

**NATIONALIZED COMMERCIAL BANK'S FINANCIAL SERVICES
FOR THE PROMOTION AND DEVELOPMENT OF SMALL AND
MEDIUM ENTERPRISES. AN EVALUATION OF THEIR CREDIT
PERFORMANCE.**

**A THESIS
TO FULFIL THE REQUIRMENT FOR THE DEGREE
OF MASTER OF PHILOSOPHY (M.PHIL)**

BY

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JULY, 2009**

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**In Partial Fulfillment of the Degree of
Master of Philosophy under the faculty
of Business Studies, University of Dhaka.**

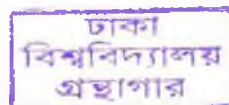
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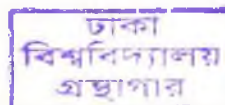
**Department of Management
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**Dissertation Submitted in Partial Fulfillment
of the Degree of Master of Philosophy
Department of Management
The Faculty of Business Studies
University of Dhaka
July, 2009**



**THE DISSERTATION DEDICATED TO MY BELOVED
FATHER LATE MUSLIM UDDIN AND MOTHER MRS.
DELAHUR BEGUM WHO ALWAYS INSPIRED ME FOR
HIGHER EDUCATION.**

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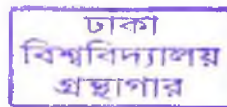


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Declaration

I hereby declare that the dissertation entitled "**Nationalized Commercial Bank's Financial Services for the promotion and Development of Small and Medium Enterprises. An Evaluation of their Credit Performance.**" is prepared by me. This dissertation is the outcome of an empirical research work. This is completely a new area and an additional contribution in the field of knowledge. I humbly submit this thesis to the Department of Management, Faculty of Business Studies, University of Dhaka, Bangladesh for the award of the degree of Master of Philosophy. The contents of this thesis have neither in part or in full been submitted to any other institutions for any academic degree.

Md .Abdur Rahim
Reg. no. 172
July,2009

PREFACE

This Dissertation on the "**Nationalized Commercial Bank's Financial Services for the promotion and Development of Small and Medium Enterprises. An Evaluation of their Credit Performance.**" has been prepared for the fulfillment of the degree of Master of philosophy. Now-a-days, Small and Medium enterprises are the powerful economic weapons for poverty alleviation, employment generation and output augmentation throughout the world in general and in Bangladesh in particular. Before 2004 there was no so much special fund for the smooth and effective operation of the Small and Medium enterprises. Government, Bangladesh Bank, Asian Development Bank and World Bank have come forward to provide re-finance to NCBs, Private Bank and Non-Banking financial Institutions to provide financial services to the Small and Medium enterprises for their promotion and development. From the socio-economic conditions of Bangladesh the choice of researching issue was time demanding. The NCBs' financial services were examined both in respect of promotion and development. The study output is expected to have high socio-economic implications to a variety of parties including policy makers of developing countries in general and the policy makers of Bangladesh in particular.

The completion of this empirical study has been contributed by a number of persons and institutions. It is my pleasure to accommodate them in my indebtedness. Special thanks are to my learned supervisor Professor Dr Md. Abdul Hannan Mia for his invaluable advice, cooperation and continuous guidance, critical evaluation and constructive suggestions from the incubation of the research proposal up to the final production of the dissertation.

It is my pleasure to accommodate the high official and officials of various NCBs in my indebtedness for their co-operation in the research process. The Joint Directors, Deputy General Manager, General Manager, SME cell, ACSPD, and BRPD, Bangladesh Bank Head Office, Dhaka have helped by providing required information and circulars about the NCBs and SMEs. The directors and officials of the population NCBs in general and officials of the sample NCBs in particular both at central and local level deserve heartiest thanks for their cordial and accommodative behavior during data collection phase.

I can not but extend my heartiest thanks to the sample NCBs supported SMEs entrepreneurs who sacrificed their business time and supplied their personal and business information. The M. Phil. dissertation is mostly based on the primary data supplied by the SMEs entrepreneurs. Without their co-operation and amicable behavior, this research work simply just would have been impossible.

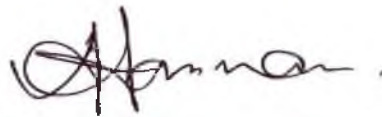
Sincerely, I owe to my family members, and colleagues for their encouragement to tackle all odds during the period of pursuing my M. Phil. My beloved old parent's sacrifice for my services facilitated in the preparation of the dissertation. ✓

Finally, I express my propound gratitude to Almighty Allah for His grace and blessing without which even a rare personality can not achieve something including a M. Phil degree.

Certificate

I have the pleasure to certify that the dissertation entitled "**Nationalized Commercial Banks Financial Services for the promotion and Development of Small and Medium Enterprises. An Evaluation of their Credit Performance.**" has been prepared by Mr. Md. Abdur Rahim, Reg. No.-172, Dhaka University and Deputy Director, SME cell, Agriculture Credit and Specilised Programs Department, Bangladesh Bank, Head Office, Dhaka, through an empirical research. It is an original work and an addition to the field of knowledge. To the best of my knowledge, no other person was associated with the completion of this study. I have gone through the draft and the final version of the dissertation thoroughly and found it satisfactory for the submission in the Department of Management, Faculty of Business Studies, University of Dhaka for the fulfillment of the Degree of Master of Philosophy.

July, 2009



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ABSTRACT

This M.Phil dissertation empirically examines the NCBs' financial Services for the promotion and development of Small and Medium enterprises (SMEs) in Bangladesh. Before 2004, NCBs disbursed loan to small enterprises. There were not special programme to finance for SMEs. Bangladesh Bank published "Guide Lines for Small Enterprise Financing- 2004" and distributed to Banks and financial Institutions. At first, Bangladesh Bank issue circular at 02/05/2004 about SMEs. The increased practical importance of the small and medium enterprises for socio- economic development of the economy unleashed the dialogue for the development of institutions the promotion and development of SMEs all over the world in general and in the developing countries like Bangladesh in particular. Now-a-days NCBs finance SMEs through varieties programmes. They took a programme to finance SMEs of women entrepreneurs at a simple conditions. Private Bank and financial Institutions more finance SMEs than NCBs. Research on the financial services for the promotion and development of SMEs revealed different pictures at home and abroad. The financial Services of the NCBs, Private Banks and Financial Institutions even within a country differs significantly. The NCBs in Bangladesh have worked to share the socio-economic development work of the governments. To this end promotion and development of SMEs scheme of the NCBs is assumed to have high value addition to the society. This assumption together with the different results on the financial services have given rise to the need for evaluation of financial Services of the NCBs for the promotion and development of SMEs. Accordingly, the researching issue is **"Nationalized Commercial Bank's financial Services for the promotion and development of small and medium enterprises. Evaluation of their credit performance."**

To address this evaluation issue, 'The Balance sheet' & 'The Financial Ratios' of a firm have been analyzed in forming opinion whether the business firms were progressing, deteriorating or static after examining the currently practiced Guideline, Circulars and disbursement procedure of NCBs and Bangladesh Bank. The ratios were applied on the predetermined NCBs' sample SMEs which were distributed loans by NCBs mostly collected from Dhaka or side of Dhaka predominantly engaged in manufacturing, trading or services activities. Data were collected using structured questionnaire by personal

interviews of SMEs entrepreneurs finance by NCBs and NCBs official. The research reveals that NCBs financial services for the promotion and development of SMEs were very much needed but the services were found insufficient. While considering all the financial variable together, financial services for the promotion and development of SMEs, the financial services were found very significant.

The development of SMEs was also examined from the view point of existing Guideline of FUCUS GROUP, BRPD circulars of Bangladesh Bank, loan disbursement and repayment procedure of NCBs and condition of International Agencies like ADB, IMF and World Bank. The financial services of NCBs were found weak and slow. The loan disbursement amount was lower than the SMEs need. ~~The Weakness of BRPD circular~~ were found also. As BRPD circular no-01 dated 08-02-2006 NCBs and FIs must be maintained 2% of general provision of disbursed SMEs loan. It was the excess arrangement of NCBs and FIs to finance SMEs. Refinance conditions of International Agencies like ADB, IMF & World Bank were not so viable.

Finally, the financial services of the NCBs and FIs for the promotion and development of SMEs were found necessary but gap was found between the demand of the SMEs and the supply of the financial services of NCBs. The supply of financial services was less than that of the demand of the SMEs.

The SMEs Foundation, Bangladesh Bank and International Agencies should consider simple procedure and arrangement of SMEs Fund to reach root level. So that, the campaign to finance SMEs would be successful. There is a bright prospect for the development of SMEs in our Bangladesh. Once the entrepreneurs are motivated, investment climate develops marketing facilities are insured there would be expansion of SMEs with the patronization of our Govt. departments like Board of Investment, Ministry of Industries, Ministry of Finance, Bangladesh Bank & monitoring Agencies & Donor Agencies like World Bank, IMF, ADB etc. Prevention of natural calamity is also important for such purpose.

Chapter-1

INTRODUCTION

Prelude:

The nationalized commercial banks (NCBs) play crucial role in the development process of Bangladesh. The NCBs hold important share of the deposit and investment of the banking sector. It has the duty to implement economic policy of the Government such to strengthen the small and medium enterprises to improve the condition of the rural economy. This study deals with an assessment of the contribution provided by the NCBs' credit program to SME promotion and development in Bangladesh. This report is the outcome of about extensive research on NCBs' financial services for the promotion and development of SMEs. It is presented as the basic requirement for the fulfillment of the degree of Master of Philosophy (M. Phil.). Financial services of the NCBs extended to the SMEs for the promotion and development were examined and analyzed to measure the performance of such services. The necessity and the impact of financial services have vividly been studied based on the demand of SMEs and Policies of the Government, Circulars of Central Bank and Guide line for Small Enterprise Financing. Finally, in chapter 5 the impact of NCBs financial services were evaluated based on the performance of the SMEs. A comparative analysis between the performances of NCBs' financial services and the performances of the entrepreneurs of SMEs were attempted to assess. The study is expected to provide guidelines for promotion and development of SMEs by the financial services of NCBs specially in a developing country like Bangladesh.

Objectives of The Study:

The main objective of the research program is to evaluate performance of financial services of NCBs provided to SMEs in terms of their regulatory operational, administrative and institutional policies and strategies. Broadly, it evaluates the types of financial services of NCBs for promotion and development of SMEs and the extent of success of the financial services as well as of impact on the performance of the SMEs.

The Specific Objectives were to:

1. Assess the various types of NCBs' Credit Programs to SMEs for promotion and development (i.e. the supply of various types of financial services).
2. Assess the various types of financial services required or expected by the SMEs (i.e. Demand for financial services).
3. Assess the gap between the supply of credit by NCBs and the demand for credit of SMEs.
4. Measure the credit performance of NCBs and constraints there on.
5. Provide suggestions for appropriate policy, guideline for credit programs that might promote & develop the SMEs.

Coverage of the Study:

The study concentrated on the financial services of NCBs to small and medium enterprises and covered a period of 04 calendar years from 2001-2002 to 2004-2005. In some cases, however, relevant development in other years was also discussed. Particularly attention was given to bring out the lending position of NCBs to SMEs. The study compares strength and weakness of the policies and guidelines, circulars and regulations of Bangladesh Bank about credit to SMEs by NCBs.

Rationale of the Study :

The choice of the aforesaid area of the research interest concerned with the performance of the NCBs' financial services for the promotion and development of SMEs in Bangladesh has been put forward for a number of practical reasons:

Public and private Banks and financial institutions generally feel better to disburse its credit to large and famous industries for timely repayment. In a 1979 report entitled "Science Indicators", the National Science Foundation of US revealed that for every research and development money invested in small firms, they produced four times more innovation

that the medium-sized firms and 24 times more innovation than the larger firms (Sullivan and Lane,1983, Murshed and Bhuiyan, 1990). The creation and development of SMEs is seen as an important element of overall economic policy, especially for promoting employment, reducing poverty and enhancing overall growth, especially of a developing economy (Mazumder and Chowdhury, 2001). This was evident from a recent international study that out of 6530 listed small industrial units only 22% were developed with institutional assistances (Khan,1980). Therefore, the study of evaluating the performances of the NCBs' financial services for the promotion and development of SMEs in country is of utmost importance.

There is a growing recognition of the social and economic value of Small Enterprise (SME) throughout the world in general, in developing countries in particular (Sarder and Asma, 1996; Harper, 1987; Timberg,1992; ILO, 1992;). It is the economic units accounted for the lion's share of all enterprises throughout the world (Mia,2000, Sarder,1990). It generate employment (Mazumder and Choudhury, 2001; Kilby,1979; Mannan,1993; Khan, 1980; Sarder,1990, 1996) and poverty alleviation (Mazumder and Choudhury, 2001; Mia, 2000; Sarder,1990) as a way to economic development.

Importance of the studies in Bangladesh can better be attributed to the knowledge of improved and efficient lending policy and technique and recovery policy which ultimately call for a sound theoretical knowledge compiled with empirical investigation and analytical bent of mind for its proper application this has been viewed by eminent scholars, bankers, economists, professionals and policy recommending personalities of the country (Ahmed,1989).

The present study is a pioneering attempt in the field of NCBs financial services to SMEs for the promotion and development particularly in the field of comparative situation of NCBs in Bangladesh. A lot of research has been done on the various aspects of bank financing as noted in the report of the National Commission on money, banking and credits 1986 but no specific study has been done on it in Bangladesh.

Development of SME has been viewed as a strategy for the development of the economy by the government of most of the developing countries (Khan,1980). As such most of these governments have been taking or already have taken policies for the development of SMEs on a priority basis (Mia, 2000).

Several developed as well as developing countries are providing institutional financial services for the promotion and development of SMEs. The impact or the performance of such financial services need to be evaluated for efficient delivery of financial services and efficient feedback system of such delivery (Mia, 2000).

Against the background of the clauses from the above as well as from the review of related literature and the significance and relevance of the study to the NCBs, this study has been planned. This study will be helpful for our policy makers, strategic planners, decision makers, responsible for the development of SMEs in Bangladesh. Once the major strength, weakness, threat and opportunity of the vital sector like SMEs are uncovered strategic opportunity would be easier to adopt.

Chapter-2

Literature Review and Conceptual Frame Work of the Study

2.1. Literature Review:

The study of the 'Nationalized Commercial Bank's Financial Services for the Promotion and Development of Small and Medium enterprises. An Evaluation of their Credit Performance' demands a close study of related literature for useful analysis in this field. Although in our country very little research has been done on SME, a significantly large number of researches have been carried out and many more are under way in other countries, both developed and developing. An attempt has been made to survey a brief review of some important and relevant works so far undertaken in the field of SMEs.

Promotion and Development of small and medium enterprises have been recognised as an important and effective strategy for the overall industrial progress in any developing and developed country of the global (Rahman,1980). Government of Bangladesh as well as other countries in the world has been working for the promotion and development of small and medium enterprises (Mia, 2000, GOV. 2003-2004). SMEs need financial services. Government of Bangladesh also has been trying to develop congenial policy support for the cottage industries (Mia,2000). Alam (1995) conducted a survey on thirteen rural credit programs together with social services can help develop rural enterprises (Mia, 2000). Similar conclusive remarks were also made by world Bank (1995), Bennett et al (1996) and Wong et al (1997). Micro-enterprise an economic units like small, medium and large enterprise (Mia,2001). M. A Mannan has stated in his studies (1993) that small enterprises employ people more than the large industry sector in Bangladesh. Md. Abul Kalam Azad (December, 2000, volume xxi) showed in his study that Development of small scale industry is considered important in Bangladesh specially in the context of the vast population and capital scarcity. The lending operations seemed to suffer from a number of flaws, which need to be addressed in proper perspective. The appraisal process of the proposed project for which loan is sought is lengthy, cumbersome and complex. This should be simplified as far as possible.

The study by Azizur Rahman Khan (June, 1980) shows that effective entrepreneurial training covering all the aspect of product development, market development, financing techniques, use of funds, procurement and maintenance of equipments, development of skills, motivation etc. should be given before a man is allowed to start an enterprise. This training should be given in a planned way throughout the country at a regular interval by mobile teams consisting of reasonably qualified, experienced and trained personnel.

Yudhvir Uppal (1996, p-81) shows his studies that small sized manufacturing units pay a higher wage per unit of capital and generate a higher surplus per unit of wage bill than comparatively larger sized units, small industry is an important and efficient form of investment.

We have United Nations Publications on the small enterprises covering policies, plans, progress, marketing and selling of products, training, management, problem or difficult and causes of sickness of small industries in different countries. They deal with policies and principles bearing on the establishment of small and medium enterprises, the physical planning and technical and organization problems involved. Some reports made observations on the SMEs program in Bangladesh and the reports of various committees appointed by the Government of Bangladesh on the subjects. In addition, there are reports of various committees and working groups appointed by Government of Bangladesh at different stage of the programme.

In the light of vastness of the country, the wide variation in the level of industrial development of different regions and rapidly changing industrial environment it is important to undertake more micro/regional studies from time to time in order to determine the effectiveness of the programme as a tool for small-scale industrial development.

2.2. Conceptual Framework:

This section is designed to accommodate a number of concepts based on which the dissertation '**nationalized commercial bank's financial service for the promotion and development of small and medium enterprises. An evaluation of their credit performance**' is produced at concepts such as NCBs, Financial services, SMEs, Promotion and development etc have been put forward in this chapter. A clear concept on these terms will direct and control the research touch it objective.

Nationalized Commercial Banks (NCB):

Immediately after the Government of Bangladesh consolidate its authority, in order to remove the prevailing control of the capitalists over the banks, it decided to adopt a socialist pattern of society as its goal. This is means a society with wealth distributed as equitably as possible was adopted as the state policy of the Government for the newly created state of Bangladesh. Needless to say that the banking institutions are the custodians of private savings and a powerful instrument to provide credit. They mobilize the resources of the country by accepting deposit and channelise them for industrial and national development by granting advances. Hence, in order to implement the state policy, the Government of Bangladesh decided to nationalize all the banks of the country. Accordingly, on the 26th March, 1972, the Bangladesh Banks (Nationalisation) Order, 1972 (President Order No. 26 of 1972) (APPENDIX-IX) was promulgated. All the existing 12 banks viz. the National Bank of Bahawalpur Ltd, the Premier Bank Ltd, the Habib Bank Ltd, Commerce Bank Ltd, the United Bank Ltd, the Union Bank Ltd, Muslim Commercial Bank Ltd, the Standard Bank Ltd, the Australasia Bank Ltd, the Eastern Mercantile Bank Ltd, and the eastern Banking Corporation Ltd, (all together called "existing Bank ") were nationalized and taken over under that President's order 26 of 1972 (which for the sake of convenience hereinafter referred to as "Nationalizing law"). A short discussion of the provisions of the Nationalizing law is made in the following paragraphs:-

Main provisions of nationalizing law: " Whereas it is expedient to provide for the taking over of the undertaking of certain banks in Bangladesh and for matters connected therewith and incidental thereto."

The Nationalizing law has no long title. The preamble, as quoted above, does not give any reason for nationalization of the banks. So, the Nationalizing law speaks nothing about justification for the nationalization of banks. However, its substantial provisions mainly deal with the following topics, namely:-

- a) the mode and mechanics of transfer of the undertaking of the existing banks i. e. the banks named above;
- b) the constitution of 6 new banks, namely, the Sonali bank, Agrani bank, Janata bank, Rupali bank, Pubali and Uttara bank;
- c) the management of the new banks;
- d) the payment of compensation to the shareholders for such shares which have not already been vested in the government.

Besides the above, the Nationalizing law contents provisions on authorized capital, functions, accounts and audit of new banks and terms and conditions of service to the employees of existing banks in the new banks, power to make rules and regulations, etc.

According to 'The Bangladesh Banks (Nationalized) order, 26th march 1972 (President order no-26 of 1972)' 1) Sonali Bank, 2) Arani Bank, 3) Janata Bank, 4) Rupali Bank 5) Pubali Bank and 6) Uttara Bank are the nationalized commercial Banks.

The Nationalized banks could not play the due role in the implementation of Government programme and policy. Hence a trend of denationalization of banks started from mid-eighty. In order to enable the government to transfer any new bank i. e. nationalized bank to private sector, a new Article was inserted in the Nationalizing law by the Bangladesh Banks (nationalization) (amendment) Ordinance, 1977(Ord. XXVIII of 1977). After the amendment in the nationalizing law, the Pubali Bank, Uttara Bank and Rupali bank (partial) have been transferred to the private sector.

Financial Services:

Despite the fact that financial deregulation and globalization of financial market have created additional source of loanable fund for many large firm, small and micro enterprises are still relegated to small and micro business credit and bank loan as their primary sources of operating fund (Curran, 1986, Gitman, 1988). National Federation of Independent business of USA found that in 1988 to 1990, 76% of all operating small businesses including MEs utilized bank loan at some point during their existence (Sinpolies, 1990 & Van Auken & carter, 1989).

