



# **Leveraging SMEs for Vibrant Supply Chain Linkage and Productivity Spillovers**

**Dr. Md. Mafizur Rahman**

**CEO and Managing Director, SME Foundation**

**Ministry of Industries, Bangladesh**

**(Former Additional Secretary to the Government)**



## State of SMEs in Bangladesh: (driving force for employment generation)

- Total **7.8 million SMEs** including Cottage and Micros (CMSMEs)
- **7.3 million persons are engaged** in CSME's Sector
- Contribution to **GDP is 25%** (government targeted 32% within 2024)

### SME is the biggest job field

- About **2.2 million** people enter the job market every year; whereas only **0.7 million** get jobs, **1.5 million remains out of job** (world bank)
- CMSMEs play pivotal role in massive and balanced employment generation (throughout the country)
- **Just imagine, if each SME accommodates at least one unemployed people (each year), unemployment scenario would have been decreased significantly.**

## SMEs of Bangladesh: International Perspective



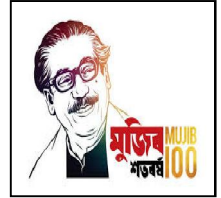
- The World Bank estimates that SMEs account for 90% of all businesses worldwide and 50% of employment. Formal SMEs contribute up to 40% of GDP in emerging markets and provide 70% of employment. (May 23, 2022)
- In the World Economic Outlook (WEO) April 2022, International Monetary Fund (IMF) projected that the global economy will grow by 3.6 percent both in 2022 and 2023.
- East Asia And Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%).
- Over a decade crossing 7.0 percent milestone in FY 2015-16 and 8.0 percent milestone in FY 2018-19. However, the COVID-19 pandemic reduced the growth rate to 3.45 percent in FY 2019-20. The economy grew by 6.94 percent in FY 2020-21.

## SMEs of Bangladesh: Macro Economic Perspective (Bangladesh Economic Review-2022)



- According to provisional estimate of BBS, per capita GDP and per capita national income stood respectively at US\$ 2,723 and US\$ 2,824 in FY 2021-22 compared to US\$ 2,462 and US\$ 2,591 respectively in FY 2020-21.
- The consumption increased to 78.44 percent of GDP in FY 2021- 22 from 74.66 percent in FY 2020-21.
- The gross investment stood at 31.68 percent of GDP in FY 2021-22, where public investment and private investment accounted for 7.62 percent and 24.06 percent of GDP respectively.
- Medium-term forecasts for GDP growth rates are 7.5 percent in FY 2022-23, 7.8 percent in FY 2023-24 and 8.0 percent in FY 2024-25.
- The point-to-point inflation in March 2022, stood at 6.22 percent, compared to the inflation rate 5.47 percent in March 2021.
- The country's external debt outstanding at the end of February 2022 was US\$ 55,826 million or 12.23 percent of GDP.

# SMEs of Bangladesh: Statistics



## Sector-wise Contribution to GDP

Year	Agriculture (%)	Industry (%)	Services (%)
1972-1973	49.76	9.00	36.46
1980-1981	46.58	11.08	42.34
1990-1991	29.23	21.04	49.72
2000-2001	25.03	26.20	48.77
2010-2011	18.00	27.38	54.61
2019-2020	13.48	30.82	55.71

Contributes  
**25%** toward  
GDP

SME sector  
contributed  
**1.5 million**  
jobs in the  
country

SMEs in  
Bangladesh is  
estimated to  
be **79,00,000**  
establishments

SMEs account  
for about **45**  
percent of  
manufacturing  
value addition

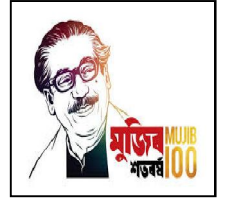
Employs  
almost  
**35.49 %** of  
total  
workforce

## Sector-wise Contribution to GDP

Category	Number (million)	percent of total
Cottage	6.843	87.52
Micro	0.104	1.33
Small	0.859	10.99
Medium	0.007	0.09
Large	0.005	0.07
All	7.818	100

Source: BBS, Economic Enterprise Census 2013

## **SMEs are Crucial for National Development! Bcoz,**



- Almost all industries and enterprises are SMEs (more than 99 percent)
- Most of the potential export and import substitute industries including sub-contracting and backward industries are SMEs
- SMEs play significant role in economic transformation (agro to industry)
- Entrepreneurial spirit and trend have got momentum. SMEs play significant role to promote the trend (it is comparatively easy to start a SME rather to a big industry)
- Bangladesh is still a labor abundant country. It is never possible to accommodate all the unemployed people with jobs (only 31 percent get jobs, remaining 69 percent remain out of local jobs). Strengthened SME sector could absorb majority of the unemployed population
- SMEs could also play the pivotal role in achieving the government goals and targets (employment creation, women empowerment, poverty alleviation, balanced economic and social development etc.)



