

An Integration of D-8 Countries with the Focus of Competitiveness, Opulence and Economic Accretion via the Advancement Of SMES: Bangladesh Perspective And Scope of Cooperation

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Abstract: Radical transmutation of technology and integrating and interrelationship with the world community facilitated economic proliferation and deplete multitudinous problems encompasses with the SME that is an inevitable and enviable subject matter in the global market for alleviating poverty, engender manifold employment opportunities, evolution of economic standard and exploring apparent resources. D-8 in their recent conglomeration exhibits their necessity to consolidate their strengthen and propitious approach for the purpose of propagation of collaboration and conciliation that indubitably prevailing propinquity and ensuring sustainable economic amelioration. In Bangladesh, one of the D-8 members, development of SME sectors is an astounding appliance for accomplishing industrialization, attaining millennium development goals such as eradication of extreme poverty, developing a global partnership for development etc. Capital accumulations, business environment, indistinctive framework for SME are the major impediments in Bangladesh. Facilitating cross-border integration, cross national cooperation, cluster or network development, construction of international value chain, Public- private partnership and also to establish congruous strategies and programs within the internal infrastructure may assist to mitigate the predicaments and also comply with the commitment of local government for unremitting growth of SME in Bangladesh.

Keywords: SME, D-8, Industrialization, MDG, cross-national cooperation, cluster development, interrelationship, public-private partnership]

1.Introduction: In the global market vast amount of people are engage in small and medium business and enormously contributing for the acceleration of economic exoneration and accretion. Due to the advancement of SMEs it is widely justifying and commensurate matter the entrepreneur who have inquisitive and penetrating mind can impeccable judgments for exploring the new dimensional matter for ensuring utilization of resources of the countries.

Globalization of business is often seen as synonymous with the rise of gigantic multinational corporations, the share of SMEs engaged in international activity is often much greater than the public or policy-makers assume and it is growing rapidly (EIM 2010a). In fact, SMEs are increasingly involved in more complex international relationships, from licensing and subcontracting agreements to exchanges of technology. Evolution of e-commerce has accelerated these trends and there is evidence that it has reduced the risks associated with internationalization of SMEs by improving their access to market information and providing unprecedented marketing and communication capabilities (ACCA 2010). There is also evidence of what researchers call the 'born global' effect: more than half of the population of entrepreneurs in developed countries, and around a third in developing countries, go into business with plans to attract at least some income from overseas (Bosma and Levie 2010). Of course, reported levels of internationalization vary substantially between different countries. For example, more than two-thirds of Singapore's SMEs (69%) are internationally active (Fernandez 2010), against 44 percent of European SMEs, which in turn are more likely to be internationalized than those in the US or Japan (EIM 2010). Globally the vast majority of business is very small and it has been contributing significantly to the global economic development (di Giovanni et al. 2010). SMEs represent 90 percent of total companies in most of the economies worldwide and provide 40-80 percent of total job opportunities in addition to contributing largely to GDPs of many countries (Elasrag 2010). Moreover, It has become commonplace, in the aftermath of the global downturn of 2008-9, to refer to SMEs as the backbone of the global economy (ACCA 2010). SMEs stabilized

economic growth and led regional economic development in many developing and developed economies. Though recognized as a priority sector in almost all countries, small businesses often have difficulties and challenges. To handle these challenges and to foster greater growth, almost commonly, SME development has been drawing attention of the policy makers in their domestic policy agenda and in the cross border collaborative efforts. The Developing 8 (D-8)¹ countries in their recent Working Group Meeting in Abuja, focused on the need to boost the economies of member nations via the development of SMEs. The group argues that SME sub-sector provides the platform for opening the D-8 countries to global competitiveness and prosperity, which are required to elevate them to economically advanced nations. Therefore, a meaningful effort is necessary to foster closer collaboration among D-8 member countries with the objective to attain the goals of SME development and thus faster growth.

In Bangladesh, one of the D-8 members, development of SME sector is the vital instrument to alleviate poverty and for industrialization of the country. With a view to achieving its millennium development goals such as eradication of extreme poverty, developing a global partnership for development etc., the government of Bangladesh has given highest preference toward the development of SMEs in Bangladesh. According to a very recent study (Reza 2012), of the total industrial units about 90 percent are SMEs and the sector provides about 80 percent industrial employment. SMEs' contribution to the growth of the country has also increased remarkably over the years. The contribution of SME sector in country's GDP was about 25 percent in the year 2003 that reached to about 39 percent of the total GDP in the fiscal year 2010-2011 (Reza 2012). However, the complete growth potentials of the SMEs are yet to be explored. Considering the fact, the policy makers, donor agencies and researchers are now expressing their commitments towards the development of the SMEs.

