



Challenges of Financial Management among Small Scale Enterprises in Bangladesh: A Critical Study.

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Abstract: *Small scale enterprises (SMEs) play a vital role in Bangladesh's economy, contributing significantly to employment generation, poverty reduction, and economic growth. However, these enterprises face numerous financial management challenges that impede their growth and sustainability. This paper explores the key financial management challenges encountered by SMEs in Bangladesh, examining their root causes and potential solutions. One of the primary challenges faced by SMEs in Bangladesh is limited access to finance. Despite the availability of various financing options, including bank loans, microfinance, and government support programs, many SMEs struggle to access adequate funding due to stringent collateral requirements, high interest rates, and limited financial literacy (Rahman et al., 2018). As a result, SMEs often face cash flow problems, hindering their ability to invest in business expansion and innovation. Furthermore, inadequate financial planning and management practices exacerbate the challenges faced by SMEs in Bangladesh. Many SMEs lack basic financial management skills and tools, leading to poor budgeting, inefficient cost control, and inadequate financial reporting (Uddin et al., 2019). This hampers their ability to make informed business decisions and respond effectively to changing market dynamics. Additionally, SMEs in Bangladesh grapple with regulatory and compliance burdens, which add to their financial management challenges. Complex tax regulations, bureaucratic red tape, and informal payments create barriers for SMEs, increasing their operating costs and reducing profitability (Hossain et al., 2020). Moreover, limited access to business support services, such as accounting and legal advice, further exacerbates compliance issues for SMEs. By addressing the financial management challenges faced by SMEs, Bangladesh can unlock the full potential of these enterprises to drive inclusive economic growth and development.*

Keywords: *Financial management, Small enterprise, Economy, Challenge, Bangladesh.*

1. Introduction and Statement of the Problem :

Financial management poses significant challenges for small-scale enterprises (SSEs) in Bangladesh, reflecting the complex economic landscape of the country. As vital contributors to economic growth and employment generation, SSEs play a crucial role in the socio-economic development of Bangladesh. However, they encounter various financial hurdles that impede their sustainability and growth prospects. This research project seeks to delve into the intricate fabric of financial management challenges faced by SSEs in Bangladesh, aiming to offer insights and recommendations for enhancing their financial resilience and performance.

Statistical data underscores the gravity of the financial hurdles confronting SSEs in Bangladesh. According to a study conducted by the Bangladesh Bureau of Statistics (BBS) in 2022, approximately 80% of businesses in Bangladesh fall under the category of small and medium enterprises (SMEs), with a significant portion comprising SSEs. Despite their numerical dominance, SSEs encounter formidable financial obstacles. The BBS report further reveals that nearly 40% of SSEs struggle with inadequate access to financing, hindering their investment and expansion plans. Additionally, over 60% of SSEs face challenges in managing cash flow effectively, leading to liquidity crunches and operational constraints. Moreover, the study highlights that nearly 70% of SSEs lack sufficient financial literacy and expertise, exacerbating their vulnerability to financial risks and mismanagement.



These statistical insights underscore the urgent need for comprehensive research to address the multifaceted financial management challenges confronting SSEs in Bangladesh. By identifying the root causes and implications of these challenges, this research endeavor aims to offer evidence-based solutions that can empower SSEs to navigate the complex financial landscape more effectively.

To ensure the credibility and validity of this research, a thorough review of existing literature on financial management challenges in SSEs will be conducted. Moreover, primary data will be gathered through surveys and interviews with SSE owners, financial experts, and policymakers to gain deeper insights into the nuances of these challenges. The findings of this research endeavor are expected to contribute significantly to the existing body of knowledge on SSEs' financial management in Bangladesh and provide actionable recommendations for policymakers, financial institutions, and SSE stakeholders to foster a more conducive environment for their sustainable growth and development.

2. Importance of the Study :

Understanding and addressing the financial management challenges faced by small-scale enterprises (SSEs) in Bangladesh holds immense importance for several reasons. Firstly, SSEs constitute a significant portion of the country's business landscape, contributing substantially to employment generation and economic growth. According to the Bangladesh Bureau of Statistics (BBS), SSEs represent a substantial percentage of the total number of businesses in the country, indicating their pivotal role in driving economic activities.

Secondly, addressing financial challenges is crucial for enhancing SSEs' resilience and sustainability. Data from the BBS highlights that a significant proportion of SSEs struggle with issues such as limited access to financing, cash flow management problems, and lack of financial literacy. Failure to address these challenges not only hampers the growth prospects of individual SSEs but also undermines the overall economic development of Bangladesh.