From the above discussion, it reveals that financial services include bank loan, and credit from financial institutions or other government and non-government agencies. Financial services are used to meet the requirements for working and fixed capital. To acquire land and building, to buy machinery, equipment and other assets, there is a requirement for fixed capital. Sometimes, financial assistance is required to support the extended operation. Besides, financial services are also provided for working capital items such as purchase of raw materials, payment of operating expenses like salary etc.

Credit:

The word 'credit' comes from a Latin word 'credere' meaning belief or trust (Iftekhhar, Ph.D. thesis, 1989). In business a person is said to receive credit when he receives goods or money on the understanding that he will pay for the goods or repay the money in due course. The simplest form of credit is 'personal credit' which many of us receive from time to time when we buy goods in a shop and suddenly discover that we have left our money at home. If the shopkeeper knows and trusts us sufficiently, he will allow to take the goods at once and make payment later. When a shop allows a customer to have a regular monthly account, it is still personal credit, although of a more definite kind. Of the various types of credit, the simplest form of bank credit is the overdraft. When the banker gives permission for a customer to draw out money in excess of the balance he has at the bank. Overdrafts are occasionally granted against purely personal security, that is, against the customers promise to repay by some pre-arranged date. More often some sort of collateral security is insisted on,

such as government bonds, stocks and shares or guarantees entered into by the customer's partners or by other responsible people. The advantage of an overdraft is that the borrower has to pay interest only on the amount actually overdrawn.

The other way of borrowing money from a bank is by a 'loan account'. This is open for the customer at an agreed rate of interest. The full amount of the loan is charged against the customer's account, and placed to his current account for him to draw against. He pays interest on the total amount of the loan, however much or little of it he spends (Salt, Laura E. and Sinclair, Robert, 1976). Credit is a reputation for solvency; the time given for payment of goods sold on trust; trust reposed with regard to property handed over the promise of payment at future time; anything due to any person; the side of an account in which payment is entered, opposed to debit; an entry on this side of a payment received. For the purposes of the Customer Credit Act, 1974 "credit" includes a cash loan, and any other form of financial accommodation (Perry, 1997). Credit is basically a "power" which, when exercised gives the lender a "right". The word "Credit" is used to apply to credit transactions, credit standing and credit instruments. Although credit is not wealth, it is an indispensable agent in the production of wealth. It serves as a medium of exchange, adds flexibility to supply and demand, makes capital more productive, speeds up production and distribution, increases the volume of business, and performs many other valuable functions for the businessman. Credit plays an important part in the business cycle. The Government can control credit, and in that way influence the business cycle through Bangladesh Bank. Able credit men can also help maintain by extending or withholding credit, thereby making a profession of their work. Credit may be classified in many different ways but our approach to the study of credit remain within the periphery of credit in commercial banks. Bank credit stands for credit extended by banks to borrowers (Phillips, 1920).

Small and Medium Enterprise:

The vast majority of business firms in any country are small (**Stanworth, J, Westrip, A, Wathins, D and Lewis, J.1987**). Although the definition of "small" varies from country to country, time to time and study to study, there is no doubt that a very significant proportion of the economy is based on small firms. Moreover, it is the undisputed fact that small business has demonstrated incomparable innovative fertility (**Murshed & Bhuyan, 1990**). In a 1979 report entitle "Science indicators" the national science foundation of U.S revealed that for every research and development money invested in small firms, they produced four times more innovation than the medium sized firms and 24 times more innovation than the large firms (**Sullivan and Lane, 1983**). Finally, most of us today are interested in being active participants in the game of living rather than merely passive observers. Doing our own thing and searching for a sense of meaning identity, created and achievement are important to a great many people (**Murshed & Bhuan,1990**).

One of the best ways of accomplishing these things is to become the owner manager of an independent "small" business. Thus small firm deserve a good deal of attention. Many countries set up program to stimulate the establishment of small enterprises (**Ritchie, T,1985**). It would be easy to apply a quantitative measure, such as number of employees or annual sales. But the problem is that a given number of employees in one industry will constitute a small firm and in another, a large firm. The definition of small will have a bearing on the research questions to address. Different definitions make it harder to draw conclusions on common ground in the research of small firms. In fact, simple quantitative measures do not highlight the features of the firms in question.

There is need for more elaborate quantitative definitions which of some scholars are given below:-

Sulvan and Lane's Definition:

- a) Independent management (usually the owner),
- b) owner supplied capital,
- c) Mainly local area of operation,
- d) Relatively small size within the industry.

Mintberg's Definition: Mintberg describes the key elements as the owner in an organization with little specialization, formalization and very centralized with no techno-structure. The owner-manager is responsible for many or all function in the firm and has generally very little interest in administrative work. The manager is therefore expected to have little interest in the financial management of his firm which our research showed to be true.

Traditional, Partly Modern, and Modern Small Industry:

Staley and Morse told their study that within the broad field of small industry, we shall need a number of sub classifications. One important distinction will be between traditional and modern small industry. A major thesis of this study is that development leaders in newly industrializing countries will be wise to direct small industry policy toward the up building of modern small industry by encouraging (1) gradual transformation of the traditional small industry sector, and (2) establishment and growth of new, modern types of small industry. This twain process we shall refer to as modernization of small industry.

We mean by traditional small industry those forms which prevail in and cater to the needs of the traditional economy. Traditional small industry is characterized by products, techniques, and organization not very different from those of previous generations.

Modern small industry, by contrast, in our concept means small industry which caters to the needs of the emerging modern economy, is progressive in outlook and adaptable to changing conditions, uses the results of modern science and invention in its production processes, and applies reasonable up-to-date ideas of organization and management in its business operations. Modern small industry thus differs from traditional in four major respects:

Modern small industry thus differs from traditional in four major respects:

1. Outlook:- There is a continual search for improved ways, ready adaptability.
2. Products and product design:- Products are suited to modern needs or to the emerging needs of an economy in transition from traditional to modern.
3. Physical technology of production:- Appropriate use is made of efficient machines, goods plant layout, precise control of chemical processes, etc.
4. Social technology of organization and management:- appropriate use is made of business planning and budgeting, market analysis, cost accounting, enlightened ideas of personnel management, etc.

Administrative definition:

Staley and Morse told in their study that when governments set up organizations to aid small industry or segments of it, especially when these offer services or privileges not available to all industry, there is need for administrative definitions to determine who is eligible. This need arises, for example, in connection with loan funds, free technical advice, and possible space in industrial estates, raw materials allocations, or government purchase orders set aside for small industry. As might be expected, in view of the wide range of environments in countries at different stages of industrial development, administrative definitions of small industry cover a wide range for example:

India: The government's program for small-scale industry assists units having no more than Rs. 500,000 (about U.S. \$100,000) of fixed capital, in certain cases no more than Rs 1,000,000 (about \$ 200,000). Formerly there was also the limitation: no more than 50 employees power or 100 with power. But this employment limit was removed in 1960 for a number of reasons, among them the thought that there should be no disincentive to growth, especially growth in employment. There are separate programs in India for handloom weavers, " khadi and village industries " silk, coir, and artistic handicrafts. The small-scale industry program therefore focuses almost entirely on small factories.

Cylon: Small-scale manufacturing is officially divided into (1) cottage industries, carried on wholly or primarily with the help of members of the family either as a whole or part-time operation; (2) handcraft industries, products artistic in character requiring traditional skills or craftsmanship in their manufacture; (3) small industries, using power, but capital investment in machinery and equipment not over Rs.2,00,000 (\$40,000).

Japan: Various laws for assisting smaller enterprises recognize an upper limit in manufacturing of 300 employees, sometimes with a capital limitation of 10 million yen (about \$ 28,000).

United States (USA): A manufacturing firm is officially a small business in connection with government procurement orders if it is not dominant in its field of operation and has fewer than 500 employees, or if it is certified as small by the Small Business Administration. For eligibility to benefit from small business loans and technical and other assistance, it is classified as small if it has less than 250 employees, as large if it has more than 1,000, and within the 250 to 1,000 range as either small or large, depending on size standards set by the Small Business Administration for particular industries.

Italy: The law for promoting development of South Italy provides that to be eligible for aid to small and medium industry an enterprise must have certain structural and size characteristics. It must operate a truly technically organized plant which carries out one or more cycles of transformation of raw materials or fabrication of products. It must have an

effective industrial character, different from artisan enterprises as defined in another law and for which there are separate aids. On the other hand, it must not fall outside the concept of medium industry, for which the upper limits are: capital investment not more than 1,500 million lire (about \$ 2,400,000), and maximum employment of 500, including managers employees, and operatives.

Statistical Definitions:

Definitions of small industry used in gathering or interpreting statistics have also ranged widely (Staley and Morse, **Modern Small Industry for Developing Countries, p-12**). For example:

ECAFE,1952: A working party on cottage and Small-scale Industries of the United Nations Economic Commission for Asia and the Far East suggested, in an effort to standardize terminology, that cottage industry should be defined as "carried on wholly or partly with the help of the members of the family, either as a whole or a part-time occupation," and small-scale industry as "operated mainly with hired labor, usually not exceeding 50 workers in any establishment or unit not using any motive power in any operation, or 20 workers in an establishment or unit using such power."

Indonesia, 1955: As reported by a United Nations technical assistance expert "small industries are considered to include all productive units employing less than 10 full-time workers and not using mechanically driven tools or machinery. Home and cottage industry comes within this size classification. It is unlikely, even though possible, that any industry showing the characteristics of a factory would lie in this size range." "Medium Industry is the best term to describe those productive units whose size lies between the small-scale or home industry and real factory industry. Arbitrarily for statistical purpose they have been defined as factories having 10 or more workers and/or one installed horsepower having no more than 50 workers and/or 5 installed horsepower." "Large or factory industry covers establishment with 50 or more workers and/or having five installed horsepower."

Middle East, 1958: United Nations report on Development of Manufacturing Industry in Egypt, Israel, and Turkey refers to manufacturing establishments employing 10 or more persons as medium-scale and large-scale, limiting the term small-scale to establishments with less than 10 persons.

Sargant Florence, 1948,1962: Using British and American census data, Florence analyzed prevalent sizes of plant by industry and related the findings to certain other characteristics. His rules for assigning an industry to a particular size classification included: small plant, 50 percent of total persons employed in establishments employing less than 50, or 60 percent in establishments with less than 100; smallish plant, 50 percent employed in establishments employing 50 to 199 or 60 percent in establishments with 25 to 199; medium plant, 50 percent employed in establishments employing 100 to 499, etc.

ECLA, 1957:A survey of industrial trends in Latin America called manufacturing units with five persons or fewer undersized industry and discussed its most important components under the headings: home crafts, found to be shrinking rapidly; handicrafts, growing slowly, handicapped by a shortage of genuine artisans; and dwarf industry, devoted usually to production of the simplest types of goods, in competition with factory industry, and growing rapidly, in some cases outstripping the growth of factory employment.

Others:

As circular letter no-02 dated 19-07-2005 of ACSPD (Industrial sub division), Bangladesh Bank, an industrial unit to be 'Small enterprises' having fixed investment not exceeding Tk. 10 million.

Industrial policy, 2005, defines small scale industry as an industrial undertaking engaged either in manufacturing process or in service activity with a total investment less than Tk.one and half crore or 15 million in fixed capital with initial capital.

On the basis of employment criterion, Industrial policy, 2005, identifies an industrial unit to be 'small' which employs less than 25 persons. An industrial unit employing between 25 to 100 workers is categorized as medium while units employing more than 100 workers are called large-scale enterprises.

Promotion and Development:

Promotion and Development which are closed word each other, can be described from varieties side. Many scholar describe this word from their angles. Description given by Abdul Hannan Mia about the term in his Ph. D thesis is given below:

The term promotion and development can be viewed from various angles. sometimes these two term are used interchangeably to denote the same meaning. However, distinction is made between the two for practical reasons. Though the term promotion means initiation of something, it is used to denote different things in different situations. Here in this dissertation the word promotion is used to denote initiation of enterprises. It includes all activities required to initiate a micro and small enterprise. This includes motivation to create Environmental awareness, to find out or to promote an effective idea, to validate that idea and to create mental drive and determination to start a micro and small enterprise. These are the activities required to give a push for the initiation of a micro enterprise. When entrepreneur takes an idea it is also said that an idea has been promoted. When the idea is implemented or executed it is said that the enterprise has been promoted. This promotion of micro enterprises is the process of initiation of various financial and non-financial activities that eventually gives birth to an enterprise.

The term development is also subject to various interpretations. Usually development refers to the positive change in the object under consideration. An object may be a process, tangible or intangible assets, Human being, thinking, concept, institutions or the activities of an institution. Johannisson (1991) stated that a growth or development concept must encompass both quantitative and qualitative change. Qualitative growth refers to the increase in the ability of the firm to diagnose and deal with structural change in the environment of the firm as well as with changes in the value system of entrepreneurs. Quantitative growth or

development, on the other hand, means the increased ability of the firm measured in terms of sales, production, investment, profit, reserve, and other variables. While quantitative growth is attainable by way of single loop learning, qualitative growth is always a double-loop learning (Argyris and Schon, 1978).

2.3. Various Stages of Small and Micro Enterprises Development

The stages of small and micro enterprise development have been described by various researchers from various angles. Scott and Bruce (1993) for example, have identified five stages of enterprise development. They are *inception*: the period covering starting up to entry to survival; *survival*: the period that cover the phase of turning to survive up to entry to growth of the business; *growth*: the period covering starting up to entry to survival; *expansion*: the period that requires additional support to expand; and *maturity*: the period covering the full expansion of the enterprise. Steimmetz (1989) focused on the evolution of small and micro enterprises and developed a model where he looked into three stages. He termed these stages as (i) direct supervision, (ii) supervised supervision, and (iii) indirect control, Cooper (1979) proposed a scheme consisted of three stages of the small enterprise development. These are start-up, early growth and later growth stage. Wines (1986) also identified almost similar stages of development of the MEs and small enterprises. Mount et al.(1993) described another model of small and micro business growth containing five phases. These are the owner operated organization, transition to a owner manager organization, the owner-managed organization, and transition to emergent functional Management. Durham University Business School (DUBS) developed a model after evaluating 20 years (1970-1990) small and micro enterprises supporting activities and programs to help the supporting agencies to develop need based supporting programs. These are pre-start-up, start up, survival, first growth stage, second growth stage, and internationalization.

This model is well thought-out and well accepted. But this model did not consider the transition period and did not provide any guideline about how to handle crisis rather totally neglected the transition periods. Moreover, this model was developed based on only UK experience. Thus, none of the stated model can be considered as a complete model.

2.4. Mia's Growth model of ME and Small Enterprise :

This model has got similarity with that of DUBS.

Stage-1: Pre-Start Up

The phase of ME and small enterprise development that aims at raising awareness and or building knowledge, competence and capabilities of the people who are still exploring the option of going in to the business is known as pre-start up. In this stage the potential entrepreneurs may be looking for new ideas, may be suffering from indecision about choosing the option. This stage can be characterized by the state of stimulus and commitment of the potential entrepreneurs towards a valid idea. Apart from these, developing a series of planned activities and negotiating with the various parties to get in to business is the major theme of this stage. Acquiring motivation, developing an idea, validating the idea, identifying resources etc. are the activities to be completed in this stage.

Stage-2 : Start-Up

This stage aims at building knowledge and of the people who have made a firm decision and commitment to go into a business. This stage includes activities like enterprise planning and negotiating, implementing idea or execution of the well thought out plan.

Stage-3: Survival

Survival stage of enterprise development focuses on the development of basic business knowledge and competence. This stage aims at assisting people who have began trading but need to acquire the basic business ability to run the enterprise. Developing survival skill, monitoring and control technique, environmental awareness, family empathy and consolidation of various system are main activities to be perform in this stage.

Stage 4 : Growth Stage

Growth stage aims at developing micro enterprises through the development of the entrepreneurs and their managerial abilities. This stage focuses on the development of functional skill of the owner managers. They should know how to device plan, how to structure the resource to implement the plan, how to influence the employees towards the achievement of that plan, and how to develop their supervision and controlling skill to help enterprises developed. Strategic awareness, environmental awareness, analytical and problem solving skill of the entrepreneurs, and developing financial resources to support all development aspects are the key to this stage. Nevertheless in this stage SMEs entrepreneurs might require some ability that help to develop team sprit and strategic planning. This stage ends with spreading operational activities across national boundaries.

Stage 5: Internationalisation:

This phase aims at developing the international aspect of the business beyond the incidental import and export business into active participation. The owner manager should develop knowledge about export, import and international environment .

Transition Periods :

Transition phase is common to all the stages except internationalization. The characteristics of each stage of development are different from both preceding and succeeding stages. Distinctive technical, managerial, financial and other operational abilities are to be acquired by the enterprises to face the initial and new challenges of next stage.

From the above discussion it is clear that the Small enterprises require different financial services at different stages. The requirement of SMEs in one stage is not necessary to be the equal requirements of another stage (Maville, 1992). For example the information on business development all issues such as legislation is not the requirement of several stages of the enterprises but supporting additional working capital is a requirement of the stages of growth (Maville, 1992). Thus, understanding of the development stages of small enterprise will help the supporting agencies to provide required support services and also will help to make an necessary evaluation of the delivery of financial services by NCBs as to whether they are providing financial services based on the requirement of each stage of development.

2.5 Review of the Currently Practiced Models:

For an effective framework has given rise to the formulation of frameworks those can be divided into the following classes as Sarder (1995) and Mia (2000) pointed out:

- the framework related to the promotion and development of small and MEs called general model and
- the framework related to the evaluation of support services for the promotion and development of MEs, called evaluation model.

Though there are differences between the two terms- model and framework but they are often used interchangeably. The term framework is a structure composed of parts and relationship. Nachmias and Nachmias (1991) stated, "The third level of theories is conceptual framework. Her descriptive categories are systematically placed within the broad structure of explicit as well as a map or a set of map whose structure and layout is guided by theory" (p-14).

From this statement it is clear that the framework provides a guideline or direction as to how problems are to be solved. It also reveals the systematic layout of explicitly assumed proposition within a broad structure. This structure simply prove ideas the process of solving problems to derive propositions systematically. Thus framework is a graphical or descriptive way of presenting or organizing a rational thinking that can be used in simplifying the problems to be solved. A model on the other hand can be defined as the cause effect relationship among variables having interacting and interdependent influences. Buffa & Dyer (1977) stated that a model is a simplified presentation of a complex system or phenomenon. Models are sometimes built purposively to habit properties and features of related objectives. Models are of various types. Willams (1990:3) & Nachmias (1991:50) described models from the viewpoints of physical and mathematical shape respectively called concrete and abstract. Concrete model has physical shape like model of a television or aircraft. Abstract models are mathematical equations, algebraic symbols or descriptive structure like the economic system of Japan. Models usually show and signify the relationship among variables under observation. They help in the formulation and derivation of cause and effect

relationship of the variables of observation those are empirically tested. These models are the mathematical equations (expressed by algebraic symbol abstract) or the physical shape of an object (concrete) or a descriptive way of expressing relationship among interdependent and interacting variables or elements those help to formulate empirically testable proposition regarding the nature of cause-effect relationship of the variables. Thus models profoundly establish explanatory and predictive power and features to predict and explain the variables and their cause and effect relationship (Sarder, 1995).

2.6 Framework for Small and Micro Enterprise Development

The review of the existing literature identified some model of enterprise promotion and development. The models those are relevant to the current study has been reproduced and briefly discussed in this section with due focus on the promotion and development process of SMEs.

Neck's Enterprise Development Model:

Neck (1977) considering the informant factors that gives rise to the development of enterprise, developed a model for small enterprise development. His model is conceptual and based on three factors like host, agent and environment what he calls prime factors. These factors are diagnosed to a remedial measures based on the result of the analysis. Thus this model is divided into two phases.

1. Diagnostic phase and
2. Remedial phase

Because of these two steps, this model is popularly known as two step model. Neck's two step model can be visualized as below.

Neck's Two -Step Model for Small Enterprise Development

Prime factors	Step-one	Step-Two
	Diagnostic Phase <i>Analysis of:</i>	Remedial Action <i>Development of:</i>
1.Host	Training need of managers and workers knowledge and attitudes	Programs to provide appropriate skills
2. Agent	Activities and relationship of structure providing assistance	Suitable institution to provide assistance in matters finance technological, managerial and development
3. Environment	Appropriateness of existing elements such as infrastructure, legislation, access to raw materials, information, market, labor and sources of finance	Appropriate policy and support

Source: Neck(1977).

Underlying Meaning of the Prime Factors:

Neck identified three factors as pointed earlier : These are briefly discussed below:

Host: By host Neck meant the "recipient human element" i.e. the enterprises and the involved people who can receive training, knowledge, etc. The enterprises those are being developed, were enveloped, and will be developed require training to impart knowledge to the owner managers according to the requirements. Based on the phases of enterprise development the need for appropriate training and knowledge differs. That is why enterprise development model focuses on the human elements i.e., who are the existing and potential entrepreneurs or officials running their business or thinking to develop their business.

