

## **DRAFT SYNOPSIS FOR THE FOURTH & FINAL CONSULTATION MEETING**

### **4th STAKEHOLDERS' CONSULTATION MEETING**

**Strategy: "Institutional, Regulatory and Coordination Framework, and SME Statistics"**

**Venue: Ministry of Industries, Conference Room (2<sup>nd</sup> Floor)**

**Date: Wednesday, 27<sup>th</sup> April 2016**

**Time: 10.30 am – 1.00 pm**

#### **BACKGROUND:**

Despite various interventions aimed at improving the business environment, the legal and regulatory framework is bureaucratic, costly and centralized. These characteristics of the legal and regulatory environment affect all sizes of businesses adversely. However, SMEs are disproportionately affected compared to their large counterparts. The businesses including SMEs in Bangladesh are concerned with various laws relating to contract enforcement, dispute settlement, bankruptcy laws, copyright protection, land titling and labour laws. These laws and related legal procedures appear to be cumbersome and inadequate to some extent to protect the rights of businesses and investors. It will require a lengthy procedure to review and amend these laws and therefore the Strategy paper focuses on implementation aspects of these laws and regulations that might hinder growth prospects of SMEs.

There is no denying that a substantial relaxation of the regulatory environment has been made in the last two decades. Investment sanctioning requirement has long been abolished and registration of enterprises made voluntary. However, investors often complain that regulatory requirements for large enterprises and the SMEs are not yet being separated out and therefore SMEs faces hassles at the same amount that their large counterparts do. In absence of one-stop service, businesses have to collect various licenses from various agencies. Therefore, it is important to simplify and streamline all these regulatory measures under one unified arrangement. The burden on the SME investor could also be eased somewhat by delegating some of these authorities to the Chamber bodies.

The institutions supporting the SME sector by and large are weak, fragmented, and uncoordinated. Various Government ministries and agencies, private sector associations, NGOs and development partners are involved in developing programs and policies aimed at supporting the SME sector in scattered manner. These uncoordinated and scattered programs and policies need to be brought into a centralized monitoring system in order to make a holistic approach towards SME development in Bangladesh. Although the government has put in place a number of organizations, including the SME Foundation and BSCIC, these institutions are not well equipped in terms of equipment, personnel and operational funds, and therefore, unable to discharge their mandated responsibilities.

In line with the above objectives, time-bound activities with roles and responsibilities of implementing agencies are outlined below.

## GOAL-1: LEGAL AND REGULATORY FRAMEWORK FOR SMES

Actions	Key areas of intervention	Time frame	Implementing Agency
Simplification and rationalization of rules and regulations	<ul style="list-style-type: none"> <li>The government will simplify business registration and licensing procedures through introducing online/digital system in the process.</li> <li>SME Foundation will work together with relevant agencies to develop a unified registration system for SMEs</li> <li>The government will review the current tax system for SMEs and their large counterparts to make a simplified approach for the SMEs</li> <li>The government will introduce tax incentives to promote SMEs through budgetary allocations</li> <li>The Government will review Public Procurement procedures to facilitate SMEs' participation.</li> <li>Train and sensitize SMEs on intellectual property rights</li> <li>Adoption of an <b>"SME Act"</b> 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.</li> </ul>	ST/MT	SMEF, MoI