## Potentials of SMEs are Yet Untapped!

- As backward and sub-contracting industry (of large Industries, EPZ, SEZ, FDIs etc.)
- Opportunities for FDIs (automobile, light engineering, plastic, electrical, leather & jute based products, agro-processing etc.)
- Scopes for export oriented (directly and indirectly) & import substitution industry
- SMEs could serve the domestic demand (increasing due to country's economic development)
- Educated young graduates (including women) are aspiring to become entrepreneurs (education rate is increasing)
- Huge number of semi-skilled and unskilled workforce with comparatively low wages
- Increased supports from the Government and so on.

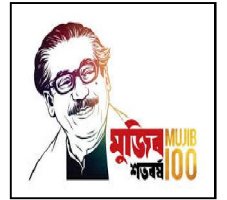
## Growth Factors that make the SME Sector a high-Potential One in/for Bangladesh



- Coherent policy support (existing policies say industrial Policy 2022, SME Policy, Motor Cycle policy, LES policy, automobile policy, ship breaking policy and some more policies are in pipeline)
- Demographic dividend, infrastructural improvement (sufficient electricity, better communication and transportation)
- Mega projects including Padma Bridge, fly over, metro rail, Kornofuly tunnel, Matarbari Deep sea port etc.
- Start-up Fund, NSDA and Skill councils
- 1<sup>st</sup> Perspective Plan 2008-2020 digital Bangladesh and graduation from LDC. 2<sup>nd</sup> Perspective Plan of 2021-2041 (Smart Bangladesh)
- 8<sup>th</sup> Five Year Plans to complete the agenda of achieving the social and economic transformation visualized in the second “Perspective Plan of Bangladesh 2021-2041”.
- 8th Five Year Plan would also be instrumental in attaining Sustainable Development Goals (SDGs), realizing Bangladesh Delta Plan (BDP)-2100 for smooth transition following the LDC graduation

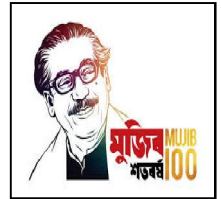


## SME Policy 2019: Taking MSMEs Ahead!



- **Goal:** By 2024, the contribution of SME sector in the GDP is to be increased from 25 % to 32%.
- **Implementation Strategies:** 11 strategies have been set for the development and strengthening of the country's SME sector.
- **Time-bound Action Plan:** The period from July 2019 to June 2024 is the implementation time with 60 strategic tools.
- **Implementing Agencies:** Ministry of Industries is the responsible agency for monitoring the implementation of SME Policy 2019. The responsibility for overall implementation of the strategies and action plans is entrusted to BSCIC and the Small and Medium Enterprise Foundation (SMEF).
- 35 Govt. and 20 Non-govt. implementing agencies & associate implementing agencies have been defined to implement the policy.

## 8<sup>th</sup> Five Year Plan: SMEs have Essential Role

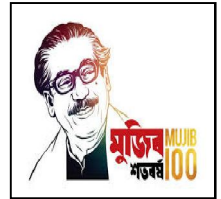


The institutional and financial support to CMSMEs will be vastly enhanced through the conversion of the SME Foundation into Small Business Agency (SBA) as in the USA that will serve as a one-stop shop to promote CMSMEs, working closely with the Bangladesh Bank on the financing side.

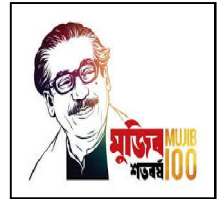
### Accelerating Inclusive Growth

- The inclusive growth strategy of 8FYP includes seven pivotal themes:
- Promote labor-intensive, export-oriented manufacturing-led growth along with expansion of the domestic market;
- Promote agricultural diversification;
- Infuse dynamism in CMSMEs;
- Strengthen modern services sector;
- Push exports of non-factor services;
- Promote ICT-based entrepreneurship embracing 4th Industrial Revolution (4IR);
- Strengthen overseas employment.

