

## SME Development: Removing the Pitfalls

The government must perform the role of the facilitator, not that of schizophrenic regulator it has been so far. And it should follow 'Management by Objectives' approach instead of 'Management by Emotions or Egos'.

by Mazharul H. Mazumder

harmonious industrial relations climate;

- \* Availability of raw materials;
- \* Good infrastructure facilities; and
- \* Investment incentives that evolve over time to meet investors' needs.

SMEs can flourish if and only if the aforesaid factors, among others, exist in a country or society.

### The Hindrances

If the overall condition of Bangladesh is evaluated against the above parameters, a good number of factors could be explored which ultimately cause the poor development of SMEs. In fact, a few factors give birth to some additional factors, and hence, once the prime factors are identified and eliminated, others will automatically be removed.

Following are the major inhibitors of SME development in Bangladesh:

**Scarcity of Capital:** It has been observed that the first and foremost factor that frustrates expansion and development of SMEs in Bangladesh is acute scarcity of required capital. There are many entrepreneurs across the country who have started a venture themselves but can not expand the business simply due to shortage of fund, though prospect of that particular business (es) is high. In the traditional banking system it is no way possible to avail loan without certain collateral or guarantee which most of the small/medium-size entrepreneurs cannot afford to manage. Thus, despite glorious track record most of the entrepreneurs of this category remain outside the purview of traditional lending system. In the existing banking system banks accumulate deposits from millions of small and poor individuals and/or entrepreneurs and disburse the same to a few large entrepreneurs who, in most of the instances, do not pay the whole amount of loan back. This in turn reduces the profitability of the banks and due to low profitability banks cannot provide loan at lower rate of interest.

Major Factors of SME Development

A list of prerequisites for sound development of SMEs will be expedient for identification of the hindrances to SME development in Bangladesh. Among a host of factors that facilitate the development of SMEs the following are said to be the major ones:

- \* Flexible as well as credible policy environment;
- \* Political and economic stability;
- \* Cost efficient labour and a

### Absence of Modern Technology

Perhaps the most neglected factor of growth of SMEs in Bangladesh is technology. Various studies that reflect the state of arts in Bangladesh in comparison to its eastern and western neighbours clearly indicate that Bangladesh is far behind in almost all aspects of technological effort and input. A matter of great concern is that the gap is increasing every year that passes. The bulk of Bangladesh's manufacturing sector consists of small and medium firms and cottage shops. These units usually use inferior technology. By themselves they are not likely to be capable of doing enough R&D to develop their own technologies, go fetch technology from abroad, or adapt transferred technologies.

Although the policy makers have recognized the critical role of technology transfer from abroad in economic growth, they have not assigned due priority and have not allocated sufficient resources to this sector. For instance, despite repetitive attempts by successive governments and although very much have been said about technology improvement and R&D in the Industrial Policy 1999, the country has no national science & technology policy as yet.

**Poor Infrastructure:** Overall infrastructure facilities across the country is extremely poor which result in non-uniform industrial development throughout the country. Frequent load shedding/power failure increases the cost of production drastically and thereby reduces the otherwise competitive advantage of the local firms. Telecommunication facilities are so inadequate that both the local and foreign investors do not feel convinced to invest especially in the IT sector of the country. Regrettably, the government seems unconvinced that information technology could be more than adequate as an aid not only to the expansion of the country's export base but, if properly nurtured, it will also

reduce poverty by at least 50 per cent by the year 2010.

### Worst State of Law and Order

The law and order of the country has been deteriorating day after day. Abduction of business people for ransom, rampant toll collection, bureaucratic sloth, political instability, high degree of smuggling and deep-rooted corruption frustrate domestic investors. It sends wrong signal to foreign investors who usually follow the locals. The extent of corruption could be understood from a recent report of the Transparency International Bangladesh (TIB), a non-government voluntary organization. Two hundred and eleven incidents of corruption caused a loss of Tk. 11,534.98 crore to the government during the first six months of the year 2000. TIB said, (The Daily Star, September 26, 2000)

### Inadequate Policy Reforms

There is no denying the fact that Bangladesh has long been pursuing private sector-led market-oriented industrial policy and that various governments have undertaken different reform measures in this respect. Nevertheless, a lot of policy reforms are yet to take place. The case of the Information Technology (IT) sector could be considered here as an instance. Despite the present government has designated the still nascent IT industry as a thrust sector in the Industrial Policy 1999, unfortunately, that's about all it has done so far. At crucial times, governments had taken detrimental decisions. Refusal to be linked with deep-sea cable when laid down through the Bay of Bengal, on grounds of national security, has simply left us without an identity on the worldwide web. It is as such as shortsighted government with a curiously conservative IT policy has held the country back from surfing on the worldwide wave of IT. Regrettably, despite persistent urgings by entrepreneur like Professor Muhammad Yunus and scholar like Professor Jamilur Reza Chowdhury, the

people at the helm have failed to show the desired level of activism both in infrastructure development and in encouraging private sector participation. BTTB (Bangladesh Telegraph & Telephone Board) monopoly still continues with a poor telecommunications network offsetting the huge potential IT has on offer for a fantastic economic growth in the country.