Agent : The persons or institutions that act as an intermediary responsible for developing the causal elements giving impetus for the development of enterprises are known as agents. Various government and non-government organizations are providing support services for the promotion of MEs and small enterprise. For example, BSCIC and BASIC are the agencies for the development of MEs and small enterprise.

Environment: The surroundings that contribute the conditions within which the host and the agent try to develop enterprises. It includes legal, socio-economical, political and cultural factors. Government liberal policy conducive to the promotion and development of MEs and small enterprise can be stated as a constituent part of the environment, for example. In the context of MEs and small enterprise development, ME and small enterprise themselves are the host, the government or the non-governmental supporting institutions are the agent that provide support to the host and the legal, economical, cultural, conditions, etc. are the environment that has bearing on the development of MEs and small enterprise.

Neck's small enterprise development model's two steps are briefly discussed below:

Diagnostic Phase: In this phase the need for prime factors- host, agent, and environment- is analyzed. The skill & knowledge that the enterprises have, the level of experiences that the enterprises capitalized, the requirement of the skill, knowledge, ability and experience, etc. to be analyzed to accurately assess the need of the enterprises. The types of support services that the agents are providing, appropriateness of the support services, need for additional support services, etc. are analyzed. Besides, how supportive the environment is, what are the various constituents of the environment having positive and negative influences etc. are diagnosed and analyzed.

Remedial Phase: In this phase, actions are taken based on the result of the analysis and diagnosis in the first stage. The program that will provide skills and efficiency of the enterprises and the people working there, the suitable and demand-based assistance those are required and the policy supports that shape the environment towards the development of enterprises are executed.

Neck's model thus provides a framework for developing enterprises by providing skill, Knowledge and attitude of the host- enterprises supported by the government or non-government agent who provide financial or non-financial or any type of required support services, operating under supportive environment for the development of small and micro enterprises.

2.7. Theochairdes & Tolentiono's Small Business Creation Development Model:

Theochairdes and Tolentiono (1992) have developed an integrated model for the promotion and development of small and MEs. This model provides an outline as to how new enterprise will be created as well as how the existing enterprises will be developed. Theochairdes & Tolentiono in their model identified some constraints those are the policy regulatory environments, consisted of business climate, fiscal measures, small enterprise development institutions, and enterprise culture. Apart from the policy environment the economic business potentialities having influence on the process of enterprise development were identified. These constraints and economic business potentials influence in the process of institutional building related cost and time frame of new business creation as well as in the process of providing service and institutional building for the development of small and micro enterprises. Theochairdes and Tolentiono in their model identified some constraints these are the policy regulatory environments, consisted of business climate, fiscal measures, enterprise development institutions and enterprise culture. Apart from the policy regulatory environment the economic business potentialities having influence on the process of small business development were identified. These constraints and economic business potentials influence the process of institutional building, related cost and time frame of new business creation as well as in the process of providing service and institutional building for the development of small and micro enterprises.

The model states that all types of entrepreneurs range from formal to informal, male to female, youth to adult, can be brought in to the integrated business potential procedure that is necessary for the creation and development of small and micro enterprises. This model emphasized on the supporting institutions and their activities for the creation and promotion of small and micro enterprises. These include training programs like entrepreneurship development, business management programs, technical guidelines, business plan and financial assistance programs etc. Once the enterprise is created that the external services are required. The integrated process of creating small and micro enterprises having influence on the development of existing enterprises through identification of their needs, improvement of productivity, diversification and providing financial supports also were considered. This model attempts to like necessary supporting activities in an integrated way for the creation and development of small and micro enterprises.

2.8. Gibb's Small Enterprise Development Model

In the context of Central and Eastern Europe, Gibb (1993) has developed a model for the development of small and medium enterprises (Figure -1), where he identified four important factors influencing the development of small enterprises. These are :culture, small enterprise firm initiation and survival, small enterprise growth, and supportive infrastructure.

The following framework of policy; assistance activities; institutions and the needs of small enterprise supports services, and the need of small enterprise supports services, and the need of the society for small enterprises development embrace the four factors stated earlier (Figure-1). According to the framework of Gibb, policy can be viewed from both the macro and micro perspectives i.e. from the national and specific enterprise view point. Gibb (1981) stated that policy frame can be measured by Governments (national, regional or local) explicit statements or other organization those are concerned about the ways in which small firm development should be approached; inferences that can be drawn from more broadly based statements of the governments or other organizations that are concerned about the philosophies for economic development at national regional AND local level; and inferences from the specific measures taken by the government which are designed to effect the small enterprise sector. While describing institutional capability, he classified it as ownership, standardization, integration, target, age, and importance. The range of assistance for the promotion and development of small and micro enterprises, according to Gibb's model, are classified as hardware that includes finance, premises, materials, and other help incash or kind and software are the assistance except cash or kind and includes training, counseling, advice, etc. Gibb in his model used the word needs to denote two types of demand. First the small businesses need the assistance of the institutional supports. Second the needs of the society for the development of small and micro enterprises i.e. from the societal point of view the government, representative bodies and other interested groups are interested for the promotion and development of small and micro enterprises.

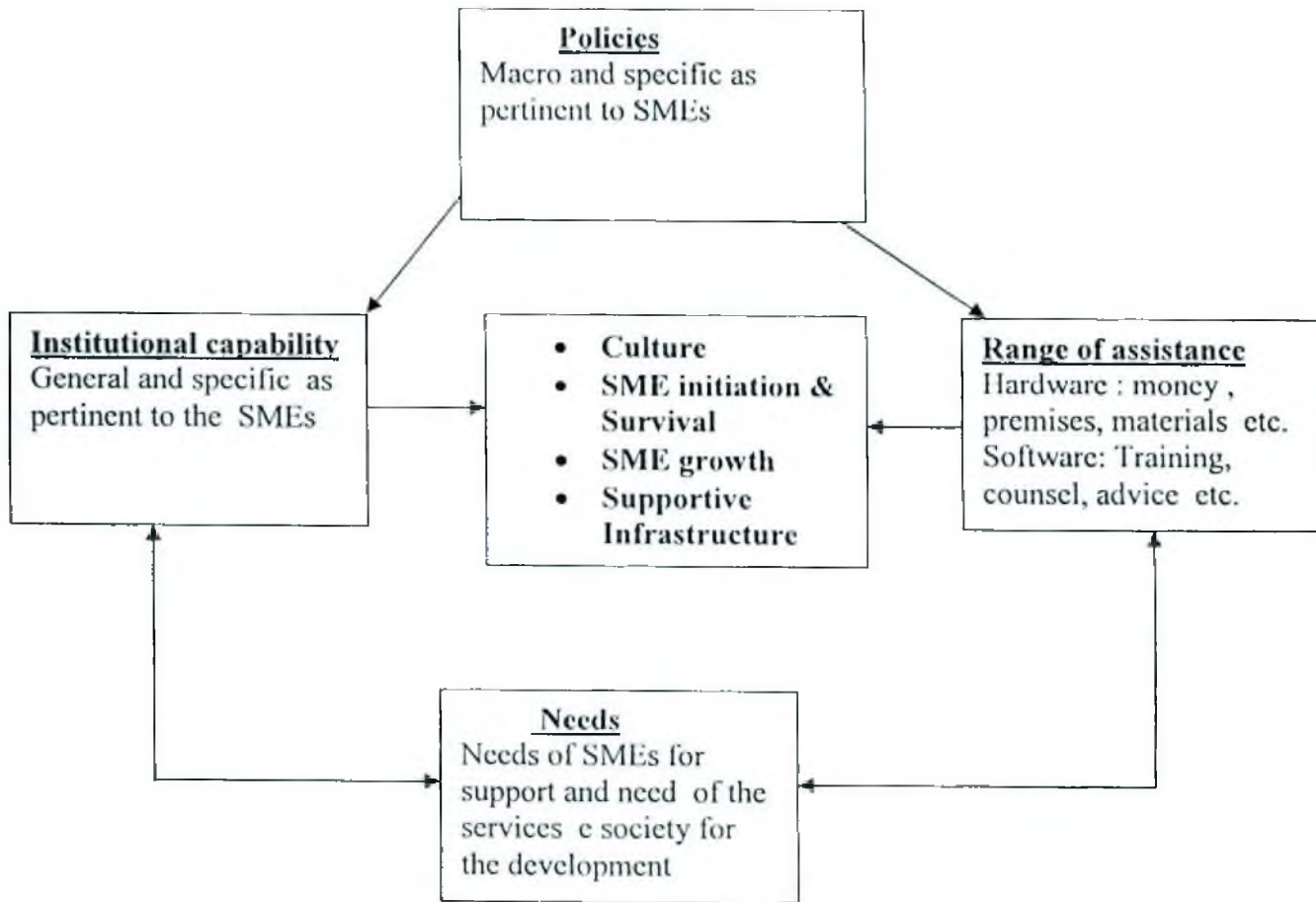


Figure-1: A Framework for Review of Small Enterprise Development.

Thus, with the framework of policies, institutional capabilities, ranges of assistance and the needs, small enterprises development is a function of culture, their initiation and survival, growth and supportive infrastructure.

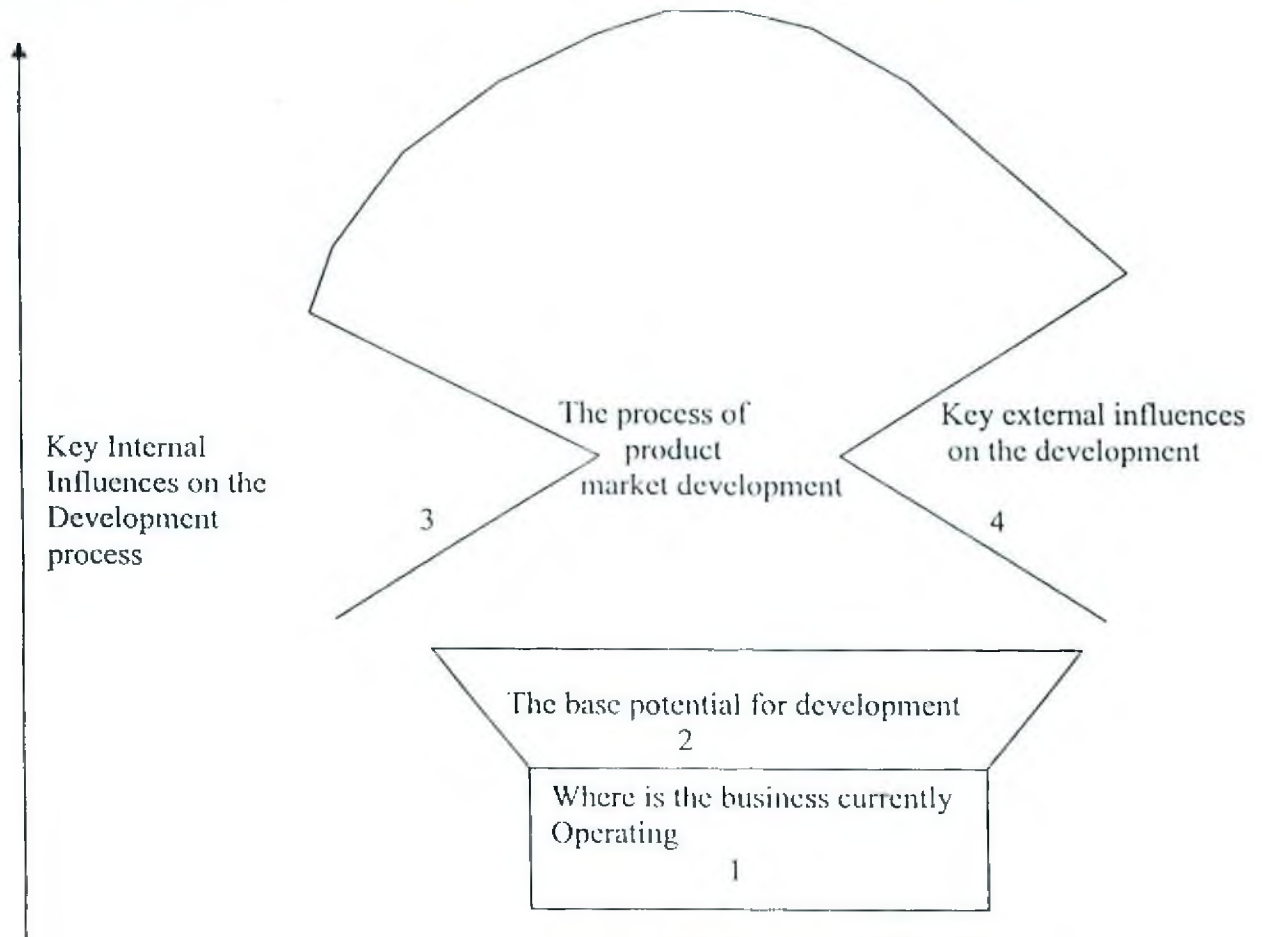
2.9. Model for the Examination of the Effectiveness of Small and Micro Enterprises Support Services.

This section is organized to critically examine some of the existing models that measure the effectiveness of the support services for the promotion and development of small and micro enterprises.

Gibo and Scott's Model of Growth through Product Market Development

Although the model is developed based on a longitudinal study to support the growth of product and market in the small firm, it has been characterised by experimental action, input designed to allow observation of the impact of different types of software support services for the development of small and micro enterprises as depicted in Gibo and Scott's model what they call flower pot (Figure-2). This model starts with the assessment of the existing performance of the enterprises shown in the figure numbered-1. The existing situation provides a base for the development as numbered-2. The examination of the existing performance at the balloon base together with the potential for development will help to determine the target at the top, where the enterprise could go with the passage of time and with the size and depth of change. Thus from the bottom end, it reviews a process of change that encompasses a number of internal and external influences, have bearing on the development process of product or market development. The authors in their model identified that at any particular point of time there are performance base relating to a market, production, and financial and management control situation. They also identified some specific parameters to measure each of the identified bases. The areas such as of management team building and commitment, environmental awareness of entrepreneurs, and other strategic awareness are highly being influenced by internal factors. On the other hand, the size and depth of change while overall demand uncertainty in the market place, competitive situation and the influence of assistance etc. are the areas where the external factors are influencing in the process of development. Taking into consideration all the internal and external factors according to this model, in the process of small enterprises development, the possible influences of the support services can be observed and examined over a period of time.

Figure-2: A Model of Growth through Product Market Development in Small Enterprise



Source: Gibb & Scott (1985: 607)

This model is important and useful to understand the process of growth of enterprises over a period of time as well as to examine the influences of the support services extended for the development of enterprises. However, application of this model in most of the developing countries is not possible because of a longer period of time to observe the change process and specially the change of Small Enterprise in the developing countries.

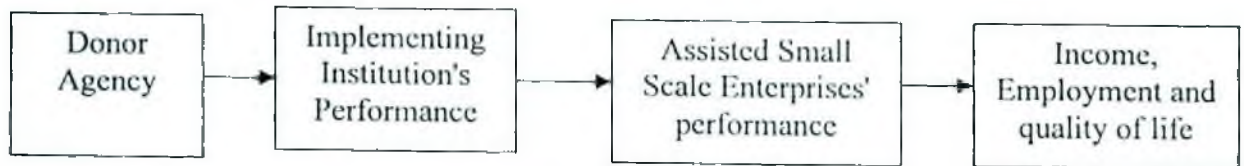
2.10. Gibb and Manu's model for Evaluation of the Design of Existing Support Services for Small Scale Enterprise Development.

Gibb and Manu (1990) developed a model that designs the extension services and support influences in the developing countries for the development of small scale enterprises (SSEs). Gibb and Manu while developing this model used the view of Beers (1990) contingency theory that the views that the organizations are dynamic and the structure and the process they are currently being used are appropriate to the particular situation and people. The main essence of this model is that the effectiveness of supporting institutions depends on the situation and the degree of agreement between the SSEs and supporting agencies in terms of people, structure, and the process employed i.e. more closer the support services in terms of these factors more effective the support services are. This has been tested in a developing economy like Ghana. Though this is an well designed and easily understood model for the design of extension support to the SSEs, yet the cultural influences and the transformational process are ambiguous and not possible to replicate, in its exact form, even in a developing country. The main contribution of this model is the parameters those can be used in the qualitative evaluation of the effectiveness of the design of the supporting institutions or agencies. Among others this model has been supported by some scholars (Miller et al.1993;Sarder 1995) specially to be useful in the developing countries for the development of SSEs.

2.11 Gold Mark and Rosengard's Impact Evaluation Model;

Gold mark and Rosengard (1985) proposed a model for the evaluation of impact of the assistance mainly made by the donor agency for the promotion of SSEs. This model is consisted of four levels (Figure-3)

Figure-3: General Model for Impact Evaluation of Small scale Enterprises Promotion Projects.



Source: Goldmark & Rsengard (1985:172)

This model starts with assessing the effectiveness and the efficiency of the donor agency in supporting the enterprises with reference to the institutional building in the first level. The impact of donor on the implementing institutes i.e. on the supporting agencies is then evaluated in the second level. In the third level, the performance of the enterprises is analyzed. This performance is thought to be the impact of the implementing supporting institutions, thus in other word, it is said that the impact of the implementing organization on the enterprises evaluated. Finally the performance of the community as an ultimate effect of the process is evaluated. This means the impact of assisted enterprises on income, employment, quality of life standard of living etc. are evaluated.

An analysis of the above model reveals that each level is very much interlinked. Every level has strong impact on the subsequent levels finally on the community, which is the main objective of the enterprise development.

This model is also helpful to determine the stage level of evaluation of the institutional support services. Once the stage level of evaluation is decided evaluation strategy are than provided under general evaluation strategies (Figure-3). The authors used a hierarchical strategy to be used in the evaluation work.

Figure-4: General Evaluation Strategy Hierarchy of of Strategies for Evaluating SSEs.

Evaluation Strategy	Methodology for Data Collection and analysis	Level of effect
Low	Classification of enterprises according to general trend by examination records found at implanting agency and conversation with staff Plus	21-28 person days
Medium	Description in-depth profile of a few case studies based on long interviews with SSEs' owner staff and family members Plus	29-28 person days
High	Quantitative analysis of financial performance of SSEs general trends through data analysis by sample survey	112-124 person days

Source: Gold Mark & Rosengard (1985:172)

The section of low medium or high strategy largely depends on the availability of required resources . According to the level of strategy, involvement of cost, time and effort vary. The choice of methodology of data collection and analysis also depends on the selection of strategy (Figure-5)

Figure-5: Data Collection Method.

General Evaluation Strategy

Do evaluation users require detailed financial data on clients to decision-making responsibility ?

YES



NO



(Collect qualitative data or trends)

Is it possible to desegregate changes residing from the SSE program from other external factors affecting the SSE with a reasonable degree of confidence ?

YES



NO



(Collect qualitative data)

Are assisted SSEs independent activities? Does the entrepreneur separate the assisted business activities from revenues and experiences of other household activities? Is the SSE not part of a multiform prop that sets policies to maximum group benefits?

YES



NO



(Collect qualitative data)

This general model together with the evaluation strategy shown in figure-4 and figure-5 provide useful and effective guideline to examine and evaluate the impact of support services. But this model did not give any clear direction as to how the positive and negative impact will be generalized .

2.12. Durham University Business School (DUBS) Model :

Durham University Business School (DUBS) developed a model to examine the performance of small business growth. This model outlined a wide range of factors influencing the growth capability of any small business. This can be divided into three groups. These are three Ps of growth stands for performance, potential, and projection. **Performance** is measured based on past and present activities of the enterprises. There should have some standard for the individual operational aspect as shown in the Figure-6 B-A. **Potential** is the ability of the business to grow. What ability and skill the enterprises have gained or developed in respect to resources, experience, control mechanism, leadership and idea generation etc. as shown in Figure-6.B-B. **Project** means the specific growth plan that the enterprises chalk-out formally or informally for future operation as shown in Figure- 6.B-C.

The key assessment machines are the answers to the three questions. How good is the company's performance ? How strong is the company's base potential for growth ? and how sound is the specific growth project ?

- This model is developed for the evaluation of performance of small business that cannot be applied to MEs for the same purpose in its exact form.
- This model requires more numerical information to measure the performance based previous and present activities but most of the MEs do not maintain books of accounts and do not prepare financial statements.
- This model is developed in a developed country (UK) considering the overall enterprise environment of that country. The enterprise environment of Bangladesh including its socio-economic condition is different that of the developed country. Thus this model cannot be applied in its exact form.
- This model is developed to guide the business advisers as to how the growth company can be better assisted. Thus it is less concerned with the evaluation of the effectiveness of support services. This model (Figure 6a & 6b) needs to be reorganized to incorporate in the proposed model.

