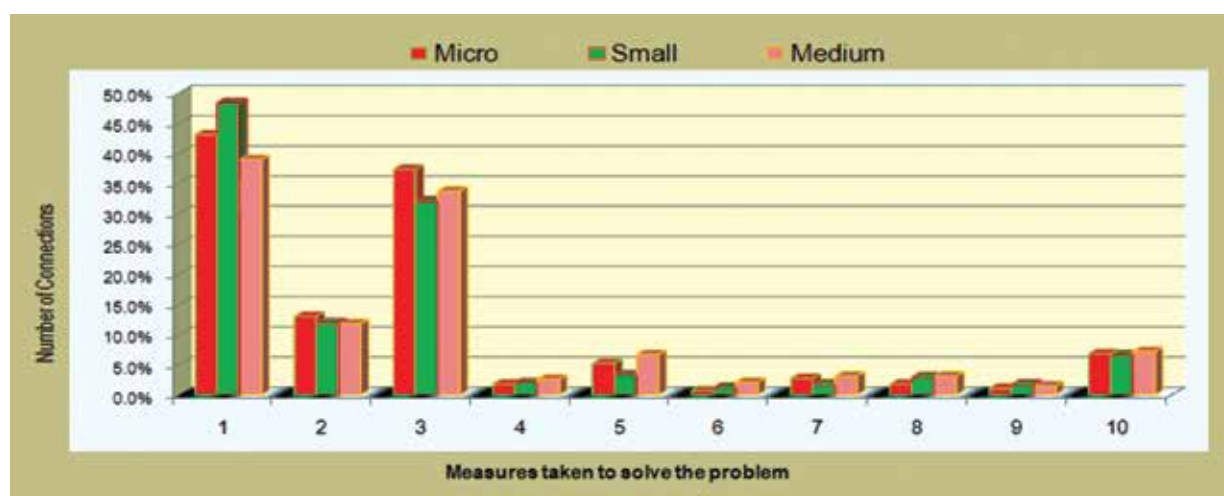


Figure 6 : Measures taken to solve the problem



Note: Numbers in horizontal axis are the ones that indicate measures in Table- 42.

#### 5.4.5 Suggested measures to solve the major problems faced by SMEs

Table 42: Suggested measures to solve the major problems faced by SMEs

Sl. No.	Measures taken to solve the problems	Micro (%) n=439		Small (%) n=938		Medium (%) n=195	
		n	(%)	n	(%)	N	(%)
1.	Improvement of transportation system	189	43.1	454	48.4	76	39.0
2.	Lowering of transportation cost	57	13.0	112	11.9	23	11.8
3.	Local production quality raw-materials	164	37.4	301	32.1	66	33.8
4.	Development of skilled manpower	8	1.8	19	2.0	5	2.6
5.	Increasing local production of products with improved quality of products	23	5.2	31	3.3	13	6.7
6.	Ensuring easy availability of modern machineries	3	0.7	11	1.2	4	2.1
7.	Provide improved maintenance of machineries	12	2.7	16	1.7	6	3.1
8.	Reduction of tax and VAT	8	1.8	27	2.9	6	3.1
9.	Improved monitoring by the government agencies	5	1.1	16	1.7	3	1.5
10.	Others	30	6.8	62	6.6	14	7.2
	Total:	499		1049		216	

Note: Multiple responses

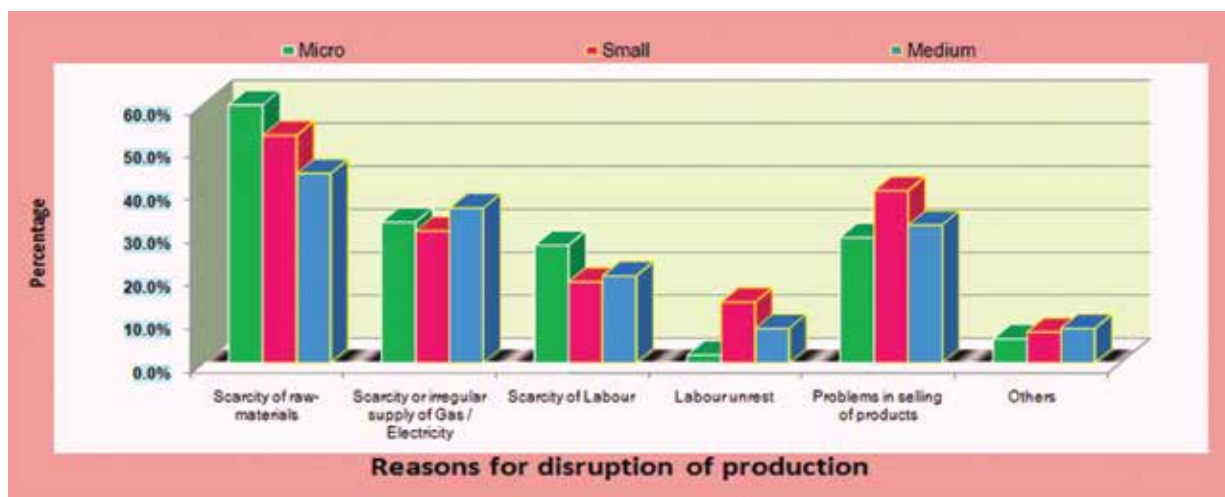
While respondents were asked to suggest important measures that could solve the problems associated with SME businesses, improvement of transportation system is

reported by the highest percentage of respondents across all SMEs. A total of 189 micro enterprises or 43.1% out of 439 micro enterprises, 454 small enterprises, 48.4% out of

938 small enterprises and 76 medium enterprises, 39% out of 195 medium enterprises, singled out improvement of transportation system as a major solution to the business problems they face. The next best solution that was suggested by 37.4% of micro, 32.1% small and 33.8% medium enterprises is that the quality of locally produced raw-materials need

to be improved. This is followed by lowering of transportation cost, increasing local production of quality products, providing improved maintenance of machineries, reduction of tax and VAT, development of skilled manpower, ensuring easy availability of modern machineries and improved monitoring by the government agencies etc. (Table 42)

Figure 7 : Reasons for disruption of production



#### 5.4.6 Reasons for Disruption of Production

Table 43: Reasons for Disruption of Production

Sl. No.	Reasons for disruption of production	Micro (%) n=55		Small (%) n=85		Medium (%) n=25	
		N	(%)	n	(%)	N	(%)
1.	Scarcity of raw-materials	33	60.0	45	52.9	11	44.0
2.	Scarcity or irregular supply of Gas / Electricity	18	32.7	26	30.6	9	36.0
3.	Scarcity of Labour	15	27.3	16	18.8	5	20.0
4.	Labour unrest	1	1.8	12	14.1	2	8.0
5.	Problems in selling of products	16	29.1	34	40.0	8	32.0
6.	Others	3	5.5	6	7.1	2	8.0
	Total:	86		139		37	

Note: Multiple responses

Problem of labour scarcity can be solved by the enterprise owners, the problem of scarcity of quality raw-material may be solved with the joint effort of the government and the

sponsors while Labor unrest being a socio-industrial problem can be solved by tri-partite efforts of owners, the government and the workers (Table 43 and Figure- 7).

