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Listing of SMEs in Capital Market for Financing: Challenges and Way Forward

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Abstract

Small and Medium Enterprises (SMEs) comprising over 80% of all business entities they play a crucial role in employment generation and GDP growth. Despite their significance, SMEs continue to face major challenges in securing affordable financing, largely relying on traditional bank loans with high interest rates. In an effort to bridge this financing gap, the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) launched dedicated SME board in 2019 and 2021, respectively, aiming to offer SMEs access to capital markets as an alternative source, but Progress remains limited. To explore the specific barriers hindering SME listings, a mixed-method approach was followed that combines a quantitative survey (156 respondents) and interviews (5). The results reveal that nearly 60% of SMEs are unaware of the existence of the SME boards, while 88% lack sufficient understanding of the listing requirements. Regulatory complexity, high compliance costs, low financial literacy, and diminished investor confidence emerge as major impediments. Notably, the study identifies strong interest among SMEs in capital market financing, suggesting that the gap lies not in willingness but in the accessibility and feasibility of the listing process. To address these challenges, the study recommends campaigns to better connect SMEs with capital market opportunities.

Keywords: SMEs, Capital Market, Alternative Financing, Listing Barriers, Financial Literacy, Regulatory Reforms.

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1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in the economic landscape of Bangladesh, accounting for over 80% of business entities and contributing significantly to employment and GDP. Despite their importance, SMEs often face substantial challenges in accessing financing, primarily relying on informal sources such as family and friends and traditional banks. To address this issue, Dhaka Stock Exchange (DSE) launched the DSE-SME board on April 30, 2019 and Chittagong Stock Exchange (CSE) on September 30, 2021, aimed at facilitating access to the capital market for SMEs with paid-up capital between Tk 5 crore and Tk 30 crore.

Listing on capital market can provide SMEs with several benefits, including reduced dependence on bank funding, diversified investor bases, easier access to equity capital, enhanced brand recognition, and improved creditworthiness. However, the board has struggled with low participation rate, with only 20 SMEs listed, due to stringent listing requirements, lack of awareness among potential investors, and disparities in listing requirements between DSE and CSE. To encourage broader participation, the initial investment requirement was reduced from Tk 50 lakh to Tk 20 lakh, and the registration process for trading was simplified. Despite these efforts, investors confidence remain low, because many listed SMEs have negative cash flows, making investment decision more complex for risk-averse investors. Therefore, it is crucial to identify the challenges SMEs face in listing on the stock exchange and develop strategies to address them.

The DSE-SME Board was introduced to provide SMEs in Bangladesh with an alternative financing avenue through the capital market. However, despite various incentives from the Bangladesh Securities and Exchange Commission (BSEC), its underutilization highlights significant structural and perceptual barriers that hinder the participation of both SMEs and investors. Research indicates that SMEs face stringent listing requirements, inadequate financial transparency, and low financial literacy. On the other hand, investors perceive high risks due to inconsistent SME performance, market manipulation, and the absence of mandatory quarterly financial disclosures-factors that discourage investment and limit the growth prospects of these enterprises.

The impact of this problem is significant as the low number of SME listings on the stock exchange restricts access to equity financing, forcing SMEs to rely on costly bank loans, which in turn stifles growth, innovation, and competitiveness. This lack of participation also weakens market liquidity, reduces investment opportunities and hampers overall economic expansion. Addressing these barriers is therefore essential for fostering sustainable economic development. Accordingly, this research aims to systematically identify the key challenges SMEs face in listing on the capital market and propose actionable strategies to enhance their access to funding while strengthening investor confidence.

Despite various efforts by the BSEC and the government, SME listing on the stock exchange remains limited due to regulatory and business challenges. While the capital market offers a promising avenue for SME financing through equity and bond listings, participation remains low. Identifying the key barriers to SME listings and understanding the specific factors discouraging

market entry is crucial. Therefore, this research seeks to address the following question: What challenges do SMEs face in listing on the capital market, and what strategic approaches can be adopted to overcome these barriers to ensure sustainable funding and long-term growth?

SMEs can unlock growth through capital market, boosting economic development and job creation. However, high collateral demand and bureaucracy make bank loans inaccessible. Despite its potential, SMEs hesitate to enter capital market due to regulatory burdens, high listing cost, and volatility. Existing literature often overlooks these specific barriers. The objectives of this study are to identify the key challenges hindering SME access to capital market and to propose actionable strategies and policy recommendations for creating an enabling environment that facilitate SME participation in capital market.

2. Literature Review

SMEs constitute a critical segment of Bangladesh's economic architecture, contributing significantly to GDP growth, employment generation, and industrial diversification. Despite their macroeconomic importance, SMEs in Bangladesh remain largely disconnected from the capital market, limiting their access to diversified financial instruments necessary for scaling operations. This exclusion is symptomatic of broader structural inefficiencies within the financial system and reflects a combination of institutional, regulatory, and behavioral barriers.

One of the most cited constraint is the lack of reliable financial documentation and absence of independently audited financial statements, which significantly impairs transparency and investor confidence (Rahman et al., 2021). Inadequate financial discipline not only obstructs the valuation of SME performance but also raises concerns about governance, accountability, and long-term sustainability. These deficiencies are exacerbated by the absence of standardized accounting practices, which, in turn, restricts SMEs from meeting the due diligence requirements typically expected by institutional investors.

In addition to internal governance gaps, low trust in the capital market and perceived regulatory complexity act as strong disincentives for SMEs seeking equity financing (Bozintan, 2022). Regulatory frameworks administered by the Bangladesh Securities and Exchange Commission (BSEC) often impose listing conditions that are misaligned with the operational realities of SMEs, particularly those operating with lean administrative and technical capacities (Rahman et al., 2016). This disconnect further reinforces the divide between market infrastructure and enterprise needs.