Figure-6a: Performance Evaluation Model of DUBS

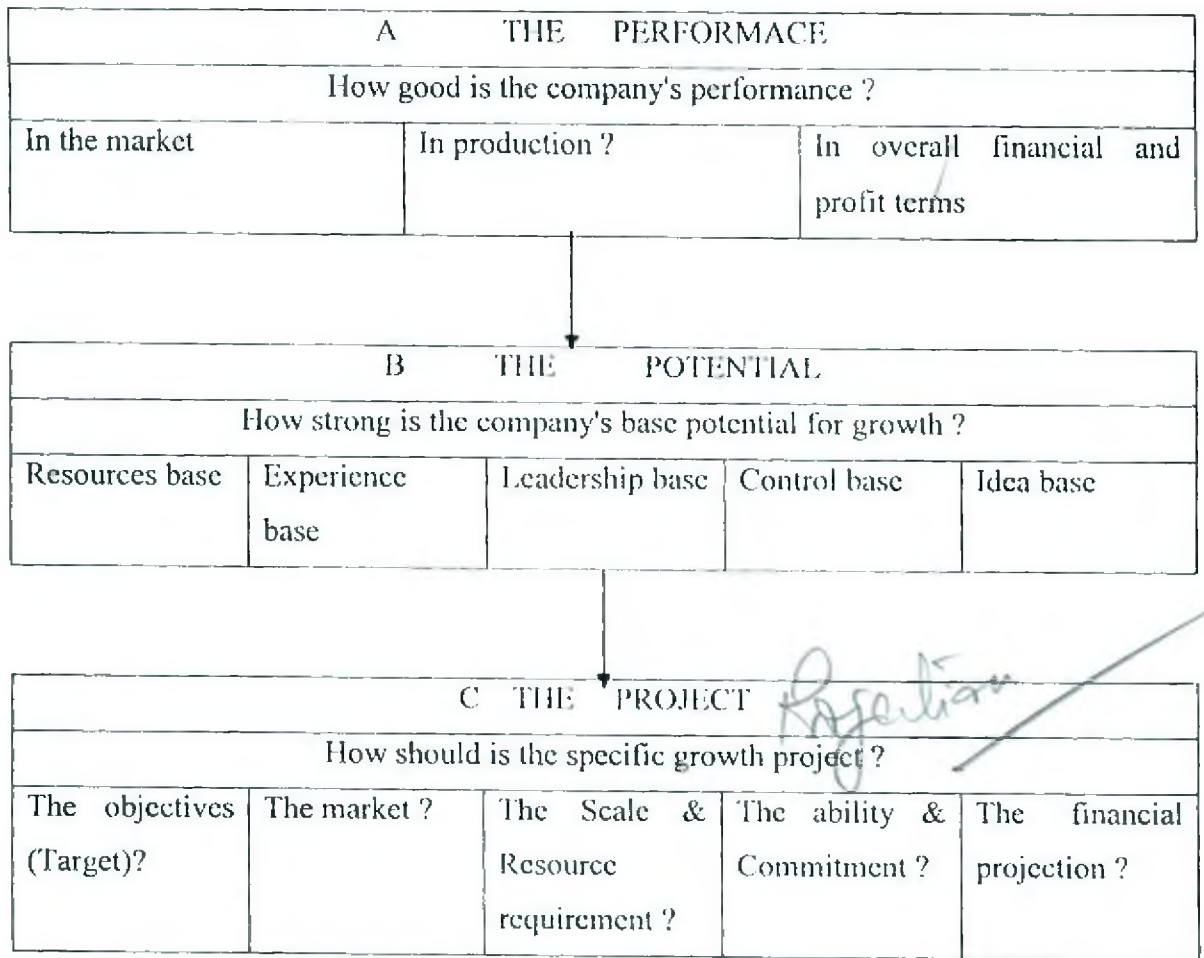


Figure-6b: DUBS's Enterprise Performance Measurement Model in Detail (A, B & C).

A. Measuring the performance- The key area.					
<p>External</p> <p>Trend in sales And profit by:</p> <ul style="list-style-type: none"> Product Customer Channel Areas 	<p>Internal</p> <ul style="list-style-type: none"> Selling Organization Performance and control 	<p>Utilization of:</p> <ul style="list-style-type: none"> Labor Capital Space 	<p>Efficiency in use:</p> <ul style="list-style-type: none"> Labor Capital Space 	<p>Trend in:</p> <ul style="list-style-type: none"> Net worth Return on capital employed 	<p>Trend in:</p> <ul style="list-style-type: none"> Sales Profit gross & net Overheads Materials/labor ratio
<p>The Strategy</p>		<p>Standard and Performan</p>		<p>Historic; Present; Budget:</p>	
<p>Knowledge of the market place</p> <ul style="list-style-type: none"> The competition The changing technology The market size & Share The relevant wider environment 	<p>How it reaches the market</p> <ul style="list-style-type: none"> Price Promotion Delivery Packaging etc 	<p>Wastage of materials:</p> <ul style="list-style-type: none"> Yields and leakage 	<p>Quality:</p> <ul style="list-style-type: none"> Complains Rejects Rework 	<ul style="list-style-type: none"> Over liquidity Gearing Debtor creditors control Cash control and provisions 	<ul style="list-style-type: none"> Departmental performance (monitoring) Product costs & Contribution (monitoring)

B. Measuring the Potentials- The key Areas				
Existing Resource base	Experience base	Control; base	Leadership base	Idea base
<ul style="list-style-type: none"> Liquidity and availability of finance Technology type and capability Physical assets(age and state) Labor-quality/skill/age/attitude/flexjbility product range and life Managerial resources and time available for pursuing new product development. 	<ul style="list-style-type: none"> Age of company Experience of -Borrowing -Product development -Different types of market -Use of external agent -Moving locations -Managing growth 	<ul style="list-style-type: none"> Adequacy of information and control system Degree of professionalism and responsibility of management team Adequacy of planning and budgeting Degree of delegation of authority 	<ul style="list-style-type: none"> Ownership and involvement of owner(s) Age of the owners Professional/Occupational base of owner managers Personal objectives and degree of ambition Education/Traming/back-ground Family influences Management style Personal attitude to change Degree of strategic awareness understanding environment 	<ul style="list-style-type: none"> Research and development if any Number of ideas currently being seriously considered. Degree of development / testing of these ideas Degree of market planning of these ideas.

C. Evaluating the Project-the key areas				
The objectives	The Market	The Resources	The Ability and Commitment	The Financial Projection
<ul style="list-style-type: none"> • What ? • When ? • Where ? • The Volume Targets 	<ul style="list-style-type: none"> • The proposed product/service • The need Evidence of : <ul style="list-style-type: none"> -customers' acceptability at the price -ability to manufacture under operating condition -enough customers available -ability to enter market -ability to face competition • How it will reach to customers. 	<ul style="list-style-type: none"> • The scale of operations planned and the reasons for this. • The additional physical resources requirements, land, labor, premises, machinery etc. • The addition requirements and how it will be acquired. 	<ul style="list-style-type: none"> • The specific new abilities required if any • How well existing abilities in management and workforce, match new requirements. • Who will Level of managerial resources and commitment • How well has it already been planned • The awareness of risk involved 	<ul style="list-style-type: none"> • The additional cost involved • The balance sheet & P & L Projection-- • The contingency provisions.

Source: DBUS(1990)

Sarder's Framework for Evaluation of Small Business Support Services

Sarder(1995) developed a framework (Figure-7) for evaluation of small business support services and related agencies in light of the models/ framework developed by Scott (1985), Gibb & Manu (1990) ,Gibb (1993). In his evaluation frame work, Sarder incorporated the supporting institutions together with the need of the small firms for support services to make an evaluation of the booth. According to the mode, in a given environment of the effectiveness of support services can be examined by input output analysis and interaction of other factors as suggested by scott (1991). He opined that the policies related to the promotion and development of small business is a part of greater environment with in which the enterprise has to function. According to him, given the policy environment various supporting institutions as shown in the box F-1, provide a number of support services to the small firms as per their requirements as shown in the box F-2.

ENVIRONMENT

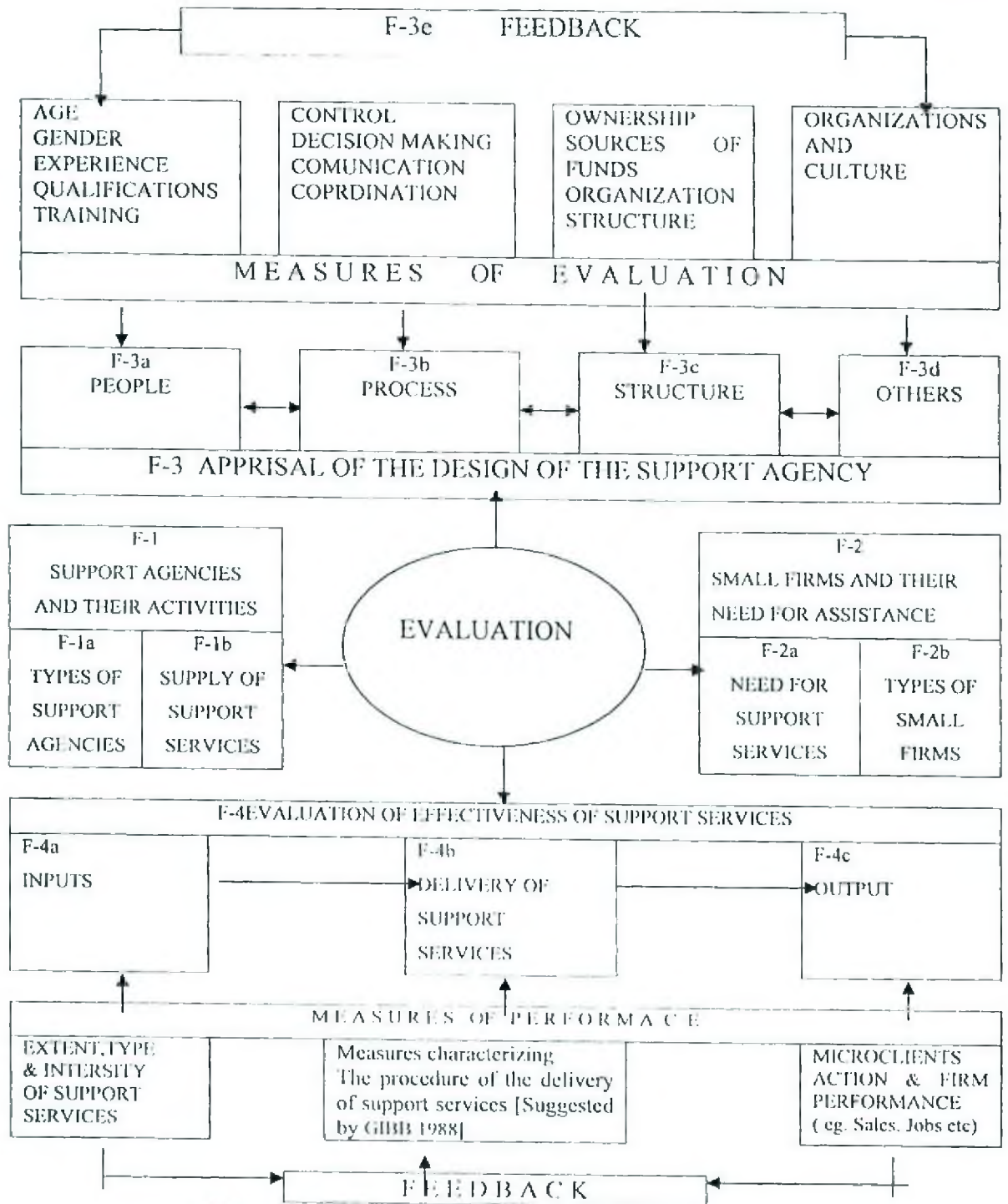


Figure-7: Sardar's Model of effectiveness Measurement
Source: Hamman (1995)

The activities of the box F-1 to meet the requirement in box F-2 have to be evaluated that is why the task of evaluation is the center of the model. To assess the effectiveness of support services Sarder used the criteria as suggested by Gibb & Manu (1990) as shown is the box F-3 that pervades from F3a to F3d. This model also accommodated a feedback system based on the result of the evaluation where corrective action might be necessary to evaluate the impact of the support services Sarder introduced Scott's (1991) framework as shown in the box F-4 where a logical relationship between the support services called input and the result of such support services including the influence of other factors (f-5) called output has been established as suggested by Scott (1991) as shown below.

$$Y=f(X_n+m_j)$$

Where Y= Outputs

X= Inputs of nth items and

M= other influencing factor of jth items.

Sarder stated that these output may have several dimensions and can be measured at both the macro and micro level. He suggested to make an attempt to assess the effect of inputs on the performance of small firms quantitatively and form the response of businessman qualitatively at micro level and the number of employment created, contribution of SME sector to GDP number of enterprise developed etc. can be used at macro level. He also suggested a feedback system based on the result of evaluation in order to take corrective measures, if necessary, as shown in box F-4e.

Sarder stated his model as a unique one perhaps a better model in the context of developing country. But this model suffers from several weakness as given below.

1. Through Sarder argued that he incorporated all possible factors to assess the effectiveness of support services both quantitatively and qualitatively, but in facts lots of factors are not well designed and depicted in the model. For example he talked about policy environment that interacts with other factors but fails to outline what are the other factors.

2. He Stated that the use and quantification of measures of support services as shown in the box F-4 is a new ideas but Manu (1990) incorporated inputs in his model while designing support services for SSEs.

3. Effectiveness also can be measured in terms of past versus present performance, potentiality gained to grow and solved problem, projection ability gained for future preparation those Sarder did not highlight in his model.

4. He did not outline in which areas the performance of the assisted enterprises to be evaluated to identify or assess the impact of support services.

5. Sarder in his model incorporated the relationship between input and output as suggested by Scott (1991) as stated above. According to the definition of input only the support services but also the function of owners equity including owners own capital, balance of profit re-invested, reserve and surplus, and finally his or her entrepreneurial ability.

6. This model did not highlight the stages of small business development. The evaluation system of support services should consider whether the delivered support services were required by the enterprise at that particular stage of development.

7. Finally this model is developed for the evaluation of support services to the SSEs. Support services are being provided by various government agencies. This model did not clearly identify who are the providers of support services. As because the current study is more specific to the source (the NCBs) of support services and more specific to the recipient (SMEs) of the support services. This model thus incapacitates the accommodation of NCBs-support services. Thus this model cannot be readily used in the current study.

Chapter-3

Steps of Bangladesh Government to the Development of SMEs

Steps of Bangladesh Government to the Development of SMEs

Introduction:

Bangladesh is a south Asian country. There are no sufficient facilities for SMEs in Bangladesh. The SMEs of south and southeast countries receive more facilities than Bangladesh. These are described in this chapter.

Experience of SMEs in South and Southeast Asian Countries:

3.1.1. India:

- Technology development and modernization Fund Scheme launched by Small Enterprise development Bank of India (SIDBI) to facilitate the quality up gradation of Small Scale Industries (SSI) units.
- National Program on Innovation and incubation for SSIs launched by SIDBI in association with reputed technical institutes.
- Discounting scheme launched by SIDBI under which exposure limits are sanctioned to large mother units for purchase of parts, components, accessories from small scale units to enable the latter to realize their sale proceeds immediately.
- Facilitating services to assist SMEs in managing their receivables.
- State level venture capital funds for SMEs for software/IT industry.
- Credit grantee FUND Scheme for first generation entrepreneurs of SME. The scheme facilitates collateral free lending up to Rs 2.5 million.

3.1.2. Pakistan:

- Small and Medium enterprise Development Authority (SMEDA) established to play the critical role in the business development support, advisory services and managerial training of SMEs.
- Establishment of SME Bank to provide finances to SME Sector.
- Simple accounting software packages developed for small business enterprises.
- Separate regulations for SME financing formulated by State Bank of Pakistan (SBP).
- A separate SME department has been set up in SBP.
- SBP has undertaken a programme to provide capacity building support to a select group of banks for SME lending.
- SBP has expanded the coverage of its online Credit Information Bureau.
- SBP contemplating to set up Credit Information Bureau in the private sector for collection of data on SMEs.

3.1.3. Indonesia:

- Govt. policy to encourage banks to have at least 20% of its portfolio in SMEs.
- The Bank Rakyat Indonesia (BRI), the prime institution for SME financing has developed uniquely tailored lending program with simplified procedures and collateral system.
- BRI has established SME centers throughout the country to provide technical assistance and access to market information system.

3.1.4. SME Profile in Bangladesh (Based on Economic Census):

- The total number of SMEs in Bangladesh is estimated at about 80,000 of which 94% are small and 6% are medium.
- SMEs account for about 40% of gross manufacturing output, about 80% of industrial employment and about 25% of the total labor force in Bangladesh.
- Most SMEs are concentrated in two industrial sub sectors such as garments and food processing which accounts for almost 60% of all registered SMEs in Bangladesh.
- In recent years, other industries, which have grown in importance in the SME sector, are leather, ceramic, light engineering, paper printing and publishing, batteries, electrical and electronics, artificial jewelry and steel furniture.
- SMEs in the service sector getting importance include construction transportation, pathological laboratories, cold storage, computer software, fast food and frozen food, etc.

3. 2. Step of Bangladesh Government for the Development of SMEs

The Government of Bangladesh constituted a National Taskforce on Development of Small and Medium Enterprises (SMEs) on November 05, 2003 to recommend SME policy guidelines and implementation strategies.

3.2.1.National Taskforce on SME Development:

The Government constituted a National Taskforce on SME Development to draw up a realistic strategy for promoting rapid growth and vigorous competitiveness among SMEs in Bangladesh in the interest of accelerating the growth of the economy and reduction of poverty in the country. The Taskforce submitted its report including a comprehensive slate of recommendations that, if implemented, will mount a coherent strategy to promote the development of SMEs in Bangladesh in three phases: short, medium and long-term. The government accepted most of the recommendations with some modifications. The Taskforce will continue to monitor the implementation of the SME policy.

3.2.2.SME Advisory Panel:

The Government constituted experienced & committed specialists and entrepreneurs of relevance to work together with the SME Cell of the Ministry of Industry (MOI). In the medium term the Advisory Panel and the SME Cell will eventually morph into SME Foundation.

3.2.3. SME Foundation:

Over the medium term and beyond, the Government shall form an SME Foundation as a pivotal platform for the delivery of all planning, developmental, financing, awareness raising, evaluation and advocacy services in the name of all SME development as a crucially-important element of poverty alleviation. The Foundational and administrative facilities, including some resources are needed for capacity building in appropriate industry associations for SMEs in the country.

3.2.4. Bangladesh Bank's Initiatives for SME Development

Bangladesh Bank introduced a refinance scheme of Tk.1000 (ACSPD Circular no-01 of BB, date: 02-05-2004) million out of its Industrial Credit Fund for the development of small enterprises in the country effective from May 2, 2004. Banks and financial institutions (PFIs) will be provided with refinance facilities against their lending to small entrepreneurs for establishing new enterprises as well as for rehabilitation and expansion of existing enterprises under this scheme. Another fund of US\$ 10.00 million was provided to the Bangladesh Bank under the "Enterprise Growth and Bank Modernization Project" funded by International Development Association (IDA). Apart from these, a fund of US\$ 30.00 million (ACSPD Circular no-02 of BB, date: 19-07-2005) is received from the Asian Development Bank

under its 'Small and Medium Enterprise Sector Development Programme'. All these funds will be pulled together to support the financing program under the above scheme. The salient features and terms conditions of the scheme are as follows:

1. An enterprise having fixed assets not exceeding Taka 10 (ten) million (ACSPD Circular no-02 of BB, date: 19-07-2005) will be considered as a small enterprise for the purpose of the scheme.
2. Banks and financial institutions will be given 100% refinance against disbursement of both working capital and term loans to the small enterprise sector; the amount for an individual borrower shall range from Taka 2.00 lac to Taka 50.00 lac (ACSPD Circular no-02 of BB, date: 19-07-2005).
3. Interest on Bangladesh Bank refinance will be charged at prevailing Bank Rate (ACSPD Circular no-02 of BB, date: 19-07-2005). The lending Banks or financial institutions will apply their own interest rate on the loans made to the ultimate borrowers.
4. Refinance will be available for short term working capital loans as well as for medium and long term loans. Working capital loans will have a maximum maturity period of one year while medium and long term loans will have maximum maturities of three years and five years respectively.
5. Refinance loan shall be repaid by PFI's in accordance with fixed repayment schedule prepared by Bangladesh Bank. In case any PFI fails to repay any installment of the refinance loan, Bangladesh Bank shall realize the installment amount with interest as and when falls due by debiting the current account of the PFI's concerned maintained with BB.
6. Banks and financial institutions interested to avail of refinance facilities under the scheme will have to enter into a participation agreement with BB.
7. Banks and financial institutions having more than 10% classified loan on their small loans portfolio covering loan accounts upto 5 million will not be eligible for refinance under the scheme (ACSPD Circular no-02 of BB, date: 19-07-2005).

8. Refinance under the scheme will be applicable for loans and advances sanctioned and disbursed after the date of introduction of the scheme.

9. Refinance facility under the scheme will not be applicable for personal or consumer loans. The financing program under the scheme has received a very positive response from the banks and financial institutions of the country and the progress made in carrying out the program appears to be encouraging.

10. **Guide Lines for Small Enterprise Financing-2004** are approved and distributed to all NCBs and Financial Institutions to implement for finance to SMEs.

