

Dialogue on
Development of Small and Medium Enterprises of the Bogra Region
Challenges and Initiatives

Study on
National Budget and Decentralised Development of SMEs
A Case Study of SME Clusters in Bogra

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Bogra: 24 March 2016



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- Introduction: Objectives & Methodology
- Development of SMEs in National Budgets: FY2005-FY2015
- Major SME Clusters in the Bogra Region: Major Features and Challenges
- Addressing the Challenges Confronted by the SMEs in the Bogra Region
- Concluding Remarks

Introduction: Objectives & Methodology

- Development of SMEs is one of the major policy priorities of GoB
 - Positive impact on alleviation of poverty by generating employment and income as well as creating opportunities for new entrepreneurs
- Major national policies (6th & 7th FYPs, Industrial policy, SME strategy, trade policy) have special focus on SME development
 - International development agenda: MDGs and 2030 Agenda for sustainable development have also highlighted the role of the private sector particularly of the SMEs
- A large SME sector is in operation in Bangladesh as like in other developing countries— 50% of the total manufacturing enterprises (with 10 or more workers)
 - 36.6% are small and 14.3% are medium
 - 35.5% of total manufacturing employment
 - 47% of gross value added

- National budget is a major policy instrument
 - Successive governments have taken various fiscal, budgetary and monetary measures targeted to the SMEs
- Macro-measures are likely to have positive impact on development of SMEs at the regional level
 - National data on SMEs is not so encouraging (share of small manufacturing enterprises in the national GDP: from 3.22% in FY2006 to 3.65% in FY2015)
- SMEs often confront the criticism of lack of competitiveness
 - Literature shows a mixed scenario of development of SMEs in the past decades
- In this backdrop, present paper highlights on how national policies and budgetary measures ensure development of SMEs not in general but in specific regional context.

Introduction: Objectives & Methodology

- The paper is prepared based on primary and secondary data and information collected in last few months
- Primary data is collected through direct interviews of key stakeholders of the Bogra region
 - Selection of Bogra is quite obvious as it is one of the regional hubs of SMEs of Bangladesh
- CPD's survey team visited two clusters including glass bottle at Adamdighi and home textile at Bogra city (see the map in next slide)
 - Debriefed the key stakeholders of these clusters
 - Met officials of BSCIC, commercial banks and discussed about major impact and implications of government various policy measures
- Since the paper prepared based on brief interviews at limited time and does not compare the findings with SMEs of other regions, the findings of the paper would not be considered as robust.
 - Similar kinds of exercise on SMEs of other regions would be required to get a comprehensive outlook on this issue

PART A

National Budget and SMEs

- Implementation of the SME related budgetary measures is under the responsibility of a number of public sector organisations
 - Ministry of Finance (particularly National Board of Revenue, Bangladesh Bank), Ministry of Industry (particularly Bangladesh Small and Cottage Industries Corporation (BSCIC), Small and Medium Enterprise Foundation (SME Foundation)) and Ministry of Commerce.
 - A number of private sector organisations such as FBCCI, DCCI, NASCIB and Women Chambers play key role at different phases of implementation of these budgetary measures

Major Fiscal Measures during FY2005-15

Tax holiday/ Tax revision/Celling on investment and turnover

- Tax holiday facility since FY2006
 - Plastic, melamine, ceramic and sanitary ware, insecticide & pesticides, computer hardware, agricultural machineries, boilers & compressors, textile machinery etc.
 - Export-oriented handicraft sector enjoyed tax holiday facility from July 2008 to 30 June 2011

- Investment ceiling has been raised for small and cottage industries several times
- The threshold level for turnover tax at a rate of 4 per cent for SMEs was extended number of times
 - From Tk.40 lakh to Tk.60 lakh to Tk.70 lakh and finally to Tk.80 lakh
 - In FY2012 annual turnover tax for SMEs was reduced from 4% to 3%, keeping the turnover tax margin unchanged
 - Minimum turnover tax for SMEs has been reduced to 0.5% from 0.3% in FY2015
 - Income tax relief for SMEs having an annual turnover below Tk. 2.4 million was introduced in FY09
- SMEs have received special supports in different years to confront sudden crisis and challenges
 - 5% additional cash incentive in FY2011 for SMEs of the garment sector against the apparels export in FY2008-09.
 - SMEs which did not have captive generator facility have enjoyed 10% cash incentives on electricity bill for the period ended in June 2010.

