

Obstacles to Small and Medium Enterprise Development

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and financial institutions for financing SMEs which is also efficient in terms of financial processing. Apart from legal measures other actors will have to be insurance companies with credit guarantee schemes, an active attempt for establishing credit lines either from domestic or foreign aid resources of the Central Bank. The government's and the Central Bank's role will be critical creating a conducive policy environment. The elements of a conducive policy environment are several, like legal measures for enforcement of claim, freeing of interest rate, guidelines on simplification of procedure, guidance on a desirable debt-equity ratio for SMEs, stable supply of utility and price measures which puts them at par with large industries, increasing the ceiling for VAT (But I'm not sure about it), removal of tariff anomalies, and also where possible linkage with the export with sector and technology support if some SME enterprise wants to enter the export market. One important thing will be to identify the areas of public intervention.

Another important issue will be zoning for SMEs and their location. SMEs should be encouraged to locate in semi-urban areas and urban areas outside the metropolitan areas as much as possible with obvious implications for infrastructure. Rehabilitation of industrial estates may be an important component of this.

Finally, the question is how to proceed. What is practical? The section on program strategy and implementation I believe is useful. Suggestions for an advocacy group, a civil society concept is useful but we have to guard against politicisation so that political pressure can be avoided... for practical purposes I suppose to undertake a program for capital and technical support there is need for projectisation which I believe is also the objective of the JOBS program, through a series of interconnected measures, task forces, and more importantly a supervisory body where the FBCCI and the Chamber of Industry can play useful role. Finally I would suggest dialogue between the interested players like USAID, the World Bank, the Ministries of Finance and Commerce, and the central bank would be useful regarding reforms, credit checking, registry systems, and technical systems.

Dr. Q. K. Ahmed: In the discussion about level playing field we have to talk about the ability of the players, of technology that is being used elsewhere, and the third area is training. Unless efficient production and efficient institution are ensured, however much



QK Ahmad

else you do you may not make progress. So I will then go to the highlight the area that Wahiduddin Mahmud did, governance. It is the implementation of policy. We have quite a number of policies, which are appropriate and the new indus-

trial policy probably provides a good basis also. It has been a little bit more. The policy has to be properly implemented. There is the transparency, the leakage factors and the collusion between parties, these are the things that Wahiduddin Mahmud highlighted and I think these are very important and one has to look into that. Protection in the globalization scene is one that is not encouraged. But as I said earlier, it is not only the level playing field, but also the ability of the player must match or at least there should be some match if not total match. And therefore I am all for providing protection in terms of tariff and tax.

If the figures in Zahid Bakht's paper suggest that is a discrimination against small SMEs vis-a-vis the large that is not the right thing, in fact, there should be a discrimination in favour.

Background information about the enterprises and companies requesting loans should be available and some body should collect it, be it the private sector or public sector. But I think the credit giving agencies should develop their own capacity to appraise the enterprises, the background of the enterprises and the track record of the person who has been doing in terms of repayment and so on. People say that there is a default culture in the country. People are defaulting, some probably intentionally but there are a lot of people who are not intentional defaulters. They got probably the term loan not the working capital they could not manage. They could not probably had access on import in time or connection of gas, electricity or something else. So one has to deal with case by case and that must not be generalized. But default culture, if there is one within the course, it has to be dissolved with foresight and farsight by both the creditors and the credit giving agencies.

If somebody takes a credit it must be repaid. And if it is not repaid there must be effective measures of judicial or non-judicial sort. But more important, I think, at this point of time the DFIs are not functioning at this point of time in a way that they should and the commercial banks do not provide term credit.

Final comment is on the role of SMEs. I think it is extremely important, you have these micro enterprises, low productivity, poverty alleviation type of activity which have its usefulness but there mostly the micro credit is for trade, small production and these are fall back activities from agriculture and therefore there is very little growth potential there. Large industries, it is difficult to establish, we have very few people, who have the experience, who have the resources to do that so it is SMEs which are left, which can provide the necessary momentum in the industrialization process.

Ibrahim Khaled: I emphasize on clearly defining small and medium enterprise because unless we do it, manipulators will get it and take the advantages of whatever small benefit you give to these sectors. Number one problem is entrepreneurship and technology. People do fail in their enterprises because they do not know what they should know about the market, about the product, about the technology and about the management itself. So I think the entrepreneurial development has to be addressed first and this should be done in a large scale.

