SMEs in Bangladesh

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The Least Developed Countries (LDCs) in the east have started refocusing their attention on SMEs to enhance their role in bringing about structural changes in their economies. For Bangladesh SMEs have assumed special significance for poverty reduction programmes and potential contribution to the overall industrial and economic growth. This article uses two earlier studies carried out almost a decade apart and the author's own research to identify some of the constraints that have been hampering SME growth and to provide some pointers for the future.

The context

The economy of Bangladesh is at the crossroads. Rapid liberalization has put most existing industries under severe strain because of their inability to compete with consumer goods being freely imported after the withdrawal of quantitative restrictions and the drastic reduction of import tariffs. For the fiscal year 2004-2005, the erstwhile 4-tier duty structure of 7.5, 15, 22.5 and 30 percent has been cut down to 3 tiers, 7.5, 15 and 25 per cent, the weighted average being 16.44 percent. According to the budget speech of the Finance Minister, this would cause an estimated Bangladesh taka (BDT) 11 billion (USS 186 million) loss of revenue to the government; but there are no estimates yet about likely losses to the domestic trade and economy of the country from the flood of imported consumer and industrial products - cosmetics and toiletries, food and beverages, textiles and apparels, footwear and leather goods, chemicals and pharmaceuticals, light engineering products, machine tools, hand tools and so on. All these products (all under the SME category, and the rate at which the glittering multistoreyed shopping malls are springing up in Dhaka and other major cities of the country is perhaps a good indicator of the rate of displacement of domestic products by imported merchandise. Although some producers have been successful in improving their products and significantly increasing external market access, most are languishing.

Both equity and growth being of concern to the Government, the priority is to accelerate GDP growth in a pro-poor manner from the present 5.5 percent to 8-10 per cent (Annex-I). Agriculture, besides being the mainstay of the economy, is also important for increasing employment and reducing poverty. The contribution of agriculture and fisheries to the GDP in 2003-04 was 22.83 per cent at 1995-96 constant prices (crop 12.98 per cent. livestock 2.90 per cent, forestry 1.84 percent, and fisheries 5.15 per cent) (Annex-II) while they provided over 72 percent of the total employment. Correspondingly, the manufacturing contribution to GDP in 2003-04 was 16.25 per cent accounting for only 5.4 percent of the total employment. Whether to achieve the committed **Millennium Development Goals (MOGs)** of 2015 or the targets of the **National Strategy for Economic Growth, Poverty Reduction and Social Development**, commonly known as the **Poverty Reduction Strategy Paper (PRSP)**, the development process of Bangladesh must strive to expand employment creation opportunities very rapidly. The scope of additional absorption of labour in agriculture being somewhat limited, the best potential for this lies in the manufacturing sector. Inspite of droughts, floods, cyclones and various other natural or management related disasters, the agricultural sector of

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the country has performed well and has enabled the country to be self-sufficient in food; the growth of the services sector has also been fairly robust. It is the manufacturing sector's contribution to the GDP that has remained nearly stagnant at around 15 per cent and its growth rate at 7.41 percent (estimated values of 2003-04 at 1995-96 constant prices) [Annex-I and II].

To achieve the desired 8-10 per cent GDP growth, the manufacturing sector has to be made highly vibrant, increasing both its growth rate and its contribution to the GDP by leaps and bounds. The most cost-effective route for this would be through development of SMEs.

The *Industrial Policy of Bangladesh 1999* describes small industries as those employing less than 50 persons and having a fixed capital investment of BDT 100 million ($1.69 million). Medium industries were defined as those employing between 50 and 99workers and requiring investment between BDT 100 and 300 million ($ 1.69-5.07 million). This policy is now under revision as Industrial Policy 2004, which is yet to be finalized and officially published. According to media reports, the definition of industry has been reportedly revised in terms of "replacement costs", taking the cost of factory set-up and land as fixed. An industry with a replacement cost of BDT 15 million ($254,000) is expected to be termed a small industry and one with a replacement cost of BDT 15-100 million ($ 0.25-1.69 million) as a medium industry. It may be noted that neither the existing nor the proposed definitions take into consideration other important factors, like technological requirements, technical complexities of production, degrees of skills required in workers and managers, degree of value addition and turnover, import requirements, need for working capital, and probable trade barriers to market access.

As a matter of fact, the technological requirements, the methods and skills of production, and the quality of manpower needed for production and management are highly dynamic issues. To remain competitive in the globalized open market, to respond to the preferences of consumers and to conform to the technical standards and quality requirements of importing countries, and, of course, to comply with WTO rules and standards, producers must keep under constant review the necessity of acquiring, upgrading or innovating from time to time appropriate and cost-effective technological inputs. As there may be periodical needs for re-tooling, re-structuring and revamping the production factory, it may not be very easy to remain bound by rigid definitions.

In the context of the industrial scenario of Bangladesh, barring a small number of large fertilizer factories, composite textile mills, modern chemical and pharmaceutical plants, etc., the bulk of the existing industries may be notionally called either medium or small industries by global standards.

Industrial goods, according to economic or end-use classification, appear to have maximum weightage in consumer goods categories (Table 1). A similar picture emerges from the weightage of general industrial production statistics at the 3-digit level of codes (Table 2).

