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# An Enquiry into the Role of Small and Medium Enterprises for Sustainable Development of Bangladesh

Nasrin, Hosnay

University of Rajshahi

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***“An Enquiry into the Role of Small and Medium  
Enterprises for Sustainable Development of Bangladesh.”***

**A Dissertation Submitted to University of Rajshahi in Partial  
Fulfillment of the Requirements for the Degree of Master of  
Philosophy (M.Phil.) in  
Economics**

**Thesis Submitted by**

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**September 2014**



## STATEMENT OF DECLARATION

I hereby declare that,

The research work presented in the thesis entitled “**An Enquiry into the Role of Small and Medium Enterprises for Sustainable Development of Bangladesh**” has not been submitted for other degree or in any other university on any occasion. To the best of my knowledge no work of this type has been reported on the above subject. All the work presented in the thesis is original and wherever references have been made, it has been clearly indicated.

*Hosnay Nassim*

.....  
Sign of M.Phil. Fellow

Date: 25-09-2014



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**CERTIFICATE**

This is to certify that this thesis work on “**An Enquiry into the Role of Small and Medium Enterprises for Sustainable Development of Bangladesh.**” by Hosnay Nasrin, has been carried out under my supervision. This thesis has been submitted for fulfillment of the requirement of the degree of Master of Philosophy in Economics in the Department of Economics, University of Rajshahi, Bangladesh.

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## **Abstract**

The development of Small & Medium Enterprises (SMEs) in developing countries is generally believed to be a desirable end view of their perceived dominant source of industrial employment. In the context of Bangladesh, the development of Small & Medium Enterprises (SMEs) can be considered as a vital instrument for poverty alleviation and ensure the rapid industrialization. Small & Medium Enterprises are accounting for 25% of GDP and 25% of the total labour force in Bangladesh. The actual Performance of SMEs however varies depending on the relative economic efficiency, the macroeconomic policy environment and the specific promotion policies pursued for their benefit. The performance of SMEs of Bangladesh in terms of employee turn over rate, quality assurance, allocation of funds, marketing activities have been found significantly below the international standard. There are various constraints that hinder the development of SMEs in Bangladesh such as medium to long term credit, limited access to opportunities, technology, expertise, lack of training and business information, lack of suitable incentives, inefficient and limited services from relevant government agencies as well as poor capacity of entrepreneurs are other reasons for slow growth of SMEs. Obviously the government has many things to do to flourish the SMEs because if they flourish the SMEs will create new entrepreneurs, generate more jobs and contribute a great extent to the national economy. This paper is an academic analysis in the light of the performance and consequences of SME activities as well as the factors that affect the performance of SMEs. SME loan program launched by the financial institutions have been able to keep impacts upon the rural & urban society of Bangladesh. Development of SME sector might have probably kept significant impacts in creating economic growth and social structure suitable for sustainable development of rural and urban society in Bangladesh. This study therefore reveals a new dimension of the impact of SME activities on sustainable socio-economic development of Bangladesh as well as environment friendly development. This study has explored the policy patterns & contributions of the financial institutions, constraints & success of the SME system and also it has proposed some recommendations to extend the SME in Bangladesh for the sustainable socio-economic development as well as environmental sustainability.

## CONTENTS

CONTENTS	Page No.
<b>Statement of Declaration</b>	<b>ii</b>
<b>Acknowledgement</b>	<b>iii</b>
<b>Certificate</b>	<b>iv</b>
<b>Abstract</b>	<b>v</b>
<b>List of Tables</b>	<b>xi –xiv</b>
<b>List of Figures</b>	<b>xv</b>
<b>CHAPTER ONE - INTRODUCTION</b>	
<b>1.1. Background of the Study</b>	<b>1-3</b>
<b>1.2. Statement of the Problem</b>	<b>4</b>
<b>1.3. Objectives of the Study</b>	<b>5</b>
<b>1.4. Review of Literature</b>	<b>5-16</b>
<b>1.5. Research gap</b>	<b>16</b>
<b>1.6. Research Questions</b>	<b>17</b>
<b>1.7. Hypotheses of the Study</b>	<b>17-18</b>
<b>1.8. Organization of the Study</b>	<b>18</b>
<b>1.9. Significance of the Study</b>	<b>18-22</b>
<b>1.10. Limitations of the Study</b>	<b>22-24</b>
<b>1.11. Scope for Future Research</b>	<b>24</b>
<b>CHAPTER TWO – OVERVIEW OF SMALL AND MEDIUM ENTREPRISES IN BANGLADESH</b>	
<b>2.1. Entrepreneurship in Bangladesh</b>	<b>25</b>
<b>2.2. Women Entrepreneurship in Bangladesh</b>	<b>25-26</b>
<b>2.3. An overview of Small and Medium Enterprises in</b>	<b>26-27</b>

<b>Bangladesh.</b>	
<b>2.3.1. SME around the world</b>	<b>27-28</b>
<b>2.3.2. SME in Bangladesh</b>	<b>28-29</b>
<b>2.3.3. Boosters sector of SME</b>	<b>29-30</b>
<b>2.4. Definition of Sustainable Development</b>	<b>30-32</b>
<b>2.4.1. - The Relationship between Economic Growth and Social Development</b>	<b>32-33</b>
<b>2.4.2. – The Relationship between Economic Growth and Environmental conditions</b>	<b>33-34</b>
<b>2.4.3. – The Interactions between Social and Environmental Factors</b>	<b>34</b>
<b>2.4.4. – The Interactions of Key factors in Bangladesh for Sustainable Development</b>	<b>35-36</b>
<b>2.4.5 – Relationship between Small and Medium Entrepreneurship and Sustainable Development</b>	<b>37-43</b>
<b>2.4.6. – Small &amp; Medium Entrepreneurship and Environmental Issues</b>	<b>43-44</b>
<b>2.5.- The emergence of Small and Medium Enterprises for sustainable development of Bangladesh</b>	<b>44-49</b>
<b>2.6 – Current Scenario and role of Small Medium Entrepreneurship in socio-economic development of Bangladesh</b>	<b>49-55</b>
<b>2.7. – Achievements of SME</b>	<b>55-57</b>
<b>2.7.1 – Growth of GDP through the development SME</b>	<b>57</b>
<b>2.7.2. - Growth of GDP by sectors</b>	<b>57-64</b>
<b>2.7.3 – Review of the performance of the manufacturing sector of Bangladesh</b>	<b>64-65</b>
<b>2.7.4 – Structure of manufacturing sector and its performance.</b>	<b>65-67</b>
<b>2.7.5.- Major Export Flourishing in Bangladesh</b>	<b>67-73</b>



<b>CHAPTER THREE - METHODOLOGY OF THE STUDY</b>	
<b>3.1. Design of the Study</b>	<b>74</b>
<b>3.2. Population, Sample ,Sampling Technique</b>	<b>74</b>
<b>3.3. Types of Data</b>	<b>75-76</b>
<b>3.4. Location of the Survey</b>	<b>76-77</b>
<b>3.5. Methods of Data Collection</b>	<b>79</b>
<b>3.6. Techniques of Data Analysis</b>	<b>80-82</b>
<b>CHAPTER FOUR – DATA PRESENTATION, ANALYSIS OF DATA AND DISCUSSION OF RESULT</b>	
<b>4.1. Characteristics of Small and Medium Entrepreneurs</b>	<b>83-98</b>
<b>4.2. Basic Three Factors that affect the performance of SMEs</b>	<b>99</b>
<b>4.2.1 Economic Factors</b>	<b>99-101</b>
<b>4.2.2 Socio-Cultural Factors</b>	<b>101-103</b>
<b>4.2.3 Legal-Administrative Factors</b>	<b>103-104</b>
<b>4.2.4. Comparison of factors that affect the entrepreneurs’ performance in SMEs</b>	<b>104-105</b>
	<b>105</b>
<b>4.3. Factors that affect the performance of SMEs</b>	
<b>4.4.- Concept about the Independent variables</b>	<b>106</b>
<b>4.5.- Statistical Analysis</b>	<b>107-113</b>
<b>4.5.1 – Relationship between performance of SMEs and Entrepreneurial skill</b>	<b>107-108</b>
<b>4.5.2 – Relationship between performance of SMEs and Human Resources</b>	<b>108-109</b>
<b>4.5.3 – Relationship between performance of SMEs and Marketing activity</b>	<b>109-110</b>
<b>4.5.4 – Relationship between performance of SMEs and IT adoption</b>	<b>110-111</b>
<b>4.5.5 – Relationship between performance of SMEs and Govt./Organizational support</b>	<b>111-112</b>

<b>4.5.6 – Relationship between performance of SMEs and Political Unrest</b>	<b>112-113</b>
<b>4.5.7 – Relationship between performance of SMEs and External Pressure</b>	<b>113-114</b>
<b>4.5.8. Regression Analysis</b>	<b>114-116</b>
<b>4.6 . Current and Previous status of the SMEs</b>	<b>116-120</b>
<b>4.7. Group wise difference regarding socio-economic and environmental consciousness</b>	<b>120</b>
<b>4.7.1.Group wise differences regarding economic benefits</b>	<b>121-124</b>
<b>4.7.2.Group wise differences regarding social benefits</b>	<b>124-128</b>
<b>4.7.3.Group wise differences regarding environmental consciousness</b>	<b>128-131</b>
<b>4.8. Regression Analysis of Investment and Net Operating Income</b>	<b>131-134</b>
<b>4.9. Area Wise constraints faced by the SMEs</b>	<b>134-139</b>
<b>4.10. Major Constraints faced by the Entrepreneurs</b>	<b>139-143</b>
<b>4.11. Findings of the Study</b>	<b>143-144</b>
<b>CHAPTER FIVE – CHALLENGES AND ,RECOMMENDATIONS</b>	
<b>5.1.1 Major problems and issues challenging competitiveness of SMEs</b>	<b>145-152</b>
<b>5.1.2 Financing and other related constraints to SME development in Bangladesh</b>	<b>152-155</b>
<b>5.1.3 Barriers for SME Export</b>	<b>156-157</b>
<b>5.2. Recommendations for SME Development in BD</b>	<b>157-159</b>
<b>5.2.1. Govt. related recommendations</b>	<b>159-160</b>
<b>5.2.2. Bank and Financial institute related Recommendations</b>	<b>160-161</b>
<b>5.2.3.Training &amp; Consultancy related recommendations</b>	<b>161-162</b>
<b>5.2.4.Other significant recommendations</b>	<b>162</b>

<b>5.2.5. Recommendations for Export Development of SMEs in BD</b>	<b>162-165</b>
<b>5.2.6. Recommendations for the Development of SME financing</b>	<b>165-167</b>
<b>CHAPTER SIX – POLICY IMPLICATIONS AND CONCLUSION</b>	
<b>6.1. Policy Implications</b>	<b>168</b>
<b>6.1.1.Actions of Government</b>	<b>168-170</b>
<b>6.1.2,Attitude Policy Implications</b>	<b>170</b>
<b>6.1.3. Bank related Policy</b>	<b>171-177</b>
<b>6.1.4.Private Sector Initiatives for SME Export Development</b>	<b>177</b>
<b>6.2. Conclusion</b>	<b>177-181</b>
<b>Appendix</b>	
<b>- REFFERENCES</b>	<b>182-187</b>
<b>- QUESTIONNAIRE</b>	<b>188-196</b>

## LIST OF TABLES

<b>No.</b>	<b>Particular of the Tables</b>	<b>Chapter</b>	<b>Page No</b>
2.1	Definition of SMEs	Two	28
2.2	Recent Salient features of SCI in Bangladesh	''	50
2.3	Contribution of SMEs in the GDP on Bangladesh	''	50
2.4	Sector wise contribution of SME in GDP of Bangladesh (Taka)	''	50
2.5	Growth Pattern of SME	''	51
2.6	Growth Percentage of Manufacturing Sector	''	51
2.7	Contribution of Large and Small Industries to the GDP (%)	''	53
2.8	Contribution of Industry Sector to GDP (in %)	''	53
2.9	Growth of Industry Sector to (in %)	''	54
2.10	Size and Growth Rate of Manufacturing Sector (At constant prices 1995-96) (Taka in crore)	''	54
2.11	Country wise contribution of SMEs	''	56
2.12	Sector wise Growth Rate of GDP at Constant Prices (Base Year: 1995-96) (In Percentage)	''	59
2.13	Sector wise Share of GDP (percent) at Constant Prices (Base Year: 1995-96)	''	61
2.14	Share and Growth Production of Manufacturing Enterprises: FY2008 to FY2012	''	65
3.1	Types/categories of SMEs	Three	74
3.2	Geographical area of SMEs	''	77
3.3	Method of data analysis	''	80
4.1.1	Category of enterprise	Four	83
4.1.2	Gender	''	84
4.1.3	Geographical Area	''	84
4.1.4	Age	''	85
4.1.5	Educational Status	''	85
4.1.6	Marital status	''	86
4.1.7	Inheritance of Business	''	86
4.1.8	Formal Training	''	87
4.1.9	Source of motivation	''	87
4.1.10	Need to start business	''	87
4.1.11	Status before establishment of unit.	''	88
4.1.12	Is previous experience helpful?	''	88
4.1.13	Types of enterprise	''	89
4.1.14	Year of business unit	''	89
4.1.15	Visit outside for work	''	90
4.1.16	No. of Employees in the Enterprise	''	90
4.1.17	Training of workers/employees	''	90
4.1.18	Source of finance	''	91
4.1.19	Net yearly income	''	91
4.1.20	Necessity of finance to expand business	''	92
4.1.21	Sources of Loan	''	92
4.1.22	Up gradation of the quality of production.	''	93
4.1.23	Up gradation of the quality of service	''	93
4.1.24	Insurance Policy	''	94

4.1.25	Operations of entrepreneurship and marketing	v	94
4.1.26	Maintenance e-commerce	v	94
4.1.27	Turn Over.	v	95
4.1.28	Profit Marqin.	v	95
4.1.29	Direct benefit from any Govt/Private organization	v	96
4.1.30	Business license	v	96
4.1.31	Tax payment	v	96
4.1.32	Creation of Air pollution.	v	97
4.1.33	Creation of Water pollution	v	97
4.1.34	Creation of Sound pollution	v	98
4.1.35	Maintenance of waste management process	v	98
4.2.1	Mean Value of area wise economic factors	v	100
4.2.2	Mean Value of area wise social factors	v	102
4.2.3	Mean Value of area wise legal and administrative factors	v	103
4.2.4	Grand Mean Value of area wise economic, social and legal & administrative factors	v	105
4.5.1.1	One sample statistics for the performance of SMEs and entrepreneurial skill	v	107
4.5.1.2	One sample test for the performance of SMEs and entrepreneurial skill	v	107
4.5.1.3	ANOVA for the performance of SMEs and entrepreneurial skill	v	108
4.5.1.4	Coefficients for the performance of SMEs and entrepreneurial skill	v	108
4.5.2.1	One sample statistics for the performance of SMEs and human resources	v	108
4.5.2.2	One sample test for the performance of SMEs and human resources	v	108
4.5.2.3	ANOVA for the performance of SMEs and human resources	v	109
4.5.2.4	Coefficients for the performance of SMEs and human resources	v	109
4.5.3.1	One sample statistics for the performance of SMEs and marketing	v	109
4.5.3.2	One sample test for the performance of SMEs and marketing	v	109
4.5.3.3	ANOVA for the performance of SMEs and marketing	v	110
4.5.3.4	Coefficients for the performance of SMEs and marketing	v	110
4.5.4.1	One sample statistics for the performance of SMEs and IT adoption	v	110
4.5.4.2	One sample test for the performance of SMEs and IT adoption	v	110
4.5.4.3	ANOVA for the performance of SMEs and IT adoption	v	111
4.5.4.4	Coefficients for the performance of SMEs and IT adoption	v	111
4.5.5.1	One sample statistics for the performance of SMEs and Govt./orqanizational support	v	111
4.5.5.2	One sample test for the performance of SMEs and Govt./orqanizational support	v	111
4.5.5.3	ANOVA for the performance of SMEs and Govt./organizational support	v	112
4.5.5.4	Coefficients for the performance of SMEs and Govt./organizational support	v	112
4.5.6.1	One sample statistics for the performance of SMEs and	v	112

4.5.6.2	political unrest One sample test for the performance of SMEs and political unrest	√	112
4.5.6.3	ANOVA for the performance of SMEs and political unrest	√	113
4.5.6.4	Coefficients for the performance of SMEs and political unrest	√	113
4.5.7.1	One sample statistics for the performance of SMEs and external pressure	√	113
4.5.7.2	One sample test for the performance of SMEs and external pressure	√	113
4.5.7.3	ANOVA for the performance of SMEs and external pressure	√	114
4.5.7.4	Coefficients for the performance of SMEs and external pressure	√	114
4.5.8.1	Mean value of the independent variables and performance of SMEs	√	114
4.5.8.2	Regression analysis between independent variables and performance of SMEs	√	115
4.5.8.3	ANOVA and Regression analysis between independent variables and performance of SMEs	√	115
4.6.1	Paired samples test for economic benefits	√	117
4.6.2	Wilcoxon Signed Ranks Test for economic benefits	√	117
4.6.3	Paired samples test for social benefits	√	118
4.6.4	Wilcoxon Signed Ranks Test for social benefits	√	118
4.6.5	Paired samples test for Environmental Consciousness/Management	√	119
4.6.6	Wilcoxon Signed Ranks Test for Environmental Consciousness/Management	√	119
4.7.1.1	ANOVA test of the entrepreneurs' group wise economic benefits regarding year of establishment	√	121
4.7.1.2	ANOVA test of the entrepreneurs' group wise economic benefits regarding no.of employees	√	122
4.7.1.3	ANOVA test of the entrepreneurs' group wise economic benefits regarding education of the respondents	√	122
4.7.1.4	ANOVA test of the entrepreneurs' group wise economic benefits regarding training/workshop	√	123
4.7.1.5	ANOVA test of the entrepreneurs' group wise economic benefits regarding Govt./organizational support	√	124
4.7.2.1	ANOVA test of the entrepreneurs' group wise social benefits regarding year of establishment	√	125
4.7.2.2	ANOVA test of the entrepreneurs' group wise social benefits regarding net income	√	125
4.7.2.3	ANOVA test of the entrepreneurs' group wise social benefits regarding education	√	126
4.7.2.4	ANOVA test of the entrepreneurs' group wise social benefits regarding training	√	127
4.7.2.5	ANOVA test of the entrepreneurs' group wise social benefits regarding Govt./Organizational support	√	127
4.7.3.1	ANOVA test of the entrepreneurs' group wise Environmental consciousness regarding year of establishment	√	128
4.7.3.2	Table – ANOVA test of the entrepreneurs' group wise Environmental consciousness regarding net income	√	129
4.7.3.3	ANOVA test of the entrepreneurs' group wise Environmental consciousness regarding education	√	129

4.7.3.4	ANOVA test of the entrepreneurs' group wise Environmental consciousness re ardin trainin	"	130
4.7.3.5	ANOVA test of the entrepreneurs' group wise Environmental consciousness regarding Govt. or anizational su ort	"	130
4.8.1	Correlations of investment and net income	"	132
4.8.2	Re ession of investment and net income	"	132
4.8.3	ANOVA test for investment and net income	"	133
4.8.4	Coefficients of investment and net income	"	133
4.8.5	Curve Fit	"	133
4.9	Mean Value of Area Wise Constraints	"	138
4.10.1	Mean value of ma'or constraints	"	142
4.10.2	Chi-S uare Test of the ma'or constraints	"	142
5.2.6.1	_____	Five	166

## LIST OF FIGURES

<b>No.</b>	<b>Particular of the Figures</b>	<b>Chapter</b>	<b>Page No</b>
2.4.1	Key factors of sustainable development	One	35
3.2.1	Location of study in the Map of Bangladesh	Three	78
4.1.1	Category of enterprise	Four	83
4.1.2	Gender	v	84
4.1.3	Geographical Area	v	85
4.1.4	Aqe	v	85
4.1.5	Educational Status	v	86
4.1.6	Marital status	v	86
4.1.7	Inheritance of Business	v	86
4.1.8	Formal Training	v	87
4.1.9	Source of motivation		87
4.1.10	Need to start business	v	88
4.1.11	Status before establishment of unit.	v	88
4.1.12	Is previous experience helpful?	v	89
4.1.13	Types of enterprise	v	89
4.1.14	Year of business unit	v	89
4.1.15	Visit outside for work	v	90
4.1.16	No. of Employees in the Enterprise	v	90
4.1.17	Training of workers/employees	v	91
4.1.18	Source of finance	v	91
4.1.19	Net yearly income	v	91
4.1.20	Necessity of finance to expand business	v	92
4.1.21	Sources of Loan	v	92
4.1.22	Up gradation of the quality of production.	v	93
4.1.23	Up gradation of the quality of service	v	93
4.1.24	Insurance Policy	v	94
4.1.25	Operations of entrepreneurship and marketing	v	94
4.1.26	Maintenance e-commerce	v	95
4.1.27	Turn Over.	v	95
4.1.28	Profit Margin.	v	95
4.1.29	Direct benefit from any Govt/Private organization	v	96
4.1.30	Business license	v	96
4.1.31	Tax payment	v	97
4.1.32	Creation of Air pollution.	v	97
4.1.33	Creation of Water pollution	v	97
4.1.34	Creation of Sound pollution	v	98
4.1.35	Maintenance of waste management process	v	98
4.10.1	Curve Fit for regression	v	134
6.1.2.1	The No. of Beneficiaries from PKSf	Six	170



# **Chapter - One**

## **Introduction**

### **1.1. Background of the Study**

Entrepreneurship has been regarded as one of the important determinants of industrial growth both in the developed and in the under-developed countries. Despite its importance for the economy, the emergence of small and medium entrepreneurship is a new phenomenon all over the world. In general, about 98% of enterprises in most Asian countries are classified as small enterprises.

The thesis begins by examining characteristics of small and medium enterprises and an overview of the contribution and significance of small & medium enterprises in Bangladesh to demonstrate the importance of the group within the nation. There is significant contribution of small and medium enterprises to the national economy of Bangladesh as per the following terms:

- Enterprises contribute heavily to total employment frequently representing more than 50% of total employed.
- Total output is also a feature of small enterprises -- it is not unusual for more than 50% of a nation's output to originate from small enterprises.
- Exports are also contributed by many small enterprises whether in the manufacturing, service or agricultural sectors.
- An important social contribution of small enterprises is the range of products and services directly available to the consuming people – in many countries, consumers rely on the output of small enterprises for the maintenance of standards of living.
- Small and medium, enterprises also produce specialist services and specialist products often in a more efficient manner than would be feasible by large enterprises.
- Contributions to the support of large forms come from small enterprises with services and products required by those large enterprises in their production processes.
- Small and medium enterprises also have a role in becoming distribution outlets for large firms – whether those firms are producing high technology or consumer products, frequently small enterprises are associated with the distribution process to eventual consumers.
- There is general recognition that small enterprises represent a breeding ground for new business ventures often leading to large enterprises and high technology enterprises.

- Competition in most nations or economies is created by the multitude of small enterprises providing services and products.

Finally, it can be argued that small and medium enterprises create an avenue for independent, innovative and entrepreneurial talents. With this brief overview, it is self evident that governments of Bangladesh respect and recognize the important role of small & medium enterprises and their managers and owners to national economies. It is to be expected therefore that research in business and management in Asia would feature some aspect of small and medium enterprise management. Bangladesh is still a poor country, but she is rich in human resource. According to the Bangladesh Economic Review 2009, around 6 percent of the country's \$ 90 billion economy comes from SMEs, which is also the largest sector in terms of employment generation. (Daily Star December 29, 2009). Bangladesh is rightly dubbed as a country of the SMEs. Bangladesh industrial economy is thickly populated by these industries which amount for over 99 percent of the private sector industrial establishments and provide more than 80 percent of industrial employment (Economic Review,2010). The relative SME shares in total GDP range between 25-30 percent and that in manufacturing value added vary between 40-45 percent (Ahmed Momtaz Uddin 2008). The sector is currently exhibiting notable dynamism by registering an average annual compound growth rate of over 7- 8 percent in their value added shares to GDP. However, their potentials contributions to the country's growth process vis-a-vis their numerical dominance in the economy continue to remain unveiled. In the context of a developing country like Bangladesh, where SMEs are the engine of growth, there has arisen a new class: SME entrepreneurs. The urban and rural entrepreneurs of Bangladesh are now turning the situation as a crucial progress in national development. SMEs constitute one of the major driving forces of economic growth in the developing countries. Self employment and the creation of new employment through SMEs help to reduce disguised unemployment and under-employment in the farm sector. In a poor country like Bangladesh, poverty alleviation through economic growth, as well as employment generation on mass scale is heavily dependent on the development and expansion of SMEs. Though some studies were conducted on entrepreneurship development in Bangladesh, no significant research study was conducted on the performance of entrepreneurs either in rural or urban areas of Bangladesh. The development of Small & Medium Enterprises (SMEs) in developing countries is generally believed to be a desirable end view of their perceived dominant source of industrial employment. In the context

of Bangladesh, the development of Small & Medium Enterprises (SMEs) can be considered as a vital instrument for poverty alleviation and ensure the rapid industrialization. Small & Medium Enterprises are accounting for 25% of GDP and 25% of the total labour force in Bangladesh (Economic Review,2010). The actual Performance of SMEs however varies depending on the relative economic efficiency, the macroeconomic policy environment and the specific promotion policies pursued for their benefit. The performance of SMEs of Bangladesh in terms of employee turn over rate, quality assurance, allocation of funds, marketing activities have been found significantly below the international standard. To achieve the desired 8-10 per cent GDP growth, the manufacturing sector has to be made highly vibrant, increasing both its growth rate and its contribution to the GDP by leaps and bounds. The most cost-effective route for this would be through development of SMEs. Whether to achieve the committed Millennium Development Goals (MDGs) of 2015 or the targets of the National Strategy for Economic Growth, Poverty Reduction and Social Development, commonly known as the Poverty Reduction Strategy Paper (PRSP), the development process of Bangladesh must strive to expand employment creation opportunities very rapidly. The scope of additional absorption of labour in agriculture being somewhat limited, the best potential for this lies in the manufacturing sector. In spite of droughts, floods, cyclones and various other natural or management related disasters, the country has performed well and has enabled the country to be self-sufficient in food; the growth of the services sector has also been fairly robust. There are various constraints that hinder the development of SMEs in Bangladesh such as medium to long term credit, limited access to opportunities, technology, expertise and business information, lack of suitable incentives, inefficient and limited services from relevant government agencies as well as poor capacity of entrepreneurs are other reasons for slow growth of SMEs. Development of SME Sector might have probably kept significant impacts on sustainable economic development, which might have subsequently played role in creating social structure suitable for sustainable development of rural and urban society in Bangladesh. Proposed study may therefore reveal a new dimension of the impact of SMEs on sustainable development as well as social structure of rural & urban Bangladesh. This study will explore the policy patterns & contributions of the financial institutions providing SME loan, constraints & success of the SME system, and to propose some recommendations to extend the SMEs in Bangladesh for the sustainable economic development.

## **1.2. Statement of the Problem**

The comprehensive study on **“An Enquiry into the Role of Small and Medium Enterprises for Sustainable Development of Bangladesh,”** is to identify the impediments to the development of entrepreneurship, and to formulate programs based on the approved policy to increase entrepreneurs involvement in the SME sector. This study to review the position of entrepreneurs in SMEs and identify their success and problems in business, including the family and social constraints .As mentioned in the introduction above, there are a large number of SMEs in Bangladesh. But the country does not yet exploit them very well to contribute a lot for economic development. This study is different from those researchers discussed above in that their focus areas were in all entrepreneurs regardless of their sex. Besides, they did not see the factors with respect to the different personal, organizational, economic, socio-cultural and legal/administrative matters. No alternatives have been made to examine the nature of the SMEs that are friendly to environment and hence plays crucial role in sustainable development. This study reveals the socio economic condition of the SMEs and specifically emphasis on factors that affect the performance of entrepreneurs in SMEs and its role in keeping the environment better. The study targeted the entrepreneurs who are able to create own jobs rather than seeking employment in any organization. Entrepreneurship education is designed in order to support graduates, existing and potential entrepreneurs to create and run their own business rather than expecting employment from government, private or NGOs. So as to develop entrepreneurial culture to all groups of the society, entrepreneurship is given in different countries including .Bangladesh in formal, informal and non-formal way there is an acute shortage of studies conducted with a specific objective of analyzing the problems of enterprises operated by both men and women in terms of personal and organizational-related challenges, economic, social/cultural, and legal/administrative as well as environment related challenges. This study is deemed to fill the gaps by identifying specific factors that are responsible for resilience in SMEs are operated by entrepreneurs, and shade light on specific differentials that affect their performance. Thus, in this study it is thought to assess the different factors that affect the performance entrepreneurs in SMEs in Bangladesh. And at the same time this study will look into the role of SME activities in keeping the environmental friendly sustainable development.

### **1.3. Objectives of the Study**

The general objective of the study is to examine and analyze the role of the SMEs, the challenges that are now confronting and the real situation that are now prevailing in the socio economic & political context of Bangladesh. However the study will cover the following specific objectives:-

- 1)** To analyze the Characteristics of SMEs and find out the contribution of SMEs for the sustainable socio-economic development of Bangladesh.
- 2)** To examine the factors those affect the performance of SMEs and trace out the consequences of SME activities upon the socio-economic status & environmental consciousness of the entrepreneurs as well as the role of SMEs to the sustainable development.
- 3)** To find out the challenges those are being confronted by the SMEs in the study area.
- 4)** To make a query regarding the Govt. policies in connection with the SME development and suggest suitable recommendations in the light of the present study to strength the current situation of SMEs in Bangladesh.

### **1.4 . Review of Literature**

As globalization reshapes the international economic landscape and technological change creates greater uncertainty in the world economy, the dynamism of entrepreneurship is believed to be able to help to meet the new economic, social and environmental challenges. Governments increasingly consider entrepreneurship and innovation to be the cornerstones of a competitive national economy, and in most countries entrepreneurship policies are in fact closely connected to innovation policies, with which they share many characteristics and challenges. The dynamic process of new firm creation introduces and disperses innovative products, processes and organizational structures throughout the economy. The lack of internationally comparable empirical evidence has however constrained our understanding of entrepreneurship and many questions remain unanswered. Ultimately, policy making must be guided, as far as possible, by evidence and facts.

Parson and Smelser [Parson and Smelser 1956] described entrepreneurship as one of the two necessary conditions for economic development, the other being the increased output of capital. But the classical theories of economic development (Smith 1776, Ricardo) did not emphasize much

on entrepreneurship. According to those theories economic development seems to be automatic and self-regulated.

The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of political leadership to the entrepreneurial function. The entrepreneurs contribute more on favourable opportunity conditions than in the economies with relatively less favourable opportunity conditions. Viewed from the opportunity point of view, the underdeveloped regions, due to paucity of funds, the lack of skilled labour and non-existence of minimum social and economic overheads are less conducive to the emergence particularly of innovative entrepreneurs. In such regions entrepreneurship does not emerge out of industrial background [Barozen 1954-1955].

Therefore entrepreneurs in such regions, under the conditions of paucity of funds, the problems of imperfect markets and industrial climate the entrepreneurs are bound to launch their enterprises on a small scale with available raw materials, human resources and indigenous technology. So for the LDCs like Bangladesh small scale entrepreneurship development is very important for economic development [Khanka 2002].

According to the European Union (2003) SMEs are defined as enterprises which have at most 250 employees and an annual turnover not exceeding 50 million Euros. Further there is the distinction of small enterprises — they have fewer than 50 staff members and less than 10 million Euros turnover — and micro-enterprises (less than 10 persons and 2 million Euros turnover).

According to the World Bank (2006) medium enterprises are defined as enterprises which have at most 300 employees and an annual turnover not exceeding 15 million US dollars. Further there is the distinction of small enterprises — they have fewer than 50 staff members and up to 3 million US dollars turnover — and micro-enterprises have up to 10 persons and \$100,000 turnover.

Small and medium enterprises are considered as backbone for domestic resource mobilization. There are several researches, which are in favor of domestic resource mobilization in the present scenario through either product innovation or process innovation to restore the economic strengths of the economy (Ohashi, 2007, Doborn & Soraino, 2009).

Kharbandae (2000) has emphasized on cluster development for the promotion of SMEs sector through process innovation. According to his research, small and medium sector constitutes approximately 80% of industrial enterprises in Indian economy. India has nearly three million SMEs, which account for almost 50 per cent of industrial output and 42 per cent of India's total exports. Along with SMEs significance, the author has thrown light on main problems and their impediments with the help of process innovation. For that purpose, a conducive policy environment is utterly required like investment policies, liberalization policies and introduction of modern technologies. To promote SMEs sector, sourcing of new technology, innovation and effective transfer, in the presence of SMEs cluster, are essential. It will result in indigenous industrialization and self reliance of the country.

Khan (2004) has explained that small enterprises are an important part of a nation's economic and social structure. On global perspective, small enterprises have acquired a significant stature in the economic development of a county. There are many successful stories in the world where an appropriate strategy has been adopted for establishment and promotion of small and medium scale industries.

Cravo (2010) has analyzed the impact of strong SME's sector on economic growth of Brazilian economy. The author examines the relationship between the small and medium enterprise (SME) sector and economic growth for a panel of 508 Brazilian micro-regions for the period 1980–2004. It observes the significance of SME sector with respect to two main variables; the share of the SME employment in total employment, and the level of human capital in the SME sector. Moreover, it examines how these aspects of SMEs influence the economic growth in regions with dissimilar level of development. The empirical findings show that Brazilian SME sector has no significant correlation with economic growth but SMEs' human capital is more important for growth in more developed regions. This proposition does not fit for all the countries as the experience in other countries (Bangladesh and China) show that there is positive correlation between SME sector and Economic growth.

Studies on small and medium enterprise (SME) sector are generally faced by two major constraints. That is, lack of appropriate statistical information (Wagner, 1995) and an insufficient theoretical framework (Miesenbock, 1988). Another interesting point is that some literature on

small firm growth proves that managerial and firm characteristics are not significant in explaining the performance of the firm whilst other literature demonstrates that small business performance depends, amongst other factors, on management traits and firm characteristics<sup>6</sup>.

Watson et al (1993: 36) argues that it is not proper to generalize research findings on small firm growth or otherwise because the definition or indicator utilized may not be objective, relevant, verifiable and simple. Above this, Caughey et al (1994) and Smallbone (1999) have shown that small firm performance significantly differs by sectors, country, and a host of other factors. Stanworth et al (1986) shown that the performance of an enterprise would also depend on the stage of growth which an enterprise is at. This is further confirmed in Smallbone (1990).

Lefebvre and Elisabeth (2001) have used Tobit and Probit model to show the impact of innovative capabilities of SME's as a leading determinant for exports performance. The findings of the research indicate that innovative capabilities are having determinants of export performance but their relative importance vary according to the knowledge intensity of the industrial sectors in which they are actively in operations. In high knowledge industries, all technological capabilities are significantly positive related to export performance while commercial capabilities are more prominent in low-knowledge industries. However, in low, medium or high-knowledge industries, Research & Development and knowledge intensity remain among the five strongest determinants. Due to its positive link with exports performance, we can assume that it will lead to improve economic growth of a country because of national income identity equation ( $Y=C+I+G+X-M$ ). Through domestic resource mobilization, the government can reduce its dependency on donor agencies. To promote the SME's in Pakistan, government of Pakistan has formulated SME Policy Task Force in 2004 and they recommend that private sector led economic growth strategy should be primarily based on SME development.

Hitt et al. (2002) described a firm's resources as a key input and categorized them into tangible and intangible resources. Lack of these resources restricts SMEs growth in developing countries. The study particularly analyzes that how lack of three key resources, finance, human capital and technological resource affect SMEs growth and can PPPs be a way for overcoming this lack of resource to SMEs and enhancing their growth and development.



Lin (2007) argues that as SMEs are often labor-intensive enterprises, their ability to absorb labor costs are reduced when they face credit constraints. Therefore, the need is to establish small and medium-sized banks through PPP to deal with the difficulty of accessing bank credit for SMEs

New technologies are rapidly emerging, technologies improves efficiency and enables greater production. Technological innovations are a source of profit for enterprises (Dean, 1980; Drucker, 1985). The potential benefits of modern technology and technological capabilities to SMEs are well known.

Holmund et al (2007) come with the idea that import activity could be considered as a vehicle to develop overseas business and suggest links between importing and exporting. They considered that imports activities are focused on operation while exports on marketing. Even if there is no consensus regarding ways to measure the effect of internationalization on SMEs performance,

Steensma, Marino and Weaver (2000) have emphasized on adopting of cooperative strategies by the small firm to make a significant contribution in achieving economic strengths According to them, cooperative strategies consists of structured cooperative agreements between firms like marketing coalition, research & development agreements and distribution agreements to minimize the cost. Such cooperation may allow these entrepreneurial firms to increase production through innovative process, expand their production capacity through joint production agreements, share marketing expenses and expertise with long-term marketing arrangements, and reach foreign markets with distribution agreements. These agreements may not be confined up to domestic firms but we can also expand the spectrum of cooperation to firms in foreign countries.

It is generally presumed that SMEs development has positive impact on economic growth of a country through employment generation. With the development of SMEs, particularly through process innovation, allocate as well as distributive efficiencies would be amplified. The production capacity of industrial units will increase which helps in expansion of the businesses. Through employment generation, income availability would increase which may assist in boosting the social standard. Ultimately consumption would increase which has positive impact on national income through national income equation;  $(Y=C+I+G+X-M)$ . But it is one side of the coin. The other side indicates that there is no impact of SMEs development on economic growth as Cravo (2010) has

highlighted in his study. There are some important factors like investment policy, external sector policies, which have greater impact on economic growth rather than SMEs development.

SMEs are characterized by uncertainties and lack tangible assets (that they pledge to banks as collaterals), they are usually deprived of receiving finance from banks in Bangladesh. This fact is observed from various studies and micro surveys relating to SMEs in Bangladesh. For instance, Hossain (1998), Qureshi (2000), Bhattacharya (2000) and Akhtaruddin (2000) mention that in most cases banks and non-bank financial institutions of Bangladesh require collateral, almost twice the amount of requested loans, in the form of land and buildings in lieu of getting loans by large enterprises as well as SMEs. SMEs are also regarded as high risk borrowers by bank officials because of their low capitalization, insufficient asset base and high mortality rates and consequently, they are not offered any attractive deals in terms of loans and interest rates (Sia, 2003). Banks are further seen to be conservative in nature in lending to SMEs, as they do not consider them as attractive and profitable undertakings (Bhattacharya, 2000; Sia, 2003).

With respect to the SME sector of Bangladesh Foreign and national experts underlook some studies, some of the notable ones are – Uddin ( 2008 ), Chowdhury ( 2007 ) , Miah ( 2007), Ahmed (2006),Midas (2004),ICG (2003), Hallberg ( 2002), Uddin (2008) has stated the economic efficiency and overall performance of the SMEs especially in the developing countries are considerably dependent macroeconomic policy environment and specific promotion policies pursued for their benefit.

It is important to note that Bangladesh has been following the system of an open market economy since the 1990s and Ahmed (1999) states that in a liberalized developing economy like Bangladesh, SMEs are exposed to tougher competitive conditions both from domestic and international markets and might end in prematurely termination of their operations, if adequate financial and non-financial support is not provided to them timely.

Uddin (2008) has stated that the economic efficiency and overall performance of the SMEs especially in the developing countries are considerably dependent upon macroeconomic policy environment and specific promotion policies pursued for their benefit.

Chowdhury (2007) highlighted that in context of Bangladesh SME is characterized by Low capitalization and limited assets, geographical diversity and high mortality, poor credit knowledge, very limited access to formal source of credit, cash intensity in transactions, very limited record keeping habit, poor financial disclosure on account of tax issues, high risk perception has led to high borrowing costs.

In a study about SME sector of Bangladesh Miah (2007) stated that the major constraints for SMEs 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 & development facilities, fierce competition, absence of effective and transparent legal system, difficulties in accessing technology, credit constraints, low access to business services, constraint of quality of human resources, low awareness, low lobbying capacity, rapid changes in policy environment.

Ahmed (2006) observed that availability of finance is a major constraint to 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 higher because close monitoring and supervision the SME operation becomes necessary.

A study ( 2004) by Micro industries Development assistance and Services ( MIDAS ) revealed that sources of finance are mostly friends & family member in case of SME. MIDAS tried to identify the sources of funds of SMEs. These are-

Sources of funds	Percentage of finance
Informal sectors	41%
Family members	20%(interest free) & 4% (with interest)
NGO	17%
Bank	18%

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Furthermore, the commonly perceived merits often emphasized for SMEs promotion especially in the developing countries like Bangladesh include their relatively high labour intensity, dependence on indigenous skills and technology, contributions to entrepreneurship development and innovativeness and growth of industrial linkages. The case for fostering SME growth in Bangladesh is irrefutable as these industries offer bright prospects for creating large-scale employment and income earning opportunities at relatively low cost for the unemployed especially in the rural areas strengthening the efforts towards achieving high and sustained economic growth (Uddin, 2001).

According to Hallberg (2002), a stable macro-economy, an open trade and investment regime, and a competitive financial sector are argued to be most essential ingredients for a vibrant private sector. But with a 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 prosperity of SME in this country.

Dr. Sharif Bhuiyan found like many other countries, informal sector in Bangladesh does not exist in a vacuum. There are clear interconnectedness, partnership and continuity with the formal sector – maintaining a two way flow of labor, goods, finances etc between the two sectors. In Bangladesh rapid transformation of the informal sector may not be possible, feasible and/or sustainable. Policy initiatives to formalize the informal sector should therefore adopt a gradualist approach(2007).

Dr Khondaker Golam Moazzem showed that in the Sixth Five Year Plan (6th FYP) acceleration of GDP growth (from 6.1 percent in FY 2010 to 8.0 per cent in FY2015) has been targeted through excelling the performance of industrial sector, particularly of the manufacturing sector. The growth of the manufacturing sector will have to be attained through improvement of existing enterprises and also by creating new ones. However, an overwhelming number of these enterprises are micro (having less than 10 workers), small (10-49 workers) and medium (50-99 workers) enterprises, usually called MSMEs/SMEs (2008).

S. M. Akterujjaman came into a conclusion that SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation

and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint (2010).

S. M. Nasrul quadir and DR. Mohammad Saleh Jahur argued that SMEs of Bangladesh have been vulnerable to frequent policy changes of Government from time to time. Besides, they are facing severe competition in and outside the country. As a result, the profitability of SMEs has got squeezed and many of them have got financially distressed. Besides, Entrepreneurs of SMEs (2011).

Iftikhar Hussain, Zeeshan Farooq and Waheed Akhtar opined that Across the South Asia, the contribution of SMEs to the overall economic growth and the GDP is high. It is estimated that SMEs contribute 50% of Bangladesh's industrial GDP and provide employment to 82% of the total industrial sector employment. In Nepal, SMEs constitute more than 98% of all establishments and contribute 63% of the value-added segment. In India, SMEs' contribution to GDP is 30 %.( 2012). SMEs are different from large organizations in several characteristics like resource limitations (financial, human and technological), informal strategies, and flexible structures (Hudson et al., 2001; Qian and Li, 2003). As a consequence, SMEs have higher failure rate than large enterprises. This also causes slow growth of SMEs. Every SME has a set of distinctive resources that provides the foundation for its growth and development. The resource based theory explains these resources; these resources are firm's physical capital resources, human capital resources and organizational resources (Barney, 1991).

Razzaque (2003) argued that the factors that are acting as constraints in case of SME market development are: quality and standards, marketing, investment and working capital, shortage of skilled workers, lack of entrepreneurship and management skills, physical infrastructure, transport costs, trade policy and incentives, information, legal and regulatory framework, domestic environment etc. Ahmed (2004) argued that it is necessary to review the Government's industrial policy and technology policy to outline the Government's measures to support SMEs in technological up gradation.

Small and medium enterprises are considered as backbone for domestic resource mobilization. There are several researches, which are in favor of domestic resource mobilization in the present scenario through either product innovation or process innovation to restore the economic strengths

of the economy (Ohashi, 2007, Doborn & Soraino, 2009). With the help of new technology and innovative ideas, an entrepreneur can achieve economies of scale with the expansion of their businesses. All alienated economic activities like marketing, investment, employment generation and consumption can be functional, if process innovation would be taken place. The product innovation cannot be possible without process innovation. A country can hire the expertise from other countries where the process innovation is successfully experienced like in East Asian economies and in developed countries to formulate basic infrastructure of process innovation.

Dr. Ahmed. In this article Dr. Momtaz Uddin mentions that SMEs constitute one of the major driving forces of economic growth in the developing countries. The development potentials of these industries in Bangladesh are boundless. Characteristically, the SMEs are poised to create millions of low-cost and productive job opportunities, add to national output and exports, promote entrepreneurship and innovation, and spread industrial growth over wider geographic regions and among vast number of potential business owners. These intrinsic merits of the SMEs make them handy instruments for achieving employment intensive industrial growth, "Socially inclusive" national economic growth and sustained poverty alleviation. He identifies that the SME sector accounts for upwards of 90% of total industrial establishments, 60 to 70 percent or more of employment and provides livelihoods for three-fourths of the workforce in most of the Asian countries.

In her article, Professor Masuda M. Rashid Chowdhury made an attempt to identify some of the factors that led to the adoption of women entrepreneurship. She also discussed the problems faced by the women entrepreneurs in their business enterprises. As small entrepreneurs, women played a significant role in the national economy. In the article, she suggested that the governmental and non-governmental development for women entrepreneurship should be activated in order to increase the contribution of women towards the national economy. She also rightly identified the major problem of women entrepreneurship which included the lack of credit facilities, skill training and market opportunities. She also pointed out those middlemen created problems by offering low prices. Women face difficulties in procurement of raw materials and transportation.

