The Operational Conditions of Cottage, Small and Medium Euterprises in Bangladesh

Jahangir H. Sarder*

Abstract

The paper critically analyses operational conditions of Cottage, Small and Medium Enterprise in Bangladesh. It utilises a sample of 19 small entrepreneurs, conducting field survey during July and August 2001. Necessary data are gathered, using a semi-structured interview schedule, from personal interview with the study entrepreneurs. Analyses reveal a number of important findings. Most entrepreneurs define small enterprises in terms of investment size, suggesting a maximum total investment of Tk.0.5 million, Tk. 40 million and Tk. 200 million respectively for cottage, small and medium firm. Economic environment is perceived to be relatively stable and favourable, but highly competitive due to globalisation. A wide variety of medium quality products are being produced to mainly meet the rising demand from middle and lower income people in domestic market. Also there has been a growing demand for high quality products from foreign market. Infrasturctural facilities are available at relatively high cost, but irregular and insufficient. Most entrepreneurs use second hand machinery, and would go for higher investment, if available, for updating technology, improving productivity and product quality, expanding market share and increasing efficiency. As such, there appears to have a bright growth prospect for development of the small business sector. Multiple difficulties, however, deter such growth potential. These problems, among others, include lack of unhindered access to institutional credit, high cost of borrowed capital, irregular supply of electricity and gas, lack of modern technology, unfair and uneven competition, absence of clear cut government policy and incentives. Most entrepreneurs need a comprehensive package of assistance, comprising both financial and non-financial support. Finally, the paper comes up with a set of policy principles, which may be of significant importance for smooth promotion and development of small firms in Bangladesh.

Origin and Backgrouud of the Study

Few socio-economic phenomena have attracted more attention in recent decades than that of small enterprise development (Gibb, 1993; Reymonds *et al.*, 2000; Huq & Love, 2001). The reasons are many: SMEs (Small and Medium Enterprises) are employment friendly, resilient in economic turmoil and even hasten technological advancement by creating competitive economic atmosphere.

---

* Associate Professor, School of Business, American International University-Bangladesh (AIUB).

All OIC countries, as part of their development strategies, have been intensifying their efforts for increasing industrial base and volume of foreign trade. In this respect, small enterprises are thought to play a significant role. In some of the countries, small firms are quite strong such as Malaysia, Bangladesh, while very weak, or hardly operate, in some others, for instance - Saudi Arabia. However, viewing enormous growth potential, the OIC has set-up a Task Force on SMEs aimed at strengthening small firms where they exist, and help in establishing them, where they are still not operative. For this purpose, an assessment of SMEs in various OIC regions is proposed to be conducted. This assessment is expected to reveal the strengths and weaknesses of SMEs in the Islamic countries. In the south East region, Bangladesh is selected for this purpose.

In Bangladesh, like many other developing countries, SME plays historically a vital role in the socio-economic development of the country. Numerically, these enterprises typically comprise over 98 per cent of all industrial units, are responsible for the creation of 4 out of 5 industrial employment, and account for around 33 per cent of the industrial (manufacturing) contribution to gross domestic product (GOB, 1999). Viewing the employment potential, and its particular suitability for development, special emphasis was placed in government policies to produce rapid growth in this sector. In fact, there is no dearth of people who would argue, at least in the seminars and roundtable discussions, for CSME development. As such, it was declared a 'PRIORITY' sector for development in the mid-eighties (GOB, 1986). This emphasis in policy has resulted in the creation of a wide range of support services for this sector. To channel those services, a large network of government agencies has been created and nurtured as a mainstream enterprise development agency for more than three decades (Sarder, 2000). In addition, some private agencies, both national and international, have also been found to be involved in the promotion and development of small enterprises since the early eighties (Mannan, 1993; Ahmed, 1999). As a consequence, there has now been a noticeable proliferation of support activities in Bangladesh.

Despite such substantial efforts, both public and private, the growth and development of the CSME sector in Bangladesh appears to be very slow and unsatisfactory, constrained by various problems (Mannan, 1993;

Sarder, 2000). Therefore, remedial measures need to be taken to solve those problems. Perhaps, any such attempt requires a clear understanding about the operational conditions, both strengths and weaknesses, of the SME sector. As such, an assessment of the operational conditions (strengths and weaknesses) of CSMEs forms the substance of this study. The study has gained further salience in the context of greater understanding of the operational conditions of SMEs in the Islamic countries.

The Purpose of the Study

With such 'backdrop' of heightened interest in SME development, the OIC is expected to intensify, a large-scale 'push' for establishing SME support programs in the Islamic countries. In line with the OIC attempt, to proceed further, this study has been conducted as a background work to have a greater understanding of the operational conditions of the SME sector in Bangladesh. This broad objective is sought to be achieved through the following specific objectives:

To examine the operational strengths and weaknesses of CSMEs in detail, and

To recommend measures to ensure a smooth growth of this sector in Bangladesh.

Methodology

Definition of a CSME: The term 'CSME' is the key concept used in the study. In practice, there remains a considerable degree of diversity in definition of CSME in developed and developing countries in terms of size, location, type of product, skill and sector (Sarder, 2000). However, for the purpose of the present study a CSME has been defined as *'an enterprise employing a maximum of 99 workers and/or a fixed investment upto Taka 300 million.'*

Selection of Sample: Convenience sampling was used due to time constraint. As such, it was decided to have a sample size of around 20 units, having an initial sample of 25 units, which seemed to be sufficient for realizing the objectives of the study. The sample was chosen from a list of members of the FBCCI.

Sources of Data: The report was prepared based on data collected from the sample survey. To compensate the smallness of the sample size, relevant studies and documents available in both published and unpublished forms were reviewed. In addition, attempts were made to gather information through interviewing leading business leaders, professionals, and key personalities in various organizations involved directly and indirectly with the promotion and development of this sector. Further, the paper was benefited from discussions from a recent day-long seminar attended by about 150 business leaders (entrepreneurs), where the researcher was the key note speaker.

Collection of Data: The main tool of data collection was a questionnaire, developed by the ICCI as part of its greater study to collect information from several Islamic countries. Required information was collected by a formal, face-to-face, interview. People responded seemed much co-operative as they were contacted and properly briefed in advance, by the Secretary of the FBCCI, about the objectives of the study. As a result, the respondents felt themselves better for being chosen for interview. Moreover, interviews were carried out by 5 (five) experienced investigators from the FBCCI. There was a short orientation session with the investigators before going to the field. Occasionally, telephone calls had been made, particularly for follow-up. In addition, the researcher had several sessions with a number of business leaders, researchers and academics, having verbal discussion about the operational conditions of the SME in Bangladesh. Some deskwork was necessary, carried out by the researcher.

Processing and Analysis of Data: Having collected the required information, the researcher coded the answers, while coded-data were entered into a computer (PC), using SPSS^x, by an expert of the FBCCI. The researcher carried out necessary analysis.

Limitations of the Study

The survey describes most basic information on the operational conditions of the CSMEs under study. Main limitations, however, centre both on the selection procedure, composition and size of sample. This is due to resource constraints, both time and money, available for the study.

As such, information gleaned from the study to some extent may not be unanimous. A follow up study is in progress using a large sample.

Analysis and Discussion

Definition of Cottage, Small and Medium Enterprise:

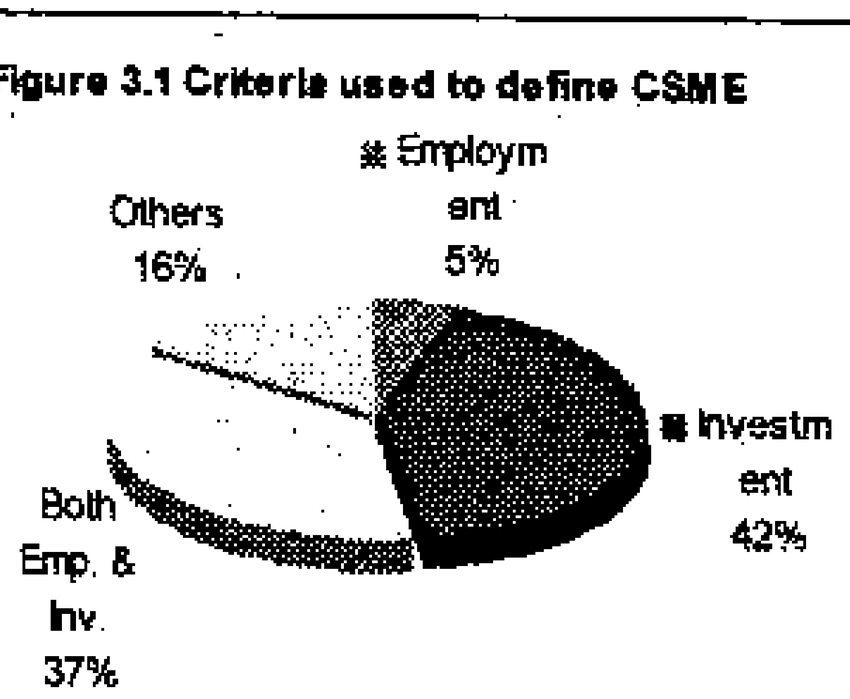
There is no consensus on definitional issue of small firms through out the world. In seven South East Asian countries, Sarder (2000) reported the use of quantitative criteria of either labor or investment, along with or without qualitative dimension in defining a small enterprise. In Bangladesh, there have been three separate definitions on cottage, small and medium enterprises in the latest Industrial Policy.

"Cottage Industry' covers household based units operated mainly with family labor.'

"Small Industry' will mean enterprises employing fewer than 50 workers excluding the cottage units and/or with a fixed investment of less than Taka 100 million.'

"Medium Industry' will cover enterprises employing between 50 and 99 workers and/or with a fixed capital investment between Taka 100 million and Taka 300 million.'

Figure 3.1 Criteria used to define CSME



The study began with the exploration of criteria, used or suggested by respondents, to define CSME in Bangladesh. Figure 3.1 displays the survey results. Not surprisingly most entrepreneurs, 42 percent, defined their enterprises applying investment criteria only, along with the line of the government policy. However, nearly 37 percent respondents mentioned that they used both employment and investment criteria in defining their enterprises. While employment size was used by only 5 percent respondents, other criteria (plant and turnover) were also used by 16 percent respondents. Entrepreneurs, during discussion, also suggested some criteria for definition, which include mainly utilization of local

raw-materials, value addition etc. Unexpectedly, none used, or suggested, qualitative definition.

