

## **Understanding the Concept of SMEs in Driving Economic Growth and Development in Bangladesh**

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**Abstract:** Small and Medium Enterprises (SMEs) play a vital role in Bangladesh's economy and have been recognized as a significant catalyst for poverty reduction programs and economic growth. Therefore, it is essential to have a comprehensive understanding of the concept of SMEs and their role in driving economic growth and development. Consequently, this study endeavors to explore the definition of SMEs, their present status, and their contributions to the development of Bangladesh's economy. Using a quantitative research method, the study performed a descriptive statistics analysis on data gathered from diverse sources, including academic, governmental, and private institutions, as well as pertinent literature from researchers, academics, and scholars. The study has found that the definition of SMEs in Bangladesh has undergone changes over time. The study findings also revealed that the growth of SMEs has had a significant impact on various economic indices in Bangladesh, contributing positively to the country's economic development. Hence, the findings of this study can provide valuable insights to readers seeking a comprehensive understanding of SMEs in the context of Bangladesh. Moreover, policymakers can utilize these findings to introduce well-suited policies and initiatives that will foster the future development of the SME sector.

**Keywords:** SMEs Present Status, SMEs Contribution, Bangladesh's economy.



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### **1. Introduction**

Over the last two decades or so, Bangladesh's economy has experienced a 'quantum jump' in terms of many economic development indicators and has emerged as a model of sustainable and inclusive development for other developing countries worldwide. Consequently, a vision has been embraced by the government of Bangladesh that the country will gain the status of an upper middle-income country by 2030 and the status of a high-income country by [Taha & Kamruzzaman \(2020\)](#). To attain such a status, it is imperative to eliminate poverty, ensure employment, sustain a favorable growth rate, promote social unity, prioritize environmental sustainability, and foster responsible industrialization. In this particular situation, small and medium enterprises (SMEs) that require minimal capital but possess significant potential for

generating employment can act as a catalyst to disrupt the cycle of poverty and stimulate economic progress (Rahman et al., 2019). Moreover, SMEs have a crucial role in aiding the transition of agriculture-based economies, such as Bangladesh, to industrialized ones. They offer numerous opportunities that can generate sustainable sources of revenue and accelerate the country's development process (Banerjee & Rahman, 2019).

In recent years, Bangladesh has made remarkable progress in various aspects of its economy, including agriculture, garments, textiles, and other manufacturing industries. However, it is clear that SMEs play a crucial role in these thriving sectors, contributing significantly by producing valuable goods and services and meeting the demands of consumers and other enterprises (Ali & Islam, 2018; Hossin et al., 2022; Sarker et al., 2022). In fact, SMEs shore up the expansion of systematic productive capability. They facilitate the absorption of productive resources at every level of the economy and contribute to the creation of flexible economic systems that foster interlinkages between small and large firms. As a result, diversified economic development activities are generated through the direct or indirect contribution of the SMEs in Bangladesh's economy, including job creation, value addition to national gross domestic products (GDPs), rapid industrialization, manufacturing value addition, foreign currency earnings, poverty alleviation, etc. (Chowdhury & Salman, 2018; Hossin et al., 2022; Islam et al., 2021; Shahnewaz, 2019). SMEs represent up to 25% of the GDP, almost 45% of the value added in manufacturing, and 70-80% of non-agricultural employment. They comprise over 99% of all economic units, including both cottage and micro businesses, and employ approximately 25% of the total labor force (Bangladesh Bureau of Statistics, 2013; Begum et al., 2022).

Meanwhile, SMEs have the ability to survive in any economic condition, whether poor or rich, because of their flexibility and the capability to adapt quickly to changing market trends as compared to larger industries (Uz Zaman & Islam, 2011). They require relatively small capital, less infrastructural support and consumption of utilities, and less time to start up a business and have quick returns (Chowdhury et al., 2013). SMEs can run easily by utilizing local limited resources and can be operated by trained manpower (Islam & Hossain, 2018). Thus, SMEs are spreading widely across the rural areas of Bangladesh and rapidly impact the development of the rural economy. But evidently, over the past five decades, the concept, status, and contribution of SMEs in Bangladesh's economy have undergone significant changes (Islam & Hossain, 2018). In the early years of Bangladesh's independence, SMEs were mainly confined to the informal sector and were characterized by low levels of productivity and technology (Banerjee & Rahman, 2019; Shahnewaz, 2019). They were often seen as a last resort for those unable to find formal sector employment.

