bangladesh drawing our attention to the Monitoring of Employment (Labor Force) Survey (MES) 2009, where it was found that labor force increased from 49.5 million to 53.7 million from 2006 to 2009 implying annual growth rate of 2.7%. Roughly two-thirds of the population are of age 15 years and over and out of them 59.3% are economically active. Again, because of the effects of greater women participation in labor force and also demographic dividend the aged including retired people are remaining economically active. As mentioned earlier the transformation of a peasant agrarian economy to an organized manufacturing and services economy also provides the employment base for absorbing a growing labor force into productive and well paid jobs. By and large, the transfer of the labor force from the low productive agricultural sector to marginally more productive informal service sector- rather than to modern manufacturing and service sector- negates a Lewisian transformation. It means that jobs have to be created in the modern sectors through the persuasion of appropriate policy and technology mix. Transforming Bangladesh's agrarian economy into a modern manufacturing and service based economy is a long-term challenge. A faster rate of growth of growth in GDP will require commensurate increase in the average labor productivity. Finding more productive and better paying job will require a faster expansion in

high productivity, high earning sectors. International experience shows that high paying jobs are best created in manufacturing and formal services.

### **Prospects of SMEs: Present and Emerging Situation**

In recent years, increasing interest in the development of SMEs is being observed among the government agencies, NGOs and individual/corporate bodies in their programs and activities. Although high population growth, lower per capita income, meager job opportunities are hindering our progress, but recently with the growth of private/corporate sector, youths are being encouraged to become entrepreneurs. Very recently a number of above organizations have started their works in motivating different sections people to become entrepreneur. The scope and prospects of SMEs and how to take up business plan and implement them are the themes of such programs. Besides, with the introduction and strengthening of business education stream at the secondary level and at also establishment of large number private universities in Bangladesh, business studies are considered a highly demanded area; large number of graduates, after completion of their studies, are taking interest or forced by circumstances to take interest in establishing themselves as entrepreneurs. Thus, from both the channel of formal education facilities and also motivational educational programs of business houses and entrepreneurial patronizing organizations (such as, SME Foundation, MIDAS, Institute of Enterprises, BSCIC Training Institute, various Women Chambers of Commerce and Industries) and success stories as publicized by the electronic and press medias, youths are being attracted with the packages of varied options covering SMEs of varied nature. It is to be noted here that the SME foundation has started a laudable campaign for popularizing SMEs. Besides, they have published an extensive informative manual for those who are venturing new enterprises or thinking to be the owner/ partner of SMEs. The national organization like Bangladesh Mahila Parishad, which possesses a large net-working facilities can take the responsibility of motivational training programs for encouraging women seeking employments.

Technological progress and innovation has paved the path of development through their innovations. For example, with the increasing success in research in agricultural field, particularly in inventing new varieties and high yielding seeds manures, fertilizers and technologies, the farmers are being acquainted with varies types agricultural products and agro-

based industries are coming up in our country. Such attempts should consider the introduction of higher productivity technology under modern sectors. Production rate per acre has increased and at the same time expansion of marketing facilities both home and abroad are alluring them to take up enterprises known as SMEs products. Due to such efforts the existing product market is expanding, in some cases expansion is glaring in agro -based industries, what is required is support in various fronts both at policy and implementation levels.

In a labor surplus country like Bangladesh small and medium enterprises can play a substantial role in providing the impetus to the development of modern manufacturing sector and in the job creation outside the agriculture and informal services. Bangladesh is now vigorously putting efforts in finding markets in various countries including new ones and reaps the benefits of globalization and regional connectivity, now offering, has opened a fresh hope of taking advantage of expanding her market in India, especially in North-Eastern Indian States.

Globalization and the recent development in regional connectivity, comprising countries like China, Myanmar, Bangladesh Nepal and India and keeping Bangladesh at the hub, creating a big opportunity to expand her product market both at the regional and global level. But what is essential to achieve so is to develop our competency in producing quality goods at a competitive cost. Again, under the present day context technological advancement (also innovation of appropriate technology even at the regional level) and adequate facilities of financing SME can lead to the expansion of market at desired level. Bangladesh could emerge as a transport hub for the sub-region comprising Bangladesh, Bhutan, Nepal and India. As mentioned above, the inclusion of China and Myanmar in the framework of regional connectivity will lead to reap the highest benefit. Again, that is a narrow market for Bangladeshi products. The country's product market can be and actually spread to other parts of the world. Recently our exports market in Canada is expanding. Likewise, African countries showing interest in exporting our products.

