

Core Strategies and Policies to Spur Sustainable Growth of SMEs in Bangladesh

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Abstract: *Small, Medium & Cottage Enterprises (SMEs) possesses the potency to bring out revolution spurring industrial growth and economic development including proliferation of new employment opportunities. SMEs occupy about 98 percent in the industrial sector of this country. But until now, no recognized framework of classification of different types of industries of this sector has been formulated in the national context. The SMEs have succumbed to lose its pace & dynamism due to lack of appropriate policies & strategies. A defined structure of various industries under SMEs in the context of Bangladesh has been presented in this paper citing core policy in each sub-sector. Policy imperatives have been highlighted for the Government and associated public organizations like BSCIC. By addressing existing problems of the sector, a multifaceted general and conducive policies and strategies to accelerate sustainable development of SMEs in the country have been propounded in this paper. This paper is an outcome of a research study and a sample survey conducted recently on some selected SMEs under IAT, BUET-Industry-FBCU linkage program.*

1.0 Introduction

In the present era, SMEs (Small, Medium & Cottage Enterprises) have emerged as the cornerstone of economic development providing a platform for job creation and economic growth. SMEs occupy a unique position in the economy of Bangladesh as well. It renders enormous potential socially as well as economically.

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Lasting private sector development depends on them. Discarding the primitive and traditional "cottage industries as a focus of attention" the international development institutions have now focused their attention on SMEs. In Bangladesh, the SMEs sector - as a whole - provides over 87 per cent of the total industrial employment (GOB, 2001). This sector is also responsible for creation of over 33 per cent of industrial value added goods (GOB, 2001). There are lack of information about total number and types of small firms existing presently in Bangladesh. However, according to latest survey on small industries, it was revealed that there were total 197 types of small industries with total 38294 industries [Bangladesh Small & Cottage Industries Corporation (BSCIC) Survey Report, 1994]. In addition, evidence suggests that there are over 347,000 cottage industrial units and a large number of handloom and powerloom enterprises. Presently, the SMEs sector in the country is growing in an unplanned & unorganised way giving rise to very slow pace of progress. This is due to lack of appropriate policies in the public and private levels. This paper which is based on a sample survey on some selected SMEs and a research study recently conducted under linkage program among IAT, BUET (Inst. of Appropriate Tech., Bangladesh University of Eng. & Tech., Dhaka) and FBCCI (Federation of Bangladesh Chambers of Commerce & Industries), attempts to propose some core policies and strategies to augment SMEs sector at fast track.

2.0 Objective, Scope and Methodology of the Study

The gamut of the study has objective to have insight of SMEs sector in Bangladesh encompassing technical, managerial, finance, production and marketing aspects, interalia. The aim of the study is to gain a better perspective of the sector probing its strength & weakness and to highlight assistance and intervention needed for better performance, higher productivity and leap-frogging development. Finally a core policy incorporating public & private integration was formulated for better proliferation and sustainable growth of the sector. Thus scope of the paper entangles, as appended in Section A, an overview encompassing scenario of SMEs and its growth, sectoral structure, backward & forward

linkages and marketing aspects, etc. In Section B, it presents some policy imperatives that are needed for sustainable development of SMEs in Bangladesh. The methodology adopted in the present study is as shown below.

- Literature Review
- Focus Group Discussion (FGD)
- Selection of the Enterprises to be Surveyed
- Field Survey
 - a) Questionnaire Development
 - b) Data Collection and Visit to the Enterprises
 - c) Analysis of different aspects of the enterprises including SWOT(Strength,Weakness, Opportunities & Threat) Analysis

3.0 Perspective of SMEs in Bangladesh

There is a plenteousness of SMEs in numerical terms in the total industrial structure. For instance, if only the number of small industries is compared with that of the large firms, it is found that over 98 per cent units fall into the category of the SMEs sector. Even in the employment size of 10 or more, most recent information indicates that over 78 per cent of the total industrial units are from 10 to 49 employment band, and about 56 per cent fall in the 10-19 employment band in the manufacturing sector of Bangladesh (GOB, 1993f:xi). According to World Bank (1992), it was estimated that the real contribution of MVA (Manufacturing Value Addition) would be much higher, from 30 to 50 per cent higher than the Census of Manufacturing Industries (CMI) and 10 to 20 per cent higher than Bangladesh Bureau of Statistics (BBS), if underestimation in the official statistics is accounted for. One study recently reported that the contribution of SMEs appeared to be over 52 per cent of the total MVA in the year 1989-90 (Microenterprise News, 1993:2). The relative numerical significance of the SMEs sector in the industrial structure of

Bangladesh can be understood in terms of the number of units, of employment and value added as depicted in Table 1.

Table 1: Comparative Data of Various Types of SMEs

Industry	Value Added*			Employment **			Establishments		
	(Million Taka)			(No. of Persons in Thousand)			(Numbers)		
	1977-78	1980-81	1981-82	1977-78	1980-81	1981-82	1977-78	1980-81	1981-82
Cottage	-	2,988 (2.41)	-	-	861.92 (2.74)	-	-	393,670	-
Small	2,260 (3.11)	-	-	322.13 (1.10)	-	-	24,005	-	-
Handloom	-	1,713 (1.38)	-	847.60 (2.88)	-	-	197,280	-	-
Medium	-	-	1,215 (0.85)	-	-	51.63 (0.16)	-	-	1,302
Large	-	-	12,194 (8.51)	-	-	387.46 (1.21)	-	-	497

Source: Reza *et al.* (1990:73)