# MSME Clusters: Rural Economic and Social Development through Creating Rural Employment

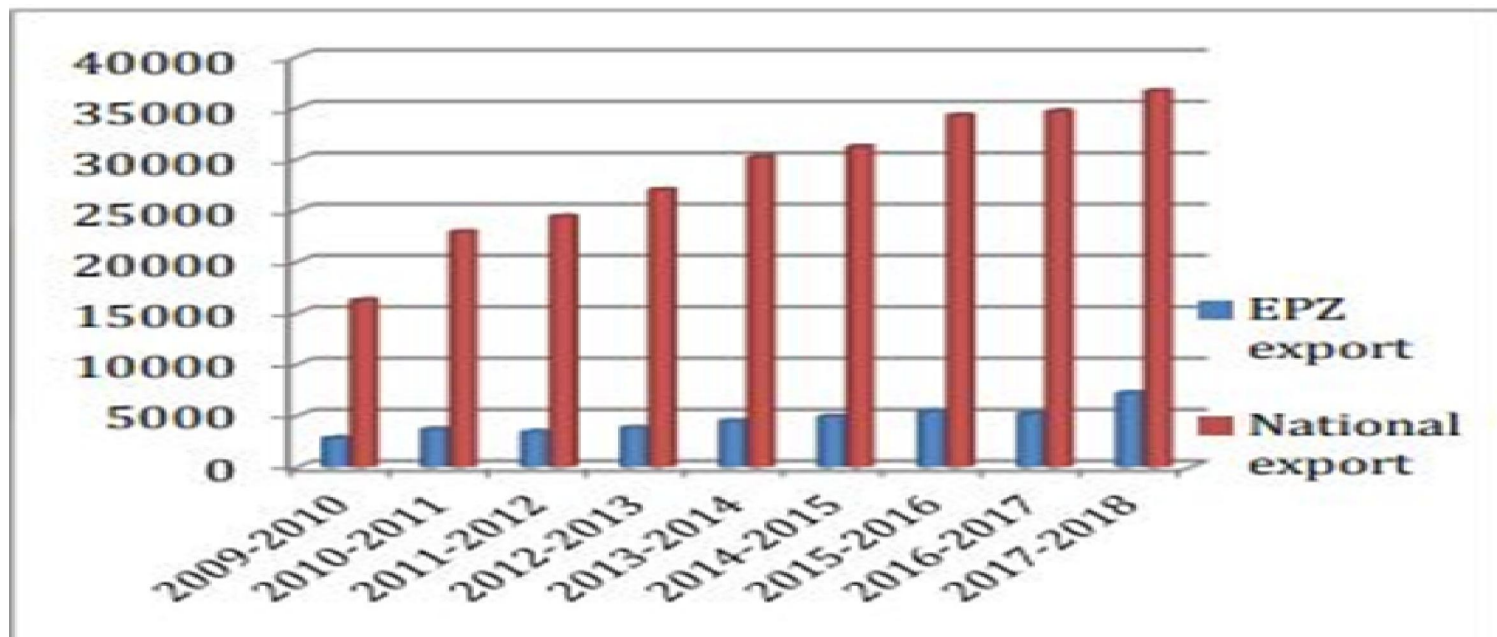


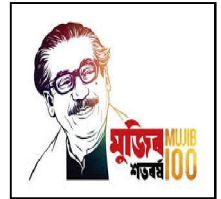
- 177 SME MSME clusters scattered across the Bangladesh
- SMEF provides need based holistic and integrated supports on coordinated approach:
  - training, skill development
  - Marketing, linkage, networking, sub-contracting
  - low cost financing (tailor-made loan programs)
  - technology and ICT support
  - policy advocacy
  - Infrastructure (CFC)
  - etc.
- Clusters have been playing pivotal role in rural economic and social development through creating rural employment and also promoting the rural entrepreneurship.



## SEZs and EPZs: Hub to Create New Employment

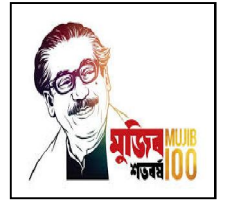
- Special Economic Zones (SEZs) and Export Processing Zones (EPZs) play an important role in employment creation and economic growth
- Government has plan to establish 100 SEZ within to ensure creating 20 million on new employment
- SMEs have huge scope and opportunities to become backward linkage industries of those economic zones





## SMEs: Key Source for Women Employment

- Development of women is the key issue for achieving national goals and targets (as 50% of the population are women)
- Women entrepreneurship development leads to gender equality, women empowerment, social development
- Bangladesh in last decade has created an ecosystem for creating and promoting women entrepreneurship
- According to IFC (2016), 7.2% of the businesses are women owned
- **As per study conducted by the Bangladesh Bureau of Statistics (government statistics agency) that the number of women entrepreneurs have been increased 126% in last decade.**
- **36% of women** labour force (40% in Asian countries)
- Government through its different agencies providing special support for women including earmarked tax benefit and low cost financing.