In their article Moyeen and Huq have analysed the various problems faced by the urban female entrepreneurs of the Dhaka Metropolitan area. They studied 51 female entrepreneurs in respect of the nature of their business management skills, level of education, occupational influences, and demographic information

Feroz Ahmed, Md. Mizanur Rahman, Monimul Haque in their article "Constraints of Manufacture based Small and Medium Enterprise (SME) Development in Bangladesh" look for identifying such constraints of manufacture based SME Development in Bangladesh. From the study, it has been identified that, lack of utility facilities, for example, electricity, gas and water, frequent changes of the prices of raw materials as well as shortage of raw materials, political unrest, high interest rate on borrowings, high transportation cost, lack of financing for ongoing concern, and inadequate infrastructure are the major constraints of manufacture based SMEs Development in Bangladesh. The researchers assume that few initiatives like developing necessary infrastructure, ensuring utility services, reducing bank rate and ensuring consistent supply of raw materials can change the total scenario and thus can help the manufacturing sector which in turn will result the industrial development of the country and thus will be able to contribute to the economic development.

Mohammad, S. A. Momen and Sayma Rahman made a study on the entrepreneurs operating in the industrial units within the radius of 35 kms around Dhaka City. The sample population comprised the owners of firms. The authors tried to highlight the major factors hindering the development of entrepreneurs' in Bangladesh. They also tried to measure the success of entrepreneurs and examined whether any correlation existed between various factors like age, education, experience and investment size and the selection of projects.

Mubina Khandokar in her article "Entrepreneurship Development and Economic growth: The Bangladesh Case" argued that entrepreneurship was the most essential factor for economic development of a country. She said that entrepreneurship development in Bangladesh was at its initial stage. No serious efforts had been made so far. Little amount of money had been spent on entrepreneurship development in this country. However, situation had been changed. Nationalized banks and other non-government institutions were undertaking schemes and training programs to

encourage entrepreneurship in the small-scale business enterprises. These efforts were, no doubt, praiseworthy, but are still inadequate compared to the needs of the country.

Abdul Awal Mintoo in his study "SMEs in Bangladesh" mentioned that The Least Developed Countries (LDCs) in the east have started refocusing their attention on SMEs to enhance their role in bringing about structural changes in their economies. For Bangladesh SMEs have assumed special significance for poverty reduction programmes and potential contribution to the overall industrial and economic growth. This article uses two earlier studies carried out almost a decade apart and the author's own research to identify some of the constraints that have been hampering SME growth and to provide some pointers for the future.

To see the impact of process innovation on the performance of small and medium enterprises and the effect of strong SME on economic development, an econometric model has been developed. The period of analysis consists of 1980 to 2012. Following Milbergs, 2005, three main measures for process innovation has been taken in this research; number of patent applicants, either resident or non residents, number of trademark applicants, either resident or non residents, high-tech exports and high-tech exports as percentage of manufacturing exports. To measure the performance of SMEs sector, SMEs growth is taken as a benchmark indicator. As well as economic performance is concerned, two economic parameters have been selected; growth in real GDP Per Capita and growth in GDP, as referred by Toderro, 2009.

### **1.5. Research Gap**

The previous studies explore different aspects of SMEs in Bangladesh as well as in developing countries. In the previous few studies it is noted in Bangladesh that there exists some challenges in SMEs or SME financing. Few articles explore the innovation in SMEs and few researches explore the growth strategies and entrepreneurial factors that affect the activities, performance of SMEs, etc. Other studies examine the policy strategies, SMEs export growth, barriers and Govt. initiatives, risk interceptions in SMEs , behavior of SMEs, efficiency of SMEs as well as process innovation on productivity. On the other hand this study is an attempt to cover basic important issues related to the development and features of SMEs. This study is based on the SMEs of the major cities of Bangladesh. It explains not only the characteristics of the SMEs but also the factors that affect their



performance. This study examines the impacts and consequence of SMEs activities to the socio-economic development and environmental consciousness of the SMEs. This research examines the group wise difference regarding socio-economic benefit and environmental consciousness of the entrepreneurs. An attempt is made to find out the area wise challenges and economic, social and administrative factors that create constraints to the development of SME sectors in Bangladesh. So this study is different from the previous studies cover most of the major aspects related to the development of SMEs in Bangladesh.

### **1.6. Research Questions**

In light of this, the study attempts to answer the following basic questions:

- 1.** What are the key economic, social, legal and administrative factors like entrepreneurial skill, human Resource, marketing skill and activities, IT adoption, Govt. and other organizational support, political unrest and external pressure that affect the performance of entrepreneurs in SME sector ?
- 2.** Is there any significant relationship between the performance of the entrepreneurs and the factors that affect the performance of SMEs ?
- 3.** Is there any significant role of SMEs to the sustainable development of Bangladesh?
- 4.** Is there any significant changes took place in the socio-economic status and environmental consciousness of the entrepreneurs through their activities?
- 5.** Is there any group wise difference regarding the socio-economic benefits and environmental consciousness of the entrepreneurs?
- 6.** What are the constraints faced by the SMEs of different districts and is there any significant relationship between the constraints and the SMEs?

### **1.7. Hypotheses of the Study**

#### **1. Factors that affect the performance of SMEs**

<b>Null Hypothesis</b>
<b>There is no significant relationship between performance of SMEs and related independent variables</b>

## **2. Role of SME Activities**

### **Null Hypothesis**

**There is no difference between current and previous status of the respondents in respect to economic benefits, social benefits and environmental consciousness**

## **3. Group wise differences regarding Socio-economic benefits and environmental consciousness**

### **Null Hypothesis**

**There is no Group wise differences regarding socio-economic benefits and environmental consciousness**

## **4. Correlation between investment and net operating income**

### **Null Hypothesis**

**There is no significant relationship between the investment and the net operating income of the entrepreneurs**

## **5. Challenges in the SME sector**

### **Null Hypothesis**

**There is no association of the entrepreneurs with the major challenges observed in the SME sector in Bangladesh**

## **1.8. Organization of the Study**

The study consists following chapters :

1. Introduction
2. Overview of Small and Medium Enterprises in Bangladesh
3. Methodology of the Study
4. Presentation and Analysis of Data
5. Challenges and Recommendations
6. Policy Implications and Conclusion

## **1.9. Significance of the Study**

The present study entitled "**An Enquiry into the Role of Small and Medium Enterprises for Sustainable Development of Bangladesh**" deals with studying and understanding a sample of small and medium entrepreneurs. The findings and conclusions of the study will be a great help in variety of ways. The present study will throw light on a specific section of the working class. The

SMEs engaged in manufacturing and service sectors have been taking up variety of careers and sources to earn income. Many women have been found to use their skills and knowledge about enterprises in productive ways the present study will help to understand the approach and will throw light on their knowledge, attitude and practices as well as problems. It will be of great importance as a contribution to database on entrepreneurs. It will point out as to how these entrepreneurs differ with respect to other working people. The study on entrepreneurs is of great significance to the economic growth. This can be largely achieved by economic independence. Starting and developing an enterprise may be is a great challenge in itself. Thus, a study on SMEs who have undertaken such tasks will be of great motivation to others. It will direct others how to use one's skills and expertise in creative manner. In addition to these aspects, it also becomes important to know how they manage their work and home simultaneously. Thus, studies on entrepreneurs will become an example of what they can do, what they are doing and how. It will be able to overcome the stereotype misconceptions about women. This conceptual clarity will help the SMEs to obtain better acceptance, respect and support in society. It will provide motivation to initiate for beginners and to expand for those already in it. Such a study will prove the fact that they are successful managers for business as well. The society will look upon such entrepreneurs as ideals and will be forced to reconstruct their notions about SMEs. Their importance and contribution can be understood by studying groups of such entrepreneurs. The study in the present research format is an effort to better understand groups of such entrepreneurs and their contribution. It is envisaged that the study will find a causal relationship between entrepreneurship and economic development of Bangladesh and demonstrate the effectiveness of participation in small economic activities to help gender equality. The study will also show how to integrate entrepreneurial skills and attitude of entrepreneurs as one of the most valued assets in creating enterprise and their continuation and how entrepreneur as an indispensable part of the reformist community are working under the same macro, regulatory and institutional framework with other counterparts. Thus, it is necessary to analyze in-depth the problems in order to understand the gender parity embedded in society that eventually limits mobility, interactions, active economic participation, access and control to business development services. Thus, a study on small and medium enterprises will throw light on their status and problems in specific. The research will be also helpful in following ways –

- This study will be helpful for the academicians and researchers who want to work concerning the SME sector of Bangladesh as well as of developing countries and Small and medium entrepreneurs can be more conscious about the environment, sustainable development and challenges as well as those factors that create constraints.
- The unemployed people and women can be inspired to be an entrepreneur. The educated entrepreneurs could be more conscious about their own entrepreneurial skills, human resources, IT facilities, marketing system for the expansion of business
- People can be informed about the contribution of the SMEs to the economic development and GDP growth rate in the past few years
- Central banks, Govt. institutions and other private organizations can be aware about the constraints and initiatives to foster the SME development in Bangladesh. SMEs and the other institutions could be aware about the socio-economic benefits and environmental consciousness through the SME activities
- To know how far financial and other assistance provided by Government are helpful to entrepreneurs.
- To know the casual relationship of SME activities and environmental degradation.

**- Contribution of the study to the National Development & Planning System**

Small & medium enterprises play a vital role for the economic growth, poverty alleviation, and rapid industrialization of the developing countries like Bangladesh. SME's are significant in underlying country's economic growth, employment generation & accelerated industrialization as the SME sector is labor intensive, it can create more employment opportunities. For this reason the Govt. of Bangladesh has recognized SME as a poverty alleviation tool. SMEs also foster the development of entrepreneurial skills & innovation. Along with poverty alleviation SMEs can reduce urban migration and increased cash flow in rural areas. As a result it will enhance the standard of living in rural areas. The proposed study will enquire the role of SMEs to the sustainable development. This study is for finding the success, constraints & Govt. initiatives to the SMEs. This study also recommends some suggestions for the growth of SME sector in Bangladesh and that will play a significant role to the national development & planning system of Bangladesh. I am optimistic that this study will create awareness among the new entrepreneurs & the general people about the

importance SMEs in Bangladesh. This study may be helpful to the government officials, policy making and other governmental and non governmental agencies which are functioning for development of entrepreneurship. This may be helpful for entrepreneurs themselves for developing their business into successful enterprises.

Sustainability is a corporate strategy whose objectives of long-term growth, efficiency, performance and competitiveness are achieved by the incorporation of economic, environmental and social aspects into corporate management. Improvements in the area of economic, environmental and social performance may significantly help integrate concepts of sustainable development into business practice, and lead to sustainability. If the performance of firms and their competitiveness in the present-day demanding markets are to increase, it is necessary to develop a comprehensive system of indicator evaluations based on cooperation between cross-departmental teams that are able to contribute towards an increase in the overall corporate performance. The system of environmental, social and economic performance evaluation of course offers a much greater dynamics of development than it has been to date. KPI give companies a technique to measure their progress towards strategic sustainability objectives. Key performance indicators may help companies to plan and manage their environmental, social and economic priorities – especially if those indicators focus on the company's principal strategies – through operating plans incorporating performance goals. Indicators that serve to measure sustainable development in companies are being constantly developed by various international organizations with the objective of drawing up internationally recognized standards aiming for comparability between national economies, different industries and even individual companies. The best-known international activity is the GRI that focuses on defining a standardized content of sustainability reports. They provide quantitative or qualitative forms of feedback that reflect performance in the context of their business strategy. In their evaluations and measurements, companies focus on activity performance management and, at the same time, they seek to make sure that they are in line with the company's strategies and objectives. In such a case, performance can be clearly demonstrated. Evaluations and measurements not only assign performance responsibility, but they also provide a feedback on sustainability initiative impacts, underscore the importance of identification and understanding of causal relationships between alternative courses of action and their effects on financial and non-financial performance. The thesis describes various approaches to the

management environmental, social and economic performance that may lead to corporate sustainability. Sustainability is a strategy of the process of sustainable development. They provide quantitative or qualitative forms of feedback that reflect performance in the context of their business strategy. Corporate performance management should at present focus on *sustainability performance management* consistent with the company's strategies and objectives. In such a case, performance can be clearly demonstrated. The aim of the thesis is to present the integration of environmental, social and economic sustainability. Small and Medium Enterprises (SMEs), particularly small enterprises, are viewed as vehicles to foster sustainable economic growth through the involvement of entrepreneurs of relatively small means, by contributing substantially to GDP as well as to the generation of employment-both directly and through backward and forward linkages-particularly by engaging people with limited skills, coming largely from rural Bangladesh. Unfortunately, despite their growth potential, SMEs have not flourished in Bangladesh. In addition to financial, technological, management, and marketing information constraints, there is an absence of active policy support provided by the government to assist the SMEs to flourish. Trade, particularly import trade, as an alternative activity, facilitating quick yielding finance capitalism, has attracted more investment. A strong plea is made for active promotion of and support to SMEs. Also, it is suggested that a sharp focus on environmental protection is needed as SMEs are promoted. Development of the SME sector is an essential pre-requisite for sustained development-economic, social, and environmental.

### **1.10. Limitations of the Study**

All possible cautions were maintained during the planning of study, selection of methods and techniques, data processing and analysis. In spite of this, the study is not free from limitations. Even though different efforts have been made, then we have faced some challenges while doing this study. To begin with, the fact that the majority of the respondents' educational background is low creates some negligence in filling the questionnaire. Some do not give values to the questionnaire and some others do not return it totally. Besides this, some others see the questionnaire politically even though orientations have been made. Furthermore, since respondents have been in a tight work, some were not as such willing to fill the questionnaires. Lastly, since the respondents were scattered in different sites, some difficulties were faced in giving orientations,

following up respondents and collecting responses. Even because of time limitations, budget constraints and socio- political unrest in Bangladesh it was difficult for us to collect information from more SMEs in the urban and semi urban area who are involved in business as an entrepreneur. Therefore, these conditions might affect the quality of the paper to some extents. Since the study is an empirical one based on field-work through the interviews of entrepreneurs engaged in SME in different districts of Bangladesh, it has some obvious limitations. Some limitations related to the study could be cited here as follows:

- 1.** Data collection through primary source or through interview was a time consuming matter. The respondents sometimes were found non-cooperative with the interviewers.
- 2.** Present study covered entrepreneurs engaged in SMEs only. Large scale business had been kept outside the purview of the present study.
- 3.** Gathering information from some of the entrepreneurs was sometimes very difficult and extremely time-consuming. They did not give enough time to the interviewers.
- 4.** Further, it was also found that entrepreneurs have a tendency to disclose lower income and higher expenses. They think that this would help them to get more credit. This is considered to be a limitation to the research study.
- 5.** Contacting entrepreneurs to gather information was a very difficult task.
- 6.** Existing Infrastructure of communication is not so good in the study areas. So it was hard to reach some areas.
- 7.** During field study, there were some natural disasters and political unrest, which sometimes created problems to maintain the time schedule.
- 8.** The Study could not apply random sampling procedures in all stages of respondent's selection due to lack of time and an appropriate sampling frame.
- 9.** Some qualitative findings were related to the perception of respondents. These findings may not be representative to predict the overall situation of entrepreneurs.
- 10.** The entrepreneurs, involved in the large scale of business, were not included in this study, therefore, this study dose not tells anything about their situation.
- 11.** The study was conducted among entrepreneurs of 15 districts of Bangladesh where all the Upazillas were not covered and as such this may not reflect the total picture of Bangladesh relating to entrepreneurs.

**12.** As a female researcher it is tough to conduct a wide survey covering the maximum districts of Bangladesh

**13.** In view of time and resource constraints, conducting a comprehensive study in full depth and width has not been possible. Considering the volume of the study, the timeline was limited, particularly for questionnaire survey. Therefore, it was a great challenge for the Researcher to reach all respondents within the timeframe. To get it happened, Research Associates had to pay extra efforts. Time limitation created some barriers to collect some qualitative data.

### **1.11. Scope for Future Research**

The researcher found that the collected data would be of great importance as data base. The researcher would recommend more case studies and cover more districts of Bangladesh to have a large sample in this direction, so that more entrepreneurs would get recognition and acceptance.

Such studies will help the entrepreneurs to solve the problems faced. It will motivate agencies and government to provide help, support and benefit to entrepreneurs. The following studies can be undertaken –

- Similar study with area specific samples.
- Similar study with more large samples.
- Comparative studies between men and women entrepreneurs in the SME sector.
- Comparative studies of entrepreneurs in SME concerning different Asian countries.
- Similar study with women engaged in SME.
- Studies including the perception of others regarding entrepreneurs can be undertaken.
- Similar study concerning environmental development through SME activities.



## **Chapter Two**

### **Overview of Small and Medium Enterprises in Bangladesh**

#### **2.1. Entrepreneurship in Bangladesh**

Entrepreneurship may be practiced by big and old business units alike. Further it is not confined to economic institutions. It extends to all institutions- economic and social and to ownership patterns: private, public and co operative sector enterprises. In almost all the definitions of entrepreneurship, there is an agreement that we are talking about a kind of behavior that includes taking initiative, organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account and accepting risk of failure.

Entrepreneurship is one of the indispensable ways to economic self-sufficiency around the world. In the developing country like Bangladesh where well-paid employment is scarce, entrepreneurship may be the only way that most individuals can 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, an education. It is historically true that when half of the country's population is not involving them with formal or informal economic activities, the country will not progress further. Now the time has come when we should emphasize on creating self employment opportunities and on expansion of employment-generating small and medium business enterprises and at the same time on active involvement of women in the economic development process.

#### **2.2. Women Entrepreneurship in Bangladesh**

Women entrepreneurs constitute less than 10% of the total business entrepreneurs in Bangladesh whereas women in advanced market economies own more than 25% of all businesses. It is heartening to note that despite many barriers, a new women's entrepreneur class has risen in the country taking on the challenge to work in a male-dominated, competitive and complex economic and business environment. Not only have their entrepreneurship improved their living conditions and earned more respect in the family and the society, but they are also contributing to business and export growth, supplies, employment generation, productivity and skills development of Bangladesh. A recent United Nations report concluded that economic development is closely related

to the advancement of women. (Hua Du, Asian Development Bank, 2006). Although the Constitution of Bangladesh guarantees all citizens equal rights, in reality, the society is highly stratified and services are rendered on the basis of class, gender location, etc., which often results in disparities. Seventy percent (70%) of the women entrepreneurs are micro and rural based. They are not given proper opportunity for expansion. On the other hand, urban educated women already engaged in micro and small businesses, as well as export-oriented enterprises are receiving comparatively less attention. As a result, they are unable to expand their operations due to lack of technological support and expertise, fund constraints, marketing techniques, and detachment from the international business arena, especially in the context of today's globalization and rapidly growing business world. After the financial crisis in Asia, the governments of many countries in Asia has placed emphasis on SMEs led by women entrepreneurs, which they believe will be the new thrust for economic growth in the future. If adequate support can be provided, these small scale business entrepreneurs would be able to generate employment and render training to women of rural and slum areas. All these can help them to step into new ventures of their own. In order to actively pursue the advancement of women, it is required to empower, upgrade and uplift the women entrepreneurs in both rural and urban sectors. Special priority should be given to the poor rural women. In new ventures, modern technology can be greatly helpful in facing the competitive challenge of the age. Since technology is a strategic variable in the modern business paradigm, women empowerment with technology will give rise to economic advancement. A recent survey data of BBS revealed that women own only 2.8% of all enterprises outside agriculture in Bangladesh. This figure exposed that while progress is being made towards the equality of women and men in the decision-making level women remain under-represented. (Akbor, Yeameen, 2008)

### **2.3. An overview of Small and Medium Enterprises (SMEs) in Bangladesh**

Small and Medium Enterprises (SMEs) have historically been one of the pillars of the enterprise landscape within economies. The SME sector accounts for upwards of 90% of total industrial establishments, 60 to 70 percent or more of employment and provides livelihoods for three-fourths of the workforce in most of the Asian countries. Growth with clear benefits for poverty reduction puts a premium on integrating, productively and profitably, small and medium enterprises in the very process of economic growth. The over-riding vision must be for setting up a market-based

economic order with a level playing field for all enterprises, in which SMEs can respond to opportunities of growth and wealth creation commensurate with their own endowments and diligence, innovation and management commitment. In addition, the vision must lead to a priority in the delivery of government services so as to neutralize, on a continuing basis, the handicaps and irritants which almost reflexively, tend to spring themselves upon SMEs in a selective manner. A historically accelerated pace of trade liberalization in Bangladesh since the early 1990s by spurring a veritable deluge of imports has quite significantly increased competitive pressures on SMEs in Bangladesh. Rapidly falling cost of communications have by unifying global markets heightened the intensity of competition. Trading is widely seen as a safer, richer, smarter and bulkier career to have than manufacturing, and it is a bad news indeed for industrialization. The Government of Bangladesh formulated a comprehensive industrial Policy-2005 by putting special emphasis for developing Small and Medium Enterprises (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.

### **2.3.1.SME- around the world**

According to the European Union (2003) SMEs are defined as enterprises which have at most 250 employees and an annual turnover not exceeding 50 million Euros

According to the world Bank ( 2006) medium enterprises are defined as enterprises which have at most 300 employees and an annual turnover not exceeding 15 million US dollars

The most common size standards are-

500 employees for most manufacturing and mining industries

100 employees for wholesale trade industries

\$6 million of annual receipts for most retail and service industries

\$28.5 million of annual receipts for most general & heavy construction industries

\$12 million of receipts for all special trade contractors

\$0.75 million of receipts for most agricultural industries

Breaking down the Small Scale Industries ( SSIs) , Industry Canada defines a small business as one that has fewer than 100 employees ( if the business is a goods-producing business) or fewer than 50 employees ( if the business is a service based business)

In India the small scale industries ( SSIs) are industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire purchases doesn't exceed Rs 10 million. The small scale service and business ( industry related ) enterprises (SSSBEs) are industry related service and business enterprises with investment in fixed assets, excluding land and building up to Rs 1 million. (Ministry of Trade and Industry, Government of India)

### **2.3.2. SME in Bangladesh**

Different countries and organizations define SME differently. Enterprises may be segmented based on its capital investment, size, and production volume and so on. Small and medium enterprises (SMEs) are clearly defined by the Ministry of Industry of Bangladesh. Under Bangladesh Bank's regulations Small Enterprise/ Medium Enterprise refers to the firm/business which is not a public limited company and complies the following criteria:

**Table-2.1 – Definition of SMEs**

Sector	Small Enterprise		Medium Enterprise	
	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
Services	50,000-50,00,000	25	50,00,000-10,00,00,000	50
Business	50,000-50,00,000	25	50,00,000-10,00,00,000	50
Industrial	50,000-1,50,00,000	50	1,50,00,000-20,00,00,000	150

[ Source – website of Ministry of Industry, Bangladesh]

There are about 6 million SMEs in Bangladesh. This is the single largest industrial sector of the Bangladesh economy. Small and medium enterprises shall be categorized using the following definitions as provided by the Ministry of Industries. The Government of Bangladesh has recognizes SME into two broad classes.

#### **a) Manufacturing enterprise**

- **Small enterprise:** An enterprise would be treated as small if, at 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), etc, excluding land and building, is between BDT 50,000 and BDT1.5 crores (BDT .05 million to15 million). The number of workers is maximum 50.

- **Medium enterprise:** An enterprise would be treated as medium if, at current market prices, the replacement cost of plant, machinery, and other parts/ components, fixtures, support utility, and associated technical services (such as turn-key consultancy), etc. excluding land and building, is between BDT 1.5 crores and BDT 20 crores (BDT 15 million to BDT200 million. The number of workers is maximum 150.

**B ) Non-manufacturing activities:** (such as trading or other services)

- **Small enterprise:** An enterprise would be treated as small if, at 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), etc, excluding land and building, is between BDT 50,000 and BDT 50 lacs (BDT .05 million to 5 million). An enterprise would be treated as small if it has less than 25 workers, in full-time equivalents.

- **Medium enterprise:** An enterprise would be treated as medium if, at current market prices, the replacement cost of plant, machinery, and other parts/ components, fixtures, support utility, and associated technical services (such as turn-key consultancy), etc. excluding land and building, is between BDT 50 lacs and BDT 10 crores (BDT 5 million to BDT 100 million). An enterprise would be treated as medium if it has a maximum of 50 employees.

According to Bangladesh Bureau of Statistics different enterprises are defined as ;

	<u>No. of employees</u>
Micro	0-9
Small	10-49
Medium	50-99
Large	Above 99

**2.3.3. Booster Sectors of SME (Provided by Ministry of Industry)**

For providing promotional support, the following 11 booster sectors have been indented by “**The Industrial Policy 2005**” of the Government of Bangladesh and the list would be reviewed every

three years: The ministry of industries, Government of Bangladesh has been identified following 11 booster sectors

1. Electronics and Electrical
2. Software development
3. Light Engineering and metalworking
4. Agro-processing/agro business/plantation agriculture/specialist farming/tissue culture
5. Lather-making and lather goods
6. Knitwear and ready-made garments
7. Plastics & other synthetics
8. Health care & diagnostic
9. Educational services
10. Pharmaceuticals/cosmetics/toiletries.
11. Fashion-rich personal effects, wear & consumption goods

#### **2.4. Definition of Sustainable Development**

Sustainable development has three parts including economic prosperity, social equity and justice and environmental sustainability. In many developing countries this is particularly important because they, especially the more vulnerable sections of their populations, are disproportionately harshly affected by climate change and pollution. Sustainable economic development is thus a way of ensuring inclusive pro-poor development. The concept of sustainable development can be interpreted in many different ways, but at its core is an approach to development that looks to balance different, and often competing, needs against an awareness of the environmental, social and economic limitations we face as a society. The concept of sustainable development is rooted in this sort of systems thinking. It helps us understand ourselves and our world. The problems we face are complex and serious—and we can't address them in the same way we created them. But we can address them. There can be no sustainable development without economic development. A sufficiently robust rate of economic growth is the absolute precondition for reducing poverty and attaining prosperity. But economic growth must benefit all sections of society, i.e. it must be inclusive and ecologically sustainable. Provided this is the case, economic development can have an impact that goes well beyond the confines of economic growth and can help achieve many develop-

ment goals. For example, ensuring that individuals have productive work that gives those prospects at personal level and within society also fosters security and peace. Employment and an income they can live on allow families to give their children a better education and break out of the vicious circle of poverty.

Sustainable development has been defined in many ways, but the most frequently quoted definition is from *Our Common Future*, also known as the Brundtland Report

*"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:*

- *the concept of **needs**, in particular the essential needs of the world's poor, to which overriding priority should be given; and*
- *the idea of **limitations** imposed by the state of technology and social organization on the environment's ability to meet present and future needs."*

United Nations World Commission on Environment and Development in 1987, development is sustainable if it "meets the needs of the present without compromising the ability of future generations to meet their own needs." It is usually understood that this "intergenerational" justice would be impossible to achieve in the absence of present-day social justice, if the economic activities of some groups of people continue to jeopardize the well-being of people belonging to other groups or living in other parts of the world. How is sustainable development to be achieved? This question harkens back to sustainable fishery concept. Keeping in mind the successful experience of Grameen Bank in Bangladesh, provision of SME and microfinance can play a pivotal role in reducing poverty. Population planning can be of greater importance in this regard. Environmental degradation and pollution of air and water are also crying problems of the day. Therefore, environmental health and conservation planning must be part of development planning. In developing countries, poor are excluded from the benefits of development. Therefore, community participation needs to be ensured so that the say of the poor could be heard. There are various policy and market failures in developing countries. Transparency and good governance can play a better role in this regard. Recently, there have been various types of natural and man-made disasters in various parts of the world. The developing countries may have sound disaster

preparedness, prevention and management planning and programs. According to Munasinghe, there are three approaches to sustainable development:

**Economic** – maximizing income while maintaining a constant or increasing stock of capital;

**Socio-cultural** – maintaining stability of social and cultural systems.

• **Ecological/ Environmental** - maintaining resilience and robustness of biological and physical systems;

In general, SD is about achieving and maintaining economic growth that relates to other factors of socio-economic development. It aims to meet the maximum expectation of human needs and improve the living conditions, in parallel with financial resources that make environmental conservation possible. The vision of sustainable development encompasses a broad meaning and numerous assumptions in different countries. Economists, researchers, governments, and agencies (including the World Bank, the IMF, and the WTO) in these last decades characterized the strategy for sustainable development, taking into account living conditions of people and environmental aspects. View of sustainable development; therefore, the analysis of various indicators is necessary to evaluate sustainable development with accuracy.

$SD = ECD + SOD + END$  where: SD denotes sustainable development; ECD denotes economic dimension; SOD denotes social dimension; and END denotes environmental dimension.

• ECD relates with the measurement of economic sustainability, which occurs if the economic system can maintain stability and support the economic activities and needs of current and future generations in addition to withstanding the pressures and shocks emanating from other determinants.

• SOD relates with the measurement of social sustainability, which is concerned with maintaining social and human relationships in the face of external pressures.

• END relates with the measurement of environmental sustainability, which is concerned with maintaining an ecological system that can support feasible communities.

#### **2.4.1. The Relationship between Economic Growth and Social Development**

The interaction between social development and economic growth is related to many factors of economic and social development; the main issues of Bangladesh are related to the achievement of social equity, including poverty eradication, income distribution, gender promotion, ethnic minority,



health, illiteracy, and intergenerational opportunity. This study highlights the interaction between economic growth and poverty reduction, as well as the impact of growth on income distribution. Economic growth itself is dominated by several determinants, such as an open-door policy leading to an increase in the trade volume, receiving several kinds of support from other countries in terms of foreign aid and assistance, an increase in the number of foreign direct investments as well as domestic investments in respect of its economic progress in both regional and global procedures. Furthermore, it confirms that economic growth benefits the poor, implying that a high rate of growth correlates with a high rate of poverty reduction; however, at the first stage, growth increases inequality and then it decreases when a certain average income is reached. Poverty incidence and income distribution are representatives of sustainable social development. The final goal of national development is to succeed in poverty eradication and to minimize the level of income inequality. The positive impact of economic growth on social factors occurs only when the growth is distributed throughout the population, by minimizing the development gap between urban and rural areas and also between rich and poor. The interaction between economic growth and poverty is considered to be a positive correlation only when the growth can reduce poverty and reduce inequality among the population. Sustainable social development through community participation relates with the right and voice of the population to speak and involve in socio-economic development in Bangladesh. Particularly, for poverty reduction and rural development, the community participation has become an effective method for the economic development of Bangladesh. Sustainability development is related to the long-term effectiveness of sub-project operation. This largely depends on the capacity of the local community to be aware of the operation and the maintenance of rural infrastructures. The community participation is directly related to capacity building for local people as regards strengthening the skills, competencies, abilities of people, and gender equality integrated areas so they can overcome the causes of their exclusion and suffering.

#### **2.4.2. The Relationship between Economic Growth and Environmental Conditions**

To encourage a high rate of economic growth in Bangladesh, the Government has encouraged greater productivity and allocated a number of resources. The current economic development of Bangladesh has caused a shift from an agricultural economy to an industrial and service economy, particularly since the year 2000; therefore, industrial extension is related to the increase in the

proportion of air pollution, which is expected to become a serious issue for the living condition of the total population. To ensure the long-term development perspective, the interaction between growth and environment has to be categorized into its key components of development. This relationship between economic growth and environmental quality, which resembles an inverted-U, has been found for many other environmental indices such as water quality and waste disposal. In brief, the interaction between two of these factors is considered as a good situation only when economic growth produces less impact on environmental conditions, particularly, resources are used to both maximize their productive value and environmental protection

### **2.4.3. The Interaction between Social and Environmental Factors**

The interaction between social and environmental factors has become an important issue for national and also global development, this factor concerns the safety and health of population, which is related with a good health of environment; therefore, it is necessary to develop clear environmental regulations, together with environmental justice, which are essential to prevent global climate change, as well as to maintain the access to potable water and long-term natural resources. Bangladesh has obtained a high rate of economic growth including the benefits of trade openness, investment, foreign support, investment, etc. Those factors of economic activities are directly related to natural resources, particularly the hydropower generation potential that is considered to play a crucial role in the socio-economic development of the country. On the other hand, Bangladesh is still considered to be one of the least developed countries and a remaining high level of poverty. More than 70 per cent of the total population live in rural areas and rely on natural resources for their survival. The construction of many hydropower systems would produce negative impacts that could be substantial, including displacement of people, flooding of natural habitats, damage to fisheries, changes in the quantity, quality, and timing of water flows, as well as changes in the quantity and quality of sediment transported by the river. The population who rely on natural resources would directly receive negative impacts on their living conditions. As result, the poor may lose their chance to access those resources again and they would eventually become poorer, leading to increase the development gap between rich and poor. It is important to consider the most appropriate policy to distribute the growth that would benefit the entire population. The rural or urban development concept must be based on the characteristics of each region, and emphasize

development through community participation and building capacity of local people. Environmental consciousness can be ensured through the socio-economic development of Bangladesh.

#### **2.4.4. The Interaction of Key Factors in Bangladesh for sustainable development**

Sustainable development can be thought of as a dynamic process in which changes in natural resource use, the investment direction, the technological development orientation, and institutional arrangements are made consistent with future as well as present needs. According to the Brundtland Commission, sustainable development, in the final analysis, must rest on political will of the governments as various important economic, environmental, and social decisions are made. This section delineates the difference among economic growth, economic development, development and sustainable development. It also explains the core values of development as well as goals and means of development. It is important to integrate and reconcile the economic, social and environmental factors within a holistic and balanced sustainable development framework. To ensure that these indicators have been developed and sustained consistently, the relevant institutions or organizations, particularly from government sectors, should take up the mechanisms for national strategies to achieve sustainable development. The fundamental approach to sustainable development should be kept in mind in developing, examining, and using indicators. This thesis verifies that sustainable development is a combination of economic growth, social development, and environmental conditions under the condition that economic growth is distributed to all the population, through poverty reduction, minimizing inequality in society, and maintaining a good condition of the environment and natural resources. The road map of sustainable development is proposed in Figure below and would be a very useful framework for the current and future development of Bangladesh.



**Figure 2.4.1.- Key Factors of Sustainable Development**

The Figure specifies three key factors of sustainable development in Bangladesh: economic, social, and environmental factors. The interaction among these three factors is identified as the key to reaching the sustainable development goal. The basic definition of these three factors can be explained below:

- The economic factor relates with two key elements including the capital efficiency and growth enhancement.
- Social development includes different dimensions, for example: social recognition, community development, poverty, inequality, gender, ethnic minority, etc.
- Environmental factor relates to the environmental and natural resource protection such as clear air, clean water protection, reforestation and emissions abatement.

This present scenario represents the perspective of sustainable development based on three factors of development and sustainability of Bangladesh. Each factor highlighted its advantages and drawbacks, underlining the fact that no indicator is absolutely perfect and no one can give a comprehensive view of sustainable development. Therefore, the study of a single factor is insufficient for sustainable development, for example focusing only on the analysis of sustained growth without considering the sustainability of the society and environment. Even though this study proved that many key variables influence sustained economic growth, it is important to identify the impacts of growth on other factors of development, such as social development, which is related to poverty reduction and income distribution, as well as the impacts of growth on the environmental condition. In brief, the analysis of various factors and sub-factors is necessary to evaluate sustainable development with accuracy. This study concludes that sustainable development is a combination of economic growth, social development, and environmental protection; under the condition that economic growth is distributed to major of the population who are engaged with SME activities, through poverty reduction, minimizing inequality in society, and maintaining a good condition of the environment and natural resources. An additional suggestion for rural development and poverty alleviation strategies is to promote community participation in the development process through preparation and implementation. The final aim of community participation is to provide equality opportunities among the population (gender and ethnic minorities) to share their ideas and needs in social development, leading to increased capacity and awareness of local people that can be utilized for the future development of their communities.

#### **2.4.5. Relationship between Small & Medium Entrepreneurship and Sustainable Development**

Sustainable development therefore calls for integrating economic growth, social development and environmental management as interdependent, mutually supportive and reinforcing pillars of long-term development. It calls for participatory and multi-stakeholder approaches to dealing with development issues, involving a wide range of actors- government, private sector, civil society organizations, institutions of higher learning and research and development partners.

The objective of the sustained economic growth strategy under the National Sustainable Development Strategy is to ensure sustained accelerated growth without compromising environmental sustainability and facilitate poverty reduction through enhancing social equity. The sustained economic growth component of the national sustainable development first looks at current growth rate and challenges and then examines accelerated growth rate to meet the development requirements of the country. The key challenges to sustained accelerated economic growth in the long-run are also pointed out. Then strategies to ensure sustained economic growth with environmental sustainability are outlined. The priority sectors which are important to sustainable development of the country are agriculture, industry, energy, transport and human resource development. The strategies suggested under these sectors are to provide direction to the economy as they will remain the engine for overall economic growth and support sustainable development of the country. The informal sector, including small-scale processing and manufacturing and various informal services is responsible for a large share of the GDP and employs about 87.5 percent of the labour force (BBS, Report on Labour Force Survey 2010). This is a labour intensive sector and accelerated growth in this sector has contributed to increased growth and employment generation in Bangladesh. Small and medium enterprises contribute significantly to economic growth, social stability and equity. The sector is one of the most important vehicles through which low-income people can escape poverty. With limited skills and education to compete for formal sector jobs, these men and women find economic opportunities in micro enterprises as business owners and employees. If successful, entrepreneurship is likely to result in a small- to medium-enterprise (SME). They include a variety of firms – village handicrafts makers, small machine shops, restaurants, and computer software firms – that possess a wide range of sophistication and skills, and operate in very different markets and social environments. In most

developing countries, micro enterprises and small-scale enterprises account for the majority of firms and a large share of employment. In Ecuador, for example, firms with fewer than 50 employees accounted for 99 percent of firms and 55 percent of firms in 1980; in Bangladesh, enterprises with fewer than 100 workers accounted for 99 percent of enterprises and 58 percent of employment in 1986. Finally, it has been noted that, SMEs constitute the most dynamic segment of many transition and developing economies. They are more innovative, faster growing, and possibly more profitable as compared to larger-sized enterprises. Hence, the role of entrepreneurship in reducing poverty in LDCs is promising. It has already been identified that entrepreneurship is a major contributing factor to economic growth, however, entrepreneurial ability and leadership tend to be relatively lacking in LDCs.

Small and Medium Enterprises (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 by The Daily Star in its issue on August 1, 2010, there are about 6.0 million SMEs in Bangladesh, which contribute about 50 per cent of the country's industrial output, employing about 80 per cent 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 per cent of SMEs are located outside the metropolitan areas of Dhaka and Chittagong, having easy access to labour and more conducive physical environment. Business costs are thus low in these areas. Therefore, SMEs 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 per cent of industrial employment and 25 per cent 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 per cent of the total manufacturing value added.

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. This overview of the development of SME Sector in Bangladesh 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.

Industrial Policy 2010 has been 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 has also pledged that no effort will be spared in raising the growth rate of the Gross Domestic Product (GDP) to 8.0 per cent by 2014, further to 10 per cent 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.

Present Scenario of SME in Bangladesh explores that SMEs play a significant role in the economy of Bangladesh. They account for about 45 per cent of manufacturing value added, 80 per cent of industrial employment, 90 per cent of total industrial units, and employ about 25 per cent of the total labour force. Their total contribution to export earnings varies between 75 per cent and 80 per cent. According to ADB, there are about 6.0 million SMEs and micro enterprises in Bangladesh, which contribute around 25 per cent of the GDP. 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 DCCI-CIPE study 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 per cent of all industrial units. This numerical dominance of SMEs in Bangladesh's industrial sector is evident in all available sources of statistics. 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 158.20 billion (15,820.07 crore) or 27.89 per cent to Tk 725.40 billion (72,540.25 crore) at the end of June, 2011, as compared to Tk 567.20 billion (56,720.18 crore) at the end of June, 2010. Category-wise institutional SME loans increased at the end of June, 2011 in specialized 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 non-banking financial institutions (NBFIs) are currently responding



favorably to the government initiatives towards channeling 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, 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. The government of Bangladesh 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. In Bangladesh SMEs is the fastest-growing part of the economy: this account for major shares of exports and the bulk of new jobs. This is one reason these companies have recently received greater attention. SMEs have long accounted for the vast majority of businesses (by number) and at least half of all jobs. While most SMEs are in the service sector the one-quarter or so engaged in manufacturing produce an important share of industrial waste. SMEs are particularly strong in sectors characterized by high intensity of resource use and by polluting emissions. Another reason SMEs have recently received considerable attention is that far too often they do much less (individually or as a group) than large businesses to address their negative environmental impacts, even if many big firms are far from

perfect in this regard. The reasons are numerous and are, for the most part, quite understandable. A vast majority of SMEs are micro enterprises; many of them, especially in developing countries, suffer from relative lack of training, know-how, technology and money. In a number of countries SMEs are not covered by occupational health and safety laws. In both the developed and developing world many SMEs fall into the grey area known as the "informal sector". In that sector in particular, SMEs are often run by women, who confront more obstacles than male entrepreneurs. Only now are special initiatives being developed concerning corporate environmental and social responsibility for small companies.

Small and medium enterprises (SMEs) are important to sustainable development. They provide around 90% of Bangladesh' off-farm employment and over 20% of total employment, link with multinationals and transform economies, and produce over 20% of GDP. But recognition of their importance is not found equally across all sectors. In some situations, they are seen only as last resort options for the poor. Responsibility for performance against strategic goals, including sustainable performance, requires an understanding of causal relationships between various activities and their impact on financial and non-financial performance. Evaluation and performance measurement are the usual characteristics of a majority of successful undertakings. Performance evaluation and measurement will naturally occur in the initial stages when key impacts of sustainability are being identified and progress towards objectives is assessed and monitored. Some firms may decide to remunerate their managers for their ability to achieve the sustainability objectives. That underscores the need to carefully consider the approach to performance measurement.

Sustainable development will only be achieved by ensuring that the economic, social, cultural and environmental dimensions of development be addressed in an integrated and balanced manner. This requires breaking down institutional and mental barriers between different sectors of society, and in forging close cooperation between the sectors of Bangladesh.

The economic benefits of sustainable micro entrepreneurship in Bangladesh are compelling, and its potential effects on the development process are equally promising. In terms of development and social impact, the microfinance industry allows significant improvements in quality of life for the micro entrepreneurs of LDCs around the world. They can now stabilize the cash flow of their economic activity, bringing security to the enterprise. This allows them to better manage spending,

which often generates savings; and this provides better standards of living to their family, and dependents in terms of housing, nutrition, health and education. Finally, an access to banking and increased security promotes a sense of entrepreneurship, and thus their self-esteem and reputation increase. The initial small loan of usually less than \$100 can eventually reintegrate these entrepreneurs into formal networks of the economy and foster the structural and sustainable development of local communities. Furthermore, estimates indicate that today only 5% of the micro-credit demand is fulfilled, thus, the microfinance industry is expected to grow significantly in coming years. Despite several challenges ahead, this emerging industry, and the process of sustainable micro entrepreneurship combine to offer a potential alleviation solution to the poverty crisis of the 21 century, and into a sustainable future. 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 its '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.

#### **2.4.6. Small & Medium Entrepreneurship and Environmental Issues**

Starkey (1998), has explained more valuable information for environmental management tools in SMEs. In Asia and Europe around 80%-90% of all enterprises are SMEs. Hence the environment management is very valuable task for them. The role of SMEs in protecting and improving the environment, through their production and marketing of environmental technologies (for energy efficiency, waste minimization, renewable energy etc.), is likely to be significant. The future contribution of SMEs to improving society's "eco-efficiency", through innovation is also likely to be substantial, given the leading role of SMEs in general innovation and their flexibility. Most SMEs

perceive environment improvement as a costly burden. As they are primarily concerned with short-term economic survival, they are not motivated to ask for, or use, environmental information or support. However, it is clear from the environmental technologies supplied by some SMEs, and substantial gains (both financial and environment) made by the few SMEs who have adopted "clean production", that action on their environmental performance can be an opportunity for many SMEs to improve their market share and profitability. As mentioned by Starkey, business activity has a substantial impact on the environment.

The manufacture of products involves extracting raw materials from the environment and processing them to produce saleable items. As a result of the production process, various forms of waste (solid, liquid and gaseous) enter the environment, The activities surrounding the manufacturing process such as maintenance of plants and infrastructure and the packing and transport of goods all have environmental impacts, In addition the products that are produced will eventually be disposed of and enter the environment as waste and the other one is the provision of services also results in a significant environmental impact. Service companies use various products and also energy to deliver their services, both of which result in few waste entering the environment. As mentioned by the above situation of SMEs, Starkey (1998) claims that there are a number of advantages to undertaking environmental management. These include: cost saving, ensuring legislative compliance, anticipating future legislations, reduce environmental risk, meeting supply chain requirements, improved relations with regulators, improved public image, increased market opportunities and employee enthusiasm. SMEs often have to concentrate their efforts on matters of day-to-day survival.

## **2.5. The Emergence of Small and Medium Enterprises for Sustainable Development of Bangladesh**

It is abundantly clear that entrepreneurship is important for economic growth, productivity, innovation and employment, and many countries have made entrepreneurship explicit policy priority. Entrepreneurial activities have been recognized as an important element in organizational and economic development, performance and wealth creation. According to World Bank (2007), Fox (2001) and Hisrich (2005) entrepreneurship has the following benefits. Economic growth takes place when there is a sustained (ongoing for at least 1-2 years) increase in a country's output (as

measured by GDP or GNP) or in the per capita output (GDP or GNP per person). The growth of GDP per capita or GNP per capita is a better indicator of growth than GDP or GNP because if the population grows faster than output, output (GDP or GNP) could grow while output per person (GDP or GNP per capita) falls – in this case it is misleading to say “growth” is occurring. Economic development occurs when the standard of living of a large majority of the population rises, including both income and other dimensions like health and literacy. The reason for this distinction between economic growth and economic development is because of the way income is distributed. It is possible for a nation’s economic output per person to increase (growth), but a large number of people can have their income decrease at the same time if the increase in output is earned by a small percentage of the population. For example, if 80% of the population is in traditional agriculture and 20% are in the modern sector then the average income per person can increase due to large gains by the modern sector minority but the income of the 80% of the population in the traditional sector can simultaneously be falling over time. Thus an increase in GDP per capita is insufficient to say development is occurring. Development occurs when income increases along with other standards of living.

SMEs may become the main foreign currency-earning sector for the country if they get enough nursing with professionalism. The government has established the SME Foundation, for the development of this sector which can be a sustainable tool for alleviating poverty, increasing household earnings and boosting export earnings. For achieving them, we must first conduct a “Strength, Weakness, Opportunity and Threat” (SWOT) analysis for this sector. Among the requisites for sustainable development of SMEs especially for women entrepreneurship, emphasis should be given to access to finance, marketing and sales, skill development, technological advancement, product development including design improvement, Implementation of poverty alleviation action programs and strategies is a systematic and continuous effort in Bangladesh. Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact on the way of reduction of poverty and unemployment, generation of more employment. More than 90% of the industrial enterprises in Bangladesh are in the SME size-class, i.e. with up to 100 employees. Generally, SMEs are labor-intensive with relatively low capital intensity.

