

Role of SMEs in Accelerating Growth of Economic Conditions in Bangladesh

Md. Maniruzzaman

SME Credit Analyst, United Commercial Bank Ltd, Dhaka, Bangladesh.

Abstract: SMEs sector is called the growth engine of economic development in Bangladesh as it is the centric point in economic growth and development. The scope of SMEs are importantly large in size. This sector has significant capacity to generate employment opportunity. Now a day's SMEs entrepreneurs are more innovative, enthusiastic, sophisticated, time sensitive and technologically expert. They try to adopt modern technology and expertise in their everyday business to increase productivity and reduce the cost of production. Government of Bangladesh is emphasizing more on SMEs sector for speedy growth of economics and creating employment opportunities. It has been considered as thrust sector by the Ministry of Industries of Bangladesh. Government of Bangladesh has realized that the SMEs sector is labor intensive sector, so it is the poverty alleviation tools. SME reduces the urban migration and develops the rural infrastructure. Since SMEs are based on comparatively small investment, so their growth and survival depends on ease access and operating excellence in the market, financial support from the Bank with easy condition. Now, Women entrepreneurs are highly stimulated to get involved in SMEs sector. In this above backdrop, Bangladesh Bank provides re-financing scheme and gives necessary instruction and guideline to the commercial Bank to keep the women entrepreneur dedicated desk. Besides, SME Foundation is providing necessary guideline, training and financial supports. SME business is classified on the basis of fixed assets excluding land & building and quantity of full time workers. SMEs sector contributes on GDP as 5% in the year 2012. It is speculated that SMEs employ about 22% to 25% of full aged population in developing countries.

Keywords: SMEs, economic growth and development, innovative, enthusiastic, sophisticated.

1. LITERATURE REVIEW

SME sector is the pivotal point of development of a country which is the subject of many studies and research attempts among the scholars & researchers throughout the world. Some of the relevant studies are being given below:

Growth of SMEs in developing countries is certainly a desirable goal in view of their perceived contribution to decentralize job creation and generation of output (Chen, 2011). In developing economy like Bangladesh, SMEs play significant role in the development in the economy by creating employment opportunities and producing useful machine substitutes and machinery parts savings huge amount of foreign currency for our country (Chowdhury, 2008).

About 6.00 million SMEs are actively performing in Bangladesh which were contributing 25.00% of total GDP, employing about 31 million people and providing 75% of house hold income. Various categories SMEs of together contribute between 80 to 85 percent of industrial employment and 23 percent of total employment of Bangladesh. (Chowdhury, 2008)

About 60 to 65 percent of SMEs are located outside of the Metropolitan areas of Dhaka & Chittagong. SMEs are providing job opportunities to about 70 to 80 percent of the non- agriculture labor force (Ahmed, 2009). The SMEs share is Manufacturing value added to GDP varies at 20 to 30 percent (Ahmed, 2009)

Sulaiman, 2005 pointed out that 50.53 percent SMEs has no access to formal sources of finance. Only 35.79 per cent of SMEs enjoy unrestricted access to the formal credit. Of the rest 13.68 percent have restricted access to formal credit. Bank credit is used by small percentage of entrepreneurs and provides financing of generally less than 20 percent of their total outlay. Majority of the SMEs (59.6 percent) seek finance for their working capital needs from Bank, although only a half of them get loan from the Bank.

Ahmed, 2009 reported that due to the lack of national quality policy and adequate support system, and also due to the lack of creditability of the quality certification authority, SMEs of Bangladesh have failed to ensure the quality of products and services both in domestic and international Markets. He also argues that access to finance possess as one of the most important problem for SMEs Bangladesh. Lack of investment or operating funds remains as one of the most prominent complains of the SMEs in Bangladesh.

UNIDO (1999) estimates the SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries.

Competition Commission-2004 estimated that 99.3% of South African business were SMEs and these SMEs accounted for 53.9% of total employment and contribution to GDP is 34.8%.

The World Bank (2007) estimated that SME contributed to employment generation was 39% in South Africa and 78% in China.

GEM report (2009) emphasis that there is a very tight co-relation between the level of entrepreneurship in a country and its rates of economic growth

Bartel & Martin (1990: 775) state that a major reason why entrepreneurship has been receiving increased attention from both scholars and the public press is the growing recognition of the substantial economic and social contributions entrepreneurship brings. The economic contributions include economic growth, maintaining a favorable balance of payments and balance of trade and employment creation. Socially, entrepreneurship results in poverty eradication and improved standards of living. SMEs are, therefore, an essential panacea for improving the standards of living in a society and the stability of a country.

2. NEED FOR STUDY

There are some momentous factors that demands for SMEs research in Bangladesh which are given below-

- Wide scope of SME business in Bangladesh
- Huge involvement in SME business by the Bangladeshi people
- Diversification of SME Business & adoption of technology
- SME business related with Economic development
- New strategy & Policy Formulation in SME business in Bangladesh.

3. OBJECTIVE OF THE STUDY

The prime objectives of this study are:

- To know the propensity of SME in economic development of Bangladesh.
- To know the major difficulty of SME sector, especially in Bangladesh.
- To analyze the present position of SME in Bangladesh
- To observe the operational features of SME business
- To examine the total quality management in Bangladesh
- To reduce unemployment through generation of new employment opportunities, specially for the rural people;
- To increase the income of poor people by self employment through indigenious resources and technology;
- To increase the contribution of SMEs sector to GDP.
- To offer some suggestions for SMEs Development

4. RESEARCH HYPOTHESIS

There is a significant relationship between SMEs growth and the development of Bangladesh.