*At current market price and figures in parentheses show value added as per cent of GDP;

**Includes part-time workers and figures in parentheses show employment as per cent of civilian labor force

3.1 The Growth of Small Enterprises in Bangladesh

Table 2 focuses the growth of SME in Bangladesh. In terms of the number of establishments, the annual growth rates of SMEs were respectively 5.96 per cent, 2.94 per cent and 2.49 per cent for Small, Handloom and Cottage industries. Looking at the employment growth rates, it is evident that the small industry sub-sector is again at the top with 11.56 per cent followed by

handloom, 3.60 per cent, and the cottage enterprises, 3.87 per cent per annum. In terms of value added, the average annual growth rates were estimated 4.12 per cent for cottage industries and 0.57 per cent for the small industry. However, these growth rates can be regarded satisfactory by no standard, compared to neighbouring Indian ones, as reported by Sandesara (1992:180-182).

Table 2: Growth of Small Enterprise in Bangladesh: 1961-2001

Year	Number of Units			Employment ** (No. of Persons in Thousand)			Value added (in Million Taka at Constant 1980-81 Price)		
	Small	Cottage	Hand-loom	Small	Cottage	Hand-loom	Small	Cottage	Hand-loom
1961	16331	234934	137304	143.8	653.1	521.2	2513	1401.8	NA
1978	24005	280000	197280	322.1	NA	847.6	2772	NA	NA
1981	24590	321000	205874	NA	855.2	897.4	NA	3146.1	NA
1990	38104	403237	NA	NA	1331.0	NA	NA	NA	NA
1991	38294	NA	NA	523.0	NA	NA	NA	NA	NA
2001 (June)	55280	511621		808.9	1664.7	-			
Growth ¹ (%)	5.96	2.94	2.49	11.56	3.87	3.60	0.57	4.12	-

Source: Ahmed (1987:16), Table 1.2, GOB (1993d:1 & 2001)

¹ Growth (average annual) rates are calculated based on the available figures of the first and last years;

NA: Not available

3.2 Sectional Structure of SMEs

The importance of the SME sector in the economy of Bangladesh can be better understood by examining its sectoral structure as shown in Table 3. All the sources quoted here demonstrate that the

four sectors - namely food & allied, textile & apparel, engineering and fabricated metal - are more dominant in the structure. Comparing the growth rates within different sectors of small firms, during the period 1961-78, it was found that these four sectors are also the fast growth areas compared with that of the other areas (Ahmed, 1987).

Table 3: Sectoral Distribution of SMEs in Bangladesh:1978-1993

Industry Sectors	Small Industry Survey-1978 ¹		Directory of Manuf. Indus.1993 ²		Small Industry Survey-1993 ³		SMEs Listed with BSCIC ⁴	
	No.	%	No.	%	No.	%	No.	%
Food & Allied	17,358	72	7,623	31	21,080	55	8,152	46
Textile & Apparels	1,391	5	5,714	23	3,196	8	741	4
Forest & Furniture	886	4	1,804	7	1,745	5	1,794	10
Paper, Printing etc.	1,092	5	1,078	4	2,385	6	590	3
Chemical Rubber etc.	527	2	1,903	8	2,864	7	1,026	6
Glass, Ceramics etc.	218	1	2,359	9	1,113	3	124	1
Basic Metal Engineering	1,743	7	483	2	3,078	8	2,987	7
Fabricated Metal/ Electrical.	646	3	3,455	14	1,880	5	1,989	11
Others	144	1	526	2	953	3	245	2
Total	24,005	100	24,945	100	38,294	100	17,648	100

Source: Compiled from: ¹ GOB (1981); ² GOB (1993f); ³ GOB (1993d) and ⁴ GOB (1993e).

3.3 Backward - Forward Linkages and Marketing Aspects of SMEs

One of the very important aspects of SMEs is to serve the needs of local consumers by supplying a wide range of products. In

Bangladesh, over 90 per cent of SMEs serve the local needs of the people and thus, they are engaged every day in every economic sphere of the society. Moreover, it is revealed that there are strong backward and forward linkages between the SMEs and other sectors - such as agriculture - of the economy in Bangladesh. The foregoing discussion clearly indicates the numerical significance, one dimension, of the role of small firms in the economy of Bangladesh. The other dimension, what Kohlo (1991:34) called the 'subjective dimension', is that SMEs also provide productive outlets for individuals with independent and enterprising minds. This sector, thus, provides opportunities for developing the 'seed-bed' of indigenous entrepreneurship. In Bangladesh, small enterprises are also regarded as 'engines' of technological innovation, leading to industrial transformation and modernization in the economy.

It is, therefore, evident that small enterprise is a vital element in the economic legacy of Bangladesh, and that there is much development potentiality in this sector (Rahman et al., 1979; Ahmed, 1994). However, every year numerous small firms are developed, while unfortunately many of them disappear, abandoning the potential role they could have played in economic development (Reza et al., 1991). To combat this undesirable failure, and to accelerate rapid growth, it is necessary to clearly understand the growth prospects as well as the problems faced by the SME sector, to take appropriate remedial measures. This is the content of the following section.

4.0 Gap in the National Policy

The Industrial Policy (IP) of 1999 recommended for the industrial policy to be updated in a way so as to achieve the objectives of

accelerating the pace of industrial growth in order to enhance the sector's share in the gross domestic product (GDP). The policy has not cited any policy specifically for SMEs. In order to achieve the given goal, it was recognized that the Government should support and assist the small and medium enterprises (SMEs) sector by way of providing support in terms of finance, information, technology, training, infrastructure, and other associated services. However, there is hardly any instance of government support that was seen in any area of SMEs development in Bangladesh. Nor is there any Government policy or guideline towards the support or promotion of SMEs in Bangladesh. In IP-1999, a gap was observed in classifying the industries especially in the gamut of small industries. Thus a restructuring in the classification and introducing a strata between cottage and small industries have been felt necessary. The following section delineates the proposed restructured classification.