3.5. Bangladesh Small Industries and Commerce (BASIC) Bank Ltd:

In order to achieve the aspiring objective of accelerating industrial growth in a country and to attain a greater share of industry in the country's gross domestic product (GDP), the only way is to develop the small-scale industries (SSIs). Keeping this long-term goal in mind BASIC Bank Ltd was established in 1988 as a banking company under the Companies Act 1913 and launched its operation in 1989. It is a wholly state-owned bank that devotes, in accordance with its Memorandum and Articles of Association, at least half of its lending portfolio to SSI lending, and the rest to commercial and other lending. While attaching to technical and advisory support to SSIs in order to enable them running their enterprises successfully, it provides clients with a full range of services to help them grow their assets and net-worth.

With the change in the definition of SME in newly adopted Industrial Policy, 2005, BASIC amended its Articles of Association as under:

" Fifty percent of the loanable fund shall be invested in small and medium industries till such time it is otherwise decided."

The management of the Bank believes that it is unwise to expect a sudden upsurge in the growth of SME development in our country setting instead, a medium and sustainable growth in the very sector is always desirable. It can be readily seen from table below, the Bank's lending portfolio to SME lending maintains such consistency over years. In order to uphold continuity and consistency in translating its objective of SME development, the Bank is string from inception to serve people for progress through institutionalization of the following features:

Table : Lending portfolio of BASIC to SMEs

SME	2001	20002	2003	2004	2005(Up to June)
Amount in crore taka	438	621	696	960	1140
Growth % of total loans & advances	- 70%	42% 78%	12% 75%	38% 80%	19% 84%
Total No. of Projects	368	705	924	1116	1367
Employment Generation	11,650	22320	29230	36235	42500

Estimated

Access to Finance : Several researches envisaged that SMEs encounter great difficulties while raising fixed and working capital because of the reluctance of banks to provide loans to SMEs. Banks are shy to lend to SMEs because of high processing and monitoring costs of loans to SMEs. As stated earlier that BASIC is entrusted with the responsibility for the promotion of SSIs by providing at least 50% of its loan-able fund to the entrepreneurs belong to this sector. Thus the Bank always welcomes SSI entrepreneurs. Repeat borrowers are also entitled to increasingly larger loans. As stated in table above the Banks contribution to SME sector testifies to this fact.

Emphasizing thrust sectors: The Bank makes list of preference sectors of investments every year and allocates its loan-able fund accordingly with the help of information system (MIS) and information technology (IT).

Priority Attention : In conformity with the aspiring objective of accelerating small-scale industrial growth and to attain a greater share of such industry in the country's GDP, the Bank since 2003 has placed particular emphasis on financing projects under small scale and micro industry of cost up to Tk.1.00 crore. The Bank will continue to pursue this strategy so as to make a true difference in this respect and to keep on its image as one of country's most successful and most profitable financial services companies.

Quick disposal of loan proposals : As reported, the procedures for investment financing from different banks are long, tedious, and redundant. BASIC Bank pays special attention to quickly dispose all loan proposals to avoid any unnecessary delay that may cause the entrepreneurs to suffer and to pay heavily. The analysis is highly standardized, and loan-processing times are minimal. Unlike other commercial banks, it allows branch managers to communicate directly with the highest authority for expeditious decisions.

Moderate interest rate : The Bank offers moderate interest rates on SME lending compared to other private commercial banks and foreign banks to help entrepreneurs grow their assets and net-worth.

Securities: Loan analysis focuses on the prospective client's ability to pay (cash flow). Less emphasis is placed on collateral if found otherwise suitable and secured.

Competent management: Appropriate decision-making and control mechanisms are in place and supported by a strong management. Some approaches have been aimed at improving the performance of SMEs generally, while the bank has also targeted SMEs owned by members of disadvantages groups. One of the most common program emphases has been on increasing access to small loans (often referred to as micro credit), at subsidized rates.

3.6. Bangladesh Small and Cottage Industries Corporation (BSCIC)

Bangladesh Small and Cottage Industries Corporation (BSCIC) is the prime organization entrusted with the responsibility of promotion and extension of small, cottage and rural industries in the country. It is the successor organization of the former East Pakistan Small Industries Corporation (EPSIC) established by an act of the Parliament in 1957. Being the prime mover organization in the small and cottage Industries sector, BSCIC at the initial stage, was engaged mainly with commercial activities like import of plant & machinery, raw materials and distribution of the same to private sector entrepreneurs. During that period, the corporation also advanced small loans in local currency to small enterprises. Subsequently, the corporation felt that the private entrepreneurs needed continuous guidance and advice in selection of viable projects, preparations of machinery specifications, drawing of layout plans, supervising the construction of factory building, machinery installation, in plant counseling and extension services for operation of the profitable ventures. There after the focus was shifted from commercial to promotional and development activities. Accordingly, development projects like industrial estates, services facility centers, small industry advisory services, designs centre, light engineering services, and model production units were undertaken. Apart from that, BSCIC also in co-operation with the financing institutions/commercial banks formed consortium for financial of SCI in local as well as foreign currency credit. Gradually, changes in BSCICs organizational structure occurred.

Keeping in view the massive socio-economic problems of the country such as poverty, hunger, unemployment, illiteracy and continuous pressure of population and with the changing Govt.'s policies, BSCICs activities was reorganized to help the private sector entrepreneurs in establishing new enterprise and also in capacity utilization of existing enterprise at optimum level.

Activities:

At present BSCIC is basically/generally conducting two kinds of activities aiming for extension of small and cottage industries.

- a) Extension, promotion & Regulatory functions under revenue budget.
- b) Long term development orientated activities under annual development programme.

Extension & Promotional Activities:

1. Entrepreneurship development.
2. Allotment of developed plot with metalled road, water supply, electricity, gas supply etc.
3. To provide credit facilities through BSCICs own programme and other financial institutions.
4. Preparation of project proposal and projects appraisal.
5. To provide technical and other assistance for setting up at industrial units production of goods, quality improvement etc.
6. Creation and supply of improved design.
7. Collection and distribution of appropriate technology.
8. To conduct study and survey regarding industrial extension. To provide necessary pre and post investment counseling for setting up establishment of industry.

Regulatory Activities:

1. Registration of small and cottage industries.
2. Recommendation for exemption of tax and fees.
3. Recommendation of priority assessment for importing of industrial raw materials and packaging materials.
4. Recommendation for work permit for foreign citizens.
5. In order to provide the above services BSCIC Head office in Dhaka and four regional offices located in Dhaka, Chittagong, Khulna and rajshahi and 64 ISC's located in 64

Districts are in operation. These offices are managed by Manager, Subject matter specialists, extension officer, promotion officer, Financial Analysts, Marketing Analysts and Survey and Evaluation officer etc. In some areas BSCIC activities have been expanded up-to Upazila level and in many remote areas through various development projects aimed at over all socio-economic development of the country.

3.7. Palli Karma-Sahayak Foundation (PKSF)

The Government established PKSF in May 1990 to work as an apex organization for the development of small and micro-finance sector in Bangladesh. It is getting financial support from the government and development partners. It does not directly lend money to the landless/assetless people, it reaches its target group through its partner Organizations (POs). PKSF has emerged as world's largest and most successful autonomous apex funding and performance standard setting agency for micro credit and this model is now being replicated in different countries of the world. As Bangladesh economic Review,2004, Up-to June, 2004 PKSF has disbursed a credit of TK. 1839.05 lac to about 4,83,680 borrowers through its 216 partner organizations, which include small organizations as well as well big organization like BRAK, ASA Proshika and Ansar VDP Bank. Ninety percent of PKSF beneficiaries are female. PKSF has been able to maintain a loan recovery rate of above 98%.

3.8. Palli daridra Bimochan Foundation(PDBF)

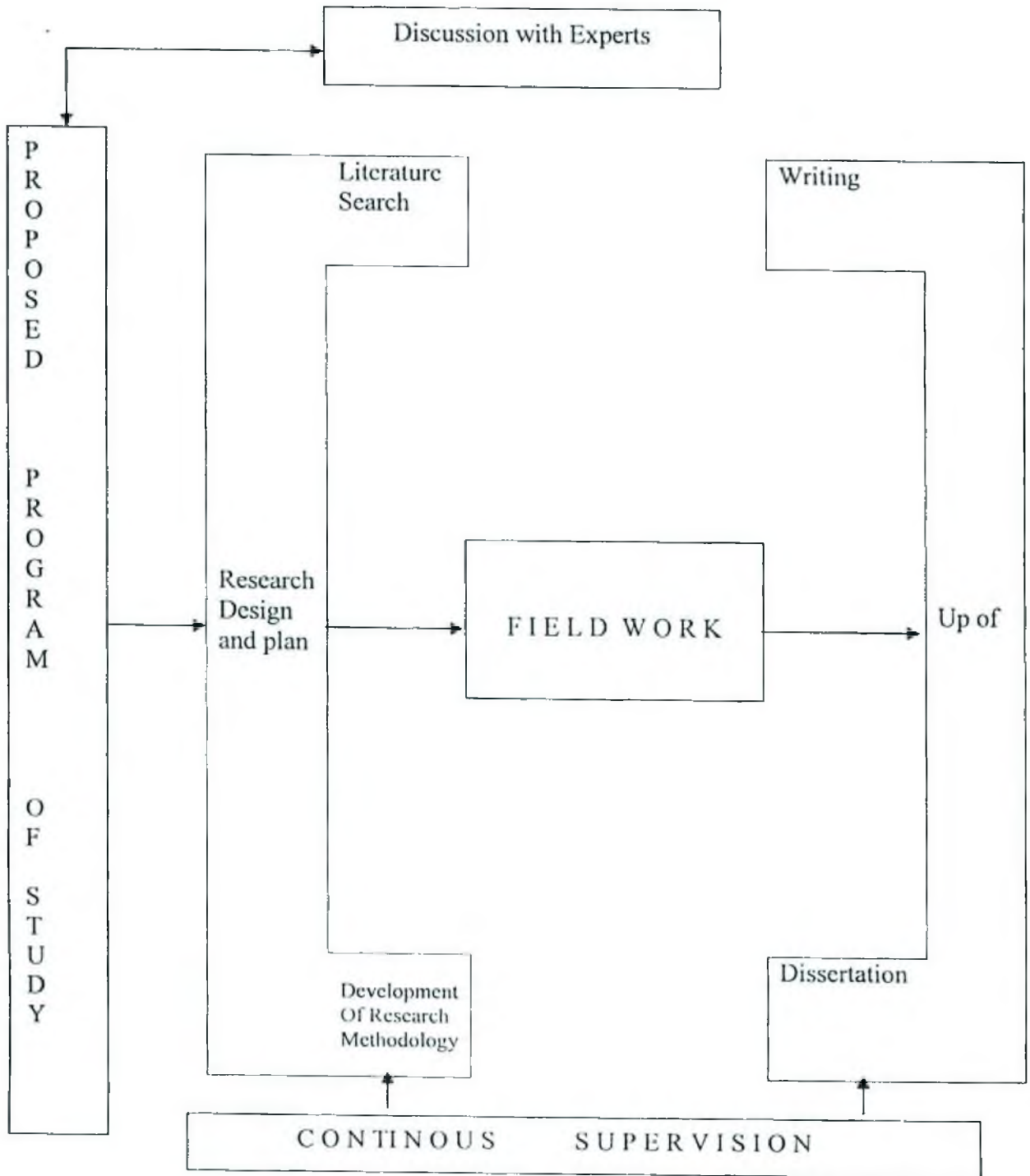
As Bangladesh economic Review,2004, Currently the Foundation is carrying out its operating in 160 upazila of 26 districts where 393,652 assetless women and men have been organized into 78,730 groups. About 92% of the beneficiaries are women. PDBF disbursed successfully a total amount of TK. 186.8 crore among the member of the societies during FY 2003-2004 under micro-credit program. Besides, the total amount of the savings of the beneficiaries is TK. 558.8 crore and the recovery rate is 98%.

Chapter-4

Research Methodology

Methodology

Figure-8: The Research Process



Source: Mia (2000)

4. Introduction:

The detailed methodology used in the study is described in this chapter. Kinds of data, sample design, methods, procedures and method of data analysis etc. are the main focus of this section. Both descriptive and analytical methodology are followed in the research study. As the study is involved in analysis of data over a period of time and a set of simple quantitative estimate is used. The emphasis is done on the collecting of data available to discuss the trends and implications.

4.1 Sample Design:

The sample needed to be drawn from economically important industries in which small firms play a substantial part. It seemed essential that the chosen sectors should be relatively homogeneous, localized, reasonably amenable to research and also representative of small firm weaknesses and strengths (Boswell, J.). Obviously, to combine such different and often competing criteria was exceedingly difficult. A some number of branches of NCBs were involved in the promotion and development of SMEs. This study did not attempt to cover all branches of NCBs; only the representative branches of NCBs working for the same purpose were covered. The sample SMEs were identified through the representative sample branches of NCBs. All the branches of NCBs might have promoted and developed the SMEs or not. But it was not possible to cover all the braches of NCBs and SMEs, because of practical reasons, time constrains, for example the study did not demand to cover all NCB's branches SMEs to draw genuine conclusion. That is why this study covered some representative SMEs financed by the sample branches of NCBs .

Name of the sample Banks	No of Selected branches
Sonali Bank	4
Janata Bank	4
Agrani Bank	4
Rupali Bank	4
Total	16

4.2. Selection Method of Branches of NCBs:

Over 3,416 branches of all the NCBs are working in Bangladesh (Annual report of Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank). In order to analyze the credit performance of NCBs to the SMEs a total number 16 (Sixteen) leading branches of NCBs were selected from this population using the following procedure:

1. The NCB's branches that financial services for the promotion and development of SMEs were identified using the following procedure.

- a) Researcher's own understanding on the activities of some NCB's branches as a tacit knowledge was used in short listing the branches that provide financial services to the SMEs.
- b) Experts' advices was solicited in short listing the branches of NCBs. The experts were the university professors working with NCBs and higher level concerned official working in NCBs. The experiences of the researcher as a Central Banker was farther confirmed by sharing the knowledge with the experts.
- c) Annual reports of the NCBs were thoroughly reviewed to identify the NCBs financial services for the promotion and development of SMEs. Annual report also provided valuable information where program and area wise disbursement, outstanding, overdue and classified loan.

2. Annual reports of some NCBs were also studied to be more sure that these NCBs branches were not or involved for the promotion and development of SMEs.

3. An overview of the annual reports of the NCBs identify the types of the NCB's financial services to SMEs. As the study focus on the promotion and development SMEs the NCB's branches having less than 5 years experience in SMEs are excluded from the sample. Applying these procedure the number of NCBs' branches were significantly reduced.

4. The operation of some branches of the NCBs were rural based, and some are urban based. The NCBs' branches more were concerned for urban and sub-urban SMEs development. The branches of urban that were concerned with financial services for the promotion and development of SMEs were selected by random sampling.

4.3 . Method of Selection of SMEs:

There were steps that were followed in the selection procedure of SMEs for the promotion and development by the sample branches of NCBs.

Number of Sample of SMEs:

It was necessary to determine the number of SMEs before selecting the sample SMEs to be included in the sample. The sample 16 (Sixteen) branches of NCBs sanctioned and disbursed loan for the promotion and development of SMEs at Dhaka and by the side of Dhaka, 300 SMEs that were taken as sample enterprises by the random sampling method to draw genuine conclusion.

Selection of Study Area:

The branches of NCBs had their activities throughout the country. Because of time and resource constraints, the study did not attempt to cover all areas, rather the representative areas were covered. We selected the branches of NCBs at Dhaka described before. So, for the convenience of the study we selected enterprises at Dhaka that were received financial services for promotion and development from sampled branches of NCBs.

Informal discussion with the director, officer of NCBs either over telephone or face to face communication also helped to conclude similar findings about the location of NCBs operation. The selected NCBs regarding SMEs development were found mostly urban based. A review of NCBs annual reports revealed that on an average approximately 80% of the operation regarding SMEs were in the urban areas and sub-urban areas and others were operating in the rural areas. Because the NCBs were mostly urban oriented, 100% of their sample enterprises were selected from urban and sub-urban areas, specially at Dhaka.

4.4. Data Collection and Analysis:

Data collected from the sample SMEs and NCBs and other sources using Questionnaires. Sources of data, collection methods and procedures and analysis method etc. are detailed below:

Sources of Data:

For the purpose of the study data were collected from both primary and secondary sources. Information regarding the NCBs were collected from primary and secondary data and information about NCB's financial services for the promotion and development of SMEs were collected from primary and secondary sources.

Primary Sources:

Most of the primary data were collected from the branches of NCBs that financed sampled SMEs and some relevant primary data were collected from the head offices of NCBs. The owners and managers of the SMEs were considered as the main sources of data. Some primary data were collected from the NCBs' experienced officials about the SMEs and the NCBs.

Secondary Sources:

Secondary data were collected from various published & unpublished documents. These were the books, journals articles, newspapers, annual reports. A genius number of articles on SMEs' financial services in the particular were reviewed. Annual reports, of most of the NCBs having enterprise development program were consulted. The library of Bangladesh Bank, World bank, IMF, Sonali Bank, Agrani bank, Janata bank, Rupali bank, SSCIC, PKSF, BIBM, BMDC, Dhaka university etc, were used to collect secondary data. Unpublished Ph. D. dissertation, research reports, research monograph, Seminars and International Conferences of SEDF at China-Maitri conference center, 2005 proceedings also were used as secondary data sources.

4.5. Method of Data Collection:

As stated earlier, data were collected from primary and secondary sources. Secondary data were collected by desk research. The literature materials for desk research were collected from the various libraries as stated earlier. Secondary data were mostly collected in person by the researcher. Primary data were collected from two sources; NCBs and SMEs financed by NCBs.

Primary Data Collection Instruments:

Primary data were collected through formal questionnaires. Two sets of questionnaires were developed with a mixture of multiple choice, rank order, dichotomous and open ended questions. Both sets of questionnaires were drafted and designed with such questions that satisfy the objectives. A pilot study was conducted to test the questionnaires. The questionnaires were finalized in consultation with the supervisor in view of the experience gathered during the pilot test. The questionnaires of the NCBs were prepared in English and the questionnaires for the SMEs financed by NCBs also have been prepared in English. However, during interview, vernacular was used while asking questions. The questionnaires were filled in by the researcher himself. The questionnaires were developed using computer-coding system to expedite data tabulation and data processing.

4.6. Data Collection Procedure:

Data were collected from primary sources using a range of techniques such as face to face interview in a friendly environment, telephonic interviews and informational discussion etc. these are arranged below:

a) Face to Face Interview:

All the NCBs' assisted and non-assisted SME entrepreneurs were interviewed face to face. Most of the questions were memorized to expedite the data collection work. The SME entrepreneurs and their representative (Managers/employees) were asked questions in Bengali, the native language, and the questionnaires were filled in and coding system was devised for computer only. The personnel of the NCBs were interviewed personally on a

prior scheduled time. Some of the officials of the NCBs were too busy to give interview and made a request to visit another day, though interview time was scheduled and confirmed by telephone. They were asked questions in both English and Bengali based on their skill in language.

b) Friendly Conversations:

While collecting data through face to face interview, a friendly environment was more demanding. Some of the interviewees felt shy to speak as they were not educated or only primary passed or well educated. Attempts were made to make the environment more free and friendly so that they did not hesitate to talk and reply the questions. It was found that in most of the case where the environment was friendly enough, the SMEs entrepreneurs did not hide any information about their enterprises and NCBs. The officials of NCBs were also interviewed in a friendly environment.

c) Telephonic Interview:

The key officials of all the sampled NCBs were communicated over telephone although they were interviewed face to face. Telephone calls were made to make an appointment to fill in the question through face to face interview. Telephone calls were also made to know some information that was not collected during the interview time or to gather other information for the research. Only the officials of the NCBs were telephoned to collect some information. None of the NCBs-assisted SMEs entrepreneur were talked to over telephone.

4.7. Data Analysis Procedure:

After collection, data were tabulated and analyzed with the help of computer. The Microsoft Excel program was used in analyzing the collected primary data. To measure performance of SMEs, collected Data can be analyzed through Statistical software, Statistical Package for Social Science (SPSS), Microsoft Excel Program FSS (Financial Spread Sheed) and Financial ratios analysis. In the thesis to measure performance of SMEs, only financial ratios analysis was used.

4.8. Method of Determining Demand of SMEs and Supply by NCBs for Financial Services.

4.8.1. Method of Determining Supply for Financial Services by NCBs

The following procedures were maintained to determine the supply of financial services by NCBs. To study the research, the representative 16 (sixteen) branches of NCBs working for the same purpose were selected as sample and 300 SMEs were selected through the representative sample branches of NCBs:

a. Questionnaires Developed for NCBs Officials:

To determine financial services supplied by NCBs, the sample loan application and loan proposal of branches were examined. To collect these data, two sets of questionnaires were developed for directors and official of the NCBs with mixture of multiple choices, rank order, and dichotomous and open-ended questions. Both sets of questionnaires were drafted and designed with such questions that justify the objectives. All the sample NCBs' directors and officials were interviewed face to face to their official desk while collecting data through face to face interview a friendly environment was more demanding.

b. Questionnaire Developed for SMEs:

Two sets of questionnaires were also developed for owner manager and officials of NCBs supported SMEs for collecting research oriented data. All the sample NCBs assisted SMEs' entrepreneurs and officials were interviewed face to face.

c. Check Inward and Outward Register:

Number of loan applications were inwarded at branches of NCBs and number of loan disbursement sanctioned letter outwarded were checked by these register. Loan application of entrepreneurs were given entry at inward register. Actual numbers of SMEs loan application could be checked here.

d. Check the File of Loan and Advance.