Import duty/supplementary duty

- Government has taken a number of decisions with regard to CD, SD and VAT at import stage on different products to support SMEs
- Plastic industry: CD and SD have been raised on a number of products during FY2009
 - Total tax incidence on these plastic products has increased by about 41% to 88%
- Electrical apparatus: CD has increased from 15% to 25% in FY2009 which would make domestic industries more competitive
- Iron and steel: Reduction of import duty on some of the raw materials during FY2012 would reduce the production cost of the light engineering products
- ICT: Withdrawal of zero duty on computer accessories in FY2008 might caused retail prices of computer accessories high
- Others: Reduction of CDs on raw materials (from 10-25% to 5-10%) during FY2015 is likely to have positive impact on a number of industries
 - Glass, ceramics, rubber, paper, furniture, paint, electrical, plastic and baby diaper

Excise duty/VAT

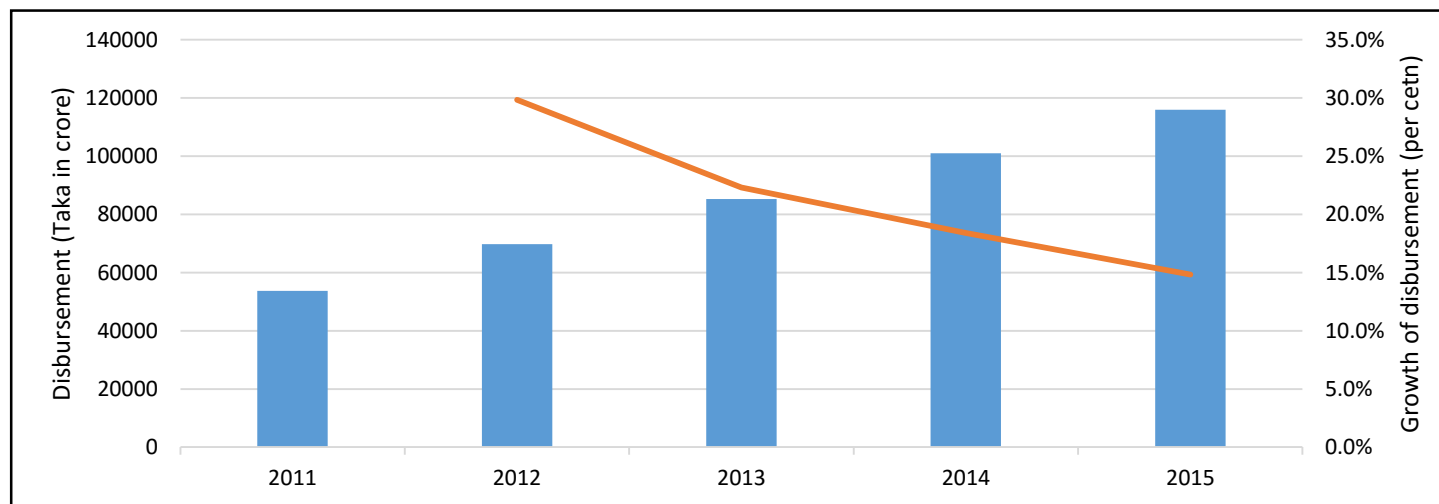
- FY09, GoB has withdrawn VAT from the production stage
 - Handmade biscuits, fabrics produced from artificial fibre and thread using handloom
- FY13, VAT was exempted for agriculture machineries
 - Machineries used in manufacturing granular urea and organic fertilizer, machines used for rice and wheat crushing and machines producing rice bran oil
- FY14, government proposed an upward revision of the eligibility for VAT on the basis of firm turnover
- New VAT Act is likely to be in operation in July, 2016
 - Unified VAT rate (perhaps at 15%)
 - Mixed responses of different trade bodies

