



# Study on Future Direction of SMEs in Bangladesh

**FINAL REPORT**

June 2019





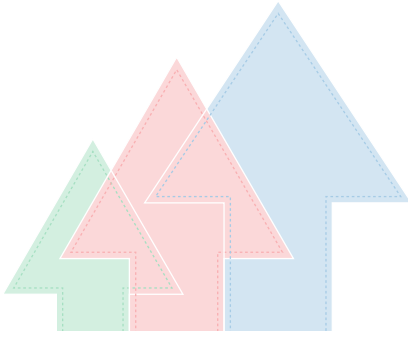
# Study on Future Direction of SMEs in Bangladesh

**FINAL REPORT**

June 2019



**PLANNING DIVISION  
MINISTRY OF PLANNING  
GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH**



## Study on Future Direction of SMEs in Bangladesh

Published : June 2019

**Prepared and Published by**

Planning Division, Ministry of Planning  
Government of The People's Republic of Bangladesh  
Sher-e-Bangla Nagar, Dhaka-1207, Bangladesh.

© Copyright

Planning Division, Ministry of Planning  
Government of The People's Republic of Bangladesh  
Sher-e-Bangla Nagar, Dhaka-1207, Bangladesh.

Copies Printed : 150

**Cover & Graphic Design**

Tarik Sujat

**Printed by**

Journeyman  
10/6, Eastern Plaza, Sonargaon Road, Dhaka-1205  
Phone : +88 02 9662479, 9660224, 9662882



**M. A. Mannan, MP**

Minister

Ministry of Planning

Government of the People's Republic of Bangladesh

## MESSAGE

It gives me immense pleasure to see that Planning Division of Ministry of Planning is going to publish the final report of "Study on Future Direction of SMEs in Bangladesh". The aforesaid report is the culmination of a comprehensive survey on different stakeholders of micro, small, and medium enterprises and the research findings of the study contain material which have strong bearing on developing future strategy for Small and Medium Enterprises (SMEs).

In the context of rapid pace of economic development of Bangladesh, small and medium enterprises have been regarded as a cornerstone of growth of GDP, creation of employment opportunities, reducing disparity in distribution of income, and nevertheless, creation of future business leaders. In this occasion, I take privilege to mention that our nation have already been referred as an example to other developing economies as per so many social and economic indicators. The most of the credits for such accomplishment goes to dynamic leadership of Honorable Prime Minister Sheikh Hasina and her government and categorically, institutional supports of the government toward SMEs through fiscal and other policy measures.

As far as further development of SMEs is concerned to me, it is not the responsibility of Ministry of Planning or any other portfolio of the government alone. Instead, a well-coordinated and collaborative approach among different ministries, directorates, Bangladesh Bank, and stakeholders of the SMEs can make small and medium enterprises far more effective to ensure high and equitable growth of the nation. To this direction, I urge that the parties concerned will take into cognizance the recommendations of this report.

I strongly hope and believe that this study will help us to identify the key development interventions and to develop a well-defined roadmap for long term planning. I am glad to see that this study provides us a policy guideline with a time-bound strategic action plan that will create an opportunity to assess the government interventions and financing strategies accordingly.

Finally, my thanks flow to Project Director, concerned officers of Planning Division, Pathmark Associates Ltd, respondents of the survey and others concerned for their generous support toward this research. I also wish the publication of the final report a success.

(M. A. Mannan, MP)



**Md. Nurul Amin**

Secretary  
Planning Division  
Ministry of Planning

## PREFATORY NOTE

Small and Medium Enterprises (SMEs) play a very important role in the industrial development and economic growth of developing countries worldwide. In Bangladesh, SMEs are contributing continuously towards economic development and employment generation. This subsector is also keeping its contribution in export earnings of the country. Considering the immense contribution of SMEs, the Ministry of Planning, Government of the People's Republic of Bangladesh has decided to conduct a study on SME sub-sector and thus Planning Division, has been entrusted to implement the study. Accordingly Planning Division carried out this GoB financed project named "Study on Future Direction of SMEs in Bangladesh".

The main objectives of the study were to scan the present situation of SME sub-sector in Bangladesh and searching out the means to integrate the SME as a dynamic sector in the economy by overcoming the existing constraints and by articulating proper strategy for facilitating the development of SME as a thrust sector as source of employment and national development.