The challenge is compounded by dependence on collateral-based traditional financing mechanisms, which exclude many SMEs due to their lack of tangible assets or credit history (Khan et al., 2012). As a result, many SMEs resort to informal financing or stagnate due to capital constraints. Moreover, the market's perception of SMEs as high-risk entities-owing to limited financial visibility and public disclosures-undermines investor interest and reinforces adverse selection (Beck et al., 2011). From a regulatory standpoint, listing prerequisites such as comprehensive financial disclosures, corporate governance compliance, and capital adequacy requirements create disproportionate burdens on SMEs. Liquidity concerns, the absence of market makers, and reluctance among SME owners to relinquish control through equity dilution further

reduce the appeal of public offerings (Norden & Weber, 2015; Sechel & Nichita, 2010). High listing costs, market volatility, and limited secondary market activity also make IPOs an unattractive option relative to bank loans (Carbo-Valverde et al., 2009; Khatun & Amanullah, 2021). To overcome these systemic barriers, the literature suggests a multi-pronged strategy. Key interventions include simplifying regulatory frameworks, enhancing SME financial literacy, and creating dedicated SME platforms with tailored listing criteria (Hossain, 2020). Fiscal incentives such as tax rebates, fee waivers, and investor education campaigns-are also recommended to improve market attractiveness and build investor confidence (Beck et al., 2011; Rahman et al., 2021). The implementation of advisory services and capacity-building programs could guide SMEs through the complex capital market onboarding process.

Comparative international experiences reinforce the urgency of reform. In South Africa, for example, high listing costs and weak market awareness necessitated the design of targeted SME engagement strategies (Semenya & Dhliwayo, 2020). Similarly, India's launch of SME-specific stock exchanges, such as the BSE SME and NSE Emerge, sought to address high borrowing costs and improve SMEs' access to public financing (Gupta & Saini, 2016). These models demonstrate that institutional adaptation to SME realities is essential for expanding capital market participation. In the context of Bangladesh, the SME board launched by the Dhaka Stock Exchange (DSE) in 2019 offers an illustrative case of policy inertia and implementation gap (Ahammed et al., 2024). To date, only around 20 SMEs have been listed-significantly below projections. This sluggish uptake is attributed to over-engineered regulatory standards that deter SMEs with modest capital needs. Moreover, the absence of mandatory quarterly financial disclosures for SME-listed firms undermines transparency and limits investor engagement. Regulatory delays and weak promotional outreach have further marginalized SMEs from capital market conversations (The Business Standard, 2024; The Financial Express, 2024).

While these studies provide valuable insights, there is a noticeable gap in comprehensive research that systematically identifies the specific challenges SMEs face in listing on the capital market and proposes actionable strategies to enhance their participation. Addressing this gap could provide a more nuanced understanding of the barrier and potential solution, thereby facilitating greater access to capital for SMEs and contributing to sustainable economic development in Bangladesh. These findings align with the objective of this study to identify the challenges SMEs face in listing on the capital market and to propose strategies for overcoming these barriers to enhance SME financing opportunities.

3. Research Methodology

This research is explanatory in nature and was used to investigate and understand the challenges and potential pathways for listing SMEs in the capital market for financing. The study also aimed to propose actionable strategies and policy recommendations for creating an enabling environment that facilitates SME participation in capital market. To get sufficient answers in line with the research question of the study, mixed-methods approach combining both quantitative and qualitative methods was used. Primarily, there was a quantitative survey. Additionally, a qualitative method like key informant interviews (KIIs) was used to capture other qualitative aspects of the study.

This study adopts a mixed-method approach combining both quantitative and qualitative research approaches to explore the challenges and potential pathways for listing SMEs in the capital market for financing. Non-probability convenience sampling was used to collect quantitative data from 156 businesses from different sectors. For the qualitative survey, non-probability convenience sampling was also employed, and five key informant interviews (KIIs) were conducted with representatives from DSE, CSE, and other stakeholders such as the pharmaceuticals and footwear industries.

A total of 156 businesses were interviewed for this survey. In addition, DCCI collected qualitative data through five key informant interviews (KIIs) as part of the survey. A structured questionnaire was administered using a computer-assisted survey solution platform called KoBo toolbox to collect primary data. DCCI R&D team designed the survey forms applying complex algorithms for creating an interactive process of checking data validity. Data were cleaned and analyzed using MS Excel and SPSS (Statistical Package for the Social Sciences), a software package used for the analysis of statistical data. The findings were further validated through the thematic analysis of the key informant interviews (KIIs). The study took around 2 months to complete.

4. Data and findings

This section presents the findings related to the overall objective of the study, which is to identify the key challenges hindering SME access to capital market. The aim is to propose actionable strategies and policy recommendations for creating an enabling environment that facilitates SME participation in capital market. The data collection timeline for this research was from January 12, 2025, to February 13, 2025.

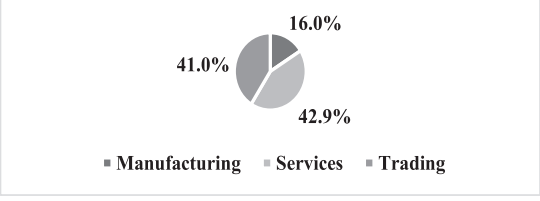
4.1 Descriptive analysis

4.1.1 Findings from the quantitative survey

4.1.1.1 Nature of business

The nature of business activities among 156 respondents were asked in the survey. The three categories of businesses included are Manufacturing, Services and Trading. Manufacturing businesses make up 16.0% of the total, with 25 respondents. Service businesses account for the largest share, at 42.9%, with 67 respondents. Trading businesses constitute 41.0%, with 64 respondents. The majority of businesses operate in the services sector, followed closely by trading, while manufacturing represents the smallest portion.