MSMEs have huge potentials to export and could play vital role in transforming and reducing the job dependency from RMG to other sectors!



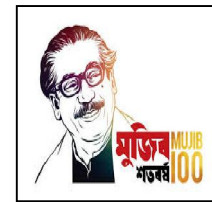
## SMEs: Opportunities in Transforming from RMG

- Bangladesh has been most of its export earning from RMG export (80%)

### Opinion of Mr. Mercy Tembon, Former Country Director, WB

- Bangladesh's success in **RMG export has created about 4 million jobs** and driven economic growth. But, in recent years, job creation in the RMG sector slowed due to automation and the trend will likely accelerate in the post-pandemic world
- This creates the urgent need for Bangladeshi manufacturers to shift gears from competing on low labor-intensive productivity to competing on higher productivity
- MSMEs with some potential sectors have come forward to address and minimize the challenges and gaps.
- Diversified jute goods, leather, agro-processing, handicrafts etc. have shown the increased trend in exports
- Some new export markets are also being explored with huge potential.

## Statement of the Hon'ble Prime Minister on Export

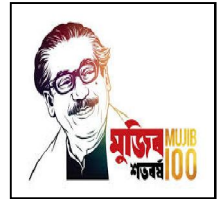


- While inaugurating the Bangladesh Trade and Investment Summit 2021 at the Bangabandhu International Conference Center on 26 October 2021.

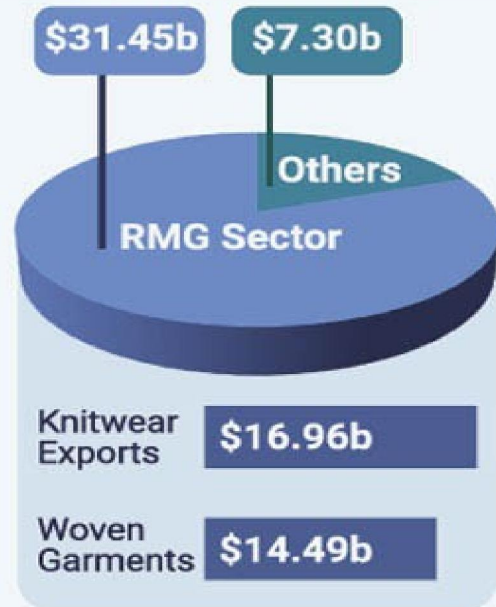
- *"We have to find out- through market research- what new items we can produce to boost up our export... We need to focus on that"*
- *"I think we need to increase the number of items in our export basket"*
- *"Bangladesh is a country that can do [produce] anything, if we want..."*



# Increased MSME Export Trend (non-RMG)

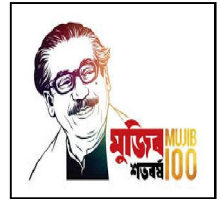


## Of \$38.75b Export in FY 21



## Sector-wise Export

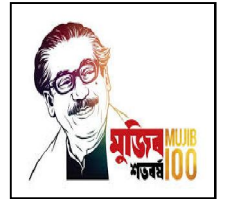




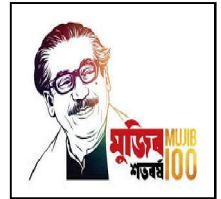
## Jute Goods Exports stand second after RMG

- Diversification of jute products created new hope and opportunities for new (jute based) entrepreneurs;
- Government has declared 282 jute products as diversified items to expand the export basket and increase both local and overseas sales;
- Bangladeshi jute products are being exported to at least 40 countries including the US, UK, Australia, Canada, Japan, China, Singapore and different European countries;
- Export earnings from jute and jute goods grew by more than 8.0 per cent to \$882.35 million in the last fiscal becoming the second-largest export earner after apparel;
- Bangladesh has been experiencing a increased export trend of jute and jute based products.
- **Jute goods exports stand second after RMG in recent years**

