

A TOOLKIT FOR SMALL & GROWING BUSINESSES OF BANGLADESH



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1. Small Businesses

Small and Medium Enterprises are critical to a nation's overall socio-economic development, particularly in developing countries like Bangladesh. As a labour-intensive sector with a short gestation period, it has the potential to boost national income and expedite job creation, thereby achieving the Sustainable Development Goals (SDGs). These engines of economic growth are critical for the country's rapid industrialization, women empowerment, poverty reduction, and economic growth. According to the redefinition of Small and Medium Enterprises by the Bangladesh bank as per the National Industrial Policy Order 2010-

Small Industry/Enterprise: Small industries/enterprises in manufacturing are those with assets of Tk 5 to 100 million (as defined above) and/or 25 to 99 employees. Small businesses in the service industry and in business are those with 10 to 25 employees and assets (as specified above) worth Tk 500,000 to Tk 10 million.

Medium Industry/Enterprise: Medium manufacturing industries/enterprises have assets worth Tk 100 to 300 million (excluding land and factory buildings, but including replacement value) and/or 100 to 250 employees. Medium businesses in the service industry and in business employ 50 to 100 people and have assets worth Tk 10 to 150 million (as mentioned above).

Micro Industry/ Enterprise: Micro industries/enterprises in manufacturing are those with assets ranging from Tk 500,000 to Tk 5 million (as defined above) and/or 10 to 24 employees. Micro enterprises in the service industry and in business are those that employ ten or less people and have assets (as specified above) worth less than Tk 500,000.

Cottage Industry/ Enterprise: Cottage industries/enterprises in manufacturing are those with assets of Tk 500,000 to Tk 5 million (as specified above) and/or 10 to 24 employees. Cottage businesses in the service industry and in business will be those that employ ten or less persons and have assets (as described above) worth less than Tk 500,000.

Cottage and micro industries would henceforth be included in Bangladesh Bank's SME financing policies and programmes, according to the circular.[1]

2. Potential of Small and Medium Enterprises in Bangladesh

Small and Medium Enterprises are growing at a rate of 6% or more per year, contributing to the economy and acting as a backward connection between larger industries. The total number of Small and Medium Enterprises in Bangladesh is estimated to be around 7.9 million establishments of which 93.6% are small, and 6.4% are medium. The 2003 Private Sector Survey estimated that there are about 6 million micro, small and medium enterprises with fewer than 100 employees.

In Bangladesh, Small and Medium Enterprises have historically been a significant source of employment. Bangladesh's Small and Medium Enterprises sector has seen tremendous growth due to combined state and private efforts. According to a 2015 ADB study, 7.5 million Micro, Small, and Medium Enterprises (including cottages) make up a significant portion of economic enterprises in Bangladesh, accounting for over 97% of all enterprises.



[1] 'Bangladesh Bank redefines SME' (bdnews24, 20 June 2011)

<<https://bdnews24.com/business/2011/06/20/bangladesh-bank-redefines-sme>> accessed 17 May 2022

Since FY16, real GDP has grown at an annual rate of more than 7.0 percent on average. Because of the COVID-19 pandemic, growth slowed to 5.24 percent in FY20, down from 8.15 percent in FY19. It was, nonetheless, among the top five fastest-growing emerging economies (World Bank, 2019). The manufacturing sector, which includes cottage, micro, small, and medium-sized businesses, accounted for most of the growth (CMSMEs). The manufacturing sector grew at a 14.70 percent annual rate in FY19 (BB, 2019-20), making it the most important contributor to the growth of the Industry sector. Almost 7.8 million CMSMEs in Bangladesh contribute to 25% of Bangladesh's GDP, 11 percent of total industrial establishment, 30 percent of total industrial employment and 40 percent of total manufacturing output (ADB, 2015; BBS, 2013). [2]



CMSME Establishments and Total Person Engaged by Categories

Type	Establishments		Total Person Engaged (TPE)			
	Total	Percent	Total	Percent	Male	Female
Cottage	6842884	87.52	13168327	53.75	11759565	1408762
Micro	104007	1.33	558870	2.28	435043	123827
Small	859318	10.99	6600685	26.94	5844088	756597
Medium	7106	0.09	706112	2.88	538526	167586
Large	5250	0.07	3466856	14.15	1871910	1594946
Total	7818565	100	24500850	100	20449132	4051718
CMSMEs	7813315	99.93	21033994	85.85	18577222	2456772

Source: Economic Units Census -2013, Bangladesh Bureau of Statistics

Growths of CMSMEs in Bangladesh

Economic Units	2013	2003	Annual Growth Rate during 2003-2013 (In percent)
Total	4514091	2991249	4.20
Cottage + Micro	3731676	2911359	2.51
Small	770063	72935	26.58
Medium	7105	3266	8.08

Source: Economic Units Census -2013, Bangladesh Bureau of Statistics and Author's calculation

[2] Ibid.