However, with the implementation of various policy measures and development programs, the status of SMEs gradually improved. Today, SMEs are the backbone of Bangladesh's economy, contributing significantly to employment generation, poverty reduction, rapid industrialization, and export earnings. So, this is imperative to know the concept of SMEs, their present status, and the contribution of this sector to the economic growth and development of Bangladesh. Therefore, the main objective of this study is to provide a comprehensive review of the conceptual definition of SMEs from the perspective of Bangladesh. Additionally, the study offers an in-depth analysis of the current status and the contribution of the SME sector to the economic development of the country, relying on historical data as a basis for the assessment.

## 2. Literature Review

The history of SMEs has been a prime concern for different groups or stakeholders, and it involves controversial stories in economic growth and development around the world. In the context of Bangladesh, a thriving SME sector is one of the main driving forces of the country's economic growth and development (Islam et al., 2021). Therefore, this sector has drawn a lot of attention from researchers, academics, and politicians, who are especially interested in programs and initiatives that will assist SMEs to improve their performance. But literarily, most of the prior research works, including Begum et al., (2022), Chowdhury et al. (2013), Islam et al. (2021), Islam & Hossain (2018), Jahur (2020), Rahman et al. (2018), Shahnewaz (2019), and Uz Zaman & Islam (2011) focused primarily on identifying the problem or constraint that impedes the development of SME sectors in Bangladesh. The trajectory of SME development in Bangladesh has also been studied in some cases (e.g., Ahmed & Chowdhury, 2009; Khalily et al., 2020; Khandker, 2014; Miah, 2006) and SME finance has been examined in others (Chowdhury & Salman, 2018; Chowdhury et al., 2013; Rouf & Islam, 2015).

Literature also reveals that some studies have been conducted to provide an overview of the prospects of the SME sector in Bangladesh, primarily based on one or two economic development criteria, such as contribution to GDP or job creation. For instance, the research conducted by Begum et al. (2022),

Chowdhury et al. (2013), Islam et al. (2008), Jahur (2020), Mujahid et al. (2019) and Shahnewaz (2019) confirms a positive causal relationship between the GDP and the production of SMEs as well as a short-term relationship between the SME related variables and GDP growth. But there is a dearth of research that has been specifically conducted to explore the SMEs' concept, their present status, and contribution to sustainable economic development in Bangladesh based on different economic development indices. These existing gaps in the literature highlight the need for an exploratory study that can delve into the concept of SMEs, assess their current status, and examine their role in driving economic development in Bangladesh, using the latest available data.

### 3. Materials and Methods

This study primarily relies on secondary data obtained from various published sources, including the publications of reputable organizations such as the Bangladesh Bureau of Statistics (BBS), Bangladesh Small and Cottage Industries Corporation (BSCIC), SME Foundation (SMEF), Bangladesh Bank (BB), Ministry of Finance, and Ministry of Industries. In addition to these official reports, the study also incorporates relevant literature authored by distinguished researchers, academics, and scholars. Utilizing a quantitative research methodology, the study conducted a thorough descriptive statistics analysis to examine the collected data. Descriptive statistics have been used to present and interpret data in a meaningful way, providing insights into the characteristics of the variables under investigation. To ensure accuracy and reliability, the data was meticulously processed manually and created the current version of the research paper. This approach was adopted to elevate the quality of information, analysis, and user-friendliness of the study.

### 4. Results and Discussion

#### 4.1. SME Defined in Bangladesh

In general, there is no consistent definition of SME in the global or domestic context. The definition may vary from country to country or even within a country, depending on the type of business concern (Ghadimi et al., 2021; Khalily et al., 2020). Thus, various countries employ diverse criteria to delineate SMEs within the context of their respective countries. These criteria may include factors like the number of employees, sales turnover, fixed assets, total investment, net worth, and more (Yoshino & Taghizadeh Hesary, 2016). But the most frequently used criteria for defining SMEs all over the world are the number of employees and investment in fixed assets (Khalily et al., 2020; Yoshino & Taghizadeh Hesary, 2016).