Planning Division has engaged Pathmark Associates Limited, a consulting firm, to carry out the study. The study includes extensive countrywide survey of SMEs belonging to manufacturing, service and trade sectors. On the other hand, qualitative data have been collected through literature review, FGDs, KIIs and Case studies. Analysis of data shows that SMEs are concentrated in a few districts. Districts in southern part and northern part of Bangladesh have few SMEs. The study has worked out strategies to develop SMEs in these districts.

I thank all members of Project Steering Committee (PSC) for their hard work in guiding the Project Director and the consultancy team in doing their job. Sincere thanks go to the Chairman of Technical Advisory Committee, Proposal Evaluation Committee and their colleagues who have done hard work in providing support to the Project Director and the consultancy team of Pathmark Associates Limited.

I specially thank the Project Director for the very sincere and hard work he has done in implementing this study by continuously working with the consultancy team.

I believe that the findings and recommendations of this study will be useful for enhancing role of SMEs in the development of Bangladesh.

(Md. Nurul Amin)

---

## ACKNOWLEDGEMENT

Small and Medium Enterprises (SMEs) have been playing a vital role in economic development and employment generation in Bangladesh. In view of this, the Planning Division, Ministry of Planning, Government of the People's Republic of Bangladesh felt the need for conducting a study on SMEs with an aim to determine the present status of SME subsector and its growth potential in future. Planning Division assigned Pathmark Associates Limited, a consulting firm for conducting this study.

The study was carried out by conducting a countrywide extensive survey. The study investigation process included micro, small and medium enterprises. It also included conducting Focus Group Discussion (FGD) sessions, Key Informant Interviews (KII) and Case Studies. Data were processed by using statistical software package STATA. Based on analysis of data and review of findings of field survey, FGDs, KIIs and Case Studies, this report has been prepared.

At the very outset of acknowledgement, I feel honoured to express my deep sense of gratitude, whole hearted indebtedness and profound regards to Mr. M.A. Mannan, MP, honorable Minister, Ministry of Planning and Mr. Md. Nurul Amin, Secretary, Planning Division for their valued suggestions, kind supervision and continuous support towards successful completion of this study project.

I would like to express my deep appreciation and best regard to Mr. A H M Mustafa Kamal, FCA, MP, honorable Minister, Ministry of Finance (Immediate past Minister, Ministry of Planning) and Mr. Md. Ziaul Islam, immediate past Senior Secretary, Planning Division for their kind direction, guidance and support at the beginning of this study project.

I would like to take this opportunity to express my gratitude to the Chairman and all the distinguished members of the Project Steering Committee (PSC), Technical Advisory Committee (TAC), Proposal Opening Committee (POC) and Proposal Evaluation Committee (PEC) of the project for their valued comments, observations and suggestions that have contributed immensely to the implementation of the project.

I thank all the officials of the Planning Division and Planning Commission, Ministry of Planning, Government of the People's Republic of Bangladesh for providing all necessary support and assistance in the preparation and conduct of the study. Particularly, I can't but pay my special thanks to the additional Secretaries namely Mr. Md. Khalilur Rahman, Mr. Swapan Chandra Paul, Mr. Iftekhar Uddin Khan, Miz. Kajaj Islam, ndc; Miz. Fawzia Zafreen, ndc and Joint secretary Mr. Md. Shajedul Quyyum Dulal of Planning Division for their continuous support and guidance during the whole process of the study.

It would be unfair if I don't appreciate the members of the consultancy team of Pathmark Associates Limited for their very hard work to complete the study followed by submitting the report in time.

I am indeed fortunate to express my gratefulness to Dr. Md. Abu Taher, Professor and Pro-Vice Chancellor, Southeast University, Dhaka; Dr. Niaz Ahmed Khan, Professor, Department of

Development Studies, University of Dhaka and Dr. Md. Anwarul Kabir, Professor and Pro-Vice Chancellor, State University of Bangladesh for their generous suggestions during two national workshops and during preparing this final manuscript.

While it is not possible to put in black and white the names of all the stakeholders at the field level such as the Deputy Commissioners of different districts, government agencies, over 4000 entrepreneurs, management teams and employees, who very graciously provided their time, energy and shared their experiences without which the project may not have been implemented successfully, I would like to thank them all.