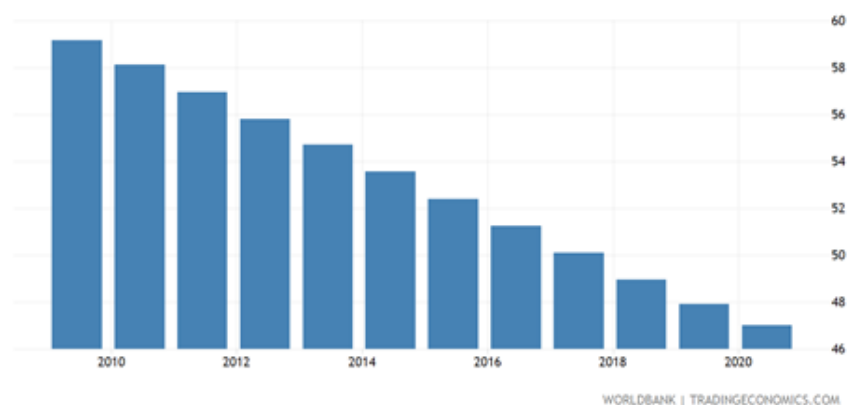
Employment (TPE) Growths in CMSMEs in Bangladesh

Economic Units	2013	2003	Annual Growth Rate during 2002-2013 (In percent)
Total	19062978	9702282	6.99
Cottage + Micro	8499449	6861796	2.16
Small	6390577	1304935	17.22
Medium	706111	221123	12.31

Source: Economic Units Census -2013, Bangladesh Bureau of Statistics and Author's calculation[3]

Bangladesh has a fairly young population with more than 65% of our population in the working age group, between 15 and 64. The dependency ratio in Bangladesh declined drastically from 91.9% (per 100 working-age population) to 47.0% between 1980 and 2020. This shows Bangladesh's progression through the period of "Demographic Dividend", which will mature by 2030 and start to close by 2040, giving us a window where it is imperative to utilise the youth and their potential for sustainable socio-economic development.

Bangladesh - Age Dependency Ratio (% Of Working-age Population)



Age dependency ratio is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those ages 15-64. Data are shown as the proportion of dependents per 100 working-age population.[4]

Given the labour-intensive nature of CMSMEs, employment opportunities created by CMSMEs, the fastest growing sector can be the key to cash in on the Demographic Dividend which will start closing by 2045-2060. To reap the benefits of the demographic dividend while the window is open, it is imperative to enhance the youth of our nation with entrepreneurial skills and expertise which will give them the confidence to start their own business and become a source of employment, and for those who are already part of the sector, a mechanism is needed which will be a one-stop solution to most of their problems, whereby they can conduct self-assessment, find solutions to their problems, learn and adapt growth strategies, find managerial advice and support, and take their ventures to a new level.

[4] 'Bangladesh - Age Dependency Ratio (% Of Working-age Population)' (Trading Economics) <<https://tradingeconomics.com/bangladesh/age-dependency-ratio-percent-of-working-age-population-wb-data.html>> accessed 17 May 2022

3. Challenges faced by the Small Businesses

Many great ventures go unheard of and never fully established because while the business idea had potential, the entrepreneur may alone not have had all the skills needed to run the business, such as management and sales skills. Some of the common key challenges faced by Small and Medium Enterprises include a lack of institutional financing, a lack of working capital, low levels of technology, low productivity, and a lack of marketing facilities and market access.



Support from the Government and CSME's Inability in Utilising it

Schemes and Programs

Bangladesh Bank has introduced several schemes and programmes to prosper and expand SME Enterprises.

- The development of the SME sector has been aided by a refinance scheme supported by Bangladesh Bank, IDA, and ADB.
- To ensure institutional financial facilities in simple terms, Bangladesh Bank has taken several actions, including establishing a 'Dedicated Desk' for SMEs and an 'SME Service Centre' in banks, as well as particular facilities for women entrepreneurs.
- Bangladesh Bank has established a BDT 5 billion five-year revolving refinance fund dubbed "Start-up Fund" for commercial banks to use to disburse loans to start-up entrepreneurs and creative initiatives. This industry has the potential to provide kids with self-employment options as well as new business opportunities. (SMESDP Circular No-4, April 19, 2021).
- BB has implemented Credit Guarantee Scheme (CGS) rules, with a BDT 20 billion CGS already in place to encourage commercial banks to lend to micro, cottage, and small businesses. However, in this area, the desired consequences are yet to be realised.[5]

Unprecedented Scenarios (Covid-19)

Despite the support and availability of funds, small and medium businesses continue to struggle with obtaining it and surviving economic downturns and unprecedented scenarios, as seen by the recent Covid-19 pandemic, which hit the CMSME sector the hardest with many small and medium businesses closing down. Covid-19 has had a significant impact on CMSMEs, including firm closures, output and job losses, sales and income declines due to a 66-day countrywide shutdown in the second quarter of 2020

Government Response

The government has responded with a BDT 1.28 trillion (US\$ 14.6 billion) stimulus programme to help the economy recover from the impact of the Covid-19 outbreak. BDT 200 billion in working capital has been granted to the CMSMEs sector as part of this package to help them recover from pandemic adversity at 4% interest, a refinance scheme of BDT 100 billion against this working capital financing, a credit guarantee scheme, and a start-up fund, in addition to existing financing facilities.

