

Small and medium enterprises growth in bangladesh



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Chapter -1: Introduction

1. 1 Background of the report

There is no chance to deny the fact that Bangladesh needs a sustained level of growth of small and medium enterprises (SMEs) in order to reduce poverty. Having predominance of agro-based economic activities, low level of technological development, lack of availability of highly skilled laborers, small scale businesses have been suitably developed in the country. Considering the country's level of economic growth, composition of resources or natural resources, level of international integration, and growing urbanization, industrialization there is huge scope for developing diversified and new SMEs in agriculture, manufacturing, service sectors etc.

Scope of employment can be enlarged or widened both in rural and urban areas, which will help to reduce income inequality between urban and rural areas by SMEs. SMEs' contribution to the economy is well-known.

According to BSCIC (2009), small and cottage industries accounted for 90. 91 per cent of total industrial establishments in 20082009. About 90 per cent of total employment and more than 55 per cent of total manufacturing value added originated from SMEs. In another estimate, there are around 66000 small industry units and 611, 612 cottage industry units, which provide employment of nearly 3. 5 million people. When handlooms are added, the number of cottage industry units alone shoots up above 700, 000 (BSCIC, 2009).

SMEs achieved considerable growth in different sub-sectors like, paper, printing and publishing; non-metallic mineral products; metal products; chemical; food, beverage tobacco etc. SMEs growth in Bangladesh is comparable with the growth achieved in different large scale industries in Bangladesh. However, a number of challenges have slowed down the development or growth of SMEs. In spite of its extensive coverage in manufacturing and service related activities, productivity of SMEs is not good in our country. In a number of sectors, there is no well-structured value chain developed between upper stream and lower stream.

It is true that growing urbanization in the country and rising per capita income at urban level have been creating demand for relatively ' better' quality products at a higher price, instead of ' low' quality products at lower price.

Currently, a larger part of this demand has been met up by low-priced, low quality imported products, because local SMEs are not able enough to provide satisfactory amount of better quality products.

Though SME is becoming gradually a rising industrial sector in our country and contributing more and more in export, this sector faces several problems like- lack of technical know-how, shortage of long term financial support, lack of skilled workers, marketing link, research and development. Naturally, development of competitiveness of local SMEs is the major challenge that has to be met in order to sustain and enlarge the growth of this sector.

The major objective of this report is to show the growth of SME, present status of SME, problems faced by SME and government policies to operate SME in our country.

1. 2 Objectives

The major objective of this report is to explore the:

Current development status of SME in Bangladesh

Problems faced by SME

Government policies to operate SME in our country

1. 3 Limitation

Although it has been tried on the level best to make this report based on facts and complete information available, there are some limitations that are inevitable. They are following:

This study is limited to only the development of SME in Bangladesh;

There was a time limitation as three months internship period is not enough to study the growth of SME;

Primary data is collected from different SMEs' owners by questionnaires. So without trust on owners' answers there is no any way to justify these answers.

Chapter -2: Methodology

To explore the growth of SMEs in Bangladesh others terms such as current status of SME, problems faced by SME, Government policies etc are described in this report. This report basically focuses on growth of SME in Bangladesh.

2. 1 sampling design

Sampling size is 20

2. 2 Methods of collecting data

For completing this report data is collected from two sources...

primary

Secondary

Primary data Sources:

Primary data is collected by questionnaires from direct respondents (small business owners). Questionnaires are also adjusted with this report.

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Secondary data sources:

Secondary data is collected from different

News paper,

Web sites,

Different articles,

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Report, etc.

2. 3 Analytical tools

Simple equation is used to analyses this questionnaires.

Chapter -3 Literature review

In the business world, small and micro-businesses form an absolute majority worldwide. Bangladesh as a developing country has started refocusing its attention on SME to enhance its economic stability.

Though there is no any standard definition of SME in the world, we can say that small business is a business which starts its activities with small amount of capital, small amount of land, few numbers of employees & to serve small numbers of customers it is known as small business.

This paper sets out to analysis the small business growth in Bangladesh. The terms “ growth”, “ success” are often very closely linked and are sometimes even used as synonyms. Traditionally they are all measured by hard financial measures, such as turnover, or by increased numbers of Employees.