Figure 1: Nature of business

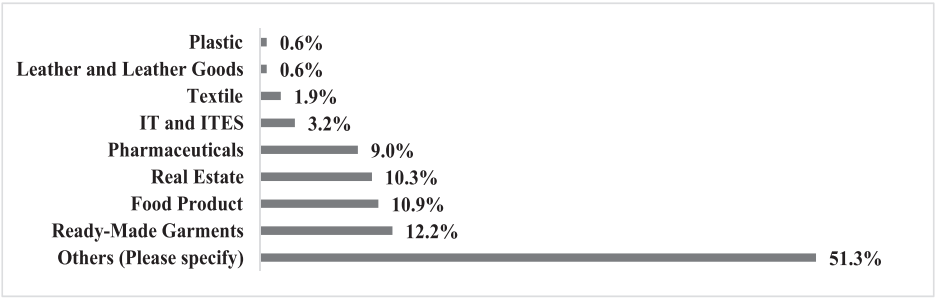


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.2 Sector of business

The survey of 156 businesses reveals a diverse distribution across several key sectors. The Food Products sector leads with 17 businesses, representing 10.9% of the total, closely followed by the Real Estate sector with 16 businesses (10.3%) and the pharmaceuticals sector with 14 businesses (9.0%). The Information Technology (IT) and IT-Enabled Services (ITES) sector comprises 5 businesses, accounting for 3.2% of the surveyed firms, while the Textiles sector includes 3 businesses (1.9%). Both the Plastics and Leather & Leather Goods sectors are represented by a single business each, making up 0.6% respectively. This distribution highlights a concentration of enterprises in the Food Products, Real Estate, and pharmaceuticals sectors, indicating these as prominent areas of business activity. In contrast, sectors such as Plastics, Leather Goods, and Textiles show relatively lower representation, suggesting either niche market presence or limited participation in the survey.

Figure 2: Sector of business



Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.3 Timeline of business operation

The highest percentage of businesses (30.1%) belong to both the 5–10 years and more than 15 years categories, suggesting that a significant portion of businesses either establish themselves successfully within the first decade or sustain long-term growth. The 22.4% of businesses operating for less than 5 years highlights a continuous influx of new enterprises into the market. A lower percentage (17.3%) of businesses fall within the 10–15 years range, possibly indicating a challenging phase for businesses to transition from medium to long-term stability.

In the manufacturing business, a significant portion of businesses have been operating for more than 15 years (36.0%), indicating a strong presence of well-established enterprises. Meanwhile, 32.0% have been in operation for 5–10 years, showing a healthy mid-level maturity. Newer ventures (less than 5 years) make up 12.0%, and 20.0% fall within the 10–15 years category, highlighting a gradual build-up of experience over time. The service business also reflect a similar maturity, with 35.8% of businesses running for over 15 years and 37.3% in the 5-10 years range. This suggests a thriving and relatively stable sector. Newer businesses account for 11.9%, while those in the 10-15 years bracket comprise 14.9%, indicating moderate growth among mid-aged service providers.

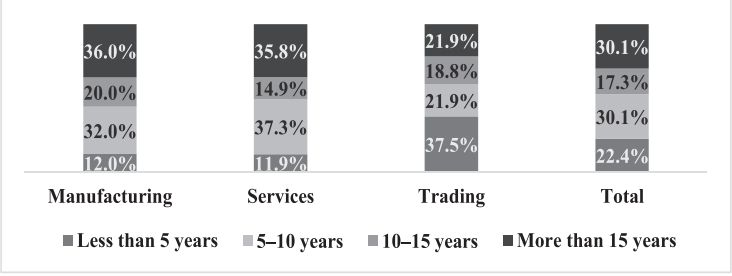
On the other hand, the trading business stands out for its higher concentration of younger businesses. About 37.5% of trading enterprises are less than 5 years old, suggesting a surge in recent entrepreneurial activity. However, the number of long-standing businesses (more than 15 years) is lower, at 21.9%, and the same percentage applies to those operating for 5–10 years. Businesses aged 10–15 years represent 18.8% of the total, showing a more balanced but younger profile overall compared to manufacturing and services.

4.1.1.4 Current paid-up capital of the business

The majority of businesses (28.8%) have a paid-up capital between BDT 2 crore and BDT 5 crore, suggesting a strong mid-to-large-scale business sector. A significant portion (20.5% and 18.6%) falls into the BDT 10 lakh – 75 lakh and BDT 75 lakh – 2 crore range, showing a healthy distribution of mid-sized enterprises. Only 8.3% of businesses have a capital base below BDT 10 lakh, indicating that very small businesses make up a minor portion of the market. Large enterprises (BDT 50 crore and above) account for only 3.8%, reflecting that very few businesses operate with extremely high capital investment.

In the manufacturing, businesses tend to operate on a larger scale. Notably, 36.0% of manufacturing firms have a paid-up capital between BDT 2 crore and BDT 5 crore, the highest share in this sector. Another 24.0% fall within the BDT 5 crore to BDT 50 crore range, and 12.0% even exceed BDT 50 crore, highlighting the capital-intensive nature of manufacturing. However, no manufacturing businesses operate with less than BDT 10 lakh, and a modest portion (12.0% and 16.0%) fall into the mid-range categories like BDT 10 lakh to BDT 75 lakh and BDT 75 lakh to BDT 2 crore.