I would also like to acknowledge with thanks, the contributions made by the attendees of the Focus Group Discussions (FGD), all Key Informants who have very patiently provided their valuable inputs for successful completion of the project.

There are more persons/organizations who contributed to accomplish the work. Nonetheless, I remain deeply grateful to them as well.



**(Md. Khorshed Alam)**

Deputy Secretary  
Planning Division, Ministry of Planning  
& Project Director  
“Future Direction of SMEs in Bangladesh” Project



## Abbreviation

ADB	Asian Development Bank
ASA	Association for Social Advancement
BB	Bangladesh Bank
BCSIR	Bangladesh Council of Scientific and Industrial Research
BBS	Bangladesh Bureau of Statistics
BASIS	Bangladesh Association of Software and Information Services
BDT	Bangladesh Taka
BIDA	Bangladesh Investment Development Authority
BRAC	Bangladesh Rural Advance Committee
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institute
C&F	Clearing and Forwarding
CSR	Corporate Social Responsibilities
EPB	Export Promotion Bureau
FGD	Focus Group Discussion
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information Systems
GoB	Government of Bangladesh
HR	Human Resources
HRD	Human Resources Development
HRM	Human Resource Management
ICT	Information and Communication Technology

IT	Information Technology
ITES	IT Enabling Services
KII	Key Informants Interviewing
MDG	Millennium Development Goal
MIDAS	Micro Industries Development Assistance and Service
MoI	Ministry of Industries
MSME	Micro Small and Medium Enterprises
NBFI	Non Banking Financial Institution
NGO	Non-government Organization
PKSF	Palli Karma Sahayak Foundation
PPS	Population Proportionate to Size
PVC	Poly Vinyl Chloride
R&D	Research and Development
RFP	Request for Proposal
RMG	Ready Made Garments
SMEs	Small and Medium Enterprises
SMEF	SME Foundation
SMI	Survey of Manufacturing Industries
SPSS	Statistical Package for Social Sciences
STATA	Software for Statistics and Data Science
SDG	Sustainable Development Goal
TAC	Technical Advisory Committee
TEU	Twenty Feet Equivalent Unit
TIN	Tax Identification Number
TPE	Total Persons Engaged
TOR	Terms of Reference
UN	United Nations
VAT	Value Added Tax

---

## CONTENTS

Abbreviations .....	ix
Executive Summary .....	xvii
<b>Chapter-1</b>	
Introduction .....	23
1.1 Background .....	23
1.2 Objectives .....	25
1.3 Scope of the Study .....	25
1.4 Overview of the SMEs Sector in Bangladesh .....	26
1.5 Definition of SMEs .....	29
1.6 Existing Institutional and Policy Support Structures for SMEs .....	30
1.7 Organization of the Report .....	31
<b>Chapter-2</b>	
<b>Methodology</b> .....	32
2.0 Introduction .....	33
2.1 Approach of the Study .....	33
2.2 Sample Size Determination .....	33
2.3 Sample Coverage .....	34
2.4 Administering of the Survey .....	35
2.5 Number of Respondents by SME Size .....	35
2.6 Procedures for Data Collection .....	36
2.7 Recruitment and Training of Enumerators and Supervisors .....	36
2.8 Pre-testing of Instruments .....	37
2.9 Focus Group of Discussion (FGD) .....	37
2.10 Case Studies .....	37
2.11 Field Monitoring .....	37
2.12 Editing and Processing of Data .....	37
2.13 Data Analysis .....	37
<b>Chapter 3</b>	
<b>Spatial Analysis of SME Data</b> .....	38
3.0 Introduction .....	39
3.1 Spatial Analysis of SME Data .....	39
3.2 Map showing SMEs in Bangladesh .....	39
3.3 Maps showing SMEs in the Eight Divisions .....	41
3.3.1 Map showing SMEs in Dhaka Division .....	41
3.3.2 Map showing SMEs in Chattogram Division .....	41
3.3.3 Map showing SMEs in Rajshahi Division .....	42
3.3.4 Map showing SMEs in Rangpur Division .....	42
3.3.5 Map showing SMEs in Khulna Division .....	43

3.3.6 Map showing SMEs in Barishal Division .....	43
3.3.7 Map showing SMEs in Sylhet Division .....	44
3.3.8 Map showing SMEs in Mymensingh Division .....	44