[5] Bangladesh Bank Head Office, 'Small and Medium Enterprise (SME) Credit Policies & Programmes' (Bangladesh Bank Head Office) <www.bb.org.bd/sme/smepolicye.pdf> accessed 17 May 2022

Varying Impact of Stimulus Packages

SANEM (2020) conducted a firm-level survey in Bangladesh addressing the Covid-19 and business confidence and found that, on average, large firms outperformed Micro, Small, and Medium Enterprises. According to the report, large businesses are more positioned to obtain stimulus packages than micro, small, and medium businesses.

- Large Business Vs Small and medium Enterprises: Micro and small businesses received 18.4 percent of the government's stimulus package to combat the pandemic's negative effects. Around 42.3 percent of small and medium-sized businesses benefited from the package. Large corporations, on the other hand, received 57.3 percent. According to Hossain (2020b), the primary barrier to delivering a stimulus plan for the CMSME industry is access to bank credit.[6]
- In Bangladesh, less than 40% of SMEs have access to funding, and if micro firms are included, the percentage of small businesses without bank coverage will be significantly higher.
- Gender Disparity in obtaining stimulus packages: According to a study done by Khatun (2020), even though the government allocated funds for women entrepreneurs as part of CMSMEs stimulus packages, 58% of them had not heard about it, and 93% of women entrepreneurs have not requested for a loan under the government's support scheme. Males made up 94% of those who received loans as part of the government's stimulus package, while females made up 6%.

[6] Chief Economist's Unit Bangladesh Bank (n 3)



Category wise Loan Disbursement of CMSMEs (Amount in billion BDT)

	CMSME		Cottage Enterprise		Micro Enterprise		Small Enterprise		Medium Enterprise	
	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount	Number of Enterprises	Disbursement Amount
2019Q1	187506	372.87	3242	2.01	70298	39.18	104355	220.70	9611	110.98
2019Q2	220021	431.55	11165	3.75.86	81015	44.81	116744	260.28	11096	122.70
2019Q3	182099	392.90	5500	3.71	59559	29.14	105730	246.03	11310	114.00
2019Q4	189962	486.50	5387	3.32	75537	54.05	99913	293.85	9125	135.28
2019 Yearly Total	774122	1679.71	25088	12.75	283512	165.03	424480	1016.01	41041	485.91
2020Q1	179796	377.62	9588	2.40	71051	44.57	90927	215.64	8230	115.01
2020Q2	139754	280.64	8535	2.28	52885	30.04	69615	156.97	8719	91.35
2020Q3	197700	386.89	9942	2.60	73247	46.50	104075	227.38	10436	110.41
2020Q4	268608	489.81	14815	5.04	106127	69.20	136901	285.05	10765	130.51
2020 Yearly Total	785858	1534.96	42880	12.31	303310	190.32	401518	885.05	38150	447.29

Source: SMESPD, Bangladesh Bank.

According to CMSME sector insiders, despite the government's announcement of a stimulus package for them, many entrepreneurs did not take the risk of investing during the Covid-induced lockdown and limitations, resulting in poor loan disbursement. Due to increased economic activity and the relaxation of the Covid-19 situation, loan disbursement to the cottage, micro, small, and medium businesses (CMSME) increased by 8.75 percent year on year in the third quarter of the calendar year 2021. According to the latest data from the central bank, lenders disbursed a total of Tk 42,075 crore in CMSME loans in July-September, up from Tk 38,689 crore in the same period last year.[8]

Refinance Schemes of BB for the CMSMEs

Name of Fund	Size of Fund (In billion BDT)
1. Refinance Scheme for New Entrepreneur in Cottage, Micro, and Small Enterprise Sector.	0.5
2. Refinance Scheme for Setting up Agro-based Product Processing Industries in Rural Area	7.0
3. Small Enterprise Refinance Scheme	8.5
4. Refinance Scheme for Shariah Based financing in Agro-based Industry, Small Entrepreneurs and New Entrepreneurs in Cottage, Micro and Small Enterprise Sector	Initially 3.75 billion At present 1.25 billion

Source: SMESPD, Bangladesh Bank.

