Received: 30 September, 2024 | Revised: 13 November, 2025 | Accepted: 14 November, 2024
DOI https://doi.org/10.63784/djbep2024v1n1a10

ORIGINAL RESEARCH ARTICLE

DCCI Journal of Business and Economic Policy (DJBEP)

ISSN 3079-0999 (Online)|ISSN: 3008-041X (Print)

CMSME Development in Bangladesh upon LDC Graduation: Challenges and Way Forward

AKM Asaduzzaman Patwary[1]*, Syed Abdullah Al Ahsan[2], Dr. Foyasal Khan[2], Md. Salehin Surfaraz[2], Suhel Rana[3], Mahamudul Hassan[4], Kausar Ahmed Majumder[4]

[1] Executive Secretary, R&D and PA Dept., DCCI

[2]Deputy Executive Secretary, R&D and PA Dept., DCCI

[3]Senior Assistant Executive Secretary, R&D and PA Dept., DCCI

[4]Assistant Executive Secretary, R&D and PA Dept., DCCI

*Corresponding Author

Keywords: CMSME; LDC graduation; Challenge; Solution; Export; Opportunity

Abstract

Bangladesh is poised to graduate into a developing economy later 2026 according to UN declaration as all criteria were met. In this journey of development, Cottage, Micro, Small and Medium-Sized Enterprises (CMSMEs) have played a crucial role. Despite their significance in the economy, CMSMEs have not realized its maximum capacity yet, facing some constraints to reach its full potential. In addition, transitioning from Least Developed Country (LDC) status marks a milestone for Bangladesh economy, yet it brings forth a host of challenges for CMSMEs. Hindered by limited access to finance, intensified competition, deficient infrastructure, challenges to maintain operational efficiency etc. With this link, this study aimed to understand the impact of LDC graduation on the CMSMEs in Bangladesh and to explore the barriers that hinder their growth and development. The study also seeks to identify the opportunities available for CMSMEs in the post-LDC graduation era and to propose strategies for leveraging those opportunities. Alongside, this study found both quantitative and qualitative research techniques. For quantitative data collection, a purposive sampling technique is used with a structured survey questionnaire. Qualitative data findings from the primary survey were validated with key informant Interviews (KIIs) from key industries of the private sector to understand their perceptions and opinions on the challenges of development of CMSMEs upon LDC graduation and the way forward.

1. Introduction

Bangladesh's economy is one of the fastest-growing in the world, with an average annual growth of 6% or more for the last decade and a half. Meanwhile, in the first and second reviews of the Committee for Development Policy (CDP) in 2018 and 2021 respectively, Bangladesh met all three criteria for LDC graduation, including per capita GNI, Economic and Environmental Vulnerability Index (EVI), and Human Assets Index (HAI). According to the most recent triennial review of CDP in 2021, Bangladesh met all three criteria with a per capita GNP of 1827 USD (requirement is USD 1222), EVI of 27 (requirement being 32 or below), and HAI of 75.4 (requirement being 66 or above) (Bhattacharya, 2021). Bangladesh is now on track to become a developing economy by 2026 and a developed economy by 2041.

In the economic development of Bangladesh, Cottage, Micro, Small and Medium-Sized Enterprises (CMSMEs) have played an instrumental role in accelerating inclusive growth, promoting shared prosperity, and eradicating poverty through creating jobs and bolstering economic growth. According to the SME Policy 2019, The CMSME sector contributes close to 25% of Bangladesh's GDP with around 7.8 million enterprises serving as a major source of livelihood for a large population of the country. CMSME has also become a proven source of job market especially for new entrants (GoB, 2019; Odonkor, 2021).

Despite the immense contribution of the CMSME sector to the economy of Bangladesh, the sector is largely dominated by informal activities. As a result, its potential to drive sustainable growth remains uptapped. CMSMEs are also not properly included in the formal registration process. Because of their informal nature in terms of economic operations, employment generation, and their role in the entire supply chain, they face many additional challenges, such as difficulties in obtaining loans from institutions and government assistance through institutional forms or channels. Realizing the huge potential of this sector, Bangladesh government has taken various initiatives and policy measures for the development of the CMSME sector. Despite this strong political guidance and will, the CMSME sector has not progressed as expected. Furthermore, CMSMEs, alongside the major businesses, may face difficulties in the post-LDC era, as most of the LDC-specific International Support Measures (ISMs) will be retracted. Such support measures are not only the official development assistance (ODA) and concessional loans, but also include a wide range of trade-related measures, such as preferential market access or special and differential treatment provisions under World Trade Organization (WTO) rules (Rahman, 2021).

Under preferential market access provision, as an LDC, Bangladesh gets duty-free, quota-free (DFQF) market access in the developed countries market. Some countries also apply less stringent rules of origin for exports from Bangladesh. Moreover, under the services waiver provisions for LDCs, Bangladesh receives preferential treatment from members of the WTO. The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), particularly Article 66.2, Bangladesh receives incentives from the developed countries in terms of the transfer of technology. It was helpful in creating a sound and viable technological base. Bangladesh will lose these incentives upon graduation. By another decision of the WTO in the area of public health, Bangladesh as an LDCs is offered special exemption in patent protection and licensing requirements for pharmaceutical products till the end of 2032. As such, Bangladesh is required to protect pharmaceutical patents after 2032 (Rahman, 2021).

Therefore, during the transitional period which is going to end in a few years, Bangladesh needs to ensure proper readiness and preparation for the sustainable growth of CMSMEs to meet the challenges after LDC graduation.

The government has set a vision to increase the contribution of CMSME sector in the economy by up to 32% by the year 2024. Considering the importance of CMSME sector even after the LDC graduation, it is the right time to adopt long term strategic planning and their effective implementation to strengthen Bangladesh's position in the international arena after the graduation from LDC. The elevation from the LDC status may give rise to curtailment of some benefits, but the positive image invoked of the country's ability on the global platform will open up new possibilities too. Bangladesh's identity as a developing nation in the international arena, will uphold the competitiveness of the country which will take us to a greater height and will contribute to our economy.

For maintaining stable growth, there is huge scope for Bangladesh economy through CMSME. Our export can be diversified through encouraging local and foreign investment in CMSMEs. For this, a comprehensive and integrated work plan on the CMSMEs sector is very crucial which will address the challenges and pave the way for sustaining the CMSME sector after the LDC graduation. However, few studies have examined the development, challenges and future prospects of CMSMEs in relation to LDC graduation.

As in other developing countries, the CMSME sector has emerged as an engine of growth in Bangladesh. There are many well-documented studies on the genesis, impact and growth of the CMSME in Bangladesh. However, studies are limited when we look at the CMSME sector through the lens of LDC graduation. To fill the important gap in the CMSME literature in Bangladesh and considering the urgency of the issue, the study aims to understand the impact of LDC graduation on the CMSMEs in Bangladesh and to explore the barriers that hinder their growth and development. The study also seeks to identify the opportunities available for the CMSMEs in the post-LDC graduation era and to propose strategies for leveraging those opportunities. Overall, the study aims to provide insights into the challenges and opportunities for CMSMEs in Bangladesh and to suggest a way forward for their sustainable development.