Bangladesh is at present largely engaged in the manufacture of common consumer goods, requiring rather simple technologies that are predominantly labour-intensive and that do not require a very high degree of skills to produce. As has been stated earlier, most of these are not competitive in quality or cost, and they will impose tremendous strain on the patriotism of domestic consumers to keep on patronizing them for long by paying higher prices and deriving less quality satisfaction, while better and cheaper imported alternatives are freely available at hand. Campaigning may go on for buying Bangladeshi products, but it will be extremely difficult to dissuade people for long from buying mass consumption goods from India, China. Thailand, Malaysia or Indonesia, which have already filled up the local supermarkets.

Table 1: Comparative weightage of capital and consumer goods (%)

Finished consumer goods	62.1
Intermediate consumer goods	28.9
Finished capital goods	2.2
Intermediate capital goods	6.8
Total	**100.00**

Source: Bangladesh Bureau of Statistics Census of Manufacturing Industries, CMI, 1999

Table 2: Weightage on general industrial production

Code	Industry	Weighted (%)
311-314	Food and beverages	23.295
321-325	Textile including leather	37.419
331-332	Wood products and furniture	0.221
341-342	Paper and paper products	4.562
351-357	Drugs, chemicals, etc.	23.567
361-369	Glass and non-metallic products	2.719
371	Basic metal products	2.028
381-385	Mfg. of metal products	0.189
	Total	**93.955**

Source: CMI, BBS Statistical Year Book 1999

The challenge at present is not to compete in top class brand products, which are also available in abundance in local markets, meant for those affluent consumers used to shopping in Milan, Zurich, London or New York. The challenge before Bangladesh today is how to make her existing SMEs compete with their equal-level rivals from abroad by modernizing themselves with up-to-date technologies and production processes. Along with that comes the question of how to develop the culture and practice of setting up new industries able to thrive in global competition right from the beginning Globalization, as one knows, has not only challenges but also enormous opportunities for those who have the capability of utilizing them. For them too the most important issue will be choice of correct technology.

SMEs - number and success

No one knows for sure how many SMEs there are in Bangladesh today. It was around 1978 that the BSCIC (Bangladesh Small and Cottage Industries Corporation), under the Ministry of Industries, conducted a survey to find out the number of cottage and small industries of the country. Inspite of the question about the validity and dependability of the survey, in absence of any other effort by the Bangladesh Bureau of Statistics (BBS) or any other agency, this initiative did provide a useful benchmark but it was never updated. The International Consultancy Group (ICG) of the UK, in collaboration with the Micro Industries Development Assistance and Services (MIDAS), conducted in 2003 the National Private Sector Survey of Enterprises in Bangladesh with funding from the Department of International Development (DFID) of the UK Government, the United States Agency for International Development (USAID), the Swiss Agency for Development and Cooperation (SDC) and the Swedish International Development Cooperation Agency (SIDA).

The survey results drew the conclusion that there were approximately 6 million micro, small and medium enterprises (MSMEs), which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above. About three quarters or more of the household income in both urban and rural areas is provided by the MSMEs (Table 3).

Table 3: Percentage of household income contributed by MSMEs

	Strata		
	Rural (%)	**Urban (%)**	**Total (%)**
Provides all or almost all	41	45	42
Provide more than half	19	14	18
Provide about half	16	14	16
Provides less than half	20	17	19
Provides nothing	4	9	6
Total	**100**	**100**	**100**

Source: ICG/MIDAS Survey, 2003

The high level of income contribution was attributed to the fact that the enterprises worked ten hours per day, 28 days per month for eleven months a year.

The survey also found that the industrial structure of SMEs consisted of primarily wholesale and retail trade and repairs (40 per cent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing only (14 per cent). Thus the survey brought out very prominently the fact that the large untapped potential for expansion in manufacture and production could be exploited (or contributing more significantly to the national economy. Another vital finding of the survey under discussion was that SMEs contributed BDT 741 ($ 12.5) billion or nearly 25 per cent of the GDP (BDT 2,996 billion) in 2003. Those who tend to look down on micro and small industries may be shocked to note that enterprises employing 2-5 workers are credited for having contributed 51 percent share of the total SME contribution to the economy, followed by 26 percent by those having only one worker and 10 per cent by those having 6-10 workers (Table 4).

The sectoral contribution of SMEs to the GDP is also interesting. Manufacturing contributed the highest proportion (38 per cent), followed by Agriculture (24 per cent) and, closely following, Wholesale and Retail Trade and Repairs (23 per cent) (Table 5).

Table 4: Contribution of MSMEs to GDP by size of enterprise

Total contribution to GDP (Taka)		
Number of workers	**Total contribution to GDP**	**Percent of total contribution (%)**
1	193,996,555,714	26
2-5	379,663,897,358	51
6-10	73,120,983,681	10
11-20	45,183,240,157	6
21-50	33,960,498,076	5
51-100	15,138,922,373	2
Total	**741,064,097,360**	**100**

Source : ICG/MIDAS Survey, 2003

Table 5: Contribution of MSMEs to GDP by sector (Taka)

	Total contribution to GDP	**Percentage of total contribution (%)**
Agriculture	177,729,637,637	24
Fishing	32,872,674,464	4
Manufacturing	282,344,700,575	38
Construction	7,196,460,200	1
Wholesale & retail trade and repairs	171,335,861,390	23
Hotels and restaurants	28,599,263,975	4
Transport, storage and communications	8,950,171,356	1
Real estate, renting and business activities	13,771,436,794	2
Education	151,808,506	0
Health and social work	2,743,049,893	0
Other service activities	15,632,094,785	2
Total	**741,327,159,609**	**100**

Source: ICG/MIDAS Survey, 2004

For LDCs like Bangladesh, SMEs are a highly cost-effective route to industrial development. The present size of the population in the 2-14 years age group is approximately 16 million. They will be candidates for new jobs. Together with another 10 million inactive people still looking for employment, the total size of the new entrants to the job market may be said to be around 25 million. What would it cost to provide employment to these 25 million?