2.Objectives: The fundamental objectives of this paper is illustrate here,

- To determine the potential and ways of using D-8 platforms to boost SMEs of the members countries.
- To present and analyze the information from the Bangladesh prospective.

3.Research methodology: The paper is mainly based on secondary and published information. Articles and websites of relevant organizations have been the major sources of information on the D-8 countries. After narrating background, the paper discusses importance of SMEs in D-8 countries including Bangladesh.

4. Importance of economic development via Small and medium enterprise (SME) in D:8 Countries:

Within the D-8 countries SMEs vary considerably in terms of their contribution to GDP. Practically a comparative picture of the role of SMEs of different economies may not reflect true picture considering the fact that definitions of SMEs vary widely across countries. However, almost commonly SMEs have been the crucial source of employment and growth in global economies including D-8 countries. Despite the role of SMEs in diversifying employment sources and overall economic expansion, in majority of D-8 member states SMEs are exposed to challenges in such areas as access to finance, training and development, and business support services.

Malaysian government recently rolled out the first phase of the master plan for the small- and medium-sized enterprises (SMEs), to stimulate their productivity and innovation levels to match those of a high income nation. In its recently declared Master Plan (2011-2020), Malaysia focuses on developing high-growth SMEs to become home-grown champions that spearhead the economy. According to National SME Development Council (2012) of Malaysia, SME contribution to GDP is expected to increase from 31 per cent in 2010 to 40 per cent by 2020 as value added growth of SMEs continued to outpace the overall economy. An analysis by the Council showed that SMEs play a critical role in stabilizing the Malaysian economy during economic shocks and in some sectors, SMEs remain resilient and agile during the economic downturn. Of the SMEs, service sector contributes the most to the economy followed by the manufacturing and agricultural sectors. The key growth drivers in the services sector have been distributive trade; real estate and business services; as well as finance and insurance, while resource-based products such as petroleum, chemicals, rubber and food and beverages led growth in the manufacturing sector. Palm oil and food crops were the growth drivers in the agriculture sector, and civil engineering activities supported growth in the construction sector (National SME Development Council or NSDC 2010). Banking institutions remained the main source of financing for SMEs as they contributed 88

¹ The group was founded in 1987 with the aim of fostering economic cooperation amongst the members- Nigeria, Iran, Turkey, Indonesia, Pakistan, Bangladesh, Malaysia and Egypt.

percent of total SME financing outstanding of banking institutions and development financial institutions. Government funds and schemes, factoring and leasing as well as venture capital companies complement the financial institutions in financing the SMEs. There are arrangements from NSDC to coordinate training and human resource development programs for SMEs across all sectors, including its Training Incentive Scheme for small employers registered, which encourage employers to systematically enhance their knowledge and skills of the workers.

SMEs comprise a huge portion of private sector activity in Egypt that make up roughly 90 percent of total registered businesses. SMEs constitute more than 99 percent of all nonagricultural private enterprises in Egypt and account for nearly three-quarters of new employment generation. Egyptian SMEs also account for 75 percent of total employment and contribute up to 80 percent of GDP (Elasrag 2010). There is a broad consensus in Egypt that strengthening of SMEs holds the key to the country's economic problems. In Egypt, perhaps one of the most commonly mentioned obstacles hindering the growth of SMEs is access to finance (Aref 2012). Although there is a noticeable effort by financial institutions to introduce SME finance to their product lines, such efforts have had a limited impact. In Egypt, as a proportion of total lending, the SME lending is equal to only about 5 percent. Even with the broadly consensual categorizations of SMEs in Egypt, SME financing is still a tricky proposition, and not simply due to a lack of willingness by banks. In a recent study conducted by the Egyptian Centre for Economic Studies (ECES), together with the German Development Institute (DIE), poor financial literacy amongst Egyptian SMEs - even on basic issues - was highlighted as a key obstacle to improved credit access (referred in Aref 2012). There has been an increasing emphasis by both the public and private sectors across the region to improve SME access to capital, through new credit programs, financial tools and targeted support initiatives. One of the clearest examples is the Nile Stock Exchange (NILEX), the country's and region's first trading system for small- and mid-cap investments, designed to increase capital flows for growth-oriented SMEs. Since the establishment of NILEX in 2007, we have seen similar platforms coming up in other emerging markets (Allam 2012).