To address these issues, the research questions guiding this study are as follows: What are the challenges of CMSMEs upon LDC graduation? What are the impacts of LDC graduation on CMSMEs in terms of operational capability to remain competitive in the global market? How can CMSMEs in Bangladesh be prepared to sustain growth after LDC graduation?

The specific objectives of the study are to identify the challenges of CMSMEs upon LDC graduation at domestic and global levels, to understand the impacts of LDC graduation on CMSMEs in terms of their operational capability to stay competitive in the global market, to propose remedial measures to enhance the capacity of the CMSMEs to address the challenges of LDC graduation.

2. Literature Review

Cottage, Micro, Small and Medium Enterprises (CMSMEs) are considered the backbone of a developing economy like Bangladesh. Across the South Asia, the contribution of SMEs to the overall economic growth and the GDP is high. In Nepal, CMSMEs constitute more than 98% of all establishments and contribute 63% of the value-added segment. In India, CMSMEs contribution to GDP is 30%. SMEs contribute to 50% of Bangladesh's Industrial GDP and provide employment to 82% of the total industrial sector employment (Hussain, Farooq & Akthar, 2012). Thus, CMSMEs play a crucial role in furthering growth, innovation and prosperity in Bangladesh by creating employment opportunities and producing useful machine substitutes and machinery parts saving huge amount of foreign currency for the country (Chowdhury, Azam, & Islam, 2013).

However, despite its potential, the CMSME sector suffers from various challenges that hold the country back from realizing the full potential of the sector. Even due to absence of any consistent data on the contribution of SMEs to the national economy in Bangladesh (Raihan, 2021). Chowdhury et al. (2013) attempted to identify problems of SMEs in Bangladesh and potential solutions to that. The study surveyed 100 SME consumers and the problems identified by them were long waiting period for getting initial finance from banks because of tedious paper works, inability to provide collateral to get loans, inexperience in preparing sound financial systems for getting loans. As remedies the respondents advised financial incentives for sound business plan and public-private partnership in providing effective training.

Bangladesh Bank Report (2008 in Islam & Miajee, 2018) stated that the key reasons behind the SMEs are not entering into manufacturing but are financial constraints, dismal state of utilities, technology and policy discriminations. In a study, Akterujjaman (2010) stated that CMSMEs are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SME in developing countries rating access to finance as a major constraint. SMEs in Bangladesh also have challenges related to inexperience in business, lack of technical knowledge, poor managerial skills, lack of planning skills, and market research skills (Raihan, 2021).

Quadir and Jahur (2011) argued that CMSMEs of Bangladesh have been vulnerable to frequent policy changes of Government from time to time. Besides, they are facing severe competition in and outside the country. As a result, the profitability of CMSMEs has got squeezed and many of them have got financially distressed. Besides, entrepreneurs of CMSMEs. Hasan and Islam (2008) identify that bank usually do not express interest towards SME financing. The reason behind this conservativeness is higher operational cost, less return and high risk associated with the SME financing. Due to small loan size the operational cost is higher and they require intensive monitoring and supervision. The main reason for higher risk is that the small and medium entrepreneurs are highly unlikely to comply with the collateral requirements as typically they do not have immovable properties. With the excuse of collateral sometimes banks and non-bank financial institutions are reluctant to finance SMEs. Bank and others financial institutions generally prefer large enterprise clients because of lower transition costs, and greater availability of collateral. The CMSMEs also fall outside the reach of micro finance schemes, and thus are compelled to depend on informal sources of funds at much higher interest rates (Aziz, & Siddique,2001).

In the time of the Covid-19 pandemic, various studies show that SMEs in Bangladesh have been more affected than large enterprises. A study by SANEM finds that the impacts are devastating for micro and small enterprises. Also, the business environment has been turning out to be more unfavorable for SMEs during the pandemic. Large firms also received more stimulus packages than micro, small and medium firms. The adjustment costs induced by the lockdown and 'tough' restrictions are very high for SMEs. Many SMEs have lost their businesses during the crisis. Given the difficulty of obtaining loans and other forms of assistance through established means, the recovery path for many SMEs is likely to be uncertain (Raihan, 2021). A study by DCCI (2021) finds that 51% of the surveyed businesses were affected by the lockdown. To make the picture worse, 39% of the owners also reported that they were partially hit. Therefore, it can be said that around 90% of the CMSMEs are hurt by the ongoing lockdown causing the largest job-producing sector of the country vulnerable to the exogenous economic shock of the ongoing COVID-19 pandemic.

Several studies have been conducted to identify the challenges of the private sector after LDC graduation so that the private sector can prepare itself to face new challenges of LDC graduation. To face competition in maintaining the price and product quality, the private sector has been suggested to emphasis on research, innovation, and product diversification. It is suggested that the private sector should focus on increasing the use of technology in the industry, creating a skilled workforce, increasing efficiency in business management, and increasing the capacity to produce goods at competitive prices (FBCCI, 2022).

Taking advantage of advancements in the field of information and communication technology (ICT) in the era of rising global value chains (GVCs), connecting to GVCs can be vital for Bangladesh to gain from trade. in this case, India can be a shining example. With the advent of GVCs, instead of producing a product in its entirety, small Indian firms are concentrating on internationalization and enhancement of their efficiency by participating in supply chains via specializing in facets of the supply chain in which the firms enjoy a comparative advantage (Reddy & Sasidharan, ADB, 2020)

From the preceding discussion, it can be concluded that the CMSMEs in Bangladesh are very vulnerable sector to any shock like pandemic, global financial crisis and the current status of formalization of CMSMEs in Bangladesh is not satisfactory. The sector urgently needs proper policy support from the government so that CMSME can build capacity and benefit from Bangladesh's image as a developing country after LDC graduation.

1. Research Methods

3.1 Nature of Research

After LDC graduation CMSMEs may face several challenges but from the Government, adequate initiatives are not taken to overcome these challenges. It is assumed that if the problems are not properly identified on time and steps are not taken, it will be more intensified after graduation. Considering this issue, we need more information and study. Hence, we have carried out this explanatory research to investigate an in-depth understanding of the existing domestic and global challenges of CMSMEs and recommendations for ways out.

3.2 Data Collection

This report presents a unique perspective regarding the challenges and solutions of CMSME development upon LDC Graduation of our country. In order to fulfil this objective, 112 primary data from CMSME businesses representing Textile & RMG, Agro Processing, Jute & Jute Goods, Light Engineering, Pharmaceuticals, Leather & Leather Goods, IT&ITES and some other sectors were collected. For qualitative data collection, 10 Key informants of 6 industries were chosen comprising RMG, Agro Processing, FMCG, Jute & Jute Product, Leather & Leather Goods, and IT&ITES sectors. To conduct the study, relevant agencies, sectors and associations have been approached to allow their members to participate in the study. Alongside, DCCI members involved in the relevant MSME business were approached to participate in the survey conducted with structured questionnaire.

3.3 Sampling Technique

Non-probability convenience sampling technique was used to pick up 112 samples from the members of DCCI. The reasons for choosing non-probability sampling are time and resource constraints barred the researchers from reaching randomly selected businesses for data collection. Therefore, only virtually collected data were used for this study.

