

## Enhancing Export Capability of MSMEs: Challenges and Way Forward

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### Abstract

*Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Bangladesh's economic growth, contributing significantly to GDP and employment. However, they face substantial challenges in expanding into international markets, which are expected to intensify with Bangladesh's graduation from LDC status in 2026, affecting MSMEs' global competitiveness. This study examines these challenges, focusing on the obstacles to enhancing MSMEs' export capacity and how internationalization can be facilitated to boost their contribution to Bangladesh's GDP. The research aims to identify key barriers, explore potential export markets, and provide actionable recommendations for improving MSME export capacity. Using a mixed-methods approach, data was collected from 110 MSMEs across industries, including Ready-Made Garments (RMG), Light Engineering, Plastics, Leather & Leather Goods, Agro-processing, and Pharmaceuticals, through surveys and Key Informant Interviews (KIIs). The survey revealed significant obstacles such as complex taxation, high tariffs, inadequate logistics, limited access to finance, and challenges in meeting international standards. KIIs further highlighted issues like corruption in banking and inefficiencies in customs processes. The study identifies potential export markets for MSMEs, including the USA, Europe, and East Asia, and recommends strengthening institutional support, streamlining customs procedures, providing low-cost financing, and fostering product innovation. These findings are intended to guide policymakers in boosting the export potential of Bangladeshi MSMEs.*

**Keywords:** MSMEs, Export Capability, Global Competitiveness, LDC graduation, Internationalisation, Potential Export Markets.

## 1. Introduction

Micro, Small, and Medium-Sized Enterprises (MSMEs) are widely recognized as engines of economic growth and essential sources of employment, especially for new entrants to the job market (GoB, 2019; Odonkor, 2021). Globally, SMEs account for 90% of all businesses and provide 50% of employment, with formal SMEs contributing up to 40% of GDP in emerging markets and 70% of employment (World Bank, 2022). In developed regions such as Europe and North America, SMEs represent nearly 95% of enterprises, and in the OECD region, they account for about 99% of all firms, providing around 70% of employment and contributing 50-60% of value addition.

In Bangladesh, MSMEs have similarly played a crucial role in the country's economic development. According to the SME Policy 2019, MSMEs contribute approximately 25% of GDP through 7.8 million enterprises. Their role in sustaining Bangladesh's consistent economic growth—over 6% annually for the past 15 years—has positioned the country as one of the fastest-growing economies in the world. Even amid global economic challenges, Bangladesh achieved 5.78% growth in FY2023, demonstrating the resilience and strength of its economy. With sustained growth and holistic policies, Bangladesh is set to graduate to developing economy status by 2026, followed by ambitions to become a knowledge-based and SMART developed nation by 2041.

The government's recognition of MSMEs' instrumental role in inclusive growth, poverty alleviation, and shared prosperity has led to initiatives aimed at enhancing their export capability, with a focus on tapping international markets after adequately serving domestic demands. Although these initiatives have increased MSMEs' global exposure, many still face significant challenges in penetrating export markets. The export contribution of MSMEs remains negligible, partly due to their informal nature in economic operations, employment generation, and their role in supply chains. They encounter technological infrastructure gaps, insufficient automation, limited access to finance, and a lack of market orientation. Around 80% of MSMEs operate informally, facing a "decent work deficit" as there is no formal registration process. Increasing compliance requirements from global businesses also pose additional challenges for MSMEs seeking to integrate into the international market and global supply chains.

As Bangladesh approaches LDC graduation, the country's positive global image offers opportunities to build trust with foreign investors, traders, and international financial institutions. In FY2023, Bangladesh's foreign trade reached USD 150 billion, with export earnings exceeding USD 63.04 billion, of which Ready-Made Garments (RMG) contributed 84%, with Europe and the USA as the main markets. Despite these achievements, Bangladesh's export basket remains dominated by RMG, leaving the country vulnerable to external shocks due to limited diversification. Furthermore, LDC graduation presents challenges as Bangladesh stands to lose preferential trade treatments, subsidies for agriculture, and access to low-cost international funding. Post-2026, the country's exports could face tariffs ranging from 8% to 16%, potentially crippling the current growth momentum.

To avoid falling into the middle-income trap, which affects approximately 80% of countries after LDC graduation, Bangladesh must modernize its tax system, expand its tax net, and

emphasize export diversification in terms of both products and markets. In this context, enhancing the export capabilities of MSMEs is essential for increasing export earnings through diversification. Although MSMEs have historically played a stabilizing role in the Bangladeshi economy, their international exposure remains limited. Existing studies have explored the development, challenges, and prospects of MSMEs in relation to international market access, but few have focused on the specific challenge of enhancing export capability post-LDC graduation.

This study aims to explore the challenges of enhancing MSMEs' export capacity and identify potential ways forward. MSMEs contribute significantly to industrial production, exports, employment, and the consumer base in Bangladesh. Through government strategies focused on competitiveness, quality upgrades, financing, and technological adoption, MSMEs have evolved from producing simple consumer goods to manufacturing more sophisticated and precision-driven products. However, the increasingly competitive global market, along with the influx of low-cost goods into the domestic market, has placed pressure on Bangladeshi MSMEs to raise their standards and remain competitive.

For MSMEs to reduce the trade deficit and succeed globally, they must adapt through technological innovation, strategic planning, financial support, and human resource development. Despite their potential, many MSMEs are not adequately equipped to face the challenges of export competitiveness or exploit emerging opportunities. This study seeks to fill the gap in existing literature by identifying the challenges and proposing ways to enhance MSMEs' export capabilities, particularly as Bangladesh navigates LDC graduation.

The research focuses on identifying the challenges of enhancing MSMEs' export capability and increasing their contribution to Bangladesh's GDP through internationalization. It examines the barriers hindering MSMEs' access to global markets, identifies potential export destinations, and offers recommendations to improve their export capacity. By addressing these issues, the study aims to strengthen MSMEs' role in driving economic growth in Bangladesh.

## 2. Literature Review

Upon graduation from LDC and aiming to fulfill the 2041 vision of evolving into a smart nation, it becomes imperative to stimulate the economic growth of the country, and the vital catalyst for this economic drive is the Micro, Small, and Medium Enterprises (MSMEs), contributing 25% to the GDP and employing over 8 million individuals. In Bangladesh, MSMEs harbor immense potential for growth and poverty reduction, as highlighted by (Chowdhury, Azam & Islam, 2013). However, Bangladesh's MSMEs cannot operate effectively in both local and international markets due to a lack of favorable regulatory measures and appropriate initiatives, and the absence of institutional finance options prevents SMEs from raising enough funding (Ahmed, 1999). To facilitate the expansion of SMEs, the government has implemented various initiatives, including the formulation of the SME Policy of 2019. This policy places a strong emphasis on supporting SMEs in three key areas: implementing supportive policies, establishing effective institutions, and providing access to services related to business and finance.