In a country like Bangladesh, where people are having less ability in processing capital and machineries, SMEs are labor intensive with relatively low capital intensive. For a developing country like ours, SMEs are cost effective way towards reduction of unemployment. Investment cost per person employed in large industrial units work out at 78 to 100 times of those of SMEs

(Mintoo 2006). When Bangladesh could not yet show acceptable performance in large scale industries and those are predominantly owned and operated by public bodies, and where total picture is a dismal one, we can solve unemployment problem in encouraging SMEs. The seasonal and disguised unemployment can also be solved to a substantial extent by SMEs. In this way we can move to medium scale industries which fit us more. Side by side we should encourage the adoption modern technology in SMEs so that our products can compete with those of our competitors.

*The Poverty Reduction Strategy Paper (PRSP) of 2004* has clearly stated that pro poor growth is the ultimate target of its development strategies and in activities. The present government assumed power at a time when a deep seated recession was rocking the world, in spite the per capita income of the people of Bangladesh has been increasing and now it is \$ 1180. We want to achieve the target of becoming one of the middle income countries of the world by 2021. Country's fiscal, financial and structural conditions should be oriented towards achieving our economic goals. For smooth and sustainable development of SMEs all over the country, more emphasis should be given to develop SMEs at District and Upazila levels of the country to check flow of population to cities. Adequate emphasis be given to women entrepreneurship so that our educated girls (whose educational cost are substantially being borne from the govt.) can find employment in their own places or areas. It is to be mentioned here that today education is becoming more concerned about the prospect of availability of jobs i.e. job-oriented and for which technical and vocational education should be given more encouragement, leading to gainful employment.

With the passage of time, more and more Bangladeshi are concentrating as migrants in famous cities of various countries of the world. So, the market of Bangladeshi product in abroad is expanding. New items such as dress, boutique products, gift items, cottage industry products, including day to day food consumption items are being exported to those countries and more and more foreign exchange (remittance) reserves are on the increase. Through this effort we are trying to popularize our cultural heritage and national identity. On the other hand, because of rapid trade liberalization particularly from 1990s and onward, and globalization, our local market has been flooded with imported goods, our exports, particularly our SMEs are unable to compete on quality or cost with the global market dominated by industrially developed countries. Now, at this geo-political environment, Government will have to play a vigorous role in creating enabling

environment, where SMEs can an entry in the markets of comparatively developing and developed countries. But again, for attaining such a goal we should be diligent, more innovative and committed for better quality products. So, we should take the advantage of qualitative improvement.

While defining development we often express its manifestation in diversification and modernization. The following discussion will bear such testimony.

### **Searching New Markets for Increasing SME Products**

We can cite cases of a few products having good prospect of capturing markets and the production trends is encouraging also. The first one is jute bag products. Global consumer demand for eco-friendly products has increased in both developed market (such as Western Europe, United States and Australia) as well as new markets with emerging opportunities (such as Middle East and African countries) mainly because of heightened awareness of the ill effects of environmental pollution and global warming. It may be noted here that large chain stores are also offering alternate bags made of jute and cotton. We find prospects of diversified jute products, such as shopping bags, rugs, wall coverings, apparels, etc. Lives in rural Bangladesh is changing, people are now accustomed in using foot-wear. In various district towns of our country we find shoe –making & other foot wear factories and they require patronization for quality product and marketing facilities. Foot-wear businessmen recently are paying more attention to internal market for selling their products, because export couldn't fetch market abroad. Approximately, 16 crores of pairs of shoes are sold in the market. Middle-income people are using quality shoes. New companies are coming up new brands of quality shoes like Bata, Apex etc (Daily *Prothom Alo*, September12,2014).In Daily *Ittefaq*,September20,2014 published a news on the prospect of leather industry of Bangladesh saying that boutiques are upbeat, especially during festivals as consumers are set for a shopping spree. These products are expanding their markets inside but also various big cities of the world. There are a good number of popular boutiques in Bangladesh and they are in competition to capture markets with their artistic and creative products, which also uphold cultural heritage, and our tradition. After independence, boutique houses like Arag, Rupayan, Nipun acted as pioneers in this field. Now it has drawn the attention of many entrepreneurs, both small &medium, and the consumers are being attracted progressively for boutique products. It is interesting to note that ,according to the