Further exploration was done to define cottage, small, and medium enterprise separately, using any one criteria by the respondents. All respondents (total 19) suggested to define cottage industry using total investment only, ranging Taka 0.1 million to Taka 8 million. However, a maximum total investment of Taka 2 million appeared to be the mostly suggested size to define a cottage industry by the respondents. An average employment size of 15, accompanied by some investment criteria was mentioned by some respondents. Turning to the small industry, all respondents (15) suggested an average investment size of Tk. 35 million, ranged from Taka 0.5 million to Taka 100 million, either with or without a maximum employment size of 49. The findings, however, support the investment size stated in the Industrial Policy, revealing a maximum total investment of Taka 100 million, to define a small industry in Bangladesh. Finally, the respondents suggested an average of Tk. 200 million to define a medium enterprise, with minimum Taka 100 million to maximum Taka 300 million, providing support again to the existing investment size of the Industrial Policy.

Ecouomic Enviroument and Governmeut Policy

In order to assess the economic environment within which the CSME functions, a number of questions were asked to and replied by the respondents. Questions were designed to explore the demand for products/services, security of investment, availability of export facilities and tax benefits. The survey results are presented here.

Demaud for Products/Services:

The perceived demand for products/services was assessed at three levels: high, medium and low. The first question was about the behavior of demand for product or services. Table 3.1 exhibits the survey results. An overwhelming majority, over 68 percent, of the respondents replied that

Table 3.1 Demand for Prodncts/Services

Level	Frequency No.	Percentage
High	6	31.6
Medium	13	68.4
Low	-	-
Total =	19	100.0

Source: Survey

their product/services had a medium demand, while the rest, 32 percent, got a high demand for their products/services. Interestingly, nobody thought that their services or products had low demand in the market.

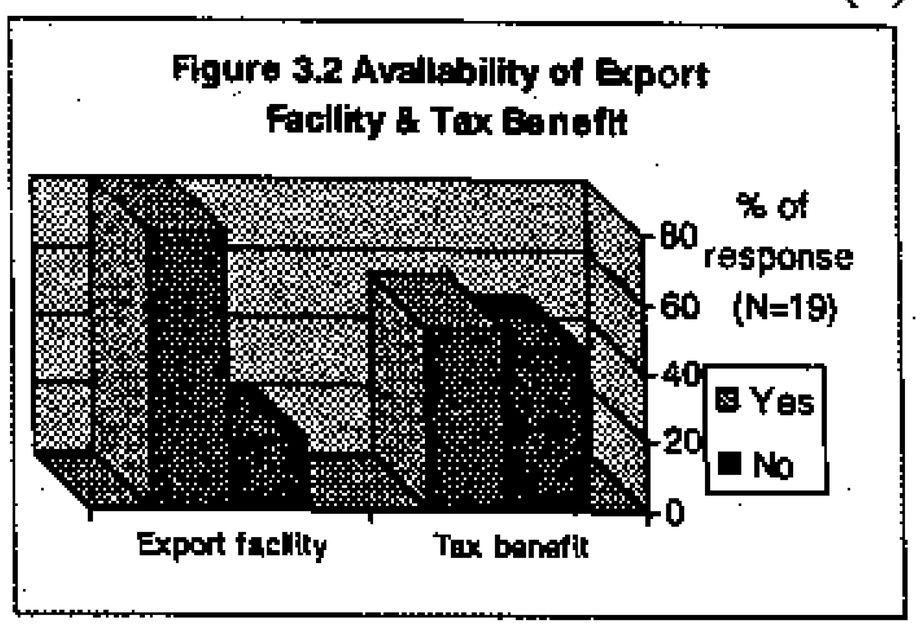
Secnrity of Investment: The security of the funds/capital invested by the respondents was assessed against the question: 'Is investment secure in your industry?' Responding to this perceived security of their investment, almost all (95 percent) respondents gave an unqualified 'yes' answer, as exhibited in Table 3.2. This finding, despite being a small size of only 19 enterprises, mirrors the confidence of investors in the CSME sector. As such, the finding appears to be very significant in term of industrial development in Bangladesh.

Table 3.2 Security of Investmeut

	Frequenc y No.)	Percentage
Yes	18	94.7
No	1	5.3
Total =	19	100.0

Source: Survey

Governmeut Policy about Export Iucentives and Tax Facilities: Two questions were asked to assess the government policy regarding export incentives and tax facilities. Questions were asked to assess whether (1) the government is providing and implementing incentive policy for export promotion; and (2) the respondents get the tax benefits, if any, offered by the government. Simple 'yes' or 'no' answer was solicited in the study. Figure 3.2 depicts the survey results. As findings reveal, a vast majority, 80 percent, admitted that government was providing and implementing incentive policy for exports. Regarding the tax benefits received, the respondents were found almost evenly divided, revealing 47.4 percent getting benefits against the negative replies by 52.6 percent respondents, who did not avail of tax concessions from the government.



Behavior of Government Tax Policy: The behavior of the government tax policy was assessed by asking question on whether the government tax was rising or stable. Also the respondents were asked to state whether the government taxes on their products/services were increasing or stable. Table 3.3 summarizes the survey results. As shown in the table, a vast majority, 68.4 percent, of the respondents observed a stable tax on their products. Slightly below a third, 31.6 percent, experienced a rising trend in government taxes on their products. Therefore, the findings appear to be an indication of stable tax policy followed by the government for the CSME sector.

Table 3.3 Behavior of Govt. Tax Policy

	Frequency No.)	Percentage
Rising	6	31.6
Stable	13	68.4
Total =	19	100.0

Source: Survey

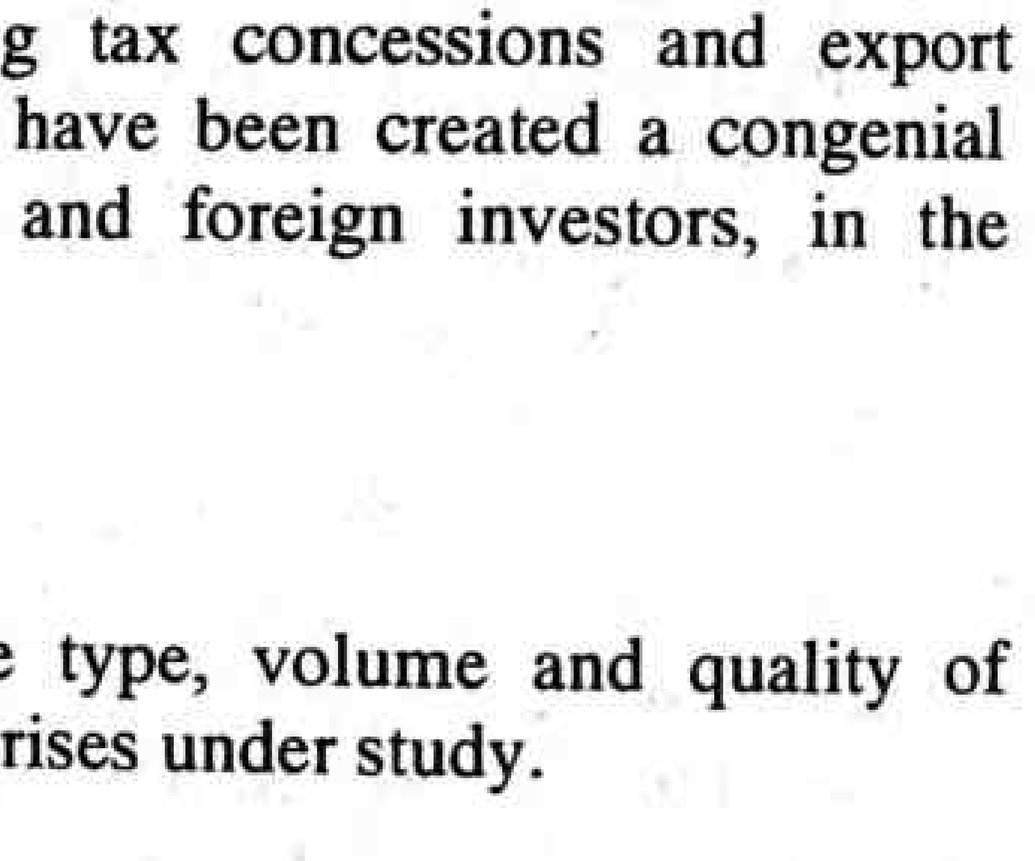
To recap, the analysis above reveals a very stable economic environment, ensuring a good demand, actual as well as potential, for industrial products in Bangladesh. The existence of such an industrial friendly economic environment makes investment secured, accompanied by a favorable government policy providing tax concessions and export facilities. As a result, there appears to have been created a congenial business environment, both for local and foreign investors, in the economy of Bangladesh.

Production of Products

This section is devoted to analyze the type, volume and quality of products produced and sold by the enterprises under study.

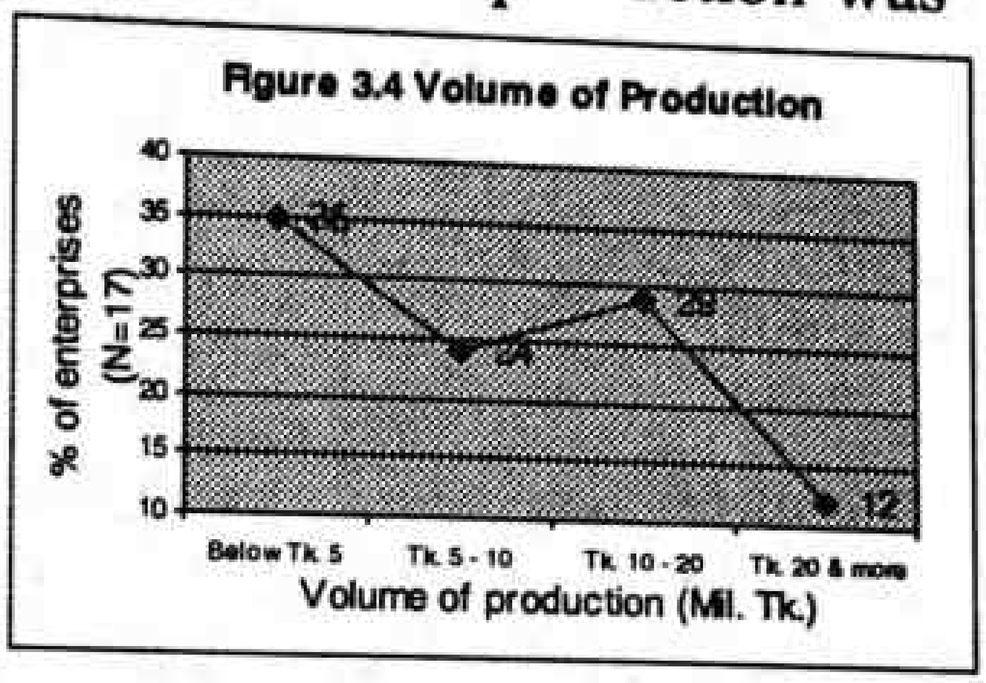
Type of Products: As expected, various types of products were produced by the enterprises surveyed. The study finding is displayed in Figure 3.3.