## GOAL-2: STRENGTHEN INSTITUTIONAL FRAMEWORK AND COORDINATION

Actions	Key areas of intervention	Time frame	Implementing Agency
<p>Convert SME cell into an SME Department / Directorate at MoI</p> <p><i>(Please refer to Annex 1: IDENTIFICATION OF ROLES AND RESPONSIBILITIES FOR KEY ACTORS IN COORDINATION AND IMPLEMENTATION)</i></p>	<ul style="list-style-type: none"> <li>The MoI will create a separate Department within its jurisdiction to replace the SME cell to strengthen its commitment towards SME sector</li> <li>The department/directorate will be headed by a high official of the Ministry, preferably an Additional Secretary</li> <li>The Department will oversee all related activities of subsidiary organizations for the SME sector and provide policy guidelines</li> <li>The Department will liaise with other Ministries and agencies on SME issues</li> </ul>	ST	MoI
Strengthen SME Foundation	<p><b>Governance Structure:</b></p> <ul style="list-style-type: none"> <li>The government strives to make SMEF as an apex institution for SME development by engaging and appointing relevant SME experts in its management and operations</li> <li>The Strategy thus places its importance to make changes to its current governance structure by placing the Minister of the MoI as the chairman (ex officio) of SMEF governing body towards making it a very powerful and influential to accomplish its mandated activities</li> <li>The current structure of the SMEF governing body is underrepresented by SME sectoral bodies. Therefore, the Strategy feels the need for inclusion of at least six booster sectors' representatives in the body</li> <li>The appointment of Managing Director could be done through a high-level search Committee by giving emphasis on the candidates who have track record of expertise and visions on SME development.</li> </ul> <p><b>SMEF activities:</b></p> <ul style="list-style-type: none"> <li>SMEF will work towards SME development in three directions: <ul style="list-style-type: none"> <li>To Facilitate business support services</li> <li>To organize and plan for required training programs towards skill development of SMEs</li> <li>To facilitate research and development for SME sector development</li> </ul> </li> </ul>	ST	MoI, SMEF, MoF, EPB, MoE

	<ul style="list-style-type: none"> <li>• SMEF will create a centralized one-stop service center at its premises and coordinate all other one-stop service centers to be created at district level</li> <li>• SMEF will create and maintain a dedicated website for SMEs and update it regularly involving A2I, BASIS and other sectoral stakeholders</li> <li>• SMEF will coordinate with all relevant public and private training institutes while designing and developing training programs in line with the guidelines provided by a Steering Committee for Training Programs</li> <li>• In line with the guidelines given in this Strategy, the SMEF will place a clear plan of action and implementation strategy to the MoI within 3 months</li> <li>• Credit program run by SMEF is not the mandated task of SMEF if unless it is done in order to develop a policy intervention.</li> </ul> <p><b>Review of SMEF activities:</b></p> <ul style="list-style-type: none"> <li>• SMEF was established 8 years back in in 2008 with a government gazette notification. During the years, it has accomplished various activities for the SME sector. However, the impact of those activities has not been assessed rigorously yet.</li> <li>• Thus, evaluate the SMEF activities by engaging independent evaluator to assess its activities, training programs, governance structure, financial health and achievements, and to recommend future policy directions in order to make SMEF an effective organization towards SME development</li> </ul>		
<p>Coordination between SMEF, BSCIC and Bangladesh Bank</p>	<ul style="list-style-type: none"> <li>• BSCIC will share its facilities at the local level (division/district/upazila) with SMEF to implement SME policy strategies including the creation of one-stop service center at the local level</li> <li>• SCITI and SMEF will design training programs jointly and share modules, faculty, logistic supports etc.</li> <li>• Both SMEF and BSCIC will jointly undertake programs for cluster-based SME development</li> <li>• Bangladesh bank will involve SMEF and BSCIC in designing and implementing credit programs for SMEs</li> </ul>		

## GOAL-3: SME STATISTICS AND SURVEYS

BBS	<ul style="list-style-type: none"> <li>BBS will conduct a SME census as outlined in the Industrial Policy 2016 including all relevant information such as output, cost structure etc.</li> <li>The next round Economic Census should be made comprehensive so that SME census would not be required further</li> <li>Streamline SMI, SME census and Annual Establishment and Institution Survey (AEIS) with a standard tools and justify the need for separate surveys</li> </ul>	ST/MT	BBS, MoI, SMEF, MoE and other respective Ministries
EPB	<ul style="list-style-type: none"> <li>EPB from now on will compile and report export data of SMEs</li> <li>EPB will set a guideline in consultation with SMEF and MoI for all SME exporters.</li> </ul>		

## ANNEX 1

### IDENTIFICATION OF ROLES AND RESPONSIBILITIES FOR KEY ACTORS IN COORDINATION AND IMPLEMENTATION

Effective coordination and implementation of any policy depends on clarity on assigning responsibilities and roles to different stakeholders. National policies involve many actors and demand an integrated and coordinated approach. Since SMEs cut across institutional mandate of various government ministries and executive agencies, local authorities, various private sector agencies, different development partners and range of NGOs, coordination is of critical importance. In addition it is necessary to employ a participative and consultative mechanism that will ensure success at implementation and provide for Monitoring and Evaluation. The roles and responsibilities as they relate to the implementation of a national SME Development Strategic Policy are set out below:

#### ROLE OF GOVERNMENT

The Government's main role is to create a conducive macroeconomic environment that will allow SMEs to emerge, survive and grow. In addition, the government has the responsibility of putting in place the requisite infrastructural facilities which will provide a basic support for the growth of the sector. There is need to develop entrepreneurship through education and training and fostering proactive entrepreneurship attitude within the civil service and local government service.

