CHAPTER 4
LITERATURE REVIEW

Literature Review

In order to validate the findings of any study as well as to have a better grasp of the context of the study, it is a universally recognized practice to review as much as of the previous similar studies undertaken in the past. In keeping with this practice, an extensive literature review has been made to introduce the subject of the present study. The purpose of such review is to enrich existing knowledge about SMEs in terms of global, regional & national aspects of the subject.

Small and Medium Enterprises (SMEs) were created for supporting manufacturing industries in late 70's and onwards of last century and evolved as an independent economic unit in this century. The resurgence of SMEs as key instrument for creating new jobs and promoting entrepreneurial economy in the business and industrial landscape was recognized by Brich David (1979), (Senjenberger, 1990), Loveman and Sengenberger (1991), A. P. Julien (1998). SMEs have now emerged as one of the vital instruments in the process of economic regeneration, growth of employment, increasing social progress and reducing poverty in any country. As the empirical evidence of the shift in economic activity away from large enterprises to small enterprises, SMEs out number large companies by a wide margin and is instrumental in generating employment opportunities for many more people and creating new enterprises in many countries around the world. European Network of SME Research (ENSR 1993-1997) and the European Commission (2002) highlighted proliferation of small enterprises and spread of SME entrepreneurship in European nations in the 1990s. Recent studies show that economic growth of any country is closely linked with SME development. Kachembere (2011) notes that SMEs are playing pivotal role in promoting grass-root level economic growth and equitable sustainable development. Helmsing (2003) suggested that SMEs play a role in community economic development, enterprise development and locality development. For example, as noted by Beck et. al (2005) showed a robust, positive relationship between the relative size of the SME sector and economic growth. For high income countries, Ayyagari (2007) showed that almost 50 percent of GDP on an average is attributed to formal SMEs. In another study (Ardic, Mylenko & Saltane, 2011) showed that majority of employment generation is through the growth of SME sector only.

The role and contribution of (SMEs) in developing world have been significant, both in terms of contribution to GDP and creation of employment opportunities. The success of Taiwan and Japan in harnessing the potentials of SMEs in their industrialization has largely been appreciated. The distinguished feature of Japanese SMEs is that they are largely linked to a wide variety of large firms through industrial subcontracting (McMillan, 1996). Subcontracting is an important source of technical support, financial support, supply of input materials, managerial support, etc. to SMEs from large firms. Subcontracting, thus, has a significant influence on improvement of technological capability of SMEs through establishing vertical cooperation between firms (Raghavendra and Bala Subrahmanya, 2005; Hayashi, 2002). For example, SMEs were instrumental in the

economic development of China, Vietnam, Malaysia, Columbia, India, Indonesia, Thailand. High economic growth of all these countries were guided by dynamic SMEs.

In Bangladesh, it is observed that the role of SMEs is growing significantly. Despite severe dearth of comprehensive national SME statistics, piecemeal studies suggest that a significant transformation of the SME sector has taken place in Bangladesh over time with various government initiatives. It is estimated that 7.5 million MSMEs (including cottage) constitute a significant component of economic enterprises accounting over 97% of all enterprises in Bangladesh, and the share of SMEs in GDP is estimated at about 25% (ADB, 2015).The recent Economic Census 2013 conducted by BBS provides a good account of non-farm economic enterprises including SMEs though it is not comprehensive as far as SMEs are concerned.

According to the Economic Census 2013, manufacturing units accounted for 10.9% of all units employing 30% of total non-farm employment and the rest accounted for trading and services units. SMEs occupy a place of strategic importance in the manufacturing sector of the most developing and developed countries (Bala Subrahmanya, 2005). Using the Survey of Manufacturing Industries (SMI, 2012) data, it can be observed that the share of SMEs in manufacturing value added is at 52.9% while its share in manufacturing employment is 40.9% implying that SMEs are efficient users of labour (Bakht and Basher, 2014). The value added per worker is also higher in small and medium enterprises compared to both micro and large enterprises. However, SMEs are generally underrepresented and lack of data does not permit to assess the recent trend in manufacturing productivity by size.

Bakht and Basher (2015), in the background paper "Strategy for Development of the SME Sector in Bangladesh" of the 7thFive year Plan of the Government of Bangladesh, argued that development of SMEs is envisaged as a key element of the development strategy of Bangladesh. Enhanced micro, small and medium enterprise activities in the rural and backward regions constitute a key component of the strategy for rural development and reduction of poverty and regional disparity (6th Five Year Plan, GOB 2011). The Government is committed to develop SME as one of the main pillars of economic growth to achieve the goal of becoming a middle income country by 2021. In Bangladesh, SMEs are young and relatively fragile and face enormous operational constraints, lack of business opportunities and structural foundations. The commonly perceived and also perhaps generally encountered difficulties of operation of the SMEs include lack of institutional credit, non-availability of working capital, low levels of technology, low productivity, and the 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 bottlenecks for the development of SMEs (Islam, Zohir and Hossain, (2009)—a background research paper prepared for the Sixth Five Year Plan; and Bakht and Basher (2014)—a background research paper prepared for the Seventh Five Year Plan). Ibarraran, Maffoli and Stucchi (2009) point out that SMEs are usually constrained by specific market failures, such as lack of access to finance, uneven competition, etc. and hence they require specific policies. With respect to growth of SMEs, MacRae (1991) found that the education, training and experience of senior managers are major differences between high growth and low growth SME firms. In fact, Nager and Merwe (1999), Jennings and Beaver (1995) etc. have argued that small business failure is generally a result of poor managerial competency.

There have been many studies on the constraints and challenges of SME development in Bangladesh. Ahmed et al (2011) identified lack of infrastructural support, political unrest, shortage as well as price hike of raw-materials, high financing cost and inadequate utility facility are some of the key factors for the slow development of manufacture based SMEs. Chowdhury et al. (2013) identified consumers were waiting for long period for getting initial finance from banks because of tedious paper works, inability to provide collateral to get loans, inexperience in preparing sound financial systems for getting loans. As remedies the respondents advised for financial incentives for sound business plan and public-private partnership in providing effective training. Bhattacharya and Hossain (2006) and Ahmed (2002) indicated complex documentation processes, lengthy releasing and clearing goods from ports, corruption in the customs department, lack of automated custom procedures etc. as major problems obstructing the growth of any business in Bangladesh.