Then technology. The bankers do not know and many policy makers do not know which technology is more effi-

cient and appropriate for Bangladesh. I think, a competent technical forum may identify it from all over the world to pick and choose technology, which is cheaper, which is efficient and which is more appropriate for Bangladesh. The information may be given to the entrepreneurs and relevant persons so that they may choose. Because when I was in a bank, I found many of the industrialists, despite their best efforts and best intentions, fail simply because their technology was not very appropriate. Another important thing is infrastructure. They may get land, may be from BSCIC but they do not get power, they do not get water, they do not get even roads, they do not get gas. Now coming to the financial field, personally I have no problem in taking receivables as security. These are more potential than the land and best intentions. But there are some little problems here; the banks can not under the present rule take them as security. May be we can relax it only for small



Khandakar Ibrahim Khaled

industries and micro industries. The about recovery, there are anxieties, among us and among all, whenever an industry is set up it becomes sick. Central bank's capability to extend CIB is there. Beyond one lac it will be difficult for central bank to compile and circulate. The financing organizations, banks, non-bank financial organizations or NGOs if you like whoever will finance small enterprises should form a forum or consortium, and they may have a CIB of their own. I think at present there is distorted understanding about the people, about the bankruptcy act, they find, they possibly think that this is for the bankers, that the financiers but if you really go line by line it is much for the borrowers.

About the subsidies or tax deduction etc., I think small enterprises' cost of production will be higher compares to the large industries for same product simply because of the scale of operation. So if we want to patronize considering that some of them will gradually grow then I also think some incentive structure should be there. About the appraisal system, there are many ways how we can really assess an entrepreneur, who does not have any background of any industry or enterprise but whom we think will grow in future. We can provide them training and assess them whether on the basis of training.

M. Shamsuddoha: We definitely feel encouraged that there are lot of thoughts going into it. If the appropriate way of search in our experiences takes place and it is refined with the setup at the presentation of the type that are taking place now, together I think we will find a developing thing which will obviously help our existing system to assist in the growth of SMEs. It needs to know what and how things happen elsewhere and what are the modalities operate and what are the given things a SME can expect from

with fact that there spread may be too low as such to provide adequate incentive between the inputs and outputs. Other problem is here that somebody's input is other person's output.

The second point over here is the VAT issue. It is the high time that we raise the VAT exemption status of the small and medium industries. The last time I studies the Indian VAT law showed that the comparable amount was 25 to 30 lacs. I fully agree with the author that there should be no discriminatory utility rates for the small and cottage industries.



Debapriya Bhattacharya

Let me come to the CIB issue, by Dr. Forrest Cookson. The only problem is you have to have institutional financing only then you have institutional sources of information. Only then it has a limited scope as such. So if we get the institutional finance the information collection becomes easier. Regarding handing it to the private sector we should distinguish between credit information and credit rating. Credit information is a different ball game altogether. A private sector entity can be setup, if somebody does that kind of thing nobody should be stopped for that. Regarding the procedures of reporting on other business liabilities of the operation, yes, I think, they should be reported particularly given the situation and the other liabilities of the business operation of the other directors as such.

On the secured financing, to my mind lot of things have already been here as such. Bank does not extend loan because of availability of security. It is an added insurance to the possible loss. The basic reason why a bank could extend a loan is if the enterprise is profitable and it will generate enough surplus to service the interest as well as keep to the repayment schedule. Appraisal would become much more critical in terms of the assessment of the risk over here and the follow up will come in as security.

Now once the credit system gets to a stall or does not come into effect then obviously the entire enterprise, the entire thing goes wrong. So the possibility of certain thing of being collateralized should be very clear and should be very fast. The CIB staff is concerned we do not have a position on it, if goes private it is perfectly OK, in rest of the world it is private. My worry is more on how you interpret what you get from CIB. What flexibility does a banker have in its interpreting of CIB reports? Because they have to be unique in every case for the entrepreneur.

Insofar as the VAT is concerned, competitiveness is the key. In order to ensure competitiveness, we have to have a flexibility in our policy making where we can protect them and we can do them beforehand so that the budget, even under pressure, can accommodate them.

