Role of SME clusters in Bangladesh economy

Review

Michael Porter, the father of the industrial cluster concept, defined a cluster as a “geographic concentration of interconnected businesses and associated institutions in a particular field”. In this definition, we are getting three criteria of an industrial cluster. These are (a) A geographic concentration, (b) A group of interconnected business, and (c) In a particular field. Beside this fundamental definition industrial cluster could be defined based on common activities, single origin, size of the business, used technology, and focused market or target market etc. Many countries defined clusters based on different criteria for example “One village, one product” or “one town, one industry” concept is very popular in the east like Japan or China. India defined cluster based on a particular number of similar production units in a specific geographical location. The United Nations Industrial Development Organization (UNIDO) defines industrial cluster as a “Geographic and economic concentration of manufacturing activities which produce and sell a domain of interrelated and complementary products and having common problems and opportunities”.

There was no official definition of industrial cluster in Bangladesh. For the first time in 2011-12 fiscal years the Small and Medium Enterprises Foundation (SME Foundation) took initiative to define SME Cluster in Bangladesh. After a thorough discussion with relevant stakeholders like the Bangladesh Bank, Ministry of Industries, Bangladesh Small and Cottage Industries Corporation, Export Promotion Bureau, and the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI) etc. organizations SME Foundation defined cluster as “A Cluster is a concentration of enterprises producing similar products or services and is situated within an adjoining geographical location and having a common strengths, weaknesses, opportunities and threats”. Key criteria selected to define a SME cluster are; Products or services should be similar or homogenous and related, Enterprises must be production or service units, At least 50 and above production units, Adjoining geographical location: several villages, wards, unions and industrial estates. Scattered within an area of 3-5 kilometer radius.

SME Clusters in Bangladesh

Based on the above definition SME Foundation identified 177 SME Clusters in 51 districts of Bangladesh. There are maximum 38 Handicrafts & Miscellaneous clusters followed by 34 Agro-Processing/Agri-business/Plantation clusters, 31 Light Engineering and Metal working clusters, 22 Knitwear & Readymade Garments clusters, 16 Fashion Rich Effects, Wear & Consumers Goods clusters, 13 Leather Making & Leather Goods clusters, 10 Handloom & Specialized Textiles clusters, 9 Healthcare & Diagnostics clusters, 3 Plastics & Other Synthetics clusters, 3 Electronics & Electrical clusters, and 2 Educational Services clusters in Bangladesh. These clusters are located in 51 different districts of Bangladesh and there are 13 districts namely Netrokona, Rajbari, Narail, Meherpur, Lalmonirhat, Sunamganj, Barguna, Bhabla, Patuakhali, Noakhali, Bandarban, Rangamati and Khagrachhari where no clusters are found. 

There are about 69,902 SME enterprises employing approximately 1,937,809 workforce in the SME clusters of Bangladesh. Their annual turnover is about BDT 573,510 million per year. A major portion of government revenue in different forms (Income tax, VAT, Customs duty etc.) comes from these SME clusters. But no significant government support is visible to support, develop or promote SME Clusters/entrepreneurs.

Product producing in SME Clusters

Major products producing in the SME clusters of Bangladesh are as follows:

1. Agro-Processing/Agri-business/Plantation Clusters: Major products are rice, Brocken rice (commonly known as khud), husking dust (commonly known as kura), burning wood (commonly known as lakri), oil, and oil cake (commonly known as khail) etc.
2. Light Engineering and Metal Working Clusters: Major products are Door and window grille, door and window frame, collapsible gate, iron and steel furniture, Motor parts, engine repair, pump, Machine tools, Agricultural equipment, automobile body building, repairing, and coloring, ship breaking etc.
3. Knitwear and RMG Clusters: Major products are thread, pants, jackets, ladies’ three piece sets, towels/gamchas, shirts, tape/ nima, frocks, baby set, suit, and cloths etc.
4. Fashion-rich Wears, effects & Consumption Goods Clusters: Major products and services are Jewellery made by Gold / Silver / other metals, hair spa, hair protein, party makeup, facial, eye- brow pluck, Herbal facial, haircut, and orange facial etc.
5. Leather and Leather goods clusters: Major products are gent’s shoes, ladies shoes, baby shoes, sandal shoes, and Slippers etc.
6. Healthcare & Diagnostics Clusters: Major services are X-ray, ultra-sonogram, ECG, different pathological tests, hematological tests, biochemical tests, echo-cardiogram, CT scan, and surgery etc.
7. Plastics & Other Synthetics Clusters: Major products are Mugs, Bowls, Buckets, Bodna, and many other home appliances.
8. Electronics & Electrical Clusters: Major products are Electrical Board, Switch, Socket, Holder, Cut-out, Anti cut-out, Coil, Battery, TV, Pluspain base, and electric cables etc.
9. Educational Services Clusters: Major services are education services/counseling.
10. Handloom & Specialized Textiles Clusters: Major products are Blouse, Sari, orna, three piece, farnet, towel, Panjabi, cushion cover, bed sheet, and pillow covers etc.
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Most of the clusters are using different handloom clusters all over the country.