Major Financial Measures targeted to SME development

- Access to finance for SMEs has been promoted by the successive governments over the years
 - FY05, BB had expanded refinancing facilities amounting to Tk. 250 crore to financial institutions supporting SMEs
 - Refinancing scheme was reintroduced in FY07 with an allocation of Tk. 100 crore and increased to 500 crore gradually
- Bangladesh Bank under 'Equity Development Fund (EDF)' has increased the allocation from Tk.50 crore to Tk.100 crore in FY2007
 - To develop agro-based and software industries
 - FY 2012, the coverage of EDF was extended to silk, flowers and herbs
- During FY2009 the government has provided an endowment fund of Tk. 100 crore to the SME foundation
 - To provide low-cost credit to SMEs through private commercial bank
- 'Thrust-fund' with an allocation of Tk. 23 crore has been created to provide loan to SMEs by the BSCIC

- BB has introduced a separate department called ‘SME and Special Programme Department’ in FY11
 - BB sets yearly targets for disbursement of SME loan through commercial banks, NBFIs, specialised commercial banks and foreign banks
 - Disbursement of SME loan has slowed down over the years (from 29.8% in 2011 and 14.8% in 2015)
- Overall, access to finance for SMEs is likely to make a good progress over the years

Figure: Disbursement and Growth of SME Credit



Source: Bangladesh Bank

Public Investment for the development of SMEs

- Public investment for the dev. of SMEs has been increasing over the years.
 - A major focus of this public investment is to establish industrial estates and to provide support facilities in potential SME regions/clusters
- During FY05-15, some of other ADP projects targeted to SME dev. are as follows
 - Self-Employment for Rural Destitute Women Through Cottage Industries;
 - Small Enterprises Development Credit Project;
 - Micro Credit Prog. for the Weavers, Strategic Support to SME Sector Training;
 - Advanced Technological Support Prog. for Small and Cottage Industries;
 - Small Scale Entrepreneurship Development in Diversified Jute Products;
 - Socio-Eco Dev. through Cottage & Rural Ind. for the Monga affected people;
 - Extension of BITAC Activities for Self-Employment;
 - Establishment of Fashion Design and Training Centre for Handloom fabrics;
 - Establishment of Permanent Tant Mela to Provide Institutional Marketing Facilities to the Marginal Handloom Weavers; and
 - Establishment of 3 Handloom Service Centers in Handloom intensive areas.

Reflections on SME Development in National Budgets for Bogra Region

- Public investment targeted to SME development of the Bogra region is not so largely evident
 - Very few development programmes have been introduced in the Bogra region since 2005
- BSCIC was established in 1964 in order to provide necessary infrastructure facility to small and medium scale industrial units
 - The estate has extended during 1980s and 1990s
- BITAC was established to provide technical support to the SMEs.
- At present, Sirajgonj BSCIC industrial park is under construction.

Table: ADP projects for SME Development in the Bogra region

Year	Type of projects
FY2005	Establishment of BITAC, Bogra (Jul, 03 – Jun, 06)
FY2007	Extension of BSCIC Industrial Estate (Jul, 05 – Jun, 08)
FY2010	BSCIC Industrial Park, Sirajgonj (Jan, 09 – Dec, 12)