In 1998 the Swiss Agency for International Development Cooperation (SDC) had conducted a study of small enterprises with the help of Bangladesh Unnyan Parishad (BUP). The study was conducted with 47 small enterprises of 19 categories in 40 thanas (police districts) under 10 districts.

A summary of the findings of these studies may be seen in Annex-III. It showed that the average employment size per enterprise was 15, ranging from 5 in coir processing to 29 in food processing.

The size of investment varied from industry to industry and enterprise to enterprise. The highest investment was found to be BDT 3.5 million ($60,000) for food processing and the lowest BDT 12,747 ($216) for coir processing. The average investment per enterprise in the sample was found to be BDT 1.1 million ($18,700). If you put these figures together (even though this was not a particularly scientific analysis), the investment per employment works out to BDT 73,694 ($1,250). At this rate, the total investment required to provide employment to 25 million new jobs would be BDT 1,842 ($31) billion for the small enterprises sector.

To compare what it might cost to provide employment to 25 million new jobs in the large industry sector, one needs only look at some of Bangladesh's large fertilizer factories. Chittagong Urea Factory Limited (CUFL) is said to have cost BDT 14 billion ($237 million) to build, and it employs 982 people (all categories). The Jumuna Fertilizer Factory (JFF) cost BDT 12.60 billion ($213 million) and employs 1,082 people. Thus CUFL and JFF respectively required BDT 14.26 and 11.63 million ($241,000 and 198,000) per person employed. Investment costs per person employed in large industries thus worked out respectively at 100 and 78 times those of SMEs. As for micro-enterprises promoted by the Grameen Bank and NGOs like BRAC, Proshika, Swanirvar Bangladesh, ASA, etc., for self-employment of the very poor (80 per cent of whom are women) the investment required per employment is BDT 5,000 ($85) or less.

Thus no elaborate argument is needed to establish the case of promoting micro as well as small and medium enterprises as the most cost-effective and advisable means of providing employment and injecting dynamism into industrial growth, both for poverty alleviation and for contribution to the GDP.

Why SMEs are languishing

If the SME case is so good, why aren't the SMEs of Bangladesh doing better? Neither the Bangladesh Bureau of Statistics nor the Annual Economic Review of the Ministry of Finance shows industrial statistics segregating data for SMEs. The coverage is restricted to large and small industries, whatever might be the definitions of these two categories. The relative contributions of the large and the small industries during the last five years are shown in Table 6.

Table 6: Contribution of large and small industries to the GDP (%)

	1999-00	2000-01	2001-02	2002-03	2003-04
Large industry	11.01	11.13	11.16	11.29	11.47
Small industry	4.39	4.46	4.60	4.68	4.78
Total	**15.40**	**15.59**	**15.76**	**15.97**	**16.25**

Source: Economic Review, Ministry of Finance, GOB, 2004

There have been many analyses on why the industrial sector of Bangladesh has remained in hibernation. All the general impediments to private sector growth would apply equally to the growths of both large industries and small industries. In 1996, the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) had conducted an empirical study to find out the constraints to industrial sector growth and investment as perceived by industrial entrepreneurs and businessmen of different classes. A summary of this somewhat simplistic study was published informally under the title *In Search of Enabling Environment*, which listed 90 recommendations for removal of existing bottlenecks (Table 7).

Table 7: Constraints to industrial sector growth

Regulatory reforms	10
Collaboration between the government and the private sector	6
Industrial credit policies	20
Legal framework	20
Customs clearance	9
Work of the promotional agencies	4
Law and order	6
Labour relations	5
Problems regarding the power sector	10
Total recommendations	**90**

Source: FBCCI, In Search of Enabling Environment

When asked to identify the three most urgent issues in order of priority, the respondents named the following:

Priority 1: Industrial credit
Priority 2: Power supply
Priority 3: Administrative reforms

Since the above study, many other important issues surfaced in relation to investment climate, economic freedom, competitive advantage, etc. While the macro-economic management of Bangladesh has been admirable, quite the same cannot be said about the general quality of governance, the openness of the economy, transparency in transactions, corruption and the cost of doing business, law and order conditions, and such other aspects. These factors call for new priorities. As a result, inspite of many incentives and promises, industrial investment in the country has been quite sluggish and the flow of Foreign Direct Investment (FDI) has remained low outside the EPZs. The Government has been aware of this as evident from the following extracts from its I-PRSP paper:

"The Government is aware of the constraints hindering the growth of the private sector and would implement effective measures to remove the hurdles through effective and coordinated policies and actions. The key are as would be: infrastructure development (e.g. power, telecommunications, roads and ports), strengthened financial and capital markets, quality of the labour force, reduced costs of doing business by reforming institutional and regulatory framework, improved law and order conditions and better environment for foreign investment. Specific measures will be worked out in consultation with the private sector."

