

Government Efforts for Small and Medium Enterprise Development in Bangladesh: A Study on SME Foundation

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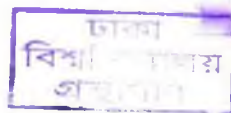
By
Fatema Khatun
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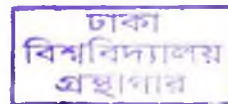
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Enterprise Development in Bangladesh:
A Study on SME Foundation**

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Registration No # 109/2002-03

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Declaration

The thesis entitled “**Government Efforts for Small and Medium Enterprise Development in Bangladesh: A Study on SME Foundation**” is submitted for the partial fulfillment of the requirement for M.Phil degree in Public Administration. The research work has been carried out under my supervision. To the best of my knowledge no part of the work has been submitted for another degree or qualification in any other Institute.

Aka Firowz Ahmad

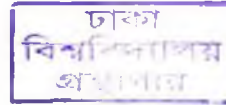
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Dedicated
to my parents

Md. Abdur Rashid
Late Monowara Begum

Acknowledgement

At first I am grateful to the almighty Allah who bestowed me the capacity for completing my research paper. I want to acknowledge my gratitude to my teacher and M. Phil supervisor, Dr. Aka Firowz Ahmad, Professor, Department of Public Administration, University of Dhaka for his advice and guidance in conducting my research work. Completion of the study would not be possible without the intellectual supports and effective advice of my teacher.

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I am alone responsible for all errors and omissions of this study.

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Abstract

SMEs are now regarded as the most important instruments for achieving industrialization and economic growth in both developed and developing countries. The role of SMEs in industrial revolution in the industrialized world is enormous, and this trend has continued to-date. The developed countries like, Japan, UK, USA, Australia and so on depend on the SMEs for the inputs used to produce output in their large industries. The developing countries also have paid their attention to come out from the existing economic backwardness and to ensure sustainable growth through the proper utilization of SMEs.

Bangladesh has a long tradition of SME sector ranging from agro processing, tailoring, pottering, carpeting to fishing and so on. Over the last few decades quite a large number of new companies have been established in the rural and urban SME sectors. These are mainly engaged in food & tobacco, textiles, wood products, paper & printing, chemicals & plastic, fabricated products, transport equipment, utility service, construction, trade, eateries, real estate and others.

The trade liberalization moves in Bangladesh since the early 1990s has significantly increased competitive pressures on SMEs sector as it is difficult to establish and profitably run large-scale industries in these countries, but Small and Medium Enterprises (SMEs) can be established with minimum financial investment that can also ensure rapid socio-economic development at the grassroots level. At present SMEs constitute 90-95 percent of the manufacturing enterprises and provide 70-75 of industrial employment and produce 50-60 percent of industrial output in this country. Considering the prospects of this sector the government of the Peoples Republic of Bangladesh has taken various steps for the growth of SMEs.

The main objective of this study is to identify the Government efforts in the development of SMEs. All the industrial policies are reviewed here to identify the initiatives taken by the government for the SME sector. The government of Bangladesh for the first time issued, Small and Medium Enterprise Policy Strategies, 2005 with a view to providing necessary guidelines and strategic assistance in respect of establishing SMEs throughout the country. Special emphasis also has given for the institutional arrangement in the SME sector.

The creation of SME Foundation is a vital step of the Government by which various policies and programs are being implemented for the development of SMEs. Although the foundation is an autonomous body, the major income of this institute comes from the endowment fund provided by the Government. Another vital source of income of the foundation is the government grants. The main purpose of government support to the SME Foundation is to alleviate poverty and to generate employment through the development of SME sector.

This study examines the role of Government in the development of SMEs through the creation of SME Foundation, the apex SME institution in Bangladesh. The foundation is working all over the country for the growth of this sector. It provides different services for the well being of the SME entrepreneurs, stakeholders, and employees and for the people related to this sector. Various programs are taken by the foundation to ensure the economic growth of the country through promoting the stated sector.

In this study two major programs of the SME Foundation are taken as a case study which, represent all other programs of this institute. One is capacity building and another is credit-wholesaling program. The study examines and evaluates all the activities related to these programs, which help to identify the contribution of SME Foundation in the SME sector.

In spite of having potentialities most of the people of our country can not start their business for the lack of money. The credit-wholesaling program of the foundation helps the people to be a SME entrepreneur by providing credit facility with minimum rate of interest. The terms and condition of this program are also flexible compare to other financial institutions and banks in Bangladesh. On the other hand, the capacity development program of the SME Foundation helps the people to start and continue their business accurately by developing their capability through various training programs. The information on capacity building and credit wholesaling programs has been collected by taking interview of the people who are involved with these programs. Structured questionnaires have been used for this purpose. Case study and observation method are also applied to achieve the objective of this study. Both the positive and negative sides of the programs of the Foundation have been identified in this study.

Findings of the study have been determined by analyzing data on the different factors of both the capacity building and credit-wholesaling programs. The entrepreneurs identified some problems existing in these programs such as limited training program, problems in selecting trainees, lack of specialized trainers, lack of proper fund, lack of technology etc. that should be considered by the foundation. They also highlight the contribution of the foundation in their business like, their increased capacity, financial condition, self condition, social acceptability, women empowerment, entrepreneurship development and so on.

In this paper, some recommendations have been made based on the demand of the SME entrepreneurs, stakeholders and the members of SME Foundation. The major recommendations are the development of capability of the SME entrepreneurs who are actually in need, determination of training types based on the demand of a specific area, determination of training place and duration considering the need of the entrepreneurs, fair selection of participant in the capacity development and credit-wholesaling program, fixation of money for the client of the credit program assessing their need and so on.

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Chapter one

Introduction

1.1 Background and Rationale

Small and Medium Enterprises (SME) have a significant role in the process of industrialization, economic development and employment generation specially in the developing countries where they constitute 90-95 percent of the manufacturing enterprises and provide 70-75 of industrial employment and produce 50-60 percent of industrial output. It is difficult to establish and profitably run large-scale industries in these countries, but Small and Medium Enterprises (SMEs) can be established with minimum financial investment that can also ensure rapid socio-economic development at the grassroots level. Most of the people who have no technical knowledge can easily work in the Small and Medium Enterprises and can develop expertise from their work. SMEs comprise a variety of sectors including agriculture, manufacturing, trading and other productive activities. Many of the SMEs are also engaged in export activities and by this, they provide important links between the outside world and the national economy. A dynamic SMEs sector can also attracts foreign investors. The successful SMEs often gradually turn into large-scale companies.

Bangladesh has a long tradition of SME sector ranging from agro processing, tailoring, pottering, carpeting to fishing and so on. Over the last few decades, quite a large number of new companies have been established in the rural and urban SME sectors. These are mainly engaged in food & tobacco, textiles, wood products, paper & printing, chemicals & plastic, fabricated products, transport equipment, utility service, construction, trade, eateries, real estate and others¹ With the advent of open market economy and globalization, it is hardly possible to invest in the large-scale industries but by utilizing

¹ BBS Census of Enterprises 2001/2003, Government of Bangladesh.

SME sector, Bangladesh can easily accelerate its economic growth and development and gradually move towards large-scale industrial sector in course of time. So, the necessity of Small and Medium Enterprises in the developing country like Bangladesh is beyond question.

The trade liberalization moves in Bangladesh since the early 1990s has significantly increased competitive pressures on SMEs sector. Considering the prospects of this sector government has taken various steps and constituted a National Taskforce on Small and Medium Scale Industries on November 5, 2003 that recommended for drawing a realistic strategy for promoting rapid growth of SMEs in Bangladesh and setting of SME-development policy for the country. The Taskforce emphasized on the motivation of SME entrepreneurs and institutions through organizing meetings, seminars, round table meeting, workshop etc.

The Poverty Reduction Strategy Paper² (PRSP) of 2004 has formulated some recommendations both at macro and micro levels for reducing the existing poverty level at least half with in 2015 as targeted in the Millennium Development Goals³ (MDGs). It has also identified SMEs as an effective vehicle for accelerating national economic growth and made strategy for rapid and sustainable growth of SMEs in Bangladesh.

² Poverty Reduction Strategy Papers (PRSPs) are prepared on August 25, 2004 by member countries in broad consultation with stakeholders and development partners, including the staffs of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. Government of Bangladesh submitted a full PRSP within December 2004 to the World Bank and International Monetary Fund (IMF).

³ The Millennium Development Goals (MDGs) were developed out of the eight chapters of the United Nations Millennium Declaration, signed in September 2000. There are eight goals with 21 targets, and a series of measurable indicators for each target that 192 United Nations member states and at least 23 international organisations have agreed to achieve by the year 2015. They include eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empower women, reducing child mortality rates, improving maternal health, fighting disease epidemics such as AIDS, Ensuring environmental sustainability and developing a global partnership for development.

Industrial policy of 2005⁴ also puts special emphasis for developing Small and Medium Enterprises (SMEs) as a trust sector for balanced and sustainable industrial development in the country to help deal with the challenges of free market economy and globalization. Based on this policy framework the SME Foundation (SMEF) has been founded under company act licensed by the Ministry of Commerce as a non-profit organization with a view to promoting small and medium enterprises (SMEs) for alleviating poverty, generating employment and accelerating economic growth.

1.2 Objectives of the Study

With the broader objectives of studying Government efforts for the development of Small and Medium Enterprises in Bangladesh, the present research specially focuses on the role of SME Foundation from administrative management perspective, which comprises the following issues:

- a) To study the background and present status of Small and Medium Enterprises (SMEs) in Bangladesh;
- b) To analyze SME policy of the Government of Bangladesh;
- c) To study the role, functions, organizational and program management system of SME Foundation;
- d) To analyze the capacity as well as credit wholesaling programs of SME Foundation;
- e) To identify the problems faced by SME Foundation and to suggest recommendation for overcoming the problems.

⁴ The government of Bangladesh formulated an Industrial Policy on March 2005 where Small and Medium enterprise (SME) treated as a trust sector. The government also has taken an initiative to formulate a separate SME policy. Though SMEs is a prospective sector in respects of income and employment generation as well as economic growth but due to several problems this sector can not produce expected results. The government of Bangladesh to develop this sector has given much emphasized on SME in its industrial policy framework and established SME foundation with special assignment of SME development. It is believed that this institutional effort obvious will contribute to the development and effective functioning of Small and Medium Enterprise in the country.

1.3 Justification of the Study

SME foundation is a newly organized institution and no research work has been done on SME foundation. Results of the study related to the organizational and managerial programs of SME foundation will be helpful for the professional bodies working in the SME sector. The output of the study will also be used as reading material for academic institution and will also be helpful for SME entrepreneurs. The study will try to find out the problems and prospects of SME sector that will be helpful for the SME practitioners.

No such empirical and higher level study has been conducted in this area that creates rationale for this study at M. Phil level.

1.4. Scope of the Study

The scope of the study limits on the role of Government in the development of SME sector in Bangladesh with special reference to the functioning of SME Foundation, an apex institution of the country. From broader perspective, government policies and other institutional arrangement for Small and Medium Enterprise and present status of this sector in Bangladesh due to their relevance to the field have been focused in the study.

It also follows the analysis of the institutional capability as well as the organizational and program management system of SME Foundation. Out of different programs of the Foundation only two representative programs considering their roles in achieving in achieving the objectives of the foundation, have been analyzed here as case study.

1.5. Methodology

To collect information and data from both the primary and secondary sources, multiple methodologies are used in this study. These are as follows:

- **Survey Method:** The contribution of SMEs in the socio-economic development of Bangladesh is enormous. Survey method has been used to collect data from the

selected number of people. Structured questionnaire is used here to collect data from the SME entrepreneurs, SME stakeholders and other SME related people.

- **Interview Method:** It is the most significant method to get direct and accurate data from primary data sources. In this method, the interviewer, asks each respondent in a face to face situation with a list of predetermined questions, and records the replies of the respondents in the space provided in the questionnaire. In this study, selective cases have been interviewed for primary data collection following both the structure and unstructured questionnaire.
- **Content analysis:** Content analysis is essential to know expert opinion. Literature and research documents have been analyzed to get a clear conception on SMEs.
- **Case-study Method:** This method is provided fairly intensive examination of single unit; either a small group or a single organization. This study takes SME Foundation as case study. The purpose of this study has highly been served by using case study method.
- **Observation method:** The observation method is the most commonly method especially in studies relating with behavioral sciences. In this method, a person who is interested to study a problem undertakes the task of personally observing the phenomenon. The investigator himself get the spot, mix up with the people, may even live with them. In this study the researcher collect data through this method by taking participation in various training programs conducted by the SME Foundation. Credit related information is also collected through the careful observation of the enterprise and their SME related activities of the beneficiaries group.

1.6. Review of literature

Complying with the core objective of the study, literature mainly concentrates on the literature specially related to Bangladesh. It is to mention here that SMEs as a field of intellectual and academic exercise is quite a new field in Bangladesh. Despite of the fact there are some important works on SMEs by individuals.

Al-Husain⁵ told that the SME sector is easy to be developed in Bangladesh, as it needs less capital and less skill to run. More people can be engaged in this sector (agriculture, forestry, fisheries etc.) that ensures maximum production and human resource development. He also explains how many employment opportunities can be ensured by SME. He further adds that poverty can be reduced by the development of SMEs. He then identifies the attributes, which are essential for a good entrepreneur. These are; initiative, persuasive power, creativity, leadership power, hard work etc. He also finds out the factors, which are responsible in disrupting the progress of the development of SMEs.

Uddin⁶ says that SMEs can make enormous contribution to the economic development of a developing country since SMEs are relatively flexible. He also identifies some socio-economic advantages, which ensure the development of SMEs, such as: lower capital investment, lower job creation cost, shorter start-up period, lower energy cost etc. He further identifies the constraints of SMEs and explains the strategy for rapid growth of SMEs. He also finds out the linkage between the SMEs and other sectors. In another article, Uddin⁷ explains the process to ensure the development of SMEs through sub-contract. Parent enterprises (may be private or state-owned enterprises) accept a product or a part of a product or service from the SMEs by sub-contract. He said that there are mostly three types of sub sectors in which SMEs are operating. These are:

- a. Machinery and equipment.
- b. Chemicals, electrical and electronic products and transport equipment.
- c. Textiles, furniture and food processing industries.

According to Siddique-e-Rabbani⁸ “Small Industries form the backbone of a nation” is well known in the industrial developed countries of the world as these industries are

⁵ S.M. Al-Husain “Some thoughts on SMEs in Bangladesh”, SME Fair 2002.

⁶ Dr. M. Kamal Uddin : “The Small and Medium Enterprises: A Potential Sector to Spur Technological and Economical Development of Bangladesh”, SME Fair, 2002.

⁷ Dr. M. Kamal Uddin: “Sub-contracting: A strategic approach for SMEs development in Bangladesh” Bangladesh Journal of Public Administration; Vol- XII , Num-I and II, 2003, BPATC Savar, Dhaka, Bangladesh.

⁸ K. Siddique-e Rabbani ,“Access to Financing for SMEs in Bangladesh”, SME Fair, 2005.

technological innovators, experimenting with technology of product and technology of production, acceptance by the market etc. and can quickly adjust to sudden shifts in market conditions that are impossible for a large-scale organization. He identifies some important factors of SMEs and makes a list of some sources of financing for setting up SMEs in Bangladesh like, Banks, NGO's, Leasing Companies, Govt. bodies, Semi-Govt. bodies, own resources etc. for setting up SMEs in Bangladesh.

Hossain⁹ finds out various constraints related to the trade and fiscal policy, which disrupt the development of SMEs. He also identifies some legal, regulatory and administrative constraints to obtain trade license, clearance from the department of Environment and registration with sponsoring agency. He further identified some financial constraints like access to finance, project preparation and evaluation cost. He then stressed bureaucratic corruption for which the development of SME sector is hampered. He also gave suggestions to overcome all of these problems.

Miah¹⁰ makes an overview of the situation of SMEs in the country. He discusses the policies and strategies of Government of Bangladesh for SMEs and he analyses the Sector Development Program (SMESDP) along with Action Program of SME Policy and Strategy 2005. He also identifies the agencies, institutions and actors who are involved in entrepreneurship development for SMEs in the country with emphasizes on the finance and credit facilities given by the Government, NGOs and Private institutions. He further highlights the problems, issues and challenges related to SMEs development and he also suggests some measures to minimise these problems. In another article, the writer¹¹ discussed the role of Government in the SME sector. He identified the various activities taken by the Government for SMEs development like SME policy, creation of SME

⁹ Najmul Hossain, "Constraints to SME Development in Bangladesh", Jobs, October 1998, University of Maryland at college park, USA (Mimeo).

¹⁰ Dr. Mohammad Ayub Miah, "SME Sector Development Program (SMESDP) in Bangladesh" Seminar paper, 12 December 2005

¹¹ Dr. Mohammad Ayub Miah, "SME Foundation: A pioneer and dedicated institution for the development of Small and Medium Enterprises", 2nd National SME Women Entrepreneurs Conference, 2008.

Foundation, finance in SME sector, capacity building for SME, role of women entrepreneurs in SME and so on.

Hye¹² explains the role of Local Government Institutions like, City Corporation, Pourasabha, Union Parishad and other agencies in the creation of positive business environment through providing legal requirement, regulatory conditions, physical infrastructure, skilled manpower etc. for the SMEs. He also identifies the problems in the legal, regulatory and development services of these institutions and gives some recommendations for solving these problems.

Morshed¹³ focuses on the women entrepreneurs and their potential contribution in development, the status of women entrepreneurship in the Government SME Policy 2005, Export Promotion Strategy Paper 2006 to 2009, Millennium Development Goals 2000-2015 and in the Poverty Reduction Strategy Paper (PRSP) 2004. Identifying the problems faced by the women entrepreneurs, she also recommends some important measures.

Chowdhury¹⁴ highlights the types of businesses run by the women entrepreneurs and finds out the constraints faced by the women SME entrepreneurs. She emphasizes on the SME marketing for women entrepreneurs. To her inaccurate fund generation, registration and legal obligation, lack of moral support from family, lack of knowledge and training etc are the major problems for the growth of women entrepreneurs. Finally, she discusses the tactics for the market development of SME for women entrepreneurs.

¹² Hasnat Abdul Hye "Business Environment and Local Government Institutions", seminar paper, 12, April, 2005.

¹³ Syeda Farzana Morshed, "Current Policy Regulations: Challenges and opportunities for women SMEs in Bangladesh" 2nd National SME Women Entrepreneurs Conference, 2008.

¹⁴ Professor Masuda M. Rashid Chowdhury, "Business Support and Marketing Communication: Gender Perspective for SME Development in Bangladesh" 2nd National SME Women Entrepreneurs Conference, 2008.

Rahman¹⁵ shows the necessities of Information and Communications Technology (ICT) for the women entrepreneurs as well as the challenges to adopt ICT by the women entrepreneurs. He also identifies the barriers to adopt ICT that includes infrastructure, human capacity, financing options and legal framework and he recommends to promote ICT use by women entrepreneurs.

Chowdhury¹⁶ identified the number of women entrepreneurs in SME sectors. She found out the key challenges and barriers for women entrepreneurs like the barriers in access to finance, information, networks, markets and training and she also identified the lack of knowledge and experience of women in case of fund management.

The Government Gender Action Plan has been analyzed by Akbory¹⁷. She also discusses the way of implementing Gender Action Plan by the gender wing of SME Foundation and the work monitoring and evaluation process of the Women Entrepreneurs' Forum.

Ahmed¹⁸ says that SME women entrepreneurship is an important pre-condition for accelerating industrial growth and inclusive national economic development process. He also discusses the facilities arranged by the Government for women SME Entrepreneurs such as, setting up a separate bank for women entrepreneurs, opening special cells in the existing banks for them, extending bank loans to women entrepreneurs at the lower rate of interest etc.

¹⁵ Md. Mujibur Rahman: "ICT for Women Entrepreneurs in Bangladesh" 2nd National SME Women Entrepreneurs Conference, 2008.

¹⁶ Farzana Chowdhury: "Access to Finance: Gender Perspective, factors affecting women entrepreneurs in access to finance in Bangladesh" 2nd National SME Women Entrepreneurs Conference, 2008.

¹⁷ Yeameen Akbory: "Gender Action Plan: Towards Women Entrepreneurs Development in Bangladesh", 2nd National SME Women Entrepreneurs Conference, 2008.

¹⁸ Dr. Ahmed, Momtaz Uddin: "The women SME Entrepreneurs and business Leaders of Bangladesh Speaks for Themselves" 2nd National SME Women Entrepreneurs Conference, 2008.

Sha¹⁹ focuses on the importance of capacity building of SME sector. He identifies the main objectives of capacity building taken by the SME Foundation. He also finds out the problems of capacity building in Bangladesh like, lack of information about the training to the trainee, communication gape among the training institutions, and discriminations among the certificates of various institutions. He further shows some ways to overcome these problems like, taking necessary steps for maintaining properly human resource development as well as skill development programs, arranging capacity building program for the national, corporate, enterprise and organization level, identifying training need assessment in various sectors, establishing co-ordination among the training courses in the various training institutions of the country and so on.

Report of the National Taskforce²⁰ “Small and Medium Enterprises (SMEs) development in Bangladesh- A Reasoned Approach to Letting SMEs Count” was prepared to recommend SME policy guidelines and implementation strategies. In this report SME is defined and varies kinds of short, medium and long term recommendations are given for the development of SMEs such as, policy statement, tax rate, credit distribution, establishment of SME Foundations, evaluation mechanism, SME Web-portal, curriculum of educational institutions etc. This report further identifies the role of SMEs in the National Economy of Bangladesh. Major constraints are identified and necessary recommendations are also given in this report.

Literatures reviewed in the foregoing section mainly concentrate on the contribution of SMEs in the economic growth and industrialization and also major constrains, which disrupts the development of SME sector. Besides, some actions of Government in this sector have been presented in these literatures. But no empirical study has been taken on the SME Foundation, a central institute of the country working for the progress of this sector. Although it is an autonomous body, Government always plays a supportive role

¹⁹ Ahmed Ali Sha, “*Capacity Building in SME Sector*”, 2nd National SME Women Entrepreneurs Conference, 2008.

²⁰ SME Task Force, “*Small & Medium Enterprises (SMEs) Development in Bangladesh: A Reasoned Approach to Letting SMEs Count*”, Dhaka: The Ministry of Industries, September 2004.

in the implementation of their policies. SME foundation assumes a great role to increase the contribution of SMEs in the socio-economic development of Bangladesh and also to reduce unemployment problem. It is necessary to identify the constraints to the growth of SMEs and to find out the role of SME foundation to overcome the problems. Empirical and effective research always is helpful to achieve this end. So, higher level research on SME Foundation is needed for facilitating Government efforts for the development of SME sector in Bangladesh.

1.7. Organization of the thesis

There are seven chapters in this research. Chapter one presents an outline of the whole research work. This chapter has drawn a structure of the entire research program. It includes the background and the rationale of the study. Objectives of the study have also been identified here carefully. SME related articles and documents are reviewed here to get a clear idea on the SME related policies, rules, institutional arrangement, financial flow, capacity building program, problems faced by the entrepreneurs and so on. This chapter also covers the methodology and scope of the study. Conceptual framework has been drawn in chapter two. Chapter three focused on the growth and development of SME in Bangladesh. Definition, characteristics, types and policy issues on SMEs have also been discussed shortly in this chapter. This chapter further has analysed the some of Government's initiatives for the development of Small and Medium Enterprise in Bangladesh. Chapter Four is about the SME Foundation. It covers institutional arrangement, objectives, functions, capability and various programs of the Foundation. Chapter five deals with the management system of both the capacity development and credit-wholesaling program of SME Foundation. Findings are presented in the chapter six by analysing all the information collected from the different sources. Chapter seven includes recommendation and concluding remarks of the study.

Chapter two

Small and Medium Enterprise: A Conceptual Analysis

2.1 Introduction

Small- and medium-sized enterprises exert a strong influence on the economies of both the developed and developing countries with enormous contribution to GDP. Manufacturing and non-manufacturing industries both are included in SME sector. In size and shape, SMEs are not uniform across the globe. It varies from country to country. It mainly depends on the economic condition and the policy framework of a country. There are more than 60 definitions of small and medium industries used in 75 countries surveyed by the World Bank²¹. The most commonly used definitions relate to either size of employment or quantum of capital investment and fixed assets.

This chapter highlights the basic concepts, ideas, characteristics and factors of SMEs as available in the literature related to different countries. It also presents the conceptual framework of SME including the major ingredients related to this sector.

2.2.1 Small and Medium Enterprise

Small and medium enterprises²² or SMEs, also called small and medium-sized enterprises and small and medium-sized businesses or small and medium businesses or SMBs, are companies whose headcount or turnover falls below certain limits. The terms small business and entrepreneurial business are sometimes used interchangeably. Although small and entrepreneurial businesses may be one and the same, the terms stand for different concepts. The principal objectives for an entrepreneurial business are

²¹ SME Overseas: Definition of SME, Center for SME Studies. (<http://www.smeiift.com/sme/SME-overseas.asp>), accessed on 16 July 2009.

²² There is no universal definition of Small and Medium Enterprise. It is defined by different countries and organizations based on their economic condition and existing policy framework.

profitability and growth. The business is characterized by innovative strategic practices or products. The entrepreneur starts and manages a business for reasons as achievement, rapid growth, immediate and high profits and – partly – quick sell-outs. A small business, which is not entrepreneurial, may never grow large. It expects normal sales, profits and growth to stay in business. The owners often prefer a more relaxed and less aggressive approach to running their business. Their principal purpose is furthering personal goals.

SMEs may or may not be entrepreneurial, whereas entrepreneurial businesses can be SMEs or large corporations. Hence, the degree of entrepreneurial spirit in an SME is largely determined by the intentions of the owners. Bridge²³ has grouped them into three categories.

Table-1: Groups of SMEs according to owners' intentions

Life-style	Comfort Zone	Growth
<ul style="list-style-type: none"> • Often run by an individual • Facilitates and is part of the life-style the individual wants to have • Frequently found in arts or crafts, where the owner lives to practice the craft rather than practices the craft in order to live • Basis of business is more important than the level of return it can provide 	<ul style="list-style-type: none"> • Provides the owner with sufficient level of returns for the level of comfort he wants in life • Level of benefit the business can provide in return for a reasonable amount of effort is more important than the basis of business 	<ul style="list-style-type: none"> • Owners wish to manage the business to maximise its earning potential, especially for the future

²³ S. Bridge, 1980: *Understanding Enterprise, Entrepreneurship and Small Business*. London: MacMillan Business.

SMEs are also defined as independently owned, mostly by families, individuals or small groups of individuals. Kets de Vries²⁴ (1993) states the following advantages and disadvantages of family-owned businesses. Those are relevant to other individually owned businesses as well. The following table-2 is on it:

Table-2: Advantages and disadvantages of family-owned businesses

Positive Aspects	Negative Aspects
<ul style="list-style-type: none"> • Long-term perspective • Dependable culture that encourages long-lasting relationships with all business partners • Strong identification/commitment, stability • Knowing the business • Family culture as a source of pride, greater resilience in hard times 	<ul style="list-style-type: none"> • Static thinking • Managerial difficulties when family objectives and business objectives are in conflict • Less access to capital markets • Nepotism • Succession problems

World Bank's Definition²⁵ since 1976, SMEs are firms with fixed assets (excluding land) less than US\$ 250,000 in value. UNIDO²⁶ identifies SMEs based on employee engaged in this sector. It gives separate definition for developing and industrial countries. The following table presents these differentiations:

²⁴ M.F.R Kets de Vries, (1993), The dynamics of family controlled firms: The good and the bad news. *Organisational Dynamics*. 21(3) S. 59 ff.

²⁵ World Bank, <http://www.worldbank.org/> accessed on 26 July 2009.

²⁶ United Nations Industrial Development Organization (UNIDO) <http://www.unido.org/> accessed on 26 July 2009.

