

RESEARCH ARTICLE

Financial Characteristics of Rural Micro-Enterprises in Bangladesh: An Empirical Analysis

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ABSTRACT

This study aims at evaluating the financial features of micro-enterprises in rural areas across the country. It seeks to provide a comparative analysis of the financial characteristics between the initial and current stages of these enterprises, using relevant financial indicators. The study also intends to explore the differences in financial characteristics across various natures of businesses that the enterprises are involved in. A sample of 180 micro enterprises that have length of business of at least two years across Bangladesh was selected for the study using a two-stage sampling design. It was found that rural micro-enterprises were started with minimal investment and operated on limited sales and profits. However, over time, these businesses have made progress in these areas. Micro enterprises involved in trading or mixed activities require a higher amount of investment compared to those engaged in manufacturing or service. It was also found that micro-enterprises in trading or mixed activities tend to have lower profit margins compared to manufacturing and service-based microenterprises, despite having higher levels of daily sales and profits. Thus, the findings of the study are expected to help policymakers and entrepreneurs in making appropriate and effective decisions regarding financial issues related to microenterprises. Specifically, microfinance institutions and banks can benefit greatly from the study's findings on how to plan financial support for these enterprises which in turn can ultimately help to improve the financial stability of rural micro-enterprises in Bangladesh.

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1. Introduction

Rural micro-enterprises have become an integral part of non-agricultural sectors in recent years, playing a major role in providing livelihoods to marginalized rural communities in Bangladesh. These enterprises, with limited investment, help rural people reduce their poverty and improve

standard of living. They employ themselves and their family members, while also creating employment opportunities for other members of the community. The benefits of launching micro-enterprises directly go to the entrepreneurs and then to employees at the individual and household levels, ultimately contributing to the rural economy. To assess the financial strength and economic performance of these enterprises, it is imperative to evaluate their financial characteristics.

During the past, many studies were conducted on financial, economic, and other issues related to micro-enterprises. For instance, Chowdhury (2008), Chowdhury (2009), and Sultana et al. (2010) focused on financial support from credit programs that aims at promoting the development of micro-enterprises, particularly those owned by women. In a study, Ferdousi (2015) intended to measure the effectiveness of financial support provided by microfinance institutions (MFIs) to micro-enterprises, and how it contributes to increasing entrepreneurs' income and business innovation. Kushnir et al. (2010) provided an overview of new data on Micro, Small, and Medium Enterprise (MSME) Country Indicators for 132 economies in the World Bank's report. They found that difficult access to finance is the biggest challenge faced by micro-enterprises. Similarly, in their academic analysis of SME financing policy formulation, Alam and Ullah (2006) discovered that the lack of access to finance is even higher for women entrepreneurs. The focus of these studies was on providing insights into financial support to micro-enterprises rather than conducting an analysis of financial characteristics. However, a recent study in India shed some light on the financial performance of micro-enterprises (Jain and Shanmugam, 2022). The study examined the variables affecting the financial performance of micro-enterprises. Using a multistage random sample of 180 micro-enterprises, the study investigated the factors that affect the profit and sales performance of the micro-enterprises.

Besides, numerous research studies on micro-enterprises have investigated how these enterprises can contribute to economic growth and poverty reduction in developing countries. Harvie (2003) evaluated the impact of micro-enterprises on poverty alleviation in East Asia. Similarly, USAID (2006) investigated the relationship between micro and small enterprise (MSE) development, dynamic economic growth, and poverty reduction in developing countries. Leegwater and Shaw

(2008) assessed the role of Micro, Small, and Medium Enterprises in economic growth. Additionally, Sarker and Gazi (2013) showed in their study how the development of micro-enterprises in Bangladesh is linked to poverty reduction.

From the review of the previous studies on micro-enterprises it is found that the studies have primarily focused on issues such as financial support, microcredit, poverty reduction, economic growth, and obstacles like lack of access to finance. Little or no in-depth study has yet been done on the assessment of the financial characteristics of rural micro enterprises in Bangladesh. In this context, there is a need to conduct an in-depth study on the assessment of the financial characteristics of rural enterprises in Bangladesh. So, the statement of the problem is delineated as “Financial Characteristics of Rural Micro-Enterprises in Bangladesh: An Empirical Analysis.”