The nature of loan applications, sanction of loan, disburse of loan, causes of canceling loan application, sanctioning procedure, causes of delay loan sanction, performance of applicants were collected from this file. By this file I observed that 25% of SMEs loan applications were sanctioned or disbursed for starting SMEs business while about 75% of SMEs were not depend on debt capital at all for their starting business. 300 sample applications of SMEs were checked. It was identified that the NCBs supplied financial services to a small proportion (25%) of the SMEs for their promotion the NCBs also supplied financial services majority proportion (75%) to the SMEs entrepreneurs for their development .

In the promotion sector 20% of demand of SMEs entrepreneurs were entertained where 80% of loan application were not sanctioned. The 50% of demand of SMEs were entertained in the development sector where 50% were not sanctioned.

e. Check Loan and Advance Subsidiary Ledger Book.

It is the final register to entry sanctioned and disbursed loan to SMEs, repayments of loan were also described in the ledger. Amount of working capital and long term capital was described in this ledger separately.

4.8.2. Method of Determining Demand for Financial Services:

To determine demand for financial services of SMEs the representative 16 (sixteen) branches of NCBs providing support to the SMEs were selected. An amount of 300 SMEs were selected from the representative sample branches of NCBs.

Name of the sample Banks	No of Selected branches	No of SMEs
Sonali Bank	4	125
Janata Bank	4	75
Agrani Bank	4	50
Rupali Bank	4	50
Total	16	300

a. Questionnaires Developed for NCBs and Official:

To estimate demand of financial services of SMEs, the loan application and loan proposal of branches were verified. To collect these data, two set of questionnaires were developed for directors and officials of the NCBs with mixture of multiple choices, mark order dichotomous and open ended questions. Both set of questionnaires were draft and designed with such questions that justify the objective. All the sample NCBs' Directors and officials were interviewed face to face at their official desks while collecting data through interview a friendly environment was more demanding. By this questionnaires it was possible to determine the demand for financial services of SMEs required.

b. Questionnaires Developed for SMEs:

Two set of questionnaires were developed for owner manager and officials of NCBs assisted SMEs for collecting research oriented data. All the sample NCBs assisted SMEs entrepreneurs and officials were interviewed face to face a friendly environment was more demand. By this questionnaires demand of financial services of SMEs, were determined more easily. They felt need more working capital and long term capital of SMEs which were estimated by questionnaires.

c. Verification the File of Loan and Advance of SMEs.

Amount of loan sanctioned, nature of loan, application procedure were justified by the files of SMEs. The SMEs applied for three kinds of cash credit as, a) long term loan, b) Mid term loan, c) working capital. Application procedures were not so simple. The SMEs generally were interested to apply for working capital that were known from the SMEs file. The 20% SMEs applied for long term capital while the 50% of SMEs applied for Mid term loan of their demand to import the raw material and accessories of their products.

d. Loan Files of NCBs

To study the loan files of NCBs the amount of disbursement of loan the nature of loan applied by SMEs were justified. Among the loan application of 300 SMEs, 15 SMEs applied to start their business, 225 SMEs applied to support growth their business and 60 SME applied the NCBs to repay credit that was received from other financial institution or friends. There were minimum 1600 loan applications at sample 16 (sixteen) branches of NCBs of which they verified only 300 loan applications. Each and every subjected matter of 300 SMEs application were corrected. But all the SMEs loan were not disbursed due to lack of fund of NCBs. All the entrepreneurs of SMEs needed working capital to continue their business. 33% of SMEs' needed mid term loan to import raw materials of their products. The export oriented garments and hosiery, needed mid term loan to open import L/C for their raw materials and accessories. The 75% of SMEs were identified that they needed long term loan to expand their business, the 20% of SMEs entrepreneurs were directly depend on the financial services of NCBs to promote their business. Majority (80%) of SMEs were applied for second time loan while about 20% of application were for third time to repay the loan to other sources, the 60% SMEs received credit from NCBs. The 20% of SME who applied for credit to promote process of their enterprise and used the investment size of the business. It was also observed that 20% of SMEs applied for additional loan to add new product or services to their original product and other for additional credit from NCBs to repay their personal credit received from relatives and friends to finance the growth process.

4.9. Method of Determining Credit Performance

The main objective of this dissertation was to evaluate the credit performance of the NCBs, determined in promotional and development aspect. The credit performance depends on the performance of the SMEs' management. The credit performances of the NCBs was measured on the basis of the performance of the SMEs in promotion and development that was measured after receiving the credit from the NCBs.

Performance includes both the past and present operational performance of the enterprises and is measured in the market, production and in overall financial and profit terms (Mia, 2000).

Samuel Eilon (1992) stated financial key measures of corporate performances of a firm. Typical measures include: profit, profit margins, return on investment, return on assets or equity, and earnings per share, which are reflected in their P/E (Profit-to-earnings) ratio Return on equity (ROE), Return on capital employed (ROCE), Net profit margin and asset turn.

Harold Kerzner (1984) states that acknowledging the realities organization are measuring performance of their project managers, in at least two areas:-

1. Business result as measured by profits, contribution margin, return on investment, new business, and income; also on time delivery, meeting contractual requirements, and within-budget performance.
2. Managerial performance as measured by overall project management effectiveness, organization, direction and leadership, and team performance.

On the other side of the project organization, resource managers or project personnel are being assessed primarily on their ability to direct the implementation of a specific project subsystem:

1. Technical implementation as measured against requirements, quality, schedules and cost targets.
2. Team performance as measured by ability to staff, build an effective task group, interface with other groups, and integrate among various functions.

Hampton (1998) said that the financial analysis is to determine the efficiency and performance of the firm's management reflected in the financial record and reports. He used financial ratios to measure the performance of SMEs' management. The ratios are as follows:

1. **Liquidity Ratios.** These examine the adequacy of funds, the solvency of the firm, and the firm's ability to pay its obligations when due. Current Ratio, Quick Ratio or Acid Test Ratio, Receivable Ratio and Inventory Turn over are the Liquidity Ratios.
2. **Profitability Ratios.** These measure the efficiency of the firm's activities and its ability to generate profits. Profit Margin, Gross Profit Margin, Asset Turnover, Return on Equity, Earning Power, and Time Interest Earned are the Profitability Ratios and
3. **Ownership Ratios.** These are generally linked directly or indirectly to profits and liquidity. They assist the stockholder in evaluating the firm's activities and policies that affect the market price of the common stock. Earning Per Share (EPS), Price Earning Ratio, Capital Structure Ratio a) Debt-Equity Ratio, b) Debt-Asset Ratio and Dividend Ratio are the Ownership Ratios.

L. R. Chowdhury said (2002) that no one ratio will give a clear picture of the inherent soundness or weakness of a business unit. Several ratios should, therefore, be considered to get a complete picture.

A banker and the analysts are primarily concerned with the liquidity position of the borrowing concern. The purpose of liquidity ratios is to ascertain the solvency of the company and its ability to remain solvent even in difficult times. These are intended to ascertain the company's ability to pay off short-term obligations. In order that ratios serve as a tool for financial analysis. L. R. Chowdhury classified financial ratios that are as follows:

- (i) **FINANCIAL RATIO**
- (ii) **TURNOVER RATIO**
- (iii) **PROFITABILITY RATIO.**

To measure performance of SMEs collected Data can be analyzed through Statistical software, Statistical Package for Social Science (SPSS), Microsoft Excel Program FSS (Financial Spread Sheet) and Financial ratios analysis. In the thesis to measure the performance of SMEs, only financial ratio analysis was considered.

In this thesis the development performance of the SMEs was measured by **FINANCIAL RATIO, TURNOVER RATIO and PROFITABILITY RATIO** which were Quantitative variables and used to measure the promotional performance of the SMEs.

If the Liquidity Ratios and Profitability Ratios are high after receiving credit from the NCBs, the performance of SMEs is said to be high and vice versa.

But if the Debt-Equity Ratio and Debt-Asset Ratio of a firm are lower after receiving credit from the NCBs, the performance of SMEs is said to be better and vice versa.

The collected quantitative data were used to determine financial analysis or financial ratios. The performance of the SMEs was measured by the financial Ratios. Depend up on the analyzed ratios, the results were found, particular and relevant conclusions were drawn.

Chapter-5

Study Results

5. Study Results:

This chapter deals with result of the study. The characteristics of the sample enterprises and the entrepreneurs, the salient features of the financial services of the NCBs studied, the demand of the SMEs for financial services of NCBs and the supply of financial services by the NCBs are presented in this chapter.

5.1. Characteristics of SMEs

The sample SMEs were characterized by some common variables. These were locations of the enterprises, nature of operations, nature of products, size of capital, ownership pattern and management, sources of capital, age and sex of the entrepreneurs, educational background, marital status, experience, motivation behind starting business, nature of financial services, loan size, cost of NCBs financial services, period of loan received, mode of repayment of loan and sources of repayment of loan as follows:

5.2. Location of the Enterprise:

Most of the SMEs were urban based. All the enterprises were located in the urban and sub urban areas of Savar, Gazipur, Manikgong, Sarulia of Savar, Mirpur, Noabgonj, Badda and Shampur Commercial area. One third (33%) of them were located in Sub urban areas of Gazipur Sadar, Savar, Meghna, Shampur Commercial Area, Sharulia, and Demra. Two third (66%) SMEs were located in urban areas such as Manikgonj Sadar, Mirpur, Mohammadpur, Rayarbazsar and Badda in Dhaka City.

Nature of business	No. of SMEs	Urban area	Sub-urban area
Manufacturing	75	50	25
Trading	150	100	50
Service	75	50	25
	300	200	100

5.3. Nature of Operation:

All of SMEs concentrated their operations in Manufacturing, Trading or Services rendering activities. The 25% of SMEs were involved in manufacturing activities, while 50% SMEs were only engaged in trading activities and the rest 25% enterprises were in services oriented enterprises.

Percentage distribution of SMEs by their products.

Nature of business	No. of SMEs	percentage
Manufacturing	75	25%
Trading	150	50%
Service	75	25%
	300	100%

5.4. Nature of Products:

SMEs, financed by NCBs were engaged in manufacturing, trading and services. Manufacturing enterprises were mostly in making household lead pot, food item with milk. Garments product and their accessories. Hosiery item, brick, iron rod, flat bar, square bar, electric coil, etc and made of mud made of mud, house hold products included bamboo made kula, strainer, dhool, show pieces, flower base, jar, pot, Tob etc. and the food items were sweet, yogurt, matha, etc made of milk. Besides some were engaged in fish cultivation. Trading enterprise mostly buying and selling of foods items, rice agency, flower, groceries, seasonal fruits, fish. There were cloth traders, stationery, mobile set and their accessories, computer, hard-ware and their accessories, aqua culture, building construction, Money exchange, gold shop ceramics items, bath top, pan, tiles and bathroom fittings etc. Services rendering enterprises were the buying house, Indentor, Diagnostic center, Nursing homes, Traveling and Hajj agencies, the tailor and hair-dresser.

5.5. Size of Capital:

The Start-up capital most of SMEs were 2 to 5 lac. They were starting their business by owned capital. 25% of SMEs depended on financial services of NCBs. They depend on NCBs for working capital, Mid-term and Long-term capital.

Percentage distribution of SMEs by their Size of capital:

Size of capital	No. of SMEs	Percentage
Tk. 2 to 5 lac	180	60%
Tk. 6 to 20 lac	45	15%
Tk. 21 to 50 lac	30	10%
Tk. 51 lac to 1 crore	24	8%
Tk. 1.1 crore to 1.5 crore	12	4%
Tk. 1.6 crore to above	9	3%
	300	100

5.6. Ownership Patern and Management:

The enterprises were operated by one man management, known as proprietorship enterprises. Some operated under partnership agreement and some were operated under company. Almost all of the SMEs financed by NCBs were proprietorship and partnership. A few SMEs were companies financed by NCBs.

Percentage distribution of SMEs by Ownership and Management.

Ownership	No. of SMES	Management	Percentage
Proprietorship	225	Owner-Management	75%
Partnership	45	Haired Staff Management	15%
Company	30	do	10%
	300		100

Hired

5.7. Sources of Capital:

The starting capital of SMEs was not fully received from NCBs and other financial Institution. The 90% of SMEs were started by own fund. The 10% of SMEs were totally dependent on NCB and other financial institution to start their business.

Percentage distribution of SMEs by Sources of Capital

Nature of business	No. of SMEs	own source	loan
Manufacturing	75	75	0
Trading	150	130	20
Service	75	65	10
	300	270	30

Conclusion:

The characteristics of the SMEs lead to the conclusion that financial service receiving SMEs were proprietorship, partnership and company owned and managed by male and female entrepreneurs in rural and urban areas. They were engaged in producing or trading and service oriented concern. They were able to create employment opportunities for more than large industries. The SMEs received only financial services from NCBs.

5.8. Characteristics of Entrepreneurs of SMEs

This section deals with the age, sex, marital status, education, experience of entrepreneurs and causes of motivation to start their business.

1. Age of the Entrepreneurs

The age of the NCBs' assisted entrepreneurs were 20 to 50 years old. But younger person participated more than old age with SMEs.

Percentage distribution of the NCBs assisted SMEs' Entrepreneurs by their age

Age of Entrepreneur	No. of SMES	Percentage
25-30	150	50%
31-35	45	15%
36-40	45	15%
41-45	36	12%
46-50	24	8%
	300	100

2. Sex :

The SME were owned and managed by the male and female entrepreneurs. The 80% of NCBs- assisted entrepreneurs were female and 20% were male.

Percentage distribution of the NCBs' assisted SMEs' Entrepreneur by their Sex

Sex	No. of SMES	Percentage
Male	240	80%
Female	60	20%
	300	100%

3. Educational Background:

The 10% of entrepreneurs crossed the primary level, 40% of entrepreneurs crossed SSC, 30% of entrepreneurs crossed HSC, 20% of entrepreneurs were graduates, 20% of entrepreneurs were post graduates.

Percentage of NCBs' assisted SMEs' entrepreneur by years of schooling

Years of schooling	No. of SMES	Percentage
Primary	30	10
SSC	120	40
HSC	90	30
Graduate	60	20
Post-graduate	60	20
	300	100

4. Status :

A majority (80.5%) of NCBs' assisted SMEs' entrepreneurs were married and a small portion NCBs' assisted SMEs' entrepreneurs (19.5%) were unmarried.

5. Experience:

50% of the NCBs' assisted entrepreneurs were inexperienced. But some of them had some knowledge indirectly gained from other business either by observation or by asking some question about the operation of other business. Only a small portion was experienced because they were engaged with business by their family status.

Percentage of NCBs' assisted SMEs' entrepreneurs by their Experience

Experience	Direct experience	Indirect experience	Total
Entrepreneur with experience	54(18)	30(10)	84(28)
Entrepreneur with no experience	210(70)	-	210(70)
Missing	6(2)	-	6(2)
	270	30(10)	300(100)

N.B. Figure in bracket represent the percentage.

6. Motivation Behind Starting Business

The main determinants of motivation of NCBs' assisted SMEs' entrepreneurs were unemployment. Besides, family influences, husband asked to do some thing as educated wife, discharge from job, need for supplementary income were the motivating factors of male and female entrepreneurs. The entrepreneurs were motivated to start business by push factor. One half of entrepreneur were motivated by unemployment factor. One-fourth of the NCBs' assisted entrepreneurs were motivated by the need for supplementary income. One-fourth of the SMEs entrepreneurs were motivated to start business as a professional business man. A single proportion of entrepreneurs was determined to start business.

5.9. Characteristics of the NCBs' Financial Services

The SMEs' entrepreneurs received financial services in terms of working capital, short term capital, mid term capital and long term or fixed capital (ACSPD circular no-01 of BB date-02-05-2004 and ACSPD circular no-02 of BB date- 19-07-2005) from NCBs.

Nature of Financial Services.

The nature and characteristics of the financial services are discussed in terms of Size of loans, cost of the financial services, period of loan received etc.

1. Loan Size:

- a) ACSPD circular no 01 of BB date: 20-12-1993 SMEs could be received up to 20 lac.
- b) As per ACSPD circular no 01 and 02 of BB, date:-02-05-2004 and 19-07-2005 respectively, SMEs could be received Tk2 lac to 50 lac.
- c) ACSPD circular no 01 of BB date: 04-11-2001, loan has no limitation but highest fixed capital of a firm (agro-based) is limited by Tk. 3 crore.
- d) ACSPD circular no 01 of BB date: 26-11-2002, loan has no limitation but highest fixed capital of a firm (agro-based) is limited by Tk. 5 crore.

Percentage of NCBs' assisted SMEs' entrepreneurs by their loan size

Loan size TK	No. of SMES	Percentage
2 lac-20 lac	60	20
2 lac-50 lac	150	50
As it need or no limitation	90	30
	300	100

2. Cost of NCBs' Financial Services

Cost of the NCBs' financial services were calculated by interest. The interest rates of NCBs were 10-10.5%, 10%, 10.5% and 10-10.5% respectively for sonali bank, Janata Bank, Agrani Bank and Rupali Bank for June, 2004 (Source: Bangladesh Economic review, 2004).

3. Period of Loan Received

As per circular described before SME loans were disbursed as a short term or working capital, mid term and long term or fixed capital. short term or working capitals were disbursed for one year, Mid term loans were disbursed to SMEs for 3 years. Long term or fixed capitals was disbursed to SMEs for 5 years.

4. Mode of Repayment of Loan.

As per circular described before Working capital would be repaid with two installments in a year. Mid term loan would be repaid in a 5 installments with 6 month grace period in three years. Long term capital would be repaid in a 9 installments with 6 month grace period in 5 years.

5. Sources of Repayment of Loan.

The entrepreneurs repaid their loans from their profit, capital, or loan from other persons.

Percentage of NCBs assisted SMEs' entrepreneurs by source of loan repayment

source of loan repayment	No. of SMEs	Percentage
Profit	120	40
Capital	60	20
Taking loan from other	111	37
Missing	9	3
	300	100

Concluding Remark.

The characteristics of NCBs' financial services conclude that NCBs' services were more financial than non financial in nature. Financial services of NCBs were delivered to SMEs at a time at least twice. The entrepreneurs repaid their loan 6 month installment with 6 month grace period from their, capital, profit, or taking loan from other person.

5.10. Demand of Financial Services

Small and medium enterprises have demand for both financial and non-financial services for promotion and development. This chapter describes with an analysis of the various issues related to the SMEs' demand for financial services only.

Demand for Financial Services

All SMEs received financial services in the form of cash loan from NCBs, private commercial banks (PCBs) and other financial institutions. They received three kind of cash credit disbursed by NCBs a) Long term loan, b) Mid-term loan c), Short-term loan or working capital. The NCBs disbursed this credit to SMEs depending on their former rules and regulation. There were no special rules and regulation of NCBs to disburse loan to SMEs for promotion and development.

Percentage distribution of NCBs' assisted SMEs by their causes of receiving loan from NCBs.

causes of receiving loan from NCBs.	No. of SMES	Percentage
To start their enterprise	15	5
To support growth	225	75
To repay loan	60	20
Total	300	100

All enterprises started their business with his own capital but some depend on debt capital. The study revealed that small number (10%) of the enterprises were totally depend on debt capital while about 90% of them were not at all depend on debt capital for the start-up of their enterprises.

But one-third of the enterprises (33%) had debt in their beginning capital. All entrepreneurs of SMEs need working capital to continue their business. The entrepreneur needs mid-term capital to import raw-materials of their products. Export oriented garments and hosiery needed mid-term loan to open import L/C for their raw-material and accessories. All the SMEs needed long term loan to expand their business or making their factory building for their Balancing, Modernization, Rehabilitation and Expansion (BMRE) and set up their machinery. However, 75% SMEs were directly dependent on the financial services of NCBs to promote their business. About 80% SMEs' entrepreneurs expressed their difficulties in getting loan for promoting their business without collateral security from NCBs. The demand or need for additional financial services was also identified by the frequency of loan receiving by the SMEs. However, 80% of SMEs' entrepreneurs were directly dependent on the financial services of NCBs to promote their business. Majority (80%) of SMEs received loan more than one time while about 20% of SMEs received loan twice or thrice. All the entrepreneurs received financial services more than one time and received loan after starting enterprises. They received credit to support the growth process of their enterprises.