In Bangladesh, despite of significant improvement in SME credit disbursement, it appears that still about 40% of SMEs do not have access to formal finance. Even those who have had accessed, there still remains certain credit gap. The INSPIRED SME survey 2013 of 120 manufacturing SMEs reveals that 68.6 percent of small enterprises and 44.7 percent of medium enterprises are constrained by finance. The inadequate access to finance is exacerbated by high interest rate, stringent collateral requirements, and inadequate protection of creditor rights. Thus, there exist a substantial credit gap and unmet demand for formal credit. A study for IFC by McKinsey (2011) suggests that there exists US$1.8 billion (equivalent to BDT 140 billion) credit gap in terms of current outstanding SME loans. The study also estimated an average credit value gap of US$17000 (equivalent to BDT 13, 26,000) per enterprise. Given the credit gap situation of SMEs, a credit target policy for SMEs needs to be formulated taking into consideration of both un-served and underserved SMEs as well as the credit gap. However, there is also the fact that there is low demand for SME credit from formal sector as SME businesses prefer to substitute loans with their own savings, since the opportunity cost of equity financing from their savings, friends and family is very low compared to borrowing from banks. Hossain et al (2018) suggest that expanding bank branch network at sub-district level might improve access to credit to SMEs.

An interesting aspect of SMEs in Bangladesh is that a good number of SMEs grow in clusters naturally. About 177 naturally grown clusters of SMEs in Bangladesh have been identified by a survey conducted by SMEF where more than 69 thousand firms are located (SMEF, 2013). There are various opportunities that a cluster might bring to the firms. Literature on clusters suggests that forming alliances, clustering and networking help small firms to compete, grow and cooperate with large firms. Visser (1999) studied small-sized firms in the clothing industry of Lima and concluded that clustered firms showed better performance, but still interactions among clustered producers were notably absent. Cheshire and Malecki (2004), however, suggested that the attention has been changing from the region to the economic actors within regions and also the determinants of their behavior in a spatial context. By working together, firms can gain the benefits of collective efficiency, enabling them to link with larger producers and break into national and global markets. The key to success seems to be a customer-oriented focus, a mutually supportive approach and a cumulative effort to ensure continuous improvements. Therefore, once they are identified, it is now important to assess the current situation of these clusters and subsequent actions are required to mitigate the problems.

CHAPTER 5
RESULTS AND DISCUSSIONS

5.0 Introduction

In this chapter results obtained from the survey and discussions based on these results are presented. Results have been drawn from analysis of tables generated from quantitative data and findings from Case Studies, FGD and KIIs. Findings from literature review are also taken into consideration in determining results and making discussions based on these. The chapter includes following sections:

Section 5.1 : Basic Profile of surveyed SMEs

Section 5.2 : Employment and Human Capital

Section 5.3 : Access to Finance

Section 5.4 : Production Process and Marketing

Section 5.5 : ICT based SMEs

Section 5.6 : Women owned SMEs

5.1 Basic Profile of Surveyed SMEs

5.1.1 Distribution of Surveyed SMEs

Through this survey, information were collected from 4021 SME establishments out of which 2647 belong to manufacturing sector, 834 to service sector and 540 to trading sector. Among the 2647 manufacturing SMEs surveyed, 29.3% are micro, 58.1% are small and 12.5% are medium sized enterprises. A total of 834 service sector SMEs were surveyed out of which 33.8% are micro enterprises, 54% are small and the rest 12.2% are medium sized enterprises. For trade sector the percentage of firms belonging to micro, and small size are 43.7%, and 56.3% respectively (Figure 2 and Table-9).

Figure 2 : Ownership Status of the Enterprises

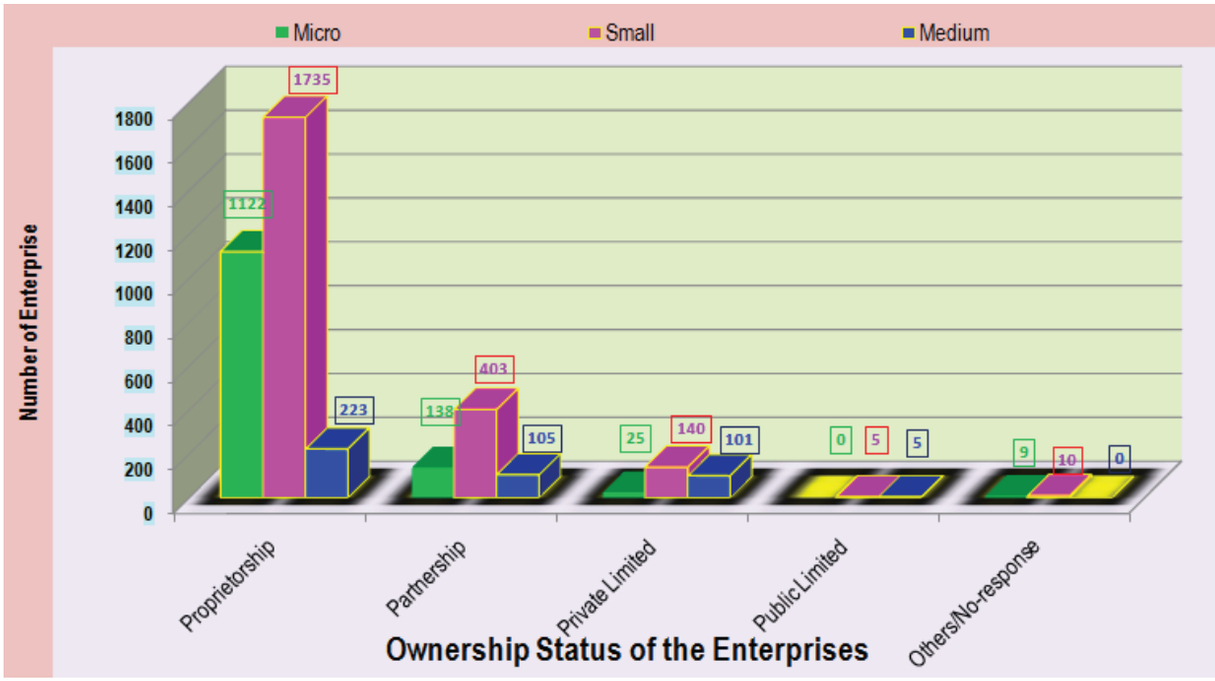


Table 9: Number of Enterprises Surveyed by Sector and Size

Sectors	Micro		Small		Medium		Total	
	N	%	N	%	N	%	N	%
Manufacturing	776	29.3	1539	58.1	332	12.5	2647	100
Service	282	33.8	450	54.0	102	12.2	834	100
Trade	236	43.7	304	56.3	-	-	540	100

To get a comprehensive idea about the SMEs operating in Bangladesh, data were collected not only from the owners of the firms but also from 287 officers and employees working in manufacturing SMEs and 83 officials of service SMEs. Among the officials of manufacturing industries 100% were male and among the officials of service establishments 96.4% were male and 3.6% female. Information were also collected from 4829 workers of manufacturing, service and trading establishments. Besides, people living in the communities of the localities where the SMEs are established were also surveyed. A total of 3142 local people were interviewed. Thus total number of respondents including entrepreneurs, officials, workers and local people were (4021-+287+83+4829+3142) = 12362.