Over the past few decades, there has been a significant upsurge in research focused on the theories and key determinants of MSMEs internationalization. This heightened scholarly interest is primarily attributed to the crucial role that small and medium-sized businesses play in the realms

of exports and job creation, as highlighted by (Krammer et al., 2018). The growing recognition of SMEs as vital contributors to economic development and global trade has spurred researchers to delve deeper into understanding the intricacies of their internationalization processes. Internationalization refers to the process of mobilizing, accumulating and developing resource stocks for international activities (Onkelinx et al., 2016) where MSMEs serve domestic markets (pre-export) and move through various processes until they are committed to serving geographically dispersed markets beyond the boundaries of their countries of origin, (Ngoma et al., 2017), although, it provides firms with an opportunity to grow, it also exposes firms to heightened risks, which may negatively influence their performance (Eduardsen & Marinova, 2020).

Moreover, different literature explores the multiple dimensions of MSME internationalization, shedding light on crucial aspects that shape the global engagement of these businesses. The role of technology in SME internationalization was underscored by (Oviatt & McDougall, 1997), emphasizing digital technologies as enablers that reduce entry barriers and enhance global communication. Government support and policies significantly impact SME internationalization, with scholars arguing for the importance of supportive frameworks, including financial incentives and trade agreements (Lu & Beamish, 2004). Institutional factors also play a vital role, as discussed through institutional theory by (Peng, 2003). Comprehensive performance metrics, including financial, strategic, and market-based indicators, are crucial for assessing internationalized SMEs (Brouthers et al., 2008). Networking and alliances are identified as vital strategies for facilitating global expansion (Jones & Coviello, 2005). Cultural considerations, as outlined by (Nummela et al., 2014), emphasize the importance of cultural sensitivity for SMEs navigating diverse markets. The intersection of internationalization and environmental sustainability has gained prominence, exploring how SMEs can align strategies with sustainable practices (Boso et al., 2019). Finally, different literature acknowledges the impact of global crises on SME internationalization, leading scholars to examine strategies for building resilience and effective crisis management, emphasizing the need for adaptable business models (Ganesan & Paladino, 2020). This diverse array of research provides a comprehensive understanding of the intricacies surrounding SME internationalization.

In various countries, including Turkey, Albania, Serbia, North Macedonia, India, Vietnam, and Japan, governments and financial institutions have implemented diverse strategies to support the internationalization of MSMEs. (Asian Development Bank Institute, 2015). These efforts encompass trade finance tools, technical support, financial assistance, and comprehensive programs aimed at enhancing export competitiveness. For instance, Turkey and Serbia provide financial aid for export-related activities, while Albania focuses on technical support for SMEs. India proposes the establishment of a National Resource Center and Export Facilitation Centers, Vietnam pursues a 4-year initiative for trade performance improvement, and Japan emphasizes global value chain participation and e-commerce adoption for SMEs (OECD, 2019). These initiatives collectively aim to empower MSMEs with resources, knowledge, and financial backing to thrive in international markets.

Chakravarthy, Bharathi, Khire, & Gopalakrishnan, (2023) analyze the commodities and potential destinations that Indian MSMEs can tap on to broaden their business and eventually to the overall growth of the country. Indian MSME's contribute to more than 30% of India's GDP

and enhancing MSME exports would help the country achieve an inclusive, socio-economic growth. The research shows that MSMEs in India have a higher potential for exports in textiles and clothing, food products, vegetables, and other agricultural products, and machinery and electrical equipment sectors. In terms of markets, MSMEs in India have a broad scope in the UAE, China, Bangladesh, and the USA. Hiremath & Deb (2022) examine the effects of foreign currency borrowings (FCBs) and domestic market constraints on the performance of the export of the MSMEs during the period 1988–2019. They find that access to the FCBs improved the performance of the MSME exports, indicating the importance of credit accessibility. They also find that the high cost of debt and lack of financial development adversely affect the exports, as MSMEs are unable to borrow. Based on the findings, the study calls for the specialized window for the MSMEs to meet low cost and easy credit and suggests stepping up grants to the MSMEs to improve the export performance.

MSMEs usually face constraints in different key business areas, mainly due to market and coordination failures, that may limit their internationalization, particularly in developing regions. These areas are related to MSMEs' access to finance, intensity of innovation, human capital, and organizational form. In terms of innovation, the nature of knowledge as a public good, information asymmetries, and coordination failures disincentive investments in R&D, and therefore, hamper SMEs' (local and international) competitiveness (Casaburi et al., 2016). In addition, MSMEs have poor knowledge of exportable products and little understanding of the factors underlying international competitiveness (e.g., packaging, quality norms and standards). They also face other barriers specific to export activities, such as language, paperwork, invoicing, and sales management

SMEs typically present poor corporate governance, management and business structures, considering that in most cases, the SME is a firm with traditional personalized organizational hierarchies tied to a single owner or family. All these factors severely limit SMEs' export development and competitiveness (Crespi et al., 2014). Ghouse (2014) states that the government, private sector and the international sector need to play an active role in a coordinated manner to harness the export potential of MSME.

### **3. Research Methods**

#### ***3.1 Nature of Research***

This study is exploratory in nature, aimed at gaining a comprehensive understanding of the challenges faced by Micro, Small, and Medium Enterprises (MSMEs) in enhancing their export capabilities. MSMEs play a crucial role in the country's economic development, but they often encounter significant obstacles in expanding their export activities. The study focuses on identifying these key challenges and examining potential solutions to improve their export performance. Given the importance of MSMEs in the export potentials, this research sheds light on their struggles in accessing global markets and aims to provide insights into strategies that can facilitate MSMEs export growth.



### 3.2 Data Collection

The data for this study were gathered through both primary and secondary sources, providing a holistic analysis of the barriers to MSME export growth. Primary data were collected via a structured survey of 110 respondents from key MSMEs, facilitated through the digital platform KoBoCollect to ensure efficient and cost-effective data collection. In addition to the survey, 12 Key Informant Interviews (KIIs) were conducted with industry experts to capture qualitative insights, particularly regarding the challenges faced in international markets and the necessary institutional support to foster internationalization.