Such promises are also included in the Industrial Policy.

In a recent paper by the author, titled *The Role of Private Sector in Bangladesh*, the following 25 issues were identified as impediments to growth of the private sector:

1. Lack of long-term capital availability through banking channels;
2. Lack of long-term capital in the capital market and bond market;
3. Dumping of products, largely by smuggling;
4. Inefficient support infrastructure:
    a) In the utilities sector, specifically in power;
    b) In port services, including land ports;
    c) High transportation costs;
    d) A largely inefficient, and very costly, telecommunications system;
5. Widespread tariff anomalies;
6. High customs' duties;
7. Complicated and cumbersome customs procedures, aggravated by extensive arbitrary powers exercised by customs officers;
8. Low productivity and a highly politicized labour sector;
9. Inconsistency among different government policy statements;
10. An inefficient and corrupt judicial system;
11. Widespread corruption;
12. Political instability, leading to frequent strikes;
13. High interest rates in the banking sector;
14. A lack of credible statistics;
15. Lack of transparency and accountability in government decision making;
16. Lack of an appropriate education system to support an industrial economy;
17. Too many holidays;
18. A slow process of deregulation and privatization;
19. Lack of an industry-friendly social and political environment;
20. Lack of good governance;
21. Lack of regulatory bodies;
22. An uneven playing field between the private sector and the public sector;
23. Lack of local technology;
24. Lack of research and development;
25. Government control on public utilities.

More specifically to the MSMEs, the *National Private Sector Survey of Enterprises in Bangladesh 2003* of ICGMIDAS had identified enterprise constraints from open-ended questions (Table 8). Under the same survey a list of possible constraints was read out to the proprietors of firms. The response showed nearly that a third of them considered electricity, road conditions and access to finance as serious problems (Table 9).

The ICGT/MIDAS Survey also found start-up problems faced by MSMEs and the reasons for enterprise closure. These may be seen at Annex-IV and Annex-V.

Table 8: Enterprise constraints from open-ended questions

	First current problem (%)	Second current problem (%)	First problem when starting (%)	Second problem when starting (%)
Finance	41	9	50	5
Tools/equipment	0	0	0	0
Marketing	13	8	2	3
Government problems	1	1	0	0
Shop/space	2	1	0	0
Input problems	2	1	1	1
Transport	3	3	1	2
Labour	1	1	0	0
Utilities	1	1	1	0
Technical problems	0	0	1	1
Personal problems	2	1	0	1
Agricultural problems	7	5	3	3
Other problems	2	2	2	1
No problems	25	65	36	80

Source : ICG/MIDAS Survey, 2003

What needs to be done?

The long list of problems and constraints itself indicates what needs to be done to remove the constraints. It would be a good idea to extend assistance to the existing and prospective entrepreneurs in the SMEs sector, focussing on the thrust sectors identified by the government as likely to have both better growth prospects as well as some comparative or competitive advantage for Bangladesh. The *Industrial Policy 1999* had identified the following 16 thrust sectors:

- Agro-based industries;
- Artificial flower making;
- Computer software and information technology;
- Electronics;
- Frozen foods;
- Floriculture;
- Gift items;
- Infrastructure;
- Jute goods;
- Jewellery and diamond cutting and polishing;
- Leather;
- Oil and gas;

- Sericulture and the silk industry;
- Stuffed toys;
- Textiles; and
- Tourism.

Table 9: Enterprise constraints reported by MSMEs

	No problem (%)	Small problem (%)	Serious problem (%)	Total (%)
Electricity	44	20	36	100
Water availability	78	11	11	100
Sewer, rubbish disposal	89	7	4	100
Natural gas/fuel availability	87	5	8	100
Telecommunications	88	6	6	100
Floods and natural disasters	32	30	38	100
Access to land	80	11	9	100
Road conditions (quality, lack of roads)	41	26	33	100
Transportation to market (quality, distance, ease)	61	22	17	100
Access to appropriate buildings	89	6	4	100
Access to or use of equipment (owned, rented)	94	4	2	100
Skilled labour (availability, quality)	91	7	3	100
Inputs/raw materials (access, quality)	83	12	5	100
Product development	95	4	1	100
Too many competitors	75	18	8	100
Anti-competitive practices	91	6	3	100
Lack of market information (prices, etc)	90	8	2	100
Crime, theft, and disorder	66	23	11	100
Access to finance	46	22	32	100
Company registration	99	1	0	100
Labour regulations	99	1	0	100
Tax rates, administration of taxes (VAT, bribes)	96	3	1	100
Copyrights and patents	99	0	0	100
Macroeconomic instability (inflation, exchange rate)	91	6	2	100
Corruption - speed money	94	4	2	100
Political influence (local politicians or other pressure)	94	4	2	100
Customs and trade regulations (inc. export to India)	99	0	0	100
Trade, international agreements, standards	100	0	0	100
Other	99	0	1	100

The draft Industrial Policy, 2004, which is yet to be finalized and published, is supposed to contain 33 "thrust sectors", according to media reports. However, in the Export Policy 2003-2006, the Government had identified the following five sectors to have "High Priority":

- Software and ICT products;
- Agro-products and agro-processing products;
- Light engineering products (including auto-parts and bicycles);
- Leather goods; and
- High value-added readymade garment.