Loan receiving from NCBs for repaying loan to the parties other than NCBs also have been viewed as the financial services for the development of the SMEs. Some SMEs were in need of financial assistance to growth but they did not get loan from NCBs and took advance money from other sources. To repay the loan to other sources, SMEs received credit from NCBs. These financial services of the NCBs can be said to have effect on promotion and development of SMEs. Most of the SMEs (20%) received credit to promote process of their enterprise and used the fund to increase the investment size of the business. 20% of SMEs received additional loan to add new product or services to their original products and other received additional

loan from the NCBs to repay their personal loans received from relatives and friends to finance the growth process.

Percentage distribution of NCBs' assisted SMEs by their causes of receiving additional loan from NCBs.

causes of receiving loan from NCBs.	No. of SMES	Percentage
To promote product	60	20
To addition new product line	60	20
To payment of loan	180	60
Total	300	100

furthermore, evidence also indicates that almost of SMEs' entrepreneurs 95% were suffering from financial problems. They wanted more capital but the NCBs did not provide financial services in time and with adequate amount as and when required. The above evidence lends financial services to the contention that SMEs have had demand for financial services for their promotion and development.

Concluding Remarks

The finding on the need for financial services and the analysis thereof reveals that the SMEs have the much demand for financial services. Their needs for financial services for the development of SMEs, were more than those of the promotion of SMEs. The research also identified that they have needs for consulting and counseling for both the promotion and development. Thus it can be concluded that the SMEs have need for financial services for promotion and development.

5.11. Supply of Financial Services

The NCBs supply various types of financial and non-financial services to the SMEs for their promotion and development. Information regarding the supply of financial services by NCBs to the SMEs, the study revealed the followings.

Financial Services

The study revealed that small number (10%) of the SME received debt capital for their starting business while about 75% of SMEs were not dependent on debt capital at all for starting their business. We saw that NCBs were found to supply working capital to SMEs for continuing their business. As an officer of SME Cell of Bangladesh Bank it is observed that NCBs disbursed their fixed capital to manufacturing and industrial concern more than trading concern. They also disbursed their long term credit to poultry firm, dairy firm and garments factory. The NCBs chose more industrial and manufacturing firm than trading firm to disburse their financial services (Credit). As a Central Banker it is identified that the NCBs supplied financial services to a small proportion(10%) of the SMEs for their promotion. The NCBs also supplied major proportion financial services (75%) to SMEs for their development.

Financial services supplied by NCBs to SMEs as claimed the SMEs

Financial services	Sonali bank	Janata bank	Agrani bank	Rupali bank
Long term	X(60)	X(58)	X(45)	X(57)
Mid-term	X(10)	X(10)	X(10)	X(13)
Short term	X(30)	X(32)	X(45)	X(30)

Bracket figures represent percentage of loan

They supplied financial services to the SMEs to expand their factory, to diversify their business, to add more products in their existing business. The study proved that NCBs supplied their credit both for promotion and development of SMEs. The NCBs supplied

long-term, Mid-term and short-term or working capital. About more than 50% of the SMEs (58%) stated that they used loan received from NCBs as fixed capital and less than half of them (45%) received loan for use as both working and fixed capital.

Financial services supplied by NCBs to SMEs as claimed the NCBs

Financial services	Sonali bank	Janata bank	Agrani bank	Rupali bank
Long term	X(62)	X(58)	X(58)	X(57)
Mid-term	X(12)	X(10)	X(12)	X(15)
Short term	X(26)	X(32)	X(30)	X(28)

Bracket figure are represented percentage of loan

Concluding Remarks

The finding on the supply of financial services and analysis thereof reveals that NCBs were supplying the financial services. The supply of financial services for the development of SMEs were more than that of the promotion of SMEs. The research also revealed that NCBs chose manufacturing or industrial firms than trading concern. Thus it is proved that the supply of financial services of NCBs for the promotion and development of SMEs is not enough and the NCBs chose manufacturing or industrial firms more than the trading concern for promotion and development.

5.12. Gap Between Demand and Supply of Financial Services

Based on the demand of financial services of SMEs and supply of the financial services by NCBs stated in the foregoing section, the study identified a large gap as described below:-

Gap in the Financial Services:

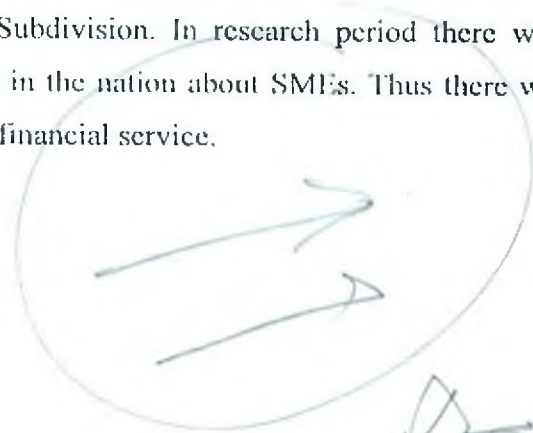
As stated in the foregoing section all of the entrepreneurs of SMEs received financial services either for start up or for promotion and development for their SMEs.

Table distribution of the SMEs by the supply and demand of financial services.

Supply/Demand	No. of SMEs wanted loan for their promotion	No. of SMEs wanted loan for their development
Demand by SMEs	150	300
Supply by NCBs	30(20%)	150(50%)
Gap	120(80%)	150(50%)

Above tables shows a huge gap between the demand and supply of financial services.

In the promotion sector 20% of demand of SMEs' entrepreneurs was entertained where 80% loans were not supplied. The 50% of demand of SMEs were entertained in the development sector where 50% loans were not supplied. There was no any special regulation about SMEs sector in NCBs. NCBs felt better to disburse their credit to large scale industry than SMEs, There was no any separate Sub-division/section about SMEs in NCBs. Private commercial banks were considering now for separate SMEs section /Subdivision. In research period there was no so publication /seminar or conference in the nation about SMEs. Thus there was a gap between the demand and supply of financial service.



5.13 Measure of Performance of SMEs:

The Banker, the analyst and the economist analyze balance sheet and financial ratios of a firm in forming an opinion whether the business firm is progressing, deteriorating or static. The existing performance of SMEs after taking loan from NCBs was compared with previous condition in overall financial terms to measure the performance of SMEs. L. R. Chowdhury said (2002) that no one ratio would give a clear picture of the inherent soundness or weakness of a business unit. Several ratios should, therefore, be considered to get a complete picture. Hampton said (1998) that to be successful in financial analysis, the analyst must select only those ratios that provide significant information about a firm's situation.

A banker and the analyst are primarily concerned with the liquidity position of the borrowing concern. The purpose of liquidity ratios is to ascertain the solvency of the company and its ability to remain solvent even in difficult times. These are intended to ascertain the company's ability to pay off short-term obligations. In order that ratios serve as a tool for financial analysis. L. R. Chowdhury classified financial ratios that are as follows:

- a) **FINANCIAL RATIO**
- b) **TURNOVER RATIO**
- c) **PROFITABILITY RATIO**

(a) FINANCIAL RATIO

Financial ratios indicate about the financial position of the company. A company is deemed to be financially sound if it is in a position to carry on its business smoothly and meet all its obligations-both long-term as well as short-term without strain. Thus, its financial position has to be judged from two angles long-term as well as short-term. It is a sound principle of finance that long-term funds and short-term requirements should be met out of short-term funds. Some of the important ratios, which are calculated in order to judge the financial position of the company, are given below:

- (i) **Fixed Assets Ratio:** The ratio is expressed as follows :

$$\frac{\text{Fixed assets}}{\text{Long-term funds}}$$

The ratio should not be more than 1. If it is less than 1, it shows that a part of working capital has been financed through long-term funds. This is desirable to some extent because a part of working capital termed as “core working capital” is more or less of a fixed nature.

Fixed assets include “net fixed assets” (i.e., original cost-depreciation to date) and trade investments including shares in subsidiaries. Long-term funds include share capital, reserves and long-term loans.

- (ii) **Current Ratio:** This ratio is computed by dividing the current assets by the current liabilities. It is expressed as follows:

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

If the Current assets are excessively higher than the current liabilities, it would imply the company has more finance than it needs and cannot, or does not, employ it profitably.

The mere fact that current ratio is quite high does not mean that the company will be in a position to meet adequately its short-term liabilities. In fact, the current ratio should be seen in relation to the component of the current assets and their liquidity. If a large portion of the current assets comprise obsolete stocks or debtors outstanding for a long time, the company may fail even if the current ratio is higher than 2.

The Current ratio can also be manipulated very easily. This may be done either by postponing certain pressing payments or making payment of certain current liabilities.

In both the case, the position requires scrutiny. An ideal ratio is between 1.5 and 2. If the ratio is 2, the position of the concern is highly liquid; if it falls below 1, it may indicate shortage of working capital.

The Current Ratio is an index of the concern’s financial stability since it shows the extent of the working capital, which is the amount by which the Current assets exceed

the current liabilities. As stated earlier, a higher current ratio would indicate inadequate employment of funds while a poor current ratio is a danger signal to the management. It shows that business is trading beyond its resources.

- (iii) **Quick Ratio/Acid Test Ratio:** This ratio is also called liquidity ratio. This ratio is determined by dividing quick assets by current liabilities. The ratio may be expressed as:

$$\frac{\text{Quick Assets (Current Assets-Inventory)}}{\text{Current Liabilities}}$$

By quick assets it means those current assets, which are quickly and readily convertible into cash. Cash in hand and at bank are, of course quick assets. Marketable securities and receivables/book debts are also quick assets. Raw materials and finished products, so also stock-in-process, are not included in quick assets.

Current ratio and quick ratio are both very helpful in measuring the liquidity of a concern. If any of the ratios is below one, the current liabilities exceed the current assets and the company may not be able to meet its obligations if the occasion demands. Quick ratio, it must be remembered, is a better indication of the concern's ability to meet its current liabilities at short notice. The current ratio and the quick ratio are also useful for comparing the liquidity of the concern on different dates.

- (iv) **Debt-Equity Ratio:** This is very important ratio for the creditors including the bankers. The debt-equity ratio is determined to ascertain the soundness of the long-term financial policy of the company. It is also known as "External-Internal" equity ratio. It may be calculated as follows:

$$\text{Debt-Equity Ratio} = \frac{\text{External equities}}{\text{Internal equities}}$$

The term external equities refer to total outside liabilities and the term internal equities refer to shareholder's fund or the tangible net worth.

In case debt-equity is to be calculated as a long-term financial ratio, it may be calculated as follows:

$$\text{Debt-Equity Ratio} = \frac{\text{Total long-term debt}}{\text{Shareholder's fund}}$$

This ratio brings out the proportion of debt (long-term borrowed fund) to equity (Shareholder's fund) by dividing the former by the latter. This ratio shows the extent to which the term liabilities are covered by the owned funds or the tangible net worth of the business. The ratio indicates the extent to which the firms/company depends upon outsiders for its existence.

A ratio of 1:1 is generally considered satisfactory as it indicates then safety of the funds lent to the business. If the debt exceeds the equity, or the borrowed funds exceed the company's own funds, the debt equity ratio will exceed unity, which is considered as an unhealthy feature. However, in a well-managed concern dealing in or manufacturing readily marketable products, a higher ratio may be acceptable.

(v) **Proprietary Ratio:** It is a variant of debt-equity ratio. It establishes relationship between the proprietor or shareholder's funds and the total tangible assets. It may be expressed as:

$$\text{Proprietary ratio} = \frac{\text{Shareholder's funds}}{\text{Total tangible assets}}$$

This ratio focuses the attention on the general financial strength of the business enterprise. The ratio is of particular importance to the creditors who can find out the proportion of shareholder's funds in the total assets employed in the business. A high proprietary ratio will indicate a relatively little danger to the creditors etc., in the event of forced reorganization or winding up of the company. A low proprietary ratio indicates greater risk to the creditors since in the event of losses a part of their money may be lost besides loss to the proprietor of the business. The higher the ratio, the better it is.

(b) TURNOVER RATIO

The turnover ratios indicate the efficiency with which the capital employed is rotated. They are also, therefore, known as Activity or Efficiency Ratios. The overall profitability of the business depends on two factors: (i) the rate of return on capital employed; and (ii) the turnover i.e. the speed at which the capital employed in the business rotates. Higher the rate or rotation, greater will be the profitability.

In order to find out which part not, different turnover ratios are calculated. These ratios are as follows:

(i) Fixed Assets Turnover Ratio: The ratios indicate the extent to which the investments in fixed assets contribute towards sales. If compared with a previous period, it indicates whether the investment in fixed assets has been judicious or not. The ratio is calculated as follows:

$$\frac{\text{Net sales}}{\text{Fixed assets (net)}}$$

(ii) Working Capital Turnover Ratio: The ratios indicate whether or not working capital has been effectively utilized in making sales. The ratio is calculated as follows:

$$\frac{\text{Net sales}}{\text{Net working capital}}$$

Working capital turnover ratio may take different forms for different purposes. Some of them are being explained below:

(a) Debtor's Turnover Ratio (Debtor's Velocity): Debtors constitute an important constituent of current assets and, therefore, the quality of debtors to a great extent determines a firm's liquidity. This ratio is used by financial analysis to judge the liquidity of a firm.

The Debtor's turnover ratio is calculated as under:

$$\frac{\text{Credit sales}}{\text{Average accounts receivable}}$$

The terms 'Account Receivable' includes 'Trade Debtors' and 'Bills Receivable.'

(b) Creditor's Turnover Ratio (Creditor's Velocity): It is similar to Debtor's Turnover Ratio. It indicates the speed with which the payments for credit purchases are made to the creditors. The ratio can be computed as follows:

$$\frac{\text{Credit purchases}}{\text{Average accounts payable}}$$

The term 'Accounts Payable' includes 'Trade Creditors' and 'Bills Payable.' Both the creditors turnover ratio and the debt Payment period enjoyed ratio indicate about promptness or otherwise in making payment of credit purchases. A higher creditors turnover ratio or a lower credit period enjoyed ratio signifies that the creditors are being paid promptly, thus enhancing the creditworthiness of the company. However, a very favorable ratio to this effect also shows that the business is not taking full advantage of credit facilities, which can be allowed by the creditor.

(c) Stock (Inventory) Turnover Ratio: The ratio indicates whether investment in inventory is efficiently used or not, used or not. It, therefore, explains whether investment in inventories is within proper limits or not. The ratio is calculated by dividing the cost of goods sold by average stock held during the year. The ratio is calculated as follows:

$$\frac{\text{Cost of goods sold during the year}}{\text{Average inventory (Stock)}}$$

Average inventory calculated by taking stock levels of raw materials, work-in-process, finished goods at the end of each month, adding them up and dividing by twelve. A high inventory turnover ratio indicates brisk sales. The ratio is, therefore, a measure to discover the possible trouble in the form of overstocking or overvaluation. The stock position is known as the graveyard of the balance sheet. If the sales are quick, such a position would not inventory turnover ratio results in blocking of funds in inventory which may ultimately result in heavy losses due to inventory becoming obsolete or deteriorating in quality. Then it would be necessary to further analyze this problem.

It is difficult to establish a standard ratio of inventory because it will differ from industry to industry.

(c) PROFITABILITY RATIOS

Profitability is an indication of the efficiency with which the operations of the business are carried on. Poor operational performance may indicate poor sales and hence poor profits. A lower profitability may arise due to the lack of control over the expenses. Bankers, financial institutions and other creditors look at the profitability ratio as an indicator whether or not the firm / company earns substantially more than it pays interest for the use of borrowed funds and whether the ultimate repayment of their debt appears reasonably certain. Owners are interested to know the profitability as it indicates the return, which they can get on their investments. The following are the important profitability ratios.

(i) Overall Profitability Ratio: It is also called as “Return on Investment” (ROI). It indicates the percentage of return on the total capital employed in the business. It is calculated on the basis of the following formula:

$$\frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

The term 'Operating Profit' means 'Profit before Interest and Tax'. The term 'Interest on long-term borrowings.' Interest on short-term borrowing will be deducted for computing operating profit. Non-trading income such as interest on government securities or non-trading losses or expenses such as loss on account of fire etc., will also be excluded.

(ii) Gross Profit Ratio: This ratio is calculated by dividing profit before depreciation, taxation and other allocations, by the sales during the period. The ratio is usually expressed as a percentage. This ratio expresses relationship between gross profit and net sales. Its formula is:

$$\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

A comparison of this ratio for the last few years will show the trend in the profitability of the business operations, i.e., whether the profitability is increasing,

decreasing or remaining constant. This ratio of the borrowing concern should be compared with that of other units in the same trade or industry to have a comparative view of the trade or industry to have a comparative view of the performance of the borrowing concern viz-a-viz similar other units.

There is no norm for judging the Gross Profit Ratio: therefore, the evaluation of the business on its basis is a matter of judgment. However, the gross profit should be adequate to cover operating expenses and to provide for fixed charges, dividends and building up of reserves.

(iii) Net Profit Ratio: dividing the net profit after depreciation but before taxation by the net worth of the company derives this ratio. The ratio so obtained will show the profitability of the total own funds of the company employed in the business. It is particularly useful from the point of view of investors who wish to invest their funds in the corporate securities. It may be calculated in the following way:

$$\frac{\text{Net Operating Profit}}{\text{Net Sales}} \times 100$$

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Net operating profit is arrived at by deducting operating expenses from Gross Profit. The net profit can also be divided by the paid-up capital to calculate the profit earning capacity of the share capital employed in the business. A third way of judging the profitability of the concern is to divide the net profit by the total capital employed, i.e., share capital, reserve, and long-term borrowings.

The ratio helps in determining the efficiency with which affairs of the business are being managed. An increase in the ratio over the previous period indicates improvement in operational efficiency of the business, provided the gross profit ratio is constant. The ratio is thus an effective measure to check the profitability of a business.

An investor has to judge adequacy or otherwise of this ratio by taking into account the cost of capital, the return in the industry as a whole and market conditions such as boom or depression period. No norms can be laid down. However, constant increase

in the above ratio year after year is a definite indication of improving conditions of the business.

(iv) Fixed Charges Cover: The ratio is very important from the lender's point of view. It indicates whether the business would earn sufficient profits to pay periodically the interest charges. The higher the number, the more secured the lender is in respect of his periodical interest income. It is calculated as follows:

$$\frac{\text{Income before interest and tax}}{\text{Interest charges}} \times 100$$

This ratio is also called as "Debt Service Ratio".

The standard for this ratio for an industrial company is that interest charges should be covered six to seven times.

Determination of the Performance of SMEs :

SL	Name of Ratios	Performance of sample SMEs before receiving any loan	Performance of sample SMEs after receiving any loan	Trend
01	Current Ratio	25%SME hold an ideal ratio 1.5 to 2 and 75% hold below 1.	75% SME hold an ideal ratio 1.5 to 2 and 25% hold below 1.	Positive
02	Quick Ratio /Acid Ratio	25%SME hold an ideal ratio 1 & above and 75% hold below 1.	75%SME hold an ideal ratio 1& above and 25% hold below 1.	Positive
03	Debt-equity Ratio	25%SME hold an ideal ratio 1:1 and 75% hold below ideal.	75%SME holds an ideal ratio 1:1 and 25% hold below ideal.	Positive
04	Gross Profit Ratio	25%SMEs increased the ratio at the end of the financial year and 75% of SMEs were losing concern.	90%SME increased the ratio at the end of the financial year and 10% SMEs were losing concern.	Positive
05	Net Profit Ratio	25%SMEs increase the ratio at the end of the financial year and 75% of SMEs were losing concern.	75%SME increased the ratio at the end of the financial year and 25% SMEs were losing concern.	Positive

Chapter-6

Summary, Findings and Recommendation

6.1. Summary.

This chapter is designed to summarize, recommendation and conclude the overall study results. A brief statement of the objective of the research and the research process have summarized the concluding remarks of the research and the inferences thereof together with the study output and recommendations to the concern sides the NCBs and SMEs have been accommodated. The summary section includes literatures reviews on credit, NCBs, SMEs and promotion and development of SMEs as summarized below.

Objectives:

The study aimed at assessing the financial services of NCBs for promotion and development of SMEs and to recommend appropriate policy. Identifying financial services offered by NCBs, the demand of the SMEs for financial services, the supply of financial services by NCBs, assessing the performances of the SMEs were the derivative objectives of the study.

Methodology:

The study was conducted on financial services of four NCBs of Bangladesh those have among others SMEs promotion and development or income generating programs. A total of 300 SMEs were studied with a view to identifying their demand for financial services, the supply of financial services of NCBs and to examine the performance of such financial services for promotion and development of SMEs. The sample enterprises were selected mostly from urban areas and a small proportion from sub urban areas predominantly engaged in manufacturing, trading and services rendering activities the 16 (sixteen) representative branches of NCBs were selected at Dhaka and side of Dhaka city areas that engaged these functions. The NCBs and the SMEs were studied using structured questionnaires by face to face interview and direct verification the files and registers of them. The performance of the SMEs was examined in the light of the Financial Ratio, Turnover Ratio and Profitability Ratio.

