

Conference on  
**Recommendations by the Task Force on  
Re-Strategising the Economy**

**Session 2**

Inclusive Economic Development through Digital Transformation  
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# Strategies and Action Plan for Development of MSMEs to Enhance Inclusive Growth and Development

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# Context

- SMEs growth and operations are largely affected by lower access to formal credit.
- In Bangladesh, 68.6% of small enterprises and 44.7% of medium enterprises are constrained by finance (Vila 2013)
- Market imperfections, asymmetry of information, institutional deficiencies and lower level of financial development are some of the supply side constraints (Beck et al. 2006; Yoshino and Taghizadeh-Hesary 2015)
- High interest rates (double-digit), strong collateral requirements, etc. are key impediments to access to credit
- Lack of proper and competitive business environment
- Regulatory loopholes and lack of tailormade policies for different segments of MSMEs

# SMEs Access to Finance: Bangladesh

- **SMEs in Bangladesh:**
- Over 97% of ind units belong to SMEs
- The share of SMEs in total manufacturing employment is 41% and manufacturing value added is about 53%
- SMEs' contribution to GDP is about 25% (ADB 2015)
- Average credit gap per enterprise BDT13,26,000 (IFC, 2013)
- About 50% SMEs get finance from banks
- **Financial Development:**
- The number of branches per 1000 sq. km was 70 in 2014
- 57 banks
- SMEs in Bangladesh have been paying a 6–7% higher interest rate than the market rate
- About 60% adults having a bank account (incl. farmers account)
- Deposit to GDP ratio-50% and loan to GDP ratio- 42%
- Interest rates for SMEs: 15-18%
- SME loan is only about 18% of total loan portfolio

# Key Strategies for SME Development

- Determine critical strategic intervention areas and the functions of principal stakeholders for the sustained advancement of the MSME sector in Bangladesh.
- Encourage private sector involvement in MSME development and foster collaboration among diverse stakeholders to leverage the future growth potential of MSMEs
- Establish policy guidelines to enhance the business climate by promoting technology adoption, facilitating access to institutional finance, and fortifying the regulatory and institutional framework
- Develop a robust coordination structure to integrate the relevant ministries, agencies, trade associations, and organisations into a unified platform to address issues pertaining to MSMEs

# Some Recommendations:

## *Improve Institutional Support Structure for SMEs*

- **Convert SME cell into an SME Wing or Division at MoI:** Currently, an SME Cell under the Ministry of Industries (MoI) is dealing with SME issues, which undermines the importance of SMEs in industrial development. The MoI should establish a separate Department/Division to strengthen SME sector development, headed by an Additional Secretary, oversee subsidiary organizations, provide policy guidelines, and collaborate with other Ministries and agencies.
- **Strengthen the SME Foundation:** The SMEF governing body needs to be strengthened by including at least six booster sectors' representatives to better represent SME sectoral bodies. The organization, established in 2007, has not yet assessed its impact. To improve its effectiveness, SMEF should collaborate with public and private training institutes, design training programs, and present a clear action plan to the MoI within three months. Additionally, the endowment fund could be doubled in phases.
- **One-stop service centre (OSC) at SMEF:** The SME Foundation was entrusted to provide an effective one-stop service centre on its premises to provide all the necessary services to SMEs, such as trade license, Tax and VAT issues, training support, business promotion support, etc. It is high time to establish a full-pledged OSC, including representatives from all stakeholders and government agencies. An automated service facility through the mobile app or SMS-based may be provided on a 24/7 basis for SMEs under the OSC.
- **Coordination between SMEF and BSCIC, Bangladesh Bank:** Bangladesh Bank should collaborate with SMEF and BSCIC on designing and implementing credit programs for SMEs, following SMEF's innovative financing guidelines.

# Some Recommendations:

## *Improve Regulatory Framework for SMEs*

- **Simplification and rationalization of rules and regulations:** The government should simplify business registration and licensing procedures, review the current tax system for SMEs, introduce tax incentives, review Public Procurement procedures, and collaborate with relevant agencies to develop a unified registration system for SMEs.
- **Enactment of SME Act:** The government should adopt an “SME Act” with a set of principles to steer the drafting and implementation of policies to benefit SMEs. The objective is to come up with a legislative Act, as an Act of Government, with the aim of supporting the promotion and development of SMEs, which is available in many countries.
- **Fiscal incentives for export-oriented SMEs:** SMEs can benefit from a graduated turnover tax system, differentiated tax treatment (AIT, VAT, Tax exemption, etc.), and a tax incentive mechanism for those with trade licenses and environmental compliance.