Over a third, 37 percent, enterprises produce textile products, while other major products are leather and plastic, 16 percent, electrical and engineering, 16 percent, food and allied, 11 percent, furniture, 10 percent, and glassware



goods, 10 percent. As such, textile sector appears to be the largest among the different sectors of industries under study.

Volume of Production: The monthly volume of production was explored and estimated, as summarized in Figure 3.4. As revealed in the figure, the monthly volume of production appears to be Tk.7.13 million, with a minimum of Tk.0.02 million to a maximum of Tk.29.40 million per enterprise. Most enterprises, 35 percent, produced goods and services below Tk. 5 million, followed by 29 percent enterprises Tk. 10 to Tk. 20 million, nearly a quarter enterprises, 24 percent, having production volume of Tk. 5 to Tk. 10 million, and the rest 12 percent enterprises had Tk. 20 million or more.



Quality of Production: Question was asked about the quality of the products produced by the study enterprises, measured in terms of perception: high, medium and low. As expected, who would regard his/her product as 'low quality' - none, while about 39 percent said that their products were of high quality, and the rest 61.1 percent responded as producing 'medium' quality products.

Therefore, the study findings suggest that wide varieties of products are being produced by the CSME sector, having an average volume of production Tk.7.13 million per month per enterprise. Although no comparison was made about product quality, the findings reveal mainly medium quality products being produced by most of the sample enterprises in Bangladesh.

Production Plant and Machinery

Use of Power Driven Machinery, and Size of Plant and Machinery: An attempt was made to assess the nature and size of production plant and machinery used by the enterprises in the CSME sector. Table 3.4 displays the study findings. Most enterprises, 90 percent, got power driven machinery, while only about 10 percent enterprises do not have such power driven machinery, which are small as per plant size.

Table 3.5 Availability of Maintenance Facilities and Spare Parts

Available?	Easily	Regul-arly	Not available	Total
	no.(%)	no.(%)	no.(%)	no.(%)
Yes	11(58)	6(32)	1(5)	18(95)
No	-	-	1(5)	1(5)
Total =	11(58)	6(32)	2(10)	100

Source: Survey

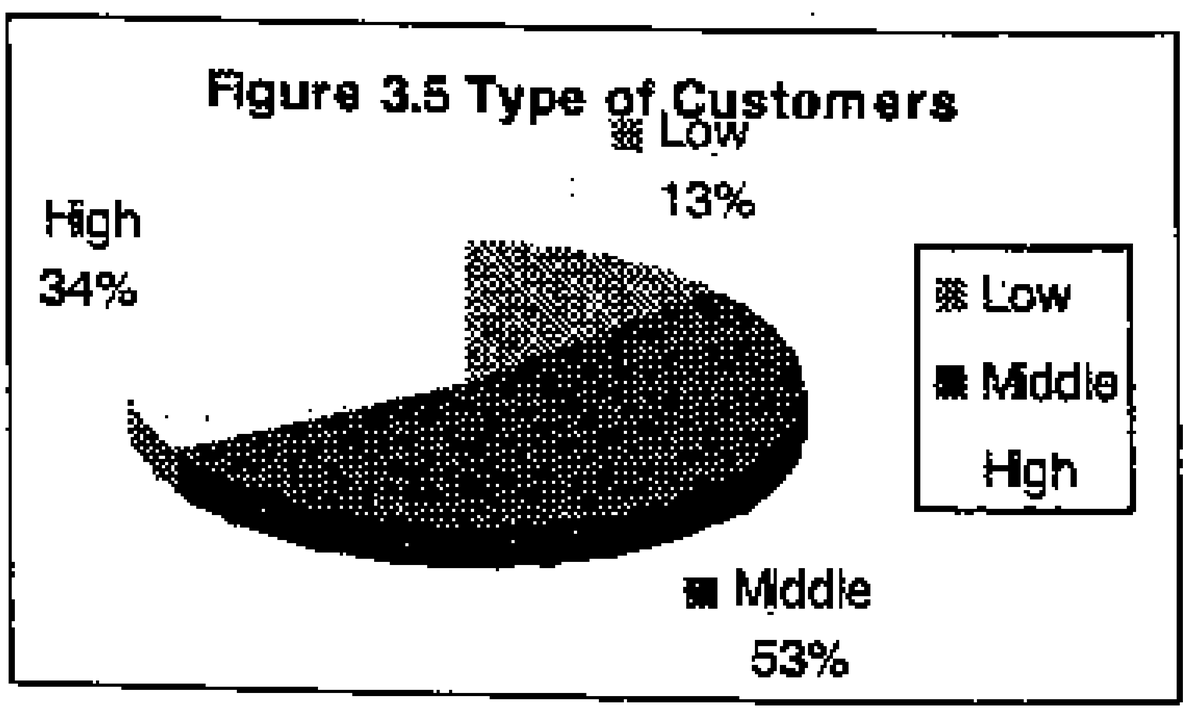
The age of plant was explored in the study, revealing that nearly three-fourth enterprises surveyed have been using old machinery, while about 16 percent got new machinery, and the rest had a combination of new and old machinery. A final question was on the availability of machinery maintenance facilities, and spare parts. Table 3.5 summarizes the survey results. Almost all (about 95 percent) said that machinery maintenance facilities are available, while about 58 percent and 32 percent get spare parts easily and regularly respectively.

In summary, it was revealed that an overwhelming majority of the enterprises under study use power driven machinery, which are estimated to be in the range of medium size. A vast majority of these enterprises uses old machinery (second hand), while only an insignificant proportion (about 16 percent) got new machinery. The maintenance facilities of the machinery are easily available on site, along with easy and regular supply of spare parts.

Marketing

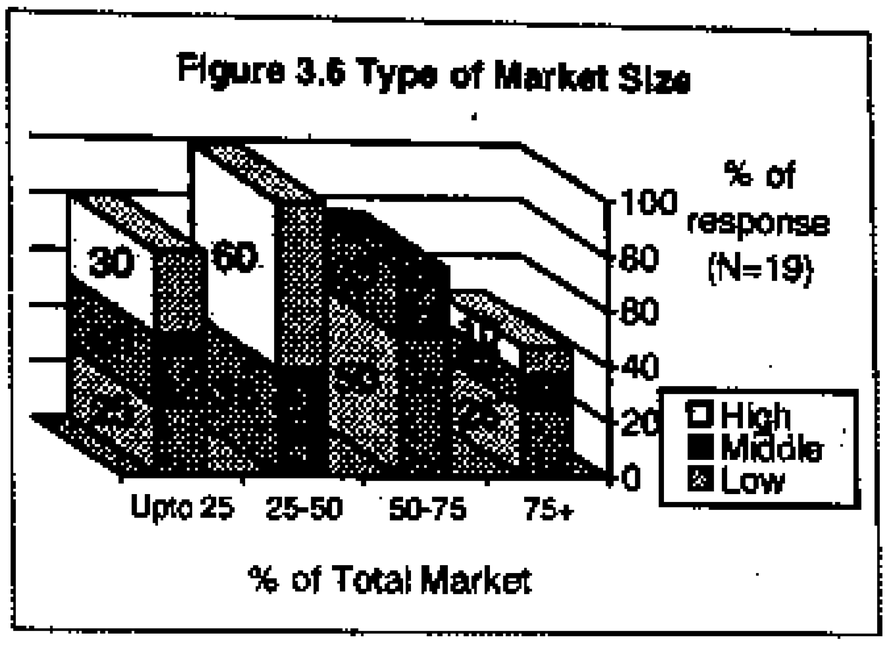
This section assesses different aspects of markets of the sample enterprises. This includes mainly the nature of customers, sales volume (turnover), change in market size, and the sources of marketing information.

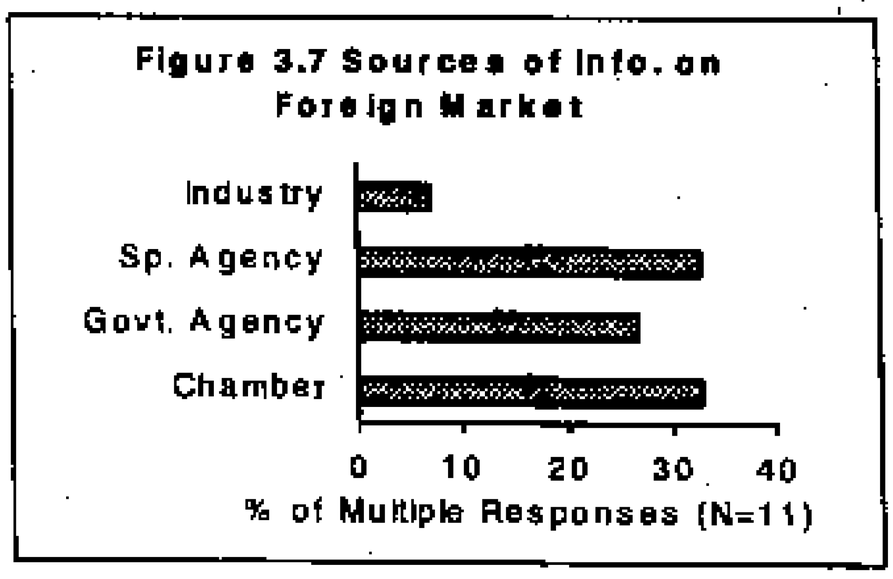
Type of Customers: Market segmentation was done according to level of income of the customers as low, middle, and high income groups. This is shown in Figure 3.5. Expectedly,



majority enterprises, 53 percent, have customers in the middle income group, followed by 34 percent and 13 percent respectively in the high and low income customers.

Sales Turnover, and Change in Market Conditions: The average monthly sale (in percentage) of the sample enterprises is depicted in Figure 3.6. Market size was classified into four groups, upto 25%, 25 to 50%, 50 -75%, and 75 % and above, showing against customers' income group: low, middle and high. Evidence suggests again a very large market for middle income group, followed by high and low income customers. The change in market size was also studied, revealing an average of 11.71 percent, 21.85 percent and 18.79 percent respectively in the low, middle and high income group.





Sources and Availability of Market Information: The study explored the sources of information on product's market and demand for the survey enterprises, both for domestic and foreign markets. For domestic market, a third of the respondents collected information from fellow producers, specialized associations were used by another one-third, and the rest mentioned both sources, fellow producers and specialized associations. Figure 3.7 exhibits the sources used for collection of information from foreign market.

As it is clear from the figure, most respondents used chamber and special agencies to collect information from foreign market, while government agency was also used by about 27 percent respondents. Interestingly, industry source was not utilized widely. It could be due to the fact that collecting information from foreign companies is not easily possible on the part of the respondents surveyed.

Data were collected about regular availability of market information. An overwhelmingly vast majority, about 94 percent, replied that they get information regularly, while 60 percent of the respondents get information early. What proportion did get information regularly and early was explored by cross-tabulation. Analysis reveals that majority of the respondents, 55.6 percent, receive the information relating to marketing of their products/services regularly as well as early.