opinion of a well-informed entrepreneur of a boutique house, Black & White (Shada- Kalo) there are 5000 small, medium & big boutique houses in Bangladesh employing 50 lac people (directly and indirectly & also part time), investing tk.5 500-6000 crores, whose annual growth rate is 18-20 %.(*Prothom Alo*, 13 August,2011). Bangladesh is famous in producing Jamdani & Benarashi sharees and with the development of regional connectivity she can have the benefit of large markets. India can a big market for these products. Likewise, home textile mill products have a good market. The weavers, designers, craftsmen, sellers, even part-time sellers like students, are getting job opportunities in their respective fields. It is interesting to point out here that Sataranji (mat) of Rangpur district is being exported to 36 countries(*Daily Prothom Alo*, July 23,2014). Similarly, in spite of suspension of GSP by USA, plastic industry has been doing well and now 70% of the products are being exported in European Union(*Daily Prothom Alo*, July16,2014). Earlier, *Daily Prothom Alo*, May19, 2014 published a news that Bangladesh has the potentiality of exporting leather products to the tune of \$1600 crore in ensuing ten years. Because of increase of wages in China and also as EU is imposing anti-dumping levy, Bangladesh can take the advantage of shifting of leather product market deserted by China. In many cases, Bangladesh should be ready *to take advantages of capturing various product-markets deserted by both China and India or any other country moving to superior technology.*

It may be noted here that, in December 2010 Govt. of Bangladesh has published a new Industrial Policy. In the beginning of the chapter devoted to the promotion of SMEs, it refers policy strategies for development of SME in Industrial Policy 2005 and its salient parts. In the Industrial Policy- 2010 it says that “The Government recognizes SMEs as vehicles of life improvement, economic growth and poverty alleviation of the common people. The primary role of the Government shall firstly, be that of a facilitator removing policy obstacles and neutralizing market failures and, secondly, providing necessary promotional support.” In the policy eleven broad objectives of SME policy have been very carefully described which deserve appreciation. Then SME action plan and the role of SMEs in PRSP M & E (Monitoring and Evaluation) indicators of SME sector have been pointed out. What is lacking is detailed programs- who are interested to know who would /should undertake the program (under what incentives). What are facilities to be provided to the entrepreneurs? Of course, both the objectives and action plan have

been drawn taking into consideration the latest situation prevailing in the country, even issues of FDI and ICT, fiscal policy etc. In the objectives part and caution of enabling environment, easing regulatory barriers, easy access to information, providing incentives, quality and standards of SME products, women entrepreneurship, strengthening institutions, capacity building etc have been emphasized. It is high time that we would be taking up appropriate actions on materializing the above goals. Special fiscal and financial facilities including tax exemption, exemption from dual taxation, tax holidays, tax at a reduced rate or accelerated depreciation may be considered for SMEs.

In January 2010, visit of Bangladesh Prime Minister to India and in September 2011 the visit of Indian Prime Minister to Bangladesh clearly reveals that there is a great benefit in the two countries working very closely together on win - win basis and a number memorandum have been signed to materialize the goals. Both the countries should be greatly concerned that South Asia's eastern regions have lower level of development than the already low South Asian average development. Till 1947 this part of the undivided India, Bangladesh and India's northeast region was always an integrated political, economic and cultural space. As a pioneering region in India's industrialization, this region was the country's richest and prosperous region. If this region's enormous resources, both natural and human, are to be unlocked, both India and Bangladesh can be benefited. These will open doors for this region to once again play a leading role in South Asia. Bangladesh's growth can be accelerated by participating and cooperative within the region. Opportunities of enhance trade, transport and investment will help improve the country's infrastructure tremendously, which will also create a huge employment in different sectors and benefit the country in the long run. In this connection we can cite the comment of executive director of Centre for Policy Dialogue (CPD) Bangladesh exported goods worth \$ 512 million to India in fiscal 2010-11, of which \$70-80 million were destined to the northeast states. (*The Daily Star*, 29 August, 2011). It may be noted here during the year 2010-11 the trade deficit of Bangladesh and India was \$ 407 crores 40 lakhs ( import from India was \$ 458 crores 60 lakhs ,whereas export to India was only \$ 51crores 20 lakhs *Prothom Alo*, 14 November, 2011). Although there are doubts over the benefits of free trade agreement (FTA), Sanjay Kathuria, lead economist of WB, forecasts that it will raise Bangladesh's export by up to 133 percent to India (Daily Star, August 3, 2012). Frequently, we hear in press and electronic media on the historical importance and prospects of India-Bangladesh trade, but in reality the