### 5.4.7 Ensuring Increase of Sales

Table 44: Ensuring increase in sales of product

Sl. No.	Ensuring of sales product	Micro (%) n=679		Small (%) n=1441		Medium (%) n=304	
		n	(%)	N	(%)	N	(%)
1.	Improvement of transportation system	621	91.5	1295	89.4	264	86.8
2.	Construction of warehouses in the locality	204	30.0	453	31.4	110	36.2
3.	Government procurement	185	27.2	481	33.4	127	41.8
4.	Others	16	2.4	42	2.9	10	3.3
	Total:	1026		2271		511	

Note: Multiple responses

As can be seen from the table 44, overwhelming majority of the respondents, 91.5% for micro, 89.4% for small and 86.8% for medium size enterprises opined that bringing about improvement in the transportation system would bring about increase in sale of their products. This is indicative of the poor condition of the existing transportation system. Around 30% to 36% of the respondents from all SMEs of different sizes opined that construction of

godowns or warehouses in different localities could ensure sales of their product(s). Reasons for this could be seasonality of demand, seasonality of production and desire on the part of the manufacturers to make the products readily available so that they can supply the product as and when required. Around 33% of the respondents felt that government procurement of the products will ensure sales of their products at fair price.

Table 45: Ways of selling product to the customer

Sl. No.	Selling product to the customer	Micro (%) n=674		Small (%) n=1328		Medium (%) n=280	
		N	(%)	n	(%)	n	(%)
1.	Direct to the customers	516	76.6	901	67.8	163	58.2
2.	Through retailers	274	40.7	522	39.3	100	35.7
3.	Through sole agent	104	15.4	285	21.5	99	35.4
4.	Through wholesalers	275	40.8	651	49.0	150	53.6
5.	Others	4	0.6	10	0.8	10	3.6
	Total:	1173		2369		522	

Note: Multiple responses

It can be seen from Table 45, majority of the respondents, 76.6% for micro enterprises, 67.8% for small enterprises and 58.2% for medium sized enterprises stated that they sell their products directly to their customers.

Around 35% to 40% of the respondents from all SMEs of different sizes stated that they sell their products through retailers, followed by sole agent, wholesalers and other channel members.

Table 46: Price fixing methods

Sl. No.	Fixing price of products	Micro (%) n=668		Small (%) n=1374		Medium (%) n=287	
		N	(%)	n	(%)	n	(%)
1.	Cost based pricing	504	75.4	969	70.5	194	67.6
2.	Competition based	90	13.5	193	14.0	32	11.1
3.	Market pricing	393	59.6	897	65.3	193	67.2
4.	Others	6	0.9	6	0.4	6	2.1
	Total:	993		2065		425	

Note: Multiple responses

It can be seen from Table 46, majority of the respondents 75.4% for micro, 70.5% for small and 67.6% for medium size enterprises stated that they follow cost based pricing. The respondents, 59.6% for micro, 65.3% for small and 67.2% for medium sized enterprises also fix the prices of their

products based on market price. It suggests that the same company may be using different pricing methods for different products. Around 11% to 13.5% of the respondents from all SMEs of different sizes opined that price is determined based on competition.

Table 47: Market for products

Sl. No.	Selling the product	Micro (%) n=623		Small (%) n=1294		Medium (%) n=252	
		N	(%)	n	(%)	n	(%)
1.	Within the locality	397	63.7	705	54.5	91	36.1
2.	Within the district	419	67.3	764	59.0	82	32.5
3.	Whole of Bangladesh	238	38.2	686	53.0	179	71.0
4.	Foreign Markets	7	1.1	42	3.2	69	27.4
5.	Others	3	0.5	13	1.0	3	1.2
	Total:	1064		2210		424	

Note: Multiple responses

Two thirds of the respondents belonging to micro enterprises mentioned that they market their products within the district. Micro enterprises being small in operational capability, the finding is natural. Almost half of the respondents in small enterprises and one-third of medium sized enterprises opined that their products are marketed within the district. However, 71% medium, 53% small

and only 38% micro enterprises mentioned that their products are marketed all over Bangladesh. Only 27% medium enterprises mentioned that they sell their products in the foreign markets. On the other hand, a very insignificant number of micro and small enterprises, 0.5% and 1% respectively, sell their products in the foreign market. This is shown in Table 47.



Table 48: Promotional tools used for promoting sales by the SMEs

Sl. No.	Response	Micro (%) n=93		Small (%) n=240		Medium (%) n=105	
		n	(%)	N	(%)	n	(%)
1.	By giving advertisements	73	78.5	176	73.3	74	70.5
2.	By participating in fairs	42	45.2	126	52.5	54	51.4
3.	Others	4	4.3	9	3.8	7	6.7
	Total:	119		311		135	

Note: Multiple responses

In response to query on product promotion only 12% of micro SMEs, 15.6% of small SMEs and 31.6% of medium sized SME entrepreneurs responded. Regarding product promotion, three-fourth of responding SMEs in all size categories mentioned that they try to promote their products by giving advertisement. Again, half of SMEs in all size categories mentioned that they participate in

fairs for promoting their products. It is evident that not many of the manufacturing units use promotional tools to promote the sale of their products. Only a total of 565 of the respondents indicated that they spend money on promotion. Given the poor emphasis on promotion, it is only natural that the growth of sales as shown in Table should be minimal (Table 48)

#### 5.4.8 Enterprises working as sub-contractors

Table 49: Enterprises working as sub-contractors

Sl. No.	Response	Micro (%) n=737		Small (%) n=1 erprises 490		Medium (%) n=321	
		N	(%)	n	(%)	n	(%)
1.	Yes	87	11.8	293	19.7	64	19.9
2.	No.	650	88.2	1197	80.3	257	80.1

As can be seen from Table 49, in response to the question regarding whether SMEs work as sub-contractors, over 80% of the respondent answered in the negative. It could be because sub-contracting is very limited in

scope for the simple reason that the main producers are apprehensive as to whether the sub-contractors would be able to meet the different compliance issues.

