

...role of information and finance



thereby reducing their competitiveness. The resulting weak enabling environment imposes a disproportionately greater impediment to small business growth.

Bangladesh has carried out wide ranging policy reforms under the rubric of structural adjustment program that included deregulation of sanctioning procedure and relaxation of other regulatory barriers, easing of import procedure, reducing trade barriers, following a market oriented exchange rate policy, and implementation of fiscal, monetary and public enterprise reforms. These reforms helped remove a large part of the policy bias against small and medium enterprises that prevailed earlier and facilitated growth of SMEs.

The successes achieved have renewed the confidence of the policy planners in the potential contribution that the sector can make to accelerate growth and poverty reduction in Bangladesh. There is increasing realization that efforts towards development of small and medium enterprises need to be integrated with the mainstream poverty reduction strategy, and for the efforts to succeed there is need for a focused and comprehensive approach towards addressing simultaneously the policy induced constraints, the structural constraints and the problems of governance and business support services that are holding back the sector from achieving its full potentials.

This changed approach to SME development has been reflected in the pivotal role attached to the sector in the Poverty Reduction Strategy Paper (PRSP), and the steps that have already been taken by the government for implementing the SME development measures identified in the PRSP. These include (i) setting up of the SME cell within the Ministry of Industries, (ii) formulating a separate SME development policy consistent with the

measures delineated in the PRSP, (iii) formation of a high powered National Task Force on SME development, and (iv) constitution of an Advisory Panel to guide and support the activities of the SME cell. These measures culminated in the setting up of SME Foundation in July 2007 as a public-private joint undertaking. The Foundation is to deliver all promotional and administrative facilities including planning, finance, development, awareness raising, evaluation and advocacy services for the development of SME in the country.

Absence of pre-investment counseling services

Guiding investment into the SME sector has to be one of the critical initial measures of SME promotion. This will require institutional provision for pre-investment counseling. This is particularly important as the SMEs, unlike their large-scale counterparts, are ill equipped to collect on their own, relevant information relating to market, demand, technology etc. Existing arrangements for collection and compilation of data that are needed to facilitate private investment are grossly deficient and the provision of investment advisory service is virtually non-existent.

One of the designated functions of Bangladesh Small and Cottage Industries Corporation (BSCIC) is to provide pre-investment counseling to small and cottage enterprises. For this purpose, BSCIC used to prepare project profiles of potential activities. But these profiles were not found helpful by potential entrepreneurs as they provided information of very general nature and were not based on market surveys.

The newly formed SME Foundation should provide support to upgrade the pre-investment counseling facility of BSCIC. Project profiles

should be prepared on the basis of detailed market surveys and collection and compilation of relevant statistics. Project profiles should be sufficiently informative to be useful to the potential entrepreneur. For example, there should be information on possible sources of machinery, raw materials, marketing channels etc. The Foundation should also arrange training for BSCIC officials for providing useful pre-investment counseling.

Access to finance

In the past, government has attempted to provide small and medium enterprises with access to finance through targeted lending. But actual delivery of institutional credit to this sector has been grossly inadequate. One of the main factors that have hampered flow of institutional finance into small and medium enterprises is banks' pre-occupation with collateral based lending. Traditionally banks have used fixed asset ownership particularly land ownership as the basis for judging credit-worthiness. This puts small and medium enterprises at relative disadvantage as they often cannot put up such collateral for loan. Moreover, whatever collateral they can manage gets used up in taking the term loan leaving them with no means to seek working capital loan from institutional sources. Unlike their large-scale counterparts they cannot use influence and contacts and solve the problem by putting up collateral of dubious valuation. Banks, on their part, also tend to be less flexible about the collateral requirement in the case of the SMEs as they perceive SME loan to be more risky and the cost of monitoring and supervision of small loans to be higher.

Various alternatives to real estate based lending have been suggested for the SMEs. Group guarantee and peer pressure, successfully used in the case of micro-finance, do not appear appropriate for SMEs as these

are mostly sole proprietorship units with capital size significantly larger than the amount typically disbursed under micro-finance. Use of assets other than land and building, such as fixture, equipment, vehicles etc as collateral is also a fairly standard practice in institutional finance but is of less use in the case of SMEs as these enterprises usually possess few such non-land assets. Sales proceeds, accounts receivable, inventory etc can be the basis of working capital loan, but this requires proper documentation of the transactions of the SMEs and close monitoring and supervision on the part of the lending institutions. Because of the informal nature of many SME transactions and high cost of small loan administration, use of such movable asset for working capital lending will involve certain difficulties.

The other major problem SME entrepreneurs face in seeking institutional finance is with regard to the preparation of the project proposal. In spite of directives from the central bank to follow standardized procedure, the loan application process has still remained lengthy and cumbersome. The entrepreneur often lacks the ability to formulate a proper project proposal. Even when he prepares the proposal drawing on outside expert services, there is no guarantee that the proposal will be evaluated properly as the financial institutions themselves lack adequate capability for proper project evaluation.