Money from the bank only come against the guarantees which the government provides or a body which set up by the government provides. So the banking sector intervention or encouragement that is expected in Bangladesh would be all withdrawn, we would not have the negativism of the bankers if their money was secured. Then they would be out there selling credits rather talking about their difficulties that they have also about the cheap credit and things of that effect. I think, what is to be brought in here is a credit guarantee scheme in some form or other, then the bank should compete for business.

Insofar as, information is concerned, both credit and information are equally important and one with out the other would be a sort of wastage of resources. Information here very much means information on market and our reactions to markets and then feedback or our reaction to that market. Unless the feedback is coming back in a systematic manner then of course, we should not expect any growth in the market place.

I think, it is a terrific thought has come from Dr. Wahiduddin Mahmud to have an incentive for export diversification. I also totally agree with the fact that one could pre-announce the cash incentive that would be extremely useful.

Dr. Debapriya Bhattacharya: From Dr. Zaid Bakht's paper particularly given the fact it brings real hard data in some respect and the revealing data comparison on the input duties and the outputs. The only problem is possibly for me I agree



M R Haque

policies that we are now going to recommend, there should be consideration to the size of the enterprise that is small enterprise as defined in the national policy and medium enterprise to be defined in the national policy. On the priorities of the SMEs, I prioritize information, technology, credit and others. Again it is not the credit itself alone it should go along with the entrepreneurship, enterprise and the technology. Any recommendation we are going to make, we must clearly keep in our mind what SMEs mean. We should not dilute with the micro credit, they are doing well, but for those of us, it is the propper of the economy that is SMEs and we must give importance to SMEs.

Prof. Momtazuddin Ahmed: On Mr. Alan Welsh, certainly this use of movable property as collateral security could make a contribution towards that end. But there are many more important problems where we need to divert our attention. We all know that SMEs in Bangladesh are under extremely different hurdles. They have to deal with mostly, establishing their own enterprise using their whatever measures they have in borrowing from non-institutional sources, so and so forth. So this raises the question, it is a serious doubt whether the conventional way of financing the SMEs through the scheduled banks is at all possible. Please do not mix up small industry financing with micro credit. Because whatever limited access these business have or enterprise have they will lose that under the one slot of micro finance thing which is going on and around the Bangladesh.

About the second paper presented by Mr. Forrest E. Cookson, this is also a very good idea, because one of the problems confronted by SMEs for not getting credit is lack of the information about whatever limited availability of credit is there. This must be marketed in one way or the other, this could be an arrangement by Bangladesh Bank or Central

Bank of the country itself and part of it being handled by the private sector organizations or as Mr. Ibrahim Khaled suggested through a consortium of different institutions and the banks. Then about Dr. Bakht's presentation this is a nice job done. Whatever he has said he has supported evidence and collaborating his conclusions, what I think is that before we make or go for any generalization, in designing or in deciding whether the SMEs should be allowed more protection they are enjoying under the current liberalization process or they should be paying less taxes on imports, so and so forth. I think, a case by case study should be done. Because each different industry under the SMEs sub-sector might be oper-

ating in different circumstances. On definition of SMEs, we should be careful about defining SMEs if we really want to provide them with special assistance. They must be very clearly distinguished, we must know who they are and what type of SMEs we want to promote. It would not be a good idea for Bangladesh to use SMEs to understand small and medium scale enterprise or industries because if we mix it up with the medium the tendency will always be, especially when the question of financing term, to go for the bigger counter part with in the SMEs family.

One issue which has not come into discussion very significantly or prominently is the marketing, the demand prospects, the domestic market as well as the problems facing the SMEs in the export market. I think, we should pay more attention here than what we have.

Alauddin A. Majid: SMEs sectors will develop if there is profit and number of entrepreneurs who find that there will be profit and not only profit - sustainable profit because investments gives strings of returns in future. So if it is sustainable profit than there is prospect that means he can sell the product, and then can make profit. Then problem comes about his fund. That fund can come from him, his friends, form institutional sources. So for development of small industries access to credit is a very narrow field. Coming to access to credit, the development policy makers do not deal or go deep into how the bankers really take decisions. Bankers do consider all the factors of movable assets and mostly it is within the laws and some in practice we follow. Problem again is that it is the enforcement of those commitments by laws and other things. In another point you know when we appraise a project, it goes in sequence. So what is happening here is you to appraise, the first appraisal coming from the man, the person, entrepreneur, his organization, management. Then comes other aspects starting from technical, market commercial, financial, economic. It is a good appraisal if it is done by the branch manager.