However, from Bangladesh's perspective, it is widely acknowledged that there is not universally accepted or standardized definition of SMEs available to precisely define them. Previous studies revealed that prior to 1999 in Bangladesh, medium-sized enterprises were not distinctively categorized from large enterprises in public policy. Instead, they were generally grouped together under the same classification (Alam & Ullah, 2006). After that, the 2005 Industrial Policy introduced a clear differentiation between manufacturing and non-manufacturing enterprises, with size categories based on the value of fixed assets for manufacturing and employment size for non-manufacturing enterprises (Alam & Ullah, 2006). Subsequently, two successive industrial policies have been published in 2010 and 2016, each presenting its unique definitions of SMEs within the context of Bangladesh according to its own specific criteria (Begum et al., 2022). Despite that, very recently, the Ministry of Industry released the Industrial Policy 2022, wherein they acknowledged and adopted the definition of SMEs from the Industrial Policy 2016, with minor modifications. Consequently, this revised definition is now regarded as the most widely recognized and standardized one at the policy level in Bangladesh. Table 1 provides a breakdown of SMEs' definitions.

**Table 1:** Definition Breakdown of SMEs in Bangladesh

Industrial Policies	Category of enterprises	Criteria and Country's Official Definition	Measures	
Industrial Policy 2010	Cottage	<10 employees, < Tk. 0.5 million	Investment in plant and equipment	
	Manufacturing:	Micro		10-24, Tk. 0.5-5 million
		Small		25-99 Tk. 5-100 million
		Medium		100-2500 Tk. 100-300 million
	Service:			

Industrial Policies	Category of enterprises	Criteria and Country's Official Definition	Measures
	Micro	<10, < Tk. 0.5 million	
	Small	10-49 Tk. 0.5-10 million	
	Medium	50-100 Tk. 10-150 million	
Industrial Policy 2016	Cottage Manufacturing:	<15 employees, < Tk. 1 million	Investment in plant and equipment
	Micro	1-25, Tk. 1-7.5 million	
	Small	26-120 Tk. 7.5-150 million	
	Medium	121-300 Tk. 150-300 million	
	Service:		
	Micro	<15, Tk. 0-1 million	
	Small	16-50 Tk. 1-20 million	
	Medium	51-120 Tk. 20-300 million	
Industrial Policy 2022	Cottage Manufacturing:	<15 employees, < Tk. 1 million	
	Micro	1-25, Tk. 1-7.5 million	
	Small	26-120 Tk. 7.5-150 million	
	Medium	121-300 Tk. 150-500 million	
	Service:		
	Micro	<15, Tk. 0-1 million	
	Small	16-50 Tk. 1-20 million	
	Medium	51-120 Tk. 20-300 million	

Notes: Employed manpower will not be above 1000 for the medium enterprise, in the case of garments and labor-intensive industries. If an enterprise falls into different segments based on different criteria, the higher segment will be entertained except garments and labor-intensive industries.

Sources: [Industrial Policy \(2010, 2016, 2022\)](#)

## 4.2. Present Status of SMEs in Bangladesh

The SME sector in Bangladesh has traditionally been dominated by small and medium-sized enterprises. But now, there has been a transformation in this sector with the inclusion of cottage and micro-scale enterprises, as outlined in the SME Policy 2019 and the Industrial Policy 2022. Therefore, to discover the present status of SME establishments, details, and up-to-date SME statistics are required. But surprisingly, there is a lack of recent SME statistics in Bangladesh at the national level. BBS carried out the third Economic Census of the country during March–May 2013. Like the previous two censuses in 1986 and in 2001 & 2003, the Economic Census 2013 attempted a significant count of all economic units in the country outside of household-based agriculture ([Shahnewaz, 2019](#)). This study, therefore, tried to discuss the SMEs' present status based on the BBS economic census 2013.

