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## Opportunities and Challenges of Private Sector Micro, Small and Medium Enterprises in Emerging Countries: A Study in the Perspective of Bangladesh

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### ABSTRACT

This study comprises to estimate and examine the challenges, opportunities and growth prospects of operating the private enterprises in Bangladesh. A variety of secondary sources of information were used depending on the context of Micro, Small and Medium size Enterprises firms doing business in different emerging countries. The study adds to existing literature by testing the simultaneous relationship between micro and small firms' productivity, informality, gender aspects and access to finance issues in Bangladesh. This research demonstrate the body of knowledge about the informal sector importance of human and financial capitals for micro and small informal firms in Bangladesh. The purpose of this study is to analyses the relationship between innovation and SME financing challenges and opportunities in Bangladesh. The finding indicates that this study demonstrates empirical insights into how a finance influences innovation in Bangladeshi small and medium sized enterprises in the private sector.

**Keywords:** *SME, Private Sector, Opportunities and Challenges, Emerging Countries.*

### 1. Introduction

Information about micro, small, and medium-sized businesses that operate in the private sector is presented independently in this study. In developing countries, particularly Bangladesh, addressing obstacles, looking for opportunities, and closing gaps could help Micro, Small, and Medium-Sized Enterprises (SMEs) in the private sector expand, operate, and flourish. By closing those gaps, we can mobilize the nation's human capital, inventiveness, and entrepreneurial spirit to eradicate poverty and improve the lot of the average citizen. Bangladesh is a developing country (DC) with a sizable population and the largest labor force (BBS, 2022). In order to eradicate poverty, close the gender gap, empower women, and uphold the rule of law, entrepreneurship and innovation financing are even more important. These actions could lead to the discovery of human well-being in Bangladesh.

The productivity of micro and small informal businesses, their access to financing, and gender concerns in Bangladesh are all examined in relation to the informality of these businesses. This study aims to explore the relationship that exists between innovation and finance for SMEs in Bangladesh. In conclusion, the study provides insights into gender concerns, access to finance in Bangladesh, and innovation and investment potential related to the productivity of informal micro and small businesses. It also contains secondary data analysis. The main conclusions of this study are summarized, and recommendations for future research directions are made.

## 2. Objectives of the Study

The main purpose of this research is to investigate opportunities, challenges, linkage or relationship between innovation and SME Enterprises in Bangladesh.

The following are some specific objectives:

- a. To examine the previous literature and review the innovative SMEs operating in Bangladesh and different emerging countries
- b. To evaluate the current situation of access to finance of SMEs in Bangladesh and developing countries.
- c. Empirical Suggestion on the relationship and gap among Financing and Innovation around developing countries and in Bangladesh
- d. To give recommendations for improving Challenges of Private Sector Micro, Small and Medium Enterprises in Emerging Countries and in developing economy of Bangladesh.

## 3. Methodology of the Study

This is an exploratory study that expands on a thorough analysis of prior research that is pertinent. This analysis employed only secondary data. We have gathered information about Private Sector Micro, Small, and Medium Enterprises in Emerging Countries from secondary sources in order to build a sustainable future for career advancement and national growth. The results of the secondary data were evaluated using a theoretical framework and several reviews of pertinent literature. However, the information from a number of previous research has substantially enhanced our comprehension of the processes necessary to create a successful opportunity, obstacles, connection, or interaction between innovation and SME Enterprises in Bangladesh and globally.

## 4. Literature Review

A large portion of micro and small businesses are made up of unofficial businesses. They don't register with the government and operate covertly. These businesses deny customers access to official funding sources. As a result, they continue to be little and ineffective. According to a study by Porta and Shleifer (2014), close to 50% of economic activity occurs in informal companies in developing nations. De Soto (1989, 2000) made the observation that unregistered small businesses in the private sector are hidden sources of entrepreneurial activity that are constrained by laws and regulations. MSMEs are essential to Bangladesh's financial and economic development.

Most of them are informal, but registered with the government (Andrianaivo & Ndiaye, 2019). Informality is dominant in the private economy and in small size enterprises. Almost 90% of micro enterprises and 95.5% of small enterprises in Bangladesh are involved in offering informal services to people in the home market. These include rural industries, household industries, crafts industries (Edusah, 2013). This study defines informal Micro, Small Enterprises (MSEs) as all business activities of any sector and size that are not legally registered with the government national board of revenue in Bangladesh. The gap in large-medium and micro-small enterprises of Bangladesh are further widened by the Covid-19 pandemic. While the micro and small enterprises (MSE's) depend on informal sources of financing their business, the deep-rooted financial problems further expanded with the pandemic and shutting down to several ventures (Rahman, 2022).