### Recommendations

In order to create a reinvigorated private sector to face the uphill task of providing jobs to the labour force, which is growing by about three million per year the government must remove the pitfalls that hinder smooth development of industries, especially that of the small- and medium-scale enterprises. To do so, the following steps, among others, are to be undertaken.

First, the government has to set clear and concise goals and formulate necessary policy to attain them within a stipulated time. A specific target followed by a definite action plan is required in this respect.

Secondly, the government must take steps to make financing the special needs of SMEs mandatory for the private banks which are otherwise reluctant to do so.

Third, good governance based on transparency and accountability must be established along with accelerated administrative, banking and legal reforms. The private sector and the civil society should keep their pressure on the government to improve the law and order, ensure political stability, modernize infrastructure, and the like.

Fourth, the traditional mindset of the government must be changed to see the glass as 'half empty' so as to pursue flexible policy. Because inexplicable policy rigidity only show away prospective private sector investment in the SME sector.

Above all, the government must perform the role of the facilitator, not that of schizophrenic regulator it has been so far. And it should follow

'Management by Objectives' approach instead of 'Management by Emotions or Egos'.

The writer is a Lecturer in the Department of Business Administration at the Shahjalal University of Science & Technology, Sylhet.

## Selecting Investment Opportunities for Industrialisation

It is indeed regrettable that we have not yet been able to make any appreciably tangible effort to rehabilitate sick industries in Bangladesh. Certainly we no longer can go for industrialisation as was done in the seventies and eighties. It is time that we select potential investment products that are worth developing within five to 10 years.

by ABMS Zahur

ONE of the main reasons for low rate of industrial growth is slow improvement in labour productivity in Bangladesh. Improvement in labour productivity depends to a great extent on capital accumulation. Unfortunately not only do we have insufficient supply of capital, our investment outlets are also inadequate. The low rate of investment, despite so much of incentives, is a serious concern for government and business circles. Study of our long list of sick industries (more than two thousand) may reveal that we are gradually losing our competitive edge in low-skilled, labour-intensive industries. Thus we shall have to think seriously about upgrading our industrial techniques. To this end the government may ask Bangladesh Institute of Development Studies (BIDS) to undertake a study to select a limited number (say 70 to 80) of industrial projects that have the potential to develop in Bangladesh in near future. The study must be completed within one year.

For each of the selected industrial projects a brief product profile has to be prepared. Such profile will cover all or most of the following topics depending on the availability of data: a) Product description and production process (including technology status and trend); b) Major international and domestic manufacturers and cost structure; c) Price structure and demand projection; and d) Economic scale of investment and capital requirement.

Such profile may not indicate the profitability of producing the specified product in Bangladesh. It should furnish preliminary information to potential investors in the country to enable them to take quick decision as to whether to proceed further with an in-depth feasibility study on a certain product investment opportunity.

Stage One: First compilation of a master list of candidate products has to be made. To make the list as comprehensive as possible we may adopt a very loose criteria for the initial selection of candidate products. And in doing that the following sources of information may be utilised: Scanning Import and Export data of Bangladesh; Studying the industrial structures and their export structures of India, Pakistan, Nepal and Sri Lanka; Surveying the literature of high-tech and other new products to search for products that may be technologically appropriate for Bangladesh's current stage of development; and Requesting overseas cooperating research organisations such as Arthur D Little of USA, or Daiwa Securities and Economic Research of Japan or Price Waterhouse Associates of Australia to provide list of products they think suitable for Bangladesh to develop.

Stage Two: It is to screen out those that were infeasible in any important aspect of a potential investment opportunity. The remaining products are then left for further scrutiny; Theoretically a potential investment opportunity should possess market feasibility, technical feasibility, management feasibility,

cost advantages, and so on. At this stage of study we may use market feasibility and technical feasibility to screen out the candidate products.

State three: The important factors that need to be considered at this stage are: (i) manufacturing cost, (ii) technology feasibility, (iii) domestic and overseas market potential, (iv) linkage benefits, (v) labour requirements, (vi) management requirements, (vii) value added contributions, (viii) energy consumption, (ix) environmental pollution, and (x) degree and time of government protection or incentive, if needed.

Stage Four: An in-depth study need to be undertaken on each of the products based on international data mainly to be provided by overseas cooperation agencies and local data collected by our research staff.