5.1.2 Status of Ownership

The ownership status of the enterprises surveyed reveals that an overwhelming 86.7% of the micro enterprises, 75.7% of the small enterprises and 51.3% of the medium size enterprises are proprietorship businesses. This is followed by partnership businesses accounting for 10.7%, 17.6% and 24.2% for micro, small and medium enterprises respectively. Only a handful of firms are registered as private/ public limited companies. The following table (Table-10) shows the ownership pattern of the SME entrepreneurs disaggregated by size and sectors.

Table 10: Types of Ownership by Size (all sectors)

Types	Micro		Small		Medium	
	N	%	N	%	N	%
Proprietorship	1122	86.7	1735	75.7	223	51.3
Partnership	138	10.7	403	17.6	105	24.2
Private Ltd.	25	1.9	140	6.1	101	23.3
Public Ltd.	0	0	5	0.2	5	1.2
Others / No-response	9	0.7	10	0.4	-	-
Total	1294	100	2293	100	434	100

5.1.3 Household Information

The employees mentioned that they have on an average over 4 members in the family. Of the family members, 53% are male and 47% female. Most of the family members belong to the age group of 20 to 25 years.

5.1.4 Legal Documents of Enterprises

When asked about the legal documents, it was found that almost all the firms were doing businesses with trade licenses. In case of medium sized firms, more than 90% hold TIN certificate and VAT registration. Almost 83% of the small firms have TIN certificate and 76% of them also have VAT certificate. In case of micro firms around 66% have TIN and 62% have VAT certificates.

Table 11: Availability of Legal Documents by Size (all sector)

Sectors	Micro		Small		Medium	
	N	%	N	%	N	%
Trade License	1264	97.6	2249	98	432	99.5
TIN Certificate	849	65.6	1900	82.6	421	97
VAT Certificate	795	61.4	1737	75.7	401	92.3
Note: Multiple response						

5.1.5 Establishment Cost

The establishment cost for micro enterprises were found to be Taka 30 lacs on an average, for small firms it exceeds 1 crore and for medium firms it varies between 3 to 12 crores depending on the sector.

Table 12: Average Establishment Cost by Sector & Size

(In Taka)

Sectors	Micro	Small	Medium
Manufacturing	30,14,556	1,33,47,880	11,52,13,322
Service	29,01,088	1,45,55,681	3,54,93,191
Trade	30,14,556	1,10,47,880	-

5.1.6 Income, Expenditure and Profit

On an average, the manufacturing and service sector firms are making 8% to 9% profit and the trading firms are making between 15% to 18% profit. Over the years the profit kept increasing. Income, expenditure and profit as percentage of income for the year 2016-17 and 2017-18 are reported below, disaggregated by firm size and sectors [Tables 13(a), 13(b) and 13(c)].

Table 13 (a): Total Income by Sectors and Size (Manufacturing)

Class	2016-2017				2017-2018			
	Income	Expenditure	Profit	% of Profit	Income	Expenditure	Profit	% of Profit
Micro	14281658313	12867774140	1413884173	9.9	13944591476	12550132329	1394459148	10
Small	72836457396	65552811656	7283645740	10	69722957382	63029553473	6693403909	9.6
Medium	55698467420	52005517519	3692949901	6.6	55778365906	51191145802	4587220104	8.2
Total	142816583129	130426103315	12390479814	8.68	139445914764	126770831604	12675083160	9.09

Table-13(b)Total Income by Sectors and Size (Trade)

(in taka)

Class	2016-2017				2017-2018			
	Income	Expenditure	Profit	% of Profit	Income	Expenditure	Profit	% of Profit
Micro	2177392505	1818122742	359269763	16	2682546992	2199688533	482858459	18
Small	5080582513	4342286399	738296114	15	6259276315	5252906579	1006369736	16
Total	7257975018	6160409141	1097565877	15.12	8941823307	7452595112	1489228195	16.65

Table-13(c) Total Income by Sectors and Size (Service)

(In Taka)

Class	2016-2017				2017-2018			
	Income	Expenditure	Profit	% of Profit	Income	Expenditure	Profit	% of Profit
Micro	1506343464	1355709118	150634346	10	1528526781	1375674103	152852678	10
Small	5021144882	4524051538	497093343	9.9	5095089272	4605960701	489128570	9.6
Medium	3514801417	3285253416	229548001	6.5	3566562490	3282172125	284390365	8.0
Total	10042289763	9165014072	877275691	8.74	10190178543	9263806930	926371613	9.09

5.2 Employment and Human Capital

5.2.1 Introduction

The importance of SMEs to economic development in developing world is well documented. SMEs not only constitute the largest category of businesses but also employ a high proportion of the labour force. According to the Economic Census 2013 of Bangladesh Bureau of Statistics in Bangladesh, wage-earning employees number is 24500850 and of them over 84% belong to SMEs. The participation of female is lower compared to male across all the sectors (manufacturing, service & trade) and sizes (micro, small, and medium). There exists concern about their high rate of failure, whether they are achieving their full potential, and their often less than satisfactory levels of productivity. In this context, human resources (HR) and employment of SMEs would appear as an important factor for the development of SMEs. For example, hiring and retaining skilled and competent employees has been identified as one of the main challenges. Micro and small enterprises are more likely to face this problem more often than medium sized SMEs.

Survey revealed that little or no steps have been taken in order to increase the capacity of the workers. Moreover, almost half of the entrepreneurs didn't have relevant training or background before starting a business. Among all the SMEs, only 23.6% have HR department explaining the lack of awareness regarding HR department in most of the SMEs. It suggests that more training should be provided to SME entrepreneurs. Out of all organizations, foreign employees are present in only 2.3% of organizations which suggest that SMEs are not dependent on foreign labour and experts. Most of the SMEs opined that they don't get skilled and competent employees at the time of their recruitment. This hinders the growth of the SMEs showing a huge gap that need to be taken care of. It suggests that much can be done to enhance the skills and training of the entrepreneurs. Despite noteworthy contribution to GDP, there is a scope to contribute even more if proper policies are undertaken. Information on the state of employment and human capital of SMEs of different sizes in the different sectors are described in the following paragraphs.