5. RESEARCH METHODOLOGY

- **Sampling analysis & design:** First of all, collecting data and analyzing it in a proper manner.
- Survey of concerning literature
- To survey of Small & Medium Enterprise in capital city Dhaka.
- **Sampling Unit:** The customer's age, sex, race, location, income, region, educational background will be included here.
- **Sampling method:** Convenience sampling
- **Nature of Data:** Primary data & secondary data
- **Method of Data collection:** Personal interview with respondents
- **Type of questionnaire:** Structure questionnaire with proper scaling
- **Type of questions:** Open ended, close ended, likert scale & multiple choice questions.
- **Pretesting of questionnaire:** It will be done among selected respondents on judgment basis and corrections will be made in questionnaire, wherever is required.

6. DEFINITION OF SMALL ENTERPRISE

Small Enterprise definition is varies in different sectors like trading sector, service sector and Manufacturing sector.

Trading sector: In case of Trading sector, Small enterprise are those that have fixed assets excluding land & building of Tk.5.00 lac to 100.00 lac and no. of Manpower is 06 to 10.

Service Sector: In case of Service sector, Small enterprise are those that have fixed assets excluding land & building of Tk.5.00 lac to 100.00 lac and no. of Manpower is 10 to 49.

Manufacturing Sector: In case of Service sector, Small enterprise are those that have fixed assets excluding land & building of Tk.50.00 lac to 10.00 Crore and no. of Manpower is 25 to 99.

Definition of Medium Enterprise:

Medium Enterprise is defined for the following ways:

Trading sector: In case of Trading sector, Small enterprise are those that have fixed assets excluding land & building of Tk.1.00 Crore to 15.00 Crore and no. of Manpower is 11 to 50.

Service Sector: In case of Service sector, Small enterprise are those where fixed assets excluding land & building of Tk.1.00 Crore to 15.00 Crore and no. of Manpower is 50 to 100.

Manufacturing Sector: In Manufacturing sector, Small enterprise are those that have fixed assets excluding land & building of Tk.10.00 Crore to 30 Crore and no. of Manpower is 100 to 250.

7. CONTRIBUTION TO ECONOMIC DEVELOPMENT

SMEs have the huge potential to alleviate poverty in Bangladesh by nursing this sector properly. Today, SME remains the engine of economic growth and considering the population of the country, SMEs offer large scale employment and income generation opportunities at comparatively low costs & slight investment especially in the remote areas. The employment statistics indicates that women in the rural sector are either self employed or employed in family based enterprise that includes both agriculture & non-agriculture sectors. This sectors are like live stock & poultry rearing, tree plantation, Fish culture, Fish net making, Food processing, knitting & weaving, rice processing, tailoring etc. Together, the various categories of SMEs are reported to contribute from 80 to 85 percent of industrial employment and 23 percent of total general employment (SEDF, 2003).

In spite of higher economic growth, employment grew at relatively slow rate i.e. 1.6 percent per annum since 1990s but SME sector boast up the growth rate of employment creation. SMEs has significant backward linkage to heavy industries.

8. POTENTIAL SECTOR OF SMES IN BANGLADESH

Manufacturing and marketing of furniture, poultry industry, nursery, manufacturing of plastic goods, manufacturing of spare parts and accessories of car/auto-rickshaw, diagnostic centre, clinic, herbal treatment and beauty parlour, recreational park, tourist spot and resort, residential hotel, wholesale and retail shop, grocery, departmental store, hardware, cosmetics, restaurant, pharmacy, furniture mart, Handicraft industry, electronics and electric goods, manufacturing of furniture (wood & steel), spare parts and accessories of car/auto-rickshaw, processing of tomato and potato, diagnostic centre, clinic, medicines/personal cleanliness, residential hotel, wholesale and retail shop, grocery, departmental store, hardware, manufacturing of herbal medicine, electronics and electrical goods, Handloom industry, design and fashion ware; manufacturing and marketing of sweetmeat, printing press, Rice mill, ice mill, bakery, wooden furniture, lathe machine, saw mill, groce Light engineering, tailoring, plantation, manufacturing of fried and flattened rice by machine, wholesale and retail shop; solar power, drug house, cyber cafe', mobile phone accessories, phone-fax, Supply of electricity by generator, cold storage, bakery, boutiques, shoe factories, food processing, poultry, dairy and fish feed, tannery, ornament production, trawler and passenger small boat building, software development, simple and fashionable candle production, laundry soap, spice grinding, iodized salt production, sweetmeat production, small cartoon, label production, printing and packaging, tire re-cycling, tailoring, fried and flattened rice production by machine, plastic toy production, mobile phone accessories, CNG filling station, wholesale packaging and marketing of spice goods, call centre, computer training school, saloon, digital color lab, cable operator, internet service provider (ISP), Supply of electricity by generator, food seed preservation and marketing, environment friendly electric transport, small transport, interior and external decoration, community centre, cyber café, Hatchery, fish processing, dry fish processing, salt processing, mushroom, , light engineering, trawler and passenger small boat building, printing press, tribal handicraft and handloom, snail-oyster, ice factory, mobile phone accessories food seed preservation and marketing, hotel and restaurant, small amusement park, cyber cafe, drug house. Fish cultivation (shrimp & white fish),nursery, poultry farm, chatal business, solar panel, business of mobile set and other accessories, Silk warm & silk production, design & fashion ware, furniture manufacturing, jewellery, photography, printing, stationery, food processing, fish processing, potato cultivation through tissue culture, strawberry &stevia cultivation, software development, pottery, flower cultivation, rural transport, blanket production, production of jute bag, agro engineering, brick field, tractor, production of jute goods, small jute mill, mushroom cultivation, recycling industry, GI pipe production factory, hardware, fertilizer business, packaging factory, shrimp cultivation in sweet water, producing dairy food, dye production, metal engineering, small business, pharmacy, grocery, readymade garments shop, leather products, health service & diagnostic, milk processing, factory for producing animal foods, fried rice mill, fruit processing, preservation & marketing, spices processing, juice, gem, jelly, tomato sauce, Achar etc producing & marketing, Ice factory, herbal/ayurvedic cosmetics production, building apartment, plastic industry. Gardening of medicinal trees, dairy farm, poultry farm, animal food, fertilizer business, Chanachur, bread, biscuit, brass industry, agro-based industry, cottage industry, handicraft, Manipuri handloom & handicraft industry, manufacturing of shitalpati from bamboo & cane, charcoal, electric goods, betel leaf gardening, packaging industry, sanitary goods production,