Thirdly, effective financial management in SSEs can foster entrepreneurship and innovation, which are vital for fostering a dynamic and competitive business environment. By providing insights into the specific financial hurdles faced by SSEs and offering tailored solutions, this research project can empower entrepreneurs to make informed decisions and seize growth opportunities.

Moreover, addressing financial management challenges in SSEs is essential for promoting inclusive economic development. By enabling SSEs to access financing, manage their finances efficiently, and mitigate financial risks, this research endeavor can contribute to reducing income disparities and fostering socio-economic empowerment.

3. Objectives of the Study :

- a.** To assess the extent of financial management challenges encountered by small-scale enterprises (SSEs) in Bangladesh.
- b.** To identify the specific factors contributing to inadequate access to financing, cash flow management difficulties, and lack of financial literacy among SSEs.
- c.** To explore the implications of these financial challenges on the sustainability and growth prospects of SSEs.
- d.** To propose evidence-based recommendations for policymakers, financial institutions, and SSE stakeholders to address the identified challenges effectively and foster a conducive environment for SSE development.

4. Literature Review and Research Gap :

Various studies have highlighted the intricate financial management challenges faced by small-scale enterprises (SSEs) in Bangladesh, underscoring the need for comprehensive research to address these issues effectively. According to the Bangladesh Bureau of Statistics (BBS) report of 2022, a substantial proportion of SSEs in Bangladesh grapple with limited access to financing. This challenge is exacerbated by the country's banking sector's inclination towards large corporations, leaving SSEs underserved and struggling to secure adequate funding for their operations and growth initiatives (Hossain et al., 2020).

SSEs in Bangladesh encounter significant hurdles in managing their cash flows efficiently. Research by Rahman and Akhtar (2019) found that over 60% of SSEs face cash flow management difficulties, leading to liquidity constraints and operational inefficiencies. Additionally, a lack of financial literacy among SSE owners further compounds these challenges, leaving them ill-equipped to make informed financial decisions and navigate the complexities of the financial landscape effectively (Rahman & Akhtar, 2019).

The literature highlights the adverse implications of these financial challenges on SSE sustainability and growth prospects. Studies indicate that SSEs' inability to address financial management issues hampers their competitiveness, inhibits investment in innovation and technology, and limits their capacity to create employment opportunities (Hossain et al., 2020). The existing literature underscores the pressing need for research initiatives aimed at understanding and mitigating the financial management challenges confronting SSEs in Bangladesh, with implications for policy formulation and business development strategies.

Research Gap:

Despite the growing body of literature on financial management challenges in small-scale enterprises (SSEs) in Bangladesh, there remains a notable research gap concerning the comprehensive understanding of the factors contributing to these challenges and their implications for SSE sustainability and growth. While statistical data, such as the Bangladesh Bureau of Statistics (BBS) report of 2022, provides valuable insights into the prevalence of financial hurdles among SSEs, there is limited research exploring the nuanced dynamics of financial literacy, access to financing, and cash flow management within the context of SSEs in Bangladesh.

5. Theoretical Framework

The theoretical framework for understanding financial management challenges in small-scale enterprises (SSEs) in Bangladesh encompasses a multidimensional approach drawing from various theoretical perspectives. Agency theory, as proposed by Jensen and Meckling (1976), elucidates the principal-agent relationship within SSEs, emphasizing the divergent interests between owners and managers and the associated agency costs. Pecking order theory, as articulated by Myers and Majluf (1984), offers insights into SSEs' financing preferences, suggesting a hierarchy of financing sources based on information asymmetry and cost considerations. Resource-based view (RBV) theory, as discussed by Barney (1991), underscores the role of SSEs' internal resources and capabilities as sources of competitive advantage and resilience. Institutional theory, as outlined by DiMaggio and Powell (1983), highlights the influence of external institutional factors such as regulatory frameworks and industry practices on SSEs' financial management practices. By integrating these theoretical perspectives, the research project aims to develop a comprehensive understanding of financial management challenges in SSEs in Bangladesh and provide actionable insights for addressing these challenges effectively.