Table-3: SME defined by UNDO

	Enterprises	Number of employees
UNIDO's Definition for Developing Countries	Large	100+
	Medium	22-99
	Small	5-19
UNIDO's Definition for Industrialized Countries	Large	500+
	Medium	100-499
	Small	<99

Source: United Nations Industrial Development Organization (UNIDO) [http://www.unido.org/Center for Small and Medium Enterprise²⁷](http://www.unido.org/Center%20for%20Small%20and%20Medium%20Enterprise) gives a definition of SME based on the size:

Table-4: SME defined by Center for Small and Medium Enterprise

Criterion	Small Firm	Medium Firm
Turnover	Not more than £ 2.8 million	Not more than £11.2 million
Balance Sheet	Not more than £ 1.4 million	Not more than £5.6 million
Employees	Not more than 50	Not more than 250

Source: Center for SME Studies. (<http://www.smeiift.com/sme/SME-overseas.asp>).

According to this institute the employees would be within the following criteria:

- Micro and small: 0-9 employees
- Medium: 50-294 employees
- Large: over 250 employees

²⁷ SME Overseas: Definition of SME, Center for SME Studies. (<http://www.smeiift.com/sme/SME-overseas.asp>), accessed on 16 July 2009

The European Union's definition²⁸ of SMEs is based on the number of people employed in the enterprise. A micro enterprise has head count of less than 10, and a turnover or balance sheet total of not more than 2 million euros. A small enterprise has a headcount of less than 50, and a turnover or balance sheet total of not more than 10 million euros. A medium size enterprise has a headcount of less than 250 and a turnover of not more than 50 million euros or a balance sheet total of not more than 43 million euros.

In the UK²⁹, sections 382 and 465 of the Companies Act 2006 define a SME for the purpose of accounting requirements. According to this a small company is one that has a turnover of not more than £6.5 million, a balance sheet total of not more than £3.26 million and not more than 50 employees. A medium-sized company has a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees. It is worth noting that even within the UK this definition is not universally applied.

In the USA³⁰, SME means an organization of up to 1,500 employees and a turnover of \$0.75-29m, depending upon the type of business. In the US, a Government Department called Small Business Administration (SBA) sets the definition of small business. The SBA uses the term "size standards" to indicate the largest a concern can be in order to still be considered a small business, and therefore benefit from small business targeted funding. The concern cannot be dominant in its field, on a national basis. It must be independently owned and operated. The most common size standards are:

- 500 employees for most manufacturing and mining industries
- 100 employees for wholesale trade industries
- \$7m of annual receipts for most retail and service industries
- \$33.5m of annual receipts for most general and heavy construction industries

²⁸ SME Define: European Union (<http://europa.eu/scadplus/leg/en/ivb/n26026.htm>), accessed on 27 July 2009.

²⁹ Small and Medium Enterprises: Definitions, (<http://www.lib.strath.ac.uk/busweb/guides/smedefine.html>.) accessed on 25 January 2009.

³⁰ Small and Medium Enterprises: Definitions, (<http://www.lib.strath.ac.uk/busweb/guides/smedefine.html>.) accessed on 27 January 2009.

- \$0.75m of receipts for most agricultural industries

SMEs in Japan³¹ are defined by the Small and Medium Enterprise Basic law.

Table-5: Small and Medium Enterprise

Applicable law	Industries	Employees and Capital Size
Small and Medium Enterprise basic Law (Promulgated in 1963)	Mining & manufacturing and other industries	300 or less employees, or Y 100 million or less
	Whole Sale	100 or less employees or Y 30 million or less
	Retail Sale and Service	50 or less employees Y 10 million or less

Source: Small and Medium Enterprises, Japan (<http://www.pal-chambers.org/federation/page11.html>).

Note: the original law was amended regarding capital size in 1973. Before that modification, capital size for mining & manufacturing and other industries was Y 50 million or less and that for commerce and services was Y 10 million or less.

The Government of Pakistan under Ministry of Industries, Production & Special initiative, Small and Medium Enterprise Development Authority (SMEDA) was established in October 1998 to take on the challenge of developing Small & Medium Enterprises (SMEs) in Pakistan. SME Defines by the SMEDA³² as follows:

- Small: between 10-35 employees and productive assets range of Rs. 2-20 million.
- Medium: between 36-99 employees and productive assets range to Rs. 20-40 million.

³¹ Small and Medium Enterprises, (<http://www.pal-chambers.org/federation/page11.html>) accessed on 25 September 2009.

³²Small and Medium Enterprise Development Authority (SMEDA), SME Definition, (<http://www.smeda.org.pk/man.php?id=2>) accessed on 27 September 2008.

Small & Medium Enterprises are defined as follows, as approved in SME Policy 2007³³.

Table-6: Small & Medium Enterprises

Enterprise category	Employment size	Paid up capital	Annual sales
Small and Medium Enterprise	Up to 250	Up to Rs. 25 Million	Up to Rs. 250 Million

Source: SME Definition, (<http://www.smeda.org.pk/man.php?id=2>)

Table-7: SME Definitions³⁴ used by various institutions in Pakistan

Institutions	Small	Medium
Small and Medium Enterprise Development Authority (SMEDA)	10-35 Employees or Productive Assets of Rs 2-20 million	36-99 Employees or Productive assets of Rs. 20-40 million
SME Bank	Total Assets of Rs. 20 million	Total Assets of Rs. 100 million
Federal Bureau of Statistics	Less than 10 employees	N/A
Punjab Industries Department	Fixed assets with Rs. 10 million excluding cost of land	
Punjab Small Industries Corporation	Fixed investment. up to Rs. 20 million excluding land and building	N/A
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs.10 million Including land & building	

³³ SME Definition: SME Policy 2007 (<http://www.smepolicy.net.pk>) accessed on 27 September 2008.

³⁴ Mustafa Iqbal and M.Farrukh Khan, **Small and Medium Enterprises in Pakistan**, *SOUTH ASIAN JOURNAL*.<http://southasianmedia.net> accessed on 27 September 2008.

Institutions	Small	Medium
State Bank of Pakistan (SME Prudential Regulationseffective since January 2004)	An entity, ideally not being a public limited company, which does not employ more than 250 persons (manufacturing) and 50 persons (trade / services) and also fulfills one of the following criteria: (i)A trade / services concern with total assets at cost excluding land and buildings up to Rs 50 million. (ii)A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million. (iii)Any concern (trade, services or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.	

In India³⁵ promotion of micro, small and medium enterprises (MSMEs) is a priority of economic policy since Independence. In the policy platform, it was originally articulated through the Industries (Development and Regulation) Act, 1951, which clearly demarcated a policy space for “small-scale industries”. Micro, Small and Medium Enterprises Development Act, 2006, on which public policy relating to this sub sector of Indian industry has been carved out, defines MSMEs under two broad categories: a) manufacturing enterprises; and b) service enterprises:

MESM definition: - " The micro, small and medium enterprises development Act, 2006, however, covers entities with an investment of up to Rs 10 crore in the manufacturing sector and of up to Rs 5 crore in the services sector, in the SME definition".

According to the notification of the Ministry of Small Scale Industries, micro, small and medium size enterprises are defined by the following ways:

³⁵ Definition of Micro, Small and Medium Enterprises in India
(http://en.wikipedia.org/wiki/small_and_medium_enterprise) accessed on 25 August 2009.

Manufacturing Enterprises

- (i) A micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;
- (ii) A small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees, but does not exceed five crore rupees; or
- (iii) A medium enterprise, where the investment in plant and machinery is more than five crore rupees, but does not exceed ten crore rupees.

Service Enterprises

- (i) A micro enterprise, where the investment in equipment does not exceed ten lakh rupees.
- (ii) A small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
- (iii) A medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

In Bangladesh, according to SME Policy Strategies – 2005³⁶, Small and Medium Enterprises shall be categorized using the following definitions:

a. Manufacturing Enterprise

- i. Small enterprise: an enterprise should be treated as *small* if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (of turn-key consultancy services, for example), etc, excluding land and building, were to be up to Tk. 15 million;
- ii. Medium enterprise: an enterprise would be treated as *medium* if, in current market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services (such as turn-key consultancy), etc, excluding land and building, were to be up to Tk. 100 million.

³⁶ SME Policy Strategies – 2005, Ministry of Industry, Peoples Republic of Bangladesh. (<http://www.moind.gov.com>) accessed on 27 August 2008.

b. Non-Manufacturing Enterprise (such as trading or other services)

- i. Small enterprise: an enterprise should be treated as *small* if it has less than 25 workers, in full-time equivalents;
- ii. Medium enterprise: an enterprise would be treated as *medium* if it has between 25 and 100 employees;

Booster sectors

The following 11 booster sectors have been identified in the SME Policy Strategies – 2005 and the list shall be reviewed every three years:

- Electronics and electrical;
- Software-development;
- Light engineering and metal-working;
- Agro-processing/agri-business/plantation agriculture/ specialist farming/tissue-culture and related business;
- Leather-making and leather goods;
- Knitwear and ready-made garments;
- Plastics and other synthetics;
- Healthcare & diagnostics;
- Educational services;
- Pharmaceuticals/cosmetics/toiletries;
- Fashion-ricer personal effects, wear and consumption good;

2.2.2 Characteristics of Small and Medium enterprise

Dagmar Recklies³⁷ has identified some basic characteristics of Small and Medium Enterprise to show the relationship between Small and Medium-Sized Enterprises and Globalization. These are: Dependence on a limited number of people (often owners and managers are one and the same persons); Close relationships to customers and business

³⁷ Dagmar Recklies, SME and Globalisation, (<http://www.themanager.org/strategy/global.htm> accessed on 27 August 2008)

partners; Simple structures; Cross-functional communication and cooperation within the organization; Small size organization.

The characteristics of Small and Medium Enterprise and Micro-Enterprise were identified in the 9th APEC Small and Medium Enterprises Ministerial Meeting³⁸. It can be shown by the following table:

Table-8: Characteristics of Small and Medium Enterprise and Micro-Enterprise

Small and Medium-sized Business	Micro Enterprise
Structural organisation	
Defined structure with position and function	No defined structure and very little information about their size and scope
Financing	
In partnership, with links to formal financing institutions	Individual and personal, often without initial financing
Fixed Assets	
Machinery, equipment, installations, commercial space suited to the type of business	Working tools and utensils. In most cases, they form part of the household
Production	
Tendency towards increasingly sophisticated technology	Traditional technology with little specialisation and almost no training
Marketing	
Linked to chains of production	Direct, with few links to chains of production

³⁸ Executive Summary of 9th APEC Small and Medium Enterprises Ministerial Meeting, 17-18, August 2002.

OPERATIONAL	
Personnel	
Remuneration based on specific positions	Informal remuneration, including non-remunerated staff, mainly family members
Production	
Tendency to respond to market strategies and competition, backed up by links to the chains of production	Intuitive definition
Inventory	
Tendency toward sophisticated management that incorporates modern techniques	Usually no planning or control
Planning	
For business and tax purposes, with some applications to control and decision-making	Non-existent concept
Accounting	
	Only for tax purposes, when it exists, since more than 70% of micro-enterprises form part of the informal market
Relation to official regulators	
Exist within established policy and regulatory framework	Nonexistent and frequently resisted

Source: APEC Small and Medium Enterprises Ministerial Meeting, 17-18, August 2002.

According to Bangladesh Enterprise Institute³⁹ (BEI) A small enterprise in the context of Bangladesh would usually the following characteristics:

³⁹ Charecteristics of SME in Bangladesh, (<http://www.bei-bd.org/>) accessed on 27 August 2008.

- They would be sector & location neutral. They can be found in formal or informal sector.
- They are more likely to be located in a rural area, a rural township, bazar or growth center, or in an urban periphery.
- They would employ a mix of family & hired workers.
- They would use little or no division of labour
- They usually produce goods for low-income consumers
- They hardly follow any modern management and/or accounting systems
- They would exhibit low to midlevel worker skill.
- They would usually be local raw material based.
- They would depend on personal marketing endeavors.

2.2.3 Factors of small and medium-sized Enterprises

Yusof and Aspinwall⁴⁰ proposed ten success factors specifically for small and medium-sized businesses engaged in implementing total quality management; these were established from reviewing past literature. They later surveyed companies to confirm their results and established four main areas that formed a critical core for those companies. These are as follows:

1. Management leadership;
2. Measuring results, progress and performance;
3. Appropriate training for employees; and
4. Adopting a quality assurance system

Nine identical factors identified and a number of supporting themes emerged for each factor in the research held by B.A Sen and R. Taylor⁴¹. The following table sets out the supporting themes and related organizational success factors:

⁴⁰ S.M Yusof, & E.M Aspinwall, (2000), Critical success factors in small and medium enterprises: survey results. *Total Quality Management*, 11(4-6), S448-S462.

⁴¹ B.A Sen and R. Taylor, Determining the information needs of small and medium-sized enterprises: a critical success factor analysis, *Information research* Vol.12 No. 4, October 2007, UK.

Table-9: critical success factors of the small and medium-sized enterprises

Supporting themes	Organizational success factors
Nature of the products, Product innovation, management and knowledge	1. Product supply: Offer a range of innovative, quality, well priced products appropriate to market need
Branding & promotion, Company profile, Strategic marketing, Marketing communications, Sales capability, Market intelligence	2. Market success: Achieving market success through effective strategic sales and marketing
Communication skills, Management communications Customer communications, Communications with suppliers, General communications	3. Effective corporate communications: Develop the culture and systems that support communication throughout the whole organization and with its stakeholders.
Customer service, complaints, information and communications	4. Customer relations: Focus on the customer improving customer relations
Skills, knowledge, training and development, Encouragement and reward, Staff retention, Management skills and roles, Appraisal and job descriptions, Working environment	5. Company morale: Provide a working environment conducive to high corporate morale
Operational processes, Delivery and work output Equipment, materials and systems Stock levels and stock information	6. Efficiency of operations: Improve efficiency of all business operations
Financial information, management & skills Cash flow, debtors/credit control, Sales & purchase ledger Customer accounts & invoicing, Pricing	7. Financial stability: Maintain financial stability through effective financial management

<p>Vision, Strategic planning and strategic direction Strategic communications, Organizational culture, Inter-functional co-ordination</p>	<p>8. Strategic management: Establish and communicate a clear strategy for corporate development</p>
<p>Information quality, Information systems, Performance data (operational), Decision support (strategic) Financial information, Market intelligence, Stock and product information, Supplier information, Customer information</p>	<p>9. Corporate information competence: Develop information management skills and systems to support business strategy and operations: generate, gather, disseminate and use the appropriate information effectively, ensuring information security, validity and integrity</p>

S.M Yusof. & E.M Aspinwall., (2000), Critical success factors in small and medium enterprises: survey results. Total Quality Management, 11 (4-6).

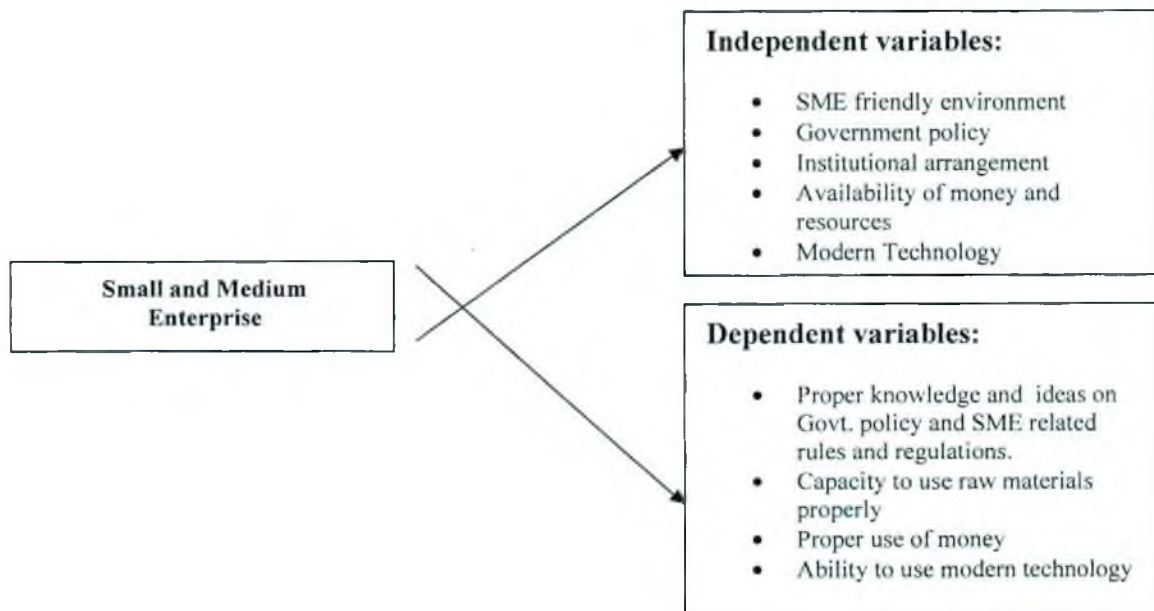
2.2.4 Conceptual framework of Small and Medium enterprise

Although SME is an old and important sector, working for the economic development of all over the countries, it is suffering from identity crisis. Different countries and organizations provide different definitions of SME based on their socio-economic conditions. But the development of SME sector depends on some variables which are almost same for all the countries of the world. SME friendly environment, Government policy, institutional arrangement, availability of money and resources, capacity building and modern technology are the independent variables which have a great impact in the growth of SME. To star a business in this area it is essential to have a SME friendly environment where people like to do work. Government policy on SME can motivate people to be a SME entrepreneur. Institutional arrangement is an important variable which can provide proper guidelines to the SME related people. Modern technology is

must for the sustainable growth of SME. Institutional, group and individual ability can be improved through the capacity building program.

On the other hand, proper knowledge and ideas on the government policy and SME related rules and regulations, proper use of raw materials, proper use of money and ability to use modern technology are treated as the dependent variables of the development of SMEs. The SME related people should be trained enough for the proper use of raw materials and modern technology. Availability of money and resources is the pre-condition for the growth of SME. So, the development of the SME depends on both the independent and dependent variables.

The following figure presents the conceptual framework of SME and its related variables:



The above chart presents the important variables which play a dominant role in the development of SMEs. These are unavoidable parts of the SME sector of all over the world. Finally, some common factors can be identified which are essential for the proliferation of Small Enterprises. These are:

- Policy guideline on SME;
- Institutional arrangement for the implementation of policy;
- Innovative power of entrepreneurs;
- Access to finance;
- Availability of modern technology;
- Capacity building through proper training;
- Development of local as well as foreign market for the SME product;
- Availability of raw materials;
- Existence of tax policies favorable to SME products;
- Freedom from inhibitory regulations by the Government and the local administration;

2.3 Conclusion

The development and expansion of SMEs is regarded as very important of achieving industrialization and economic growth in both developed and developing countries. The roles of SMEs in industrial development in the industrial countries are enormous. The goods and materials produced by the SMEs ensure the big industries to go for the quick and timely production. It is also essential to ensure the quality of a finished good. The industrial development of the developed countries is impossible without the help of SMEs. On the other hand, the growth of SME in the developing countries is noticeable, as it needs less investment. But the number of SMEs in the world can not be determined because of the differences in the definitions and characteristics of SME. It is also difficult to identify the common goods and services produced by the SMEs all over the world.

Chapter-3

Small and Medium Enterprise in Bangladesh

3.1 Introduction

Small and Medium Enterprises (SMEs) are lifeblood of economies around the world and they form an important source of investment, employment, entrepreneurship and innovation and hence a vibrant SME sector leads to a vibrant economy. But in the developing countries it is difficult on the part of SMEs to attract talent and get international visibility rather they suffer from lack of transparency and trust that results in poor access to and high cost of finance. In Bangladesh, the SME sector is quite large and makes significant contribution to the economic development of the country. The number of SME both in the urban and rural areas are increasing tremendously since it is easy to start and easy to continue. Moreover, availability of natural resources, low cost labor and low capital investment motivate people of the developing country to involve in SME sector.

This chapter focuses on the growth and development of the Small and Medium Enterprises in Bangladesh. The present situation, types, contribution and structure of SME both in the rural and urban areas have been discussed in this chapter. This chapter also covers the public and private efforts for the growth of Small and Medium Enterprises (SMEs).

3.2 Growth and development of SME in Bangladesh

Bangladesh owns a very ancient civilization and the history of Small and Medium Enterprise. In the ancient age, Bengal was rich in different small and cottage industries as well as in trade and commerce. Cottage industries in Bangladesh have their roots in the ancient past which included cloth, carpentry, pottery, iron, silver and gold works, production of handmade paper, bamboo works etc. for fulfilling the needs of the people.

Before British invasion, in the Buddhist, Hindu and Muslim regimes, these industries continued to develop, of course, with varied acceleration. During Muslim rule in India, development of communication system between different regions of India with Bengal helped local industries flourish. At that time, Jamdani, Muslin and Silk sari became popular and were sent to Hejaz, Morocco, Tunisia, Delhi etc. Besides these, industries related to sugar, salt and oil production, making of combs and buttons from animal bones and making of bangles were also important cottage industries during this period.

During the nineteenth century, the expansion of Railways, shipping and investment in land was more attractive to the Bengali entrepreneurs. The development of SME sector was disrupted because of anti-entrepreneurial attitudes of political leaders and the civil bureaucracy of Bengal. In 1947, Pakistan Industrial Development Corporation (PIDC) set up some enterprises, especially a number of Jute mills, and gradually handed over their ownership to the local people. It played a vital role in the growth of an entrepreneur class in Bangladesh at that time.

After the liberation war in 1971, there was found nothing but the skeleton of Mills and Factories. At that time communication network system was broken down. Then the government of this country tried to start those industries again. A large number of entrepreneurs invested in the SME sector. They received loan from the various Government finance institutions. Besides, the Bangladesh Small and Cottage Industries Corporation (BSCIC) under its different programmes had so far facilitated the creation of around 18,000 entrepreneurs engaged in small enterprise. BSCIC industrial estates and Export Processing Zone (EPZ) authorities have provided a large number of entrepreneurs with infrastructural facilities including land for industrial location, water, power, sewerage, gas, telephone, extension and counseling services and store and warehousing facilities. With the development of private sector, the growth of Garments and Chemical industries were praise worthy. Besides, the light engineering workshops and servicing units located in the Dholaiakhal area of old Dhaka have made remarkable contribution in

manufacturing spare parts, components, accessories etc. on the basis of models/samples imported from abroad⁴².

Gradually, food processing, handloom, leather and tannery, ceramic, electrical and electronics and handicrafts factories have also developed as the Medium and small enterprises. Information from South Asia Enterprise Development Facility (SEDF) and MIDAS reveal the fact that around 87 per cent of the country's total industrial workforce is employed in the SMEs and the sector manufactures over 33 per cent of industrial value added goods. Although there is no concrete information regarding to the number and types of SMEs operating in Bangladesh, an estimate of the Bangladesh Small and Cottage Industries Corporation (BSCIC) holds that there are over 40,000 small industrial units in the country. Of the total, the number of light engineering units was estimated at 12,500. There are also tens of thousands of cottage industrial units and a large number of handloom and power loom factories in the country. Despite having huge potential to flourish, the growth of SMEs in Bangladesh is being impeded by multifarious problems, both at micro and macro levels.

3.3 The role of SME in Bangladesh

SMEs now occupy an important position in the national economy of Bangladesh. They account for about 45% of manufacturing value addition, about 80% of industrial employment, about 90% of total industrial units and about 25% of total labour force. Their total contribution to export earnings varies from 75-80%⁴³. The total number of SMEs is estimated at 79754 establishments, of which 93.6% are small and 6.4% are medium. The 2003 Private Sector Survey estimated that about 6 million micro, small, and medium enterprises defined as enterprises, with fewer than 100 employees, which contributed around 20-25% of GDP⁴⁴.

⁴² A H M Habibur Rahman, BANGLAPEDIA:Entrepreneurship

http://banglapedia.search.com.bd/HT/E_0062.html.) accessed on 27 August 2008

⁴³ Economic Census 2001-2003, (<http://www.bbs.gov.bd/>) accessed on 27 August 2008.

⁴⁴ Bangladesh Bank report says: Development of SMEs can curb poverty, (<http://povertynewsblog.blogspot.com/2008/01/bangladesh-bank-report-says-development.html>)

3.3.1 Contribution and Structural Transformation of SMEs

The contribution of small industries in the economic sector in Bangladesh is enormous. The relative contributions of the large and the small industries during the last five years are shown in the following table:

Table-10: Contribution of large and small industries to the GDP (%)

	1999-00	2000-01	2001-02	2002-03	2003-04
Large industry	11.01	11.13	11.16	11.29	11.47
Small industry	4.39	4.46	4.60	4.68	4.78
Total	15.40	15.59	15.76	15.97	16.25

Source: *Economic Review, Ministry of Finance, GOB, 2004* (www.mof.gov.bd/).

The above table shows the contribution of both large and small industries in the Gross Domestic product of the country. The contribution of large industry to GDP was 11.1% in 1999. In every year it was increased gradually and the percentage was respectively 11.13, 11.16, 11.29 and 11.47. On the other hand, the contribution of small industries to the GDP in 1999 was 4.39%. It increased to 4.48% in 2004. According to this table, the contribution of small industries is few compare to the large industries but there are lots of unregistered small industries which have a great role in the development of economic sector of the country. So, it is hard to identify the actual contribution of SME to the GDP. Besides, the growth of small industries is noticeable. The following table shows the number of units increased both in the small and cottage sectors.

Table-11: Growth of Small-Scale Industry Sector

Year	No. of unit		Employment	
	Small	Cottage	Small	Cottage
1981	24,590	321,743	322,110	855,200
1991	38,294	405,476	523,472	1,331,032
2001(end of June)	55,916	511,621	808,959	166,724
Average Annual Growth Rate	6.4%	3.0%	7.6%	4.7%

Source: *Ahmed⁴⁵, 2002*.

⁴⁵ Montaz Uddin Ahmed, "Small-scale Industry of Bangladesh", Dhaka, Bureau of Economic Research, June, 2001.

The table presents the growth of small-scale industry in Bangladesh from 1981 to 2001. The number of units of cottage industries was increased from 321,743 in 1981 to 511,621 in 2001. The number of units of small-scale industries was increased from 24,590 in 1981 to 55,916 in 2001. The average annual growth rate of the small-scale units is 6.4% and number of employment is 7.6% and it is respectively 3.0% and 4.7% in case of cottage industries. The employment rate has been increased in this sector with the increasing of the units of this sector. So, unemployment problem can be reduced with the rapid growth of SMEs which is possible by using indigenous capacity and natural resources properly.

3.3.2 Types of SMEs in Bangladesh

Generally, food processing, handloom factories, leather and tannery, ceramic, light engineering, electrical and electronics, handicrafts, specialized textiles and garment units fall in the category of medium and small enterprises. Information from South Asia Enterprise Development Facility (SEDF) and MIDAS suggest that around 87 per cent of the country's total industrial workforce is employed in the SMEs.

Although there is no concrete information with regard to the number and types of SMEs operating in Bangladesh, an estimate of the Bangladesh Small and Cottage Industries Corporation (BSCIC) says that there are over 40,000 small industrial units in the country. More than 90% of all enterprises are SME class. The following table shows the number of units and employment level in SME sector in Bangladesh:

Table-12: The structure of “industries” in Bangladesh with respect to size of firms, 2001/2003

	% of establishments			% of total persons employed		
	Small	Medium	Large	Small	Medium	Large
Food and tobacco	6.7	0.4	.03	2.8	0.5	3.1
Textile manufacturing	14.2	0.9	1.2	6.0	1.3	13.2
Ready-to-wear apparels	1.8	0.2	1.7	0.7	0.3	20.1
Wood, leather & paper printing	2.9	0.2	0.2	1.1	0.2	1.4
Chemicals and Plastics	1.7	0.1	0.2	0.7	0.2	1.7
Non-metallic mineral products	1.6	0.9	0.9	0.9	1.3	4.0
Fabricated goods, electrical and means of transport	4.3	0.3	0.3	1.6	0.5	1.7
Mining and manufacturing	0.2	0.1	0.1	0.2
Various personal services	23.6	1.2	0.8	9.3	1.8	5.1
Education/healthcare	31.1	1.5	0.8	12.6	2.2	5.2
All industries	87.9	5.7	6.4	35.9	8.5	55.6

Source: SME Cell, using data from BBS Census of Enterprises, 2001/2003.