PART B

Development of SMEs in the Bogra Region

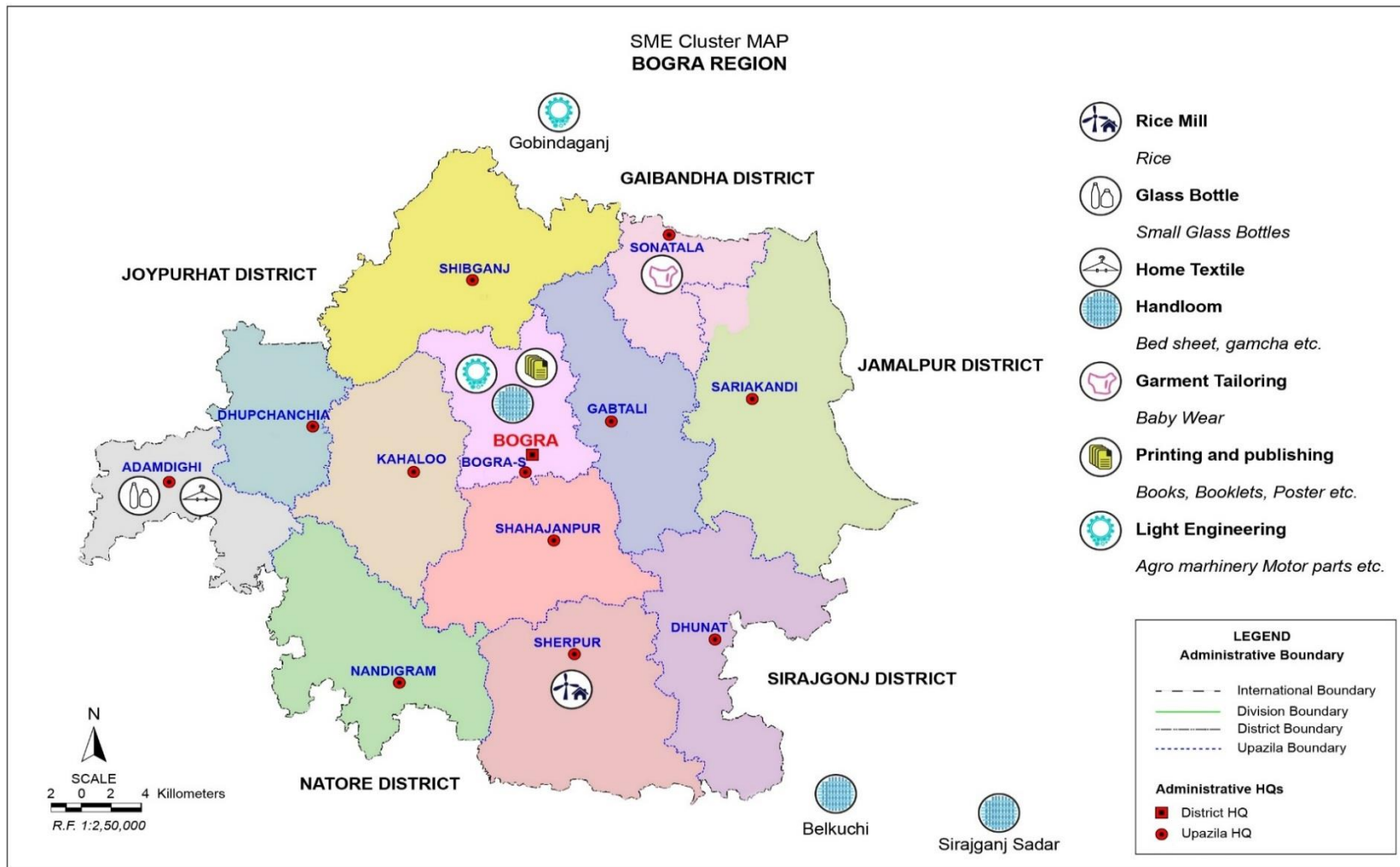
Reflection of National Budget

SMEs in the Bogra Region: An Overview

- Bogra is a major economic hub in the northern region of Bangladesh
 - Traditional agricultural activities and recently developed agro-based industries
 - Region is popular as a major supplier of agricultural machineries and other SME products in major agricultural areas and other areas
- A number of clusters have developed in the Bogra region including agro products, fisheries, poultry and dairy farms
 - These SME clusters have naturally formed with successful horizontal and vertical integration with local and international markets for raw materials and finished products.
- 7 clusters have been identified in the Bogra region
 - About 4,000 industrial units of SMEs operate in different clusters along with other traditional SMEs
 - These clusters have maintained both local and national marketing networks for selling their products.
 - A small portion of these products are exported to the neighbouring countries.