### 4.2.1. SME Establishments in Bangladesh

SMEs have emerged as a key driver of economic growth in Bangladesh, contributing significantly to job creation, innovation, and poverty reduction. According to recent estimates, there are over 7.8 million SMEs operating in Bangladesh, making it one of the largest SME sectors in the world. These enterprises are spread across a wide range of sectors, including agriculture, manufacturing, services, and retail, and are owned and operated by entrepreneurs from diverse backgrounds ([Begum et al., 2022](#)). The most recent data regarding SME establishments of [Bangladesh Bureau of Statistics \(2013\)](#) shows that there are a total of 7.82 million non-firm economic enterprises operating in Bangladesh (Table 2). Among these enterprises, 88.85% are cottage and microenterprises, 10.99% are small enterprises, and nearly 0.09% are medium enterprises. In contrast, only 0.07% of these enterprises belong to the large-scale business category. This implies that almost 99.93% of all non-farm enterprises fall under the cottage, micro, small, and medium (CMSME) segments, which specifically represent the SME sector. Notably, the SME sector separately accounts for only 11.08% of all non-farm economic enterprises in Bangladesh.

**Table 2.** Number of SMEs in Bangladesh

	Cottage	Micro	Small	Medium	Large	Total	SME
Total establishment	6842884	104007	859318	7106	5250	7818565	866424
Percentage	87.52%	1.33%	10.99%	0.09%	0.07%	100%	11.08%

Sources: [Bangladesh Bureau of Statistics \(2013\)](#)

The SME sector has shown impressive growth in terms of the number of establishments, particularly during the 1980s and 1990s ([Begum et al., 2022](#)). However, the growth rate has reportedly increased since the 1990s, with small enterprises growing at 4.6% per annum during the FY78-FY03 period and medium enterprises growing at 6.4% during the FY82-FY03 period (Bangladesh Bank, 2017). These growth rates have remained consistently high, especially since 2013, with a compound growth rate of 27.52% due to the specific attention given to the development of Bangladesh's SME sector ([Bangladesh Bureau of Statistics, 2013](#)).

#### 4.2.2. Rural-Urban Distribution of SMEs

The BBS economic census 2013 shows that there is a total of 7.8 million SMEs (including cottage and micro industries) in Bangladesh. Out of these, around 72% were in rural areas, and only around 28% were in urban areas (Table 3). This indicates that the distribution of SMEs in Bangladesh is heavily skewed towards rural areas. This is mainly because the majority of the population in Bangladesh lives in rural areas, and there are more opportunities for SMEs to thrive in these areas due to lower costs of doing business, availability of raw materials, and access to a large pool of low-cost labor ([Mujahid et al., 2019](#)). Many of these rural SMEs are engaged in agriculture-related activities, such as farming, livestock rearing, and fishing. However, there are also SMEs involved in other sectors, such as handicrafts, food processing, and textiles. In contrast, urban SMEs in Bangladesh are more likely to be involved in manufacturing, service, and trade activities ([Islam et al., 2013](#); [Mujahid et al., 2019](#)). The urban SME sector is relatively small compared to the rural SME sector, but it is growing rapidly due to the increasing urbanization of the country and the government's efforts to promote industrialization and economic growth ([Mujahid et al., 2019](#)).

**Table 3.** Rural-Urban Distribution of SMEs in Bangladesh

	Cottage	Micro	Small	Medium	Large	Total	SME
Urban	1730150	41112	450601	4141	3542	2229546	454742
Percentage	22.13%	0.53%	5.76%	0.05%	0.05%	28.52%	52.48%
Rural	5112734	62895	408717	2965	1708	5589019	411682
Percentage	65.39%	0.80%	5.23%	0.04%	0.02%	71.48%	47.52%

Sources: [Bangladesh Bureau of Statistics \(2013\)](#)

#### 4.2.3. Geographical Location of SMEs

According to the [Bangladesh Bureau of Statistics \(2013\)](#), Dhaka division has the highest concentration of SMEs with 38.65% of all enterprises, followed by Chittagong at 19.44%, Rangpur at 12.93%, Rajshahi at 11.63%, Khulna at 9.52%, Sylhet Division at 4.43%, and Barisal at 3.40% (Table 4). This indicates that Dhaka is the most favored location for SME business, likely due to its superior infrastructure and other facilities. Interestingly, Rangpur ranks third position in terms of SME location preference, surpassing Rajshahi. This could be attributed to the various fiscal and financial incentives offered for the development of export-oriented SMEs in Northern Bangladesh. On the other hand, Chittagong appears to be the preferred location for large enterprises, indicating a shift in industrial preferences based on enterprise size.