According to the table-12, SME consists of various types of businesses which include food and tobacco, textile manufacturing, wood, leather & paper printing, chemicals and plastics, mining, education, healthcare and so on. The table shows that the total number of small and medium industries is respectively 87.9% and 5.7%. The percentage of large industries is 6.4. The 35.9% persons are employed in the small and 8.5% in the medium industries where 55.6% people worked in the large scale industries. So, the role of SME in ensuring economic growth as well as employee opportunities is inevitable.

Industrial structure of small and medium enterprises in urban and rural Bangladesh is not same. It varies for the natural resources and raw materials available in a specific area. The following table presents an idea on the structure of small and medium enterprises in the different areas of the country.

Table-13: Industrial structure of small and medium enterprises in Urban and Rural Bangladesh, 2001/2003

Sectors	Proportion of small enterprises in the total		Proportion of medium enterprises in the total	
	Rural enterprises	Urban enterprises	Rural enterprises	Urban enterprises
Mining	0.4	0.2	1.2	1.0
Food & tobacco	16.6	9.3	7.4	9.0
Textiles MFG	58.7	8.4	29.2	17.5
Wearing apparels	0.3	4.6	1.0	3.3
Wood products	0.2	2.6	.4	1.8
Tanning, etc	1.1	0.8	.1	0.2
Paper & printing	0.1	3.3	.4	3.4
Chemicals & plastics	0.4	4.2	.7	4.6
Non-metallic mineral pr.	6.1	1.1	47.9	3.1
Fabricated products	0.7	3.9	.6	5.8
Electrical equipment	0.0	0.7	.2	0.7
Mfg. Transport equipment	1.6	0.5	.9	0.7
Utility services	0.2	5.0	1.9	3.0
Construction	0.1	0.5	.6	1.8

Sectors	Proportion of small enterprises in the total		Proportion of medium enterprises in the total	
	Rural enterprises	Urban enterprises	Rural enterprises	Urban enterprises
Trade	2.4	4.9	.5	4.4
Eateries	1.4	7.1	.3	5.2
Transport & Comm.	1.2	22.0	2.8	7.6
Finance & Banking	8.4	16.9	3.8	13.5
Real Estate	0.2	3.9	.3	7.5

Source: BBS Census of Enterprises, 2001/2003.

The table-13 shows that the number of small enterprises in urban area is more than that of the rural area. The two significant numbers of small enterprises are found in rural area, these are, food & tobacco and Textiles enterprises. Transport & communication and finance & banking enterprises have remarkable business units in the urban area. In case of medium enterprises, the number of textiles and non-metallic mineral production units in rural area is noticeable. On the other hand, number of finance & banking enterprises in urban area is more than those of the rural units.

3.4 Institutions supporting SME sector in Bangladesh

There are several institutions, which are supporting the SME sector in various ways in Bangladesh. Some of them are briefly in the following section.

3.4.1 Bangladesh Small & Cottage Industries Corporation (BSCIC)

The Bangladesh Small and Cottage Industries Corporation (BSCIC) was established by an Act of Parliament in 1957 for the development of Small and Cottage Industries (SCI) sector. Today it is the largest SME promotion agency functioning under the Ministry of Industry providing a wide range of services to the SMEs covering all the 64 districts in the country. BSCIC⁴⁶ has been acting as the state-run policy coordinator, service developer

⁴⁶ The Bangladesh Small and Cottage Industries Corporation, (<http://www.bscic.gov.bd>) accessed on 28 August 2008.

& distributor of facilities in the SME sector. A major responsibility of the Corporation has been to mobilize policy support for improving the economic environment, particularly for the benefit of the SMEs. Its services constitute inputs in the areas of land development (estate building), technology transfer, credit rationing, training, design development etc.

3.4.2 Federation of Bangladesh Chambers of Commerce and Industry (FBCCI)

Federation of Bangladesh Chambers of Commerce and Industry⁴⁷ is a trade association, which works for the development of large-scale business areas. It tries to take necessary steps to develop the business environment in the country. This institution always creates pressure to the Govt. to make business friendly plan and policies. It also gives some kinds of recommendations to remove constrains of business sector in Bangladesh. It helps SME enterprises to build-up links with this national body. An important action of FBCCI in SME sector is arranging SME fair in every country. It helps to expand the market of SME.

3.4.3 The Dhaka Chamber of Commerce & Industry (DCCI)

The Dhaka Chamber of Commerce & Industry⁴⁸ (DCCI) was established in 1958 as a limited company under the Companies Act. Currently it has over 4,000 members, a majority of whom falls under the SME group. Recently, DCCI has two ongoing special projects dealing with SMEs export capacity development and skill upgrading for enhancing business efficiency. DCCI helps local businesses to establish business links with overseas companies.

3.4.4 Palli Karma-Sahayak Foundation (PKSF)

Government has created PKSF⁴⁹ to provide the loans at lower rate to the large NGO's who meet the need of micro finance market. Most of these NGO's help create income

⁴⁷ Federation of Bangladesh Chambers of Commerce and Industry,(<http://www.fbcci.org/>), accessed on 28 August 2008.

⁴⁸ The Dhaka Chamber of Commerce & Industry, (<http://www.technonet.org.sg/dcci/>) accessed on 28 August 2008.

⁴⁹ Palli Karma-Sahayak Foundation (PKSF):www.pksf-bd.org accessed on 28 August 2008.

generating activities (IGA) which contribute to the growth of the SME sector besides contributing to poverty alleviation programs.

3.4.5 National Commercial Bank (NCB) Finance

One of the major problems of SME sector is access to finance. NGOs are providing credit facilities in this sector. Govt. are now directing the National Commercial Bank (NCB) to work in the micro finance sector. The NCB's with their experience and fund resources can play a leading role in the sector.

3.4.6 Credit and Development Forum (CDF)

Credit and Development Forum (CDF), the network NGO for the microfinance sector of the country is working consistently for capacity building of the MF-NGOs spread in the rural areas. CDF is currently engaged in negotiating with the NCBs and some private sector Banks for loan funds to meet the demand for revolving loan fund of many of its MF network members. CDF's unique position as the trainer, capacity builder, publisher and collector of the MF sectoral data has created a reliable and dependable support source for the micro finance NGO's of the country.

3.4.7 Light Engineering Industries (LEIs)

SMEs serve needs of local entrepreneur by supplying a wide variety of finished and intermediate products. There are strong backward and forward linkages between the SMEs and other sectors (such as agriculture, automobile, transportation) of the economy. There are about 1100 light engineering industries (LEIs) presently enlisted with BSCIC who are supplying various products such as spare parts, equipment, small & capital machinery, under subcontracting arrangements to the larger industrial organizations including Bangladesh Railway, BRTC, BIWTA etc. About 3,000 types of spare parts & products have been supplied by LEIs to Bangladesh Railway. It is claimed by the LEI entrepreneurs that if adequate supportive measures were provided, LEIs could supply 70-80% of the requirements of Bangladesh Railway⁵⁰.

⁵⁰ Support Environment Required to be Developed in Bangladesh for SMEs, Bangladesh Enterprise Institute (BEI) (<http://www.bei-bd.org/>) accessed on 28 August 2008.

3.4.8 Other institutions

Gradually, a number of public as well as private institutions have been established. MIDAS, CARITAS, Kumudini, Banglacraft etc. have enormous contributions in the development of SME sector. Grameen Bank, BRAC, and other NGO's are playing vital role providing micro credit in SME sector.

3.5 Government's Initiative to promote small and medium enterprises

Although the industrialization process in Bangladesh primarily started with the establishment of Small and Medium Enterprises, this sector has been neglected for a long time. The contribution of this sector has also not considered properly. Only from 1990s the sector has been able to get special emphasis from the Government of Bangladesh and various programs are taken for the development of this sector.

Now the Government is committed to pave for industrialization led by the private sector that can bring out the best among all SME stakeholders. It is in the evolution of such a business environment like, good and available infrastructure, well-trained and broad-based human resources, vigorous entrepreneurship bred out of an entrepreneurial culture, performing credit, insurance, venture-capital markets, and markets for complementary expert services. In the Industrial Policy 2005 the SME sector has been given priority as a privileged sector. Separate SME policy has also been taken in this regard.

3.5.1 SME in the Industrial policies

Although the contributions of Small and Medium Enterprises are enormous, there is no comprehensive policy on SME in our country. Before 1990 special emphasis was not given on this sector. For the first time SME policy strategy has been taken in 2005. Besides, SME is taken into account in the various Industrial Policies taken in different times. These are as follows:

Table-14: SME in the Industrial policies⁵¹

SL.	Name of the policy	Time line	SME in the policy
1	Industrial investment policy	January, 1973	SME was not considered separately.
2	Revised Investment Policy	December, 1975	Investment on private sector was got priority than the SME sector.
3	New Industrial Policy	June 1982	Special emphasis had given on public and enterprise. SME was also treated specially in this policy.
4	Revised Industrial Policy	July, 1986	Small and Cottage Industries treated as priority sector.
5	Industrial Policy	July, 1991	More concern was given on SME sector.
6	Industrial Policy	1999	More investment in SME sector.
7	Industrial Policy	March, 2005	Small and Medium enterprise (SME) treated as a trust sector. The government has taken an initiative to formulate a separate SME policy.
8	Industrial Policy	2009	Execution of SME policy strategy 2005.

Source: Ministry of Industry, 2009.

3.5.1.1 Industrial Policy 1973, 1982, 1991 and 1999

The first Industrial Policy statement issued in January 1973 was based on socialistic economic mood. In this policy SMEs were not treated specially. The second Industrial Policy hardly emphasized on the SME sector. Under this policy, the investment ceiling

⁵¹ Industrial Policy in Bangladesh, Ministry of Industry, (<http://www.moind.gov.com>) accessed on 28 August 2009.

was made from Tk. 2.5 million to Tk. 30 million in the private sector. Emphasis was given to encourage private sector investment.

In 1982 the government launched the New Industrial Policy, which was reinforced in 1986 by the revised Industrial Policy, calling for a more vigorous expansion of the private sector as well as a drive for increased efficiency in public-sector enterprises. Here Small and Cottage Industries treated as priority sector for the economic development of the country.

To develop the Industrial Sector and to increase its contribution to the gross domestic product, income, resources and employment, the Government of Bangladesh announced the Industrial policy-1991. In this policy special encourage was given for the development of small and cottage industries.

Industrial Policy 1999 aims at addressing some concerns building on earlier efforts and gains towards industrialization of Bangladesh economy. Dispersal of small and medium industries will constitute an important element in the industrial policy approach. An important objective of this policy was to ensure rapid growth of Industrial employment by encouraging investment in labour intensive manufacturing industries including investment in efficient Small and Cottage Industries.

3.5.1.2 Industrial policy 2005

Government of Bangladesh formulated a comprehensive Industrial policy 2005 by putting special emphasis for developing Small and Medium enterprises (SMEs) as a trust sector for balanced and sustainable Industrial development in the country to help deal with the challenges of free market economy and globalization. The structural arrangements of Bangladesh's industries show that specialized textile industries (including garments), backward linkage industries, hand-operated welding, food processing and food linkage industries, leather, ceramics, light engineering including

automobiles, basic metal engineering, small scale chemical engineering, rubber industries, cinema and photography, pathological laboratories, cold storage, furniture, computer industries, fast food, frozen food, etc, under service industries, and many other sectors are included in the SMEs.

3.5.1.3 Small and Medium Enterprise Policy Strategies, 2005

The government of Bangladesh issued, for the first time, Small and Medium Enterprise Policy Strategies, 2005 with a view to providing necessary guidelines and strategic assistance in respect of establishing SMEs throughout the country. The guidelines and strategy incorporated in the relevant policies will be pursued in establishing and expanding SMEs of all kinds throughout the country. The main objects of SME policy are:

1. Accept SMEs as an indispensable player in growth acceleration and poverty reduction, worthy of its great potential and commitment in the requisite overall policy formulation and execution;
2. Re-orient the existing fiscal and regulatory framework and government support institutions towards facilitating achievement of the goals of SME policy;
3. Take measures to create avenues of mobilizing debt without collaterals to match in order to assist small enterprises in dealing with their pervasive lack of access to finance;
4. Systematically accord precedence to small versus medium enterprise, within the limitations of government's resource; and so on.

3.5.1.4 Industrial Policy 2009

In order to accelerate national economic growth through developing a modern industrial sector, the Cabinet of the Advisors of the Caretaker Government has adopted the Industrial Policy 2009. In this policy it is said that development of small, medium, micro

and cottage industries will be one of the cornerstones of government's industrialization strategy. The small and medium enterprise (SME) policy announced by the government will provide the basic framework within which this objective will be pursued. A comprehensive approach to the development of this sector will be adopted which will entail wide ranging fiscal incentives, preferential access to finance, favorable trade policy, provision of land and site services, and technological and marketing support.

For promoting Small, Medium, Micro and cottage industries this policy has emphasized on the execution of SME Policy Strategy 2005 by SME Foundation. It further emphasizes on SME action plan, which includes programs and activities in line with the PRSP Monitoring & Evaluation Indicators with respect to the followings:

1. Creating enabling environment to ensure level playing field for enterprises of all sizes
2. Easing regulatory barriers for SME development;
3. Creating a database about SMEs for the investors and service providers;
4. Strengthening advocacy for SME development;
5. Enhance Access to Information for Small and Medium Entrepreneurs;
6. Increase Access to Finance for Small and Medium Entrepreneurs etc.

3.5.2 Small and Medium Enterprise Cell (SME Cell)

The Government created a Small and Medium Enterprise Cell (SME Cell) in the Ministry of Industries (MOI) in 2003 to provide a focal core for implementing policies and interventions that selectively take care of SMEs in Bangladesh.

3.5.3 National taskforce on SMEs development

The Government constituted a National Taskforce on Small and Medium Scale Industries on November 5, 2003. The main recommendations of the taskforce are:

1. 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;

2. To conduct a country-wide survey on the state of SMEs and prepare a report on the basis of updated data and information;
3. To prescribe, on some well-arranged rational basis, a number of booster industries with a sizeable proportion of SMEs which then to create a package, comprising at once of major financial assistance, fiscal rationalization and some capacity building programs;
4. To recommend a set of SME-development policy for Bangladesh, categorized in terms of the three time-frames of short, medium and long-term;
5. To motivate the SME entrepreneurs and institutions through organizing meetings, seminars, round table-meeting, workshop etc.
6. Other function to be assigned by the government.

3.5.4 Poverty Reduction Strategy Paper (PRSP)

Implementation of poverty alleviation action programs and strategies is a systematic and continuous effort in Bangladesh. For that purpose, the Poverty Reduction Strategy Paper (PRSP) of 2004 has clearly identified some core principles and parameters both at macro and micro levels for reducing the existing poverty level at least half with in 2015 as targeted in the Millennium Development Goals (MDGs). Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact in the way of reduction of poverty and unemployment, generation of more employment.

The Poverty Reduction Strategy Paper (PRSP) has given special emphasis on ensuring an enabling environment for the balanced and rapid growth of SME sector for national development and poverty reduction. Constraints were identified by the PRSP faced by SMEs were grouped under three broad heads: (a) policy-induced (b) structural and (c) those relating to poor governance. The policy-induced constraints emanate mainly from controls and regulatory measures on private investment that raise transaction costs. The structural constraints of SMEs are access to information, finance, infrastructure, skill,

technology and markets. Poor governance and weak public service delivery, impairing the ability of SMEs to function efficiently, compound the combined effect of these two sets of constraints. The resulting business environment imposes a disproportionately greater cost on small business and hinders their growth.

Actions suggested by PRSP for the development of SME in Bangladesh include the following: (i) adoption of an unambiguous definition of SME; (ii) strengthening of BSCIC's capacity to provide market information; (iii) simplification of regulatory procedures; (iv) setting up an appropriate credit guarantee scheme for lending without real estate based collateral; (v) enlarging the base of conduit lending institutions; (vi) making BSCIC's industrial estate programme demand-driven; (vii) priority development of the road network and supply of gas and electricity; (viii) extension of BOI's One-Stop Service to cover SMEs, (ix) greater public-private cooperation for the design and implementation of effective business support services; (x) a differentiated and hassle-free indirect tax system for SMEs, and (xi) calibration of trade policy reform to support SME development.

3.5.5 The National Council for Industrial Development (NCID)

The National Council for Industrial Development (NCID), which is chaired by the Prime Minister and empowered to take policy decisions under the umbrella of Industrial Policy 2005, is responsible for SME development. NCID has a leading role in achieving the Government's objective of establishing small, medium, and heavy industries on a massive scale throughout the country and expeditiously resolving problems in the industry sector.

3.5.6 SME Advisory Panel

The Government has constituted an SME Advisory Panel to develop an action program to support SME development. The SME Advisory Panel consists of representatives from the Ministry of Industry (MOI). The ministry designated to implement the Government's

SME development strategy and other concerned ministries, industry associations, and the private sector. MOI formulated the SME policy strategies based on recommendations of the SMETF and the SME Advisory Panel. The SME policy strategies document has been published in both Bengali and English.

3.5.7 SME Sector Development Program (SMESDP)

The Government of Bangladesh has been implementing a programme (to be completed in 4 years, since 2005) in the name of SME Sector Development Programme (SMESDP) with the financial assistance of ADB's US \$50 million dollar for proper development and expansion of SMEs. The objective of SMESDP is to support government efforts to foster development of the SME sector by strengthening the policy environment for SMEs' access to credit and related services. This will enable the sector to attain its full potential for contributing to sustainable economic growth and, through generation of employment, the reduction in poverty.

SMESDP consists of:

1. a program loan of SDR9.954 million (\$15 million equivalent) supporting policy reforms;
2. a project loan of SDR19.908 million (\$30 million equivalent) for extending credit to small enterprise;
3. a TA loan of SDR3.318 million (\$5 million equivalent) for improving the effectiveness of government assistance to the SME sector and facilitating SMEs' access to various support services including capacity building and support for infrastructure development for SMEs.

3.5.8 SME Foundation:

The SME Foundation (SMEF) is a limited company licensed by the Ministry of Commerce as a non-profit organization and registered under the company's act of 1994. The Government approved creation of SME Foundation by accepting the Memorandum and Articles of Association.

Vision:

Promote small and medium enterprises (SMEs) for alleviating poverty, generating employment and accelerating economic growth.

3.6 Conclusion

The people of Bangladesh are engaged in the SME related business from the ancient period but attention was not given on this sector. The development of SME sector is started mainly from the 1990s. Government takes various actions for the betterment of this sector. In the industrial policies special emphasizes are given on this sector. Separate SME policy is also formulated for the well-being of it. Government also plays a vital role in this area by creating SME Foundation, which works only for the development of SME sector.

There are some other linkage organizations working for the improvement of SME sector, such as, Bangladesh Small & Cottage Industries Corporation (BSCIC), FBCCI, The Dhaka Chamber of Commerce & Industry (DCCI), Palli Karma-Sahayak Foundation (PKSF), National Commercial Bank (NCB), Light Engineering Industries (LEIs) and so on. These institutions also have effective role in the positive change of the SME sector. Some other private institutes and banks also have a great contribution in the growth of this sector. So, all the efforts of both public and private institutes are the positive sign for the improvement of SME, which can ensure the industrial development of a country.

Chapter-4

Small and Medium Enterprise Foundation

4.1 Introduction

Institutional supports in various forms are now needed not only for their growth and development but also for the proper and profitable functioning of SMEs. In Bangladesh a number of institutions, both private and public are working either separately or on the partnership basis to support SMEs in the country. It has been mentioned in the forgoing chapter that various private organizations like, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), MIDAS, CARITAS, Institute of Management (BIM), National Productivity Organization, Bangladesh University of Engineering and Technology (BUET), National Association of Small and Cottage Industries of Bangladesh (NASCIB), WEAB and so on are working for SME development and providing their supports accordingly. Through the Bangladesh Small & Cottage Industries Corporation (BSCIC) and Palli Karma-Sahayak Foundation (PKSF), Government is playing an important role for SME sector development of the country. These two institutes are implementing various SME related programs taken by the Government. Besides these, creation of SME Foundation is perhaps the most important step on the part of the government for fostering SMEs from holistic perspective.

This chapter focuses on the structure, objectives and scope of the SME Foundation. It also covers the major programs and functions done by the Foundation for the betterment of the SME sector.

4.2 Small and Medium Enterprise Foundation (SMEF)

SME Foundation⁵² is an apex institution responsible for implementing the SME policy and strategy, and in addition, is tasked with informing, advocating, facilitating, planning,

⁵² SME Foundation is a specialized organization with a strong private sector mandate. Both structurally and functionally it is autonomous and not controlled by the Government. (<http://www.smef.org.bd>) accessed on 26 July 2008.

coordinating roles aimed at SMEs development. The government of Bangladesh has established SME Foundation as a limited company licensed by the Ministry of Commerce as a non-profit organization and registered under the companies Act (Act XXVIII) of 1994. The SME Foundation is now functioning as per the Memorandum and Articles of Association.

4.2.1 Vision

The vision of SME Foundation is to promote Small and Medium Enterprise (SME) for alleviating poverty, generating employment and thereby accelerating economic growth.

4.2.2 Mission

The mission of the Foundation is to assist for promoting the growth of Small and Medium Enterprises of all the productive and service-oriented enterprises of the national economy for facing the challenges of free market economy and globalization.

4.2.3 Objectives

There are several objectives of the SME Foundation. Some of these are as follows:

- Assist the Government for implementing the policies relating to SME development.
- Policy advocacy and intervention for the growth of Small and Medium Enterprises.
- Conduct survey and study for providing up-to-date and information for formulating policy and strategies and development and created information support for SME entrepreneurs with the objectives for expansion of SME business both local and international level.
- Establish a comprehensive data bank as per users demand i.e. for planners, policy makers, service providers, SME investors, and SME entrepreneurs.
- Administer and support SME access to finance (credit wholesaling) having wide outreach to SME entrepreneurs through bank and financial institutions.

- Human resources development and capacity building development based on training needs assessments subject to the present day realities of competitive business environment in the world economy.
- Facilitate for developing new technology, adaptation and find out way and means for application of appropriate technology for the growth of Small and Medium Enterprises.
- Conduct productivity and quality improvement program at international standard.

4.2.4 Management Structure

There are two parts of the management structure of the Foundation. One is general body which consists of the people from both the government and non government sectors and another is board of directors which consists of one chairman and some members.

4.2.4.1 General Body

The general body⁵³ of SMEF is constituted by all members of the SMEF as per Articles of Association of SMEF. The general body composed by the members/representatives dawn from all the government, SME Entrepreneurs, Women entrepreneurs, concerned trade bodies, general and technical universities, representative of civil societies and professional of private sector.

4.2.4.2 Board of Directors

The Board of Directors⁵⁴ composed with 15 members under the leadership of a chairperson. The Managing Director (non-voting) is one of the directors of the Board of Directors of SMEF. The core responsibility of the Board of Directors is to give policy decision and guidelines for the smooth functioning of SME Foundation.

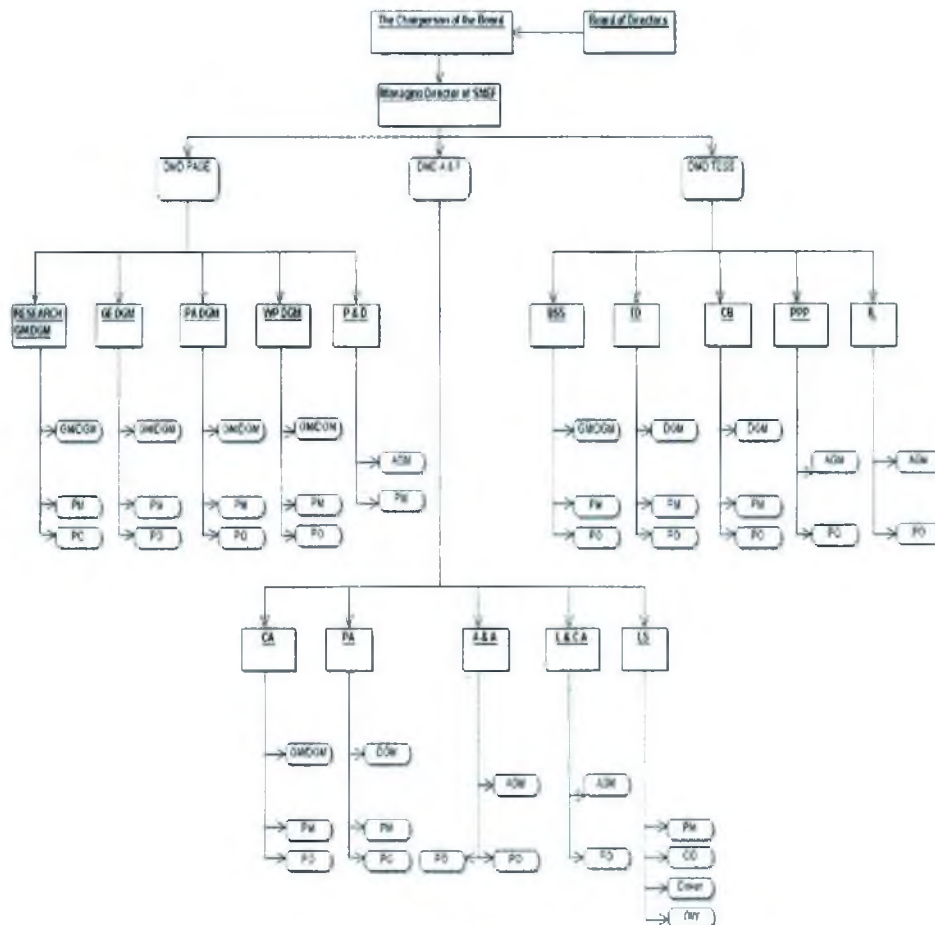
⁵³ The memorandum of association and articles of association of SME Foundation discusses on the formation of the general body of the Foundation, (www.smef.org.bd), accede on 26 august, 2008.

⁵⁴ The memorandum of association and articles of association of SME Foundation, page-16.

4.2.4.3 Organ gram of SME Foundation

Organ gram of the Foundation presents the total manpower of the institution. It also presents the characteristics and job responsibility of the member of the Foundation. The total manpower of SME Foundation is 56 of which 1 Managing Director, 3 Deputy Managing Director, 3 General Manager, 6 Deputy General Manager, 6 Assistant General Manager, 10 Program Manager, 14 Program Officer, and 13 Supporting Staffs

Organ gram⁵⁵ of the SME Foundation:



⁵⁵ The organ gram of the Foundation is collected from the annual Report (2007-2008) of Small and Medium Enterprise Foundation. Here, DMD= Deputy Managing Director, GM= General Manager, DGM= Deputy General Manager, AGM= Assistant General Manager, PM= Program Manager, PO= PROGRAM Officer, SS= Supporting Staff.

4.3.1 Functions of the Foundation

SME Foundation is performing several activities through its divisions and wings. The services, which are providing from central to local by the Foundation are playing very effective role for ensuring the growth and development of SMEs.

4.3.1.1 Scope of Works

The Organ gram of SMEF has three major divisions. Each Division divided into some wings. These are as follows:

Table-15: Divisions and wings of SME Foundation

Policy Advocacy and General Equality Division	Administration and Financial Division	Technology Expansion and Support Service Division
Research Wing General Wing	Credit Administration Wing Personnel Administration Wing	Business Support Service Wing Technology Development Wing
Policy Advocacy Wing	Audit & Account Wing	Capacity building Wing
Database/Web-portal Wing	Legal & Corporate Affairs Wing	Public-Private Partnership Wing
Planning & Development Wing	Logistic Support Services Wing	Institutional Linkage Wing

Source: SME Foundation, Annual Report, 2008-2009.

4.3.1.2 Main services of the Foundation

From the beginning of its establishment, SME Foundation is providing various services to the SME entrepreneurs for the smooth functioning of their business. Main services⁵⁶ provided by SME Foundation are as follows:

⁵⁶ The main services of the SME Foundation are identified in the annual Report (2007-2008) of Small and Medium Enterprise Foundation.

