

Problems and prospects of sme financing in bangladesh

[Parts of the World](#), [Asia](#)



Abstract

To conduct a comprehensive study of SME sector in Bangladesh of its present state, prospects, issues and emerging challenges. The core objective of the study is to find out the policies and strategies of SME financing in Bangladesh. Small and medium enterprises (SMEs) are playing increasingly important role as engines of economic growth in many countries including Bangladesh. SMEs provide low cost employment opportunities and render flexibility to the economy. Small and Medium Enterprises (SMEs) is played an indispensable role for overall economic development. Since this sector is labor intensive with the short period of time, it is capable of increasing national income as well as rapid employment generation; achieving Millennium Development Goals (MDGs) especially the eradication of extreme poverty and hunger, gender equality and women empowerment. SME sector has played a vital role in the economic development of some prosperous countries of Asia, In national economy of Bangladesh.

SMEs play dominantly important role by making industrial enterprises, providing employment of industrial workers and contributing to over one-third of industrial value-added to gross domestic product (GDP) and adapt quickly to changing market situation, generate employment, help diversify economic activities, and also make a significant contribution to exports and trade. The economic efficiency and overall performance of the SMEs are considerably dependent upon the policy environment and specific promotion policies pursued for their benefit. Therefore, policies and initiatives to

develop SMEs and to increase their competitiveness are a priority for Bangladesh.

Literature Review

With respect to the SME sector of Bangladesh, foreign and national experts undertook some studies. Small and Medium Enterprise Foundation, IFC, Dhaka, Bangladesh states that the issue at hand is scaling up from micro to small and medium enterprise. Uddin (2008) has stated that the economic efficiency and overall performance of the SMEs especially in the developing countries are considerably dependent macro economic policy environment and specific promotion policies pursued for their benefit.

Chowdhury (2007) highlighted that in context of Bangladesh SME is characterized by low capitalization and limited assets, geographical diversity and high morality, poor credit knowledge, very limited access to formal source of credit, cash intensity in transactions, very limited record keeping habit, poor financial disclosure on account of tax issues, high risk perception has led to high borrowing costs. In a study about SME sector of Bangladesh Miah (2007) stated that the major constraints for SMEs are lack of adequate investment, lack of modern technology, on bank loans, irregular/inadequate supply of power, poor physical infrastructure, poor information about market opportunities and requirements, inadequate availability of raw materials, lack of skilled technicians and workers, lack of research & development facilities.

Methodology

The study is mainly based on secondary data. Data have been collected from different published materials like the publications of Bangladesh Bank, Ministry of Industries, different SME policies of South Asian countries, and relevant writings of some scholars. To conduct our research we did both exploratory and descriptive research. We conducted exploratory research because we need to obtain information to conduct our research. We also conducted descriptive research to analysis the policies and recommend some suggestions for the improvement of SMEs in Bangladesh.

SMES in Bangladesh:

Different countries and organizations define SME differently.

The government of Bangladesh has categorized SME into two broad classes:

- Manufacturing enterprise
- Non-Manufacturing activities

Manufacturing Activities:

Manufacturing enterprises can be divided into two categories;

A) Small enterprise: An enterprise would be treated as small if, in current market prices, there placement cost of plant, machinery and other parts/components, fixtures, support utility, and association technical services by the way of capitalized cost, etc, excluding land and building were up to Tk. 5000000.

B) Medium enterprise: An enterprise would be treated as medium if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility and associated technical services by way of capitalized costs (of turn-key consultancy services) etc. Excluding land and building were up to Tk. 100000000.

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

Non-manufacturing activities can be divided into two categories;

A) Small enterprise: An enterprise should be treated as small if it has less than 25 workers, in full-time equivalents.

B) Medium enterprise: An enterprise should be treated as medium if it has between 25 and 50 employees. (Source: Saha summon, 2012 “ A Comprehensive Study on SMEs of Bangladesh: Constraints and prospect”)6. Policies And Strategies of SMES in South Asian Countries: SMEs are the backbone of South Asian economies, have emerged as an engine of growth, for increasing production, export and employment, and thus income generation.

These countries implement their SME development strategy, typically in the following six key areas: Business Environment; Entrepreneurship; Access to finance; Innovation and Technology; Business development strategy and market access strategy. It's aimed to serve as a training for entrepreneurs and trainers such as Chambers of Commerce and industry, for capacity building of SME.

Policies and Strategies of SMES in Bangladesh:

A policy is a set of principles or rules guiding decisions intended to achieve rational outcomes. So any government policy should be complied by all ministries and government agencies.

Otherwise, the rational result might not be achieved. The Government has adopted a separate small and medium enterprise (SME) policy in 2005. The policy of the Government with respect to SME has been detailed out in that policy document titled, “ Policy Strategies for Development of Small & Medium Enterprises (SME), 2005. The SME Policy Strategies-2005 identified 11 sectors for promotion. These gives a special emphasize for developing Small and Medium Enterprises (SMEs) as a thrust sector for balanced and sustainable industrial development in the country with the vision for facing the challenges of free market economy and globalization through the donor financial resources made available specifically to help with implementation of SME policy being enunciated here would only be allocated to competitively-selected enterprises within the booster industries here being prescribed. Of the total resources available, no more than 20% may be earmarked for medium enterprises, while the remainder, 80%, will be earmarked for small enterprises.