5.2.2 Distribution of employees by sectors, size and gender

Out of total manpower employed, medium sized enterprises in the manufacturing sector have the lion share of employees accounting for nearly 80% However, in the service sector, the largest share of employees (53.7%) is found in small enterprises. Micro enterprises, employ only 5.1% employees in the manufacturing sector and 12.6% employees in the service sector. From Table 14(A) it is observed that for SMEs of all sizes, the number of female employees is much lower compared to number of male employees both in the manufacturing and service sectors.

Table 14 (A): Total Number of employees (by Sectors, Size & Gender)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Manufacturing	18712	12181	6531	70274	51527	18747	280560	250253	30307	369546
Service	2553	1777	776	10880	6954	3926	6822	3973	2849	20255

Table 14 (B): Percentage of employees by Sectors, Size & Gender

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Manufacturing	5.1	3.3	1.8	19	13.9	5.1	75.9	67.7	8.2	100
Service	12.6	8.8	3.8	53.7	34.3	19.4	33.7	19.6	14.1	100

5.2.3 Number of employees by sectors, size and gender

The following Table (Table 15A) depicts the number of employees by position (namely managers and employees) and gender in the manufacturing sector. Again, in all three categories (micro, small and medium), male managers and employees (85.4%) are way higher in percentage compared to female managers and employees (14.6%). In micro enterprises, managers and employees surveyed are 12.2% and 13.4% respectively. Both managers and employees are almost similar in percentage terms in small (44.7% and 48.3% respectively) and medium category (43.1% and 38.2% respectively) SMEs. These two categories are male-dominated though female employees are slightly higher in percentage in the medium enterprises as compared to small and micro enterprises.

Table 15 (A): Number of Employees by Position & Gender (Manufacturing)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Managers	1363	1248	115	4991	4493	498	4804	3782	1022	11158
Employees	2338	1825	513	8402	7040	1362	6650	5014	1636	17390

Table 15 (B): Percentage of Employees by Position & Gender (Manufacturing)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Managers	12.2	11.2	1	44.7	40.3	4.5	43.1	33.9	9.2	100
Employees	13.4	10.5	2.9	48.3	40.5	7.8	38.2	28.8	9.4	100

In the service sector, only 17.4% of the managers out of 3492 of total managers and 12.3% of employees out of 9337 employees work in micro enterprises (Table 16A). The ratio of managers to employees (in percentage) in all three categories are: micro (17.4% and12.3% respectively), small (55.3% and 49.8% respectively) and medium (27.3% and 37.9% respectively). In micro-enterprises, employee number is lower compared to small and medium enterprises. In all three categories (micro, small and medium), male employees are much higher in number compared to female employees. These three categories are also male-dominated though female employees are slightly higher in percentage in medium & small compared to micro enterprises.

Table 16 (A): Number of Employees by Position & Gender (Service)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Managers	608	493	115	1932	1519	413	952	671	281	3492
Employees	1151	796	355	4650	2750	1900	3536	2000	1536	9337

5.2.4 Distribution of skilled/unskilled workers by sectors, size & gender

Hiring and retaining of skilled employees has been identified as one of the main challenges faced by micro and small SMEs in both manufacturing and service sectors. In medium sized SMEs in the manufacturing sector, 81.5% workers are skilled workers compared to 14.8% skilled workers in small and 3.7% skilled workers in micro enterprises. Moreover, unskilled workers are more in micro and small enterprises (48.5%) compared to skilled workers in these micro and small enterprises. The following tables (Table 17A & 17 B) show the number of employees by position and gender in the manufacturing sector. Majority of the female workers are unskilled in the micro, small and medium enterprises.

Table 17(A): Number of skilled/unskilled workers by sectors, size, gender (Manufacturing)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Skilled Workers	11477	6577	4900	46461	33523	12938	255988	234132	21856	313926
Unskilled Workers	3534	2531	1003	10420	6471	3949	13118	7325	5793	27072

Table 17(B): Percentage of skilled/unskilled workers by sectors, size, gender (Manufacturing)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Skilled Workers	3.7	2.1	1.6	14.8	10.7	4.1	81.5	74.6	7	100
Unskilled Workers	13.1	9.3	3.7	38.5	23.9	14.6	48.5	27.1	21.4	100

In the service sector, unskilled workers are more in small enterprises (70.6%) compared to unskilled workers in both micro (9.3%) and medium (20.1%) enterprises (Tables 18A & 18B). However, in medium sized SMEs, skilled workers are more in number compared to unskilled workers. Again, in the service sector, majority of the female workers are unskilled in the entire micro, small and medium size category enterprises.

Table 18 (A): Number of skilled/unskilled workers by sectors, size, gender (Service)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Skilled Workers	659	405	254	3268	2031	1237	2041	1151	890	5968
Unskilled Workers	135	83	52	1030	654	376	293	151	142	1458

Table 18 (B): Percentage of skilled/unskilled workers by sectors, size, gender (Service)

Sources	Micro			Small			Medium			Total (Row)
	Total	Male	Female	Total	Male	Female	Total	Male	Female	
Skilled Workers	11	6.8	4.3	54.8	34	20.7	34.2	19.3	14.9	100
Unskilled Workers	9.3	5.7	3.6	70.6	44.9	25.8	20.1	10.4	9.7	100

5.2.5 Status of Employee training and competitiveness

5.2.5.1 Steps taken to enhance capacity of workers

In response to the question on whether any step was taken in the past to enhance the capacity of workers, 1505 (56.9%) interviewee across all SMEs said they have taken measures to enhance the capacity of their workers while 1142(43.1%) persons said no initiative was taken as such to enhance capacity of the workers (Table 19). The situation suggests that SMEs have taken little or no step to enhance capacity of workers in the past. This issue should be considered seriously so that SME workers can be more skilled and they can contribute more proactively in the organization.

Table 19: Steps taken to enhance capacity of workers

Sl. No.	Steps taken	No.	%
1.	Yes	1505	56.9
2.	No	1142	43.1
	Total:	2619	100

5.2.5.2 Presence of foreign employees in the enterprises

2.3% respondents said that they have foreign employees in their enterprises (Table-20). The rest 2494 (97.7%) interviewees said that they are not having any foreign employees. This illustrates that SMEs are not dependent on foreign work force.