In Nigeria, SMEs remained the backbone of the development of the economy and the driving force of national growth. SMEs accounted for over 87 per cent of the total number of enterprises in the country, employing more than 75 per cent of the total workforce (ACCA 2010). There is absolutely no doubt that small and medium scale enterprises contribute tremendously to the nation's economic development. Harnessing the economic potentials of SMEs in Nigeria is still a mirage since several policies aimed at SME development did not stand the test of time due to poor implementation, erratic financing of schemes initiated by the government and other administrative bottle-necks (Emmanuel and Daniya 2012). The barriers to SMEs growth include mainly low level of business development support services, inefficient implementation of SMEs policy, lack of workspace and common facility centres, skills gaps, market access, infrastructure challenges and inadequate access to credit. The central bank of Nigeria is the principal agent for implementing government financial and monetary policies and has over the year introduced a number of schemes for promoting improved access to credit for industrial development particularly in Small and Medium Scale Enterprises.

In Pakistan, growth in SMEs broadened and diversified the foundations of the economy, by creating a large variety of self-sustaining business units. There are 3.2 million economic establishments in the country of which more than 90 percent are SMEs. It employs 75 percent of the non-agricultural workforce and contributes 30 percent towards the national GDP (Iqbal 2012). The figures would be even higher if the contribution of the SMEs operating in the informal economy were taken into account. SMEs have enriched many industries in Pakistan, including Agriculture, Textiles, Handloom Weaving, Leather, Carpets, Marble, Light-Engineering, Fisheries and many more. Over the past decades, Pakistan has introduced several positive structural reforms in the commercial sector aimed at encouraging the proliferation of SMEs across the nation. Numerous public and private initiatives are also being conducted to swiftly boost business operations and offer significant financial support and training to the competent SME clusters. The government under the auspices of the federal ministry of industries established the Small and Medium Development Authority (SMEDA) a way back in 1998 to facilitate the SMEs in the country with an additional function to advise the government on monetary and fiscal policies to promote the growth of such enterprises. Practically, SMEDA could not influence macroeconomic policies inclined towards businesses operating with small capital. Despite their substantial contribution to the economy, the SMEs in the countries are facing many problems (Iqbal 2012).

The economy of the Islamic Republic of Iran is to a very large extent determined by large public and quasi-public enterprises, controlling up to around 82 percent of the economy. This is especially true with regard to the businesses engaged in exploiting, processing and trading crude oil, petroleum products and natural gas. In spite of the fact, the great majority of businesses in Iran belong to the category of SMEs. SMEs comprise 90 percent of all enterprises in Iran (Bayati 2007). In this globalized market, Iran needs to expand its non-oil exports in order to deal with competition and present itself as an important representative of middle-eastern countries in

WTO. However, Iranian industrial SMEs contribute less than five percent of non-oil exports but it has great potential in boosting export with enormous scope for growth in the country (Valaei and Kamarulzaman 2012). In Turkey where the economic instability pervades, it is more than important to develop and support SMEs that are accepted as the economic stability even in the crisis situations indeed. SMEs comprise around 95 percent of total enterprises as in most European countries (Government of Turkey 2012). In the position paper of the Turkey Government on 'Horizon 2020' it strongly encourages the small-scale enterprises to achieve the targeted growth. It is an inevitable reality that the export activities are very important for a European economy like Turkey. The exports play very important role in the development of the country's economy. Based on this, it is more than important that SMEs composed of 99 percent of the country's economy should be successful in the export activities. However, nowadays, the share taken by the SMEs in the export activities are small. Compared with the large scale enterprises, SMEs' competition capacities are weak and they also face several challenges (Kaya and Lütüfihak 2012).