The Ministry of Industry and the SME Advisory Panel/Foundation, as the case may be, will determine modalities of how to implement both the credit-fund and the venture-capital fund. Within the purview of the Advisory Panel, projects to be funded from the venture-capital fund will be evaluated by a team of experts which will be constituted as a part of the implementation of

SME Policy. The SME Development Policy Strategy 2005 has contributed greatly to SME development in Bangladesh. The contribution of the industrial sector to GDP (gross domestic product) has increased from 15.76 per cent in 2001-02 to 19.01 per cent in 2011-12. The salient parts of the policy are:

The broad objectives of the policy shall be to:

- Accept SMEs as an indispensable player in growth acceleration and poverty reduction, worthy of its great potential and commitment in the requisite overall policy formulation and execution;
- The SME policy strategies shall be embedded, in a broad-based and integrated manner;
- Encourage and induce private sector development and promote the growth of FDI, develop a code of ethics and establish good governance, ICT based knowledge managements and customer supremacy in the markets;
- Identify and establish an appropriate physical and ICT network of infrastructure and institutional delivery mechanism that facilitate the promotion of SMEs;
- Re-orient the existing fiscal and regulatory framework and government support institutions towards facilitating achievement of the goals of SME policy;
- Nurture and partner civil-society institution(s) having credible management teams in terms of the delivery of needed services, leadership, initiation, counseling, mentoring and tutoring; etc;
- Create innovative but meritocratic arrangements so that deserving small enterprises with desired entrepreneurial track record and/or

promise can be offered financial incentives within industries prescribed on some well-agreed bases;

- Help implement dispute settlement procedures that proactively shield small enterprises especially from high legal costs and insidious harassment, if any;
- Take measures to create avenues of mobilizing debt without collaterals to match (either using debt-guarantee schemes or mapping intellectual-property capital into pseudo-venture capital) in order to assist small enterprises in dealing with their pervasive lack of access to finance;
- Systematically accord precedence to small versus medium enterprises, within the limitations of government's resources.
- Harness information & communications technologies, Internet Protocol (IP)-based infrastructure, and electronic-governance in an effort to parlay regulatory services, all kinds of useful information and mentoring inputs, with an accent on increasing the viability of SMEs in all sectors of the economy.

Data Analysis & Findings:

SMEs contribution to the total economy varies from country to country. SMEs in Bangladesh contribute 20-25% to the total GDP, whereas in India 80% of the GDP comes from SMEs. In Pakistan, only 15% of the GDP comes from SMEs. 80% of the total enterprises in Bangladesh are SMEs. 97. 60% of total enterprises are SMEs whereas in Pakistan SMEs consists only 60% of the total enterprises.

Labor Force Employed in SMEs:

Bangladesh employs 40% of its labor force in SMEs. Pakistan employs 80% of its labor force in SMEs. In India, it is 40%.

Credit Limit:

In Bangladesh, Priority is given to small entrepreneurs like SME. For small entrepreneurs credit limit will be ranged from Tk. 500000 to Tk. 5000000. In India, bank loans up to Rs. 5 crore per borrower/unit to SMEs are given. In Bhutan, only 48 entrepreneurs (less than 20% of the 258 Comprehensive Entrepreneurship Course graduates) received a loan, out of which only 25 are currently running their businesses successfully.

Tax Rate:

In Pakistan, High tax rates are one of the major reasons for firms to drift into the informal economy. According to research, 67% of enterprises termed tax regulations as most problematic. The government of Sri Lanka has granted a tax exemption for some certain sector of SMEs with a minimum of 25 million. Here the tax rate is 12%.

Credit Guarantee:

In India, the credit guarantee fund cover up to 85% of the loan if the lender fails to repay the loan. The royal government of Bhutan and two financial institutions created the credit guarantee schemes to provide loans to eligible applicants. The government of Sri Lanka introduced a credit guarantee insurance scheme in 2008 to assist 50 SMEs engaged in gems and jewellery sector.

Conclusion

Over the years the SME sector of Bangladesh has grown rapidly. In fact the SME sector of Bangladesh has broadened but depth has to be achieved in true sense. Performance of SMEs in Bangladesh is found significantly below the level of international standard. The sector has to be made investor friendly, otherwise the depth of the SME sector cannot be achieved. Although the government of Bangladesh has taken some initiative in ensuring the growth of SMEs but those steps are not enough at all. But the government has shown its positive attitude towards this sector. Bangladesh government should continue to give more focus on some areas, such as financing, providing infrastructure facilities, framing appropriate legal framework, establishing national quality policies, etc.

The government should define a secure and pragmatic policy for the development of SMEs in the country. In order to frame a policy for SMEs, Provision should be made to develop separate and specialized institutions in three areas: (a) finance, (b) technology, and (c) skill development, in addition to rationalizing existing policies and institutions. We are quite optimistic that the SMEs of Bangladesh will get a boost if the suggested measures are implemented.