Table 20: Presence of foreign employees in the enterprises

Sl. No.	Opinion	No.	%
1.	Yes	60	2.3
2.	No	2494	97.7
	Total:	2554	100

5.2.5.3 Institutional training taken before starting the business (Manufacturing Sector)

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 (Table 21). The rest 1270 (48%) did not receive any training prior to starting their business. This shows that almost half the entrepreneurs of the SMEs did not enter into business with sufficient and relevant background. It was their gut feeling which prompted them to do business.

Table 21: Institutional training taken before starting the business activities (Manufacturing sector)

Sl. No.	Opinion	No.	%
1.	Yes	1377	52
2.	No	1270	48
	Total:	2647	100

5.2.5.4 Availability of competent employees (Manufacturing Sector)

A total of 1482 (56%) respondents have said that they get skilled and competent people from the market at the time of recruitment whereas 1165(44%) persons said that skilled people are not found and are unavailable at the time of recruitment (Table 22). This lack of supply of competent people is hindering the growth of SMEs and surely responsible for lower productivity of the SME sector. Initiative must be taken to ensure smooth supply of competent workforce.

Table 22: Availability of competent employees (Manufacturing sector)

Sl. No.	Opinion	No.	%
1.	Yes	1482	56
2.	No	1165	44
	Total:	2647	100

5.2.5.5 Availability of competent employees (Service Sector)

When asked whether they get competent people at the time of recruiting their employees, 436 (67%) respondents indicated that they have no difficulty in finding competent people (Table 23). A total of 214 (32.9%) responded that they have problem in finding competent people. This shortage of competent people is responsible for lack of smooth operation of SMEs. Therefore, SMEs should develop competent people through training and development.

Table-23: Availability of competent employees (Service sector)

Sl. No.	Opinion	No.	%
1.	Yes	436	67.1
2.	No	214	32.9
	Total:	650	100

5.2.6 Condition of HR management, salary structure and labor law

5.2.6.1 Existence of HR department in the enterprise

Most of the SMEs run their human resource functions casually. They have not institutionalized their HRM functions. As can be seen from Table 24, only 624 (23.6%) respondents said that they have HR department and 2023 (76.4%) persons said that they do not have HR department in the enterprise. This deficiency points to lack of awareness about the importance of HR functions by SMEs. Building awareness would help institutionalize HR functions in SMEs.

Table-24: Opinion on existence of HR department in the enterprise

Sl. No.	Opinion	No.	%
1.	Yes	624	23.6
2.	No	2023	76.4
	Total:	2647	100

5.2.6.2 Methods used in determining Salary and benefit of employees

When asked about the methods they use in determining salary and benefit of employees, the respondents said that the following methods are being used (Table 25):

Table-25: Method for determining salary and benefit of employees

Sl. No.	Opinion
1.	Own consideration
2.	Judging the market situation
3.	According to the employee service rules of mills and industries

5.2.6.3 Compliance to Labour Laws

Opinion on whether relevant factors of labor laws are considered has been shown in Table 26. A total of 1841 (69.5%) persons have opined that they have a due regard to existing labor laws of the country. However, 806 (30.5%) respondents are non-compliant of labor laws. Strict measures need to be taken by appropriate authority so that all SMEs abide by the labor laws.

Table-26: Opinion on whether relevant factors of labor law are considered

Sl. No.	Opinion	No.	%
1.	Yes	1841	69.5
2.	No	806	30.5
	Total:	2647	100

5.2.6.4 Institutional training taken by the entrepreneurs before starting the business (Service Sector)

While giving opinion on institutional training taken before setting up the SMEs, 531 (69.9%) interviewees mentioned that they have received training prior to starting their business; 229 (30.1%) interviewees had no training (Table 27). The picture suggests that SMEs should have more trained entrepreneurs.

Table-27: Institutional training taken by the entrepreneurs before starting the business

Sl. No.	Opinion	No.	%
1.	Yes	531	69.9
2.	No	229	30.1
	Total:	760	100

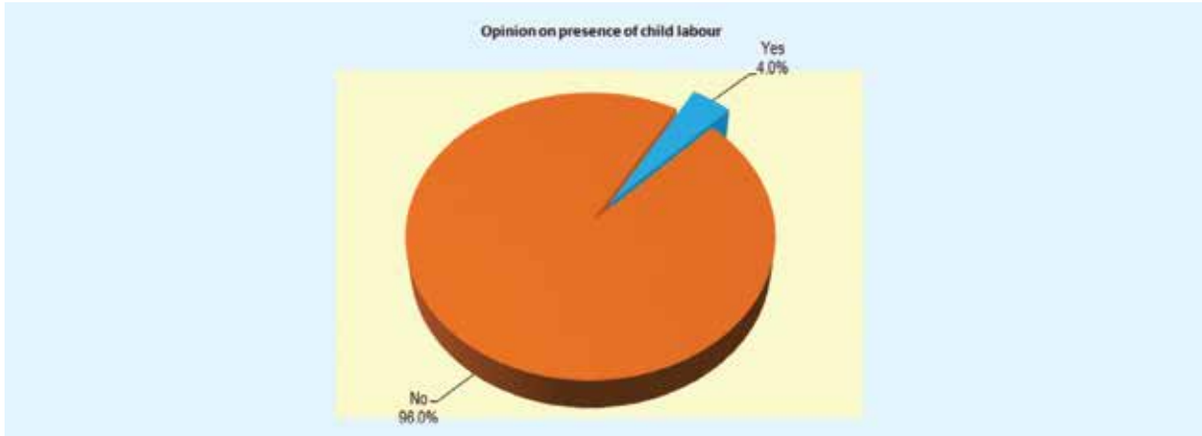
5.2.6.5 Presence of Child Labour

The presence of child labor was found to be bare minimum in the manufacturing sector of SMEs. Out of 2647 respondents only 106 (4.0%) admitted that they have employed child labor in their enterprises. The rest 96% respondents said that they do not employ children as workers (Table 28).

Table-28 : Opinion on presence of child labor

Sl. No.	Opinion	No.	%
1.	Yes	106	4
2.	No	2541	96
	Total:	2647	100

Figure 3 : Opinion on presence of child labour



5.2.6.6 Occurrence of Labour Unrest

In response to the question whether they had any labor unrest in their enterprises, only 188(7.1%) out of 2647 persons said they face this problem. The rest 2451 (92.9%) respondents said that they do not face labor unrest in their enterprises (Table 29). Based on these findings, conclusions can be drawn that SMEs are not facing serious labor unrest.