It is indeed regrettable that we have not yet been able to make any appreciably tangible effort to rehabilitate sick industries in Bangladesh. Certainly we no longer can go for industrialisation as was done in the seventies and eighties. It is time that we select potential investment products that are worth developing within five to 10 years. It is true we do not have sufficient funding and time to collect all the data needed for a thorough investigation. Yet the study would be able to provide some good investment information to our industrial community. The government should be aware of the fact that as the economy grows so the availability of information becomes increasingly important. Industrial advancement is a continuous and endless process. Such study should, therefore, be the beginning of a continuous endeavour of the government.

The writer is a retired Joint Secretary.

## Now We're Talking! From Rubber Stamp to Vibrant Parliament

FOR the first time President Robert Mugabe is under strong attack from inside Parliament.

Also for the first time the opposition walked out en masse last week protesting against the government's supplementary budget of Z\$35 billion.

Zimbabwe's Parliament has transformed dramatically from one in which snoring old men came to life only to approve government legislation, into an active if sometimes vociferous debating chamber.

The catalyst was the national elections on 24-25 June which saw a significant change in the country's monochromatic political scene dominated by President Robert Mugabe and his Zanu-PF party.

Before the controversial June elections, which were preceded by widespread campaign violence and invasion of white-owned farms, the 150-member Parliament had an overwhelming Zanu-PF presence the party held 117 of the 120 elected seats.

In contrast, the ruling party with only 62 seats in the current Parliament is tailed by the Movement for Democratic Change (MDC) with 57 seats. The remaining seat went to Zanu-Ndonga.

The showing of the MDC has created a hitherto unknown role in the legislature that of a shadow government.

Now, for the first time since independence in 1980, parliamentary debates have turned

into such brisk exchanges between the ruling party and the opposition that most newspaper readers here turn to the parliamentary columns before anything else.

Even the usually dull and dreary Hansard, the verbatim parliamentary report, which in the past was circulated among business, academic and similar circles, is winning fresh readers. Such is Hansard's current popularity that Parliament now hopes to have it translated from English into Zimbabwe's local languages.

And, despite the sharp differences that separate government and opposition, they have united over one issue to agree to the live coverage of parliamentary debates on national television.

The MDC's David Coltart, who proposed the idea, thought it would improve parliamentary attendance and active participation.

"It is a great help to have so many ministers... The lights of the television cameras have attracted them to this Chamber," said Coltart tartly when television cameras appeared in the Chamber during Ministers' Question Time.

Zanu-PF MP, Charles Ndhlovu, hoped the new move would lead to nationwide discussion of issues raised in the House.

"The motion is calling on Parliament to transform itself into a true people's Parliament," he said.

"Colleagues on the other side

Zimbabwe's national election in June sharply altered the country's political landscape. Nowhere is this change more noticeable than in the country's Parliament where a strong opposition is demanding accountability. It has literally become the talk of the town

Wilf Mbanga writes from Harare

are on their best behaviour. I have never seen members from the other side behave as gentlemanly and lady-like as this afternoon," the Leader of the House, Patrick Chinamasa, commented wryly as television coverage gripped the nation.

But all this has not constrained youthful MDC MPs from launching blistering verbal attacks on President Robert Mugabe, accusing him of being the country's biggest problem.

Recently, the MDC's Priscilla Mishihairembwi-Mushonga told Parliament that Zimbabwe was "not short of brains" to solve its problems, but that Mugabe never listened to other people.

"The problem is that he is actually the source of the problems we have in this country," she said that some Zanu-PF MPs agreed with her, but not surprisingly they did not want to say so to his face.

The end-of-September MDC walkout was prompted by the government's refusal to grant more time for the debate on the supplementary budget. When it was hurriedly voted on, the opposition MPs broke out singing "Zanu yaora baba" (Zanu-PF is rotten) and trooped out.

The two parties have also

clashed on the Land Resettlement Programme. MDC members claim the exercise is haphazard and is forcing millions of landless peasants and farm workers into abject poverty.

Not surprisingly, the issue of pre-election violence has featured prominently in debates, with emotions running high among MDC MPs whose supporters were the main victims of the Zanu-PF terror.

Several MDC MPs were themselves terrorised by Zanu-PF youths. Some had their properties destroyed and their relatives beaten up or killed. Blessing Chubendo of the MDC asked the Speaker to lead Parliament in prayer because God had saved him from being murdered by political opponents.

Unprecedented opposition pressure in Parliament has also led to rare government accountability. Ever since Zimbabwe's military intervention in the war in the democratic Republic of Congo, the Mugabe government has been secretive about its human and financial cost.

But under persistent opposition questioning, the Minister for Finance has had to come out with figures Z\$10 billion a year and

about 11,000 men, figures that analysts nonetheless dispute. The minister admitted the country's ailing economy should not shoulder such massive war expenditure.