The informality to this sector does not only affect their growth and prospects but also productivity and performance, how they register, build, operate and recruit people. On the other hand, the informal sector does not pay substantial taxes on activities with the formal

sector bearing the burden of taxes in the country (Khondker, 2019). In Bangladesh, there are significant sections of M/SEs that operate informally as they tend to evade taxation and operate beyond the regulatory frameworks (Hassan, 2018). Given this, the likelihood of economic growth and tax revenue collection from the informal sector is low, and the tax burden on informal enterprises is also low. In Bangladesh, corporate taxes are levied on the revenues of legal enterprises. However, the informal sector does not contribute to the tax base, which hinders their ability to obtain financing and results in low productivity (Ahmed, 2019). In addition, Bangladesh offers micro and small businesses advantageous tax facilities, with a business tax rate of 12% and 15% of the corporate income tax for M/SEs on their yearly turnover, respectively, as opposed to the present tax rate of 22.5% (Rayhan, 2023).

## **5. Discussion, Analysis and Exploration of the Study**

### **5.1 The Informal Sector Economic Activities**

Darbi, Hall, and Knott (2018) note that research indicates the informal sector is a marginalized segment of society that provides services not included in the official regulatory and taxation framework of the country. Because there are no official regulations or taxes, the informal sector is less regulated and supervised by the government than the legal sector. Since the informal sector is thought to be the main source of employment in Bangladesh, it has been determined that it plays a significant role in the country's economy (Sohel et al., 2022).

Consequently, it has been researched that the informal sector relies solely on gathering funds from family and friends rather than approaching financial institutions due to the absence of business registration and tax receipts (Mathias et al., 2015). Thus, relying completely on self-financing limits the growth opportunity of the informal sector in Bangladesh. Furthermore, it should also be noted that the informal sector provides employment to low-skilled and unskilled labour groups in society (Yeasin, 2022). The lack of skill and competency level of employees supports the informal sector in conducting economic-based activities related to domestic services, farming, transporting, private tuition, small shops, street vendors and garment workers in Bangladesh (Wongtada, 2014).

### **5.2 Relationship between Productivity and Tax**

The registration and tax administration procedures make it difficult for the informal sector to obtain legal recognition when they formalize their operations (Hassan and Prichard, 2016). Productivity would rise as a result of increased trust between partners and suppliers (Williams, 2016). Due to restricted access to opportunities and funding for technology and innovation, there would be restrictions on the formalization of informal companies and their ability to invest in productivity-enhancing activities as a result of high tax rates and complex taxing procedures (Takyi, Okeniyi, and Samuel, 2022). However, in most cases in Bangladesh, there have been several informal enterprises that operate for the taxation policies which creates an unfair competition. This competition would negatively impact the productivity of the formal M/SEs as compared to the informal M/SEs who incur lower operating costs (Beltrán, 2020).

### **5.3 Micro and Small Enterprises and their Productivity**

It has been noted that the lack of formal regulatory guidelines and legal practices in the informal sector makes it difficult for informal businesses in Bangladesh to achieve a higher level of productivity that can positively contribute towards the betterment of the national government (La Porta and Shleifer, 2014). Since tax and regulatory laws do not apply to

micro and small businesses registered in the informal sector, it is challenging for these businesses to fully utilize their resources in order to take advantage of economies of scale and improve performance (Uz Zaman and Islam, 2011). Consequently, inadequate financial support has a major impact on the productivity of micro and small businesses in Bangladesh. Businesses in the informal sector have fewer opportunities to obtain funding from banks and other institutions as they are not registered (Khan and Dewan, 2017). The informal sector's inability to satisfy economic norms is badly impacted by employees' inability to increase their skills (Alam et al., 2022).

#### **5.4 Gender and Productivity in Informal MSEs**

In Bangladesh, a small business venture's likelihood of success or failure is significantly influenced by gender. It is evident that micro and small businesses frequently struggle with issues like restricted access to capital, restricted market access, inadequate infrastructure, and restricted access to business-related services like appropriate marketing, accounting, and technical support (Montoo, 2006). Comparing the micro and small businesses owned by men and women, however, reveals that the challenges faced by female entrepreneurs are more pronounced. In the past 15 years, female entrepreneurs have begun to enter the global market, and observations show that women are effectively competing with male entrepreneurs (Nahar, 2022). Even though both men and women work in a parallel commercial environment with equal access to resources, the performance of the male-owned enterprises was noticeably better than that of their female counterparts.