### 5.4.9 Exportable products

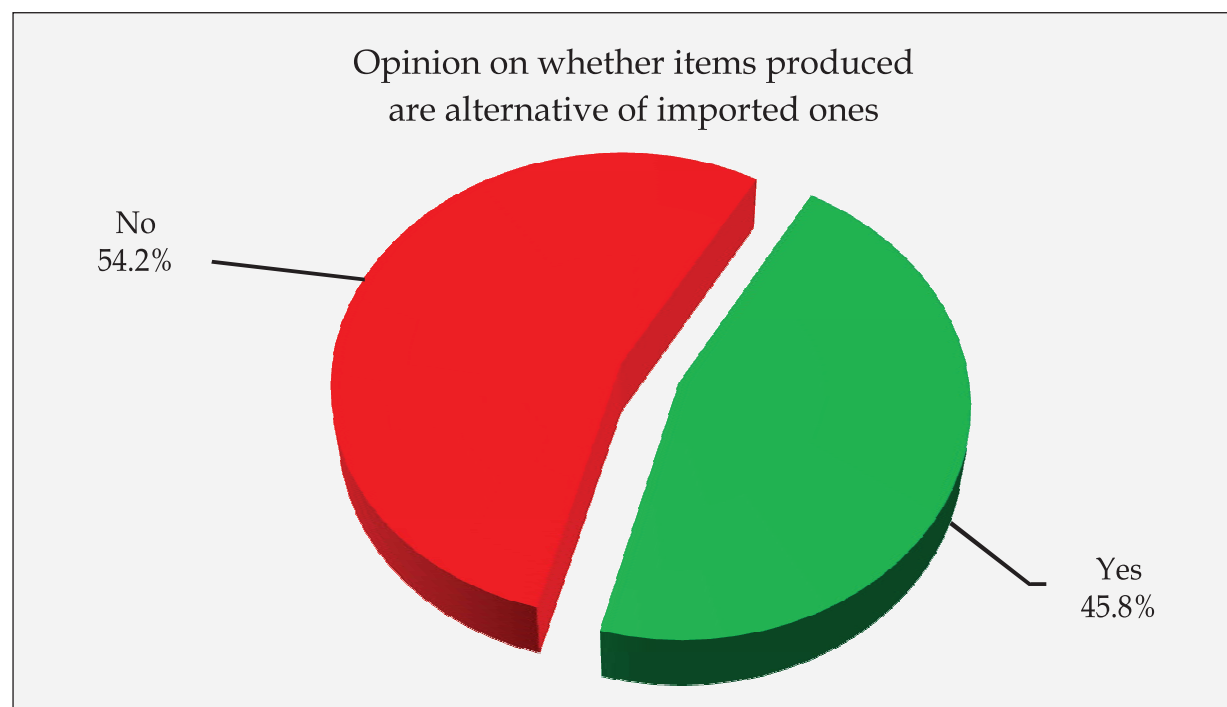
Table 50: Whether product is exportable

Sl. No.	Response	Micro (%) n=720		Small (%) n=1442		Medium (%) n=317	
		N	(%)	n	(%)	n	(%)
1.	Yes	85	11.8	245	17.0	139	43.8
2.	No.	635	88.2	1197	83.0	178	56.2

Table 50 shows the responses in respect of actual export or export potential of their products. Nearly 44% of medium, 17% of small and over 11% of micro enterprises mentioned that they produce goods that are or could be exported.

### 5.4.10 Items produced being import substitute

Figure-8 : Opinion on whether items produced are alternative of imported ones



In response to the question whether the products or services that they produce are alternative to products and services being imported into the country, out of 2647 respondents 45.8% have responded positively and 54.2% negatively. The ratio is almost

50-50. This is depicted in Figure-8 above. So, it may safely be assumed that encouragement of domestic production of different products may save use of hard earned foreign currency through import substitution.

### 5.4.11 Waste management and workers safety issues

Table 51: Ways of managing industrial wastes

Sl. No.	Ways of managing industrial wastes	Number	%
1.	Industrial waste is sold	355	17.0
2.	Preserved in a safe place with the help of Sweepers	754	36.1
3.	Use of E.T.P.	107	5.1
4.	Throw the waste to the dust bin of Pourashava	350	16.8
5.	City Corporation collects the waste with the help of trolley	152	7.3
6.	Drainage system was also developed	95	4.5
7.	Re-cycled for re-use	71	3.4
8.	Used as fertilizer for crop productions	20	1.0
9.	Used as fuel	169	8.1
10.	Others	88	4.2