### 3.3 Sampling Technique

A non-probability convenience sampling method was employed to select 110 participants from various industries. This sampling technique was chosen due to practical constraints such as time and resources, allowing the study to target relevant stakeholders efficiently. Respondents were drawn from MSMEs actively involved in or seeking to expand their export activities. The survey was distributed digitally, and follow-up reminders were issued over a two-week period to ensure a high response rate. This approach provided a well-rounded understanding of the export-related challenges confronting MSMEs in Bangladesh.

### 3.4 Methods

The study adopted a mixed-method approach, integrating both quantitative and qualitative data. The quantitative aspect involved a structured survey to collect data on specific challenges related to export market access, while the qualitative aspect was addressed through KIIs with business leaders, offering deeper sector-specific insights. The data were analyzed using MS Excel and SPSS to detect key trends, with qualitative findings from the KIIs complementing the quantitative analysis. The research was conducted over a three-month period, with the results presented in the analysis and recommendations sections of the report.

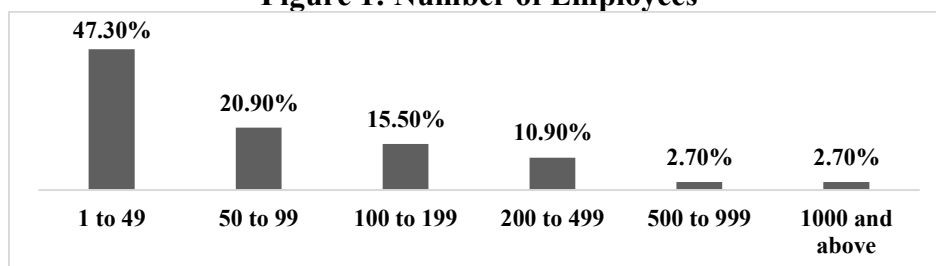
## 4. Survey Results

This section discusses the results of the survey in which a total of 110 respondents participated.

### 4.1 Profile of the Respondents

As shown in **Figure-1**, the majority of the respondents comprising 47.3% own a firm with less than 50 employees while 20.9% of respondents stated that their businesses employ a workforce ranging from 50 to 99 individuals. Conversely, 15.5% of respondents mentioned a workforce size falling within the range of 100 to 199, 10.9% of respondents reported a workforce size ranging from 200 to 499 and 5.4% of respondents indicated that their businesses employ 500 or more employees.

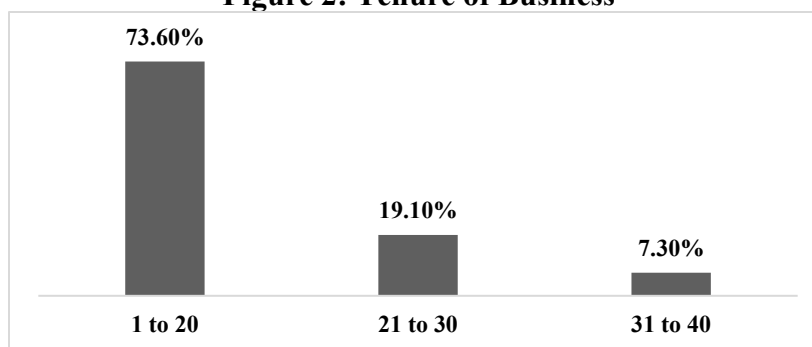
**Figure 1: Number of Employees**



Source: DCCI Survey on MSMEs (2024)

As shown in **Figure-2**, Among the respondents, 73.6% stated that they had been in business for 1 to 20 years. Moreover, 19.1% reported running their businesses for 21 to 30 years, while 7.3% mentioned tenures ranging from 31 to 40 years.

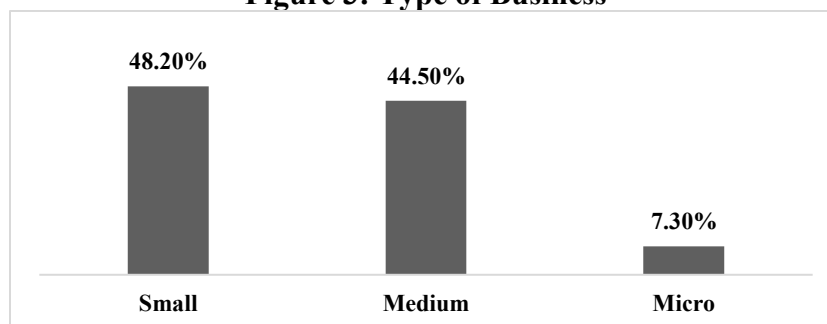
**Figure 2: Tenure of Business**



Source: DCCI Survey on MSMEs (2024)

As shown in **Figure-3**, regarding MSMEs, 48% of participants stated that their company falls into the small category. Meanwhile, 44.5% and 7.3% of participants mentioned that their companies fall within the medium and micro categories, respectively.

**Figure 3: Type of Business**



Source: DCCI Survey on MSMEs (2024)

According to the respondents' importance, the top 20 export destinations are shown in **Table 1**:

**Table 1: Main export destinations**

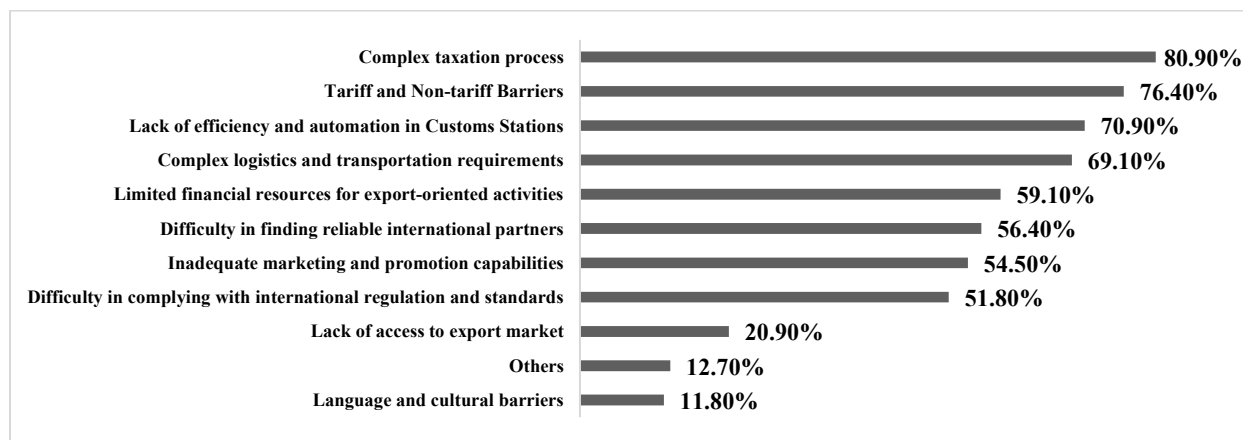
1. USA	6. China	11. Qatar	16. Nepal
2. UAE	7. KSA	12. Germany	17. South Korea
3. Europe	8. Malaysia	13. Oman	18. Australia
4. India	9. Canada	14. Thailand	19. France
5. UK	10. Singapore	15. Japan	20. Italy