- 1.** Small and medium entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.
- 2.** It provides the ability to be involved in the total operation of the business, from concept to design and creation, from sales to business operations and customer response.
- 3.** Small and medium entrepreneurship creates an opportunity for a person to make a contribution. Most new entrepreneurs help the local economy. A few—through their innovations—contribute to society as a whole.
- 4.** It is a catalyst for economic as well as social change and growth. Small and medium Entrepreneurship increases per capita output and income, by doing so it involves initiating and constituting change in the structure of business and society. As a result entrepreneurship contribute a lot in increasing countries output and productivity
- 5.** Small and medium entrepreneurship encourages innovation and creativity. It develops new products or service for the market to fulfill human needs. It also stimulates investment interest in the new ventures being created. Entrepreneurship through its process of innovation creates new investment of new ventures .More ventures being created, new jobs will be produced, thus reduce the unemployment rate. That will Create and promote wealth distribution.

As explained above, small and medium entrepreneurship helps the economy by creating wealth for many individuals seeking business opportunities. Although this is not the number one reason individuals pursue entrepreneur activities, it plays a major role in our economy. Both a new business and the wealth the owner can obtain will help boost the economy by providing new products as well as the spending power created for the entrepreneur. Without entrepreneurs, our economy would not benefit from the boost they give from added business and ideas. Furthermore, starting a business can be rewarding. Small and medium entrepreneurs are their own bosses. They can have more control over their working hours and conditions than they would have if they worked for someone else. If they cannot find a job they want, they can go into business to create one. For example, they may have a new idea about a particular product or service. If they believe that others would be interested in it, they can go into business for themselves. They may make a profit, which is the money left over after paying their bills, from being creative and doing what they enjoy. The sustained economic growth component of the national sustainable development first looks at current growth rate and challenges and then examines accelerated growth rate suggested in the

Sixth Five Year Plan and the Perspective Plan to meet the development requirements of the country. The key challenges to sustained accelerated economic growth in the long-run are also pointed out. Then strategies to ensure sustained economic growth with environmental sustainability are outlined. The priority sectors which are important to sustainable development of the country are agriculture, industry, energy, transport and human resource development. The strategies suggested under these sectors are to provide direction to the economy as they will remain the engine for overall economic growth and support sustainable development of the country. The informal sector, including small-scale processing and manufacturing and various informal services is responsible for a large share of the GDP and employs about 87.5 percent of the labour force (BBS, Report on Labour Force Survey 2010). This is a labour intensive sector and accelerated growth in this sector has contributed to increased growth and employment generation. The challenge of sustained economic growth of Bangladesh is to ensure accelerated growth over long-term against depletion of natural resource base both in quantity and quality, continued investment in physical capital for meeting the growing demand of population, and enhanced human and social capital to meet quality requirements of a fast growing economy. The objective of the sustained economic growth strategy under the National Sustainable Development Strategy is to ensure sustained accelerated growth without compromising environmental sustainability and facilitate poverty reduction through enhancing social equity. Small and Medium Enterprises (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 by a national daily in its issue on August 1, 2010, there are about 6.0 million SMEs in Bangladesh, which contribute about 50 per cent of the country's industrial output, employing about 80 per cent 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 per cent of SMEs are located outside the metropolitan areas of Dhaka and Chittagong, having easy access to labour and more conducive physical environment. Business costs are thus low in these areas. Therefore, SMEs 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 per cent of industrial employment and 25 per cent 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 per cent 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 its '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. This overview of the development of SME



sector in Bangladesh 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. Before independence, SMEs were seriously neglected and there was no policy support whatsoever.

## **2.6. Current Scenario and Role of Small and Medium Entrepreneurship in Socio-economic Development of Bangladesh**

In Bangladesh small and medium entrepreneurship has been considered as one of the essential factors determining the growth of industry . The history of economic development of all countries whether developing or developed, has evidenced the fact that small and medium entrepreneurs have made a significant contribution in this respect. To change the social and economic structure of our country and to uplift the disadvantaged section of the society like women, greater emphasis is needed on entrepreneurial development. Human resources, both men and women, of working age constitute the main strength of economic development of a nation. Women form an important segment of the labour force and the economic role played by them cannot be isolated from the framework of development. The role and degree of integration of women in economic development is always an indicator of women's economic independence and social status. Economic independence paves the way for social status. Moreover, women have become an integral part of the industrialized society. Entrepreneurship is thus a human activity which plays a major role in economic development. At the centre of process, entrepreneur stands as an organizer of the resources as worker and as the user of goods produced. Of these roles, the organizer's function is very important. Without him, the resources of production remain idle and can never become products or services. This signifies the importance of entrepreneurship in economic development. The association with the attributes of the entrepreneurship and economic development is very close. The relationship between entrepreneurship and economic development is similar relationship between cause and effect.

In 2003 the International Consultancy Group (ICG) of the UK, in collaboration with the Micro Industries Development Assistance and Services (MIDAS), conducted the National Private Sector Survey of Enterprises in Bangladesh. The survey results drew the conclusion that there were approximately 6 million Small and Medium Enterprises (SMEs), which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above. The survey also found that the industrial structure of SMEs

consisted of primarily wholesale and retail trade and repairs (40 per cent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing only (14 per cent). Thus the survey brought out the fact that the large untapped potential for expansion in manufacture and production could be exploited (or contributing more significantly to the national economy).

**Table 2.2 –Recent Salient features of SCI in Bangladesh**

Number of small industries ( up-to June 2012)	: 98,750
Number of cottage industries ( up-to June 2012)	: 6,40,939
Number of employment in the SCI ( up-to June 2012)	: 32.28 lakh

[ Source – www.bscic.gov.bd]

Another vital findings of the survey under discussion was that SMEs contributed BDT 741 (\$ 12.5) billion i.e. nearly 25 per cent of the GDP (BDT 2,996 billion) in 2003. It is reflected from this survey that enterprises employing 2-5 workers contribute 51 percent share of the total SME contribution to the economy, followed by 26 percent by those having only one worker and 10 per cent by those having 6-10 workers. For LDCs like Bangladesh, SMEs are a highly cost-effective route for industrial development.

**Table 2.3 - Contribution of SMEs in the GDP on Bangladesh**

Numbers of workers	Total Contribution to GDP (Taka)	Percentage of Total contribution
0-1	193 996 555 714	26
2-5	379 663 897 358	51
2-5	73 120 983 681	10
11-20	45 183 240 157	6
21-50	33 960 498 076	5
51-100	15 138 922 373	2
Total	741 064 097 360	100

[ Source: ICG/MIDAS Survey, 2003 ]

**Table 2.4 - Sector wise contribution of SME in GDP of Bangladesh (Taka)**

Sector	Total Contribution to GDP (Taka)	% of Total Contribution
Agriculture	177 729 637 637	24
Fishing	32 872 674 464	4
Manufacturing	282 344 700 575	38
Construction	7 196 460 200	1

<b>Wholesale and Retail trade and Repairs</b>	<b>171 335 861 390</b>	<b>23</b>
<b>Hotels and Restaurants</b>	<b>28 599 263 975</b>	<b>3</b>
<b>Transport, Storage and Communication</b>	<b>8 950 171 356</b>	<b>1</b>
<b>Real state, Renting and Business activities</b>	<b>13 771 436 794</b>	<b>2</b>
<b>Education</b>	<b>151 808 506</b>	<b>1</b>
<b>Health and Social Work</b>	<b>2 743 049 893</b>	<b>1</b>
<b>Other Service activities</b>	<b>15 632 094 785</b>	<b>2</b>
<b>Total</b>	<b>741 327 159 609</b>	<b>100</b>

[ Source: ICG/MIDAS Survey, 2004 ]

**Table 2.5 - Growth Pattern of SME**

<b>Year</b>	<b>Growth Percentage of Small Enterprises</b>
<b>2001-02</b>	<b>7.69</b>
<b>2002 -03</b>	<b>7.21</b>
<b>2003-04</b>	<b>7.45</b>
<b>2004-05</b>	<b>7.93</b>
<b>2005-06</b>	<b>9.21</b>
<b>2006-07</b>	<b>10.28</b>

[ Source: Bangladesh Economic Review 2006-2007 ]

**Table 2.6 – Growth Percentage of Manufacturing Sector**

<b>Year</b>	<b>Growth Percentage of Manufacturing Sector</b>
<b>1972-2005</b>	<b>6.4</b>
<b>2001-02</b>	<b>5.48</b>
<b>2002 -03</b>	<b>6.75</b>
<b>2003-04</b>	<b>7.10</b>
<b>2004-05</b>	<b>8.19</b>
<b>2005-06</b>	<b>10.77</b>
<b>2006-07</b>	<b>11.19</b>
<b>2015</b>	<b>Expected Growth 15</b>

[ Source: Bangladesh Economic Review 2006-2007 ]

It is observed from Table-2.3 that micro enterprises run by up to 10 workers contribute the most which is 86% of the total contribution from SMEs to GDP of Bangladesh. It is also observed that micro enterprises run by more than 21 workers contribute about 7% of total contribution from SME

to GDP of Bangladesh. Table-2.4 provides the information regarding sector wise contribution of SMEs to GDP. It is reflected from the table that manufacturing sector contributes the highest contribution in GDP i.e., 38%. It is also observed from the table that agriculture and wholesale and retail sector contribute more than 22 percent in the GDP of Bangladesh. Table-2.5 shows the growth pattern of SME. It is observed that during 2001-2002 to 2004-2005 in every financial year the growth rate of SME is about 7%. In 2005-2006 the growth rate was 9.21%. The highest growth was in 2006-2007 i.e., 10.28% Table-2.6 shows the growth pattern of manufacturing sector. It is observed that the average growth during 1972 to 2005 was 6.4%. During 2001-2002 to 2006-2007 the highest growth was in year 2006-07 i.e., 11.19%. It is also observed that during 2002-2003 to 2005-2006 in every financial year the growth of manufacturing sector was more than 6%. In almost every part of the world, limited access to finance is considered a key constraint to private sector growth. This is especially true for SMEs of our country as they are facing different types of problems for availing institutional finance though SMEs play dominantly important role in the national economy of Bangladesh by making up over 90 per cent of industrial enterprises, providing employment to 4 out of 5 industrial workers and contributing to over one-third of industrial value-added to gross domestic product (GDP). The relative SME share in manufacturing value-added is much higher and estimated to vary between 45 to 50 per cent of totaling value-added generated by the manufacturing industries sector. Further as important sources of new business creation and developing new entrepreneurial talents, these industries provide the much needed dynamism and vitality to the national economy. Implementation of poverty alleviation action programs and strategies is a systematic and continuous effort in Bangladesh. For that purpose, the Poverty Reduction Strategy of the government has clearly identified some core principles and parameters both at macro and micro levels for reducing the existing poverty level at least half within 2015 as targeted in the Millennium Development Goals (MDGs). Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact in the way of reduction of poverty and unemployment, generation of more employment. More than 90% of the industrial enterprises in Bangladesh are in the SME size-class. Generally, SMEs are labor intensive with relatively low capital intensity. The SME also possesses a character of privilege as cost effective and comparative cost advantages in nature. The SME policy

strategies have been formulated to assist in the achievement of the goals and targets the MDGs set by the Government. Contribution of SMEs to the economy is shown in the table below.

**Table-2.7 - Contribution of Large and Small Industries to the GDP (%)**

	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Large Industry</b>	<b>11.01</b>	<b>11.13</b>	<b>11.16</b>	<b>11.29</b>	<b>11.47</b>
<b>Small Industry</b>	<b>4.39</b>	<b>4.46</b>	<b>4.60</b>	<b>4.68</b>	<b>4.78</b>
<b>Total Industry</b>	<b>15.40</b>	<b>15.59</b>	<b>15.76</b>	<b>15.97</b>	<b>16.25</b>

(Source: Economic Review, Ministry of Finance, GOB, 2004)

SMEs are the engine of growth in Bangladesh. There are about 6.0 million SMEs in the country. About 90 per cent of all industrial units in Bangladesh are SMEs generating about 25 per cent of the GDP, employing about 31 million people and providing 75 per cent of household income. Various categories of SMEs together contribute between 80 per cent to 85 per cent of industrial employment and 23 per cent of total civilian employment in Bangladesh. About 65 per cent of SMEs are located outside the metropolitan areas of Dhaka and Chittagong. SMEs are providing job opportunities to about 70-80% of the non-agricultural labour force. The SME share in manufacturing value added to GDP varies at 28-30%. The services sector is primarily composed of SMEs, which is responsible for the bulk of employment growth. SME contribution to national export is significant through different industries such as ready-made garments, jute, and leather etc. Electrical and electronics, light engineering, and plastic goods, leather goods and footwear, agro-processing, fashion designing, knitwear and readymade garments, pharmaceuticals, jute and jute goods, handicraft, frozen fish, ceramics and furniture are the most promising SME industries in Bangladesh.

**Table -2.8 - Contribution of Industry Sector to GDP (in %)**

Type	Fy06-07	Fy07-08	Fy08-09	Fy09-10	Fy10-11	Fy11-12
<b>Industry*</b>	<b>29.45</b>		<b>29.86</b>	<b>29.93</b>	<b>30.33</b>	<b>31.26</b>
<b>Med. &amp; large Ind.</b>	<b>12.47</b>	<b>12.63</b>	<b>12.71</b>	<b>12.68</b>	<b>13.12</b>	<b>13.75</b>
<b>Small &amp; Cottage Ind.</b>	<b>5.08</b>	<b>5.14</b>	<b>5.18</b>	<b>5.5.26</b>	<b>5.29</b>	<b>5.26</b>
<b>Total Industry (Mfd.)</b>	<b>17.55</b>	<b>17.77</b>	<b>17.90</b>	<b>17.94</b>	<b>18.41</b>	<b>1901</b>
<b>Nation</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(\*Industry Included minerals; Industries (mfd.) ; electric, gas & water resource; construction) Source:

Bangladesh Economic Review -2012

**Table -2.9 - Growth of Industry Sector to (in %)**

Type	Fy06-07	Fy07-08	Fy08- 09	Fy09-10	Fy10-11	Fy11-12
Industry	9.72	7.21	6.68	6.50	9.45	9.76
Med. & large Ind.	9.74	7.26	6.58	5.98	10.94	10.78
Small & Cottage Ind.	9.69	7.10	6.90	7.77	5.84	7.18
National	6.43	6.19	5.74	6.07	6.66	6.32

[ Source: Bangladesh Economic Review -2013 ]

**Table-2.10 - Size and Growth Rate of Manufacturing Sector (At constant prices 1995-96)**

**(Taka in crore)**

Type	of 2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-
Industry								12(Provisional
Small	& 12408.5	13551.5	14865.1	15920.0	17018.9	18091.1	19411.90	20805.5
Cottage	(7.93 )	( 9.21 )	9.69 )	7.1 )	( 6.90 )	( 7.77 )	5.84)	7.18 )
Medium &	29860.5	33268.2	36507.1	39157.2	41735.0	44229.8	49069.9	54359.0
large	8.3 )	( 11.41 )	9.74 )	( 7.26 )	6.58 )	5.98 )	10.94)	10.78 )
Total	42269.0	46819.7	51372.2	55077.2	58753.9	62570.7	68481.8	75164.5
	8.19 )	( 10.77 )	9.72)	7.21)	6.68 )	( 6.50 )	9.45 )	9.76 )

[ Note : Figures in parenthesis indicate rate of growth . Source: Bangladesh Bureau of Statistics as cited Bangladesh Economic Review -2012 ]

Any precise quantitative estimate of the importance of SMEs in Bangladesh economy is precluded by non-availability of comprehensive statistical information about these industries at the national level. BSCIC estimates suggest that there are currently 55,916 small industries and 511,612 cottage industries excluding handlooms. Including handlooms, the number of cottage units shoots up to 600,000 units indicating numerical abundance of small and cottage industries (SCIs) in Bangladesh. The most recent private sector survey estimates the contribution of the micro, small, and medium enterprises (MSMEs) is 20-25% of GDP. Quoting informal Planning Commission estimates, the SEDF puts the number of medium enterprises (undefined) to be around 20,000 and that of SCIs to be between 100,000 to 150,000. This wide variation in the BSCIC and Planning Commission estimates of the number of SMEs might be due to at least two reasons: (a) different definitions of SMEs and (b) different coverage of SME families. There is an urgent 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. Regardless of the correct magnitude, SMEs undoubtedly play a very important role in the economy of Bangladesh in terms of output, employment, and private sector activities (Ahmed, 2003). They are quite predominant in the industrial structure of Bangladesh comprising over 90% of all industrial units. Together, the various categories of SMEs are reported to contribute between 80-85% of industrial employment and 23% of total civilian employment (SEDF, 2003). However, serious controversies surround their relative contribution to Bangladesh's industrial output due to paucity of reliable information and different methods used to estimate the magnitude. The most commonly quoted figure by different sources (ADB, World Bank, Planning Commission and BIDS) relating to value added contributions of the SMEs is seen to vary between 45-50% of the total manufacturing value added. A significant proportion of SME activities may be in the informal sector, for which there is no dependable information. Besides, the survey estimates SME contribution based on an approach that requires the use of data on profits earned by enterprises. However, it is very difficult to gather and measure profits of establishments. Therefore, the aforementioned contribution of SMEs may be underestimated. Further discussions on the role of SMEs in Bangladesh's economy can be found in the writing of Ahmed, M.U., (2003). The robustness of SME contributions to employment generation is a common phenomenon in most developing countries in that the magnitude varies between 70% to 95% in Africa and 40% to 70% in the countries of the Asia-Pacific region (Ahmed, M.U., 1999). While SMEs are characteristically highly diverse and heterogeneous, their traditional dominance is in a few industrial sub-sectors such as food, textiles and light engineering and wood, cane and bamboo products. According to SEDF sources quoted from ADB (2003), food and textile units including garments account for over 60% of the registered SMEs. Various recent studies (Ahmed, M.U. 2001; ADB 2001, USAID 2001) show that SMEs have undergone significant structural changes in terms of product composition, degree of capitalization and market penetration in order to adjust to changes in technology, market demand and market access brought by globalization and market liberalization.

## **2.7. Achievements of SMEs**

The structural arrangements of Bangladesh's industries show that jute, textiles, paper, steel and engineering, cement, chemical, fertilizer and pharmaceutical industries are under the big and medium scale industries. But there are 11 booster sectors of SMEs in the Industrial Policy 2005

which are Electronics and Electrical, Software Development, Light Engineering and Metal Works, Agro processing/ Agri-business/plantation agriculture/specialist farming/tissue-culture and related business, leather-making and leather goods, Knitwear and ready-made garments, Plastics and other synthetics, Healthcare and diagnostics, Pharmaceuticals/ Cosmetics/Toiletries and Fashion-rich personal effects, wear and consumption goods. It is said internationally that Small and Medium Enterprises (SMEs) account for about 50 percent of GDP and 60 percent of employment. SMEs are estimated to contribute between 25 and 35 percent of world manufactured exports. Contribution of SMEs in some selected countries shows that it has provided very significant proportion of GDP and employment in their national economy.

**Table -2.11 - Country wise contribution of SMEs**

<b>Country</b>	<b>SMEs as % of all Enterprises</b>	<b>Contribution of SMEs to GDP (%)</b>	<b>Contribution of SMEs to Employment</b>
<b>Bangladesh</b>	<b>80.00</b>	<b>20-25</b>	<b>40.00</b>
<b>India</b>	<b>97.60</b>	<b>80.00</b>	
<b>Pakistan</b>	<b>60.00</b>	<b>15.00</b>	<b>80.00</b>
<b>China</b>	<b>99.00</b>	<b>60.00</b>	<b>92.00</b>
<b>Japan</b>	<b>99.7</b>	<b>69.50</b>	<b>72.0</b>
<b>Hon Kong</b>			<b>61.50</b>

[ Source: Bangladesh Bureau of Statistics]

In many developing countries including Bangladesh, manpower is relatively abundant. Emphasis has to be laid on SME sector to absorb the surplus manpower in these countries. In fact, developing of SME sector has been requires less capital outlay and at the same time it provides more employment than the large-scale sector. Second, a SME unit does not require highly sophisticated technology. It can, therefore, be useful in backward areas where the people have yet to be trained to meet the challenge of sophisticate technology. Bangladesh is highly resourceful with so many seasonal fruits and also lots of agricultural products. If we can add more quality to the products and ensure proper marketing, tremendous demand will be created in domestic and export market. In RMG industries (knit) circular machines are used for knitting of the items. This is a subcontracting system where RMG industries supply yarns to the entrepreneurs having circular machines. SMEs are a fundamental part of the economic fabric in developing countries like Bangladesh, and they play a



crucial role in furthering growth, innovation and prosperity. Small and medium enterprises (SMEs) play a major role in economic development in every country, including in African countries.

### **2.7.1. Growth of GDP through the development of SME**

At the conference titled "D-8 Taskforce Meeting on SME", held in Dhaka on October 09, 2012, Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria and Turkey presented papers on SME (Small and Medium Enterprise) Development in their countries. The D-8 members states that Bangladesh may replicate for quicker SME growth to promote sustainable industrial development and poverty alleviation. Bangladesh has been able to achieve GDP growth at more than 6 percent on an average even during the period of global financial crisis. According to the final estimate of Bangladesh Bureau of Statistics, GDP growth stood at 6.71 percent in FY 2010-11 which was higher than 6.07 percent growth in FY 2010-11. The economy recorded 6.31 percent GDP growth rate in the current fiscal year 2011-12 as per the provisional estimate. In attaining GDP growth, three main sectors of the economy like agriculture, industry and service sector made major contributions. Because of high base effect induced by more than 5 percent growth in agriculture sector during the last two years, the growth of agriculture sector reduced slightly to 2.53 percent in the current fiscal year, which was still satisfactory. In FY 2011-12 at constant prices, share of agriculture, industry and service sectors stood at 19.29 percent, 31.26 percent and 49.45 percent respectively. According to the provisional estimate, on expenditure side, in FY 2011-12 consumption expenditure decreased by 0.09 percentage point of GDP to 80.63 percent of GDP compared to 80.71 percent in FY 2010-11. On the contrary, domestic savings accelerated to 19.37 percent of GDP in this fiscal year from 19.29 percent of GDP in FY 2010-11. However, because of positive growth in remittance inflows, national savings increased to 29.40 percent of GDP in FY 2011-12 from 28.78 percent of GDP a year earlier. Furthermore, investment-GDP ratio stood at 25.45 percent in the fiscal year which was 25.15 percent in FY 2010-11.

### **2.7.2. Growth of GDP by Sectors**

In the estimation of production based GDP, 15 sectors are considered where some sectors are further divided into different sub sectors. All the 15 sectors are grouped into three broad sectors viz- agriculture, industry and service. The broad agriculture sector consists of two sectors namely, (i) agriculture and forestry and (ii) fisheries. Similarly, the broad industry sector comprises (i)

mining and quarrying, (ii) manufacturing, (iii) electricity, gas and water supply and (iv) construction sector. The broad service sector includes the collective outputs of the, (i) wholesale and retail trade, (ii) hotels and restaurants, (iii) transport, storage and communication, (iv) financial intermediations, (v) real estate renting and business activities, (vi) public administration and defense, (vii) education, (viii) health and social work and (ix) community, social and personal services. The growth rates of GDP by sectors at constant prices since FY 2005-06 have been shown in Table 2.12 and graph 2.13.

**Table 2.12 - Sector wise Growth Rate of GDP at Constant Prices (Base Year: 1995-96) (In Percentage)**

Sector/Sub-sector	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
<b>1. Agriculture and Forestry</b>	<b>5.23</b>	<b>4.69</b>	<b>2.93</b>	<b>4.10</b>	<b>5.56</b>	<b>5.09</b>	<b>1.72</b>
<b>a. Crops &amp; horticulture</b>	<b>5.03</b>	<b>4.43</b>	<b>2.67</b>	<b>4.02</b>	<b>6.13</b>	<b>5.65</b>	<b>0.94</b>
<b>b. Animal farming</b>	<b>6.15</b>	<b>5.49</b>	<b>2.44</b>	<b>3.48</b>	<b>3.38</b>	<b>3.48</b>	<b>3.39</b>
<b>c. Forest and related services</b>	<b>5.18</b>	<b>5.24</b>	<b>5.47</b>	<b>5.69</b>	<b>5.23</b>	<b>3.90</b>	<b>4.42</b>
<b>2. Fishery</b>	<b>3.91</b>	<b>4.07</b>	<b>4.18</b>	<b>4.16</b>	<b>4.15</b>	<b>5.25</b>	<b>5.38</b>
<b>3. Mining and Quarrying</b>	<b>9.26</b>	<b>8.33</b>	<b>8.94</b>	<b>9.84</b>	<b>8.80</b>	<b>4.80</b>	<b>6.25</b>
<b>a. Natural gas &amp; crude petroleum</b>	<b>9.52</b>	<b>8.03</b>	<b>8.26</b>	<b>9.15</b>	<b>8.12</b>	<b>1.05</b>	<b>2.95</b>
<b>b. Other mineral resources</b>	<b>8.84</b>	<b>8.80</b>	<b>10.01</b>	<b>10.90</b>	<b>9.84</b>	<b>10.43</b>	<b>10.78</b>
<b>4. Manufacturing</b>	<b>10.77</b>	<b>9.72</b>	<b>7.21</b>	<b>6.68</b>	<b>6.50</b>	<b>9.45</b>	<b>9.76</b>
<b>a. Large &amp; medium scale</b>	<b>11.41</b>	<b>9.74</b>	<b>7.26</b>	<b>6.58</b>	<b>5.98</b>	<b>10.94</b>	<b>10.78</b>
<b>b. Small scale</b>	<b>9.21</b>	<b>9.69</b>	<b>7.10</b>	<b>6.90</b>	<b>7.77</b>	<b>5.84</b>	<b>7.18</b>
<b>5. Electricity, Gas &amp; Water Supply</b>	<b>7.67</b>	<b>2.10</b>	<b>6.77</b>	<b>5.91</b>	<b>7.28</b>	<b>6.63</b>	<b>14.11</b>
<b>a. Electricity</b>	<b>7.45</b>	<b>1.08</b>	<b>6.68</b>	<b>5.39</b>	<b>7.21</b>	<b>7.33</b>	<b>15.96</b>
<b>b. Gas</b>	<b>9.37</b>	<b>7.37</b>	<b>7.72</b>	<b>8.42</b>	<b>7.51</b>	<b>0.82</b>	<b>3.01</b>
<b>c. Water</b>	<b>7.55</b>	<b>7.08</b>	<b>6.00</b>	<b>8.39</b>	<b>7.77</b>	<b>8.99</b>	<b>9.82</b>
<b>6. Construction</b>	<b>8.31</b>	<b>7.01</b>	<b>5.68</b>	<b>5.70</b>	<b>6.01</b>	<b>6.51</b>	<b>8.51</b>
<b>7. Wholesale and</b>	<b>6.75</b>	<b>8.04</b>	<b>6.82</b>	<b>6.21</b>	<b>5.87</b>	<b>6.31</b>	<b>5.88</b>

<b>Retail Trade</b>								
<b>8. Hotel and Restaurants</b>	<b>7.45</b>	<b>7.52</b>	<b>7.55</b>	<b>7.58</b>	<b>7.61</b>	<b>7.55</b>	<b>7.60</b>	
<b>9. Transport, Storage &amp; Communication</b>	<b>7.98</b>	<b>8.03</b>	<b>8.55</b>	<b>8.01</b>	<b>7.69</b>	<b>5.69</b>	<b>6.58</b>	
<b>a. Land transport</b>	<b>4.14</b>	<b>4.18</b>	<b>4.54</b>	<b>5.17</b>	<b>5.98</b>	<b>4.13</b>	<b>5.78</b>	
<b>b. Water transport</b>	<b>1.95</b>	<b>1.73</b>	<b>2.54</b>	<b>2.46</b>	<b>1.01</b>	<b>1.05</b>	<b>1.90</b>	
<b>c. Air transport</b>	<b>5.25</b>	<b>2.01</b>	<b>6.20</b>	<b>7.38</b>	<b>9.13</b>	<b>8.26</b>	<b>10.61</b>	
<b>d. Support transport services, storage</b>	<b>6.13</b>	<b>8.93</b>	<b>8.45</b>	<b>9.64</b>	<b>8.15</b>	<b>3.50</b>	<b>3.48</b>	
<b>e. Post &amp; telecommunication</b>	<b>26.70</b>	<b>23.29</b>	<b>21.64</b>	<b>16.11</b>	<b>12.95</b>	<b>10.01</b>	<b>9.24</b>	
<b>10. Financial Intermediations</b>	<b>8.50</b>	<b>9.18</b>	<b>8.89</b>	<b>8.99</b>	<b>11.64</b>	<b>9.64</b>	<b>9.52</b>	
<b>a. Monetary intermediation(Bank)</b>	<b>8.19</b>	<b>9.34</b>	<b>8.38</b>	<b>9.05</b>	<b>10.47</b>	<b>9.04</b>	<b>9.41</b>	
<b>b. Insurance</b>	<b>9.16</b>	<b>8.21</b>	<b>10.03</b>	<b>8.38</b>	<b>14.88</b>	<b>11.58</b>	<b>9.81</b>	
<b>c. Other financial intermediation</b>	<b>10.94</b>	<b>11.62</b>	<b>12.47</b>	<b>11.13</b>	<b>16.10</b>	<b>10.08</b>	<b>9.86</b>	
<b>11. Real Estate, Renting &amp; other Business Activities</b>	<b>3.69</b>	<b>3.76</b>	<b>3.75</b>	<b>3.81</b>	<b>3.89</b>	<b>3.96</b>	<b>4.05</b>	
<b>12. Public Admin and Defense</b>	<b>8.15</b>	<b>8.41</b>	<b>6.21</b>	<b>7.01</b>	<b>8.35</b>	<b>9.67</b>	<b>6.07</b>	
<b>13. Education</b>	<b>9.05</b>	<b>8.96</b>	<b>7.80</b>	<b>8.05</b>	<b>9.24</b>	<b>9.36</b>	<b>8.61</b>	
<b>14. Health and Social Work</b>	<b>7.79</b>	<b>7.64</b>	<b>7.02</b>	<b>7.20</b>	<b>8.10</b>	<b>8.35</b>	<b>7.94</b>	
<b>15. Community, Social and Personal Services</b>	<b>4.09</b>	<b>4.58</b>	<b>4.62</b>	<b>4.70</b>	<b>4.72</b>	<b>4.70</b>	<b>4.76</b>	
<b>At Constant Price GDP Growth Rate (percent)</b>	<b>6.63</b>	<b>6.43</b>	<b>6.19</b>	<b>5.74</b>	<b>6.07</b>	<b>6.71</b>	<b>6.32</b>	

[ Source: Bangladesh Economic Review,2012

**Table 2.13 - Sector wise Share of GDP (percent) at Constant Prices (Base Year: 1995-96)**

(In percentage)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12*
<b>Sector/Sub-sector</b>	<b>06</b>		<b>08</b>	<b>09</b>	<b>10</b>	<b>11</b>	<b>12*</b>
<b>1. Agriculture and Forestry</b>	<b>16.98</b>	<b>16.64</b>	<b>16.18</b>	<b>15.91</b>	<b>15.81</b>	<b>15.58</b>	<b>14.90</b>
<b>a. Crops &amp; horticulture</b>	<b>2.92</b>	<b>2.88</b>	<b>2.79</b>	<b>2.73</b>	<b>2.65</b>	<b>2.58</b>	<b>2.50</b>
<b>b. Animal farming</b>	<b>1.79</b>	<b>1.76</b>	<b>1.75</b>	<b>1.75</b>	<b>1.73</b>	<b>1.69</b>	<b>1.66</b>
<b>c. Forest and related services</b>							
<b>2. Fishing</b>	<b>4.86</b>	<b>4.73</b>	<b>4.65</b>	<b>4.58</b>	<b>4.49</b>	<b>4.43</b>	<b>4.39</b>
<b>3. Mining and Quarrying</b>	<b>1.16</b>	<b>1.18</b>	<b>1.21</b>	<b>1.25</b>	<b>1.29</b>	<b>1.26</b>	<b>1.26</b>
<b>a. Natural gas &amp; crude petroleum</b>	<b>0.71</b>	<b>0.72</b>	<b>0.74</b>	<b>0.76</b>	<b>0.77</b>	<b>0.73</b>	<b>0.71</b>
<b>b. Other mineral resources</b>	<b>0.45</b>	<b>0.46</b>	<b>0.47</b>	<b>0.50</b>	<b>0.51</b>	<b>0.53</b>	<b>0.55</b>
<b>4. Manufacturing</b>	<b>17.08</b>	<b>17.55</b>	<b>17.77</b>	<b>17.90</b>	<b>17.94</b>	<b>18.41</b>	<b>19.01</b>
<b>a. Large &amp; medium scale</b>	<b>12.14</b>	<b>12.47</b>	<b>12.63</b>	<b>12.71</b>	<b>12.68</b>	<b>13.12</b>	<b>13.75</b>
<b>b. Small scale</b>	<b>4.94</b>	<b>5.08</b>	<b>5.14</b>	<b>5.18</b>	<b>5.26</b>	<b>5.22</b>	<b>5.26</b>
<b>5. Electricity, Gas &amp; Water Supply</b>	<b>1.65</b>	<b>1.57</b>	<b>1.59</b>	<b>1.59</b>	<b>1.60</b>	<b>1.60</b>	<b>1.72</b>
<b>a. Electricity</b>	<b>1.38</b>	<b>1.30</b>	<b>1.31</b>	<b>1.31</b>	<b>1.32</b>	<b>1.33</b>	<b>1.45</b>
<b>b. Gas</b>	<b>0.19</b>	<b>0.19</b>	<b>0.19</b>	<b>0.19</b>	<b>0.20</b>	<b>0.19</b>	<b>0.18</b>
<b>c. Water</b>	<b>0.08</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>
<b>6. Construction</b>	<b>9.14</b>	<b>9.15</b>	<b>9.13</b>	<b>9.12</b>	<b>9.10</b>	<b>9.09</b>	<b>9.27</b>
<b>7. Wholesale and Retail Trade</b>	<b>14.08</b>	<b>14.24</b>	<b>14.37</b>	<b>14.41</b>	<b>14.36</b>	<b>14.33</b>	<b>14.26</b>
<b>8. Hotel and Restaurants</b>	<b>0.69</b>	<b>0.69</b>	<b>0.70</b>	<b>0.71</b>	<b>0.72</b>	<b>0.73</b>	<b>0.74</b>
<b>9. Transport, Storage &amp; Community.</b>	<b>10.07</b>	<b>10.18</b>	<b>10.44</b>	<b>10.65</b>	<b>10.79</b>	<b>10.70</b>	<b>10.72</b>
<b>a. Land transport</b>	<b>6.67</b>	<b>6.50</b>	<b>6.42</b>	<b>6.38</b>	<b>6.36</b>	<b>6.21</b>	<b>6.18</b>
<b>b. Water transport</b>	<b>0.89</b>	<b>0.85</b>	<b>0.82</b>	<b>0.79</b>	<b>0.75</b>	<b>0.72</b>	<b>0.69</b>
<b>c. Air transport</b>	<b>0.12</b>	<b>0.11</b>	<b>0.11</b>	<b>0.12</b>	<b>0.12</b>	<b>0.12</b>	<b>0.13</b>
<b>d. Support transport services, storage</b>	<b>0.31</b>	<b>0.32</b>	<b>0.33</b>	<b>0.34</b>	<b>0.35</b>	<b>0.34</b>	<b>0.33</b>
<b>e. Post &amp; telecommunication</b>	<b>2.08</b>	<b>2.40</b>	<b>2.76</b>	<b>3.02</b>	<b>3.21</b>	<b>3.31</b>	<b>3.40</b>

<b>10.</b>	<b>Financial</b>	<b>1.72</b>	<b>1.76</b>	<b>1.81</b>	<b>1.86</b>	<b>1.95</b>	<b>2.01</b>	<b>2.07</b>
<b>Intermediations</b>								
<b>a.</b>	<b>Monetary</b>	<b>1.28</b>	<b>1.31</b>	<b>1.34</b>	<b>1.38</b>	<b>1.44</b>	<b>1.47</b>	<b>1.51</b>
<b>intermediation(Bank)</b>								
<b>b.</b>	<b>Insurance</b>	<b>0.37</b>	<b>0.37</b>	<b>0.39</b>	<b>0.40</b>	<b>0.43</b>	<b>0.45</b>	<b>0.46</b>
<b>c.</b>	<b>Other financial</b>	<b>0.07</b>	<b>0.07</b>	<b>0.07</b>	<b>0.08</b>	<b>0.08</b>	<b>0.09</b>	<b>0.09</b>
<b>intermediation</b>								
<b>11.</b>	<b>Real Estate, Renting &amp; other Business Activities</b>	<b>7.87</b>	<b>7.64</b>	<b>7.49</b>	<b>7.34</b>	<b>7.18</b>	<b>7.00</b>	<b>6.85</b>
<b>12.</b>	<b>Public Administration and Defense</b>	<b>2.71</b>	<b>2.75</b>	<b>2.76</b>	<b>2.78</b>	<b>2.84</b>	<b>2.92</b>	<b>2.91</b>
<b>13.</b>	<b>Education</b>	<b>2.49</b>	<b>2.54</b>	<b>2.58</b>	<b>2.64</b>	<b>2.71</b>	<b>2.78</b>	<b>2.84</b>
<b>14.</b>	<b>Health and Social Work</b>	<b>2.27</b>	<b>2.29</b>	<b>2.31</b>	<b>2.34</b>	<b>2.38</b>	<b>2.42</b>	<b>2.45</b>
<b>15.</b>	<b>Community, Social and Personal services</b>	<b>7.25</b>	<b>7.09</b>	<b>7.01</b>	<b>6.93</b>	<b>6.83</b>	<b>6.71</b>	<b>6.61</b>
<b>GDP</b>		<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

[ Source: Bangladesh Economic Review,2012 ]

Bangladesh may replicate for quicker SME growth to promote sustainable industrial development and poverty alleviation. Distribution of enterprises in the Bangladesh economy (according to his study) is 87 per cent small, 6 per cent medium, and 7 per cent large industries. 84 per cent of SMEs took loans from commercial banks. Almost all of them needed collateral except some trading and service for which hypothecation served as collaterals. Guarantors were needed for 93 per cent of SMEs, 41 days were required to process applications, with two more weeks to actually get the loans. In total, it took 55 days to get the loans. Loans received meet demand of only less than one-third (31 per cent), while most are met from one's own and other sources. Excepting a few fertilizer, pharmaceutical, cement and telecom companies all other business entities in Bangladesh are SMEs. There are about 6.0 million SMEs in Bangladesh. Their production accounts for around 50% of our total industrial output each year. They generate highest number of employment and contribute to import substitution and save foreign currencies. The small and medium enterprises (SMEs) are familiar as the engine of growth in developing economies. They are

helping in economic development from two dimensions. Firstly by producing goods/services. Secondly by employing more labour with comparatively low investment. Employment generation and GDP growth both are very much important for sustainable development of an economy. Bangladesh is maintaining 4 – 6.5% GDP growth during last two decades. It experienced several downturn of GDP growth in the same period. But we do not know why this downturn occurred. Sometimes we blamed natural disasters, political unrest and so on. But we actually never try to find out the real cause and take actions to avoid any further downturn. As a result, till now we are in and around 5-6 % growth. Composition of our economy is agriculture: 18.4%, industry 28.7% and services: 52.9%. From industry's contribution to GDP viewpoint Bangladesh is the 73<sup>rd</sup> economy among 165 economies of the world. From sector wise employment generation's point of view agriculture is employing 45%, industry 30% and services 25% of Bangladeshi labor force. If we compare employment generation versus contribution to GDP then we can easily say that, agriculture not so much an efficient sector for Bangladesh because 45% people of the labour force are contributing only 18.4% of the GDP. That means we have to improve productivity in agriculture to ensure proper utilization of resources in it. Industry is contributing 28.7% of the GDP by employing 30% of the labor force. That means we have space to improve productivity in industrial sector too. At the same time industry's contribution to GDP has to improve up to 40% by 2021. According to vision 2021 Bangladesh should achieve 8% GDP growth in 2013, increase it up to 10% by 2017 and continue in the same rate till 2021 to meet the stated goals. Bangladesh achieved 5% GDP growth for the first time in 1996. It turned back to 4.8 in 2001 and 2002. In 2011 we are scoring around 6.5. That means we spent long 14 years to increase 1.5% GDP growth. To achieve 8% GDP growth by 2013 we have 2 years in hand to increase the 1.5% rate of GDP growth. It means 14 years achievement have to be achieved by 2 years. It is really a tough target for us where existing industries are facing gas rationing, new electricity connections stopped for last few years. Thus, SME can be the best option to increase GDP growth rate and generate employment with minimum investment. We have a misconception private sector will do business for their own profits. So, what government can do for them? Ensuring basic needs to all citizens is the primary duty of the state. So, government will create congenial entrepreneurial environment for maximum employment generation so that basic need of a family reaches via an employed citizen. The government of Bangladesh has enacted the National Industrial Policy 2010

and SME Policy Strategies 2005 to boost up industrial development and provide necessary assistance. The SME Foundation, Bangladesh is currently working hard to identify SME clusters in Bangladesh. Primary identification of the clusters in 64 districts has been completed. Now in-depth analysis of each identified clusters and GIS mapping is going on. After successful completion of the task we can easily select the most promising clusters for development interventions throughout the country. This will help to expand existing enterprises, increase their productivity and establish new enterprises in each of the clusters. It will help us to achieve the projected GDP growth. SME Foundation along with key stakeholders reached a decision that if there is about 50 similar production units in a 5km diameter then it will be termed as a cluster. Generally, a cluster produces similar (not same) products. Necessary support services or inputs are available in the same location. A cluster generally develops through learning, creating and upgrading processes. Cluster based development intervention can be the best possible way to ensure maximum utilization of our existing resources. The SFYP emphasizes the role of SMEs in the economy by increasing number of micro and small enterprises through proper monetary and non-monetary incentives, scaling up the size of the existing micro and small enterprises and by enhancing the productivity of the existing micro and small enterprises. The need for strengthening SME Foundation is also required according to the plan. Special measures will be taken to develop women entrepreneurship according to the plan. Various measures adopted during the SFYP period include: initiative for up gradation of Bangladesh small and cottage industry Act 1957; supporting SME foundation; organization of "Financial Fair" by SME foundation with commercial banks in divisional, commercial and economic cities; development of SME Foundation web portal; provision of refinancing by BB fund, EGBMP and ADB fund to 31855 enterprises under SME sector. The crucial problem that obstructs in assessing the SME performance in the economy and their requirement is the lack of database on SMEs. There are a large number of SMEs which remain unregistered even though they contribute to the economy and generate income to a large segment of rural population. To support the development of SMEs, government has decided to extend the operation of BSCIC. As part to this, initiatives have been undertaken for simplification of the allotment process of industrial plots, plan for establishing BSCIC industrial area, and also establishment of industrial units at Gopalganj, Comilla, Borguna and Kushtia. The progress of establishment of API Park for pharmaceutical industry and Leather Industry Park has advanced in a snail pace. The government according to the plan should launch a

comprehensive social protection strategy. Given the slow progress in implementation of different strategies and specific activities, most of the ministries and departments should be proactive in order to implement the stated activities. An 'as-usual' pace of work by the concerned ministries would not help much to achieve the broader goals of the SFYP. Finally, Government should revisit the targets set forth in the SFYP with regard to the macroeconomic framework and sectoral targets and make the necessary revisions accordingly.

### **2.7.3. Review of the Performance of the Manufacturing Sector of Bangladesh**

Over the past decades manufacturing sector was able to maintain and sustain a relatively high level of growth, surpassing that of the GDP, which contributed to a rise in its share in the GDP (from 10 per cent in 1989 to about 19 per cent in 2012). In the course of particularly the last five years (FY2008 to FY2012) manufacturing sector was confronted with a number of challenges which had important implications both for its domestic market-oriented component as well as the export-oriented one. Despite these challenges manufacturing sector has been able to post at 7-9 per cent growth which was led particularly by the large and medium scale enterprises (Table 5.1). Over this same period small scale enterprises have also experienced a modest level of growth. Nonetheless there is an increasing concentration towards large and medium industries. Excepting a few sub-sectors of the manufacturing sector, major components of the sector are yet to attain the strength to compete globally in equal footing, or in the domestic market without tariff and incentive support. This had been mainly because of number of structural and operational constraints/weaknesses including narrow production base, lack of well-developed value chains, low productivity of capital (e.g. high incremental capital-output ratio), lack of access to adequate infrastructure facilities and in recent years and high interest rates on bank loan. In this backdrop, a detailed analysis of the recent performance of the manufacturing sector is perceived to be important in view of the key role of the sector in ensuring structural transformation of the economy.



**Table 2.14 - Share and Growth Production of Manufacturing Enterprises: FY2008 to FY2012**

	FY08	FY09	FY10	FY11	FY12
<b>Share in GDP (%)</b>					
<b>Manufacturing</b>	<b>17.8</b>	<b>17.9</b>	<b>17.9</b>	<b>18.4</b>	<b>19.0</b>
<b>Large &amp; medium scale</b>	<b>12.6</b>	<b>12.7</b>	<b>12.7</b>	<b>13.2</b>	<b>13.8</b>
<b>Small scale</b>	<b>5.2</b>	<b>5.2</b>	<b>5.2</b>	<b>5.2</b>	<b>5.2</b>
<b>Share in Manufacturing GDP (%)</b>					
<b>Large &amp; medium scale</b>	<b>70.8</b>	<b>70.9</b>	<b>70.9</b>	<b>71.7</b>	<b>72.6</b>
<b>Small scale</b>	<b>29.2</b>	<b>29.1</b>	<b>29.1</b>	<b>28.3</b>	<b>27.4</b>
<b>Growth (%)</b>					
<b>Manufacturing</b>	<b>7.2</b>	<b>6.7</b>	<b>6.5</b>	<b>9.4</b>	<b>9.8</b>
<b>Large &amp; medium scale</b>	<b>7.3</b>	<b>6.6</b>	<b>6.0</b>	<b>10.9</b>	<b>10.8</b>
<b>Small scale</b>	<b>7.1</b>	<b>6.9</b>	<b>7.8</b>	<b>5.8</b>	<b>7.2</b>

[ Source: Bangladesh Economic Review -2013, MoF, GoB.]