## **Chapter 4**

<b>Literature Review</b> .....	46
--------------------------------	----

## **Chapter 5**

<b>Results and Discussions</b> .....	50
5.0 Introduction .....	51
5.1 Basic Profile of Surveyed SMEs .....	51
5.1.1 Distribution of Surveyed SMEs .....	51
5.1.2 Status of Ownership .....	52
5.1.3 Household Information .....	53
5.1.4 Legal Documents of Enterprises .....	53
5.1.5 Establishment Cost .....	53
5.1.6 Income, Expenditure and Profit .....	53
5.2 Employment and Human Capital .....	55
5.2.1 Introduction .....	55
5.2.2 Distribution of employees by sector, size and gender .....	55
5.2.3 Number of employees by sectors size and gender .....	56
5.2.4 Distribution of skilled / unskilled workers by sectors, size and gender .....	57
5.2.5 Status of employee training and competitiveness .....	58
5.2.5.1 Steps taken to enhance capacity of workers .....	58
5.2.5.2 Presence of foreign employees in the enterprises .....	59
5.2.5.3 Institutional training taken before starting the business activities (Manufacturing Sector) .....	59
5.2.5.4 Opinion on availability of competent employees (Manufacturing Sector) .....	59
5.2.5.5 Availability of competent employees (Service Sector) .....	60
5.2.6 Condition of HR management, salary structure and labor law .....	60
5.2.6.1 Existence of HR department in the enterprise .....	60
5.2.6.2 Methods used in determining salary and benefit of employees .....	60
5.2.6.3 Compliance to Labor Laws .....	60
5.2.6.4 Institutional training taken before starting the business activities (Service Sector) .....	61
5.2.6.5 Presence of Child Labor .....	61
5.2.6.6 Occurrence of Labor Unrest .....	62
5.3 Access to Finance .....	62
5.3.1 Introduction .....	62
5.3.2 Source of Funding .....	62
5.3.3 Loan from other sources .....	62
5.3.4 Difficulties faced by the SMEs in securing loans .....	62
5.3.5 Rate of Interest charged on loan .....	63
5.3.6 Knowledge of entrepreneurs about schemes of Banks for SME financing .....	64
5.3.7 Knowledge of special schemes available for women entrepreneurs .....	65
5.4 Production Process and Marketing .....	66
5.4.1 Introduction .....	66
5.4.2 Sources of procurement of machineries for enterprises .....	68
5.4.3 Opinion on need for modern equipment to reduce cost of production .....	69
5.4.4 Opinion on ways of repair and maintenance of equipment / machineries .....	69
5.4.5 Suggested measures to solve the major problems faced by SMEs .....	70

5.4.6 Reasons for Disruption of Production .....	71
5.4.7 Ensuring Increase of Sales .....	72
5.4.8 Enterprises working as sub-contractors .....	74
5.4.9 Exportable products .....	75
5.4.10 Items produced being import substitute .....	75
5.4.11 Waste management and workers safety issues .....	76
5.4.12 Opinion on environmental pollution due to SME .....	77
5.4.13 Types of environmental pollution .....	77
5.4.14 Opinion on whether any accident occurred in the enterprise .....	77
5.4.15 Causes for accident .....	78
5.4.16 Steps taken to eliminate accidents .....	79
5.5 SMEs and ICT .....	79
5.5.1 Software and SMEs .....	79
5.5.2 ICT SMEs in trading .....	79
5.5.3 The Technical Expertise of Software Companies .....	80
5.5.4 Functional Specialization of Software Companies .....	80
5.5.5 Types of ICT enterprises in line with Industrial Policy-2016 .....	80
5.5.6 Management of ICT based enterprises .....	81
5.6 Learning from FGDs, KIIs and Case Studies .....	82
5.6.1 Focus Group Discussions (FGD) .....	82
5.6.2 Key Informant Interview .....	82
5.6.3 Case Studies .....	83
<b>Chapter 6:</b>	
<b>Growth of SMEs : Its contribution to GDP and export earning .....</b>	<b>84</b>
6.1 Introduction .....	85
6.2 A model projecting growth of SMEs up to year 2030 .....	85
6.3 Contribution of SMEs to GDP .....	87
6.4 Export earning by SMEs .....	88
<b>Chaptre-7:</b>	
<b>Way Forward : Policy Guideline with Action Plan .....</b>	<b>90</b>
7.1 Introduction .....	91
7.2 Challenges and Constraints .....	91
7.3 Some Specific Recommendations .....	96
7.4 Action Plans and Timeframe for Implementations .....	98
7.4.1 Suggested Action Plan to Implement the Recommendations .....	99
<b>BIBLIOGRAPHY .....</b>	<b>102</b>
<b>List of Tables :</b>	
Table 1: Growth Rates of GDP by Broad Sectors (%) .....	27
Table 2: Sectoral Contribution to GDP (%) .....	28
Table 3: Exports of Bangladesh .....	28
Table 4(A): Characteristics of SMEs (Small) .....	29
Table 4(B): Characteristics of SMEs (Medium) .....	30
Table 4(C): Characteristics of SMEs (Micro) .....	30
Table 4(D): Characteristics of SMEs (Trading) .....	30