achievement is meager. Daily Prothom Alo, June 27,2014 published a news that during ensuing four years, the volume of bilateral trade(which is \$660 crore) would be double as expressed by eminent and business leaders of both the countries. Since in FY 2013-14 Bangladesh's import was \$610 crore, whereas her export was only \$46crore20 lac (i.e. deficit is \$550 crore), it has become an imperative duty how to lessen such deficits. We may suggest two approaches- first to scrutinize the import list and try to lessen the volume, which is possible in cases of sugar, food-stuff, fish, salt and cement, for example; and secondly maximize the export volumes of raw-jute, jute products, frozen food, agricultural products, RMG, neat wear, SME products, tea, dress and jamdani saree and many other household utensils.

There have been many analyses on why the industrial sector as a whole in Bangladesh has remained in dormant state. In 1996, the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI) had conducted an empirical study to find out the constraints to industrial sector growth and investment as perceived by industrial entrepreneurs and businessman of different classes. A summary of this findings as constraints to industrial sector growth are mentioned below:

- a) Regulatory reforms, b) Collaboration between the government and the private sector, Industrial credit policies, c) Legal framework, d) Customs clearance, e) Work of the promotional agencies, f) Law and order, Labor relations and h) Problems regarding the power sector.

## **Major Constraints Faced by SMEs in Bangladesh**

It is important to understand the operational strengths and weaknesses of the SME sector for pragmatic policy making and effective implementation of such policies.

Given an excessive heterogeneity and almost a bewildering diversity in the type, composition and characteristics of the members of the SME facilities it is exceedingly difficult to have any precise diagnosis of their operational constraints. Over the years many studies have been carried out to identity the operational bottlenecks encountered by the SME entrepreneurs. One of such studies was done by Sarder,J.(2001) based on a small sample of 19 entrepreneurs, and the

second one by the Sixth Five Year Plan FY 2011-2015 .A comparison of their findings shows that both of them identified almost similar problems, such as, lack of capital support, lack of modern technology, inability to market product, inability to maintain product quality, lack of skilled technician and workers, high rate of interest on bank loans, inadequate and irregular supply of electricity, unavailability of appropriate infrastructure facility, inadequate policy reforms, law order situation, political instability leading to frequent strikes, illegal imports and non-tariff barriers, etc. Bangladesh Enterprise Institute and National Taskforce on SME Development in their reports came out with a number of recommendations, but as yet many of them couldn't see light of the day.

#### Identification of selected Booster (Thrust) Sectors among SMEs

SMEs are considered the engines of growth in developing countries, including Bangladesh. The past two decades has witnessed notable commercial expansion and dynamism in this sector. SMEs in Bangladesh are highly cost-effective route to industrial development. The SMEs are responsible for giving birth to 60 percent of the new industrial enterprises during 1980s (Ahmed M.U-1992).

SME sector itself has been identified as one of the 33 thrust sectors in the Industrial Policy 2005. The major categories of business that falls under this category in Bangladesh are textile, frozen foods, leather, electronics, agro-based business, information technology, ceramic items, light engineering etc. Some sectors are more eligible for public intervention than others and thus the National Taskforce on Development identified 11 sectors among SMEs as booster sectors. These sectors have been selected to provide a boost to their growth rate.

The following 11 booster sectors have been identified by the Government in the 'Policy Strategies for Development of SMEs' for promotional support and are scheduled for review every three years.

## **Booster Sectors (in Industrial Policy- 2005) and Thrust Sector (in Industrial Policy-2010)**

1. Electronics and electrical
2. Software development
3. Light Engineering and metalworking
4. Agro-based Industry
5. Leather-making and leather goods
6. Knitwear and ready-made goods
7. Plastic and other synthetics
8. Healthcare and diagnostic
9. Education services
10. Pharmaceuticals/cosmetics/toiletries
11. Fashion-rich personal effects, wear and consumption goods.