**Table 4.** Geographical Location of SMEs in Bangladesh

Location	Cottage	Micro	Small	Medium	Large	Total	SME
Dhaka	2166733	36155	331391	3466	3288	2541033	334857
Chittagong	1142924	15371	167226	1253	855	1327629	168479
Rajshahi	1041705	17825	100028	804	307	1160669	100832
Khulna	906578	7624	81876	623	385	997086	82499
Sylhet	359553	3907	38138	221	160	401979	38359



Location	Cottage	Micro	Small	Medium	Large	Total	SME
Rangpur	889786	20059	111531	487	177	1022040	112018
Barisal	335605	3066	29128	252	78	368129	29380

Sources: [Bangladesh Bureau of Statistics \(2013\)](#)

### 4.3. Contribution of SMEs to Bangladesh's Economy

Nowadays, the SME sector is regarded as the vanguard of the Bangladesh development agenda due to its significant contribution to fostering sustainable economic growth and development. This sector contributes significantly to various aspects of Bangladesh's economy. Details have been analyzed in the following subsections.

#### 4.3.1. Job Creation

In a labor-abundant economy like Bangladesh, SMEs have a significant advantage in their ability to create jobs due to their labor-intensive nature ([Ali & Islam, 2018](#)). Currently, SMEs account for around 80%–85% of total industrial employment and roughly 23% of the country's labor force ([Asian Development Bank, 2021](#)), as reported by Bangladesh Bank. From 1978 to 1991, employment generation in small enterprises grew at a yearly rate of 4.8%, and from 1991 to 2001, it grew by 5.4%. Medium enterprises experienced a growth rate of 9.6% during 1982–2003. The period from 2003 to 2013 saw a high employment growth rate, with an annual compound growth rate of 17.22% for small enterprises and 12.13% for medium enterprises ([Begum et al., 2022](#)). According to the latest available information from the Bangladesh Bureau of Statistics ([Bangladesh Bureau of Statistics, 2013](#)), a total of 24,500,850 people are engaged in non-farm economic enterprises in Bangladesh, of which 7,306,797 (29.82%) work in the SME sector (Table 5). The data also reveals that the service and trade sectors employ the most people in SMEs (77.61%), while the manufacturing sector employs only 22.39%.

**Table 5.** Total Person Engaged in SME Enterprises

	Cottage	Micro	Small	Medium	Large	Total	SME
Total Person	13168327	558870	6600685	706112	3466856	24500850	7306797
Share of total	53.75%	2.28%	26.94%	2.88%	14.15%	100.00%	29.82%
Manufacturing	2072309	558870	1165564	470343	2916360	7183446	1635907
Share of total	8.46%	2.28%	4.76%	1.92%	11.90%	29.32%	22.39%
Services	11096018	0.00%	5435121	235769	550496	17317404	5670890
Share of total	45.29%	0.00%	22.18%	0.96%	2.25%	70.68%	77.61%

Source: [Bangladesh Bureau of Statistics \(2013\)](#)

#### 4.3.2. Value Addition to GDPs

Over the past 50 years, Bangladesh's GDP has consistently grown, with notable increases during the past five years (Table 6). Specifically, in FY17, GDP growth was 6.59%, which rose to 7.32% in FY18 and reached 7.88% in FY19. However, due to the COVID-19 pandemic, growth declined to 3.45% in FY20 before rising again to 6.9% in FY21. According to [Bangladesh Statistics \(2012\)](#) and [Begum et al. \(2022\)](#), the SME sector's contribution to GDP in Bangladesh was 21.36% in FY17, 21.98% in FY18, and 22.86% in FY19, but decreased to 22.40% in 2020 due to the pandemic. While SMEs' contribution to Bangladesh's GDP is around 20.25%, this is below the standard level in emerging economies, where SMEs' contribution is typically 40% of the country's GDP ([Andrianaivo et al., 2018](#); [Begum et al., 2022](#)). To address this, the Bangladesh government has set a target of increasing SMEs' contribution to GDP to 32% by 2026 and 35% by [Asian Development Bank \(2021\)](#) and [Sarker et al. \(2022\)](#). If the current upward trend in SMEs' contribution to GDP continues, these targets can be achieved, which would have a significant impact on Bangladesh's long-term economic development.