3.4 Methods

The study was conducted by applying both quantitative and qualitative research techniques. A structured questionnaire was administered using computer-assisted survey solutions platform called 'KoBo Collect' to collect primary data. DCCI R&D team designed this survey form applying complex algorithms for creating an interactive process of checking data validity. Data were cleaned and analyzed using MS Excel and SPSS (Statistical Package for the Social Sciences), a software package used for the analysis of statistical data. The findings were further validated through Key informant interviews (KIIs) with a structured questionnaire The study took around 2 months to complete.

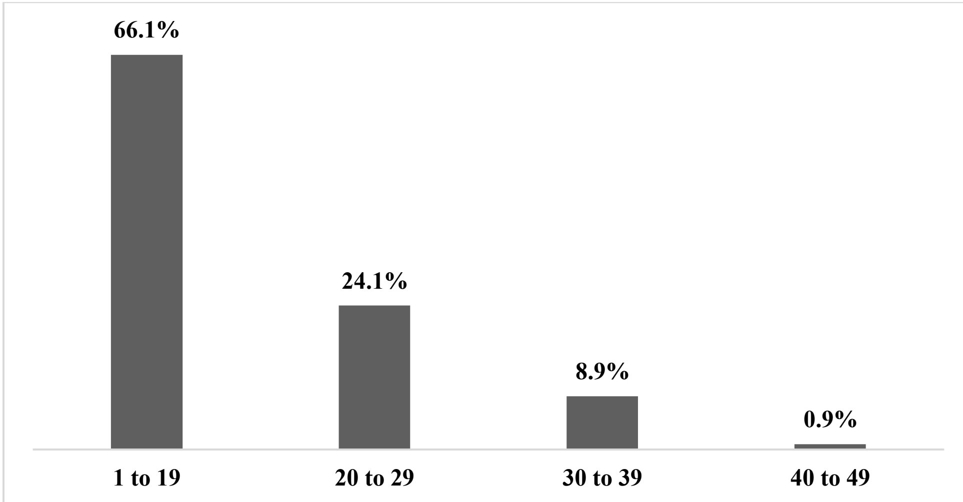
4. Findings from the Sample Survey

This descriptive section of the study reports several demographic information of the respondents including the tenure, size, nature and export sector of the businesses and challenges those businesses are facing at domestic as well as global level. This section also presents respondents' responses to way forward to address LDC graduation challenges. Discussions are as follows:

4.1 Tenure of Business

As shown in **Figure 1**, The majority of respondents (66.1%) indicated that they had been in business for a tenure of 1 to 19 years. Additionally, 24.1% of respondents reported running their business for 20 to 29 years, while 8.9% and 0.9% mentioned tenures of 30 to 39 years and 40 to 49 years, respectively.

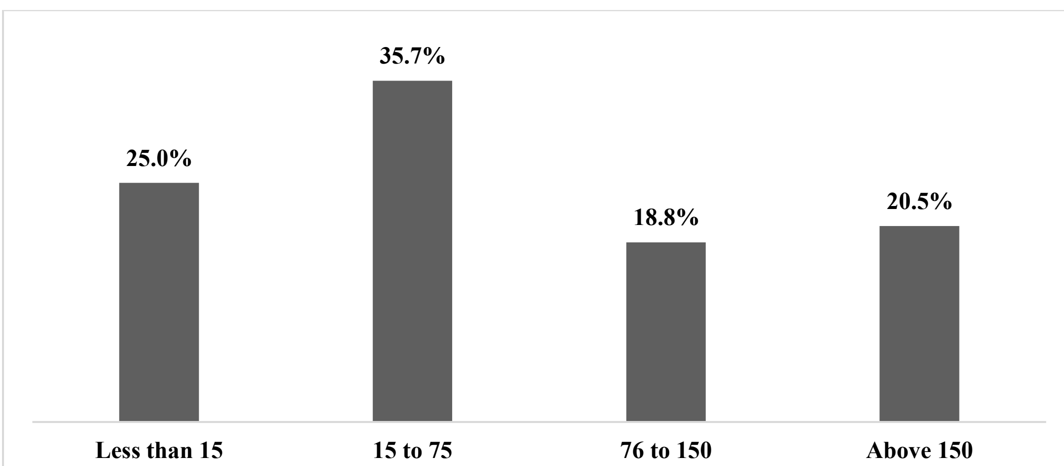
Figure 1: Tenure of Business



4.2 Size of workforce in your business

When the respondents were asked about the size of their business, as shown in **Figure-2**, the majority, comprising 35.7% of respondents, indicated a workforce size ranging from 15 to 75. However, 25% of businesses reported a workforce size of less than 15. Notably, 20.5% of respondents reported a workforce size exceeding 150. On the contrary, 18.8% of respondents stated that the workforce size in their business falls within the range of 76 to 150.

Figure 2: Size of Workforce



4.3 Nature of business

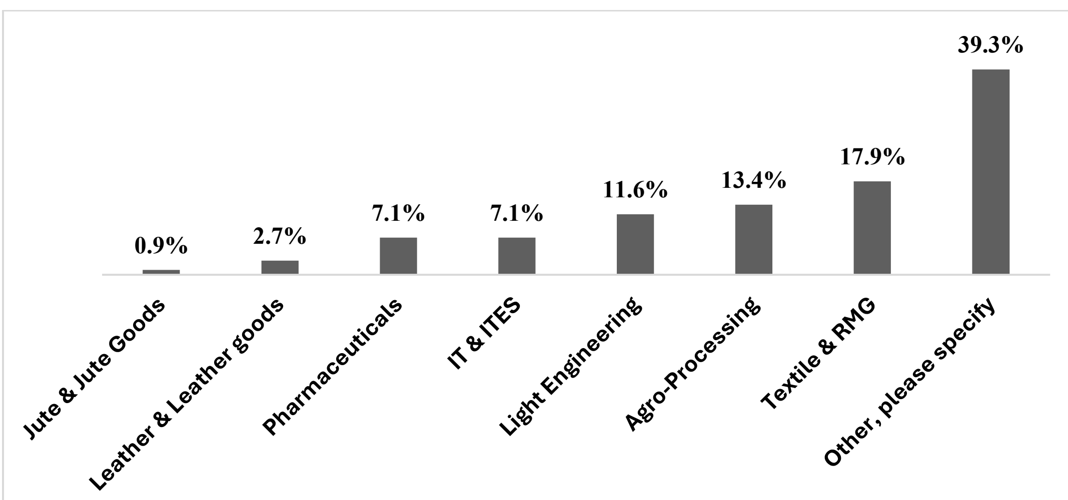
Concerning the nature of business, as shown in **Figure 3**, 58% of the participants indicated that their business involves Foreign Trading. Meanwhile, 25% and 17% of respondents stated that their businesses belong to Local Trading and Manufacturing & Production business, respectively.

Figure-3: Nature of Business

1.4 Export sector that the business belongs to
1.5

Even though the majority of respondents (39.3%) reported that they belong to other export sectors, 17.9% specified Textile & RMG as their export sector, as shown in **Figure 4**. Additionally, 13.4% and 11.6% of participants mentioned their business association with the Agro-Processing and Light Engineering sectors, respectively. Notably, an equal percentage (7.1%) of respondents identified with the IT & ITES and Pharmaceuticals sectors. The subsequent sector, mentioned by 2.7% of respondents, was Leather & Leather goods. However, only 0.9% of participants reported Jute & Jute Goods as their export sector.