Source: DCCI Survey on MSMEs (2024)

#### 4.2 Main challenges faced in attempting to Internationalize the business

**Figure-4** shows the main challenges faced by respondents when attempting to internationalize their businesses. 80.9% of them expressed concerns about the complexity of the taxation process. Additionally, increased tariffs and non-tariff barriers were cited by 76.4% of respondents, while 70.9% were apprehensive about the lack of efficiency and automation in Customs Stations. Furthermore, 69.1% expressed concerns about the complexity of logistics and transportation requirements. Concerns about limited financial resources for export-oriented activities were expressed by 59.1% of respondents, while 56.4% grew concerned about the difficulty in finding reliable international partners. About 54.5% of respondents expressed concerns about inadequate marketing and promotion capabilities, and 51.8% expressed worries about the difficulty in complying with international regulations and standards. Additionally, 20.9% of respondents highlighted the lack of access to export markets, and 11.8% expressed concerns about language and cultural barriers.

**Figure 4: Main challenges faced in attempting to Internationalize the Business**



Source: DCCI Survey on MSMEs (2024)

Around 12.7% of businesses that selected 'others' as an option when asked about challenges in attempting to internationalize their operations were further asked to specify the difficulties they faced. From their feedback, several additional challenges were identified. These include bureaucratic harassment and corruption, which hinder operational efficiency, and a lack of air cargo services that affects timely export logistics. Businesses also highlighted a shortage of skilled workers and insufficient capital as major barriers to growth. Limited access to finance further

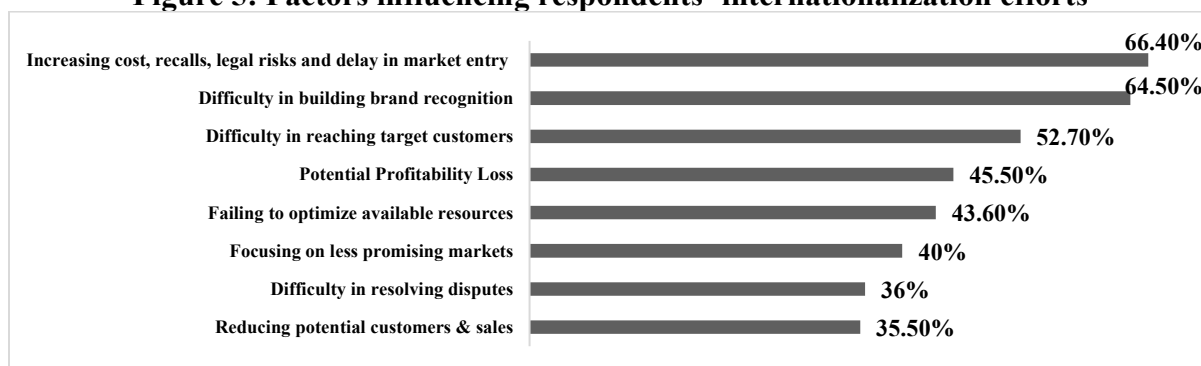


constrains expansion efforts. Moreover, there is insufficient cooperation in the production of local molds and a lack of product synergy in non-traditional exportable assets, both of which limit diversification. Additionally, a very poor Moody's rating and currency issues with African countries pose further challenges to international trade, while reductions in government incentives add to the financial burden faced by these enterprises.

#### 4.3 Factors influencing internationalization efforts

**Figure-5** reports about the challenges impacting the export efforts of their businesses. 66.4% of respondents expressed concern about barriers to accessing export markets due to escalating costs and legal risks. 64.5% of respondents cited difficulty in establishing brand recognition, while 52.7% reported challenges in reaching target customers. 45.5% of respondents mentioned limited profitability while 43.6% acknowledged failure to optimize available resources, and 40% expressed concerns about focusing on less promising markets. Interestingly, 36% of respondents highlighted reduced potential customers and sales, as well as difficulties in resolving disputes.

**Figure 5: Factors influencing respondents' internationalization efforts**



Source: DCCI Survey on MSMEs (2024)

#### 4.4 Potential markets for the Business

According to the respondents' importance, the top 20 potential markets for the Business are presented in **Table 2**:

**Table 2: Potential markets for the Business**

1. Europe	6. Africa	11. East Asia	16. China
2. USA	7. Japan	12. France	17. Mexico
3. Canada	8. India	13. Germany	18. Turkey
4. UK	9. Korea	14. Singapore	19. Brazil
5. UAE	10. Russia	15. South America	20. Middle East

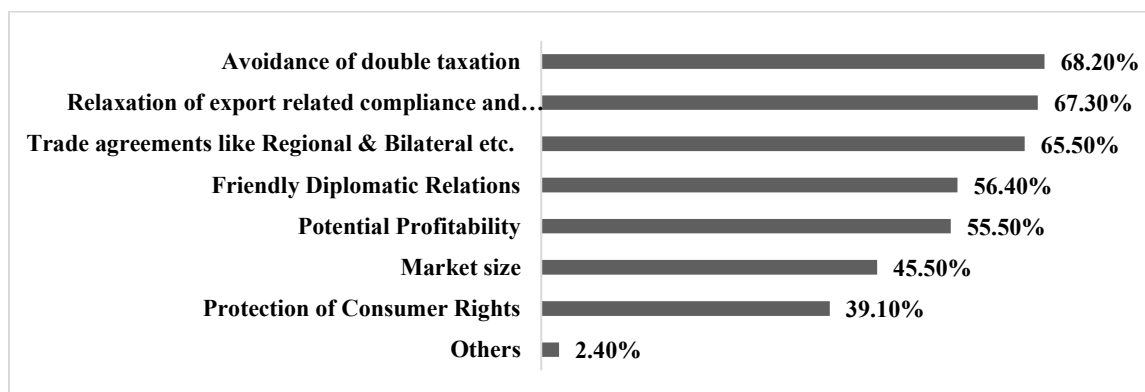
Source: DCCI Survey on MSMEs (2024)

#### 4.5 Factors influencing respondents' choice of export destination

**Figure-6** shows a picture of the factors influencing their choice of export destination. 68.2% of respondents cited double taxation avoidance. Approximately 67.3% of respondents mentioned the relaxation of export-related compliance and regulations, while 65.5% emphasized the

importance of trade agreements such as Regional and Bilateral agreements. Additionally, 56.4% of respondents highlighted friendly diplomatic relations, 55.5% emphasized potential profitability, and 45.5% expressed the importance of market size. Furthermore, about 39.1% of respondents mentioned the protection of consumer rights.