- a) Policy Advocacy & Intervention.
- b) Capacity Building
- c) SME access to finance and Credit Management
- d) Technology development and application of appropriate technology.
- e) Support of Women Entrepreneurs and Entrepreneurship development.
- f) Market Development and Expansion of Market.
- g) Technological consultancy service for the SME Entrepreneurs.
- h) New Business creation and develop business climate.
- i) Identification of potential SME sectors.
- j) Assist for promoting product quality and product certifications.
- k) Provide intensive service through web-portal and help line center.
- l) Legal support for SME entrepreneurs.
- m) Support services for institutional linkage.
- n) Productivity and Quality improvement.
- o) Develop public-private partnership.
- p) Support for Internationalization of SME Business.

4.3.3 Actions taken by Small and Medium Enterprise Foundation (SMEF)

For the expansion and development of SME sector, Small and Medium Enterprise Foundation has taken SME Action Plan for the year 2007-2008. These actions are implementing by the SME Foundation. Some of these are discussed bellow.

4.3.3.1 SME Help line Center

The Ministry of Industries, Government of the People's Republic of Bangladesh has established Helpline Centers under a TA project called SME Sector Development Program (SMESDP) of the Asian Development Bank (ADB). The SMESDP has plans to create SME Helpline Centers (SME HCs) in all metro cities and district headquarters of

Bangladesh in an effort to provide SME businesses a ready access to relevant laws, regulatory and technical information and the like. In the first phase, thirty-two SME HCs have been established in twenty-five districts of Bangladesh. The SMEHCs will be jointly managed by a national-level Committee, comprising Ministry of Industries, SME Foundation, Bangladesh Small and Cottage Industries Corporation (BSCIC), Federation of Bangladesh Chambers of Commerce & Industries (FBCCI) and Representatives of relevant trade bodies. The terms of reference (TOR) of this committee would include the management of SMEHC resources, and the setting of the pricing policy with respect to these resources.

Key objectives of SMEHCs

- To provide assistance and advisory support services to facilitate access by SMEs to Government services including provision of relevant information on laws and regulations including registration and licensing requirements;
- To establish basic office support facilities for the promotion of SMEs, such as, computers, photocopiers and internet access services;
- To act as a depository of information and data to provide SMEs strategic and in some cases, even operational knowledge to help them with profitably running their business;
- To provide SMEs the necessary linkages with sources of technology, financing, human resources, business creation and development services etc.

4.3.3.2 SME Web Portal

The Ministry of Industries, Government of the People's Republic of Bangladesh also has developed a SME Web Portal to provide all kinds of information on SME to the SME Entrepreneurs. The Asian Development Bank (ADB) has assisted it. Although this portal has been taken under a TA project called SME Sector Development Program (SMESDP) by the Ministry of Industries, the structure and scope of web portal has been further

developed by SME Foundation. Now this portal has been managed and maintained by SME Foundation.

Main features of SME Web Portal

The Portal mainly provides two kinds of information. The first one is called static information. These are information that does not either change, or only change relatively rarely. The second kind is information, which is dynamic. This includes membership data, data on the CV bank, poll, and the like. SMEWP contains galore both kinds of data. All the static data are largely organized down a vertical menu, as follows:

- Business Start up;
- Forms and Applications;
- SME Foundation;
- Other SME Mentors;
- Government Policies;
- Access to Finance and Technology;
- Capacity Building and Development Partners etc.

4.3.3.3 Access to Finance

SME Foundation has introduced a Credit wholesaling Program to provide the financial facilities in SME sector. To maintain this program SME Foundation has established a separate Credit Administration Wing. Modus Operandi of Credit wholesaling Program is created considering the opinion and advice of the SME Entrepreneurial, specialist, professionals and the executives of the financial institutions.

Through this program SME Foundation ensures the financial facility for the SME entrepreneurs. Under this program the work of maintenance of SEF (ADB Portion) has transferred from Bangladesh Bank to SME Foundation.

4.3.3.4 Capacity Development

Human Resource Development through capacity development is one of the instruments in developing SMEs. For the development of SME sector it is must to develop the skill and capacity of SME entrepreneurs. They should have ideas about all kinds of necessities related to SMEs. For this reason, SME Foundation has taken Capacity development program as a priority basis. The main purposes of this program are:

- To provide necessary support and advise to the SME related institutes to develop market based training courses;
- Different training programs for different clusters;
- Identification of target groups in case of capacity development;
- Identification of problems of capacity development;
- Determination of areas of capacity development;
- Preparation of training calendar on capacity development etc.

4.3.3.5 Public-Private Partnership program

One of the important programs of SME Foundation is to develop public-private partnership. Through this program SME Foundation tries to identify the problems of SME sector and to innovate strategy for removing these problems.

Main purpose of Public-Private Partnership

- To ensure the innovation, preservation, development of technology in the SME sector;
- To build the capacity of the SME entrepreneurs through arranging various training programs with the help of public and private institutions;
- To provide financial support for the development of SME sector;
- To ensure SME friendly environment through removing regulatory barriers;

- To establish SME park for the Plastic, Light Engineering, Electronic Manufacturing and Electronics;
- To introduce SME friendly Tax Policy and structure.

4.3.3.6 Policy Advocacy Program

Policy Advocacy is one of the most important roles of SME Foundation towards SME development. Key issues to address policy reforms for SMEs includes: broader tax (tariff) regime; tariff rationalization; tax valuation; imposition of value added tax; tax holiday; infrastructure and public services; legal and administrative regime; trade license; registration under factories act; clearance from the Department of Environment; registration with sponsoring agency; contract enforcement and resolution; access to finance and so on.

SME Foundation plays a vital role to improve policy coordination at the national level. For this, it takes various activities:

- Promoting public-private partnership;
- Institutional linkage with different organizations providing services SMEs in different context;
- To provide policy inputs for advocacy with different relevant authorities through research studies and development activities;
- Tax is one of the major regulatory barriers hindering SME growth in the country. SME Foundation is working to solve this problem.
- In order to create access to regulatory information such as getting permission, certificate, and license etc. SME Foundation has created an inventory of information containing different forms, procedures to apply, to comply regulatory business process in Bangladesh and so on.
- SME Foundation plays a vital role to promote business to business linkages and exploring the potential of subcontracting for SMEs in Bangladesh.

- To develop the public relations SME Foundation performs various activities such as: Publication of the SME News; Developing Documentary Films; Publication of Annual Report; Membership of International Network of SME; Sharing Meeting with Development Partners; Orientation Program for officials etc.

4.3.3.7 Gender Action Plan on SME sector

SME Foundation has introduced a gender action plan for ensuring the equity and Supporting Women Entrepreneurship development. Therefore, SME Foundation has taken various activities for fostering women entrepreneurship and recognizing women as an important economic change agent, source of employment and innovation for building potential economic development. More Specifically:

- To provide a framework and strategic directions to identify the gender gaps needs, interest, and opportunities issues involved in women entrepreneurship development in the SME sector. Such strategic analysis and understanding can be explored the most effective ways of advancing women entrepreneurship at local, national, regional and also in international level.
- To promote the empowerment of women and gender equality through addressing the problems of exclusion of women relating to entrepreneurship mainstreaming gender into policy level and facilitate effective support for these target groups.
- Support to women's led trade bodies/associations for their building institutional capacity and competitiveness.
- To ensure full participation of women entrepreneurs in economic development of the country;
- To improve efficiency of women entrepreneurs in performing their business responsibilities.
- To strengthen institutional capacities for monitoring and evaluation of gender equality in the area of entrepreneurship development.

- To enhance women participation in the decision making process and buildup capacity to improve knowledge, skills, abilities, aptitudes, values and preferences in order to set up a successful business.

4.3.3.8 Regulatory program of SME sector

SME related trade bodies, associations and SME entrepreneurial have to face various regulatory barriers, which hamper their daily activities. SME Foundation has taken an important step to remove these barriers. At first, it collects data on regulatory barriers and gives recommendation. Some areas of regulatory barriers are as follows:

- a) Trade license related;
- b) Tax and Vat related;
- c) Registration certificate on factory establishment;
- d) Financial barriers;
- e) import of machineries and raw materials;
- f) product certificate by BSTI
- g) design and trade mark
- h) a permit on environment
- I) fire license
- j) enterprise registration by Joint Stock Company etc.

4.3.3.9 Access to Technology in SME sector

SME Foundation has given priority on technology development in their annual plan (2007-2008). They committed to improve competitiveness of SMEs through technology up gradation, adaptation advanced technology, diffusion of appropriate technology, moving towards reverse engineering, compliances and up gradation of products certification system. They emphasizes on capacity building of SME entrepreneurs through developing and applying of technology. For this reason, expert consultation is an important step to develop, transfer and expand technology of the trust sectors (electronics, light engineering, metal working, agro processing, plantation agriculture, fashion design etc.) identified by the SME Foundation. The main purposes of this program are:

- Identify the necessity of technology in the development of SME sector;
- Identification of areas to expand technology and to determine strategy using technology;

- Technology development and transfer;
- Problems identification of the use of technology;
- Recommendation to introduce SME friendly at the national level etc.

4.3.3. 10 Meeting with SME related trade bodies and associations

SME Foundation arranges meetings with SME entrepreneurs, executives, trade bodies, associations and training institutions to implement SME policies and to take necessary steps for the development of SME sector. Some of these institutions are:

a) Bangladesh Small & Cottage Industries Corporation (BSCIC); b) Federation of Bangladesh Chamber of Commerce and Industries (FBCCI); c) The Dhaka Chamber of Commerce & Industry (DCCI); d) Bangladesh Women Chamber of Commerce and Industries (BWCCI); e) Basic Bank Limited; f) Women Entrepreneur's Association of Bangladesh (WEAB); g) Bangladesh Institute of Management; h) National Productivity Organization etc.

4.3.3.11 SME Product Display Center

SME Foundation has established a non-profit making center for the further development of SME sector. This center plays a vital role in the creation of local as well as international market of SME products. The center will display the products, which are determined as booster sectors (electronics and electric materials, light engineering and metal working, agro processing, software, health service, education service etc.) in the SME Strategy-2005.

Objectives of this center:

- To make the SME product more attractive to the general people;
- To provide all kinds of information related to SME;
- To determine the quality and demand of SME products in the local and international market etc.

4.3.3.12 Business Support Service

SME Foundation has taken initiatives of enterprise development by providing business support services to the SMEs. In this regard, the Foundation has set up an SME Advisory Service Center to give various opportunities, guideline and advises for the development of SME sector. It also tries to create new SME entrepreneurial by giving different advises. Another important purpose of SME Advisory Service Center of SME Foundation is to develop relationship between the SME entrepreneurial and SME Foundation. There are various components of SME Advisory Service, these are: a) information on handicraft and technology b) certification of SME product c) capacity building d) finance e) Market Development and Expansion of Market f) policy and legal issue g) gender equality. There are lots of services provided by SME Advisory Service Center. Some of these are as follows:

- Technological facility for the SME entrepreneurial;
- Information on testing facility, certification and compliance of SME entrepreneurial;
- Information on capacity building through training from various training institutions;
- To give advise to the training institute for arranging training demand-driven by SME entrepreneurial;
- Information about the market of products;
- Ideas for the SME entrepreneurial about design and development of product, international promotion and partnership development, international market trend, fashion trend, marketing trends, marketing mix etc.
- To help SME entrepreneurial to build relationship with the customer;
- To provide calendars on local as well as international fair, process of participation and various information on support service;
- Strategies to make business plan by SME entrepreneurial;

- Information on credit facility by the Banks and various finance institutes for the SME entrepreneurial;
- Legal procedures to get financial facilities;
- Information on various SME rules and regulations, labor law, tax and vat, insurance policy, export import documentation, customs etc;
- To identify barriers on SME and present these to the policy makers and so on.

Over the reporting year, the service center provided advice to 181 entrepreneurs. These are as follows:

Table-16: Business Support Service provided by the SME Foundation

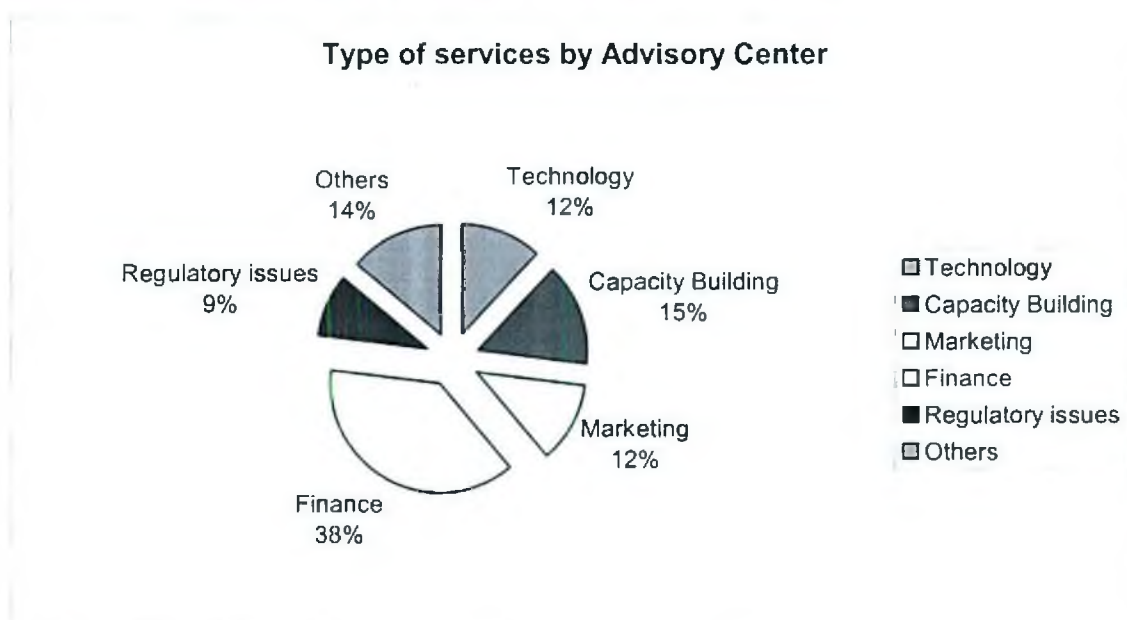
SL.	Category of Services	Area of Services	No. of entrepreneurs
1	Technology	Information relating to manufacturing process, machineries etc.	21
2	Capacity building	Capacity building related information.	28
3	Marketing	Advice on marketing management	22
4	Finance	Information relating to SME financing	68
5	Regulatory issues	Information on business registration and licenses	17
6	Others	Business plan, project profile, business star-up, SME related papers / publications, SME sectors, SME trade bodies.	25
		Total	181

Source: Annual Report (2008-09) of SME Foundation.

According to this table 181 SME entrepreneurs have the business support services from the foundation. Among them 21 on technology like, manufacturing process and use of

machinery, 28 entrepreneurs on capacity building like, necessary training related to his business and information about the training institutes. The significant numbers of entrepreneurs have information related to SME financing. Most of the people in our country can not continue their business because of scarcity of money. Many of them fear to start a business for their limited knowledge on this area. So, the business support service provided by the Foundation is very helpful for the SME entrepreneurs. The following chart presents the percentages of the people have the services from the foundation.

Chart-1: Types of Services provided by the SME Foundation



Source: Annual Report (2008-09) of SME Foundation.

The chart-1 shows that SME Foundation provided services relating to finance to 38% people. The 15% entrepreneurs developed their skill receiving the services on capacity building. Information on technology is provided to the 12% people. Besides, training on marketing, regulatory issues and others are provided to the respectively 12%, 9% and 14%.

4.3.3.13 SME Sector studies

It is very essential to get appropriate data and information on SME to take necessary plan and policy. For this reason Small and Medium Enterprise Foundation (SMEF) has taken an sector study program on six booster sectors to identify their present situation, market possibility, tax and vat condition, market failure, regulatory barriers etc. These sectors are: a) Agro and Food Processing; (AFP) Sector b) Designer Goods Industries; c) Electrical and Electronics Industry; d) Leather and Leather-goods Industry; e) Light-Engineering Industry; f) Plastics Industry. Recently SME Foundation has found out various problems from these sectors studies and then identified some important actions, which are essential for the development SME sector. Such as:

- Enhance easy access to finance for SME industry;
- Enhance SME products access to domestic and international markets;
- Capacity building and skill development training for the SME entrepreneurial and workers;
- Infrastructure and institutional facilities for the Small and Medium Enterprises;
- Handling, grading and transportation of raw materials;
- Quality and standards of SME products;
- Business support services for SME entrepreneur;
- Develop institutional mechanism for coordination and monitoring;
- Enhance and harmonize the service delivery activities of both public and private sectors in promoting SME industries;
- Gradually raise awareness about the issue of the nexus between the environment and growth;
- There should be timely exhibitions regionally, nationally and internationally;

- Encourage and promote leasing programs or grants to help SMEs modernize their equipment and increase volumes and quality products;
- Develop an information flow network to disseminate market, prices and technical information;
- Contact and collaborate with foreign trade organizations through local associations and so on.

4.3.3.14 Establishment of SME unit in the Banks and Financial Institutions

To provide credit and financial facilities to the SME entrepreneur a number of Banks and financial institutions have opened SME units or windows in their institutions. SME Foundation is playing an important role in making these units effective to provide sufficient financial help to the SME entrepreneurs. Such as:

- SME Foundation gives legal and financial support to the financial institutions to maintain their activities in the SME sector;
- It provides proper guideline to the SME stakeholders to get money from the Bank as well as financial institutions;
- It gives advises to the SME entrepreneurs on SME rules and regulation and terms and conditions of credit facility;
- SME Foundation has also disbursed fund for the SME entrepreneur through some financial institutions like, MIDAS Financing Ltd and Shakti Foundation;
- It always tries to make a cordial relation between the financial institutions and SME entrepreneurs.

4.4 Conclusion

SME Foundation is an independent body. All the functions of this institution are determined by the board of directors. The main purpose of the foundation is to ensure economic growth through implementing all the functions taken by the foundation. All

these functions are correlated with one another. The services provided by the foundations are, policy advocacy & intervention, capacity building, SME access to finance and credit management, technology development and application of appropriate technology, market development and expansion of market etc. very essential for the development of SME sector. But the foundation can not implement its policies accurately because of some barriers. To implement all the programs necessary steps should be taken by the foundation. The actual benefit of this sector is not possible without proper application of these programs.

Chapter-5

Programs of SME Foundation understudy: Capacity Development and Credit Wholesaling Program

5.1 Introduction

SMEs play a dominant role in the industrial development of most countries. In Bangladesh, too, most of the enterprises are SMEs. They provide employment for three-fourths of the industrial workforce. They are typically labour-intensive industries with relatively low capital intensity. The success of the manufacturing sector of the country is inextricably linked to the success of SMEs.

The SMEs are spatially widely dispersed, such that the benefits of their growth will be evenly distributed. The flourishing of SMEs also ensures a robust growth of employment across the country—a key condition for poverty reduction. But most of the people of both the developed and developing countries do not know how to start a business. So, it is essential to develop the capacity of the employee and entrepreneurs of the SME sector through proper training. By considering this factor, the governments of different countries have started capacity development program through institutional arrangement. In Bangladesh, this program has also been started by the SME Foundation, apex institution of the country. It plays a vital role in human resource development of SME sector by arranging different types of training. On the other hand, most of them can not show their potentiality for the lack of money. For this, SME Foundation has also started its credit wholesaling program through two financial institutions. This chapter discusses in details the capacity development and the credit-wholesaling program of the Foundation that have taken for in depth study.

5.2 capacity development program

Nowadays many countries of the world have started capacity development program to bring actual development of the SMEs. Without developing his capacity nobody can start an entrepreneurial business. Everybody has some potentialities which need to be developed through proper guidelines. Proper institutional arrangement can play an effective role in this area.

5.2.1 Capacity and capacity development

Capacity and capacity development is an important issue on which emphasis is given by both the developed and developing nations for achieving individual as well as organisational goals. These two terms are defined by several authors and organizations. Some are as follows:

5.2.1.1 Capacity

Capacity is defined, 'abilities, skills, understandings, attitudes, values, relationships, behaviours, motivations, resources and conditions that enable individuals, organizations, networks/sectors and broader social systems to carry out functions and achieve their development objectives over time'⁵⁷. Capacity⁵⁸ is also can be defined as,

1. The ability to contain, absorb, or receive and hold.
2. The amount of space that can be filled; room for holding; content or volume: a tank with a capacity of 21 gallons.
3. The point at which no more can be contained: filled to capacity.
4. The power of receiving and holding knowledge, impressions, etc.; mental ability.
5. The ability or qualifications (for, or to do, something); aptitude.

⁵⁷ Peter, Morgan, 'Capacity and Capacity Development– Some Strategies', October, 1998.

⁵⁸ Capacity definition: Webster's Copyright © 2010 by Wiley Publishing, Inc., Cleveland, Ohio. Used by arrangement with John Wiley & Sons, Inc. <http://www.yourdictionary.com/capacity>, accede on 11/05/10.

6. Maximum output or producing ability: operating at capacity.
7. The quality of being adapted (for something) or susceptible (of something); capability; potentiality
8. A condition of being qualified or authorized; position, function, status, etc.: acting in the capacity of an advisor
9. Electricity Capacitance.
10. Law legal authority or competence

5.1.1.2 Capacity development

“Capacity development refers to the approaches, strategies and methodologies used by developing country, and/or external stakeholders, to improve performance at the individual, organizational, network/sector or broader system level”⁵⁹. UNDP defines capacity development as “The process by which individuals groups, organizations, institutions and societies increase their abilities: to perform functions solve problems and achieve objectives; to understand and deal with their development need in a broader context and in a sustainable manner”⁶⁰.

UNDP also defines it as “the process of creating and building capacities and their (subsequent) use, management and retention. This process is driven from the inside and starts from existing national capacity assets”⁶¹. According to DAC⁶² guidelines, Capacity development is the process by which people, organizations and society as a whole create, strengthen and maintain their capacity over time. It further defines capacity development as “the process by which individuals, groups and organizations, institutions

⁵⁹ Peter, Morgan, ‘Capacity and Capacity Development– Some Strategies’, October, 1998 and ‘An Update on the Performance.

⁶⁰ Monitoring of Capacity Development Programs. What are We Learning? May, 1999.

⁶¹ UNDP. (1997). Capacity Development . New York: Management Development and Governance Division, UNDP.

⁶² The OECD Development Assistance Committee (DAC) is one of the leading forums for bilateral donors to shape their collective approaches to effective and meaningful aid policy. For many years, the DAC has considered capacity development as a key priority.

and countries develop, enhance and organize their systems, resources and knowledge; all reflected in their abilities, individually and collectively, to perform functions, solve problems and achieve objectives”⁶³.

5.3 Capacity development program of SMEF

Human Resource Development through capacity development is one of the main functions of Small and Medium Enterprise Foundation (SMEF). It is an important strategy for the development of SME sector. It helps to improve the productivity of SME sector by developing both the technical and managerial capacity of the people who are directly or indirectly involved with the SME sector.

SME Foundation started its capacity development activities for developing the capacity of its stakeholders. In addition to the institutional capacity development, the Foundation took the initiative of developing individual capacity of entrepreneurs through various types of trainings. SME Policy strategy 2005 duly underscored the importance of the capacity development and it is done in the six-sector study conducted by the Foundation.

5.3.1 Objectives of capacity development

SME Foundation has taken capacity development program as a priority basis. The major objectives of this program are as follows:

At National Level:

1. To give advice and guideline regularly to the Government to make capacity development policy;
2. To provide necessary assistance and advice to the training institutes to develop market based training courses.
3. To develop the skill of the SME entrepreneurs through proper training.

⁶³ OECD, 2006, DAC Guidelines and Reference Series Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation, OECD, Paris.
http://www.oecd.org/document/42/0,3343,en_2649_34565_42393642_1_1_1_1,00.html.

At Sector Level:

1. To provide training analyzing the nature and character of SME sector.
2. To arrange cluster based training program.
3. To provide training for Human Resource Development as well as skilled development.

At Enterprise Level:

1. To select trainers based on nature and character of capacity development program.
2. To determine target group in case of capacity development.
3. To develop the next training program by evaluating the result of previous training program.
4. To provide necessary data and information on training program in home and abroad and so on.

5.4 Capacity development through training programs

The Small and Medium Foundation organized different types of training programs for the SME stakeholders and entrepreneurs. At first, the training institution has to prepare a proposal covering various information like, the types of training, number of trainees, total training cost, place of training etc. and has to submit it to the SME Foundation. The proposal is then examined and analyzed very carefully by the foundation. If all the information are reliable, the foundation gives financial, technical and other assistances to these institutions to arrange training program.

5.4.1. Types and nature of training program

The Foundation is currently supporting trade bodies in organizing different capacity development programs. About 12 SME related organizations⁶⁴ like, Bangladesh Institute

⁶⁴ These 12 organizations are identified in the annual Report 2008-2009. These institutes are playing enormous role for building capacity of the entrepreneurs in the SME sector by taking assistance from

of Management (BIM), National Productivity Organization, Bangladesh University of Engineering and Technology (BUET), National Association of Small and Cottage Industries of Bangladesh (NASCIB), WEAB, Bangladesh Women Chambers of Commerce and Industries (BWCCI), Bangladesh Boutique Association, Chittagong Women Chamber and Commerce of Industries (CWCCI), Bangladesh Khudra O Tat Shilpo Samity, Banglacraft, Bangladesh Engineering Industries Owners Association (BEIOA) and BSTI are receiving institutional support from the Foundation. The training programs of these institutions are categorized by the following ways:

1) Training on Leadership development and Modern Market Management program:

- a) Strategic Management
- b) Total Quality Management
- c) Business Communication
- d) Capacity building for office bearers of the trade bodies
- e) MS Office and Internet for Professional Excellence
- f) Production Management for Production Improvement
- g) English Language of Business Communication
- h) Financial Management and Budget Control and so on.

2) Cluster based Program on skill development:

- a) Beautification
- b) Artificial Jewelry
- c) Food Processing and Marketing
- d) Modern strategy on Handprint
- e) SME Product Costing and Pricing
- f) Seed Production and Processing
- g) Fashion Design on SME
- h) Snacks Production and Marketing
- I) Home Textile and Fashion Design in SME
- j) Fast Food Production and Marketing
- k) Sweetmeat Production and Marketing
- l) Skin Print Production and Marketing
- m) Jam jail and so on.

3) Technology based Training:

- a) Hands on Training on Heat Treatment
- b) Hands on Training on Surface Treatment
- c) Hands on Training on Foundry and Metal Casting.

the Foundation. Besides, there are some other institutes which have a great contribution in this program either centrally or locally.

4) Productivity Improvement Strategy:

- a) Value Added and Value Added Productivity b) Productivity Improvement Strategy c) 5-“S”: The Japanese Method to Creating a High Quality and a Highly Productive Working Environment d) Basic Concept of Productivity e) Productivity Diagnosis f) Industrial Engineering for Productivity Improvement.

5.4.2 The number and areas of training programs

The Small and Medium Enterprise Foundation (SMEF) imparted training to 3,270 participants in association with its partner organizations. These training programs are held not only in Dhaka city but also in various districts of the country. The following table presents the training on different areas:

Table-17: Training programs on different areas⁶⁵

Course Title	No. of Courses	No. of trainees	Participants	
			Women	Men
Management Development	05	150	50	100
Entrepreneurship Development	11	330	305	25
New Entrepreneurs Development	01	30	30	-
Market Management & Market Promotion	03	90	50	40
Cluster based skill Development	74	2220	1420	800
Cluster based Technology Development	03	90	-	90
Productivity Development Techniques	05	150	95	55
Total Quality Management	03	90	15	75
Business Communication	04	120	50	70
Total	109	3270	2015	1255

Source: SME Foundation, Annual Report 2008-2009.

⁶⁵ The table-17 represents the different number of training programs held in different areas of the country. The number and nature of these training programs are increasing rapidly because both the public and private sector take the SME as an important sector for ensuring the economic growth of a country.

According to the above table, most of the people are trained up on cluster based skill development training. The total numbers of trainees in this area are 2220. The lowest numbers of people get training on the course titled New Entrepreneurs Development. Here it is also noticeable that the number of women participants is more than those of the men. It reflects the interest of women in the SME sector. The total numbers of women and men trainees on different areas are respectively 2015 and 1255. The number of the training program is increasing gradually. SME Foundation has taken action plan on this program on which a large number of SME related people will be able to come under this program.