**Table 6.** SMEs Value Addition to Bangladesh's GDPs

Year	SMEs Contribution to GDPs	
	Contribution (in Billion)	Contribution (Percentage)
FY 1994	67.56	10.48%
FY2015	200.40	20.65%

FY2016	305.60	20.16%
FY2017	340.50	21.36%
FY2018	375.70	21.98%
FY2019	425.55	22.86%
FY2020	437.80	22.40%

Source: Begum et al. (2022)

### 4.3.3. Industrialization

Industrialization is a fundamental tool for promoting economic growth and development, as it generates employment opportunities and decreases unemployment rates (Rahman et al., 2018). By converting people into valuable human resources for the nation, industrialization encourages individuals to engage in skilled professions. According to available data, the small and medium-sized manufacturing enterprises in Bangladesh have grown significantly, increasing by 1.70 times during the 1980s and 1990s and continuing to grow rapidly in the early 2000s (Bangladesh Statistics, 2018; Rahman et al., 2018). The Survey of Manufacturing Industries in 2019 (Bangladesh Bureau of Statistics, 2013) indicates that there were 27.97 thousand manufacturing establishments in Bangladesh in 2001-02. Since then, this number has grown at a faster rate, with 34.71 thousand in 2005-06, 42.79 thousand in 2010-11, and 46.11 thousand in 2017-18 (Bangladesh Statistics, 2012). It is widely recognized that speedy industrialization is essential for achieving the desired level of economic growth in an agricultural-based developing nation like Bangladesh (Shahnewaz, 2019).

### 4.3.4. Manufacturing Value Addition

The SME sector has also a significant contribution to the country's gross manufacturing value addition. Begum et al. (2022) noted that the time series data for the manufacturing output of small and medium enterprises (SMEs) in Bangladesh remained steady between 1978 and 1992, despite an increase in the country's GDP due to other factors during that time period. However, SME output began to rise after 1992, reaching BDT 67.56 billion in 1994, BDT 94.33 billion in 2000, and more than doubling to BDT 194.85 billion by 2005. A decade later, it hit BDT 200.40 billion, and by 2020, it had risen to BDT 437.8 billion (Asian Development Bank, 2021; Bangladesh Statistics, 2018; Begum et al., 2022). According to the Survey of Manufacturing Industry 2019 (Bangladesh Bureau of Statistics, 2013), SMEs accounted for 30.48% of gross output and 34.78% of gross value added in Bangladesh (Table 7). Although large-scale industries contributed the lion's share, the overall contribution of SMEs is noteworthy.

**Table 7.** SMEs Contribution to Manufacturing Value Addition (Tk. Million)

Category	Micro	Small	Medium	Large	Total	SME
Gross Output	521773	1987440	1461971	7546052	11317235	3449411
Contribution (%)	4.61%	17.56%	12.92%	66.68%	100.00%	30.48%
Gross Value Added	169434	1097729	479417	2788341	4534921	1577146
Contribution (%)	3.74%	24.21%	10.57%	61.49%	100.00%	34.78%

Source: Bangladesh Statistics (2018) and Dafflon et al. (2021)

### 4.3.5. Women Entrepreneurship

With women comprising approximately 50% of Bangladesh's population, their active participation is crucial for accelerating the country's development processes. SMEs are playing an important role in this process by promoting a significant number of women entrepreneurs who are helping to reduce poverty and unemployment (Rahman et al., 2018). Studies have shown that the number of women-owned businesses has been on the rise since the 1970s and increased rapidly during the 1980s and 1990s. The highest record of women owning businesses was seen between 2001 and 2005, with over half of these types of businesses founded between 2000 and 2010 (Roy, 2016). According to the Economic Census of 2013 conducted by BBS, there are approximately 430,000 women entrepreneurs who own and operate businesses, accounting for 5.9% of all entrepreneurs in the country. Most of these businesses are associated with cottages, microbusinesses, and SMEs. The study also revealed that the percentage of female-headed establishments increased from 2.80% (0.10 million) in 2001 and 2003 to 7.21% (0.56 million) in 2013. This indicates that more women are now entering the business sector and taking on leadership roles.