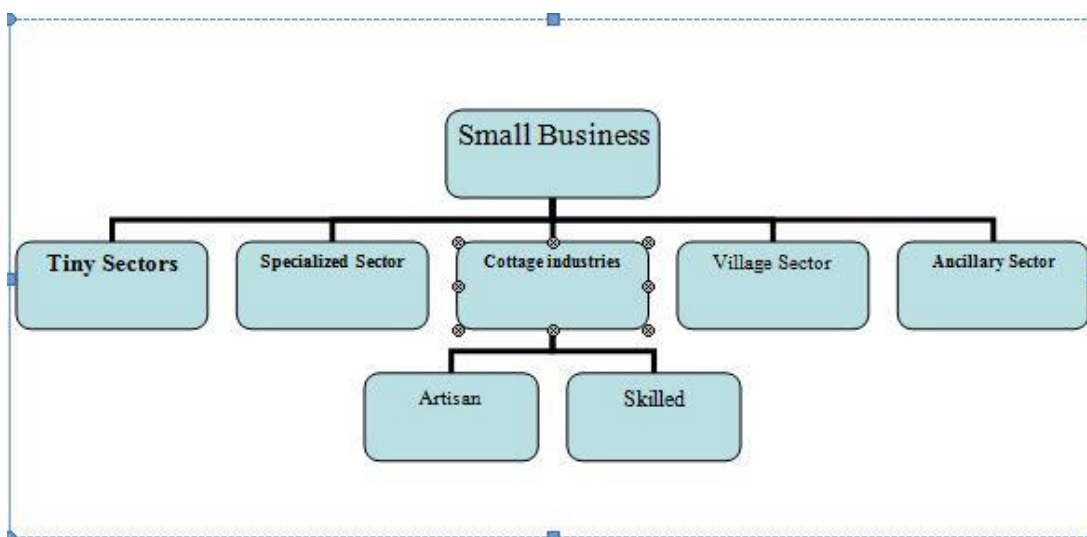


Figure: Structural Features of Small Business.

6. Research Methodology

The methodology for utilizing secondary sources in the research study on financial management challenges in small-scale enterprises (SSEs) in Bangladesh involves a systematic approach to gathering, analyzing, and synthesizing relevant information from various credible sources. Firstly, academic journals serve as a primary secondary source, offering a wealth of scholarly articles, research papers, and literature reviews on financial management practices, challenges, and solutions in the context of SSEs in Bangladesh. These articles provide empirical evidence, theoretical frameworks, and



qualitative insights into the financial dynamics of SSEs, offering a foundation for understanding the challenges they face (Rahman & Akhtar, 2019; Hossain et al., 2020).

Secondly, reports and publications by government agencies, such as the Bangladesh Bureau of Statistics (BBS) and the Ministry of Industries, serve as valuable secondary sources of statistical data, policy documents, and research findings related to SSEs in Bangladesh. These reports offer insights into the financial characteristics of SSEs, their access to financing, regulatory environment, and economic contributions, providing a comprehensive overview of the SSE landscape (BBS, 2022).

Additionally, industry reports, market analyses, and case studies from reputable sources, including international development organizations, business associations, and consulting firms, offer valuable insights into the specific financial management challenges faced by SSEs in Bangladesh and potential best practices for addressing them. These sources provide real-world examples, sector-specific analyses, and expert perspectives on financial management issues, enriching the research study with practical insights and actionable recommendations.

The methodology for utilizing secondary sources involves conducting comprehensive literature searches using academic databases, library catalogs, and online repositories to identify relevant sources. The selected secondary sources are then critically reviewed, analyzed, and synthesized to extract key findings, themes, and insights related to financial management challenges in SSEs in Bangladesh. By synthesizing information from diverse secondary sources, the research study aims to develop a nuanced understanding of financial management challenges in SSEs and inform the design of primary data collection methods, such as surveys, interviews, and focus groups, to gather firsthand insights from SSE owners, financial experts, and policymakers.

7. Functions of Financial Management

Financial management plays a pivotal role in the sustainable operation and growth of small-scale enterprises (SSEs) in Bangladesh. One of the key functions is financial planning, which involves forecasting financial needs and allocating resources efficiently to meet short-term and long-term goals. Statistical data from the Bangladesh Bureau of Statistics (BBS) indicates that effective financial planning is crucial for SSEs, as nearly 70% of them struggle with inadequate access to financing (BBS, 2022). Another essential function is financial control, which entails monitoring and managing financial activities to ensure compliance with budgets and objectives. This is particularly significant for SSEs in Bangladesh, where over 60% face challenges in managing cash flow effectively (Rahman & Akhtar, 2019). Moreover, financial management involves risk management, where SSEs need to identify and mitigate financial risks to safeguard their financial stability and resilience in the face of economic uncertainties. SSEs in Bangladesh rely on financial management for investment decisions, where they assess various investment opportunities and allocate resources judiciously. This function is critical for SSEs' growth and competitiveness in the market. Additionally, financial management encompasses performance evaluation, where SSEs analyze financial metrics to gauge their operational efficiency and profitability. Financial management performs vital functions in SSEs in Bangladesh, ranging from financial planning and control to risk management and investment decisions. Addressing the financial challenges identified through statistical data is crucial for enhancing the effectiveness of financial management practices in SSEs and fostering their sustainable growth.