4.1 Proposed Definition Classification of SMEs

There is not yet any universally accepted definition of the Small and Medium Enterprises (SMEs). However, it seems that entrepreneurs, analyzer, industry owners have identified SMEs as those enterprises that are not big enough to be considered large businesses. The SMEs include all industries having gamut starting from very small industry (e.g., cottage industry) up to medium industry. Cottage industries basically are those where capital investment is very low and engage a small number of workers and in most cases, family members work themselves & run the business. Presently, in many cottage industries, extra outside workers other than family members are employed to enhance

production. Innumerable Handloom industries in the country are cottage establishments.

In a comprehensive context, enterprises corresponding to both Processing Industry and Service Industry are defined as industrial organization. All activities pertaining to production, processing, assembling and maintenance & repair/re-engineering of products belong to Processing Industry. Service Industries are those where service activities are conducted through significant using of equipment or permanent assets. The industries that have been declared as Service Industries have been appended in Appendix 1 of 'Industrial Policy-1999'(GOB). According to the present context of industrial scenario of Bangladesh, SMEs can be sub-divided into following four categories.

1) Cottage Industries, 2) Tiny Enterprises, 3) Small Enterprises and, 4) Medium Enterprises.

Some other terms, such as 'Microenterprise', 'Rural Industries', 'Micro Industries', etc., are also popularly in use. However, all these typologies can be well covered by referring to the term SMEs as proposed above. Figure 1 shows proposed typology of various types of industries in Bangladesh. Table 5 shows the proposed definition & criteria for each type of SMEs in Bangladesh. Figure 2 shows proposed framework of classification of various types of industries in Bangladesh. Table 5 highlights some core conducive policies as proposed for growth of this momentous sector.

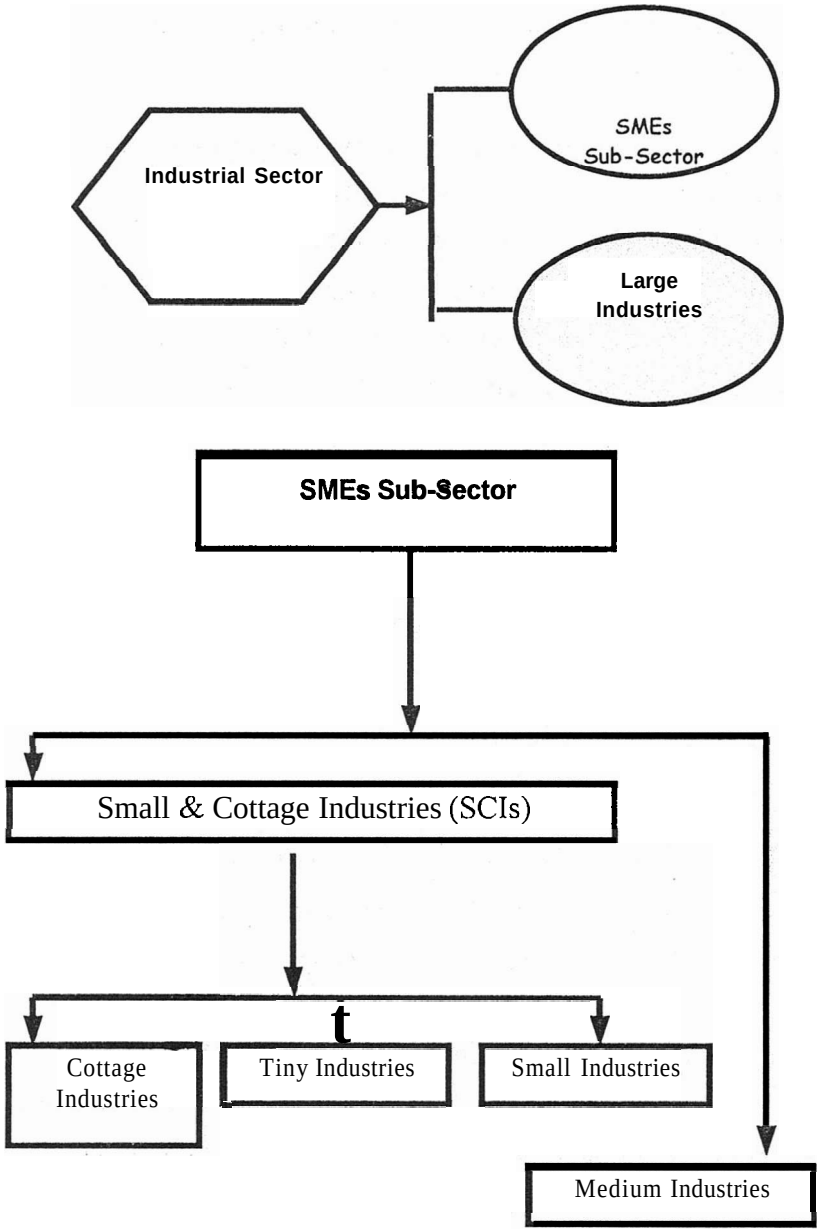


Figure 1: Proposed Typology of Industries in Bangladesh

4.2 Policy Imperatives for BSCIC and Other Associated Organizations

With a view to promote the industrial sector, assistance in the form of facilities and privileges is required, and thus coordination through reforming procedural structure of the Government is essential among the various Government departments and associated organizations. As a corporate body of the Government, the prime objective of BSCIC is to nurture & assist Small & Cottage Industries (SCIs) in its growth trajectories. BSCIC to be reorganized in the paradigm of multifaceted demand of the present so that its capability augments in multitude manner.

