

# Leave No One Behind

## Citizen's Platform Briefing Note

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Citizen's Platform for SDGs, Bangladesh

এসডিজি বাস্তবায়নে নাগরিক প্ল্যাটফর্ম, বাংলাদেশ

### About the Platform

The Citizen's Platform for SDGs, Bangladesh was established as a civil society initiative to contribute to the implementation of the globally adopted 2030 Agenda for Sustainable Development in Bangladesh. The Platform was formally launched in June 2016 at the initiative of a group of eminent citizens in Bangladesh with the objective to track the delivery of the Sustainable Development Goals (SDGs) in Bangladesh and embed accountability and voice in its implementation process. The concept of the Platform was informed by participatory and multi-stakeholder approach which was conceived as a crucial element to attain the goals and targets of the SDGs. The Platform currently includes 119 Partner Organisations working on SDG issues across Bangladesh. Platform's activities include mobilising stakeholders for concrete SDG related initiatives with particular focus on 'Leave No One Behind', undertaking research, organising dialogues, disseminating SDG relevant information and other activities to enhance accountability and transparency in SDG delivery in Bangladesh.

### About the Programme

Cottage, micro, small and medium enterprises (CMSMEs) constitute a crucially important segment of the Bangladesh economy in terms of employment, earnings and contribution to the country's GDP. Majority of these enterprises belonged to the informal sector of the economy. At the same time, many of these enterprises were confronted with formidable difficulties in accessing the loans from commercial banks under the dedicated stimulus package earmarked for these units by the government. Because of the pandemic, the CMSMEs entrepreneurs were facing demand shortages and lower sales and, consequently, cash flow problems. To discuss the underlying factors for low take off of CMSMEs loans and to come up with possible solutions, Citizen's Platform for SDGs, Bangladesh jointly with Business Initiative Leading Development (BUILD) organised a virtual dialogue on September 30, 2020 which was attended by representatives of key stakeholder groups.

## Post-Pandemic Status of CMSMEs and Effectiveness of Stimulus Packages

### INTRODUCTION

In view of the COVID-19 pandemic that hit Bangladesh in March 2020, a number of stimulus packages were announced by the government to deal with its adverse impacts. Of particular significance in this regard is the stimulus packages which had been targeted at the cottage, micro, small and medium enterprises (CMSMEs). The government had put into effect support measures amounting to Tk. 59,292 crore, which included aforementioned stimulus packages as also agricultural and rural credit at subsidised interest rates. The objective was to extend support to the CMSMEs of the country which numbered about 7.7 million. Although a number of commendable changes informed the guidelines to implement the packages, informed the guidelines to implement formidable impediments remained in actual accessing of these packages.

In this backdrop, Citizen's Platform for SDGs, Bangladesh and Business Initiative Leading Development (BUILD) jointly organised a virtual policy dialogue titled "Post-Pandemic Status of CMSMEs and Effectiveness of Stimulus Packages" on 30 September 2020. The purpose was to identify the bottlenecks and prepare measures to address those for greater effectiveness of the measures taken by the government. This briefing note summarises the discussion at the event, which was participated by representatives of key stakeholder groups, professionals and experts. Representatives from CMSME sector including women entrepreneurs, government

representatives, development activists, business leaders, researchers, academics, bankers and media personnel took part in the virtual dialogue. The discussion was initiated by keynote presentation which was followed by comments from nine designated discussants. A large number of participants shared their views during the open floor discussion. The event was streamed live on the Platform's website and social media for wider dissemination. It was viewed by 2878 people and reached 10254 people. Dr Debapriya Bhattacharya, Convenor, Citizen's Platform for SDGs, Bangladesh and Distinguished Fellow, Centre for Policy Dialogue (CPD), chaired the event.

The keynote presentation focused on the status of CMSMEs of Bangladesh, the challenges they faced in the backdrop of the pandemic, identified the attendant challenges in accessing the support from the stimulus packages and offered suggestions to raise the effectiveness of the policies and measures in this connection. It is hoped that the takeaway from the event will be found useful for policy makers to undertake corrective steps to ensure desired outcomes.

## **SUMMARY OF THE KEYNOTE**

The keynote presentation was made by Mr Abul Kasem Khan, Chairperson, BUILD. The document is available at Citizen's Platform website.

As is known, the CMSMEs occupy an important space in the economy of Bangladesh. The 7.76 million CMSMEs in the country account for about 99 per cent of the private sector enterprise in Bangladesh. In terms of contribution to GDP, industrial output, manufacturing value, industrial & overall employment and contribution to exports, CMSMEs play a critically important role in the country's economy. CMSMEs are also expected to play a key role in realising the Vision 2021 and Vision 2041 & achieving the sustainable development goals (SDGs) in Bangladesh. Indeed, role of CMSMEs will be of crucial importance for sustainable graduation of Bangladesh from the least developed countries (LDCs) group.

