OP-ED: It is the micro and small enterprises that hold key to job creation

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Even before COVID-19 hit Bangladesh, the employment challenge had been intensifying owing to the stagnation of new job creation in the manufacturing sector, especially garment.

The garment sector created some 4 million jobs between 1990 and 2012, mostly for female workers. Between 2012 and 2019, job creation in the sector remained virtually unchanged as the adoption of capital-intensive technology led to factory consolidation and low-skill worker redundancy.

Garment productivity and export earnings increased substantially, but employment did not.

More generally, since 2012 job creation slowed in manufacturing, construction and organised services.

COVID-19 intensified the employment problem by lowering both global and local demand for Bangladeshi products.

Overseas employment options are now virtually closed and many workers have returned. The domestic services sector, which traditionally serves as the employer of last resort, not only did not create new jobs it shed labour in transport, trade, hospitality industry, and personal services as demand fell.

The government has undertaken stimulus packages to protect demand and jobs. They are beginning to work but recovery is still a way to go. Additionally, the pre-COVID structural problems for job creation remain.

What is the way out? The area that holds out most prospects for rapid recovery of demand and jobs is the micro and small enterprises sector (MSEs).

The MSEs account for some 35 per cent of total employment in Bangladesh (21 million jobs in 2016-17), which makes them the second-largest source of employment after agriculture.

Yet, the MSE sector is not very dynamic and suffers from low value-addition, low labour productivity and low earnings.

This is because MSEs suffer from many constraints, including a severe financing constraint, poor product quality, lack of product diversification, low technology, low investment, weak integration with the national and global value chains, weak managerial capabilities, weak technical and labour skills, absence of marketing capabilities and absence of effective government support.

In sharp contrast to the Bangladesh situation, MSEs in Taiwan, Korea, China and Vietnam have performed remarkably well, learning from Japan that showed the way how to make the MSE sector more dynamic.

The MSEs in these countries are major sources of exports and employment, thereby providing an employment and income buffer that facilitated the transition from the rural agricultural economy to the modern medium and large manufacturing and the skill-intensive organised services.

This missing MSE link in Bangladesh is a major reason for the growing intensity of the employment problem in Bangladesh.

The government has traditionally emphasised the MSE sector but results have been dismal.

There are several reasons for this policy failure.

First, the lack of seriousness is reflected by the fact that to date there is no updated database on MSEs on even such basic variables as structure and composition, value-added, employment, capital stock, technology, product type and markets.

Second, the government lumps together medium enterprises with small enterprises.

The medium enterprises for all practical purposes are much more organised, have political connections, have access to bank credit and face problems that are similar to large enterprises, whereas the MSEs are mostly informal, mostly do not have access to institutional credit, and have zero outreach with the government.

Government support policies basically cater to the needs of medium enterprises.

As an example, the special financing window for SMEs in the Bangladesh Bank (BB) de-facto provides most of the support to medium enterprises who don't need the subsidy in the first place because they have full access on their own merit.

On the other hand, most MSEs cannot benefit from this window because of their informal nature. They are not registered and do not have tax IDs.

Third, the absence of collateral and high transaction cost emanating from the small loan size, lack of loan preparation skills and lack of accounting practices make them high credit risk from a traditional banking perspective.

Fourth, the absence of innovative start-up capital opportunities is a huge problem for new MSEs.

Fifth, there is no institutional support for MSEs.   The SME Foundation's work has shown very little results in terms of the focused policy, training and institutional support to MSEs.

The way forward lies essentially in addressing these constraints.

First, the government should prepare and adopt a comprehensive support strategy for MSEs. An inter-ministerial committee comprising of ministries of finance, industry and commerce should be established to implement this strategy.

Second, the SME financing window of the BB should be converted into a support window for MSEs only.

Third, the BB must work with commercial banks to facilitate their capability to work with MSEs. There are some good-practice examples from BRAC, Prime Bank and IDLC using fintech options that can be further developed.

Fourth, start-up capital financing can be supported through fintech as well as Credit Guarantee Scheme sponsored by the finance ministry.

Fifth, the SME Foundation should be reconstituted into a Small Business Administration (SBA) model following the very successful American approach. It should be adequately staffed and refocused entirely on the MSE agenda.

Sixth, the BBS should develop a comprehensive database on MSEs that will provide a baseline and updated on a two-year cycle.

Finally, an MSE monitoring and evaluation (M&E) framework should be developed by the newly established SBA using the BBS baseline data.

The M&E exercise will report on MSE progress, issues and emerging challenges and submit it to the inter-ministerial committee for action. The M&E report should be done on a two-year cycle.

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