**Figure 6: Factors influencing respondents' choice of export destination**



Source: DCCI Survey on MSMEs (2024)

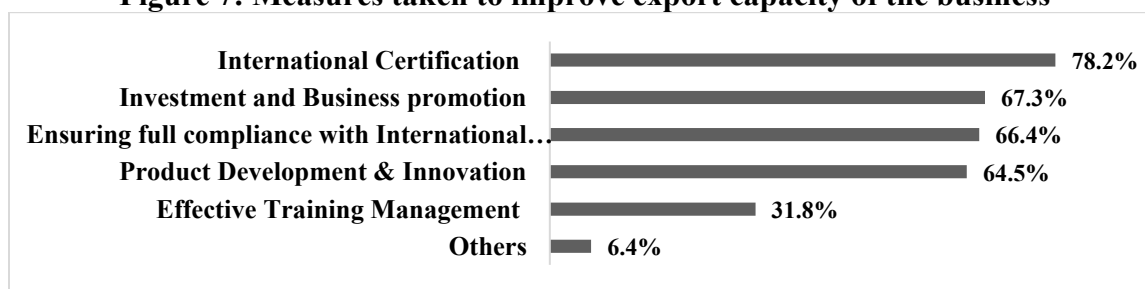
In addition, 2.4% respondents who chose 'others' as an option were asked to specify the factors that influenced the choice of these countries. From their feedback, a list of other factors is identified below:

- Easy access to market
- Quality assurance
- Government's vision and business planning

#### **4.6 Measures taken to improve export capacity of the business**

**Figure-7** reports the measures taken to enhance the export capacity of their businesses. 78.2% of respondents emphasized the importance of obtaining international certification. Additionally, 67.3% of respondents mentioned investment and business promotion, while 66.4% expressed the significance of ensuring full compliance with international standard benchmarks. Moreover, 64.5% of respondents highlighted product development and innovation as key strategies. Furthermore, 31.8% of respondents mentioned effective training management as part of their efforts.

**Figure 7: Measures taken to improve export capacity of the business**



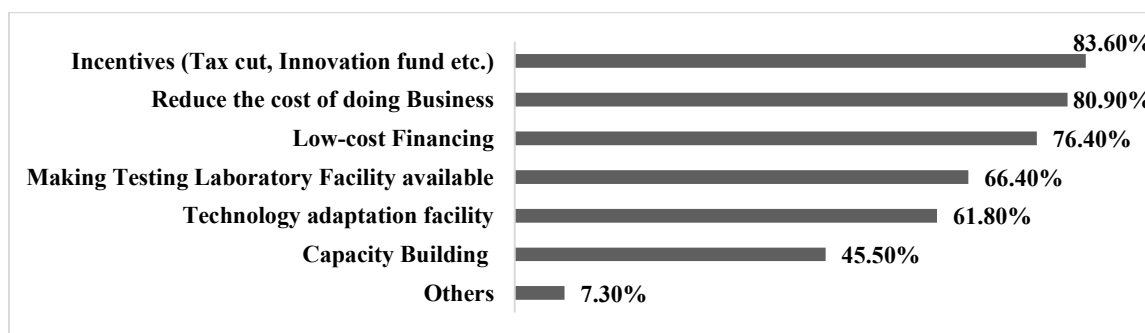
Source: DCCI Survey on MSMEs (2024)

Additionally, 6.4% of respondents who selected 'others' when asked about measures taken to improve their business's export capacity were further asked to specify the steps they had implemented. From their feedback, several additional measures were identified. These include participation in international trade shows to enhance market exposure, as well as the establishment of training facilities to build workforce capacity. Brand development emerged as a key focus, alongside efforts to strengthen backward linkages to improve supply chains. Cooperation from government factories was also highlighted as a supportive measure, along with the development of both private and international partnerships to facilitate business growth and expand export opportunities.

#### 4.7 Government support needed for facilitating access to export market

**Figure-8** reports the government or institutional support needed to facilitate their access to the export market. 83.6% of respondents emphasized the importance of alternative incentives such as tax cuts or innovation funds. Additionally, 80.9% of respondents expressed interest in reducing the cost of doing business, while 76.4% highlighted the significance of low-cost financing. Moreover, 66.4% of respondents stressed the need for the development of available testing laboratory facilities. Furthermore, 61.8% of respondents mentioned the adoption of new technology, and 45.5% underscored the importance of capacity building.

**Figure 8: Government support needed for facilitating access to export market**



Source: DCCI Survey on MSMEs (2024)

Additionally, 7.3% of respondents who selected 'others' when asked about the government or institutional support needed to facilitate access to export markets were further asked to specify their needs. From their feedback, several additional forms of support were identified. These include addressing harassment caused by clearing and forwarding (C&F) agents and customs officials, ensuring proper HS code specifications, simplifying customs clearance processes, and providing easier access to finance. Respondents also emphasized the need for smoother business operations, alternative cash incentives, and better banking procedures tailored to exporters. Reducing corruption and ensuring good governance were highlighted as critical, along with the need for improved public-private coordination. There was also a call for enhanced collaboration among institutions such as the Bangladesh Machine Tool Factory, BUET, and BSTI. Additionally, the provision of an Export Development Fund (EDF) was recommended to further support export growth.

## 5.0 Major findings from the Key Informant Interviews (KIIs)

To provide additional insight on survey results and to complement the literature on the export capability of MEMEs topic, this section presents key findings of Key Informant Interviews (KIIs) in which the participants were from 6 sectors including RMG, Light engineering (LE), Plastic, Leather & leather goods, Agro-processing and Pharmaceuticals.