Table 5(A): Maximum Number of SMEs Surveyed from Each District .....	34
Table 6: Sample distribution by types of enterprise .....	35
Table 7: Administration of the survey .....	35
Table 8(A): Number of Respondents by SME size (Medium) .....	36
Table 8(B): Number of Respondents by SME size (Small) .....	36
Table 9: Number of Enterprises Surveyed by Sector and Size .....	52
Table 10: Types of Ownership by Size (all sector) .....	52
Table 11: Availability of Legal Documents by Size (all sector) .....	53
Table 12: Average Establishment Cost by Sector & Size .....	53
Table 13(A): Total Income by Sectors and Size (Manufacturing) .....	54
Table 13(B): Total Income by Sectors and Size (Trade) .....	54
Table 13(C): Total Income by Sectors and Size (Service) .....	54
Table 14(A): Total Number of Employees (by Sector, Size & Gender) .....	55
Table 14(B): Percentage of Employees by Sector, Size & Gender .....	56
Table 15(A): Number of Employees by Position & Gender (Manufacturing) .....	56
Table 15(B): Percentage of Employees by Position & Gender (Manufacturing) .....	56
Table 16(A): Number of Employees by Position & Gender (Service) .....	57
Table 17(A): Number of skilled/unskilled workers by sectors, size, gender (Manufacturing) .....	57
Table 17(B): Percentage of skilled/unskilled workers by sectors, size, gender (Manufacturing) .....	57
Table 18(A): Number of skilled/unskilled workers by sectors, size, gender (Service) .....	58
Table 18(B): Percentage of skilled/unskilled workers by sectors, size, gender (Service) .....	58
Table 19: Steps taken to enhance capacity of workers .....	58
Table 20: Opinion of presence of foreign employees in the enterprises .....	59
Table 21: Opinion on institutional training taken before starting the business activities (Manufacturing sector) .....	59
Table 22: Opinion on availability of competent employees (Manufacturing sector) .....	59
Table 23: Opinion on availability of competent employees (Service sector) .....	60
Table 24: Opinion on existence of HR department in the enterprise .....	60
Table 25: Opinion on determining salary and benefit of employees .....	60
Table 26: Opinion on whether relevant factors of labor law are considered .....	61
Table 27: Opinions on institutional training taken before starting the business activities .....	61
Table 28: Opinion on presence of child labor .....	61
Table 29: Opinion on presence of labor unrest .....	62
Table 30: Own Source of Funding .....	62
Table 31: Loan from other sources .....	63
Table 32(a): Difficulties Faced in Arranging Loans (Manufacturing) .....	63
Table 32(b): Difficulties Faced in Arranging Loans (Service) .....	64
Table 32(c): Difficulties Faced in Arranging Loans (Trade) .....	64
Table 33: Average Interest rate by Sectors & Size .....	64
Table 34: Knowledge about Scheme of Banks for SME financing .....	65
Table 35: Knowledge about type of loan facilities for women entrepreneurs .....	65
Table 36: Knowledge about collateral free facilities from banks to finance women SME entrepreneurs .....	65
Table 37: Reasons for choosing the type of enterprise .....	66
Table 38: Sources of supply of raw-materials .....	66
Table 39: Difficulties faced while procuring raw-materials .....	67
Table 40: Sources of procurement of machineries for the enterprises .....	68
Table 41: Repair and maintenance of equipment / machineries .....	69
Table 42: Suggested measures to solve the major problems faced by SMEs .....	70
Table 43: Reasons for disruption of production .....	71

