



Are we doing enough for our SMEs?



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One significant dimension that has emerged in Bangladesh in recent decades is the expansion of small and medium enterprises (SMEs). The growth of SMEs, especially in the last one decade, has been quite astonishing. From the mid 1980s, the number of SMEs has increased four to five times. The contribution of small, micro and medium (MSME) enterprises to the country's GDP has also reached as high as 25 percent, while their number increased to 7.9 million. In addition to its direct contribution, SMEs play an important role in the supply chain of many other goods and services. It is not only in terms of contribution to national output/income, but primarily of the capacity of SMEs in generating employment that has helped shape the rural economy in particular. As many as 24 million people are estimated to be engaged in SMEs, which is around 30 percent of the total employed workforce. Moreover, SMEs are gradually becoming one of the key sources of employment generation for women.

During the Covid period (i.e., 2020, 2021), SMEs, especially the micro and small enterprises, despite being hit hard by the pandemic, served as a source of livelihood for a large number of people. The sector, however, has several structural bottlenecks that are constraining its potential expansion – which includes constraints related to access to marketing, access to finance, access to information, infrastructural bottlenecks, technological shortcomings, etc. Additionally, there are certain fundamental issues related to the SMEs, which include the disagreement in terms of its definition and classification along with the informal nature of many of the enterprises. Therefore, in order to reap maximum benefits from this sector, we need targeted policy interventions.



One of the more important areas of intervention for the government is to facilitate the activities of women entrepreneurs.

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The most crucial bottleneck for the growth of SMEs is probably related to their difficulty in accessing credit for their operation and expansion. Formal financial institutions are often reluctant to extend loans to SMEs due to their pre-conceived belief that it is unsafe to fund SMEs, especially the small and micro-ones, as these enterprises might be unsustainable in nature. Besides, many of the small and micro entities might

find difficulty in accessing formal credit due to their informality or lack of required documentation. Many SMEs, therefore, tend to obtain loans from informal channels or from NGOs at high interest rates, resulting in high cost of operations for them. In order to circumvent this constraint, though the government as well as the central bank has taken different initiatives for encouraging and incentivising the

commercial banks, there has not been much improvement in terms of access to credit from formal institutions.

SMEs have increasingly expanded to the online arena, where the main regulatory body is the e-Commerce Association of Bangladesh. This type of business model is being preferred particularly by female entrepreneurs as it involves less mobility for business operations. However, restraints related

to internet services, digital literacy, fragmented nature of the business, limited market base, etc. are some of the drawbacks for this type of businesses.

With a view to facilitate the expansion of SMEs, the government has taken a number of initiatives, including the formation of the SME Policy of 2019. It emphasises supporting SMEs in three key areas – supportive policies, effective

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