THE SMALL AND MEDIUM ENTERPRISES (SME) IN BANGLADESH: AN OVERVIEW OF THE CURRENT STATUS

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1.0 The Case for the SMEs

The SMEs[1] worldwide are recognized as engines of economic growth. The commonly perceived merits often emphasized for their promotion especially in the developing countries like Bangladesh include their relatively high labour intensity, dependence on indigenous skills and technology, contributions to entrepreneurship development and innovativeness and growth of industrial linkages. The case for fostering SME growth in Bangladesh is irrefutable as these industries offer bright prospects for creating large-scale employment and income earning opportunities at relatively low cost for the un-and unemployed especially in the rural areas strengthening the efforts towards achieving high and sustained economic growth which are critically important prerequisites for triggering an exit from endemic poverty and socio-economic deprivation.

These promotional arguments for the SMEs, while universally emphasized are often put forward by their ardent advocates in a small versus large context and thus arouse serious debates concerning their economic viability. Much of such controversies may, however breakdown if the intrinsic virtues specific to SMEs and unavailable to large-scale industries are correctly identified and carefully exploited. A combined interaction of the forces of product-mix, locational factors, technological advantages and market advantages create opportunities for SMEs to grow and prosper at all levels of development which are often ignored by the traditional approach to their economic strengths and development potentials.

The growing economic significance of the SMEs as sources of new business creation and employment generation in the developed, OECD countries especially since 1970s is now widely recognized in an increasingly growing volume of literature (OECD1997). The recent structural shifts in industrial production from the Fordist approach of mass production to more flexible and adaptable production regime in response to constantly changing market opportunities have led to a notable resurgence of these industries in the West. The re-emergence of the SMEs in the developed world makes economic case for fostering development of these industries more stronger than ever before.

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[1] Following the industrial Policy 1999 (IP- 1999), "Small Industries" are defined as industrial enterprises employing less than 50 workers and/or having a fixed capital investment of less than Tk. 100 million "Medium industry" covers enterprises employing between 50 and 99 workers and/or having a fixed capital investment between Tk. 100 and 300 million. "Cottage Industry" covers household-based industrial units operated mainly with family labour.

2.0   Place of SMEs in the National Economy of Bangladesh

Any precise quantitative estimate of the importance of SMEs in Bangladesh economy is precluded by non-availability of comprehensive statistical information about these industries at the national level.

The latest BSCIC estimates suggest that there are currently 55,916 small industries and 511,612 cottage industries excluding handlooms. Including handlooms, the number of cottage units shoots upto 600,000 units indicating numerical superabundance of the SCIs in Bangladesh. Quoting informal Planning Commission estimates, the SMDF puts the number of medium enterprises (undefined) to be around 20,000 and that of SCIs to be between 100,000 to 150,000. This wide variation in the BSCIC and Planning Commission estimates of the numerical, size of the SMEs might be due to at least two reasons: (a) different set of definitions of the SMEs and (b) different coverage of SME families. This strongly suggests the need for adopting and using an uniform set of definitions for SMEs by all Government agencies to help formulation of pro-active SME promotion policies.

Whatever the correct magnitude, the SMEs are undoubtedly quite predominant in the industrial structure of Bangladesh comprising over 90% of all industrial units. This numerical predominance of the SMEs in Bangladesh's industrial sector becomes visible in all available sources of statistics on them (Ahmed, M.U 2001).

Together, the various categories of SMEs are reported to contribute between 80 to 85 per cent of industrial employment and 23 per cent of total civilian employment (SEDF, 2003)[2]. However, serious controversies surround their relative contribution to Bangladesh's industrial output due to paucity of reliable information and different methods used to estimate the magnitude. The most commonly quoted figure by different sources (ADB, World Bank, Planning Commission and BIDS) relating to value added contributions of the SMEs is seen to vary between 45 to 50 per cent of the total manufacturing value added.

While the SMEs are characteristically highly diverse and heterogeneous, their traditional dominance is in a few industrial sub-sectors such as food, textiles and light engineering and wood, care and bamboo products. According to SEDF sources quoted from ADB (2003), food and textile units including garments account for over 60% of the registered SMEs. However, as identified by various recent studies, (Ahme, M.U. 2001, ADB 2001, US-AID 2001) the SMEs have undergone significant structural changes in terms of product composition, degree of

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[2] The robustness of SME contributions to employment generation is a common phenomenon in most developing countries in that the magnitude varies between 70 to 95 per cent in Africa and 40 to 70 per cent in the countries of the Asia-Pacific region (Ahmed, M.U. 1999).

capitalization and market perpetration in order to adjust to changes in technology, market demand and market access brought by globalization and market liberalization.

3.0   Growth and Structural Transformation of SMEs

Despite data limitations some rough indications may be provided regarding the trend of SME sector growth as presented the Table 1.

Table 1

Growth of SSIs sector (Excluding Handlooms) in Bangladesh

Year	No. of Units		Employment		Value Added (TK.)
	Small	Cottage	Small	Cottage	Small and Cottage Combined
1981	24590	321743	322110	855200	17987
1991	38294	405476	523472	1331032	21154
2001 (end of June)	55916	511621	808959	166724	29323
Average Annual Growth Rate (% change)	6.36	2.95	7.55	4.73	3.15

Source: Ahmed, M.U., 2001.