[8] Sakhawat Prince, 'CMSME loan disbursement rises 8.75%' The Business Standard (18 December 2021) <www.tbsnews.net/economy/banking/cmsme-loan-disbursement-rises-875-345565> accessed 17 May 2022

**Disbursement Status of BDT 20 billion CMSMEs Stimulus Package
(Amount in billion BDT)**

As on	Total Amount of Disbursement Under Stimulus Package	Total Amount of Disbursement to Women Entrepreneurs	Total no of Beneficiary Entrepreneurs	Total no of Beneficiary Women Entrepreneurs
Up to March 2021	12.510	7.05	82815	4969
May 2021	14.742	7.44	93919	5252

Source: SMESPD, Bangladesh Bank.

**Status of Loan Disbursements to New Enterprises by Categories
(Amount in billion BDT)**

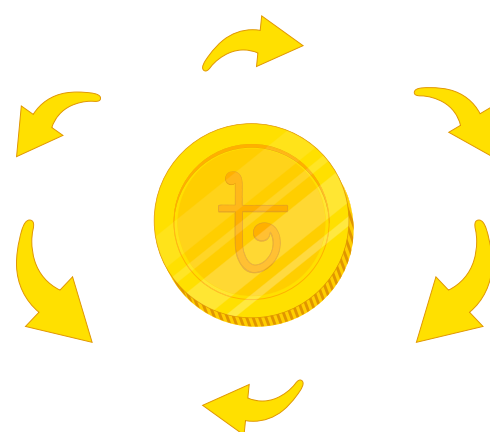
Year	CMSME		Cottage		Micro		Small		Medium	
	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount	Number of Enterprises	Disbursement amount
2019	131003	233.24	7781	3.71	47572	35.18	69947	140.50	5703	53.84
2020	138572	182.19	14160	3.24	57949	32.52	62522	107.44	3941	38.99

Source: SMESPD, Bangladesh Bank.[9]

Lack of Sufficient Access to Affordable Finance

The financial difficulties involve insufficient access to loans at affordable interest rates. Due to scale barriers and market failures caused by policy flaws and institutional rigidity, Small and Medium Enterprises have restricted access to institutional funding. As a result, formal financing mechanisms, such as those offered by banks, are not readily available to them.

Financing Small and Medium Enterprises is costly and risky for banks, so they are hesitant to fund small businesses, resulting in Small and Medium Enterprises receiving funds from the informal sector at higher interest rates.



[9] Chief Economist's Unit Bangladesh Bank (n 3)



Infrastructural barriers (Supply Side Obstacles)

Small and Medium Enterprises confront a number of supply-side obstacles, including a lack of infrastructure and difficulty acquiring adequate technology and information. Furthermore, a lack of technical knowledge and marketing research skills, as well as managerial deficiencies, prevents them from realizing their full business potential and limits their scalability.

Many small firms lack access to land, power, gas, and other essentials for conducting their operations. In our nation, the appropriate authorities have shown reluctance to address these sector-specific and SME-specific infrastructure hurdles.

Lack of Proper Documentation and Record-keeping

More often than not, Small and Medium Enterprises are unable to achieve sufficient funding and make long-term plans due to the lack of proper documentation of their past business transactions. The lack of record-keeping has hampered the success of many such businesses because it not only impedes decision-making but also prevents business performance evaluation, which is required for developing strategies and accessing finance. Banks, for example, are unlikely to lend to businesses that do not keep proper business records, financial budgets, and accounts.

Economic Downturn brought about by Covid-19

The shocks of the Covid-19 pandemic were diverse, affecting both large and small businesses. Because of their smaller size, cottage, micro, and small businesses suffered more severe consequences due to higher degrees of susceptibility and weaker resilience.

Several studies show that most firms lose output, revenue decreases due to decreased demand, pending payments, a widening income gap between men and women, difficulties accessing bank finance, a concentration of stimulus packages on larger firms, and, most importantly, a lack of a comprehensive database of all types of businesses and the slow recovery of smaller businesses.

Difficulty with Obtaining Loans

According to the Dhaka Chamber of Commerce & Industry (DCCI), narrow understanding of the CMSME sector, lack of necessary documents, consistency, and coherence in submitted documents, complicated disbursement process, not having a bank account, poor relationship between banks and entrepreneurs, collateral issues, and lax coordination among entrepreneurs and financial institutions are some the main hurdles that prevent CMSME entrepreneurs from getting loans.



Policy-level Challenges

Bangladesh's current policies for supporting Small and Medium Enterprises are weak, poorly defined, and lack uniformity. Very little effort has been made to assist SMEs by addressing anomalies by integrating our export, import, industrial, fiscal, and monetary policies.

Using Japan, China, Malaysia, Vietnam, and Thailand as examples, we can see that their policies prioritize the growth of SMEs, recognizing that SMEs can generate large-scale employment and thus contribute to larger economic development. In Bangladesh, there is no sense of urgency to encourage and improve the Small and Medium Enterprise sector.

Skill Gap

Entrepreneurs in this sector are likely to be experts in one or two key areas of the business, but to run a business effectively and efficiently, knowledge and support in multiple areas, such as sales and marketing, as well as product technical knowledge, are required. However, they are often either unable to afford to hire experts in those fields or are at a stage where they cannot predict the needs and plan accordingly.

