[**Barriers to SME growth: The non-financial dimensions**](http://www.thefinancialexpress-bd.com/more.php?news_id=136813&date=2011-05-25)


An entrepreneur running a small jewellery shop

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Discussions on the constraints to small and medium enterprise (SME) growth generally highlight their financially-related predicaments. This is for the valid reason that restricted SME access to sources of capital and credit is the most severe operational constraint facing these enterprises. However, at the same time, it is also equally true that many non-financial barriers comprising legal, regulatory, and administrative bindings work as strong disincentives to new business creation, development of innovative SME entrepreneurship and growth of a dynamic SME sector in Bangladesh.

The overall regulatory framework impacting on the growth of new businesses and determining the performance of the existing one is quite comprehensive as well as cumbersome. To name a few important ones, these constitute procurement of trade license, boiler license, fire license, tax/ value added tax or VAT registration, environmental, clearance, quality and standard certification from Bangladesh Standard & Testing Institution (BSTI), and patenting through the Department of Patent, Design & Trademark (DPDT) etc. Not only this is a long list, the cumbersome bureaucratic process and the costs (official and unofficial) involved in obtaining them is also frighteningly painful and frustrating enough to scare away the potential new small business investors and their "captive" counterparts languishing in despair while running their enterprises.

True, there have been some improvements through the on-going reform process that were earlier initiated through the activities and efforts undertaken by the Better Business Forum and the Regulatory Reform Commission, both of which currently stand dissolved. The prevailing situation in these contexts has not changed much and a lot more remains to be done to create a truly enabling environment for encouraging new industrial investments and facilitating growth and dynamism of the SME sector.

In the developing countries such as Bangladesh, the issue of regulatory barriers appears to be generally complex. For the SMEs especially, having access to "business opportunities" is always a long and arduous process to the extent that at times it appears unattainable to them because of their scale barriers. Information and opinions were collected from selected entrepreneurs and concerned stakeholders through the courtesy of the SME Foundation to highlight the important regulatory barriers and challenges facing the sector and suggest recommendations to tackle them.

Based on the perceptions and opinions of the respondents and the International Finance Corporation (IFC) impressions and observations. The challenges and outcomes confronted and the corrective actions needed to deal with the them are being discussed here briefly.

Licensing and Registration: At start, the SME entrepreneurs have to grapple with severe impediments affecting procurement of trade license, fire license and boiler licenses which are important prerequisites for starting new businesses in the formal sectors. Besides undue delay and bureaucratic complexities involved in processing the documents, excessive costs incurred for paying bribes (varying between Tk. 3000 and Tk. 4000 on average) and frequent visits needed to collect licenses cause suffering and harassments. Fire license that to required before obtaining trade license and vice versa further aggravates the complex procedures. All business documents and factory lay-out plans have to be submitted to get fire license. While trade license is required to obtain fire license, the City Corporation does not issue trade license without fire license. This creates dual complications and unnecessary harassment to the entrepreneurs. Renewal of trade licenses is also equally difficult and time consuming.

The solutions to these problems offered by the entrepreneurs include introduction of "one stop service" facilities and decentralization of authority to the Ward Commissioners for issuing these licenses. Similarly, duplication of authority between City Corporation and Fire Service Department needs to be resolved to minimize sufferings of the entrepreneurs.

Similar difficulties are encountered while obtaining certificates for boilers for water treatment. As the boiler inspectors do not visit the factories timely, unnecessary documentation is demanded and unofficial payments have to be made. The SME entrepreneurs feel that the government may bear part of the certification costs and provide waiver facilities to the tiny enterprises. Needless to emphasize, the extensive paper requirements, longer processing time, and prohibitive costs etc., make establishment of new businesses exceedingly difficult and dampen entrepreneurial initiatives required to facilitate growth of "birthright economy" and flourishing private sector-centric industrial development.

Registration from the Registrar of Joint Stock Companies (RJSC) is again time consuming as well as costly, especially for the SME entrepreneurs of modest financial standing. Implication of the procedures for the SMEs through special arrangements (i.e. delegating the authority to the SME Foundation or BSCIC) may be thought of, as a viable option towards deregulation of business opportunities and making business start-up easier and quicker.

Environmental Clearance Certificate: New investors need to collect clearance certificates from the Ministry of Environment to comply with the environmental protection requirements set by the government. As usual, the process is highly bureaucratic and time-consuming which requires the investors to wait between four to five months to obtain the certificates. More importantly, it costs between Tk 15,000 and Tk 20,000 in terms of various unofficial payments that have to be made by the incumbent investors at different stages of processing the applications and final delivery of the certificates.

Many SME entrepreneurs also appear to lack in awareness about the need for obtaining environmental clearance certificates as a precondition for starting new enterprises. Awareness creation among the SME entrepreneurs, protection against payment of kick-backs, and quick delivery of certificates are the major recommendations made by the respondents for reducing their sufferings.

The difficulties faced by the SME entrepreneurs (as reported by them) in obtaining certificates of product quality and standards from the Bangladesh Standards & Testing Institution (BSTI), and certificates from the Department of Patent, Design and Trademark (DPDT) for patenting and trademarks also tend to be almost insurmountable by the SME entrepreneurs.

Long processing time, perverse bureaucratic procedures and an overall SME-discriminating policy environment meted out to the entrepreneurs cause anger and frustration among them. Geographical decentralisation of authority to issue these certificates from dispersed locations at lower costs and quicker pace are the important recommendations made by the respondents to reduce their pains.

Tax/VAT Certificates and Registration: Taxes and customs offices, often branded as the highly-corrupt government entities, seem to cause serious irritations to the business enterprises of all sizes. The SME entrepreneurs in particular strongly feel that the rules and regulations relating to tax and VAT are too complex and sometimes beyond understanding by them. The documentation requirements and processing mechanism involved in obtaining Tax Identification Numbers (TIN) certificates and VAT registration are too cumbersome and beyond capacity of the typical "one-man" shows of the SME entrepreneurs operating with limited helping hands.

This is further reinforced by the dual inspection system carried by the circle and divisional offices of the concerned authorities. Waste of time and monetary expenses incurred in terms of payment of high service charges (ranging between 25-50%) and bribes constitute sources of deliberate harassment by the tax/VAT officials at the field levels.

While these are problems deeply rooted in the systemic structures, some attempts may nevertheless be made to relieve sufferings of the SME entrepreneurs through:

l coordination of the activities of the tax/VAT and customs authority,

l simultaneous assessment by the Tax/VAT authorities to reduce time and cost,

l simplification of procedures and reduction of paper requirements

l proper dissemination of rules and procedures and other relevant information about the official formalities relating to tax and VAT assessment etc.

Recapitulating our discussions on the major non-financial barriers to SME development, we can wind-up by summarizing that centralisation of authority, lack of reform of some of the old and archaic legal and regulatory laws and producers (reform attempts initiated by the Better Business Forum and their implementation status remain to be ascertained) bureaucratic hassles and almost conspicuous absence of coordination of functions between different government agencies/organisations are creating serious bottlenecks to SME growth and expansion in Bangladesh.

Characteristically, the SMEs are in most cases capable of making a shoe-string start without external financial assistance from the institutional lenders, but are unable to sustain and expand due to myriads of operational constraints-financial as well as non-financial styling their growth. Thus, as inadequate financing is not the only problem that the SMEs have to endure, a comprehensive and proactive policy has to be put in place to ensure a robust SME sector growth in Bangladesh under an overall business-friendly environment.

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