As many as 32 sectors have been identified in Industrial Policy-2010. Many of them are common in both policies. Recently, Ferdous Ara (2012) in search of new sector new opportunities identified and discussed 5 sectors, namely-Agribusiness, Shipbuilding, Plastic, Furniture and Home Textiles. Although Bangladesh still is an agriculture dependent country, but her agribusiness exports are not very high (352 mn US in FY 2010-11) and exports are growing at a faster rate of 27 % in the last two fiscal years. Bangladesh's agro- exports are mainly fresh products since main items are fruits, vegetables, flower and tobacco. The sector needs to attract investment in terms of processing units, enabling products to amplify shelf lives and diversify into various secondary outputs from the same primary product. And aside exports aside, the current domestic market size is around 4.5 billion already, and is expected to grow to 8 billion USD by 2020.

## **Structure and Growth of Exports and Imports of Bangladesh**

In this age of globalization the tendency of more and more economic integration among nations is usual phenomenon. All the countries irrespective the rich countries like USA and developing countries like China and India, all are putting their best efforts to capture markets, both home and abroad for their products. Although Bangladesh is nowhere a match with them, yet in the

face of global recession, especially when depression prevailing in export markets such as USA and European countries, she is maintaining steady economic growth and very recently a number of big countries like China, Russia, Germany, Canada, North Africa and many countries showing interest in exporting Bangladeshi products.

China and India, immediately after liberation from foreign subjugation, started to build their self-reliant economy. But the then United Pakistan period, she could not afford so, rather persuaded the export-led economy. After the creation of Bangladesh, there was no other option left for her. Trade is recognized as an engine of economic growth and an integral part of development of our country. In various studies it reveals that in Bangladesh significant potential of exports has remained untapped in bigger markets. Eventually mainstreaming trade into development agenda has assumed an important space in the policy and plan documents of the country over the years. In our efforts to capture markets in various countries, we shall try to assess the trade pattern and specialization of Bangladesh in terms seeing whether trade pattern corresponds to the development needs of the country and changing world economic situation and demand pattern and see whether trade pattern could capture the evolving global trade opportunities and could bring about necessary structural change of trade for accelerating development of the country.

Foreign trade is of vital importance to the economic growth of Bangladesh. The country's import needs are large and in order to finance those imports, the government, since liberation, has been trying to enhance foreign exchange earnings through planned and increased exports. At present, Bangladeshi major exports items are ready-made garments, raw jute, jute goods, tea, leather and frozen foods. The main import items of Bangladesh are machinery and transport equipment, petroleum and petroleum products, textile yarn fabrics and made up articles and related products, chemicals, iron and steel and fertilizer.

Viewing the structure and growth of exports, only nine countries constitute stably 75% of exports of Bangladesh during 1991-2010 increased from 38% in 1981-85. Share of other countries than these nine countries have declined from 62% in 1981-85 to 25% in 2006-10. In the period of 1996-2005, share of other countries was abysmally lower at 19% only. The country like USA alone accounts for 25% only. Three European countries-UK, Germany and France taken together buy 25% of our total exports products. Diversification of export needs, with a greater emphasis on SM industries products both in neighboring and developed markets is a possible option to pursue. In this respect the most priority countries where we can explore

markets are China, India, Brazil, Russia (BRIC countries), Middle- East, Africa and Korea and emerging D-8 countries. Expansion of demand of the market destinations should be product specific as per their unmet demands and low level of competition from within and outside. Of course, some changes in the countries interested in buying of our export-items has been noticed and more changes are offing as we presume. For example, for RMG export market we were dependent on USA, but recently is observed that our bigger market is now in countries belonging to European Union. For example, in RMG export from Bangladesh in the FY2012-13 our export was \$ 499.66 crores and in FY 2013-14 it increased to \$ 514.14 crores only, whereas such export to EU countries during the period increased from \$ 1256.48 crores to \$1474.54 crores, showing an increase of 17.4% (the *Daily Star*, October 22,2014). Once we can start implementation of trade agreements with neighboring countries-India, China, Nepal, Bhutan, Myanmar, Sri -Lanka and Maldives, it is expected that the demand of our non-traditional items (SME products mostly) will increase which will bring some changes not only in the composition of exports, but will lead to poverty alleviation substantially.