The keynote presenter informed the audience that the United Nations Industrial Development Organisation (UNIDO) and BUILD had conducted a firm-level survey on the impact of COVID-19 during June-July 2020. The survey found that the CMSMEs are in more vulnerable position compared to large industries. They were more at risk of complete or partial shutdown, plummeting revenue and they would require more time to get back to normal. It was also found that the CMSMEs had to resort to loans from commercial banks and microfinance institutions in order to tackle cash flow shortages due to COVID-19. For large industries, the major source of such loans was commercial banks.

As would be recalled, during the April-September period of 2020, the government announced a number of support measures targeting the CMSMEs - with the total amount reaching Tk. 59,292 crore. Of these, working capital loans for CMSMEs (Tk. 20,000 crore) and agriculture and rural credit for FY2021 (Tk. 26,292 crore) constituted the lion's share. A number of changes were made in the guidelines to facilitate accessing of loans from the stimulus packages. These included extended timeline for funds disbursement, increased frequency of monitoring by the Bangladesh Bank, increased allocation for manufacturing and service related activities, and repayment of loans through equated monthly instalments (EMIs). A credit guarantee scheme (CGS) was also announced for the CMSMEs in July 2020.

It was pointed out that there are many informal CMSMEs in Bangladesh which are not registered under any system and do not maintain financial records. These CMSMEs are highly unlikely to benefit from the newly implemented CGS which could be a useful tool to expedite the implementation of the working loans for the CMSMEs. As the pace of loan disbursement for the CMSMEs was slow, an aggressive implementation strategy needs to be pursued. A number of recommendations were put forward to ameliorate the existing situation. These include, inter alia, taking initiatives for inclusion of unbanked entrepreneurs in the banking channel, putting an end to tax and VAT collection pressure, facilitating access to sources of alternative financing, easing the process of doing business, making CGS provisions more flexible and supportive,

raising awareness as regards the packages through well-targeted campaign and creating a database for the informal SMEs.

## **ISSUES DISCUSSED**

The dialogue reflected on a number of specific issues concerning the CMSME sector which included their overall situation during the pandemic period with particular focus on the experience of enterprises in accessing loans from the stimulus packages.

### **Fundamental problem as regards definition of CMSMEs**

The definition of CMSMEs needs to be uniform and more specific. Over the years, various organisations including Bangladesh Investment Development Authority (BIDA), Bangladesh Small and Cottage Industries Corporation (BSCIC) and commercial banks have defined CMSMEs in different ways, at various points in time. Linking the medium-sized enterprises with cottage, micro and small enterprises created an additional layer of problems. As per the industrial policy of Bangladesh, garment exporters fall into medium category. This itself creates a fundamental problem as the exporters' relationship with the bank is entirely different from that of the cottage, micro and small enterprises.

### **Misperception as regards the stimulus packages**

Describing the government supports, which are essentially loans, albeit at subsidised interest rates, as stimulus packages, is creating a confusion. This is triggering a perception of free money. SME entrepreneurs oftentimes end up thinking that presenting their business plans to the banks will result in receipt of funds. However, this cannot be further from reality. Awareness should be raised as regards this matter.

### **Informal nature of the SMEs**

The nature of business of the SMEs is significantly different from their large counterparts. Particularly, businesses outside Dhaka tend to be less formal and these primarily rely on verbal agreements more. Since the stimulus packages are disbursed through the banking system via a formal procedure, SMEs outside Dhaka are likely to face challenges concerning the required paperworks. Organisations such as BSCIC and SME Foundation need to come up with new products for SMEs taking the current situation into cognisance. A number of banks have already designed some products particularly geared to the needs of the SMEs, Non-bank financial institutions (NBFIs) and Palli Karma Sahayak Foundation (PKSF) should also act in a proactive manner in this regard.

### **Lack of proper database for CMSMEs**

During the disbursement and distribution of stimulus packages, lack of a proper database for CMSMEs was felt most actively. Currently, Bangladesh Bureau of Statistics (BBS) is in charge of preparing the database, however, the process is rather lengthy. The CMSME sector needs a dedicated survey unit to ensure proper management of government supports in a speedy manner.

### **Absence of valuation guideline for the IT sector**

Since there is no valuation guideline for the information technology (IT) sector, small IT firms can hardly receive any credit from the banking sector. Absence of credit history works against the IT firms accessing credit from the stimulus packages. The CGS announced by the government is particularly relevant for the IT companies as most of their assets are intellectual property are in the form of tangible assets.

## **Collateral requirement to access the stimulus packages**

CMSMEs often face difficulties in accessing the stimulus packages due to the requirement of mortgage payments or one-time deposits. However, there is no mention of deposits, collaterals and mortgages in the package implementation guidelines. This situation arises as the aforesaid package-related guidelines require banks to adhere to the guidelines of their own. This is a contradiction in policies. Given this situation, Bangladesh Bank should issue a circular with instructions to the banks to stop asking for collaterals for assessing loans from the stimulus packages.