The numerous problems that small and medium-sized businesses face require solutions not only from government policies but also from an initiative that will help these businesses improve their standing, possibility of long-term survival, and success. Problems with managerial support, financial expertise and accounting knowledge, business record-keeping and documentation procedures, departmental organization, strategic planning, and crisis management have thus far been addressed only remotely, with individual solutions that can be difficult for entrepreneurs to assess, understand, and respond to.

A Comprehensive Solution-Toolkit

What is required for this sector to thrive is a comprehensive toolkit that will allow entrepreneurs to self-assess and diagnose their business condition, identify critical areas for improvement, and use the toolkit to build a strong business model that will help them survive unprecedented scenarios, run the business smoothly (Human Resource, Marketing, and Managerial Support), expand, and grow into strong organizations. This will allow them to create new jobs while also assisting the economy to grow.



4. Toolkit

Performance measurement is essential for determining not only whether enterprises are making a difference but also whether SMEs can continuously improve. In other words, the measurement of performance is the first step towards the management of performance.

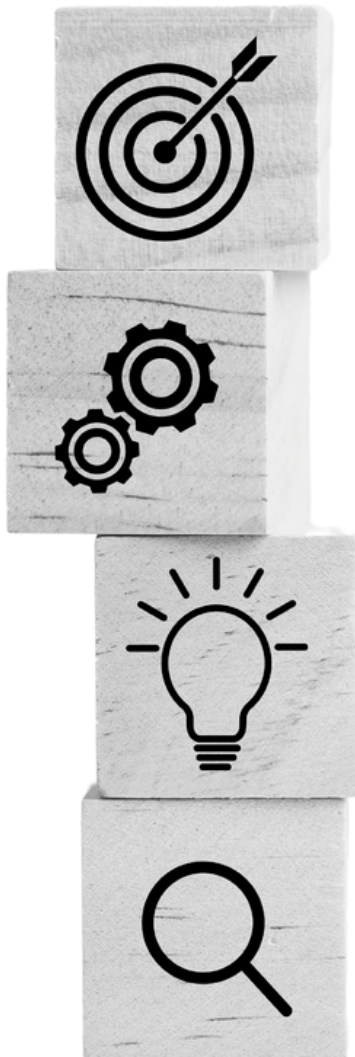
Enterprises are critical drivers of the national economy, promoting economic growth and alleviating poverty. Many enterprises, in addition to being self-funded, can be public or private and are managed by a variety of actors such as NGOs, multilateral organizations, domestic SME development agencies, development finance institutions, impact investors, and foundations. They have many different intervention models – from direct support such as finance, training, or advisory services to indirect approaches such as value chain and market systems development. This toolkit is neutral about the means of intervention, focusing instead on the goals: Capturing changes in SME performance.

a. Aim of the toolkit

To create and test a viable toolkit that will help the Small & Medium Entrepreneurs of Bangladesh to do a health check of their business, take proper measures to tackle challenges, and raise investments to grow their businesses.

Performance measurement is essential not just for determining whether enterprise development efforts are having an impact but also for small and medium enterprises to continue to improve. In order to control an aspect of an enterprise, it is crucial to make it measurable, and that is directly determined by the ability to comprehend it fully. To establish, grow and enhance the potential and operations of a small and medium enterprise, it is essential that the entrepreneur is himself/herself clear about what it entails and is able to quantifiably measure the outcome for further analysis. Performance measurement is the first step toward performance management.

The development of this toolkit is also aimed at making it globally adaptive so that entrepreneurs of any country can easily adopt it according to their industry norms.





- The toolkit will provide the entrepreneurs with comprehensive and user-friendly information on key business aspects, including but not limited to Business Planning, Financial Management, Human Resource Planning and Management, Accounting, Marketing and Operations, Legal, Taxation, Technology and Operations. In other words, the toolkit will act as a “Personal Consultant” for the enterprise.
- It will provide a health check for small & medium entrepreneurs about their businesses and assist them in identifying pain points that are hampering growth and raising capital from investors.
- It will inform and update the entrepreneurs regarding the various growth opportunities in the market, new developments brought about by technology, new policies relevant for Small and medium Enterprises and ways they can access those opportunities. It will inform the entrepreneurs about the success stories of similar enterprises as well as small and medium enterprises in general.
- It will have contributions from well-known researchers, academicians, experts, successful entrepreneurs, industry leaders and departmental experts (Finance, Taxation etc.) regarding the key industries-their potential, opportunities, bottlenecks, tested and proven methodologies, advice- and how the small and medium Enterprises can focus and benefit from them.
- It will help equip small and medium enterprises with the knowledge, tools and capabilities to help them engage in international trade and scale their operations on a global scale and handle the barriers within the WTO measures.
- To ensure continuous improvement of SMEs, allowing them to achieve sustainable growth given that some countries have 5-year survival rates as low as 10%.