#### **2.7.4. Structure of the Manufacturing Sector and its Performance**

According to the *Survey of Manufacturing Industries 2005-06*, BBS, there were a total of about 35,000 establishments in the country of which small scale manufacturing units (employing 20-99 workers) were about 41 per cent, and medium and large scale manufacturing units were about 15 per cent. Between 1998 and 2006, share of small scale enterprises has increased while that of large and medium scale enterprises has reduced. 99 per cent of the manufacturing units were privately-owned with the share of foreign-owned companies remaining insignificant (e.g. share of joint-venture enterprises was 0.6 per cent).

Performance of large-medium scale manufacturing industries (LMI) and small scale manufacturing industries (SMI) varies for different sub-sectors. Despite the global economic slowdown, Bangladesh was able to maintain moderately high level of growth in export of jute, cotton, wearing apparels and leather industries during FY2009-FY2012 in the backdrop of higher production of LMIs (average growth rate of 15.7 per cent). SMIs sub-sectors which attained high growth rates were basic metal products (19.8 per cent) and food, beverage and tobacco (14.1 per cent) mainly driven by higher demand in the local market. Other industries including non-metallic, fabricated products, wooden

furniture etc., which largely cater to the domestic market did not show a significant variation in the performance of LMIs and SMIs. Compared to the corresponding period of the previous year, growth of LMIs in the first two months (Jul-Aug.) of FY2013 has slowed down mainly due to negative growth of jute, cotton, apparels and leather (-1.1 per cent) industries which catered mainly to the global market and had to confront slowdown in demand.

There was a high concentration in the value addition of the manufacturing sector. Top ten manufacturing industries accounted for almost 62 per cent of total value addition in FY2006 which was, however, somewhat higher in FY2001 (67 per cent). Apart from the traditional manufacturing industries (such as woven, knit, textiles and pharmaceuticals) a number of non-traditional domestic market-oriented industries made significant contribution in the value addition in the manufacturing sector – these included bricks and tiles, cigarettes, iron steel and re-rolling mills . To some extent, this relatively lower concentration in value added in the top ten industries in 2006 reflects some diversification in the manufacturing base.

Bangladesh is an SME dominating economy. Our SMEs are producing a wide variety of products in different important sectors like, light engineering, plastic and rubber, ceramics and glassware, electrical and electronics, leather and leather goods, cosmetics and toiletries, craft and giftware, crockery, frozen foods, furniture, handicrafts, herbal products, horticulture, jute and jute goods, motor cycle, silk and silk cloths, textile and clothing, motor parts, agro-processed food, medicine, software, cement, cargo vessel manufacturers, and fashion items, etc. but most of the cases businesses operate without any formal registration even without a registered trademark.

Some SMEs are producing world class goods but in absence of registered trademarks these products are not getting brand status. At the same time as the products or manufacturing processes are not patented so these are copying by their competitors and product quality is reduced. Many products get popularity with innovative design and shape but these are not protected as registered industrial design. Many companies start with a good opening but lose market share due to unfair competition and copying. As a result brand image is not building up in SME sector. Let's try to analyse what are the IP tools that can be applied in which SMEs and for what reason. Firstly, trademark is essential for every business entity. We give a name to our enterprises and if it is registered as my trademark then nobody will be allowed to use same name and logo in their products. So there is a possibility to establish brand image for qualified products of that entity. It

ensures highest utilization of goodwill of a single entity for their innovative products and services. When innovation comes up then question of protecting that innovation through patent registration occurs. So we can state that trademark and patent is for every enterprise in every sector.

Government especially SME foundation will have to take the lead to create awareness among the SME sector for registering trademark and marketing products with their self trademark to establish brand image.

The government should take a lead for building awareness among the entrepreneurs that whatever you produce you must have to market it with your self registered trademark so that native qualitative products can get brand image in home and abroad. It is the case of country's all SME sectors. They are producing finest goods but not aware of having a self trademark for building up own brands to utilize their products goodwill in the market for getting loyal customers as well as branding the country. So SME Foundation / Branding Bangladesh activists can take the lead for awareness creation among the SME owners in different sector about basic issues of IPR and strong imposition of IP laws (except education and healthcare sector) for promoting Branding Bangladesh in home and abroad.

### **2.7.5. Major Export flourishing in Bangladesh:**

#### **SME Sub-Sectors**

(i) Agro-process, agro-based and agro-supportive industries ;(ii) Handicraft: braided rug of jute & cotton etc., (iii) artificial flower making, etc; (iv) computer soft ware and ICT; (v) microelectronics; (vi) food processing and food staffs; (vii) floriculture; (viii) gift items; (ix) poultry and cattle; (x) jute goods; (xi) electrical appliances, (xii) leather and leather goods; pottery; (xiii) light engineering; (ivx) staffed toys; (xv) RMG, knitwear etc.; (xvi) aquaculture; (xvii) automobiles; (xviii) horticulture and (xix) medicinal plants culture; pharmaceutical

#### **Sub- Sector of SME product export information:**

##### **o Gift items :**

The country's gift items manufacturing firms participated in the Tokyo International Gift Fair held on September 2- 5, 2008. Bangladeshi participating companies displayed SME products like handicrafts, home textile, jute products, nakshi katha, scarf, bags, belts, wallets, show pieces, wall- mat, candle, cushion cover pottery and such other products. From this fair Bangladesh participants received US\$ 20,000 spot orders in addition to 120.000 prospective orders. SAARC Trade Fair in Colombo, held

from August 28 – 31 2008 was also able to receive spot order worth US\$ 490.000. Pharmaceuticals items, Soft Drink, Jamdani Saree, Dhakai Moslin, Silk Scrap, and Other products were put on display in the Colombo fair. The prospects of exporting shoes and gift items and RMG products to Japan.

- **Home Textile:**

Export of home textile products can fetch US\$1.0 billion by the next few years as many of the country's regional rivals have shifted their focus on producing high-value textiles. Exports of home textile items such as bed linen, cushion, blanket, nakshikatha, curtain and pillow will continue to boom in the next years. Home textile products have the potentials to earn \$1.0 billion from export by 2012-13 fiscal year. If the current rate of growth continues, by next four years home textile would emerge as the third highest export earning sector. A number of countries of north and south America, Europe, Africa, middle and Southeast Asia are major markets of Bangladesh's home textiles. The demand for home textile to the USA and Europe, which account for Bangladesh's 80 per cent export market, rose sharply in the recent months amid declining shipments from some south and southeast Asian countries.

- **Electrical & Electronics Products :**

There are huge markets for electrical goods in different countries across the globe including Europe and Middle East. Bangladesh is near about self-sufficient in electrical goods and accessories. Apart from some 5 per cent sophisticated items 95 per cent electrical products are made in Bangladesh, at the last edge to be self sufficient in producing all kinds of fans cables within two to three years. There is huge prospect of exporting electrical goods abroad if government help in this regard. The products of electrical accessories like substation equipment, household electrical appliances, tube light and incandescent bulb, electrical and electronic ballast, supper enamel copper wire, energy saving bulb, voltage stabilizer, electrical cables, energy saving bulbs, electric motor, electric meter, transformers, light fittings, electrical fan, capacitor, IPS-UPS and varnish have a tremendous market for export into African countries . A local electronics assembling company, will set up a liquid crystal display (LCD) television assembling plant and refrigerators the first of its kind in Bangladesh.

- **Camera Lens Plant:**

The lenses used in some of the world's most famous camera brands are being produced in Bangladesh with such success that the company involved plans to expand it operations. Apart from

camera lenses the company also produces lenses for fax machines, photocopies, security cameras, scanners and projectors. The company earns around US\$ 8 million annually by exporting products. In producing lenses workers need to follow nine stages such as curve generating, smoothing, polishing, cleaning, inspection, centering, coating, second time inspection and packing for export.

- **Automobiles:**

The first ever fuel-less and environment friendly electric bike and electric rickshaw was formally launched by Electric bike and electric rickshaw would save huge foreign currency by reducing diesel use, air pollution and transport cost. The people of middle and lower income bracket will be able use it for their affordable prices. A leading automobile distributors is to assemble Mercedes-Benz buses in Bangladesh. The company will be able to cut the price of Mercedes-Benz buses by about Tk 40 lakh to nearly Tk 1.10 crore after the establishment of the assembling plant. Currently one Mercedes-Benz bus costs around Tk 1.50 crore as it enters Bangladesh in completely built form. The local assembling plant will help us offer lower prices due to cheap labour. A local manufacturing firm has initiated a move to produce CNG-run motorcycles. Main targets is to export motorcycles after meeting the domestic demand. The company has moved to produce CNG-run motorcycles, considering its cheap fuel cost. The duty structure on import of raw materials is a big constraint for the manufacturers. We can export our motorcycles to neighboring countries, including India take advantage of the duty-free access under SAFTA in the future

- **Bicycle Export :**

The country exported bicycles worth US\$ 64.28 million in the just concluded fiscal year. Bangladesh exported around half a million bicycles in 2007-08. There is huge demand for our bicycles in the European countries. Currently, world's some of the leading companies including Raleigh of UK, Avocet Sports, PCM of UK, Motor and Sports of the UK, Aldi of Holland, Bachtenkirch Interbike of Germany, M&F De Scheemaeker of Belgium and Formula Cycling of Belgium are importing bicycles from Bangladesh. Bangladesh is also trying other potential markets like Canada, the United Kingdom (UK) through supplying bicycles in a limited scale. The UK is a leading importer that imports bicycles worth around 220 million euro a year. Bangladesh alone exported bicycles worth 13 million euro to the UK in calendar 2007. Bicycle industry is a light engineering sector and most of parts are locally available. Bangladesh can export around 2.0 million pieces of bicycles a year

- **Light Engineering :**

Currently, the light engineering has been producing highly demanded products like crushing machines, bicycle, spare parts of shallow engines, carbon rod for dry-cell batteries, pistons, etc. The sector is also producing agricultural tools like power-tiller and its spare parts, irrigation pumps, crank shaft, automobile components like bracket, accelerator, oil expeller, marine parts like bush and others. Besides, it is also manufacturing parts for textiles, jute and tea, food processing, construction, and tools required for furniture industry. A light engineering company has started export of flour machines to Australia recently. The light engineering sector is growing on an average 30 per cent annually and it is now eyeing export around half a billion US dollars in 2008- 09 fiscal. The light engineering sector exported US\$ 310 million in 2006-07 fiscal year. There are around 40,000 light engineering units across the country and its local market size is estimated to be around Tk 200 billion with its 40000 units. The case for the light engineering sub-sector, which is but part of the Small and Medium Enterprises (SMEs), should not be looked upon as just one of the so many other claimants to government largesse. In fact, the light engineering sub-sector is the key to the development of heavy industry.

- **Local Firm Makes Heavy Crane:**

A local engineering industry, manufactured heavy barge-mounted crane at its own factory, an achievement that will pave the way to end manual lifting of heavy machinery. Having a capacity to lift around 300 tonnes of machinery or tools at a time, the crane will also be useful to lifting sunken vessels in a short time. If any company introduces such kind of heavy crane it will help save time and the completion of construction work will be possible in a span of two to three years. As we are saving huge amount of foreign currency we seek government patronization so that we can develop crane for overseas market. As a support industry for shipbuilding, the company is trying to explore international market for its product.

- **ATM Body Frames to be Manufactured Locally :**

A local manufacturer is set to produce automated teller machine's (ATM) body frame, which would help develop the electronic banking sector even further. Initially, 10 ATM body frames will be delivered and 500 more frames by 2010. A private company involved in providing ATM machines to many banks of the country. In recent years, electronic channels of banking, especially ATM, have become popular among the urban population. However, the costs that they incur to manufacture

such ATM bodies is substantially lower than the imported ones. A local light engineering products manufacturer at Dholaikhal that manufactured these bodies, the cost of manufacturing each ATM body is Tk 1.5 lakh where as imported price is an ATM machine for Tk 5 lakh, which was Tk 11 lakh previously, as they do not have to pay import duties anymore.

- **Apparel Industry:**

The country's export earnings from the Readymade Garments (RMG) sector may well reach the \$ 25 billion mark by the year 2013 if it remains competitive in the global market. During the same timeframe, the industry should grow in terms of capacity to employ 2 million more people in this sector. RMG export which contributes around 76 percent of the country's annual export income, stood at \$ 10.7 billion at the end of the of the fiscal year 2007-2008 posting a growth of 16 percent from the previous year. The industry, the lifeline of Bangladesh economy at the same time, directly employs more than 2.2 million people, while indirectly benefiting around 10 million.

- **Textiles Industry:**

The country's total export earnings from ready-made garment items, textile fabrics, terry towels and home textiles exceeded \$1.24 billion in July this year. Of the total, knitwear and woven garments together accounted for earnings over \$ 1.19 billion in July. The EPB statistics knitwear and woven garments grew around 71.64 per cent to \$1187.80 million, with knitted items growing 84.50 per cent and woven 58.55 per cent in July. Pharmaceutical, raw jute, agro processed foods and tobacco exports also continued their hefty growth in July amid continued demand for the Bangladeshi goods among the expatriate communities. However, export earnings from vegetables, leather and tea dropped during the period under review.

- **Pharmaceutical:.**

The country's pharmaceutical market had a valuation of US\$700 million in 2007 and that a compound annual growth rate (CAGR) of 18.79% through to 2012 can be expected. The greatest challenge facing the industry is the end of the patent free regime in 2016, when local pharmaceutical companies will have to cease the production, distribution and sale of medicine that have intellectual property protection elsewhere in the world. Forward thinking local drug makers will have to adapt their product portfolio as necessary or suffer a steep drop-off in sales. However, the global 'patent cliff' in 2011 will mitigate this watershed.

- **Glass Industry:**

The local multi-billion taka glass industry that sprang up in a span of three years now exports produces to a number of countries after meeting around 95 per cent of the domestic demand. The present market size is around Tk 300 crore. Previously the country was fully dependent on imported glass, whereas it now imports only 5 per cent of its demand for coloured and luxurious designed glass from China, Thailand and Indonesia. Most of the raw materials, including dolomite, limestone and chemicals, for float and sheet glass need to be imported from abroad. The local glass companies are also exporting their produces mainly to South Asian countries, including India, Nepal, Bhutan and Sri Lanka. The government to take necessary measures to ease the border difficulties to smoothen the shipment of consignments, as glasses are usually exported through borders. Recently, the government is considering giving 10 percent incentives on exporting sectors, which, the industry people hope, would help the sector boom.

- **Label export :**

The label-manufacturing sector of the country has an investment of Tk 50 billion involving about 40,000 persons and the total volume of export amounted to \$ 500 million in 2007 with an annual growth rate of about 20 per cent.

- **Jute-Blended Denim:**

A local fabric producer has successfully developed better and durable denim woven from blended yarns of jute and cotton. Bangladesh's \$10 billion apparel export industry produces a huge quantity of denim apparels. Woven garment manufacturers are the main users of denim for making jackets and jeans for global buyers. In the last fiscal year ended in June 2007, the country earned only \$147 million from export of more than 0.6 million tonnes of raw jute

- **Diamond Cutting:**

Diamonds cut and polished in Bangladesh have grabbed the limelight on the international market. But the export potential of Bangladeshi-cut diamond is yet to be fully realized due to bureaucratic tangles and novelty of the industry. When most of Indian-finished diamonds get \$7,000 to \$15,000 for each carat, Bangladeshi diamonds earn around \$25,000 to \$35,000 for each carat for their superior quality. The importing countries check sealing and certificates on the packages of imported diamonds. The export would reach about \$10 million within next year if the government allows a bonded warehouse for diamond jewellery. The global diamond cutting industry is worth around \$63



billion, with India as the major stakeholder. The country's skilled workforce, engaged in traditional jewellery industry, can heavily contribute to the diamond cutting trade

- **Bags:**

Bangladesh made a big impact in the world's biggest shipbuilding fair in Hamburg, bagging export orders worth US\$250 million and carving a niche among the nations of ship manufacturers. The ten ships weigh 7250 tonnes each and have an order price of over \$170 million. A prime location for building small ships thanks to its abundant cheap labour and traditional expertise.

- **Leather and Lather Goods:**

Bangladesh is going to launch a global standard testing laboratory to test and certify exportable leather and footwear products to meet the demands of international buyers. The country's export of leather goods and footwear products will definitely increase as the local exporters will be able to receive international standard certificate from the local authorities. Meanwhile, leather worth \$261.67 million was exported during July-May period of 2007-08 fiscal year against its target of \$264.47 million for the same period. During the same period, the manufacturers exported footwear worth \$145.73 million against its target of \$147.92 million, while leather bags and purses worth \$7.86 million were exported against its target of \$11.65 million.

## **Chapter Three**

### **Methodology of the Study**

#### **3.1. Design of the Study**

A descriptive survey research design was employed in the study to assess the key factors that affect the performance of entrepreneurs, impacts of SME activities as well as the major constraints in the SME sector of Bangladesh. The reason for using this design is that it enables to describe the different aspects related with the SMEs as they exist.

#### **3.2. Population, Sample and Sampling Techniques**

Over and above, Bangladesh has approximately 27,000 medium-sized enterprises and 150,000 small-sized enterprises (defined by the government of Bangladesh as registered enterprises). SMEs account for about 82 percent of the total industrial workforce and 23 percent of the total workforce equivalent to 5 million people. The population of the study consisted entrepreneurs who work in SMEs. Number of samples was decided after preliminary field visits in consultation with the learned supervisor, and applying scientific method and technique sample has been drawn. So as to get a reasonable sample size, a both 99% and 95% level of confidence was used to select randomly a sample of 1770 entrepreneurs who are related in the selected 5 sectors of SME, 1355 entrepreneurs have responded properly. With the opinion of these entrepreneurs statistical analysis are conducted to examine the hypothesis and conclude decision.

**Table – 3.1- Types/categories of SMEs**

<b>Types/category</b>	<b>Sample/Respondent</b>
<b>Textile/Ready made garments</b>	<b>248</b>
<b>Service</b>	<b>436</b>
<b>Agriculture/Agro processing /Food and Beverage</b>	<b>172</b>
<b>Light Engineering/manufacturing</b>	<b>142</b>
<b>Trading and others</b>	<b>357</b>
<b>Total</b>	<b>1355</b>

### **3.3. Types of Data**

This work is based principally on the both primary and secondary sources of materials that include survey, books and research articles written on entrepreneurship development. This study has followed both survey method and observational method. For conducting social survey well-structured pretested questionnaire has been administered among the respondents. The study through extensive survey throughout Bangladesh involved both quantitative survey and qualitative research using Questionnaire Survey, Interviews, Focus Group Discussions (FGDs). This paper has also used secondary information and philosophy of new institutional economics, financial economics and transaction cost economics to construct opinions logically. Researcher's work is based on published information and data available in any form such as books, journals, magazines, newspapers etc. devoted to SME sector. Secondary Information has been collected from Ministry of Industries, SME foundation; Bangladesh bureau of statistics, Financial Institutions and from other SME related organizations. Quantitative data has been collected by survey method and from secondary data, which cover SME loan providing institutions, and qualitative data and information has been collected through observations.

In broad sense, the study adopted the following methodologies:

- i. Primary Research
- ii. Secondary Research

#### **i) Primary Research**

The total sample size was 1770 entrepreneurs who were interviewed for the survey. Primary data were collected through questionnaire survey and interviews in the different districts, namely, Dhaka, Rajshahi, Khulna, Comilla, Jessore, Dinajpur, Rangpur, Bogra, Sylhet, Sirajgonj, Gopalganj, Kushtia, Tangail, Narayangonj, Narsinghdi, Depending on the number of districts, population, economic activities, etc, survey was carried out at district level within each division so that representations of all areas of Bangladesh may be ensured. The research was as follows:

- entrepreneurs drawn from SME sector.
- Organizations involved in promotion of entrepreneurship
- Bank / Financial Institutions, etc
- Government and non-government organizations and institutions related with SME development.

For the limitations of the study and various reasons only 1355 entrepreneurs have responded appropriately and those data have been used to analyze according to their opinion.

## **ii ) Secondary Research**

The study involved both quantitative survey and qualitative research. The secondary data include information that are obtained mainly from different reports, bulletins, websites and literatures, which are relevant to the theme of the study, were gathered from various sources to complement the survey-based analysis. Secondary data were collected from different sources such as statistical year books, national surveys, previous surveys on entrepreneurs, websites, etc. Other relevant research reports, journals, newspaper clippings, etc were also consulted. This facilitated the preparation of the guidelines for primary data collection, and comprehension of the general perspective of entrepreneurship in the country, etc. and supplemented field-based data. Information was also collected from selected Case Studies of entrepreneurs in SME.

## **3.4. Location of the Survey**

Study area and technique of data collection has been decided with the recommendation of the learned supervisor .The study was conducted on Entrepreneurs in SMEs and a wide range of data dispersed all over various sample districts in the divisions were collected. The total numbers of respondents in the various districts of Bangladesh covered by the survey were 1355 entrepreneurs. The highest number of entrepreneurs interviewed was 390 from Dhaka; the lowest number interviewed was 20 from the district of Kushtia.

**Table-3.2 - Geographical area of SMEs**

<b>Geographical area</b>	
<b>Area</b>	<b>sample/Respondent</b>
<b>Dhaka</b>	<b>390</b>
<b>Rajshahi</b>	<b>304</b>
<b>Khulna</b>	<b>109</b>
<b>Comilla</b>	<b>45</b>
<b>Jessore</b>	<b>51</b>
<b>Dinajpur</b>	<b>47</b>
<b>Rangpur</b>	<b>44</b>
<b>Bogra</b>	<b>48</b>
<b>Sylhet</b>	<b>62</b>
<b>Sirajgonj</b>	<b>33</b>
<b>Gopalganj</b>	<b>31</b>
<b>Kushtia</b>	<b>20</b>
<b>Tangail</b>	<b>81</b>
<b>Narayangonj</b>	<b>50</b>
<b>Narsinghdi</b>	<b>40</b>
<b>Total</b>	<b>1355</b>

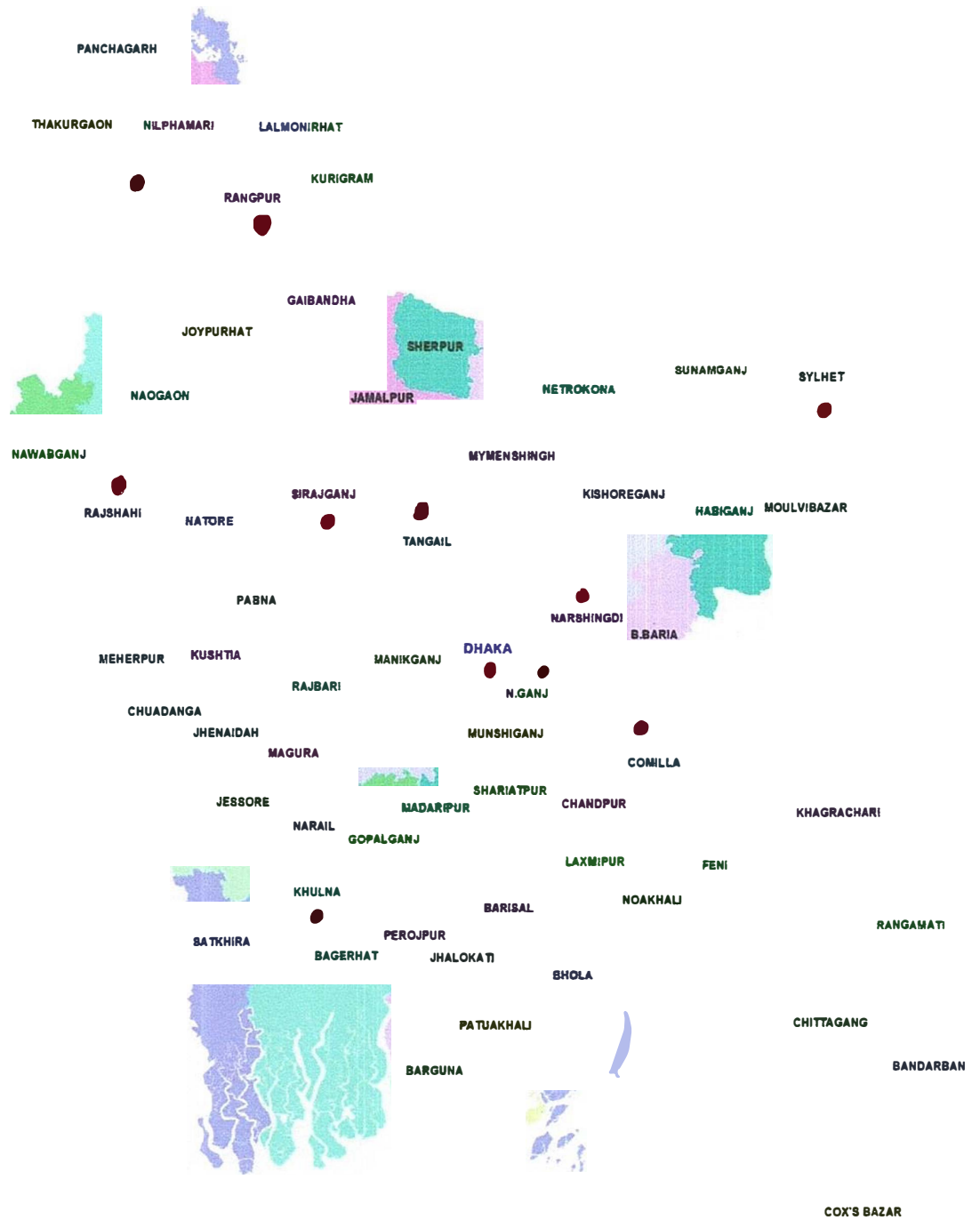


Figure – Geographical area of the survey indicated in the map of Bangladesh

### **3.5. Methods /Techniques of Data Collection**

Review of available data and the existing reports/documents was an important initial work undertaken by the researcher. Primary data were collected from the fields. To collect data from the field, appropriate questionnaires / checklist were developed. The survey covered elements required for the survey. The questionnaires were designed using Likert scale, address issues of key factors that affect entrepreneur's performance, impacts of SME activities, and constraints in SME development in SMEs. The Likert scale ranges from 'strongly agree' to 'strongly disagree' (5=strongly agree 4=agree 3=undecided 2=disagree 1=strongly disagree, For qualitative research, techniques such as interviews, focus group discussions and key informant interviews were used. Considering the nature of variables and types of respondents, both qualitative and quantitative procedures of data collection were applied. Main data collection methods used in this study are as follows:

- Semi-structured questionnaire survey: This method was applied to collect data from entrepreneurs.
- Key Informants Attend (KIA): KIA was applied to collect data from the people who were knowledgeable of entrepreneurship development in Bangladesh.
- Focus Group Discussions (FGD): As many as FGDs were organized with different stakeholders including women entrepreneurs, bankers, public officials, local government representatives, media, NGO and CSO representatives.
- Literature Review: Primarily project documents such as project proposal, quarterly progress reports, result framework and other available documents were used in order to explore pertinent variables for the study.
- Secondary Information Review

The researcher interviewed most of the selected entrepreneurs personally. However, she was accompanied by friends, relatives and colleagues whenever required. But collecting the data personally helped the researcher to gain better understanding of the entrepreneurs and their work. Although tiring and time-consuming, collecting the data personally was advantageous for the researcher.

### **3.6. Techniques of Data Analysis**

Advanced statistical analyses of the study were performed using important statistical software, like MS Office, SPSS. A number of statistical analyses were performed to find the proportions of different variables segments and some multivariate analysis was done to identify the causal relationship among the variables. Before analyzing the data, the editing of the data were again done by using software. After the analysis, the data were interpreted on the basis of analytical results.

**Table -3.3 – Method of data analysis**

<i><b>Objectives</b></i>	<i><b>Method of data collection</b></i>	<i><b>Method of data analysis</b></i>	<i><b>Used mathematical/statistical model/tools/software to data analyze</b></i>
<b>1. To analyze the Characteristics of SMEs and find out the contribution of SMEs for the sustainable socio-economic development of Bangladesh</b>	<b>Primary and secondary data. Questionnaire survey</b>	<b>Primary and Secondary data analysis, observation, case studies, Mean, Table, graph, chart,</b>	<b>Theoretical Analysis , – i ) <math>x = \sum xi / n</math>  ii) Graph, chart,  iii) MS-excel/MS office</b>



<p>2. To examine the factors those affect the performance of SMEs and trace out the consequences of SME activities upon the socio-economic status &amp; environmental consciousness of the entrepreneurs as well as the role of SMEs to the sustainable development</p>	<p>Primary data. Questionnaire survey, Focused Group Discussion</p> <p>Mean ,SD, T test, ANOVA, correlation , regression, Paired sample T test, Wilcoxon Signed Ranks Test</p>	<p>i ) <math>x = \sum xi / n</math></p> <p>ii) <math>S = \sqrt{\sum (x - \bar{x})^2 / n-1}</math></p> <p><math>\bar{x} - \mu</math></p> <p>iii) <math>t = \frac{\bar{x} - \mu}{s/\sqrt{n}}</math></p> <p><math>\frac{\sum\{(xi - \bar{x}) / sx\}\{(yi - \bar{y}) / sy\}}{n-1}</math></p> <p>iv) <math>r =</math></p> <p><math>Yi = \alpha + \beta_1x_1 + ei ,</math>  <math>Yi = \alpha + \beta_1X_1 + \beta_2X_2 + \dots + \beta_nX_n + ei</math>  <math>Yi =</math> Performance of SMEs  <math>Xi \dots Xn =</math> Independent variables</p> <p>v) SPSS software</p>
<p>3. To find out the challenges those are being confronted by the SMEs in the study area.</p>	<p>Primary data. Questionnaire survey</p> <p>Mean , Chi square test</p>	<p>i ) <math>x = \sum xi / n</math></p> <p>ii) Test statistic for a chi-square goodness-of-fit test:</p> <p><math>\chi^2 = \sum \frac{(O_i - E_i)^2}{E_i}</math></p> <p>with <math>df = k - 1</math>, where k is the number of possible values for the variable under consideration.</p> <p>iii) Ms-excel</p>

<p><b>4. To make a query regarding the govt. policies in connection with the development and suggest suitable recommendations in the light of the present study to strength the current situation of SMEs in Bangladesh</b></p>	<p><b>Primary data and secondary data. Questionnaire survey, FGD</b></p>	<p><b>Secondary data analysis, observation, case studies,</b></p>	<p><b>Theoretical Analysis</b></p>
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The complete data on selected entrepreneurs engaged in SME was obtained using interview schedule and secondary data analysis. The data were rechecked in the schedule to assure that no important or applicable information was missing. Then the data was coded in the form of numbers. Numbers 1, 2, and so on were given for the (closed ended) options for all questions. Separate coding sheets were prepared for each of the five categories entrepreneurs. The coding was then transferred to the computer using MS Office (Word,Excel) and SPSS 16 software. It was analyzed using Table, Graph, and Chart, Mean distributions, S.D., T Test, Chi square Test, ANOVA test, Correlation, Regression, Wilcoxon Signed Ranks test Paired test etc. The derived results were converted into table and necessary explanation and interpretations. .

## Chapter – Four

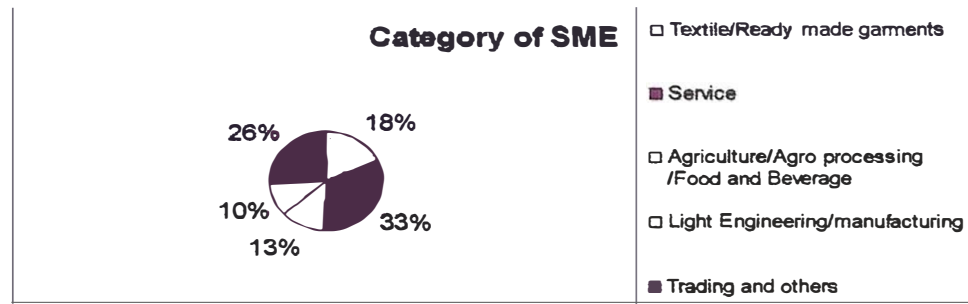
### Data Presentation , Analysis and Discussion of Result

This chapter presents and analyzes the data collected and discusses it accordingly. Firstly, the demographic profile of respondents is analyzed and presented followed by the characteristics of the entrepreneurs in SME sector. Data are analyzed using frequency tables. The data related to the factors that affect the performance of entrepreneurs are presented and analyzed with MS office and software SPSS 16. Mean, S.D, T test, Chi square test, ANOVA, Paired T test, correlation and regression analysis are used for the data analysis and presentation. Finally, discussions are made based on the data presented and analyzed. According to the opinion of 1355 SMEs, statistical analyses are constructed. Since this is adequate enough to make the analysis, all the discussions below are made on these groups of respondents.

#### 4.1 Characteristics of the Small and Medium Entrepreneurs

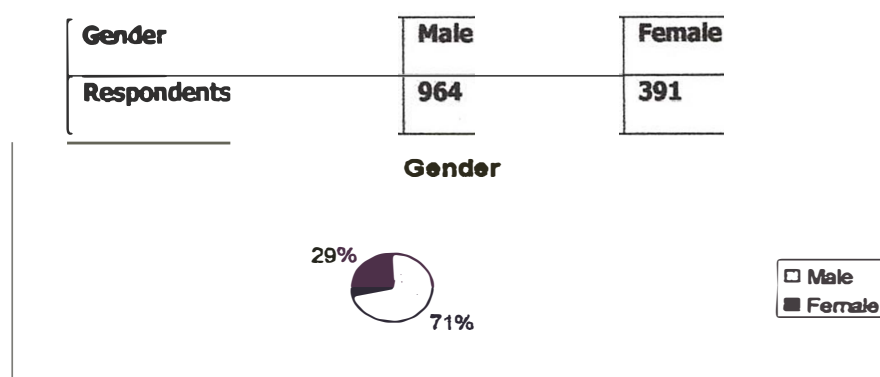
**Table 4.1.1 - Category of enterprise**

Types/category	Sample/ Respondent
Textile/ Ready made garments	248
Service	436
Agriculture/Agro processing /Food and Beverage	172
Light Engineering/manufacturing	142
Trading and others	357
<b>Total</b>	<b>1355</b>



**Figure 4.1. – Category of Enterprise**

The table and chart express that majority of the entrepreneurs are engaged with the service sector and the second majority of the respondents are engaged with trading and other business. In most of the districts of Bangladesh, entrepreneurs are not interested in the manufacturing sectors because of infrastructural and other constraints.

**Table 4.1.2 - Gender****Figure 4.2. – Gender**

The above table is showing the gender wise distribution of SMEs. The table and chart express that majority of the entrepreneurs are male. In Bangladesh most of talented and confident females are not allowed to be entrepreneur because of traditional views.

**Table 4.1.3 - Geographical Area**

Area	Sample/Respondent
Dhaka	390
Rajshahi	304
Khulna	109
Comilla	45
Jessore	51
Dinajpur	47
Rangpur	44
Bogra	48
Sylhet	62
Sirajgonj	33
Gopalganj	31
Kushtia	20
Tangail	81
Narayangonj	50
Narsinghdi	40
<b>Total</b>	<b>1355</b>

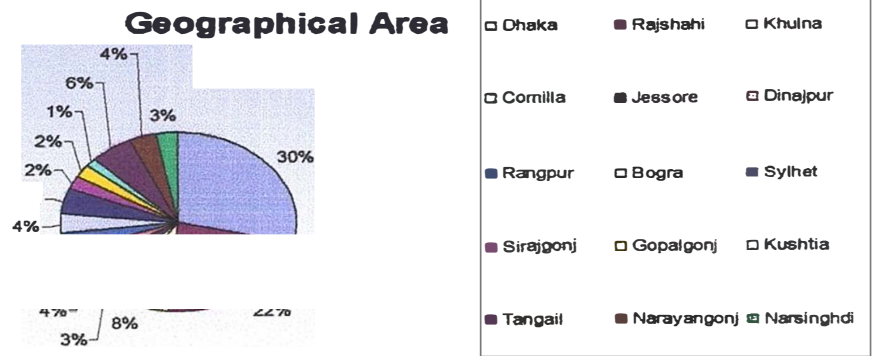


Figure 4.3. – Geographical Area

The above table is showing the geographical distribution of SMEs. The table and chart express that majority of the entrepreneurs are from Dhaka as well as cities near Dhaka. The second majority of the respondents are from Rajshahi.

Table - 4.1.4 - Age

Age	20-30	31-40	41-50	51-60	61 and above
Respondent	198	526	443	136	54

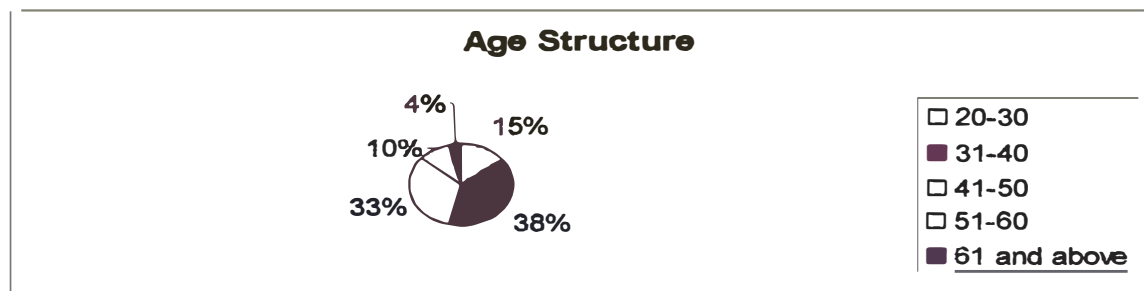
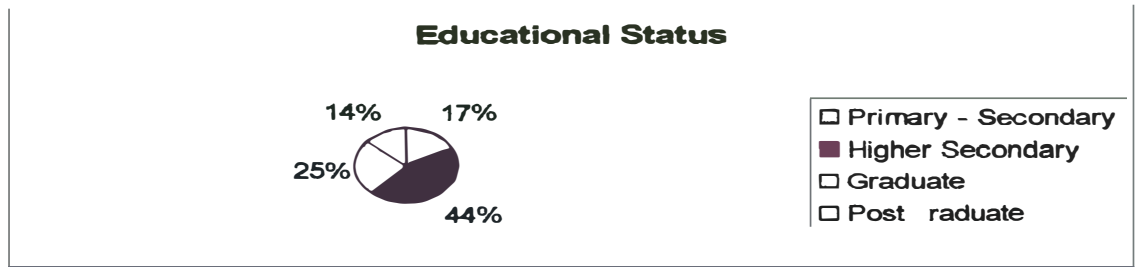


Figure 4.4. – Age Structure

The above table is showing the age structure of SMEs. The table and chart express that majority of entrepreneurs are between the age of 31-40 and the second majority of the entrepreneurs are between the ages of 41-50 years.

Table – 4.1.5 – Educational Status

Education Status	Primary Secondary	Higher Secondary	Graduate	Post graduate
Respondent	237	593	339	186

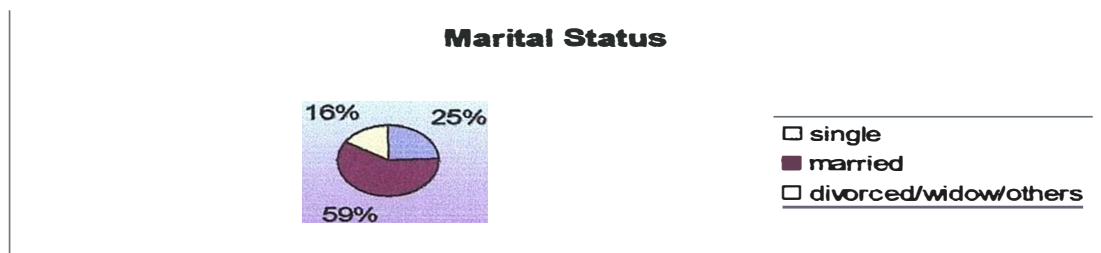


**Figure 4.5. – Educational Status**

The above table is showing the educational status of SMEs. The table and chart express that majority of entrepreneurs’ educational status is higher secondary and the second majority of the entrepreneurs are graduate.

**Table -4.1.6 - Marital status**

Marital status	Single	Married	Divorced/widow/others
Respondent	335	801	219

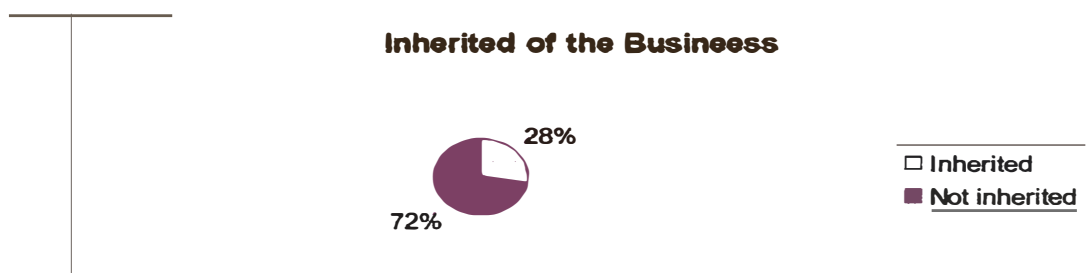


**Figure 4.6. – Marital status**

The above table is showing the marital status of SMEs. The table and chart express that the majority of the entrepreneurs are married and the second majority are single.

**Table -4.1.7 – Inheritance of Business**

	Has Inherited	Not Inherited
Respondents	373	982

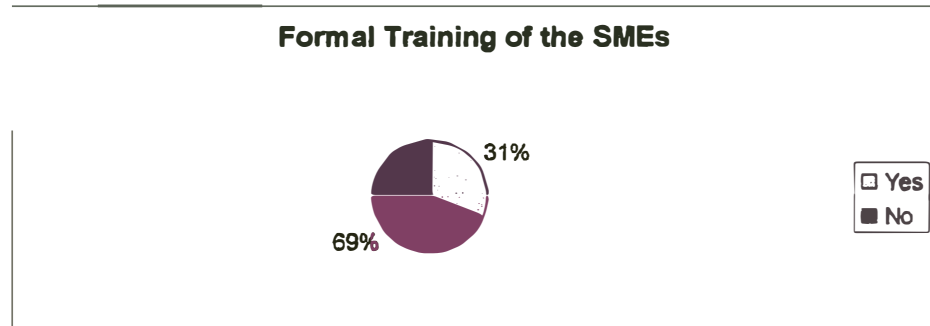


**Figure 4.7. – Inheritance of the business**

The above table is showing the inherited status of the SMEs. The table and chart express that the majority of entrepreneurs are not inheritably engaged with the business.

**Table -4.1.8 - Formal Training**

	Yes	No
Respondents	423	932

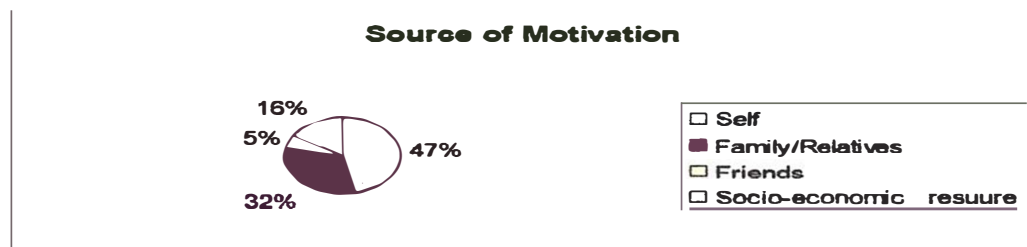


**Figure 4.8. – Formal Training**

The above table is showing about the formal training of the SMEs. The table and chart express that majority of entrepreneurs are not formally trained to run the business.

**Table – 4.1.9 - Source of motivation**

Source of motivation	Self	Family/relatives	friends	Socio-economic situation/others
Respondents	627	432	73	223



**Figure 4.9. – Source of Motivation**

The above table shows the source of motivation for the SMEs. The table and chart expresses that majority of entrepreneurs are self motivated to run the business and the second majority are motivated by family members.

**Table 4.1.10 - Need to start business**

Need to start Business	Financial need for family subsistence	Adventure	Interest/extra income	Others
Respondents	893	69	272	121

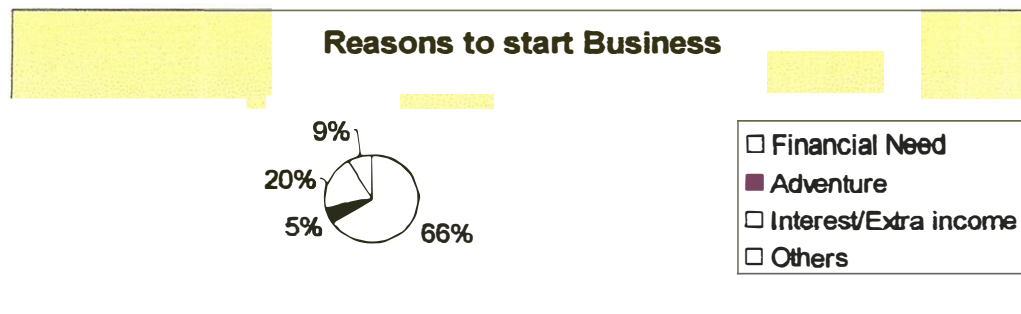


Figure 4.10. – Reasons to Start Business

The above table is showing the reasons to start business for the SMEs. The table and chart express that majority of entrepreneurs run their business for financial need and the second majority of the entrepreneurs run their business for their interest and extra income.