Note: Multiple response

Figure-8 : Ways of Managing Industrial Wastes

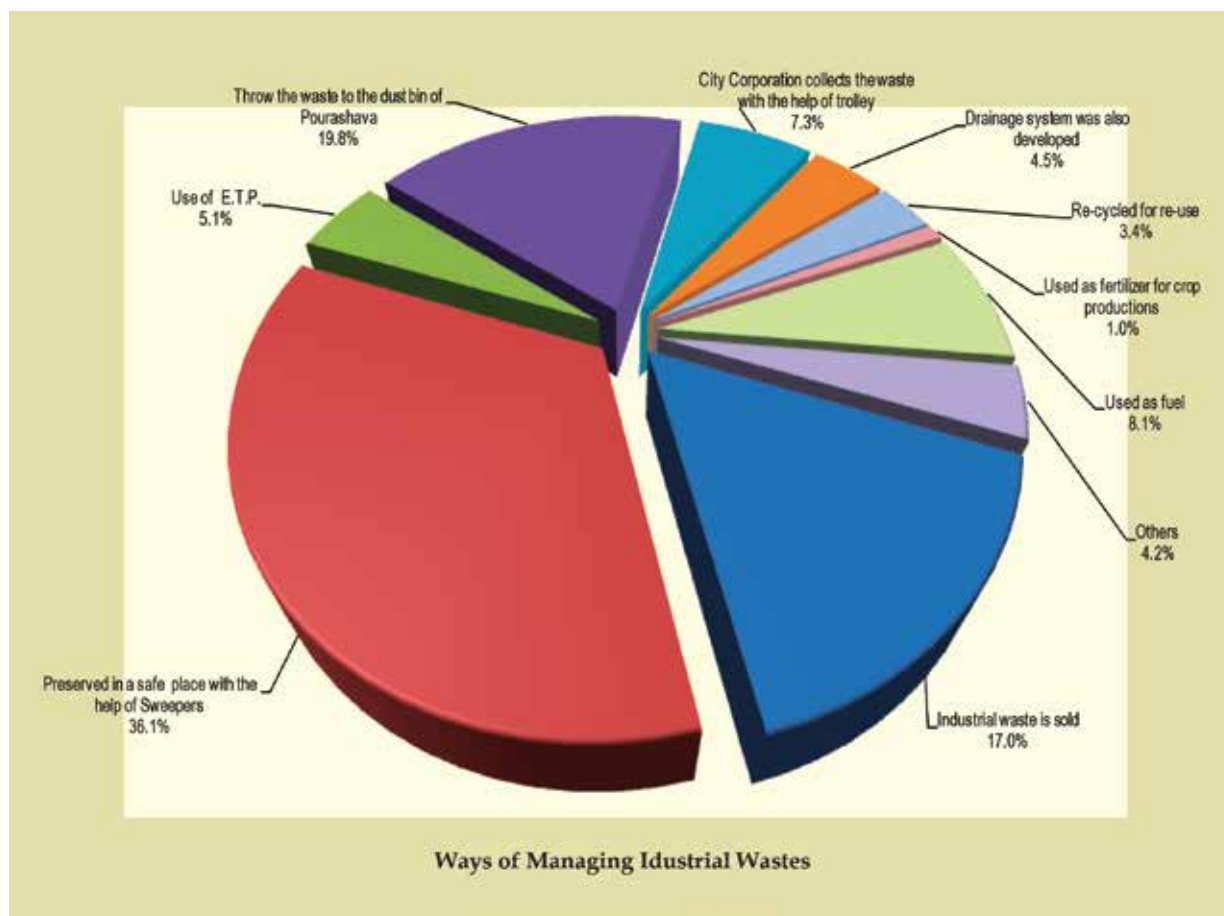


Table 51 indicates that over 36% of the enterprises stack their industrial waste in a safe place. Industrial wastes are also sold to companies that re-uses them which is followed by 16.% stating that they dump their

wastes into the bins of the municipalities / city corporations. Table 51, shows the other ways of managing industrial wastes in different enterprises.

#### 5.4.12 Opinion on environmental pollution due to SME

Table 52: Opinion on environmental pollution due to the SME

Sl. No.	Response	Number	%
1.	Yes	86	3.2
2.	No	2561	96.8
Total		2647	100.0

The survey has revealed that not much environmental pollution is caused by the SMEs. The survey revealed that only 3.2% of respondents felt that the SMEs caused environmental pollution (Table 52). Apart

from some medium sized enterprises, most of other enterprises do not seem to cause much of environmental pollution that may be detrimental to health.

#### 5.4.13 Types of environmental pollution

Table 53: Types of environmental pollution

Sl. No.	Type of Pollution	Number	%
1.	Sound pollution	28	32.6
2.	Water pollution	38	44.2
3.	Total environmental pollution	6	7.0
4.	Dust pollution	14	16.3
5.	Pollution of the atmosphere.	5	5.8

From the survey result, it is evident that environmental pollution is not common in the SME sub-sector. Amongst the type of pollution that is caused by the SMEs, the

commonest is water pollution accounting for over 44%, followed by sound pollution for 32.6%, and dust pollution 16.3% as reported by the respondents (Table 53).

#### 5.4.14 Opinion on whether any accident occurred in the enterprise

Table 54: Opinion on whether any accident occurred in the organization

Sl. No.	Response	Number	%
1.	Accident occurred	197	7.4
2.	No Accident	2450	92.6
Total		2647	100

From the survey it is found that industrial accidents are not a very common feature in so far as SMEs are concerned. As can be seen from Table 54, out of 2,647 respondents, only 7.4% stated that industrial accidents occurred

in their enterprises. However, occurrence of only a few industrial accidents is no reason to be complacent. Industrial accidents need to be brought down to zero level.

#### 5.4.15 Causes for Accidents

Table 55: Causes for Accidents

Sl. No.	Causes for Accidents	Number	%
1.	Accident occurs due to electric short circuit	61	31.9
2.	Due to carelessness	84	44.0
3.	Accident occurs due to natural calamities	19	9.9
4.	Accident occurs due to fire	29	15.2
5.	Accident occurs due to low quality machines used	1	0.5



As can be seen from Table 55, the main cause for accidents that occurred in the enterprises that were surveyed is carelessness, followed

by electric short circuit and fire with 31.9% and 15.2% responses respectively.

#### 5.4.16 Steps taken to eliminate accidents

Table 56: Steps taken to eliminate accidents

Sl. No.	Steps taken to eliminate accidents	Number	%
1.	Provision of fire fighting equipments	198	48.5
2.	To impart training to create awareness increase awareness	219	53.4
3.	To reduce the use of low quality machinery and equipments	31	7.6

Note : Multiple answers

In response to the questions regarding ways to eliminate / minimize accidents in their enterprises, 53.4% indicated that providing training to build awareness amongst the workers regarding reduction / elimination of accidents would be a solution; 48.5% suggested that they have made provision of fire fighting equipments and provided necessary training to their workers on fire fighting, etc. This can be seen from Table 56 above.

#### 5.5 SMEs and ICT

In course of conducting the field survey, data were collected from Information and Communication Technology (ICT) subsector that belongs to SMEs. ICT belongs to two types of SMEs: Service and Trading. The service SMEs are mostly involved in developing software and providing IT enabling services. Most of the enterprises belonging to the service ICT group are members of Bangladesh Association of Software and Information Services (BASIS). The other type of ICT belonging to trading SMEs are members of Bangladesh Computer Society.

##### 5.5.1 Software and SMEs

The IT software subsector has grown steadily in number, persons employed and volume of business since 1997. In 1997 BASIS recorded a membership list of only 18 members. The number rose to about 1200 in 2017.

##### 5.5.2 ICT SMEs in Trading

Use of Computer Technology started in a very insignificant way in 1970s. Then all on a sudden some mini computers were brought into some public sector organizations. With the sudden inflow of micro-computers in late 1980s, number of computers increased remarkably. More and more organizations started procuring computers. However, computers were primarily used for word processing, some accounting and desktop publishing. In the 1990s the government started providing support for development of ICT sector. The support to ICT entrepreneurs started bringing positive results. The sector is now progressing well and there is a scope for further progress.

A survey on the situation of software and ITES industry was conducted by BASIS in 2017. The survey has revealed that number of enterprises rose to over 4500. The professionals in the sector was found to be over 300000. The revenue of software and ITES industry was found to be US\$700 million. The industry revenue proportion was 44% for software and 56% for ITES.

According to the list of members published by BASIS in 2017, there were about 1200 ICT enterprises listed with this professional organization. Of these only 27 (2.3%) ICT service providing enterprises are from outside



Dhaka. Among these 27, 15 in Chattogram, 3 in Tangail, 2 in Mymensingh, 2 in Gazipur, 1 in Khulna, 2 in Jashore and 2 in Rajshahi.

### 5.5.3 The Technical Expertise of Software Companies are in the following areas:

- Customized Software Development
- IT enabled services
- E-Commerce/Web service
- Mobile phone based applications
- System integration
- Consulting
- R&D services
- Distributor / Reseller

### 5.5.4 Functional Specialization of Software Companies are:-

- ERP & Integrated Business Application
- Accounting and Financial Software
- Banking Applications
- HR & Payroll solution
- Marketing & sales automations
- E-commerce & Portals
- Web development service & Hosting communication solution
- Mobile Application

- Customized software development
- Hospital Management system
- Capital market solution
- E-Learning
- Insurance Management system
- Office Management solution
- Micro-finance solution
- Media content management system

### 5.5.5 Types of ICT enterprises in line with Industrial Policy-2016

It has been mentioned that across the country there are over 4500 and of those only about 1200 are enlisted with BASIS. But BASIS in its 2017 Members Directory has included names of 819 ICT enterprises. A classification of these enterprises has been made by dividing them into micro, small and medium enterprises. ICT based services are mainly knowledge based. Thus in classification emphasis has been given on more on annual revenue than on investment and manpower employed. The following table shows the distribution of 819 ICT enterprises into three groups micro, small and medium.