Table 44: Ensuring increase in sales of product .....	72
Table 45: Ways of selling product to the customer .....	72
Table 46: Price fixing methods .....	73
Table 47: Market for products .....	73
Table 48: Promotional tools used for promoting sales by the SMEs .....	74
Table 49: Enterprises working as sub-contractors .....	74
Table 50: Whether product is exportable .....	75
Table 51: Ways of managing industrial wastes .....	76
Table 52: Opinion on environmental pollution due to the SME .....	77
Table 53: Types of environmental pollution .....	77
Table 54: Opinion on whether any accident occurred in the organization .....	77
Table 55: Causes for accidents .....	78
Table 56: Steps taken to eliminate accidents .....	79
Table 57: Distribution of ICT enterprises into micro, small and medium .....	80
Table 58: Estimation of Growth Rates .....	85
Table 59: Growth Projection .....	86
Table 60: Total Income and Expenditure (Manufacturing) .....	87
Table 61: Total Income and Expenditure (Service) .....	87
Table 62: The Contribution of SMEs to National Economy .....	87

#### **List of Figures :**

Figure 1: Employment across three broad sectors in Bangladesh 2000 and 2010 .....	28
Figure 2: Ownership Status of the Enterprises .....	51
Figure 3: Opinion on presence of child labor .....	61
Figure 4: Fuel/energy used in the manufacturing enterprises .....	68
Figure 5: Opinion on need for modern equipment to reduce cost of production .....	69
Figure 6: Measures taken to solve the problem .....	70
Figure 7: Reasons for disruption of production .....	71
Figure 8: Opinion on whether items produced are alternative of imported ones .....	75
Figure 9: Ways of managing industrial wastes .....	76
Figure 10: Causes for accidents .....	78

#### **ANNEXES:**

Annex-1: Number of SMEs surveyed from each district .....	106
Annex-2: KIIs, FGDs and Case Studies .....	112
Annex-3: Questionnaires .....	150
Annex-4: Terms of Reference (TOR) .....	186





---

## Executive Summary

Small and Medium Enterprises (SMEs) are a proven prerequisite for national economic success of any economy throughout the world. It is not surprising that SMEs are seen as “the engine of growth” as well as a catalyst for achieving national economic objective. According to the Economic Census 2013 of Bangladesh Bureau of Statistics, number of wage earning employees in the country is over 24.5 million and of them over 84% work for SMEs. This sector may not only create a basis for industrial expansion but also improve both forward and backward linkages through development of appropriate technology in the manufacturing sector. In Bangladesh, 70-80% industrial workers work in SMEs and also 95% of total business are of SMEs which are labor intensive. The development and growth of SMEs require policy support to reach the full potential. SMEs in Bangladesh need to be analysed critically. This study has been carried out with the purpose of assessing the current situation of SMEs in Bangladesh, and evaluate the means to integrate the SMEs as a dynamic sector in the economy by overcoming the existing constraints and by articulating proper strategy for facilitating the development of the SME as a thrust sector to contribute effectively to the objective of growth and equity in the Vision 2021.

In total 4021 enterprises were surveyed through objectively developed questionnaires.

The enterprises were spread across all 8 divisions and 64 districts of Bangladesh. The sample enterprises were drawn from all three sub-sectors, namely, manufacturing, service and trade. From the manufacturing sector the maximum number (2647) of enterprises were surveyed, followed by service sector enterprises (834) and the least number of enterprises belong to the trading sector (540). Among the 2647 manufacturing SMEs surveyed, 29.3% micro, 58.1% small and 12.5% are medium size enterprises. A total of 834 service sector SMEs were surveyed out of which 33.8% are micro enterprises, 54% are small and the rest 12.2% are medium size enterprises. For trade sector the percentage of firms belonging to micro, and small size are 43.7%, and 56.3% respectively. These enterprises are involved in producing varieties of goods and services starting from manufacturing, agro-processing to providing health care services. Besides, 16 Focus Group Discussions (FGDs), 20 Key Informant Interviews (KIIs) and 15 case studies have also been carried out. Of the 15 case studies 10 are success stories and four tell the causes of failure. This study has found that SMEs contribute 24.7% to GDP in Bangladesh.

An overwhelming 87% of the micro enterprises, 76% of the small enterprises and 51% of the medium size enterprises are proprietorship businesses. Almost all the

firms do businesses with trade licenses. On an average the manufacturing and service sector firms are making 8 to 9% profit and the figure is 15 to 18% for trade firms.