Figure-4: Exporters' business sector

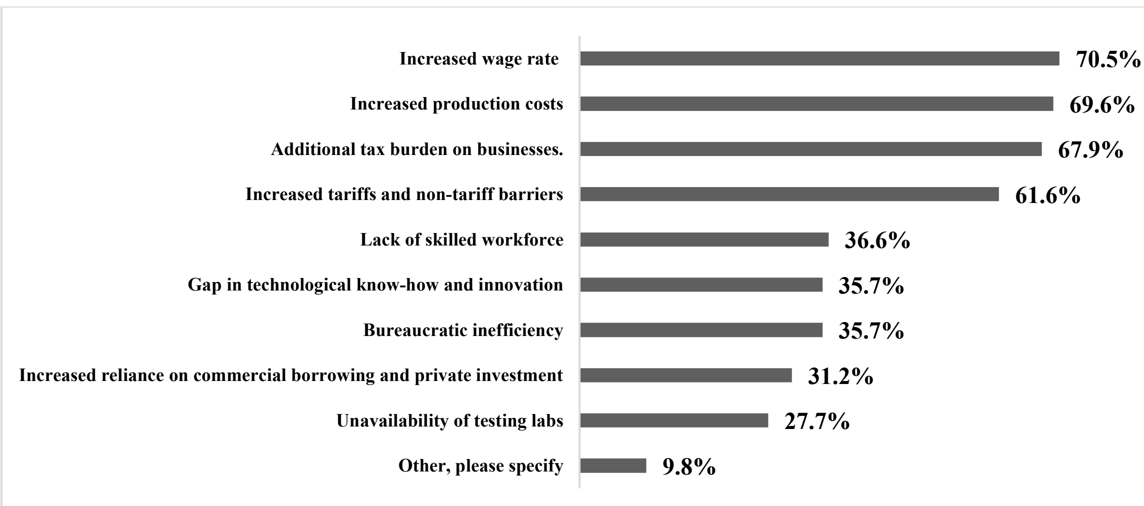


However, about 39.3% of businesses who chose 'others' as an option were asked to specify the export sector that their business belong to. From their feedback, a list of other relevant sectors is identified. Other industrial sectors include the chemical industry, energy sector, FMCG, industrial manufacturing, infrastructure development, handicrafts, medical equipment, and the plastic industry. Other service sectors comprise consulting firms, housekeeping, heavy equipment services, hotels and resorts, manpower recruiting agencies, news media, tourism, and transportation services.

4.5 Challenges may be faced at domestic level upon LDC graduation

When asked about the challenges they might encounter at the domestic level upon LDC graduation, the majority of respondents (70.5%) expressed concerns about an increased wage rate. Additionally, 69.6% of participants highlighted worries regarding rising production costs, while 67.9% were apprehensive about an additional tax burden on businesses. Increased tariffs and non-tariff barriers were cited by 61.6% of respondents, and 36.6% expressed concerns about the lack of a skilled workforce. Bureaucratic inefficiency was a worry for 35.7% of respondents, and an equal percentage (35.7%) mentioned a gap in technological know-how and innovation. About 31.2% of respondents expressed concern about an increased reliance on commercial borrowing and private investment. Furthermore, 27.7% noted the unavailability of testing labs as a potential challenge. However, 9.8% of respondents indicated other challenges.

Figure 5: Respondents' Response to Domestic Level Challenges

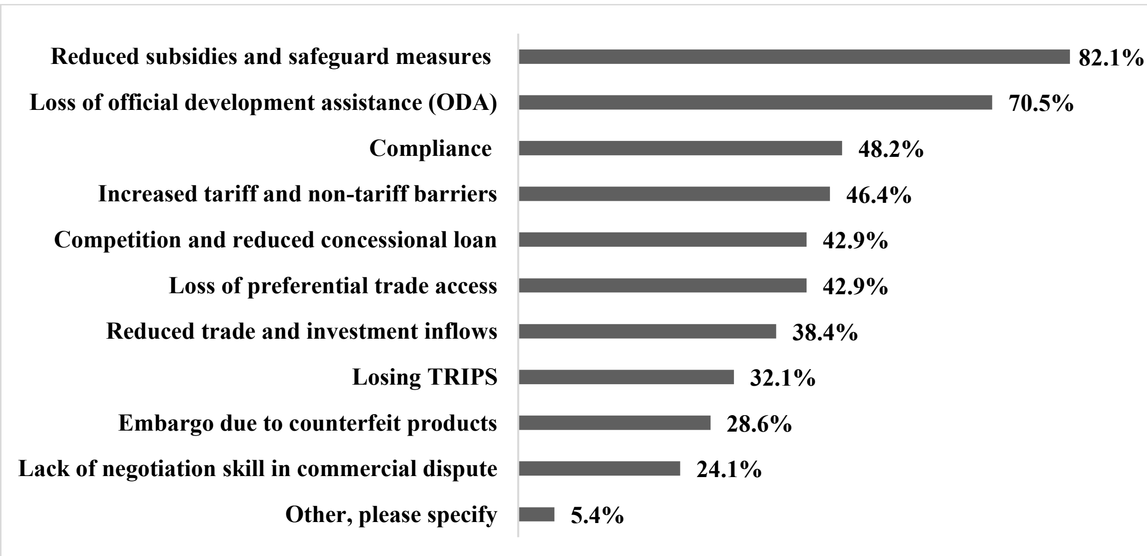


Moreover, about 9.8% businesses who chose 'others' as an option were asked to specify the challenges, they might encounter at the domestic level upon LDC graduation. The feedback reveals that multiple challenges are disadvantaged for the businesses. The increasing energy price and the fluctuations in the Forex market are creating uncertainties, while corruption practices like the harassment of government representatives and bribery are making things worse. Other factors that also block expansion include unwarranted hikes in tariffs on imports of certain goods and lack of appropriate incentives. There are increased logistic costs on top of these challenges as businesses have to take on the task of designing and developing new products. The insufficiency of energy and the general lack of power makes matters worse, thereby compromising effective competition by CMSMEs that are generally weaker than big businesses. In addition, demands patterns out034paced growth in warehouse facilities.

4.6 Challenges that may be faced at global level upon LDC graduation

When asked about the challenges they could face at the global level upon LDC graduation, the majority of respondents (82.1%) voiced concerns about reduced subsidies and safeguard measures. Furthermore, 70.5% of participants expressed worry about the potential loss of official development assistance (ODA). Compliance-related issues were a concern for 48.2% of respondents, while 46.4% were apprehensive about increased tariff and non-tariff barriers. Loss of preferential trade access was mentioned by 42.9% of respondents, who also highlighted concerns about competition and reduced concessional loans at the same percentage. Additionally, 38.4% of respondents expressed worry about diminished trade and investment inflows, and 32.1% were concerned about losing Trade-Related Aspects of Intellectual Property Rights (TRIPS) benefits. Embargo due to counterfeit products was mentioned by 28.6% of respondents, and 24.1% expressed concern about a lack of negotiation skills in commercial disputes.

Figure 6: Respondents' Response to Global Level Challenges



In addition, 5.4% of respondents who chose 'others' as an option were asked to specify the challenges, they might encounter at the global level upon LDC graduation. From their feedback, a number of other challenges were identified. These include branding crisis, Inefficiency & Lack of Competitiveness, difficulties in digital marketing of agro products, challenges in diplomatic negotiation for fair wage of migrant workers, inefficiency of diplomats in export promotion, and the potential for increased product price.

