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Key role of MSMEs in achieving our development goals

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There is no denying that in recent decades, the Micro, Small and Medium and Cottage Enterprises (MSMEs and cottage) sector has been thriving in Bangladesh, both in terms of its contribution to GDP as well as employment generation. In the last one decade or so especially, there has been an impressive expansion of the MSME sector—from around 2.3 percent in 1992 the contribution of this sector to GDP has escalated to 22.4 percent in 2020. The contribution of MSMEs and cottage (or in simpler term the SMEs) has even been more remarkable when we consider the contribution of this sector in generating employment, as this sector generates almost 80 percent of jobs in the industrial sector. As many as 24 million people are estimated to be engaged in MSMEs and that amounts to around 25-30 percent of the employed labour force.

Besides, this sector also plays a vital role in the supply chain of many other goods and services and thereby helps to establish backward linkages for larger industries. Over time, the MSMEs have slowly emerged as a cornerstone of employment for women in Bangladesh with increasing number of women getting engaged in this sector. During the Covid-19 pandemic, despite being hit hard by the pandemic, it served as a source of livelihood for a large number of people. The sector, however, has several structural bottlenecks that are constraining its potential expansion, which includes constraints related to access to marketing, access to finance, access to information, infrastructural bottlenecks, complex bureaucratic constraints, technological shortcomings, etc. Such constraints are related partially to the small and fragmented structure and informal nature of the SMEs.

In terms of its constraints, accessing credit for the operation and gradual expansion and upgradation of this sector is a crucial one, due primarily to the lack of interest of the formal financial institutions to extend credit to the SMEs, and also for the ease of accessing credit from the informal institutions or NGOs. In order to deal with this constraint and for encouraging and incentivising the commercial banks, though the government as well as the central bank has taken a number of initiatives, there is still a low rate of penetration in terms of access to credit from formal institutions.

In this context, it is crucial to have a strong and favourable regulatory environment in terms of finance, business operation, etc. In particular, it is important to have flexible financing requirements and lesser documentation as well as greater flexibility in terms of regulatory requirements (e.g. requirements of trade license).

Another crucial area which constrains the activities of the SMEs, especially those in rural areas, is lack of market access and low level of integration with the consumers. This is also linked to lack of information of the existing facilities, schemes and support measures available to the SMEs. For example, in many instances, rural women in particular are unaware of any such available facilities. In this connection, there can be dedicated desks for the women entrepreneurs in union digital centres, commercial banks and union parishad offices to provide information about any such available facilities. These service points can also offer assistance for business operation of women entrepreneurs. In order to integrate them to the mainstream market, the government can take initiatives

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