2. Objectives of the Study

The general objective of the study is to analyze the financial characteristics of rural micro-enterprises throughout the country using some important financial indicators. More specifically, the study aims to (a) assess and compare the financial features of rural micro-enterprises between initial and current stages using three major financial indicators i.e., investment, volume of sales, and profits, (b) measure the profit margins of the enterprises at the current and initial stages and (c) assess how financial characteristics differ across different natures of businesses that enterprises engage in.

3. Methodology of the Study

3.1 Sampling technique

To make the study more representative, a two-stage sampling design has been used. Villages of Bangladesh have been considered as Primary Sampling Units (PSUs) while the Secondary Sampling Units (SSUs) comprise micro-enterprises within the village.

In the first stage of sampling, 20 PSUs (villages) were selected from the list of all villages in Bangladesh following the standard systematic probability proportional to size (size of the village being measured by its number of households) sampling method after arranging them geographically. To apply this method, a village-wise household list

available in community reports of the Population and Housing Census 2011 (BBS, 2012) has been used. When the villages have been selected, all the micro-enterprises (under operational definition) in the selected villages have been listed by listing operation. Then the listed enterprises have been arranged geographically within the village. However, while listing, the micro-enterprises operated irregularly or seasonally or started recently within one year preceding the survey have been excluded from the study. Then from the list, 9 micro-enterprises have been selected by systematic random sampling. Thus, the sample of $20 \times 9 = 180$ micro-enterprises has been selected for the present study. The study area comprises all the villages of the country, considering the entire Bangladesh as the total study area.

3.2 Operational definition and characteristics of micro-enterprises

A micro enterprise is an economic unit characterized by ownership and management by a single individual, who either started the enterprise himself/herself or inherited it. It is involved in trading, manufacturing, or providing services, often with family members participating in its operations. The enterprise employs between 0 and 5 people and has an investment not exceeding Tk. 3,00,000, including fixed assets. Typically, it operates in the informal sector and requires minimal or no government intervention.

3.3 Financial indicators

Information on financial indicators and other related issues of micro-enterprises have been collected through a structured questionnaire. Before finalizing the questionnaire, a pilot survey was conducted. Based on the pilot survey it appeared very difficult to collect detailed and accurate data on various financial indicators of rural micro-enterprises. As perceived from the pilot study and literature, rural micro-entrepreneurs often do not maintain proper records of their financial transactions. They tend to use their capital or investment for both business and personal or household expenses without separating them. As a result, there is a lack of concrete and written documentation for accounting and financial statements. Therefore, only limited but important financial information has been collected. Thus, the survey respondents were asked about their total investment, average daily sales, and daily profits at the current as well as at the initial stages.

Furthermore, data have been gathered regarding the initiation time of micro enterprises to facilitate a comparison between their current and initial statuses. It is noteworthy that the selected micro enterprises were established at different times, with an average initiation period of 10.6 years ago.

3.4 Statistical techniques for analysis

The study applied the techniques of univariate frequency distribution and bivariate distribution. It also employed the chi-square test to examine the independence of attributes, paired t-test to determine the equality of two means, and F-test to evaluate the equality of several means.

4. Results and Discussion

Before providing financial findings, it is important to present the distribution of micro-enterprises by their nature of business.

4.1 Nature of business in micro-enterprises

The micro-enterprises surveyed were found to have either a single nature of business such as trading, manufacturing, service, or a mixed nature of business. Table-1 indicates that trading is the most common business activity among the micro-enterprises surveyed, with 41.7 percent of them being involved in business of this nature. Manufacturing accounts for 20.6 percent of the enterprises, while only 13.9 percent are engaged in service. The table also reveals that 23.9% micro enterprises have a mixed nature of business.

Table-1: Distribution of micro-enterprises by their nature

Nature of business	No. of Enterprises	Percent
Trading	75	41.7
Manufacturing	37	20.6
Service	25	13.9
Mixed nature	43	23.9
Total	180	100.0

4.2 Investments in micro-enterprises

Based on the experience of the pilot survey, it was decided to collect information about total investment including all expenses for micro-enterprises instead of sector-wise investment (e.g. capital, fixed asset, business products or business materials, etc.). The entrepreneurs were asked about total investment when they started their micro-enterprises as well as the total investment accumulated up to the current stage.