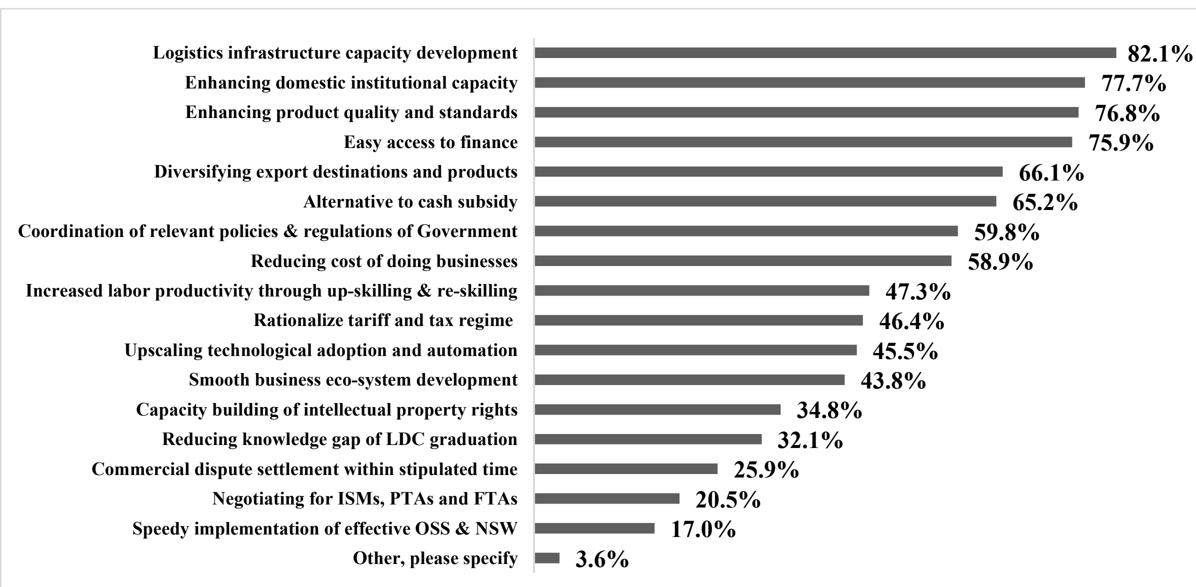
4.7 Way forward to address the challenges of LDC graduation

Respondents overwhelmingly identified logistics infrastructure capacity development as a top priority, with 82.1% expressing its importance. Following closely, 77.7% emphasized the need to enhance domestic institutional capacity, while 76.8% highlighted the importance of improving product quality and standards. Access to finance emerged as a critical factor for 75.9% of participants, and diversifying export destinations and products was noted by 66.1%. A notable 65.2% considered an alternative to cash subsidies crucial. Coordination of relevant government policies and regulations was cited by 59.8%, and 58.9% stressed the importance of reducing the overall cost of doing business. Other significant aspects included increasing labor productivity through up-skilling and re-skilling (47.3%), rationalizing tariff and tax regimes (46.4%), and upscaling technological adoption and automation (45.5%). The survey also highlighted the importance of developing a smooth business eco-system (43.8%) and capacity building of intellectual property rights (34.8%). A notable 32.1% underscored the importance of reducing the knowledge gap associated with LDC graduation, emphasizing the need for targeted efforts in education and awareness. Commercial dispute settlement within stipulated timeframes was deemed significant by 25.9% of participants, pointing to the urgency of efficient resolution mechanisms. Negotiating for International Support Measures (ISMs), Preferential Trade Agreements (PTAs), and Free Trade Agreements (FTAs) emerged as a priority for 20.5%, reflecting a strategic focus on international trade relations. Speedy implementation of effective One-Stop Shops (OSS) and National Single Windows (NSW) garnered attention from 17.0%, indicating a desire for streamlined and efficient trade facilitation processes.

Additionally, 3.6% respondents who chose 'others' as an option were asked to specify the way forward to address the challenges of LDC graduation. From their feedback, a list of other measures is identified below:

- Constant skill development.
- Full automation of VAT, Tax and Customs system.
- Open dollar rate may ensure the availability of dollar in the market.

Figure-7: Respondents' Response to Way Forward to Address LDC Graduation Challenges



5. Findings from the Key Informant Interviews (KIIs)

Major findings from the 10 key informant Interviews (KIIs) of 6 industries comprising RMG, Agro Processing, FMCG, Jute & Jute Product, Leather & Leather Goods, and IT&ITES are reported below

5.1 RMG Sector

Findings and Recommendations of RMG sector is presented in Table 1:

Table 1: Findings and Recommendations of RMG Sector

Findings	Recommendations
▪ The country is not competent enough to deal with the challenges of LDC graduation. ▪ Present condition of businesses is fragile due to serial blows of global impact e.g. COVID, War ▪ Banks are not providing loans to small businesses on easy terms and conditions. ▪ No opportunity to open Back-to-back LCs and TTs. ▪ Larger businessmen have alternative sources of income so they face less challenge to survive. ▪ Banks are more interested lending money to larger businesses. ▪ CMSMEs are not strong enough to keep up in competition with big businesses and they are not getting sufficient bank facility or other support. ▪ Some corrupt Businessmen do not intend to repay loan so they do not have any objection for high-interest rate. ▪ The banking ecosystem has been destroyed due to NPLs. ▪ The ratio of NPL is much higher among larger businessmen but small and medium businessmen are more responsible for repaying their loan. ▪ Increasing interest rate to control inflation rate is not an effective mechanism. ▪ Due to gas, electricity and energy crisis	▪ National Single Window (NSW) should be implemented and Business-related all services should be ensured by BIDA's one-stop service. ▪ Need more bilateral treaties aiming at LDC graduation. ▪ For more FDI favourable environment should be ensured in BEZ, EPZ, Hi-Tech Park, and Industrial Park. ▪ Need more relevant, stable and effective policy measures and laws for foreign investors. ▪ Required vast development in the Energy sector, communication system and skilled manpower. ▪ If businesses get sufficient liquid money, they are capable enough to start and invigorate their business again.

small businesses are no longer able to survive in competition and many already have closed their businesses. ▪ Taxation rules and policies are not business-friendly. In most cases, law is being misused by officials of NBR and general businessmen are being harassed even after filing returns properly on time. ▪ NBR is deducting extra tax or double tax from the source and in several cases, businessmen cannot adjust it later. Deducting 1% AIT is burden for small businesses. ▪ For disruption of production, timely delivery is not being possible despite having good market and sufficient buyers. ▪ Exporter are losing their market and other competitive countries like China, and Vietnam are grabbing it. ▪ For absence of sufficient logistic support, foreign investors are not getting business-friendly environment for FDI.	