## Leather Goods: Bangladesh's next Cash Cow

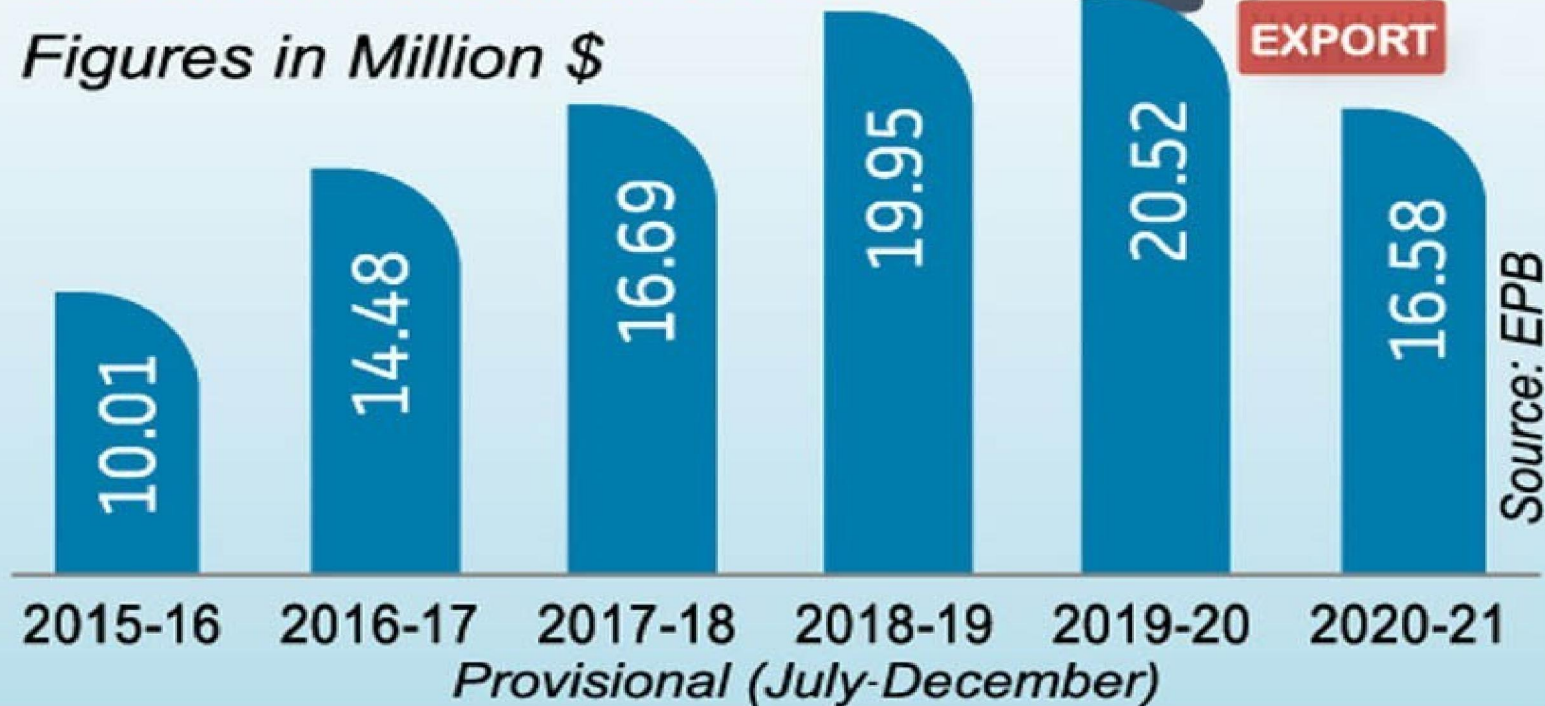


## Handicrafts Export see Steady Boom: Export up almost 50pc in July-Dec-2021



### Export Earnings from Handicrafts

Figures in Million \$

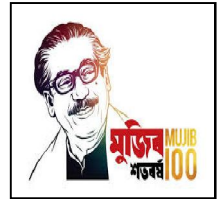


## Agro & Food Processing: Leading Agriculture to Higher Value Exports



- Agro-processing industry has opened a new avenue for Bangladesh in export earnings, which already witnessed 41% rise to \$374 million in the last fiscal year;
- Since it is an agricultural country, opportunity is unlimited in tapping the export potentiality due to availability of the raw materials;
- Value addition in agro-processing sector is very high. So, making the sector strong will help Bangladesh to reduce dependency on single sector and to diversify export goods;
- Mr. Manmohan Parkash, former Country Director of ADB said: *“Bangladesh has potentials to improve agro-processing, which can raise food growers income and reduce post harvest losses. While rural economy can be boosted significantly as the people can set up small and medium size enterprises across the country”*.