Table-2 presents the bivariate distribution of micro-enterprises according to their current as well as initial investment and their business nature. As evident from that table, more than half (56.1%) of the selected micro enterprises have a current investment of less than Taka 100000 while 26.1 percent have a current investment of Taka 100000-199999. Only 17.8 percent of micro enterprises have a current investment of Taka 200000 or more.

The table also shows that 20% micro-enterprises with the nature of trading and 25.6% with mixed nature have a current investment of Taka 200000 or more. Eighty eight percent of micro enterprises engaged in providing services and 67.6 percent of micro enterprises engaged in manufacturing have current investment of less than Taka 100000. As indicated by the chi-square test, the current investment is significantly associated with the nature of business ($p=0.003$).

Concerning average current investment, the highest amount of Taka 136976.7 is found for micro-enterprises with mixed nature followed by Taka 106649.3 for micro-enterprises with the nature of trading. The micro-enterprises providing services have the lowest average current investment of Taka 40880.0 only. The F-test shows that the average current investment significantly differs for micro-enterprises with differences in business nature.

Regarding initial investment, the highest 43.3 percent had an initial investment of Taka 10000-49999, followed by Taka 50000 or more (30.0%) and less than Taka 10000 (26.7%). It is noticeable that 37.3% micro-enterprises with the nature of trading or with mixed nature have been initiated with an investment of Taka 50000 or more while few of micro-enterprises involved in manufacturing have been initiated with this amount of investment. The overwhelming majority (92%) of micro-enterprises, providing services, have an initial investment of less than Taka 50000. Similar to current investment, the initial investment is also

significantly associated with the nature of the business ($p=0.002$). However, the average initial investments do not differ significantly for micro-enterprises with differences in the nature of business.

On an average, the current investment of the micro-enterprises appeared to be Taka 96,825, which was more than double of their initial investment of Taka 40,231.

Table-2: Bivariate distribution of micro-enterprises by investment and nature of business at current and initial stages

Investment (Tk.)	Nature of business Frequency (%)				
	Trading	Manufacturing	Service	Mixed nature	Total
<i>Current Investment</i>					
< 100000	38 (50.7)	25 (67.6)	22 (88.0)	16 (37.2)	101 (56.1)
100000 - 199999	22 (29.3)	7 (18.9)	2 (8.0)	16 (37.2)	47 (26.1)
≥ 200000	15 (20.0)	5 (13.5)	1 (4.0)	11 (25.6)	32 (17.8)
Total	75 (100.0)	37 (100.0)	25 (100.0)	43 (100.0)	180 (100.0)
Mean	106649.3	68048.6	40880.0	136976.7	96825.0
χ^2 - square test	$\chi^2=19.460$, p-value=0.003				
<i>F</i> -test	<i>F</i> =7.993, p-value=0.000				
<i>Initial Investment</i>					
< 10000	15 (20.0)	18 (48.6)	9 (36.0)	6 (14.0)	48 (26.7)
10000 - 49999	32 (42.7)	11 (29.7)	14 (56.0)	21 (48.8)	78 (43.3)
≥ 50000	28 (37.3)	8 (21.6)	2 (8.0)	16 (37.2)	54 (30.0)
Total	75 (100.0)	37 (100.0)	25 (100.0)	43 (100.0)	180 (100.0)
Mean	48930.7	27318.4	22720.0	46348.8	40231.0
χ^2 - square test	$\chi^2=21.180$, p-value=0.002				
<i>F</i> -test	<i>F</i> =2.293, p-value=0.061				
<i>t</i> -test*	<i>t</i> =11.484, p-value=0.000				

*For equality of two means for current and initial investments

4.3 Average daily sales

Regarding the current average daily sale, Table-3 indicates that 33.9% of the micro-enterprises have a current daily sale of Taka 3000 or more and exactly the equal proportion has a current daily sale of Taka 1000-2999. Moreover, almost equal proportion (32.2%) has the current daily sale of less than Taka 1000. A small proportion of micro-enterprises involved in

trading (13.3%) or those with a mixed nature (18.6%) have the current average daily sale of less than Taka 1000. In contrast, few of them engaged in manufacturing have a current daily sale of Taka 3000 or more. The great majority (84.0%) of the micro-enterprises, providing services, have current daily sales of less than Taka 1000. There is a significant association between the current average daily sale and the nature of business, as revealed by the chi-square test ($p=0.000$). About current average daily sales, almost equal mean sales are observed in micro-enterprises involved in trading (Tk. 3157.2) or those with mixed nature (Tk. 3116.3) while the lowest mean is observed in micro-enterprises involved in service (Tk. 584.8). For micro-enterprises with different nature of business, the mean sales at current stage are significantly different, as apparent from F-test.