Figure 3: The business experience



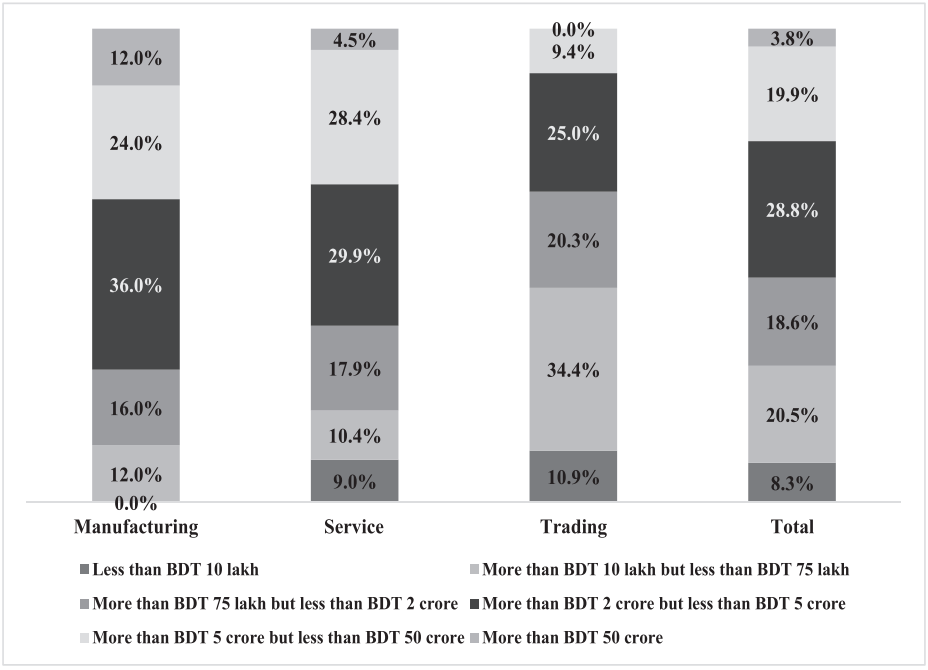
Source: DCCI Survey on Listing of SMEs (2025)

The service shows a more balanced spread across capital brackets. While a sizable share (28.4%) operates with BDT 5 crore to BDT 50 crore, a strong presence (29.9%) is also seen in the BDT 2 crore to BDT 5 crore range. Around 17.9% of service businesses have capital between BDT 75 lakh and BDT 2 crore, while smaller-scale service providers with capital below BDT 10 lakh still make up 9.0% of the total. This diversity reflects the coexistence of both established service firms and emerging startups.

In contrast, the trading business is more concentrated at the lower end of the capital spectrum. Over one-third (34.4%) of trading businesses operate with capital between BDT 10 lakh and BDT

75 lakh, and 10.9% have less than BDT 10 lakh. While 25.0% fall within the BDT 2 crore to BDT 5 crore bracket and 20.3% between BDT 75 lakh and BDT 2 crore. On the other hand, very few trading firms grow beyond BDT 5 crore in capital (9.4%), and none exceed BDT 50 crore.

Figure 4: Current paid-up capital of the business

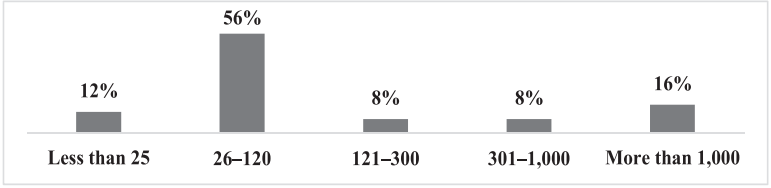


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.5 Number of employees working in manufacturing businesses

The employees working in manufacturing businesses, based on 25 respondents, are categorized into five ranges. The majority of manufacturing businesses (56.0%) have 26–120 employees, indicating that mid-sized firms dominate the sector. Only 12.0% of businesses have a small workforce (less than 25 employees), suggesting that most manufacturing firms require a larger workforce to operate efficiently. A combined 16.0% of businesses employ more than 1,000 workers, highlighting a notable presence of large-scale industrial manufacturers. The 8.0% representation in the 121–300 and 301–1,000 employee ranges show a smaller proportion of firms growing into large-scale operations.

Figure 5: Number of employees working in manufacturing businesses

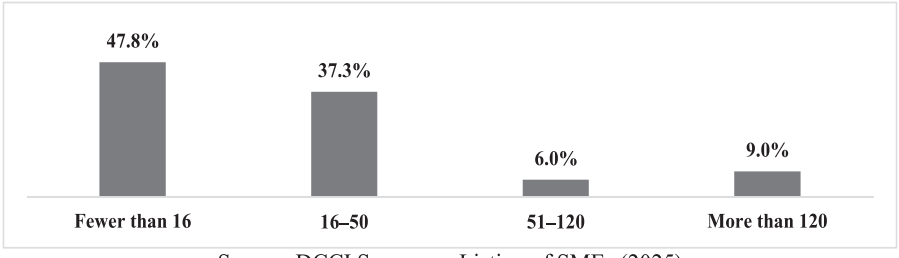


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.6 Number of employees working in service businesses

The workforce size of businesses operating in the service sector, based on 67 respondents, is categorized into four groups. Nearly half (47.8%) of service businesses employ fewer than 16 employees, suggesting that small-scale operations dominate the sector. Many service-based firms, such as consultancy, IT services, and professional services, often operate efficiently with smaller teams. 37.3% of businesses have 16–50 employees, indicating a strong presence of mid-sized firms, which likely require more staff to handle growing client demands. Only 6.0% of businesses employ between 51–120 workers, showing that fewer service businesses transition into large-scale operations. 9.0% of businesses employ more than 120 workers, indicating the presence of large service providers, possibly in industries such as finance, telecommunications, and large-scale outsourcing.

