...can bloom


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FROM PAGE 1

maintenance of law and order, administration of justice, development of infrastructure, where it is important for the government to concentrate. Government, for example, should be responsible for providing public goods and services i.e. promotion of agricultural research, providing better quality primary and secondary education, rapid development of infrastructure like the construction of cyclone shelters, rural roads & bridges, where private sector may not respond quickly. Government will be increasingly playing the role of a regulator and facilitator, rather than that of a direct producer or provider of services for business type activities in the market opened for private investments. Privatisation of state owned enterprises has to continue in the traditional context, but it must be done in a more carefully considered, transparent and humane way. Secondly, privatisation would require the government to implement planned and well co-ordinated measures to vigorously expand the scope for private entrepreneurial activities, specially enhancing the market opportunities for small investors. The explicit aim will be to broaden the ownership of productive capital and technology for the large number of micro and small scale entrepreneurs, who have at present little or no access to them. It would involve urgent adjustment of existing macro level fiscal policies, credit policies, infrastructure development, industrial and trade promotion policies of the government, which can directly stimulate the growth of the sector of the economy that engages millions of people. The first and second components of the alternative approach to privatisation need to be synchronized, so that new job opportunites are created rapidly to absorb the surplus manpower that enters the market or is rendered jobless through sale and closure of state owned enterprises. The two components will be like the two blades --- the second being a larger blade with a much sharper cutting edge --- of a pair of scissors, reducing drastically government expenses on account of loss making state enterprises and simultaneously promoting rapid growth of hundreds of thousands of small scale enterprises at the base of the pyramid.

The alternative and a more dynamic approach to privatisation would require the government to establish a proactive, more decisive and extensive policy framework to promote the small enterprise development. Can this be done practically? Can the small enterprise sector really grow rapidly enough to create sufficiently large impact on the economy in terms of new employment and income opportunities? There is prima facie evidence that this can happen in Bangladesh, provided we formulate the right kind of market incentives and create the policy framework that will enable the 'real' private sector or what could be termed the 'People's Economy Sector' to grow. The economic situation is ripe today for such development on account of three specific reasons. Firstly, the agriculture sector being the biggest employer is releasing large number of surplus labour which is now available for employment in other sectors of the economy at a relatively cheaper wage. This has been traditionally the precondition for rapid industrial expansion in other developed as well as newly industrializing countries. Secondly, according to the 2003 National Private Sector Survey of Enterprises in Bangladesh, the MSMEs (micro, small and medium scale enterprises) numbering 6 million units, employed more than 31 million people and contributed upto 20% to the Gross Domestic Product. This segment is already almost as large as the farm sector in terms of contribution to the GDP. More important, it has the potential to grow much faster than the 3 percent average growth registered by the agriculture sector in recent years. The 2000 Household Income and Expenditure Survey data indicated that nearly 8 million people were employed by household based enterprises. More than 1.7 million people worked for micro-enterprises with assets of less than Tk 100,000. These figures, likely to be gross underestimates considering that Bangladesh has probably the highest rate of urban population growth in Asia, would have nearly doubled by now. Third, Bangladesh has led the world in establishing new microfinance models that can directly address poverty and social development problems. Approximately 15 million from the poorest households have been involved through microfinance in myriad entrepreneurial activities. Many of the subsistence level micro borrowers have graduated from the poverty trap, with their children now going to primary and secondary schools and would be now ready to make larger investments for production and trade related activities. The demand for financing through microcredit has accordingly soared in recent years. A large network of microfinance institutions are right now in a position with their retail outlets to effectively meet the growing demand.

Microfinance can stimulate small enterprise growth

There is substantial empirical evidence from existing microfinance institutions like Grameen Bank, BRAC, ASA as well as other NGOs regarding new programmes and instruments that can effectively finance and refinance the micro as well as the small enterprise sector. It should be possible to quickly adapt the microcredit model to meet the financing needs of the fast growing MSMEs. The government statistical report for 2006 cited small industry sector growth rising rapidly from 7.02 percent in 2000-01 to 9.21 percent in 2005-06. Surprisingly, however, no additional data regarding their sources of financing and classification of the small industry can be found in that report. The government programmes like the Bangaldesh Small & Cottage

Industries Coproration by definition can reach only the larger investors. According to the official website, this corporation by the end of fiscal year 2004-05 has developed 9,055 plots in 54 industrial estates, earmarked for relatively large enterprises having investments of Tk 30 million or less. It has currently a mega project of Tk 1.7 billion to develop the Leather Industrial Development Estate at Savar. With its past track record, it is difficult to envisage that this agency or any other existing government programme can promote dynamic development of the small enterprises which usually start off with an initial investment of Tk 30,000 i.e. beyond the limits set by microfinance institutions.

As the previous experience has shown there will be two primary drivers of growth of the MSME sector in the short run. Government as well as the non-government organizations will have a critical role to play in accelerating the speed of their growth. The first, will require expanding access to credit and financing facilities for the micro and the small sector, meaning enterprises that require funding for investments of Tk 30,000 and above. New financing mechanisms and instruments, therefore, have to be devised if the funding needs of this secoor are to be met. The second critical driver is the availability of basic infrastrustructure like rural roads, rural electrification, telecomunications and internet access allowing more efficient marketing of goods and services produced by this sector. The studies undertaken have clearly shown for example that, where electricity is available commercially, the area is more than four times as likely to report small & cottage industry as main economic activities. While the NGOs would be playing a vital role in providing loans to the micro and small enterprises, government's role will be critical to develop the infrastructure in the rural area.