**Table - 4.1.11 – Status before establishment of unit.**

Status before establishment of unit	Student	Service holder	Daily Wager	unemployed	Others
Respondents	327	149	57	753	69

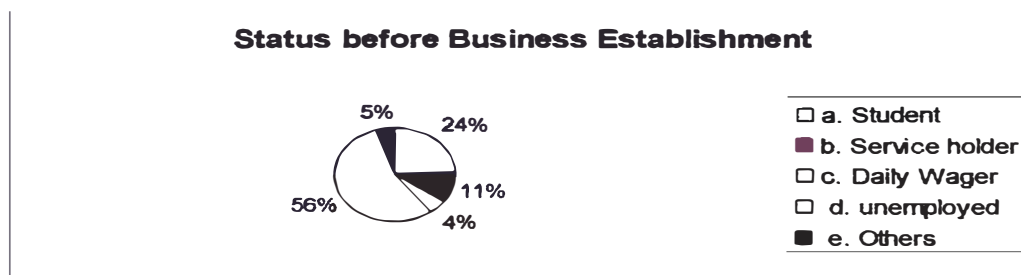


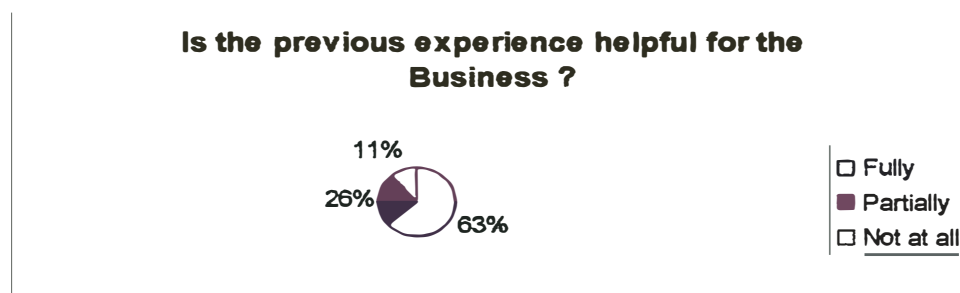
Figure 4.11. – Status before Business unit establishment

The above table is showing the previous status of the SMEs before business establishment. The table and chart express that the most of the entrepreneurs were unemployed before starting their business and the second majority of the entrepreneurs were students.

**Table 4.1.12 - Is previous experience helpful?**

	a. Fully.	b. Partially.	c. Not at all.
Respondents	859	349	147



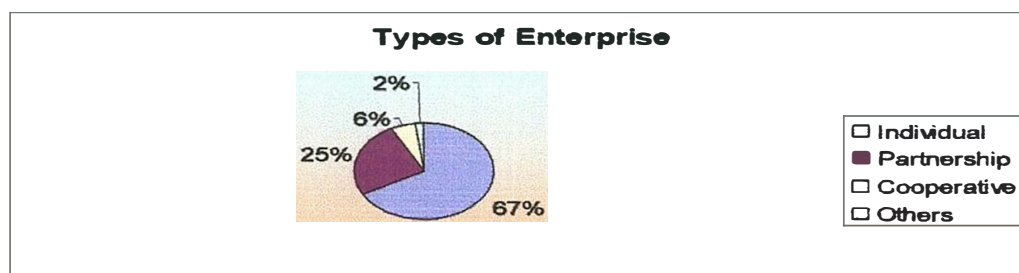


**Figure 4.12. – Is the experience helpful?**

The above table is showing about the experience of the SMEs. Whether their experience is helpful or not? The table and chart express that majority of entrepreneurs have admitted, their previous experience is very helpful for them to run their business successfully.

**Table 4.1.13 - Types of enterprise**

Types of enterprise	Individual	Partnership	co operative	Others
Respondents	908	342	77	28

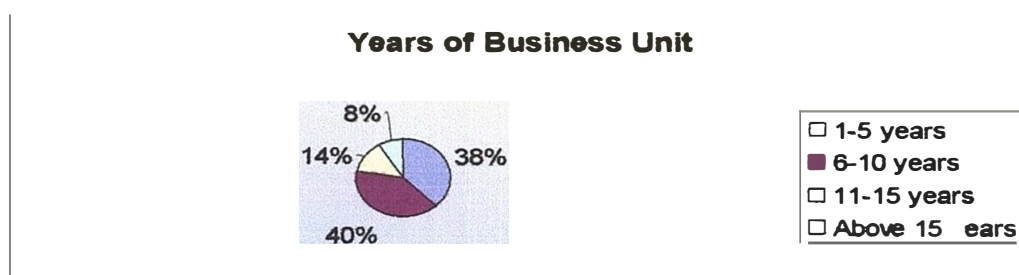


**Figure 4.13 – Types of Enterprise**

The above table is showing the types of enterprises. The table and chart express that majority of enterprises are run individually by the entrepreneurs and the second majority of the entrepreneurs run their business with their partner.

**Table -4.1.14 – Year of business unit**

Years of Business Unit	1-5 years	6-10 years	11-15 years	Above 15 years
Respondents	513	542	185	115

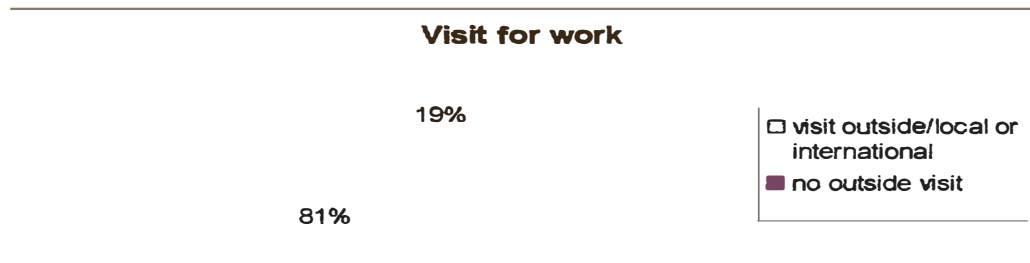


**Figure 4.14 – Years of Business unit**

The above table is showing and representing the years of business unit. The table and chart express that majority of enterprises are 6 to 10 years old and the second majority of enterprises are 1-5 years old.

**Table – 4.1.15 - Visit outside for work**

<b>Visit outside for work</b>	<b>Respondents</b>
<b>Yes</b>	<b>252</b>
<b>No</b>	<b>1103</b>

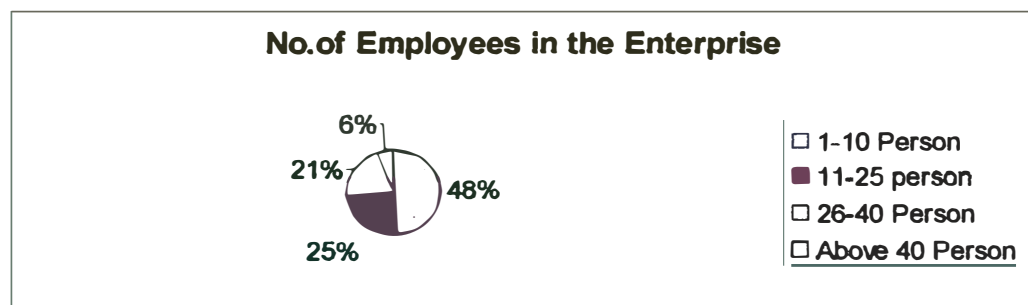


**Figure 4.15. – Visit for work**

The above table is showing the expansion of the business. The table and chart express that majority of entrepreneurs do not visit outside from their cities for business purpose.

**Table -4.1.16 - No. of Employees in the Enterprise**

No. of Employees	1-10 Person	11-25 Person	25-40 Person	Above 40 Person
<b>Respondents</b>	<b>654</b>	<b>345</b>	<b>278</b>	<b>78</b>

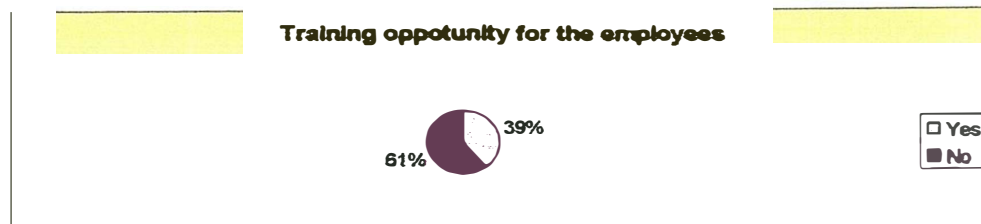


**Figure 4.16 – No. of Employees**

The above table is showing the number of employees in the business. The table and chart express that majority of the enterprises have 1-10 employees to run the business. And second majority of the enterprises have 11-20 employees to run the business unit.

**Table - 4.1.17 - Training of workers/employees**

	<b>YES</b>	<b>NO</b>
<b>Respondents</b>	<b>529</b>	<b>826</b>

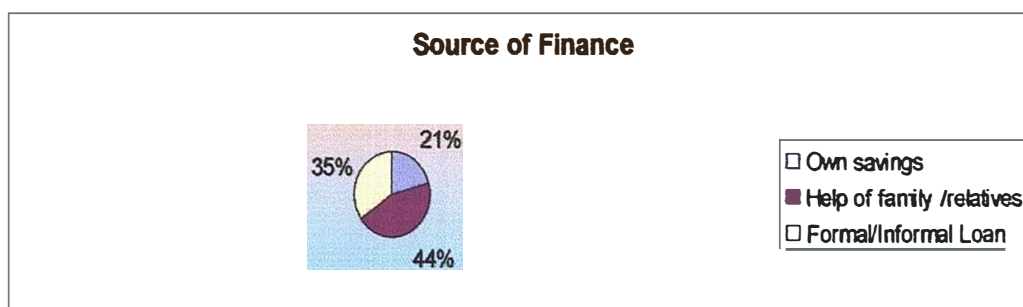


**Figure 4.17 – Training of workers**

The above table is showing about the training, education and skill enhance facility for the employees in the business unit. The table and chart express that majority of enterprises do not provide training; education and skill enhance facility to the employees in their business unit.

**Table -4.1.18 - Source of finance**

Source of finance	Own savings	Help of Family/Relatives	Formal/Informal loan
Respondents	286	592	477

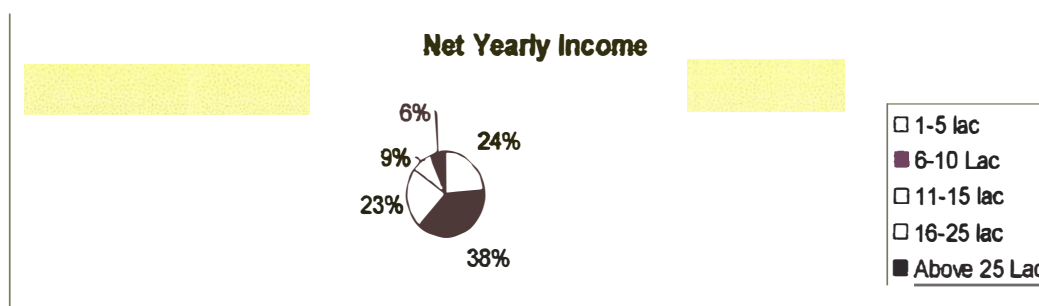


**Figure 4.18. – Source of Finance**

The above table is showing the source of finance to run the business. The table and chart express that majority of entrepreneurs manage finance from their family members and personal savings to run their business.

**Table - 4.1.19 - Net yearly income**

Net yearly income	1-5 lac	5-10 lac	10-15 lac	15 to 25 lac	above 25 lac
Respondents	326		313	121	87

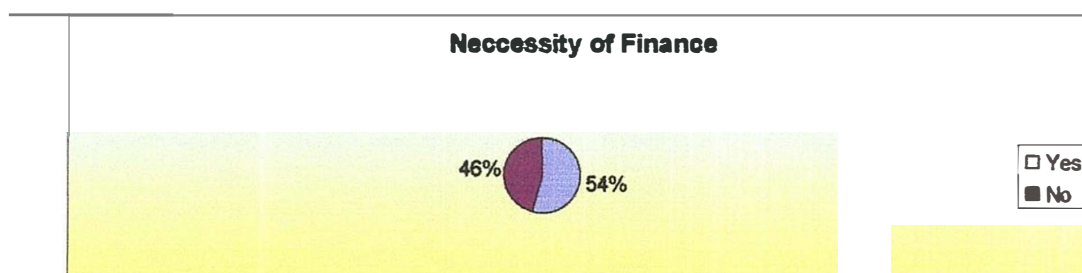


**Figure 4.19 – Net Yearly income**

The above table is showing the net yearly income of the entrepreneurs from the business. The table and chart express that majority of entrepreneurs' net yearly income is between 5 to 10 lac and the second majority of the entrepreneurs earn 10-15 lac yearly from their business.

**Table - 4.1.20 – Necessity of finance to expand business**

	YES	NO
<b>Respondents</b>	<b>729</b>	<b>626</b>

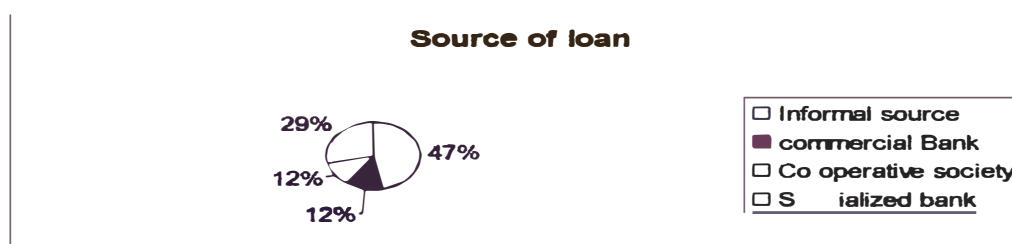


**Figure 4.20. – Need of Finance**

The above table is showing the interest of the entrepreneurs to take loan from any source for the expansion of their business. The table and chart express that majority of entrepreneurs want to take loan from any formal source at lowest interest rate or from any informal source to expand the business.

**Table - 4.1.21 – Sources of Loan**

Source	Respondents
<b>Informal source</b>	<b>474</b>
<b>commercial Bank</b>	<b>126</b>
<b>Co operative society</b>	<b>122</b>
<b>Specialized bank</b>	<b>289</b>



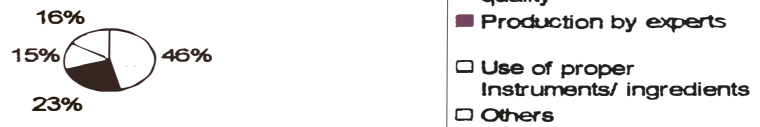
**Figure 4.21. – Source of Loan**

The above table is showing the preferable source for the entrepreneurs to take loan. The table and chart express that majority of entrepreneurs receive loan from informal source and the second majority of the entrepreneurs receive loan from specialized banks.

**Table - 4.1.22 – Up gradation of the quality of production.**

	Respondents
Raw materials of high quality	629
Production by experts	316
Use of proper Instruments/ Ingredients	198
Others	212

**Upgradation of production system**



**Figure 4.22. – Up gradation of Production**

The above table is showing the method of up gradation the quality of the product to run the business. The table and chart express that majority of the entrepreneurs have focused upon the high quality of the raw materials. And the second majorities are concerned about the production method by expertise.

**Table -4.1.23 – Up gradation of the quality of service**

	high quality Service provided by experts	Use of proper Instruments/ equipments	Others
Respondents	519	436	278
			122

**Upgradation of Service quality**

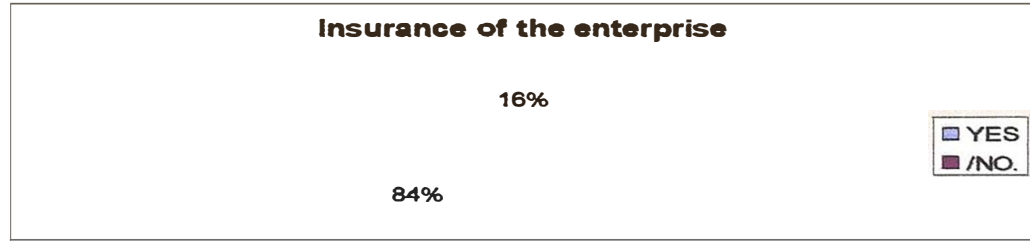


**Figure 4.23. – Up gradation of the service quality**

The above table is showing the method of upgrade the quality of the service to run the business. The table and chart express that majority of the entrepreneurs have focused upon the quality of the facility and service. And the second majorities are concerned about the service provided by the expertise.

**Table -4.1.24 – Insurance Policy**

	YES	NO.
Respondents	214	1141

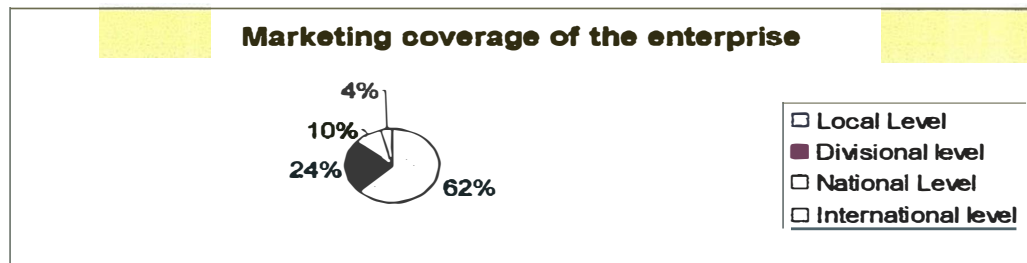


**Figure 4.24. – Insurance of the enterprise**

The above table is showing the insurance policy of the enterprise. The table and chart express that the majority of entrepreneurs do not have insurance policy of their business.

**Table -4.1.25 – Operations of entrepreneurship and marketing**

	At local level	At the divisional level	At the national level	At the international level
Respondents	839	327	138	51



**Figure 4.25. – Operations of the enterprise**

The above table is showing the marketing system to run the business. The table and chart express that majority of the entrepreneurs maintain their marketing coverage only at the local level not at the national or international level.

**Table -4.1.26 - Maintenance e-commerce**

	YES	NO
Respondents	118	1217

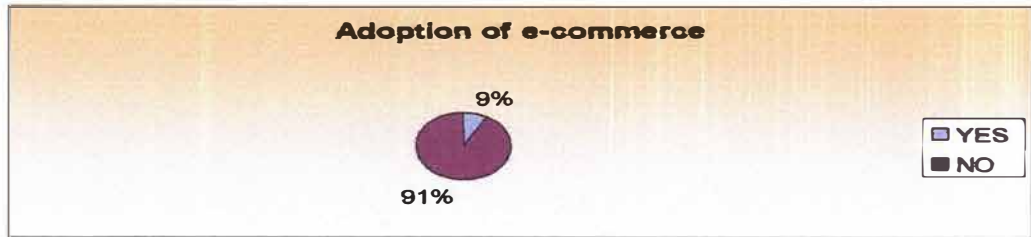


Figure 4.26. – Adoption of e-commerce

The above table is showing the adoption of e-commerce. The table and chart express that majority of the entrepreneurs are not aware about the adoption of e-commerce to expand their business.

**Table -4.1.27 - Turn Over.**

	a. Increased.	b. Decreased	c. stable
Respondents	856	321	178

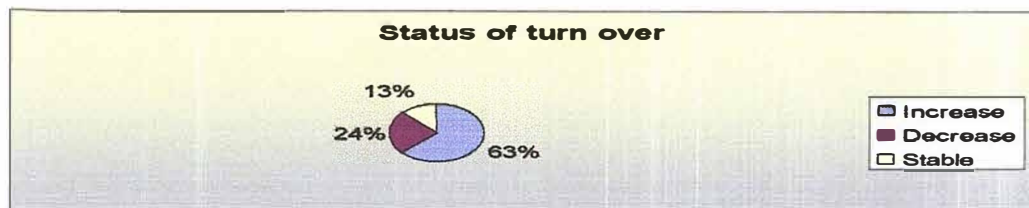


Figure 4.27. – Turn over

The above table is showing the status of the yearly turn over from the business. The table and chart express that majority of the entrepreneurs' yearly turn over have been increased simultaneously.

**Table -4.1.28 - Profit Margin.**

	a. Up to 10%	b. 11 to 20	c . 21 to 40 %	4. Above 40
		%		%.
Respondents	619	418	276	42

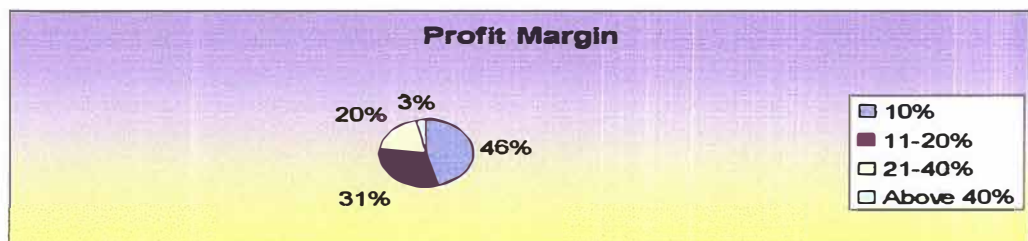


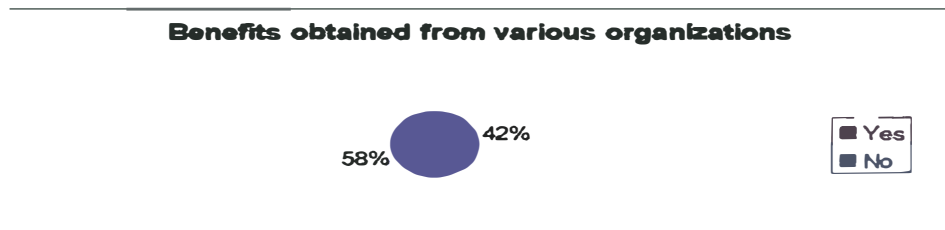
Figure 4. 28. – Profit margin

The above table is showing the profit margin comes from the business. The table and chart express that majority of entrepreneurs' profit margin are around up to 10% and the second majority of the

entrepreneurs' profit margin are around 11 to 20 % but only few entrepreneurs' profit margin is above 40 %.

**Table -4.1.29 - Direct benefit from any Govt/Private organization**

	Yes	No
Respondents	564	791

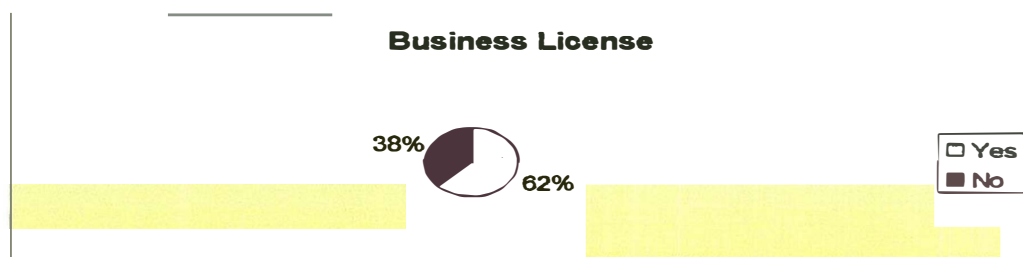


**Figure 4.29. – Direct benefit from the Govt.**

The above table shows that whether the entrepreneurs have achieved benefit directly from the Govt and others organizations or not to enhance their business? The table and chart express that majority of entrepreneurs did not got any direct benefits from the Govt. but another part of the entrepreneurs have achieved few benefits from the public or private organizations which are related with SME development.

**Table - 4.1.30 - Business License**

	Yes	No
Respondents	842	513



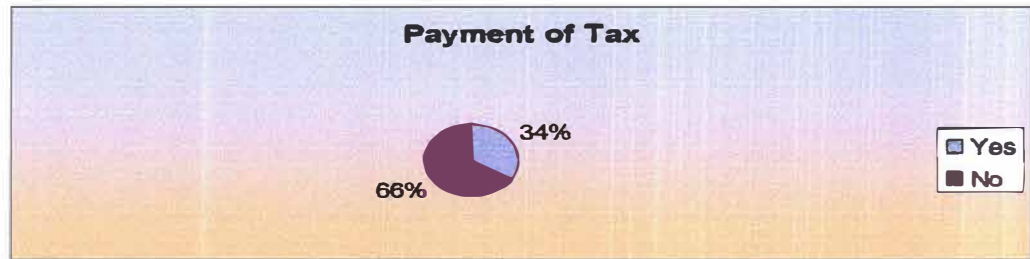
**Figure 4.30– Business license**

The table and chart express that majority of entrepreneurs have business license. Few entrepreneurs do not have business license who run their business locally or wide or who are related with home business.

**Table -4.1.31 – Tax payment**

	Yes	No
Respondents	457	898



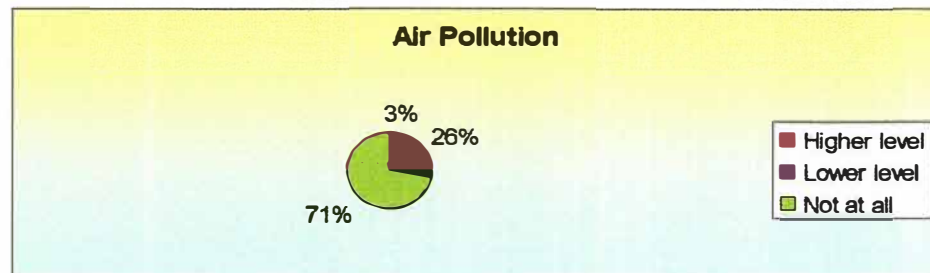


**Figure 4.31.-Tax Payment**

The above table is showing the knowledge of the entrepreneurs about the Tax system. The table and chart express that majority of entrepreneurs do not pay Tax because of various constraints such as lower net income, lack of knowledge, hide of profit, e.t.c

**Table 4.1.32 – Creation of Air pollution**

	Higher level	Lower level	Not at all
Respondents	38	346	971

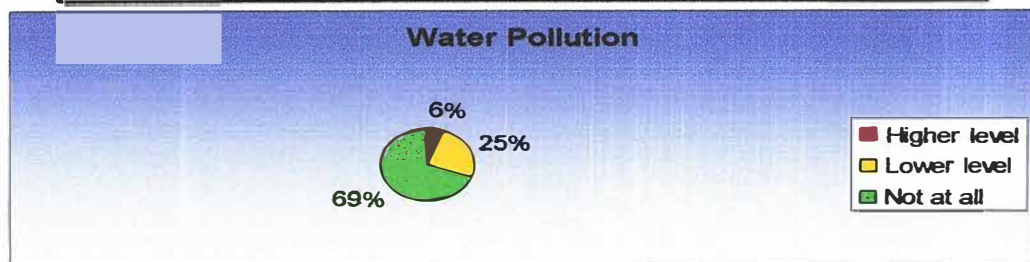


**Figure 4.32. – Air Pollution**

The above table and graph express that whether the business units of the entrepreneurs create air pollution or not. About 71% of SMEs tell that their business units do not create any air pollution. About 26% of SMEs admit that their business units create lower level of air pollution and only 3% of SMEs accept that their business unit may create higher level of air pollution although they are conscious and trying to adopt as well as practicing pollution management system.

**Table 4.1.33 – Creation of Water pollution**

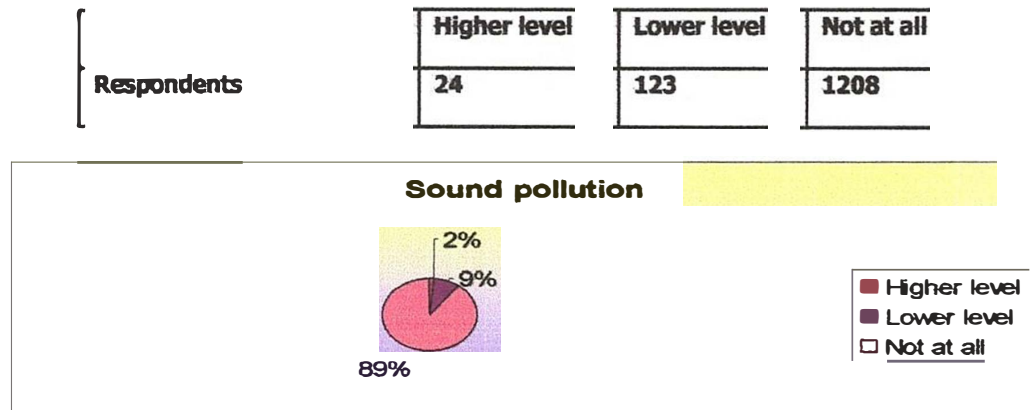
	Higher level	Lower level	Not at all
Respondents	78	341	936



**Figure 4.33. – Water Pollution**

The above table and graph express that whether the business units of the entrepreneurs create water pollution or not. About 69% of SMEs tell that their business units do not create any water pollution. About 25% of SMEs admit that their business unit create lower level of water pollution and only 6% of SMEs accept that their business units may create higher level of water pollution although they are conscious and trying to adopt as well as practicing pollution management system.

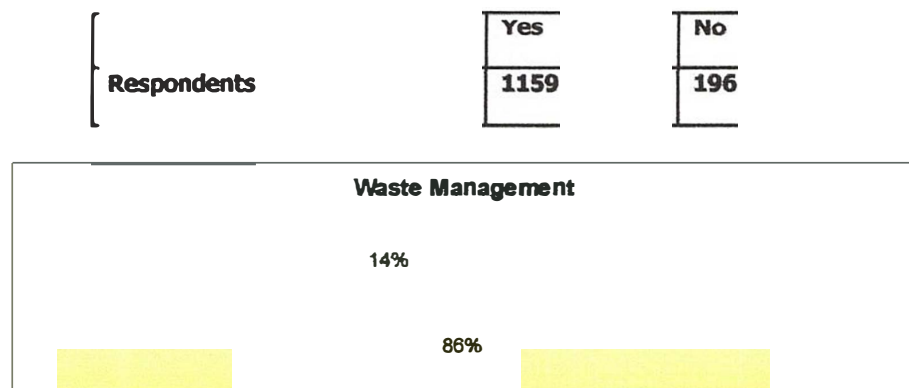
**Table 4.1.34 – Creation of Sound pollution**



**Figure 4.34. – Sound Pollution**

The above table and graph express that whether the business units of the entrepreneurs create sound pollution or not. About 89% of SMEs tell that their business units do not create any sound pollution. About 9% of SMEs admit that their business units create lower level of sound pollution and only 2% of SMEs accept that their business units may create higher level of water pollution although they are conscious and trying to adopt as well as practicing pollution management system.

**Table 4.1.35 - Maintenance of waste management process**



**Figure 4.35. – Waste Management**

The above table and graph express that whether the entrepreneurs maintain the waste management system or not. About 86% of SMEs tell that they are conscious and practicing the waste management system and about 14% of SMEs admit that they are not practicing the waste

management system their business units although they are conscious about the adoption of waste management system.

## **4.2. Factors that Affect the Activities/Performance of SMEs**

There are a number of challenges that affect entrepreneurs in SMEs associated with different factors. The following are the major factors that affect the entrepreneurs.

- ❖ **Economic factors**
- ❖ **Socio-Cultural factors**
- ❖ **Legal and Administrative factors**

### **4.2.1. Economic Factors**

The major economic factors that affect the performance of entrepreneurs include finance, market, training, land, information, managerial skills, infrastructures and raw materials.

<b>1. Economic factors</b>
<b>1.1. Satisfaction with the financial access given by micro finances and other credit institutions.</b>
<b>1.2. Better access and knowledge to market for products</b>
<b>1.3. Better access to different business trainings</b>
<b>1.4. Own premises (land) to run the business</b>
<b>1.5. Access to information to exploit business opportunities</b>
<b>1.6. Managerial skills</b>
<b>1.7. Access to necessary technologies</b>
<b>1.8. There is no stiff competition in the market place</b>
<b>1.9. Adequate infrastructures are available</b>
<b>1.10. Access to necessary inputs(raw materials)</b>
<b>1.11. Adequate skilled human resources</b>

The following table shows the mean value of the each factor of different cities. We can have a idea regarding the economic factors that affect the activities and performance of the entrepreneurs.

**Table 4.2.1 – Mean Value of Area wise Economic Factors**

Area	Mean										
	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	1.10	1.11
Dhaka	2.584	2.466	2.730	2.548	3.3	3.451	2.379	2.702	3.015	3.766	3.3
Rajshahi	1.799	2.368	1.220	2.766	1.648	2.993	2.569	3.470	2.430	3.148	2.634
Khulna	2.201	3.064	2.064	3.431	1.935	3.064	1.568	1.935	1.770	2.770	2.935
Comilla	2.333	2.555	2.533	2.377	2.6	3.8	2.844	2.133	2.644	2.177	2.177
Jessore	1.941	1.666	1.882	3.215	1.960	2.450	1.941	1.941	1.862	3.764	2.392
Dinajpur	1.851	2.042	1.659	2.276	2.063	2.127	1.872	1.893	2.085	2.276	1.680
Rangpur	1.931	1.931	1.431	2.318	2.045	2.113	1.977	1.840	1.886	2.113	1.659
Bogra	1.729	2.395	2.5	3.062	3.291	2.875	2.604	2.562	2.125	2.937	2.645
Sylhet	2.193	2.483	2.612	3.564	3.483	3.225	2.709	3.225	2.774	2.612	2.451
Sirajgonj	2.878	2.393	3.121	2.424	3.393	3.454	2.454	1.939	2.393	3.030	2.666
Gopalganj	2.451	2.354	1.838	3.290	1.967	2.677	1.774	2.903	2.193	2.064	2.096
Kustiā	1.95	1.6	2	3.4	2.05	2.6	2.05	2.05	2.05	3.95	2.45
Tangail	2.432099	3.493	3.679	3.037	3.580	3.370	2.493	2.222	2.308	3.086	3.407
Narayangonj	2.92	2.36	3.14	2.48	3.36	3.42	2.48	1.98	2.36	3.1	2.7
Narsingdi	2.275	2.575	3	2.725	2.85	2.5	2.525	2.175	2.5	2.7	2.775

Likert scale – 1-5 , 1- Strongly disagree – 5 – Strongly agree

The economic factors represent those situations that most of the SMEs face running their business. From the calculated mean obtained by analyzing the opinion of the respondents of different districts we can have a brief idea regarding the economic factors that affect the activities of SMEs. The table explores that the entrepreneurs of Dhaka city and the nearest city of Dhaka like Tangail, Narayangonj, Narsingdi get more facility, access to knowledge, training as well as infrastructure facility than the SMEs of other cities of Bangladesh. The above stated factors affect the entrepreneur's performance. Lack of information, training, knowledge, infrastructure, technology, inputs creates constraints to the better performance of SMEs. so where the mean value of the factors are very low which represent that the entrepreneurs can not perform better than the entrepreneurs of those have high mean value. It is discussed in the above table that microfinance are the main suppliers of finance for entrepreneurs in SMEs. But table shows that entrepreneurs in SMEs are not satisfied with the financial access given by micro finances and other lending

institutions. Therefore, the average score of the respondents with regard to satisfactory financial access is 'disagree' with little deviations among them. The above expresses district wise mean concerning each factors under economic factors. the market access of the respondents entrepreneurs is almost undecided. It seems that these entrepreneurs neither agree nor disagree on the market condition of their products. Most entrepreneurs in SMEs acquire their skills for establishing their own business from formal trainings, But as the table above shows, the access for different business trainings for the respondents is low except in Dhaka and the nearest city. One success factor for an entrepreneur is having own premises such as land (Hisrich, 2005). The above table shows that the respondent entrepreneurs in SMEs do not have their own land to run their businesses. However, these entrepreneurs respond that they do not have better access to information to exploit different business opportunities also except in Dhaka and the nearest city. In relation to their managerial skills in running their business, the respondents do not like to decide on it. With regard to technological access and market competition, the table shows that respondents do not agree with a better technological access and with the idea that there is no stiff competition for their products. The table shows that, the respondent entrepreneurs in SMEs agree on the availability of the necessary infrastructures around their working areas. Lastly, the scores for the availability of necessary raw material/inputs in the table above show that the respondent entrepreneurs do not agree with their access to these inputs.

#### **4.2.2. Socio-Cultural Factors**

These are good indicators of socio-cultural influences on individuals running their own business. The following table shows the current states that these factors have impacted entrepreneurs in SMEs.

<b>2. Socio-cultural factors</b>
<b>1.1. Better social acceptability</b>
<b>1.2. Better contact(network) with outsiders</b>
<b>1.3. No prejudice or class biases</b>
<b>1.4. The societies attitude towards products/services is positive</b>
<b>1.5. The attitude of other employees towards business is positive</b>
<b>1.6. Positive relationship with the workforce</b>
<b>1.7. No conflicting gender roles</b>
<b>1.8. Not affected by gender inequalities</b>
<b>1.9. No cultural influences</b>

### 1.10. Never encounter harassments in registering and operating business

The following table shows the mean value of the each factor of different cities. We can have a idea regarding the socio-cultural factors that affect the activities and performance of the entrepreneurs.

**Table 4.2.2 – Mean Value of Area wise Social Factors**

Area	Mean									
	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	1.10
Dhaka	4.310	4.558	3.651	4.241	3.869	3.810	4.310	2.707	2.630	1.982
Rajshahi	2.437	2.026	2.792	3.220	2.891	3.095	2.519	1.855	2.628	1.884
Khulna	3.211	2.807	2.642	3.486	3.256	3.486	2.238	2.036	3.633	1.807
Commila	3.333	2.377	2.644	3.377	3.355	3.555	2.311	1.977	3.066	1.777
Jessore	2.274	1.705	1.941	2.882	3.72	3.372	2.372	2.019	2.509	1.509
Dinajpur	2.212	1.765	2.085	1.638	1.936	2.361	2.595	2.382	1.936	1.319
Rangpur	2.159	1.81	2	1.772	2.068	2.545	2.568	2.363	1.954	1.363
Bogra	3.354	2.895	1.979	3.458	3.229	3.312	3.562	2.458	2.958	1.687
Sylhet	2.887	3.532	2.306	3.596	2.725	3.225	2.467	2.790	2.951	1.983
Sirajgonj	3.333	2.696	3.121	3.272	2.696	3.393	2.757	2.303	2.696	2.121
Gopalganj	2.580	2.129	2.419	2.612	3.161	3.225	2.774	2.967	2.451	1.838
Kustia	2.15	1.8	2	2.85	3.85	3.35	2.4	2	2.35	1.55
Tangail	2.456	3.246	2.407	3.246	3.308	3.246	2.913	3.469	3.098	1.901
Narayangonj	3.4	2.68	3.12	3.24	2.68	3.44	2.84	2.24	2.68	2.04
Narsingdi	2.65	2.775	2.125	3.15	2.975	2.775	2.15	2.75	2.375	2.025

Likert scale – 1-5 , 1- Strongly disagree – 5 – Strongly agree

The table shows that entrepreneurs have no better social acceptability .They do not agree on the idea that they have a better social acceptance. Similarly, the contact (networks) that entrepreneurs in SMEs have with outsiders is low too. However, they approach to agree in the idea that they have no prejudices or class biases. Similarly, with regard to the attitude of the society towards their products/services, the respondent entrepreneurs in SMEs do no not like to decide on idea that the attitude of the society is positive. On the other hand, in relation to the attitude of other employees towards their business and the relationship that these entrepreneurs have with their employees, the table above shows that, the respondents have a positive relationship with their employee and the attitude of the employees towards the business is positive too and the attitude of employees and

relationship with employees respectively clearly strengthens this idea. But, these respondents do not agree with the idea of having conflicting gender roles. The above table shows that there are different conflicting gender roles for the respondent entrepreneurs in SMEs. By the same token, issues of gender inequality, cultural influences and harassments are not usual problems for women entrepreneurs in SMEs. Similarly they agree on the issues that cultural influences and harassment problems exist.

#### **4.2.3. Legal and Administrative Factors**

Of the different factors that hinder entrepreneurial performance, the impact of legal and administrative influences is not to be undermined. The following table displays the key legal and administrative factors that affect the performance of entrepreneurs in SMEs.

<b>3. Legal and administrative factors</b>
<b>1.1. Business assistants and supporters from government bodies</b>
<b>1.2. A network with different administrative bodies</b>
<b>1.3. Access to policy makers</b>
<b>1.4. No legal, institutional and policy constraints</b>
<b>1.5. Borrow of money even without titled assets as a collateral</b>
<b>1.6. Interest rate charged by micro finances and other lending institutions is reasonable</b>
<b>1.7. Beneficiary of government incentives</b>
<b>1.8. In general the overall legal and regulatory environments are favorable.</b>
<b>1.9. The tax levied on business is reasonable</b>
<b>1.10. Negative External factors affect the business</b>

**Table 4.2.3 – Mean Value of Area wise Legal and Administrative factors**

Area	Mean									
	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	1.10
Dhaka	2.542	2.669	3.282	2.405	2.625	2.669	2.933	2.625	2.361	4.105
Rajshahi	2.069	1.944	1.996	1.786	1.924	1.796	1.796	1.796	1.513	4.075
Khulna	1.834	1.825	1.706	2.045	1.844	1.788	1.844	1.788	1.788	3.981
Comilla	1.844	2.555	2.2	2.577	1.822	1.911	2.2	1.911	2.666	3.2
Jessore	1.960	1.549	1.921	1.647	2.372	2.450	2	1.803	2.019	3.196
Dinajpur	1.765	1.893	1.531	1.978	1.595	1.702	1.787	1.787	2.063	3.574
Rangpur	1.818	1.931	1.522	1.977	1.568	1.659	1.704	1.840	2.022	3.522

<b>Bogra</b>	1.812	2.083	2.041	1.708	2.187	1.979	1.625	1.75	1.958	3.520
<b>Sylhet</b>	2.258	2.532	2.5	1.435	1.967	2.241	2.112	1.935	1.677	3.661
<b>Sirajgonj</b>	3.363	3.181	3.272	2.727	3.090	2.454	3.181	2.272	3	3.636
<b>Gopalganj</b>	2.903	2.225	2.612	2.612	1.935	2.193	2.290	2.290	2.225	3.322
<b>Kustia</b>	1.55	1.5	2.05	1.55	2.05	2.6	2.15	1.85	2.05	2.95
<b>Tangail</b>	3.296	3.049	2.802	2.185	2.320	2.481	2.518	1.679	2.074	3.777
<b>Narayangonj</b>	3.32	3.2	3.28	2.76	3.06	2.5	3.2	2.3	2.98	3.68
<b>Narsingdi</b>	2.4	2.825	3.05	1.925	2.175	2.05	2.35	1.85	1.575	3.925

Likert scale – 1-5 , 1- Strongly disagree – 5 – Strongly agree

The above table clearly portrays the respondent entrepreneurs in SMEs have business assistant and supports from government bodies. The table shows that these entrepreneurs agree with the issue that they have business assistants and supports from the concerned government officials. To the contrary, these entrepreneurs disagree with the ideas of having network with administrative bodies and access to policy makers and for net work with outsiders and access to policy makers respectively. Even though this is the case, agreements are seen among the respondents in relation to the inexistence of legal, institutional and policy constraints. Similarly they agree on the idea of borrowing money even without collaterals. As opposed to this, the table shows that the interest rate charged by borrowing institutions and the tax levied on entrepreneurs is not reasonable. The disagreement on the reasonability of the interest rates and tax amount is justified by the calculated means for interest and tax amount respectively. In addition the respondents 'disagree' that bureaucracies and red tapes do not affect their performance With regard to government incentives and the favorability of the overall legal and regulatory environments. The table implies that even if there are government incentives, the overall legal and regulatory environments are not as such favorable.

#### **4.2.4. Comparison of Factors that Affect Entrepreneur's Performance in the SME Sector**

Even though, all the economic, social, legal and administrative factors affect the performance of entrepreneurs, this does not necessarily mean that all have equal impact. The following table clearly compares the overall impact of all the key factors discussed in detail above. The grand mean of legal and administrative factors (2.340666) clearly depicts that the this factors are Sevier than the others followed by the economic factors that has a grand mean of (2.523086) .The table also shows



that the impact of the socio-cultural factors is better than the economic, legal and administrative factors as the grand mean (2.683957) clearly depict.

**Table 4.2.4 – Grand Mean Value of Area wise Economic, Social and Legal & Administrative**

**Factors**

<b>Factors</b>	<b>Grand mean</b>	<b>Severity Rank</b>
<b>Economic</b>	<b>2.5230</b>	<b>2</b>
<b>Socio-cultural</b>	<b>2.6839</b>	<b>3</b>
<b>Legal and administrative</b>	<b>2.3406</b>	

**4.3. Factors that Affect the Performance of SMEs**

Small and Medium Enterprises (SMEs) based on the yearly sales turnover or quantity of full-time workers. On the other hand, the performance of small businesses is defined as their capability to lead to the creation of employment and wealth by business start-up, survival and sustainability (Sandberg, Vinberg, & Pan, 2002). Performance of SMEs is crucial as they will transform Bangladesh into a high-income and knowledge-based economy through their contribution to the national GDP. Despite their important contribution to exports, employment and economic growth, the total number of SMEs has decreased. A search of the literature on SMEs in Bangladesh reveals that there is a gap in those study which examines the factors affecting performance of SMEs . Few factors are identified to examine the impact of those factors upon the performance of SMEs. Here the performance of SMEs is considered as dependent variable and those factors as independent variables. With the opinion of 1355 entrepreneurs the data is analyzed according to the dependent and independent variables.

**Dependent variable** –Performance of SMEs

**Independent variables** are

1. Entrepreneurial skill
2. Human resource
3. Marketing skill and activities
4. IT adoption
5. Govt/others organizational support
6. Political unrest
7. External pressure

#### **4.4. Concept about the Independent Variables**

Some expertise opinions on the role of independent variables mentioned above are as follows.

**1. Effective Entrepreneurship-** According to Talaiaand Mascherpa (2011), the entrepreneurial team demographics such as level of education and size of Entrepreneurial Team have a positive relationship in the determination of performance of SMEs.

**2. Appropriate Human Resource Management** -A research by Adnan, Abdullah and Ahmad (2011) indicated that HRM practices did have some effects on Bangladeshi firm bottom line performance. Islam and Siengthai (2010) found that most of the core processes of HRM, namely, recruitment and selection, performance appraisal, training and development, as well as compensations have a momentous and positive impact on firm performance.

**3. Use of Marketing Information** - A research has been conducted by Cacciolatti, Fearne, and McNeil (2011) indicated that SMEs that make good use of structured marketing information presented a higher probability of growth. The research of Mahmoud (2011) concluded that the higher the level of market orientation, the greater the level of performance in Ghanaian SMEs. The study of Keh, Nguyen, and Ng (2007) showed that there was a positive relationship between information utilization and the firm performance.

**4. Application of Information Technology** -Apulu and Latham (2011) found that the competitiveness of SMEs will be increased through adopting Information and Communication Technology. Subrahmanya, Mathirajan, and Krishnaswamy (2010) summed up that those SMEs which have technological innovation have a higher growth compared to the SMEs which are not creative in the sales turnover, investment and job.