In the financial services sector, the Government, through Bangladesh Bank, should take measures to reduce the risks and transaction costs of lending in order to increase competition in the financial sector and strengthen the capabilities to serve small and medium enterprises. The government should provide seed capital and other financial resources for SMEs.

In the non-financial services sector, major role of the Government should be to encourage and support market development to facilitate greater demand and supply of Business Development Service (BDS). The government should support the establishment and strengthening of extension services for the SMEs.

The Government should promote consultations and partnership with the private sector. This could be achieved by ensuring appropriate representation of SME relevant issues on the agenda of the proposed SME Taskforce.

Overall, the primary task of the Government of Bangladesh should be the further development of business environment that fosters the creation and continued growth of small and medium enterprises. With this task, the Government must take the lead in realising the country's SME vision. The Government should do this by continuing to promote its SME agenda to national and international stakeholders.

## **SUPERVISORY ROLE OF THE MINISTRY OF INDUSTRIES, THROUGH A NEWLY-ESTABLISHED SME DEPARTMENT / DIRECTORATE:**

The Ministry of Industries (Mol), through restructuring the SME Section by creation of a **proposed newly-established SME Department / Directorate**, should have the overall responsibility for supervising the implementation of the SME Development Strategic Policy. The Mol, through the proposed SME Department / Directorate, should function as the secretariat of the proposed SME Development Council and publish Annual SME Report that will include information on the status of the SME sector.

The Mol, with the close collaboration and support of SME Foundation, should establish a data bank to function as research and information clearing house, interconnected with major stakeholders. The Mol will also coordinate the activities of all SME stakeholders and will be responsible for overseeing the activities of SME Foundation (SMEF), in particular on monitoring and evaluation of implementation of the SME Development Strategic Policy to be managed by SMEF.

## **SME FOUNDATION:**

SME Foundation (SMEF) should be appointed as the Central Implementing Body for the overall implementation of the SME Strategic Policy and the action plan.

As the Central Implementing Body, SMEF should be tasked to explore and enhance the smooth facilitation and data collation of SME development action plan / programmes and provide support to SME Department / Directorate publish Annual SME Report.

Acting in this capacity, SMEF, should streamlines, monitors and evaluates the progress and effectiveness of SME action plan / programmes.

SMEF should ultimately be responsible for the implementation of all the strategies outlined in the National SME Development Strategic Policy, in close collaboration with existing institutions, such as BSCIC, PKSf, relevant NGOs, Business Intermediary Organisations, and other private sector actors. This includes the administration of capacity building initiatives through BDS centres, as well as collaboration with other government actors on entrepreneurship development, market and technology research and implementation and the creation of an enabling regulatory framework.

## **PROPOSED FORMATION OF COMMITTEES:**

**Two key strategic committees are proposed** to be formed in order to pool together the knowledge, expertise and talent of high ranking and experienced strategists to help steer the SME growth in Bangladesh. These committees in order of ranking are:

1. **The SME Development Council;** and
2. **The SME Task Force**

The **SME Development Council** should represent the Government's top-level commitment to promote SME development. The Council is proposed to be chaired by the Right Honourable Prime Minister, and comprise of the following Ministries, represented as members by the respective Honourable Ministers, including Bangladesh Bank, National Board of Revenue (NBR), and Prime Minister's Office:

- 1) Ministry of Industries
- 2) Ministry of Commerce
- 3) Ministry of Finance
- 4) Ministry of Planning
- 5) Ministry of Local Government Rural Development (LGRD) and Cooperatives
- 6) Ministry of Labour and Employment
- 7) Ministry of Agriculture
- 8) Ministry of Civil Aviation and Tourism
- 9) Ministry of Textiles & Jute
- 10) Ministry of Women & Child Affairs
- 11) Ministry of Fisheries and Livestock
- 12) Ministry of Environment & Forest
- 13) Ministry of Power, Energy & Mineral Resources
- 14) Bangladesh Bank
- 15) National Board of Revenue
- 16) Prime Minister's Office
- 17) FBCCI
- 18) NASCIB

The Chairperson of BSCIC and Managing Director of SMEF should also be represented at the SME Development Council, and the proposed ***newly-formed Mol-SME Department/Directorate should act as the Secretariat to the SME Development Council.***

The main goal of the SME Development Council is to provide strategic policy direction and framework in SME development across Ministries and relevant Agencies, and to ensure comprehensive and coordinated development of SMEs across all sectors.

Some of the main functions of this Council should include:

- Review and approve the broad policies and strategies formulated by the SME Task Force to facilitate the overall development of SMEs across all sectors;
- Review the roles and responsibilities of the SME Task Force for better implementation of the action;
- Enhance cooperation and coordination amongst the Ministries and public agencies to ensure effective implementation of SME development policies and action plans;
- Encourage and strengthen the role of the private sector in supporting the overall development of SMEs;
- Establishing the requisite institutional and organisational mechanisms to restructure and consolidate all SME Development activities in order to achieve economies of scale and efficiency of operations.
- Strategising of the allocation of all funds for development of SMEs and related activities under the ***aegeis of a single entity*** with responsibilities for providing the various services needed for SME Development in the country across sectors.

The **SME Task Force** is mandated to inquire into the needs, problems, and future requirements of SMEs and update the National SME Strategic Policy every five years. Moreover, the Task Force should review the implementation of SME Strategic Policy, and decide which shape specific measures for enterprise development will take and how existing measures need to be adjusted in line with developments and in the interest of continuous improvement. The Task Force will be responsible of prioritising the strategy's initiatives and review the action plan for each with measurable targets and specific deadlines

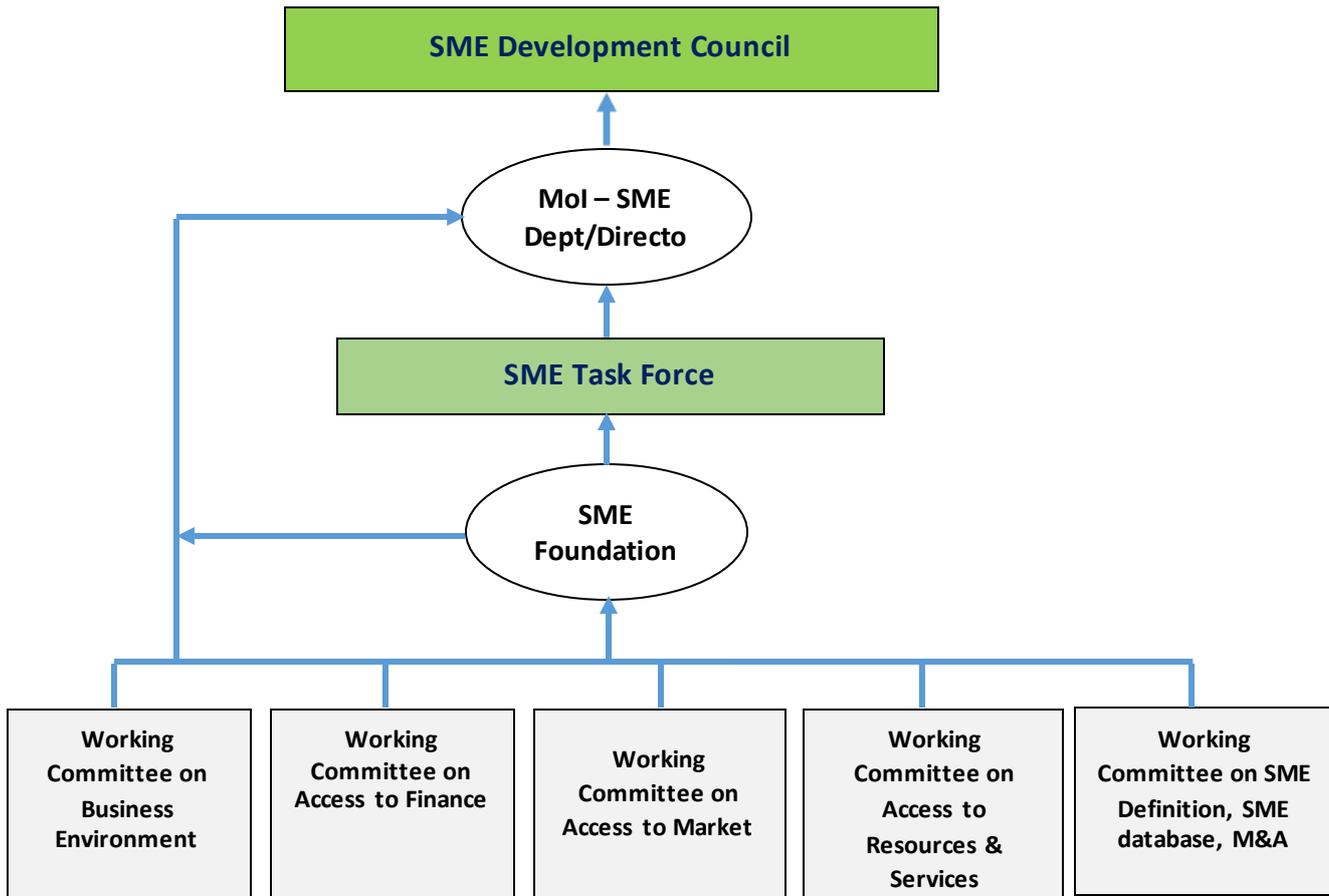
The composition of the SME Task Force would be a combination of public and private bodies, comprised of number of Business Intermediary / Associations; Chambers of Commerce; members of academia, NGOs, bankers; and selected Ministries and public agencies. It is proposed that the SME Task Force to be headed by the Senior Secretary of the Ministry of Industries. ***The SMEF is proposed to act as the Secretariat to the SME Task Force.***