Availability of Adequate Transportation and Storage Facilities: Adequate transport and storage facilities are important for marketing products/services for any business enterprise. To shed some lights on this important aspect, two questions were asked. The findings suggest no major shortage of adequate transport facilities, as responded by nearly 90 percent of the enterprises under study. Further, there is no real shortage of storage facilities, since only about 11 percent respondents mentioned it as 'inadequate'.

Infrastructure Facilities

This section is devoted to shed light on infrastructure facilities available in Bangladesh. Special emphasis was given on issues like location of enterprises, availability of utility facilities and media of communication used by the enterprises under study.

Location of the Production Unit: Most of the respondents, 87.5 percent, admitted that Small and Medium Industries Industrial Estates have been established in their cities. When question was asked about whether their enterprises are located on Industrial Estate or outside, the findings reveal that nearly two-thirds, 63.6 percent, of the enterprises are located inside Industrial Estates. Further questions were asked to explore the availability of some important services such as power, water, and transportation on the location of their enterprises.

Availability of Power: Against the question of what type of power is normally used by the sample enterprises, it is revealed that only electricity is used by 36.8 percent enterprises, while the rest, 63.2 percent, use both electricity and gas. While both electricity and gas appear to be available, only 17.3 of the enterprises under study do not have gas on their enterprise location. The findings also suggest that there

has been an inadequate supply of electricity and gas mentioned by respectively 42.1 percent and 11.8 percent respondents.

Availability of Water: The availability of water seems not to be a major problem for industrial use, transportation, or drinking purpose. Less than 6 percent respondents found the shortage of water for such purposes, while less than 11 percent regarded it as 'inadequate'.

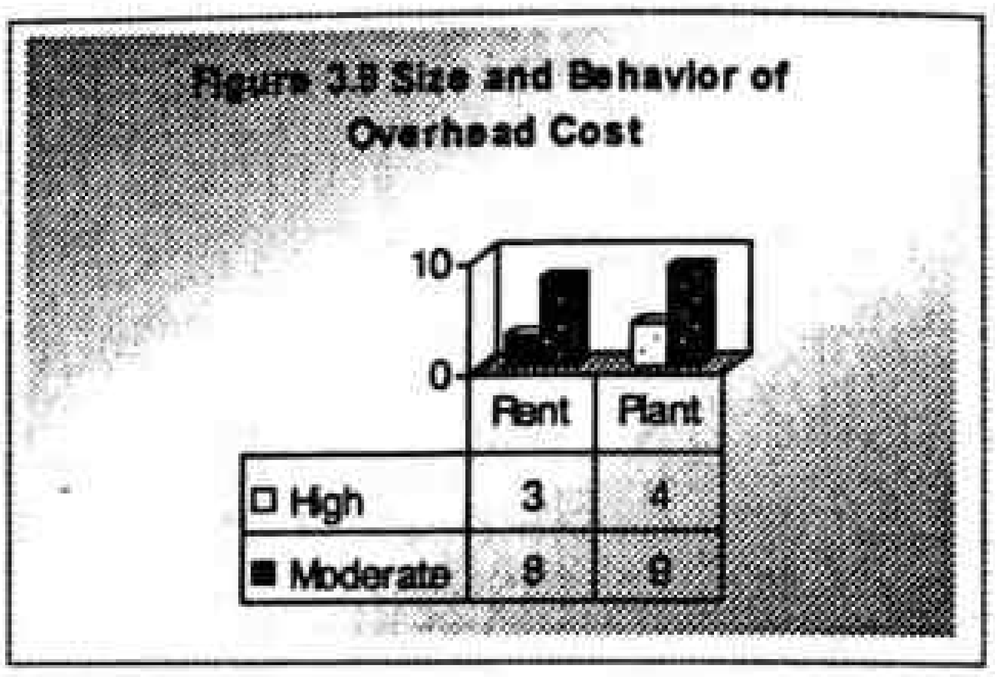
Availability of Transportation: To judge the usage and/or availability of transportation, three questions were asked about type of transportation: large vans, small vans and others, available on commercial charges. The findings suggest that nearly two-thirds of the respondents find large and/or small vans for transportation on commercial charges. Less than 11 percent regarded the availability of such vans as inadequate, while 22.2 percent faced problem with getting large vans only. Among the other type of transport available for their uses include mainly truck, pickup vans, rickshaw, rickshaw vans, and push-carts.

Commuuication Facilities: The usage and adequacy of the communication facilities for industrial development was assessed by asking questions about telephone, fax, e-mail, and postal services. Expectedly, almost all firms do have extensively used all types of communication media, revealing a minimum of 84.2 percent for email to a maximum of over 94.7 percent in case of telephone and postal services. Since all the study firms are located in and around the Capital city of Bangladesh, they got connected to all sorts of communication media including e-mail facilities.

Problems Faced in tbe Availability of Infrastructure Facilities: Respondents were requested to mention the problems they faced in getting power, water, transportation, and communication. The major problem of power is of getting electricity in Bangladesh, as this was cited by almost all the respondents in various ways - irregular supply, load shedding, frequent power failure, and high cost. Regarding water supply, there appears to be no major problem for industrial purpose in Bangladesh, while less than 15 percent of the respondents facing some problems with transportation facilities such as traffic jam. Finally, communication was not viewed as a major problem by most respondents

except relatively high cost of communication compared to our neighboring countries.

The study, therefore, reveals availability of all type of infrastructure facilities – land for industrial use (industrial estates), power (electricity, gas), water, transportation, and communication. Some problems, however, encounter in getting some of those facilities. These include, among others, irregular supply of electricity, comparatively high cost of electricity, gas, transportation and usages of media of communication.

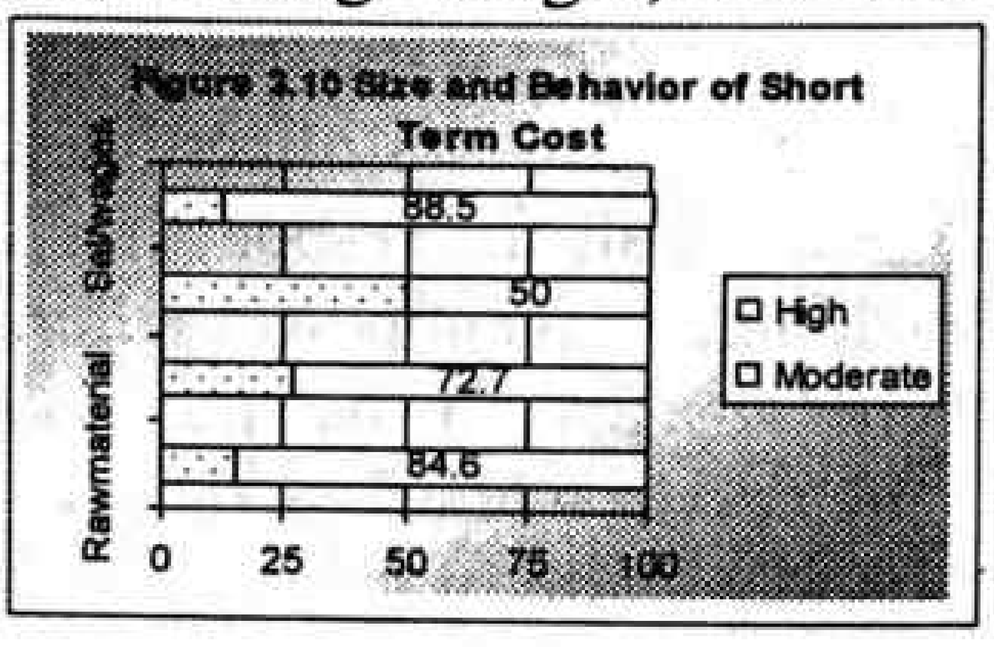


Cost of Production

This section analyses the scenario of cost of production of the CSME sector in Bangladesh. Data were gathered for analyzing behavior of different elements costs relating to overhead cost and short term costs. Two dimensions of cost behavior were measured – amount/size of cost, perceived as *high vs. moderate*, and trend of cost, perceived as *rising vs. stable*. The findings are presented below.

Behavior of Overhead Cost: Two types of overhead costs were analyzed – rent or building charges, and plant costs. The study finding is summarized, in Figure 3.9, showing overhead cost by the perceived behavior as high vs. low. A large majority, around 71 percent, perceived the amount/size of overhead cost (fixed) moderate, expressing respectively 73 percent and 69 percent for rent/building charges and plant cost. The trend of overhead cost reveals that there had been a rising trend in rent/building charges, viewed by 80 percent respondents, compared with 55.6 percent for cost of plant. Such costs remain stable were the responses by 20 percent for rent/building charges, and 44.4 percent for plant cost.

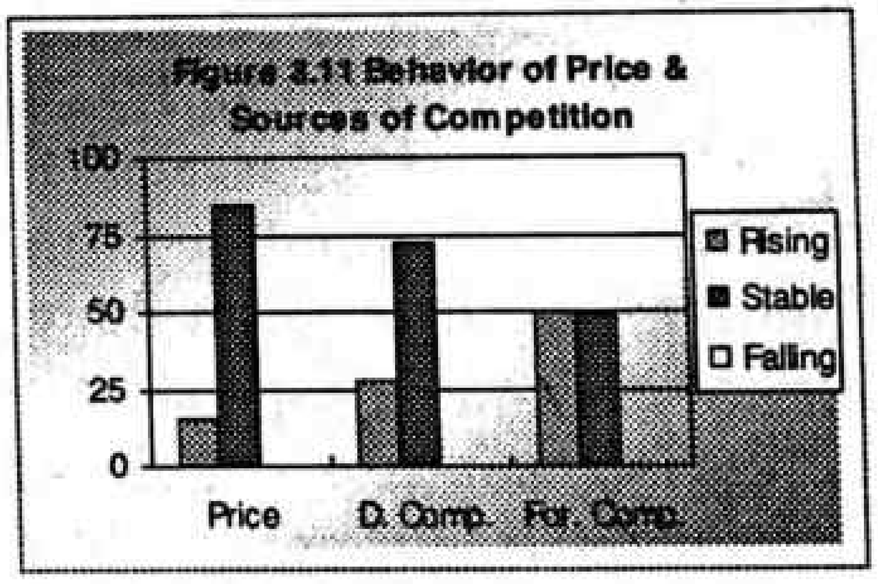
Behavior of Short Term Costs: Four elements of short term costs were considered – raw materials, transportation, power, and salaries and wages. The findings are in Figure 3.10.



As expected, power was viewed highly costly by 50 percent respondents, following transportation, raw materials, and salaries and wages by 27.3 percent, 15.4 percent, and 12.5 percent respectively. Regarding the trend of such costs, it was revealed that on an average 82 percent considered them rising, disclosing raw material 80 percent, transportation 81.8 percent and power 84.6 percent respectively. The overall behavior of the cost of productions appears to be reasonably moderate, while the findings suggest a rising behavior of such costs, both overhead and short terms costs, in the economy of Bangladesh.