#### 4.3.6. Poverty Alleviation

According to the [Bangladesh Bureau of Statistics \(2018\)](#), Bangladesh has achieved remarkable success in reducing poverty, witnessing a decline from 80% in the early 1970s to 31.5% in 2010 and further down to 18.54% in 2020. According to the [Bangladesh Statistics \(2018\)](#), this remarkable surge in real GDP was primarily driven by the manufacturing industry, particularly the ready-made garment (RMG) sector, which consistently experienced a double-digit growth rate throughout the period. The RMG industry has also provided job opportunities for rural women who were previously excluded from the formal workforce. This has enabled women to achieve financial independence and have a say in family decisions, while also contributing to the national economy. Given that most RMG companies are associated with small and medium-sized enterprises (SMEs), particularly medium-scale enterprises, this sector has become a key player in the country's efforts to accelerate poverty reduction through job creation. Furthermore, SMEs typically require less capital, making them more accessible to individuals with lower incomes, thus, directly benefiting those who are at the lower end of the income distribution scale and reducing poverty levels nationwide.

#### 4.4. Challenges of SMEs in Bangladesh

Over the last two decades, scholars have extensively researched the challenges that SME entrepreneurs face in Bangladesh ([Andalib & Halim, 2019](#)). However, despite the passage of time, it appears that many of these obstacles have persisted. According to previous studies ([Andalib & Halim, 2019](#); [M. S. A. Chowdhury et al., 2013](#); [M. A. Islam et al., 2021](#); [S. Islam & Hossain, 2018](#); [Jahur, 2020](#); [Khan & Ibraheem, 2012](#); [Miah, 2006](#); [Mintoo, 2006](#); [M. Rahman et al., 2018](#); [Shahnewaz, 2019](#)), the major challenges that SME faces in Bangladesh mostly are lack of clear definition of SME, lack of adequate finance and high financing cost, high transportation costs, lack of modern technology, irregular or inadequate supply of raw materials and power, absence of clear-cut government policies, lack of skilled technicians and workers, high employee turnover, lack of research and development facilities, lack of a transparent legal system, limited size and low growth rate of the market, lack of women's participation, reliance on the domestic market and Bureaucratic red tape. However, the domestic law and order situations, unreliable power supply, and stiff competition both in domestic and international markets seem to have been the added dimensions to the SME operational bottlenecks. Therefore, systematic and in-depth studies based on sufficiently large samples are needed to precisely identify the operational challenges of the different categories of SMEs.

### 5. Conclusion and Recommendations

In recent times, there has been a growing preference for SMEs due to their effectiveness and specific characteristics, which make them more appropriate for developing countries like Bangladesh. This is particularly true for their labor-intensive production methods, reduced reliance on imported raw materials and superior use of local production facilities for the domestic market. Furthermore, SMEs play a crucial role in strengthening the country's economic efforts towards high and sustainable growth, which is essential for overcoming widespread poverty and socio-economic deficits. Our research shows that SMEs contribute significantly to Bangladesh's economy, creating employment opportunities and increasing income levels, thus improving the standard of living and reducing poverty. Small, medium, or cottage enterprises make up over 99% of non-firm economic enterprises in Bangladesh, generating more than 84% of non-farm employment. Furthermore, the various categories of SMEs, including cottage industries, contribute between 80% and 85% of industrial employment and around 25% of total civilian employment. The SME sector's contribution to the national GDP has remained steady at around 25%.

The SME sector's contribution to the national exchequer is also noteworthy, with SMEs contributing 30.48% to gross output, 34.78% to gross value added, and 35.25% in indirect and corporate taxes. Overall, the SME sector's importance in Bangladesh's economic growth and development cannot be overstated. Considering the significant role that SMEs play in driving economic growth and sustainable development, it is imperative to take necessary steps towards facilitating the growth of SMEs in Bangladesh. This includes developing a standardized definition of SMEs, creating a modern SME policy, improving access to SME financing, building SME infrastructure, expanding training opportunities for SME workers and entrepreneurs, promoting SMEs, establishing a national database to benchmark SME performance, ensuring a consistent supply of raw materials, minimizing red tapes, etc. Therefore, the government of Bangladesh has highlighted the importance of SMEs in the Industrial Policy 2022 by recognizing them as a 'thrust sector' of the Bangladesh economy.



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