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have to purchase the trees with much higher price or the tree will be exported to neighboring country. Thus Bangladesh loses its own wealth to add value and export in a much higher price. There are no banks who can give that BDT 10-20 Crore loan for a shortest period of time to the Agar-Ator entrepreneurs at Barolekha Agar Ator Cluster at Moulibazar. Another unique form of this access to finance problem could be seen at Nawgah Jewelry Cluster, Banks usually do not provide loan to Jewelry business. Though our nearest neighbor India is exporting Jewelry products worth of millions of Dollars to Dubai and other Middle East countries. Till now Bangladesh government is not providing any support to Jewelry sector. Even official import of gold is banned or strictly controlled by our government. On the other hand Bangladesh is importing a significant amount of artificial Jewelry / stone Jewelry from India and China to meet its internal demand.

Lack of knowledge about product’s quality and quality certification: Our entrepreneurs have very limited knowledge about product’s quality and international quality certification system. As a result they are lagging behind even with qualitative products in few sectors.

Limited number of skilled labor and absence of qualified technicians: Most of the clusters have potentials to grow further but availability of skilled manpower is very limited. As a result labor turnover is higher and entrepreneurs are not willing to develop skills with their own cost. Entrepreneurs are not adopting new technologies due to not available of technicians of modern machineries in local market. As a result productivity and quality of products is not increasing up to a satisfactory level.

Non-cooperation from relevant government agencies: In most of the cases Tax-VAT, police, environment, consumer rights etc. officials are not cooperating with the entrepreneurs. There could have an orientation gap between these officials and entrepreneurs. Government could orient these officials that, all entrepreneurs are not dishonest so everybody shall not be treated as a thief. They must remember an entrepreneur’s role in the economy by paying taxes / VAT, generating employment and increasing GDP growth of the country.\(^\text{11}\)

Way forward

So many development projects are being implementing by the government, donor agencies and NGOs in different sectors of Bangladesh. There could be a development project to update existing technologies of different SME clusters to increasing productivity and products quality.\(^\text{12}\) Government could allow sectoral associations to import raw materials relevant to that sector with bonded warehouse facility to facilitate export of SME products producing in different SME clusters throughout the country. Government may consider allowing minimum import duty on raw materials using in SME clusters and give protection of SME products against importing. The central bank have to inspire the scheduled commercial banks to offer tailor made loan products based on local needs in different SME Clusters. Government has to take the lead in establishing sector specific testing laboratories and training institutes to promote world class product and efficient labor / technicians in Bangladeshi business arena. Today or tomorrow we have to face the ground reality that, without producing qualitative products having international standard certification no one will buy our products at home or abroad. Therefor government could inspire entrepreneurs to achieve global standard quality certification for respective products.

Moreover cluster development activities shall get priority in government development agenda for balance development of Bangladesh. At this stage SME clusters\(^\text{13}\) are in need of government’s intervention for prompt growth and sustainable development. It will facilitate industrialization, employment, poverty reduction, increase in export earnings, and balanced development of each district of Bangladesh. Government shall not control industrialization may be anywhere without ensuring proper facilities into a particular location. Otherwise we will see that no natural clusters are growing due to extreme government controlling mechanism. It could increase our import dependency in many sectors.

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Conflict of interest
Author declares there is no conflict of interest.

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