The other functions of the SME Task Force could include:

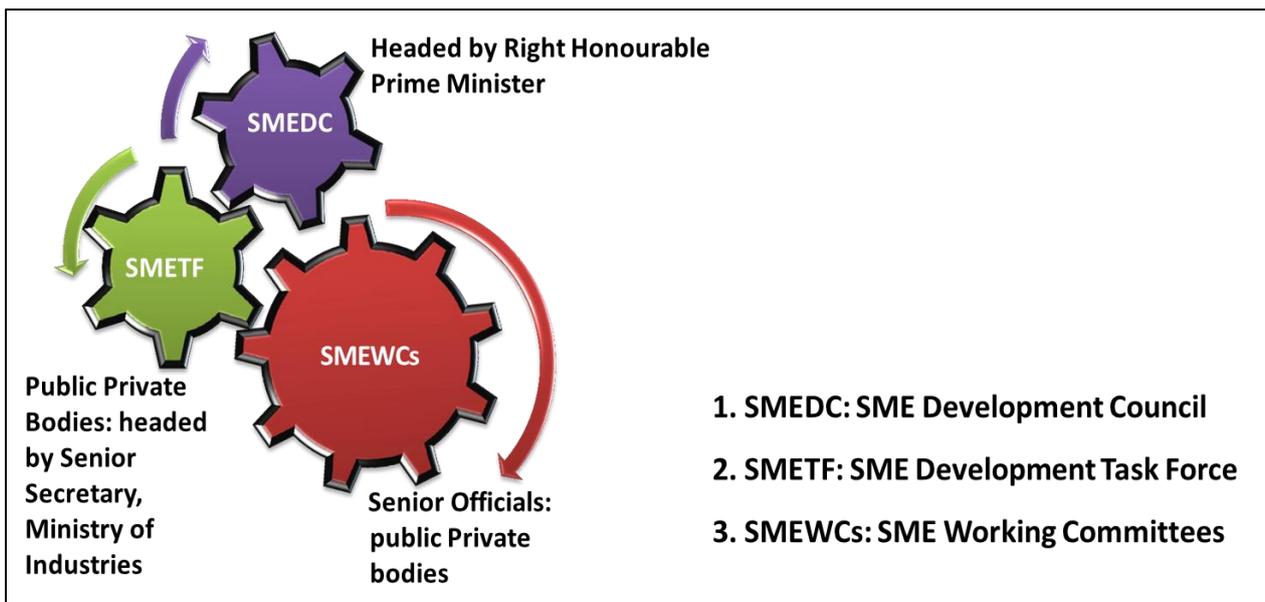
- Analyse the contribution of SMEs to the Bangladeshi economy;
- List the objectives and fundamental principles that underpin the national strategy;
- Articulate the elements necessary for achieving a national vision/strategy;
- Outline the institutional reforms necessary to achieve a national strategy for SME development;
- Publicise an action plan that identifies short, medium and long term goals;
- Identify sources of funding; and
- Serve as a mechanism to improve coordination between different stakeholders and resolve differences which may exist between them.