In terms of number of establishment, the SME sub-sector has exhibited notable dynamism, registering reasonably high growth rates over the decades of 1980s and 1990s. This numerical expansion of the SMEs has contributed towards substantial new business creation in the industrial economy of Bangladesh. Available evidence (Ahmed M.U. et.al 1992) suggests that the SMEs were responsible for giving birth to 60 percent of the new industrial enterprises during 1980s.

Growth in SME employment seems to have been even better during the same period. The dismal performance in value added growth is explained by the weak and faulty data base used by the BBS to estimate the parameters. This phenomenon of gross underestimation of SME value added resulting from weak estimation procedures used by the BBS has been confirmed by many researchers (Bakht 2001).

Indeed, when revised estimates of value addition in the SMEs are made using the new system of national accounts[3], the annual compound rate of growth of value

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[3] The revised value added estimate made by the BBS is based on a New System of National Accounts (i.e. SNA 1993) which classifies the economy into 15 sectors compared to 11 in the old system and uses 1995/96 us the base year compared to 1984/85.

added (Table 2) by the SME sector not only shots upto 7.7 per cent per annum during 1989/90 and 1994/95, it exceeds that of the large-scale industries during most of the 1990s. This trend exhibits dynamism and vibrancy of the SME sector except in late 1990s when growth of the sector tapprred off slightly due to extensive damages caused to the sector by the 1998 floods, especially to its production and capital stock.

Table 2

Structural Change of SSIs in Bangladesh

Industry Seb-sector	No. of Units, 1978		No. of Units, 1991	
	No	% of total	No	% of total
Rice Mills	12242	51.00	13482	35.21
Bakery	2167	9.02	2765	7.22
Flour Mills	1315	5.42	1718	4.45
Light Engineering Works	1120	4.66	2252	5.88
Printing & Publishing	995	4014	1775	4.64
Readymade Garments	757	3.15	2365	6.18
Saw Mills	713	2.97	1023	2.67
Soaps	143	0.59	351	0.92
Plastic Products	74	0.31	725	1.89
Automobile Servicing & Repairing	296	1.23	550	1.44
Total	19822	82.59	27006	70.52

Source: Ahmed, M.U., 2001

Another important indicator of SME dynamism is reflected through changes in product composition and structural transformation occurred to the sector overtime and shown in Table 3.

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4. In order to determine policy priorities for sub-sector development within the SME sector an exercise was carried out under the JOBS study (JOBS 1998) for identifying dominant sub-sectors. On the basis of employment criterion, the following sub-sectors at four-digit levels turned out to be dominant in descending order: Bakery, Specialized handlooms, Dyeing and printing, Footwear, Plastic Products, Steel Furniture, Electrical goods, and Engineering workshops.

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Table 3

Manufacturing GDP in Constant 1995/96 Prices by Size Category

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Year	Value Added in Large Industry (Million Tk.)	Value Added in Small Industry (Million Tk.)	Share of Large Industry in Manfg. GDP	Yearly Compound Rate of Growth (%)	
				Large Industry	Small Industry
1989/90	111126	45037	71.2	-	-
1990/91	117817	48316	70.6	6.0	7.3
1991/92	126462	51929	70.9	6.7	7.4
1992/93	137846	55925	71.1	7.4	7.5
1993/94	149220	60334	71.2	71.2	7.6
1994/95	166297	65220	71.8	8.4	7.7
Annual Average from 1989/90 to 1994/95	134795	54460	71.2	8.4	7.7
1995/96	175732	70619	71.3	5.7	8.3
1996/97	182704	76091	70.6	4.8	8.0
1997/98	199668	81240	71.1	6.3	7.6
1998/99	208033	81849	71.8	5.8	5.8
1999/00	217083	85122	71.8	5.8	5.5
Annual Average from 1995/96 to 1999/00	196644	7/884	71.3	5.5	5.5
Annual Average from 1989/90 to 1999/00	162908	65607	71.2	6.9	6.6

Source: Ahmed, M.U. 2001.

It will be noted form the Table that broadly four industry categories such as food and allied products, textiles and apparels, and engineering and fabricated metal products are currently dominant in the SME sector. However, at the disaggregated levels, important structural changes appear to have taken place in the sector between 1978 and 1991. For example, at the four-digit level, while three out of the top ten industries accounted for 82% enterprises and 63% of gross output in 1978 and 70 % of enterprises and 53% of gross output in 1991, the number of top industries has shot upto seven, spreading over light engineering, readymade garments, printing and publishing and wood and wood products.

The other new industries which have grown in importance in the SME sector in the recent years are plastic products, electrical goods, electronics, artificial jewellery, wooden and steel furniture, television and radio assembling and soaps and detergents. This is reflective of a structural change taking place in the SME sector from traditional to relatively modern product categories, perhaps with higher capitalization and use of better production techniques.