5.5.1 Credit-wholesaling program

Access to finance is one of the vital issues for the development of SMEs. Although there are lots of potential businesses in the SME sector, the development of SME sector is not satisfactory. For the scarcity of proper fund, SME entrepreneurs do not get enough opportunities to run their business accurately. They have no enough money to increase their production by introducing modern technology and raw materials. As a result, they cannot compete themselves with the global market. It is also noticeable that many SME enterprises have also been lost their existence because of lack of money. So, economic development and employee generation are hampering tremendously in the developing countries like, Bangladesh.

SMEs are considered "*Missing Middle*" as the banks and other formal financial organizations are reluctant to expand their credit portfolio to SMEs, because they do not consider SME lending as an attractive and profitable undertaking. This is so because SMEs are regarded as high-risk borrowers due to their unskillful management, low capitalization, insufficient assets and inability to comply with collateral requirements of the lending institutions. Administrative costs are also higher in SME lending because close monitoring and strong supervision in post lending is the precondition for ensuring on-time recovery. The high interest rate of SME loan given by these institutions and Banks is another major problem for the SME entrepreneurs. Besides, these institutions

give this loan only for producing some selective products. As a result, SME fund given by these institutions and banks can not meet the actual need of SME entrepreneurs. Considering all these circumstances, SME Foundation has conducted credit-wholesaling program on pilot basis at single digit interest rate for SMEs.

5.5.2 Access to Finance and credit

Access to finance⁶⁶ refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. The Access to Finance programme⁶⁷ is designed to assist small businesses across the capital to raise business finance to start up or grow.

Credit refers⁶⁸ to money loaned or the ability of an individual or company to borrow money. Credit is also used to mean positive cash entries in a bank account. For instance, an account may be credited with interest. Credit is the opposite of debit. It can be treated as “an agreement by a bank to lend a specific amount to a borrower and to allow that amount to be borrowed again once it has been repaid. It is also called revolving credit”⁶⁹

Credit also can be said, “transaction between two parties in which one (the creditor or lender) supplies money, goods, services, or securities in return for a promised future payment by the other (the debtor or borrower). Such transactions normally include the payment of interest to the lender. Credit may be extended by public or private institutions to finance business activities, agricultural operations, consumer expenditures, or government projects. Large sums of credit are usually extended through specialized financial institutions such as commercial banks or through government lending programs”.⁷⁰

⁶⁶ Definitions of **Access to finance** on the Web: (http://en.wikipedia.org/wiki/Access_to_finance) accessed on 02/01/2010

⁶⁷ Encouraging business: Access to Finance (<http://www.lda.gov.uk/server/show/ConWebDoc.559>) accessed on 02/01/2010

⁶⁸ Definition of Credit, Investor Dictionary.com, (<http://www.investordictionary.com/definition/credit.aspx>) accessed on 02/01/2010

⁶⁹ Definition Revolving Credit Lines, (<http://www.hjventures.com/SBA/Revolving-credit-lines.html>) accessed on 02/01/2010.

⁷⁰ Credit :(<Http://www.answer.com/topic/credit>) accessed on 02/01/2010

Wholesale⁷¹ is a business that buys goods from manufacturers and that sells goods, usually in large quantities to retailers, who in turn sell them to the end user. Credit wholesaling is an approach⁷² to encourage lending financial institutions by means of providing soft fund conditioning to increase their credit portfolio on specific/target areas. The credit wholesaler does not involve with direct funding, rather provides funds to the institutions that are directly involved with funding and retail crediting. In credit wholesaling, credit risk is generally carried over by the retailers and wholesaler does not have any interfere on credit client selection.

5.3 Credit Wholesaling Program of SME Foundation

No country can be industrially developed without the help of SME sector. The developed country like Japan, UK, USA, Australia are also depends on SMEs for their primary goods. For this, all these countries take SMEs as a prior sector for their industrial growth. They have taken various development activities for the development of this sector. They have emphasized on access to finance for the SMEs. The credit-wholesaling program of the SME Foundation is playing an effective role in the development of SMEs in Bangladesh.

5.3.1 Background of Credit Wholesaling Program

Credit wholesaling is an approach to encourage lending financial institutions by means of providing soft fund conditioning to increase their credit portfolio on specific/target areas. The credit wholesaler does not involve with direct funding, rather provides funds to the institutions that are directly involved with funding and retail crediting. In credit wholesaling, credit risk is generally carried over by the retailers and wholesaler does not have any interfere on credit client selection.

5.3.2 Small Enterprise Fund (SEF)

GOB built a separate fund for small enterprises with Bangladesh Bank (BB), named Small Enterprise Fund (SEF) to ensure small entrepreneurs' access to credit. Under this

⁷¹ Wholesale-(Business); Definition(<http://en.mimi.hu/business/wholesale.html>) accessed on 02/01/2010

⁷² Credit wholesaling program doc, credit wholesaling wing, SME Foundation, 2008.

program, BB provides low cost fund to the designated financial institutions as the reward to providing credit facilities to the SMEs.

5.3.3 Establishment of SME Foundation (SMEF)

Government established SME foundation as an apex body tasking to play adequate role in overall SME development of the country. SME Foundation together with its other activities is managing a separate credit-wholesaling program aiming to ensure credit access to targeted SME clusters at low interest and without/soft collateral. SMEF will channel out the funds to the selected financial institutions (who will be termed as partner financial institutions-PFIs) with mandate to finance targeted SME enterprises. The PFIs of SMEF are basically profit seeking commercial organizations committing a very small proportion of their overall activities to serve this segment. The challenge for SMEF is therefore to ensure certain degree of commitment from these PFIs and gradually seeks to establish dedicated financial services to SMEs.

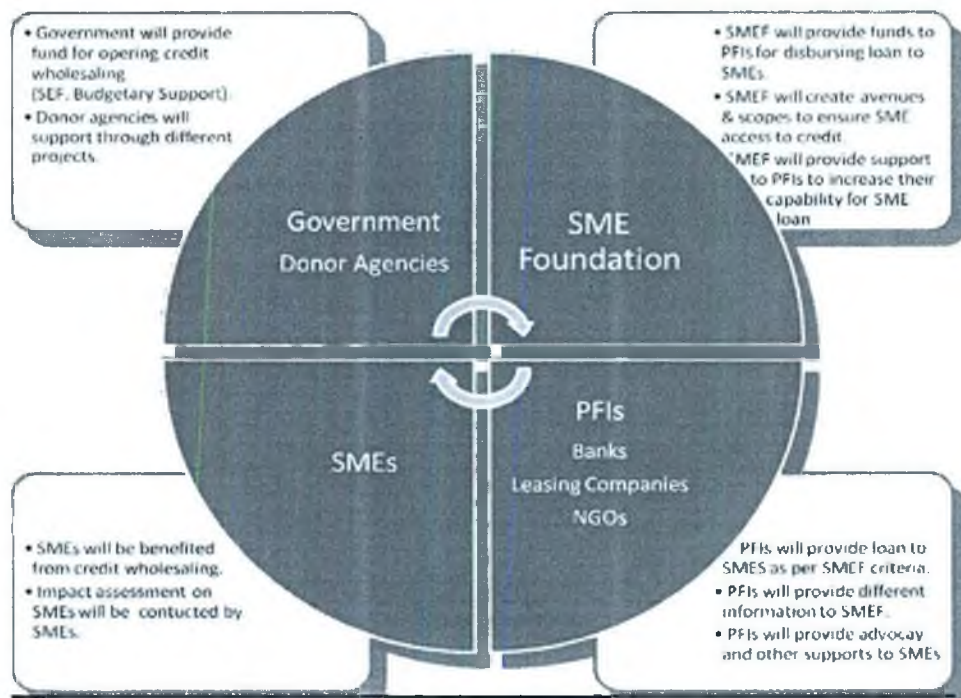
5.4 The objectives of credit Wholesaling Program of SME Foundation:

1. To ensure access to credit at low interest and easy;
2. To provide easy flow of money by arranging pre-funding system instead of refunding;
3. To give capacity building and technical supports for the PFIs;
4. To monitor all the activities of PFIs related to credit Wholesaling Program of SME Foundation;
5. To take necessary steps to ensure the full utilization of 10% earmarked portion of SEF for women entrepreneurs;
6. To create partnership with nationalized banks and credible NGOs (who have nationwide networks) to ensure the access to credit to rural entrepreneurs;
7. To take necessary steps to ensure access to finance at geographic parity by giving preference to less facilitated areas like Chittagong Hill Tracts & North Bengal area etc;

8. For the beneficiary of SME enterprises, SMEF have relevant supports like advisory, policy, information, technology development and upgrade, product certification, ICT etc.

In 2007 SME Foundation proposed Credit Wholesaling Program for ensuring the benefit of the SME related people. In this proposal, Government and donor agencies were considered as the main sources of fund to meet the necessary need of the program. Following this proposal, the fund of credit program has been provided by the SME Foundation to the private financial institution for disbursing money to the Small and Medium Enterprises. Private financial institutions are responsible for client selection, money disbursement and recovery. They provide all information related to this program to the Small and Medium Enterprise Foundation that help the foundation to take necessary steps for the betterment of the SMEs. The chart-14 presents the credit Wholesaling Program of SME Foundation:

Chart-14: The Credit-Wholesaling Program of SME Foundation



Source: Proposed credit Wholesaling Program of SME Foundation, 2007.

5.5 Nature and process of the Credit Wholesaling Program of SME Foundation

As per Industrial Policy 2005, the SME Foundation has been advocating to start a demand driven credit program for the SMEs since its inception. The Executive Committee of the National Economic Council (ECNEC) of the Government on 15th May, 2007 approved and mandated SME Foundation to commence separate credit-wholesaling program for SMEs with the selected banks and financial institutions.

The Chairperson, SME Foundation and Minister, Ministry of Industries, inaugurated the operation of credit-wholesaling program of the Foundation on April 15, 2009 on pilot basis. The Foundation signed an agreement with MIDAS Financing and Shakti Foundation for operating the credit-wholesaling program at 9% interest rate on February 10, 2009. The pilot program of Taka 2.00 crore is being operated using the Foundation's own resources. MIDAS Financing Ltd. and Shakti Foundation were allocated Taka one crore each for a period of two years.

5.6.1 Terms and Conditions Determined by the Foundation

SME Foundation has given some terms and conditions which must to be followed by the MIDAS Financing Ltd. and Shakti Foundation these two institutions. The table-18 is on the term and conditions of the credit-wholesaling program:

Table-18: A glimpse of terms and conditions

No.	Terms and Conditions
1.	Interest rate: Any rate not exceeding 9%, to be calculated quarterly on reducing balance method.
2.	Sub-sectors: Technology-based or Agro-based industry.
3.	Loan size: Any amount within Tk. 50,000 to 500,000 only.
4.	Tenure: Any tenure within 1 to 2 years.
5.	Restrictions: No collateral security can be taken.
6.	Preference: The partners will provide special attention to women entrepreneurs.

Source: SME Foundation, Annual Report 2008-2009.

5.6.2 Loan disbursement by MIDAS Financing Ltd. and Shakti Foundation

MIDAS Financing Ltd. and Shakti Foundation have disbursed Taka two crore among their selected clients for a certain period of time. They are responsible for the money recovering in time. SME Foundation does not interfere in the activities of these two institutions. But their works are monitored strictly by the Foundation.

5.6.2.1 Midas Financing Limited

MIDAS FINANCING LTD. (MFL)⁷³ is leading financial institution of the country licensed by Bangladesh Bank under the financial institutions Act 1993. MFL Housing Loan Scheme has been launched to fulfill the dream of the limited income people by extending financial support in the form of term loan for constructing a house and/or purchasing an apartment/readymade house/commercial space. The large amount of money of the pilot credit wholesaling program of SME Foundation is disbursed by the MIDAS. Types of industries where loan are disbursed by this institution are as follows:

Table-19: Loan provided by the MIDAS

Types of Industry	Number	Amount in lakh	Percentage	Location
Light Engineering	15	50	50%	Bogra: 11; Dhaka: 3 & Comilla: 1
Dress Making/ Fashion Design	14	38	38%	Dhaka: 9; Narayanganj: 4 & Bogra: 1
Agro-based (Food Processing)	1	4	4%	Chittagong: 1
Others	2	8	8%	Comilla: 2
Total	32	100	100%	

Source: Annual Report, (2009-10), Small and Medium Enterprise Foundation.

⁷³ MIDAS FINANCING LTD, (<http://www.midasfinancing.com/about.php>) accessed on 15/05/2010.

The table-19 shows that 50% loan was disbursed in the light engineering industries. Second large amount of money was disbursed on the dress making and fashion design industries. The lowest number of industries received loan from MIDAS is the agro-based industries. It is also here noticeable that the highest amount of money was disbursed in Bougra. Dhaka is the second highest place where loan was disbursed. From this table it can be assumed that only the small numbers of entrepreneurs are able to get loan facility from this institute. But this number is increasing gradually. The following table is on it:

Table-20: Information about revolving funds (27 lacs)

Types of Industry	Number	Amount in lakh	Percentage of money	Location
Light Engineering	3	7	26%	Dhaka-1, Bogra-1, Comilla-1
Dress Making/ Fashion Design	7	18	67%	Dhaka-2, N. Ganj-3, Bogra-1, Comilla-1
Others	2	2	7%	Feni-1, Ctg-1
Total	12	27	100%	

Source: Annual Report, (2009-10), Small and Medium Enterprise Foundation.

Table-20 shows that MIDAS disbursed money again 27 lacs taka to the SME owners from the recycling money of the credit wholesaling program. Almost 67% loan is disbursed in the dress making and fashion design enterprises. The percentage of loan disbursed in the light engineering and other enterprises are respectively 26% and 7%. It is noticeable that Midas Financing Ltd. is success in recovering money from the clients which further disbursed to the SME entrepreneurs. The following table shows the number of male and female ownership received loan from this institute:

Table-21: Male vs. Female Ownership (Amount of Loan)

---	Number	Amount in lakhTk.	Sub-sectors
Male	34 (77%)	105 (83%)	Light Engineering, Agro Processing, Dress Making
Female	10 (23%)	22 (17%)	Dress Making (100%)
	44 (100%)	127 (100%)	---

Source: Annual Report, (2009-10), Small and Medium Enterprise Foundation.

According to the table-21 the 77% male owners receive loan from the MIDAS. They have 83% of the total amount of loan. On the other hand, 17% loan was disbursed to the rest of the female entrepreneurs. It indicates that the numbers of male owners received money from the institute are more than the female.

5.6.2.2 Shakti Foundation

It is another private financing institute by which loan of credit wholesaling program has been disbursed. It can be shown by the following table:

Table-22: Loan provided by the SHAKTI Foundation:

Types of Industry	Number	Amount in lakh	Percentage	Location
Light Engineering	4	12.80	46%	Dhaka:4
Dress Making/ Fashion Design	6	12.00	43%	Dhaka: 5 & N.Ganj: 1
Fast Food	1	3.00	11%	Dhaka:1
Total	11	27.80	100%	

Source: Annual Report, (2009-10) Small and Medium Enterprise Foundation.

The SME Foundation released total taka 25 lakh to the SHAKTI Foundation. On the other hand, SHAKTI Foundation disbursed 27 lakh. taka including recycle money to its client. This loan is disbursed among different 11 enterprises. The 46% loan is disbursed to the light engineering industries and rest 43% and 11% are disbursed to the dressmaking and fast food enterprises. The loan provided by the SHAKTI Foundation is smaller than the MIDAS as most of the clients of this institute are trades rather than manufacturers. But this credit program of the SME Foundation is for the manufacturers. As a result, the performance of shakti foundation on this credit wholesaling program is not satisfactory.

5.7 Conclusion

The vision of SME Foundation is to alleviate poverty and employee generation. In reality SMEs can play vital role in reduction poverty by dint of their potentialities in Bangladesh. Consequently a large number of people living in the vulnerable position get way to economic growth and betterment.

SME Foundation has taken various programs to achieve its goal. Among all these programs only two programs, capacity development and credit wholesaling programs have been analyzed in this study, as these are most important programs without which the goal of the Foundation can not be achieved. Financial limitation is a major problem for which the growth of SMEs disrupted in our country. On the other hand, nobody can use his money and resources accurately in the SME sector if he does not have proper knowledge on different aspects of SMEs. In fact, the SME Foundation makes effective contribution to the development process in the country through the capacity development and credit wholesaling programs.

Chapter-6

Findings of the Study: Data presentation and analysis

6.1 Introduction:

Data presentation and analyses is an important part of any research work because the findings of a research are identified based on this analyses. In this study information are collected from the SME entrepreneurs, officers and staff of the SME Foundation and its related stakeholders by using a structured questionnaire. Observation and participation methods are also used here to serve the purpose of the study.

This chapter concentrates on the data presentation, analysis and findings of the study. All the information collected from the respondents have been presented and analyzed here program wise. The findings of this study are presented here at the end of this chapter.

6.2 Capacity Development Program

The information is collected on capacity building from 12 officers of SME Foundation, 7 trainers who gave training on different areas, 8 SME Stakeholders and 60 trainees who were trained by the SME Foundation through various training institutes and SME Stakeholders. The participants of the training are the main respondents of this program. They are selected randomly from the eight training courses under four categories. It can be shown by the following table:

Table-23: Name of the training courses and the number of the respondents

Name of the training categories:	Name of the training courses	Number of the trainees	Number of the respondents	Percentages of the respondents
Training on Leadership development and Modern Market Management program	Quality Management of SME	30	8	13%
	MS Office and Internet for Professional Excellence	30	8	13%
Technology based Training	Heat treatment	25	7	12%
	Welding	21	6	10%
Cluster based Program on skill development	Food Safety Management for SMEs	20	6	10%
	Home Textile and Fashion Design in SME	32	9	15%
Productivity Improvement Strategy	Productivity improvement	34	10	17%
	BSTI Quality Certification for SMEs	23	6	10%
	Total	215	60	100%

Source: Information collected from the field study and the SME Foundation.

The above table presents the number and percentages of the respondents who participate in different training programs under four categories. The 13% respondents are selected from both the quality management of SME⁷⁴ and MS Office and Internet for Professional Excellence⁷⁵ courses. The number of respondents on heat treatment⁷⁶ and welding⁷⁷ are respectively 12% and 10%. The 10% respondents are also selected from Food Safety Management for SMEs⁷⁸ and 15% from Home Textile and Fashion Design in SME⁷⁹. Besides, the percentages of respondents on Productivity improvement⁸⁰ and BSTI

⁷⁴ Quality Management of SME training was held on 08 September, 2007. This training was organized by National Productivity Organization (NPO), Ministry of Industry.

⁷⁵ Training on MS Office & Internet for Professional Excellence was held on 18-26 November 2007. SMESDP, Ministry of Industry was the organizer of this training.

⁷⁶ Heat treatment training was held on 21-25 August, 2008. This training organized together by the Bangladesh University of Engineering and Technology (BUET), Bangladesh Engineering owner's association and SME Foundation

⁷⁷ Training on Welding was held on Sep 23- Oct 04, 2007. National Association of Small and Cottage Industries of Bangladesh (NASCIB) organized it.

⁷⁸ Food Safety Management for SMEs training was held on 9-12 November, 2009. It was organized by the National Association of Small and Cottage Industries of Bangladesh (NASCIB).

⁷⁹ Home Textile and Fashion Design in SME was held on Sep 09-13, 2007. National Association of Small and Cottage Industries of Bangladesh (NASCIB) organized it

⁸⁰ Productivity improvement in SME training was held on 22-27 August, 2007. This training was organized by National Productivity Organization (NPO), Ministry of Industry.

Quality Certification for SMEs⁸¹ are respectively 17% and 10%. All this respondents are selected from eight training courses on which maximum trainings are held. People's demand and effectiveness of the training courses are also considered here in case of selecting training areas. Information is collected from the one fourth respondents of each training course to achieve the purpose of the study. Different tables and charts have been used here for presenting and analyzing information on these training programs. These are as follows:

6.2.1 Education Qualification of the Training Participant

Education is the pre-condition to be a successful SME Entrepreneur because an educated man can easily adopt the training program and also is more effective to use their knowledge acquired from the program. The education qualifications of the trainees in the Foundation are not same. The following table presents the education qualifications of the participants:

Table-24: Education qualification of the training participant

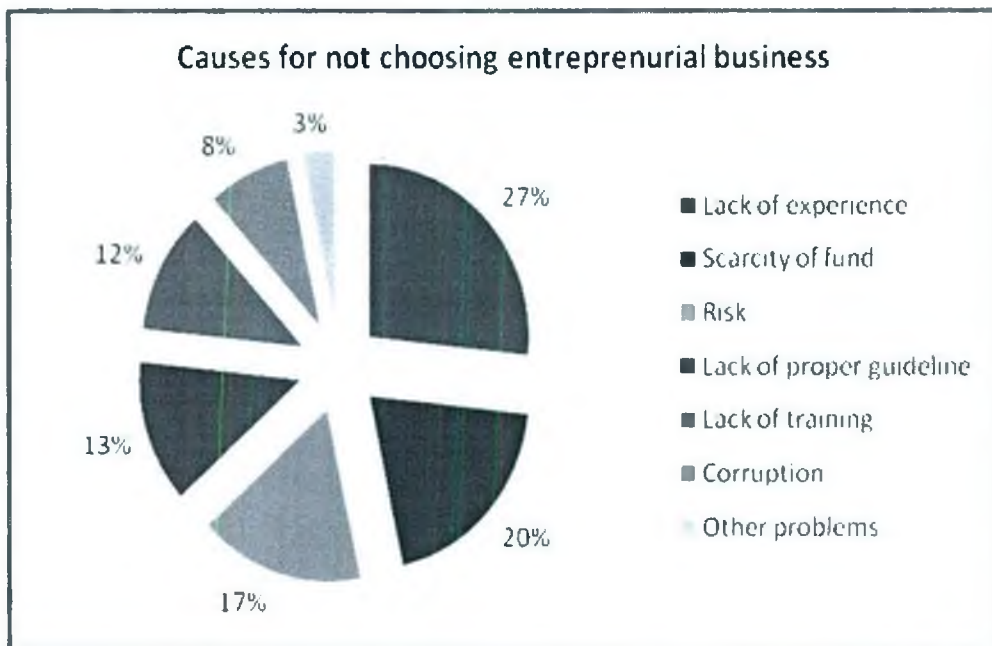
Education qualification	Participants				Total
	Women	(%) of Women	Men	(%) of Men	
Under SSC	8	20%	3	14%	11 (18%)
SSC	10	26%	5	24%	15 (25%)
HSC	12	31%	6	29%	18 (30%)
Honors	5	13%	4	19%	9 (15%)
Masters	4	10%	3	14%	7 (12%)
Total	39	100%	21	100%	60 (100%)

Source: List of trainees of the SME Foundation (2008-2009)

⁸¹ BSTI Quality Certification for SMEs was held on 21 December, 2009. It was organized by the SME Foundation.

The table-24 represents the number of participant of training in different areas and their qualifications. The table shows that the educational qualification of 11% participants is below SSC. The percentages of SSC, HSC, Honors and Masters are respectively 15%, 18%, 9% and 7%. Although these small number of participants can not give the information about the educational qualification of all the participants but actual scenario is that the number of graduate and post graduate trainees are fewer than those of the SSC, HSC and below SSC. There are some causes for not choosing entrepreneurship by the educated people. The following chart presents some of these causes:

Chart-2: Problems Faced to be An Entrepreneur



Source: Data collected from the SME Entrepreneurs, June-December 2009.

The major two causes for not choosing entrepreneurial business by the educated people are lack of proper experience and scarcity of fund. Most of them like to do any job rather to start a business. As there is no availability of money and proper guidelines, 17% of them do not prefer to take any risk. The percentages on lack of training, corruption and other problems are respectively 8%, 6% and 4%. The number of training is few compare

to SME entrepreneurs. As a result, most of them are deprived getting such kind of opportunities. Many people also do not want to invest their money in the SME sector because of corruption and political instability exist in the country.

6.2.2 Types of Training

Under the capacity building program SME Foundation has arranged several types of training programs for the SME entrepreneurs through its SME stakeholders and some training institutions. The trainees are trained on different areas related to SME. But all the trainees are not satisfied with the existing types of training. The table identifies the rate of satisfaction on the types of training:

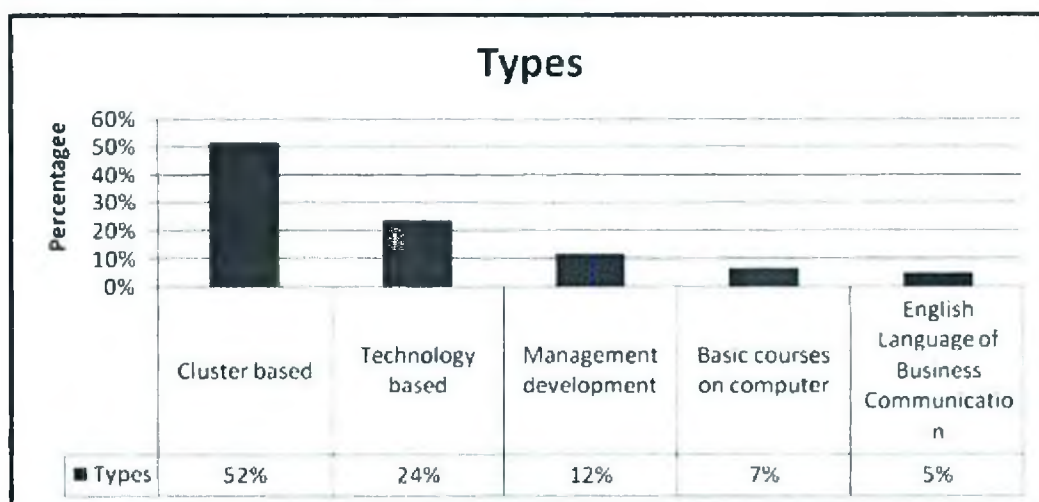
Table-25: Level of satisfactory with the training program

Types of training	Satisfactory	Average	Dissatisfactory	Total
Women	22 (69%)	12 (63%)	5 (56%)	39
Men	10 (31%)	7 (37%)	4 (44%)	21
Total	32 (53%)	19 (32%)	9 (15%)	60

Source: Data collected from the SME Entrepreneurs, June-December 2009.

Among all the respondents only 53% are satisfied to have training from the Foundation and the percentage of average and dissatisfactory are 19% and 9%. So, it is found that maximum people are pleased on such kinds of trainings. The following chart shows the types of training demanded by the trainees:

Chart-3: Most demanded types of training



Source: Data collected from the SME Entrepreneurs, June-December 2009.

Among all kinds of training programs the most wanted is cluster-based training. Almost 52% respondents give emphasize on this type of training because it is very helpful to run their business accurately. The next priority has given on the technology-based training. Without applying modern technology nobody will be able to compete with the global market with his products. Many people can not produce better service for the lack of technology. They also fail to reduce their cycle time which is the pre-condition of total quality management. The percentage of training on management development, basic courses on computer and English language of business communication are respectively 12, 7 and 5.

