

SME Policy Strategies -2005

01. Introduction

01.1. Small and Medium Enterprises (SMEs) have historically been one staples of the enterprise landscape within economies globally. Especially growth with clear benefits for poverty reduction puts a premium on integrating, productively and profitably, small and medium enterprises in the very process of economic growth. The over-riding vision must be for setting up a market-based economic order with a level playing field for all enterprises, in which SMEs can aspire to opportunities of growth and wealth-creation commensurate with their own endowments and diligence, innovation and management commitment. In addition, the vision must lead to a priority in the delivery of government services so as to neutralize, on a continuing basis, the handicaps and irritants which, almost reflexively, tend to spring themselves upon SMEs in a selective manner. A historically accelerated pace of trade liberalization in Bangladesh since the early 1990s by spurring a veritable deluge of imports has quite significantly increased competitive pressure on SMEs in Bangladesh. Rapidly falling cost of communications have by unifying global markets heightened the intensity of competition. Trading is widely seen as a safer, richer, smarter and bulkier career to have than manufacturing---bad news indeed for industrialization. Government of Bangladesh formulated a comprehensive Industrial Policy-2005 by putting special emphasis for developing Small and Medium Enterprises (SMEs) as a thrust sector for balanced and sustainable industrial development in the country to help deal with the challenges of free market economy and globalization.

01.2. Implementation of poverty alleviation programs and strategies is a systematic and continuous effort in Bangladesh. For that purpose, the Poverty Reduction Strategy Paper (PRSP) of 2004 has clearly identified some core principles and parameters both at macro and micro levels for reducing the existing poverty level at least half within 2015 as targeted in the Millennium Development Goals (MDGs). Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact in the way of reduction of poverty and unemployment, generation of more employment. More than 90% of the industrial enterprises in Bangladesh are in the SME size-class, ie with upto 99 employees. Generally, SMEs are labor intensive with relatively low capital intensity. The SME Policy Strategies have been formulated to assist in the achievement of the goals and target the MDGs set by the Government.

01.3. Policy of the Government

The Government is committed to SMEs as vehicles for quality of life improvement, economic growth and poverty alleviation of the common people. The primary role of the government shall, firstly, be that of a facilitator removing policy obstacles and neutralizing market failures and, secondly, that of providing necessary promotional support.

02. Objectives of the SME Policy

The broad objectives of the policy shall be to:

1. Accept SMEs as an indispensable player in growth acceleration and poverty reduction, worthy of its great potential and commitment in the requisite overall policy formulation and execution;
2. The SME Policy Strategies shall be embedded, in a broad-based and integrated manner, in the Government's PRSP;
3. Encourage and induce private sector development and promote the growth of FDI, develop a code of ethics and establish good governance, ICT based knowledge managements and customer supremacy in the markets;
4. Identify and establish an appropriate physical and ICT network of infrastructure and institutional delivery mechanism that facilitate the promotion of SMEs;
5. Re-orient the existing fiscal and regulatory framework and government support institutions towards facilitating achievement of the goals of SME Policy;
6. Nurture and partner civil-society institution(s) having credible management teams in terms of the delivery of needed services, leadership, initiation, counseling, mentoring and tutoring, etc.;
7. Create innovative but meritocratic arrangements so that deserving and small enterprises with desired entrepreneurial track record and/or promise can be offered financial incentives within industries prescribed on some well-agreed bases;
8. Help implement dispute settlement procedures that proactively shield small enterprises especially from high legal costs and insidious harassment, if any;
9. Take measures to create avenues of mobilizing debt without collaterals to match (either using debt-guarantee schemes or mapping intellectual-property capital into pseudo-venture capital) in order to assist small enterprises in dealing with the pervasive lack of access to finance;
10. Systematically accord precedence to small versus medium enterprises, within the limitations of government's resources;
11. Harness information & communicatins technologies, Internet Protocol (IP)-based infrastructure, and electronic-governance in an effort to parlay regulatory services, all kinds of useful information and mentoring inputs, with an accent on increasing the viability of SMEs in all sectors of the economy;

03. National Taskforce on SME Development

The Government constituted a National Taskforce on SME Development to draw up a realistic strategy for promoting rapid growth and vigorous competitiveness among SMEs in Bangladesh in the interest of accelerating the growth of the economy and reduction of

poverty in the country. The Taskforce submitted its report including a comprehensive slate of recommendations that, if implemented, will mount a coherent strategy to promote the development of SMEs in Bangladesh in three phases: short, medium and long-term. The Government accepted most of the recommendations with some modifications.