Recent estimate (Reza 2012) revealed that there are about 0.6 million SMEs in Bangladesh which are gradually occupying a remarkable position in the competitive market structure and are the breeding ground of the large enterprises through a process of natural selection. As in most other countries, definitional differences are there in the definitions of SMEs. In Bangladesh, two definitions exist regarding SMEs; one is given in 'SME Credit Policies & Program 2010' published by Bangladesh Bank (BB) and other is in the 'Industrial Policy 2010' published by the Ministry of Industry. Recently BB has issued a circular¹ to determine the size of the SMEs² in order to harmonize the definition with the industrial policy. It is important to note that industrial policy does not cover the definition for trading concerns. Though in literature SMEs are typically defined by small and medium enterprises, however, it is commonly argued that SMEs should include only micro and small enterprises. The main argument is that medium enterprises face a similar policy and regulatory environment as large enterprises so they should be lumped together (Iqbal et. al. 2011).

Sectorial composition of SMEs is so diverse that overall aggregate picture may sometimes be misleading. A comprehensive report for six key sectors was prepared by SME Foundation that included agro and food processing; designer goods; electrical and electronics; leather and leather goods; light engineering; and plastic. The designer goods industry has the highest average employment size, followed by leather and leather goods. Agro processing and plastics are in the middle whereas light engineering is reported to have the smallest average size in terms of employment. Products of electrical, light engineering and agro processing are mostly targeted for the domestic markets; revenue from domestic sales is higher in those industries. Revenue from export is higher in designer goods and in leather and leather goods industry. It is noteworthy that more than 80 percent of revenue comes from export of leather & footwear and designer goods of micro-sized industries (Government of Bangladesh 2011).

Export-oriented production in SMEs has gained momentum in the past few years. Entrepreneurs from Hong Kong, Japan and Korea have taken advantage of Bangladesh's cheap labour and its infrastructure facilities to manufacture products for the export market. The industry has also been producing items that are considered deemed export (e.g. accessories for the garments industry etc). Similar export successes have also been achieved by imported metal based engineering product industries. Thus, export of engineering products has experienced remarkable growth during the last decade, with production carried out by enterprises belonging to the SME sector. Easy import of components has also facilitated the rapid growth of a wide variety of footwear products in the country. Similarly, lower cost of imported paper and ink has helped commercial job printing to grow rapidly (Rahman 2010).

Development of SME sector has been one of the main policy agenda and important item of budget documents in

¹ BB SMESPD, Circular No-1, 19 June, 2011

² According to Bangladesh Bank Circular, Small and Medium Enterprise means an entity, ideally not a public limited company, which complies with the following criteria:

Small Enterprise- A *manufacturing concern* with total assets at cost including installation of fixed asset and excluding land and building from Tk. 50 lac to 10 crore and/or number of employee ranges from 25 to 99. A *service concern* with total assets at cost including installation of fixed asset and excluding land and building from Tk. 5 lac to Tk 1 crore and/or number of employees ranges from 10 to 25. A *trading concern* with total assets at cost including installation of fixed asset and excluding land and building from Tk. 5 lac to Tk 1 crore and/or number of employees ranges from 10 to 25.

Medium Enterprise- A *manufacturing concern* with total assets at cost including installation of fixed asset and excluding land and building from Tk. 10 crore to 30 crore and/or number of employee ranges from 100 to 250. A *service concern* with total assets at cost including installation of fixed asset and excluding land and building from Tk. 1 crore to 15 crore and/or number of employees ranges from 50 to 100. A *trading concern* with total assets at cost including installation of fixed asset and excluding land and building from Tk. 1 crore to 15 crore and/or number of employees ranges from 50 to 100.

Bangladesh. Remarkable initiatives have been undertaken over the years for improving the performance of SME sectors. Some of the notable policy initiatives include the following: formation of *National Taskforce on Small Enterprise Development*¹; formation of *Small Enterprise Cell and Small Enterprise Foundation*²; and Creation of *Special Funding Arrangements*³. Bangladesh Small and Cottage Industries Corporation (BSCIC) has so far established 74 industrial estates across the country to provide infrastructural facilities to private entrepreneurs in setting up small and cottage industries. To help SMEs, as many as 64 SME helpline centers have been set up at the district level BSCIC Industrial Assistance Centers and another 7 in different trade bodies (Budget Speech 2012-13). All SME entrepreneurs, both male and female, are receiving required information services and training from these centers. Equity Entrepreneurship Fund or EEF is an equity support program with a view to inspire the risky but potential SME sectors like: Software industry, Food processing, and Agro-based industries.