# China: New Export Hub for Bangladesh



## A NEW AVENUE FOR BANGLADESH EXPORTS TO CHINA

**8,256** Bangladeshi products – **97%** of total – to enjoy zero tariff treatment in Chinese market from July 1, 2020

Bangladesh along with **40** least developed countries will enjoy this facility

Manufacturers in Bangladesh will have to add **40%** value to these products

Exports of pharmaceuticals, readymade garments, frozen food, fish and vegetables to be benefited most

Government expects boost in foreign investment including that from China

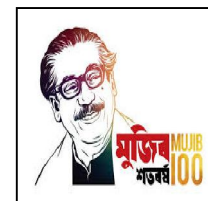
**Bangladesh's export to China in last 5 years**

Year	Export (million USD)
2014-15	<b>791</b>
2015-16	<b>808</b>
2016-17	<b>949</b>
2017-18	<b>650</b>
2018-19	<b>831</b>

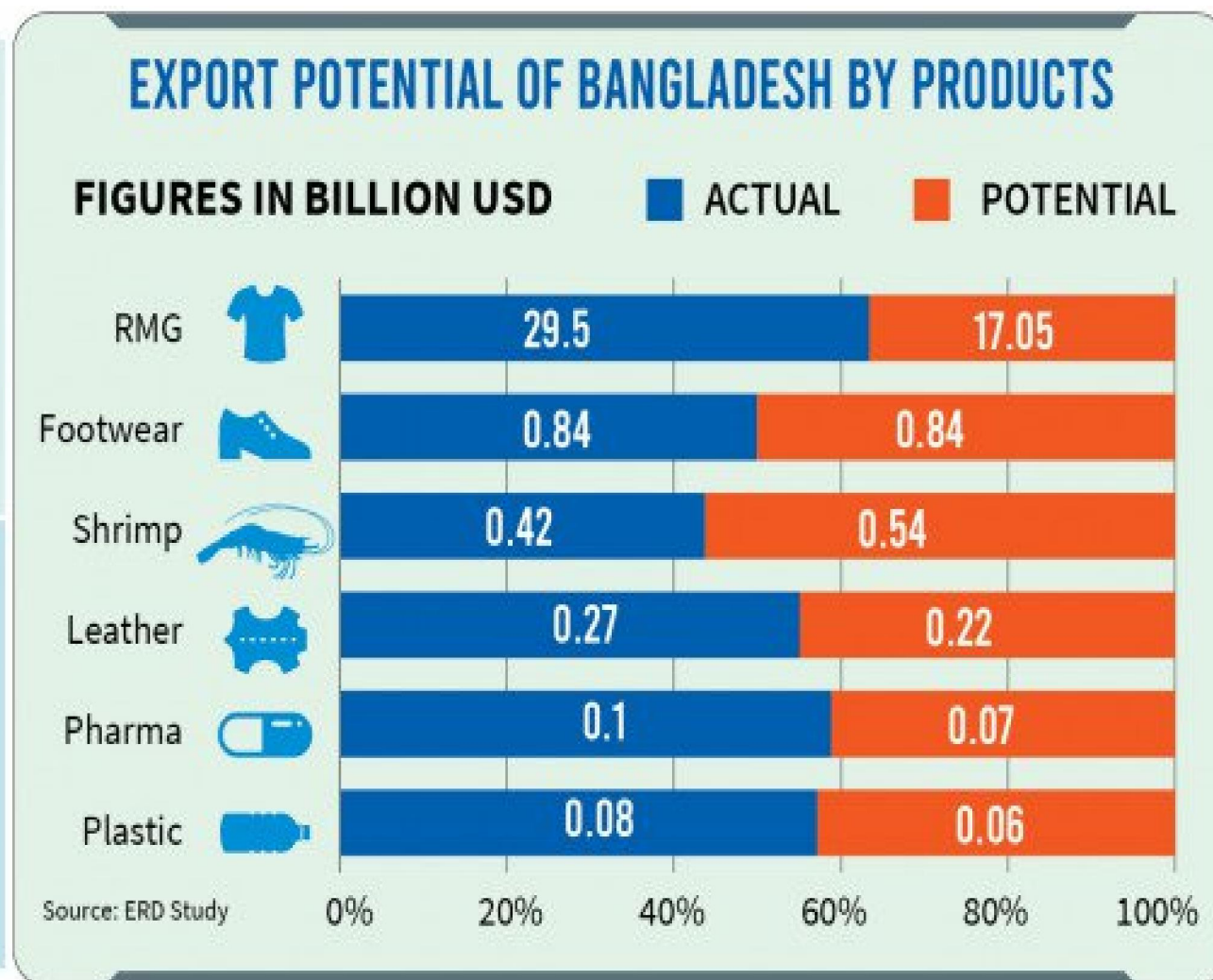
Bangladesh's total exports to China stood at **\$831m** in FY2018-19 against total imports worth **\$12bn**

- Opened up a new opportunity for Bangladesh as it could not use the potential to export for not having duty-free access to the Chinese market;
- China imports more than \$2.5 trillion worth of goods a year. Bangladesh exported only \$680 million worth of goods to China (40% was readymade garments);
- Research shows, Bangladesh's exports to China should be at least \$4 billion whereas Bangladesh could not harness even 30% of its export potential in the Chinese market.