Then there are two points - before credit and after credit. If



Alauddin A. Majid

there is a collapse then what we should do? There could be some relief arrangements. Before that there should be some credit guarantee. We have talked about credit guarantee schemes here but it is not helping much. What we need is credit guarantee companies.

Absar Karim Chowdhury: First, in all three papers presented here today, we, the small entrepreneurs, could not find anything on the implications of Uruguay round table, which will be in effect from 2005. Second, in last October, we had some suggestions during the seminar organized jointly by FBCCI and JOBS. Some of them

are here, in reference to them we would like to go the financial institutions for borrowing money. We the electrical goods manufacturers have an 'electrical village', that has land, building and machinery. But we could not find any such bank for that matter. As the chairman of BASIC bank has said, we open accounts in commercial banks and do transactions there. To move to the BASIC bank we need another account. So that point of view in should also be thought of. There raised a question on definition of SMEs. What is small and what is medium. In the industry act small is defined as up to Taka 3 crores it will be small and cottage. That means there is no definition for big rather there is one for SMEs. So in that regard, the things that have been said about helping the sub-sectors financially and the points that were put forward earlier should be advocated and it should help us the most. That was all I wanted to say.

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payable that exactly the same amount of profit they make, so if they evade the VAT, then they make a profit." He emphasized on efficiency of production that has to be developed and he advised and highlighted the issue of training on VAT for the entrepreneurs.

Mr. Maniruzzaman Chowdhury, Former Chairman, BSCIC at the outset, criticized on the existing paper based law and enabling atmosphere for SMEs that are not in reality. Mr. Chowdhury, the former chairman of BSCIC, focused on main issues of the seminar i.e. creating awareness about the obstacles being faced by the SMEs. He addressed the potential advocates to find ways that have been practiced in the western world for the SMEs development.

Mr. Chowdhury also appreciated the proposal of private sector Credit Information Bureau (CIB) which he thought would be an efficient organization that might include suppliers of capital machinery and equipment for SMEs. He also mentioned that if information service could be provided efficiently, people would pay for it and such private CIB could be a profitable venture.

Mr. Omar Chowdhury, Advisor, Dutch Bangla Bank strongly feels the need for immediate legal reforms in the area of SME so that the banks can expand their scope for institutional finance to SMEs. Central Information System of movable security has been appreciated in his statement. He considered it to be a pragmatic step as it is one of the prime requirements at this point of time.

Dr. Momtazuddin Ahmed, Professor of Economics, Dhaka University felt that SMEs should have their own chamber of commerce. He said that one must see the potential of SMEs in the developing economy. He mentioned that SMEs everywhere in this world are providing the very foundation of the great economy. He also termed SMEs as the fuel behind the economy and so stressed on to keep it growing and dynamic. He called for an alliance between professionals, bankers, government, politicians and social groups in order to create a strong footing for the SMEs sector that help them grow faster and be dynamic.

Mr. M. A. Awal, SPO, Sonali Bank said that the collateral as obstacles to access to credit could be overcome by proper identification of project and the borrower as well.

Ms. Raka Rashid, of Bangladesh remarked that secured financing and CIB issues were agreed by the conference in principle. She expressed her interest to take both of these issues forwards and she emphasized on implementing the issues as such, she advised to propose action plan and she stressed on taking further steps to operationalize these. She appreciated the analysis on tariff structure and advised JOB Project to proceed further to rationalize the tariff structure and on the utilities, she agreed on Mr. Richard statement that this was more of a case of access primarily and secondarily the rate.

Mr. Khorshed Anser Khan, Chairman, BSCIC pointed out the issue of proper definition of SME.