Source: DCCI R&D, 2024

5.2 Agro Processing Sector

Findings and Recommendations of Agro Processing sector is presented in Table 2:

Table 2: Findings and Recommendations of Agro Processing sector

Findings	Recommendations
▪ Businessmen are still not very aware of the challenges of LCD graduation. ▪ After graduation cost of doing business will be much higher than now. ▪ Due to the high inflation rate at present businessmen are suffering the most. ▪ For using local raw materials source tax is also imposed and it creates an extra burden. ▪ Instead of several challenges businessmen are expecting fast growth in the agro-processing sector because of high-value addition capacity. ▪ Workers with cheap wages are available so the	▪ Need more analytical studies on the impact analysis and need assessment considering the challenges of LDC graduation. ▪ To overcome challenges under PPP initiative, have to prepare action plans for short, medium and long term. ▪ Need a sound business ecosystem for sustainable

opportunity of profit margin is gained.

- Sudden withdrawal of cash incentives puts huge pressure on businessmen. To reduce this pressure government should ensure other facilities as soon as possible.
- Most of the raw materials are imported and it is totally hindered by extreme dollar crisis.
- Considering competitiveness, we are lagging behind in all sectors.
- Banks are not supporting new entrepreneurs so they are not getting startup opportunities.
- For the crisis of gas supply, production process is being hampered in many industries like agro-processing.
- The cost of doing business is much higher and the profit margin is much lower.
- For using LNG cost of production increases, production quantity decreases and selling products at competitive price is not possible.
- For having sufficient production capacity big businessmen are being facilitated and benefitted.
- In the agro-processing sector, many SMEs are enlisted as limited companies. They are to pay in higher tax rate so they are suffering now.
- Our logistic sector is less competitive but Government is working on National logistics policy and a committee has been formed to frame this policy aiming LDC graduation.
- Due to unstable law, businessmen cannot predict about future uncertainty and thus they become less interested in investing.
- In economic zones, there is no sound environment for industrial production and export.
- Most of the Multinational companies are following all rules and regulations of WTO and they are concerned about the challenge of LDC graduation.
- Their policies are aligned with SDG goals and maintain environment-friendly production process.
- Multinational companies procure all raw materials locally as production cost decreases.
- Foreign investors search favourable business environment and more incentive facility to gain profit margin so after LDC graduation many companies may change their destination for business environment.
- To sustain this potential sector, effective policy measures and law reformation are required.
- Should follow the Policies and strategies of other developed countries that have already overcome the challenges of LDC graduation.
- As subsidy facility is reduced, Government should increase other facilities and TAX, VAT, AIT should be exempted.
- After 2026 we will not get GSP support anymore so from now we have to negotiate with WTO for GSP+ facility.
- It is important to strengthen diplomatic relations with other countries to export duty-free products.
- Need more bilateral treaties and should take required diplomatic action plan in this regard.
- Concept of smart Bangladesh should be more specific and policy measures in this regard are required.
- Bureaucratic complications may be reduced through automation.
- Need the enhancement of tax net with assurance of tax return. If everyone pays tax properly both tax rate and burden will be decreased.
- Required entire integration and automation in vat, tax and customs payment system as soon as possible.
- Need effective action plan to

investment. ▪ For bilateral treaty, compliance certificate and country of origin certificate, some multinational companies enjoy the export of duty-free products from Bangladesh to India. (Nestlé) ▪ Targeting LDCs some foreign investors are supporting farmers for capacity buildup on modern production process including high efficiency, productivity, environmental and health issues. ▪ Non-tariff barrier in Bangladesh for FDI- Conformity assessment procedures, Sanitary and phytosanitary (SPS) measures, technical barriers to trade (TBTs), Lack of trade facilitation, Lack of transparency and predictability.	increase the tax GDP ratio, which is only 8% now.

Source: DCCI R&D, 2024

5.3 Fast-Moving Consumer Goods (FMCG) Sector

Findings and Recommendations of Fast-Moving Consumer Goods (FMCG) sector is presented in Table-3:

Table 3: Findings and Recommendations of FMCG sector

Findings	Recommendations
▪ Before reducing cash incentive, government did not take any opinion from business community. Government could have a discussion session with all businessmen and stakeholders. ▪ In January, 2024 many industries have already exported their goods considering the inclusion of cash incentives facility so they will face losses. ▪ Expatriates are the main source of Bangladesh's remittance flow. ▪ Larger companies are dependent on smaller	▪ Businesses should be propelled towards innovation and competitiveness, moving away from reliance on LDC-specific trade benefits. ▪ Facilitating this transition through policy reforms, trade diversification strategies and efforts to ease doing business, alongside promoting SDGs. ▪ To take recommendations from relevant stakeholders while formulating laws and policies aiming LDC graduation. ▪ Need to invest in better technology, sustainable practices, and higher-skilled labor to meet global standards. ▪ Proactive adaptation and long-term strategic planning by both the government and the private sector, aiming for competitiveness and sustainability. ▪ CMSMEs must navigate a more complex landscape where international compliance and certification standards become crucial.

companies (CMSMEs), in terms of getting uninterrupted supply of raw materials and supplying products to retail businesses.
- If large companies suffer due to lack of export capacity, smaller ones are likely to suffer in the same way.
- Industries are bound to lay off workers and unemployment rate may increase.
- Larger export-oriented companies have local businesses market so they will survive but the situation is adverse for others.
- The loss of preferential trade access under GSP is big challenge to export-driven sectors, by increasing competition and costs.
- Bangladesh's products could become more expensive and less attractive in international markets.
- Enhanced economic stability and growth prospects may strengthen the appeal for FDI.
- Optimizing business, infrastructural, and regulatory landscapes will be critical to capitalize.
- The shift of LDC might bring higher international borrowing costs as concessional loans and grants dwindle.
- Bangladesh will have to compete harder not just on price but also on quality and innovation.
- It will be harder to get into

- Companies will need to innovate and improve their products to stand out in the global market.
- Requires a strategic shift towards enhancing product uniqueness, tapping into niche markets, and leveraging digital platforms for broader market access.
- Have to ensure product quality and brand value of the country.
- Emphasizing the quality and uniqueness of products can make them more appealing to customers over cheaper options from other countries.
- Equipping employees with new technologies and skills is crucial.
- A skilled workforce can drive innovation and improve processes, enhancing business efficiency and competitiveness.
- Obtaining international quality certifications can build trust in foreign markets by demonstrating that products meet high standards.
- Forming partnerships with foreign companies can be beneficial, helping businesses learn new skills, access new markets and share the costs and risks of international trade.
- Need 10 years more cash incentive facility to develop the capacity of export-oriented industry.
- Finding more opportunities to sell products locally due to economic growth and businesses will have to adjust to meet the changing needs and preferences of local customers.
- For CMSMEs, availability of capital should be ensured on easy terms and condition.
- For expatriate workers Government should ensure adequate incentive and socioeconomic facilities at home and abroad as they are the main source of remittance.
- To keep continuous remittance flow, need effective monitoring system to break up the Hundi cycle and all illegal sources of dollar smuggling must be demolished.
- To stop money laundering need effective implementation of law.
- Should provide incentive facilities for the exporters who use local raw materials.
- It is possible to solve the dollar crisis by increasing the export volume.

new markets or maintain their position in existing ones. ▪ Adapting to changes will be tough, especially for smaller companies with fewer resources.	▪ Ensure availability of dollar and duty-free facilities to import raw materials and machinery, for all manufacturing sectors. ▪ For export-oriented industry, source tax should be exempted or reduced.