Objectives

- Conduct a preliminary diagnosis about the existing enterprise: This includes how long it has been operational and whether it has proper documentation, e.g. Trade Licence, Bank accounts, financial documents, contracts, etc.
- Support the enterprises realise the need and address the pressing need to maintain and enhance record keeping, data collection, and modern management techniques and adopt the technological support associated with these. This will help not only with gaining better access to funds but also with making relevant projections about the enterprise based on relevant historical data.
- Understand an entrepreneur's financial & economic awareness: Whether the enterprise has all records regarding revenue and cost. Additionally, the toolkit aims to understand the macroeconomic understanding of an entrepreneur: whether they are aware of the effects of interest rates, taxation, supply and demand. This will also help understand if and how an entrepreneur reacts to changes in market drivers such as price, competition, economy, etc.
- Identify skills gaps: Many small and medium enterprises are founded by family members or solo ventures. These founders might require skill sets which couldn't have been realised earlier. This toolkit will assist in identifying & fulfilling these gaps, accelerate process improvement, and improve the quality of their products at par with international standards.
- Labour productivity is typically important to sustaining Small and Medium enterprises' success in the absence of intellectual property or technology as a source of comparative advantage. Thus the toolkit will help identify the needs of the current workforce and help equip them with the right skills needed for the enterprise. This will allow the enterprise to achieve long-term competitiveness and growth.



- Educate entrepreneurs about raising funds from various channels, e.g. Banks, VCs, Angel investors, etc. While there are funds available for small and medium enterprises, entrepreneurs are often unable to achieve them since they are either unaware of them or do not possess the knowledge of the procedure to get those funds or lack the necessary documentation. The toolkit will support them with identifying these beforehand and help them be more competent, allowing them to recognise the right channels and approach them accordingly.
- Teach them to plan for unprecedented scenarios, build sustainable networking, and assist in expansion and marketing strategies based on location, customer segment, pricing, etc.
- Help them to organise their management structure-reducing bureaucracy (if it exists) and make the decision-making process more efficient so the enterprise is able to respond to changes in the market and competitive pressures accordingly. This will help them obtain a robust structure which will make operations more smooth while enhancing creativity and efficiency throughout the organisation, allowing the enterprise to make and implement long-term strategies and become sustainable in the process. Help policymakers to create responsive regulatory and policy framework entrepreneurs in terms of infrastructural barriers, export-import policy restrictions, and tax compliance. We need to take a fresh approach to export, import, industrial, fiscal, and monetary policies policy concerns as well. However, we must recognize that even if we come up with novel ideas, they would be meaningless unless an appropriate institutional structure is in place, and the necessary authorities strongly desire to put them into action. Support can be given in the form of field-level effective research and analysis of the policy options along with their potential to not just impact the enterprises but the economy as a whole in both the short and long run-signifying how it coincides with the long-term development plans for Bangladesh, keeping in mind the large scale employment it would bring about.
- Work with local governments in creating the right environment for small and medium firms to operate and grow in a sustainable manner.



b. Challenges of developing the toolkit

- Lack of reliable, robust data about the efficacy of a toolkit in Bangladesh.
- Lack of coordination between government and entrepreneurs to create a toolkit-centric, entrepreneur-friendly ecosystem.
- Most of the small and medium entrepreneurs in Bangladesh operate in a very disorganised way. Most of them lack proper documentation, business transactions operate mostly through verbal agreements or other unofficial means. As a result, utilising this toolkit might prove challenging. Lack of proper documentation might hamper the entrepreneurs' chances of getting funding through traditional channels.
- Monitoring & comparing the performances of enterprises pre- and post-toolkit assesses Small and Medium Enterprises.
- Lack of sufficient historical data regarding the toolkit, as well as the Small and Medium Enterprises' performance and operations, becomes a hindrance to creating measurement instruments and standards.
- The lack of sector-based value chain analysis for Small and Medium Enterprises makes it difficult to identify the bottlenecks that will have to be addressed in the toolkit for its efficacy.
- The significant difference among micro-enterprises, cottage enterprises, and small and medium enterprises make it difficult to find the right balance of the instruments to be used, toolkit-especially for entrepreneurs who find it difficult to identify themselves with the right category.

c. Designing content of the toolkit

The toolkit has been designed keeping in mind that entrepreneurs can self-assess their enterprises. Based on the assessment, entrepreneurs can seek funding in traditional and innovative financing without additional barriers. Due to their variability in size, these enterprises are more vulnerable to market changes, and thus a broad range of financing instruments would be beneficial.