The Export Policy promises the following supports to the above sectors of "High Priority":

- Supply of investment credit at reduced rate on high priority basis;
- Moratorium on income tax;
- Various forms of cash assistance;
- Export credit on easy terms and reduced rate of interest;
- Subsidized rate for air transportation;
- Duty drawback and bond facilities;
- Assistance for establishment of related industries, including infrastructure development for reducing the cost of production;
- Institutional and technical assistance for improving the quality of products and quality assurance;
- Assistance for marketing access;
- Assistance in search for external markets; and
- Cooperation in foreign investment.

The Export Policy 2003-2006 classified the following products as the "special development" sector:

- Pharmaceuticals;
- Cosmetics and toiletries;
- Luggage and fashion goods;
- Electronic products;
- C-R coil;
- Greeting cards and calendars;
- Stationery;
- Silk cloth;
- Handicrafts; and
- Herbal medicine.

The following facilities have been promised for the special development sector;

- Provision of project loan on priority basis at standard rate of interest;
- Consideration of export credit on easy term with reduced rate of interest;
- Cash assistance;
- Subsidized air transportation;
- Duty drawback and bond facilities;
- Provision of electricity and gas connection on priority basis, including assistance for the establishment of facility industries for reduction of the cost of production;
- Technical assistance for improvement of quality;
- Assistance in marketing;
- Assistance in market search outside Bangladesh; and
- Assistance for securing foreign investment.

The Export Policy, however, does not state whether the concurrence of the Ministries of Finance, Civil Aviation, Industries, Commerce and other related Ministries and Agencies have been secured so that these promises for the priority sectors and the special development sector will be actually provided when needed. The same applies to the facilities promised regarding use of foreign exchange facilities from Export Promotion Fund. Provision of finance for export, subsidized premium for insurance, bonded warehouse and duty drawback simplification, return of VAT for export assistance services, permission for sale of rejected goods, etc., are also among supports promised for boosting exports. Needless to mention, most of the indicated industries under the old or new Industrial Policy as well as high priority sectors and special development sectors under the Export Policy would be under the SME category.

The promised assistance for SMEs in the industrial policy as well as in the Export Policy have yet to specifically address many technical matters, without which the capacity for production of competitive goods cannot be developed. While it will not be possible to itemize all the issues and their implications in this short article, we cannot omit mentioning some of the more important matters, such as:

- Selection, acquisition and application of the appropriate technology for production that would enable production of goods of competitive quality and competitive price, main taining optimum productivity, while environmentally not injurious. It would be important to determine the correct balance between labour-intensive and capital-intensive processes for achieving the required productivity and quality.

- Compliance with Quality Assurance and environmental friendliness standards, through adoption of TOM, ISO 9000, ISO 14000, etc., and necessary training for practising these.

- Bangladeshi workmen are extremely good at acquiring production skills to high degrees of tolerance, and are capable of production by copying samples. But, due to limitations in education, skill and technical knowledge, they are unable to produce goods from blueprints and drawings, adhering to the standard specifications. This deficiency has to be removed quickly by establishing appropriate training and skill development facilities.

- Many countries developed their SMEs by copying products from other countries, but this is no longer possible under WTO rules for Intellectual Property Rights (IPR). It is therefore, essential that indigenous R&D capabilities are developed quickly.

- Most manufacturing processes are today electronically controlled. Hence, adequate skill has to be developed for using and maintaining electronic components and control devices.

- Institutional facilities are needed for entrepreneurship development, including particularly capturing the high entrepreneurial ability of the women of Bangladesh.

- SMEs must have logical linkages between micro-enterprises below and large industries above them. Their notional hierarchical relationships should be well recognized and made use of. An efficient subcontracting culture has to be developed, and well functioning regulatory regimes should be put in place so that the network among the subcontracting firms work efficiently. The culture of respecting the needs of these contracting parties, following JIT (Just In Time) systems has to be adequately developed and faithfully practised.

- Most potential investors in the SME sector today are not entrepreneurs in the real sense, inasmuch as they do not have an already developed capability to decide on viable investment avenues, develop project profiles and set up appropriate establishments for production, management and marketing. Free technical assistance will have to be provided to them for accessing information, and developing bankable project proposals in the sectors in which they might have knowledge, preference and perhaps some experience and expertise. Similar assistance will also he needed to meet the various compliance issues under WTO rules.

- Prospective investors would have to be given all kinds of facilities for getting started in an unreserved manner and without any kind of hassle. They should be subject to a minimum of regulations in the beginning, except perhaps registration of the unit with relevant business Associations and/or Chambers of Industries, complying with the rules for Registration of the company under the relevant law and Board of Investment (BOI), and submitting annual reports about their product and marketing. Financing them should not require initially any physical collateral other than their factory establishment. They should have sufficiently long moratoria from different kinds of taxes, VAT and others levies, and they should be given protection against non-official extortionists as well.