Table-29: Occurrence of Labor Unrest

Sl. No.	Opinion	No.	%
1.	Yes	188	7.1
2.	No	2459	92.9
	Total:	2647	100

5.3 Access to Finance

5.3.1 Introduction

Access to finance is one of the major constraints of SMEs. It is well recognized that SMEs, particularly, the entrepreneurs who are located outside the capital city Dhaka, do not get loans from the banking sector due to their lack of accessibility, experience, problems relating to documentation, collateral etc. Beside this, one of the major problems is information asymmetry and gap between bankers & entrepreneurs.

5.3.2 Source of Funding

A total of 59.2% of the entrepreneurs in the manufacturing sector stated that they established their businesses with own source of fund whereas the rest arranged fund from other sources. Among the SMEs of service sector, 27.9% of the enterprises set up and 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 (Table 30).

Table 30: Own Source of Funding

Sectors	Micro n=700		Small n=759		Medium n=127		Total (Row)	
	N	%	N	%	N	%	N	%
Manufacturing	311	44.4	539	71.0	89	70.1	939	59.2
Service	284	40.6	120	15.8	38	29.9	442	27.9
Trade	105	15	100	13.2	-	-	205	12.9
Total (Column)	700	100	759	100	127	100	1586	100

5.3.3 Loan from other Sources

Enterprises that were not established entirely with own capital, had to borrow funds from different sources. Table 31 shows the different sources from which the firms borrow. For all three categories of SMEs, the majority of the firms borrowed from banks followed by NGOs. Only 1.2% of the firms borrow from informal sources (money lenders). The statistics provides a positive picture in the sense that though faced with different types of difficulties, most SMEs, irrespective of their sizes and types, still look for funds from formal sources rather than informal sources.

Table 31: Loan from other sources

Sources of fund	Manufacturing n=1708		Service n=392		Trading n=335	
	No.	%	No.	%	No.	%
Bank Loan	1562	91.5	355	90.6	283	84.5
NGO	172	10	49	12.5	64	19.1
Leasing Company/ NBFI	9	0.5	6	1.5	4	1.2
Money Lender	32	1.9	4	1	0	0
Others	66	3.9	52	13.2	14	4.2
Note : Multiple responses						

5.3.4 Difficulties faced by the SMEs in securing Loans

The reason why SMEs face difficulties when raising funds by bank loans is that these enterprises cannot provide acceptable collateral. At the same time, banks show a reserved lending attitude and it forces SMEs to choose other sources of finance. The second reason is high interest rates charged by the banks which discourages SMEs from seeking funds from banks. Another crucial reason is that the process of obtaining bank loan is so difficult that many SMEs prefer other methods to raise funds.

Almost half of the SMEs of different sectors face different sorts of difficulties while seeking funds from external sources. A total of 50.7% of the enterprises of manufacturing sector face difficulties to get loans, while the rest 49.3% did not complain about the issue. Out of the 417 respondents of service sector, 49.9% of the entrepreneurs of service sector faced difficulties in arranging loan, and for SMEs of trading sector the figure is 50.1%.

Amongst the common types of difficulties faced by the SMEs are: tedious and time consuming loan processing process, need to involve middleman, high rate of interest etc. The highest percentage (71.9%) of the entrepreneurs of manufacturing enterprises complained about high interest rates followed by the tedious process that they have to follow to get loans (68.1%). Almost 17.8% of the entrepreneurs failed to provide collateral security and 15.3% had to seek the service of middlemen to get loans. Similar problems exist in the service sector enterprises. That is high rate of interest (67.5%) followed by tedious process (57.6%), problem of collateral (18.5%) and then involvement of middlemen (15.6%). However, most of the firms of trade sector mainly report tedious process of banks for sanctioning of loans (81.1%), followed by high rate of interest (65.6%) as being the major impediments facing the SMEs. Table 32 (a) through 32(c) show the degree of intensity of different problems of different types of SMEs.

Table 32(a): Difficulties Faced in Arranging Loans (Manufacturing)

Manufacturing								
	Micro n=225		Small n=488		Medium n=122		Total n=835	
Difficulties	N	%	N	%	N	%	N	%
Tedious process	160	71.1	321	65.8	88	72.1	569	68.1
Need to involve middleman	35	15.6	67	13.7	26	21.3	128	15.3
Failure to give necessary collateral	42	18.7	79	16.2	28	23	149	17.8
Excessive Rate of Interest Note : Multiple responses	146	64.9	363	74.4	91	74.6	600	71.9

Table 32(b): Difficulties Faced in Arranging Loans (Service)

Service								
	Micro n=71		Small n=135		Medium n=37		Total n=243	
Type of Difficulties	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
Tedious process	31	43.7	84	62.2	25	67.5	140	57.6
Need to involve middleman	6	8.5	26	19.3	6	16.2	38	15.6
Failure to give necessary collateral	13	18.3	26	19.3	6	16.2	45	18.5
Excessive Rate of Interest Note : Multiple responses	37	52.1	96	71.1	31	83.8	164	67.5

Table 32(c): Difficulties Faced in Arranging Loans (Trade)

Trade								
	Micro n=64		Small n=116		Medium n=0		Total n=180	
Type of Difficulties	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
Tedious process	56	87.5	90	77.6	-	-	146	81.1
Need to involve middleman	8	12.5	19	16.4	-	-	27	15
Failure to give necessary collateral	12	18.8	16	13.8	-	-	28	15.6
Excessive Rate of Interest Note : Multiple responses	43	67.2	75	64.7	-	-	118	65.6

5.3.5 Rate of Interest charged on loan

The SMEs are, on an average, charged an interest rate of minimum 12.7% to a maximum of 13.2% (Table 33). These rates vary slightly regardless of firms' size. None of them can avail interest at single digit.

Table 33: Average Interest rate by Sectors & Size

Sectors	Micro	Small	Medium
Manufacturing	13.2	12.8	12.8
Service	13.3	12.8	12.8
Trade	13.4	13.1	--
All sector	13.2	12.8	12.7

5.3.6 Knowledge of entrepreneurs about schemes of Banks for SME financing

Most of the entrepreneurs do not know about the schemes of banks for SME financing. A total of 60% percent firms of manufacturing and service sectors have no idea about the special schemes offered by different institutions and banks for SMEs (Table 34). In case of firms of trading sector, the number is little less (around 52%). Fewer proportion of

firms know about the special facilities available for them which is an indication of the prevailing information gap and need for awareness raising about the issue.