9. WOMEN ENTREPRENEURS IN SMES SECTOR IN BANGLADESH

Development of Bangladesh economic condition based on not only contribution of Men but also intensive contribution of women in different sector. Equal economic development in the country is not possible without equal participation of the women. In Bangladesh, there is 49.53% female population in respect to the total population and total dependency ratio is 52.50% where Youth dependency ratio is 44.90% and elderly dependency ratio is 7.60%.

The act of Entrepreneurship is very important driver of economic development and standard of living. Improvement of women entrepreneurs in Bangladeshis equally important as women incur half of the countries work force. But the participation of women entrepreneur into the business is very few likely 3 to 5 percent. So this mentionable portion of potential human resources are lying unemployed which need to utilize to increase productivity in Bangladesh.

They have latent demand to do something innovative and desire to participate in some potential sector and eager to innovate in business sector but they didn't get proper assistance& motivation from their reference group.

Now the Government of Bangladesh takes necessary steps to create women entrepreneurship and women empowerment by providing necessary support, assistance, motivation, training etc. Besides, Some NGOs and commercial Banks play important role to create women entrepreneur across the country. There are some sectors where women participation is mentionable like RMG sector.

In RMG sector, women participation is around 90% of 50.00 lac workers but there are huge sector where women participation is very negligible. Equal participation of women in various sector can change the country and poverty alleviation is possible, if the equal participation of women is ensured in every sector of SMEs.

10. SMES ENVIRONMENT

SMEs environment is both internal & external factors and drivers that influence the SMEs operating features. The SMEs environment is the surrounding side where the organization doing its activities; consist of some factors like Customers, Suppliers, Competitors, political, cultural, Technology, Government, Socio & economic, natural environment etc. Environment dominates the smooth business operation, entry and exist barrier of SMEs within the same sector. Cost is very important for SMEs to start and survive. SMEs may put forward to operate in the unregistered economy rather than doing business activities legally, if contract enforcement costs are too high. Credit registries can assist SMEs to establish credible financial history. Legal environment is another important factor because it provides certainty of smooth operation of businesses. In particular, labor market rules, regulations and stability play a significant role in the cost structure of SMEs. Strict labor on the hiring and firing decisions of the SME sector can make it cost up for SMEs.

11. SMES GROWTH OPPORTUNITY

There are enough opportunities for growth of SME sector in Bangladesh. Government of Bangladesh is highly encouraged to growth & development of SMEs sector because it is very potential sector to create employment opportunity and alleviation of poverty in Bangladesh. For sustainable growth of economy in Bangladesh, SMEs play vital role.

Government special credit program for SMEs Development:

There are different organization including specialized Banks are engaged in providing loan & advances to the SME sector. The BASIC Bank Ltd. was established in 1988 with prime objective of financing the Small & Cottage Industries. On the Other hand Ansar & VDP Unnayan Bank would provide loans to members of the Ansar & Village defense party for setting up Small enterprise. Besides, Some other institutions like Directorate of Youth Development, BARD, BRDB take initiative for disbursed loan among SME entrepreneurs.

Entrepreneurship Development for Women by JMS:

Jatiya Mohila Sangstha (JMS) is an organization under the Ministry of Women and Children Affairs of Bangladesh. Government is working for overall development of women, empowering the women and preserving their rights of the women. JMS was established in 1976 but starting its full fledged activities in 1991 by undertaking for well-being of the women of Bangladesh.

The Women Entrepreneurship Development Project (WEDP):

WEDP is the directly related to women entrepreneurship Development. WEDP was initiated by BSCIC in 1982 with the support from USAID and was discontinued in 2005. It was the first program of larger amount than micro credit without any collateral. The ceiling of this loan was Tk.60.00 lac.

12. GOVERNMENT SUPPORT FOR FINANCING SCHEME:

- **SME Foundation:** SME Foundation is established by the Government of Bangladesh under Ministry of Industries as an apex institution for SME development in the country. The major activities of SME Foundation are implementation of SME Policy Strategies adopted by the Bangladesh Government, policy advocacy and intervention for the growth of SMEs, facilitating financial supports for SMEs, providing skill development and capacity building training, facilitating adaptation with appropriate technologies and access to ICT, providing business support services, etc. It is mentionable here that the Foundation is working for the development of enterprises and entrepreneurs who belong to micro, small and medium categories as per Industrial Policy 2010. Besides the general supports to the development of SMEs and entrepreneurs the Foundation is providing diversified supports to the existing and potential women entrepreneurs in order to position them into the mainstream business community. The following function has been done by the SME foundation