In order to enable the SME Task Force to work effectively, number of **Working Committees**, to be steered by SMEF, is proposed to be set up to carry out the implementation of the action plan and programmes. The Working Committees are proposed to be set up according to the Strategic Goals of the National SME Development Strategic Policy. Such Committees should include:

1. **Working Committee on Business Environment:** Creating a favourable business environment for SMEs and eliminating unnecessary obstacles;
2. **Working Committee on Access to Finance:** Increasing SMEs' access to formal finance including equity financing while addressing the question of "lacking documentation" and banks' technical capabilities and improving SMEs' capacity to become bankable.
3. **Working Committee on Access to Market:** Improving SMEs' access to market including marketing network. Marketing network plays a catalytic role for sustainability of a firm. Many SMEs are facing problems of marketing due to poor quality of products, poor packaging, inadequate marketing skills and stiff competition. Improvement in areas should be addressed that would make SMEs more competitive and a good player in the international value chain.
4. **Working Committee on Access to Resources & Services:** Improving the delivery mechanisms for assistance and the access to resources for SMEs, inter alia, business development services, qualified human resources, and technology, so as to improve their productivity and capacity for employment generation.
5. **Working Committee on SME Definition, SME database, Monitoring & Evaluation (M&A) Mechanism:** Establishing appropriate and harmonised definitions for Bangladesh of what are to be considered micro, small, medium, and large enterprises. Furthermore, the establishment of a sound mechanism by which their development of the SME sector and the effectiveness of the assistance provided to SME can be monitored.



### Systematic Coordination Mechanism



## **PRIVATE SECTOR:**

While Government, through this policy framework, is the leader of SME development, the private sector is at the centre of the SME sector. Thus, the private sector should take on the responsibilities associated with growing the SME sector. This includes the mobilisation of resources, the dissemination of information and the promotion of entrepreneurial development. Similarly, the private sector must empower Businesses Development and Non-Governmental Organisations (BSOs and NGOs) by supporting the activities of these bodies to strengthen their operations.

Given this role they are expected to be the major investor in the SME sector. They will have to mobilise resources, implement projects, manage operations and in so doing ensure that the policy is put into effective implementation. Through their associations they will strengthen the representation of SMEs to promote advocacy in the respective dialogue with the government.

## **BUSINESSES DEVELOPMENT AND NON-GOVERNMENTAL ORGANISATIONS:**

BSOs and NGOs have the ability to provide key services to SMEs. These potential services range from institutional capacity building, direct provision of financial and non-financial services, including assistance and training in entrepreneurship, management and other areas of business operation. Though these entities should seek out to assist SMEs, they should do so in a manner that retains the objectives of the Government's SME Policy Framework.

## **DEVELOPMENT PARTNERS:**

Bangladesh is fortunate in its ability to gain technical and financial assistance from development partners. Development partners of Bangladesh are intensively involved in all key areas of intervention that are covered in most of the proposed SME Strategic goals. They provide finance for micro finance operations, physical infrastructures, capacity-building of the SME institutions and various activities intended to create a favourable environment for the SME development.

While such assistance is more than welcomed, development assistance from external partners should fall in line with other efforts and support the vision of the SME Policy Framework. To promote cohesive development of the SME sector, development partners will be pushed to support national efforts.

Development partners are expected to design and implement sustainable interventions especially in the financial and non-financial services for the SMEs in compliance with the principles stated in the proposed National SME Development Strategic Policy.