#### **5.5 Informal MSEs on Burdensome Procedures, Infrastructure and Technology**

According to a study by Giorgi & Rahman (2013), low advantages and higher indirect expenses continue to be obstacles to becoming formal; therefore even an education campaign about the registration procedure had little effect on the registration process of informal firms. Compared to large or medium-sized organizations, micro and small businesses develop and employ infrastructure and technology more casually. Research indicates that MSEs in Bangladesh frequently employ mobile phones and related technology as part of their value chain and value system, supporting marketing campaigns in addition to hiring and procurement activities (Cáceres, et al., 2012). All these factors are also related to the availability of infrastructure which is a determining factor for how informal MSEs operate. Moreover, as noted by the Sustainable Development Goals (SDG) 9 of the United Nation.

#### **5.6 Finance by Informal MSEs**

The government of Bangladesh has placed an increasing emphasis on micro, small, and medium-sized enterprises (MSMEs), including access to financing. Under the Bangladesh Bank's administration, the underlying concentration was on micro credit, with a rising emphasis on SMEs starting from 2011 (World Bank, 2019). Micro, Small and medium sized enterprises, those operating informally in Bangladesh are less likely to get bank loans in comparison to large enterprises (World Bank, 2020). As a result, they must rely on internal sources of funds or cash from friends and families, to launch their business and run their business operations. Furthermore, rigid banking policy in Bangladesh makes the informal sector of the country struggle. This is demonstrated by the fact that 50% of these businesses closed during the Covid-19 outbreak because they were unable to receive the financial rewards that the government had announced. Unfortunate circumstances exist in the nation's informal economy as a result of the management's careless attitude and the inadequate collaboration between the public and private sectors. In Bangladesh, financial institutions do not allow micro and small businesses to borrow money until they have been licensed and registered with the government. But the majority of people connected to SMEs lack licenses (Sakib, 2022).

### 5.7 Factors Affecting Access to Finance

Micro and small enterprises in a country can create economic development not only for the people, but also for the city and the country subsequently. Bangladesh possesses several types of micro and small enterprises including potteries, dying, small machine shops, knitting, livestock, fisheries, and others. However, it is important to understand that there are several factors which however affect the ability to access finance According to Chowdhury & Alam's (2017) perspective; the company's registration, infrastructure, and ownership gender all have a significant impact. Alauddin and Chowdhury (2015) also listed a lack of operating capital, unsatisfactory credit, challenging loan application processes, problems with collateral requirements, inadequate infrastructure, and difficult credit standards as additional obstacles to obtaining loans from the government or financial institutions. These all suggest that MSEs are less likely to have restricted access to financing, restricting their capacity to expand and become productive. Thus, these factors create a greater impact on the micro and small enterprises in access finance. Along with that, technological advancement, the partners involved education levels of the owner are crucial factors to be considered as well.

### 5.8 Relationship among MSMEs running informally and their Productivity

The medium and small-scale enterprises in Bangladesh within the informal sector have been found to have been directly affected by external factors related to poor market access, limited capital, and low skilled workforce (Uz Zaman and Islam, 2011). Based on the analysis, credit has a significant influence on the productivity of M/SEs. It can be linked to the incapability of the informal sector to seek financial credit and loans from banks which directly impacts the overall productivity in Bangladesh. In addition to non-registration, it has been observed that MSMEs in Bangladesh draw a sizable workforce that is low skilled and illiterate (Yeasin, 2022). The informal sector's potential for increased performance and productivity is constrained by the lack of educational background among its workforce (Alam et al., 2022). This is related to the fact that M/SME's are small businesses that serve the local market while keeping up with urban trends. As a result, it is critical that informal M/SEs learn about and comprehend the tax administration procedure (Hassan and Prichard, 2016). However, in Bangladesh, the tax administration process is complicated, and this may discourage the owners of the informal M/SEs from seeking registration. However, the failure to comply with the tax administration process could negatively affect the credibility and reputation of the firm and their productivity (Williams, 2016).

### 5.9 Barriers and Challenges Experienced by MSME's

The informal nature of micro and small businesses is linked to a number of difficulties and impediments, which further restricts their capacity to operate formally. However, the industry is characterized by a lack of infrastructure and a restricted use of cutting-edge technology, which raises questions about the capacity of informal MSEs to achieve the necessary formalizations. The difficulties and obstacles faced by developing countries like Bangladesh have highlighted the necessity of providing sufficient funding for unofficial MSMEs in order to get over these obstacles. Additionally, one very demotivating issue that discourages entrepreneurs from formalizing their business is the absence of significant rewards. As a result, not as much work has been done to mitigate the difficulties that continue to be a major obstacle for Bangladesh's informal MSEs.