Figure 6: Number of employees working in service businesses

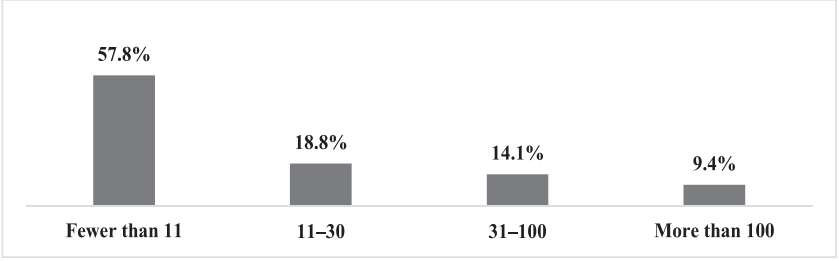


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.7 Number of employees working in trading businesses

The workforce size of businesses operating in the trading sector, based on 64 respondents, are categorized into four groups. A significant 57.8% of trading businesses employ fewer than 11 workers, reflecting that many trading firms operate on a small scale, possibly as family-run businesses or startups. 18.8% of businesses employ 11–30 workers, suggesting that a portion of trading firms are growing and expanding their operations. Only 14.1% of businesses employ 31–100 workers, indicating that fewer trading firms transition into medium-scale operations. 9.4% of businesses employ more than 100 workers, showing that large-scale trading businesses exist but are relatively uncommon in this sector.

Figure 7: Number of employees working in trading businesses



Source: DCCI Survey on Listing of SMEs (2025)

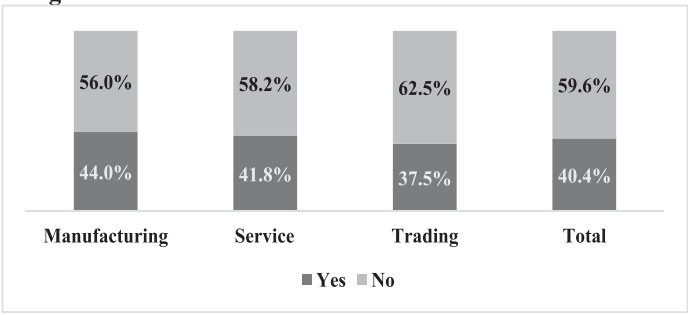
4.1.1.8 Awareness of the DSE-SME or CSE-SME Board

This analysis examines whether businesses are aware of the DSE-SME and CSE-SME Boards, based on 156 respondents. A majority (59.6%) of businesses are unaware of the SME stock boards, highlighting a need for greater financial literacy and awareness campaigns. Only 40.4% of businesses are aware of the DSE-SME and CSE-SME platforms, which means many SMEs may be missing out on potential funding opportunities through public listing.

More specifically, in manufacturing, 44.0% of businesses reported being formally registered, while 56.0% are still operating without official registration. The services business follows closely, with 41.8% of businesses being registered and 58.2% remaining unregistered. In the trading business, the share of registered businesses is comparatively lower, at 37.5%, while a larger majority (62.5%) operate without formal registration.

In summary, while manufacturing leads slightly in formal registration, all three sectors still reflect a high degree of informality. This trend underlines the need for greater awareness, support, and incentives to encourage formalization especially among trading and service-oriented businesses.

Figure 8: Awareness of the DSE-SME or CSE-SME Board

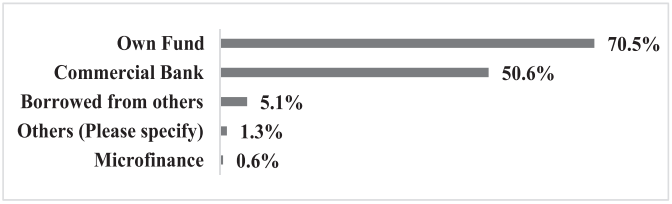


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.9 Sources of current Business financing

This analysis explores the sources of financing used by businesses. Understanding these financing patterns can help identify trends and potential areas for improvement in business funding. The majority of businesses (70.5%) rely on self-financing, indicating that businesses prefer using their own capital rather than taking on debt. Commercial banks serve as a key funding source for a significant portion of businesses (50.6%), suggesting that bank loans play a crucial role in business funding. Informal borrowing (5.1%) and microfinance (0.6%) are used by only a small percentage of businesses, suggesting that these sources are not widely used, possibly due to high risk, limited loan amount, or unsuitable terms for business needs. Only 1.3% of businesses use other financing sources like public money, paid-up capital, financing from Bangladesh Bank, etc.

Figure 9: Financing source of businesses

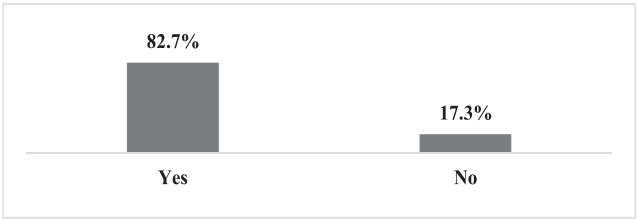


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.10 Listing in the capital market as an alternative to traditional financing sources

This analysis explores business opinions on whether listing in the capital market could serve as an alternative to traditional financing sources. A significant 82.7% of businesses support capital market listing, showing strong interest in equity financing as a way to raise funds. Only 17.3% of businesses do not consider it a viable option, possibly due to a lack of knowledge, perceived risks, or concerns about compliance and regulatory requirements.