Table 4 : Proposed Definition and Criteria of SMEs in Bangladesh

Sub-Division of SMEs	Definition & Criteria
Cottage Industries	Any establishment/ industrial organization with less than 15 workers and with a fixed capital investment of less than Tk. 10 Lakh. Handloom Industries are Cottage or Tiny Industries in textile sub-sector.
Tiny Industries	Any industrial organization with either i) workers number between 15 to 100 & fixed capital not exceeding Tk. 1 Crore , or ii) having workers not exceeding 100 and fixed capital investment between Tk. 10 Lakh to Tk. 1 Crore.
Small Industries	Any industrial organization with either i) a fixed capital investment between Tk. 1 Crore to Tk. 15 Crore. Employees may be of any number that commensurate to the requirement and type of industry, or, ii) having workers more than 100 & fixed capital not exceeding Tk. 15 Crore.
Medium Industries	Industries with a fixed capital investment of Tk. 15 Crore to Tk. 30 Crore. Employees may be of any number that commensurate to the requirement and type of industry.

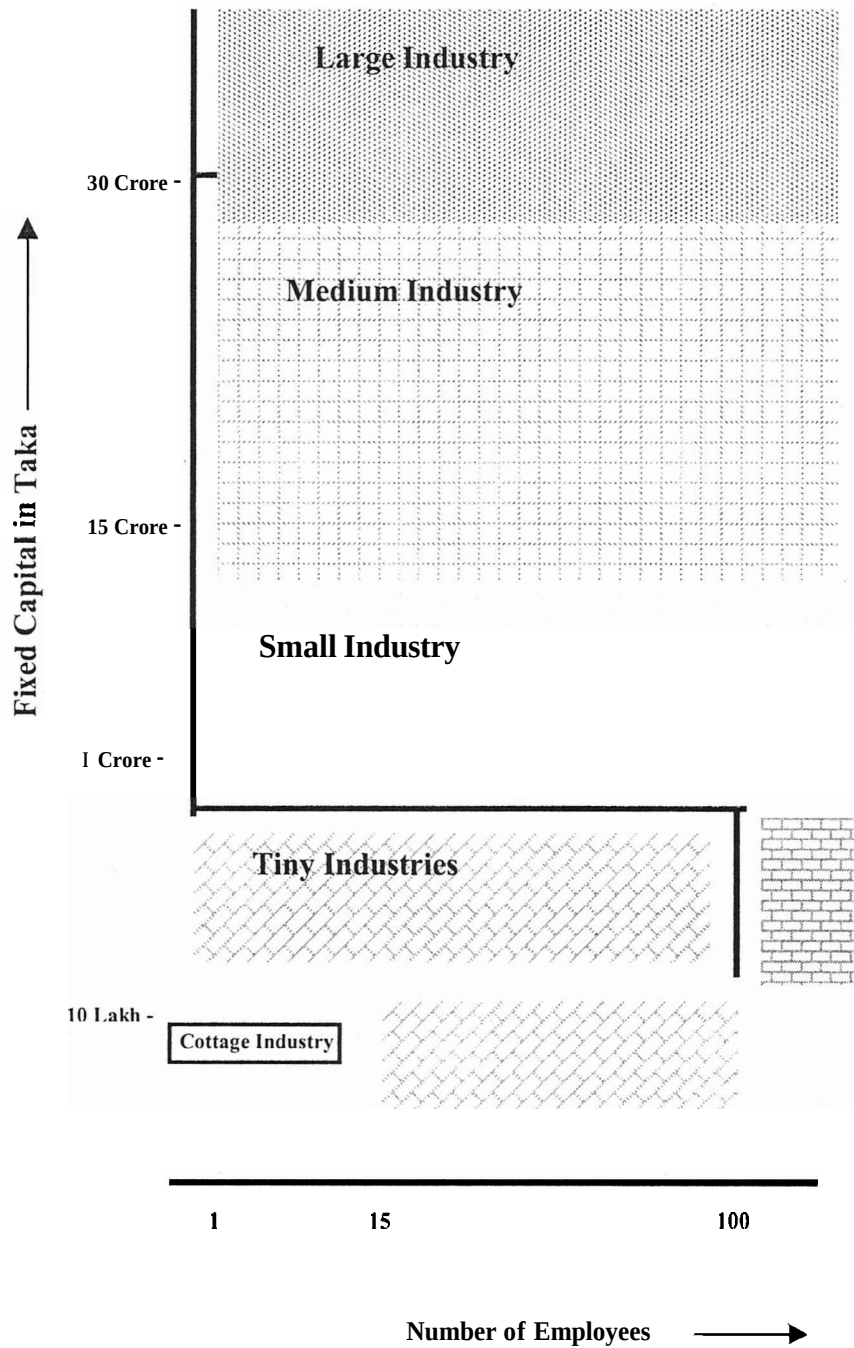


Figure 2: Proposed Typology of SMEs in Bangladesh

Table 5 Proposed Several Core Policies for Sustainable Growth of SMEs

Sl. No.	Criteria	Cottage Industry	Tiny Industry	Small Industry	Medium Industry
1.	Number of Workers	Less than 15	Less than 100	Number of workers as per type & requirement of the industry	Number of workers as per type & requirement of the industry
2.	Fixed Capital	Less than Tk. 10 Lakh	Less than Tk. 1 Crore	From Tk. 15 Crore to Tk. 15 Crore.	From Tk. 15 Crore to Tk. 15 Crore.
3.	VAT	Vat free	Vat free	According to Government rule & policy	According to Government rule & policy
4.	Interest Lending Rate of Bank	7% Flate rate	8% Flatrate	10% Flate rate	According to Government rule & policy
5.	Collateral for Bank Loan	Exempted	Exempted	According to Government rule & policy	According to Government rule & policy
6.	Interest Exemption	Machinery: 5 years Working Capital: 5 years	Machinery: 5 years Working Capital: 5 years	Machinery: 3 Years Working Capital: 3 years	According to Government rule & policy
8.	Tax Holiday	10 years	10 years	For cities & towns: 7 years; for least developing areas: 8 years; and for underdeveloped & underprivileged areas (e.g. CHT): 10 years	As per Government rule: Dhaka & Chittagong Division (excluding 3 districts of CHT): 5 years; Khulna, Sylhet & Barisal and 3 district of CHT: 7 years
9.	Infrastructure Facility	Connection for water, gas, telephone & electricity to be given on priority basis. Stable supply of electricity to be ensured.			

10.	Recommendation for Bank Loan	Sectoral association or associated chamber will furnish recommendation for bank loan
11.	Marketing Support	In order to make marketing of the product in an easy & diversified manner, appropriate policy to be enacted. Assistance & privilege to be provided by the Government to create new market & development of existing markets in home & abroad.
12.	Repayment of Loans	Reducing Balance Method (RBM) to be followed in the process of repayment of bank loan. According to this method, if lender repays the loan amount as per agreed terms & conditions in a fiscal year, then interest rate will be reduced by certain percent (e.g., 1%) for the next year and so on for every year.
13.	Registration	Every enterprise has to be registered as per its category. For Cottage, Tiny and Small industries (fixed capital investment is maximum Tk. 15 Crore), the registration to be done with BSCIC and relevant Association or Chamber. On the other hand, for Medium & Large industries (capital investment is greater than Tk. 15 Crore), registration to be done with Board of Investment (BOI).

4.2.1 Basic Responsibilities of BSCIC: The core functions and prime responsibilities of BSCIC are as follows:

- i) To arrange special credit line
- ii) To allot plot in its own industrial estate