The toolkit comprises quantifiable Key Performance Indicators (KPIs) that enable decision-makers to measure progress towards specific goals by taking actionable, iterative initiatives and driving performance improvement.[10]

The toolkit is divided into several sections:

- Economic
- Human Resources Management
- Inclusion & labour conditions
- Macroeconomic knowledge (Interest rates, fiscal policy, budget, etc.)
- Location & Infrastructure
- Customer & Marketing approach
- Risk management

5. How is this Toolkit Solving the challenges?

The toolkit should integrate information from all levels of management and all departments of an enterprise and take actionable steps to improve performance in the key areas. The toolkit should:

- Gauge historical performance
- Allow forecasting of future performance
- Prioritize the most important aspects of the enterprise
- Enable easy communication across the enterprise
- Link enterprises with appropriate funding sources
- To improve business acumen and accelerate growth to create jobs and tap new markets
- Removing constraints to formalization by introducing policy reforms
- Support small and medium enterprise development that is linked to larger value chains

[10] 'KPI Inventory' (SME Performance Measurement Toolkit) <www.sme-measurement.org/gimi/KPIInventory.action;jsessionid=ui4wCdO2HOyysZduPR58VNUvJwzu2-FQKV4g-nNtnYXqGgNQwK3B!-1463413688> accessed 17 May 2022

Recommendations

Increasing Access To Finance

Nearly 37 million micro-enterprises, including one million small and medium enterprises, have limited or no access to finance in South Asia. Micro-enterprises face a credit gap of \$280 billion to \$340 billion, while it is \$30 billion to \$40 billion for small and medium enterprises in the region (International Finance Corporation (IFC), 2014). [11]

Most financial institutions have limited exposure to small & medium enterprises due to a “higher risk” perception and limited access. As a result, the primary source of these enterprises’ financial needs comes from informal sources of finance, including moneylenders, friends and family, and chit funds, all of which charge significantly higher interest rates than formal sources. And most of the finance flowing through these channels are mostly debt and no equity.

Access to finance should focus on:

A. Increase outreach to small and medium enterprises by developing and offering loan products for the aforementioned entities. As they don’t qualify for traditional financing, governments, financial institutions, and other stakeholders should collaborate on developing policies, systems, and pilot projects.

Utkarsh Micro Finance, a registered microfinance non-banking financial company working in the low-income states of Uttar Pradesh and Bihar in India, has developed loan products for micro-enterprises that do not qualify for traditional microfinance. Utkarsh develops policies, systems, and pilot projects in two cities of Uttar Pradesh. Through this, IFC estimates that Utkarsh will have the capacity to finance up to 20,000 micro-enterprises in three years.

B. Strengthening reach and fostering innovation for including small & medium enterprises in the business domain of financial institutions as well as looking out for new financial channels and instruments. Apart from traditional debt instruments, enterprises and interested parties should be encouraged to look for other methods such as equity-based financing (SAFE- Simple Agreement For Future Equity), Convertible Notes, Revenue Share Agreements (Debt or Equity based), etc. [12]

[11] International Finance Corporation, 'Small and Medium Enterprises- Key Driver for Growth and Jobs in South Asia' (International Finance Corporation) <www.ifc.org/wps/wcm/connect/5bc995d2-3d83-4e64-ba92-bbe5abdf7384/Small+and+medium+enterprises.pdf?MOD=AJPERES&CVID=kxXc> accessed 17 May 2022

C. Provide qualitative skills such as business advice, skills, networking, and market opportunities to grow.

IFC (International Finance Corporation) focuses on non-financial services and provides thought leadership to develop operational tools in this area. Since 2008, ICICI Bank, India's largest private sector bank, has been using IFC's SME Toolkit online platform to provide non-financial services and information to smaller enterprises. As of March 2013, more than 520,000 SMEs use the business directory feature, making it an exciting business-to-business platform.

D. Develop credit bureaus and collateral registries for transparency. Developing such a registry will enable authorities to assess credit for enterprises with zero to very limited immovable assets.

Indian government's central collateral registry, Central Registry of Securitisation Asset Reconstruction and Security Interest, included movables to address the lack of collateral needed to access credit for small businesses. This enabled credit bureaus to increase the use of non-traditional credit information (such as utility bills) to develop a comprehensive credit picture for small & medium enterprises.

Facilitating Access to Markets

Through partnerships among private, public, and other entities, small and medium enterprises can have enhanced ability for market access and value chain integration.

Enable value chain access to small & medium enterprises by joint collaboration between large firms and enterprises. Small and medium enterprises often struggle for business information, training, and opportunities to expand their businesses while large firms often rely on networks of small businesses to increase their operational efficiency.

Dialog Axiata Telecom in Sri Lanka relies on a network of 55,000 retailers and distributors across the country. Nearly 8,000 micro and small retailers have been trained in business management in local languages to improve their business skills. For Dialog, these trainings have resulted in more than \$2.6 million of increased revenue from these retailers. These collaborations can also be utilized to diminish the managerial skills gap and promote capacity building through training and workshops.