Figure 10: Response listing in the capital market as an alternative financing sources

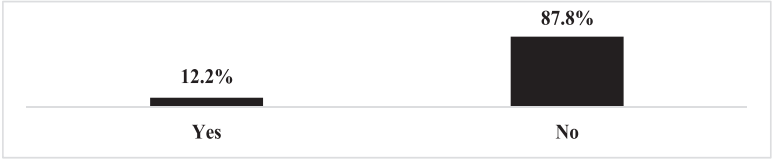


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.11 Understanding of the requirements for listing on the capital market

This analysis examines whether businesses understand the requirements for listing on the capital market. The majority (87.8%) of businesses are unaware of the requirements for capital market listing, pointing to a lack of financial literacy or accessibility to information about the listing process. Only 12.2% of businesses have a clear understanding of the listing requirements, which could be due to prior experience with stock market involvement, access to financial advisors, or knowledge of the capital market. The lack of understanding could hinder businesses from exploring the potential of listing in the capital market, as many may be unaware of the benefits and the specific criteria for becoming a public company.

Figure 11: Understanding of the requirements for listing on the capital market

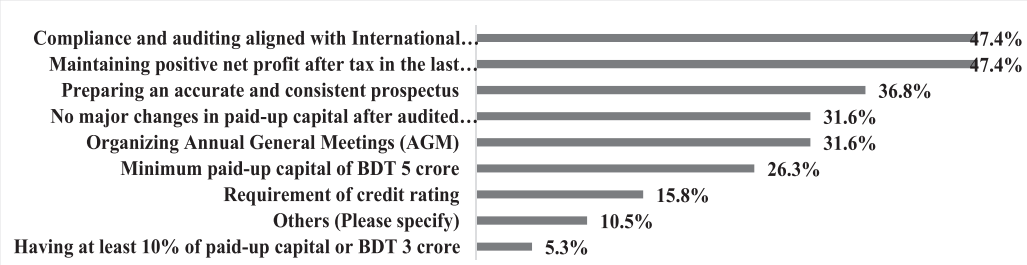


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.12 Difficult or irrelevant listing requirements for SME listing

The responses from 19 businesses that have a clear understanding of the listing requirement highlight several challenges in meeting the listing requirement for businesses. Maintaining a positive net profit after tax (47.4%) and compliance with IFRS (47.4%) were the most frequently cited difficulties. Preparing an accurate and consistent prospectus (36.8%) was another key concern. Organizing annual general meeting (31.6%) and restriction on changes in paid-up capital (31.6%) were also reported as barriers. The minimum paid-up capital requirement of BDT 5 crore poses a challenge for 26.3% of businesses. The requirement of a credit rating was considered a significant issue by 15.8% of businesses. Other concerns, like too many requirements, were reported by 10.5% of businesses. Having at least 10% of paid-up capital or BDT 3 crore was also reported as a difficulty by 5.3% of businesses.

Figure 12: Difficult or irrelevant listing requirements for SME listing

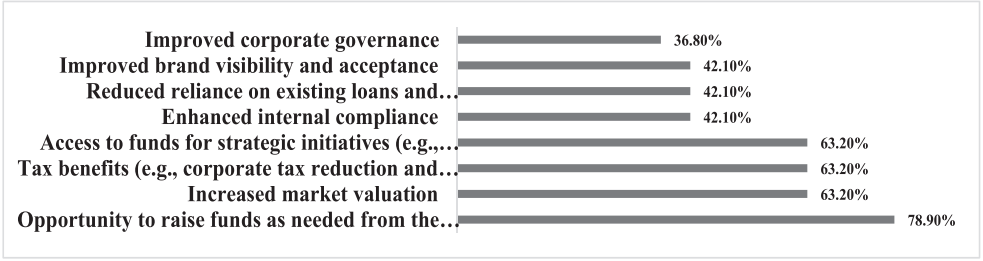


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.13 Benefits expected from listing in the SME capital market

Among the 19 businesses that have a clear understanding of the listing requirement, the majority anticipate multiple benefits from listing in the SME capital market. The most significant benefit cited is the opportunity to raise funds as needed (78.9%). Increased market valuation (63.2%), tax benefit (63.2%), and access to fund for strategic initiative (63.2%) are also key expectations. Improved corporate governance (36.8%) and enhanced internal compliance (42.1%) highlight the potential for businesses to strengthen their management and financial discipline through listing. Reduced reliance on loan and an improved financial position (42.1%) suggest that businesses see listing as a way to lessen debt burden and increase financial stability. Improved brand visibility and acceptance (42.1%) reflect an expectation that public listing could boost business credibility and market recognition.