Summarizing the findings of various major studies the SMDF lists the following important positive changes taking place in the situation of the SMEs in Bangladesh:

- SMEs have diversified their activities
- Entry and exit into the sector has become easier
- The RMG industry has contributed significantly to SME development by providing them with orders for accessories and packaging materials
- The development of the footwear industry has increased subcontracts to SMEs
- Small-scale entrepreneurship has grown significantly in agro-processing in general and in poultry in particular.

4.0   Constraints to SME Growth

It is important to understand the operational strengths and weaknesses of the SME sector for pragmatic policy making and effective implementation of such policies.

Given an excessive heterogeneity and almost a bewildering diversity in the type, composition and characteristics of the members of the SME facilities it is exceedingly difficult to have any precise diagnosis of their operational constraints. Over the years many studies have been carried out to identity the operational bottlenecks encountered by the SME entrepreneurs. One of the most recent studies (Sarder, J. 2001) based on a small sample of 19 entrepreneurs identified the following (as perceived by the respondents) as the major difficulties faced by them:

- lack of modern technology
- lack of adequate investments
- irregular/inadequate supply of power
- high rate of interest on bank loans
- inadequate availability of raw materials
- absence of clear-cut government policies
- fierce competition
- lack of skilled technicians and workers

- lack of research and development facilities.

These are very commonly perceived and also perhaps generally encountered difficulties of operation of the SMEs. However, a close scrutiny and careful interpretation tends to reveal that lack of institutional credit, non-availability of working capital, low levels of technology, low productivity, and lack of marketing facilities and market access problems are the major bottlenecks to SME growth in Bangladesh. In the recent years, domestic law and order conditions, unreliable power supply and stiff competition both in domestic and international markets seem to have been the added dimensions to the SME operational bottlenecks. However, systematic and in-depth studies based on sufficiently large samples are needed to precisely identify the operational woes of the different categories of the SMEs.

5.0   SME Assistance Policies and Institutional Arrangements

The economic efficiency and overall performance of the SMEs especially in the developing countries are considerably dependent upon macroeconomic policy environment and specific promotion policies pursued for their benefit. It is thus important to examine the policy environment and institutional support within which the SMEs operate.

Though promotion of SME development has been a stated objective of successive governments ever since Pakistan days, the broad macro policy regime has continued to remain biased against SME development in many ways. Allocation of public sector investments, trade policies and taxation policies in particular have mostly been anti-SME development in character and contents (ADB, 2002).

The specific promotional policies and support measures such as extension services, financial and physical support form the public sector agencies and the development partners have also not always been adequately effective. Weak and inefficient management and lack of proper implementation of the various policy support measures have rendered various assistance relate business advisory services, such as training, credit marketing and physical infrastructural facilities (through BSCIC's Industrial Estates Programme), much less effective than desired. The private sector efforts through participation of MIDAS, BASIC and selected NGOs (especially GB, BRAC and Proshika) have not so for been adequate especially in SME promotion. The SMEs because of their structural weaknesses, such as, scale barriers, inefficient management and weak technological capacities therefore need pro-active policies and institutional support in addition to removal of existing policy biases.

Though BSCIC has been the key public sector agency responsible for supporting SME promotion for a long time, its operational efficiency remains weak for a number of structural and administrative and managerial bottlenecks.

While " getting the Government out of business" and greater participation of the private sector are now emphasized as key strategies for development, some public sector participation for desirable monitoring of selected essential public services such as, effective legal and judicial procedures, commercial contracts, land settling arrangements etc. will still be necessary.

6.0   Concluding Remarks and Proposed Agenda for Action

6.1   The economic arguments for SMEs should be more broad-based and include and emphasize the various special merits intrinsic and specific to their smallness per se.

6.2   An uniform set of definitions should be designed and used by all pertinent agencies (i.e. BBS, Ministry of Industries/ BSCIC, Planning Commission and NBR) with respect to classification of enterprises by size. In this context, a well-thougtout decision is needed to ascertain whether "SME" is the correct term to identify 'Small', 'Cottage' and 'micro' industries in Bangladesh.

6.3   A sufficiently large sample survy should be carried out to generate a bench mark national level data base both for accurate estimation of the SME contributions to the national economy and for formulation of comprehensive policies for the sector.

6.4   Given heavy reliance of the national economy on the SMEs for generating employment and income especially for the poor in the rural areas, development of entrepreneurship, new business creation and development of intersectoral linkages the SMEs should be declared as a 'priority sector' and backed by formulation of a pro-active SME development policy.

6.5   Within the SME sector, the fast growing sub-sectors exhibiting greater dynamism and prospects for sustained future growth should be declared as 'thrust sector' and supported by adequate incentives on a priority basis.

6.6   In the proposed SME development policies, provisions should be made to develop separate and specialized institutions in three areas: (a) finance, (b) technology and (c) skill development, in addition to rationalizing the existing policies and institutions. In this context, a strategic 'Public-private Sector' partnership and cooperation should be carefully developed keeping in view the current emphasis on fostering industrial development through private enterprises systems.

7.0   Selected Referneces

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