Table-57: Distribution of ICT enterprises into micro, small and medium

Sl. No.	Type of enterprises	Number	Percentage
1.	Micro	341	41.6
2.	Small	446	54.5
3.	Medium	32	3.9
<b>Total:</b>		819	100

Since ICT entrepreneurship is knowledge based and the ICT services belong to intellectual property type organizations, it is difficult to fit ICT enterprises into the

definitions usually applied for manufacturing and service SMEs mentioned in the Industrial Policies. An appropriate definition for ICT based SMEs may be formulated.

### 5.5.6 Management of ICT based enterprises

In ICT enterprises professionals such as Systems Analyst, Programmers, Computer Operators and data entry operators work. In Bangladesh number of organizational clients for ICT services is increasing. For effective and efficient management purposes, organizations in both public sector and private sector have been undertaking quite many ICT projects. These projects cannot be implemented well by the ICT enterprises. The client organizations usually do not have sufficient capacity to manage complex ICT application based projects.

ICT is a very rapidly changing field of technology. The product life cycle is also short. As a result the characteristics of systems, hardware, software and operations in ICT field are also changing. The ICT based SMEs should essentially be always ready to accept challenges associated with the

changes. In course of collecting facts about ICT SMEs it has been gathered that ICT enterprises need to earn capabilities in the following areas.

- Keep updated about advancement in information technology,
- Keep updated about advancement in communication technology,
- Understanding the ICT needs of public sector client organizations,
- Understanding the ICT needs of private sector client organizations,
- Giving importance to provide simple solutions considering power of simplicity,
- ICT projects are complicated so entrepreneurs need to keep updated about project management tools and techniques. The common project management tools and techniques encompass the following nine knowledge areas:

Knowledge Areas	Tools and Techniques
Integration management	Project selection methods, project management methodologies, project management software, changes in request, request controls.
Scope management	Scope statements, work breakdown structures, requirements analysis, scope management plans, change controls.
Time management	Project network diagrams, critical path analysis, crashing of activities, fast tracking.
Cost management	Net present value, return on investment, payback analysis, earned value management, cost estimate, cost baselines
Quality management	Quality metrics, checklist, Statistical methods, fishbone diagrams, maturity models
Human resource management	Motivation techniques, empathic listening, responsibility assignment metrics, team building exercises.
Communication management	Performance reports, Forecasts, Requested changes, Recommended corrected actions
Risk management	Risks register, requested changes, preventive actions, project management plans

The country is now on the path to digitalization. The local large and medium organizations need sophisticated software solutions. Here ICT firms have a big scope to work. There is a scope for ICT sector to enter international market and for this a total knowledge based approach will be necessary.

## 5.6 Learning from FGDs, KIIs and Case Studies

### 5.6.1 Focus Group Discussion (FGD)

Learning from Focus Group Discussion (FGD) are as under :

- In general, during the last 8 to 10 years there has been significant changes in the socio-economic conditions of most of the regions where FGDs were conducted. Income of workers or daily laborers has increased as has their quality of life. Employment opportunity on an average has also increased.
- As a result of rapid industrialization in areas like Tangail, Savar, Khulna, or Bogura, most male members work as industrial workers; in other areas male members still work in the traditional occupation such as agricultural worker, rickshaw and rickshaw van puller, daily laborer, etc.
- Another interesting as well as important observation that came out of the discussion is the elimination of child labor, particularly in mills and factories.
- As a result of socio-economic development in most areas coupled with higher literacy rate, there have been a marked change in the quality of life. Their housing along with sanitation improved appreciably. One can see greater number of pucca buildings and sanitary latrines even in semi urban areas.

- There has been improvement in infrastructure and health institutions. People have become more interested in setting up new SMEs. As a result of industrialization, rate of unemployment decreased and purchasing power of the people has increased.
- With regard to setting up of SMEs by potential entrepreneurs, the age old problems still persist. They still face different types of impediments in taking loans from the financial and non financial institutions despite all the good intentions of the government. This is more accentuated in case of female potential entrepreneurs. In most cases female potential entrepreneurs are unaware of the different facilities that the government has made available for them. Providing collateral, high rate of interest, procedural constraints have hampered development of women entrepreneurship.
- Another issue that came up during FGDs was the issue of uninterrupted supply of electricity and gas that are essential inputs for smooth operation of not only manufacturing units but also essential for service industry.