Again, concerning the initial average daily sale, the highest 41.1 percent had the initial daily sale of less than Taka 500, followed by Taka 1000 or more (35.6%) and Taka 500-999 (23.3%). A notable proportion of micro-enterprises involved in trading (45.3%) or those with a mixed nature (46.5%) have an initial daily sale of Taka 1000 or more. In contrast, the majority of micro-enterprises involved in manufacturing (59.5%) or involved in service (80.0%) have an initial daily sale of less than Taka 500. Similar to the current average daily sale, the initial average daily sale also bears a significant relation to the nature of the business ($p=0.000$). Regarding the initial average daily sale, the highest mean of Taka 1408.9 is observed for micro-enterprises involved in trading, followed by Taka 1173.2 for micro-enterprises with mixed nature. For micro-enterprises with different natures, the mean sales at the initial stage are significantly different. The current mean daily sale (Tk. 2520) is over twice as much as the initial one (Tk. 1117).

Table-3: Bivariate distribution of micro-enterprises by average daily sales and nature of business at current and initial stages

Average Daily Sale (Tk.)	Nature of business Frequency (%)				
	Trading	Manufacturing	Service	Mixed nature	Total
<i>Current daily sales on average</i>					
< 1000	10 (13.3)	19 (51.4)	21 (84.0)	8 (18.6)	58 (32.2)

1000 - 2999	32 (42.7)	12 (32.4)	4 (16.0)	13 (30.2)	61 (33.9)
≥3000	33 (44.0)	6 (16.2)	0 (0.0)	22 (51.2)	61 (33.9)
Total	75 (100.0)	37 (100.0)	25 (100.0)	43 (100.0)	180 (100.0)
Mean	3157.2	1843.1	584.8	3116.3	2520.0
χ^2 - square test	$\chi^2=57.971$, p-value=0.00				
<i>F</i> -test	<i>F</i> =9.007, p-value=0.000				
Initial daily sales on average					
< 500	21 (28.0)	22 (59.5)	20 (80.0)	11 (25.6)	74 (41.1)
500 - 999	20 (26.7)	6 (16.2)	4 (16.0)	12 (27.9)	42 (23.3)
≥1000	34 (45.3)	9 (24.3)	1 (4.0)	20 (46.5)	64 (35.6)
Total	75 (100.0)	37 (100.0)	25 (100.0)	43 (100.0)	180 (100.0)
Mean	1408.9	981.6	344.8	1173.2	1117.0
χ^2 - square test	$\chi^2=31.790$, p-value=0.00				
<i>F</i> -test	<i>F</i> =2.765, p-value=0.029				
<i>t</i> -test*	<i>t</i> =9.742, p-value=0.000				

*For equality of two means for current and initial daily sales

4.4 Average daily profits

Results in Table-4 shows that the highest 47.2 percent of the micro enterprises have a daily profit of Taka 250-499, followed by a daily profit of less than Taka 250 (30.6%) and the daily profit of Taka 500 or more (22.2%).

It has been observed that at the current stage, 37.2% of the micro-enterprises with mixed nature, 22.7% of the micro-enterprises involved in trading, and 18.9% of the micro-enterprises engaged in manufacturing are making an average daily profit of Taka 500 or more. However, none of the micro-enterprises providing service were found to have this amount of daily profit. The current daily profit of micro-enterprises is significantly associated with their business nature ($p=0.001$).

Regarding daily profit at the current stage, the highest mean of Taka 392.1 is observed in micro-enterprises with mixed nature, followed by the mean of Taka 350.9 in micro-enterprises engaged in trading. On the other hand, micro-enterprises involved in service have the lowest mean daily profit of Taka 248.6. Regarding current daily profit, the means are significantly different for micro-enterprises involved in different nature of business.