➤ Credit wholesaling program

- Check list for the Bank Loan
- SME Financing Fair
- SME Banking award
- Women Entrepreneurship Development
- Business support services
- Policy & advocacy
- Human resource Development
- Access to Technology
- ICT for SMEs

• **Refinancing Scheme of Bangladesh Bank:** Bangladesh Bank introduced a refinancing scheme for SMEs in 2004 using 03 sources of fund of Tk.100.00 Million of Bangladesh Bank's own fund, USD20.00 Million from IDA under the enterprise growth & Bank Modernization projects and USD30.00 Million from ADB. Later The Bangladesh Bank raised their own fund to Tk.500.00 Crore. All Schedule Banks and Financial Institutions can take this facility at the Bank rate subject to fulfilling the stipulated terms & 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.10.00 Million has been considered as a small enterprises. Disbursement 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 8 years grace period, with an interest of 1 percent per annum during the grace period & 1.50 percent per annum thereafter. The loan agreement between the Government of Bangladesh and 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 service for their loan applications. Bangladesh Bank reserved 10 percent 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, service & manufacturing sectors.

• **BASIC:** BASIC Bank Ltd. is a specialized Bank which was established in 1988 with prime objective of financing the Small & Cottage industries. BASIC is compelled to provide 50 percent of loanable fund to SMEs and to follow strategies of Industrial policy. The Bank also offers lower rate of interest on SMEs sector compared to other Bank.

13. SMES CONSTRAINTS

○ **Lack of freehold land:**

Many of the rural poor people in Bangladesh are marginal. They have only small plots of land on tenancy basis or share cropping system. Bangladesh is a densely populated county having strong pressure on land. The inequality of land ownership and lack of production factors affects food security & productivity. Furthermore, tenure insecurity is serious due to outdated and unfair laws and practices. This increases conflict over land rights and wide spread land grabbing. These growing rural inequalities and instability also generate migration to towns, increasing threats of urban poverty.

○ **Lack of Modern Technology:**

A lot of SME firms don't fully understand the advantages technology offers and its rapid usefulness due to a lack of knowledge, in-house expertise, understanding, in adequate time and the general confusion for the use of technology as a tool to enhance business. SMEs who fail to embrace technology solutions fail to compete against those who do, eventually being wiped out.

However, it is important that proprietor of business, IT support staff, managers and other stakeholders need to keep them up to date with existing technology and new technology to ongoing improve and streamline the way they do business. As a result they become more understanding and cope with the changes in this business environment, market movement, competitor behavior and changes of customer demand by communicating better in terms of retaining existing customers and making new ones.

○ **Lack of skilled Technician & Labor:**

Skilled manpower is very important in SMEs sector. Skilled labor means labor that have specialized knowledge and high capacity building through training & continuous learning. These workers can be any type like either blue-collar or white-collar workers, with varied levels of training or education. However, skilled man power is highly insufficient in SME sector in Bangladesh.

○ **Deficient Infrastructure & Utility services:**

Utility service and inadequate infrastructure constitutes one of the major hindrances to SME development in Bangladesh. Gas & electricity are the main problem to decentralize growth of private investment, especially in SMEs sector. A recent study of 120 manufacturing SMEs (INSPIRED SME Survey, 2013) reported that 86.8 percent of the respondents considered electricity is the main problem. This implies that SMEs still suffer from lack of electricity. Power generation activities can keep positive development in private sector and attract foreign investment into the sector. But overflow of power into the system is not the only way of solution of the problem in this sector. Much more needs to be done with regard to outdated transmission and distribution lines, load management, transmission and distribution losses, and reforms of the pertinent parastatal bodies. Chittagong port is the only deep-water port which is technically outdated and inefficiently managed. The handling productivity is below five containers per vessel-hour, and total turnaround time is the longest in the region. The port operations suffer from too many problems, including politicized unions that effectively blocked reform efforts. Apart from high monetary costs inflicted by such dysfunctional operation of the port, it has also earned

Bangladesh a poor reputation for delivery in the time-sensitive and highly competitive markets for garments, shrimp and other exports. Modernization of the physical facility, technology and the management of the port are highly required.

Legal and regulatory framework:

Major weaknesses in the legal framework are with regard to contract execution, bankruptcy laws, dispute settlement, copyright protection, land titling and labor laws. Present legal procedure is not sufficient enough in the present perspective of Bangladesh. It has many pitfalls that allow one to adopt delaying tactics and as a result the court faces a big backlog of cases. Bankruptcy law has recently been enacted but its implementation has not been tested yet. With regard to copyright protection, TRIPS agreement supported the all procedure but local firms lack the knowledge of their rights and obligations. Inadequate labor laws are discouraged politicization of labor relations, which has been a major hindrance to investment in the business. Labor laws also require conforming to the emerging labor standard issues. Land titling and transfer procedures are not transparent enough. Improvement of legal framework is very important as the legal environment is importantly essential to assure prospective investor that there is adequate legal support to legitimate business. Past policy reforms two decade have brought about substantial relaxation of the regulatory environment. Investors still complain about a lot of regulatory requirements, which they need to fulfill before an enterprise can be set up and most of these apply in an undifferentiated manner to large enterprises and the SMEs. These includes, trade license to be obtained from local authorities, export registration with the Export Promotion Bureau, import registration with the Controller of Import, environmental safety clearance to be obtained from the department of environment, registration with the Inspector of Factories, VAT registration with the revenue department etc. While the case for enterprise registration for the purpose of environmental concerns, safety and public health, fiscal purposes and monitoring etc. is well taken, in the absence of coordination between different authorities, the entrepreneurs have to obtain these clearances separately from each agency, involving duplication of efforts, time loss, harassment and unofficial payments. There is the critical need for simplifying all these regulatory measures under one unified arrangement.