[12] 'Innovative Finance Toolkit: Alternative structures for financing earlystage impact enterprises in Bangladesh' (Bridhhi) <www.sie-b.org/wp-content/uploads/2020/11/Innovative-Finance-Toolkit-2020-Final.pdf> accessed 17 May 2022

Promoting Inclusion and Growth

IFC estimates that there are 69 million informal units in South Asia, and many have the potential to grow. But lacks a supportive ecosystem that nurtures growth.

IFC is simplifying business tax regimes in India's Bihar state and Nepal to make it easier for small businesses to file taxes and become compliant. Once these firms come into the formal tax fold, it is easier for them to access loans, subsidies, and markets. Trade licensing simplification reforms in Bangladesh help firms reduce risk, cost, time, and facilitate easier access to information. Similarly, Nepal uses information technology, such as the newly-launched business license portal, to provide information on trade licensing to small and medium firms. In another initiative in Bhutan, World Bank Group's investment climate team have launched an e-portal that will make it easier for businesses to obtain licenses and permits.

[Obtaining Trade Licenses, First Step to Starting a Formal Business](#)

[Simplifying Tax Compliance for Small Firms, Improving Business Climate](#)

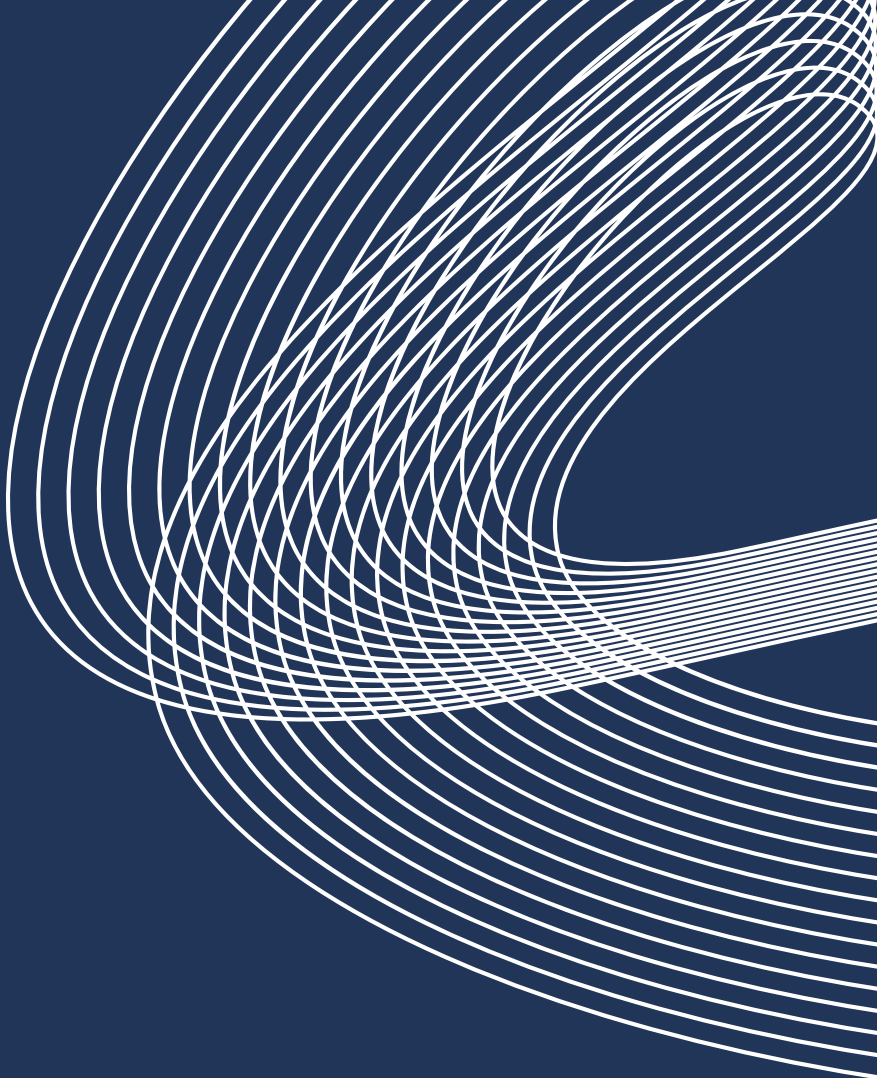
Conclusion

The new National Small and Medium Enterprises Policy 2019 includes strategies to promote policy and regulatory reforms in order to create an enabling environment for Small and Medium Enterprises' development, as well as to support the creation and strengthening of formal institutions that provide Small and Medium Enterprises with long-term business development and financial services.

Every enterprise is unique in nature. Rather than thinking of the toolkit as a "one size fits all" solution, entrepreneurs should use it as a general guide for business operations and planning. Real-life business acumen, experience, and capability building should be prioritised while the toolkit is to be used for networking with existing and new stakeholders, communicating the problems for viable solutions, and expanding the enterprise through funding and other means. This will enable the small & medium business ecosystem as well as the national economy, to thrive and withstand the force of unforeseen circumstances.

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