



SME development: Critical role of information *and* finance

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THE case for SME development is usually based on the following expectations about these enterprises:

More labor intensive; that is, they employ more labor relative to capital than large enterprises producing similar products. This is particularly important in capital scarce and labor abundant low-income countries like Bangladesh where workers from poor households have few employment and income opportunities.

More efficient, at least in some cases; that is they use fewer resources per unit of output, as they face factor prices closer to their social opportunity costs and consequently use more of the abundant factor.

More equitable in distributing the income that they generate. This has to do with both the more labor-intensive production methods and the likelihood that owners

of small firms are less wealthy than owners of large firms.

More widely dispersed geographically; that is, they are more likely to operate in towns and villages, as well as in less developed regions. This would contribute to a wider spread of the benefits of development and partly alleviate the pressure of rapid urbanization.

More scope for female employment; Given the relatively low skill and technology content and the geographically dispersed nature of SMEs, the incidence of female employment is expected to be higher in these enterprises compared to their large-scale counterparts. This attribute would render SMEs more supportive of poverty reducing development strategies.

Although the evidence from the real world on the above mentioned expected advantages of SMEs has been a mixed one, support for SME development has remained an enduring theme in the conventional wisdom of development. This was largely

due to the threat of rising unemployment and poverty and the failure of the agricultural and large-scale enterprise sector to absorb much of the rapidly growing labor force in the capital-poor low-income economies. However, the perspective on SME development has changed over time. Development of SME is now seen as an important element of restructuring the economy away from agriculture towards industry and service and it is acknowledged that SMEs are likely to play different roles at different stages of the economic development. The experiences of SME development in different countries provide two other qualifications. The thrust of SME development should be on "modern" SMEs that have higher growth potentials compared to the "traditional" SMEs and the policies towards SME should be based on a positive, developmental attitude, seeking to aid by promoting efficiency, fixed cost element. Since it may

circumstances and growth, rather than simply protecting the sector from larger or modern enterprises through a distorted incentive structure. If policies are anti-large rather than pro-SME and if protective measures provide scope for reaping rental benefits, it is likely that large industrialists will create tiny units concentrated in few areas and co-opt the benefits intended for genuine small-scale entrepreneurs.

What holds back SME development?

Constraints faced by SMEs can be 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. These are more easily borne by large enterprises than by SMEs because they always contain a



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