Zimbabwe's involvement in the Congo war does not have the support of all Zanu-PF MPs; nor does the exercise in land resettlement.

Political heavyweights such as Eddison Zvobgo, former justice minister and now a Zanu-PF backbencher, were applauded by the opposition for their criticism of the government.

"We have behaved, over the past few years as if the world owes us a living. It does not. We have blamed other people for each and every ill that befell us. It is only us who are right and everybody else is wrong," Zvobgo told Parliament.

In what seemed like an exer-

cise in self-criticism, the former minister went further.

"We have evidenced an insatiable appetite to spend money we do not have, as if the budget was some wicked imperialist invention designed to terrorise developing nations. We have allowed confidence in our legal and constitutional system to slide. We have spoken about the need to create an enabling or inviting environment in which foreign and domestic investment can flow and flourish but have taken stern measures to ensure that does not happen."

Turning to Members of Parliament on his side of the House, Zvobgo said: "We have tainted what was a glorious revolution, reduced it into some agrarian racist enterprise" words that would hardly have been heard in the previous legislature.

But his call for unity in the

house did not find much favour as MPs continued to taunt, insult and jeer each other.

The presence of feisty women is a new attraction. On one occasion, war veterans' leader and Zanu-PF MP, Chenerjal Hunzvi, shouted at an MDC member "Tinokurongera jambanja", which literally means "We will organise violence against you."

The MDC MP Hilda Mafudze, who had the floor, shouted back, "Ndinokurova" (I will beat you up). Another MDC woman MP, Priscilla Mishihairembwi-Mushonga jumped to her feet and

invited Hunzvi to step outside Parliament where, she promised, she would sort him out.

The war veteran did not oblige. Still the exchange illustrates how a once-dominant Parliament has suddenly come alive. Clearly, the Zimbabwean Parliament will never be the same again.

-- GEMINI NEWS

The author is the Founder Editor of Ziana Community Newspapers Group and former Managing Director of 'The Daily News', Zimbabwe's first independent daily.

### Government of Bangladesh Office of the Executive Engineer (RHD)

Road Division, Comilla

### Notice Inviting Tender

1. Tender Notice No : 30/EE RHD, Road Division, Comilla during the year 2000-2001.
2. Name of work : Earth work in Bridge approaches at 1st KM Bridge No 1/1 of Middia-Dullai Nowabpur-Rahimanagar Road, under Road Division, Comilla during the year 1999-2000.
3. Estimated cost : Tk 82,314.00
4. Earnest money : Tk 1646/- in BD/Pay Order in favour of EE (RHD), Road Divn, Comilla.
5. Name of office : Superintending Engineer, RHD, where tender bids will be received Road Circle, Comilla & Office of the undersigned.
6. Name of office of availability of tender bids : Office of the undersigned/EE RHD, Road Division, B'baria/Chandpur/Planning & Design Divn, Comilla & SDE's office under this division.
7. Time allowed : 15 (fifteen) days.
8. Last date of selling of tender bids : 22-10-2000 up to office hours.
9. Last date of received of tender : 23-10-2000 at 12:30 PM.
10. Date, place of opening of tender bids : 24-10-2000 in the office of the EE RHD, Comilla.
11. Date of lottery : 25-10-2000 do do.
12. Charge to : 266 CA.
13. Eligibility of contractor : "A" to "E" General category of RHD, Contractor.

### Notice Inviting Tenders

No 1 (E/M) of 2000-2001

1. Tenders in sealed cover are hereby invited in Form No. 2911 from all classes of approved E/M contractors of this Department for the undermentioned work and will be received by the undersigned, Executive Engineer, PWD Division, I/IL, Rajshahi/Natore/Naogaon and Sub-Divisional Engineer, PWD Sub-Division, Nawabgonj up to 12-00 Noon of 25-10-2000 and will be opened on the same day at 12-15 PM.
2. Name of work : Replacing the existing 50sq mm partly armoured/partially single/twin core pvc cable by supplying & laying of 50sq mm armoured cable in/c 3 phase service connection & power wiring in the O.T. at the Bhangura upazila health complex in the Dist of Pabna.
3. Estimated cost : Tk 1,74,584/=
4. Earnest money : Tk 3,492/= in the form of Sanchaypatra/BD, CD from any scheduled bank. Fixed deposit holder to submit a certificate from the concerned Executive Engineer received within three months.
5. The tender form together with the schedule of items, specification, terms and conditions, plans etc. can be seen and obtained from the office of the undersigned and above mentioned offices during office hours on payment of usual charges up to the previous day of receiving tender.

DFP-24237-5/10  
G-1763

Md Shah Alam  
Executive Engineer,  
PWD Division, Pabna

DFP-24028-4/10  
G-1761

Md Rafiqul Islam  
Executive Engineer, RHD,  
Road Division, Comilla.

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