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## Employment Generation and Poverty Alleviation through SME Cluster Development in Bangladesh

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**Abstract.** SME Cluster Development could be an emerging force of entrepreneurship development, employment generation and poverty alleviation for any least developed country like Bangladesh. SMEs located at different clusters of Bangladesh are contributing in generating employment and income for the workers and producing import substitute product simultaneously. Realizing the full potential of SME cluster development in Bangladesh, it is important for all stakeholders to sit together and find out a concrete solution for the identified challenges of SME clusters. Recommended action plan could be catalyst to enhance productivity, increase efficiency, quality, acceptability, market linkage of SME products of Bangladesh. The action plan is designed with Short term (up to 3 year), Mid-term (3-5 years) and Long term (5 and more) recommendations for fostering cluster development of SME in Bangladesh with a vision of employment generation and poverty alleviation.

**Keywords.** SME Cluster, Entrepreneurship Development, Clustering, Employment generation through clustering, SME Cluster Development.

**JEL.**

### 1. Introduction

Bangladesh is one of the most promising least developed countries (LDCs). Like other LDCs poverty alleviation is one of the major challenges of this country. About 31.5% population of the country are living below poverty line (HES 2010). Total number of workable population in Bangladesh is about 56.7 million, out of these about 2.6 million populations are unemployed or underemployed (LFS 2010). At the same time an annual growth rate of labor force about 1.8 million per year. Ensuring employment to these large numbers of population is a major challenge for any country of the world.

Bangladesh has limitations of resources and burden of unemployed workforce with one third poor people. So it is quite difficult to ensure employment to this huge population by government or public institution only. So private sector involvement in this development process is equally important. The private sector mainly consists of micro, small and medium enterprises that generate a large share of employment and income opportunities. Though, their development potentials remain untouched, as firms operate in isolation are locked into in competitive production patterns and unable to approach dynamic business partners that could bring in new expertise and know-how. It is role of the government to facilitate

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private sector development as well as create and maintain the competitive private sectors and contribute to poverty reduction by building sustainable linkage among small size enterprises, their large scale business partners and support institutions.

Ensuring business logistic services into a scattered location for an entrepreneur or a small group is quite difficult rather it is comparatively easier to provide industrial logistics to a large number of entrepreneurs into a particular location. Therefore cluster based development approach could be one of the most effective methods to generate employment as well as get optimum output with limited efforts.

### 2. Problem statement and research questions

Bangladesh is a densely populated country with one third poor people. From employment generation's point of view Industry is contributing 28.7% of the GDP by employing 30% of Bangladeshi labor force. That means we have space to improve productivity in industrial sector. In this regard, SME can be the best option to increase GDP growth rate, reduce poverty and generate employment with minimum investment. Without employment generation to all, poverty alleviation is quite impossible. So this study will try to refer how Small & Medium Enterprises contribute to generate employment as well as reduce poverty by building cluster development. Main focus of this study would be —

- i. Why SME Cluster Development is needed?
- ii. How SME Cluster Development could be the most effective tool for employment generation?
- iii. How Employment generation could lead to poverty alleviation?

### 3. Objectives of this study

Major objectives of this study are as follows:

1. To identify the challenges of SME Cluster along with the problems of individual SMEs;
2. To identify the potentials of SME Cluster development in generating employment and income;
3. To recommend an action plan for sustainable Cluster development of SMEs for fostering employment generation and poverty alleviation.

### 4. Methodology

In this study used both qualitative and quantitative information. Secondary data and information have been collected from the different articles, annual reports published by the SME Foundation, UNIDO, RDA and Bureau of Statistics. Primary data were collected by visiting different clusters conducting Focus Group discussions (FGD) & Key Informant Interview (KII) of Entrepreneurs and workers of different clusters.

#### *Scope of the study*

This study covers the existing SME clusters representing different SME sectors and their locations in relation with employment and income generation. This study does not cover elaborately but partially touches on relevant issues like, industrial infrastructure development, networking, value chain development, standardization, certification, technology adoption and market promotion which are essentials for sustainability of cluster approach. It is mainly focused on the role of SME clusters in generating employment as well as poverty alleviation.

#### *Limitations*

This study depends upon mostly secondary sources along with writers experience in primary research, FGDs, and KII conducted by visiting some

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clusters. No study was focused on this particular issue of employment generation and poverty alleviation through cluster development. Relevant information was taken from other available study reports and secondary sources to prepare this article.