Key findings and Recommendations from RMG sector are presented in Table 3:

Table 3: Key findings and Recommendations from RMG sector	
Key findings	Recommendations
<ul style="list-style-type: none"> <li>Excessive corruption in banking is responsible for shrinking RMG competitiveness and export markets.</li> <li>Due to cash crunch, almost 40% of RMG export have fallen.</li> <li>Businessmen are facing problems using ASYCUDA. Online application is not being approved through the system. Customs authorities are blocking it and bribes are being taken for clearance.</li> <li>For ERC (Export Registration Certificate) and IRC (Import Registration Certificate), RMG businessmen depend on the illegal channels of brokers.</li> <li>Despite easy bank loan policy for RMG sector, honest businessmen are being deprived of access to finance due to the misuse of loan by many unscrupulous businessmen.</li> <li>Same properties are being used as collateral for several banks' loans with the aim of non-repayment.</li> <li>Exporters are not able to make profit significantly as foreign buyers reduce the price of products.</li> <li>As buyers are taking the goods on purchase contract instead of LC contract, excess Dollar is being smuggled through Banking channel.</li> <li>Production cost increased due to Gas and Electricity price hike.</li> </ul>	<ul style="list-style-type: none"> <li>Bangladesh requires branding.</li> <li>Need a transparent banking ecosystem.</li> </ul>

Source: DCCI KIIs on MSMEs (2024)

Key findings and Recommendations from Light engineering (LE) sector are presented in Table 4:

Table 4: Key findings and Recommendations from Light engineering (LE) sector	
Key findings	Recommendations

<ul style="list-style-type: none"> <li>▪ Government is providing training facilities to the entrepreneurs but no financial support.</li> <li>▪ Entrepreneurs are not getting regular bank loan or other SME loan and they running their businesses with their small capital. Those who have sufficient capital are making huge profit from this sector.</li> <li>▪ Many small entrepreneurs in LE sector are doing seasonal business (as the Agri sector is dependent on it) but in the off-season, their business remains down. If financial support is given, they would be able to run their business all over the year.</li> <li>▪ machinery and small equipment in local LE industries are being produced using local raw materials.</li> <li>▪ Entrepreneurs are capable enough to produce products at a cheaper price than imported products.</li> <li>▪ From this sector local demand is being fulfilled and they are finding reliable platforms to export.</li> <li>▪ Entrepreneurs are not aware of IPR (Intellectual property rights), Patent or Trademark certificate.</li> <li>▪ Manufactured products of small businessmen are being sold by others in local country market or exported under different brand name so real businessmen are not getting recognition.</li> <li>▪ Some innovative products by local small entrepreneurs/ innovators are Brick crushing machine, Water pump, Rice threshing machine etc.</li> </ul>	<ul style="list-style-type: none"> <li>▪ In LE sector financing, marketing and branding are the main challenges. Need implementation of policy measures regarding these issues.</li> <li>▪ Need financial support on easy terms and conditions for the growth of this sector.</li> <li>▪ Need branding and reliable platform for backward and forward linkage to expand export volume from this sector.</li> <li>▪ If government provide sufficient support all imported products can be produced in our country</li> </ul>
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Source: DCCI KIIs on MSMEs (2024)

Key findings and Recommendations from Plastic sector are presented in Table 5:

Table 5: Key findings and Recommendations from Plastic sector	
Key findings	Recommendations
<ul style="list-style-type: none"> <li>▪ Small businesses are engaged in contract manufacturing, while larger</li> </ul>	<ul style="list-style-type: none"> <li>▪ Balancing the need to meet local demand for plastic with the desire to</li> </ul>

**Table 5: Key findings and Recommendations from Plastic sector**

Key findings	Recommendations
<p>industries handle their own production.</p> <ul style="list-style-type: none"> <li>Recent increases in exports are attributed to government support and improved profitability.</li> <li>The average individual's use of 6 kg of plastic products in Bangladesh suggests a considerable domestic market demand.</li> <li>The fact that 98% of plastic manufacturers are small industries highlights the importance of tailored support mechanisms to address their specific needs and challenges.</li> <li>The reliance on imported raw materials, coupled with the absence of local polymer manufacturing, poses challenges in terms of supply chain stability and cost management.</li> <li>Raw materials are primarily imported from China or other countries and over 90% of moulds are imported.</li> <li>The absence of financial support from the government underscores the importance of advocating for policies that promote the growth and sustainability of the plastic manufacturing sector.</li> <li>Besides the lack of recyclability, lack of technological advancements, innovation, design capabilities and testing facilities are hindering export growth.</li> <li>The increasing volume of imported plastic goods and energy crisis are leading to a decline in competitiveness and production of local firms.</li> <li>Other challenges- <i>Scarcity of high-quality products, Insufficient availability of modern moulding machine, dye technology, lack of skilled experts, lack of research in polymer technology, limited product</i></li> </ul>	<p>expand export markets requires strategic planning.</p> <ul style="list-style-type: none"> <li>Need computer-aided technology and training for manufacturing die and mould.</li> <li>Local Production of polyphyllin and more R&amp;D investment is required.</li> <li>Obtaining certifications for hygiene and quality standards can be supportive of building trust with international buyers and access to new markets.</li> <li>Exploring alternative sources of raw materials and adopting more sustainable manufacturing practices would be a step in the right direction.</li> <li>Providing incentives for polymer manufacturers to establish factories can boost the growth of the industry, create employment opportunities and enhance the country's manufacturing capabilities.</li> <li>Initiating and encouraging quality mould and dye-making processes can enhance the precision and efficiency of polymer manufacturing, leading to higher-quality products and increased competitiveness in the market.</li> <li>Providing duty exemptions for importing safety equipment related to plastic manufacturing can encourage the adoption of best safety practices.</li> <li>Investing in the production of biodegradable plastics aligns with global sustainability trends.</li> <li>Investing in automation, artificial intelligence (AI) and machine learning (ML) technologies can enhance operational efficiency, improve production processes and drive innovation within the plastic industry.</li> <li>Bangladesh's high rate of mismanaged plastic waste necessitates urgent action to improve recycling infrastructure and</li> </ul>



**Table 5: Key findings and Recommendations from Plastic sector**

Key findings	Recommendations
<i>diversity, environmental challenges, absence of international certification facilities including hygiene certificate, Inadequate plastic waste management infrastructure and industrial plant.</i>	promote responsible consumption and disposal practices.