**5. Govt. and organizational support** – Govt and organizational support has effect upon the performance of SMEs. Govt and organizational support can help the SMEs to improve their performance.

**6. Political Unrest** – Political unrest has worst impact upon the performance of SMEs.It can reduce the net operating income of the entrepreneurs and hence may increase the cost of the SMEs

**7. External Pressure** – There are different type of external pressure which can affect the performance of SMEs.

## **4.5. Statistical Analysis**

According to the above dependent and independent variables the null hypotheses have been tested statistically.

### **Null Hypotheses**

**Hypothesis 1 – There is no significant relationship between performance of SMEs and entrepreneurial skill**

**Hypothesis 2 - There is no significant relationship between performance of SMEs and human resources**

**Hypothesis 3 - There is no significant relationship between performance of SMEs and marketing activities**

**Hypothesis 4 - There is no significant relationship between performance of SMEs and IT adoption**

**Hypothesis 5 - There is no significant relationship between performance of SMEs and Govt /organizational support**

**Hypothesis 6 - There is no significant relationship between performance of SMEs and political unrest**

**Hypothesis 7 - There is no significant relationship between performance of SMEs and external pressure**

Analyzing the collected data from 1355 entrepreneurs statistical analyses are conducted using the software SPSS 16. Statistical output is as follow.

- **Statistical Output**

### **4.5.1. Relationship between performance of SMEs and Entrepreneurial skill**

**Table 4.5.1.1- One sample statistics for the performance of SMEs and entrepreneurial skill**

<b>One-Sample Statistics</b>				
	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Std. Error Mean</b>
<b>Performance</b>	<b>1355</b>	<b>4.2089</b>	<b>.70653</b>	<b>.01919</b>
<b>Ent. Skill</b>	<b>1355</b>	<b>4.1277</b>	<b>.60091</b>	<b>.01632</b>

**Table 4.5.1.2- One sample test for the performance of SMEs and entrepreneurial skill**

<b>One-Sample Test</b>						
<b>Test Value = 0</b>						
				<b>95% Confidence Interval of the Difference</b>		
	<b>T</b>	<b>Df</b>	<b>Sig. (2-tailed)</b>	<b>Mean Difference</b>	<b>Lower</b>	<b>Upper</b>
<b>Q1</b>	<b>219.282</b>	<b>1354</b>	<b>.000</b>	<b>4.20886</b>	<b>4.1712</b>	<b>4.2465</b>
<b>Q2</b>	<b>252.854</b>	<b>1354</b>	<b>.000</b>	<b>4.12768</b>	<b>4.0957</b>	<b>4.1597</b>

**Table 4.5.1.3- ANOVA for the performance of SMEs and entrepreneurial skill**

ANOVA <sup>b</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.799	1	23.799	49.379	.000 <sup>a</sup>
	Residual	652.095	1353	.482		
	Total	675.894	1354			
a. Predictors: (Constant), Ent. Skill						b. Dependent Variable: Performance

**Table 4.5.1.4- Coefficients for the performance of SMEs and entrepreneurial skill**

Coefficients <sup>a</sup>						
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.298	.131		25.184	.000
	Ent. Skill	.221	.031	.188	7.027	.000
a. Dependent Variable: Performance						

**4.5.2. Relationship between performance of SMEs and Human Resources**

**Table 4.5.2.1- One sample statistics for the performance of SMEs and human resources**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Q1	1355	4.2089	.70653	.01919
Q3	1355	4.1328	.60285	.01638

**Table 4.5.2.2- One sample test for the performance of SMEs and human resources**

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	219.282	1354	.000	4.20886	4.1712	4.2465
Q3	252.352	1354	.000	4.13284	4.1007	4.1650

**Table 4.5.2.3.- ANOVA for the performance of SMEs and human resources**

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	271.616	1	271.616	909.019	.000 <sup>a</sup>
	Residual	404.278	1353	.299		
	Total	675.894	1354			
a. Predictors: (Constant), HR      b. Dependent Variable: Performance						

**Table 4.5.2.4- Coefficients for the performance of SMEs and human resources**

Coefficients <sup>a</sup>						
Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.279	.103		70.730	.000
	HR	-.743	.025	-.634	-30.150	.000
a. Dependent Variable: Performance						

**4.5.3. Relationship between performance of SMEs and Marketing**

**Table 4.5.3.1- One sample statistics for the performance of SMEs and marketing**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Q1	1355	4.2089	.70653	.01919
Q4	1355	4.3631	.69994	.01901

**Table 4.5.3.2- One sample test for the performance of SMEs and marketing**

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	219.282	1354	.000	4.20886	4.1712	4.2465
Q4	229.457	1354	.000	4.36310	4.3258	4.4004

**Table 4.5.3.3.- ANOVA for the performance of SMEs and marketing**

		ANOVA <sup>b</sup>				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18.828	1	18.828	38.770	
	Residual	657.066	1353	.486		
	Total	675.894	1354			
a. Predictors: (Constant), Mkt. activities    b. Dependent Variable: Performance						

**Table 4.5.3.4- Coefficients for the performance of SMEs and marketing**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.944	.120		41.350	.000
	Mkt.activities	-.168	.027	-.167	-6.227	.000
a. Dependent Variable: Performance						

**4.5.4. Relationship between performance of SMEs and IT adoption**

**Table 4.5.4.1- One sample statistics for the performance of SMEs and IT adoption**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Q1	1355	4.2089	.70653	.01919
Q5	1355	3.9808	1.00571	.02732

**Table 4.5.4.2- One sample test for the performance of SMEs and IT adoption**

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	219.282	1354	.000	4.20886	4.1712	4.2465
Q5	145.703	1354	.000	3.98081	3.9272	4.0344

**Table 4.5.4.3.- ANOVA for the performance of SMEs and IT adoption**

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	170.043	1	170.043	454.813	.000 <sup>a</sup>
	Residual	505.851	1353	.374		
	Total	675.894	1354			
a. Predictors: (Constant), ITadopt		b. Dependent Variable: Performance				

**Table 4.5.4.4- Coefficients for the performance of SMEs and IT adoption**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.612	.068		82.719	.000
	IT. adopt	-.352	.017	-.502	-21.326	.000
a. Dependent Variable: Performance						

**4.5.5. Relationship between performance of SMEs and Govt /organizational support**

**Table 4.5.5.1- One sample statistics for the performance of SMEs and Govt /organizational support**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Q1	1355	4.2089	.70653	.01919
Q6	1355	4.2458	.66188	.01798

**Table 4.5.5.2- One sample test for the performance of SMEs and Govt /organizational support**

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	219.282	1354	.000	4.20886	4.1712	4.2465
Q6	236.128	1354	.000	4.24576	4.2105	4.2810

**Table 4.5.5.3.- ANOVA for the performance of SMEs and Govt /organizational support**

		ANOVA <sup>b</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	81.262	1	81.262	184.901	.000 <sup>a</sup>
	Residual	594.631	1353	.439		
	Total	675.894	1354			
a. Predictors: (Constant), Govt. support    b. Dependent Variable: Performance						

**Table 4.5.5.4- Coefficients for the performance of SMEs and Govt /organizational support**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.780	.117		49.420	.000
	Govt. support	-.370	.027	-.347	-13.598	.000
a. Dependent Variable: Performance						

**4.5.6. Relationship between performance of SMEs and Political unrest**

**Table 4.5.6.1- One sample statistics for the performance of SMEs and political unrest**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Q1	1355	4.2089	.70653	.01919
Q7	1355	4.3720	.69421	.01886

**Table 4.5.6.2- One sample test for the performance of SMEs and political unrest**

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	219.282	1354	.000	4.20886	4.1712	4.2465
Q7	231.821	1354	.000	4.37196	4.3350	4.4090



**Table 4.5.6.3.- ANOVA for the performance of SMEs and political unrest**

		ANOVA <sup>b</sup>				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.165	1	22.165	45.874	.000 <sup>a</sup>
	Residual	653.729	1353	.483		
	Total	675.894	1354			

a. Predictors: (Constant), Political unrest      b. Dependent Variable: Performance

**Table 4.5.6.4- Coefficients for the performance of SMEs and political unrest**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.015	.120		41.630	.000
	Political unrest	-.184	.027	-.181	-6.773	.000

a. Dependent Variable: Performance

**4.5.7. Relationship between performance of SMEs and External pressure**

**Table 4.5.7.1- One sample statistics for the performance of SMEs and external pressure**

One-Sample Statistics				
	N	Mean	Std. Deviation	Std. Error Mean
Q1	1355	4.2089	.70653	.01919
Q8	1355	4.3565	.70702	.01921

**Table 4.5.7.2- One sample test for the performance of SMEs and external pressure**

One-Sample Test						
Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Q1	219.282	1354	.000	4.20886	4.1712	4.2465
Q8	226.815	1354	.000	4.35646	4.3188	4.3941

**Table 4.5.7.3.- ANOVA for the performance of SMEs and external pressure**

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.498	1	2.498	5.020	.025 <sup>a</sup>
	Residual	673.395	1353	.498		
	Total	675.894	1354			
a. Predictors: (Constant), Ext. pressure      b. Dependent Variable: Performance						

**Table 4.5.7.4- Coefficients for the performance of SMEs and external pressure**

Coefficients <sup>a</sup>						
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.944	.120		32.956	.000
	Ext. pressure	.061	.027	.061	2.241	.025
a. Dependent Variable: Performance						

[ N.B.- Performance of SMEs – Q1, Entrepreneurial skill –Q2, Human resource – Q3, Marketing skill – Q4, IT system – Q5 , Govt/ organizational support – Q6, Political unrest - Q7, and External pressure – Q8 ]

SPSS 16 is used to analyze the relationship between dependent and independent variables. Each statistical output regarding the relationship between dependent and independent variables explores that there is a significant relationship between the dependent and independents variables. And the independent variables affect the performance of SMEs. As per the opinion of the SMEs entrepreneurial skill, human resource, marketing skill, IT system and Govt/organizational support affect the Performance of SMEs positively. Political unrest and various external pressures also affect the performance of SMEs.

**4.5.8. Regression Analysis**

$$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_7 X_7 + e_i$$

Y<sub>i</sub> = Performance of SMEs , X<sub>1</sub>.....X<sub>7</sub> = Independent variables

**Table 4.5.8.1. – Mean value of the independent variables and performance of SMEs**

Descriptive Statistics			
	Mean	Std. Deviation	N
Performance of SMEs ( Y <sub>i</sub> )	4.2089	.70653	1355

Entrepreneurial Skill (X1 )	4.1277	.60091	1355
HR (X2 )	4.1328	.60285	1355
Marketing activities (X3 )	4.3631	.69994	1355
IT adoption (X4 )	3.9808	1.00571	1355
Govt. support (X5)	4.2458	.66188	1355
Political unrest (X6 )	4.3720	.69421	1355
External pressure (X7 )	4.3565	.70702	1355

**Table 4.5.8.2– Regression analysis between independent variables and performance of SMEs**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.880 <sup>a</sup>	.774	.773	.33682	2.036
a. Predictors: (Constant), Ext. pressure, IT.adopt, HR, Political unrest, Govt. support, Ent.Skill, Mkt. activities      b. Dependent Variable: Performance					

**Table 4.5.8.3 – ANOVA and Regression analysis between independent variables and performance of SMEs**

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	523.076	7	74.725	658.661	
	Residual	152.817	1347	.113		
	Total	675.894	1354			
a. Predictors: (Constant), Ext. pressure, IT. adopt, HR, Political unrest, Govt. support, Ent. Skill, Mkt. activities      b. Dependent Variable: Performance of SMEs						

The above statistical output for T test, F test and regression analysis it is observed that there is a significant relationship between the dependent variable and independent variables so we may reject the Null hypotheses and accept the alternative hypotheses.

**Alternative Hypotheses** are

- Hypothesis 1 – There is a significant relationship between performance of SMEs and entrepreneurial skill**
- Hypothesis 2 - There is a significant relationship between performance of SMEs and human resources**
- Hypothesis 3 - There is a significant relationship between performance of SMEs and marketing activities**
- Hypothesis 4 - There is a significant relationship between performance of SMEs and IT adoption**

**Hypothesis 5 - There is a significant relationship between performance of SMEs and Govt /organizational support**

**Hypothesis 6 - There is a significant relationship between performance of SMEs and political unrest**

**Hypothesis 7 - There is a significant relationship between performance of SMEs and external pressure**

#### **4.6. Current and Previous status of the SMEs**

According to the opinion of 1355 SMEs to have an idea about the benefits gained by the SMEs an attempt has been made to study the status of the SMEs before and after/during running their business.

The following factors are recognized that are determined as benefits .So benefits are measured in terms of-

- **Indicators of Economic benefits**

1. Net Income
2. Quantity of workers and employees
3. Market expansion/branch extension
4. Productivity and return to scale
5. Regular investment and strengthen the organizational capacity.
6. Technological advancement

- **Indicators of Social Benefits**

1. Social benefit and social recognition
2. Access to new social contacts
3. Better standard of living
4. Access to educational and health facilities
5. Security, empowerment and equity

- **Indicators of Environmental management**

1. Green environmental management (Air Pollution, Water Pollution, Sound Pollution control )
2. Waste Management

#### **Null Hypotheses**

- **Hypothesis 1 – There is no difference between current and previous status of the respondents in respect to economic benefits**

- Hypothesis 2 – There is no difference between current and previous status of the respondents in respect to social benefits
- Hypothesis 3 – There is no difference between current and previous status of the respondents in respect to environmental consciousness/management
- **Statistical Output of Economic Benefits**

**Table 4.6.1 – Paired samples test for economic benefits**

Paired Samples Statistics , Pre.eco- Previous economic benefit, Cu.Eco- Current economic benefit					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre. Eco	1.9856	1355	.34151	.00928
	Cu. Eco	3.4627	1355	.50060	.01360

Paired Samples Test									
		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Pre.Eco – Cu.Eco	1.47712	.60390	.01641	-1.50930	-1.44494	-9.0038	1354	.000

- **Wilcoxon Signed Ranks Test**

**Table 4.6.2.- Wilcoxon Signed Ranks Test for economic benefits**

Ranks				
		N	Mean Rank	Sum of Ranks
Cu.Eco – Pre.Eco	Negative Ranks		5.00	45.00
	Positive Ranks		682.50	918645.00
	Ties			
	Total	1355		
a. CuEco < PreEco    b. CuEco > PreEco    c. CuEco = PreEco				

Test Statistics <sup>b</sup>	
	CuEco – PreEco
Z	-31.902 <sup>a</sup>
Asymp. Sig. (2-tailed)	.000
a. Based on negative ranks.                      b. Wilcoxon Signed Ranks Test	

- **Statistical Output of Social Benefits**

**Table 4.6.3. – Paired samples test for social benefits**

Paired Samples Statistics, Pre.Soci- Previous social benefit, Cu.Eco- Current social benefit					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre .Soci	1.7024	1355	.26160	.00711
	Cur .Soci	3.6623	1355	.37201	.01011

Paired Samples Test									
		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Pre.Soci – Cur.Soci	-1.95985	.45609	.01239	-1.98416	1.93555	-158.177	1354	.000

- **Wilcoxon Signed Ranks Test**

**Table 4.6.4.- Wilcoxon Signed Ranks Test for social benefits**

Ranks				
		N	Mean Rank	Sum of Ranks
Cur.Soci – Pre.Soci	Negative Ranks	0 <sup>a</sup>	.00	.00
	Positive Ranks		678.00	918690.00
	Ties			
	Total	1355		

a. CurSoci < PreSoci    b. CurSoci > PreSoci    c. CurSoci = PreSoci

Test Statistics <sup>b</sup>	
	CurSoci – PreSoci
Z	-31.955 <sup>a</sup>
Asymp. Sig. (2-tailed)	.000

a. Based on negative ranks.    b. Wilcoxon Signed Ranks Test

- **Statistical Output of Environmental Consciousness/Management**

**Table 4.6.5.– Paired samples test for Environmental Consciousness/Management**

Paired Samples Statistics, Pre.env.- Previous environmental consciousness benefit, Cu.env- Current environmental consciousness					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Pre.Env	1.8908	1355	.59219	.01609
	Cur.Env	3.6022	1355	.74132	.02014

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Pre.En v – Cur.En v	-1.71144	.95878	.02605	-1.76253	-1.66034	-65.707	1354	.000

- **Wilcoxon Signed Ranks Test**

**Table 4.6.6.- Wilcoxon Signed Ranks Test for Environmental Consciousness/Management**

Ranks				
		N	Mean Rank	Sum of Ranks
Cur.Env – Pre.Env	Negative Ranks	25 <sup>a</sup>	80.50	2012.50
	Positive Ranks		652.66	820390.50
	Ties	73 <sup>c</sup>		
	Total	1355		
a. CurEnv < PreEnv    b. CurEnv > PreEnv    c. CurEnv = PreEnv				

Test Statistics <sup>b</sup>	
	CurEnv – PreEnv
Z	-30.969 <sup>a</sup>
Asymp. Sig. (2-tailed)	.000
a. Based on negative ranks.	
b. Wilcoxon Signed Ranks Test	

With the data obtained from the respondents both paired test and Wilcoxon Signed Ranks Test are conducted to have the accurate idea about the status of the respondents. Whether there is any

significant difference between the current and previous status of the respondents or not? SPSS 16 is used to conduct the statistical analysis.

The above statistical result expresses that there is a significant difference between the current and previous status of the respondents in respect to Economic, Social benefits and Environmental management. The indicators of each benefit and environmental management are mentioned above. As per the information and ranking of benefits provided by the entrepreneurs test are conducted and the result of the test explores, we can reject the Null hypothesis that there is a significant difference between current and previous status of the respondent in respect to economic and social benefits as well as environmental management by the SMEs. As the SMEs achieving economic and social benefits and also conscious about the environmental management system and pollution controlling system so we can say that the activities of the SMEs can significantly contribute to ensure sustainable socio economic as well as environmental development of Bangladesh in a large context.

**Alternative Hypothesis**

<b>Hypothesis</b>	<b>Null Hypothesis</b>	<b>Alternative Hypothesis</b>
<b>Decision</b>	<b>Reject</b>	<b>Accept</b>

**Hypothesis 1 – There is a significant difference between current and previous status of the respondents in respect to economic benefits.**

**Hypothesis 2– There is a significant difference between current and previous status of the respondents in respect to social benefits.**

**Hypothesis 3– There is a significant difference between current and previous status of the respondents in respect to environmental consciousness/management.**

**4.7. Group wise difference regarding socio-economic benefits and environmental consciousness**

The research examines a wide range of analysis concerning the group wise difference regarding socio-economic benefits and environmental consciousness of the entrepreneurs. About 1355 entrepreneurs provided their opinion regarding the factors that affect their performance as well as their challenges but only few respondents could provide exact information regarding their business unit, no. of employees, significance of their education, training e.t.c. Although there is a time constraint and most of the respondents are not highly educated so they could not provide proper



information. To measure the group wise difference and conduct the statistical analysis, 10% sample of the total respondents are considered. Around 135 entrepreneurs have given proper information about their economic as well as social benefits and environmental consciousness. The null hypotheses are as below.

**4.7.1.Group wise differences regarding Economic Benefits**

- **Null hypotheses of Economic Benefits**

**Hypothesis 1 – There is no significant difference between year of the business units of the respondents and the economic benefits that they have achieved**

**Hypothesis 2 – There is no significant difference between no. of employees of the respondents and the economic benefits that they have achieved**

**Hypothesis 3 – There is no significant difference between educational status of the respondents and the economic benefits that they have achieved**

**Hypothesis 4 – There is no significant difference between training/skill/knowledge of the respondents and the economic benefits that they have achieved**

**Hypothesis 5 – There is no significant difference between Govt./Organizational support of the respondents and the economic benefits that they have achieved**

**Statistical Output of Economic Benefits**

- **Year of establishments**

**Table 4.7.1.1 – ANOVA test of the entrepreneurs’ group wise economic benefits regarding year of establishment**

<b>Report</b>			
<b>Respondents Status</b>			
<b>Years of Establishment</b>	<b>Mean</b>	<b>N</b>	<b>Std. Deviation</b>
<b>1-5</b>	<b>1.9091</b>	<b>33</b>	<b>.67840</b>
<b>6-10</b>	<b>2.6364</b>	<b>33</b>	<b>.69903</b>
<b>11-15</b>	<b>2.9091</b>	<b>33</b>	<b>.57899</b>
<b>Above 15</b>	<b>4.0000</b>	<b>36</b>	<b>.82808</b>
<b>Total</b>	<b>2.8889</b>	<b>135</b>	<b>1.03424</b>

ANOVA					
Respondents Status	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	78.242	3	26.081	52.489	.000
Within Groups	65.091	131	.497		
Total	143.333	134			

➤ **No. of Employees**

**Table 4.7.1.2 – ANOVA test of the entrepreneurs’ group wise economic benefits regarding no.of employees**

Report			
Status	Mean	N	Std. Deviation
1 -10	1.9697	33	.80951
11-25	2.4848	33	.71244
26-40	3.3333	33	.59512
Above 40	3.8611	36	.79831
Total	2.9333	135	1.03808

ANOVA					
Status	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	73.549	3	24.516	45.329	.000
Within Groups	70.851	131	.541		
Total	144.400	134			

➤ **Education of the Respondents**

**Table 4.7.1.3– ANOVA test of the entrepreneurs’ group wise economic benefits regarding education of the respondents**

Report			
Education	Mean	N	Std. Deviation
Primary- SSC	2.2121	33	.59987
HSC	2.6061	33	.74747
Graduate	3.5152	33	.56575
Post graduate	3.9167	36	.64918

Report			
Status	Mean	N	Std. Deviation
Primary- SSC	2.2121	33	.59987
HSC	2.6061	33	.74747
Graduate	3.5152	33	.56575
Post graduate	3.9167	36	.64918
<b>Total</b>	<b>3.0815</b>	<b>135</b>	<b>.93881</b>

ANOVA					
Status	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	63.717	3	21.239	51.158	.000
Within Groups	54.386	131	.415		
<b>Total</b>	<b>118.104</b>	<b>134</b>			

➤ **Training/Workshop**

**Table 4.7.1.4.– ANOVA test of the entrepreneurs' group wise economic benefits regarding training/workshop**

Report			
Training	Mean	N	Std. Deviation
No	2.6912	68	.67487
Yes	3.9552	67	.61380
<b>Total</b>	<b>3.3185</b>	<b>135</b>	<b>.90316</b>

ANOVA					
Status	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	53.923	1	53.923	129.501	.000
Within Groups	55.380	133	.416		
<b>Total</b>	<b>109.304</b>	<b>134</b>			

➤ **Govt. Support and institutional support**

**Table 4.7.1.5.– ANOVA test of the entrepreneurs’ group wise economic benefits regarding Govt./organizational support**

Report					
Status					
Govt Support	Mean	N	Std. Deviation		
No	2.5441	68	.78100		
Yes	3.9254	67	.78458		
Total	3.2296	135	1.04339		

ANOVA					
Status					
	Sum of Squares		Mean Square	F	Sig.
Between Groups	64.387	1	64.387	105.080	.000
Within Groups	81.495	133	.613		
Total	145.881	134			

The statistical output explore that there is a significant group wise difference regarding the economic benefits of the entrepreneurs. The statistical output explore that the entrepreneur who are running their business unit more than 15 years are achieving more economic benefits. The business unit which have employees more than 40 are achieving more economic benefit, the entrepreneurs who are graduated and post gradated also achieving more economic benefits than others. The entrepreneurs who have formal training also earn more economic benefits. The entrepreneurs who get Govt and institutional support earn more benefits than others. So as per the statistical output we may reject the null hypotheses and accept the alternative hypotheses that there are group wise differences regarding the economic benefits.

**Alternative Hypotheses**

Hypotheses	Null Hypotheses	Alternative Hypotheses
Decision	Reject	Accept

**4.7.2. Group wise differences regarding Social Benefits**

- **Null hypotheses of Social benefits**

**Hypothesis 1 – There is no significant difference between year of the business units of the respondents and the social benefits that they have achieved**

**Hypothesis 2 – There is no significant difference between net income of the respondents and the social benefits that they have achieved**

**Hypothesis 3 – There is no significant difference between educational status of the respondents and the social benefits that they have achieved**

**Hypothesis 4 – There is no significant difference between training/skill/knowledge of the respondents and the social benefits that they have achieved**

**Hypothesis 5 – There is no significant difference between Govt/Organizational support of the respondents and the social benefits that they have achieved**

**Statistical Output of Social Benefits**

➤ **Year of Establishment**

**Table 4.7.2.1 – ANOVA test of the entrepreneurs’ group wise social benefits regarding year of establishment**

Report			
Respondents Status			
Year of establishment	Mean	N	Std. Deviation
1 -5	1.8788	33	.64988
6-10	2.6667	33	.73598
11-15	2.8485	33	.61853
Above 15	4.1389	36	.79831
<b>Total</b>	<b>2.9111</b>	<b>135</b>	<b>1.08219</b>

ANOVA					
Respondents Status					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	91.537	3	30.512	61.121	.000
Within Groups	65.396	131	.499		
<b>Total</b>	<b>156.933</b>	<b>134</b>			

➤ **Net Income**

**Table 4.7.2.2– ANOVA test of the entrepreneurs’ group wise social benefits regarding net income**

Report			
Respondents Status			
Net income	Mean	N	Std. Deviation

<b>1 -10 Lac</b>	<b>1.9697</b>	<b>33</b>	<b>.76994</b>
<b>11-15 Lac</b>	<b>2.6970</b>	<b>33</b>	<b>.72822</b>
<b>16 – 25 lac</b>	<b>2.8182</b>	<b>33</b>	<b>.68258</b>
<b>Above 25</b>	<b>4.0278</b>	<b>36</b>	<b>.90982</b>
<b>Total</b>	<b>2.9037</b>	<b>135</b>	<b>1.07810</b>

<b>ANOVA</b>					
<b>Respondents Status</b>					
	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>Between Groups</b>	<b>75.927</b>	<b>3</b>	<b>25.309</b>	<b>41.537</b>	<b>.000</b>
<b>Within Groups</b>	<b>79.821</b>	<b>131</b>	<b>.609</b>		
<b>Total</b>	<b>155.748</b>	<b>134</b>			

➤ **Education**

**Table 4.7.2.3 – ANOVA test of the entrepreneurs’ group wise social benefits regarding education**

<b>Report</b>			
<b>Status</b>			
<b>Education</b>	<b>Mean</b>	<b>N</b>	<b>Std. Deviation</b>
<b>Primary –SSC</b>	<b>2.0909</b>	<b>33</b>	<b>.57899</b>
<b>HSC</b>	<b>2.5758</b>	<b>33</b>	<b>.75126</b>
<b>Graduate</b>	<b>3.5758</b>	<b>33</b>	<b>.61392</b>
<b>Post graduate</b>	<b>4.0000</b>	<b>36</b>	<b>.67612</b>
<b>Total</b>	<b>3.0815</b>	<b>135</b>	<b>1.00782</b>

<b>ANOVA</b>					
<b>Status</b>					
	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>Between Groups</b>	<b>79.255</b>	<b>3</b>	<b>26.418</b>	<b>60.878</b>	<b>.000</b>
<b>Within Groups</b>	<b>56.848</b>	<b>131</b>	<b>.434</b>		
<b>Total</b>	<b>136.104</b>	<b>134</b>			

➤ **Training**

**Table 4.7.2.4.– ANOVA test of the entrepreneurs’ group wise social benefits regarding training**

Report			
Status			
Training	Mean	N	Std. Deviation
No	2.7500	68	.69915
Yes	4.0000	67	.65134
Total	3.3704	135	.92026

ANOVA					
Status					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	52.731	1	52.731	115.445	.000
Within Groups	60.750	133	.457		
Total	113.481	134			

➤ **Govt. Support**

**Table 4.7.2.5 – ANOVA test of the entrepreneurs’ group wise social benefits regarding Govt./Organizational support**

Report			
Status			
Gov Support	Mean	N	Std. Deviation
No	2.4559	68	.85403
Yes	3.9701	67	.77792
Total	3.2074	135	1.11366

ANOVA					
Status					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	77.385	1	77.385	115.892	.000
Within Groups	88.808	133	.668		
Total	166.193	134			

The statistical output explore that there is a significant group wise difference regarding the economic benefits of the entrepreneurs. The statistical output explore that the entrepreneur who are running their business unit more than 15 years are achieving more social recognition and

benefits. The business units which have annual net income more than 25 Lac are achieving more social benefits, the entrepreneurs who are graduated and post gradated also achieving more social benefits than others. The entrepreneurs who have formal training also earn more social benefits. The entrepreneurs who get Govt and institutional support achieve more social recognition and benefits than others. So as per the statistical output we may reject the null hypotheses and accept the alternative hypotheses that there are group wise differences regarding the social benefits.

### **Alternative Hypotheses**

<b>Hypotheses</b>	<b>Null Hypotheses</b>	<b>Alternative Hypotheses</b>
<b>Decision</b>	<b>Reject</b>	<b>Accept</b>

### **4.7.3. Group wise differences regarding Environmental Consciousness**

#### **Null hypotheses of Environmental consciousness**

**Hypothesis 1 – There is no significant difference between year of the business units of the respondents and the environmental consciousness of the respondents**

**Hypothesis 2 – There is no significant difference between net income of the respondents and the environmental consciousness of the respondents**

**Hypothesis 3 – There is no significant difference between educational status of the respondents and the environmental consciousness of the respondents**

**Hypothesis 4 – There is no significant difference between training/skill/knowledge of the respondents and the environmental consciousness of the respondents**

**Hypothesis 5 – There is no significant difference between Govt/Organizational support of the environmental consciousness of the respondents**

#### **Statistical Output of Environmental Consciousness**

##### **➤ Year of Establishment**

**Table 4.7.3.1 – ANOVA test of the entrepreneurs’ group wise Environmental consciousness regarding year of establishment**

Respondents Status	Report		
	Mean	N	Std. Deviation
1 – 5	1.9091	33	.72300
6-10	2.6667	33	.73598



11-15	2.9697	33	.58549
Above 15	4.0556	36	.86005
Total	2.9259	135	1.06945

ANOVA					
Respondents Status					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	82.340	3	27.447	50.699	.000
Within Groups	70.919	131	.541		
Total	153.259	134			

➤ **Net Income**

**Table 4.7.3.2. – ANOVA test of the entrepreneurs’ group wise Environmental consciousness regarding net income**

**Report**

**Respondents Status**

Net income	Mean	N	Std. Deviation
1-5 lac	1.9091	33	.67840
6-10 lac	2.6364	33	.69903
11-15 lac	2.9091	33	.63066
Above 15 Lac	4.0278	36	.81015
Total	2.8963	135	1.04577

ANOVA					
Respondents Status					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	80.485	3	26.828	53.199	.000
Within Groups	66.063	131	.504		
Total	146.548	134			

➤ **Education**

**Table 4.7.3.3– ANOVA test of the entrepreneurs’ group wise Environmental consciousness regarding education**

Report			
Status			
Education	Mean	N	Std. Deviation

Primary – SSC	2.2424	33	.70844
HSC	2.6364	33	.78335
Graduate	3.4848	33	.56575
Post Graduate	3.9722	36	.69636
<b>Total</b>	<b>3.1037</b>	<b>135</b>	<b>.97180</b>

**ANOVA**

Status	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	63.637	3	21.212	44.170	.000
Within Groups	62.912	131	.480		
Total	126.548	134			

➤ **Training**

**Table 4.7.3.4.– ANOVA test of the entrepreneurs' group wise Environmental consciousness regarding training**

Report			
Status	Mean	N	Std. Deviation
Training			
No	2.6324	68	.73107
Yes	3.9104	67	.75340
Total	3.2667	135	.97888

**ANOVA**

Status	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	55.128	1	55.128	100.067	.000
Within Groups	73.272	133	.551		
Total	128.400	134			

➤ **Govt. Support**

**Table 4.7.3.5 – ANOVA test of the entrepreneurs' group wise Environmental consciousness regarding Govt./organizational support**

Report			
Status	Mean	N	Std. Deviation
Govt Support			

<b>No</b>	<b>2.5735</b>	<b>68</b>	<b>.90300</b>
<b>Yes</b>	<b>3.9851</b>	<b>67</b>	<b>.78803</b>
<b>Total</b>	<b>3.2741</b>	<b>135</b>	<b>1.10244</b>

<b>ANOVA</b>					
<b>Status</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>Between Groups</b>	<b>67.242</b>	<b>1</b>	<b>67.242</b>	<b>93.531</b>	<b>.000</b>
<b>Within Groups</b>	<b>95.617</b>	<b>133</b>	<b>.719</b>		
<b>Total</b>	<b>162.859</b>	<b>134</b>			

The statistical output explore that there is a significant group wise difference regarding the environmental consciousness of the entrepreneurs. The statistical output explore that the entrepreneur who are running their business unit more than 15 years are more conscious about the environment., The SMEs who have annual net income more than 25 Lac are more conscious about the environmental management. The entrepreneurs who have graduation and post gradation degree are more conscious about environmental management. The entrepreneurs who have formal training are also more conscious. The entrepreneurs who receive Govt and institutional support are more conscious about the environmental management than others. So as per the statistical output we may reject the null hypotheses and accept the alternative hypotheses that there are group wise differences regarding the environmental consciousness/management.

#### **Alternative Hypotheses**

<b>Hypotheses</b>	<b>Null Hypotheses</b>	<b>Alternative Hypotheses</b>
<b>Decision</b>	<b>Reject</b>	<b>Accept</b>

#### **4.8. Regression Analysis of Investment and Net Operating Income**

According to the response of the entrepreneurs regarding the information of their investment and net operating income (approx) statistical analysis is conducted to find the correlation between the investment and net operating income. This analysis will provide a brief idea about the income generation of the entrepreneurs in the SME sector. All the respondents could not provide actual data of their investment and net operating income as they are not highly educated and they do not maintain proper accounting system. Even few SMEs were not agree to provide information

regarding their income. To analyze the correlation between investment and net operating income the information given by 816 SMEs are considered. With their information regression analysis is conducted.

Here, Dependent variable,  $Y_i$ =net operating income, Independent variable,  $X_i$ = investment

$$Y_i = \alpha + \beta_1 X_i + e_i$$

**Null Hypothesis** – There is no significant relationship between the entrepreneurs’ investment and the net operating income.

### Statistical output

**Table 4.8.1. – Correlations of investment and net operating income**

Correlations		Investment	Net income
Investment	Pearson Correlation	1	.913**
	Sig. (2-tailed)		.000
	N	816	816
Net income	Pearson Correlation	.913**	1
	Sig. (2-tailed)	.000	
	N	816	816

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table 4.8.2. – Regression of investment and net income**

Variables Entered/Removed <sup>b</sup>			
Model	Variables		Method
	Entered	Removed	
1	Investment <sup>a</sup>		Enter

a. All requested variables entered.

b. Dependent Variable: Net income

Model Summary				
Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.913 <sup>a</sup>	.834	.834	2.04637

a. Predictors: (Constant), Investment

**Table 4.8.3 –ANOVA test for investment and net income**

**ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17175.719	1	17175.719	4.102E3	.000 <sup>a</sup>
	Residual	3408.720	814	4.188		
	Total	20584.439	815			

a. Predictors: (Constant), Investment

b. Dependent Variable: Net income

**Table 4.8.4. – Coefficients of investment and net income**

**Coefficients<sup>a</sup>**

Model		Un standardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	T	
1	(Constant)	1.438	.123		11.680	.000
	Investment	.407	.006	.913	64.043	.000

a. Dependent Variable: Net income

**Table 4.8.5.- Curve Fit**

**Model Description**

Model Name		MOD_1
Dependent Variable	1	Net income
Equation	1	Linear
Independent Variable		Investment
Constant		Included
Variable Whose Values Label Observations in Plots		Unspecified

**Case Processing Summary**

	N
Total Cases	816
Excluded Cases <sup>a</sup>	0
Forecasted Cases	0
Newly Created Cases	0

a. Cases with a missing value in any variable are excluded from the analysis.

**Variable Processing Summary**

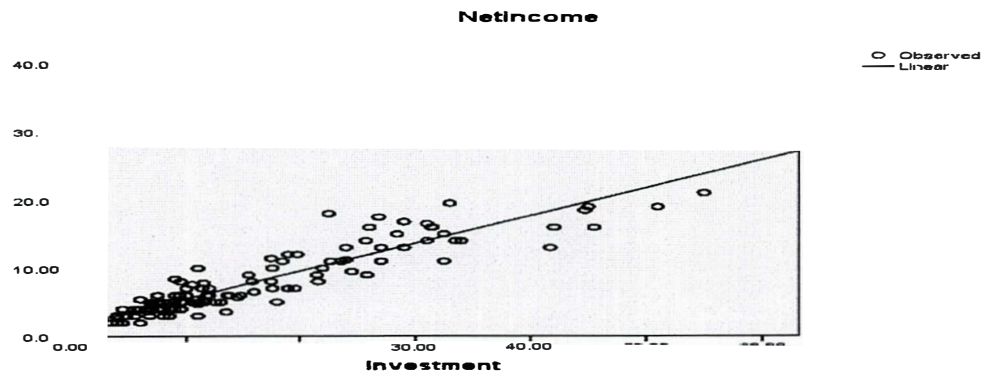
		Variables	
		Dependent	Independent
		Net income	Investment
Number of Positive Values		816	816
Number of Zeros		0	0
Number of Negative Values		0	0
Number of Missing Values	User-Missing	0	0
	System-Missing	0	0

**Model Summary and Parameter Estimates**

Dependent Variable: Net income

Model Summary						Parameter Estimates	
Equation	R Square	F	df1	df2	Sig.	Constant	B1
Linear	.834	4.102E3	1	814	.000	1.438	.407

The independent variable is Investment.



**Figure 4.8.1 – Regression analysis between net income and investment**

The above statistical outputs for correlation and regression analysis represent that we may reject the null hypothesis and accept the alternative hypothesis. The net operating income of the SMEs increases with the increase of investment as well as SME activities on a regular basis.

**Alternative Hypothesis** – There is a significant relationship between the entrepreneurs’ investment and the net operating income.

## **4.9. Area Wise Constraints**

The research is conducted in 25 cities of Bangladesh for finding the constraints faced by the entrepreneurs in the SME sector. The following constraints are observed as the basic constraints which are faced by the entrepreneurs. With the collected data of 1355 entrepreneurs mean value of each district has been determined to gather idea about the district wise constraints followed by the respondents.

SL	Variables /Constraints
1	Excessive documentation and lengthy procedures was required for loan application.
2	Lack of proper information (e.g., suppliers) to import the right form of main machinery was a problem.
3	Tax, Vat payment related bureaucracy and bribery creates problem.
4	Distribution network is not efficient (so that it increases cost as well as decreases quality).
5	Exploitation from the middlemen is a constant problem.
6	Buyers' consciousness regarding the product ingredients and cost of production is absent.
7	Lack of trade fair, exhibitions, symposiums, seminars, workshops hinders the development of business.
8	Absence of adequate IT facilities (internet, e-commerce, and e-business) also hinders these business growths.
9.	Lack of training facility
10	Lack of Support for expand the business nationally and internationally

### **• Analysis of the constraints**

**1. Documentation:** The study also shows that entrepreneurs face problems due to excessive document requirements during registration as well as during borrowings. The study also identified that the entrepreneurs of different cities differ in case of documentation. The reason may be that in the Dhaka city the bankers, registration authority as well as borrower are used to the documentation practices whereas in other cities being new in this sector, the entrepreneurs are not yet used to this system and thus suffer more.

**2. Information:** The biggest problem faced by the small firm is that they do not have the access to all information required to develop new product, or to understand the market and to find out the most feasible solution of the problems faced by the customers. Here in this study, it can be noted that lack of information is an acute constraint. As it has been stated earlier that Dhaka has more exposure than other cities and thus entrepreneurs have more access to information.

**3. Tax, Vat payment:** This study also supports the statement as it has been identified that tax and vat related bureaucracy and bribery create problems for small business in all cities. But the entrepreneurs of small cities think that the burden is too much. The reason may be that the entrepreneurs at small cities are comparatively less experienced than Dhaka. It is the task of the government to protect the small and medium scale firm during their period of progress as well as consolidation.

**4. Distribution network:** Distribution is a process in which, an organization or set of organizations (go-betweens) involved in the process of making a product or service available for use or consumption by a consumer or business user. In most of selected cities, this problem of distribution network is evident. But as the business practice is much high in Dhaka the entrepreneurs are more acquainted with the system and thus suffer less. In much the same way that the organizations own sales and distribution activities need to be monitored and managed. In practice, many organizations use a mix of different channels; in particular, they may complement a direct sales force, calling on the larger accounts, with agents, covering the smaller customers and prospects.

**5. Exploitation by the Middlemen:** Middlemen play the major role in transferring products from the manufacturer to the end user. Middlemen expand the capacity of the manufacturer to distribute products to the end user, transfer title between channel levels and communicate product information to all channel participants. When the financial and expert resources are available in-house, manufacturers can increase their profit margins by reducing the involvement of middlemen. It has been observed that middlemen are always threat especially for the small business owners. Any type of bondage or ties in between the similar types of SMEs may reduce the extent of the problem. The survey result of this study show that SMEs have problems with middlemen as they perceive them as exploiter of the small entities like most of the SMEs whereas this problem is more in all the cities.

**6. Buyers' consciousness:** The mandatory task of each and every business organization is to create awareness and therefore brand loyalty among its group of customers. Along with product competency, communication competencies are also essential to serve that purpose (Neergaard, 2005). Buyer's consciousness building is never an easy task especially in this turbulent and hyper



competitive business environment. Brand positioning is even more difficult than capturing new customer. The study also shows that absence of buyers' consciousness is a problem for the SMEs especially for those who are situated in small cities and at the same time the SMEs don't have any activity to make the customers aware. Hence, the buyers often intend to buy foreign goods which cause problems for the local SMEs.

**7. Trade fair, exhibitions, symposiums:** Business events, trade fairs and trade shows are an integral part of business life style. Once, these trade shows were generally based on industrial goods or was meant basically for the business class. Many trade shows are organized to encourage the locals as well as the multinational companies to participate and see the response of the market towards their products. Consumers can have a direct interface with the new and cheap products in the markets and can also enjoy purchasing and browsing through the new products in the market. However, it is difficult for the smaller firm to arrange such programs. These trade shows and fairs are one of the best ways to explore, expand and learn about the new business strategies and market conditions. It has been a constant complain that Bangladeshi Embassies in various countries don't perform as they are supposed to. Despite importance of organizing these events, the study shows that Bangladesh lags behind in organizing and participating in various trade fares exhibitions, and/or symposiums and thus fails to achieve proper foreign attention. The survey results also support this issue as such the entrepreneurs of all the cities have realized this problem less than the entrepreneurs of Dhaka as they are much involved with arranging and participating in trade fares and exhibitions.

**8. Adequate IT facilities:** Small businesses typically focus on researching, understanding and managing elements related to their businesses. Few, if any, have time to monitor the daily changes that impact information technology. Even fewer possess the resources necessary to keep current with changes to Microsoft Windows, Microsoft Office, and proprietary business software, critical business applications, printing technologies, web-based tools, email services and a myriad of other technology concerns. Internet connectivity plays important role in updating the manufacturers with the latest technology, product design, and customer choice. Small entrepreneurs especially those who are located in remote places still are not connected with internet. Thus SMEs, of all the cities agreed that absence of IT facilities hinders their growth whereas the entrepreneurs of small cities have faced the problem more than those of big cities and Dhaka.

**9. Lack of training facility:** Small businesses typically focus on researching, understanding and managing elements related to their businesses. Few are conscious about training of own self and training for their workers to enhance their skill. Training facility plays important role in updating the manufacturers with the latest knowledge, information, market access, operations management, technology, product design, and customer choice. Small entrepreneurs especially those who are located in remote places still are not connected with training facility provided by any organization or Govt.. Thus SMEs, of all the cities agreed that absence of training facilities hinders their growth whereas the entrepreneurs of small cities have faced the problem more than those of big cities and Dhaka.

**10. Lack of Support for expand the business nationally and internationally :**Business events, trade fairs and trade shows, training, economic support, access to information, IT facility, proper advice and monitoring service are an integral part of business life style. Many organization works for the development of SME sector that are established to encourage the locals as well as the medium companies to cooperate with them and examine the response of the market towards their products. However, it is difficult for the smaller firm to foster the expansion of their business without adequate support of Govt and organization related with the development of SME sector. It has been a constant complain that public organization/institution, specialized banks don't perform as they are supposed to. The survey results also support this issue as such the entrepreneurs of all the cities have realized this problem less than the entrepreneurs of Dhaka.

**Table 4.9.1. – Mean Value of Area Wise Constraints**

	MEAN									
	1	2	3	4	5	6	7	8	9	10
<b>Dhaka</b>	3.210	2.858	3.279	2.612	3.210	2.635	1.769	2.671	1.961	3.328
<b>Rajshahi</b>	3.881	4.115	3.947	3.648	3.891	4.006	4.575	3.536	4.421	4.572
<b>Khulna</b>	3.229	2.880	3.504	3.614	3.275	3.366	4.137	3.926	3.752	3.743
<b>Commila</b>	3.888	3.088	3.044	3.355	3.066	3.577	2.866	3	2.933	2.977
<b>Jessore</b>	4.078	4.117	4.098	3.529	3.745	4.450	4.450	4.098	4.529	4.196
<b>Dinajpur</b>	3.893	4.042	4.340	3.510	3.574	4.638	4.489	4.382	4.531	4.340
<b>Rangpur</b>	4.431	4.295	4.522	4.159	4.431	4.386	4.522	4.204	4.522	4.159

Bogra	4.083	4.145	4.083	3.541	3.75	4.416	4.416	3.958	4.541	4.229
Sylhet	3.419	4.064	3.596	3.322	3.612	3.451	3.532	3.806	3.677	2.983
Gopalganj	4.096	4.064	4.096	3.580	3.741	4.387	4.387	4	4.516	4.225
Sirajgonj	4.090	4.121	4.121	3.575	3.727	4.424	4.393	3.939	4.484	4.242
Kustia	4	4.25	4.2	3.15	3.45	4.65	4.55	4.4	4.45	4.25
Tangail	3.987	3.123	2.950	3.259	3.123	3.567	2.851	2.987	3.012	3
Narsingdi	4.025	3.15	3.075	3.325	3.2	3.6	2.875	3	2.975	3
Narayanganj	3.4	3.08	3.06	2.88	3.26	3.6	3.24	4.28	3.34	3.12

Likert scale – 1-5 , 1- Strongly disagree – 5 – Strongly agree

From the above table we can observe the mean value of each district to have the idea that entrepreneurs of which are faces which constraint running their business.