Medium sized SMEs in the manufacturing sector employ the largest number of workers (75.9%). For all size of SMEs, the number of female employees is much lower compared to number of male employees both in the manufacturing and service sectors. Hiring and retaining skilled employees have been identified as the two main challenges faced by micro and small SMEs in both manufacturing and service sectors. In medium sized SMEs in the manufacturing sector, 81.5% workers are reported as skilled workers compared to 14.8% in small and 3.7% of the same category in micro SMEs.

Almost 64% of micro SMEs mentioned that the sources of raw-materials are local. Around 53% of micro SMEs meet their demand for raw-materials from those produced within the country. Similar supply sources are observed for small SMEs. About 57% of small SMEs source raw-materials that are produced within the country and 52.7% small SMEs have preference for locally produced raw-materials. Again, half of total medium SMEs surveyed (50%) source raw-materials that are produced both locally and within the country. An overwhelming majority of the respondents (91.5% for micro, 89.4% for small and 86.8% for medium size SMEs) expressed the opinion that bringing about improvement in the transportation system would help increase in sale of their products.

The SME subsector suffers from a number of challenges:

**Development of entrepreneurs:** The findings from the survey, FGDs, KIIs and case studies confirm that lack of entrepreneurship is the biggest impediment in the development of SMEs in almost half the district around Bangladesh. This study has identified those areas. A major thrust of our industrial policy should be encouraging small entrepreneurs in such areas which have potential for growth of agro-based industries.

**Access to Finance:** Access to finance is one of the major constraints for SMEs. The survey results show that 59.2% of the manufacturing entrepreneurs established their businesses with own source of fund whereas the rest arranged fund from other sources. For SMEs of service sector, it is seen that 27.9% of the enterprises carry out the business entirely with their own source of fund whereas for SMEs of trade sector only 12.9% firms started business with own source of fund. However, in running the business, majority of the firms borrowed from banks followed by NGOs. Only about 2% of the firms borrow from informal sources (money lenders). Regarding access to formal finance, the firms underscored two major problems: (a) complicated lending policies of the banks; (b) the prohibitively high rate of interest.

**Technology Adoption and Transfer:** One of the important but neglected areas of policy dimension is the policies that are related to technology adoption. The lack of strategic approach to innovation policy for SMEs, poor provision of information on innovation support services, limited access to standard certification services, and little linkages between SMEs and Research and Development (R&D) labs and incubators are

some of the important policy deficiencies. Poor protection and promotion of Intellectual Property Rights (IPRs), lack of broadband infrastructure, underdeveloped science/ industrial parks, lack of competitive clusters, and insufficient financial incentives in technology development are also important issues that are critical to SME development.

**Very Low Level of Innovation:** Bangladesh has very low level of innovation. Innovative firms are those that bring about desired changes in their production, organizational and marketing practices in line with the changes that happen within and outside the country. The Global Innovation Index-2018 has ranked Bangladesh 17th in respect of innovation among 17 Asian countries. To help make SMEs competitive to meet challenges in the global market SMEs and other industries will have to be supported to undertake innovation in pursuit of some specific outcomes. These may include improve quality of products, increase productivity and making marketing endeavours targeted. The beginning can be product innovation by utilizing raw-materials produced in economically backward districts.

**People and Skills as a Barrier to SME Development:** Bangladesh suffers from specified skills with practical know-how. There is a need to develop skills training centers in districts or in a cluster of districts that have very low concentration of SMEs.

**Absence of Better Legislation and Regulation for SMEs:** There is absence of legislation that can encourage development of SMEs in Bangladesh. We do not have SME friendly regulations.

**Problems with SME Statistics:** Lack of comprehensive national level SME statistics precludes proper estimates of various indicators relating to SMEs contributions to the economy, such as contribution to GDP, gross value addition, exports etc. Therefore, a national level uniform database of SMEs is necessary to assess this sector's contribution to the economy and formulate proper target-based policies. In this context, the Industrial Policy 2016 underscored a need for a comprehensive SME census which needs to be done with utmost care involving relevant experts' opinions.

**Lack of Inclusion of Intermediate Goods in Export Basket:** Export in Bangladesh mostly depend on export of finished goods. It may be possible to export intermediate goods. For this to happen SMEs can be developed as backward linkage industries.