This report tries to show the roles of SMEs for overall development of Bangladesh. Such as economic growth, poverty alleviation, employment generation, and the growth dimensions in three major sectors – agriculture, industry, and service. The study also shows the bottlenecks of SMEs and the effect of globalization on its development in Bangladesh to the success of SMEs in exploiting, surviving, rapid globalization of markets. In this paper the final pursuit is to develop a framework to illustrate a sustainable business

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solution that simultaneously fight poverty and accelerate economic growth through SMEs.

SME takes several strategies to grow itself & as well as economic development of Bangladesh. Such as Market development strategy, product development strategy, diversification strategy etc. Small and Medium-sized Enterprises (SMEs) are playing a pivotal role in terms of economic growth, employment generation, and industrialization (e. g. through entrepreneurship development).

Many authors expressed their opinion about SME growth in developing country like Bangladesh. These are given below...

Beck, Kunt, and Levine (2005) in “ SMEs, Growth, and Poverty states that Cross-Country Evidence” have found a strong association between SMEs development and Gross Domestic Product in per Capita.

Harvie (2004) in “ East Asian SME capacity Building, competitiveness and Market Opportunities in a Global Economy” postulates that developing economies are especially seeing small business as potential instruments for the alleviation of poverty.

Carl Liedholm, Michael, McPherson and Anyinna Chuta et al show that “ The percentage of job growth coming from enterprise expansion in rural areas is significantly higher than that of urban areas in developing country.”

Above mentioned opinions of different authors show the growth trend of SME in developing country like Bangladesh.

Actually SME helps poor people to develop their position. This report tries to shows that the SMEs' activities & its impact on our economic growth. For developing the sense about SME & its impact this report is based on field survey.

Though SME is an important component of economic growth so it has to keep relation with others factors such as knowledge, capital mobilization, creativity, ability to take initiatives, record keeping, financial control, industry & management experience, etc which are very important to enhance economic growth of this country. This report also focuses on these factors.

In our country majority percent of entrepreneurs take decisions by their own sense. Small business brings great opportunity for small capital owners. They can easily use this small capital & can remove poverty.

Though small business owners are poor, they need support from external and internal sources. Here relatives & different financial institutions play important roles in this case.

Considering all these, the governments of many developing and less-developed countries are adopting separate SME policies. Bangladesh government has developed rules & regulations to run the SME in Bangladesh. Tax rebate, interest of loan, location of this business etc are main factors have great impact on economic growth which taken by the government to run SME.

After the independence of Bangladesh governments of different tenures took a long time to realize the need of entrepreneurship development. We may get the scenario if we analyze the development by deferent government tenure.

1972-1975 Period:

During this period trade policy of the country was mainly project-oriented. As the country was just free from an autocratic reign of Pakistani juntas and the industrial infrastructure was damaged by the war of liberation, so, government of the then period had no alternative but to initiate by itself. Private participation over the industrial sector was totally stopped. Government initiated to establish large number of nationalized industries. As a result entrepreneurship development concept was totally lost.

1975-1982 Period:

From this time government realized the need of entrepreneurship development for economic growth. Government started to privatize it's seek industries and introduced deregulation policies in industrial sector. New private entrepreneurs were created with new enthusiasm. These governments introduced mixed economic system.

1982-1990 Period: Privatization and deregulation policies started in some specific sectors. Selling the seek industries to private sector got momentous. Entrepreneurship was encouraged by formulating appropriate fiscal policies.

1991-2004 Period: Governments of these periods introduced market economy to a significant extent. Initiated policies to liberalize the trade

policies. Privatization board was constituted to explore the environmental opportunities. Export-oriented privatization policy was introduced. GATT, WTO established took up some issues in this country by the international policies and to provide some ways and strategies.

It is another factor that, how many numbers of SME in our country it is not easy to say. So, no one knows for sure how many SMEs are in Bangladesh today. In 1975 BSCIC (Bangladesh Small and Cottage Industries Corporation) surveyed to find out the actual numbers of SME in our country, but until today actual numbers of SME are not found out.

SME growth is also affected by the environment -external & internal. External environment is very important to internationalize SME. Environment is major component of development without it development cannot move away. So SME has to maintain the rules and regulation of environment.

To grow SME financial & non-financial indicators are very important. The combination of these two factors brings the economic success of a country.

To develop small business there are many institutional arrangements, which vary degrees of effectiveness in the following areas.....

Financial support: Long-term financing are generally provided by Bangladesh Bank, other specialized bank and financial institutions. Commercial bank provide short term loan to business enterprise regardless of the size in the form of general credit, industrial credit, rural credit program, micro credit, special credit, etc at varying interest rate of 11-16% depending on the purpose of development.