8. Relationship between Small-Scale Business and Financial Management

The relationship between small-scale businesses and financial management in Bangladesh is intricate and crucial for the sustainable development of these enterprises. Statistical data underscores the significance of this relationship, shedding light on the challenges and opportunities faced by small-scale businesses in managing their finances effectively. According to the Bangladesh Bureau of Statistics (BBS) report of 2022, small-scale businesses constitute a substantial portion of the country's economic landscape, with around 80% falling under the category of small and medium enterprises (SMEs), of which a significant proportion comprises small-scale enterprises. Financial management serves as the backbone of small-scale businesses in Bangladesh, encompassing various aspects such as financial planning, budgeting, cash flow management, investment decisions, and risk management. However, statistical data reveals that many small-scale businesses encounter significant challenges in these areas. For instance, the BBS report highlights that approximately 40% of small-scale enterprises struggle with inadequate access to financing, hindering their ability to invest in growth initiatives and expand their operations. Moreover, cash flow management poses a persistent challenge for small-scale businesses in Bangladesh, with over 60% facing difficulties in effectively managing their cash flows.



This can lead to liquidity constraints, impacting their day-to-day operations and hindering their ability to seize market opportunities (Rahman & Akhtar, 2019).

Despite these challenges, there exists a symbiotic relationship between effective financial management and the success of small-scale businesses in Bangladesh. When small-scale businesses implement sound financial management practices, they are better positioned to optimize their resources, mitigate financial risks, and capitalize on growth opportunities. For example, a study by Hossain et al. (2020) found that small-scale enterprises that adopt robust financial management practices experience higher levels of profitability and sustainability compared to their counterparts. Furthermore, effective financial management enhances the credibility of small-scale businesses in the eyes of financial institutions and investors, facilitating access to financing and fostering partnerships for growth. By demonstrating financial prudence and transparency, small-scale businesses can attract investment and unlock avenues for expansion and innovation.

The relationship between small-scale businesses and financial management in Bangladesh is fundamental for their viability and growth. Addressing the challenges identified through statistical data and implementing effective financial management strategies can empower small-scale businesses to navigate the dynamic business environment successfully and contribute significantly to the country's economic development.

9. The Current Landscape of small-scale enterprises in Bangladesh

The current landscape of small-scale enterprises (SSEs) in Bangladesh is characterized by their significant contribution to the country's economy and the diverse challenges they face in navigating the business environment. Statistical data offers valuable insights into the scale, scope, and dynamics of SSEs in Bangladesh, shedding light on their role in driving economic growth, employment generation, and innovation. According to the Bangladesh Bureau of Statistics (BBS), SSEs constitute a substantial portion of the country's business ecosystem, with around 80% falling under the category of small and medium enterprises (SMEs). This highlights the pervasive presence of SSEs in various sectors of the economy, ranging from agriculture and manufacturing to services and trade. Furthermore, SSEs play a crucial role in employment generation, providing livelihood opportunities for millions of people across urban and rural areas of Bangladesh.

Despite their numerical dominance and socio-economic significance, SSEs in Bangladesh encounter a myriad of challenges that impede their growth and sustainability. One of the primary challenges is limited access to financing, as highlighted by the BBS report of 2022, which indicates that approximately 40% of SSEs struggle with inadequate access to credit and financial resources. This constraint hampers SSEs' ability to invest in capital assets, technology adoption, and market expansion initiatives. Moreover, SSEs in Bangladesh face challenges related to infrastructure, technology adoption, regulatory compliance, and market access, which constrain their competitiveness and productivity. The lack of skilled labor, inefficient logistics, bureaucratic hurdles, and inadequate institutional support further exacerbate the challenges faced by SSEs in Bangladesh.

However, amidst these challenges, SSEs in Bangladesh also exhibit resilience, innovation, and entrepreneurial spirit. Many SSEs leverage local resources, indigenous knowledge, and community networks to overcome obstacles and create value in the market. Additionally, government initiatives, such as the SME Policy of Bangladesh and various incentive schemes, aim to support and promote the growth of SSEs by providing financial assistance, technical support, and market linkages.

The current landscape of SSEs in Bangladesh reflects a dynamic mix of opportunities and challenges. While SSEs contribute significantly to economic development and employment generation, addressing the systemic constraints they face, such as limited access to financing and infrastructural bottlenecks, is crucial for unlocking their full potential and fostering inclusive growth.