Source: DCCI R&D, 2024

5.4 Jute & Jute Product Sector

Findings and Recommendations of Jute & Jute Product Sector is presented in Table-4:

Table 4: Findings and Recommendations of Jute & Jute Product Sector

Findings	Recommendations
It is anticipated that after graduation with less capability and competitiveness jute sector has to compete with other countries.	▪ For the jute sector need short, medium and long-term action plan to ensure subsidy, funding, excess to finance, tax and tariff examination facilities. ▪ Identifying niche markets with less competition and specific demands, such as eco-friendly jute products or handcrafted goods, can provide a strategic advantage. ▪ Capitalizing on unique attributes like our craftsmanship can offer a competitive edge by producing jute products. ▪ Should take necessary initiative to protect IPR for innovative and unique jute products.

Source: DCCI R&D, 2024

5.5 Leather & Leather Goods Sector

Findings and Recommendations of Leather & Leather Goods sector is presented in Table 5:

Table 5: Findings and Recommendations of Leather & Leather Goods Sector

Findings	Recommendations
▪ Limited export opportunity due to the absence of international compliance certification and it is the major problem for this sector. As a result, the export volume is decreasing. ▪ The Central Effluent Treatment Plant	▪ To get LWG certificate, the CETP must be entirely operational immediately. ▪ The government can give maintenance responsibility to the accountable factories of Savar

(CETP) of Savar Tannery estate is not efficient. ▪ All factories are not capable enough to establish ETP (Effluent Treatment Plant). ▪ Most leather industries do not have Leather Working Group (LWG) certificate and it is the primary requirement of European countries to export Made in Bangladesh branded leather goods from Bangladesh. ▪ 10% cash incentive for crust leather has been taken off and for finished leather, it has been reduced from 10% to 7%. ▪ WTO considers cash incentives as export subsidies. After LDC graduation this facility will be declined as per agreement on subsidies and countervailing measures. ▪ Before taking orders and purchasing leather businessmen consider export incentives facility as part of their business strategy and profit margin. ▪ International supporting measures provided by International NGOs for training and working safety facilities may be curtailed.	Tannery estate to ensure services rather than BSCIC. ▪ Should ensure access to finance with flexible terms and conditions.

Source: DCCI R&D, 2024

5.6 IT&ITES Sector

Findings and Recommendations of IT & ITES sector is presented in Table 6:

Table 6: Findings and Recommendations of IT&ITES Sector

Findings	Recommendations
▪ Startup companies are facing obstacles in access to finance. ▪ Even skilled persons in this sector are facing huge obstacles. ▪ The system of Tax, VAT, and Revenue payment is very complicated and it is being abused. ▪ Now the operation cost of business is much higher than profit margin. ▪ To transfer foreign currency requires several documents and businessmen face continuous queries from BB.	▪ To collect Tax, VAT should introduce automation system in all phases. ▪ 4IR-related technologies and skilled manpower are highly needed to overcome the challenges of LDC graduation. ▪ Government must ensure cash subsidy as alternative to cash incentive.

Source: DCCI R&D, 2024

6. Conclusion and Recommendations

The development of CMSMEs in Bangladesh upon LDC graduation is accompanied by various challenges and potential pathways for progress. A significant impediment lies in the pervasive issue of bribery within government agencies, posing a substantial challenge to conducting business. The study indicates that a significant challenge for the majority of businesses (70.5%) upon LDC graduation at the domestic level is the potential rise in wage rates. Conversely, at the global level, the primary concern for a majority of businesses (82.1%) upon LDC graduation is the reduction of subsidies and safeguard measures. The respondents overwhelmingly identified the development of logistics infrastructure capacity as a top priority, with 82.1% expressing its significance. Following closely, 77.7% emphasized the necessity to enhance domestic institutional capacity, while 76.8% highlighted the importance of improving product quality and standards.

However, Bangladesh can strategically capitalize on its demographic dividend by creating skilled resources, thus leveraging a notable advantage. As Bangladesh transitions from a least developed to a developing nation, it faces the risk of losing easy-to-repay loans and other export-related facilities. The pharmaceutical sector, while subject to international intellectual property regulations, is granted additional time to comply. Challenges also arise from the absence of free trade agreements or partnerships with nations, except Bhutan, potentially hindering marketing efforts and global investment attraction. Bureaucratic complexities, harassment by government personnel under the excuse of VAT collection, and diverse rates imposed by port authorities and tax officers create obstacles for businesses. To address these challenges, efforts to reduce bureaucratic complexity, improve education, and manage the impact of a potential decline in foreign exchange flow are crucial. Additionally, considerations such as managing living costs, addressing issues related to bonded warehouse facilities, poor port facilities, corruption, and high indirect taxes contribute to the comprehensive outlook on CMSME development in Bangladesh upon LDC graduation. Based on the findings and observations, this study proposes the following set of recommendations for providing remedial measures to enhance the capacity of the CMSMEs to address the challenges of LDC graduation.

To address the challenges and enhance competitiveness in the global market, Bangladesh needs to priorities several key actions. Negotiating free trade agreements (FTAs) with industrialised nations, as well as significant developing nations like China and India is crucial. In parallel, there should be efforts to collect the import price lists and associated customs costs of foreign goods through diplomatic channels. Identifying export products based on national capabilities, gathering product samples, and ensuring competitiveness in both quality and pricing with stakeholder collaboration are necessary steps.

A focus on marketing quality products, implementing total quality management (TQM), and establishing Social and Governance (ESG) standards will help position Bangladesh favorably. Establishing trade facilitation desks at embassies can further boost international trade. Additionally, the government should consider providing tax, VAT and AIT exemption facilities in place of or reducing the existing cash incentive facilities. Improvements in food test, packaging and transport logistics are essential to meet international demands and standardised testing facilities should be available in every district, especially for perishable goods. Efficient port operation is equally critical to streamlining exports. Controlling inflation and promoting

Bangladesh's strengths globally is important for sustaining economic growth. Developing skilled human resources is key to overcoming challenges in post-LDC graduation while improving ports and ICT infrastructure will help control higher import-export costs. Standardising and updating guidelines on local infrastructure development along with creating knowledge-based human resources and clear policies are needed to foster growth. Moreover, expanding power and energy capacity at reasonable prices will support industrial expansion.

The financial sector, especially banks and NBFI, must be brought into order, with a focus on reducing non-performing loans (NPLs). Import duties on raw materials should be reduced and investment in infrastructure and tackling corruption in the port and transport sectors are important. Additionally, the government should provide sector-specific support through relevant ministries and empower trade associations to strengthen the industries. Moreover, the government should implement initiatives aimed at preparing the youth with both general education and technical skills. There is also a need for knowledge development on the latest technologies and research and development (R&D) initiatives to foster innovation. Simplifying development processes and investing in every potential sector will ensure a robust and resilient economy.

References

Alauddin, M. D., & Chowdhury, M. M. (2015). Small and medium enterprise in Bangladesh-Prospects and challenges. Global Journal of Management and Business Research, 15(C7), 1-9.

Akterujjaman, S.M. (2010), "Problems and Prospects of SMEs Loan Management ", A Study on Mercantile Bank Limited, Khulna Branch, Volume– V, Issue– 02, July-December, 2010.

