



# **Export Competitiveness Strategies for Bangladesh: Focus on SMEs**

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# Govt. Measures to Enhance Export Competitiveness (1)

## Special Import Regimes:

- Special bonded warehouse facilities to 100% export-oriented industries for duty free import of inputs of export goods.
- Duty draw back facilities to other industries for getting refund of duties and taxes paid on the inputs, both domestic and foreign, of exported goods only.
- Cash incentives and subsidies to those exporters who have not availed the benefits of bonded warehouse or duty draw back schemes.



# Govt. Measures to Enhance Export Competitiveness (2)

## Facilities in EPZs:

- Export Processing Zone (EPZ) facility to encourage both domestic and foreign investments in export-oriented activities.
- Industries in EPZs enjoy duty free import facility for both capital equipments and raw materials and inputs.
- Within EPZs -
  - (a) exporters obtain a secure power source,
  - (b) retain foreign currency earnings,
  - (c) operate in a less-hostile labour market, and
  - (d) enjoy tax holidays for the first 10 years of operation.



# Govt. Measures to Enhance Export Competitiveness (3)

## Other Measures:

- Export-oriented industries are allowed to import their capital goods at a nominal tariff rate of one percent.
- Export credit guarantee scheme of government provides credit risk insurance coverages to exporters.
- It protects against losses resulting from both commercial and non-commercial (political) risks.



# Govt. Measures to Enhance Export Competitiveness (4)

## Problems:

- Not the SMEs, but only larger firms were benefited by government measures discussed above.
- SMEs suffer from unequal treatment due to dissimilarity in economic capacities, transition phases, resource potential, location reasons, lack of well-disposed connections.
- SMEs face problems related to raw materials, power, land, marketing, transport, technical facilities, and finance.
- Access to finance is the most serious problem for the growth and sustenance of SMEs.

# Govt. Measures to Address Problems of SMEs (1)



- Industrial Policy, 2005 categorised SME as a thrust sector for balanced & sustainable industrial development.
- In 2003, there were approximately 6 million SMEs in Bangladesh.
- They employed a total of 31 million people.
- Currently, more than 90% of the industrial enterprises in Bangladesh fall in the SME category.
- SMEs contribute 80 to 85 per cent of industrial employment & 23 per cent of total civilian employment.



# Govt. Measures to Address Problems of SMEs (2)

## Definition of SMEs:

- **Microenterprises and cottage industries:** Those with assets (including replacement costs) worth Tk. 5 lac to Tk. 50 lac and/or employing 10-24 workers or less.
- **Small enterprises:** Those with assets (including replacement costs) worth Tk. 50 lac to Tk. 10 crore and/or employing 25-99 workers.
- **Medium enterprises:** Those with assets (including replacement costs) worth Tk. 10-30 crore and/or employing 100-250 workers.
- SMEs in the country are labor intensive with relatively low capital intensity.



# Govt. Measures to Address Problems of SMEs (3)

- Government's primary role is that of a facilitator aiming to-  
(a) remove policy obstacles and neutralize market failures,  
(b) provide necessary promotional support.
- To promote SMEs, Government has identified 11 booster sectors, such as Electronics and electricals, Software development, Light engineering, Agro-processing, Leather and leather goods, Knitwear and ready-made garments.
- An SME Foundation is formed which coordinates all planning, developmental, financing, awareness-raising, evaluation and advocacy services of SMEs.



# Govt. Measures to Address Problems of SMEs (4)

## Problem of access to finance:

- Banks' preoccupation with collateral based lending hampered flow of institutional finance into SMEs.
- While judging credit-worthiness, banks traditionally used fixed asset ownership, particularly land ownership as the basis.
- SMEs were troubled by this, for they could not put up such collateral for loan.
- In case they had some collateral, it got used up in taking the term loan.
- Hence, they had no other means to seek working capital loan.



# Govt. Measures to Address Problems of SMEs (5)

## Addressing the problem-1:

- Government uses various funds, such as Bangladesh Bank Fund, EGBMP/IDA Fund, SME Credit Wholesaling Foundation Fund.
- More than Tk. 1,100 crore have been channelled through different Banks/Financial Institutions.
- Aim is to help easy access to SME entrepreneurs.
- Under the scheme, more than 11,000 beneficiaries have so far been covered.



# Govt. Measures to Address Problems of SMEs (6)

## Addressing the problem-2:

- Commercial banks have come up with special packages for SME development.
- Several banks/Financial Institutions have established SME Cells/Service Centers.
- Aim is to ensure more efficient channeling of funds to the SME sector.
- As a result, number of SMEs accessing institutional finance experienced significant rise.
- It rose at the end of September 2009 to about 390,000 firms compared with 381,000 firms in June 2009.



# Enhancing Competitiveness of Leather SMEs (1)

## Leather sector in Bangladesh:

- Leather sector contributes to about US\$ 422.16 million of exports.
- It is a 100% agro-based high value added export-oriented industry integrated with locally available indigenous raw materials (hides & skins).
- Local enterprises produce a variety of leather (wet-blue, crust and finished) and leather goods (shoes, bags, ready-made leather garments).
- Wet-blue and crust leather are entirely sold in the local market, while almost the entire lot of finished leather is exported abroad.
- Leather is increasingly being used in the production of footwear.
- Leather footwear production varies from 5 to 6 million pairs yearly since 1990.