Introduction: Objectives & Methodology

SME Cluster Map in the Bogra Region



Source: Prepared by authors, 2016

Rice mill cluster

- Largest SME cluster in Bogra mostly located in Sherpur area
 - More than 2,500 units of such mills where around 25,000 workers are employed – 50% are women
 - Fully domestic market based
- Two types of rice mills in this cluster
 - Automated rice mills that are large in size with better facilities
 - Small manual rice mills that are mostly managed by the owners
- ***Challenges***
 - Most of the small millers do not have any financial transaction with banks
 - Rice millers are eligible for receiving commercial loan
 - Difficulties in bank transactions
 - The cluster has not received technical assistance from government
 - Some local NGOs provide some technical support

Light engineering cluster

- Second largest SME cluster in the Bogra region
 - 400 industrial units employ over 6,000 skilled and semi-skilled workers
 - Products include agri-machineries such as tube-well and pumps with casting iron
 - Making considerable progress over the years
- **Challenges:** Owners have their own business documents, but many enterprises do not maintain official document properly
 - Owners often find it difficult to get the environmental clearance on scheduled time mainly due to inefficiencies of the authority as well as of themselves
 - Factories located in the BSCIC area suffers for poor physical connection
 - No empty plot in BSCIC, a separate area is needed

Handloom/home textile/tailoring cluster

- About 400 households are involved in the handloom industry
- Garment tailoring cluster is located at Sonatola of Bogra district
 - Approximately 100 units - 2,500 skilled and semi-skilled workers
 - Products produced in these units which sold both locally and nationally
- **Challenges:** Most enterprises lack of proper documents (e.g. Trade license, VAT registration and TIN)
 - Shortage of skilled family labour
 - Limited financial transaction with the commercial banks
 - Micro finance from different NGOs such as MIDAS, ASA and Grameen Bank
 - Weekly payment system followed by NGOs found to be difficult
 - Lack of awareness among the entrepreneurs with regard to banking facility

Glass bottle cluster

- 100 firms are clustered near Adamdighi, Bogra
 - 20% products are sold at local level and the rest 80% are sold at the national level
- Challenge: Low demand of these bottles have constrained the growth of this cluster

Printing and publishing cluster

- Relatively small which is mainly located in the Bogra city
 - Demand for the products across the country - from Northern region of Bangladesh as well as from the Khulna region
 - Given the considerable demand, the cluster is likely to grow in the coming years

1. Formalisation of SMEs

- A large part of SME units operate informally without any business registration.
- A large number of industrial units do not have documents such VAT, TIN and registration number etc.
 - These entrepreneurs would face much trouble if new VAT Act implement with a unified VAT rate.
 - Major barrier for accessing low cost as well as normal commercial credit through formal channel
 - Microfinances from local NGOs are easy to access; repayment schedule is very stringent
- Raising awareness to formalise them should be a major target
 - Both by the central and local governments
 - Cluster based associations/groups could provide necessary support

2. 'Customisation' of Financial Products for Better Access to finance

- Access to finance has yet to reach to the doorstep of the small entrepreneurs due to various reasons.
- Commercial banks should identify innovative and new financial products to reach to the non-compliant but highly potential customers
 - Local commercial banks could create business links with NGOs and use NGOs networks to disburse loan to the poor
- Sometimes these formal credit sources are found to be stringent
 - Given the nature of market demand, entrepreneurs expect more flexibility in the repayment schedule of formal loans
- Commercial banks and NGOs need to develop innovative financial products as per the demand
 - Need 'customization' of their financial products

3. Necessary Support to Organise the Unorganised Entrepreneurs

- The voice of small firms of these SME clusters are often unheard because of lack of cluster based association/groups in most cases
- It is important to raise the voices of the SMEs in the national budget making process
 - Forming cluster-based groups/associations and thereafter lobbying with appropriate authority are very important
- Refocusing/introducing SME related activities of local government such as City Corporation, pouro sava and upazilla parishad are important
- Private initiative such as NASCIB has been appreciated by many clusters, however it has yet to reach all the clusters as per expectation
 - Expanding activities of NASCIB at the local level reaching all clusters is very important.