Aziz, T., & Siddique, M. N. E. A. (2016). The role of Bangladesh bank in promoting SMEs' access to finance in Bangladesh. International Journal of SME Development, 3(2), 103-118.

Bhattacharya, D. (2021, March 11). Bangladesh qualifies for LDC graduation: What next? The Financial Express. Retrieved from: https://thefinancialexpress.com.bd/views/views/bangladesh-qualifies- for-ldc-graduation-what-next-1615473209

Chowdhury, M. S. A., Azam, M. K. G., & Islam, S. (2013). Problems and prospects of SME financing in Bangladesh. Asian Business Review, 2(2), 109-116.

DCCI (2021). Challenges and way forward for CMSMEs to get low-cost financing at COVID-19 period in Bangladesh. Research Paper. Dhaka: R&D Department, DCCI

FBCCI (2022, December 29). Private sector should brace for LDC graduation challenges. The Dhaka Tribune. Retrieved from: https://www.dhakatribune.com/business/2022/12/29/fbcci-private- sector-should-brace-for-ld.-graduation-challenges

Gob, 2019. SME Policy 2019. Dhaka: Ministry of Industries, Government of Bangladesh.

Hasan, F., & Jamil, G. M. H. (2014). Financing Small and Medium Enterprises in Bangladesh–Issues and Challenges. The Asian Journal of Technology Management Vol, 7(1), 45-54

Hasan, R.A. and Islam, K.M.Z., (2008), Bridging the Gap between Microfinance and SME Financing in Bangladesh: unlocking the potentials, Daffodil International University Journal of Business and Economic, Vol. 3, No.1.

Hussain, I., Farooq, Z., & Akhtar, W. (2012). SMEs development and failure avoidance in developing countries through public private partnership. African Journal of Business Management, 6(4), 1581.

Islam, K. A., & Miajee, M. R. K. (2018). Small and Medium Enterprises (SMEs) Financing in Bangladesh: A Review of Literature. International Journal of Small and Medium Enterprises, 1(1), 11-15.

Jahur, Mohammad. Saleh. and Quadir, Nasrul., S.M. SMEs in Bangladesh- prospects and challenges, Journal of Business and Society (JBS), Volume 9, 16-25.

Khandker, A. (2014). Constraints and challenges of SME development in the developing countries: A case study of India, Pakistan and Bangladesh. International Journal of SME Development, 1(1), 87-118.

Odonkor, A, Alexander. (2021). How Can SMEs Spur Inclusive Growth in Bangladesh? The Diplomate on December 23, 2021, Retrieved from: https://thediplomat.com/2021/12/how-can-smes-spur- inclusive-growth-in-bangladesh/

Philip, M. (2011). Factors affecting business success of small & medium enterprises (SMEs). Amity Global Business Review, 6(1), 118-136.

Quadir, S. N., & Jahur, M. S. (2011). Determinants of success and failure of entrepreneurs of SMEs in Bangladesh-An Explorative Study. European Journal of Business and Management, 3(3), 1-15.

Raihan, S. (2021). Challenges of SMEs in the time of the pandemic. Thinking Aloud. Vol.8, Issue 3. Dhaka: SANEM.

Rahman, M.M. (2021). Bangladesh's Graduation: Challenges and Imperatives to Continued International Support Measures. ISAS Working Papers. No. 347 – 26 July 2021. Singapore: Institute of South Asian Studies, National University of Singapore. Retrieved from: https://www.isas.nus.edu.sg/papers/bangladeshs-graduation-challenges-and-imperatives-to- continued-international-support-measures/

Reddy, K., & Sasidharan, S. (2020). Driving small and medium-sized enterprise participation in global value chains: Evidence from India (No. 1118). ADBI Working Paper Series.

Uddin, M. T. (2014). A study on financing of SMEs in Bangladesh. Journal of Economics and Sustainable Development, 5(11), 161-168.

Zaman, A. H., & Islam, M. J. (2011). Small and medium enterprises development in Bangladesh: Problems and prospects. ASA University Review, 5(1), 145-160.

Appendix

Tenure of Business

Number of Manpower	Frequency	Percent
1 to 19	74	66.1
20 to 29	27	24.1
30 to 39	10	8.9
40 to 49	1	0.9
Total	**112**	**100.0**

Question 1: What is the size of workforce in your business?

Number of Manpower	Frequency	Percent
Less than 15	**28**	**25.0**
15 to 75	**40**	**35.7**
76 to 150	**21**	**18.8**
Above 150	**23**	**20.5**
Total	**112**	**100.0**

Question 2: What is the nature of your business?

Number of Manpower	Frequency	Percent
Manufacturing & Production business	19	17.0
Local Trading	28	25.0
Foreign Trading	65	58.0
Total	**112**	**100.0**

Question 3: Which export sector does your business belong to?

Number of Manpower	Frequency	Percent
Textile & RMG	20	17.9
Agro-Processing	15	13.4
Light Engineering	13	11.6
Leather & Leather goods	3	2.7
Pharmaceuticals	8	7.1
Jute & Jute Goods	1	.9
IT & ITES	8	7.1
Other, please specify	44	39.3
Total	**112**	**100.0**

Question 4: What challenges you may face at domestic level upon LDC graduation?

Domestic Challenges	Frequency	Percent
Increased reliance on commercial borrowing and private investment	35	31.2
Lack of skilled workforce	41	36.6
Bureaucratic inefficiency	40	35.7
Increased production costs	78	69.6

Additional tax burden on businesses.	76	67.9
Increased tariffs and non-tariff barriers	69	61.6
Increased wage rate	79	70.5
Gap in technological know-how and innovation	40	35.7
Unavailability of testing labs	31	27.7
Other, please specify	11	9.8

Question 5: What challenges you may face at global level upon LDC graduation?

Challenges at Global Level	Frequency	Percent
Loss of preferential trade access	48	42.9
Increased tariff and non-tariff barriers	52	46.4
Competition and reduced concessional loan	48	42.9
Reduced trade and investment inflows	43	38.4
Compliance	54	48.2
Embargo due to counterfeit products	32	28.6
Lack of negotiation skill in commercial dispute	27	24.1
Loss of official development assistance (ODA)	79	70.5
Losing TRIPS	36	32.1
Reduced subsidies and safeguard measures	92	82.1
Other, please specify	6	5.4

Question 6: You are requested to select from the following way forward to address the challenges of LDC graduation.

Way forward	Frequency	Percent
Diversifying export destinations and products	74	66.1
Logistics infrastructure capacity development	92	82.1
Enhancing product quality and standards	86	76.8
Negotiating for ISMs, PTAs and FTAs	23	20.5
Upscaling technological adoption and automation	51	45.5
Increased labor productivity through up-skilling & re-skilling	53	47.3
Smooth business eco-system development	49	43.8
Capacity building of intellectual property rights	39	34.8
Easy access to finance	85	75.9
Alternative to cash subsidy	73	65.2
Reducing cost of doing businesses	66	58.9
Speedy implementation of effective OSS & NSW	19	17.0
Commercial dispute settlement within stipulated time	29	25.9
Reducing knowledge gap of LDC graduation	36	32.1
Rationalize tariff and tax regime	52	46.4
Enhancing domestic institutional capacity	87	77.7
Coordination of relevant policies & regulations of Government	67	59.8
Other, please specify	4	3.6