6.2.3 Duration of the training programs

Maximum training programs of the SME Foundation are arranged for five to ten days. There are different opinions provided by the entrepreneurs on the duration of these training. It can be shown by the following table:

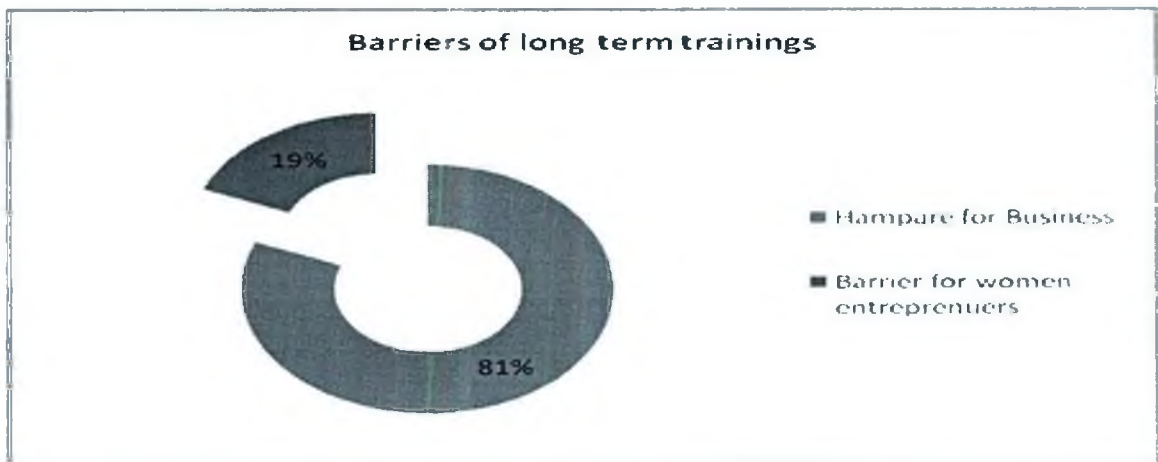
Table-26: Rate of appropriateness on the duration of training programs

Duration of training programs	Number of respondents	Percentage of respondents
Appropriate	48	80%
Non appropriate	12	20%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

The 20% respondents are not satisfied of the training duration. They provide their logic behind their opinions. According to them, they can acquire only the basic ideas on a specific area within this short time that is not enough to serve the purpose of their business. But 80% trainees strongly support the duration of the training programs. They identify some problems in the long term training. The following chart is on it:

Chart-4: Problems of long term training:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

Maximum respondents of this study are against of long-term training. Almost 81% of them told that their business related activities will be hampered if the duration of training programs is long. Besides, 19% respondents told that most of the women will not be able to participate in the long term training as it creates problems to accomplish their family related activities such as child caring, cooking and others.

6.2.4 Places of Training

Small and Medium Enterprise Foundation (SMEF) had been arranging various training programs in different places of the country from the beginning of its establishment, such as, Dhaka, Chittagonj, Sylhet, Bogura, Mymensing and so on. It provides training facilities to the SME entrepreneurs of all over the country. But all of them are not satisfied on the training places selected by the foundation and its stakeholders. It can be shown by the following figure:

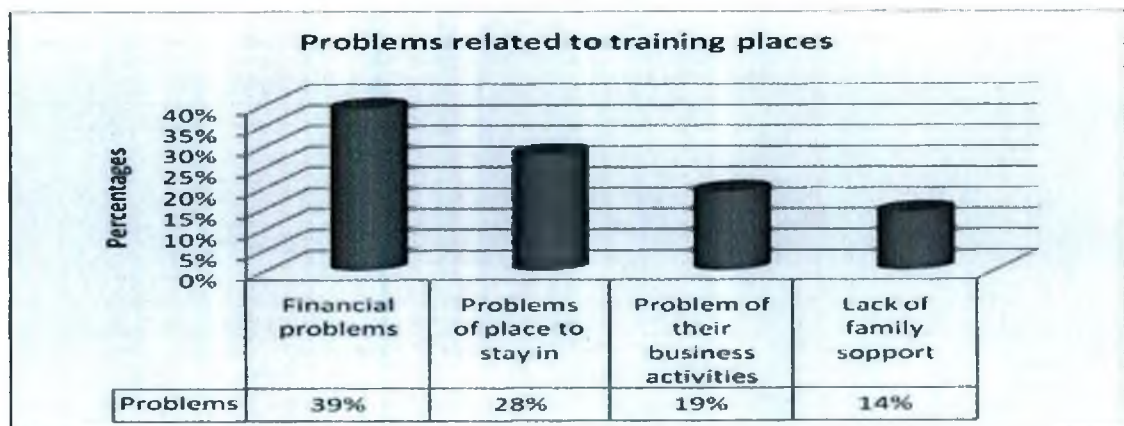
Table-27: Level of satisfaction with the training places

satisfaction the training places	Number of respondents	Percentage of respondents
Satisfied	39	65%
Dissatisfied	21	35%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

According to the above table although 65% trainees are satisfied on the training place as the training places are nearer to their house. Some of them are lucky because they have strong family support which helps them to participate in several training courses. But 35% are dissatisfied on this factor of the training program. They address some problems faced by them in the training period. The following chart is on these:

Chart-5: Problems related to the training of places:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

The chart-5 shows that almost 39% training participants have to face financial problem to take training in different places. Many of them come from rural areas and they need to spend lots of money for conveyance and other activities related to training. Scarcity of secured place is another major problem faced by the people who come from the different areas of the country. The percentage of this problem is near about 28%. Besides, 19% and 14% respondents identified other two problems; these are, hampering of their business activities and lack of family support. Many of them are small entrepreneurs whose business will be stopped if they need to stay the places long distance from their business areas. Lack of family support is another major problem for them especially for the women entrepreneurs.

6.2.5 Quality of Training

Various training programs are held by the SME Foundation and its related organizations. There are different opinions on the quality of the training programs. The following table presents the respondents opinion on this factor:

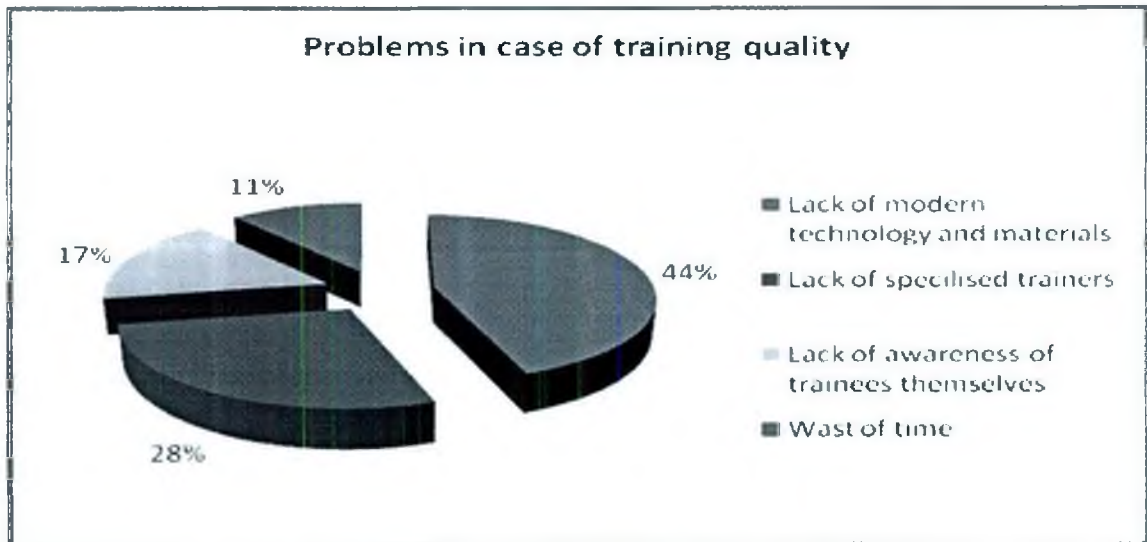
Table-28: Quality of training programs

Quality of training	Number of respondents	Percentage of respondents
Good	29	48%
Average	13	22%
Bad	18	30%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

According to 48% trainees, the quality of training arranged for the SME entrepreneurs is good as it provides them many SME related information like, SME finance, use of technology on SME, quality management, Productivity improvement, entrepreneurship development etc. All these programs are very helpful for them to be a perfect SME entrepreneur. The percentages of respondents who give average and bad comments are 22% and 30%. The following chart presents the problems identified by the trainees:

Chart-6: Problems identified by the trainees:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

About 44% trainees say that lack of modern technology and materials are the major problems, which decrease the quality of training. Lacks of specialized trainers are identified by the 28% of them. The numbers of trainers are too limited to give training in all over the country. About 17% respondents assert that some trainees are also not aware about the training program. They are not serious on the program and they keep themselves busy in unnecessary talking which disrupts the entire training program. Besides, 11% of them claim that these training programs are often hampered for the waste of time in the unnecessary activities like, too long inaugural and ending session, lunch and tea break etc. that disrupts the actual purpose of the entrepreneurs.

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6.2.6 Selection System of Trainees

The training participants are selected by the SME Foundation as well as its stakeholders. The lists of the trainees prepared by the SME stakeholders and related training institutions are examined by the SME Foundation. But all participants are not pleased on the selection system of these programs. The following table presents the number of respondents and their opinion on this:

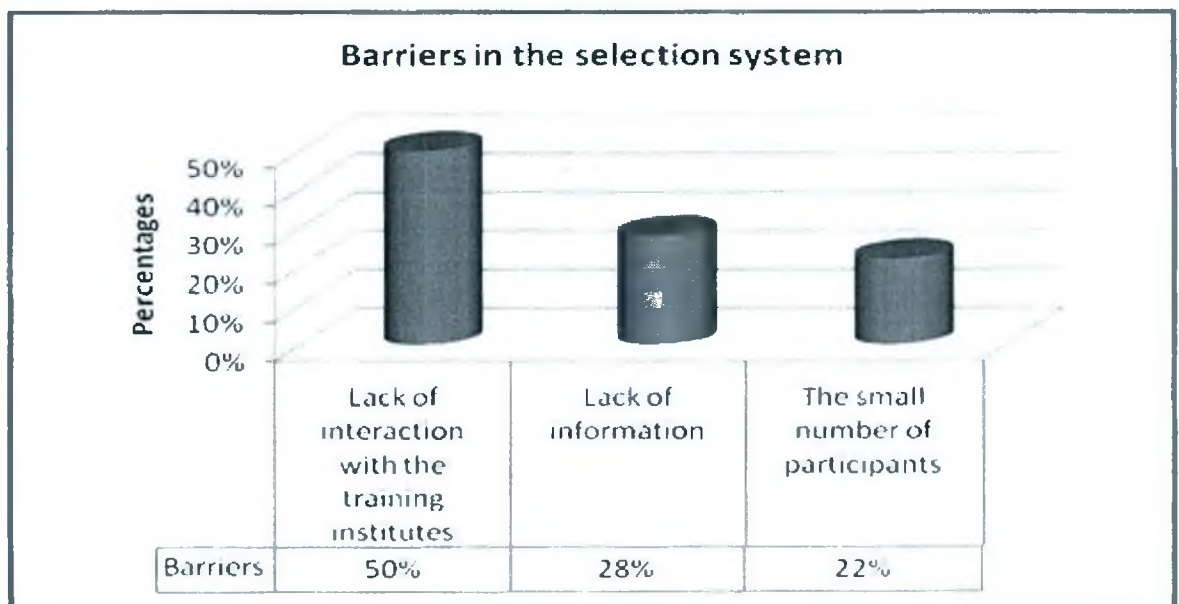
Table-29: The rate of accuracy in selecting participant

Opinion of the respondents	Number of respondents	Percentage of respondents
Appropriate	42	70%
Inappropriate	18	30%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

The table-29 shows that about 70% respondents are satisfied with the selection system of the training participant because here participants are selected examining all the papers and information provided by them. According to them the selection system of the foundation is fair. On the other hand, 30% respondents are dissatisfied on this system. They identify some drawbacks of this program. The following bar chart presents these:

Chart-7: Problems found in the selection of trainees:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

One of the major problems in selecting the training participant is the lack of interaction of the SME entrepreneurs with the training institutes. Most of them do not get the opportunity to take training because they are unknown to these institutions. The 28%

respondents identify the lack of information on the program to the people who are actually in need. The training institutes also can not select a large number of participants as the number of these programs is limited. As a result, many potential entrepreneurs both in urban and rural areas have no chance to be selected for these programs.

6.2.7 New Entrepreneurship Development

Nowadays Bangladesh is suffering tremendously from unemployment problem. There are lots of educated people who are passing miserable days for the scarcity of job. For this reason, people are now searching alternatives for their livelihood. Many people have started small business with their limited money and resources. The number of SME entrepreneurs has been increased gradually. The interest of the people in the SME sector is now noticeable. People of both the urban and rural areas are anyhow keeping themselves involved in this sector. But they have to face a lot of problems to do so. As a result many of them have to close their business as soon as they start it. SME Foundation plays a vital role in the new SME entrepreneurship development through its capacity development program. In spite of that, there are mix reactions among the participant in case of new entrepreneurship development program of the foundation. It is shown by the following table:

Table-30: Helpful for the new entrepreneurs

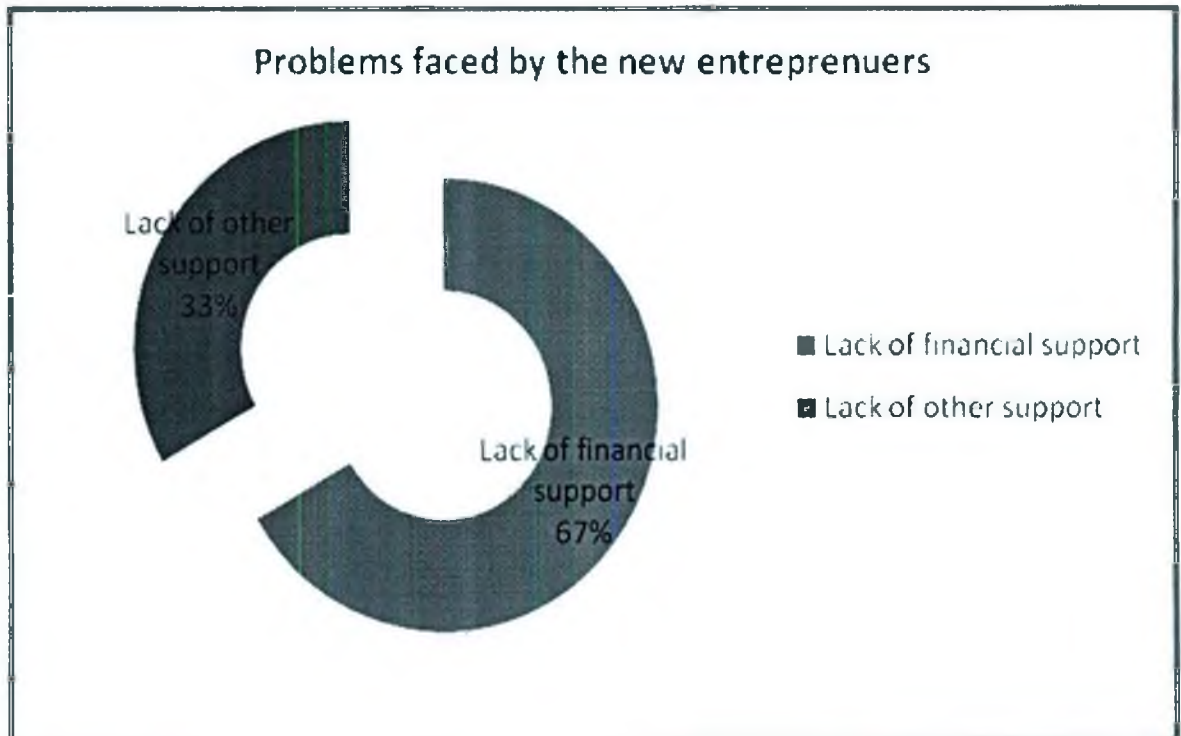
Reaction of the new entrepreneurs	Number of respondents	Percentage of respondents
Benefited	31	52%
Average	12	20%
Less benefited	17	28%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

In this study, the percentage of new entrepreneurs who are actually benefited of this program is 52%. According to them, it was quite impossible for the participant to start a business without taking training from the SME Foundation. It helps them to develop their capacity by providing

various SME related information like, SME policy and regulations, registration procedure, access to finance, productivity improvement system, market development procedure etc. Many respondents have started their business as soon as they are trained by the SME Foundation. There are also average and less benefited respondents found in this study. The percentage of these are respectively are 20% and 28%. The problems faced by the less benefited entrepreneurs are as follows:

Chart-8: Barriers for the new entrepreneurs:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

According to the 67% respondents, in spite of being trained, most of them can not start the business for the lack of money. It is the main barrier for the people of the developing country like Bangladesh. For this, many people can not use their capacity and knowledge acquired from the foundation. Besides, the new entrepreneurs have to suffer much for the scarcity of modern technology for which they can not sustain in the competitive market for a long time. They further add that the rural entrepreneurs hardly get any other help in time for the lack of institutional arrangement in these remote areas.

6.2.8 Effectiveness of Training Programs

Under the capacity development program, SME Foundation tries to develop the capacity of the SME entrepreneurs so that they can meet all kinds of challenges. They arrange training in a specific area after analyzing the training need of this place. As a result, these training are very effective to the most of the respondents. The following table is on it:

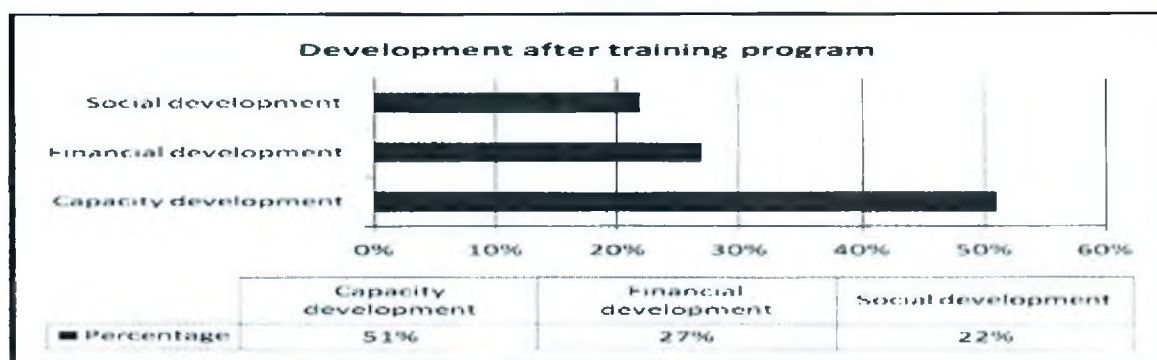
Table-31: The level of effectiveness

Effectiveness of training program	Number of respondents	Percentage of respondents
Effective	41	68%
Average	8	14%
Less effective	11	18%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

Table-31 shows that the percentage of average and less effective respondents are 14% and 18%. According to them these training program can not bring any effective change in their life as they can not start their business for the lack of money and family support. On the other hand, 68% of them give positive opinion on the training program of SME Foundation. They told that this program is very effective for them as it helps to bring positive change in every step of their life. The areas of improvement of the SME entrepreneurs after getting training are as follows:

Chart-9: Areas of Development Identified by the Entrepreneurs:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

The capacity of most of the SME entrepreneurs has been increased through training program that make them to run their business accurately. Almost 51% respondents have strong confidants on their capacity. Financial improvement has been occurred in case of near about 33% people. The training gives them knowledge how to produce maximum output with minimum cost. This program also helps them to take all kinds of business related decisions in time, which make them financially sound. Another 23% respondents are satisfied for their social development. Their social acceptability has been increased because of their contribution in the society like, employment generation, poverty reduction, health and sanitation, education for all etc.

6.2.9 Women Empowerment

At present, the numbers of women entrepreneurs in the SME sector are noticeable. There are many women who are working in the different areas of this sector. The women are always deprived from their rights. So, they want to improve their position through taking proper education and training. The capacity development program helps them to bring positive change in their life through providing training on different areas. This program plays a significant role to ensure the empowerment of the women. The following table shows the opinion of the respondents on this area:

Table-32: Opinion of respondents on women empowerment:

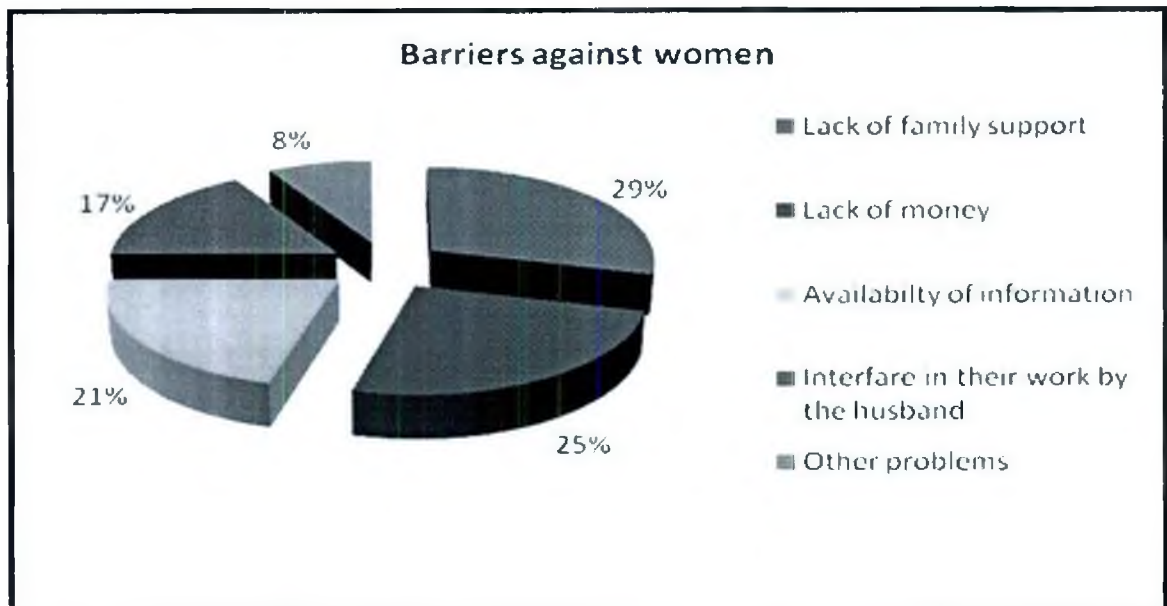
Women empowerment	Number of respondents	Percentage of respondents
Yes	27	45%
No comments	9	15%
No	24	40%
Total	60	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

According to the 45% respondents, the capacity development program is very effective to ensure women empowerment. They are now confident enough to take any kinds of

decision. Most of them have started their business individually which increases their power and status not only in the family but also in the society. The 15% respondents did not give any answer on this. The 40% respondents identify some barriers against women empowerment. These are as follows:

Chart-10: Factors Disrupted Women Empowerment



Source: Data collected from the SME Entrepreneurs, June-December 2009.

Chart-10 shows that lack of family support is one of the main problems for the women to be an entrepreneur. Most of the women in our country are involved in performing domestic work. At present, although many of them are doing different kinds of jobs in various sectors they are not allowed to do business. Again, 25% women can not start their business for the lack of money and resources. Besides, 21% of them do not get information about training and other facilities given by the SME Foundation and its stakeholders in time. The 17% respondents added that many of them can not show their potentiality accurately because they have to do only such kinds of business which are determined by their husband. Women empowerment is also disrupted because of some other problems like, marketing problem, social negligence and so on.

6.2.10: Opinions of the Officers of SME Foundation

Most reliable information was found from the SME Foundation. All the officers and staff of the foundation hope that they will be able to bring a drastic change in the SME sector through the capacity development program. It helps the SME related people to take entrepreneurial decision by providing training on different areas of this sector. But there are also some problems in the existing training program: These are shown by the following table:

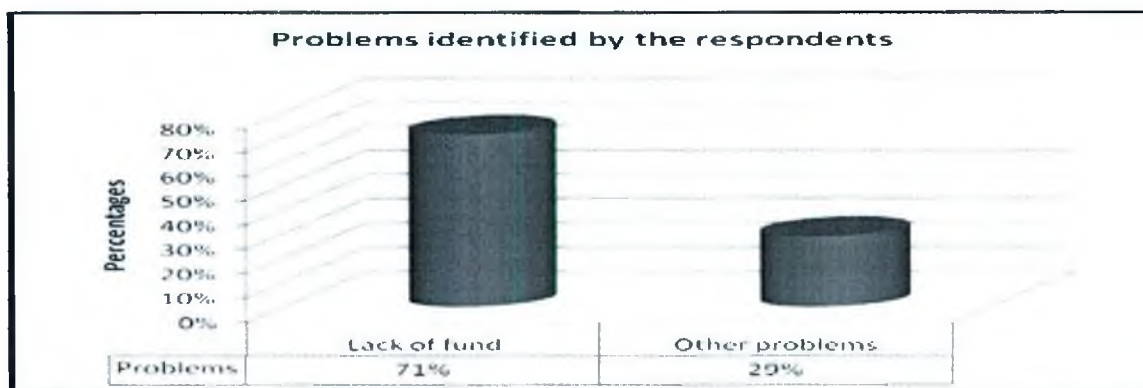
Table-33: Opinion of the officers of the SME Foundation

Comments of the officers of the foundation on training program:	Number of respondents	Percentage of respondents
Effective with some problems	7	58%
Effective	5	42%
Total	12	100%

Source: Data collected from the officers of the SME Foundation, June-December 2009.

Although SME Foundation is playing a vital role in the development of SME sector through improving the capacity of the SME related people, it has to face some problems in implementing its policies. All the respondents agree on the success of the capacity development program. The 58% of them identified some barriers, which disrupts the actual goal of training program. The following chart is on it:

Chart-11: Opinion of the Respondents:



Source: Data collected from the officers of SME Foundation, June-December 2009.

The 71% respondents told that the fund disbursed for the capacity development program is not enough to provide training facilities for a large number of people in the country. Besides, 29% of them identified some other problems like, lack of modern technology, lack of specialized trainers and lack of awareness of the trainees on the training programs. There is no available modern technology and raw materials found in the maximum training programs, which disrupt the trainees to acquire practical knowledge on training courses. The numbers of specialized trainers are very few compare to the number of trainees. The training programs are also disrupted for the lack of awareness and commitment of the trainees. Most of them are not conscious about the starting and closing time of training program. They enter and leave the training place when and then. Some of them are found not to be regular in the program.

6.2.11 Problems Identified by Trainers

The trainers are directly involved with the training programs. They are selected by the foundation by examining all of his qualifications like, education qualification, experience and leadership capacity. They provide their knowledge and experience to the trainees and develop their capacity in different areas of SME sector. So, they have an important role in this program. In this study, information was also collected from seven trainers of different courses of the training program. They have different opinions on this program. It is presented by the following table:

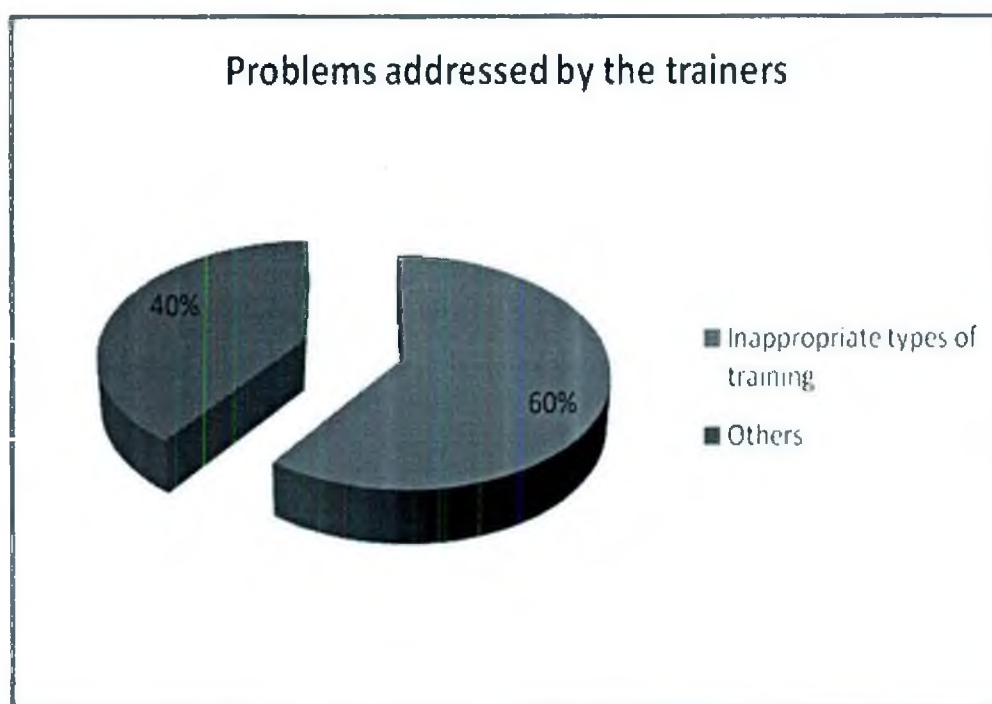
Table-34: Opinions of the trainers

Comments of the trainers on training program:	Number of respondents	Percentage of respondents
Satisfactory	2	28%
Less satisfactory	5	72%
Total	7	100%

Source: Data collected from the Trainers of the training programs, June-December 2009.