○ **Inadequate access to finance:**

Among the many issues why SMEs fail to realize their full potential, inadequate access to finance is prominent and most commonly cited. With limited capital base of their own and little or no access to institutional financing they rely on inefficient financing service traditionally from informal sources, which eventually proves unsustainable let alone stimulate growth. The INSPIRED SME survey reveals that 68.6 percent of small enterprises and 44.7 percent of medium enterprises identified access to finance as a major constraint. High interest rate is mentioned as a hindrance as well. The surveyed SMEs were lent at an interest rate of 15.6 percent in 2012.

In the past, government has taken initiative to provide credit facility to small and medium enterprises . Government directed that that 5 per cent of Bank's loan portfolio to be set-aside for SME financing. BASIC Bank was set up in 1988 with the objective of financing the small and medium enterprises. There were also attempts to channelize to the sector through public and private banks fund received from international agencies. There were provisions of favorable debt equity ratio, credit guarantee scheme and special interest rates. Bangladesh Bank also issued directives through circulars to both public and private commercial banks regarding working capital loans, Standard documentation procedure and time frame for credit approval and loan disbursement. Notwithstanding all these arrangements for sanctioning loan to small and medium enterprises, the actual delivery of SME credit has been grossly inadequate. One of the major factors that have hampered flow of institutional finance into SME is banks' pre-occupation with collateral based lending. Traditionally banks have judged the credit worthiness on the basis of collateral like land & building which puts small and medium enterprises at relative disadvantage as they often cannot mortgaged such collateral against the loan& advances. Furthermore, whatever collateral they can arrange gets used up in taking the term loan leaving them with no means to seek working capital loan from Bank and other institutional sources. Unlike their large-scale counterparts, they cannot make influence or contacts and solve the problem by putting up collateral of dubious or over valuation. Banks also tend to be less flexible about the collateral requirement in the case of the SMEs as they perceive SME loan to be more risky and the cost of monitoring and supervision of small loans to be higher.

Various alternatives to collateral based lending have been suggested for the SMEs. Group guarantee and peer pressure successfully used in the case of micro-finance, do not appear appropriate for SMEs as these are mostly sole proprietorship units with capital size significantly larger than the amount typically disbursed under micro-finance. Use of assets other than land and building, such as fixture, equipment, vehicles etc. as collateral is also a fairly standard practice in institutional finance but is of less use in the case of SMEs as these enterprises usually possess few such non-land assets. Sales turnover, accounts receivable, stock etc. can be the prime basis of working capital loan, but this requires proper documentation and accounting of the transactions of the SMEs and close monitoring and supervision on the part of the lending institutions. Because of the informal nature of many SME transactions and high cost of small loan administration, use of such movable asset for working capital lending will involve certain difficulties.

The lack of access of SMEs to institutional finance is observed to be even higher when it comes to women access or women owned enterprises. There is a usual rising trend towards in women entrepreneurship in Bangladesh, but women trade bodies & authrities claim that social acceptability of this trend is not brightly appearing in the behavior of the lending agencies, which discourages them for taking institutional finance.

The other major problem SME entrepreneurs face in seeking institutional finance is with regard to the preparation of the project proposal, project profile and much more formalities, In spite of having necessary directives from the central bank to follow standardized procedure, the loan application process has still remained time consuming and cumbersome. The entrepreneurs often lacks the ability to formulate a proper project proposal due to good knowledge & expertise of the proprietor. Even when he goes to the outside expert services, there is no guarantee that the proposal will be scrutinized properly as the financial institutions themselves lack adequate capability for proper project evaluation. Loan processing procedure in public sector banks involves high transaction costs for borrowers in terms of time and visits needed and unofficial payments made. Because of lack of responsibility and accountability, the public sector financial institutions are encompassed with inflexibility, inefficiency, political interventions, nepotism and corruption. Since the performance of the bank officials are not properly measured, they lack the incentive to fitch larger number of suitable borrowers, like SME sector within the fold of institutional financing. They take up a salient and inflexible attitude to the borrowers either to avoid the risk of making an inappropriate lending or to force the borrower to make extra payments for more favorable handling of the loan application. These problems are unlikely to go away without major institutional reforms of the public sector banks.

Another major weakness of business financing in Bangladesh is shortage of its modernization for the purposes of e-commerce. In the era of an evolving globalized trading method, the significance of e-commerce can scarcely be overemphasized. But business enterprises particularly SMEs have not taken any initiative towards e-commerce due to the absence of congenial telecommunication facilities and appropriate financial systems.

○ **Business support services:**

Public institutions mandated to provide business support services are usually ill-equipped and ill-staffed and the programs they implement are not found very useful by the business community.

Product development, technological improvements, market promotions, and quality controls are the especially deficient areas of business support measures. To remedy the situation, public sector agencies such as BSCIC, Bangladesh Standards and Testing Institution (BSTI) etc. should have close collaboration with the trade bodies. For example, there is the need for trade specific initiative to set up standards as per international requirements. With support from matching grant facilities, the trade bodies can play an important role in this regard and also in helping member enterprises to get internationally recognized certification such as ISO 9000. The other major area of deficiency is the lack of reliable and up to date information on the sector. There is no single agency with which private investment is recorded. Different agencies maintain different sets of information but these are neither complete nor consistent and there is no coordination amongst these agencies for bringing out a collective picture of the sector. There is urgent need for putting in place a centralized reliable system of business statistics.

14. ELEMENTS OF A STRATEGY FOR SME DEVELOPMENT

This paper proposes a three-step strategy to be played to develop the SME sector of the country.