# Enhancing Competitiveness of Leather SMEs (2)

## Role of BPC:

- Government, through Business Promotion Council, tries to play an important role to assist leather SMEs.
- BPC aims at promoting export potentials of firms, SMEs or large alike, in areas of light engineering, leather, medicinal plants and herbal medicines, fisheries, ICT, and agro-products.
- BPC provides funds to entrepreneurs for training and capacity building, awareness and advocacy programmes, and for product and market diversification.
- LSBPC is the umbrella organization for enhancing export competitiveness of leather sector.
- Overwhelming majority of firms engaged in leather sector are SMEs.



# Enhancing Competitiveness of Leather SMEs (3)

## Role of LSBPC:

- LSBPC tries to facilitate access to finance for leather SMEs.
- A dedicated credit line is created so that leather SMEs, especially the microenterprises, get credit from commercial banks on the basis of their needs.
- It means that credit will be sanctioned and repayment terms & period be decided on the basis of identified needs of specific firms.
- Survey conducted by BPC revealed that there are 10-12 clusters throughout the country with a membership of more than 6,000.
- These microenterprises did not have access to formal credit institutions for lack of collateral earlier.



# Enhancing Competitiveness of Leather SMEs (4)

## Role of LSBPC:

- Under the project, BPC has signed MoUs with three banks.
- First MoU with Mutual Trust Bank Limited: MTBL sanctioned Tk. 2.556 million at an interest rate of 12 percent to 11 SMEs.
- Second MoU with Southeast Bank Limited (SBL): SBL sanctioned Tk. 1.3 million with an interest rate of 13 percent to 4 microenterprises.
- Third MoU with Janata Bank Limited (JBL): JBL sanctioned Tk. 23.6 million with an interest rate of 12 percent to 24 SMEs.
- Loan was sanctioned between July, 2009 and December, 2010.
- Repayment was satisfactory in all the cases excepting two cases.



# Enhancing Competitiveness of Leather SMEs (5)

## Role of LSBPC: Credit Plus:

- Under the project, the concept of credit plus is introduced for the first time in Bangladesh.
- It means that in addition to credit delivery, social services are also provided to SMEs in the form of-
  - (a) poverty alleviation,
  - (b) empowerment of women entrepreneurs,
  - (c) training of workers, addressing environmental issues, and
  - (d) offering marketing facilities.



# Enhancing Competitiveness of Leather SMEs (6)

## Role of LSBPC: Creation of a Leather Cluster:

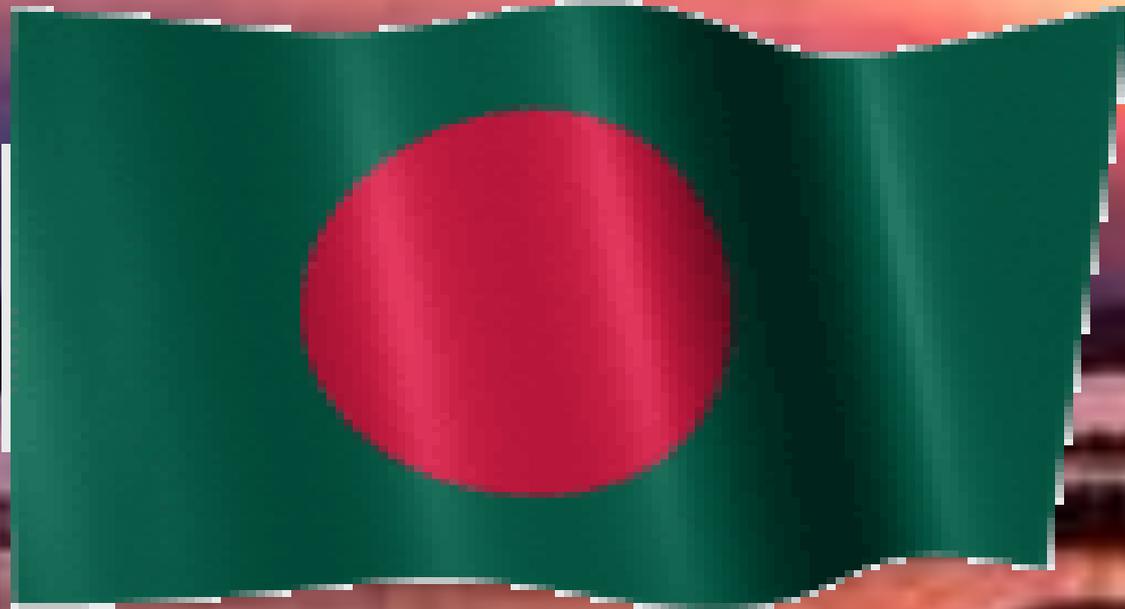
- Currently, BPC and JBL works together to create a cluster of leather sector microenterprises at Paitee in Demra, Dhaka.
- So far 14 microenterprises have relocated their industries in that cluster.
- The cluster contains –
  - (a) A training centre and a medical centre for workers.
  - (b) A common facility centre so that cash-strapped microenterprises can make use of its sophisticated machinery with a nominal charge.
- Provisions for relocation of about 100 more microenterprises in about 27,000 square feet of additional space is being contemplated.



# Export Performance of Leather Sector

**Table: Export of Leather and Footwear**  
**(value in million dollars)**

<b>Year</b>	<b>Total Export</b>	<b>Leather, leathersgoods and footwear export</b>	<b>% growth in the leather sector</b>
2003-2004	7602.99	279.71	-
2004-2005	8654.52	315.83	12.91
2005-2006	10526.16	359.83	13.93
2006-2007	12177.86	413.05	14.79
2007-2008	14110.80	462.88	12.06
2008-2009	15565.19	381.14	-17.65
2009-2010	16204.65	459.25	20.49
2010-2011	22928.22	651.05	29.46



Thank You