### 5.6.2 Key Informant Interview

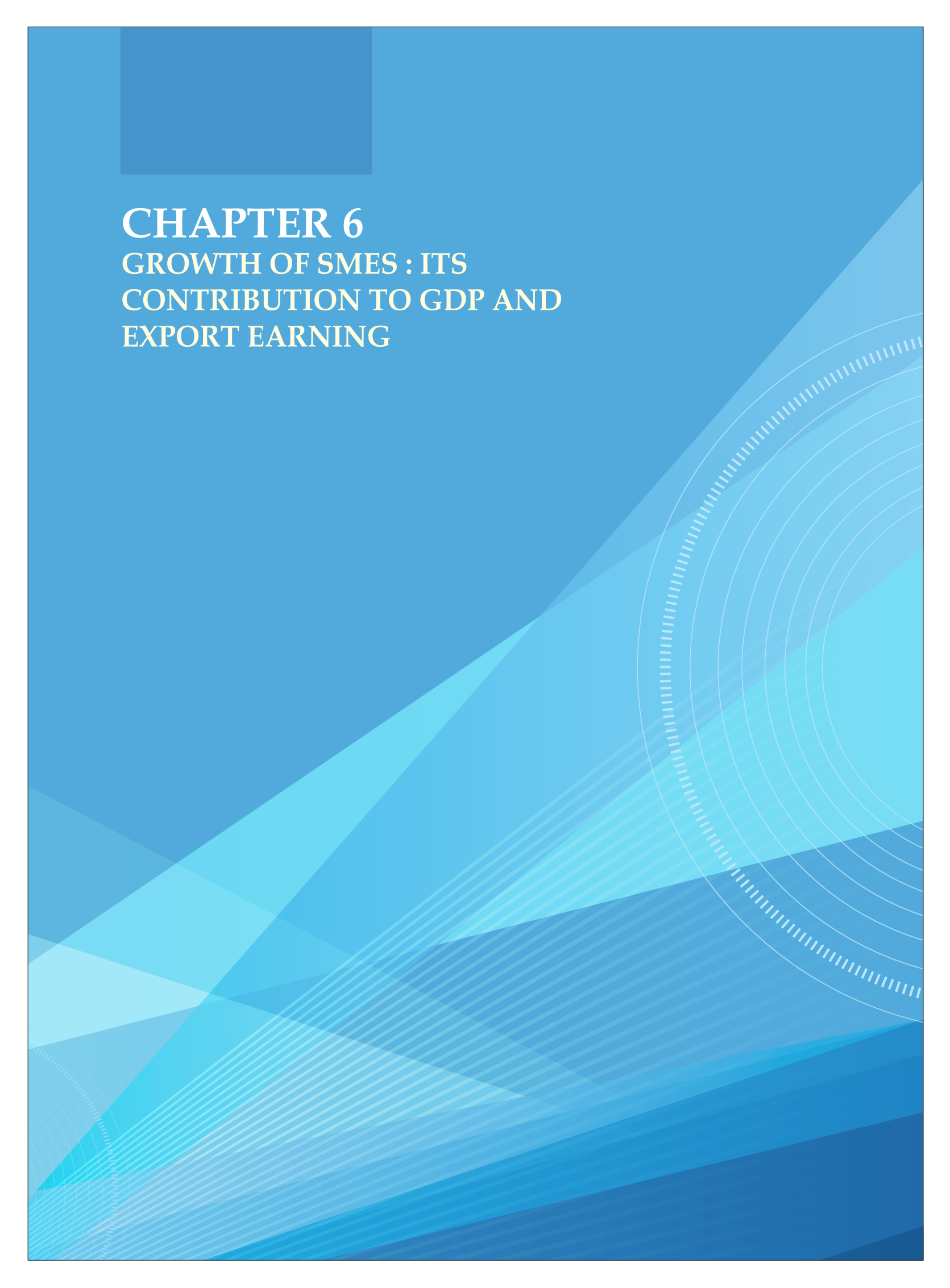
Learning from KIIs are as under :

- Providing SME loans under easy terms and conditions and at lower rates of interest is a prerequisite for smooth SME growth.
- Storage facilities for raw-materials and finished products are necessary for SMEs. They need govt. support in this regard.
- To fulfill the objectives of Industrial Policy 2016, there is a need to introduce modern equipments in the SMEs. There is also a need for skilled manpower to operate modern equipments.

### 5.6.3 Case Studies

Learning from the case studies are as follows:

- In the past, jute sticks were used for fencing of houses or domestic cooking purposes. However, currently charcoal manufacturing units are using jute sticks as raw-materials because of its high carbon content. Charcoal produced is exported, mostly to China.
- In Bangladesh massive development work is going on and as a result use of stone pieces has increased tremendously. Now, there are over 100 stone crushing industries in Sylhet. However, these industries while generating employments and earning are polluting the environment by producing lot of dusts. The suggestion is to set up a zone of stone crushing industries which will help minimize pollution in the surrounding areas.
- Pottery industry in Cumilla was established in 1961. It is a cooperative of 230 potteries. It produces aesthetic products some of which are exported to Scandinavian countries by CARITAS. The industry is suffering from shortage of gas supply.

The background is a vibrant blue with various shades and textures. It features abstract geometric shapes, including triangles and overlapping layers. On the right side, there are several concentric circles, some solid and some dashed, creating a sense of depth and movement. The overall design is modern and professional.

# CHAPTER 6

## GROWTH OF SMES : ITS CONTRIBUTION TO GDP AND EXPORT EARNING

## 6.1 Introduction

The present study, through extensive field survey in all the districts, has investigated the present situation of SMEs in Bangladesh. It has been found that SMEs are concentrated in a few districts like Dhaka, Chattogram, Cumilla, Bogura and Jashore. FGDs and KIIs have generated area specific data of SMEs and a direction to support SMEs in those areas. Through case studies it has been found that some areas have developed innovative ideas to utilize locally available raw-materials to manufacture products. This chapter deals with the issues of growth of SMEs, their contribution to national economy and export earnings. These issues are detailed in the sections that follow :

### 6.2 A model projecting growth of SMEs up to year 2030

Before 2013 Economic Census BBS conducted two other Economic Census during 1986 and 2001 and 2003. The latter one was spread over two years. The time passed between 1986 and the census completed in 2001 & 2003 has been considered as 16 years. Duration between 2001 & 2003 census and 2013 census has been considered as 11 years.

The review of Economic Censuses of 1986, 2001 and 2003 published by BBS show the growth of economic establishment as under (Table 58) :

Table 58 : Estimation of Growth Rates

	1986	2001 & 2003	2013
Number of economic establishments in the country	2168776	3708152	7818565
Computed yearly growth rate		3.4%	6.9%
Number of manufacturing establishments		450348	862994
Computed growth rate			5.9%

Since number of manufacturing establishments increased by 5.9% per year from 2003 to 2013, the consultants have attempted to use this growth rate to project the number of SMEs from 2014 to 2030.

Among the enterprises 5250 are large organizations, so there are 862994 enterprises that belong to SME and micro enterprises.

With these data growth rate is 5.9%. There are 7106 medium enterprises which in capacity are much larger than small enterprises. So their yearly growth rate cannot increase at the rate that is applicable for small and micro enterprises. Taking this situation into consideration of SMEs, every year the actual number of SMEs will be somewhat less.



At growth rate of 5.9%, the number of SMEs during the years 2014 to 2030 will be as given in Table 59.

Table 59 : Growth Projection

Sl. No.	Year	Number of SMES
1	2013	862994
2	2014	913049
3	2015	963101
4	2016	1013155
5	2017	1068386
6	2018	1113262
7	2019	1163315
8	2020	1213368
9	2021	1263421
10	2022	1313474
11	2023	1363527
12	2024	1413580
13	2025	1463633
14	2026	1513686
15	2027	1563739
16	2028	1613792
17	2029	1663845
18	2030	1713896

### 6.3 Contribution of SMEs to GDP

The survey has collected data on overall income and expenditure of the enterprises. In the sample 2647 manufacturing, 834 service organizations and 534 trading organizations have been included. The Industrial Policy-2016 has not considered trading organizations as SMEs. So these are not considered in computing GDP. Thus total SMEs considered in the sample for GDP computation are 3481. BBS in its National Accounts Statistics has mentioned three different methods to compute GDP. These are: (i) Production approach / method, (ii) Expenditure approach, and (iii) Income approach. BBS uses first two methods. Since this study deals with enterprises, we have used production method to compute contribution of SMEs to GDP. In this method GDP is measured as the total value added

arising from production of all goods. Values of intermediate consumption items have been considered in calculating GDP. Wages and salary are not included in the intermediate consumption items. The total income and expenditure of the surveyed SMEs in the manufacturing and service sectors are as given in Table 60 and Table 61. An analysis of data collected through field survey shows that only 23.6% SMEs have HR department. A maximum of this portion of SMEs follow the service rules in paying salary, wages and other benefits to the employees and workers. Among these too, 12.5% are medium SMEs and of the remaining 11.1% most are small SMEs. Almost all micro SMEs and majority of small SMEs do not have service rules. They pay their workers by their own consideration. So among the expenditure items salary and wages has the minimum possible share.