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Participants

- Prof. Wahiduddin Mahmud, President, Bangladesh Economic Association
- Mr. M Syeduzzaman, former Minister of Finance, GOB
- Dr. QK Ahmad, Chairman, Bangladesh Unnayan Parishad
- Dr. Debapriya Bhattacharya, Senior Research Fellow, BIDS
- Dr. Zaid Bakht, Research Director, BIDS
- Dr. Momtazuddin Ahmed, Professor, Dept. of Economics, University of Dhaka
- Mr. AKM Shamsuddoha, President, NASCIB
- Ms. Maleka Khan, former Chairman, Standing Committee on SCI, FBCCI
- Mr. Absar Karim Chowdhury, former President, BEMMA
- Mr. Abdul Halim, Senior Vice President, BEMMA
- Ms. Sultana Nahar, Advocate, Supreme Court
- Mr. AHM Gaziul Huque, Retired Joint Chief, Planning Commission
- Mr. Khandakar Ibrahim Khaled, Deputy Governor, Bangladesh Bank
- Mr. Mohammed Ali, General Manager, Bangladesh Bank
- Mr. Ali Ahmed, Commissioner of Taxes (VAT)
- Mr. Omar Chaudhury, Advisor, Dutch Bangla Bank
- Mr. Sk Abdur Rashid, Deputy Specialist (Policy), ATDP/IFDC
- Mr. Abdul Awal, SPO and Coordinator Microcredit, Sonali Bank
- Mr. Khorshed Anser Khan, Chairman, BSCIC
- Mr. Mosaddeq Hossain, BSCIC
- Mr. Alauddin A. Majid, Managing Director, BASIC Bank
- Mr. M R Haque, BASIC Bank
- Mr. Omar Chowdhury, Advisor, Dutch Bangla Bank
- Mr. Kazi A. Mazid, Managing Director, Prime Bank
- Mr. Maniruzzaman Chowdhury
- Mr. Abdul Karim, Managing Director, MIDAS
- Mr. Gazi Mahmud Ahmed, President, CENCE
- Mr. Gordon West, Director, USAID/Bangladesh
- Mr. Richard Rousseau, USAID/Bangladesh
- Ms. Raka Rashid, USAID/Bangladesh
- Dr. Najmul Hossain, USAID/Bangladesh
- Ms. Rowshan Akhter, USAID/Bangladesh
- Mr. Azizur Rahman, Resident Representative, ZDH
- Mr. Forrest E. Cookson, President, American Chamber of Commerce in Bangladesh
- Mr. Allen Welsh, Consultant, JOBS Programme
- Dr. Zia U. Ahmed, Team Leader, JOBS Programme
- MODERATOR
- Mr. Mahfuz Anam, Editor, The Daily Star

JOBS

ASSISTING ENTERPRISES TO CREATE EMPLOYMENT!
JOBS is a dynamic USAID initiative working with small, medium and micro-size enterprises to expand their businesses

Job Opportunities and Business Support (JOBS) is a USAID funded private sector development programme assisting micro, small and medium enterprises to create jobs in Bangladesh. The programme seeks to reach this objective by working (1) with local organisations and/or NGOs to assist micro-enterprises to directly create jobs and/or self employment opportunities for the poor; (2) with small and medium enterprises and relevant business associations to encourage expansion of export-oriented labour-intensive production; and (3) with groups to identify, analyse and advocate for policies conducive to employment creation.

The micro-enterprise development component works with individuals to help them find work or create new businesses, and with existing micro-enterprises to create wage employment through enterprise development. Activities in this component entail working with local/community groups and non-governmental organisations (NGOs) to provide the services necessary for the poor to become employees or to establish their own businesses. These services include (but are not limited to): (1) technical skills development and management enhancement; and (2) forward linkages to enable increasing numbers of micro-entrepreneurs to obtain access to credit/capital, as well as develop/find markets for their products. Focus is primarily on private sector enterprises which are growth oriented and use environmentally friendly and labour-intensive technology.

The small and medium enterprise development component works with business associations/chambers or organisations to provide support services to entrepreneurs which will increase production and create jobs in enterprises in key sub-sectors.

Activities in this component include management and technical skills development of existing and potential entrepreneurs in key sub-sectors, provision of marketing linkages and support, facilitating access to financial services, technology transfer, etc. Currently, JOBS is working in four sub-sectors: bakery, electrical small goods, footwear, and specialised handloom.

The policy advocacy component works with government and business leaders and relevant groups (chambers, associations, NGOs) to develop mechanisms to identify and advocate for effective implementation of specific policies which promote employment creation in the private sector. Particularly, policy issues identified in the micro-enterprise development and small and medium enterprise development components are pursued for reforms through advocacy. Policy advocacy includes (but is not limited to) awareness building/education, capacity building, dissemination of policy issues affecting micro, small and medium enterprise development. Activities in this component will help GOB to implement its current policy reforms agenda. By doing so, the activities will indirectly help create jobs in the economy as a whole.