It has been observed that most of the small and micro enterprises in Bangladesh have shortage of funds that emerge as a potential barrier for their formalization. This is because the process of formalization is not only time consuming, but also involves a decent expenditure. As they have limited funds, it makes it difficult for them to undergo the entire process of

formalization successfully. Furthermore, technology also plays a crucial role in this context. Gaining access to the latest technologies to complete formational processes quickly and easily is often difficult for such enterprises, again due to lack of funds. This is because procuring advanced technologies involves a significant level of investment. As a result, it takes a lot more time for the micro and small enterprises in the country to become a formal or government registered enterprise.

### **5.10 Factors Affecting Finances and Availability to Finance**

Gender has a big impact on whether a small business venture succeeds or fails in Bangladesh. It has been noted that small and medium-sized enterprises often face challenges like limited access to capital, limited market access, limited availability of sufficient and functional infrastructure, and limited availability of business-related services like appropriate marketing, bookkeeping, and technical assistance. Concerns exist regarding collateral requirements, intricate loan application procedures, insufficient infrastructure, and insufficient capital for operations, adverse credit, higher interest rates, and lending rates. Other factors include the relative informality of SME business practices in comparison to formal bank processes, the firms' infrastructure, partners' qualifications, and the relative inexperience of banks.

It has been identified that registration is a factor of significant importance when it comes to accessing finance by the micro and small enterprises in Bangladesh. One of the potential reasons behind this is that absence of registration raises a question mark on their authenticity. In other words, banks remain in uncertainty regarding such enterprises' ability to pay off their borrowed money. Furthermore, the banking policy of Bangladesh is rigid, due to excessive bureaucracy and lackadaisical attitude of the management. This is also a vital factor restricting informal micro and small enterprises from obtaining required finances. Thus, it can be stated that the relationship between registration and access to finance by micro and small enterprises in Bangladesh is significant and negative in nature.

## **6. Findings**

- a. The study examined the obstacles, chances, and development potential of micro, small, and medium-sized businesses in Bangladesh's private sector. By examining the concurrent relationships between the productivity of micro and small businesses in Bangladesh, informality, gender factors, and financing access difficulties, it contributes to the body of existing knowledge.
- b. This study illustrates Bangladeshi micro and small informal businesses. The results show how crucial human and financial capitals are to Bangladesh's micro and small informal businesses. The amount of information regarding Bangladesh's informal economy is increased by this study.
- c. The second study is called "An investigation into the linkage between innovation and SME financing in Bangladesh". It analyses the relationship between innovation and SME financing. It is conducted in Bangladesh on a sample total of 998 firms operating in the private sector.
- d. This study demonstrates empirical insights into how finances influences/enhances innovation in Bangladeshi small and medium sized enterprises in the private sector.

## **7. Recommendations**

- a. This study has added fresh insights into the opportunities, growth prospects, and constraints faced by micro, small, and medium-sized firms (MSMEs) in Bangladesh's private sector, thereby contributing to the empirical literature on the subject.

- b. Small and medium-sized businesses in Bangladesh, the private sector, company productivity, innovation, and finance are all included in the study.
- c. There will be fewer registrations for formalizing the informal MSMEs due to the burdensome tax administration procedure and high tax rates.
- d. The majority of the labor in Bangladesh's informal sector is unskilled and illiterate, and they work as street sellers, farmers, transporters, and garment workers.
- e. The most persistent obstacles continue to be the deeply ingrained problems brought on by a lack of resources, perks, and infrastructure. Because there are fewer women in the workforce than men, gender has a detrimental impact on productivity and human capital.
- f. As a result, firm-level innovation funding in the manufacturing sector of SMEs in developing nations continued to be dubious. The relationship between innovation, the opportunities and difficulties of micro and small business finance and development in Bangladesh is examined in this study.

## 8. Conclusion

The study estimate might be expanded to include information from tiny towns across the nation. In order to provide a more comprehensive picture of the informality of micro and small businesses, characteristics at the community level should also be investigated. In light of this, it is necessary to look into their chances of integration or graduation with official businesses for Bangladesh's future development. The research enhances our comprehension of the relationship between an analysis of the relationship between innovation, prospects, and difficulties of micro and small business finance and development in Bangladesh. Therefore, it is recommended that more study be done in the future using primary data to assess the potential, growth prospects, and constraints faced by Bangladeshi private sector companies.

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