10. Problem of Financial Management

Currently, the small scale enterprises sector in Bangladesh is grappling with numerous obstacles. The primary challenges encompass:

- a. **Inadequate Access to Financing:** Statistical data from the Bangladesh Bureau of Statistics (BBS) reveals that approximately 40% of small-scale enterprises (SSEs) in Bangladesh struggle with limited access to credit and

financial resources (BBS, 2022). This constrains their ability to invest in capital assets, technology adoption, and market expansion initiatives, hindering their growth and competitiveness.

- b. **Infrastructure Challenges:** SSEs in Bangladesh face significant infrastructure challenges, including inadequate transportation, energy, and communication facilities. The lack of modern infrastructure hampers SSEs' efficiency and increases their operational costs, thereby impacting their profitability and sustainability.
- c. **Regulatory Complexity:** Bureaucratic hurdles and regulatory complexities make it challenging for SSEs to operate and comply with legal requirements in Bangladesh. The convoluted regulatory environment increases administrative burdens and compliance costs for SSEs, diverting resources away from productive activities and innovation.
- d. **Skill Shortages:** The shortage of skilled labor is a pressing issue for SSEs in Bangladesh. Many SSEs struggle to find employees with the necessary skills and expertise, particularly in technical and specialized fields. This skill gap limits SSEs' ability to adopt new technologies, improve productivity, and compete effectively in the market.

Addressing these sub-point basis problems requires comprehensive policy interventions and supportive measures to create an enabling environment for SSE development in Bangladesh. Initiatives aimed at improving access to finance, upgrading infrastructure, streamlining regulations, and investing in skill development can help mitigate these challenges and unlock the potential of SSEs for driving economic growth and development.

11. Recommendation :

Here are some suggested measures to enhance the performance of small-scale enterprises and cater to their target audience:

- a. **Improve funding for small businesses:** Banks and other formal financial institutions ought to think about raising the financing limitations for small businesses and taking a more pro-business stance.
- b. **Standardize Loan Procedures:** To create a consistent structure and policy for loan proposals from small businesses and project evaluate small businesses, the government and central banks, such Bangladesh Bank, should work together. Vigilant supervision of banks' loan appraisal procedures for small businesses is also essential.
- c. **Cut Interest Rates:** In order to make it simpler for small businesses to obtain funding and to spur their expansion, interest rates must be lowered.
- d. **Diversify Your Funding Sources:** It's critical that small businesses receive support from sources other than banks and donor money. It is recommended that the government collaborate with relevant institutions to expand the range of available financing choices.
- e. **Flexible Collateral Requirements:** Financial institutions ought to think about easing the requirements for collateral, enabling small businesses to get over collateral-related obstacles.
- f. **Encourage Technology Adoption:** Funds might be set aside by the government and banking institutions to assist small businesses in implementing cutting-edge technologies.
- g. **Improve Infrastructure:** To create the best environment possible for the growth of small businesses, the government of Bangladesh should proactively improve the nation's infrastructure.
- h. **Information Dissemination:** To offer thorough information regarding financing for small businesses, the government should set up efficient communication channels like media campaigns, specialized websites, and information offices.
- i. **Entrepreneurial Skill Development:** Small business owners can greatly improve their entrepreneurial abilities by implementing a variety of training programs, workshops, and formal educational courses.
- j. **Encourage Local Industries:** To protect domestic businesses and encourage local industries, the government may choose to impose limits on products imported by small businesses.

12. Conclusion :

In conclusion, the research project on financial management challenges in small-scale enterprises (SSEs) in Bangladesh has shed light on the intricate fabric of obstacles faced by these businesses. Statistical data from the Bangladesh Bureau



of Statistics (BBS) underscored the severity of these challenges, revealing that approximately 40% of SSEs struggle with limited access to financing (BBS, 2022). Moreover, over 60% face cash flow management difficulties (Rahman & Akhtar, 2019), further exacerbating their financial vulnerability. Despite these challenges, there are opportunities for improvement and growth. Implementing targeted interventions such as enhancing access to financing, improving financial literacy, and streamlining regulatory processes can empower SSEs to overcome these hurdles. Additionally, investments in infrastructure development and skills enhancement programs can bolster SSEs' competitiveness and resilience in the face of economic uncertainties.

By addressing these challenges and capitalizing on opportunities, SSEs in Bangladesh can unleash their full potential as engines of economic growth, job creation, and innovation. Collaborative efforts involving policymakers, financial institutions, industry stakeholders, and the SSE community are essential to creating an enabling environment conducive to SSE development and prosperity. In essence, while financial management challenges persist, strategic interventions and concerted actions can pave the way for a brighter future for SSEs in Bangladesh, contributing to the country's overall economic advancement.

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