**Lack of up-to-date Expertise in ICT Sector:** ICT enterprises play very strong role in meeting technological advances in both manufacturing and service sectors. Although many universities in the public and private sectors offer IT courses, there is still serious dearth of IT expertise in Bangladesh. In spite substantial efforts to export IT services, we have not been able to reach the targets. Realistic approaches need to be taken so that potentials can be utilized to export IT services to enable earning foreign exchange which in turn can be used to enrich the ICT sector.

**Inadequate Exploration of Port and Shipping Based SME Expansion:** The study sample includes clearing and forwarding agencies which are SMEs in the service sector that are involved in providing documentation

support based services to exporters and importers. The survey covered Chattogram Port, Mongla Port and Benapole Dry Port. Due to rapid expansion of international trade in Bangladesh, the Shipping and Port based services are growing fast. It is highly likely that districts under Barishal division will be able to take advantage of the new Pyra Port if planning process can be started at the earliest.

On the basis of analysis of findings of the study following recommendations are made:

1. Industrial Policy 2016 has set a requirement to conduct a comprehensive census on SMEs. To fulfill the requirement, it is recommended to conduct a census on SMEs at the earliest.
2. There is a serious crisis of data on SMEs in Bangladesh. Even Statistical Year Book published by BBS, does not include any significant data on SMEs. It is, therefore, recommended to prepare a yearly publication on countrywide SME data.
3. Presently, banking & non-banking financial institutions feel insecure to provide loan facilities to micro and small enterprises because of their inability to provide necessary collateral securities. To overcome these problems a credit guarantee scheme can be a good solution.
4. Undertake a strong Research and Development Program nationwide for SME sector. Bangladesh Council for Scientific and Industrial Research (BCSIR) should be actively supported and their capability should be enhanced to conduct research on innovation in SME subsector. BCSIR has laboratories in Dhaka,

Chattogram and Rajshahi. For facilitating development of SMEs based on raw-materials particularly agro-products in districts of Rajshahi (except Bogura) and Rangpur Divisions, BCSIR can be given support so that it can carry out laboratory based research and development programs at its Rajshahi Centre.

5. As revealed from the survey, interest rate of SME financing is very high in Bangladesh. Commercial banks are also very reluctant to finance SME sector due to high operational expenses and relatively high risk involvement. Development of a SME bank or regional SME banks for enhancement of financing of the SME sector could prove to be highly beneficial to the entrepreneurs.
6. Ensuring training facilities for the entrepreneurs on the different aspects of management such as financial and management literacy, recording accounting transactions, marketing, risk taking techniques, use of appropriate technology, etc.
7. Upgrading the testing laboratories in keeping with the current needs of the country is a sine quo non for development of SMEs. Bangladesh Standards and Testing Institute (BSTI) should be strengthened for testing of SME products.
8. Marketing of products / services is a major problem faced by the entrepreneurs. It has been observed that during the SME fairs that are held in different district headquarters, sales of SME product pick up significantly.

However, such fairs, being a periodic event and held for a short period of time, generally for a week, it is recommended that a permanent arrangement in the form of sales outlets that would exclusively cater to the needs of the SMEs be set up in the district headquarters.

9. In order to encourage and motivate educated youth towards self-employment and employment generation, technical and vocational institutions and universities should incorporate SME development in their curriculum.
10. Programs need to be undertaken so that women may diversify their entrepreneurial works to develop SMEs in areas other than traditional sectors like boutiques, handicrafts, beauty parlour, etc.
11. Since, SMEs are run by traditional practices of management, productivity of the workers and managers are far below the standard. Hence, HR functions should be formalized and institutionalized to improve the value addition of the HR.
12. SMEs can be strengthened to create more employment so that dependence on agriculture for employment can be further reduced in line with Vision 2021.
13. Universities and Training Institutes can be encouraged to update their curricula to help enhance ICT expertise base in the country.
14. ICT is a vital sector for economic development. As the ICT entrepreneurs are concentrated mostly in and around Dhaka, we strongly recommend special measures and incentives for setting up ICT software businesses, especially in divisional headquarters.
15. Women are seriously underrepresented in the SMEs. Special measures are recommended for mainstreaming the women in SMEs. Access to finance for women entrepreneurship is to be ensured.