Figure 13: Benefits expected from listing in the SME capital market

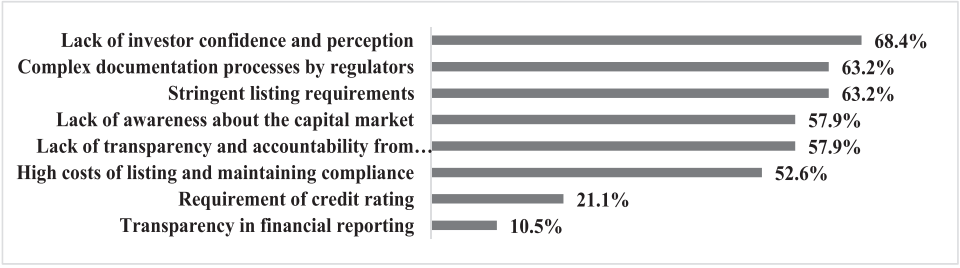


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.14 Main challenges for SMEs in getting listed on the capital market

Among the 19 businesses that have a clear understanding of the listing requirement, several key challenges were identified as barriers to SME listing on the capital market. Lack of investor confidence and perception (68.4%) emerged as the most significant challenge. Stringent listing requirements (63.2%) and complex documentation processes (63.2%) are also major obstacles. Lack of transparency and accountability from regulatory authorities (57.9%) and Lack of awareness about the capital market (57.9%) highlight gaps in communication, guidance, and trust between SMEs and capital market regulators. The high cost of listing and maintaining compliance (52.6%) is another key concern. Requirement of credit rating (21.1%) presents a moderate challenge, though it is less significant compared to other financial and regulatory hurdles. Transparency in financial reporting (10.5%) is a relatively minor concern.

Figure 14: Main challenges for SMEs in getting listed on the capital market

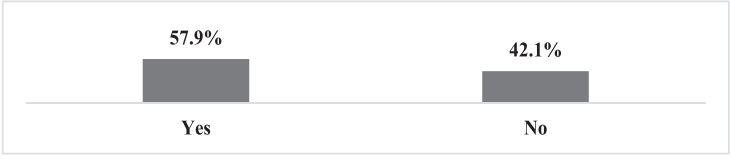


Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.15 Concern of businesses

This analysis examines whether businesses are concerned about the costs associated with listing on the SME board, including expenses such as registration, auditing, and reporting, based on 19 respondents who indicated an understanding of the listing requirements. More than half (57.9%) of businesses express concern about the costs involved in listing on the SME board, which may include registration fees, auditing cost, and ongoing reporting requirements. 42.1% of businesses are not concerned about the costs, which could indicate a greater financial preparedness or understanding that the potential benefits of listing outweigh the associated cost.

Figure 15: Businesses concerned about the costs associated with SME board listing



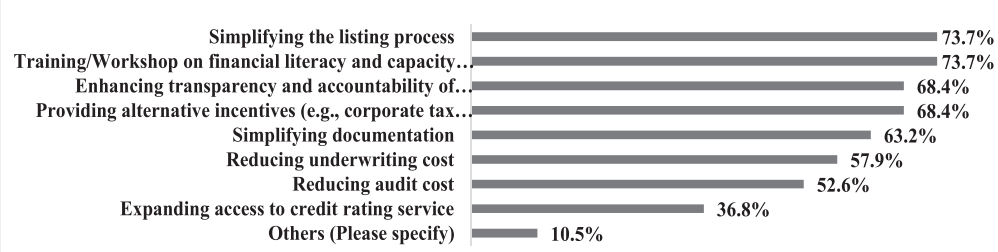
Source: DCCI Survey on Listing of SMEs (2025)

4.1.1.16 Measures that could support SME listing on the capital market

The majority of respondents (73.7%) believe that training programs and workshops on financial literacy would help SMEs gain a better understanding of listing requirement, compliance

and market dynamics. Similarly, 73.7% of businesses support simplifying the listing process, as it would encourage more SMEs to consider listing. A significant 68.4% of businesses emphasized the need for alternative incentives, such as tax benefit and government-backed guarantees, to facilitate SME entry into the capital market. Additionally, 68.4% of SMEs stressed the importance of enhancing transparency and accountability within regulatory authorities. About 63.2% of respondents highlighted that simplifying documentation would make it easier for businesses to comply with listing regulations. Reducing underwriting cost was cited by 57.9% of businesses as a way to make the listing process more affordable. Furthermore, 52.6% of businesses stated that reducing audit costs would help SMEs meet compliance requirements without facing excessive financial burdens. Expanding access to credit rating services was suggested by 36.8% of businesses to assist SMEs in fulfilling listing criteria more effectively. Lastly, a small percentage (10.5%) of respondents proposed additional measures, including the implementation of an online-based transaction facility for SME listing.

Figure 16: Measures that could support SME listing on the capital market



Source: DCCI Survey on Listing of SMEs (2025)

4.2 Descriptive analysis on proposed actionable strategies and policy recommendation for creating an enabling environment that facilitates SME participation in the capital market.

4.2.1. Simplify the SME Listing Process

- Reduce Processing Time: Efforts should be made to accelerate the processing time for SME listing on DSE and CSE. Streamlining documentation, approval procedure and regulatory compliance can make the process more efficient.
- Create One-Stop Service Centers**:** Establishing a one-stop service center to guide businesses through the entire listing process can reduce complexity and make it more accessible for SMEs.

4.2.2. Provide Tax and VAT Exemption

- Tax and VAT Exemption for a Minimum of 5 Years: To reduce the financial burden on SMEs, it is recommended to offer tax and VAT exemption for at least five years after listing. This will help businesses focus on growth and reinvest profits without the added pressure of high tax.

- Consider a 10-Year Tax Exemption**:** For long-term sustainability, a 10-year tax exemption could be considered to encourage SMEs to expand and reach their full potential in the capital market.

4.2.3. Offer Stronger Support and Awareness Program

- Increase Financial Literacy for SMEs: There is a need for better financial literacy among SMEs to help them understand the benefits of capital market listing. Offering workshop, seminar, and dedicated resources can ensure that SMEs are well-informed.
- Offer Workshop and Ongoing Support: Continuous educational efforts such as workshop, training session and advisory service should be organized to address the specific needs of SMEs, covering topics like financial management, stock market process and business planning.
- Promote SME Board Awareness: There should be a focused campaign to raise awareness about the SME boards on both the DSE and CSE. This could include advertisements, social media campaigns, and events to inform SMEs about the capital market and its potential as a funding source.