04. SME Advisory Panel

An SME Advisory Panel shall be constituted involving experienced committed specialists and entrepreneurs of relevance to work together with the SME Cell of the Ministry of Industries (MOI). In the medium term the Advisory Panel and the SME Cell will eventually morph into SME Foundation.

05. SME Foundation

Over the medium term and beyond, the Government shall form an SME Foundation as a pivotal platform for the delivery of all planning, developmental, financing, awareness-raising, evaluation and advocacy services in the name of all SME development as a crucially-important element of poverty alleviation. The Foundation would strive to provision one-window delivery of all promotional and administrative facilities, including some resources needed for capacity building in appropriate industry association(s) for SMEs in the country.

06. Definitions Small and medium enterprises shall be categorized using the following definitions:

a. Manufacturing enterprise

Small enterprise : an enterprise would be treated as small if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, were to up to Tk. 15 million;

Medium enterprise : an enterprise would be treated as medium if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, were to up to Tk. 100 million;

b. Non-manufacturing activities (such as trading or other services)

Small enterprise: an enterprise should be treated as small if it has less than 25 workers, in full-time equivalents;

Medium enterprise: an enterprise should be treated as small if it has between 25 and 100 employees.

07. Booster Sectors

For promotional support the following 11 booster sectors have been identified and the list will be reviewed every three years: I. Electronics and electricals; Software-development; Light engineering and metal-working; Agro-processing/agri-business/plantation agriculture/specialist farming/tissue-culture; Leather-making and leather goods ; Knitwear and ready-made garments; Plastics and other synthetics; Healthcare & diagnostics; Educational services; Pharmaceuticals/cosmetics/toiletries; Designer, aesthetically-challenging, personal wear and effects;

08. Setting criteria for deserving enterprises

Small and medium enterprises which, as well as meeting the size requirement shall have-

- (i) proven credentials as an entrepreneur (for example, membership in well-recognized social occupational groupings, successful track record) with requisite presence and facilities on the ground;
- (ii) an above-average insiders' equity participation;
- (iii) certifiable professional specialization of top-management in relevant production skills;
- (iv) the stamp of approval from globally-recognized quality-assurance bodies (ISO 9001:2000, for example);
- (v) high management commitment to innovation. Women entrepreneurs will be accorded preference, wherever appropriate. and Other things being equal, smaller enterprises shall be given preference in terms of benefits from interventions by the government and civil society initiatives.

09. Revenue and financial Incentives

The industrial enterprises identified in the Industrial Policy-2005 as Thrust Sectors including small and medium enterprises (SMEs) will enjoy special fiscal and financial incentives.

10. Credit-distribution Package and venture capital market

a. A credit-distribution package shall be worked out by the Ministry of Industries. An innovative scheme---rather like a two-stage screening mechanism---that can really probe for the *bone fide* of the applicants as *entrepreneur materiale* will be deployed.

b. Donor financial resources made available specifically to help with implementation of SME policy being enunciated here would only be allocated to competitively-selected enterprises within the booster industries here being prescribed.

c. Of the total resources available, no more than 20% may be earmarked for medium enterprises, while the remainder, 80%, will be earmarked for small enterprises. Within each

division, the resources will be divided up into a public-sector venture-capital fund (10%), approximately on the lines of the currently-implemented EEF at the Bangladesh Bank. The remainder will be allocated to a credit fund. (This does not have anything to do with debt-equity ratio relevant in discussions of enterprise financing.)

d. In the short run, the distribution of the credit fund and venture-capital fund will be the task of the BASIC Bank, and BRAC Bank, which is being recommended as the lead banks. BASIC and BRAC Bank will work closely with the Advisory Panel. (Over the medium term, this responsibility will devolve to the SME Foundation.)

e. The Ministry of Industries and the SME Advisory panel/Foundation, as the case may be, will determine modalities of how to implement both the credit-fund and the venture-capital fund.

f. Within the preview of the Advisory Panel, projects to be funded from the venture-capital fund will be evaluated by a team of experts that which will be constituted as a part of the implementation of SME Policy.