Source: DCCI KIIs on MSMEs (2024)

Key findings and Recommendations from Leather & leather goods sector are presented in Table 6:

**Table 6: Key findings and Recommendations from Leather & leather goods sector**

Key findings	Recommendations
<ul style="list-style-type: none"> <li>▪ Disparity in government policy support in leather sector is more significant than in other sectors.</li> <li>▪ MSME start-ups are unable to continue their businesses due to financial crisis.</li> <li>▪ Business solution through one-stop service is limited than expectations.</li> <li>▪ Banks are reluctant to provide financial support to MSMEs.</li> <li>▪ The Central Effluent Treatment Plant (CETP) of Savar Tannery Industrial Complex is not functional.</li> <li>▪ For the absence of compliance, the export volume from this sector is lower.</li> <li>▪ Despite several obstacles, the export capability of MSMEs is upward-driven.</li> <li>▪ MSMEs are gradually meeting international quality standards and enhancing their competitiveness globally.</li> <li>▪ Product quality is being improved by the adoption of technology, including automation, digitalization and efficiency.</li> <li>▪ With ongoing efforts to address challenges and opportunities, MSMEs are poised for further growth in international markets.</li> <li>▪ To catch export market encounter challenges are- inadequate infrastructure, bureaucratic complication and skill shortage. These also hinder expansion into global market, limiting growth opportunities and competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leveraging government support and international networks can further enhance MSME's export capabilities and competitiveness.</li> <li>▪ Advocating for streamlined bureaucratic processes, investing in infrastructure development and offering targeted training programs to overcome skills gaps.</li> <li>▪ Need easy access to finance, alternative of cash subsidy through policy support and development of backward linkage industries.</li> <li>▪ Need strategic partnerships to introduce modern technology.</li> <li>▪ Need sufficient support for startup and effective one-stop service for business solution.</li> <li>▪ Central Effluent Treatment Plant (CETP) of Svar Tannery Industrial Complex needs to be restructured.</li> <li>▪ For leather sector, all facilities must be ensured like RMG sector.</li> <li>▪ For sectoral development need to form specific authority as the role of BSCIC is disappointing.</li> </ul>

Source: DCCI KIIs on MSMEs (2024)

Key findings and Recommendations from Agro-processing sector are presented in Table7:

Table 7: Key findings and Recommendations from Agro-processing sector	
Key findings	Recommendations
<ul style="list-style-type: none"> <li>Due to customs issues, particularly regarding assessment values, businessmen are exporting products below assessed values.</li> <li>Supply chain disruptions caused by global economic turmoil and driving up the production cost of agricultural products.</li> <li>The competitiveness of this sector is declining due to increased business expenses, bureaucratic hurdles and customs issues.</li> <li>Businessmen are facing challenges in getting sanitary and phytosanitary certificates. Physical presence and inspection are mandatory despite having online system.</li> <li>Lessened cash incentive is resulting incomplete disbursement of entitled benefits.</li> <li>Escalating freight charge is inflating business costs.</li> <li>The lack of bond facilities further complicates export processes.</li> <li>The increased cost of raw materials used for processing is escalating business expenses.</li> </ul>	<ul style="list-style-type: none"> <li>Source tax and import tax on raw materials in the agriculture sector need to be repealed.</li> <li>Ensuring uninterrupted and sustainable utility services is essential.</li> <li>To ensure vast export potential, bond facilities must be guaranteed.</li> <li>Expand processing facilities to enhance competitiveness in the global market.</li> <li>To bolster export capacity, it is crucial to identify sustainable alternatives of cash incentive.</li> <li>Government intervention is essential for reducing the costs of raw materials, addressing bureaucratic obstacles and resolving customs issues.</li> </ul>

Source: DCCI KIIs on MSMEs (2024)

Key findings and Recommendations from Pharma sector are presented in Table 8:

Table 8: Key findings and Recommendations from Pharma sector	
Key findings	Recommendations
<ul style="list-style-type: none"> <li>The main obstacle to export capabilities of the pharma sector is the scarcity of raw materials.</li> <li>The harassment of customs authority is severely hampering both import and export businesses.</li> </ul>	<ul style="list-style-type: none"> <li>To unleash the full potential of the pharmaceutical sector's export endeavors, governmental support and collaborative efforts within the industry are mandatory.</li> </ul>

**Table 8: Key findings and Recommendations from Pharma sector**

Key findings	Recommendations
<ul style="list-style-type: none"> <li>▪ The withdrawal of cash subsidies will diminish export capacity, create obstacles to compete in the global market and lead to loss of market share.</li> <li>▪ Because of the higher prices of Bangladeshi medicine, Importers are buying products from other countries even after signing contract.</li> <li>▪ The deterioration of the export market and decreased capital have been leading this industry to pull out from further trade.</li> <li>▪ Representatives of Bangladesh foreign missions often fail to provide necessary assistance to businessmen even reluctant to meet them.</li> <li>▪ It is challenging to gain insight into the demand of business as well as the required product specification in a particular country.</li> <li>▪ Insufficient infrastructure, hampering the efficient movement of goods and increasing operational costs are exacerbated challenges for MSMEs.</li> <li>▪ Limited access to finance and the challenge to compete with larger enterprises constrain the export capabilities of MSMEs.</li> <li>▪ MSMEs encounter significant obstacles when attempting to expand internationally, primarily stemming from their constrained resources for marketing and compliance.</li> <li>▪ With limited resources allocated for marketing efforts, MSMEs are struggling to carve out a niche amidst the dominance of more established players in the international market.</li> <li>▪ Certain niche products have successfully penetrated international markets but broader export capabilities face hurdles including compliance with stringent international regulatory standards and navigating complex export procedures.</li> <li>▪ The lack of accessible financing options constrains the ability to invest in essential</li> </ul>	<ul style="list-style-type: none"> <li>▪ Export consortiums can allow MSMEs, to pool resources for marketing, compliance expertise, logistics and be more competitive internationally.</li> <li>▪ The government can introduce programs to connect MSMEs with mentors, consultants and training on navigating international trade regulations and marketing.</li> <li>▪ Should encourage MSMEs to utilize online marketplaces and e-commerce platforms to reach a wider audience and reduce marketing costs.</li> <li>▪ Should build brand awareness and target specific markets. In this regard Introducing training programs for MSMEs on digital marketing strategies like social media marketing and Search engine optimization (SEO)</li> <li>▪ The government should invest in infrastructure development, particularly for transportation networks and reduce export costs for MSMEs.</li> <li>▪ Introduce financial schemes with easier access to loans and grants aiming at export-oriented MSMEs.</li> <li>▪ Establish special economic zones with simplified regulations, and tax benefits to facilitate export activities from MSMEs.</li> <li>▪ Ensure access to business development services to assist MSMEs with market research, product certification and export documentation.</li> <li>▪ The government should set export target for each mission</li> </ul>