The first step relates to the consolidation of the naturally developed capabilities mainly serving the domestic market.

The second step relates the facilitation of their entry into the export market.

The third step relates to the enhancement of capacities to thrive into the global market.

The first role of the proposed strategy is protectional; protecting the naturally developed capabilities. The role in the second and third strategy is promotional; promoting the capacities of the SMEs to penetrate into the export market and thrive withstanding the global competition.

Selective approach to SME development:

Smaller enterprises are often more efficient users of physical and natural resources and tend to be more labor intensive in labor surplus economies. Low capital, skill, and technology content also enable the smaller enterprises to be geographically more dispersed. These attributes thus render these enterprises more supportive of poverty-reducing development strategy. However, the empirical evidence on the performance of smaller enterprises around the world has been a mixed one and the optimal size of the enterprise has been found to vary across activities. The observed differential performance of the smaller enterprises has led to some qualifications to the broad approach towards development of these enterprises. The purview of smaller enterprise development has been extended to include medium sized enterprises with somewhat reduced emphasis on tiny or micro enterprises. Instead of an across the board strategy of SME development, policies towards these enterprises are now to be based on a positive, developmental attitude seeking to promote efficiency and growth. There is increasing realization that the thrust of SME development will have to be on "modern" SMEs that have higher growth potentials compared to the "traditional" SMEs. The evidence presented in this paper has shown that economic units, particularly the manufacturing units at the bottom of the size scale (less than 10 workers and 10-24 workers) account for a significant proportion of economic units and employment outside household agriculture. At the other end, large enterprise with 250 or more workers account for a significant part of employment and value added, particularly in the manufacturing sector. This conventional U shaped dualistic look of the manufacturing sector is declining day by day in Bangladesh. Economic units particularly manufacturing units at the extreme end of the size scale (less than 10 workers) have been observing a declining trend in their employment share within the overall economy. The productivity levels in these enterprises have also stagnated over the years.

On the other side, a core dynamic elements in the small industry sector seems to be undergone considerable modernization taking advantage of trade liberalization measures and increased both fixed assets per worker and labor productivity and has been successful in bringing under its fold a larger segment of the domestic market and also help of footing in the export market. This has evolved in going down of the spread with respect to capital intensity and labor productivity between small and large industry reflecting upward mobility on the part of the modern component of the small industry group. Hence, an essential element of a strategy for the development of the SME sector in Bangladesh will involve identifying niches where small and medium enterprises have comparative advantage and higher growth potential. This will mean exploring market opportunities and comparative advantages on a sustainable manner and mobilizing the required support services for the promotion of these industries once such niches are identified. Identifying, collecting and analysis of the relevant industry related information will be an essential prerequisite for such strategic planning. It is with this purpose that the government has set up the SME Foundation whose mandate is to work out such development

strategies for the SME sector in Bangladesh on a continuing basis in close tandem with the private sector. SME Foundation needs to be strengthened of their capacity, support and activities to this end. Creating favorable climate for private investment Past experiences of the performance of the SME sector in Bangladesh clearly shows that when private investment faces a weak enabling environment, it causes a stronger adverse impact on the growth prospects of SME. Therefore, any discussion on the constraints faced by SME and commensurate development strategy for SME in Bangladesh needs to be undertaken along with an assessment of the overall enabling environment pertaining to private investment in the economy.

SMEs need a differentiated and hassle free indirect tax system:

Given the structural difference between the SMEs and their large-scale counterparts, there is a case for a differentiated system of indirect tax for the SMEs that will enable them to pay the indirect tax free from harassment. Critics argue that a differentiated system will discourage SMEs to grow larger in a bid to avoid getting under the VAT net and that a system of turnover tax makes them less attractive suppliers of inputs to other firms who need VAT certificate for input to adjust their own VAT liabilities. However, the problem of growth disincentive will not be a serious one if the cut-off size limit is sufficiently large to include all SMEs, and the turnover tax is appropriately graduated. On the other side, the difficulty of VAT certificate may be resolved by creating a notional VAT equivalence system of the turnover tax.

Easier access to imported inputs:

As discussed earlier, one of the important key factors constitute rapid growth of a number of small and medium industries was access to imported inputs at lower cost due to reduction of import duty. After the initial rapid pace of liberalization in the early 1990s, the process slowed down and during the past decade, wide spread use of para tariff reverted to some extent the benefit SMEs gained initially. A strategy for the development of the SME sector in Bangladesh, therefore, needs to be premised on further trade liberalization measures with a view to providing SMEs easier access to imported inputs.

Targeting public expenditure towards augmenting demand:

SMEs growth and development depends on different important factor like demand, income of the people, homogeneous products etc. Thus, the rapid growth of the construction sector seems to have contributed to the expansion of SMEs producing non-metallic mineral products, particularly bricks, structural clay and cement products. Public expenditure directed particularly towards the agricultural and the rural sector would raise the purchasing power of the rural people. Since the demand structure of this segment of the population is more oriented to local products, it would act as a stimulus to growth and expansion of SMEs.

Access to credit:

The Sixth Five Year Plan recognized availability of credit as one of the most important factors for SME development. Accordingly, the Plan included the following measures for addressing the credit need of the SMEs.