Regarding average daily profit at the initial stage, the highest 50.0 % of the micro-enterprises had a daily profit of less than Taka 150, followed by a daily profit of Taka 150-299 (29.4%) and a daily profit of Taka 300 or more (20.6%).

Unlike the current stage, the daily profit of micro-enterprises at the initial stage are not significantly associated with their business nature. Also, regarding initial daily profit, the means are not significantly different for micro-enterprises involved in different nature of business.

Table-4 indicates that the average current daily profit of the micro-enterprises under study is Taka 336.17, which is about two times their average initial daily profit of Taka 172.52.

Table-4: Bivariate distribution of micro-enterprises by average daily profit and nature of business at current and initial stages

Average Daily Profit (Tk.)	Nature of business Frequency (%)				
	Trading	Manufacturing	Service	Mixed nature	Total
<i>Current daily profit on average</i>					
< 250	19 (25.3)	17 (45.9)	13 (52.0)	6 (14.0)	55 (30.6)
250 - 499	39 (52.0)	13 (35.1)	12 (48.0)	21 (48.8)	85 (47.2)
≥500	17 (22.7)	7 (18.9)	0 (0.0)	16 (37.2)	40 (22.2)
Total	75 (100.0)	37 (100.0)	25 (100.0)	43 (100.0)	180 (100.0)
Mean	350.9	300.5	248.6	392.1	336.2
χ^2 - square test	$\chi^2=22.803$, p-value=0.001				
<i>F-test</i>	<i>F</i> =4.217, p-value=0.003				
<i>Initial daily profit on average</i>					
< 150	36 (48.0)	23 (62.2)	10 (40.0)	21 (48.8)	90 (50.0)
150 - 299	22 (29.3)	7 (18.9)	12 (48.0)	12 (27.9)	53 (29.4)
≥300	17 (22.7)	7 (18.9)	3 (12.0)	10 (23.3)	37 (20.6)
Total	75 (100.0)	37 (100.0)	25 (100.0)	43 (100.0)	180 (100.0)
Mean	179.7	153.8	165.2	180.4	172.5
χ^2 - square test	$\chi^2=7.270$, p-value=0.297				
<i>F-test</i>	<i>F</i> =0.345, p-value=0.847				
<i>t-test*</i>	<i>t</i> =13.771, p-value=0.000				

*For equality of two means for current and initial daily profits

4.5 Profit margin of micro-enterprises

Profit margin is a ratio of profitability calculated as net profits divided by sales. The profit margin is presented as a percentage. Table-5 reveals the distribution of micro-enterprises by profit margin at current as well as initial stages. At the current stage, half (50.0%) of micro enterprises have a profit margin below 20%, while over one-fifth (21.1%) have a profit margin of at least 40%.

The majority of micro-enterprises engaged in trading (70.7%) or mixed activities (60.5%) have a profit margin of less than 20%, while most of the micro-enterprises offering services have a profit margin of at least 40%. The current profit margin of micro-enterprises is significantly related to the nature of business. At the current stage, the highest mean profit margin of 51.7% is observed in micro-enterprises providing service, followed by 31.3% in micro-enterprises engaged in manufacturing. The lowest mean profit margin of 15.9% is observed in micro-enterprises involved in trading. At the current stage, the mean profit margin of micro-enterprises significantly varies with their nature of business.

At the initial stage, 24.4% of micro enterprises had a profit margin of at least 40%. Nearly two out of five (38.3%) had a profit margin of '20%-39%' and almost equal proportion had a profit margin below 20%.

Only 5.3% and 9.3% of micro-enterprises involved in trading or mixed activities, respectively, have a profit margin of at least 40%, while the majority (76.0%) of micro-enterprises offering services have profit margin to this extent. The initial profit margin of micro-enterprises is significantly related to the nature of business. At the initial stage, the highest mean profit margin of 52.8% is observed in micro-enterprises providing service, followed by 35.8% in micro-enterprises engaged in manufacturing. Almost equal mean profit margins of 21.3% and 21.5% are observed in micro-enterprises involved in trading or mixed activities respectively. At the initial stage, the mean profit margin of micro-enterprises significantly varies with their nature of business.