Behavior of Price Level and Sources of Competition

The behavior of changes in prices of industrial products/services was assessed in the study. Three specific questions about the level of price of industrial products/services change over six months, competition from domestic and foreign producers were asked, requesting to express respondents' perception in terms of rising, stable, and falling trend. The empirical results are described in Figure 3.11. It appears from the figure that price level largely remains stable or falling for most of the industrial products/services of the enterprises under study, showing about 80 percent of the cases. However, domestic competition is showing a risings trend by an overwhelming majority of about 90 percent respondents. At the same time, most of them, about 60 percent, are facing rising competition from foreign producers via import.

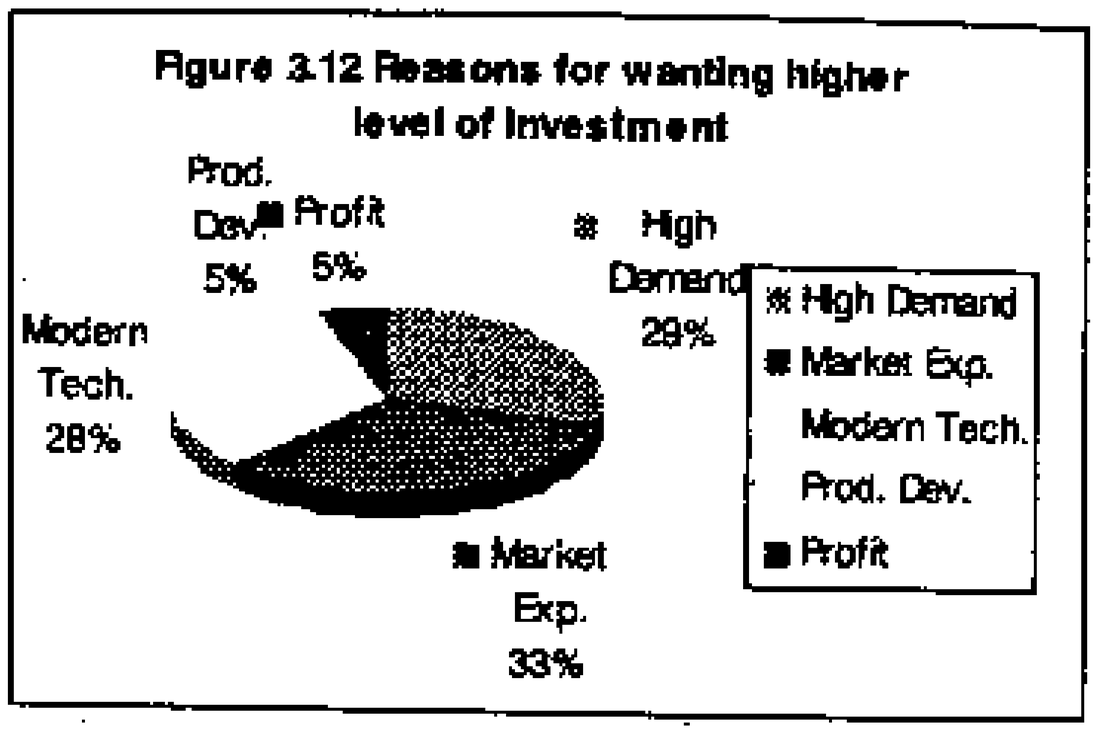


It appears, therefore, that the industries in the CSME sector have been functioning in an environment of considerable competition both from domestic and international sources. However, price level seems to be relatively stable. Undoubtedly, increasing competition, accompanied by stable price level, would be a serious problem for many enterprises in the CSME sector for short run. However, such competition may help bring greater benefit, if designed by proper policy environment, for those enterprises by promoting efficiency in the long run for overall industrial development in Bangladesh.

Profit Level and Investment

Level of Profit: The problem of assessing profit of CSME is well documented in literature. The perceptual measures of profit could reasonably be a good indicator of real profitability of the enterprises under study. As such, respondents were asked to state perceived profit level in terms of high, medium, and low. Expectedly, none admitted earning high level profit, while a vast majority, nearly three-fourths, said that their enterprises had been earning medium level profit, and the rest a quarter low profits.

Change in the Level of Investment: Question was asked to know about whether respondents want to change the level of investment in their line of production. Interestingly, all of the respondents have gone for the 'yes' answer. This trend of willingness of brining change in investment level is very much consistent with previous studies in Bangladesh. The reasons for wanting change in the form of higher investment level were expressed by the respondents in various ways, as displayed in Figure 3.12. The main reasons, cited by the study respondents, for increase in investment level appear to be high demand for products/services (29 percent), market expansion both domestic and international (33 percent), going for updating technology for quality product (28 percent), new product development (5 percent), and profitability (5 percent).



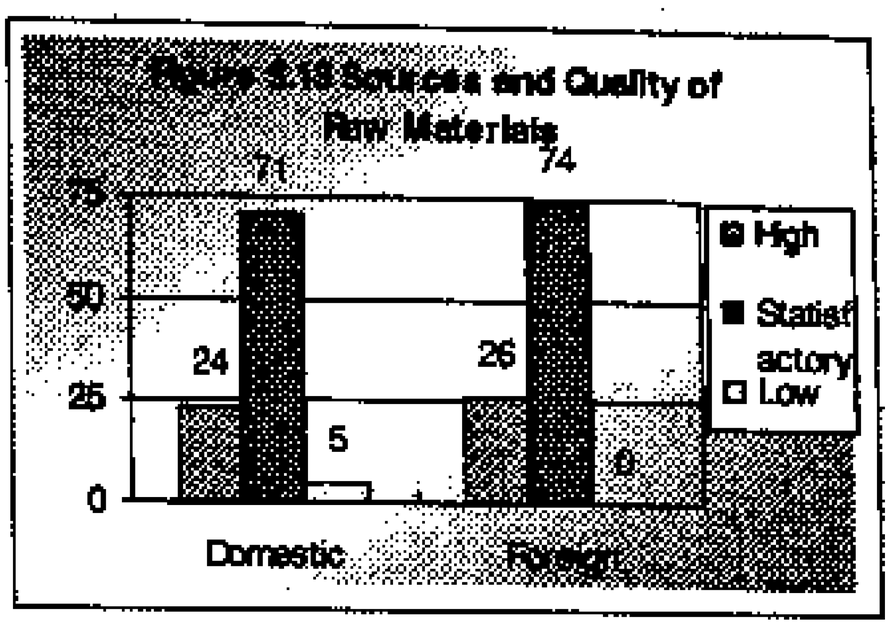
The analysis above, therefore, reveals that all of the study entrepreneurs would like to go for higher investment, if available, by sensing very good demand for their products, for having updated technology to improve product quality, and for expansion of their market share. The profitability appears to be at the range of medium level viewed by the respondents.

Supply of Raw Materiais

To ensure a smooth development of the industrial sector in any economy, one of the preconditions is the availability of raw materials. In order to

assess the conditions of sources of raw materials supply, along with the quality of such raw materials, respondents were asked to mention the percentage of raw materials supplied from both domestic and foreign sources. Also they were asked to state the quality of such raw materials in terms of high, satisfactory and low.

Sources of Raw Materials: The survey results reveal that the enterprises use raw materials mainly from local source, showing an average usage of local raw materials 69.3 percent, ranging 10 percent to 100 percent. However, over three-fourths percent entrepreneurs utilize local raw materials for their production.

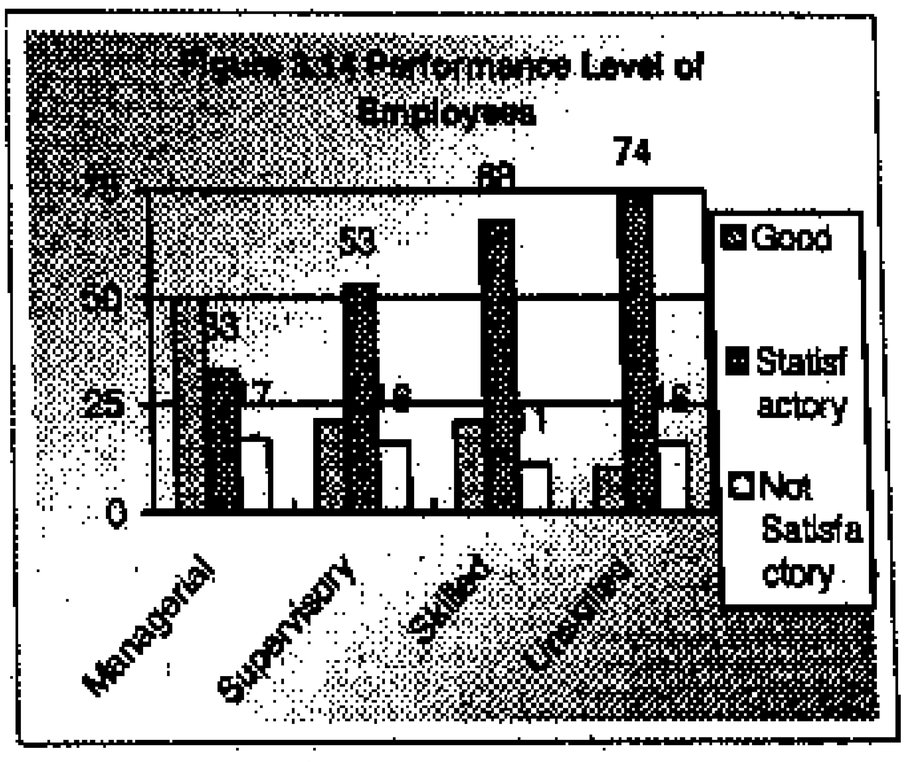


Quality of Raw Materials: The quality of raw materials used by entrepreneurs was explored and summarized in Figure 3.13. Slightly below a quarter of the respondents considered local raw materials high quality against 71 percent as satisfactory. An insignificant proportion thought that local raw materials are of low quality. Looking at the raw materials collected from foreign sources it is evident that about three-quarters of the respondents regarded such raw materials as satisfactory, while the rest, 26 percent, found raw materials collected from foreign sources high quality.

As the findings suggest there appears to have been a good supply of raw materials, from local sources, for the industrials enterprises in Bangladesh.