- The comprehensive credit policy for SMEs developed by the Bangladesh Bank constituted a key element of the Plan measures. Under this policy, the commercial banks and other financial institutions are required to disburse SME credit according to the target set by Bangladesh Bank and send disbursement report to Bangladesh Bank.
- Following Bangladesh bank guideline, area and cluster approach is to be adopted in SME credit disbursement.
- To strengthen targeting of SME credit, the Plan provided for (i) a census of SMEs containing detail information on inputs, output, technology and management, (ii) issuing identification card with registration number to the SMEs, (iii) creating a database of SMEs and updating it periodically, and (iv) creation of detail upazila level map of SMEs to identify cluster.
- The financial institutions will be required to develop loan products that relate better to specific type of credit needed in SMEs.
- Provision of subsidized credit to clusters, disadvantaged groups and backward regions with close monitoring.
- Training of bank officials and setting up of SME cells for identifying potential borrowers, loan disbursement, monitoring use of credit and collection of loan.
- PKSF will continue to wholesale credit to its partner NGO-MFIs for small and micro enterprises.

In line with the measures delineated in the 6th Five Year Plan, credit disbursement to SMEs has been geared up following Bangladesh Bank guidelines and as mentioned earlier the volume of SME credit disbursed has increased significantly with visible positive impact on the growth of the sector. However, one aspect on which little progress has been made is with regard to strengthening targeting of SME credit. A prerequisite for this is the creation of SME database, which would help assess the relative growth potentials of diverse SMEs and enable proper targeting of SME credit in line with the earlier suggestion of selective SME development strategy. Another lopsided feature of the SME credit, particularly those under Bangladesh Bank's refinancing scheme is the predominance of trade and other service activities as opposed to manufacturing amongst the credit recipients. Thus, Bangladesh Bank data shows that more than 60% of the SME credit disbursed accrued to trade and other service activities while the share of manufacturing was less than 40%. Efforts need to be made, therefore, to enhance flow of credit to manufacturing SMEs.

Human resource development:

The system of technical and vocational education in the country needs to be reshaped by addressing the problem of skilled manpower for SMEs. In the line with successful international experiences, the government should take initiative and provide compulsory state funded education up to the age of fourteen and partially state-funded compulsory higher secondary education up to the age of 18 or 19. The majority of students will enroll vocational education from the age of fifteen, and most of them will then join one skilled trade or another, although even among the vocational students some may go on to university education in a subject of their choice. Many of the skilled workers may join family-owned SMEs. The institutional capacity to impart appropriate technical and vocational education needs to be strengthened. For this, close association of the potential employers in developing the right curriculum would be important. India's Industrial Training Institutes, which are managed by Institute Management Committees (IMCs) comprising of local industry representatives, could be an example in this regard.

Marketing and product awareness:

To inform, persuade and awareness of the products of SMEs, Marketing plays vital role. If the entrepreneurs get available facility for marketing their products, this sector will be come into dynamic and interest of involvement in this sector will be more practical. The introduction of the DTI's National Director of Small Business Support Programs will go a long way providing small business owners with information of the different types of support available. The publication of the National Directory, although a good starting point, will not achieve much if the small business sector is not aware of its existence.

Somme studies indicated that most SMEs were not conscious about financial products on the market (or other support available). There is a need to increase awareness among small business owners of the products and services available. Clearly, the lack of awareness of the existence of these programs will affect access which affects their uptake, thus making it appear that the programs themselves have been ineffective. So, for example, even if the financing is available, it will not be accessed by those who might need it.

The poor level of awareness indicates an urgent need by Government to put in place measures to increase awareness of the availability of these programs. Much needs to be done, therefore, to increase awareness. So, as for the Directory, there is a need to publicize the various schemes and programs through a wide variety of media on an on-going basis, ensuring that the targeted recipients are reached. The Global Entrepreneurship Week, in conjunction with other forums, provides an ideal opportunity to increase the awareness of support available.

15. SCOPE & LIMITATION OF THE STUDY

SME sector in Bangladesh is growing business sector. Now most of the people s engaged with SME business. Government of Bangladesh is also trying to develop the SMEs sector in Bangladesh.

Now lots of SMEs cluster in Bangladesh operate in the competitive market.

This study can be carried out in developing & developed economics since customer perception may differ in multiple culture.

The study can be conducted in other service sector (by modifying the phrases in the survey instrument) to find out implication of the study in different industrial setting.

Every research works have some limitations, so the proposed research work will not be free from error or fairly accurate in spite of trying my level best. We know, the secondary sources of data are not available. Every employee is busy with his/her regular activities. Therefore, most of the employees are not able to give the accurate information. Besides, time bound of the research is another factor of limitation.

16. CONCLUSION

Now a days, SME considers as the engine of economic growth by offering large-scale employment and income earning opportunities at relatively low costs, especially in the rural areas. It also strengthens the economic growth in sustainable way which is precondition for alleviating poverty and standard of living. The significance of the SMEs is that it helps to explore opportunity to do something new with relatively low investment. It can help to create employment opportunities and continuously contribute to GDP. The emergence of the SMEs in the developed world makes economic case for fostering development of these industries. Considering significant contribution of SMEs on overall growth and sustainable economic development, it is imperative to take necessary steps towards facilitating growth of SMEs in Bangladesh, which includes:

- Enhancing Access to SME Finance in Bangladesh
- Development of SME Infrastructure all over the country
- Comprehensive training Facilities for SME workers and Entrepreneurship
- To ensure SME Promotional Drive& integrated communication

The following suggestions are recommended for the development of SMEs:

- SME loan sanction procedure is complex and time consuming. So the commercial banks and financial institutions must have to take necessary steps to make it easier. Government financial institutions and non-government Organizations (NGOs) may take necessary steps to ensure uninterrupted financial support to the prospective SMEs in Bangladesh.
- Government needs to take proper measures to fix the minimum salary/wages of the employees of SMEs. That will help to minimize the employee turnover& sustainable organizational relationship.
- In order to ensure the retention of skilled workforce the government and SME foundation should take necessary steps. Government and financial institutions may provide adequate finance for modernization, training materials and technological advancement of SMEs.
- Development of infrastructure is essentially important for the expected growth of SMEs. So, the government of Bangladesh needs to take necessary policy and strategy for the infrastructure development of Bangladesh.