4. Support for development of 'customised' infrastructure

- Many clusters complained higher production/business cost due to lack of proper infrastructure connecting clusters with markets
 - Despite the advantage of highways, entrepreneurs face the difficulty due to poor linking roads within the village and other community
- SMEs need land at their own locality at low cost
 - Establishment of SEZs undertaken by the BEZA may not facilitate SME much
 - BSCIC may consider further expansion of industrial estates targeting small clusters
- Creating more local Haat (markets) for marketing of locally made products produced by SMEs in the rural areas can be effective

5. Providing Technical Assistance

- Although there are technical institutes (BITAC and private institutes) available in the region, entrepreneurs have less knowledge about those organisations
 - Entrepreneurs of some of the clusters receive training from the NGO
- Household based SMEs require advanced knowledge and techniques to make them competitive in the local and international markets
 - Cottage based industries are increasingly facing the constraints of skilled workers at home
 - Sufficient budget allocation is required for improving entrepreneurial, managerial and technical skills of these entrepreneurs
- Need to develop innovative technical tools which could cater to the need of different clusters as per their requirement
 - To be made available at their door step so that they could overcome the constraints of their remoteness.

6. Overcoming the Challenges of Lack of Competitiveness

- The clusters in the Bogra region, by and large, are doing well and most of them have good prospect to expand their market shares both at local and national levels.
 - Very few enterprises of these enterprises have experienced with exporting abroad
- Overall competitiveness of these clusters varies
 - Differences in market demand, quality of product, competition with alternate products (both local and imported), market connection and lack of infrastructure define the variation in competitiveness
- Moreover, greater integration with regional and global markets not only open new opportunities
 - But also put the SMEs in newer challenges to confront suppliers of regional countries.
- Challenges need to be addressed on a case by case basis as the nature of problems are different for different industries
 - Cluster-based approach is needed for the development of SMEs in different regions

7. Developing women entrepreneurship

- House-hold based enterprises are managed by females along with the male entrepreneurs
 - Owing to difficulties in categorising women SMEs as well as poor operational method followed by these enterprises, banks often are less interested to provide funding to these enterprises
 - Innovative and targeted financial products are needed for women SMEs

8. Support for Increasing institutional efficiencies

- SME Foundation despite their appreciated works, has yet to reach to the marginalised in extended scale
 - More activities require at regional as well as local level through various means
- BSCIC industrial estates need to be extended where possible and government should create incentives in order to make use of unused BSCIC plots

9. Awareness Building on National Compliance Standards

- SMEs need to be complaint with national standard on environment and labour related issues
 - Entrepreneurs often face the hassles taking environmental clearance because of lack of cooperation or lack of inefficiency from both sides
- It is important to aware entrepreneurs to comply with national standards
 - Need to get prepared for new realities on social and environmental standards
 - Proper training for the entrepreneurs and management officials could improve knowledge on compliance
 - Enterprises need to be complaint with VAT and tax related matters as well
- Local government offices with the support of the cluster groups and associations could take necessary measures

Concluding Remarks: More 'Customised' Approach Needed for SME Development

- National policies and budgetary measures need to be 'customised' in order to better service the SMEs operate at the regional level
- Local SMEs are either unaware of the benefits of various fiscal, budgetary and monetary measures or they are not adequately benefitted through those measures
 - Government's various supports need to be 'customised' - innovative and specific to the need of different types of SMEs
- These SMEs are largely unheard by the policymakers and likewise, their problems, challenges need to be better addresses in the national budget
 - Organisation of these SME groups in order to ensure regular dialogue between them with the policy makers is important
- Organisations having the local root should engage intensely at the grass root level and raise the voices of the marginalised SMEs

Thank You