

THE BUSINESS STANDARD

Access to finance most crucial for CSMEs

Banks and other financial institutions should give special focus on financing small businesses, while the government needs to have conducive policies to promote the sector

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Former Governor of the Bangladesh Bank Dr Salehuddin. Illustration: TBS

For the small and medium industries, which are now being called CSMEs—cottage, small and medium enterprises, financing is the main problem. If finance is ensured, they are capable enough to contribute more to the economy, as people behind these small ventures are hard-working and enterprising. But unfortunately their contribution remains low compared to their potential. If we look at Japan, South Korea, Hong Kong, Malaysia and even Thailand, we can see how massively SMEs contribute to the economy and employment there. China also gets many of its products manufactured in village industries.

Financial problems of SMEs cannot be solved by the traditional ways of bank financing where collateral, documents, and guarantee are required. Financing these small businesses must be simple.

Lending money to small businesses should be based on the following considerations; there is no need to examine the balance sheets. It is enough to verify the cash flow of a business, its returns, and the potentials of its markets—both local and export. It is necessary to observe its efficiency in that specific area of business. Traditional bankers will not be able to do this because of their different orientation.

Here comes the responsible role of the central bank. They have to set specific targets to banks for providing SME loans and constantly monitor the disbursement status. Just setting a target and waiting to see what happens at the end of June will not do any good to cash-strapped SMEs.

Bangladesh Bank has introduced an SME refinancing scheme. While being the governor there, I had initiated a scheme for women entrepreneurs that got a huge response. I also introduced a home loan scheme for small earners and limited income groups, which was later abandoned. The central bank's policies and its special SME financing scheme should be implemented with utmost sincerity to encourage CSMEs.

Identification of SMEs is often seen as a problem. SME Foundation has a good database of small businesses which can be used for verifying the authenticity of an enterprise. Besides, PKSF should have a database as the apex development finance organisation that partners with MFIs which work for SMEs. The organisation has already gained experience in SME financing and banks can utilise the expertise of PKSF here.

Local level chambers and trade associations can be utilised for identifying SMEs for bank loans and incentives. Dhaka-based big trade bodies like FBCCI or MCCI usually speak for big ones. On various occasions, I have had interactions with chambers in remote districts like Pirojpur, Bhola, Patuakhali or Rajshahi and I found that they were well aware of specific businesses and industries of their localities. Local trade bodies are closely associated with local business activities and they should be involved in any approach to support SMEs.

SME products have a market both at home and abroad. But our SMEs, due to very limited capacity and linkages, cannot explore the export market. During a visit to the Philippines, I was talking to a woman owner of a small enterprise who was in a hurry to catch a plane to Singapore on a business trip and she cut short her conversation to be on her way. In comparison, our entrepreneurs have very little global exposure.

Finally, the lack of proper incentives in government's policies including fiscal policy is also a major problem for SMEs. Most of the tax breaks and incentives are intended for big businesses. There might have been some perks on the plate for small entrepreneurs, but most of them know little about these and often cannot access the facilities even if they knew about it. The government seems to be done just by announcing various incentives and it cares little about who are benefitted.

Bangladesh Bank also has its SME loan policies based on the definition, which puts a medium enterprise of Tk10 crore or Tk30 crore asset value and a small one with assets worth Tk5 lakh in the same bracket. Medium enterprises are in fact big and they have grown even bigger in trade and service sectors in terms of their value. Though policy supports are geared to promote CSMEs, the focus on cottage and small enterprise is sometimes lost due to the predominant presence of medium enterprises in the same category.

Now time has come to think about creating a separate category for medium enterprises and another one for cottage and small businesses.

The article is based on a phone conversation.

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