Recently BB has made a comprehensive policy and programs on SMEs for the first time. The policy include some remarkable features: setting up an indicative target for SME loan disbursement; following the Area Approach Method; cluster development policy; priority to the small entrepreneurs, women entrepreneurs; special emphasis for manufacturing and service sectors; monitoring SME activities in the Head Office of BB; following separate business strategies in financing SME; and speedy loan sanction and disbursement (BB 2012). BB, with the help of government and different development partners, is implementing four refinance facilities to banks and NBFIs against their disbursed SME credit. Under these refinance facilities, 22 banks and 24 NBFIs have signed administrative agreement with BB. According to BB (2011), about 55 percent of all agricultural farms in Bangladesh are sharecropper households. As sharecroppers had no access to credit from the banking sector BB has introduced a special refinancing line against loans to sharecroppers in a group-based program of an NGO. Some institutions and bodies have also been playing crucial roles in developing SMEs in Bangladesh that include SME Foundation⁴, National Association of Small and Cottage Industries of Bangladesh (NASCIB)⁵, NGOs or MFIs and business bodies.

Despite these measures, the development of SMEs requires a big push to enable it to play its potential development role. SMEs are heterogeneous by their characteristics, operations and processes. As such it is difficult to generalize the constraints faced by the SME entrepreneurs. SMEs require a well-planned marketing strategy including advertisement campaign as well as resources for implementing that strategy. However, most SME entrepreneurs are heavily constrained in this respect as they cannot make adequate investments in marketing and also lack necessary marketing skills. Another major constraint to the sustainability of SME growth in Bangladesh is the inability to maintain the quality of SME products. At present Bangladesh produces mostly common consumer goods which are labor-intensive and require relatively simple technology. But due to poor quality, these products cannot stand competition from imported products. Lack of skilled manpower is a perennial problem in Bangladesh. This problem is particularly acute for SME export oriented enterprises. Moreover, limited access to modern technology is a major challenge facing the Bangladesh SME sector.

In spite of some notable measures, it goes without saying that access to finance particularly working capital finance and investment finance to enable them to expand their business is a prime constraint facing the SMEs. Banks in general do not consider SME financing as profitable activity. SME entrepreneurs in Bangladesh are also very much lacking in managerial skills and are not used to strategic planning. Although some financial institutions and few trade bodies have introduced help desk and knowledge centers with internet facilities, such information services are too few to provide service to the SME entrepreneurs on the whole. Lack of market information is a serious constraint to SME development. Enabling environment for trade and business and availability of adequate infrastructure support are other crucial challenges faced by the SMEs of Bangladesh.

1 The Government constituted a National Taskforce on small enterprise development to draw up a realistic strategy for promoting rapid growth and vigorous competitiveness among these enterprises. The Taskforce submitted its report including a comprehensive slate of recommendations that, if implemented, will mount a coherent strategy to promote the development of small enterprises in Bangladesh in three phases: short, medium and long-term. The Government accepted most of the recommendations with some modifications.

2 Considering the importance of small enterprise financing, a SME cell was created in 2003 in the Ministry of Industries (MoI). The cell has announced that 80 percent of total resources available for Small and Medium Enterprises would be allocated specially for small enterprises.

3 The following funds are now in operation in Bangladesh governed by different entities like the Bangladesh Bank, the SME Foundation and the Ministry of Finance: Bangladesh Bank Fund; EGBMP/IDA Fund; ADB Fund:

4 SME Foundation got registration from the Ministry of Commerce in 2006, is an independent and unique non-profit organization with the objective of developing the entrepreneurship by reducing information asymmetry, proper training and education, targeted credit wholesaling and easing the distribution mechanism of SME products.

5 NASCIB is a trade association established in 1984 to work for the development of small and cottage industries (SMCI) of Bangladesh. It organizes SMCI fairs for the marketing of their products produced by the indigenous raw materials, conducts research for the development of the sector, provide consultancy to the entrepreneurs country-wide and conducts training for the skill development of the entrepreneurs.