### 5. Literature Review

Cluster Development especially SME Cluster Development is comparatively a new concept in Bangladesh. Before that, we were familiar with Industrial Estate (like, BSCIC Industrial Estate), Export Processing Zone (EPZ, Developed by BEPZA), and Special Economic Zone (SEZ) concepts. All of the above mentioned industrial areas are artificially developed with heterogeneous industries.

Different countries defined SMEs from different perspective with different parameters. The industrial Policy of Bangladesh (2010) defined small and medium enterprises as: "In manufacturing, small industry will be deemed to comprise enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 5 million and Tk. 100 million, or with between 25 and 99 workers," and medium industry will be deemed to comprise enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 100 million and Tk. 300 million, or with between 100 and 250 workers" (National Industrial Policy 2010, Bangladesh). In Pakistan, enterprises which employ up to 250 workers or have a paid up capital of Rs. 25 million or lower are categorized as SMEs (The SME Policy 2007, Pakistan). India defined SMEs as, a small enterprise is an enterprise where the investment is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and a medium enterprise where investment is more than Rs. 5 crore but does not exceed Rs. 10 crore (MSMED Act. 2006, India). The World Bank defined SMEs as enterprises which employ maximum 99 workers; enterprises employing 1 to 19 workers are defined as 'small enterprises' and enterprise employing 20 to 99 workers are defined as 'medium enterprises'. The World Bank does not base its definition on amount of investment, because currencies differ from country to country and exchange rate changes over time.

Considering the socioeconomic condition of Bangladesh SME Cluster is defined as "A Cluster is a concentration of enterprises producing similar products or services and is situated within an adjoining geographical location around 5 km radius and having common strengths, weaknesses, opportunities and threats". Key criteria selected to define a SME cluster are Products or services should be similar or homogenous along with related products, Enterprises must be production or service oriented, Number of unit shall be 50 and above, Adjoining geographical location: several villages, wards, unions and industrial estates and Scattered within an area of 5 kilometer radius.

From international perspective; Porter (2003) defines a cluster as a "geographically proximate group of interconnected companies, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types" (Porter, 2003). The United Nations Industrial Development Organization (UNIDO) defines industrial cluster as: "Geographic and economic concentration of manufacturing activities which produce and sell a domain of interrelated and complementary products and having common problems and opportunities".

### 6. SME Clusters in Bangladesh

There are 177 clusters in Bangladesh (List of SME Clusters is enclosed in Annexure -1), of which 129 fall under Booster sectors and 48 under Non-booster sectors. There are 69,902 enterprises operating in these 177 clusters employing a

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workforce of 1,937,809, of which 74% are male and the rest 26% are female. Total approximate annual turnover in these clusters has been estimated at 295150.66 million. Average number of workforce per cluster was 394, whereas per enterprise workforce engaged was 28 and male female ratio of the workforce in all these clusters was 74:26.

From sectoral perspective; distribution of SME Clusters in Bangladesh are as follows:

**Table 1:** *Number of SME Clusters and Representative Sectors.*

Sl.	Name of the Sector	Number of clusters
1.	Handicraft and Miscellaneous	38
2.	Agro-Processing/Agri-business/ Plantation	34
3.	Light engineering and metal working	31
4.	Knitwear & RMG	22
5.	Fashion- rich wears, personal effects & consumption goods	16
6.	Leather making & leather goods	13
7.	Handloom and Specialized Textiles	10
8.	Healthcare and diagnostic	5
9.	Plastic and other synthetic products	3
10.	Electronics and electrical	3
11.	Educational service sector.	2
<b>Total</b>		<b>177</b>

**Source:** Compiled by the authors based on information from SME Clusters in Bangladesh (2013), The SME Foundation.

There are about 69,902 enterprises in different clusters of Bangladesh. Divisional distribution of SME clusters as per their location is shown that, the Dhaka division has 38%, Rajshahi has 18%, Chittagong has 15%, Khulna 12%, Rangpur 7%, and Barisal 6% and Sylhet 4% clusters. Clusters are located in 51 districts of Bangladesh and the rest 13 districts namely, Netrokona, Rajbari, Narail, Meherpur, Lalmonirhat, Sunamganj, Barguna, Bhola, Patuakhali, Noakhali, Bandarban, Rangamati and Khagrachari do not have any cluster.