- iii) To undertake industrial & entrepreneurial development programmes where special momentousness will be given to involve woman, unemployed youth, efficient technicians, repatriated labor, landless people, etc.
- iv) To aggrandize & develop infrastructure facility for the small & cottage industrial.

- v) To render assistance as well as taking initiatives for the development of market for the products produced by SCIs.
- vi) To register industrial units according to their typology. Its onus includes monitoring of various activities of different industrial sub-sector.
- vii) To arrange routine training programmes.

4.2.2 Development of Infrastructure Facility: In the areas where industrial estate has not been built yet but possess significant potency, concerned authority, as per the recommendation of BSCIC, should provide infrastructure facility on priority basis. In the growing & blooming industrial areas of the country, BSCIC will strengthen its continued effort in providing of at least those infrastructure facilities that presently exist in other BSCIC's industrial estates.

4.2.3 Development of Sub-contracting System: Through development of sub-contracting system, endeavor to be taken to establish relationship between corporate sector and small & cottage industries. In order to render financial assistance in developing sub-contracting, especial fund to be created through banks and financial organizations. Sub-contracting enterprises, irrespective of their locations, will be entitled to get incentives and other facilities similar to Small & Cottage Industries around the country.

4.2.4 Financing: BSCIC is to launch 'The Small Industry Credit Guarantee Scheme' with joint collaboration of Bangladesh Bank, Government/Non-Governmental bank/insurance and financial organization in a most comprehensive, far-reaching and extensive manner. Priority will be given to foreign investors for establishing industries in the BSCIC industrial estates. Non-Resident

Bangladeshi (NRB) should be given special incentives & facilities similar to foreign investors.

4.2.5 Financial incentives for Thrust Sectors: Special revenue/financial assistance will be offered to those Small & Cottage Industries, which have been identified as industries of 'Thrust Sector'. At times, Government will arrange to render financial support to these sectors.

4.2.6 Allocation of Industrial Plot: For Small & Medium Industries, BSCIC will allocate industrial plots in its own industrial areas that is specially selected as industrial zone. Similarly, Bangladesh Export Processing Zone Authority (BEPZA) will provide allocation of industrial plot in its own areas. Board of Investment (BOI) will recommend giving plot in government land for establishing industries.

5.0 Multifaceted General Strategy and Policy for Rapid Growth of SMEs

The proposed strategies and policies to be implemented on short term, medium term & long term basis.

5.1 Measures to be Implemented on Short Term Basis

5.1.1 Definite Policy for SMEs: Fortunately, most SMEs in our country develop and survive even in an environment having no policy. Since this sector comprises of a diverse variety of species having myriad characteristics, the country should have a separate policy for this sector. Treating 'unequal' – the SMES, on equal footing with the large industries, will accelerate the existing policy induced constraint to the development of small firms.

5.1.2 Priority Sectors or Thrust Sectors: Government has declared a number of industries as 'Thrust Sector' and pledged to

offer special incentives in revenue. Since among them, some sectors like metal engineering, cottage enterprises, IT sectors, Agro-based & agro-supportive industries have got special suitability & potentiality for development in our country, special attention should be given to promote such sub-sectors by providing necessary support both financially and non-financially.