4.2.4. Address Financial and Operational Challenges

- Provide Coordinating Efforts for Sustainability: SMEs often face challenges in marketing, product design, packaging, and quality assurance. Offering coordinated support service for these areas can ensure the sustainability and competitiveness of SMEs in the market.
- Reduce the Role of Middlemen: Many SMEs suffer from excessive involvement of middlemen in the distribution process. Encouraging direct trade or offering programs that reduce middleman dependency could increase profitability for SMEs.

4.2.5. Promote Capital Market as a Viable Financing Option

- Facilitate Access to Capital: While SMEs are often constrained by capital, simplifying access to funding through stock market listing as well as providing easy access to financing information can support growth.
- Advertising on social media and other platforms: To increase visibility, SME board listing can be advertised across social media platforms, trade magazines, and other media outlets, helping businesses see the potential of SME boards for raising capital.

4.2.6. Streamline Cost Structures for Listing

- Lower Listing Cost: The cost associated with listing, including registration, auditing, and reporting needs to be reduced or subsidized for SMEs to make the process more affordable and attractive. This would address concerns that many businesses have about the high initial expenses.

5. Major findings from the KIIs

SME listing offers an alternative source of financing for small and medium enterprises, reducing their dependence on traditional bank loans. It enables business expansion, improves brand reputation, and enhances transparency. However, participation remains limited due to a lack

of awareness and regulatory challenges, compounded by differing definitions of SMEs between capital market regulators and traditional classifications. The primary funding sources for SMEs include personal investment, bank loans, and capital markets. Yet, several challenges persist, such as high-interest rates on bank loan (typically above 10%), insufficient collateral for large-scale financing, lengthy loan approval processes, and a prolonged SME onboarding procedure for capital market entry. While the SME listing process involves due diligence, it is relatively more flexible compared to other capital market segments and offers the benefit of lower reliance on costly loans.

To qualify for listing, SMEs must meet several requirements: a minimum paid-up capital of BDT 5 crore, three consecutive years of profitability, submission of recent audited financial statements, conversion into a public limited company, and adherence to corporate governance standards. Challenges in meeting these requirements include ensuring full financial transparency, maintaining consistent profitability, delays in the listing process-which can range from six months to two years-and bureaucratic inefficiencies during onboarding. Despite these hurdles, SME listing offers long-term capital growth opportunities. Listed SMEs enjoy several benefits, such as fair company valuation, exit options for sponsors and shareholders, cost-effective capital raising with reduced fees, a dedicated market with flexible regulations, and the potential to migrate to the Main Board. Additionally, they benefit from tax incentives, exemption from stamp duty on share transfers, and improved branding and market credibility.

Triangulation : The combined findings from both qualitative and quantitative research reveal several consistent and overlapping themes regarding SME participation in capital markets. These shared insights provide a clearer understanding of both the potential and the persistent barriers facing small and medium enterprises in Bangladesh. A key overlapping finding is the limited awareness among SMEs about the capital market listing process. Despite the existence of an SME platform, participation remains low. Many businesses are unfamiliar with listing requirements, indicating a gap in outreach and communication from market regulators. Both findings highlight that interest in capital market participation is high, especially among SMEs that are aware of the potential benefits. Businesses are willing to explore this route if regulatory and financial barriers are addressed. Both sources consistently highlight a range of key challenges that hinder SME participation in capital market listing. These include stringent listing criteria, such as the requirement for a minimum paid-up capital of BDT 5 crore and three consecutive years of profitability, which many SMEs struggle to meet. Additionally, financial transparency and reporting difficulties remain a major barrier, as many businesses lack formal accounting systems or the capacity to maintain audited financial statements. The high cost of listing and ongoing compliance further discourages smaller enterprises from entering the market.

6. Conclusion and Recommendation

The research findings provide key insights into the characteristics, sector, financing and challenges of SMEs. Most SMEs operate in the services and trading sectors, with manufacturing being the least represented. A significant portion has been in operation for over five years, indicating stability in the sector. Despite the presence of mid-to-large-scale businesses, SMEs primarily rely on self-financing and commercial banks, with limited participation in capital market. Awareness of SME stock exchange platforms is low, and many businesses lack knowledge of

listing requirement. However, there is strong interest in capital market listing, provided regulatory and financial challenges are addressed.

Key barriers to SME listing include stringent regulation, financial transparency issues and high cost of listing and maintaining compliance. However, businesses that understand the process recognize benefits such as increased funding opportunities, better corporate governance, and improved brand visibility. Addressing these challenges can encourage SME participation in capital market, fostering long-term growth. The SME listing process offers access to low-cost capital and business expansion opportunities. However, high-interest rates, regulatory complexities, and limited investor participation hinder involvement. Bureaucratic delays and transparency concern further complicate the process. To facilitate SME market growth, regulatory bodies should simplify procedures, offer tax incentives, and increase awareness. Strengthening collaboration among key financial institutions and developing equity-based capital policies will create a more supportive environment, attract investment and ensure long-term SME sustainability. Based on the findings and observations, this study proposes the following set of recommendations for creating an enabling environment that facilitates SME participation in the capital market.

- Simplify Regulatory and Listing Procedures.
- Introduce Comprehensive Fiscal and Non-Fiscal Incentives.
- Enhance Financial Literacy and Advisory Support.
- Expand Access to Equity-Based Financing.
- Strengthen Institutional Coordination and Policy Alignment.

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