#### **4.10. Major Constraints faced by the entrepreneurs**

Small business success has social as well as economic consequences for communities and geographic regions. Business success in developing new products and ways of doing business adds value to the economy and improves the quality of life in communities (Dabson, 2001). Basically major constrains faced by the SMEs are as follows

**1. Supply of electricity and/or water:** The study result shows that the business owners are facing immense problem as far as supply of water and electricity are concerned in their respective areas. Bangladesh suffers generation and electricity problem from the very early of its independence. As days go on, the demand of electricity is also increasing. Though the production of electricity has increased, but still lags far behind than the demand. Supply of water, on the other hand, is not smooth all over the country. Few decades ago, the country was affluent in water supply as plenty of rivers were flowing. Dam on Padma and many other rivers on the upstream has caused tremendous problem in the supply of water. This has crippled not only in the supply of water, but also in electric generation as the only hydro-electricity can't operate fully due to lack of water supply.

**2. Raw materials:** The outcome of the survey of this particular research is signifying the fact that the small business owners of the covered areas are facing constant threat regarding the price fluctuation as well as the scarcity of raw materials. Small businesses commonly faced basket of problems in acquiring cheap raw materials. Bangladesh is a small country and the majority of the

population is dependent on agriculture. Moreover very few mineral sources are available in this country. Though natural gas and coalmine is being extracted for quite a long time but lack of technical know-how has made the government dependant to other country. Therefore, besides agricultural products, most of the raw materials are being imported by the government which increases the price of most of the raw materials.

**3. Political unrest:** The study shows that the political unrests (leading to frequent hartals, strikes, blockage etc.) create obstacle for business. The political unrest in Bangladesh is a serious hindrance in creating, developing and sustaining the small and medium enterprises. Instability hinder economic activities and therefore, entrepreneurial activities and in broader sense the economic growth of a country. Though Bangladesh has glorious democratic background, it has many black sides in respect of undemocratic government. Moreover, inefficiency and corruption of the government officials, lack of responsible behavior of the opposition often lead to political unrest and thus creates huge problem for the manufacturing sector.

**4. Interest rate of borrowing:** The SMEs face intense problem and they have to go for funding at relatively higher interest rate, afterwards which becomes the enigma against their existence. Commercial banks of the underdeveloped countries normally do not incline to give loans to the small business owner; the picture is not quite the same in case of the comparatively larger firms. In addition to ensuring that the business has enough capital, the small business owner must also be mindful of contribution margin (sales minus variable costs). To obtain breakeven, the business must be able to reach a level of sales where the contribution margin equals fixed costs. When they first start out, many small business owners under price their products to a point where even at their maximum capacity, it would be impossible to reach break even level. Cost controls or price increases often resolve this problem (Berger and Udell, 1998). Furthermore, in calculating and determining the right mix of cost and revenue the calculation of the borrowing rate is a significant force (Walsh and Newbert, 2002).

**5. Transportation cost:** Transport and mobility is the component that holds everything together. Domestic transportation normally takes place using a single document: the bill of lading, the contract of carriage between the shipper and carrier (Johannisson, 1986). Transportation competencies always remain as a test of character for smaller firms as their boundary is congested and therefore it is a challenge for them to expand from that with limited transportation resources

and available fund (Lumpkin et al., 2001). Bangladesh is plethora in rivers, thousands of bridge is required for road and railway communication but it is yet to construct all the required bridges. Moreover, due of lack of sufficient water, the river communication has also been reduced to a major extent. Therefore, fast and cheap transportation is not yet available and thus manufactures' problem is quite significant in respect of transporting their raw materials as well as finished goods.

**6. Financing:** Small business capital provides the money that the business needs to operate and function on a daily basis. There are a variety of ways business can obtain small business capital. However, most lenders will not finance small business without any credit history. This means that small business owners need to separate personal credit from business credit. Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions (Browning et al., 2006). The survey result also implies that the problem is rooted and it is quite significant especially in the financing cases of the SMEs. It is argued that the states should set up national programs to finance and/or co-finance technological improvements, the implementation of internal environmental and energy policies and the employment of experts in eco and energy efficiency by micro and small businesses.

**7. Support for exporting:** Exporting goods are never easy for the firms of third world countries. The situation is even worse from the perspective of the smaller firms. It is almost impossible for them to think about exporting without intense assistance from the govt. In general, an export movement can be handled by the operator in several ways. Each option requires a different degree of shipper and/or intermediary involvement. This study indicates relatively lesser significant problem of exporting for the small business. The reason may be that most of small businesses are yet to achieve the strength and confidence for exporting.

**8. Social infrastructure for smooth marketing:** Small business owners in comparatively underdeveloped region find a huge amount of complexities in following the modern value delivery system (Bevan and Danbol, 2002). Nevertheless, smaller firm most often, have not been able to operate in smooth marketing condition in developing countries. Their tasks are critical as well as risky and based on fate rather than on their own performance (Walker and Brown, 2004). Here, the study indicates that social infrastructure is a problem for them though relatively at the lower

extreme. This is also because of the fact that the operator of small businesses in the country seldom think about marketing. Their major thinking normally concentrates on surviving.

The following table represents the major constraints that are faced by the entrepreneurs related with SME sector in Bangladesh. The mean value of each factor expresses the severity of the constraints. The statistical analysis represents the association of the respondents with the constraints.

**Table 4.10.1. –Mean value of major constraints**

SL.	Variables	Mean
1	No electricity/water or inconsistency of supply of electricity/ water is a problem.	4.20738
2	Fluctuation in price of raw materials ,service equipments is a constant threat.	4.33284
3	Political unrest (leading to frequent hartals, strikes,) create obstacle for business.	4.20590
4	High interest rate of borrowing is a major constraint.	4.37269
5	High transportation cost increases the total cost and thus create problem.	4.40221
6	Financing (working capital) is still a major problem to run/expand the business.	4.07527
7	Inadequate/ inconsistent supply of raw materials, service materials is a problem.	4.21328
8	Financing was a major problem while establishing the business.	4.15424
9	Inadequate or no support for exporting the goods to other countries.	4.08708
10	Inadequate social infrastructure for smooth marketing throughout the country and internationally.	4.2369

Likert scale – 1-5 , 1- Strongly disagree – 5 – Strongly agree

**Table 4.10.2. - Chi-Square Test of the major constraints**

**Test Statistics**

	CONS1	CONS2	CONS3	CONS4	CONS5	CONS6	CONS7	CONS8	CONS9	CONS10
Chi-Square	1.222E2 <sup>a</sup>	2.267E2 <sup>a</sup>	1.223E2 <sup>a</sup>	4.938E2 <sup>a</sup>	3.571E2 <sup>a</sup>	2.489E2 <sup>a</sup>	6.428E2 <sup>b</sup>	5.055E2 <sup>b</sup>	5.286E2 <sup>b</sup>	1.545E2 <sup>a</sup>
Df	2	2	2	2	2	2	3	3	3	2
Asymp. Sig.	.000	.000	.000	.000	.000	.000	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 451.7.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 338.8.

**Null Hypothesis** – There is no significant association between the entrepreneurs’ activity and the constraints.

**Alternative Hypothesis** – There is a significant association between the entrepreneurs' activity and the constraints.

With the value of chi square test we may reject the null hypothesis and accept the alternative hypothesis.

#### **4.11. Findings of the Study**

The study explores and examines the reality and current scenario of the SME sector in Bangladesh as well as socio-economic and environmental sustainability through the development of this sector. Sustainable development is a vital and vast concept. Only SME sector can not ensure the total sustainable development of Bangladesh. According to the Millennium Development Goal, the development of SME sector is one of the major factors that can ensure the partial sustainable development of Bangladesh. The secondary data regarding the contribution of SME to GDP and employment can support the concept. This study reveals the opinion of the entrepreneurs and explore that there is a positive relationship between development of SME and socio-economic as well as environmental sustainability of Bangladesh. The study consist statistical analysis with the opinion of 1355 SMEs of 15 districts of Bangladesh. As this study covers a wide range of survey and large sample so the study explores the significance relationship between the activities of SMEs with the socio-economic as well as environmental sustainability. To ensure the sustainability it is very much important to overcome the challenges in the SME sector and to flourish the SME development in Bangladesh. Basically very few SMEs are creating air, water or sound pollution although they are careful about the pollution control system and waste management. As example the service sectors do not create water pollution even sound pollution and high level of air pollution. Very few enterprises in the service sector use air condition only for few times in a day and only in summer. And those enterprises have their own waste management system. Most of the boutique or trading enterprises do not create any pollution. The enterprises related with plastic and steel or rubber materials are environment friendly, As they are making non wood product which is helpful against the deforestation culture and those are eco friendly enterprise and symbol of environmentally sustainable business.

Few manufacturing industry may create air or water pollution but not as much as large scale industry does. But these types of enterprises are more conscious now a day to control the air or

water pollution. Bangladesh Bank and other commercial banks support the enterprises those are conscious about environment and waste management system.

The enterprises which are involved with agriculture and agro processing product have their own waste management policy. The wastes of poultry firms are used as fish feed and then wastes from dairy firms are used as bio gas which is eco friendly. So it can be observed that socio-economic as well as environmental sustainability can be achieved through the development of SME sector. About half of the residents of Bangladesh are women. And it is very easy for the women to get involved in the SME sector as entrepreneurs in the rural or urban area with the support of family members, NGOs and Banks. Women empowerment can be ensured through their involvement in the SME sector. It is tough for Bangladesh to develop large scale industry in a wide range rather than SME sector. Bangladesh can export more SME product in the foreign countries and can earn more foreign currency. SME sector is labor-intensive so it can generate more employment opportunity. The study examines the area wise constraints of the SMEs and reveals that there is association of the entrepreneurs with the major constraints those are faces by the entrepreneurs. Awareness among the youth and women is very much important to be entrepreneur rather than to find job. To ensure the sustainability of socio-economic development as well as environmental sustainability of Bangladesh it is very important to flourish the SME sector. It is also very important to provide the adequate support to the SMEs that they could run their business on a regular basis.



## **Chapter –Five**

### **Challenges and Recommendations**

#### **5.1.1. Major problems and issues challenging competitiveness of SMEs.**

Without a few fertilizer factories, pharmaceuticals companies, cement factories, and telecom companies most all other business entities in Bangladesh are SMEs. An estimated number of these SMEs in Bangladesh are about 6.0 million (60 Lac). These are producing around 50 per cent of our industrial output each year, generates highest number of employment and contributing in import substitution and saving foreign currencies. SMEs are contributing in so many ways like emplacement generation, producing low cost quality products, producing import substitute products, saving foreign currencies, and many more but what the government is doing to boost up SMEs. The major challenges and area wise challenges faced by the SMEs are discussed in the previous chapter. Mean value are collected with the data collected from the study area to have idea about the severity of those challenges. In this chapter the major challenges faced by the entrepreneurs is discussed. This chapter basically consists secondary information and review work. On the basis of those major challenges necessary recommendations have been provided to overcome the basic constraints. At present SME sector is facing a lot of challenges in Bangladesh. Some major problems are as follows;

- **Resource scarcity and Lack of information**

In Bangladesh scarcity of raw materials hinder the ability of SME to be export oriented and limits its ability to reach more advanced stages of international business. Miah (2006) has observed that SMEs have very limited use of information technology (IT). Accounting package is used by 1-2% of the SMEs. The use of computers is revealed by say 15% of the SMEs, while the use of the Internet for business purposes applies to say 8-10% of SMEs. I have an idea to produce a very useful items I do produce it but information is not available on demand of this product is highest in which location. I can not place the product into a demand full market in right time. Then loss incurs and SMEs suffers badly from lack of operating capital. In such case government has to take initiative so that SME information goes to general peoples reach. Only one SMEWP is not sufficient to distribute SME information to the whole nation. Because how many SME entrepreneurs know to browse internet is a big question? Rigorous promotional campaign is necessary here.

- **Lack of entrepreneurship skills Participation of women entrepreneurs**

Conservative attitude towards risk, lack of vision, ability to make plan and implementing those hinder the growth of SME in Bangladesh. Equality of opportunity is a major problem for SME. Female entrepreneurs are treated discriminately. They are not well represented in business organization. Government does not provide adequate institutional assistance for women entrepreneurs.

- **Poor Infrastructure and utility supply:**

There is a tendency of urbanized industrialization in Bangladesh. Everything is Dhaka based to create one more hours of traffic jam and pollute the Boriganga once again. But why is it happening? This is because infrastructure facility is so measurable in any rural destination of Bangladesh. Utility mainly electricity and gas supply is impossible to get connected in any rural even sub urban areas. Existing SMEs are suffering badly due to load shedding of electricity. Production oriented SMEs are incurring losses by paying idle workers wages during long load shedding period. In one particular period of each year gas pressure remains so little that it makes no sense. So poor infrastructure and disrupted utility supply is the major barrier for our SMEs.

- **Traditional Technology:**

SME owners generally use local technology to produce goods but these are not productive enough to fulfill market demand, or not producing quality / beautiful products to compete with the low cost Indian & Chinese products freely available in our local market. As a result our SME entrepreneurs are losing their livelihood due to poor technical know-how. Immediate actions should be taken for replicating global success stories in SME. Before 2013 Bangladesh is weaved from TRIPS agreement implementing under WTO. So this weaver facility should be utilized by us to strengthen technical base of our SMEs. Sector specific technical institute can be established.

- **Low productivity of labor:**

Bangladeshi SME sector is employing about 82% of workforce and producing around 50% of industrial output. This statistics proves that our labors are low productive. It may be for their inefficiency, may be for poor technology or what ever it is. But if we can deploy adequate technology and train up the workforce then our SME can produce twice output with their existing manpower. Training for the existing manpower is essential for greater output.

- **Lack of entrepreneurship development program:**

In Malaysia there is a Ministry called Ministry of Entrepreneur and Cooperative Development. They have different divisions and wings for operating training, motivation, innovative support for entrepreneurship development. But in Bangladesh there is no agency even not a single educational institution called Entrepreneurship Development Institute. Basically to create entrepreneurs there is no hard and fast faculty but for effective entrepreneurship generation entrepreneurship education is very necessary. For the SMEs government can establish an SME Entrepreneurship Institution under SME Foundation or enlarge BITAC to serve the purpose.

- **Lack of sector specific skilled manpower:**

There is not educational institute or technical college in Bangladesh equip with modern technologies of our fast growing industrial sector for training up people to employ in that sector. For example there is not plastic and rubber faculty in Bangladesh though it's a growing sector with tremendous export potentials. Scenario is same in other promising sectors as well. Our polytechnic institutions should be equipped with machinery and faculty of our most promising sectors to produce skilled manpower to meet up their labor crisis.

- **Access to Market and lack of awareness regarding the importance of marketing tool**

For SME, owing a retail space is very expensive in the major cities in Bangladesh. As a result many customers are not interested to buy products and services from SMEs. Because they can't judge the quality until they physically examined the product. Most of the cases SMEs in Bangladesh are not able to use the Integrated Marketing Communication (IMC) tools. But these tools play the role of important stimulus to motivate the customers and retain them. The country does not have enough marketing capability and resources to invest in marketing. One of the major problems of our SMEs is not to know the market. Where and when his / her product should be sold? They do not know how to get export market access. Even how their products have to be promoted for consumer's attraction with low cost promotion is not known to them. Government can take the lead to promote our SME products in home and abroad. All our missions abroad should have one SME product display and sales center for introducing our SME products in abroad. All our international airports, tourist spots and five star hotels should have one SME product display and sales center for the

same. Marketing training can be given to the small entrepreneurs to educate them in marketing techniques.

- **Illegal imports and non-tariff barriers:**

Both illegal import and non-tariff barriers are threats to our SME sector. If banned products are smuggled into the country domestic production will be harmed. Our SME products are facing many non-tariff barriers in different markets. Related government agencies can be more active to minimize both types of problems.

- **Lack of Skilled Technicians and Workers**

Lack of skilled manpower is a perennial problem in Bangladesh. This problem is particularly acute for small and medium scale export oriented enterprises. Bangladesh has made large inroads in the world's apparel market through commendable performance of RMG sector. However, the value addition of the products is low. Despite high demand, Bangladesh cannot make much entry into high value fashion wear exports due to dearth of trained workers. Supply capacity is thus constrained by non-availability of skilled workers.

- **Poor Management Skills of Entrepreneurs**

In the modern day economy, managerial skills for undertaking planning, marketing, and cash flow management are vital for survival of an industry, small or large. SME entrepreneurs in Bangladesh are very much lacking in managerial skills and are not used to strategic planning. It is natural that they are unable to survive market failures. The concept of managerial training for SME entrepreneurs yet to take root in Bangladesh.

- **High competition from cheap Indian & Chinese products due to liberalization:**

With the stronger flow of free market economy and globalization of trade extensive competition have to face by our SME products in our native market as well. There is no option but to produce quality goods in a cheaper price. Updating technology and skill manpower is essential to do so. Today is the time to make us more competitive and enlarge our market share in globalizing free market around the globe.

- **Lack of marketing opportunities:**

Our SME sector includes a wide range of small and cottage industries, but they do not have marketing knowledge and capability to promote their products. If the government takes initiatives

to promote their products abroad or help establish cooperatives to conduct marketing in the same sector, then the sector can be facilitated to achieve sustainable growth.

- **Lack of exposure to international markets:**

Our SME sector is producing handicrafts and decorative and household items having high demand in the developed market, but the demand is now being met by other countries. The government can take initiative to market such products and play match-making role to facilitate the export of such products.

- **Enabling environment for Trade and Business**

Although trade and business activities are carried out by the private sector independent of government control, existence of enabling environment like supportive regulatory framework, congenial tax regime, developed transport and communications infrastructure is vital for SME development. Bangladesh has made some progress in this direction but it still falls short of present day needs. Other constraints of a general nature are inefficient infrastructure support especially power, widespread tariff anomalies, low productivity of labor, low level of technology, lack of research and development and low level of education of SME entrepreneurs in general.

- **Inability to Market SME Product**

The present and future growth prospect of any product depends to a large extent upon marketing activity. This requires having a well-planned marketing strategy including advertisement campaign as well as resources for implementing that strategy. Unfortunately, SME entrepreneurs are at the bitter end in this respect as they cannot make adequate investments in marketing and also lack necessary marketing skills.

- **Inability to Maintain Product Quality**

A major constraint to the sustainability of SME growth in Bangladesh is the inability to maintain the quality of SME products. At present Bangladesh produces mostly common consumer goods which are labor-intensive and require relatively simple technology. But due to poor quality these products cannot stand competition from imported products. The challenge for Bangladesh today is not in competing with high-tech products of developed countries but to make its SME sector survive competition from its rivals.

- **Lack of testing facility:**

Day by day private standards of the importing countries are becoming toughest. To get access to any western market we must have to comply with WTO SPS requirements and other international standards. In Bangladesh we are till not having facility to test many sectoral products. So upgrading our testing laboratories according to current need is important. BSTI should take lead to ensure all accreditations and testing facilities to all promising export oriented sectors in this regard. Obviously BSTI deserves strong financial support to execute this program. More standard service providing firms should be there from private sectors as well to provide ISO, HAACP, Credit rating and other international standard certification in Bangladesh so that our SME products get international recognition from the standard view point.

- **Loose imposition of IP law:**

Today we look into the IP implementation as a barrier but days will come up when we will have to take it as a weapon to protect our IP right world wide. Strong IP law imposition can help us in Branding Bangladesh as well. Without a recognized Trademark, a secured industrial design, a granted patent right how we will go forward with the copy tendency international market. So for the sake of our SMEs government should go for strong imposition of IP law but one or two sectors can get relief under fare use like education purpose, health care etc.

- **Absence of skilled channel of distribution to ensure fare price of growers:**

If we look into the cottage industry in rural Bangladesh we are producing many diversified products in different sectors. But producers are not getting the deserving price for these due to lack of market orientation. A strong market platform can help producers to deserve price and inspire to produce more. Gramen Check took and initiative to marketing hand loom products, Arong, Agura are marketing some fashion products but nation wide or export oriented initiative is lagging behind. SME Foundation can enlarge there mandate to establish such an SME Channel of Distribution for the shack of the SME sector.

- **Lack of veterinary / animal health care facility:**

SME is not limited with only industrial products; it includes farming, hatching and growing as well. But veterinary health care or plant healthcare facility is rarely available in Bangladesh. Government should take active initiative to facilitate such services through livestock and poultry wings of the

government. Thus agro farming can be booted up at the same time country nutrition problem can be solved.

- **Absence of SME support centers:**

Till now a few consulting firms are providing consultation services but with high charges. We should have more SME support centers to give advice to the potential entrepreneurs to prepare project proposal, formulating marketing strategy, designing products, upgrading products quality for the SMEs.

- **Absence of an individual SME Policy:**

There is an SME policy strategy 2005. But many of its articles become obsolete today. So drafting and implementing an individual SME policy based on current need is very much essential today. It should be conform to our import policy and export policy for greater benefit out of it.

- **Absence of policy for transfer of modern technology:**

The sector is suffering from lack of technological support for upgrading the product quality. The government may seek support for the purpose through multilateral trade negotiations under the umbrella of the World Trade Organization (WTO). This can facilitate smooth growth of the sector. The prime minister urged businessmen to invest in Bangladesh during her recent visit to the US. But the unavailability of appropriate infrastructure facilities such as water, electricity and gas hampers industrial activities. This situation has to be rectified, otherwise we will not be able to attract any FDI.

- **Law and order situation:**

The members of the business community, especially those involved in the SME sector, suffer because of the law and order situation. Rich businessmen may have access to police help but the small entrepreneurs do not have such access. Our political parties have to be committed not to let the law and order situation get out of control.

- **Complicated bureaucratic procedures & Absence of transparent legal system**

Wang (1995) observed that the inadequate government supports are top ranking constraints for SMEs. Unnecessary layers of Bureaucracy and red-taps reduce the competitiveness of SME and raising the cost of transactions and operations. The absence of an effective and transparent legal system discourages SMEs in exploring into risky ventures of business. There are a number of unnecessary formal requirements to start and run business that create high compliance costs and

become barriers to SME development, growth and market entry. To start a manufacturing plant we need a series of license, registrations and clearances. For example to start an SME we need a. Trade license issued by the local government office (UP Chairman, City Corporation office) b. Trademark registration register by the Office of Patent, Design and Trademark Register under the Ministry of Industry c. TIN Number from NBR or Income tax Office under ministry of Finance, d. VAT registration from the same authority, e. Membership of any trade body (district chamber or sectoral association), f. Import registration certificate from CCI & E under ministry of commerce g. Export Registration Certificate from the previous office. h. Environment Clearance from the ministry of environment i. Fire clearance from the fire Bridget and many more. Completing all these formality is not so easy and every desk needs bribe to be passing out with your file. This time consuming and corruption promoting system should be making easier. Any SME owners can start his / her business without any prior permission and concern local agency will go to him collect government prescribed revenue and provide his registration or clearance. Thus SME entrepreneurs can get relief from harassment and real SME promotion will take place.

#### **5.1.2. Financing and other related constraints to SME Development in Bangladesh**

Availability of finance hinders the growth of SMEs in Bangladesh. Bangladeshi bank considers SMEs as high risk borrowers because of their inability to comply with the bank's collateral requirements. Only about 15-20% of the owners of SMEs own any immovable property. Bankers issue loan on the basis of ownership of immovable property as collateral risk. As a result it automatically excludes rest 80% SME's from the list of privileged clients of the banks. Whatever collateral SME's can manage gets used up in talking the term loan leaving them with no means to seek working capital loans from banks. Because of low access to institutional financing SME's rely on inefficient financing services from informal sources. There are a few initiatives visible from the government side to boost SMEs, dealing with their problems and facilitating them, promoting them. Major achievement of the government for SME support is to establish SME Foundation for advocating in favor of them, to guide them, facilitating SME loan for the poor SMEs. Strengthened SME foundation with a very dynamic leader from the private sector (for the first time government came out of the hurdle of bureaucracy but how much and for how long? This question remains there). There are so many things to do for the SMEs which are not covered by SME Foundation's mandate. They have limited resources, bindings of mandate and many more. But hope for the best that SME Foundation will



contribute in SME promotion, guide the SMEs into export orientation and bargain with government with their problems. Now let us turn our attention to the challenges and barriers our SME sector is fighting with? These barriers deserve immediate action from the government for boosting up the SMEs. These are as follows:

- **Unavailability of collateral free bank loan:**

Maximum SME initiatives come from single brain without any institutional orientation and they are with holy motive of self employment and revenue generation for the family expenditure not for being bank defaulters. They do not afford providing a collateral or guarantor to produce before bank to get a small loan. They are only dream sellers sometime with excellent ideas. Financing those ideas to bring the dreams into reality should be there. Government has to take some risk of distributing collateral free bank loan to the SME entrepreneurs is essential here. I am fully confident that thousands of SME defaulters can not be equal to a single bank defaulter in large industry of Bangladesh. But good news is that small loans pay back record in Bangladesh is hundred times better than the large scale investment loans.

- **High Bank interest rate:**

To make profit with 13% bank loan, employing people, paying rents, and other utility charges SMEs have to do sales products with a 50% plus rate of their manufacturing cost. But with 5 – 7% bank interest rate our competitors in India or China will not take the market vacant for Bangladeshi SMEs. To sustain in a competitive global market we have no option but to produce quality goods in a cheap rate. But by paying double digit interest it is not possible. As a result to remain us competitive we have to reduce bank interest rate up to single digit. Especially for the SMEs the interest rate should be

- Investment amount of TK. 50 thousand – 5 lac should be completely collateral free and the interest rate would be not more than 3 per cent.

- Investment amount of TK. 5.5 lac – 50 lac with collateral or a guarantor's recommendation with less than 5 per cent interest rate.

- Investment amount of Tk. 51 lac – 10 crore and above with all sorts of collaterals with less than 7 per cent interest rate.

- **Lack of government support to search export market:**

Our poor SME owners are not capable to search their products market in abroad. Government has to take the lead here through SME Foundation to search new export market and facilitating access to that markets. If primarily government plays the match makers role then individual or collective platform will be raised to continue the effort to export into those markets. Thus government can help in SME development result will be more employment generation, increase in revenue earnings, and earning foreign currencies. All our economic ministers and commercial counselors abroad can be given special assignment in this regard. At the same time assignments will have to be analyses based on their performance and providing reward or punishment.

- **Lack of capital support:**

A majority of our small and cottage industry entrepreneurs belong to the lower class or lower middle class. They are hard workers, innovators, and challenge-takers, but cannot get funding from commercial banks due to their inability to provide collaterals. The government can establish an SME bank to provide collateral-free bank loans to SME entrepreneurs.

- **Inadequate policy reforms:**

Till now, we do not have a uniform definition of SME. The Bangladesh Bank, Bureau of Statistics, and SME Foundation have different definitions of SMEs. Government may take necessary initiatives to make it uniform. We can suggest another major policy reform, differentiating small and cottage industry sector from the SMEs. Because they are larger medium enterprises are enjoying credit allocation facilities while the small and cottage industries sector hardly gets any loans. So, small and cottage industry sector should be separated from the SME sector.

- **Lack of Investment Finance and Working Capital Finance**

It goes without saying that access to finance particularly working capital finance and investment finance to enable them to expand their business is a prime constraint facing the SMEs. Banks in general do not consider SME financing as profitable activity. SMEs are also regarded as high risk borrowers because of their low capitalization, insufficient assets and high mortality rates, and consequently banks are not keen to offer them credit at comparable interest rates. SMEs in the export sector also face problems of access to working capital.

- **Non-Tariff Barriers (NTB) and Changes in World Trade Regimes**

Liberalization of industrial and trade regimes in the wake of globalization are likely to have significant effects on Bangladesh's SMEs. Over the past decade there has been a significant change in the world trade regime with new regulations coming into effect. WTO agreements such as Application of Sanitary and Phytosanitary Measures (WTO SPS Agreement) to trade in agriculture products puts NTB restrictions on trade. WTO agreements not only cover the traditional goods sector, but also new sectors like services. Lack of knowledge about the current status of WTO Agreements hampers trade and business. Long-run economic prosperity will critically hinge upon turning the challenges of globalization into opportunities.

- **Barriers in access to finance for women entrepreneurs**

Discrimination still exists regarding access to finance by women entrepreneurs. Studies on the subject noted that women contribute around 26 per cent in total deposit of the banking system but their access to credit is below 2 per cent of the total outstanding loans. This is an unfortunate situation. Access to finance is one of the most critical constraints faced by women entrepreneurs. Although most of the banks have SME banking, few women apply for the bank loans as they need to submit a number of statements such as bank statement of the enterprise, reference of guarantor etc. for collateral free loans. Problems were more pronounced for women entrepreneurs in the informal sector. A recent study noted that about 79 percent of women entrepreneurs in this sector had no access to formal financial institutions and depended on own savings and family as source of capital to start a business (Chowdhury, Farzana, 2008). Small and Medium Enterprises Development in Bangladesh Banking system is not adequately focused on women-owned enterprises. Banks usually consider women entrepreneurs in SME to be high-risk borrowers. The kind of collateral usually considered by banks as appropriate security is land and building. Women usually lack ownership of land and hence the collateral requirement of land and building is a constraint for them to access institutional finance. Lack of collateral makes women entrepreneurs more risky for banks. Although women have proved their repayment capacity with a repayment performance of 90 percent in the field of micro credit, commercial banks perceive them to be of high risk. Most of the small women entrepreneurs do not have a credit history, and so there is no CIB report on them. These barriers induce female entrepreneurs to take recourse to informal sources of finance, which has a negative impact on their growth potential.

### **5.1.3.Barriers for SME Products Export**

**(i) Insufficiencies Information:** Problems in identifying, selecting and contracting international markets due to information insufficiencies. (i) Limited information to locate markets; (ii) Unreliable data about the international Market; (iii) Locating foreign business opportunities; (iv) inability to contact overseas customers;

**(ii) Functional Barriers:** Insufficiencies of various functions internal to the enterprises such as human resources, production and finance with regards to exporting: (i) Lack of managerial time to deal with internationalization; (ii) Insufficient quantity of personnel for internationalization; (iii) Lack of excess production capacity for exports; (iv) Shortage of working capital for financing exports;

**(iii) Marketing Barriers:** Pressures imposed by external forces on adapting the elements of the company's marketing strategy including barriers associated with the company's product, pricing, distribution logistics and promotional overseas: (i) Developing new products for foreign markets; (ii) Adapting export product design/style; (iii) Meeting export product quality/ standards/ specifications; (iv) Offering technical/after-sales service; (v) Offering satisfactory prices to customers; (vi) Granting credit facilities to foreign customers; (v) Complexity of foreign distribution channels; (vi) Maintaining control over foreign middlemen; (vii) Unavailability of warehouse facilities abroad; (viii) Excessive transportation/insurance costs; (ix) Adjusting export promotional activities to the target market;

**(iv) Procedure Barriers:** Barriers associated with the operational aspects of transactions with foreign customers. (i) Unfamiliar exporting procedures/ paperwork; (ii) Difficulties in communicating with overseas customers; (iii) Slow collection of payments form abroad; (iv) Difficulties in enforcing contracts and resolving disputes;

**(v) Government Barriers:** Barriers associated with the actions or inaction by the home government in relation to its indigenous companies and exporters. (i) Lack of home government assistance/incentives; (ii) Unfavorable home rules and regulations; (iii) Unfavorable foreign rules and regulations;

**(vi) Customer and Competitor Barriers:** Barriers associated with the firm's customer and competitor in foreign market's which can have an immediate effect (i) Different foreign customer habits/ attitudes; (ii) Keen competition in overseas markets;

**(vii) Business Environment Barriers:** Barriers associated with the economic, political-legal and socio-cultural environment of the foreign market's within which the company operates or is planning to operate. (i) Foreign currency exchange risks; (ii) Unfamiliar foreign business practices; (iii) Different socio-culture traits; (iv) Verbal/Non-verbal language differences; (v) Inadequate of infrastructure for e-commerce; (vi) Political instability in foreign markets;

**(viii) Tariff and non-tariff Barriers:** (i) High tariff barriers; (ii) Inadequate property rights protection (PRP); (iii) Restrictive health, safety and technical standards; (iv) Arbitrary tariff classification and reclassification; (v) Unfavorable quotas and/ or embargoes; (vi) High costs of customs administration;

SMEs are heterogeneous by their characteristics, mode of operation and types of SME products and processes. As such it is difficult to make sweeping generalization about constraints facing SME entrepreneurs.

## **5.2. Recommendations for SME Development in Bangladesh**

There are eleven booster sectors for SMEs comprising of Electronics and electrical; Software-development; Light engineering and metal-working; Agro-processing/agri-business/plantation agriculture/ specialist farming/tissue-culture; Leather-making and leather goods ; Knitwear and ready-made garments; Plastics and other synthetics; Healthcare & diagnostics; Educational services; Pharmaceuticals/cosmetics/toiletries; Designer, aesthetically-challenging, personal wear and effects sectors. We have unlimited low cost labor but at the same time they are low productive as well. Short term trade courses may be offered to skilled up existing labor working in the industries for increasing there productivity. One recent study shows that Bangladesh is the cheapest country in Asia for all factors of production like cost of land, labor, house rent, office rent, mid level executives salary, labor wage, and utility bills. So we have every opportunity to grow with these competitive advantages. Bangladesh is offering series of fiscal and non-fiscal incentives for FDI investors but till now we are under performing in FDI attraction. But why is this? This is because we are not targeting project base investors. EPZ Facilities: We are offering a world class investment environment in EPZ areas but EPZ are located in different locations around the country. How these products will be carried out towards the nearby port is important here. Developing highway capability is essential here. All the EPZ should be connected with the nearby port by a four lane

highway. Our SMEs can perform better due to large domestic market demand. At the same time we have comparative advantage to access into Indian seven sisters market even more than that through SAFTA agreement. SAFTA, BIMSTEC and APTA comprising more than half of the world population. That means we have easy access to the half demand of world market in our hand. Just we are in need of a better quality production with a competitive pricing range. Bangladesh is getting duty free access into the EU market under EVA scheme. This may offer a special advantage to our exporting products into the EU (One of the largest and richest market of the world). As an LDC we are supposed to get special preference around the world under WTO if DDA implemented soon. So we have every opportunity to promote our SME for export oriented production. Now is the time to prepare our self to utilize the opportunity in home and abroad.

The SMEF/SME Cell should be strengthened, SMEF (Small and Medium Enterprise Foundation) personnel need to have practical experience, increase workforce in SMEF, create infrastructural facilities (roads, electricity, gas, water etc), establish industrial parks at various locations, create subcontracting facilities, so that specialization takes place.

There are about 6 million SMEs in Bangladesh. This is the single largest industrial sector of the Bangladesh economy. SMEs may become the main foreign currency-earning sector for the country if they get enough nursing with professionalism. The government has established SME Foundation, and a very qualified chairman, a prominent businessman, has been recruited from the private sector. But the government has to allow him freedom to execute his plans, and ensure financial assistance. This sector can be a sustainable tool for alleviating poverty, increasing household earnings and boosting export earnings. For achieving them, we must first conduct a "Strength Weakness Opportunity and Threat" (SWOT) analysis for this sector. Despite the barriers noted above, our SME sector has some strategic advantages. This sector needs lower capital investment to start businesses and generate employment at lower cost. Risk involvement in SME sector is lower and start-up period is shorter. Though most of our SME products are not exported, they are meeting our local demand. As a result, we are getting low cost products in domestic market. The prices of local fabrics are lower than those of countries due to the production of the same by the SME sector. SMEs are producing import-substitute products, thus saving foreign currency. SMEs are linking production-chain by working as backward and forward linkage units for the industrial sector. Though the global financial crisis is threatening the export sector, it may also open up opportunities

for SMEs. Increase in labour wages in China, India and Brazil may offer an advantage for our SME products. If proper initiatives are taken, our SME units can explore the opportunities for new export markets. Government can strengthen the SME Foundation for accomplishing this. Recently, Asian Development Bank (ADB) provided funds for SME sector development. In order to overcome the problems the following suggestions are recommended;

### **5.2.1. Government Related Recommendations**

Government and private organizations should come forward and take different awareness raising programs in order to change societal attitude towards entrepreneurs. The Government needs to be more proactive in monitoring credit operations of various NGOs through proper audit and control. Cheap credit should be ensured to promote entrepreneurship. Special attentions should be given to promote income-generating programs in rural and urban areas. Programs need to be taken to train and literate the women entrepreneurs and make them socially aware. Commitment of the Government can flourish women entrepreneurship development, but such commitment would require establishing some rural women entrepreneurship development policies and rules. The functions of Directorate of Women's Affairs and the Directorate of Social Welfare in each district have to be focused to the needs and problems of rural and urban women. Both electronic and print media can be used to create social awareness among the SMEs. Government must have to take adequate measures to ensure the uninterrupted supply of raw materials for entrepreneurs. Government and financial institution may provide adequate finance for modernization and technological advancement to the entrepreneurs. Development of infrastructure is essential for the optimum growth of entrepreneurship. So government of Bangladesh needs to take appropriate policy strategy for the infrastructure development of Bangladesh. In order to ensure the retention of skilled workforce the government should make the entrepreneurial career attractive by minimizing the uncertainty. In order to encourage entrepreneurship govt. may; involve entrepreneurs in policy formulation and implementation, arrange funds for entrepreneurs. Provide necessary training to entrepreneurs in rural and urban area of Bangladesh. The need for marketing support for selling the output of entrepreneurs is a vital factor; channel of distribution should be built up with Government assistance. For selling the products of entrepreneurs', annual fair and exhibition of products may be arranged regionally, nationally and internationally; entrepreneurs have severe problem of availability of raw materials in right time and at price. For this purpose communication system of different

areas should be improved; Infrastructure facilities such as transport and communication facilities, supply of electricity and other utilities in the different areas should be improved. Appropriate technology should be adopted to improve quality of the products. Create proper transport and fast communication facility and ensure to create opportunity to get better quality raw materials at reasonable cost. Govt. should Support to export goods and abolish of middle man as well as provide facility to overcome the institutional and administrative barriers as well as corruption. Govt initiative must be ensured regarding tax, VAT and corruption. Provide RET facility to the entrepreneurs such as solar equipment, bio gas plant initiative could be taken by the Govt and central bank

### **5.2.2. Bank and Financial Institute Related Recommendations**

Banks should follow integrated and specific procedures for identification of potential entrepreneurs. After the identification the support and sustaining services must be extended to them for desired growth of rural and urban entrepreneurship. The procedures of sanctioning loan should be simplified and loan application must be appraised as early as possible. The delay in processing loan needs to be reduced and specific time limit may be fixed to dispose of different aspects of loan processing. The rate of interest for loans to working capital should be reduced for the Small and Medium entrepreneurs and loans should be invited on concession rates .The margin of security should also be liberalized. Bank loan policy should be linked with industrial policy of the country. There should be an allocation of fund in the loan portfolio of banks to supplement the Government development plan and industrial policy. The bank authority can help to supply quality raw materials at the due time and to store raw materials for the future courses of action. Banks should maintain facilities for easy access of SMEs within bank premises. Banks and other development organizations may help the small and medium entrepreneurs to use co-operative idea in overcoming the loan as well as marketing problems faced by the entrepreneurs. Existing credit sanctioning procedure should be changed. The number of installments may be increased may be increased to repay the loan easily for the entrepreneurship development. Government and the bank should make the entrepreneurs trained up and the necessary facilities should be provided. All categories of entrepreneurs have been suffering from shortage of capital for expanding their activities. The credit limit should be adequate enough to the short and long-term financial requirements. In order to avoid overlapping, banks should co-ordinate their activities with other NGOs that are also engaged in delivering micro-credit among rural entrepreneurs. It is also widely recognized that imposing



sound credit supervision system may solve the problem of fund diversions and improper utilization of money. Banks and NGOs may open sister organizations which would act as an insurance company for natural calamities. Such companies could provide crop insurance, poultry insurance, dairy insurance, other manufacturing and processing products insurance, and service insurance to protect the entrepreneurs against natural calamities and hazards. The entrepreneurs should be provided with sufficient informal training to improve their skills to take care of their poultry and fisheries. Moreover, bank and development organizations could establish warehouses in each of their operational areas to cover shortages of agricultural products by their borrowers. All the commercial bank should create awareness among the entrepreneurs about the banking facility and offer proper information regarding taking loan and give appropriate advice to utilize the amount of the loan. Bangladesh Bank, Commercial Banks, Specialized Banks, financial institutions and Non Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective small and medium entrepreneurs in Bangladesh. *SME* foundation may take appropriate marketing tools to popularize the products of the entrepreneurs.

### **5.2.3. Training & Consultancy Related Recommendations**

Training programs are needed for entrepreneurs' development. Most of the entrepreneurs use traditional technology-based manual skills in their business. Technology can play a role in saving money, increasing productivity, and increasing the quality of output. Entrepreneurship Development Institution (EDI) in each Thana can provide well designed training to the entrepreneurs. For providing consultancy service to entrepreneurs the knowledge of retired may be used in an organized manner, promotional institution or bank may take immediate steps to prepare a list of volunteers who are prepared to offer such services. Education facility and other special facility should be provided to the entrepreneurs. Technical knowledge and training facility for the entrepreneurs must be ensured in all the district of Bangladesh. Workshop and seminar regarding business, trading, marketing and banking activities should be conducted in all the districts of Bangladesh initiated by any public, private or international organizations. Proper facilities should be providing for the access to the information. Encourage entrepreneurs for IT based business and e-commerce. Awareness should be created among the entrepreneurs about the modern transaction and manufacturing as well as marketing activity. It is obvious that innovation, education and

training are needed for entrepreneurship development. Practical need based training should be provided to the entrepreneurs to innovate new ideas.

#### **5.2.4. Other Significant Recommendations**

Awareness should be created about the entrepreneurship. The entrepreneurs should be informed and provided facility to expand the business internationally. They should be inspired and offered facility for using renewable energy sources. Awareness must be ensured against informal credit system with high interest rate. Small and medium entrepreneurs should be provided credit facility without too much documentation and hassle and lengthy process. Proper strategies and policy must be ensured with the focus of general people who don't have high official contact, knowledge or any political involvement and ensure easy reach facilities.

#### **5.2.5. Recommendations for Export Development of SME Products**

The proposed strategies and policies need to be implemented on short term, medium term & long term basis.

- 1. Extensive Financial Support to SMEs:** Various banks, financing institutions, NGOs may further increase its technical and financial support to SMEs through its various financing facilities and windows, which may significantly contribute to the creation and development of SMEs.
- 2. Trade Fairs, Exhibitions, Symposiums, Seminars and Workshops:** Trade fairs, exhibitions, symposiums, seminars, workshops etc. on SMEs should be organized on a regular basis. Publications of all these events should be made available for all SME establishments. Chambers around the country can arrange exhibitions for SMEs products, so that larger number of consumers may gain awareness about the diversity and quality of SMEs products.
- 3. Periodical Professional Training Courses for SMEs:** Periodical professional training courses should be arranged for technical staff of SMEs. Moreover training in management of small enterprises and efficient marketing can also be provided. Training programme/workshop should be organized for the development of SMEs capabilities to acquire enhanced knowledge and skills about how to choose, use and improve technology.
- 4. Seed Money, Leasing, Venture Capital and Investment Funding:** There is a great need for improving different aspects of financial services of SMEs, such as seed money, leasing, venture capital and investment funding.

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

**6. E-Commerce:** Electronic Commerce has also great potential for development around the country and abroad. Through this device, matching of buyers orders to sellers can be done in such products in which SMEs are dealing. Such exchange of information about sellers and purchasers shall be most useful for Agro products, leather products, textiles and clothing, IT and metal products as well as raw materials and intermediate goods.

**7. Alleviating Poverty through SMEs Development:** There is great scope of alleviating poverty through SMEs development. So poverty alleviation strategies and policies for SMEs should be developed, in order to provide job opportunities and enhance living standards for large segment of this poverty ridden country.

**8. Expansion and Diversification of SMEs:** Bangladesh's industrial sector needs expansion and diversification. For this purpose, growth of SMEs is essential. However, SMEs have to equip themselves with modern technologies and effectively use them to raise their production efficiency.

**9. Inter-Firm Linkages:** In order to develop sub-contracting among large and small enterprises around the country and between Bangladesh and other SAARC or OIC countries, Subcontracting Exchange Schemes can be launched. Professional associations and National Chambers can set-up such establishment. They may collect information about engineering industries components, and what vendor industries can provide such components. In this way, inter-firm linkages could be expanded at home and abroad.

**10. Credit Guarantee Scheme & Financing of SMEs:** Financing SMEs can be successful, if two arrangements can be undertaken: (1) Separate institutions dealing with SMEs loans should be established around the country. They can provide adequate volume of finance, on less strict terms and can supervise the loan repayment process as well. (ii) Credit guarantee schemes. Credit guarantee schemes for SMEs can be an effective means of supporting small enterprises development, especially in our country where access to credit is constrained for small borrowers.

**11. Sub-Contracting Exchange Schemes among Large and Small Enterprises:** In order to develop sub-contracting among large and small enterprises among member countries, Sub- Contracting Exchange Schemes can be launched. Professional Associations can set-up such an establishment. They may collect information about engineering industries components, and what vendor industries can provide such components. This way inter-firm linkages can be expanded around the country.

**12. Technology Transfer:** Technology transfer is of vital importance for development of SMEs. Technology transfer through various means and reverse engineering to be arranged through Government and private levels.

SMEs will continue to be the major driving force for income and employment generation in Bangladesh. The future for entrepreneurship appears to be very bright. We are living in the age of the entrepreneur, with entrepreneurship endorsed by government, business community, educational institutions, society, and corporations. Development of SMEs in Bangladesh is the need of the hour to raise the standard of living of the people of our country.