Evidence on the Ground

With these two drivers geared into action, our stagnant economy can be quickly revved up as thousands of new enterprises begin to generate new income and employment opportunities, both in the cities and remote villages. The crucial question is how fast can the MSME sector really grow ? Can it grow fast enough in the short run, to cope with the massive job creation task that Bangladesh faces at this very moment? Of course, the answer is that it would depend on how fast the various macro level policies, particularly the macro level credit and fiscal policies relating to import duties and VAT, are adjusted to create new incentives for the MSMEs. But it can happen fast enough, if all commercial banks of the country can synchronise with the NGOs in devising new instruments and providing new financing facilities, opening up new doors and windows that cater exclusively to the micro and small investors.

We have some exciting evidence of how fast the new enterprises can grow from the experience of Grameen Bank, BRAC , ASA, some of the other NGOs as well as the emerging new private enterprises themselves. BRAC by now has extensive experience with financing of the micro enterprises through its Microenterprise Lending & Assistance (MELA) programme which has been operating since 1996. The loans range from Tk 30,000 upwards and so far thousands of borrowers both within the village organizations and outside them, have set up successful new enterprises with support of this credit window targeted at the MSME. According to BRAC reports until Spetember last year, 163,000 borrowers have been provided with Tk 39.43 billion as loans, with a current outstanding of more than Tk 10 billion. BRAC Bank itself was set up in 2002 as a specialized institution to provide credit to the small and medium enterprises. The research done by BRAC also showed a very high positive correlation between employment generation and the number of repeat loans. Grameen Bank took the initiative to set up Grameen Byabosha Bikash to jumpstart MSMEs amongst the more mature Grameen borrowers. Grameen Byabosha Bikash has been operating as a not-for-profit company since 2001, to meet the fast growing needs of the borrowers keen on making bigger investments, beyond the maximum of Tk 12,000 ceiling set for microcredit based activities. The company provided guarantees to the individual branches of the bank for financing bigger loans by the prospective large clients. Starting with only 124 Grameen borrowers under the guarantee scheme in 2001, by the end of '07 April, more than 460,000 borrowers have been provided with guarantees against a cumulative loan amount of Tk 4.65 billion --- a very rapid expansion was indeed possible through this programme. Some of the larger loans in 2006 were utilised for purchase of minibus, dredgers, dairy & poultry farms, yarn business, hosiery factory, fish farming, textile business, pharmacy, printing & stationery etc. The list of possible new enterprises are limitless. Most of the large NGOS like ASA, TMSS, Shakti Foundation have had a similar experience and demonstrated their capacity to grow on a very fast track, but were constrained by availability of funds. Some pure private initiatives in agro-fisheries processing, like the recently founded Enterprise Development Corporation Ltd have also expanded rapidly. In collaboration with IDLC, this venture which once again capitalized on the microfinance experience of its staff, has set up 310 MSMEs since '05, having disbursed Tk 37 million as loans, mostly for development of livestock and fisheries.

The way forward

So there is no doubt that the MSME sector by utilizing the experience and expertise of microfinance institutions, is now poised for a very rapid expansion horizontally as well as vertically. A lot of potential for growth lies latent in the 'missing middle' that comprises millions of small, innovative and risk taking owner operated enterprises. Small farmers keen on off farm investments, are ready and willing to break the barriers set by microcredit. The latent demand for financing by this sector will be enormous, provided we have the right institutions, the right instruments, the right products and the appropriate delivery systems for this special clientele. If we consider Grameen Bank alone, assuming that only 10 percent of its current 7 million members are now ready for bigger loans of say, Tk 30,000 and beyond, the minimum need for funds would be Tk 21 bilion ---- a staggering amount that would require the co-ordinated support of all the commercial banks. It would be enough to mop up the excess liquidity of the commercial banks have at present due to the exisitng economic conditions. The government has to consider various modes and instrumentalities for undertaking this massive financing operation, spread all over the entire country. It cannot be a centralized operation, but should involve a large number of financial institutions with numerous focal points, different lead banks, different financing instrumentalities. It would be particularly important to retail the lending activities through NGOs, PKSF and Grameen Bank which have already the practical experience on the ground. The commercial banks, both the public and the private, can also initiate their own pilot projects to develop the financial instruments and packages which they can retail best. It would be particularly critical at this stage to fully activate the SME Foundation which was set up with some fanfare more than a year ago, but since then has gone into a deep hybernation. The Foundation has the enormous task of promoting the SME sector and can provide a big thrust for its development. More important it can start functioning straightaway as a powerful lobby and spokesman for the MSMEs ---- unfortunately, at this moment there is no lobby for the budding small entrepreneurs except for the random voices heard in routinised seminars, occasional studies sponsored by donors and the government and of course, the sporadic features like this one, published in magazines and newspapers. The SME Foundation can hopefully provide some powerful clout behind these feeble voices and become a strong central lobby to shape more coherent policies that will facilitate the growth of millions of new enterprises. We have not become a nation of great sportsmen as yet, but we know for certain that Bangladesh can even in the short run become a nation of great entrepreneurs ---- millions of them. An alternative approach to privatisation can definitely facilitate that process.

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