# Bangladesh to tap \$22bn export potentials in China



-  **8,256 PRODUCTS**  
Enjoy duty-free access to China from Bangladesh
-  **\$680.66 MILLION**  
Bangladesh export to China
-  **\$322 BILLION**  
China's domestic RMG market size
-  **\$2.5 TRILLION**  
China's overall import



## Middle East Countries (MECs): Untapped Market for SMEs!



- Middle East Countries (MECs) could be the most potential market for exports- yet to become what it could be!
- Bangladesh has been exporting to the region but the value and volume appear to be way behind its ability;
- No doubt, one of the main features of these markets are the migrant people from Bangladesh as well as those from the subcontinent whose consumer tastes and preferences are more or less like same;
- There is no bilateral or regional trade agreement with these countries which many feel is the reason why the volume of export has not increased up to the expected level.

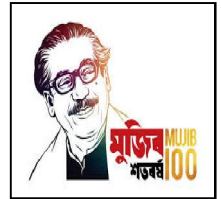




## Halal Food: Untapped Sector with Huge Potential!

- Global halal market worth is more than \$1 trillion annually;
- Qatar's imports vegetables of total about \$1.5 million per year and Oman has potential as well;
- Bangladesh has yet not been able to develop its halal business outreach;
- No designated certification body (in the country) for halal food yet been developed;
- BSTI aims to boost halal exports to the Middle East and other Muslim-majority countries. There was a move to increase the market share of halal food in the pre-pandemic time, but procedural requirements such as maintaining strict pre-shipment compliance protocols deterred the progress of export

## SMEs could Unpack the Untapped Potentials of Seven Sisters States of India

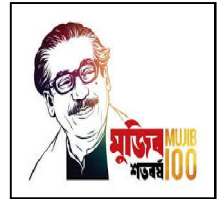


- SMEs of Bangladesh have huge export potential to North Eastern Regions of India, commonly termed as 'seven sisters states' (Arunachal, Assam, Nagaland, Manipur, Meghalaya, Tripura & Mizoram);
- Because of its strategic location, there are several opportunities for trade, transportation, commerce, and connection between Bangladesh and the Seven Sisters States;
- [Agartala is 1,650 km from Kolkata and 2,637 km from New Delhi through Shillong and Guwahati; whereas the distance is only 550 km through Bangladesh. Furthermore, the average distance between Bangladesh's major cities and northeast India is 20 km to 300 km.]
- With the growing demand and popularity of Bangladeshi products, mostly consumer goods, many manufacturers and exporters are eyeing to grab the markets in Seven Sisters as direct transportation through land ports has made trade with the neighboring country easier.

## SMEs have Positive Impact on GDP Growth

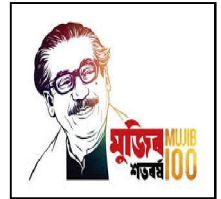


- Findings confirm a positive and strong causal association between GDP and production of SMEs as well as a short-term relationship between SMEs related variables and GDP growth
- SMEs contribute to the development of domestic industry by supporting both major and minor economic activities that generate employment
- SMEs contribute up to 40% of GDP in emerging economies. However, in many Asian countries, it has been estimated more than 90 percent of industrial output and create employment opportunities for 60 percent of the labor force (Veskaisri, Chan, & Pollard, 2007)
- In Bangladesh, SME sector has yet not realized its maximum capacity due to some constraints what make obstacles to reach its full potential.



## But Some Key Issues are Hindering the Growth

- SMEs have common tendency to be informal & non-compliant what makes them unable to get services from the formal sources
- Numbers of public and private agencies are working for SMEs with no coordination (same actions are done by different agencies, same time)
- Participation of the development partners are still less than the scopes and needs (in compare to other countries). International best practices are yet to be practiced
- Supply side (say for example banks) is some extent over served whereas the demand side (SMEs) are still unserved/unattended (if the entrepreneurs are not ready, how come would they avail the supports? Recent experience of stimulus package proved the fact. Most of marginal SMEs didn't get the loan whereas they needed the fund badly)
- Weak supply and value chain management
- Last not least: **Inadequate Budget Support for SMEs.**