- Designated financial institutions should not only be encouraged but also be helped to develop expertise in industrial financing, technology assessment and acquisition of relevant sectoral knowledge, as well as capability of working with clients so that project finance by them can be successfully implemented, overcoming all the usual bottlenecks experienced from sources of financing.

Conclusion

Most SMEs in Bangladesh today grew on their own initiative. Among them one highly successful sector did benefit from a relative freedom from overregulation and from assistance from government. Readymade garments (RMG) being the success story of Bangladesh enjoyed significant relaxation in government control, innovative assistance like provision for bonded warehouse facilities, transfer of many of the regulatory functions to the BGMEA and, to some extent, somewhat relaxed enforcement of the provisions of the Factories Act, Labour Laws, etc. But for a small number of brave and leading entrepreneurs of earlier days, most of the investors followed others more or less blindly and machinery procured for production has been mostly vendor driven. No special effort was made by them to impart technical training to the 1.8 million women workers with little education, and so their productivity has remained deplorably low. Initially the entrepreneurs had no skill of international marketing, when they were mostly dependent on Korean, Indian and Sri Lankan "buyers", who were nothing but self-appointed agents of western importers. Value addition to the industry except for knitwear has been low for lack of indigenous backward linkages with suppliers of fabrics and accessories. Most significantly, the industry benefited from quotas for North American markets and GSP facilities in EU markets.

The elaborate description, though well known to everybody in the industry, is narrated here to highlight the fact that, without the introduction of suitable machinery to ensure high quality, without the enhancement of productivity and skills of workers through training and retraining, without substantial improvement in finishing, packaging and transportation systems, and without learning to switch over to e-commerce, most RMG operators will start falling behind. This will affect their own income as well as the export earnings of the country, 80 per cent of which is contributed by the RMG sector. Besides job losses for a large proportion of the 1.8 million female workers and 2.0 million or so in the related services, there will be huge social impacts that need not be discussed here.

Needless to say, diversification of the industrial production system will be needed not only to overcome the apprehended losses of jobs and incomes but also to enlarge the horizon, with the world as the market. SMEs can absorb an unlimited number of investors, each requiring relatively little capital to generate the maximum per unit production and employment, and thus hold the key to the future of the economy. Exports will help increase the purchasing power of the teeming millions of rural and urban poor, using goods from the SME sector. It is thus very clear why SME development should proceed hand in hand with micro enterprise development.

It is interesting to observe that the conditions for small industry development that we find today, being at the threshold of total globalization, are very much the same as observed several-decades ago. Inspite of the criticism and neglect of the SME sector on the grounds of inefficiency and non-optimal use of productive factors compared to larger industries, SMEs are beginning to be extolled for their greater dependence on labour-intensive production techniques, lower requirements of imported inputs and better geographical dispersion. It is also being recognized that small drops make an ocean, so much hope is being pinned on micro and small enterprises for toning up the rural economy, without which the national economy cannot be sustained.

Out of many empirical studies done in this area, the work of Professors Sadrel Reza, Momtazuddin Ahmed and Wahiduddin Mahmud of Dhaka University, published under the title *Small and Medium Scale Enterprises in Industrial Development, The Bangladesh Experience* (Academic Publishers, Dhaka, 1992) strongly corroborates the present experience and the future outlook. (*Note: The summary of the findings and policy recommendations of the said publication could be made available from APCTT on request.*) In the context of promotion, development and sustainability, among many other things, four issues were highlighted by the authors:

- Financial support schemes;
- Technology and training;
- Marketing and infrastructure; and
- Rule of external development institutions (meaning donors).

All the above issues are very much within the grasp of the government and easily soluble within a reasonable time frame, except perhaps for technology and training. The horizon for technological development and skill development remains hazy. International cooperation in this regard, through schemes like TCDC (Technical Cooperation Developing Countries), have been most frustrating. Import of technology has not been very cheap; in any case, foreign countries are not expected to be able to develop and supply ready-made technologies and machineries for Bangladesh's needs, so there is no alternative to development of local R&D capabilities. SMEs cannot finance R&D costs and efforts and the only industrial research institution of the country in the public sector, BCSIR (Bangladesh Council of Scientific and Industrial Research) has been engaged in rather inconsequential pursuits.

Government has to start taking effective action to develop R&D capacity within the country, maybe in cooperation with others within and outside the country. More particularly, a nexus ought to be built up quickly among research institutions, universities and the private sector. UNCTAD is believed to have been doing a lot of studies on the subject of technology needs for sustainable growth of SMEs. Their guidance may be also of help in this regard.

Time and again, Bangladeshis have proved that they have the dormant capacity, and given the support they can capture the market. Today's potential entrepreneurs are highly educated and have good exposure to the world, and they can certainly perform better than earlier generation entrepreneurs. But they cannot solve problems that are not in their domain or are beyond their capacity. The tasks of funding R&D, generating social overhead capital, setting up viable institutions for upgrading education and skills of workers and managers, improving power and gas supply and making the transport and communication sectors better remain the responsibility of the government.

Without reducing the cost of doing business by making the public services work more effectively, combating corruption and reducing harassment from the usual rent-seekers within the government and outside, maintaining a peaceful law and order situation and the like will all require concerted efforts to resolve. With globalization at the door, all energies have to be concentrated on developing and supporting micro, small and medium enterprises by removing all constraints.