g. A publicly-mandated venture-capital scheme is created. It will also give a stimulus to the morale of entrepreneurs who commit in-house capital to projects with novel and potentially innovative processes and technologies with demonstrable potential for commercial success. Such products have a-typical high risk and high returns. This recommendation is rationalized in terms of the private under-investment based on extensive, even potentially crippling, negative pecuniary externalities in certain among the booster industries prescribed here, with regard to the leaching of shareholder's value outward from the enterprise.

h. The Advisory Panel working together with designated Lead Bank(s) in the short-term, and the SME Foundation in the medium- and long-term would implement a transparent and meritocratic arrangement for steering public equity and debt resources into a genuinely deserving selection of enterprises.

i. The development of human resources in both the Lead Bank(s) and the SME Foundation with regard to effective targeting of resources made available under public equity funding would remain imperative.

11. Quality-assurance (QA) Certification

a. Bangladesh Standards and Testing Institute (BSTI) with its accountability to SMEs fundamentally enhanced through appropriate SME representation in its governance, and with appropriate representation from civil society institution(s), shall become the focal point for offering assistance with regards to securing quality-assurance (QA) certification from registrars of QA.

b. Suitable SME-related industry association(s) shall be empowered to issue non-mandatory certification, albeit with high professional integrity, with regard to quality assurance. Such association(s) would be eligible to grants from Government towards the cost of setting up

required testing laboratories and other facilities. Such association(s) would be eligible to grants from Government towards the cost of setting up testing laboratories.

c. Small, out-right co-financing grants will be available for registration with globally branded QA registrars (say with ISO 9001:2001 or equivalent).

12. Multi-stage Sample Survey of SMEs

There is an urgent need for a major overhaul of the availability of reliable and current data about the characteristics of SMEs. The Ministry of Industries shall immediately take up the conception and implementation of a multi-stage sample survey of SMEs in the metros and the district headquarters. Ideally, there should be a complete enumeration of all SMEs, the data from which should be of use in drawing up a survey methodology for a systematic stratified random sampling.

13. Tactical Plan of Action

a. Strategic Plan of Action:

The tactical plan shall be prepared to move from gap analyses to skills upgrading based on the product(s) in the booster-sectors, paying careful attention to the requirements of the production clusters in the inner cities (such as Dholaikhal, Mirpur, and the like).

b. Enabling environment:

An enabling environment in which both extant and aspiring entrepreneurs find within an easy reach most of what they direly need---information, counseling, mentoring, access to finance, technology and the means to markets.

c. Supply chain for technopreneurship:

A serious effort shall be made for fostering a supply chain for technopreneurship. Bangladesh needs role models who can get intelligent and diligent people excited about creating value through successful entrepreneurship. The SME Panel/SME Cell and the SME Foundation shall conceive programs for popular media, with anchor(s) for them to match, modeled after some widely-accepted success stories.

d. SME Web Portal:

An online-community, availing of relevant information and communications technologies, of both extant and aspiring SME entrepreneurs, shall be hosted on a SME Web portal in the SME Cell/SME Foundation, for the divining of technology, product and market trends, for career-counselling to benefit science/technology graduates, for technopreneurial problem-solving session(s), for mentoring using guru-disciple symbiosis.

e. Towards a virtual SME front-office:

A Web-based virtual front-office providing all start-up assistance to SME entrepreneurs (application forms, FAQs, limited directory-assistance, success stories, horror stories, etc) and an one-stop-service, with all interactions between the user and the system stored on databases shall be established in the interest of providing institutional memory.

f. Exports-friendly content on the SME Portal:

Information regarding standards of labor and output pertaining to overseas markets to benefit export-oriented SMEs should be put in place on the Web portal.

g. Electronic-governance with a human touch:

The electronics-governance shall be supplemented, at least for a time, by human touch, with adequate budget to match, to physically attend to the needs of small entrepreneurs who take recourse to them. This is based on the recognition that a totally hands-off delivery of all requisite services to SMEs is an ideal whose achievement was likely to only happen in stages.

h. High-performance communications backbone:

A high-performance fiber-optics communications backbone shall be put in place in six of the country's largest metro-markets (namely, Dhaka, Chittagong, Rajshahi, Khulna, Sylhet and Barishal) so that the launch of some serious ICT-centric applications to benefit e-governance to the profit of SME development is not unduly handicapped by woefully inadequate bandwidth.

i. International technology-exchange programs:

Technology-exchange programs between countries in similar stages of development, and with a similar maturity of the infrastructural development for SME development, shall be implemented in the interest of rapid technology transfer.