Manpower Supply

The level of performance of the people working in the survey enterprises was measured using perceptual evaluation by the entrepreneurs. Three levels were explored: good, satisfactory, and not satisfactory, against four groups of

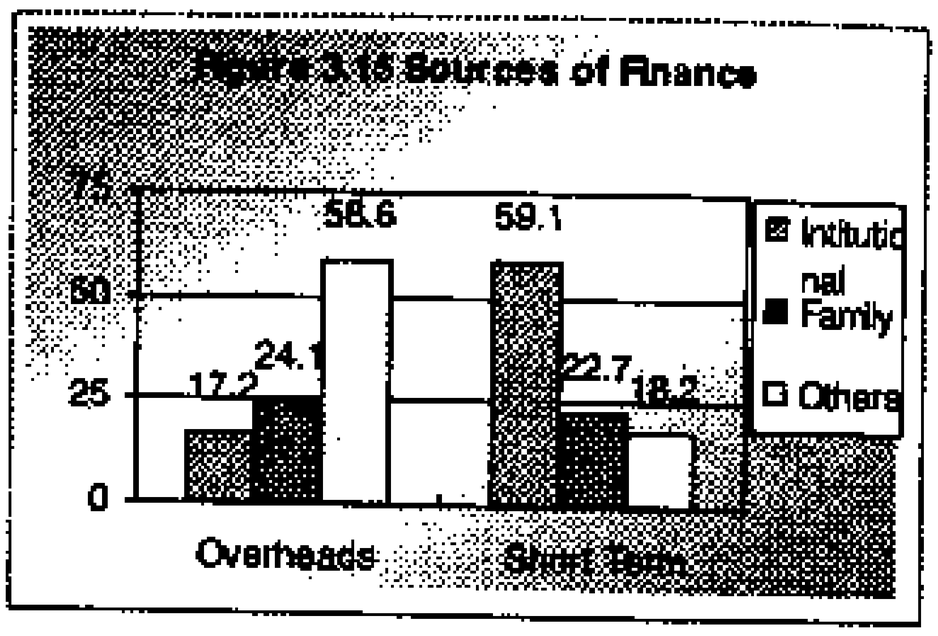


employees, classified under managerial, supervisory, skilled, and unskilled workers. Figure 3.14 depicts the empirical results.

The findings reveal that the performance of managerial employees is good, 50 percent, while for all other categories it appears to be 63 percent for supervisory staffs, 68 percent for skilled workers and 74 percent in the case of unskilled labors.

Financing of Enterprises

This section looks at the financing conditions of the sample enterprises, emphasizing on sources of finance, procedure of obtaining institutional loans, security required by financing institutions, purpose of loans received, cost of loan (interest rates), and the availability of loan for export. The survey results are presented below.



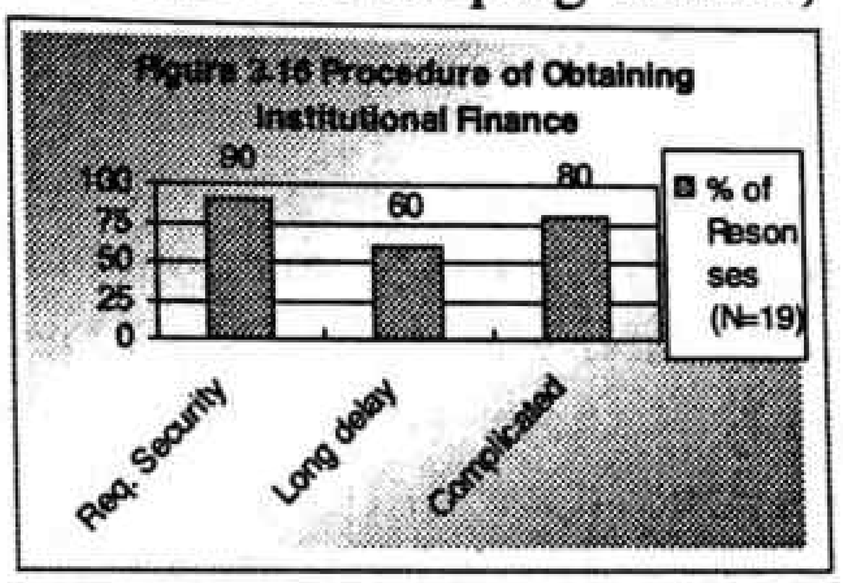
Sources of Finance: The sources of finance were analyzed from two perspectives: sources of overheads (fixed) capital, and short-term finance, classified against three categories: own, family and institution. Figure 3.15 portrays the empirical findings.

Most entrepreneurs gave multiple responses, indicating more than one sources of finance. Looking at the sources of overheads finance, it reveals that a large majority, about 59 percent, own source for overheads financing, against nearly a quarter, 24.1 percent, from family source. The rest, only 17.2 percent, respondents got funds from institutional sources. A reverse picture was found looking at the sources of short term finance, revealing that most of the sample firms, over 59 percent, relied on institutional sources, followed by 22.7 from family and the rest, 18.2 from own sources. Chi-square analysis reveals a very significant difference between sources of overheads finance and that of the short term finance.

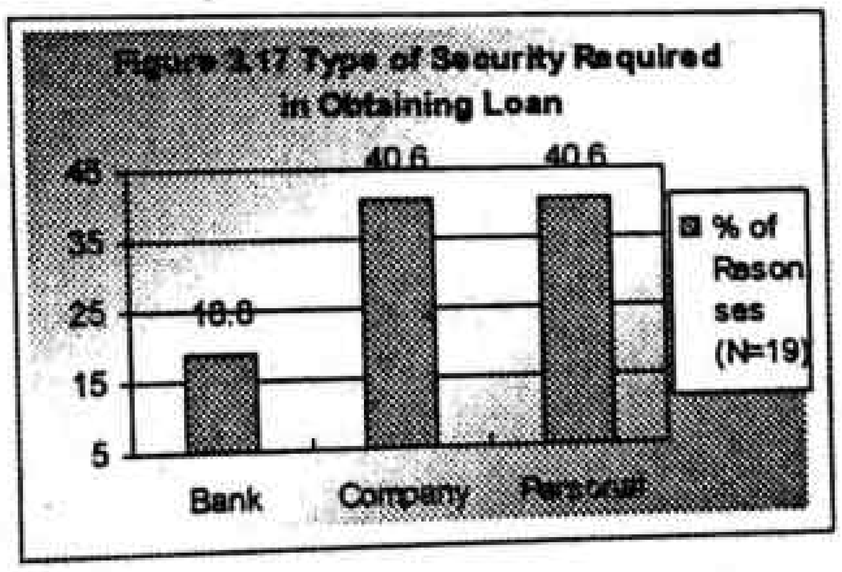
Sources of Institutioual Finauce: Sources of institutional finance were analyzed, classifying under banking versus specialized financial institutions. A large proportion of the respondents, 72.2 percent, got loan

from banking institutions, while lower than a third, 31.3 percent, received institutional finance from specialized financial institutions. Further analysis (cross-tabulation) reveals that among those receiving loan from special financial institutions, an overwhelmingly large proportion, 75 percent, were clients of specialized banking institutions. Therefore, there appears to be a very limited utilization of loan from specialized financial institutions. In fact, banking sector is the main supplier of finance for the CMSE sector. There has been a real shortage of supply of funds for this sector from specialized financial institutions.

The Procedure of Obtaining Loans: As in most developing nations, there is no dearth of empirical evidence on very lengthy and complicated procedure of obtaining loans by small firms. Bangladesh here is not an exception, as analysis of the multiple replies of the study entrepreneurs reveals. Figure 3.16 summarizes the study findings. Most of the respondents, 44.8 percent, regarded the procedure of obtaining loans as complicated, following 34.5 percent and 20.7 percent respectively requiring security and with long delay. When the number of cases considered, over 90 percent required security, and 80 percent regarded complicated, while the rest mentioned long delay, 60 percent of the cases.

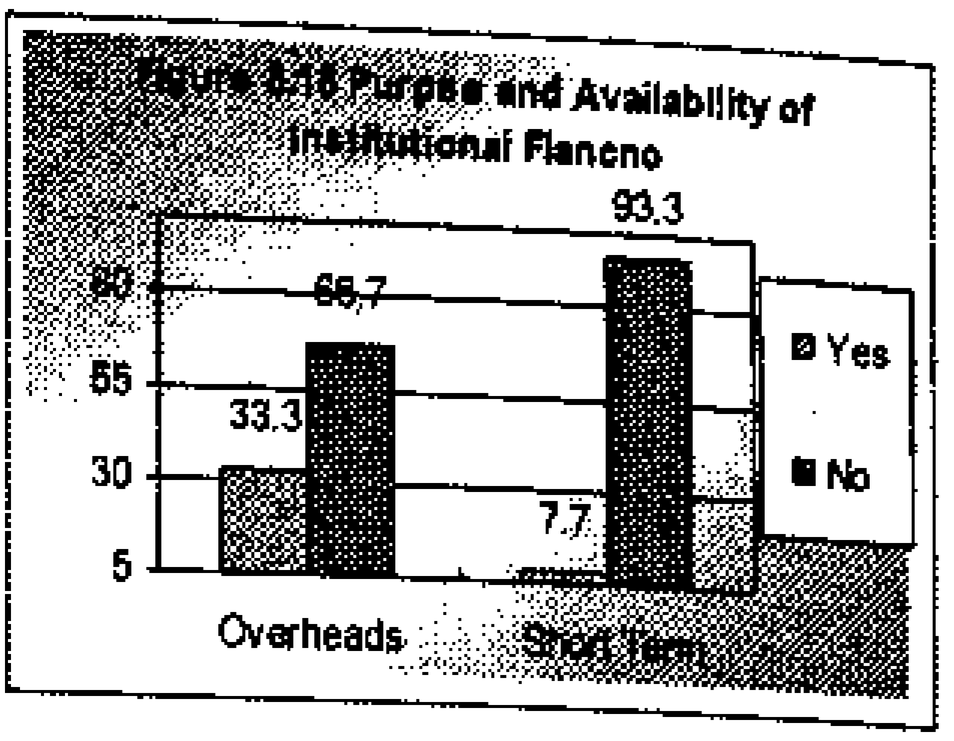


Type of Security Required: Against the findings of security required by financial institutions, the type of security provided by entrepreneurs was explored. Respondents were asked to specify the security required into three categories: personal guarantee, company guarantee, and bank guarantee. The empirical finding is shown in Figure 3.17 The respo7ndents had to provide multiple (more than one) security (guarantee) in obtaining loans from financial institutions. As shown in the figure, 40.8 percent enterprises required company guarantee, along with similar percentage given as personal guarantee. Some entrepreneurs had to utilize, with or without company but usually



with personal guarantee, bank guarantee in obtaining loans from financial institutions.