I believe that this study will help to SME sector in Bangladesh to open new chapter of economic development. Customers will also be benefited to get customized products and services.

REFERENCES

- [1] Ahmed, K. and Chowdhury, T.A. (2009). "Performance Evaluation of SMEs of Bangladesh". International Journal of Business Management, Vol. 4, No.7.
- [2] Ahmed, M.U. (2008). "Report of the PRSP-2 Thematic Study on Small and Medium Enterprise Development in Bangladesh", Final Report, March.
- [3] Ahmed, M U. (1999). "Financing Small-scale and cottage Industries in Bangladesh". Journal of Finance and Banking, Vol.5, No. 1 and 2.
- [4] Ahmed, Q. M. (1999). "Selected Issues in Small and Cottage Industries Sector: Bangladesh and Some Asian Countries' Context". Bank Parikrama, Vol. XVIII, No. 3 and 4.
- [5] Bahar, H., Uddin, M.J., (2007). "Financing Small and Medium Enterprises in Bangladesh". Proshkhyan, Vol.15, No.1, January-June, Dhaka.
- [6] Bangladesh Bank (2008). "A Note on the Contribution of Small and Medium Enterprises to GDP in Bangladesh", Policy Paper 0806, Policy Analysis Unit, Bangladesh Bank.

- [7] Bangladesh Bank (2007). "Institutional Lending and Financing Policy for SMEs in Bangladesh", Policy Note Series PN 0804, Policy Analysis Unit, Bangladesh Bank.
- [8] Bangladesh Bank (2006). "Access to Finance by Small and Medium Enterprises (SMEs)". Financial Sector Review, Vol. 2, No. 1, December.
- [9] Bangladesh Bank (2004). "Prudential Regulations for Small Enterprises Financing", Bangladesh Bank, 1st Edition.
- [10] Bangladesh Bureau of Statistics (2008) Report on Labor Force Survey, 2005-06, BBS, April.
- [11] Bangladesh Bureau of Statistics (2007) Economic Census 2001 and 2003, National Report, Dhaka.
- [12] Bangladesh Economic Review (2009). Economic Adviser's Wing, Finance Division, Ministry of Finance, Dhaka Bangladesh Small and Cottage Industries Corporation, Various Publications.
- [13] BIDS (1998). THIS NUMERICAL PREDOMINANCE OF THE SMES IN BANGLADESH'S industrial sector.
- [14] Centre for Policy Dialogue (CPD) (2006). "Emerging Issues in Bangladesh Economy: A Review of Bangladesh's Development 2005-06". The University Press Limited.
- [15] Chowdhury, Farzana (2008). Factors Affecting Women Entrepreneurs Access to Finance in Bangladesh. Paper Presented at the Second National SME Women Entrepreneurs Conference, SME Foundation.
- [16] Chowdhury, Nuimuddin (2007). "SME Development in Bangladesh", Ministry of Industries, Dhaka. Dhaka Chambers of
- [17] Commerce and Industries (2004). "Access to Finance for SMEs: Problems and Remedies."
- [18] Government of Bangladesh (GoB) (2007). "Policy Strategies for Development of Small and JICA (2008), STUDIES ON SME policies and programs. Medium Enterprises (SME)", SME Cell, Ministry of Industries, Dhaka.
- [19] Rahman, A. (2009). Atiur Sees Factoring as Ideal Financial Solution for SMEs, the Financial Express, July 26, Dhaka. World Bank, "Industrial Strategy Study: A Nationwide Industrial Survey," 1993-94.
- [20] Abdin, M.J. (2009, October 13), Promotion of SMEs for sustainable development, The Financial Express
- [21] ADB (Asian Development Bank) (2002), Bangladesh: Strategic Issues and Political Response- Small and Medium Enterprise Development and Export Expansion (Dhaka: ADB)
- [22] ADB (Asian Development Bank) (2001), High Level Workshop on Strategic Issues and Potential Response Initiatives in the Finance, Industry and Trade Sector (Dhaka: ADB; November)
- [23] Ahmed, K and Chowdhury, T.A., (2009), Performance Evaluation of SMEs of Bangladesh, International Journal of Business and Management, Vol. 4, No. 7, retrieved from www.ccsenet.org
- [24] Ahmed, S. (2006, August 10), Some Issues on SME finance in Bangladesh. The New Nation. Retrieved from <http://thenewnationbd.com>
- [25] Ahmed, M.U., Mannan, M.A., Razzaque, A., and Sinha, A., (2004), Taking Stock and Charting a Path for SMEs in Bangladesh, Bangladesh Enterprise Institute, Dhaka
- [26] Ahmed, M.U. (1999), "Development of Small-scale Industries in Bangladesh in the New Millennium: Challenges and Opportunities," Asian Affairs, 21(1), Jan-March
- [27] Alam, M.S. and Ullah, M.A., (2006), SMEs in Bangladesh and Their Financing: An Analysis and Some Recommendations, The Cost and Management, Vol. 34, No.3
- [28] Banks yet shy to take up SME Financing (2008, January 17), The Financial Express.
- [29] Chowdhury, F., (2007), Customized Form of Finance for SMEs, Seminar Proceedings, National SME Development Program for OIC Member Countries, FBCCI, Dhaka.