Table 34: Knowledge about Scheme of Banks for SME financing

Response	Manufacturing		Service		Trade	
	No.	%	No.	%	No.	%
Know about the schemes	974	36.8	272	32.6	239	44.3
Do not know about the schemes	1602	60.5	500	60	283	52.4
No response	71	2.7	62	7.4	18	3.3
Total:	2647	100	834	100	540	100

5.3.7 Knowledge of special financial schemes available for women entrepreneurs

Small and medium enterprises (SMEs) are considered as an important arena for women to be actively involved in not only as hired workers but more importantly as entrepreneurs. However, the representation of women entrepreneurs in SMEs is very insignificant. Their presence is primarily limited to a few types of products especially in handicrafts, boutiques and beauty parlours. The survey found that women represent only a little over 2% in manufacturing enterprises, 6% in service and 1.1% in trading enterprises. In spite of special facilities given by the government, the number of women entrepreneurs in SME sector is not increasing. Out of the 2647 manufacturing units surveyed, only 25% of the entrepreneurs know about the bank loan facilities for women SME entrepreneurs (Table 35).

Table 35: Knowledge about type of loan facilities for women entrepreneurs

Sl. No.	Response	Number	%
1.	Yes	664	25.0
2.	No	1481	56.0
3.	No response	502	19.0
	Total	2647	100.0

The findings regarding knowledge about collateral free loan facilities of the banks to women SME entrepreneurs show that 58.1% of the respondents do not know about that policy of the banks as against 22.1% who are familiar / aware of the policy (Table 36).

Table-36: Knowledge about collateral free facilities from banks to finance women SME entrepreneurs

Sl. No.	Response	Number	%
1.	Know about collateral free loan facilities for women entrepreneurs	585	22.1
2.	Do not know about collateral free loan facilities for women entrepreneurs	1539	58.1
3.	No response	523	19.8
	Total	2647	100.0

5.4 Production Process and Marketing

5.4.1 Introduction

This section presents the general findings and analysis of the findings of the detailed data on production process & marketing that were generated through an exhaustive survey undertaken in course of the study. Apart from the questionnaires that were administered all over Bangladesh, data were also collected through Focus Group Discussions (FGDs), Key Informant Interview (KII) and Case Studies. Invaluable qualitative data were collected through qualitative research.

In response to the question on reasons for choosing the enterprise that they chose, respondents said that they were mostly motivated to set up their enterprises because of high demand of the products, profitability of the business, their knowledge about the business, and lack of other suitable alternatives. Findings are shown in Table 37.

Table 37: Reasons for choosing the type of enterprise.

Sl. No.	Reasons given	Number	%
1.	High demand	1742	65.8
2.	Profitable	1068	40.3
3.	Understand the business	1734	65.5
4.	There was little or no scope to set up other units	110	4.2
5.	Others	16	0.6
Note: Multiple response			

Through the survey it is clear that improving the impact of SME strategies will require much more attention to the issues of production, diversified sources of raw-materials and markets, supply and availability of raw-materials, supply chain management, export support, product promotion, price setting and marketing strategies and procurement and maintenance of new machineries and modern equipments. The state of the SMEs on these issues was investigated in the survey and the statistical findings are discussed below:

Table 38: Sources of supply of raw-materials

Sl. No.	Sources of Supply of Raw materials	Micro (%) n=638		Small (%) n=1278		Medium (%) n=267	
		N	(%)	n	(%)	N	(%)
1.	Locally Produced	406	63.6	673	52.7	133	49.8
2.	Produced within the country	339	53.1	728	57.0	128	47.9
3.	Imported but purchased locally	103	16.1	292	22.8	65	24.3
4.	Imported	44	6.9	137	10.7	93	34.8
	Total:	892		1830		419	
Note:	Multiple responses						

The supply chain of micro SMEs seems to be integrated into supply of raw-materials produced inside the country. That is, SMEs generally depend on local sources of raw-material.

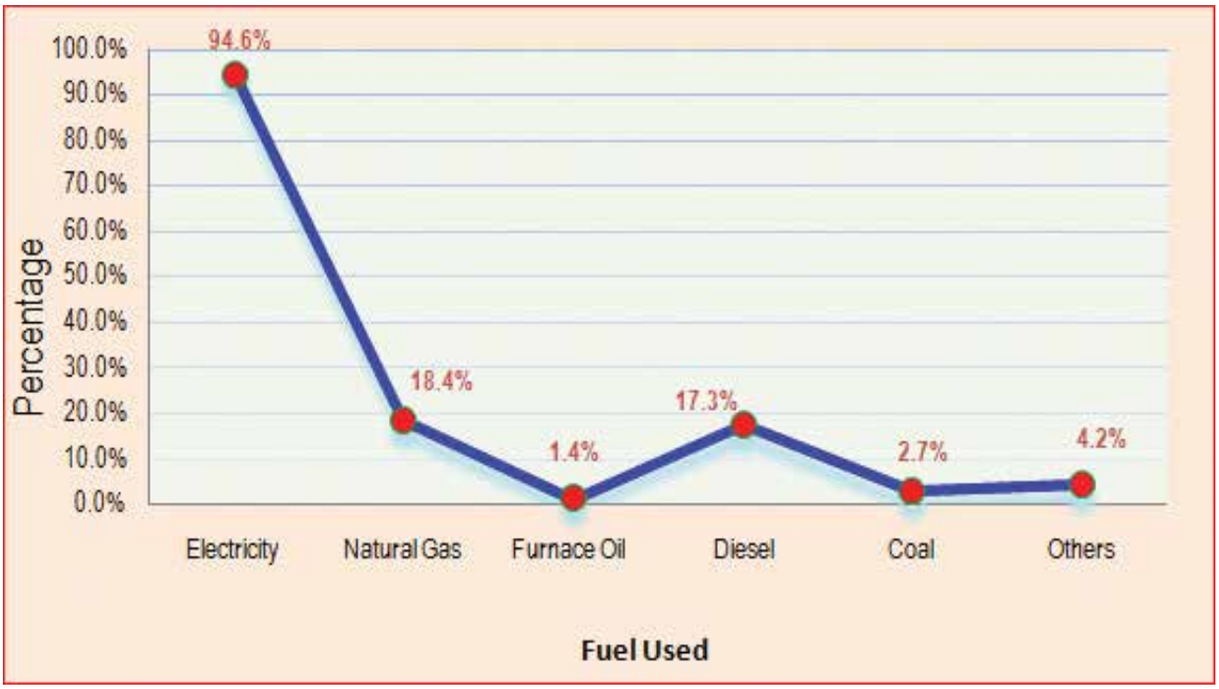
Almost 64% of micro enterprises mentioned that their raw-materials are procured locally. Around 53% of micro enterprises met their demand for raw-materials produced within the country. Similar supply sources are observed for small enterprises. About 57% of small enterprises source raw-materials that are produced within the country and 52.7% of small enterprises makes reference to locally produced raw-materials. Again, almost half of the total medium enterprises surveyed i.e. 50%, source raw-materials that are produced both locally and within the country. However, the percentages of micro and small enterprises that are sourcing imported raw-materials but purchased locally are 16.1% and 22.8% respectively. Only about 7% micro enterprises and 10.7% of small enterprises mentioned that they use imported raw-materials in their production process. On the other hand, more than one-third, almost 35%, of the medium enterprises source raw-materials that are imported. However, the percentage of medium SMEs that are sourcing imported raw-materials that are purchased locally is lower, accounting for 24.3% than the percentage of medium SMEs that are sourcing imported raw-materials (Table 38).