Table 60 : Total Income and expenditure of SMEs (Manufacturing)

SL. #	Item	2017-18
1.	Total income	Tk. 139,44,59,14,764
2.	Total expenditure (excluding wages & salaries)	Tk. 123,07,08,31,604
3.	Contribution to national economy	Tk. 16,37,50,83,160

Table 61 : Total Income and expenditure of SMEs (Service)

SL. #	Item	2017-18
1.	Total income	Tk. 10,19,01,78,543
2.	Total expenditure (excluding wages & salaries)	Tk. 9,20,82,24,089
3.	Contribution to national economy	Tk. 98,19,54,454

Table 62 : The contribution of 3481 SMEs to national economy

Manufacturing	Tk. 16,37,50,83,160
Service	Tk. 98,19,54,454
Total	Tk. 17,35,70,37,614

At 5.9% growth rate, number of SMEs in 2018 was 1115419. So, total contribution of SMEs to GDP was  $\frac{17357037614}{3481} \times 1113262 = \text{Tk. } 555096$  crore. According to Bangladesh Economic Review- 2019, total GDP of Bangladesh during FY 2017-18 was Tk. 2250479 crore. Contribution of SME subsector to GDP during 2018 was  $\frac{555096}{2238498} \times 100 = 24.7\%$ .

#### 6.4 Export Earning by SMEs

Bangladesh's earning from exports have been continuously increasing since 2010-11. During 2015-16 earning from export was USD 34.2 billion and in 2018-19 it stood at around USD 41 billion. According to the data on export earning published by Bangladesh Export Promotion Bureau (EPB), though export earning is increasing, export from Bangladesh remains limited to products belonging to following 19 groups :

1. Frozen food
2. Agricultural products
3. Specialised textiles
4. Petroleum by products
5. Chemical products

6. Leather
7. Raw Jute
8. Jute goods
9. Handicrafts
10. Knitwear
11. Woven garments
12. Engineering Products (excluding Bicycle)
13. Bicycle
14. Home textile
15. Footwear
16. Cotton & Cotton fabrics
17. Ceramic products
18. Computer services
19. Others

In the present survey, it has been found that while 426 i.e. 16% manufacturing entrepreneurs consider that their products can be exported, only 115 entrepreneurs actually export products. This is only 4.3% of the SMEs surveyed. The export earnings during 2018 by these 115 SMEs was BDT 1065 crore. This amount is equivalent to USD 127 million.

The breakdown of these 115 exporters is as follows :

Number of Entrepreneurs	Exporters	Exporters Percent of Respondents	Total No. of Enterprises	No. of Exporters (Derived)
776	4	0.52	Micro = 102507	533
1539	19	1.23	Small = 753381	9266
332	92	27.7	Medium = 7106	1968
2647	115		Total SME = 862994	11767

Total export of 115 Units/Enterprises:  
Tk. 1065 crore

Per Enterprise export:  
Tk. 9.26 crore

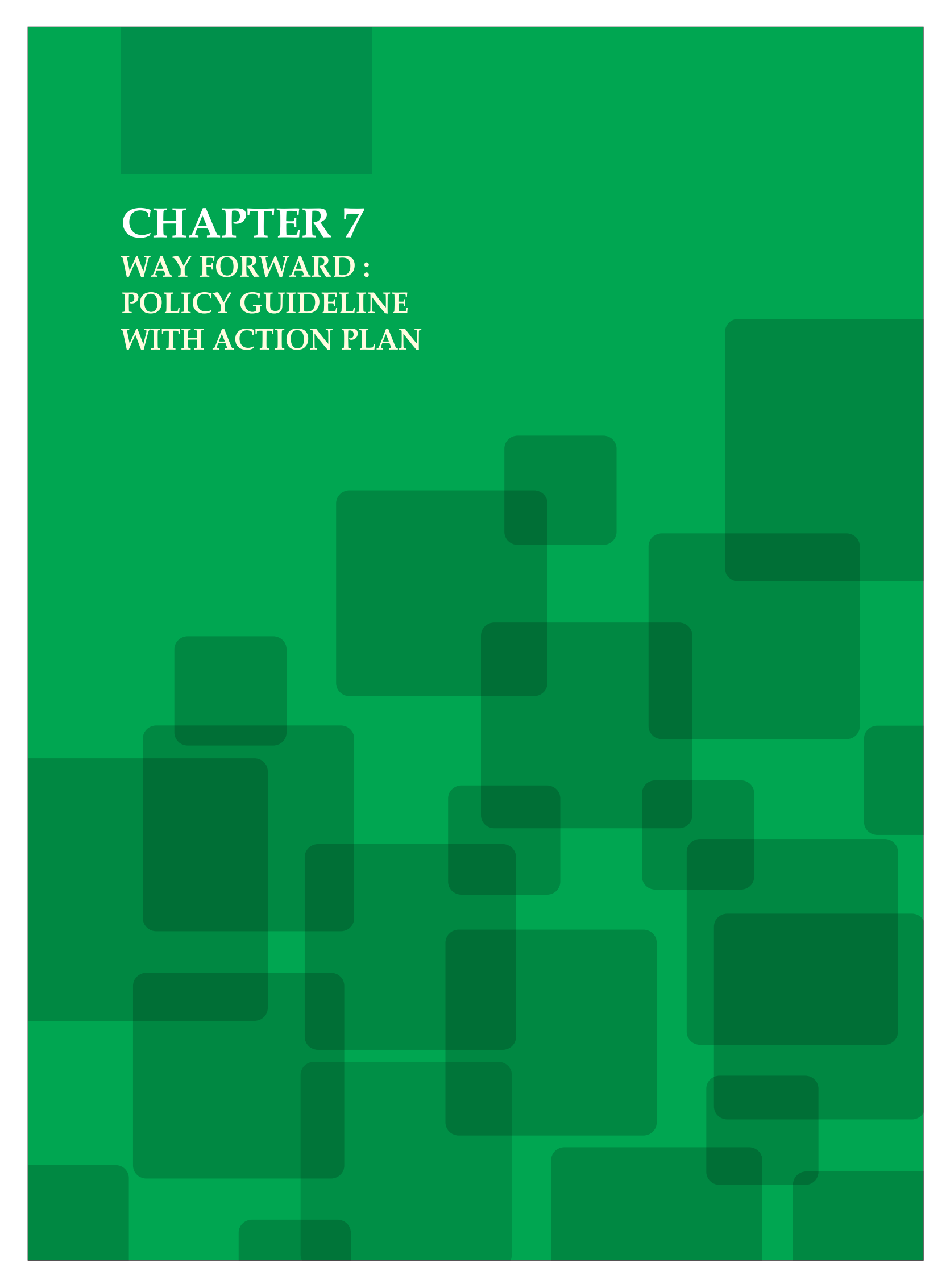
Projected total export of SMEs  
=  $11767 \times 9.26$  crore  
= Tk. 108962 crore  
= US\$ 1297 crore  
= US\$ 12.97 billion