## **Change in the trade licence guideline**

A change in the trade licence guideline is necessary as CMSMEs tend to operate from residential premises. In case this is not possible, an online registration system can be introduced for CMSMES as an alternative to trade licence. Proliferation of e-commerce particularly that of Facebook centric businesses, is quite prevalent at present. A large number of such online businesses, many of which are led by female entrepreneurs, do not have a trade licence. Online registration, as an alternative to trade licence, can expedite the process of bringing these businesses to the formal channel and ensure their due recognition.

## **INTERVENTION BY THE CHAIR**

Sharing his views Debapriya Bhattacharya drew attention of the audience to the lack of coordination among various stakeholders and the gap between amendment of the needs and disbursement of the stimulus packages. He observed that the voices of the left behind enterprises have not reached the political corridors as yet. Alternative methods of financing and issues of tax, VAT, utility bills, and rent have not been properly integrated in the measures that have been put in place. He further stressed the need for transformation of the banking sector through needed reforms, good governance in the capital market and reforms in the taxation system. He underscored the urgency of establishing a proper CMSME database. He felt that to this end, SME Foundation and BSCIC need to be more proactively engaged in order to set up a comprehensive database. He proposed a design of alternative financial packages targeting the CMSMEs.

## **MAJOR RECOMMENDATIONS**

There was a general consensus that CMSME sector in Bangladesh has been lagging far behind their large counterparts in many key aspects. It was observed that voices of the CMSME are barely heard despite their substantial contribution to the national economy. Following recommendations emerged from the discussion:

1. The government should come up with a uniform and specific definition of CMSMEs which will be followed by all concerned institutions and in policy domain.
2. A comprehensive database of CMSMEs needs to be established. If necessary, a specific survey unit should be established.
3. Before drafting and announcing any stimulus package, the government must consult relevant stakeholders. The policy making process should be inclusive and transparent.
4. Besides the stimulus packages and subsidies, other sources of financing need to be designed for the CMSMEs. The specific context in which these enterprises operate and their particular nature must be taken into cognisance in this regard.
5. Bangladesh Bank should issue a circular instructing the commercial banks to stop asking for collaterals in cases of stimulus packages for the CMSMEs. The contradiction in the policy ought to be resolved. Instead of collateral-based loans, cash flow-based bank loans could be explored as an alternative.

6. In order to facilitate the working of the CMSMEs, necessary changes in policy guidelines (e.g., trade licence guideline) and formulation of policy guidelines (e.g., valuation guideline for IT sector) should be part in place.
7. The CMSMEs need to be made aware of the stimulus packages and the associated terms and conditions so that the objectives of such packages are not misinterpreted and interest of dealing banks are also safeguarded.

## Event Participants

### Chair

**Dr Debapriya Bhattacharya**  
 Convenor  
 Citizen's Platform for SDGs, Bangladesh and  
 Distinguished Fellow  
 Centre for Policy Dialogue (CPD)

### Keynote presentation

**Mr Abul Kasem Khan**  
 Chairperson  
 Business Initiative Leading Development (BUILD) and  
 Former President  
 Dhaka Chamber of Commerce & Industry (DCCI)

### Chief Guest

**Mr Nurul Majid Mahmud Humayun, MP**  
 Hon'ble Minister, Ministry of Industries  
 Government of Bangladesh

### Special Commentator

**Mr Syed Nasim Manzur**  
 Managing Director  
 Apex Footwear Limited and  
 Former President  
 Metropolitan Chamber of Commerce and Industry (MCCI)

### Panel discussants

**Mr Shams Mahmud**  
 President  
 Dhaka Chamber of Commerce & Industry  
 (DCCI)

**Mr Syed Abdul Momen**  
 Head of SME  
 BRAC Bank Limited

**Mr Syed Almas Kabir**  
 President  
 Bangladesh Association of Software and  
 Information Services (BASIS)

**Ms Anwara Ferdousi**  
 President  
 Rangpur Women Chamber of Commerce and  
 Industry

**Ms Humaira Chowdhury**  
 Co-Founder & Managing Director  
 Frontier Technology Limited

Briefing Note Prepared by: **Professor Mustafizur Rahman, Mr Muntaseer Kamal** and **Ms Anneysha Zafrin**  
 Series Editor: **Professor Mustafizur Rahman**

Co-organiser



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Secretariat at: Centre for Policy Dialogue (CPD), Dhaka

Telephone: (+88 02) 55001185, 48118090 Web: [www.bdplatform4sdgs.net](http://www.bdplatform4sdgs.net) E-mail: [coordinator@bdplatform4sdgs.net](mailto:coordinator@bdplatform4sdgs.net)