At the end of our discussion, it may be noted that the draft Industrial Policy-2015 has been published on October 22, 2014 in a number of daily newspapers and most noteworthy to mention here is that the contribution of industries in GDP would be elevated to 40% from the present 32% by 2021. Similarly, total labor force employment would be raised from existing 20% to 32% during the same period. It is to be noted here is that SME Foundation has taken the target to build 100 cluster industries in our country and 100 entrepreneurs would be trained for that purpose. Recently, HSBC has awarded five exporters for their leadership in promoting the country and contributing to its sustainable economic growth. The inclusion of Agro Kagri commodities in the small and medium enterprises category deserves our admiration. Agro Kagri (Chittagong based) exports potatoes to countries such as Malaysia, Singapore, Brunei, Sri Lanka, Senegal and China. More and more such categories of enterprises should come out in Bangladesh. It may mentioned here in through micro-credit we are producing a large number of small entrepreneurs and they are contributing to GDP of Bangladesh. One of the top financial institutions, namely City Group(Chittagong-based) has established a City Foundation, which taken a laudable venture in awarding prizes for the small entrepreneurs under five categories, such as, best innovative micro-credit organization, best micro-credit providing institution, best agricultural micro-credit institution, best female micro-credit entrepreneur, and best agricultural

entrepreneur. We expect that many other organizations will venture such encouraging attempts for creating impetus in our small entrepreneurs.

## **Conclusions & Recommendations**

SMEs are playing a vital role for country's accelerated industrialization and economic growth, employment generation and reducing poverty. SME can reduce the urban migration in capital and big cities (which have already taken acute shape in metropolitan cities), 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. Only recently the realization of the importance of SMEs is marked. The Bangladesh Bank is also putting stress on the development of SMEs. It is interesting to note here that very recently United Commercial Bank (UCB)'s managing director plans to move away high-risk corporate lending and towards small and medium enterprises. 'They will bring to forefront the sectors that are production-oriented, that generate employment and GDP growth' (*The Daily Star*, December 24, 2013). In promoting, developing and making SMEs sustainable, Government should give more focused attention on the following areas:

1. Development of infrastructure both physical (roads, bridges, culverts, i.e. communication, power and internet availability etc.) and social (education, training, motivation, HRD programs, awareness- building and social mobilization) are essential. Motivating the entrepreneurs through training and acquainting them with new technologies related to SME development and making them aware of foreigners' demand can go long way in solving various problems in finding markets.

2. Uninterrupted supply of raw materials, financial support scheme, reducing the bank interest rates for rural entrepreneurs with affordable collateral amounts should be available for them. In other words, making the entire terms, conditions and loan processing easier for entrepreneurs of SMEs.

3. Through government initiative, NGOs of Bangladesh can play important role in motivating, organizing and financing various enterprises. They will act as social change agent for commercial ventures. They can act as intermediary bodies between borrowers and government and other supporters. Special programs can be taken for women entrepreneurs.

4. Similarly, through Digital Bangladesh programs ( wave pages exclusively), for information on various issues related to SMEs should be available for decision makers and materializing programs undertaken.

5. Government needs to take appropriate measures to fix minimum salary/wages of the employees of SME, especially for those who have technology including IT background.

6. The sectoral composition of growth has to change in favor of a much higher share of modern manufacturing and organized services sectors to create a more rapid expansion of good jobs.

7. The employment responsiveness of growth in manufacturing (both in SMEs and large scale) needs to increase to absorb increasing labor.

8. SME Foundation should encourage research i.e. idea generation, availability of data, development of appropriate technology and making use of those findings through ICT throughout the country. For availing such opportunity, wide spread computer education facilities should be created in the rural areas, especially for women entrepreneurs.

Quality improvement and marketing facilities available (even solving the problems which might crop up) through such research can be of much help for them. A sufficiently large sample survey should be carried out to generate a benchmark national level data base for formulating comprehensive policies for the sector.

9. In the proposed SME development policies, specialized institution can support in 3 areas, namely:

a) Finance,

- b) Innovation of appropriate technology and its transfer and
- c) Skill development (capacity building).

Such organization(s) can uphold and develop our identity, make our products popular in market and help for survival in this era of intense competition, continuous planning and quality improvement.

10. The concept of PPP (Public, Private, Partnership) and joint venture with foreign counterparts can also be introduced here for encouraging our entrepreneurs, overcoming the paucity of invest able and acquiring modern technology to usher a new era of SME development in Bangladesh.

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