Table 39: Difficulties faced while procuring raw-materials

Sl. No.	Difficulties faced while procuring raw-materials	Micro (%) n=532		Small (%) n=1100		Medium (%) n=233	
		N	(%)	n	(%)	N	(%)
1.	Take long time	307	57.7	791	71.9	174	74.7
2.	Cost is high	390	73.3	765	69.5	153	65.7
3.	Lack of quality raw-material	129	24.2	195	17.7	60	25.8
4.	Others	29	5.5	95	8.6	24	10.3
	Total:	855		1846		411	
Multiple responses							

As can be seen from Table 39, majority of the small and medium enterprises (71.9% & 74.7% respectively) face difficulty in getting timely delivery of raw-materials; it often takes longer time than expected. About 69.5% of small and 65.7% of medium enterprises quite often find higher price for inputs as a difficulty while procuring raw-materials. But, majority of the micro enterprises (73.3%) face problem of higher price for inputs while procuring raw-materials. Almost 25% of all SMEs also suffer from lack of quality raw-materials.

Figure 4: Fuel/energy used in the manufacturing enterprises



In terms of usage of energy / fuel, as evident from figure 4, it can be seen that most of the manufacturing enterprises of SME category use electricity from national grid. As the other fuels such as natural gas, furnace oil, diesel, and coal are difficult to procure, the entrepreneurs prefer to use electricity as long as it is available to them.

5.4.2 Sources of Procurement of machineries for the enterprises

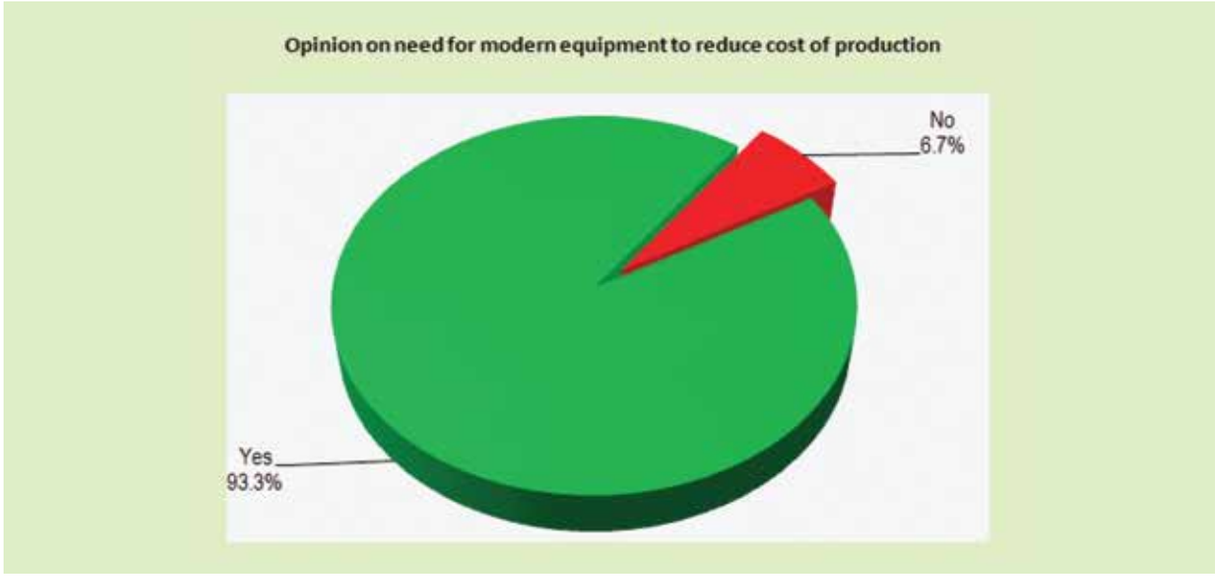
Table-40: Sources of procurement of machineries for the enterprises

Sl. No.	Sources mentioned	Number	%
1.	Procure from the local market	1418	57.4
2.	Imported machinery & equipment but procured from the local market	845	34.2
3.	Direct import from abroad	325	13.2
Note: Multiple response			

The survey reveals that for the SMEs, particularly micro and small enterprises, procurement of machineries & equipment is done from local market. But still some machineries and equipment are imported directly from abroad. Some imported machineries and equipment are also purchased from local markets (Table 40).

5.4.3 Opinion on need for modern equipment to reduce cost of Production

Figure 5: Opinion on need for modern equipment to reduce cost of production



Overwhelming majority of the respondents, accounting for around 93.3% are of the opinion that in order to produce quality products at affordable price, they need to have modern machineries and equipment. This is revealed from Figure 5.

5.4.4 Opinion on ways of repair and maintenance of equipment/machineries

Table 41: Repair and Maintenance of equipment / machineries

Sl. No.	Ways used	Number	%
1.	Engineers maintain the machine	532	22.4
2.	Efficient Technicians repair and maintain the machines	1057	44.5
3.	Repair in the local workshop	818	34.5
4.	Repair with the help of foreign engineer	54	2.3
5.	Repair with the help of suppliers' engineers	105	4.5
6.	Repair in the own workshop	385	16.2

Note: Multiple response

In response to question on ways of repair and maintenance of equipment / machineries of the enterprise, 44.5% indicated that the technicians of the enterprise are efficient enough to repair and maintain the equipment and machineries of their enterprise. A total of 34.5% of the respondents get the repair work done in local workshop. Another 22.4% stated that qualified engineers employed by them do the repair and maintenance of the machineries and equipment of the enterprise. What is significant is that for the SMEs, repair and maintenance of machineries and equipment are not of any great concern (Table 41).