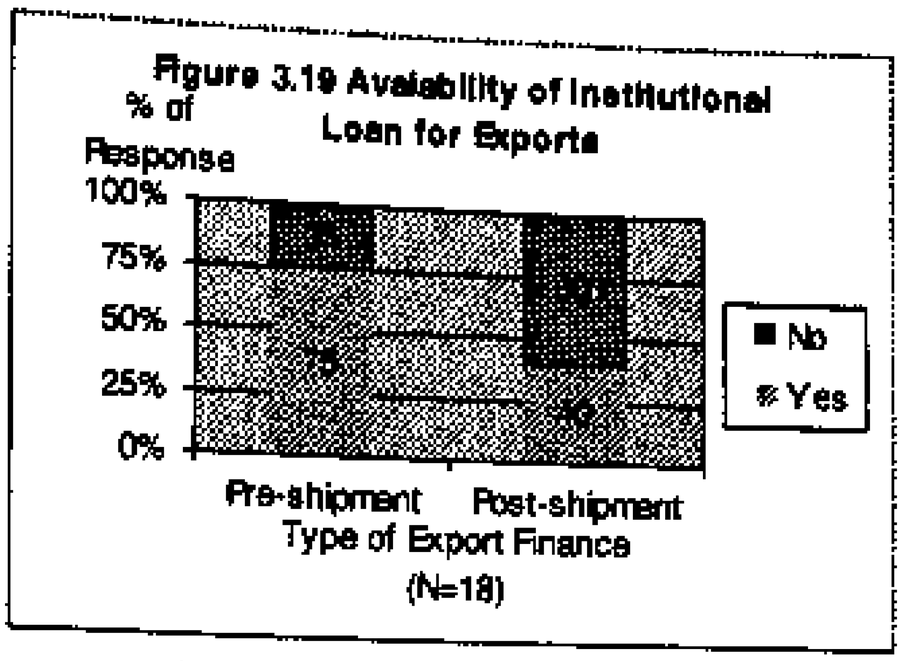
Purpose and Availabiiity of Institutioual Loans: The availability of institutional loans was explored and analyzed in terms of the purpose for which such loans were received by the respondents under study. The purpose of was classified as overheads versus short term. Results are summarized in Figure 3.18.



As revealed by the figure, over two-thirds of the respondents admitted the availability of institutional loans for overheads purpose against an overwhelming majority of over 93.3 percent for short-term purposes. This findings support what has already revealed earlier, most of the respondents availed of the short term loans, while there appeared to be a limited availability of the institutional loans for overheads. In fact, previous studies confirmed a severe shortage of supply of institutional loans for industrial development in Bangladesh. However, there has been an increasing demand from the entrepreneurial community, and such lack of supply institutional loans appear to be non-existence of financial institutional institutions both at private and public sectors in the economy of Bangladesh.

Interest Rate charged on Loans: The interest rate charged on institutional loans was assessed to have an idea about cost of institutional funds in Bangladesh. Respondents were asked to state the rate of interest charged on loans for long term as well as short term institutional finance. The evidence suggests an average interest rate of 15 percent per year charged on institutional finance. Looking at the long-term loans, the interest rate charged on such loans ranged from a minimum 10 percent to a maximum 22 percent, with an average of 14.4 percent annually. For short-term loans, the average rate of interest charged was estimated 16.3 percent annually, with minimum 10 percent and maximum 22 percent yearly. As such, evidence suggests higher cost of short-term loans than long-term institutional finance by around 2 percent per year.

Availability of Loaus for Export: The institutional loans could help promote export by financing export businesses. Such financial help could be provided both pre- and post-shipment situations. Therefore, analyses were carried out assessing the availability of institutional loans for export pre- and post-shipment arrangements done by the exporting firms. Figure 3.19 displays the empirical findings.

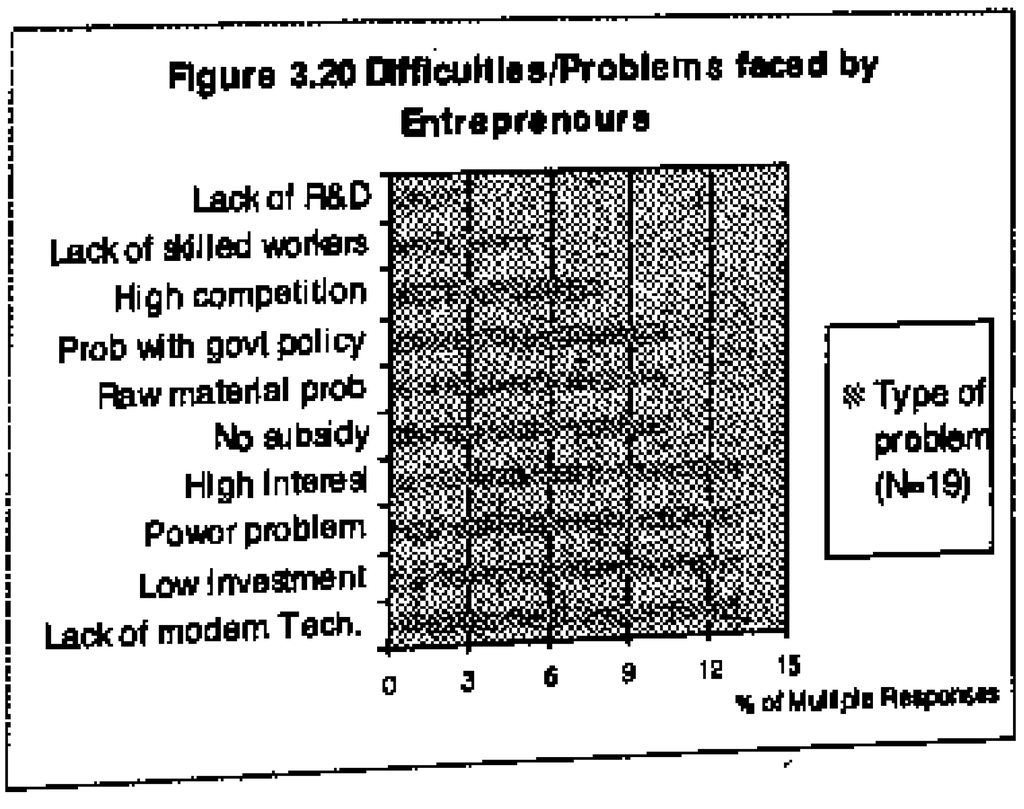


As the findings reveal, a vast majority, three-fourths, of the respondents replied that institutional loans are available for export at pre-shipment level, against the replies of a quarter respondents finding no such finance for their businesses. It also appears that majority respondents, 60 percent, did not find post-shipment funds from institutional sources.

To recap the analysis of financing enterprises, the findings evidently suggest a real shortage of institutional finance for the CSME sector. The problem of unavailability of institutional finance was accelerated, by procedural complexity in obtaining loans. Such complexity includes mainly complicated loan procedures, long delay, and insurmountable problem of security required for getting institutional loans. In almost all cases, the entrepreneurs required company guarantee, along with personal guarantee, and some time bank guarantee too.

Problems, Prospects, and Assistance Needed

This section explores the problems and prospects of the small firms under study, along with the assistance needed by such enterprises to solve their problems. Respondents were asked to express the difficulties

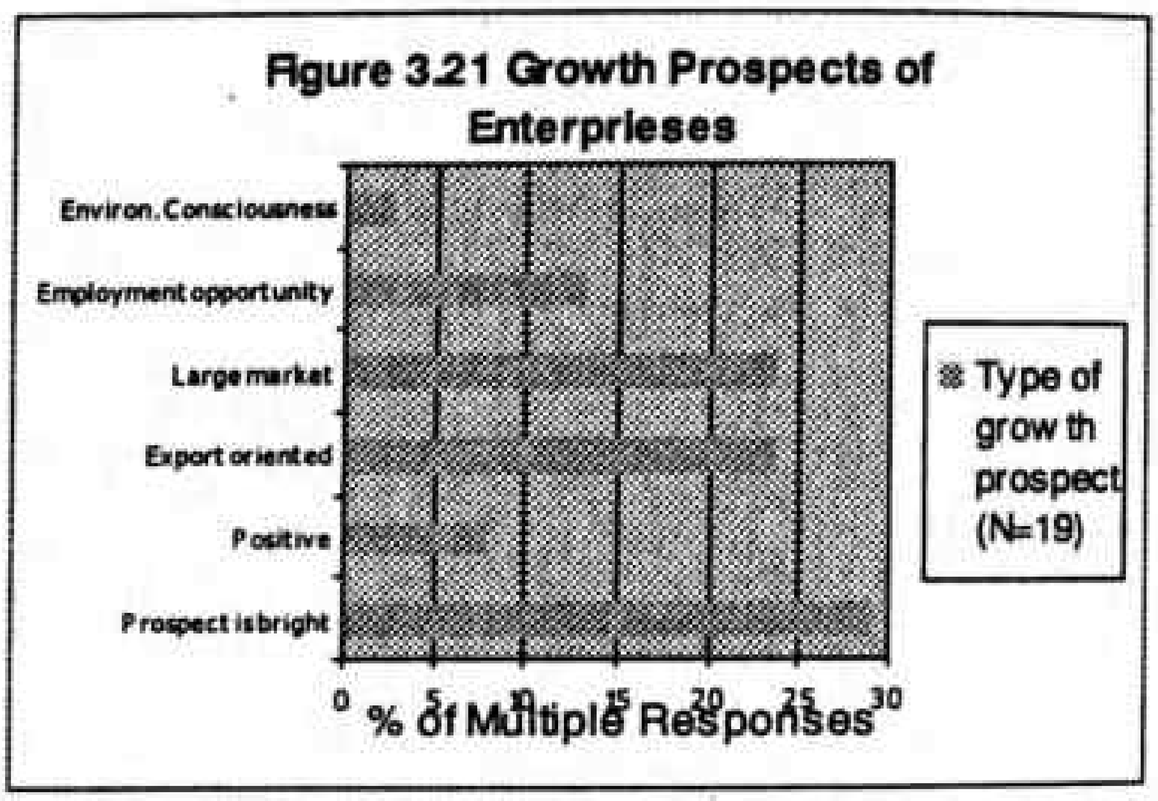


faced, the prospects of their industries in future, and the possible assistance that might help them solve their business problems. Multiple responses were solicited during the interview.

Difficulties/Problems faced: Most entrepreneurs faced a number of interrelated problems/difficulties faced in their businesses. As such, respondents gave multiple replies as depicted in Figure 3.20. The major problems faced appear to be lack of modern technology, 13.2 percent, low investment, 13.2 percent, irregular/inadequate supply of power (electricity), 13.2 percent, high interest, 13.2 percent, lack of govt. subsidy, 10.5 percent, unavailability of raw materials, 10.5 percent, no clear govt. policy, 10.5 percent, high competition, 7.9 percent, lack of skilled workers, 5.3 percent and lack of research and development, 2.6 percent.