### *Generation of Employment by the SME Clusters*

There are about 19,37,809 employees and workers employed in 177 SME Clusters of Bangladesh. Among these, number of male workers and employees are 14,33,979 and number of female workers and employees are 5,03,830. A brief summary of employment generated by the SME clusters of Bangladesh could be as follows:

**Table 2:** *Employment Generated by the SME Clusters in Bangladesh.*

Sl.	Contents	Number of Workers and Employees
1.	Total number of employees and workers	19,37,809
2.	Number of male employees and workers	14,33,979
3.	Number of female employees and workers	5,03,830
4.	Average number of employees and workers per enterprise	28
5.	Average number of employees and workers per cluster	10,948

**Source:** SME Clusters in Bangladesh (2013), The SME Foundation.

From the above table it is quite clear that, SME Clusters are generating a large number of employments in Bangladesh. They have dependence in respective families. Their livelihood is bearing by the SMEs of respective clusters. Therefore we could easily state that, fostering growth of SME clusters will have a very positive impact on employment generation and poverty alleviation in Bangladesh.

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### *Challenges of SME clusters*

Challenges of SME Clusters in Bangladesh are almost common. There are hundreds of barriers in each of the SME clusters. But major barriers of Cluster Development in Bangladesh are as follows:

- Lack of modern capital machinery at producers' level resulted in low productivity and poor quality of products
- Lack of expertise to operate or troubleshoot modern machineries
- Lack of information about appropriate technology, designing, international market of respective products
- In-sufficient supply of power, gas and other industrial utilities
- Absence of Testing Laboratories and Technical Knowhow
- Scarcity of Backward Linkage Industry, Support Organizations and Mentors
- Scarcity of Forward Linkage Industry, Market Access and Market Linkage
- Limited access to finance with suitable features and high rate of interest
- Limited number of products in the product basket
- Limited training facilities for the workers, entrepreneurs and managers
- Lack of knowledge about standardization and international quality certification
- Absence of product research, design, development and common facility centers
- Adverse regulatory, customs and tariff system in home and abroad
- Absence of Sector Specific Practical Oriented Engineering and Technology Institutes

All the above challenges could be classified into four major pillars like,

1. *Access to Technology & Skilled Manpower:* Need for quality machines, techniques, processes, trained workers and capacity building of stakeholders etc.
2. *Access to Finance:* Need for suitable features, competitive interest rate, availability and collateral free loan, incentives etc.
3. *Appropriate Policy:* Policy for supplying adequate raw materials, utilities, connectivity, standardization, certification, market penetration and import policy for SME products friendly etc.
4. *Institutional Arrangement:* Establishing cluster development authority, testing laboratories, technical and engineering institutions, common facility centers, strengthening trade support institutions with marketing tools & techniques, and market promotion agency for facilitating export etc.

### *Recommendations for Cluster Development*

We would like to recommend following Short-term (up to 3 years), Mid-term (3-5 years) and Long-term (5 and more) action plan for development of SME clusters in Bangladesh to foster employment generation and poverty alleviation:

#### *Short – Term (Up to 3 Years)*

1. Un-interrupted power and gas supply should be available with subsidized rate;
2. Operators, Troubleshooters, designers and mentors/ leaders group need to be created;
3. Imparting training for skill development of workers;
4. Sector specific featured loans and low interest rate loan need to be provided;
5. Building awareness among entrepreneurs and workers on the issues of productivity, quality, standards and certification etc.
6. Introducing entrepreneurs / managers with potential export market of their products.

#### *Mid-term (3 – 5 Years)*

1. Providing permanent land/location for the clusters;
2. Establishing common facility center (CFC) in each / suitable location for the SME clusters;

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3. Establishing cluster specific testing laboratories;
4. Assisting entrepreneurs to achieve international quality certifications;
5. Linking up the clusters with local or international value chain;
6. Supporting to explore / penetration new export market;

*Long-term (5 Years and more)*

1. Establishing Entrepreneurship Development Institute (EDI) in each divisional city.
2. Establishing Cluster / Sector / Product specific Engineering and Technology Institutes in suitable locations.
3. Negotiating with potential export market authorities to allow duty and quota free market access (DFQF) to Bangladeshi SME products in respective markets.
4. Establishing new product design and development research centers for most potential SME sectors.
5. Developing industrial infrastructure under PPP facilities.

## 7. Conclusion

The potentials of SMEs cluster development are globally recognized. It would be appropriate decision for the government or development agencies or stakeholders to go for parallel interventions to overcome the challenges for all clusters. It has multi-dimensional contributions for poverty alleviation through employment generation, increase life style and income for the workers, and producing import substitute products simultaneously. For greater interest of employment generation and poverty alleviation, therefore, it is crucial for the government and other stakeholders to come forward to play their respective roles to create sustainable cluster of SMEs through enacting appropriate policy measure, access to finance, infrastructure development and capacity building, access to technology and adopting advanced marketing techniques. In this regard, the recommended short-term, mid-term and long-term action plan should be implemented.

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