5.1.3 Conducive Infrastructure Facility: Water, gas, telephone and electricity connection to be given on priority basis. Stable power supply facility to be ensured. Cost of various capacities of generators to be reduced by reducing duty and other taxes on generators.

5.1.4 Government Policy: Policies geared toward boosting small firm development should not be confined to the SME sector per se. The government commitment to sustained economic progress must ensure that all aspects of economic system are conducive to and supportive of increased levels of SME activity. This includes mainly minimizing taxation, ensuring access to labor, lowering interest rate, reducing the regulatory burden, neutralizing policy induced constraints, preventing unfair competition from illegal imports, formulating small firm friendly policy, and developing a real private-public sector partnership.

5.1.5 Uniform Definition of SMEs: There should be a consensus on developing a uniform definition of each category of SMEs with generic classification around the country. It should be given standard industrial code (SIC). Without uniform definition, formulation policy and its implementation are not possible.

5.1.6 Seed Money, Leasing, Venture Capital and Investment Funding: There is a great need for improving different aspects of financial services of SMEs, such as seed money, leasing, venture capital and investment funding. There is a lack of long term loans,

interest rates are high, Guarantee/Security issues, exchange risks etc. All these limit the development of SMEs. Finance, both short and long term, should be provided at market cost of capital.

5.1.7 Extensive Financial Support to SMEs and Role of Private Banks: Various banks, financing institutions, NGOs may further increase its technical and financial support to SMEs through its various financing facilities and windows, which may significantly contribute to the creation and development of SMEs. Presently, different private banks are fostering SMEs growth, but this support to be augmented at greater scale.

5.1.8 Periodical Professional Training Courses for SMEs & for Entrepreneurship Development: Periodical professional training courses should be arranged for technical staff of SMEs. Moreover, training in management of small enterprises and efficient marketing can also be provided. Islamic Chamber regularly organizes training workshops on management, marketing, procurement of technologies, quality control system and financing of SMEs, for the benefit of representatives of private enterprises and staff of member chambers in different regions of the Islamic World. Training programme/workshop should be organized for the development of SMEs capabilities to acquire enhanced knowledge and skills about how to choose, use and improve technology. At present, no such institution exists except a project of the BSCIC called 'SCITI' (Small and Cottage Industries Training Institute). IAT, BUET has conducted total eight training programs for the light engineering industries during last several years. Training on different aspects of SMEs activities for entrepreneurs is crucial for the development of an entrepreneurial spirit in Bangladesh. Entrepreneurial education could be given for greater long-term impact.

5.1.9 Seeking International Financing: Various international donor agency/bank extends financing to SMEs through National Development Financing Institutions (NDFIs). It is found that they are not explored properly. The procedure of those donor agencies/banks for loan facilities to SMEs through NDFIs may be reviewed and term and conditions may be examined in order to make international financing more accessible to SMEs in the country.

5.1.10 Trade Fairs, Exhibitions, Symposiums, Seminars and Workshops: Trade fairs, exhibitions, symposiums, seminars, workshops etc. on SMEs should be organized on a regular basis. Publications of all these events should made available for all SME establishments. Chambers around the country can arrange exhibitions for SMEs products, so that larger number of consumers may gain awareness about the diversity and quality of SMEs products.

5.1.11 Production Structure of SMEs: SMEs' production structure should be flexible and dynamic. Due to relatively smaller size they can change their machinery or add new plant at relatively less cost. Similarly, they can retrain their workforce with the new technologies. Hence SMEs can adopt modern technologies more quickly compared to large enterprises. Their productivity is relatively high, hence they can be more competitive in domestic and foreign markets.

5.1.12 Assistance for SMEs from Board of Investments and Export Development Centres: Public sector agencies like Board of Investments and Export Development Centres can also provide useful information to SMEs. They can provide necessary information about trade fairs in member countries as well as training in organization of exhibitions. They can identify foreign

buyers and assist local SMEs in establishing contacts with them. Information on changing demand conditions in various international markets can be provided and advisory services on exploring trade opportunities can be provided to prospective exporters.

5.2 Measures to be Implemented on Medium Term Basis

5.2.1 Interlinkages among SMEs and Development of Networks: Inter-firm linkages among SMEs should be expanded at home and abroad. For this, it is needed to develop a network. Professional associations and National Chambers can initiate in setting-up such establishment. By developing network, program of maximum utilization of their services may be formulated. This will lay a strong foundation for promoting effective cooperation among small and medium enterprises at home and abroad. The activities for interlinkages (both backward & forward linkage) among SMEs and assistance to SMEs should be properly identified. In order to develop sub-contracting among large and small enterprises around the country and between Bangladesh and SAARC or OIC or other countries, Sub-contracting Exchange Schemes (SES) can be launched. They may collect information about engineering industrial components, and what vendor industries can provide such components. In this way, the activities of these organizations for inter-linkages and assistance among SMEs can be flourished. They should also participate in and influence the contents of Government policies and programs developed in their interest.

5.2.2 Penetration of SMEs into New Markets: Special attention should be paid to the penetration of SMEs into new markets through E-commerce, as well as the possibilities of accessing foreign markets. Greater trading co-operation with other countries

should be developed. Perhaps, such cooperation is most urgently needed now in the changed global political environment of the world. BGMEA (Bangladesh Garments Manufacturers and Exporters Association) has prepared its WebPages giving its various information that will be helpful in enhancing marketing. Others should follow.

