



Moment to fix the SME sector

SMEs at a glance

TOTAL: 78.18 lakh

Jobs
40%

Contribution to GDP
25%

Contribution to industrial output
40%

SMEs in Bangladesh

TOTAL
7,818,565

■ COTTAGE ■ MICRO
■ SMALL ■ MEDIUM
■ LARGE

Jobs in SMEs (In lakh)

TYPE	EMPLOYMENT
Cottage	132
Micro	6
Small	66
Medium	7
Large	35
TOTAL	245

LOCKDOWN APRIL-MAY 2020

No of days of closure of SMEs	Days
Average days of closure	31
Minimum	19
Maximum	51

IMPACT ON WORKERS

- 54% of workers fully paid
- Avg no of daily meals before lockdown was **3**
- Avg no of daily meals during lockdown **2.7**
- Avg no of meals of daily workers of smaller firms was **3** before lockdown
- Avg no of meals of daily workers of smaller firms declined to **2.6**
- 24% of workers were laid off during lockdown
- Income dropped **60%** for male and **65%** for female workers

EFFECT OF LOCKDOWN

- Eighty four percent of SMEs were shut during lockdown
- SMEs of western and middle parts were mostly affected
- Seventy three per cent had pending payments
- Beauty parlour, tailoring were almost completely shut
- 76% drop in sales during lockdown
- 52% drop in sales in July

Situation of SMEs and workers before second lockdown 2021

SALES AND OTHER BUSINESS

Sales were 17% below pre-Covid level

Sales recovery was very low in case of clothing and tailoring shops, beauty parlours and cosmetics

Raw material usage 18% was below pre-COVID levels

SMEs

ACCESS TO CREDIT

47% of firms had access to grants, loans

One-fourth do not have access to loans

31% applied for stimulus loans

WORKERS

36% enterprises hired new workers while 30% laid off workers

Unemployment rate rises to 54% among women workers from 40%

Income level still 27% below pre-Covid period

Workers

SOURCE: BIGD MONASH UNIVERSITY STUDY, BBS, BIDS STUDY

ZINA TASREEN

Often touted as the backbone of an economy, Bangladesh has never wholeheartedly nurtured the cottage, micro, small and medium enterprises sector like the governments around the world, particularly those of China, India, the UK, the US.

So the economic tempest brought on by the global coronavirus pandemic, which has left the majority of the enterprises in a race for survival, has provided the government with the occasion needed to get its act together on the sector.

More so, because a cornered CMSME sector can turn out to be the weak link in Bangladesh's economic recovery and growth ambitions later on: after all, small businesses form the bedrock of everyday economic activities, making

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countries immeasurably stronger for their contribution.

And the starting point of that would be a credible database and realistic definition of what constitutes a cottage enterprise, a micro enterprise, a small enterprise, a medium enterprise and a large enterprise.

There is no official data on the number of CMSMEs in Bangladesh. The last time a survey was carried out was back in 2013, when the total number of SMEs -- without including the cottage and micro enterprises, of which there are hundreds and thousands -- was 79 lakh.

Without up-to-date data, forming any policy is akin to driving with one's eyes closed.

Which, perhaps, explains why there is so much debate on the utility of the Tk 20,000 crore stimulus package announced by the government for the sector that contributed at least 25 percent to Bangladesh's GDP and generated as much as 90 percent of the private sector jobs in normal times.

As of March, 72.3 percent of the stimulus fund has been disbursed to 91,427 firms, according to a finance

ministry document.

But there are upwards of one crore CMSMEs in the country, according to unofficial estimates -- indicating the announced package was scanty for the sector to begin with.

Then there is the issue with classification. Is it fair to lump a company that can employ less than 15 people to one that hires 300?

Enterprises with employees between 31 and 120 are classified as small, while medium enterprises constitute employees between 121 and 300, as per the 2016 national industrial policy. Those with employees between 16 and 30 are termed as micro enterprises, and those below 16 are cottage enterprises.

But this is not consistent with the international practice, which classifies firms with employees of up to 9 as micro. Firms between 10 and 49 employees are small, while medium enterprises constitute those that employ between 50 and 249.

In other words, the cottage and micro enterprises need to be separated from the small and medium enterprises in policymaking.

Otherwise, the cottage and micro enterprises would continue to be deprived of finance or be hard done by any policy meant for the CMSME sector.

Take the case of disbursement of stimulus funds. It took months, with the deadline extended many times, for the funds to be distributed, and the full amount is yet to be given away. In contrast, the stimulus funds were disbursed at a brisk pace.

And the reason being, the process for sanctioning credit for the CMSMEs is the same as the large industries. It costs the bank the same.

Banks have a certain pot of funds to give away. Does it not make better sense for them to disburse the sum in quick time to a few medium to large companies rather than sift through the hundreds of loan applications from small and micro enterprises?

This is the reason why the stimulus funds for the CMSMEs are being given away at a lethargic pace, and is the reason why access to finance eludes most CMSMEs.

It is simply not in the lenders' interest to lend to these smaller enterprises. And this is where the government can truly make a difference for the sector.

Why not give banks disbursement targets for the cottage, micro, small and medium enterprises separately as opposed to one target under the overhead of CMSME?

Another reason for the delay in stimulus fund disbursement was that many of the enterprises could not

meet the documentation requirements of the banks.

Given the rudimentary nature of many of these enterprises, it is unreasonable to expect them to have proper bookkeeping and up-to-date paperwork.

Their need for funds is not

excessive, so why not give such firms direct cash transfer? Or, why not stipulate light-touch checks for such enterprises?

The cost of any grants given now will be dwarfed by the costs and

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IPDC FINANCE

EMPOWERING SMES TO GO UNBOUND

3 STRATEGIC AREAS

SME Entrepreneurs

Supply Chain Finance

Women Empowerment

4 SME Products

IPDC Finance aspires for Small and Medium Enterprises (SMEs) to sustain and grow and therefore it helps them with competitive interest rates and flexible repayment options via a special loan product 'SME Bondhu'. The aim of IPDC SME Bondhu is to ensure the continued progress of small and medium entrepreneurs across the country.

IPDC Finance offers the country's first blockchain-based supply chain financing platform, Orjon, to assist businesses in a fast and secured way. Orjon is an eco-system that not only ensures financial inclusion but will also make a transparent and reliable marketplace and create collaboration of all the value chains.

'Joyee' is a loan product for female entrepreneurs with an attractive interest rate all throughout the year. We wanted to provide a platform for aspiring women entrepreneurs to build their own businesses with passion.

IPDC Finance runs a ground-breaking transaction-based digital credit program aiming at the vast network of retailers across the country under the name 'Dana'. IPDC provides collateral-free loans to the retailers via Dana.

3 Things to know

IPDC's SME business grew by 6 times in the last 5 years.

IPDC started using technology to support micro and cottage SMEs.

IPDC played a vital role among NBFIs in implementing stimulus and refinancing packages.

“IPDC's commitment to support SMEs stands stronger than ever and is evident through our endless efforts to create innovative and affordable products. We have established simple, timely, and robust platforms like Orjon, Dana, SME Bondhu, and Joyee to cater to their financial needs and exploit every expansion prospect. Observing the acceptability and appreciation for each offering, it is fair to say that our SMEs that once remained unnoticed and unbanked is now more resilient and agile in keeping up with the country's economic evolution. We acknowledge and appreciate their undeniable spirit and contribution to the economy and believe it's time to help them grow even bigger.”

Mominul Islam
MD and CEO
IPDC Finance Limited

A case study of a successful NBFi empowering Small and Medium Enterprises (SMEs) with their diverse portfolio of products.