## However--

- Start and run a SME is yet not easy. Trade License, Tax, VAT and other regulatory issues are still issues and factors for SMEs
- Access to formal finance is still challenging for SMEs. New, small, women and marginal entrepreneurs face difficulties in accessing to banks credit. However, alternative sources of financing have yet not got momentum (though potential)
- Access to market- i.e. lack of market competitiveness is another hurdle for SMEs what limits them to sustain and grow
- Lack of adequate technical skills and management capacity could be considered an important obstacle for SMEs
- Culture of research, development and innovation has yet not developed
- There are few business development services (BDS) providers working for SMEs. Private sector BDS facing profitability and sustainability crisis
- Stakeholders, particularly the trade bodies are not financially capable to serve and guide the SMEs (as they need)

## What We Need to do Ahead (and immediately)?



- Stocktaking of the exiting actions, programs and projects and then prepare a combined and coordinated time bound actions plan (inclusive of public and private) with strong monitoring & supervision from the government
- Ensure budgetary supports on regular basis, SME based programs & development projects, capacity building projects etc.
- Invite and include more development partners for SME development
- Prioritization of booster sectors with package of special benefits (cash incentive is not a sustainable approach to promote the sectors)
- Develop and improve value and supply chain management
- Strengthen the capacity of human resources, BDS Providers and trade bodies etc. (including SMEF)
- Focusing more on rural industrial development (instead of centralized industrialization to catch the benefits of infrastructural development)

## Support to SMEs: Global Practices (India)



- The Finance Minister of India, in her recent Budget-2023, proposed to spend a substantial amount – a record RS. 22,138 crore on allocations aimed to support and promote MSMEs
- Stating the MSME Sector is a “growth engine”, and the biggest source for employment, she mentioned that this high allocation will boost employment in the country
- Indian government has taken a number of steps recently to support MSMEs, including the emergency credit line guarantee scheme, equity infusion through MSME Self-Reliant India Fund, revised criteria for the classification of these enterprises, cessation of global tenders for small-ticket procurements, and extension of non-tax benefits, among others
- If we see our Budget, government has emphasized on access to finance only. But what about capacity building and readiness for access to domestic and global market, access to ICT and Technology, enhance capacity and competitiveness, etc.?



## Support to Artisans

- To enable traditional artisans to improve the scale, quality and reach of products and integrate them with the value chain of MSME, the Finance Minister has announced an assistance packaged named PM Vishwakarma Kaushal Samman (পিএম বিশ্বকর্ম কৌশল সম্মান).
- Stating that the products created by the art and handicraft industry represents the “true spirit of Atmanirbhar Bharat” (আত্মনির্ভর ভারত), the government, through this scheme will provide financial support along with advanced skill training, efficient green technologies, and knowledge of modern digital techniques designed to benefit artisans from economically weaker sections. (I believe such target based initiatives are also required to save and promote of heritage industries like Khadi, Satranji, Kasha, Pottery, handloom etc.)
- We don't have such budget allocation for SMEs in particular (other than credit fund).





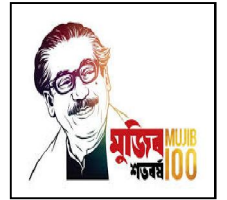
## Concluding Remarks

- We understand and agreed that giving subsidy or cash incentive for SMEs is not a sustainable approach.
- We rather focus on creating an ecosystem with conducive environment where the SMEs either new or existing will get all the supports they require at affordable price and efforts and on the other hand, the service provider, say for example the banks, will feel comfortable and profitable to provide services to SMEs. If we can ensure of those, we must say the SMEs
- However, in recent time, we have experienced the entrepreneurial culture and spirit got developed and momentum-- to promote this spirit and trend, we can think of giving some extent of regulatory relaxation, comfort and flexibility for new and small entrepreneurs; so that they could start their business and be formal and compliant after a certain period
- This will obviously encourage the young generation to be entrepreneurs instead of chasing to the wild goose (সোনার হরিণ)

## Finally--



- “No plan, however well-formulated, can be implemented unless there is a total Commitment on the part of the people of the country to work hard and make necessary sacrifices. All of us will, therefore, have to dedicate ourselves to the task of nation building with single-minded determination. I am confident that our people will devote themselves to this task with as much courage and vigor as they demonstrated during the war of liberation”
- The above is an extract, in abridged form, taken from the Foreword of the First Five Year Plan of Bangladesh which was prepared under the guidance and leadership of the FATHER OF THE NATION, BANGABANDHU SHEIKH MUJIBUR RAHMAN.
- Bangladesh is now a development miracle under the leadership of his daughter HPM Sheikh Hasina.



**THANK YOU  
& STAY SAFE**