5. Cooperative issues for SME development in D: 8 countries:

A critical area of the global SME has been its definitional differences. A key weakness of official SME definitions typically encompasses the vast majority of businesses in each jurisdiction, which can make targeting and assessing SME policies difficult. To date, there is no single agreed definition of an SME, although a small group of key variables – independence and legal status, sector, employment, turnover, capital investments are considered in most definitions. Many governments and agencies deal with this problem by introducing further sub-groups. For instance, jurisdictions as diverse as the EU or Malaysia have set separate thresholds for medium-sized, small and micro-enterprises (PCG 2010). Others get around this problem by omitting informal or micro enterprises from the SME sector altogether (Batini et al. 2010). Because small business policy has always attracted direct and indirect subsidies to businesses identified as sufficiently ‘small’ (Levine 2005), definitions have gradually shifted towards more objective size thresholds that could be unambiguously enforced. The definitions of SMEs in all D-8 countries vary widely. For example, in Iran and Turkey definitions of SMEs are similar- companies with employees between 10 and 49 are regarded as small businesses and companies with employees between 10 and 99 are regarded as SMEs. In Malaysia, companies with upto 150 full-time employees are included in SMEs. In case of Nigeria the number is 200. Volumes of assets are also part of some definitions. Moreover, definitions may vary in different sectors (like service and manufacturing SMEs).

Cluster or network development is crucial for SME development. SMEs may play the leading role in forming the supply chain or they could play notable role in between the chain as intermediate input. Although Network development support focuses on embedding SMEs in global supply chains, which SMEs can follow in their physical expansion. Under this approach, SMEs are seen as specialising in intermediate inputs, often acting as subcontractors several levels down from the ultimate buyer. In fact, given the right level of industrial clustering, even SMEs with no direct imports or exports can be important players in modern supply chains, in which firm-level fragmentation of production processes and industry-level agglomeration coexist (Lim and Kimuna 2009). In this connection, Asia’s experience can be a great source of information. According to Wignaraja (2012), about 22 percent SMEs are part of such networks (as direct exporters or suppliers to MNCs). Although large firms are the leading players, there is a reasonable base of SMEs in production networks in ASEAN economies. As much as 46.2 percent of all Malaysian SMEs engage in production networks. This is the highest in the ASEAN countries. The figure is only 6.3 percent in Indonesia.

Due to severe global competition and high customer demands for new goods and services, the importance of SMEs has increased. Right business environment is crucial to promote SMEs in any country so that these can face the global challenges of competition. Alongside policies and institutions, global economies are currently promoting private sector-led industrial parks and common facility centers. These are crucial factors for the productivity of SMEs and competitiveness. These also determine the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. The status of competitiveness and productivity vary in different D-8 countries. According to Global Competitive Report 2011-2012 of the World Economic Forum (2011), of the D-8 countries Bangladesh, Pakistan and Nigeria are in early stage, where as Turkey is much better positioned, other countries are in between (appendix table-2). The status of macroeconomic environment for businesses, institutions, infrastructure also varies across D-8 countries (appendix tables 3, 4, 5).

Market access is crucial to promote international value chain. SMEs are now taking lead in a good number of sectors. Of the D-8 countries, Malaysia has 28.1 percent in terms of SME shares of direct exports while Indonesia has 9.3 percent. The probability of SME participation in production networks was positively and significantly affected by various factors including larger firm size, more foreign ownership, highly educated workers, experienced chief executives, higher technological capabilities, and ready access to commercial bank credit (Athukorala 2011).

Public-Private Partnership (PPP)¹ in different economies could play a significant role in SMEs development. Though evidence of the effectiveness of government and private programs to support SME development is mixed and not that encouraging (Hossain et. al 2012), PPPs could help overcoming some notable constrains. One of the key constraints SMEs facing in developing countries is their isolation, which hamper access to markets, information, finance and institutional support. Both public and private sector should try to develop an overall conducive environment to entrepreneurship, innovation and SMEs growth by promoting access to finance through regulatory changes; developing cooperation between public-private sectors financial institutions, and effective access to financial services, working and development capital. Government measures could prove to

¹ The EU defines PPPs as a kind of collaboration linking public establishment and business world that intend to provide finance, structure, renewal, management or repairs of an infrastructure or intend to provide a service (Bovis 2010).

be crucial to promote SMEs should be carefully focused, aimed at making markets work efficiently and at providing incentives for the private sector to assume an active role in SME finance.