Loan processing, particularly in the case of public sector banks, involves high transaction costs for borrowers in terms of time and visits needed and unofficial payments made. Because of lack of proper autonomy and accountability, the public sector financial institutions are beset with inflexibility, inefficiency, political interventions and corruption. Since the performance of the

bank officials is not properly evaluated they lack the incentive to bring larger number of suitable borrowers, particularly those in the small and medium enterprise sector, within the fold of institutional financing. They adopt a passive and inflexible attitude towards the borrowers either to avoid the risk of making an inappropriate lending or to force the borrower to make side payments for more favorable handling of the loan application.

Financial institutions can significantly reduce the risk when they are lending to SMEs without real estate based collateral if they (a) pre-screen SMEs on the basis of cash flow statements and information from business service providers and receivers to assess track records of firms and their ability to repay in future, and (b) implement close monitoring and supervision in the post-disbursement stage.

The SME Foundation as a joint venture of the public and the private sector will be well-placed to collect information on the financial transactions of the potential SME borrower for pre-screening and also support lending institutions with post-lending monitoring.

Concluding Remarks
The current policy of mainstreaming SME development within the poverty reduction strategy and seeking comprehensive solutions by simultaneously addressing the structural, policy induced and business support related problems has placed SME development efforts in the right track. Co-opting the private sector in the process and assigning it an institutional role in policy formulation and promotional measures through the SME Foundation mark the point of departure to this renewed attempt towards the development of the SME sector in Bangladesh.

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cost as much to arrange a license for a small transaction as for a large one, the smaller enterprises pay more as a percentage of sales, exports, or the amount borrowed. The structural constraints, on the other hand, relate to a wide range of bottlenecks experienced by the SMEs

involving access to information, finance, infrastructure, skill, technology and markets. The combined effect of these two sets of constraints is compounded by poor governance and weak public service delivery constraining the ability of business to function efficiently and

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status in the field of providing health care and education. India's less costly health service is attracting attention of rich nations of the west. Moreover, India has successfully exported health professionals abroad. In the field of nursing India occupies a big space in the United States. Apart from India, another success story is Philippines. Just because of skilled professional training schemes, the country has made its mark overseas. Many Bangladeshi professionals abroad have expressed their interest in contributing their expertise in the field. The statistics show that the US will face acute shortage of professional nurses until 2031. Many of the US health institutions have expressed their desire to come and train up our nurses. Moreover, NRB physicians can go about lecturing and providing medical assistance in an organised manner. Only the thing we need is bridging between the entrepreneurs and skilled professionals which is possible if the government seeks the help of NRBs on a structural format.

D) Agriculture and agro-processing: The land of Bangladesh is conducive to growth of agriculture and processing industries. Despite repeated natural disasters, the achievement in the field of agriculture has been commendable. However, a huge potential remains untapped insofar as developing agro-processing industry goes. The inter-

est of NRBs in this field could make the industry competitive, at least regionally.

E) Real estate business: A booming industry like this could benefit the NRBs in two ways: one is investment and another selling. Many NRBs tend to purchase a flat or home/house in Bangladesh so that they can either live or pass some days in it back home. But of lack trust is weighing somewhat negatively there. On the other hand, equipped with contemporary skill in the building technology, many NRBs have expressed their interest to invest in this field. This could be capitalised on by nurturing confidence in sector.

F) Stock market: Another promising sector waiting to court NRB investment. If the abovementioned steps were even partially taken overseas wage earners could investment in futures. The present stock market is crying for foreign investment. For the NRBs come forward we need modernising operations of the stock market. The idea is connectivity with the rest of the world. Spot the possibilities, engage the NRBs earn their trust -- and pay them back.

G) Power sector: Bangladesh has been facing acute power crisis since long. It is such a big sector that government could barely move without the help of donors. The main problem of this sector is investment. Moreover, a strategic plan is essential to cater for anticipated power generation

requirements in the short and long terms. Our power sector needs skilled professionals and investment. Many NRBs' role in meeting power crisis elsewhere can be replicated here. The government can seek the NRBs contribution in bringing investors and planners over for the development of energy sector. Alternative energy sources like solar and wind power and bio-gas have acquired great importance for the sake of containing CO2 emissions resulting from use of conventional energy sources. Given the brunt Bangladesh is taking from climate changes this a field where NRB investment would be highly welcome.

The NRB role can go beyond what has been identified in the foregoing paragraphs. However, it appears to me that should they be able to utilise the opportunities spotted above that would a big stride in national development.

Many developing countries like India and Malaysia have taken adequate measures to secure the support of their nationals living abroad. The Irish economic boom is also a case in point. These countries have taken realistic steps to employ the diasporic scholars and professionals with assurances of providing them with recognition and satisfactory facilities package. Let us choose our time for prosperity.

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