- **Market Development Initiatives for Export**

A major focus of the trade associations and chamber bodies should be to gather information regarding existing and potential markets and advise entrepreneurs regarding products and their qualities which are in demand now or can be in demand in future. What design and packaging charges and improvements would make particular products more attractive to customers, particularly abroad, should also be regularly assessed. Properly designed market development efforts such as negotiations, advertisements and exhibitions, both at home and abroad, that would be helpful towards expanding sales should be in the portfolio of their market development activities. Like many other countries the SMEs of Bangladesh have been affected by the precipitous economic liberalization in the early 1990s without first taking action preparatory to liberalization. All kinds of foreign goods including ordinary consumer items have been coming into the country easily. The domestic industries, given their relative inefficiency, cannot compete with these imported items in terms of price and also, not infrequently, quality. As a result existing enterprises have been failing and possible new ones have not been coming up initiating a process of de-industrialization. Finally special care must be taken both by the entrepreneurs as well as by the relevant government agencies to, ensure quality control and to make the products up to the international standard to

remain alive in the competitive world market. Consequently, small businesses always trying to keep one step ahead of their rivals".

### **5.2.6. Recommendations for the Development of SME Financing**

SMEs are seen by many national governments and international development organizations as important engines of innovation, economic growth, employment, and poverty reduction. In order to overcome the above mentioned problems the following suggestions are recommended;

- **Refinance and Appropriate Policy by the Government**

Government, financial institutions and Non Government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh. In order to ensure the retention of skilled workforce the government should make the entrepreneurial career attractive by minimizing the uncertainty. In order to encourage women entrepreneurship govt. may; involve entrepreneurs in policy formulation and implementation, arrange funds for entrepreneurs, provide necessary training to entrepreneurs in rural and urban area of Bangladesh. *SME* foundation may take appropriate marketing tools to popularize their products. In order to improve the 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. Govt. may also provide assistance to SMEs during the certification process and promote the importance of product certification for international acceptance among the SMEs. 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. Restriction may be imposed on import of SMEs' products which are available in Bangladesh. **Special SME Development Fund:** Government should set up special funds to raise the required equity capital for SMEs with the potential entrepreneurs. **Credit Guarantee Scheme, Alternative Credit Scheme:** Government should provide mortgage and guarantee free loan up to a certain limit under the credit guarantee scheme and Financial Incentive Scheme: **Institutional Network:** Development should be done on institutional network through public-private support partnership would be more effective in SMEs financing by pooling the unused or surplus funds available around the country.: **Venture Capital:** Venture capital formation for SME financing should be highly encouraged through enforcement of proper rules and regulations by the Stock Exchange Commission (SEC) and other key players including the Bangladesh and private

support organizations. **Bank Syndication Scheme:** Forming bank syndication between micro finance institutions and commercial banks for SMEs financing. Micro finance institutions should provide recommendation and credit history to commercial banks for SME development. HRD in Financial institutions and in Government offices: Government should provide Human Resource development and training program for financial institution employees and related government officials to smooth out the SMEs financing process. **Training and Development:** Relevant associations of Chamber of Commerce and Industries should take the leadership role in promoting SMEs training and development. Sub-contracting arrangements: Government should come up with policies in collaboration with private support organizations to link up SMEs and suppliers of manufacturers and raw materials under the same industry (both backward and forward linkage service providing firms) based on subcontracting / outsourcing agreement. Government, associations of Chambers of Commerce and Industry, credit information bureau (CIB), Bangladesh Bank and Stock Exchange Commission (SEC) and renowned auditing firms should jointly prepare a reliable database, where necessary information about the existing and potential entrepreneurs and formal creditors will be available. **Specialized Financial Institution:** There should be created a separate financial institution to deal exclusively regarding SME financing and promotion of their goods and services, both in domestic and foreign market. **Credit rating system:** Alternative to existing financial tools and leasing, the “downgrading” of banks to preferred target groups, especially SMEs and “upgrading” of successful non- governmental organizations (NGOs) and private support organizations could help to provide finance to Micro enterprises and SMEs. Such approaches can eliminate the need for credit guarantees.

**Table 5.2.6.1 : Opinion of entrepreneurs- Does government or the private institutions can play a better role so that the outcomes from the interactions between players from both sides are maximized?**

	% of Respondents
<b>Need a public private partnership</b>	<b>10</b>
<b>Govt. should provide mortgage free loan up to a limit</b>	<b>60</b>
<b>Should set up an special fund by the Govt.</b>	<b>20</b>
<b>Developing skilled manpower</b>	<b>10</b>
<b>Total</b>	<b>100</b>

The previous table shows that 60% of SME entrepreneurs think that government should provide mortgage free loan up to a limit to the major SME entrepreneurs. 20% of entrepreneurs response that it is necessary to set up an special fund by the government to support the entrepreneurs when they are in crisis. This chapter focuses on various challenges that are faced by the SMEs all over the countries. It is very important to minimize the effect of those constraints upon the entrepreneurs in the SME sector. This chapter also includes some recommendations to overcome those challenges for the sustainable socio-economic development as well as environmental sustainability. SMEs need support of Banks & financial institutions as well as Government.

## **Chapter Six**

### **Policy Implications and Conclusion**

#### **6.1. Policy Implications**

##### **6.1.1 Actions of Government**

Commitment of the Government has flourished the entrepreneurship development, but such commitment would require establishing some rural entrepreneurship development policies and rules. The functions of Directorate of Women's Affairs and the Directorate of Social Welfare in each district have focused to the needs and problems of rural and urban women. The Government is trying to be more proactive in monitoring credit operations of various NGOs through proper audit and control. Cheap credit has been ensured to promote entrepreneurship. Special attentions have been given to promote income-generating programs in rural and urban areas. Programs are taken to train and literate the entrepreneurs and make them socially aware. Both electronic and print media has been used to create social awareness among the SMEs. In FY2013, the gender-related allocation (Tk. 50,344 crore) is about 26.3 per cent of the total budget. This allocation is lower than the previous year's allocation, which was 26.4 per cent of the total budget. This year's share for Ministry of Women and Child Affairs is 0.68 per cent of the total expenditure, which is lower than that of last year (0.78 per cent). The tax-free threshold of income tax for women has been maintained at Tk. 200,000 against the general threshold of Tk. 180,000. Government needs to establish the rule of law by implementing the existing laws and create ethical code to gear up the active participation of people in economic development and take necessary initiative to improve the infrastructure facilities such as communication electricity, utility services (Fuel, gas and water) etc.

- **Institutional Support to Financing Schemes *SME Cell and SME Financing***

Considering the importance of small enterprise financing, a SME cell has been created in 2003 in the Ministry of Industries (MoI). The cell has announced that 80 percent of total resources available for SME would be allocated specially for small enterprises. The SME cell also decided that BASIC and BRAC bank will be working together as lead banks and will be responsible for distribution of credit and venture capital fund in the short run. The SME Foundation (SMEF) is an independent organization established in 2007 with a view to making it an Apex body for looking after the SME sector. The SMEF is capitalized by the Government of Bangladesh with a total endowment of Tk.2



billion. In order to facilitate low cost credit to SMEs, the SME Foundation started credit wholesaling program of Tk. 2.00 crore and it is being implemented by MIDAS Financing Ltd. and Shakti Foundation on a pilot basis. The Foundation developed guidelines for conducting its credit wholesaling program so that SMEs can receive credit at a single digit interest rate under Program through partner organizations. The SME Foundation expects that the SME credit wholesaling guidelines would enable it to reserve Small and Medium Enterprises Development in Bangladesh refinancing funds and give it to banks and financial institutions at rates lower than that of the Bangladesh Bank. The Women Entrepreneurship Development Wing of SMEF seeks to promote the creation of favorable environment for women entrepreneurs through capacity building and bring them in the mainstream of development process and facilitate effective support for these target groups as well as lend support to women's led trade bodies/associations for their building institutional capacity and competitiveness. In a recent move, the government handed over a Tk. 210 crore ADB grant received in 2004 to the SME Foundation. Under this program, banks and non-bank financial institutions will get funds from SMEF at 3-4% interest, while the entrepreneurs will be entitled to loans at 8-9%, in lieu of the present 13-16%.

- **Fiscal and Financial Incentive Support for SMEs by Government**

Besides institutional and policy support for finance, the government also offers a number of fiscal and financial support to the industrial sector including SMEs. The government has lowered duty on import machinery. Businesses exporting 80% or more of goods or services qualify for duty free import of machinery and spares. Value Added Tax (VAT) is not payable on import of capital machinery and spares. Facility of 90% loans against letters of credit is allowed. The government also decided in 2009 that small and medium manufacturing units would get a complete VAT exemption on utilities including electricity and phone, and insurance services.

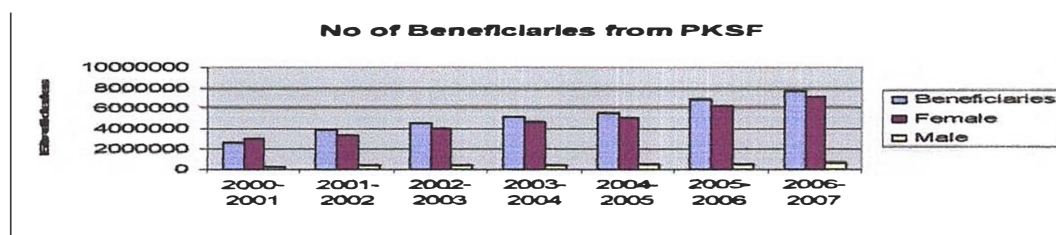
- **Government Initiatives for SME Export Development**

The government has committed in the PRSP and as well as in the Industrial Policy 2005 to consider SMEs as vehicles for quality of life improvement, economic growth and poverty alleviation of the common people. The Government will play the role as a facilitator removing policy obstacles and neutralizing market failures and secondly will provide necessary promotional support to SMEs. The poverty Reduction Strategy Paper (PRSP) Strateg: The Government will pursue an employment

intensive industrialization with emphasis on SMEs and export oriented industries. For promotional support SME policy Strategies 2005 has identified 11 booster sectors. The industrial enterprises identified as Thrust Sectors including small and medium enterprise (SMEs) in the Industrial Policy 2005 will enjoy special fiscal and financial incentives.

### 6.1.2 Attitude Policy Implications

Social attitude towards the operation of women entrepreneurs needs to be changed.. In rural areas different NGO, banks and development organizations are working on women development by providing credit. Government and private organizations should come forward and take different awareness raising programs in order to change societal attitude towards women. Palli Karma Sahayak Foundation (PKSF) has been accepted as an apex micro credit institution of the country and provides organizational support, training to borrowers, starts financing this market segment through its Partner Organizations and the supervising the credit. PKSF has successfully managed to expand the outreach of micro-finance while ensuring a strong focus on financial sustainability. It has been able to increase the number of beneficiaries (both female and male) over the years since its inception and expanded promptly its micro-credit operations in Bangladesh. Total number of beneficiaries under micro-credit programme in Bangladesh is about 3.8 crs.



**Figure 6.1: The No. of Beneficiaries**

It is clear that PKSF's role on household income, vulnerability and non-income dimensions of poverty has also been positive. It satisfies the 23.8 percent requirement of NGOs funds in Bangladesh and has been able to expand the micro finance market by increasing the number of beneficiaries through the partner organizations in Bangladesh. Entrepreneurship courses should be introduced in both formal and informal educational institutions in Bangladesh so that unprivileged women are exposed to possibilities of job creators instead of job seekers. It will empower women with entrepreneurship skill. More organizations and NGO's should come forward to the development of women entrepreneurship in Bangladesh. More practical and need oriented training program should be designed for entrepreneurs.

### **6.1.3 Bank-Related Policy**

Banks has followed integrated and specific procedures for identification of potential entrepreneurs. After the identification the support and sustaining services has been extended to them for desired growth of rural entrepreneurship. The procedures of sanctioning loan should be more simplified and loan application must be appraised as early as possible. The delay in processing loan has been reduced and specific time limit has been fixed to dispose of different aspects of loan processing. Bank loan policy has been linked with industrial policy of the country. There should be an allocation of fund in the loan portfolio of banks to supplement the Government development plan and industrial policy.

Various government organizations including specialized banks are engaged in providing credit to the SME sector. A specialized bank, the BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) was established in 1988 with the foremost objective of financing the small and cottage industries (SCI). The Memorandum of Articles of BASIC contains that at least 50 percent of its loan able fund should be invested in small scale industries. The Bank also offers below market interest rates on SME lending compared to most other banks. Taka 150 crore has been allocated in the budget FY2008 for the development of agro-based industries. This credit will be channeled through Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank, BASIC Bank and Karmasangsthan Bank. Earlier, the Karmasangsthan Bank took up programs to give loans to unemployed youth for setting up small enterprises. In FY2003, the bank disbursed a total of Tk. 28 crore to 9486 borrowers and recovered Tk. 26 crore. The Ansar VDP Unnayan bank used to provide loans to members of the Ansar and Village Defense Party for setting up small enterprises. The bank disbursed Tk. 82 crore in FY2003 and Tk. 67 crore in FY2002. The default loans accounted for 2.08 percent of total outstanding loans in FY2003. Moreover, some other SME financing initiatives were taken by various government organizations, such as the Directorate of Youth Development, BARD, BRDB etc.

#### **BASIC**

Various government organizations including specialized banks are engaged in providing credit to the SME sector. A specialized bank, the BASIC Bank Limited (Bangladesh Small Industries and Commerce Bank Limited) was established in 1988 with the foremost objective of financing the small and cottage industries (SCI). It functions through 17 selected NGOs due to the high cost of

operations. BASIC is mandated to provide 50 percent of loanable fund to small and medium industries and to follow strategies of Industrial Policy 2005. The bank also offers lower interest rates on SME lending compared to most other banks. The following funds are now in operation in Bangladesh governed by different entities like Bangladesh Bank, SME Foundation & Ministry of Finance (Banking & Financial Institutions Division):

**i) Bangladesh Bank Fund:**

- a) Total fund Tk.600.00 crore (Revolving).
- b) 17 Banks & 23 Non-bank Financial Institutions have signed Participation Agreement.
- c) Tk. 853.15 crore is refinanced up to 31.12.2009 to 17 Banks and 21 Nonbank Financial Institutions signed the agreement.
- d) Total number of Enterprises:- 8317.

**ii) EGBMP/IDA Fund:**

- a) Total fund Tk. 116.00 crore (Revolving).
- b) 18 Banks & 23 Non-bank Financial Institutions have signed Participation Agreement.
- c) Tk. 244.14 crore is refinanced up to 31.12.2009 to 14 Banks and 14 Nonbank
- d) Total number of Enterprises:- 2541.

**iii) ADB Fund:**

- a) Total fund Tk.202.00 crore (Revolving).
- b) 13 Banks & 15 Non-bank Financial Institutions have signed Participation Agreement.
- c) Tk. 334.94 crore is refinanced to 9 Banks and 7 Non- bank Financial Institutions. Institutions up to 31.12.2009.
- d) Total number of Enterprises: - 3264.

[Source- Website of Bangladesh Bank]

- **Refinancing Scheme of Bangladesh Bank**

To overcome the financial constraints of the SME sector and induce banks and Financial Institutions to provide credit facilities to SME, Bangladesh Bank introduced a refinancing scheme for SMEs in 2004 using three sources of funds: Tk.100 million of Bangladesh Bank's own fund, US \$20 million from IDA under the Enterprise Growth and Bank Modernization Project; and US \$30 million from ADB. Later the Bangladesh Bank owned fund was raised to Tk 500 crore. All schedule banks and

financial institutions can avail of this facility at the Bank rate subject to fulfilling the stipulated conditions against their financing of SMEs. Under the Bangladesh Bank's refinancing scheme for the small enterprise sector, any industry/business entity having a maximum total fixed investment up to Tk 10 million has been considered as a small enterprise. The fund was to provide enhanced access to credit by SMEs, especially small enterprises. Disbursements made by financial institutions and leasing companies into small-enterprises were refinanced from the proceeds of the SEF. ADB provided loan from its special funds resources with a term of 32 years, including a grace period of 8 years, with an interest rate of 1 percent per annum during the grace period and 1.5 percent per annum thereafter. The loan period was for 5 years, expected to end on June 30, 2010. The loan agreement between the Government of Bangladesh and the Asian Development Bank had an explicit gender dimension. At least 10 percent of the funds of the SEF would be earmarked for women borrowers and women borrowers will be provided with assistance and advisory services for their loan applications. Bangladesh Bank has reserved 10 per cent of its SME sector refinancing fund for women entrepreneurs at a maximum annual interest rate of 10 percent in an attempt to enhance more female participation in trade, commerce and productive sectors. The central bank has mobilized a fund of about Tk 3.4 billion (US\$49.28 million) contributed by the government and development partners as refinance facilities for the commercial banks to lend small and medium enterprises (SMEs). In spite of allowing refinance facility by BB, the banks and FIs have extended only about 20.6 percent of their total loans and advances to the SME sector. The contribution of SME loans in total loans is the highest in case of NCBs (33.3%) followed by SCBs (20.9%), PCBs (17.9%), non-bank FIs (13.7%) and FCBs (8.1%). It is observed that among the participating banks, BASIC Bank, BRAC Bank and Exim Bank disbursed a lion's share of their total loans and advances to the SME Sector. *Extending microfinance operations into SME finance and cluster finance* The successful intervention of micro credit program in the last two decades has helped entrepreneurs particularly women entrepreneurs to receive loans beyond the narrow limits of microfinance, as some NGOMFIs have started lending to this segment with loans ranging from Tk. 25,000-Tk,500,000. PKSF has extended collateral free financing of loan of Tk. 30,000 to Tk. 300,000. Among them about 90 percent of the borrowers were women entrepreneurs. Cluster finance by regions has also been observed, such as poultry finance to entrepreneurs in Savar, Gazipur and Bogra, livestock finance in Noagaon, Rangpur, and finance for weaving in Tangail,

Gaibandha, Narayanganj etc (Mahmud 2007). The advantage of micro finance institutions is that it is committed to that particular segment, the staffs are trained up, they are used to dealing with borrowers who do not have financial information and records. Hence, these institutions addressed the new entrepreneurs who had been in business for two years.

*Down scaling financial institutions.* Consequent upon the issuance of Prudential Guidelines for Small Enterprise Financing of Bangladesh Bank in 2004, there has been a development in the formal financial institutions in introducing small and medium business finance windows in commercial banks. They addressed longer-term maturity, but have failed to address the need of a gestation period before a project can generate cash flow. Of these, BRAC Bank's devotion to SME banking is noteworthy. The financial institutions have also come up with innovative financial products for SME finance like "Prothoma Rin" by BRAC, "Mukti" by Eastern Bank Ltd., "Bhagyoboti" of Mutual Trust Bank, "Aparajita" of AB Bank, and "Nakshi" of City Bank which is operated by women entrepreneur. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase. BRAC Bank has a total of 80 female *Relationship Managers*, of which about 50 *Relationship Managers* are located in Dhaka, and the rest in Chittagong. They also started to target SME entrepreneurs in Cox Bazaar, Narayanganj, Savar and Comilla. Other commercial banks have also opened SME financing.

Decision has been taken to provide the agricultural credit facilities at a concessional interest rate of 4 percent for cultivation of salt in coastal areas of the country. Loan facility will be applicable to genuine salt cultivators per person for cultivating salt from 0.5 bigha to 2.5 acre of land individually or on a group basis. The concerned banks will fix the realistic maximum limit of credit for per acre salt cultivation taking into account the rent/lease of land, cost of polythene and embankment, etc. However, the farmers cultivating salt in their own land shall not be entitled to get the rent/lease amount. If any farmer is reported to have not used the loan properly, normal interest rate will be applicable instead of concessional rate of 4.0 percent. Banks will apply for interest loss compensation @ 6.0 percent against the recovered/ adjusted loan accounts financed @ 4.0 percent within one month after the end of the respective year to Bangladesh Bank.

To strengthen the financial strength of entrepreneurs of the country and to increase institutional credit flow to them, BB has taken various initiatives. BB has reduced the lower limit of small

entrepreneurs' loan to Taka 50,000 from Taka 2,00,000. However, it was observed that entrepreneurs who need less than Taka 50,000 of bank credit are not attended by the bankers. To remove this impediment towards access to finance by the women entrepreneurs, BB instructed all banks and FIs to inform those entrepreneurs who need less than Taka 50,000 individually to form group for the purpose of availing SME loan and banks and FIs may extend credit facility to that group. Moreover, group basis SME lending will be refinanced under the refinance scheme of BB and interest rate for such loan will be maximum 10 percent (bank rate+5 percent). Number of group member, loan amount and other credit norms may be determined as per banks own policy and banker-customer relationship. In mainstream economic activities, Bangladesh Bank has taken a number of initiatives to ensure access of women entrepreneurs to financial facilities on easy terms and conditions. To ensure loan facility for the women entrepreneurs, at least 15 percent of total Bangladesh Bank refinance fund for SME sector has been allocated for them at a reduced interest rate of 10 percent. Moreover, refinance facility is not available for the bank that cannot disburse at least 10 percent of its total credit to women entrepreneurs. Banks and FIs may sanction loan up to Tk. 2.5 million to women entrepreneurs without collateral but against only personal guarantee under the refinance facilities provided by Bangladesh Bank. In order to include a large number of micro entrepreneurs in the SME credit facilities, a policy of group-based lending of Tk. 50 thousand or above has been initiated. Micro entrepreneurs in rural areas are also getting the benefits from this scheme. Instructions have been given for establishing separate 'Dedicated Desk' for women entrepreneurs in banks and FIs; if possible engaging women employees on the desk, and providing suggestions and services towards entrepreneurs. In order to engage entrepreneurs in industry and manufacturing sectors, emphasis has been given on encouragement, training, cluster approach etc. and banks and FIs have been advised accordingly.

On 27 November 2010 Bangladesh Bank organized a SME entrepreneurs meeting and product exhibition. These steps taken by Bangladesh Bank have enhanced the credit distribution in SME among entrepreneurs. Banks and FIs have distributed Tk. 18.05 billion among 13,831 entrepreneurs in 2010, Tk. 20.48 billion among 16,697 in 2011, Tk. 22.44 billion among 17,362 in 2012. Till June 2013, nearly Tk. 6.0 billion has been disbursed to 9,833 entrepreneurs. Under the Bangladesh Bank refinance scheme 8,228 women entrepreneurs have availed Tk. 6.3 billion upto June 2013. Increase

in credit disbursement and number of borrower is contributing in entrepreneur development and women empowerment.

- **Credit Schemes/projects for Women Entrepreneurs**

Despite the negative image of women as entrepreneurs, institutional assistance with local and international support resulted in projects and programs aimed at furthering women entrepreneurship. Some of these are mentioned below. *Women Entrepreneurship Development Project (WEDP)*: WEDP was the only program in the industry sector which was directly related to women entrepreneurship development. This was initiated by BSCIC in 1982 with the support from USAID and was discontinued in 2004-05. It was the first program to support women with larger amount than micro credit without collateral. The highest ceiling of the loan was Tk. 60, 000. The activities were to provide pre-investment counseling, assisting in project appraisal and feasibility studies, extending credit facilities, imparting training and providing marketing and technical support. *Entrepreneurship development for women by JMS*: The Jatio Mohila Sangstha (JMS) initiated a project in 1998 in 64 districts for five years with assistance from UNDP to support potential women to become entrepreneurs. The project supported those who were graduates of various micro-credit programs of various agencies like the Department of Women's Affairs, Department of Youth etc. The project also aims to link the beneficiaries with institutional source of credit. Although the credit limit was from Tk30000 to Tk. 150,000, the highest disbursement was Tk70,000. Before extending credit management training was imparted to the entrepreneurs. *Mainstreaming SME credit* In the last quarter of 1980's, Bangladesh Bank circular directed the commercial banks to lend at least 15 percent of their lending capital for industrial sector. Five percent was supposed to be spent for the Small and cottage industries. But there were no guidelines for women entrepreneurs.

*Separate bank branches for women*. Some public sector banks have women banking branch but their role is to generate saving rather than encourage investment. Though not legally required, banks and credit programs insist on husbands' or other male relative's consent as guarantee before providing loans. Sonali Bank is a pioneer bank which opened a few women branches in the country to promote saving habit of women. It initiated a project named "Credit for Urban Women Micro Enterprise Development" which offered loan between Tk 50 thousand to two lakh without collateral. To be eligible for loan, viability of the project, hypothecation and a personal guarantee were the necessary requirements. The formalities were considered to be difficult for women and the amount



was too small to establish a small enterprise. Janata Bank has good facilities in providing collateral free loans up to Tk 5 lakh, but these are available only in Dhaka.

#### **6.1.4. Private Sector Initiatives for SME Export Development**

**Product Launching for SMEs:** Product launching by trade association, chambers, among which FBCCI, DCCI, CCCI NASCIB, WEAB, regional chambers and district chambers.

**FBCCI SME Fair:** The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) has contributed a great deal in promoting SMEs products of Bangladesh through the SME fair annually.

**SCI Fair of NASCIB:** National Association of Small and Cottage Industries of Bangladesh (NASCIB) organizes various Small and Cottage Industries (SCI) Exhibitions, Regional Fairs, Seasonal Exhibitions, Product Promotion of NASCIB members and Trade fairs, of which the Yearly National SCI Mela held annually is participated not only by women entrepreneurs of Dhaka but also from different districts of Bangladesh. Besides NASCIB assists its women entrepreneur members in SME in the participation of important International Trade Fairs and regional melas, where women entrepreneurs' SME products are in great demand and these women have proved their efficiency by receiving orders for their products at different fairs.

**Various Type of Fairs:** Trade Fairs for product promotion and export orders are held every year by various Trade Associations as "Exposition" themes with exhibitions, displays and fashion shows. Among them are BGMEA, BKMEA, Bangladesh Engineering Industry Owners Association (BEIOB), Plastic Manufacturers and Exporters Association. Pharmaceutical Owners Association, Textile Mill Owners Association, Bangladesh Furniture Industries Association, Bangladesh Electrical Association and Bangladesh Weaver association etc.

#### **6.2. Conclusion**

An enabling economic environment comprising of sound macroeconomic and structural policies, good infrastructure, fair policy of competition, and efficiently functioning financial institutions also need to be created and strengthened. Development of entrepreneurship, new business creation and development of inter-sectoral linkages should be given top priority. The government should define a secure and pragmatic policy for the development of SMEs in the country. In order to frame a policy for SMEs, data collection needs to be updated. Provision should be made to develop separate and specialized institutions in three areas: (a) finance, (b) technology, and (c) skill development, in

addition to rationalizing existing policies and institutions. The concept of public private partnership (PPP) in the sphere of development and growth of SMEs can also be explored. Appropriate policies and programmes regarding the required services and facilities for SME development are essential especially for a developing country like Bangladesh. Proper and effective implementation of these policies and programmes are also equally important. Moreover, the services package should be handled by one or more efficient and professionally competent bodies preferably in the private sector so that the entrepreneurs are offered need-based services and also those in proper time and appropriately. Most SMEs in Bangladesh today grew on their own initiative. Besides job losses for a large proportion of the 1.8 million female workers and 2.0 million or so in the related services, there will be huge social impacts that need not be discussed here. Needless to say, diversification of the industrial production system will be needed not only to overcome the apprehended losses of jobs and incomes but also to enlarge the horizon, with the world as the market. SMEs can absorb an unlimited number of investors, each requiring relatively little capital to generate the maximum per unit production and employment, and thus hold the key to the future of the economy. Exports will help increase the purchasing power of the teeming millions of rural and urban poor, using goods from the SME sector. It is thus very clear why SME development should proceed hand in hand with micro enterprise development. It is interesting to observe that the conditions for small industry development that we find today, being at the threshold of total globalization, are very much the same as observed several-decades ago. In spite of the criticism and neglect of the SME sector on the grounds of inefficiency and non-optimal use of productive factors compared to larger industries, SMEs are beginning to be extolled for their greater dependence on labour-intensive production techniques, lower requirements of imported inputs and better geographical dispersion. It is also being recognized that small drops make an ocean, so much hope is being pinned on micro and small enterprises for toning up the rural economy, without which the national economy cannot be sustained. Out of many empirical studies done in this area, the work of Professors Sadrel Reza, Momtazuddin Ahmed and Wahiduddin Mahmud of Dhaka University, published under the title *Small and Medium Scale Enterprises in Industrial Development, The Bangladesh Experience* (Academic Publishers, Dhaka, 1992) strongly corroborates the present experience and the future outlook. (Note: The summary of the findings and policy recommendations of the said publication could be

*made available from APCTT on request.*) In the context of promotion, development and sustainability, among many other things, four issues were highlighted by the authors:

- Financial support schemes;  
Technology and training;
- Marketing and infrastructure; and  
Rule of external development institutions (meaning donors).

All the above issues are very much within the grasp of the government and easily soluble within a reasonable time frame, except perhaps for technology and training. The horizon for technological development and skill development remains hazy. International cooperation in this regard, through schemes like TCDC (Technical Cooperation Developing Countries), have been most frustrating. Import of technology has not been very cheap; in any case, foreign countries are not expected to be able to develop and supply ready-made technologies and machineries for Bangladesh's needs, so there is no alternative to development of local R&D capabilities. SMEs cannot finance R&D costs and efforts and the only industrial research institution of the country in the public sector, BCSIR (Bangladesh Council of Scientific and Industrial Research) has been engaged in rather inconsequential pursuits. Government has to start taking effective action to develop R&D capacity within the country, maybe in cooperation with others within and outside the country. More particularly, a nexus ought to be built up quickly among research institutions, universities and the private sector. UNCTAD is believed to have been doing a lot of studies on the subject of technology needs for sustainable growth of SMEs. Their guidance may be also of help in this regard. Time and again, Bangladeshis have proved that they have the dormant capacity, and given the support they can capture the market. Today's potential entrepreneurs are highly educated and have good exposure to the world, and they can certainly perform better than earlier generation entrepreneurs. But they cannot solve problems that are not in their domain or are beyond their capacity. The tasks of funding R&D, generating social overhead capital, setting up viable institutions for upgrading education and skills of workers and managers, improving power and gas supply and making the transport and communication sectors better remain the responsibility of the government. Without reducing the cost of doing business by making the public services work more effectively, combating corruption and reducing harassment from the usual rent-seekers within the government and outside, maintaining a peaceful law and order situation and the like will all require concerted efforts

to resolve. With globalization at the door, all energies have to be concentrated on developing and supporting micro, small and medium enterprises by removing all constraints. The least developed countries (LDCs) in the east have started refocusing their attention on SMEs to enhance their role in bringing about structural changes in their economies. For Bangladesh SMEs have assumed special significance for poverty reductions programs and potential contribution to the overall industrial & economic growth. To achieve the millennium development goals of 2015 or the targets of the national strategy for economic growth, poverty reduction and social development commonly known as the poverty reduction strategy paper (PRSP), the development process of Bangladesh must strive to expand employment creation opportunities very rapidly. To achieve the desired 8-10 percent GDP growth the manufacturing sector has to be made highly vibrant, increasing both its growth rate and its contribution to the GDP by leaps & bounds. The most cost effective route for this would be through development of SMEs.

The role of small and medium enterprises (SMEs) to economic growth of a country is well recognized. Across the globe it is strongly perceived that SMEs do play a vital role in the industrial development of a country. Bangladesh is not lagging far behind in this respect. The country has been pursuing a SME-focused growth strategy considering its immense potentials of providing opportunities for large-scale employment and its higher labour-capital ratio. Small capital, a shorter gestation period and comparatively smaller market to be economically viable are some other key features of SMEs. In view of all these favorable factors, there is an urgent need for development of SMEs in a developing country like Bangladesh, where both capital shortage and unemployment problem are still acute. Although there is no concrete information with regard to the number and types of SMEs operating in Bangladesh, an estimate of the Bangladesh Small and Cottage Industries Corporation (BSCIC) says that there are over 40,000 small industrial units in the country. Of the total, the number of light engineering units is estimated at 12,500. There are also tens of thousands of cottage industrial units and a large number of handloom and power loom factories in the country. Despite having huge potential to flourish, the growth of SMEs in Bangladesh is being impeded by multifarious problems, both at micro and macro levels. The major problem is access to finance due to rigid collateral requirements by the existing banking system and rampant malpractice in loan sanctioning process. Others include lack of material testing facilities required for quality production, inadequate skilled labour force and poor marketing know-how. Inadequate knowledge of many

entrepreneurs about the existing lending system and absence of necessary training facilities for small enterprises, widespread corruption and extortion and high rates of value added tax (VAT) and unnecessary harassment from the tax/VAT officials and law enforcing agencies are also seen as impediments for the growth of SMEs. On the other hand, absence of modern technology transfer policy, lack of necessary infrastructure and support services like ports, power, gas and telephone, poor law and order and inadequate legal framework and policy inadequacies have been identified as the key macro-level problems. In fact, these problems are faced by all industrial ventures. Bangladesh's SMEs do not have enough exposure to international markets. Besides, the government's policy changes also affect the prospective SME sector. Considering the overall situation, the government along with donors support took some measures over the years to support the growth of SMEs. But so far all these are confined to seminars and workshops. Various institutions including the BSCIC, the Board of Investment (BOI), commercial banks and financial institutions are working to promote SMEs in the country, but their services and supports are still inadequate. Though the government and some other development agencies have already put efforts for the promotion of SMEs in Bangladesh, the contribution of non-governmental organizations (NGOs) to this effect is still poor. Since NGOs are generally engaged in rendering micro or small credits to the poor segment of people, such credits are not helpful for the development of the SME sector. They observe that despite having vast scopes, NGOs are yet to come forward with their credit supports, especially for the SME sector. Since the proposed research is expected to cover the role, challenges, reality and prospects of SMES for the sustainable development of Bangladesh, it is expected that the outcome of the research will help planners to develop pragmatic and scientific policies to ensure economical and social development of rural and urban society of Bangladesh in the days to come. In my opinion, SME, economic growth and sustainable development are inter related; hence the relationship of each other can sustain and reinforce the pace of development of Bangladesh.

## **Appendix**

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## Questionnaire

**Dear Sir/madam**

I am doing my M.Phil. at Department of Economics, University of Rajshahi . As a part of the study I had to write a thesis on a chosen topic. As part of this, I have undertaken research on "An Enquiry into the Role of SMEs for sustainable development of Bangladesh." You are such entrepreneurs .I expect you to be helpful by providing relevant details. I assure that information provided by you will be utilized for the research only and will not revealed to any one else. Proper current answers given by you will make my study more purposeful and fruitful.

I am thankful for your cooperation.

Thanking you

**Hosnay Nasrin**

**M.Phil. Fellow, Dept.of Economics, University of Rajshahi.**

## **Questionnaire**

[Please fill the form and use tick mark]

**1. Name –**

**2. Address -**

**3. Business address/geographical area –**

**4. Gender -**

**5 . Age**

Age	20-30	31-40	41-50	51-60	61 and above	total
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**6. Education**

Education Status	Primary - Secondary	Higher Secondary	Graduate	Post graduate
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**7. Marital status**

Marital status	single	Married	divorced/widow/others
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**8. Do you Inherited the business**

Has Inherited	Not Inherited
---------------	---------------

**9. Do you have Formal Training**

Yes
-----

**10. Source of motivation**

Self	Family	Relatives	Others
------	--------	-----------	--------

**11. Do you have Entrepreneurial skill**

Yes

**12. Types of business**

Types/category	
Textile/Ready made garments	
Service	
Agriculture/Agro processing /Food and Beverage	
Light Engineering/manufacturing	
Trading and others	

**13. Need to start**

Need to start Business	Financial need for family subsistence	Adventure	Interest/extra income	Others
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**14. Status before establishment of unit.**

Status before establishment of unit	a. Student	b. Service holder	c. Daily Wager	d. unemployed	e. Others
-------------------------------------	------------	-------------------	----------------	---------------	-----------

**15. How old is your business unit? -----**

1-5 years	6-10 years	11-15 years	above 15 years
-----------	------------	-------------	----------------

**16.Visit outside for work**

Yes

**17. Modern activity**

Yes No

**18. Do you maintain proper supply chain management in your business –**

Yes Don't know

**19. Location of your enterprise.**

a. Middle of the city	b. On the periphery of the city	c. Out of the city	d. Others
-----------------------	---------------------------------	--------------------	-----------

**20. No.of Employees**

1-10 Person	11-25 Person	25-40 Person	Above 40 Person
-------------	--------------	--------------	-----------------

**21. Do you train your workers/employees?**

YES

**22. Do you prefer skilled/experienced workers/employees?**

YES \_\_\_\_\_

**23. Source of finance**

Source of finance	Own savings	Help of Family/Relatives	Formal/Informal loan
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**24. Net yearly income**

Net yearly income	1-5 lac	5-10 lac	10-15 lac	15 to 25 lac	Above 25 lac
-------------------	---------	----------	-----------	--------------	--------------

**25. Do you wish to take loan to expand your business?**

YES \_\_\_\_\_

**26. Have you succeeded in obtaining hassle free loan for your business?**

YES	NO.	Has not tried yet
-----	-----	-------------------

**27. Where did you obtain loan from?**

Source	
Informal source	
commercial Bank	
Co operative society	
Specialized bank	

**28. Problems for obtaining loan:**

a. Slow processing	b. Too many documents are required	c. Higher rate of Interest.	d. Others
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**29. To upgrade the quality of production.**

Raw materials of high quality	
Production by experts	
Use of proper Instruments/ ingredients	
Others	

**30. To upgrade the quality of service**

high quality facilities	Service provided by experts	Use of proper Instruments/ equipments	Others
-------------------------	-----------------------------	---------------------------------------	--------

**31. Have you insured your enterprise?**

YES \_\_\_\_\_ /NO. \_\_\_\_\_

**32. Where do you operate your enterprise and marketing?**

- a. At local level                      b. At the divisional level      c. At the national level      d. At the international level

**33. Marketing activity operated by**

Own and Family members/relatives/friends	Sales man	Agent
--	-----------	-------

**34. Advertisement of product:**

In newspapers	Pamphlets.	T.V. Channel/ radio .	Internet/ facebook	oral marketing
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**35. Do you maintain e-commerce?**

YES

**36. Do you offer modern trade/ transaction facility? – Yes/No**

YES

**37. Who keeps Account?**

a. By your self	b. Husband/ Family members	c. Accountant/others
-----------------	----------------------------	----------------------

**38. Type of Accounting.**

a. Computerized	b. Non-computerized.
-----------------	----------------------

**39. Turn Over.**

a. Increased.	b. Decreased	c. stable
---------------	--------------	-----------

**40. Profit margin.**

a. Up to 10%	b. 11 to 20 %	c . 21 to 40 %	4. Above 40 %.
--------------	---------------	----------------	----------------

**41. Where do you save?**

a. Nationalized Bank	b. Private bank	c Post office	d. In House
----------------------	-----------------	---------------	-------------

**42. Means of increasing the income?**

a. Minimum wastage	b. More sale at less profit	c. More Production in less time	d. Others.
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**43. Means of sustaining in the business competition.**

- a. Production /service as per the need of time                      b. High quality at low cost  
c. Delivery according to order    d. Customer satisfaction    e. Other

**44. Have you got direct benefit from any Govt/Private organization....Yes / No**

Yes

**45. Do you have business license.....**

Yes

**46. Do you pay Tax.....**

[ Yes                      ] No

**47. Average Investment (Apporx).....**

**48. Your average net operating income (apporx).....**

**49. Factors affecting the Performance/activities of SMEs**

The major factors that affect entrepreneurs’ performance in SMEs are listed below. After you read each of the factors ,evaluate them in relation to your business and then put a tick mark under the choice below....

**a. Economic Factors**

**Likert scale – 1=Strongly disagree ,2= Disagree ,3 =Average/neutral, 4 = Agree ,5 = Strongly agree**

	Agreement Scale				
	1	2	3	4	5
<b>1 Economic factors</b>					
1.1. I am satisfied with the financial access given by micro finances and other credit institutions.					
1.2 .I have a better access and knowledge to market for my products					
1.3 .A have better access to different business trainings					
1.4 .I have my own premises (land) to run my business					
1.5 .I have an access to information to exploit business opportunities					
1.6 .I have managerial skills					
1.7 .I have access to necessary technologies					
1.8. There is no stiff competition in the market place that I am engaged in.					
1.9 .Adequate infrastructures are available					
1.10. I have access to necessary inputs(raw materials)					
1.11 .I have adequate skilled human resources					

**b. Socio-Cultural Factors**

**Likert scale – 1=Strongly disagree ,2= Disagree ,3 =Average/neutral, 4 = Agree ,5 = Strongly agree**

No. Item	1	2	3	4	5
<b>2. Socio-cultural factors</b>					
1.1. I have better social acceptability					
1.2 .I have better contact(network) with outsiders					
1.3 .I have no prejudice or class biases					
1.4 .The societies attitude towards my products/services is positive					
1.5 .The attitude of other employees towards my business is positive					
1.6 .I have a positive relationship with the workforce					
1.7 .I have no conflicting gender roles					



1.8 I am not affected by gender inequalities					
1.9 I have no cultural influences					
1.10 I never encounter harassments in registering and operating my business					

**C. Legal-Administrative Factors**

**Likert scale – 1=Strongly disagree ,2= Disagree ,3 =Average/neutral, 4 = Agree ,5 = Strongly agree**

3. Legal and administrative factors		2	3	4	5
1.1. I have business assistants and supporters from government bodies					
1.2 .I have a network with different administrative bodies					
1.3 .I have access to policy makers					
1.4 .I have no legal, institutional and policy constraints					
1.5 .I can borrow money even without titled assets as a collateral					
1.6 .Interest rate charged by micro finances and other lending institutions is reasonable					
1.7 .I am beneficiary of government incentives					
1.8 . In general the overall legal and regulatory environments are favorable.					
1.9 .The tax levied on my business is reasonable					
1.10. Negative External factors affect my business					

**50. The relationship between the following factors and the performance of SMEs**

**Likert scale – 1=Strongly disagree, 2= Disagree ,3 =Average/neutral, 4 = Agree ,5 = Strongly agree**

<b>Your entrepreneurial Performance is improving ( Dependent variable)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Your Entrepreneurial skill affect the performance of the business</b>					
<b>Skilled and experienced Human resources help you to enhance your business</b>					
<b>Access to market ,marketing skill and activities expand your business and generate more income</b>					
<b>Access to IT and IT adoption/e-commerce develop your business</b>					
<b>Govt/others organizational support improve your performance and activity</b>					
<b>Political unrest affect your business</b>					
<b>External pressure affect your business</b>					

**51. Area wise constraints faced by the SMEs**

**Likert scale – 1=Strongly disagree ,2= Disagree ,3 =Average/neutral, 4 = Agree ,5 = Strongly agree**

SL	Variables	1	2	3	4	5
1	Excessive documentation and lengthy procedures was					

	required for loan application.			
2	Lack of proper information (e.g., suppliers) to import the right form of main machinery was a problem.			
3	Tax, Vat payment related bureaucracy and bribery creates problem.			
4	Distribution network is not efficient (so that it increases cost as well as decreases quality).			
5	Exploitation from the middlemen is a constant problem.			
6	Buyers' consciousness regarding the product ingredients and cost of production is absent.			
7	Lack of trade fair, exhibitions, symposiums, seminars, workshops hinders the development of business.			
8	Absence of adequate IT facilities (internet, e-commerce, and e-business) also hinders these business growths.			
9.	Lack of training facility			
10	Lack of Support for expand the business nationally and internationally			

## **52. Major constraints**

Likert scale – 1=Strongly disagree ,2= Disagree ,3 =Average/neutral, 4 = Agree ,5 = Strongly agree

SL.	Variables	1	2	3	4	5
1	No electricity/water or inconsistency of supply of electricity/ water is a problem.					
2	Fluctuation in price of raw materials ,service equipments is a constant threat.					
3	Political unrest (leading to frequent hartals, strikes,) create obstacle for business.					
4	High interest rate of borrowing is a major constraint.					
5	High transportation cost increases the total cost and thus create problem.					
6	Financing (working capital) is still a major problem to run/expand the business.					
7	Inadequate/ inconsistent supply of raw materials, service materials is a problem.					
8	Financing was a major problem while establishing the business.					

- 9 Inadequate or no support for exporting the goods to other countries.
- 10 Inadequate social infrastructure for smooth marketing throughout the country and internationally.

**53 . Current and previous status of the SMEs in respect to benefits and costs.**

**Indicators of Economic benefits**

1. Net Income
2. Quantity of workers and employees
3. Market expansion/branch extension
4. Productivity and return to scale
5. Regular investment and strengthen the organizational capacity.
6. Technological advancement

**Indicators of Social Benefits**

1. Social benefit and social recognition
2. Access to new social contacts
3. Better standard of living
4. Access to educational and health facilities
5. Security, empowerment and equity

**Indicators of Environmental consciousness**

1. Green environmental management (Air Pollution, Water Pollution, Sound Pollution management )
2. Waste Management

Likert scale – 1=Strongly disagree/Very bad , 2= Disagree/Bad , 3 =Average/neutral, 4 = Agree/Good , 5 = Strongly agree/Very good

**Previous Status of the SMEs (Economic)**

Benefits	SL	1	2	3	4	5
1						
2						
3						
4						
5						
6						

**Current status of the SMEs(Economic)**

Benefits	SL	1	2	3	4
1					
2					
3					
4					
5					
6					

**Previous Status of the SMEs (Social)**

Benefits	SL	1	2	3	4	5
1						
2						
3						
4						
5						
6						

**Current status of the SMEs(Social)**

Benefits	SL	1	2	3	4	5
1						
2						
3						
4						
5						
6						

**Previous Status of the SMEs (Environmental)**

Benefits					
SL	1	2	3	4	5
1					
2					
3					

**Current status of the SMEs (Environmental)**

Benefits					
SL	1	2	3	4	5
1					
2					
3					

**54. Group wise difference regarding Socio-Economic benefits and Environmental consciousness**

Rank of Likert scale – 1=Strongly disagree/Very bad , 2= Disagree/Bad , 3 =Average/neutral, 4 = Agree/Good , 5 = Strongly agree/Very good. Opinion – yes/no

**1. Economic Benefits**

	Number/ opinion	Rank
Year of business unit		
No. of employees		
Educational status		
Training		
Govt./ Organizational Support		

**2. Social Benefits**

	Number/ opinion	Rank
Year of business unit		
Net Income		
Educational status		
Training/skill/knowledge		
Govt./ Organizational Support		

**3. Environmental Consciousness**

	Number/ opinion	Rank
Year of business unit		
Net Income		
Educational status		
Training/skill/knowledge		
Govt./ Organizational Support		

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