**Table 8: Key findings and Recommendations from Pharma sector**

Key findings	Recommendations
<p>upgrades and necessary expansions for competing effectively on a global scale.</p> <ul style="list-style-type: none"> <li>▪ Inadequate infrastructure and financing facilities serve as challenging bottlenecks to global expansion.</li> <li>▪ The burden of compliance with complicated regulatory frameworks places further strain on limited resources and diverts attention from core business activities.</li> </ul>	<p>and for poor performance, punitive measures should be taken.</p> <ul style="list-style-type: none"> <li>▪ Officials of all missions, embassies or commercial counsellors should communicate with various chambers, associations and businessmen of that country and collect list of their requirements for products as they can import from Bangladesh.</li> </ul>

Source: DCCI KIIs on MSMEs (2024)

## 6. Conclusion and Recommendations

Micro, Small, and Medium Enterprises (MSMEs) are crucial contributors to Bangladesh's economy, playing a significant role in industrial production, exports, employment creation, and expanding the consumer base. Government initiatives aimed at boosting MSME competitiveness, improving quality, facilitating access to finance, and promoting technology adoption have driven a shift towards the production of more sophisticated goods. However, these enterprises continue to face several challenges. Bureaucratic harassment and corruption impede operational efficiency, while inadequate air cargo services and a shortage of skilled labor hamper productivity. Additionally, insufficient capital and limited access to finance constrain their growth potential. The lack of cooperation in mold production and synergy in non-traditional assets restricts the diversification of exports. Moody's poor rating and currency issues with African nations further deter foreign investment and trade, while reductions in government incentives exacerbate these challenges.

To overcome these hurdles, Bangladesh must enhance its technical infrastructure, automate taxation processes, and refine banking systems. Diversification of exports, fostering innovation, and stimulating investment are critical to sustaining growth. Educational reforms and streamlined bureaucratic processes are essential, alongside efforts to ensure fair competition and robust support for MSMEs. Strengthening industrial capacity, improving product development, and optimizing logistics are key factors that will help MSMEs thrive. Government backing in areas such as packaging, warehouse facilities, and port efficiency is necessary, alongside reducing tariffs, upgrading machinery, and maintaining high-quality standards. Increased cooperation with international partners and the exploration of new markets are vital for sustained export growth. Addressing these issues will help Bangladesh unlock its export potential and advance its economic prosperity.

Based on these findings, this study puts forward the following recommendations to enhance the export capacity of MSMEs. First, strategies to streamline export processes and improve product

quality are needed to strengthen Bangladesh's position in the global market. Ensuring an uninterrupted power supply and improving transportation infrastructure will reduce production costs and boost MSME competitiveness in export markets. Financial incentives, subsidies, and access to credit are crucial to enabling MSMEs to invest in technology upgrades, research and development, and expansion initiatives. Streamlining customs procedures and providing easy access to customs facilities can cut down the time and costs associated with exporting products. Reducing the number of required documents will significantly ease the burden on manufacturers. Establishing testing laboratories for product quality assessment and innovation is vital for ensuring compliance with international standards and fostering industry-wide innovation. Investments in technical infrastructure, including automation, are critical, as is the development of a streamlined banking system to ensure timely confirmation of export orders. Significant educational reforms are also necessary to address skilled labor shortages, especially in light of challenges posed by LDC graduation. Further, initiatives must be introduced to secure international recognition of BSTI certifications. Lastly, developed port facilities are essential for improving export logistics, while extending storage capacity at ports can facilitate trade operations. Exploring non-European markets for new export opportunities and finalizing bilateral trade agreements with countries like Brazil, Australia, India, China, Japan, and Russia are crucial for expanding Bangladesh's trade footprint.

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## Appendix:

**Table A1: Number of Employees**

Employee Number	Frequency	Percent
1 to 49	52	47.3
50 to 99	23	20.9
100 to 199	17	15.5
200 to 499	12	10.9
500 to 999	3	2.7
1000 and above	3	2.7
<b>Total</b>	<b>110</b>	<b>100.0</b>

**Table A2: Tenure of Business (in years)**

Tenure (in years)	Frequency	Percent
1 to 20	81	73.6
21 to 30	21	19.1
31 to 40	8	7.3
<b>Total</b>	<b>110</b>	<b>100.0</b>

**Table A3: Type of Business of the Respondents**

Business Type	Frequency	Percent
Micro	8	7.3
Small	53	48.2
Medium	49	44.5
<b>Total</b>	<b>110</b>	<b>100.0</b>

**Table A4: Challenges face in attempting to internationalize their Business**

Challenges	Frequency	Percent
Lack of access to export market	23	20.9%
Difficulty in complying with international regulation and standards	57	51.8%
Limited financial resources for export-oriented activities	65	59.1%
Inadequate marketing and promotion capabilities	60	54.5%
Difficulty in finding reliable international partners	62	56.4%
Language and cultural barriers	13	11.8%
Complex logistics and transportation requirements	76	69.1%
Tariff and Non-tariff Barriers	84	76.4%
Complex taxation process	89	80.9%
Others	14	12.7%
Lack of efficiency and automation in Customs Stations	78	70.9%

**Table A5: Factors influencing respondents' internationalization efforts**

Factors	Frequency	Percent
Reducing potential customers & sales	39	35.5%
Increasing cost, recalls, legal risks and delay in market entry	73	66.4%
Focusing on less promising markets	42	40%
Failing to optimize available resources	48	43.6%
Difficulty in reaching target customers	58	52.7%
Difficulty in building brand recognition	71	64.5%
Difficulty in resolving disputes	39	36%

Potential Profitability Loss	50	45.5%
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**Table A6: Factors influencing respondents' choice of export destination**

Factors	Frequency	Percent
Market size	50	45.5%
Protection of Consumer Rights	43	39.1%
Avoidance of double taxation	75	68.2%
Trade agreements like Regional & Bilateral etc.	71	65.5%
Friendly Diplomatic Relations	62	56.4%
Potential Profitability	61	55.5%
Relaxation of export related compliance and regulations	74	67.3%
Others	3	2.4%

**Table A7: Measures taken by respondents to improve the export capacity of their business**

Measures	Frequency	Percent
Effective Training Management	35	31.8%
International Certification	86	78.2%
Investment and Business promotion	74	67.3%
Product Development & Innovation	71	64.5%
Ensuring full compliance with International Standard Benchmark	73	66.4%
Others	7	6.4%

**Table A8: Government or institutional support required to facilitate access to export markets**

Types of Government or institutional support	Frequency	Percent
Capacity Building	50	45.5%
Low-cost Financing	84	76.4%
Making Testing Laboratory Facility available	73	66.4%
Reduce the cost of doing Business	89	80.9%
Incentives (Tax cut, Innovation fund etc.)	92	83.6%
Technology adaptation facility	68	61.8%
Others	8	7.3%