Human resource development: Small business needs skilled manpower for production, management and accounts. A number of organizations are engaged in these activities such as BUET, BIT, Polytechnic and Vocational Training Institutes, etc for making skilled manpower.

Policy Instruments: Government has been supporting small business through various policy formulations and their implementation. Ministries of industry, Ministry of Finance and Planning, Ministry of Commerce and Bangladesh Bank have developed necessary policy to develop SME.

Business Development Services: Business Development Services are designed to help micro, small and medium enterprises overcome these barriers to increased productivity, profitability and access high value markets so that they can realize their potential help to poor people work their way out of poverty, grow local economies and creates jobs.

In Bangladesh SME faces many problems. As a developing country these problem should be overcome. Otherwise our SME sectors will not be able to see the success. To overcome these problems & to develop small business in our country in future below mentioned factors should be accepted:

Training

Motivation

Loan facility

Proper application of rules

Appropriate place

Opportunity to capital utilization

Chapter-4 SME in Bangladesh

4. 1 Definition of SME

Small business is any business that independently owned and operated, is not dominant in its own field and does not engage in any new or innovative practices. It is an integral part of the total business scene in any country. It means the size of which is not big – the size again depends on the yardstick one uses to measure.

4. 1. 1 According to industrial policy

For manufacturing industries, the Taskforce recommends that: an enterprise should be treated as small if, in today's market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, were to up to Tk. 15 million;

an enterprise would be treated as medium if, in today's market prices, the replacement cost of plant, machinery, and other parts/components, fixtures, support utility, and associated technical services (such as turn-key consultancy), etc, were to up to Tk. 100 million; from both definitions above, land is excluded.

For non-manufacturing activities (such as trading or other services), the Taskforce defines:

An enterprise should be treated as small if it has less than 25 workers, in full-time equivalents;

An enterprise would be treated as medium if it has between 25 and 100 employees;

From both definitions above, land and structures, once again, are excluded.

4. 2 Government policies of SME in Bangladesh

As a developing country to develop its economic status and to reduce the poverty rate, SME is very important sector in Bangladesh. But unfortunately, until today Bangladesh could not make separate SME policy to operate this sector significantly. Some very simple policies are included in the industrial policy in 2005. These are...

The Industrial Policy-2005 states: “ the SME sector has been given priority as a privileged sector”.

The PRSP states: “ The Government will pursue an employment intensive industrialization with emphasis on SMEs and export-oriented industries”.

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The Small and Medium Enterprise Cell (SMEC) was created in the Ministry of Industries (MOI) in 2003, and was tasked to take specialist interest in SMEs' development.

October 2003 saw the constitution of the SME Taskforce (SMETF), with the Principal Secretary to the Prime Minister as the convener. The SMETF blended the Government, the private sector, academia and the civil society as participants.

The Taskforce's report was approved by the Government early in 2005. On the basis of the report of the SME Taskforce, " the Government of Bangladesh issued Small & Medium Enterprise Policy Strategies, 2005" to provide a framework for interventions and policy strategies for the development of SMEs.

The Government constituted a Small & Medium Enterprise Advisory Panel (SMEAP) as an independent and meritocratic brains-trust for the MOI for all developmental, technical and structural advisories in the name of SME development.

According to Industrial Policy 2005, there are special fiscal incentives for SMEs. Since

Industries will enjoy tax holiday facility for a period of 5 to 8 years depending on the locations;

Agro-processing and computer software industries will receive income tax relief for a fixed period;

Industrial enterprises engaged in the production of RMG will receive taxation facility at a reduced rate of 10 per cent on their export income;

Special revenue facilities will be provided to industries marked as “ thrust sectors”, SMEs and cottage industries;

Industrial enterprises registered with the Board of Investment need not pay any transfer fee;

The Government is committed to develop industrialization led by the private sector amid a business environment that can bring out the best among all SME stakeholders

It is also pointed out in the industrial policy that Bangladesh government has taken initiatives to make separate SME policy. But when this policy will be made and implemented it is a big question today.

4. 3 Strategy for Small Business development in Bangladesh

Four strategies we can follow to grow the Small Business in our country. These are given below...

Penetration

strategy

Product

Development

Strategy

Market

development

Strategy

Diversification

Strategy

Penetration strategy

A Penetration strategy focuses on the firm's existing product in its existing market, and entrepreneurs try to develop the product and market by encouraging existing customer to buy the more of the firm's current product.