Total export of country during FY 2018-19 =  
USD 41 billion (Estimated from Bangladesh

Bank data on export earnings during July  
2018 to April 2019)

Percent of SME's contribution to Export  
earning = 31.6%

It is worth noting that out of 426 SMEs that  
consider they produce exportable itmes, only  
115 i.e. 27% enterprises could enter the  
overseas market. There is enough potential to  
increase share of SMEs in export earning. This  
is addressed more in the next chapter.



# CHAPTER 7

## WAY FORWARD : POLICY GUIDELINE WITH ACTION PLAN

## 7.1 Introduction

The present study was carried out at the initiative of the Planning Division, Ministry of Planning to assess the current situation of SMEs in Bangladesh and evaluate the means to integrate the SMEs as a dynamic sector in the economy. The study is based on a survey of 4021 micro, small and medium enterprises across the country. The study has also covered literature reviews, FGDs, KIIs and Case Studies. The Case Studies include both success stories and failure of SMEs. The study highlights various aspects of SMEs, in particular, production, employment, investment, finance and marketing.

It is seen that on an average the manufacturing and service sector firms are making 8% to 9% profit and the trade firms are making 15% to 18% profit. Data were collected for two years and it was found that over the years the profit kept increasing. In terms of total manpower, the lion share of employees (75.9%) is employed in the medium sized enterprises in manufacturing sector. However, in the service sector, the largest share of employees (53.7%) is found in small sized enterprises. Micro enterprises employed only 5.1% of the total employees in the manufacturing sector and 12.6% employees in the service sector. It is observed for all sized enterprises that the number of female employees is much lower compared to number of male employees both in the manufacturing and service sectors.

It is evident from the survey that out of a total of 2647 respondents only 1377(52.0%) respondents have had training in the relevant

trade before starting business. The rest 1270 (48%) did not receive any training prior to starting their business. This shows that almost half the SME entrepreneurs did not enter into business with sufficient and relevant background.

The supply chain of micro SMEs generally depend on local sources of raw-materials. Almost 64% of micro SMEs mentioned that their sources of raw-materials are local. 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 make preference to locally produced raw-materials. Half of total medium SMEs surveyed (50%) source raw-materials that are produced both locally and within the country.

## 7.2 Challenges and Constraints

Overall, the commonly encountered difficulties of operation of the SMEs include lack of institutional credit, non-availability of working capital, low levels of technology, shortage of skilled workers, low productivity, and lack of marketing facilities and market access problems. In addition, unreliable power and gas supply, infrastructure deficiencies, compliance issues and stiff competition both in domestic and international markets seem to have been the key bottlenecks for the development of SMEs.

In general, the following issues need to be addressed to ensure proper development and growth of SMEs:



### **7.2.1 Development of entrepreneurs:**

The findings from the survey, FGDs, KIIs and Case Studies have confirmed that SMEs cannot be developed in many areas of the country because of serious shortage of entrepreneurs in those areas even though those areas produce enough agricultural products. For example, maize is produced abundantly in northern and some southwestern districts (Chuadanga) but almost all poultry or fish feed mills are in Gazipur. Strategic approaches need to be taken to develop entrepreneurs in the districts in which raw-materials are grown.

### **7.2.2 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, to run the business, the majority of the firms borrowed from banks followed by NGOs. Only about 2% of the firms borrowed from informal sources (money lenders). Regarding the difficulties to have access to formal finance, firms argued that bank's lending attitude is not favorable and it forces SMEs to choose other sources of finance. The second reason is the interest rate which is demanded by bank is very high causing many SMEs not to choose bank loan. Another crucial reason is that the processing of loan application for obtaining bank loan is so difficult that many SMEs prefer other methods to raise fund.

### **7.2.3 Access to Business Support Services:**

SMEs in Bangladesh have been suffering from lack of access to support services mainly due to absence of action plan for the provision of support services, lack of common facility centers, poor services of business development service centers, lack of legal framework and underutilization of e-commerce and e-government services, and unreliable online portals for SMEs. Proper training and information on product quality, price competitiveness, productivity, technological improvements, market promotions, and quality controls are needed as business support measures. The public sector agencies such as SMEF, BSCIC, SCITI, Bangladesh Standards and Testing Institution (BSTI), Bangladesh Council for Scientific and Industrial Research (BCSIR) and Bangladesh Accreditation Board (BAB) etc. should have close collaboration with the trade bodies and SMEs. The SMEs also need support on how to meet compliance standards and to acquire internationally recognized certification such as ISO standards.

### **7.2.4 International Market Expansion:**

SMEs in Bangladesh have been facing various constraints to have greater access to the international market. Institutions lack the capability to provide facilitating support for international market expansion due to inadequate export promotion programs, provision of advice and high-quality information. It is important to develop and run export capacity building programs nationwide in a well-coordinated manner. More financial facilities such as trade credits, grants, and insurance schemes need to be in place to encourage SMEs to expand their market overseas.

### **7.2.5 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.

### **7.2.6 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 as 17th least innovative country 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.

### **7.2.7 Financing of Innovation:**

Financing for innovation is a big challenge for a developing country like Bangladesh. Every

year the Government of Bangladesh allocates fund for conducting research activities by organizations in different sectors. A part of this research grant can be used to conduct research on innovation. Large organizations like industries, banks and insurance companies can give financial support to relevant research laboratories for research activities on innovation as part of their Corporate Social Responsibility (CSR).

### **7.2.8 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.

### **7.2.9 Promotion of Entrepreneurial Education:**

Promotion of entrepreneurial education is very important for SME development. One problem in Bangladesh is that neither has entrepreneurial education been clearly articulated in the entrepreneurial promotion policy nor has it been integrated into the national development plans with an adequate budget, monitoring and evaluation system. Key competencies of entrepreneurship learning programs are not well introduced in the general and higher education system and there is a lack of active collaboration with the industries to develop curricula, research, customized training, coaching, internship, business awards and scholarships.

### **7.2.10 Cheaper and Faster Start-up:**

There are deficiencies in the policies on making cheaper, easy start-up of SMEs. Procedures for business registration and overall process for SMEs for entry into operation are, in general,