The 28% trainers are satisfied on the training program. They do not identify any major problems from this program. But the rest 72% are not completely satisfied on this. They identified some major problems for which the goal of this program is distorted. The following chart shows this:

Chart-12: Problems Identified by Trainers:



Source: Data collected from the trainers of the training programs, June-December 2009.

Most of the trainers emphasizes on the need assessment in selecting the types of training. According to them, the training program should be held based on the resources and capacity of the people of a specific area. The 40% respondents claim that the people who are in need of training hardly get such kinds of facilities, as they have no linkage with the SME Foundation and other training institutes. They also told that most of the training programs are held on the Division or districts. As a result, the SME entrepreneurs of rural areas get less training facilities than those of the urban areas.

6.2.12 Problems Identified by the Stakeholders of SME Foundation

The SME stakeholders and SME related organizations held most of the training programs with the help of SME Foundation. They play a vital role to develop the capacity of the SME related people on the behalf of the SME Foundation.

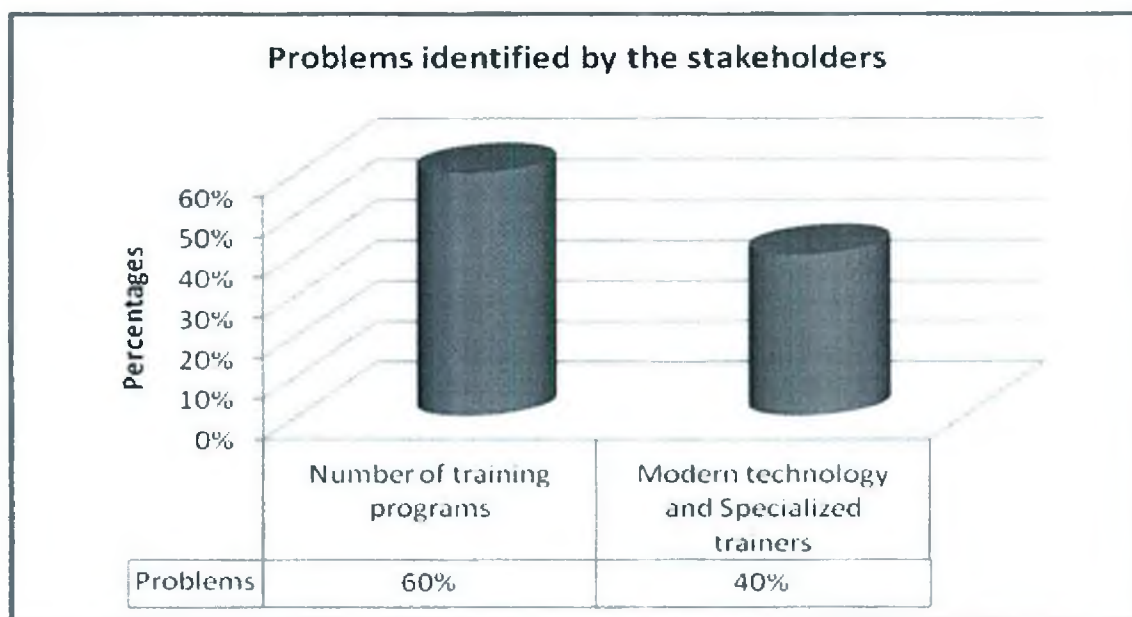
Table-35: Information provided by the SME stakeholders

Problems of training program	Number of respondents	Percentage of respondents
Effective	3	38%%
Less effective	5	62%
Total	8	100%

Source: Data collected from the SME Stakeholders, June-December 2009.

The 38% respondents told that the capacity development program is very effective to ensure the growth of SMEs. But 62% of them identified some barriers for which the goal of this program can not be achieved properly. The following chart is on it:

Chart-13: Barriers identified by the stakeholders:



Source: Data collected from the SME stakeholders, June-December 2009.

The 60% respondents have emphasized on increasing the quantity of training program because the number of such programs too few too cover the entrepreneurs of all over the country. The percentage of the respondents of lack of modern technology and specialized trainers are respectively 40%. According to them the training programs can not be reached at the satisfactory level until availability of modern technology and specialized trainers are ensured in all of the programs.

6.3 Credit Wholesaling Program

SHAKTI Foundation was not able to disburse the loan to the clients in time. So, it is not possible to find out any feedback of this program from this institution as well as from their clients. But the success of MIDAS Financing Ltd. is noticeable. Their activities on credit wholesaling program of this institution are really praise worthy. In this research paper data is collected from the SME entrepreneurs who are given the loan by the MIDAS on the behalf of SME Foundation. The numbers of respondents are as follows:

Table-36: Gender and types of Business of the respondents

Types of Business	Number and percentage of entrepreneurs		Total Number and percentage of entrepreneurs
	Men	Women	
Light Engineering	11	0	11(48%)
Dress Making/ Fashion Design	4	5	9(39%)
Agro-based (Food Processing)	1	0	1(4%)
Others	2	0	2(9%)
Total	18 (78%)	5 (22%)	23(100%)

Source: Data collected from the field study, June-December 2009.

The table shows that the numbers of male respondents are more than those of the female. The percentage of male and female are respectively 78% and 22%. More than half of the clients of the credit program of the MIDAS are selected here randomly to serve the purpose of the study. The 48% respondents are selected from the light engineering and 39% from the dress making industries. Besides 4% respondents are selected from agro-

based and 9% from other like, poultry farm and fast food processing industries. The respondents are only from these few industries as the pilot program of the MIDAS only covers the certain areas. The information is presented and analyzed here by the different tables:

6.3.1 Selection System of Client

SME Foundation has no control and interference on client selection. All the clients are selected by the private limited institution (PLI). But it is strictly monitored by the foundation. Different opinions are found on this selection system. These are shows by the following table:

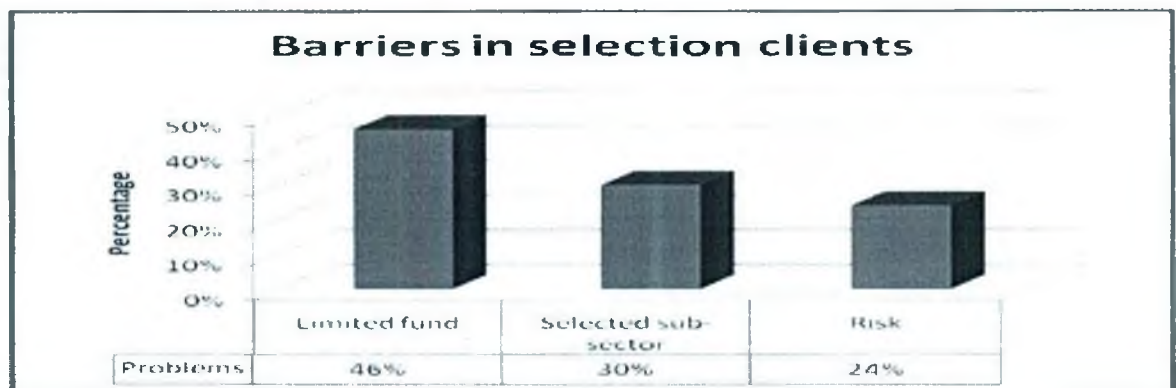
Table-37: Level of satisfaction in selecting client

Satisfied with the client selection	Number of respondents	Percentage of respondents
Satisfied	10	43%
Dissatisfied	13	57%
Total	23	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

The table-37 shows that 43% respondents are although satisfied on client selection, the rest of them are dissatisfied. The following chart shows the barriers found by the respondents in case of getting credit facilities are as follows:

Chart-15: Lacking in selecting clients:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

The fund allocated by the SME Foundation to the MIDAS is too limited to cover a large number of SME entrepreneurs. About 46% respondents addressed the scarcity of money as a major problem. The SME Foundation emphasizes on the technology-based and agro-based industries in case of providing credit facility. As a result, the entrepreneurs working in different sub-sectors are deprived of getting such kind of opportunities. Risk is another factor of client selection. The private limited institution (PLI) has to take all kinds of responsibilities in case of money disbursement and recovery. So, they do not want to take any risk to give money to the entrepreneurs, who are not well known to them. The percentage of respondents on this problem is 24%.

6.3.2 Loan Size

The loan size of this program is any amount with in Tk. 50,000 to 500,000 as per PLIs own decision. MIDAS determine the loan size of a client considering various factors of a client like, condition of his business, loan received by the client from another bank or financial institution, ability to give installment in time etc. The opinion of the respondents on loan size is as follows:

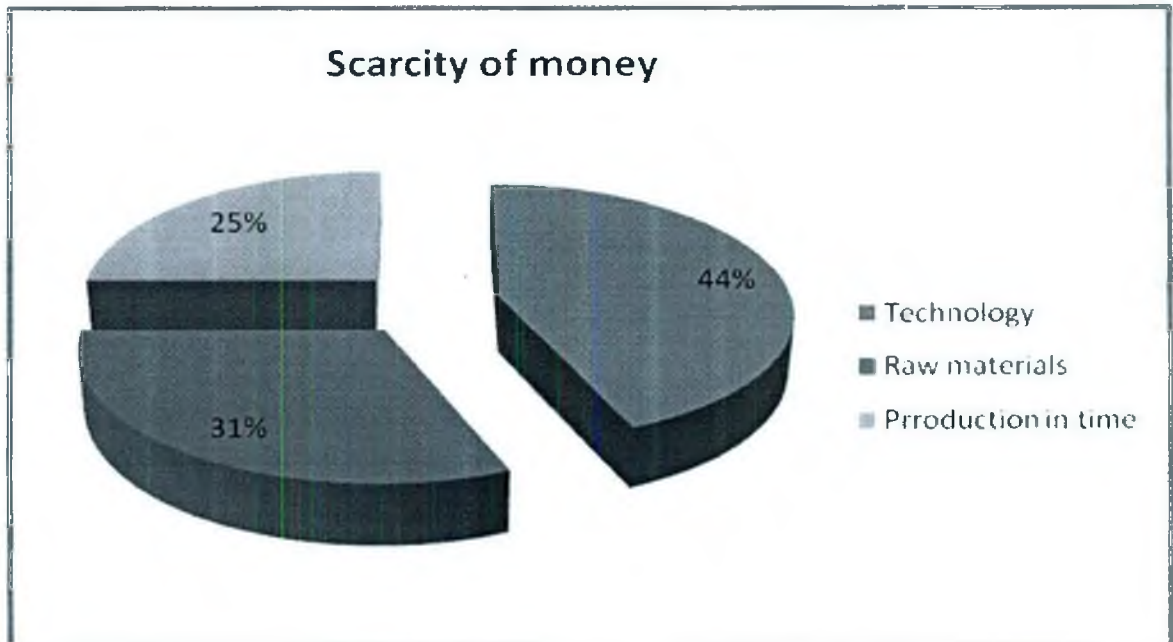
Table-38: Opinion of the respondents on the amount of money

Amount of money	Number of respondents	Percentage of respondents
Sufficient	7	30%
Not sufficient	16	70%
Total	23	100%

Source: Data collected from the field study, June-December 2009.

Although 30% respondents are satisfied with the amount of money, 70% are dissatisfied. Large amount of money is essential for the development of SME sector. The respondents identified some areas where invested money is not sufficient to bring actual benefit of the SME enterprises. The following chart is on it:

Chart-17: Insufficient amount of money



Source: Data collected from the SME Entrepreneurs, June-December 2009.

In this competitive world SME sector can not be developed without the proper application of modern technology. The quality and quantity of production are hampering for the lack of appropriate technology. Almost 44% respondents give their strong opinion on the scarcity of money in this area. The cost of raw materials is always fluctuated in the market. Most of the entrepreneurs have to buy raw materials with a high rate because of lack of money. The delay in production is another problem identified by 25% respondents. Most of the respondents can not produce output in time because of finance. As a result, many of them become failure to sustain their reputation in the local as well as international market.

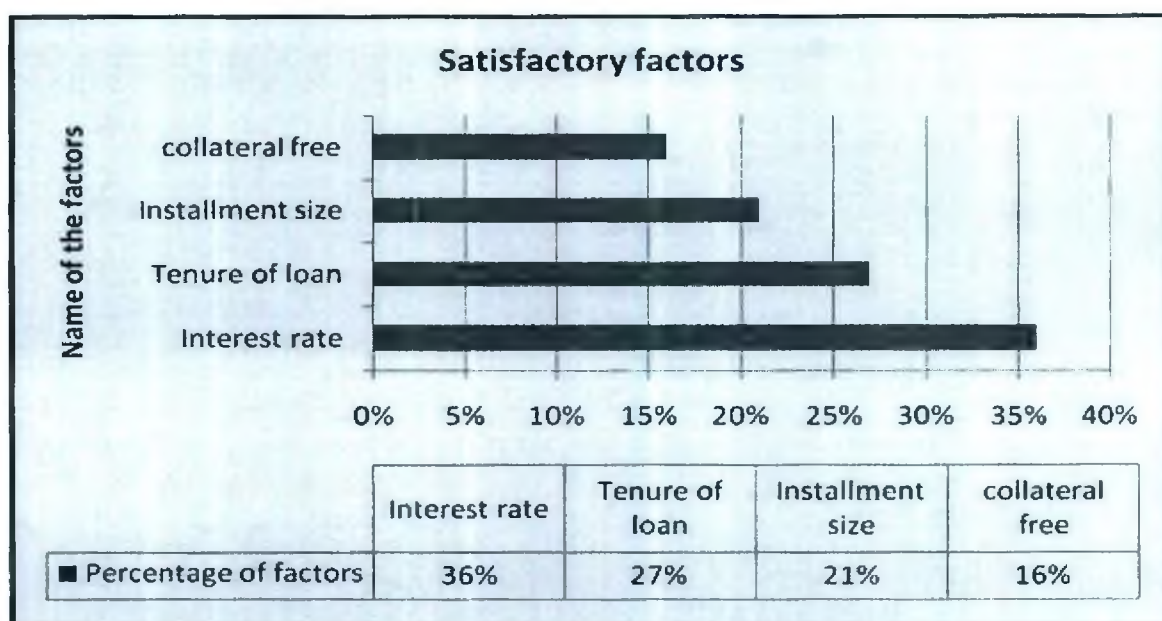
6.3.3 Level of satisfaction with the credit wholesaling program

All the factors of the credit-wholesaling program are determined by the SME Foundation. Most of the clients of this program are pleased on the factors of this program. The following table shows it:

Table-39: Level of satisfaction with the system of credit wholesaling

Credit wholesaling program	Number of respondents	Percentage of respondents
Satisfactory	19	83%
Dissatisfactory	4	17%
Total	23	100%

Although some respondents are dissatisfied with the credit-wholesaling program, 83% of them are satisfied. They told that their business activities are not hampered by the factors of the credit wholesaling program factors. The following chart in on it:

Chart-18: Satisfactory factors of the credit wholesaling program:

Source: Data collected from the SME Entrepreneurs, June-December 2009.

Most of the respondents are satisfied with the interest rate of the credit-wholesaling program. In this program entrepreneurs get loan with 9% interest, which is fewer than the interest of any financial institution and bank. The 27% respondents are pleased for the tenure (1 to 2 years) of loan. Reducing balance method in case of installment is preferable to a large number of respondents. Rests of them are satisfied for getting loan without any collateral.

6.3.4 Repayment System

In this credit-wholesaling program, the entrepreneurs who received money from the MIDAS have to follow the monthly repayment system. They have to pay installment from the first month of receiving money. All the respondents are not pleased on this system. It can be shown by the following table:

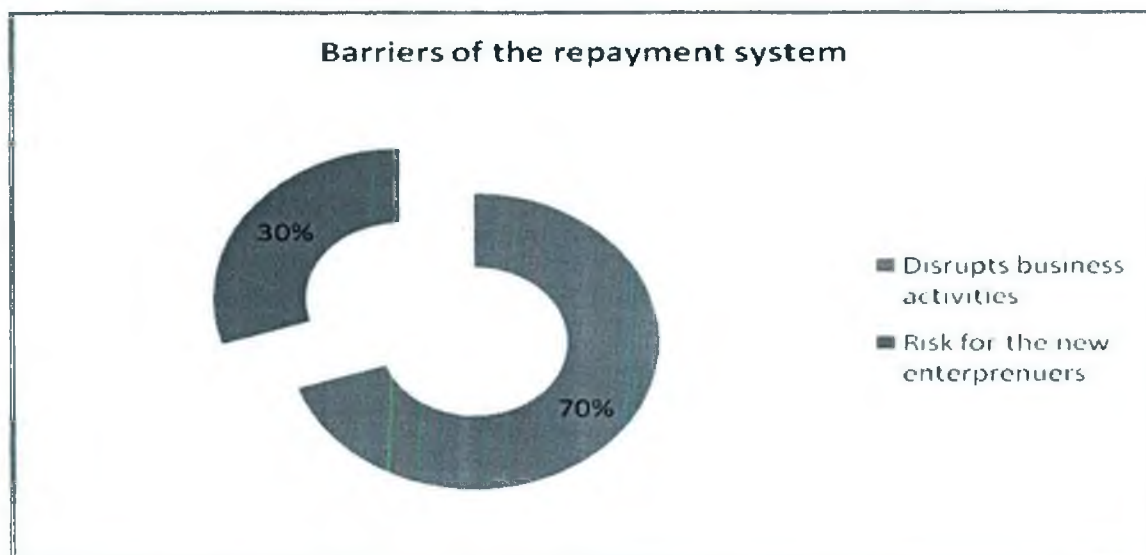
Table-40: Rate of satisfaction with the credit-wholesaling program:

Satisfied with repayment system	Number of respondents	Percentage of respondents
Yes	13	57%
No	10	43%
Total	23	100%

Source: Data collected from the SME Entrepreneurs, June-December 2009.

The 57% entrepreneurs are satisfied with this system because they can go in the immediate production as soon as they receive the money. But 43% entrepreneurs are not fully satisfied. They identified some barriers of this factor. The following chart is on it:

Chart-19: Problems on repayment system of the credit-wholesaling program



Source: Data collected from the SME Entrepreneurs, June-December 2009.

The 70% respondents tell that they have to face problem to repay money on first two month because it takes time to collect money from the market after selling of their goods and services. So, the pressure of installment often disrupts their business related activities. Their production may be hampered because of repayment before producing output. Another 30% respondents claimed that this system may creates risk for the new entrepreneurs as they need enough time to start their business accurately and to produce output by using money received by them.

6.3.5 Terms and Conditions

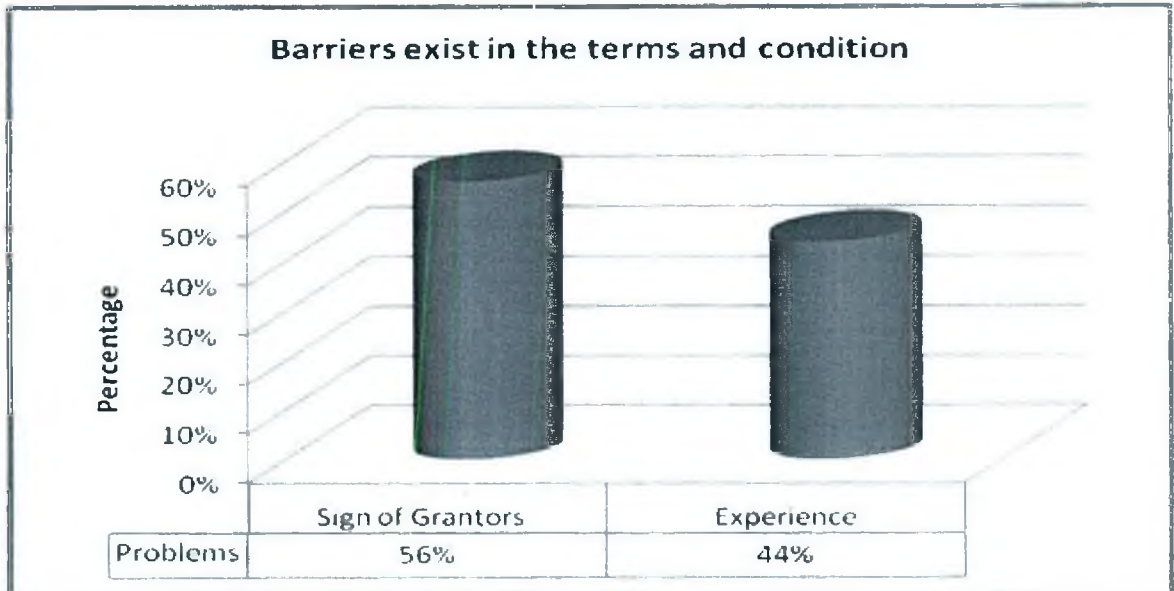
One of the main objectives of SME Foundation is the easy access to finance of the SME entrepreneurs. So, there is no excessive rigid terms and conditions in the credit wholesaling program of the foundation. But some people are not fully satisfied on the existing term and condition of this program. The following table is on it:

Table-41: Opinion of the respondents on the terms and conditions of credit wholesaling program:

Satisfied with the terms and conditions	Number of respondents	Percentage of respondents
Yes	14	61%
No	9	39%
Total	23	100%

About 61% respondents are satisfied with the terms and conditions of this program. According to them the terms and condition are very flexible to them compare to any other financial institution. The 39% entrepreneurs are dissatisfied on this factor. Two major problems are identified by the respondents, which disrupt the entire credit program. These are as follows:

Chart-20: Problems in the terms and conditions:



Source: Data collected from the SME Entrepreneurs, June-December 2009.

SME Foundation is not responsible in case of money disbursement and recovery. All the risk goes to the Private Limited Institutions (PLIs). So, MIDAS has sat up some conditions to minimize their risk. One of these is the recommendation of a banker and a civil servant. Another is six years working experience in the SME sector. About 56% respondents have to face problems to take recommendation from the guarantors. Most of the time bankers and civil servants are found reluctant to give their recommendation. The condition of experience is a great barrier for the new entrepreneurs of getting credit facility. Many potential entrepreneurs can not come under this program as they have no six years experiences on this sector.

6.3.6 Benefit for the Women Entrepreneurs

SME Foundation has a great contribution in the development of women entrepreneurship. For this purpose, different activities are taken by the Foundation.

Women are especially encouraged to be entrepreneurs by receiving credit facility. The opinion of the respondents on this criterion is as follows:

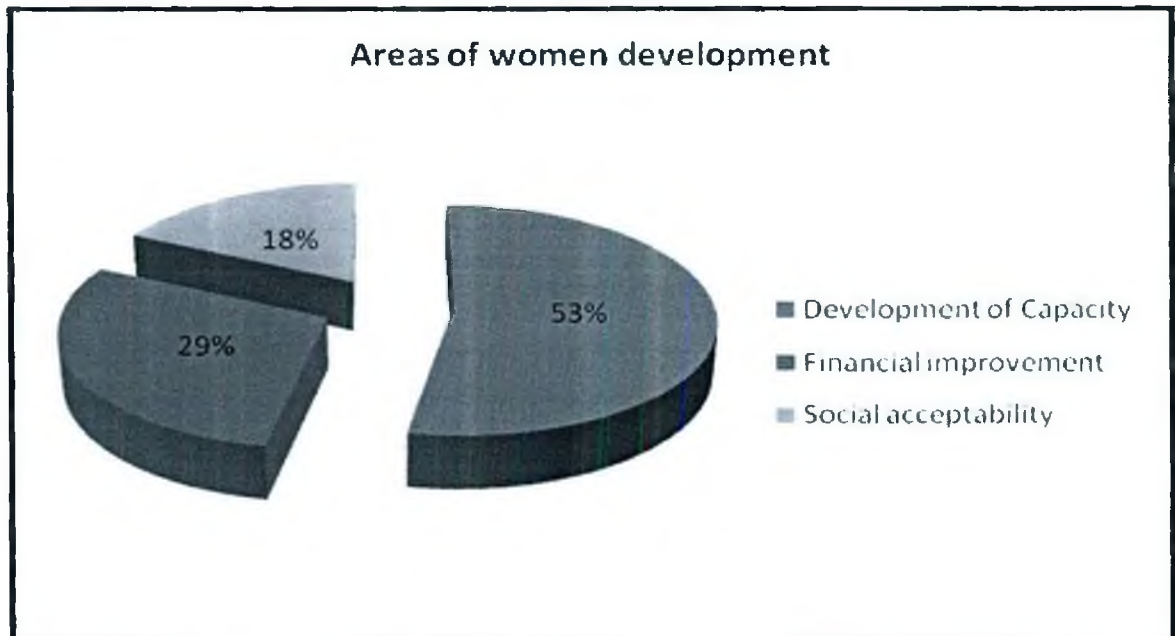
Table-42: Helpful for the women entrepreneurs

Benefited for the women entrepreneurs	Number of respondents	Percentage of respondents
Satisfactory	17	74%
Not satisfactory	6	26%
Total	23	100%

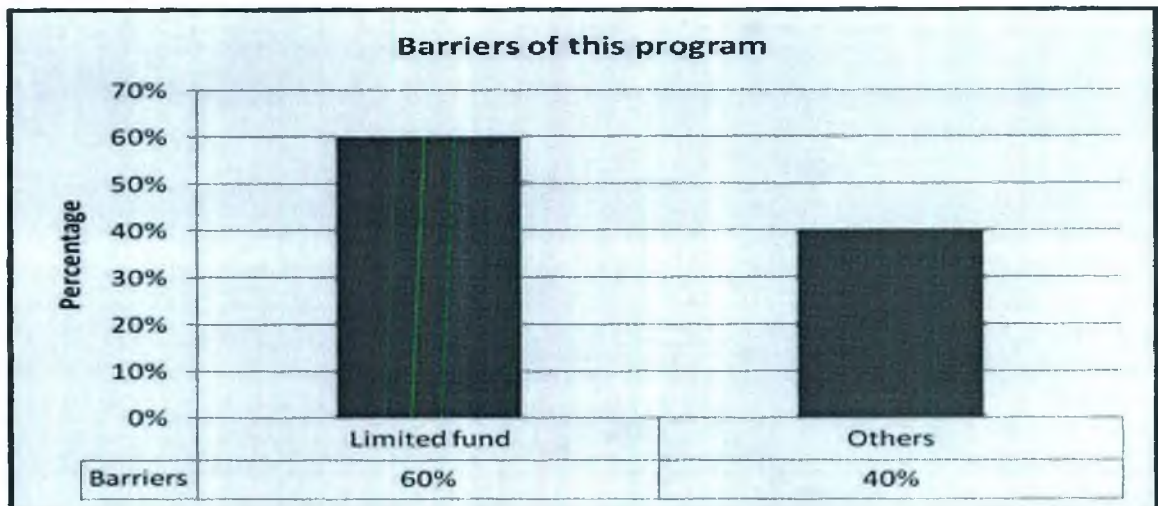
Source: Data collected from the SME Entrepreneurs, June-December 2009.

In this paper the 26% respondents are not satisfied with the work of the Foundation done for the improvement of women entrepreneurs as they have to face some problems to continue their business in spite of having credit facility like, lack of family support, problems in marketing, improper knowledge on modern technology etc. But 74% respondents are satisfied for the positive change of this vulnerable group. It can be shown by the following chart:

Chart-21: Areas where the women development is occurred



Source: Data collected from the SME Entrepreneurs, June-December 2009.

Chart-22: Percentage of the barriers:

Source: Data collected from the respondents, June-December 2009.

The 60% respondents told that the fund is too limited to cover maximum SME entrepreneurs. Some other problems are also identified by the 40% respondents. They told that the amount of money (Tk.50, 000 to Tk. 5, 00,000) is too limited to meet the actual need of the entrepreneurs. Rate of interest of this program also creates contradiction with the existing credit program of the MIDAS.