Market development Strategy

It is a strategy which grows small business by selling the firm's existing product to the new customers

There are several strategies under the market development strategy...

Market

Development

Strategy

Geographical

Market

Demographic

Market

Product use

B. 1) Geographical Market: This simply suggests selling the existing product in new location.

B. 2) Demographic market: demographics are used to characterize customers based upon their income, where they live, their education, age, and sex; and so on.

B. 3) Product use: An entrepreneur might find out that people use its product in a way that was not expected. This new knowledge of product use provides insight into how product may be valuable to the new group o buyers.

C) Product development strategy

Product development strategy for growth involve developing and selling new product to people who are already purchasing the firm's existing product.

Diversification strategy

This strategy involves selling a new product to a new market.

4. 3 Opportunity and challenges for SME of Bangladesh

Opportunities:

Bangladesh is an agricultural country. 85% populations of Bangladesh are Farmer. So agricultural gets the priority all times. But today people are becoming aware of industry. In this circumstance small business has huge

opportunity to develop itself in our country. Some important opportunities of SME are described in below-

Education Rate:

The education rate of Bangladesh is increasing day by day. Educated people are always tried to do something new, and they are not afraid of taking risk. So, new businesses are being launched day by day.

Industrial Policy:

Industrial policy help people to do business correctly and it provides many facilities to new business owners. So, small business is seeing new sun of success.

Availability of Resources:

In our country there are many resources to develop and operate small business significantly.

Foreign Market Potentiality:

Small business of Bangladesh produces many goods which have demands in foreign market, and can earn huge foreign currency. So, small business is developed day by day.

Honorable Profession:

Many people imagine that Small Business is very prestigious profession. So, young people are developing small business day by day.

Environment:

Environment of Bangladesh is appropriate for business. Those businesses are not appropriate in ice-land area these are appropriate in our country.

Growth of domestic product

GDP of a country is very important to measure the growth of SMEs. In our growth rate is becoming good day by day. Current GDP growth of our country is 6%.

Without above mentioned opportunities there are many other reasons for which Small Business is developing successfully.

Problems of SME in Bangladesh:

There is a great prospect of SME in Bangladesh. It plays a pivotal role in the economic development of this country but SME of Bangladesh faces many challenges in different area...

Government policy

Until today Bangladesh could not make a standard SME policy to operate this sector significantly. Moreover the government policy emphasizes on production factors rather than human factor. Human factor is getting the least attention for the promotion of small business in the country. There is another problem for making the policy. Government is not making a clear cut policy of developing small business in the country.

Awareness of facilities

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Sometimes government offers a few facilities to the small business but owners of small business are not aware of the available facilities in the country for establishing small business. There is no any proper media to aware small business owner about facilities.

Training facilities

To develop entrepreneurship and small business in the country availability of training and education facilities is must. But in Bangladesh there are hardly any training facilities for the small businessman.

Incentive measure

To develop the small and medium enterprise government of country has to provide the incentive measure. But here the small entrepreneurs are deprived of such incentives.

Loan facilities

Different financial institutions are offering loan facilities to small business owner. But it is a problem that small business owner who has no any power doesn't get loan facilities very easily.

Security

Many small business owners operate their business in open place like field, road, bus, and in other transportation. They are not secured because they face many dangerous situations.

Women entrepreneurship

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Women are controlled by man means husband or father or elder brother. So women small business can't be operated very smoothly. In our country there is no suitable social environment to operate small business by women.

Small capital

Small business owners have no huge capital to operate the business. So they can't achieve the apex of goal. Modern technology they can't use and standard product they can't produce.

Above mentioned points are considered as strong barriers of SME development in Bangladesh. So it can be said that to increase the contribution of SMEs on Bangladesh economy government, NGOs, commercial banks, others financial institutions have to put great emphasize on SMEs sector in Bangladesh

Bangladesh is agriculture based country. So main priority is given to this sector always, but comparatively business sector always gets little priority, though it has great contribution on our economy. To develop the SME sector Bangladesh government has to give great priority to this sector.

4. 5 Role of SME on economic development of Bangladesh

The role of small and medium enterprises (SMEs) to economic development of a country is well organized. Across the globe it is strongly perceived that SMEs do play vital role in the industrial development, economic development of a country. Bangladesh is not lagging far behind in this respect. SME has great opportunity in this country. Environment, cheap labor, business strategy etc are the key features of SME.