15. Formulation of a package of capacity-building and training

- a. **Specialized professional expertise:** Specialized professional expertise in carefully-chosen niches that the SME Advisory Panel recommends has potential for a broad-based replication. Such training can be so packaged to such high standards that the recipients feel motivated to pay up user charges, however minimal.

- b. **Re-skilling boot camps:** Re-skilling boot camps would need to be organized for each of the booster industries by rotation, with a view to provide periodic technology grounding in efficacious skills among workers in SMEs.
- c. **Institutional capacity for training:** Bangladesh Small and Cottage Industries Corporation (BSCIC)/Small and Cottage Industries Training Institute (SCITI), Bangladesh Institute of Management (BIM), Bangladesh Industrial Technical Assistance Center (BITAC) and National Productivity Organization (NPO)--- where a lot of equipment, infrastructure and other resources are in place---should undergo a significant strategic reorientation of their own core competencies under the watchful eye of the Advisory Panel/SME Cell. In particular, the skills and competencies needed to enable SME hold their own in the booster-industries in the changed global business environment should be re-emphasized in the ensuing revamping of these institutions.
- d. **Capacity for coordination among multiple institutions:** Several public institutions (such as The Atomic Energy Commission (AEC), Bangladesh Council of Scientific Investigation & Research (BCSIR), Leather Technology Institute (LTI), the Textile Colleges, the Ceramics Research Institute, the public universities, etc) have significant capacity for both product- and process-innovation of real value for SME development. The case for harnessing all that productive capacity in a coherent and harmonious manner can not be over-emphasized. However, achieving this will require a great deal of institutional coordination among various Ministries of the government.
- e. **Technical assistance and investment:** Towards this end, technical assistance and investment are both urgently needed to appropriately accent the training and motivational environment in these institutions so that they can become durable fixtures of technical and managerial skills, in a format of public-private partnership.
- f. **Private-public collaboration:** The selection of such training courses and then the delivery of such training is an important instance of public-private collaboration, and shall be utilized properly and effectively.
- g. **R & D with potentially high-impact profiles:** R & D that lead to prototypes with a scope for replication in potentially high-impact product niches (eg in the field of mobile games, 3-D animation, or bio-optics, or the manufacture of computer-controlled industrial and medical appliances, or spurring the use of resin in new production applications, etc.)
- h. **Curriculum development for vocational training:** Curriculum of vocational training institutes shall be revised and reviewed to make it SME development friendly.

16. Evolving of an SME eco-system

Two kinds of institutions are recommended, preferably for adoption by civil society role models/catalysts, bearing in mind that these institutions will not be in the employ of the government.

a. The mission of the first kind is in trying to render stakeholders out of indigenous young science and technology graduates by bringing to their agenda for poverty alleviation the currently-missing fulcrum of technological innovations to improve the quality of life of the poor in Bangladesh.

b. The mission of the second is to achieve mastery over a rapidly-changing slate of IT skills, and to then quickly disseminate them among young self-starters, including in the university/polytechnic/colleges' stream, through a regime of online and “brick-and-mortar” interactions.

c. Efforts to accelerate the retention and promotion of women entrepreneurs should be strengthened.

d. Greater stakeholder involvement in the entire gamut of activities by way of SME development while maximizing the extent of ownership shall be promoted.

17. Mitigating Impediments in clusters

There shall be an effort to identify three or four promising lines of production in a handful of clusters in the metros of Dhaka and Chittagong, where small enterprises abound. Gap analyses that lead to the diagnoses of weaknesses that stymie their productivity shall be launched. Several technical assistance studies shall then be aimed at these problems.

18. Educational and Generational Ethos

a. Bangladesh should increase the number, and enhance the quality of technical education in, the country's polytechnic institutes in the interest of increasing the number of entrepreneurs.

b. Similarly, the accent on mathematics, science and technology fare should be made stronger in the educational curricula of schools and colleges in Bangladesh. c. A census of all small and medium enterprises in Bangladesh shall be conducted. d. The legal and contractual framework prevailing in Bangladesh often increases especially small enterprises' handicaps. A survey of SMEs shall be launched in order to identify these insidious legal irritants. These should then be systematically weaned from the world of Bangladeshi SMEs. e. A small-claims court needs to be instituted, with requisite resources and mandate to match.