5.2.3 Information Network & Central Data Bank: Information technology can be very effective tool for swift collection of different markets demand pattern, price trends and changing policies structures in various trading partners. For this purpose, it is important to create an information network for SMEs in Bangladesh, creating a Central Data Bank in collaboration with the IDB, ICCI and business associations of the Islamic countries. In the meanwhile, BGMEA have already launched information bank through internet & website. So other organization should follow.

5.2.4 Establishment of Separate Financing Institution/Micro Bank for SMEs: Finance is the main obstacle to the SMEs sector, with no sign of immediate improvement of the situation in Bangladesh. The country should start with 'something effective' for industrial development in general and the SMEs sector in particular. Such a step, for example, could be the establishment of a separate Micro Bank. That means a separate financing institution could be developed, with joint ownership of the public and private sector. To make the proposed initiative effective in achieving its goals, experts and resources should be gathered from home and abroad such as from SAARC/Islamic countries or other friendly countries. No concession policy but the principle of market rate of cost of capital should be applied in lending procedure. Another source of finance could be raising fund from share market by floatation of IPO by SME under 'Group IPO Scheme (GIPS)'. In

the case of GIPS, a group of SME would utilize their assets for issuance of public shares to be managed by an independent agency. Finally, fund should be made available through encouragement for setting up 'Venture Capital' organization in Bangladesh. The concept of venture capital (VC) has successfully operating in the USA, EU countries, and Canada. BASIC (Bank of Small Industries & Commerce) was established in 1988 with the objective of rendering financial assistance to the small industries.

5.2.5 Service to Define Problems and Devise a Package of Measures: SMEs often cannot identify and define their own needs clearly enough to seek the best remedies. Thus, a service that can reach out, help SMEs to define their problems and devise a package of measures that deals with the above identified problems has the best chance of success. Organizational set up is needed to implement such programme.

5.2.6 :Business Environment Should Be Conducive: The business environment should be conducive to SMEs development, with minimal transaction costs, clear and transparent rules and a stable macroeconomic environment.

5.2.7 Public and Private Sectors Cooperation: For strengthening SMEs in the country the public and private sectors will have to cooperate effectively. In this connection various suggestions are provided herein. They need full consideration for cooperation among various organizations of the country. Small and large industries to be complementary to each other.

5.2.8 Expansion and Diversification of SMEs: Bangladesh's industrial sector needs expansion and diversification. For this purpose, growth of SMEs is essential. However, SMEs have to equip themselves with modern technologies and effectively use them to raise their production efficiency.

5.2.9 Mitigation of Problems of SMEs & Rationalization of Existing Policy Induced Constraints: SMEs are of diverse categories facing myriad problems in the country. However, there also do exist specific problems of SMEs in individual sector. Such specific problems require special support in some cases. As such, specific problems should be dealt with the context of that sector. There has been evidence on constraints, created by existing policies, to the development of SME in Bangladesh. A thorough review of the existing policies should be made, along with empirical study, to clearly identify such policy induced constraints so that appropriate measures could be implemented for correcting such constraints.

5.2.10 Internet facilities and Web Site of SMEs: There should be greater access to information through internet of SMEs. In this connection, FBCCI can take initiative to create web site of SMEs. Computers, scanners and diskettes can be used for providing necessary information to SMEs as well as member chamber. Information through this device can be provided on identification around the country as well as other countries such as SAARC and intra-OIC countries. Trading opportunities and assistance to SMEs can be diversified through these opportunities. Analysis of trade data in various regions within and outside the country can be undertaken to identify products which have the greatest potential for Trade. This data can be disseminated through internet or other tools for transfer of electronic information. This is urgently needed for various reasons, developing a network with on-line connection with international website, if we really mean business and want to survive in the new millennium of information super high way.

5.2.11 E-Commerce: Electronic Commerce has also great potential for development around the country and abroad. Through

this device, matching of buyer's orders to sellers can be done in such products in which SMEs are dealing. Such exchange of information about sellers and purchasers shall be most useful for Agro products, leather products, textiles and clothing, IT and metal products as well as raw materials and intermediate goods.

5.2.12 Credit Guarantee Scheme & Financing to SMEs:

Financing to SMEs can be successful, if two arrangements can be undertaken: (1) Separate institutions dealing with SMEs loans should be established around the country. They can provide adequate volume of finance, on less strict terms and can supervise the loan repayment process as well. (ii) Credit guarantee schemes. Credit guarantee schemes for SMEs can be an effective means of supporting small enterprise development, especially in Bangladesh where access to credit is constrained for small borrowers.

5.2.13 Implementation and Monitoring of Policy Measures for SMEs.

Only policy prescription is not the end, if it is not implemented through different measures timely and properly. How far policy measures are implemented, along with, what effect – desired or not - such. policy measures has had on the development of SMEs should also be monitored from time to time. This monitoring will provide feed back for taking corrective actions, if necessary, to ensure desired effect of the policy adopted. Of course, onus has to be on BSCIC or alternately an independent body can be assigned to do the monitoring of implementation of the policy measures, and possible impact.

5.2.14 Conducive Policies for Boosting Enterprise and Entrepreneurship:

Policies geared toward boosting enterprise and entrepreneurship should not be confined to the entrepreneurship sector per se. Since the process of enterprise development is being influenced by a myriad variety of variables,

policies relating to other sectors and having influence on enterprise development should be carefully designed.