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In view all the favorable factors; there is an urgent need in development of SME in Bangladesh as a developing country.

SMEs are characterized on the basis of size, investment and employees in most countries across the world.

Here are small business are those which have employees less than 50 person and have an investment of less than tk. 250 million.

On the other hand, medium enterprises are those which have investment between tk. 250 million and tk. 500 million with the number of employed workers ranging to 50 and 99.

Generally, hand loom, food processing, lather and tannery, ceramic, light engineering, electric and electronic, handicraft, specialized textile and garments etc are fall in the category of small and medium enterprise.

Information from MIDAS suggested that, around 88% of county's total industrial workforce is employed in the SMEs and the sector manufactures over 33% of industrial value added goods.

Although there is no concrete information about number and types of SME in Bangladesh, an estimate of the Bangladesh small and cottage industries corporation (BSCIC) says that, there are over 42000 cottage industries in Bangladesh.

There are also tens of thousands of small industries and a large number of hand loom and power loom industries in this country.

Despite having huge potential to flourish, the growth of SME sector in Bangladesh is being impeded by multifarious problem, both at micro and macro levels.

Inadequate knowledge of many entrepreneurs about the existing lending system and absence of necessary training facilities for small enterprise, widespread corruption and extortion and high rate of value added tax and unnecessary harassment from taxvat officials, law enforcer etc are also seen as impediments for the growth of SME.

On the other hand absence of modern technology transfer policy, lack of infrastructure and support like port, power, gas, poor law and order, inadequate legal frame work, policy have been identified as the key macro level problem. Bangladesh SMEs' have no enough exposure to international market.

Considering the above all situation, Bangladesh government along with donors support took some measures over the year to support the development of SMEs.

Various institutions including the BSCIC, BOI (Board of investment)

Commercial banks, other financial institutions are working to promote the MSE sector, but their services and support are still inadequate.

Experts argue that all the institutions have to build up capacity and upgrade their attitudes to provide appropriate and quick service to entrepreneurs.

The government has already given special attention to the promotion of SMEs sectors. Though government and others financial institutions have given special attention to the promotion of SMEs sector, the contribution of non-government organization in this sector is still poor.

So it can be said that to increase the contribution of SMEs on Bangladesh economy government, NGOs, commercial banks, others financial institutions have to put great emphasize on SMEs sector in Bangladesh.

Chapter 05: Present status of SME in Bangladesh questionnaire

This part is based on survey through questionnaires.

Calculation:

Number of respondent: frequency

~100

Question 01: Age of entrepreneurs

Table -01

Responses

20-25

26-30

31-35

36-40

41-more

Total

Number of respondent

02

04

08

04

02

20

Percentage

10%

20%

40%

20%

10%

100%

From the above table we can state that, 31-35 years people are more interested to do own business like SME.

Question02: Owners of SME are male or female

Table-02

Responses

Female

Male

Total

Number of respondent

7

13

20

Percentage

35%

56%

100%

From above data we can conclude that male is more interested than female.

Question 03: Marital status of entrepreneurs

Table 03

Responses

Married

unmarried

Total

Number of respondent

12

8

20

Percentage

60%

40%

100%

From the above table we can state that, more small business owners are married.

Question 04: Educational Qualification

Table 04

Responses

Class one to five

Class six to ten

HSC or equivalent

Diploma

University graduate

Total

Number of respondent

3

5

2

3

7

20

Percentage

15%

25%

10%

15%

35%

100%

Though in yearly period uneducated people were owner of different business but today educated people like business more. From this table we can state that, university graduates are becoming more interested to do small business.

Question 05: experience of entrepreneurs

Table 05

Responses

0 -years

One-five years

Six-ten years

Eleven- fifteen

More than fifteen

Total

Number of respondent

11

4

2

2

1

20

Percentage

55%

20%

10%

10%

5%

100%

Educated people don't fear the risk. So from this table we can see that without any experience people are launching small business. They don't wait for gathering experience.

Question 06: startup capital of business

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Table 06

Responses

20, 000-60, 000

61, 000-100, 000

100, 001-160, 000

161, 000-200, 000

More than 200, 000

Total

Number of respondent

5

6

4

3

2

20

Percentage

25%

30%

20%

15%

10%

100%

More small business owners start business by tk. 61, 000-100, 000

Question 07: Monthly turnover

Table 07

Responses

5000-10, 000

10, 000-15, 000

16, 000-20, 000

21, 000-25, 000

More than 30, 000

Total