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Annex- I

Sectoral growth rate of GDP at 1995-96 constant prices

(In Percentage)

Sector/Sub-sector	1995-96	1999-00	2000-01	2001-02	2002-03	2003-04
1. **Agriculture and forestry**	**2.63**	**6.92**	**5.53**	**-0.62**	**3.29**	**2.41**
a) Crops and vegetables	1.74	8.10	6.18	-2.39	2.88	1.67
b) Livestock	2.51	2.74	2.81	4.70	4.51	4.48
c) Forestry	3.46	4.94	4.85	4.91	4.43	4.48
2. **Fisheries**	**7.39**	**8.87**	**-4.53**	**2.22**	**2.33**	**3.64**
3. **Minning and quarring**	**7.81**	**9.48**	**9.75**	**4.53**	**7.17**	**6.76**
a) Natural gas and crude oil	7.41	14.53	13.99	4.93	8.91	8.08
b) Other mineral resources	8.40	3.47	4.19	3.96	4.66	4.77
4. **Industry (Manufacturing)**	**6.41**	**4.76**	**6.68**	**5.48**	**6.75**	**7.41**
a) Large and medium	5.67	4.35	6.55	4.60	6.56	7.32
b) Small	8.28	5.80	7.02	7.69	7.21	7.65
5. **Electricity, gas and water**	**5.43**	**6.78**	**7.40**	**7.63**	**8.02**	**8.09**
a) Electricity	5.52	6.87	7.60	7.78	7.29	8.08
b) Gas	6.24	5.61	6.05	6.53	8.77	8.50
c) Water	1.52	8.06	7.05	7.52	20.01	7.31
6. **Construction**	**8.50**	**8.48**	**8.65**	**8.61**	**8.90**	**8.31**
7. **Wholesale and retail trade**	**4.63**	**7.30**	**6.43**	**6.59**	**6.09**	**6.54**
8. **Hotel and restaurant**	**4.98**	**6.94**	**7.00**	**6.92**	**7.00**	**7.29**
9. **Transport, storage and communication**	**5.15**	**6.08**	**7.92**	**6.56**	**6.85**	**6.68**
a) Land transport	5.50	6.32	6.37	6.73	6.64	6.13
b) Water transport	-1.46	1.78	0.57	0.34	0.07	0.0
c) Air transport	6.25	16.80	4.62	-16.84	-1.35	19.90
d) Support transport services, storage	9.98	13.15	18.10	-4.62	-1.17	4.08
e) Post and telecommunication	14.71	5.57	26.92	20.93	17.89	13.89
10. **Financial intermediations**	**4.87**	**5.50**	**5.54**	**6.70**	**6.96**	**6.77**
a) Bank	1.94	3.87	4.01	5.42	5.91	6.06
b) Insurance	18.35	13.0	13.46	12.35	10.29	9.96
c) Others	46.36	95.54	-0.03	2.05	2.32	2.96
11. **Real estate, renting and other business activities.**	**3.40**	**3.83**	**3.41**	**3.42**	**3.52**	**3.81**
12. **Public administration and defence**	**4.16**	**5.97**	**5.88**	**5.92**	**5.24**	**6.07**
13. **Education**	**2.57**	**7.74**	**7.11**	**7.58**	**7.60**	**7.66**
14. **Health and social work**	**2.70**	**4.80**	**4.92**	**5.30**	**5.63**	**5.75**
15. **Community, social and personal services**	**2.78**	**3.06**	**3.15**	**3.24**	**3.32**	**4.01**
16. **Import duty**	**8.35**	**1.31**	**1.84**	**5.84**	**3.31**	**4.86**
GDP growth rate (%)	**4.62**	**5.94**	**5.27**	**4.42**	**5.26**	**5.52**

Source: Bangladesh Economic Review, 2004 Ministry of Finance, Government of Bangladesh

Annex- II

Sectoral Share of GDP at 1995-96 constant prices

(In Percentage)