5.2.15 Development of Entrepreneurs: The perceived social legitimacy of entrepreneurs should be encouraged. Entrepreneurs are the architects of the modern socio-economic development. Therefore, the society should recognize the contribution of entrepreneurs and value their activities so that they feel encouraged, if anyone fails anywhere, for taking further initiatives for future success. This is very important because only few, not everybody, could be successful in entrepreneurial endeavours.

5.2.16 Technology Trasfer: Technology transfer is of vital importance for development of SMEs. Technology transfer through various means and Reverse Engineering to be arranged through Government and private levels.

5.2.17 Quality Assurance & Environmental Friendliness: Compliance to quality assurance & environmental friendliness to be ensured through Standards such as TQM, ISO9000 & ISO 14000. Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy implied or stated needs. Conformance of the product or service to these specifications is measurable and provides a quantifiable and operational definition of quality.

5.3 Measures to be Implemented on Long Term Basis

5.3.1 Community Development Programmes Especially Alleviating Poverty through SMEs Development: There is great scope of alleviating poverty through SMEs development. So poverty alleviation strategies and policies for SMEs should be developed, in order to provide job opportunities and enhance living standards for large segment of this poverty ridden country.

There is a great scope for human and social development. They have no income for educating their children and have not even access to such employment which can generate sufficient income for their living. Those families are compelled to put their children on odd jobs in informal sector or in SMEs. Readymade Garments industries have employed a large number of poor women in Bangladesh giving rise to generate income for their family. A large section of our community is below poverty line, who are underprivileged. Here community developed programmes can be organized, in which members of the distressed communities can be employed on reasonable wages. In such programmes of community development, as for example., Islamic Chamber can be approached to affiliate such programmes with Islamic Development Bank (IDB) and the Islamic Corporation for Development of private Sector (ICD).

5.3.2 Comprehensive Package of Assistance: A comprehensive package of assistance will give rise to easy access to the business for the entrepreneurs and thus it will render much desired long-term impact on the development of this sector. It should be comprised of both financial and non-financial components, and should be tailor-made to the needs of SMEs.

5.3.3 Technology Development, Assessment, Diffusion and Dissemination: Technology assessment, diffusion and dissemination around country should be given top priority. Comprehensive & extensive interactions and linkages between University & R&D institutions and industries to be promulgated. Integrative effort is required to promote & disseminate appropriate technology in the country. Transfer of technology and know-how from advanced market economies could be important part of developing R&D capacity in Bangladesh.

5.3.4 Proactive Policy to Promote SMEs: Proactive policy is needed to promote SMEs competitiveness. The first step in this regard is to make firms fully aware of the competitive challenges they have to face. The next step is to help SMEs prepare to meet the challenge, by understanding their strengths and weaknesses and providing the inputs they need to help them upgrade. The main inputs are finance, market information, training, management tools, technology, skills and links with support institutions.

5.3.5 BSCIC to be Reorganized: Most entrepreneurs and businessmen express their dissatisfaction about BSCIC. BSCIC fails to provide needed services to the small industries due to manifold reasons; primarily due to its unorganized management. BSCIC has to be reorganized so that enacted policy for SMEs can be implemented to help grow small industries in the country in a better manner. Alternatively, a separate organization such as Small and Medium Enterprise Development Authority (SMEDA) may be established to act as a one-stop consultancy Agency to: (a) act as a body for facilitating policy making for SMEs, (b) provide and facilitate support services for SMEs, (c) act as a resource base for the SMEs, and (d) represent SMEs on domestic and international forums. The authority may be state supported, private or jointly supported organization.

5.3.6 Developing Institutional Network through Public-Private Partnership: The design of most government agencies appears to be overly bureaucratic and unsuitable for effectively supporting SMEs in Bangladesh. As such, re-organization of the design of these agencies has for long been overdue. Public-private sector partnership, by redesigning the existing public agencies, could be developed, developing appropriate institutional network. The objective behind this would be to utilize the strengths of

public and private agencies, while neutralizing the limitations, if any, inherent in their existing organizational design.

5.3.7 Establishment of R&D Institute for Enterprise and Entrepreneurship Development, Training and Research Institute:

In a country like Bangladesh, where entrepreneurial initiative is rare and shy, a separate institute for enterprise and entrepreneurship development, training and research should be developed. To make it a 'centre of excellence' in SMEs development, it should be designed, involving educational institutions, business associations, relevant government bodies, private research agencies, and individual consultants having experience in SMEs development.

5.3.8 Women Entrepreneurship: 'In our economy, we have nearly 50 percent women population, while an insignificant proportion of women is entrepreneur. No country **can** be developed without proper participation of such a big community in the entrepreneurial activity. As such, policy should be designed to encourage more and more women to be involved in entrepreneurial endeavors.

6.0 Conclusion

Implementation of appropriate policies & strategies is a prerequisite to harness sustainable competitiveness of SMEs around the country. A suggestive framework has been stipulated in this paper. With that paradigm, proactive policy is essential to enact them. The first step in this regard is to make firms fully aware of the competitive challenges they have to face. The next step is to help SMEs prepare to meet the challenge by understanding their strengths and weaknesses and providing the inputs they need to help them upgrade. The main inputs are finance, market information, training, infrastructure development,

R & D, management tools, technology, skills and links with support institutions. The business environment should be conducive to SMEs development, with minimal transaction costs, clear and transparent rules and a stable macroeconomic environment. For strengthening SMEs around the country, the public and private sectors will have to cooperate effectively. In this connection various suggestions are provided herein. Thus it is found that policies & strategies are major role player and catalyst in the endeavour of SMEs 'growth in Bangladesh.

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