

PRODUCTIVITY AND EFFICIENCY OF MICRO ENTERPRISES IN BANGLADESH: RELATIVE IMPORTANCE OF THE CONSTRAINTS

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ABSTRACT

The study attempts to analyze the effects of primary constraints on the productivity and efficiency of the microenterprises in Bangladesh to identify the relative importance of each constraint. An expanded form of stochastic production frontier model has been developed to address both productivity and efficiency issues simultaneously. Household Income and Expenditure Survey (2005) data, collected by Bangladesh Bureau of Statistics are used in the estimation. The results clearly reveal that of the four primary constraints faced by microenterprises in Bangladesh, credit and utility have the highest detrimental effects on both productivity and efficiency. Between credit and utility, the adverse effect of utility constraint is found to be more than that of credit suggesting that policy makers need to address the utility constraint first to improve the productivity and efficiency of the microenterprises in Bangladesh. The output elasticity is estimated to be the highest for capital, which indicates that there is under-investment in microenterprises. Firm's specific efficiency score vary significantly from 0.34 to 0.94 with a mean of 0.69. The study demonstrates clear policy suggestions about what to be done to improve productivity and efficiency of the microenterprises in Bangladesh.

Keywords: *Microenterprises, productivity, efficiency, constraints, Bangladesh*