Sector/Sub-sector	1995-96	1999-00	2000-01	2001-02	2002-03	2003-04
1. **Agriculture and forestry**	**20.32**	**19.49**	**19.51**	**18.58**	**18.23**	**17.68**
a) Crops and vegetables	15.03	14.59	14.70	13.75	13.44	12.98
b) Livestock	3.36	3.02	2.95	2.96	2.93	2.90
c) Forestry	1.93	1.88	1.87	1.88	1.86	1.84
2. **Fisheries**	**5.36**	**6.09**	**5.51**	**5.40**	**5.25**	**5.15**
3. **Minning and quarring**	**1.05**	**1.03**	**1.07**	**1.07**	**1.09**	**1.10**
a) Natural gas and crude oil	0.62	0.58	0.63	0.63	0.66	0.67
b) Other Mineral Resources	0.42	0.45	0.44	0.44	0.44	0.43
4. **Industry (Manufacturing)**	**15.43**	**15.40**	**15.59**	**15.76**	**15.97**	**16.25**
a) Large and medium	11.01	11.01	11.13	11.16	11.29	11.47
b) Small	4.42	4.39	4.46	4.60	4.68	4.78
5. **Electricity, gas and water**	**1.50**	**1.43**	**1.46**	**1.51**	**1.54**	**1.58**
a) Electricity	1.27	1.21	1.23	1.27	1.30	1.33
b) Gas	0.18	0.16	0.16	0.17	0.17	0.18
c) Water	0.06	0.06	0.07	0.07	0.08	0.08
6. **Construction**	**6.89**	**7.84**	**8.08**	**8.41**	**8.63**	**8.86**
7. **Wholesale and retail trade**	**12.91**	**13.35**	**13.48**	**13.77**	**13.87**	**14.00**
8. **Hotel and restaurant**	**0.61**	**0.63**	**0.64**	**0.66**	**0.67**	**0.68**
9. **Transport, storage and communication**	**9.07**	**9.20**	**9.42**	**9.62**	**9.78**	**9.86**
a) Land transport	6.44	6.65	6.71	6.86	6.96	6.99
b) Water transport	6.44	1.18	1.12	1.08	1.03	0.97
c) Air transport	0.16	0.18	0.18	0.14	0.13	0.15
d) Support transport services, storage	0.37	0.36	0.41	0.37	0.35	0.35
e) Post and tele-communication	0.68	0.83	1.00	1.16	1.30	1.41
10. **Financial intermediations**	**1.58**	**1.57**	**1.57**	**1.61**	**1.63**	**1.65**
a) Bank	1.32	1.22	1.20	1.22	1.22	1.23
b) Insurance	0.21	0.28	0.31	0.33	0.34	0.36
c) Others	0.05	0.07	0.07	0.06	0.06	0.06
11. **Real estate, renting and other business activities**	**9.46**	**8.88**	**8.71**	**8.63**	**8.46**	**8.34**
12. **Public administration and defence**	**2.52**	**2.55**	**2.56**	**2.60**	**2.60**	**2.61**
13. **Education**	**2.07**	**2.20**	**2.24**	**2.31**	**2.36**	**2.40**
14. **Health and social work**	**2.28**	**2.20**	**2.19**	**2.21**	**2.21**	**2.22**
15. **Community, social and personal services**	**8.95**	**8.13**	**7.96**	**7.87**	**7.72**	**7.61**
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Bangladesh Economic Review, 2004 Ministry of Finance, Government of Bangladesh

Annex- III

Average size of the sample enterprises by industry type

Activity	Average investment per enterprise (Taka)	Average employment per enterprise (No.)	Average production value per enterprise (Taka)
Dairy	421,785	9	542,234
Engineering workshop/blacksmithy	1,055,210	16	3,287,275
Handloom and dress making	535,582	25	2,260,040
Rubber, plastic and polythene	1,192,400	10	9,566,590
Herbals and chemicals	2,623,624	19	5,936,545
Shoe making	976,720	24	14,649,333
Hatchery and fishery	1,455,450	9	849,250
Oil mill	726,729	9	5,734,455
Food products	3,521,490	29	25,793,100
Ice	1,772,550	7	400,000
Charcoal	331,920	6	648,000
Tannery	674,600	13	8,000,000
Rice mill	1,032,230	16	2,820,600
Bamboo and cane	262,100	15	747,900
Umbrella making	126,220	6	1,027,200
Candle	244,800	8	1,045,000
Coir	12,747	5	28,060
RCC pipe	295,500	6	374,750
Book	1,566,680	8	3,200,500
Total average	**1,105,409**	**15**	**4,947,581**

Source: Study by Bangladesh Unyanan Porishad (BUP) for Swiss Agency for Development and Cooperation (SDC), September, 1998.

Annex- IV

Current problems and start-up problems faced by MSMEs

Type of problem	First current problem (%)	Second current problem (%)	Percentage of change (%)	First problem when starting (%)	Second problem when starting (%)
Lack of investment funds	6	1		48	3
Lack of operating funds	31	4		1	0
Customers not repaying credit	3	3		0	1
Not enough customers	8	5		1	2
Number of small-sized competitors increasing	1	1		0	0
Low prices received	3	3		0	0
Other market problems	1	0	0	0	
Shop space unavailable	1	0		1	1
Poor location	0	0	0	1	
Raw materials/Stock expensive	1	1		0	0

Roads are bad	2	2		1	2
Flood problems	1	1	1	0	
Skilled labour unavailable	1	1	0	0	
Water/electricity gas unavailable	1	1		0	0
Did not learn needed skills	0	0		1	0
Personal health	1	1	0	0	
Old age	1	0	0	0	
Any other problem	1	1	1	1	
Weather	2	2	1	1	
Fertilizer/Insecticide	2	2	1	1	
Seeds	1	1	1	1	
Irrigation	1	1	0	0	
Livestock sickness	1	0	0	0	
No problems	25	65	36	80	

Annex- V

Reasons for enterprise closure of MSMEs

Reason for closure	Percentage reporting reason (%)
Lack of operating funds	19
Business losing money	16
Customers not repaying credit	8
Lack of investment funds	6
Personal health	6
Not enough customers/Lack of demand	5
Other personal problems	5
Old age	4
Low prices received	4
Theft	3
Started another business	3
Bad weather	3
Other government problems	2
Got involvement/Harassment	1
Household responsibilities	1
Other finance problems	1
Management problems	1
Got a job	1
Other input problems	1
Too many competitors	1
Accidents	1
Stock goes bad	1
Raw materials/Stock unavailable	1
Shop space unavailable	1
Raw materials/Stock expensive	1