6.3.8 Problems Identified by the Officers of SME Foundation

SME Foundation has started credit program as a pilot basis. All the officers hope that credit program is very effective to ensure the development of SMEs. Some respondents also give different opinion on it. It can be shown by the following table:

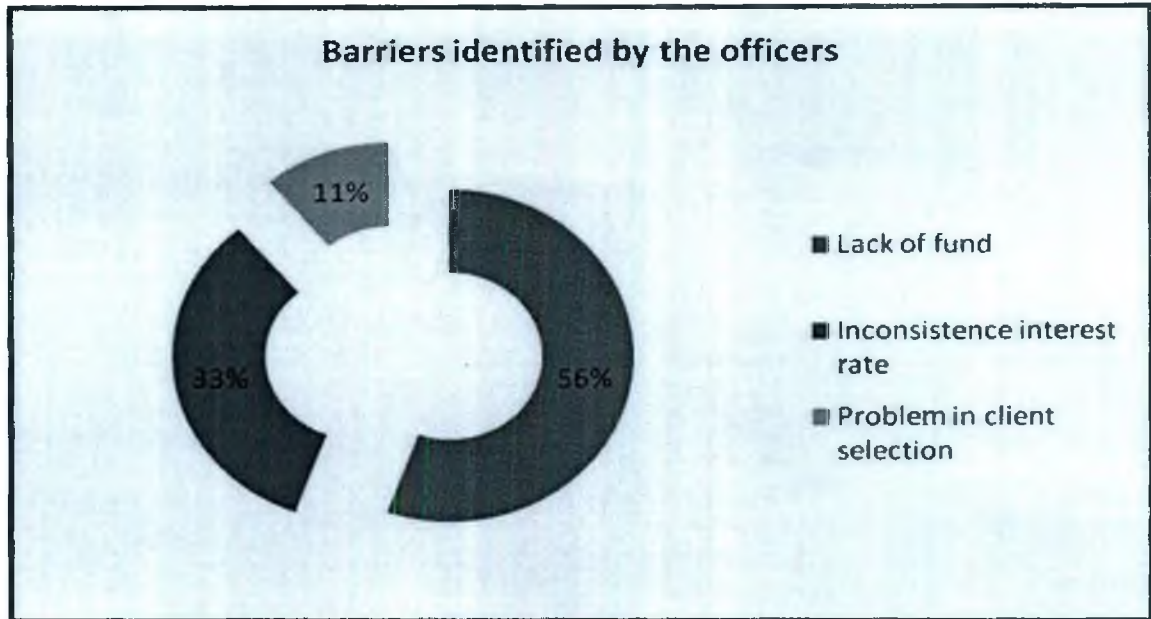
Table-44: Level of satisfaction of the respondents:

Opinion on the credit program	Number of respondents	Percentage of respondents
Effective	3	25%
Effective with some barriers	9	75%
Total	12	100%

Source: Data collected from the respondents, June-December 2009.

The 25% respondents do not find any major problem. But the rest 75% tell that although this program is very effective, there exist some problems for which actual goal of this program is disrupted. It can be shown by the following chart:

Chart-23: Percentage of barriers:



Source: Data collected from the respondents, June-December 2009.

The money which is disbursed by the MIDAS on the behalf of foundation can not meet the financial need of the SME entrepreneurs. The 56% respondents have emphasized to disburse large amount of money this sector. The 33% of them give their opinion to revise the interest rate. There is huge gape in the interest rate of the SME Foundation and other financial institutions and banks. It disrupts the financial activities of the existing market. The 11% has emphasized on client selection so that actual entrepreneurs can get the credit facility.

6.4 Findings

After presenting and analyzing all the information and date of both the capacity development and credit-wholesaling program, the following findings are identified:

1. Most of the entrepreneurs who participate in the training program are not well educated. The numbers of graduate people are very few. The 27% of the respondents like to join a job rather to be an entrepreneur because it is a high-risk profession compare to other. Most of them have no proper knowledge and money to start a business although they have potential capacity to do something. Lack of training facility, corruption and political instability are also reasons for them not to choose entrepreneurship. On the other hand, the uneducated and low educated people try to come out from their vulnerable situation. They try to start a business with their small amount of money and resources as they have no quality to get a job. So, the more number of uneducated people are engaged in this sector than the educated people.
2. Cluster-based training is more preferable to the SME entrepreneurs. The entrepreneurs want to get such kind of training which increase their knowledge and capacity on their business. They have no proper knowledge about modern technology. If they can use modern equipments and machineries in the business, both the quality and quantity of the production will be increased tremendously. The 12% of them emphasizes on the management development training like, strategic management, total quality management, production management, financial management and so on. Nowadays, internet is a main source of all kinds of information. But many entrepreneurs have to face problem to get information about the local as well as international market as they do not know how to operate the computer. So, training on computer courses is mandatory for them. To communicate with the foreign buyers the training on English language is also another most wanted course of both the business owners and employers.
3. Different opinion found on the duration of training program. About 80% respondents prefer the short course training program. As they have to run their business with small number of employees, they have to engage themselves in all kinds of activities related to their business. So, it is impossible for them to participate in the long-term

- training program. But the 20% respondents want to know details about any course so that they can get better result applying their knowledge in their business.
4. The 65% trainees are satisfied with the place of training because they live near of the training places. On the contrary, the people who have to come from the remote areas are very much dissatisfied for the training place. Most of the training programs are hold in the divisions. So, the rural SME entrepreneurs have to face enormous problems to attend the program. Many of them treated it as nothing but the waste of money. Their business activities are also hampered if they have to stay in a long distance from their business areas. Besides, the women entrepreneurs feel insecure to take participate in the training program staying in an unknown place.
 5. Although some people are pleased with the quality of training, some other are not satisfied. They prefer more practical training than the theoretical. All the trainers are also not specialized in the specific field of training. The scarcity of modern technology and materials is another main problem for a proper training program. So, although the quantity of the training program has been increased, but the quality is still not satisfactory.
 6. In this study some people are found who participate in more than ten training programs but all the programs are not consistent with their business. On the other hand, the people who are actually in need of training deprived of getting such kind of facility because they have no idea how to join it. Many of them do not fare to go to the training institutions and the Foundation, which arrange the program. Besides, the training institutions have limited capacity to provide training facility to the maximum SME entrepreneurs.
 7. SME Foundation encourages people to be an entrepreneur providing training facility. But most of the time, the objective of the foundation is not achieved. Because, in

spite of being trained it is difficult for them to run a business for the lack of money, technology and other assistance. As a result, the development of new entrepreneurship in the SME sector is hampering. But capacity building program is very helpful for the women entrepreneurs. It ensures the women empowerment by increasing their ability through training. Women are now confident to start a business. They are working hard to come out from their vulnerable situation. But they are still now facing enormous problems like, lack of family support, scarcity of fund, lack of proper guidelines and so on which hamper the smooth functioning of their activities.

8. Credit wholesaling is another important program of SME Foundation to ensure the development of the SME entrepreneurs. Under this program, 44 entrepreneurs get the credit facility to run their business. But this number is too small compare to a large number of SME entrepreneurs of the country. The clients of credit wholesaling program are selected by the private limited institution (PLI). They are responsible for money disbursement and recovery. SME Foundation only monitors their activities. The institutes want to bring the people under these programs who are already their clients. For this reason, many SME entrepreneurs deprived of getting this facility. Some of the clients are found to use this money in adjusting their previous loan rather investing in production, which contradicts with the objective of the credit wholesaling program.
9. In this competitive world huge amount of money need to be invested in a business to sustain their existence. The money fixed for the entrepreneurs in the credit program of the foundation, is not enough. They have no adequate modern technology, which is the precondition for ensuring goal of a business. The outputs of a business will never be satisfactory until the quality of inputs like, machineries and raw materials can be improved. Most of the SME enterprises of our country are in the backward position for the low quality of their production.

10. Most of the SME entrepreneurs are reluctant to take money from the financial institutions and bank because of high interest rate. The credit-wholesaling program solves this problem to a great extent by providing loan with only 9% interest. But this program can not satisfy all the people, as most of them do not get this opportunity for the limited amount of fund. Many of them have to take loan with high interest rate from the same institution where some other get loan with low interest rate. It creates a conflicting situation in the SME sector. The faith on the financial institutions of the entrepreneurs is decreasing gradually. On the other hand, the low interest rate of this program disrupts the prevailing financial activities of the private financial institution, which have to provide lone to the people with high interest rate.
11. Most of the entrepreneurs have to wait for the feedback of their output. It takes time to collect money from the market. So, it is difficult for them to give installment from the first month of receiving loan. The pressure of loan often hampers their production. Moreover, all the terms and condition are not satisfactory to the SME entrepreneurs. Most of them have to suffer much to collect recommendations from two guarantors. The six years experience for getting credit facility also disrupts the potential people to be a SME entrepreneur.

6.5 Conclusion

From the above analyses and discussion, we can say that in spite of the presence of some problems, the capacity development program plays an important role in increasing the capability of SME entrepreneurs. Most of the people of our country do not have required capacity to start an entrepreneurial business in the SME sector. They have not also proper knowledge on technology application and risk management. The training programs of the foundation help them to handle all kinds of disasters related to their business. The limitations identified in this study like, problems in the types, duration, and training place disrupt the smooth activity of the training program. Besides, lack of specialized trainers, small number of training programs and lack of modern technology are also identified here.

Moreover, most of the SME enterprises of our country are in the vulnerable position because of scarcity of money. The entrepreneurs have to suffer much to receive loan from the financial institutions and banks for their high interest rate and rigid terms and condition. The SME Foundation has started credit-wholesaling program to provide financial facility to the SME entrepreneurs without rigid terms and condition through the MIDAS Financing Ltd. and Shakti Foundation. The performance of Shakti Foundation is not satisfactory because most of the clients of this institution are traders. Besides, the high interest rate of this institute contradicts the rate of SME Foundation. As a result they could not disburse their money properly. But the performance of the MIDAS Financing Ltd. is praise worthy. This institute has been showed their better performance in case of money disbursement and recovery. They are very cordial to their client. The money disbursed by this institution help to bring positive change in the business of the SME entrepreneurs. Some of them invest this money for the developments of their existing business and some other have started new business with this money. This study also identifies some problems exist in this program, such as, small amount of money, ineffective client selection system, rigid terms and condition, repayment before production and so on.

If the SME Foundation can take necessary measures to remove all the problems related to capacity development as well as the credit-wholesaling program, the development of the SMEs will be ensured properly.

Chapter-7

Conclusion

7.1 Introduction

Two main functions of SME Foundation are analyzed in this study: one is capacity development and another is credit-wholesaling program. SME Foundation performs various activities under these two programs with the help of its related stakeholders' institutions. The study has tried to examine carefully every activity of both the programs. But many problems are aroused in case of data collection because the SME Foundation is a newly established organization compare to other government organizations. Both the Capacity development and Credit-wholesaling programs of Foundation have been started on pilot basis. Most of the activities of these programs are still in the implementing process. So, it was hard to find out the actual result of the foundation in those areas.

The findings of this study identify many positive sides of the capacity development and credit wholesaling program such as, ensuring women empowerment, development of capability of the entrepreneurs, new entrepreneurship development, financial and social improvement of the SME related people, small interest rate, flexible term and condition of the credit program and so on. The problems exist in the programs and the demands of the entrepreneurs are also identified in this study which will be helpful for the foundation to take further actions. The major problems identified in the capacity development and credit-wholesaling programs are limited number of training program, scarcity of modern technology and materials, lack of specialized trainers, centralized training program, improper selection of trainees, scarcity of fund in both the program etc. In this chapter, some recommendations and suggestions have been made based on the findings of the study. These are as follows:

7.2 Recommendations

1. Both the developed and developing countries of the world depend on SME for economic growth by using their indigenous capacity. In spite of that no specific definition of SME has been developed. So, it is difficult to determine the accurate number of SMEs in an individual country. Bangladesh is also not out of this problem because different definitions and characteristics of SME are given by different Government institutes, NGO, Banks and other financial institutions of this country. It creates problems to provide service in the SME sector by the SME Foundation. So, it is essential to determine an universal definition of the SME.
2. The number of unemployment in our country is now unbearable. In spite of being educated most of the people suffering from this problem. It can be solved by providing them proper training and financial as well as other assistance to be a SME entrepreneur.
3. Types of training should be determined based on the necessity of a particular place. For example, training on light engineering is most wanted for the SME entrepreneurs in Bogura. The people of Sonargaon prefer to be trained on designing Jamdani Sari. Besides, some other training like, technology-based training and training on management improvement are essential for all kinds of SME entrepreneurs.
4. Duration of the training should be determined considering all kinds of factors related to the business of SME entrepreneurs. Timing should be fixed in this way so that it can not hamper their business related works. Long-term training may be divided into two or three short-term training, which will be helpful for the entrepreneurs to acquire adequate knowledge without hampering their business.
5. Training program should be decentralized so that all the entrepreneurs of the country can be trained gradually. It also will encourage the people of remote areas

to engage themselves in this sector. Quality of training should be improved by applying modern technology and equipments. Training for the trainers should be arranged for a priority basis. Specialized foreign trainers should be hired if there is any necessity.

6. Training need assessment should be done by the training institutions as well as by the Foundation to determine the types of training for the different entrepreneurs. It will help to minimize the waste of money. It will also be helpful for the foundation to take further decision on training program.
7. For the new entrepreneurship development effective steps should be taken by the SME foundation. People of different areas of the country should be motivated to show their potentiality with their limited resource. They also have to provide all kinds of assistance like, financial, technical, managerial and other to run their business accurately.
8. Although SME Foundation is playing a vital role for ensuring women empowerment, their position is still not in the satisfactory level. So, they should be given proper guideline and training which may help them to take decision in every step of their life.
9. Most of the SME related business can not sustain for a long time for the lack of money. So, all the entrepreneurs should bring gradually under the credit wholesaling program of SME Foundation for the development of SME sector.
10. In case of client selection, priority should be given on the people who can not run their business in spite of having potentiality. Sector should be determined in case of money disbursement for example, money for technology, money for raw materials, and money for market development and so on. It will ensure the proper use of money by the SME entrepreneurs.

11. The amount of money of the credit program should be fixed assessing the need of an entrepreneur to run their business properly. Some other external factors like, condition of global market, customer demand, acceptability of a specific product, availability of raw materials, capacity of handling modern technology also should be consider in case of the fixation of money.

12. The gap in interest rate between the SME Foundation and other financial institutions should be minimized to sustain the financial stability in the market. Large number of people should be brought under this program by providing credit facility with a satisfactory interest rate. Loan repayment system should be revised. The time of repayment should be determined considering the earning capability of the entrepreneurs and the size of the business. Besides, the types of guarantors should be determined considering the opinion of the SME entrepreneurs. The condition of experience should be flexible to increase the people involvement in this sector.

7.3 Conclusion

SME can change the wheel of economy towards positive direction in a developing country like Bangladesh. Bangladesh owns lots of natural resources and low cost labour that can ensure the rapid growth of SME sector. At present government as well as private organizations have given special emphasize on this area. Government has been providing its SME related service for a long time through Ministry, Department, Corporation and other central and local level organizations. Creation of SME Foundation to ensure the development of SME sector has added new momentum to the government's efforts to economic development. This Foundation is an autonomous body with the involvement of people from both public and private sector. The board of directors provides the policy guideline of the foundation. The main objective of SME foundation is to promote Small and Medium Enterprise (SME) for alleviating poverty, generating employment and accelerating economic growth. Various actions are taken by the foundation to achieve its

goal. All the functions are correlated with one another. This study identifies the opportunity and drawbacks of the foundation by analyzing all the activities of two major functions of this institution.

Capacity development program plays a vital role in the development of capacity of the SME entrepreneurs. Various training programs have been arranged by the foundation to accelerate their knowledge on SME sector. It helps the entrepreneurs to run their business properly by increasing their technical, managerial and other capability. But most of the trained persons can not start a business for the lack of money, modern technology and other assistance. The credit-wholesaling program is an important step of the foundation to solve this problem. Under this program SME entrepreneurs get collateral free credit facility. Installment size, rate of interest and the tenure of loan are satisfactory to them. Both the financial and social improvement of the beneficiaries of these two programs is noticeable. Women entrepreneurs are also specially benefited by these programs. The confident level of the women entrepreneurs in case of taking decision on their family and business has increased tremendously. It ensures the women empowerment by improving their condition not only in the family but also in the society,

SME Foundation has some limitations with special reference to the capacity development and credit wholesaling programs. Equally Foundation has been trying to overcome the same involving its all out strength. However, it can be said that government efforts for the development of SME sector by its institutional arrangement like, SME Foundation is really praise worthy.

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Questionnaire Guide

Two questionnaires have been used in this study to collect information and data from the respondents which help to investigate the role of Government in Bangladesh under the research titled “Government efforts for Small and Medium Enterprise Development in Bangladesh: A Study on SME Foundation”.

Questionnaire 1:

Capacity building program

Part-A: Questionnaire for the official of SME Foundation /Trainers

1. Name:
2. Designation:
3. The work done by you:
4. The activities which are related to your service:
5. The nature and steps of your work:
6. Which kind of program have you taken for building capacity?
7. How far this program is helpful for the SME Entrepreneurs and why?
8. How far the trainers are effective and efficient in their work? What is the system of selecting trainers?
9. Who (govt. or other institutions) does give financial and technical assistance to the SMEF to continue this program?
10. How far the courses of this program are appropriate with the present market demand?
11. Is this program actually benefited for all the entrepreneurs of all over the country?

Yes:

No:

12. How far the training system is appropriate and effective for the SME Entrepreneurs?

13. How far the trainees are able to understand the technique and method of whole training program?

14. Is the duration of training sufficient?

Yes:

No:

15. Which are the most wanted trainings now?

16. Which kinds of entrepreneurs participate in this program?

Man:

Women:

Urban:

Rural:

17. Who are the main beneficiaries of this program?

18. What are the main problems of this program? Give your suggestions.

Part-B: Questionnaire for the Trainees of Capacity Building

1. Name:

2. Designation:

3. The work done by you:

4. The activities which are engaged with your service/work:

5. The nature and steps of your work:

6. Which kinds of goods and services do you produce in your enterprise and why?

7. What are the problems faced by you to run the business accurately?

8. Name of the training of the training:

9. Nature and duration:

10. Number of training:

11. Place of the training:

12. Do you think this program will be helpful to improve your capability?

Yes: No: Other comments:

13. Which kinds of problems have you faced in this program?

14. Is the training consistent with your business?

Yes: No

15. Is this program effective for the entrepreneurs of all kinds of business?

Yes: No: Others:

16. Is the duration sufficient? Yes: No: Other:

17. Is the duration sufficient? Yes: No: Other:

18. Is the selection system of trainees sufficient? Yes: No: Other:

19. How far the trainers are co-operative with the trainees?

20. Is there any communication or financial barriers faced by the SME Entrepreneurs to participate in this training?

21. Is there any rigid term and condition to participate in this program?

22. How far the materials are sufficient and modern to meet the present need of the trainees?

23. How far this training program is effective for the women entrepreneurs?

24. Which are the main problems faced by the women entrepreneurs to participate in this organization?

25. How far this training program is effective for the new SME entrepreneurs?

26. Future training needs:

27. Which are the main barriers of this service?

Questionnaire 2:

Credit wholesaling program

Part-A: Questionnaire for the officials of SME Foundation

1. Name:
2. Designation:
3. The nature and scope of your work:
4. What is the system of credit wholesaling program in your organization?
5. How the fund is disbursed for the SME Entrepreneurs.
6. Which kinds of officials (senior/junior) are mainly involved in this function? How much they are efficient and trained to perform their works.
7. Are there sufficient employees in your company to perform this work?
8. Which are the main processes taken by the Government to transfer money to the SME Foundation?
9. Who are the beneficiaries of this service?
10. How far the fund is sufficient for the development of SME sector. Give your opinion.
11. Is there any lack of co-operation between the Ministry of Industry and SME Foundation?
12. Do you think the works of SMEF are disrupted with the interference of Respective Ministry?
13. Is there any political pressure on the Credit Wholesaling program of SME Foundation?
14. How does the SMEF disburse their money to the PFI and how many PFI are involved in this work?
15. Is there any monitoring and accountability system of the work of PFI?
16. Which are the terms and conditions faced by the SME E entrepreneurial to get money from the PFI? How far these are appropriate to you?

17. Is there Donor contribution and linkage with SMEF in this work? How far it is helpful to continue this program.
18. How far the pre-funding system is appropriate for the SME Entrepreneurial? Is it contradictory with the refunding system of the organization?
19. Do you think that this program will ensure the benefit of the SME Entrepreneurial? Give your opinion.
20. How these functions are implemented?
21. How much the small and medium enterprises are being developed with this service?
22. Which are the main barriers of this service?
23. How this service can be developed? Give your suggestions.

Part-B: Questionnaire for the PFI officers /Project officers

1. Name:
2. Designation:
3. The nature and scope of your work:
4. How the funds are disbursed to your institution by the SMEF?
5. Is there any rigid term and condition to receive money from the SMEF?
6. How often and how much money are given to the SME Entrepreneurial to continue their business and what is the time duration to repay this money?
7. Amount sanction and date of sanction:
8. Tenure in months:
9. Repayment system: weekly: Monthly: Others:
10. Installment size in TK:
11. Interest rate:

12. Is this program actually benefited for all kinds of SME Entrepreneurs? Is there any problem faced by rural entrepreneurs?
13. How far this fund is actually used in the development of SME sector and how far this is sufficient to run their business?
14. How the accountability of SME Entrepreneurs is ensured? Is there any monitoring system of their work?
15. Is there any major problem found to continue this program?
16. Could you think any alternative way to make this program more effective? Give your suggestions:
17. Is this program contradictory with the functions of your organization?

PART-C: Questionnaire for the Owner of Small and Medium Enterprise

1. Name:
2. Name of the enterprise:
3. Types of enterprise
4. Legal status: Proprietorship; Partnership: Others:
5. Date of Establishment:
6. Legal Permission: Trade License: Tin: VAT Certificate:
7. Name of the produced goods and services:
8. Quality and quantity of produced goods and services:
9. Type of business: Manufacturing: Service: Trading:
10. Assets and Liabilities:
11. Nature of sales: Wholesaling (%): Retailing (%):
12. Working Capital in TK.:
13. Sources of capital:
14. How long time have you been engaged in this business.

15. What is the profit margin of your enterprise?
16. Which are the main limitations of your enterprises?
17. Which kinds of services do you get from the SME Foundation /PFI and how often?
18. Which kinds of problems have you faced to get loan from the SMEF/PFI?
19. Purpose of the loan:
20. Amount applied:
21. Amount sanction and date of sanction:
22. How far the amount is sufficient to meet your need?
23. Is the selection system of trainees sufficient? Yes: No: Other:
24. Tenure in months:
25. Repayment system: weekly: Monthly: Others:
26. Installment size in TK:
27. Is there need any collateral to get this business:
28. Do you get this loan timely and how far these are sufficient to run your business:
Yes: No:
29. Do you feel any technical, managerial, adoptive or any other problem to run your business with this loan? Give your opinion.
30. Is there any interference in your work by the institutions, which give you loan?
31. Do you find any positive or negative change in your business after taking loan from the SMEF?
32. How far the employees of PFI are co-operative?
33. How far these services are effective for the development of your enterprises? Give your suggestion.
34. Future Plan:

Credit Wholesaling Pilot Program by SMEF

Participating Lending Institutions (PLIs)	<ol style="list-style-type: none"> 1. MIDAS Financing Ltd 2. Shakti Foundation
Duration	<p>2 Years.</p> <p><i>SMEF may extend the duration evaluating the impact of the program. Disbursement & recovery performance of the PLIs will also be considered.</i></p>
Amount	<p>Total Tk. 2.00 crore (1.00 crore each).</p> <p><i>SMEF may increase the amount based on their performance and compliance.</i></p>
Funding Charge by SMEF against Wholesale Fund	3%, to be calculated annually.
Moratorium	SMEF will provide moratorium from charging service charge on wholesale fund for first 3 Months from the date of fund disbursing.
SME-Sub-sectors	<ol style="list-style-type: none"> 1. Technology-based Industry 2. Agro-based or Agro-processing Industry <p><i>New SME sub-sectors may be included as per mutual agreement between SMEF & the PLIs.</i></p>
Funding by SMEF	<p>Pre-funding.</p> <p><i>SMEF will provide fund ahead to PLIs' loan disbursement as per their demand/requisition.</i></p>
Repayment of Wholesale Fund	The wholesale fund will be remained in account of the PLIs during the pilot period. SMEF will not take back fund by SMEF before the pilot period. So, PLIs may revolve the fund during the pilot period. At the end of period, PLIs will have to refund the full fund, if the period is not extended or otherwise instruction is not given by SMEF. Decisions will be made as per mutual agreement between SMEF and PLIs.
Agreements, Documentations & Instrumentalities to be executed between SMEF and PLIs	<ol style="list-style-type: none"> 1. An Agreement for operating Credit Wholesaling Pilot Program 2. Demand Promissory Note by the partner equivalent to disbursed amount (during fund disbursement) 3. Board Resolution of the respective partner regarding their interest to work with SMEF as partner and power of attorney of the Managing Director/Executive Director to sign the agreement and deal with SMEF.
Eligibility to become PLIs	<ol style="list-style-type: none"> 1. Licensed from Bangladesh (for banking & non-banking FIs) or Micro-Credit Regulatory Authority-MRA (for MFIs). 2. Cumulative recovery rate is minimum 95% and on-time realization rate is minimum 92% (of respective loan range i.e. Tk.50,000 to 5.00 lakh). 3. Having experience and good record in financing small scale enterprises. 4. Having last five years audited Balance Sheet. [There would be a list of audit firms recommended by SMEF]

Terms & Conditions of the credit-wholesaling program

Loan Size	Any amount within Tk. 50,000 to 500,000 as per PLIs own decision.
Loan Tenure	Any tenure within 1 to 2(two) years as per lender-customer relationship.
Interest Rate	Any rate, not exceeding 9%, to be calculated quarterly on reducing balance method.
Other Charges	Not exceeding 0.50% of the total disbursed amount.
Types of Loan	Any type of loans as per PLIs own policy.
Loan Risk	To be carried by PLIs fully. SMEF will not share the risk if any loan is defaulted.
Clients Selection	To be selected by the PLIs. SMEF will have no control and interference on client selection, loan disbursement and recovery.
Target Sub-sectors	3. Technology-based Industry 4. Agro-based or Agro-processing Industry
Target Enterprises or Entrepreneurs	1. Small entrepreneurs 2. Small women entrepreneurs 3. Entrepreneurs with no or limited access to credit mainly for lack of collateral 4. Potential small entrepreneurs, graduating from micro to small 5. Labor intensive enterprises (like manufacturing, processing etc) and export oriented enterprises.
Binding Conditions	1. The SME definition of the government must be followed during client selection. 2. Every loan has to be given to manufacturing units. No loan can be given to trading or service enterprises.
Preference for Women Entrepreneurs	Special attention and preference will be given on women entrepreneurs during selection of clients.
Supervision/ Monitoring by SMEF	Strong off-site (in the form of reporting) and on-site (in the form of physical visit) monitoring on the PLIs and beneficiary enterprises will be conducted by SMEF for ensuring the proper utilization of fund.
MIS requirements	Two types of Reporting have to be submitted: 1. Beneficiary Enterprise's Profile, to be submitted once against every loan (Annexure-1) 2. Monthly Cumulative Statement of Loan Disbursement & Recovery against SMEF Fund. (Annexure-2)
Restrictions	1. No collateral security can be taken. 2. No personal or consumer loan including house building and agricultural loan (like crops loan) can be provided.

Annexure 3

SME Definition by Asian countries

Country	Definition of SME	Measurement
People Republic of China	Varies with industries, less than 100 employees	Employment
Indonesia	Less than 100 employees	Employment
Japan	Less than 300 employees, or ¥10 million assets. <ul style="list-style-type: none"> - Wholesale: less than 50 employees, ¥30 million assets - Retail: less than 50 employees, ¥10 million assets 	Employment and assets
Korea	<ul style="list-style-type: none"> - Manufacture: less than 300 employees - Service: less than 300 employees 	Employment
Malaysia	Varies, turnover: less than RM 25 million and 150 employees.	Shareholders, Funds and Employment
Philippines	Less than 200 employees, less than P 40 million assets	Assets and Employment
Singapore	<ul style="list-style-type: none"> - Manufacture: less than S\$12 million fixed assets - Service: less than 100 employees 	Assets and Employment
Chinese, Taipei	<ul style="list-style-type: none"> - Manufacture: less than NT\$ 40 million paid up capital, and less than total assets of NT\$120 million. - Transport and service: sales of less than NT\$40 millions 	Paid up capital, assets and sales