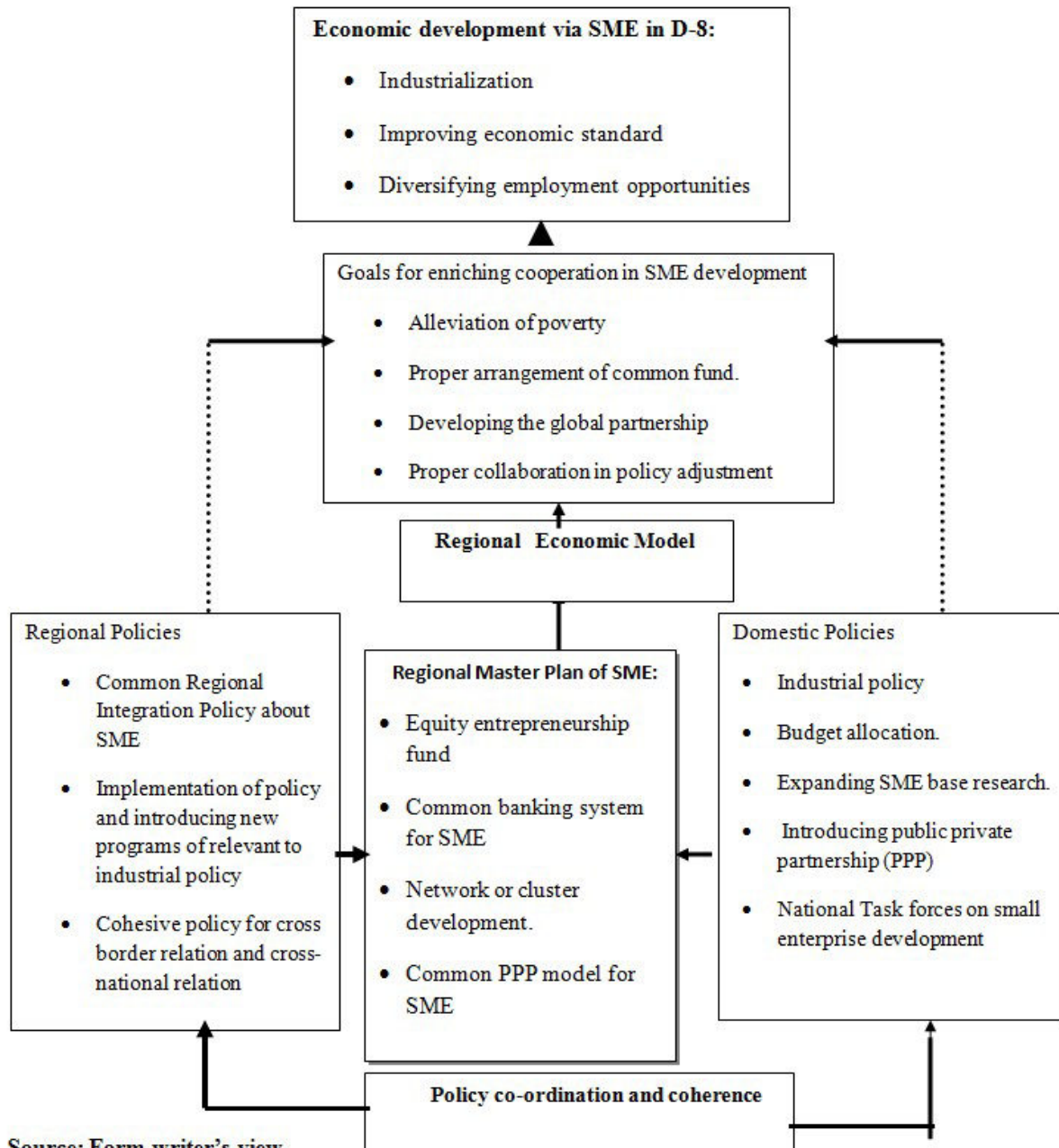
Cross-border cooperation could prove to be crucial for developing SMEs. The D-8 countries have already undertaken notable initiatives in this connection. D-8 successfully completed a Task Force meeting on SMEs, in Tehran, in December 2010. This meeting is the follow up to previous SME Task Forces meeting held back to back with the 5th Meeting of D-8 WGIC (Working Group on Industrial Cooperation) and 1st D-8 Ministerial meeting on Industry in Tehran, Iran in March 2010. This recent meeting is formally titled as 'the First D-8 SMEs Governmental Bodies Meeting'. During the 4th D-8 WGIC meeting in Bali, Indonesia, in November 2008, a total of 11 Task Forces¹ was established to strengthen future cooperation within D-8. Some concrete steps that have been agreed to establish a Communication Network to undertake the necessary coordination, follow-up, implementation of agreements and planning. It is also agreed that in order to exchange successful experiences in terms of policies and projects on supporting SMEs and appropriate supportive measures in Member Countries, the Communication Network shall provide an opportunity through which Member Countries can exchange their experiences in the form of Best Practice Workshops. The member countries also agreed to establish a Legal Entity to guarantee international investment, insurance, mitigating vulnerability of small and medium enterprises and financial risks resulting from joint ventures between industrial units of Member Countries, as well as allocating a part of an existing / new Industrial Park in favor of small and medium enterprises which are doing international activities in Member Countries.