On an average, micro-enterprises currently have a profit margin of 24.8%, which is lower than their initial profit margin of 28.7%. Micro entrepreneurs have reported a decrease in their profit margins and have been investigating the reasons behind it. Some have attributed it to increased competition among sellers, which has forced them to sell their

products at a lower profit margin. Others have cited rising purchase costs, transportation expenses etcetera, as the reason for their decreased profits. Additionally, some have expressed concerns about raising other expenses such as rent, electricity bills, and employee salaries.

Table-5: Bivariate distribution of micro-enterprises by profit margin and nature of business at current and initial stages

Profit Margin (%)	Nature of business Frequency (%)				
	Trading	Manufacturing	Service	Mixed nature	Total
Current Profit Margin					
< 20	53 (70.7)	10 (27.0)	1 (4.0)	26 (60.5)	90 (50.0)
20 – 39	20 (26.7)	15 (40.5)	5 (20.0)	12 (27.9)	52 (28.9)
≥40	2 (2.7)	12 (32.4)	19 (76.0)	5 (11.6)	38 (21.1)
Total					
Mean	15.9	31.3	51.7	19.0	24.8
χ^2 - square test	$\chi^2=76.241$, p-value=0.000				
<i>F</i> -test	<i>F</i> =32.603, p-value=0.000				
Initial Profit Margin					
< 20	35 (46.7)	9 (24.3)	1 (4.0)	22 (51.2)	67 (37.2)
20 – 39	36 (48.0)	11 (29.7)	5 (20.0)	17 (39.5)	69 (38.3)
≥40	4 (5.3)	17 (45.9)	19 (76.0)	4 (9.3)	44 (24.4)
Total					
Mean	21.3	35.8	52.8	21.5	28.7
χ^2 - square test	$\chi^2=67.281$, p-value=0.000				
<i>F</i> -test	<i>F</i> =19.056, p-value=0.000				
<i>t</i> -test*	<i>t</i> =-3.939, p-value=0.000				

*For equality of two means for current and initial profit margins

5. Conclusion

From the above financial assessment that compares between the initial and current stages, it is evident that rural micro-enterprises were started with a limited amount of investment and with minimal sales and profits. However, over time, these enterprises have made progress in all three indicators.

In terms of business nature, it has been observed that micro-enterprises engaged in trading or mixed activities require a higher amount of

investment both at current and initial stages, as compared to micro-enterprises involved in manufacturing or providing services. Similar scenarios are found in the case of daily sales and daily profits. However, micro-enterprises engaged in trading or mixed activities tend to have lower profit margins compared to manufacturing and service-based micro-enterprises. Since almost two-thirds of rural micro-enterprises fall under these two categories, it is important to focus on increasing their investments as well as sales to achieve higher profit margins and earn larger amounts of profit which leads them to become financially strong. On the other hand, micro-enterprises involved in manufacturing or providing services achieve a higher profit margin, they still earn less amount of profits compared to micro-enterprises engaged in trading or mixed activities. Therefore, to increase the amount of profits, micro entrepreneurs involved in manufacturing or providing services may consider expanding their business activities and switching from a single nature to mixed nature of business.

Based on the study findings, currently, the micro-enterprises have an average profit margin of 24.8%, which has declined somewhat compared to their initial stage. The entrepreneurs have cited several reasons for this reduction. In response to the reduced profit margins, these entrepreneurs may have adopted a strategy of increasing sales to sustain their business. Despite reduced profitability, this approach can result in substantial increases in overall profits, enabling the micro-enterprises to progress steadily.

In conclusion, the rural microenterprises in Bangladesh comprise a promising sector but are struggling with poor financial conditions. Therefore, this sector deserves more attention from policymakers, the government, and non-governmental organizations, especially microfinance institutions.

Additionally, it has been observed that rural micro-entrepreneurs in Bangladesh often do not keep proper records of their business expenses and income, nor do they follow a proper system of accounting. They tend to mix their household expenses with their business expenses, making it difficult to understand the actual financial status of their businesses. To overcome this challenge, it is important for them to maintain proper accounts. Both government and non-government organizations can provide training and support to these entrepreneurs to help them improve

their accounting practices. Such initiatives are highly appreciated and can contribute to the growth and success of rural micro-enterprises in Bangladesh.

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Declaration of Interests

We, the authors of this research manuscript, declare that we have no financial interest. We have provided written consent to publish the paper in this journal.

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