# Some Recommendations:

## *Improve Access of SMEs to Institutional Finance*

- **Establish an SME Bank.:** The present banking system is not equipped to cater to the needs of SME Financing. A separate bank or similar institution is needed to serve SMEs financing needs. Bangladesh bank should assess legal and regulatory issues for establishing a dedicated SME bank. If it is not feasible to establish a new SME bank at this moment, the government should restructure and enhance the base of activities of the PALLI SANCHOY BANK into an SME bank that has experience of dealing with microcredit.
- **Improve Innovative Financing for SMEs:**
  - i. The existing Credit Guarantee Scheme (CGS) developed by Bangladesh Bank should be reviewed and made a more effective tool for SME financing; the Credit Wholesale program of the SME Foundation needs to be allocated more funds from the government or other development partners as this program has been successful in SME clusters. With additional funding, this CWS may be extended to non-clustered SMEs.
  - ii. The current system of EEF has been largely flawed, and therefore, its operation needs to be modified (as per the recommendations made in the evaluation of EEF in various reports). ICB's EEF operation needs to be evaluated to increase operational efficiency and reduce corruption.
  - iii. Venture capital firms can be assigned to be engaged in EEF operation instead of lien bank system. A guideline for Factoring financing should be prepared by SMEF and should share with BB. Some factoring finances could be introduced on a pilot basis by SMEF with support from BB.
  - iv. Develop a “business angels” option as an alternative source of finance and support for business start-ups and innovative SME enterprise growth. A guideline for Factoring financing should be prepared by SMEF and should be shared with BB.
- **Strengthen refinancing schemes:** BB and MoI should enhance foreign fund mobilization for its refinancing schemes by effectively engaging with existing donors and exploring new donors for this purpose. The process should continue over a longer term to support SMEs. Further, the government should provide budgetary allocation to the Refinancing Scheme to meet up the growing demand for credit of the SME sector.



## Some Recommendations:

### *Improve SMEs Competitiveness and Facilitate Access to the Market*

- **Develop Dhaka HAAT to showcase SME Products:** A dedicated place may be allocated for SMEs to showcase and sell their products all year round, like the one in India, “Delhi HAAT.” The International Trade Fair (ITF) venue in Purbachal may be allocated for SMEs for 11 months except for the duration of the ITF. The concept would be to allocate stalls for 5/6 districts’ SMEs on a lottery basis for one month, and then other districts’ SMEs will get similar opportunities next month, and so on. This will give a fair opportunity to all SMEs to showcase their products for a longer time than the existing one for 4/5 days. This idea may be implemented at the district level too.
- **A dedicated Website for SMEs:** SMEF should establish a dedicated SMEs website, regularly update it with sectoral stakeholders, adopt e-commerce facilities, and maintain an updated SME database.
- **Cheaper and Faster Start-up:** The government should facilitate online licensing and registration for start-ups, ease existing regulations, introduce ICTs, provide finance and technical support, design tailored training programs, and establish an incubator.
- **Promote Cluster and Business Network for SMEs:** A need assessment focusing on infrastructure bottlenecks and business support services in SME clusters should be done in 2-3 years. Prioritizing bank branches and joint cluster-based SME development programs is suggested. The government should prioritize providing utility services to clusters, improving road connectivity, providing broadband internet, and establishing a common facility and design center in each center, maybe on a PPP basis.

# Some Recommendations:

## *Promote ICT applications, E-commerce, Online support, Outsourcing facilities and other technologies to SMEs*

- **Equip SMEs with necessary ICT support:** Design and develop training programs aiming to equip SMEs with ICT applications, business solutions, software, website development, e-commerce facilitation, outsourcing, and freelancing activities.
- **Facilitate technology adoption and innovation:** It is important to establish a linkage between TVET institutions and SMEs, a network between R&D institutions, an assessment of product-specific technology requirements, a one-stop service centre, joint ventures, and allocation of A2I Service Innovation Fund and further innovation grants.
- **Facilitate SMEs to get international certification:** SMEF should help SMEs get BSTI certificates in an easy and affordable manner. They should take programs to help SMEs get ISO certifications and should provide financial and technical assistance in this regard. BSTI should help SMEs to attain product certification internationally
- **Technology and Innovation Incubators:** The MoI should support technology incubation centres and R&D labs at universities for SMEs development. SMEF should assess existing facilities, allocate seed money, and create linkages between SMEs and these facilities.
- **Improve the capacity of training/academic institutes:** Initiatives should be taken to improve the training capacities of SMEF, SCITI, BIM, TVET, BFTI, BGMEA Fashion Technology Institute, ICT Institutes, and Skill Dev. Institutes, Trade bodies, and sector-related institutes by the government and respective organizations. The budgetary allocation should be made to employ additional resources for SMEF and other institutes for organizing more training and skill development programs.
- **Improve effective collaboration between training institutes:** It is important to have collaboration between SMEF, SCITI, BIM and other institutes on training curricula and programs designed for SMEs. SMEF should improve effective collaboration between training institutes such as SCITI, TVET and other Institutes. MoI should build close links with other relevant Ministries, such as Ministry of Education, Ministry of Labour, Ministry of Women and Children Affairs and other relevant ministries to ensure that close cooperation and co-ordination of TVET activities results in the provision of a better-skilled workforce for SMEs linked to SME future employment needs
- **Online training content:** Distant learning programs should be designed and offered. Content of the training should be made available online through the dedicated SME website. Inculcate through education, training, and other programs values and attitudes that are conducive to the development of entrepreneurship.

# Thank you

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