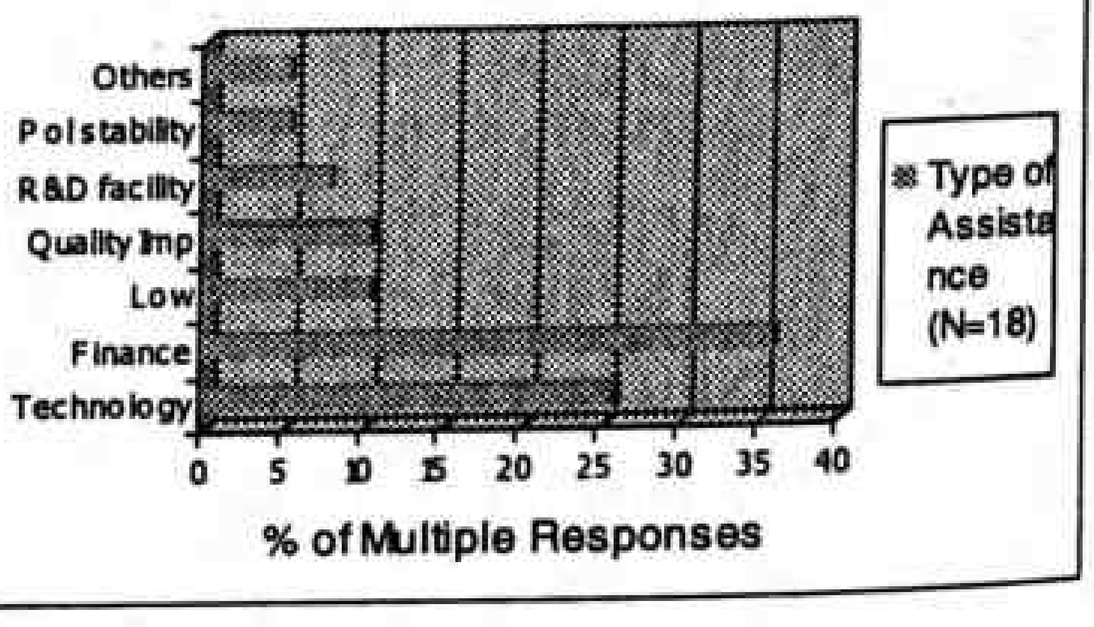
Growth Prospects: The growth prospect of the sample enterprises was assessed by exploring the perception of the entrepreneurs about future growth potential of their enterprises. As expected, most respondents gave multiple answers, which are summarized in Figure 3.21. These appear to be, as replied by the respondents, prospect is bright, 28.9 percent, export oriented, 23.7 percent, large market, 23.7 percent, employment potential, 13.2 percent, positive, 7.9 percent, and environmentally conscious projects, 2.6 percent. As such, the study findings suggest a growth prospect of the CSME sector in Bangladesh.

Figure 3.21 Growth Prospects of Enterprieses



Need of Assistance: Against the problems faced and the growth prospects perceived by the study entrepreneurs, possible need of assistance that could help solve those problems faced or achieve the growth prospects was also explored. The respondents

Figure 3.22 Type of Assistance Needed



expressed their perceived need (multiple) for various type of assistance, as displayed in Figure 3.22. As shown in the figure, expectedly most respondents, 35.8 percent, expressed their need for financial help. The second cited pressing need appears to be technological assistance, 25.6 percent, followed by low interest rate, 10.3 percent, help for improving quality of their products/services, 10.3 percent, research and development facilities, 7.7 percent, political stability, 5.1 percent, and others (environmental consciousness, and solution to port problems), 5.6 percent. As such, the findings suggest the pressing need of financial as well as technological assistance.

In summary, the study findings reveal that most entrepreneurs faced a number of interrelated problems. These include, among others, insurmountable hindrance to access to finance, lack of modern technology, irregular supply of electricity, low investment, high cost of capital, increasing competition from illegal imports, and lack of research and development facilities. To overcome those problems, as expected, they express their need for several types of assistance, both financial and non-financial. These include mainly adequate supply and easy access to financial assistance, technological help, support to improve quality of products, formulation of small firm friendly policy, measures to prevent illegal imports, and providing research and development facilities. The CSME sector appears to have a very good growth prospects. This is clearly evident from multiple answers of the respondents: 'prospect is bright', 'export oriented', 'large market', 'employment creation', 'profitable' and so on. As such, the study findings suggest a bright growth prospect of the CSME sector in Bangladesh.

Summary of Findings and their Implicatious:

Despite a limited sample size, the study reveals a number of important findings. There are:

A CSME is defined using investment size in Bangladesh. **However, the employment size has got a limited use. There are at least three different definitions: A cottage (micro) euterprise refers to au euterprise having a maximum investment of Taka 0.5 milliou. A small firm is a husiuess uuit investing hetween Taka 0.5 milliou and Taka 40 million. Fiually,** a **medium firm is**

defined as an enterprise employing investment ranging Taka 40 million to Taka 200 million.

Economic environment is relatively stable and conducive for industrial development in general, and for the CSME sector in particular. **There is a good demand for industrial products, and investment is secured. Thc governmcut is pursuing policy for export facilities, and provides tax conccssions. All these have resulted in the creation of a congcnial husincss environment, both for local and foreign invcstors.**

Wide varieties of products are being produced by CSMEs. **Most have au average production volumc of Taka 7.3 million per mouth. Thc quality of products produced is rcasonahly standard, mainly medium qnality. However, somc high quality products are also heing produccd.**

An overwhelming majority of small firms use power-driver machinery. **Thc plant sizc is mainly medium, having largciy old (second hand) machinery. Maintcnancc facilitics arc easily availahle on sitc, along with easy and rcgular supply of spare parts.**

Market for CSME product is relatively stable, comprising customers mainly from middle income strata. **Market information is regularly availahle, gathering chicfiy from fellow producers, specialized associations, or hoth. No major prohlem in gettiug adequatc transportation and storage facilities on commercial charges.**

Infrastructure facilities are available. **Prohlcms, however, eucounter in gctting somc facilities such as rcgular supply of electricity at lowcr cost, rclativcly high cost of transportation aud communication via telcphonc, email etc.**

Overall, the cost of production is reasonably moderate. **But it has gradually heen rising over time, hoth overhcad and short term costs, for various reasons.**

The CSME sector has been functioning in a competitive environment. **Such competition stems both from domestic and foreign sources due to globalization. Also, competition emerges from smuggled goods from neighbouring countries. However, price level remains relatively stable.**

All entrepreneurs like to go for higher investment, if available. **Reasons behind this are diverse: potential demand for products, requiring modern technology, for improvement of product quality, and expansion of market share. Of course, profitability is anther reward.**

The CSME sector utilizes mostly local raw materials. **The quality of such local raw materials is at satisfactory level.**

No shortage of manpower supply. **However, some skilled workers are in short supply. The performance of managerial staff is quite good, while the performance of supervisory staffs, skilled and unskilled workers is at acceptable (satisfactory) level.**

Main source of finance is own saving, in some cases accompanied by family support. **Institutional loan is not readily available. In addition, whatever institutional finance is available, the procedure is highly complicated, requiring both personal and company guarantees. As a result, long delay. Such institutional finance is available mainly for short term working capital purpose, from commercial banks. The cost of loan is quite high, as high as 22 percent annually, for both overheads and short term finance. The institutional loan available for export is mainly at pre-shipment stage.**

The CSME sector has a bright growth prospect for development in Bangladesh. **Reasons are numerous. These are, very briefly, competitiveness, use of local raw materials, value addition, income generation, export orientation, and large market, having tremendous employment potential.**

Multiple difficulties, however, deter the growth and development of the CSME sector. **Lack of unhindered access to institutional**

finance is almost an insurmountable barrier. The second major problem is the lack of modern technoiogy, followed by irregular supply of eiectricity, high cost of institutional loan, unfair competition, lack of government incentives and clear cut policy for this sector.

Most entrepreneurs need an integrated package of assistance, comprising both financial and non-financial support. **Unhindered access to adequate institutional finance at lower cost is at the top, accompanied by a number of nou-fiuancial assistauce. Such non-financiai assistance inciude, amoug others, technological help, support for quality improvement, research and development facilities, poiitical stability, aud small firm friendiy government policy.**

A set of policy principles and policy implications emerges from the study findings above. Of course, the implementation of these principles depends on the availability of resources required and commitments of the policy makers concerned. These are nonetheless of significant importance.

The promotion of the CSME sector, its role in society and the opportunities it presents for personal gain, appears to be critical for facilitating economic growth. As such, it should be promoted by taking all out measures.

Policies geared toward boosting small firm development should not be confined to the CSME sector per se. The government commitment to sustained economic progress must ensure that all aspects of economic system are conducive to and supportive of increased levels of CSME activity. This includes mainly minimizing taxation, ensuring access to labor, lowering interest rate, reducing the regulatory burden, neutralizing policy induced constraints, preventing unfair competition from illegal imports, formulating small firm friendly policy, and developing a real 'private-public partnership'.

In particular, policy geared toward making institutional finance easily available will have much impact on the development of small

entrepreneurial endeavours. Therefore, financial assistance, both short and long term, should be provided at market cost of capital.

For the greatest long-term impact, the contribution of small entrepreneurs should be recognized by the society at large.

A comprehensive package of assistance will have much desired long-term impact on the development of this sector. The package should be comprised of both financial and non-financial components. Among the non-financial assistance, most important are: providing technical help and regular supply of electricity at lower cost. Some other software support, such as information, entrepreneurial education and training, would be included and provided, as and when necessary. The delivery of such comprehensive assistance should be made highly visible, by appropriate institutions, for the small entrepreneurial community.

An appropriate institutional mix will ensure availability of assistance for small firms. Such an institutional mix could be developed, by restructuring government agencies, through formation of a 'public-private partnership (3P)'. Here some existing agencies, such as the FBCCI at private level and the BSCIC at government sector, could be utilized. If such an initiative is accepted in principle, further details could be developed in future. Also this partnership could be developed at international level, among the OIC countries for mutual benefits. Such an initiative is highly desirable in the present global context to ensure future economic security of the Muslim World. However, suffice to mention here, to make the proposed initiative effective in achieving its goals, experts and resources led by the OICs should be gathered around the Islamic countries.

References:

Ahmed, M. U. (1999) Financing Small-Scale and Cottage Industries in Bangladesh, *Finance and Banking*, Vol. 5(1 &2), pp. 1-20.

Gibb, A.A. (1993) Small Business Development in Central and Eastern Europe - Opportunity for a Rethink?, *Journal of Business Venturing*, Vol.8, pp.461-486.

GOB (1999) *Memorandum for Bangladesh Development Forum 1999-2000*, Ministry of Finance and Ministry of Planning, Dhaka.

Huq, M. and Love, J. (2001) *Strategies for Industrialization The Case of Bangladesh*, UPL, Dhaka.

Mannan, M.A. (1993) *Growth and Development of Small Enterprise: Case of Bangladesh*, Avebury, London.

Reynolds, P. D., Hay, M., Bygrave, W. D., Camp, S. M. and Autio, E. (2000) Global Entrepreneurship Monitor 2000 Executive Report, *www: entreworld.org*

Sarder, J. H. (2000) *Small Enterprise Development in Bangladesh: The Nature and Effectiveness of Support Services*, Dhaka University Publication Bureau, Dhaka.