Results and Findings of the Study

The empirical research identified that the NCBs were providing financial services. The financial services received by all sample SMEs were classified either as fixed, or mid-term and working capital or both of them. The demand of the SMEs for financial services also was identified as stated in chapter-5. It was found that the SMEs had accurate demand for starting business and after starting business financial services. They had the demand for backward and forward financial services. The research also identified a gap between the demand of the SMEs and the supply of the financial services of NCBs. The supply of financial services was less than that of the demand of the SMEs.

Conclusion:

Based on the overall findings of the study, it could be concluded that the NCBs' financial services were neither totally efficient nor totally inefficient for the promotion and development of SMEs. The study identified that the SMEs had the demand for financial services and the NCBs were providing the financial services. The NCBs were not meeting the demand of the SMEs for the financial services as required. The overall study helps to conclude that the NCBs' financial services were required for the promotion and development of SMEs in overall financial terms of existing performance.

Of the various types of financial services, long-term loan has been given maximum amount. Credit performance of NCBs was not satisfactory at all due to environmental constraint, shortage of sincere entrepreneurs, lack of marketing opportunities, unfair competitions, availability of smuggled products, high cost of production, lack of infrastructure facilities and frequent natural calamity.

6.2. An Overview of Findings and Observation:

On the basis of financial services or credit programs of the NCBs' for promotion and development to SMEs and financial services required or expected by the SMEs findings and recommendations are described in this chapter. Actually, there were no separate credit programs of NCBs for SMEs still. They paid various credit to large, small and cottage enterprises. On the other hand, private Bank, Foreign Bank and financial institutions also had no special credit programs for SMEs.

India, Pakistan, Malasia, Srilanka and Indonesia increased national growth by SMEs credit programs. The Government of Bangladesh constituted a National Taskforce on Development of Small and Medium Enterprises (SMEs) on November 05, 2003 to recommend SME policy guidelines and implementation strategies.

Bangladesh Bank introduced a refinance scheme of Tk.1000 (ACSPD Circular no-01 of BB, date: 02-05-2004) million out of its Industrial Credit Fund for the development of small enterprises in the country effective from May 2, 2004. Banks and financial institutions (PFIs) are provided with refinance facilities against their lending to small entrepreneurs for establishing new enterprises as well as for rehabilitation and expansion of existing enterprises under this scheme. Another fund of US\$ 10.00 million was provided to the Bangladesh Bank under the "Enterprise Growth and Bank Modernization Project" funded by International Development Association (IDA). Apart from these, a fund of US\$ 30.00 million (ACSPD Circular no-02 of BB, date:19-07-2005) is received from the Asian Development Bank under its 'Small and Medium Enterprise Sector Development Programme.' All these funds are pulled together to support the financing program under the above scheme. Existing this other finds are as follows:-

1. Majority of the entrepreneurs were not conscious. They had not idea to start business and to maintain business. They were not educated person. Majority of them crossed primary level, and 20% of them were graduates. They did not maintain networking system among themselves like large industries.

2. Most owner-managers and entrepreneurs often lack wider managerial skills that hinder their long-term success. Strategic planning, medium to long-term vision, communicating in foreign languages, cash-flow management, information technology were a few critical elements of management required to meet challenges of the market economy, especially in the international market environment. They had no abilities to exploit opportunities and book keeping capabilities.
3. The entrepreneur had no knowledge of quality system, commitment to quality, marketing knowledge of internal resource. They had no knowledge of international trade policy and economics and capabilities to control over the internal and environment to achieve a sustainable development.
4. The entrepreneurs had no projection capabilities, in the key areas like future market. Future objective, interest rate, exchange rate, abilities and commitment towards that pursuit.
5. They had to sell their products in cheap price in local market. They did not know the procedure to export their goods. They have no knowledge about international market.
6. The entrepreneurs needed financial services for continuing them, working capital and long-term capital. There was no available financial service from any side for SMEs. Interest rate was high. There was no simple credit facility. One of the main factors that had hampered the flow of institutional finance into SMEs, was bank pre-occupation with collateral. Traditionally banks had used fixed asset ownership particularly land ownership, as the basis for judging credit-worthiness.
7. The entrepreneurs had no capabilities to assess the need of financial services as required.
8. The NCBs did not allow more time to the SMEs before starting repayments. Currently the NCBs were getting repayment just after 6 month or one year for working capital and long-term loan. It was not so much time to continuing business easily.
9. The NCBs provided not full package of financial services required for the promotion and development of SMEs. Currently they were providing to sizeable amount of financial services.
10. Cost of fund was high.

11. Loan management of NCBs was weak and inefficient. Long disbursement procedures were followed.
12. Managers and officials of branches of NCBs were not so efficient.
13. The Policy of loan disbursement and circulars were changeable. It affected the Business procedure.
14. Bangladesh Bank approved a '**Guideline for Small Enterprise Financing**' by BRPD Circular no. 07 dated 03/11/2005 but had no implementation of it.
15. Banks' reluctances to provide loan facilities without collateral or guarantee, which most of the entrepreneurs in the SME sector cannot afford to arrange.
16. Many SMEs in Bangladesh lack the knowledge and ability to produce application and communicate with banks.
17. Small-size companies normally had not the knowledge and capabilities to provide the financial information needed for bank to assess the credit worthiness of the borrower as well as viability of the project proposal.
18. Lack of arrangement from the part of the bank and lending institutions to assist the prospective candidates in preparing the loan application and necessary documentation.
19. Most of the banks had lacking in suitable manpower with necessary skill and orientation for SMEs financing particularly in the field of project appraisal, selection techniques, and investment and counseling ect.
20. The banks' funding structure was mainly short-term deposits and inter-banks. This limits the banks' ability to meet SMEs demand for long term financing.
21. Insufficient supply of loans often led to under financing of a project. The consequence was often shortage of working capital and sickness of the project.
22. Comparatively higher cost of loan administration, supervision and monitoring in respect of SME financing acts as disincentive for banks and lending institutions.
23. Lack of reliable statistical information on SME sector made it difficult for banks and other lending institutions to make the assessment necessary for sound business decisions.

24. Given the complicated legal and judicial system in the country environment against defaulters was very difficult.

25. Most of the entrepreneurs did not know that Bangladesh Bank had refinance scheme for SMEs.

26. There was no arrangement of training facilities for entrepreneurs.

27. NCBs got refinance only Tk. 2 lac to 50 lac for an individual borrower from Bangladesh Bank. It was small amount for SMEs.

28. In refinance scheme of Bangladesh Bank, an enterprise having fixed assets not exceeding Tk. 10 million will be considered as a small enterprise for the purpose of the scheme.

6.3 . Recommendations:

Nationalized Commercial Banks (NCBs) of Bangladesh were controlled by Ministry of Finance, Government Republic of Bangladesh. For this reason, basically Promotion and Development of SMEs depend on policies, rules and regulation of Government. For increase the GDP growth, Government should take to step for promotion and Development of SMEs. On the basis of the overall research process and finding, the following recommendations were made to NCBs, SMEs, policy makers and Government authorities.

Recommendations for SMEs,

1. SMEs' entrepreneurs were recommended to join local Chamber of Commerce and Industry to grow consciousness and build up sound and effective networking system among themselves and with Bankers of NCBs and other concern parties.
2. The entrepreneur should develop their entrepreneurial skills, required for sustainable development of their enterprises. They were recommended to develop their abilities to deal with concerned Banker, networking abilities to the concerned parties, Book keeping capabilities, abilities to exploit opportunities, their risk taking abilities, knowledge of computer.
3. The entrepreneur was recommended to consider their potentiality to grow in course of time. To this end the SMEs were recommended to consider the existing resources, experiences, raw-materials, local labour, and capabilities to control over the internal and external environment to achieve a sustainable development. They should acquire knowledge about international economics, international trade policy, marketing, finance and politics.
4. SMEs' entrepreneur were recommended to develop their projection capabilities in the key areas like future market, future objectives, resources, interest rate, exchange rate, ability and commitment toward that pursuit, and financial demand.
5. The SMEs' entrepreneurs were recommended to make co-operative society to sell their products in the local competitive market and export their goods centrally. For protect their right and privilege at first the society will buy the products from small producer of different areas. Then they sell the products centrally in the local and International market and export foreign countries.

Recommendation for NCBs

1. There was a great need for improving different aspects of financial services for SMEs, such as seed money, leasing, venture capital and investment funding. There was a lack of availability of long-term loans for SMEs. Interest rates are still high and exchange rate risks are considerable. All these factors limit the development of SMEs. NCBs were recommended to Finance, both short and long term, should therefore be provided at market cost.

One of the main factors that have hampered the flow of institutional finance into SMEs was banks' pre occupation with collateral. Traditionally banks have used fixed asset ownership, particularly land ownership, as the basis for judging credit-worthiness. Innovative and flexible credit instruments can be developed for the SMEs if the regulatory framework allows such innovation. The Central Bank should seriously hear the views of the SME in this regard and frame rules in their favor. Banks were shy to lend to SMEs because of high processing and monitoring costs of loans to SMEs. The NCBs were recommended to simplify the loan disbursement procedure to SMEs.

Export oriented SMEs should also be supported with the services of an Export Credit Agency to mitigate their risk of exporting and help facilitate the provision of working capital from banks and other financial institutions.

2. The NCBs were recommended to assess the need of the SMEs to provide financial services. The entrepreneur of SMEs decides his/her demand for financial requirements. Their decision was not correct in most of the time. So, NCBs. Should assess the actual demand of financial services for SMEs before disburse the credit.

3. The NCBs were recommended to allow simple loan disbursement condition to SMEs entrepreneur. NCBs should allow more time to the SMEs before starting repayments. Currently the NCBs were getting repayment just after 6 month or 1 year for working capital and long-term loan. The SMEs could be allowed 2 or 3 years before starting repayment of their credit. The NCBs should reschedule the repayment schedule applied to the SMEs entrepreneurs.

4. The NCBs should provide full package of financial services required for the promotion and development of SMEs. Currently they were providing to sizeable amount of financial services. They are not providing full amount to SMEs. Without full package the SMEs cannot run business. The NCBs were recommended to provide full package of loan.
5. Currently the NCBs disburse working capital loan for one year, Mid-term loan for 3 years and fixed capital for 5 years. It is not so much time to continuing business. The NCBs were recommended to grant loan working capital for 5 years, mid-term loan for 10 years and long-term capital for 15 years. SMEs' entrepreneurs should repay these loans with 1 year, 2 year and 3 years grace period. These non-financial services were provided the SMEs' entrepreneurs so that they would be able to run the business more smoothly, efficiently and effectively.
6. The NCBs' loan interest rates were high. Fund cost was the barrier of starting business and running business of SMEs. The NCBs were recommended to apply less interest rate to disburse loan to SMEs for a specific time to starting their business easily.
7. Loss of money through fraud and forgery means decrease in the loanable funds. The NCBs were recommended for fraud and forgery should be vigorously checked in order to ensure better and efficient credit management and availability of funds (Iftekhar uddin, 1989).
8. Every manager should be trained to develop his technical skill so that he could perform the job given to him intelligently and accurately.
9. NCBs were recommended to apply Credit grantee FUND Scheme for first generation entrepreneurs of SME. The scheme facilitated collateral free lending up to Rs 2.5 million.
10. NCBs should establish SME centers throughout the country to provide technical assistance and access to market information system.
11. Most of the entrepreneurs did not know that Bangladesh Bank have refinance scheme for SMEs. NCBs should circulate about the refinance scheme facilities.

The Recommendation for Policy Makers Like Bangladesh Bank/Government :

1. The policy maker at both micro and macro level should consider both short term and Long-term effects of their frame policy. They should not formulate such policy, the impact of which is very positive in the short run and at the cost of long run impact. Bangladesh Bank approved guideline, namely '**Guidelines for Small Enterprise Financing**' (BRPD Circular no. 07 dated 03/11/2005) but did not Implement it. The NCBs should monitor and Implement the Guideline. Supervision of Bangladesh Bank to NCBs' branch should be carried out minimum one time in a year for SMEs' loan disbursement.
2. In the refinance scheme, Bangladesh Bank should consider the definition of small Enterprise of industrial policy 2005 of Bangladesh.
3. Bangladesh Bank should refinance Commercial Banks and financial Institutions from Tk 2 lac to 100 lac for an individual borrower so that they could easily disburse the amount to small enterprises.
4. Bangladesh Bank should fix up low interest rate for SMEs loan by circular to Banks and PFIs.
5. National Taskforce could play the crucial role in the business development support, advisory services and managerial training of SMEs.
6. Government should Establish SME Bank to provide finances to SME Sector.
7. Bangladesh Bank should supply simple accounting software packages to develop small business enterprises.
8. Bangladesh Bank should set up a separate SME department .

9. Bangladesh Bank should undertake a programme to provide capacity building support to a select group of banks for SME lending.
10. Bangladesh Bank should expand the coverage of its online Credit Information Bureau. Bangladesh Bank should contemplate to set up Credit Information Bureau in the private sector for collection of data on SMEs.
11. Bangladesh Bank should make policy to encourage banks to have at least 20% of its portfolio in SMEs.
12. The Bangladesh Bank, the prime institution for SMEs' financing has developed uniquely tailored lending program with simplified procedures and collateral system.
13. Bangladesh Bank should circulate '**Factoring**' system which is engaged to take risk of loan that disbursed to SMEs. In this field, SMEs will receive loan collateral free.

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Abbreviations Used

- ADB = Asian Development Bank.
- ACSPD = Agriculture Credit & Specialized Programmes department
- BSCIC = Bangladesh Small and Cottage Industries Corporation
- BASIC = Bank of Small Industries and Commerce
- BOI = Board of Investment
- BRPD = Banking Regulation and Policy Department
- BB = Bangladesh Bank.
- DUBS = Durham University Business School
- IMF = International Monetary Fund.
- MEs = Micro Enterprises.
- NCBs = Nationalized Commercial Banks.
- SMEs = Small and Medium Enterprises.

Appendix-A

A. Questionnaire for the Owners of Small and Medium Enterprise:

Personal Information

1. Name: Address:.....
2. Age:.....
3. Sex: 1 Male 2 Female
4. Marital Status: 1 Married 2 Unmarried
5. Children: 1 One 2 Two.
6. Level of education : 1 Never been to school 2 Primary Passed 3 S. S. C
 4 H. S. C 5 Graduate 6 Masters

General Information of the Enterprise:

7. Type of enterprise 1 Manufacturing 2 Trading 3 Service
8. Starting year
9. Principal Products/ Service
10. Ownership pattern: 1 Single 2 partnership
11. Site: 1 Rural 2 Urban

Financial Services for Promotion and Development

23. Did you get any services from the NCBs

1. Yes
2. No.

24. what type of services did you get ?

1. Financial
2. Non-financial.

25. What type of financial services ?

1. Working capital
2. Fixed capital.

26. Why did you receive financial services ?

1. Start-up
2. Growth.

27. What types of non-financial service did you receive ?

1. record keeping
2. Technical
3. Advice
4. Others.

28. Have you got any training from the Bank or any Institutions?

1. Yes
2. No.

29. If yes, When ?

1. Before starting
2. After starting.

30. If before starting. Why ?

1. Idea
2. How to get loan.
3. To be familiar with the bank
4. Other specify.....

31. If you got the idea from the bank or financial Institutions, How ?

1. Gave an idea
2. Help to motivate towards an idea
3. Imposed an idea
4. Other.....

32. If , after starting, Why ?

- 1.How to manage the enterprise
2. keeping financial record
3. How to save
4. Other specify.

33. Did the Banks help developed motivation and commitment ?

1. Yes
2. No.

34. Did the banks help to validate your idea ?

1. Yes
2. No.

35. Do you use any tools or machinery in your business ?

1. Yes
2. No.

36. If yes, who gave you the idea of using these ?

1. Self
2. Bank
3. Friends
- 4 Family
5. Relatives.

37. Did the banks give any financial or technical services in purchasing this machine ?

1. Yes
2. No.

38. Do you get any counseling from the banks ?

1. Yes
2. No.

39. If yes, of what kind ?

40.How frequently do you get these counseling ?

1. When necessary
2. After a fixed interval .

38. Did you think to increase your product line ?

- 1.Yes
2. No.

39. If yes, from where did you get the ideas of diversification ?

1. Self
2. Bank
3. Friends
4. Family
5. Relatives .

40. If you get the idea from the bank, how did they plan to help you?

1. Providing additional capital
2. Supporting growth
3. Giving information service
4. Other.

41. Did you move your location of business?

1. Yes
2. No.

42. Did you no. of customers increase?

1. Yes
2. No.

43. Did you volume of sales to existing customer increase?

1. Yes
2. No.

44. Did you employ any distribution technique?

1. Yes
2. No.

45. How consumer feel about your product/service?

1. Good
2. Satisfactory
3. Unsatisfactory.

46. Did you get any complain about your product from the consumer?

1. Yes
2. No.

47. Do you need reworking the goods before they are sold?

1. Yes
2. No.

48. The damage and wastage rate.....

49. Are the physical assets being utilized?

1. Yes
2. No.

50. Utilization rate of physical assets

51. Are the human resources being utilized?

1. Yes
2. No.

52. Do you think that your product is meeting the need of the customer?

1. Yes
2. No.

53. Have you been appraised for your product or business?

1. Yes 2. No.

54. If yes, who appraised?

1. Customer 2. Bank 3. Friends 4. Family 5. Relatives

Year 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005.

55. Sales Volume .

56. Profit % on sales .

57. Total average cost.

58. Net profit % on sales .

59. Are you thinking about the growth of the enterprise?

60. Do you have enough capital to make the growth ?

1. Yes 2. No.

61. Do you have enough technological capability for promotion ?

1. Yes 2. No.

62. Do you have enough physical assets for promotion?

1. Yes 2. No.

63. Do you have enough human resources for promotion?

1. Yes 2. No.

64. Do you have enough time for promotion?

1. Yes 2. No.

65. Do you have organized information system ?

1. Yes 2. No.

66. Do you prepare plan and budget to control operations ?

1. Yes. 2. No.

67. Did you delegate your authority to employees ?

1. Yes 2. No

68. Do you have any idea for future growth/Expansion ?

1. Yes 2. No.

69. Are you actively considering the ideas ?

1. Yes 2. No.

70. Did you test the ideas actively considering for promotion?

1. Yes 2. No.

71. What you are planning for promotion?

.....

72. When will the plan be implemented?

.....

73. Where are you planning for to implement the plan ?

.....

74. Why are you planning to introduce goods or services ?

.....

75. How would you think that you will have adequate customer for the product?

.....

76. Do you have any plan for required resources ?

1. Yes. 2.No.

77. Do you have any plan for required physical resources ?

1. Yes 2.No.

78. Do you have any plan for required human resources ?

1. Yes. 2.No.

79. Do you have any plan for required financial resources ?
1.Yes 2.No.
80. Did you plan for the required ability and commitment ?
1.Yes 2.No.
81. No. of employee employed in your organization
1.Beginning..... 2. At present
82. Types of employee
1.Full time 2. Part time.....
83. No. of employees
1.Full time..... 2.Part time
84. Status of the employees
1. Skilled 2.Unskilled 3.No . of employee
85. Do you think your enterprise is profitable ?
1.Yes 2.No.
86. Can you manage your family with the income from the business ?
1.Yes 2.No
87. Do you have any other income source ?
1.Yes. 2.No
88. If yes, What is the source ?.....
89. If yes, percentage of income from this enterprise
90. Does the family has other earning member ?
1.Yes. 2.No.
91. If yes, How many.

Socio-economic Conditions

92. Do you think after getting NCB,s service the enterprise helped in developing your socio-Economic condition?

1. Yes. 2.No.

93. If yes how did the socio-economic condition change?

1. Highly increased 2. Moderately increased 3. Increased
4. Poorly increased 5. Not increased

94. Did you purchase any movable or immovable property by the enterprise income ?

1. Yes 2.No.

95. What type of movable property did you?

96. What types of immovable property did you purchase?

97. Did the enterprise increase the consumption level of the family ?

1. Yes. 2.No.

98. Did the enterprise increase the quality of food intake ?

1. Yes 2.No.

99. Did the enterprise increase the volume of food intake?

1. Yes 2.No.

100. Did the enterprise increase the disposable income of the family ?

1. Yes. 2. No.

101. Did the enterprise increase the educational expenses of the children ?

1. Yes 2.No.

102. Did the enterprise increase the quality of food intake ?

1. Yes. 2.No.

103. Do you have any savings from this enterprise?

1. Yes 2.No.

Appendix-B

Questionnaire for the NCBs' Officials.

1. Name of the NCB
2. The year of NCB's started SMEs development program.....
3. Name of the person consulted with
4. Designation of the person
1. Executive Officer 2. Below Executive Officer
5. No. of years working with the NCB
6. What types of financial services does the NCB provide for SMEs promotion?
1. Financial 2. Non-financial
7. What are the various types of non-financial services do you provide?
1. Record keeping 2. Technical
3. Advice 4. Other
8. How much credit do you NCB disburse at a time?
.....
9. What is the rate of interest on the loan disbursed?
.....
10. Does the NCB induce the SME for force saving?
1. Yes 2. No
11. Do the NCBs pay any interest to the SME on the force saving?
12. What do you do in case the beneficiaries cannot pay installment?