6. Recommendation for cooperation for promoting SMEs in D: 8 countries:

For identifying, quantifying, targeting and assessing SME policies and strategies in a region (group of countries) there should be a uniform and accepted definition of SME. It is seen that many national definitions diverge substantially and even more than one definition prevails in a single economy. A common definition of SME could help identifying strategy for greater collaboration among D-8 countries. The existence of a common SME definition for D-8 purpose, of course, does not preclude the use of alternative definitions by different agents for domestic purposes, such as tax authorities, development agencies and financial intermediaries.

¹ (1) Automotive (Coordinator: Iran, Egypt, and Indonesia); (2) Energy, Power Sector and Conservation (Coordinator: Turkey, Nigeria); (3) Food production through Mechanization (Coordinator: Malaysia); (4) Cooperation/Transfer of Technology (Coordinator: Turkey, Iran); (5) Petrochemicals and Fertilizer (Coordinator: Indonesia, Iran); (6) Cement (Coordinator: Iran); (7) Steel (Coordinator: Iran); (8) Textile (Coordinator: Egypt, Indonesia); (9) Standardization and Intellectual Property Rights (Coordinator: Turkey, Iran); (10) SMEs (Coordinator: Turkey, Indonesia, Iran, Nigeria); and (11) Electronics and IT (Coordinator: Malaysia).

Figure: 1 Framework for regional integration for facing the vulnerability of climate changes



D-8 Forum may bring together influential captains of industries and entrepreneurs from respective countries and may serve as a platform to develop policy recommendations and actions at creating a favorable socio-economic environment for the development and promotion of SMEs in D-8 Member States. D-8 forum should explore the possibility of creating intra-D-8 SMEs clusters in such sectors as food-agro processing, textiles, leather, light engineering, software development, and technology and business incubators.

Establishing a broad-based cooperation framework to improve the regulatory and institutional environment for SMEs operations in D-8 region could help member countries greatly. D-8 countries have different experiences and successes in different SME sectors. Composition of sectoral value addition to the GDP varies. Member countries are also in different stages of development in terms of business environment and competitiveness. Formal arrangement for experience sharing and collaboration may help all the D-8 member countries to improve their business environment and competitiveness to promote SMEs. These could also be crucial factors for enhancing internationalization and marketing capabilities of SMEs.

Access to finance is recognized as one of the most crucial constraints. Initially, a feasibility study of SME credit systems may be helpful for enhancing SME access to bank lending and loan guarantee in D-8 region. Setting up of a Regional SME Development Fund could help innovative financing support systems, financing of innovative ideas, financing of SME-related regional infrastructure, and networking. D-8 may think of establishing SME Financial Facility in each D-8 member country. In regard to promoting access to finance by the central bank, Bangladesh experience may be replicable.

D-8 countries may initiate for creating an intra-D-8 mechanism that encourages and facilitates SMEs to become active participants in the trade activities. Free Market access among D-8 countries may prove very fruitful for creating an intra-D-8 market place for SMEs. However, Bangladesh did not ratify the free trade formula of D-8. Bangladesh may think of ratifying that for mutual benefits.

D-8 needs to set common goals and prepare a strategic action plan so that SMEs of D-8 region can operate in an environment conducive to SME development, export and innovation. The main goal should be improving capacity of the SMEs to integrate these with regional and global supply chains. The plan may targets to promote SME development by ensuring access to finance, access to technology, utilizations of ICT solutions and supply of skilled human resources through regional programs and arrangements. A collaborative SME development programs within a public-private partnership framework with in D-8 region may ensure the continued economic growth and social development in the region.

SME facilitation and technology development related initiatives should be part of the SME agenda of D-8. There should be arrangement for improving technology transfers and licensing within the SME sector through the dissemination of good practices and replicable success stories within and outside D-8. Dissemination of information on regional and international opportunities in trade and investment to SMEs on the liberalization of trade and investment could help expanding SMEs business opportunities. Sharing of information on technology could support development of technology incubators so as to nurture the techno entrepreneurs from infancy to take off, and commercialization and expansion.

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