

STRATEGIES FOR REFINANCING OF SMEs IN BANGLADESH: PROBLEMS & CONSTRAINTS

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ABSTRACT

Over the past decade, there has been a significant change in the world trade regime, too. The WTO techniques agreements limit the use of certain trade measures as quantitative restrictions and subsidies. Such development has also implication for a country's strategy in supporting its domestic industry in including SMEs. WTO agreements cover not only the traditional goods sector but also new sectors like services and intellectual property rights. There is a tendency for considering these newly included sectors as constraints to trade prospects of a poor country like Bangladesh. There are certain other areas where improvements provide genuine incentives to SMEs and contribute to their enhanced competitiveness. Improved infrastructure, better law and order situation, and efficient ports and transportation are likely to impact favorably upon the SMEs sector and such things may be no less important than mere policy supported incentives. However, these provisions have now become realities. Bangladesh should continue its efforts to make the world community appreciate the difficult economic situation of the LDCs and to help to attain various trade preferences and concessions. Its long-run economic prosperity critically depends on success or otherwise of its efforts to turn the challenges of globalization opportunities. This will create a strong and potential base for economic development, which will in turn accelerate the process of poverty reduction, and reduction of unemployment, create employment opportunities as well as accelerate the overall economic growth of the country.

Keywords: SMEs, Financing, Strategy for SMEs, Bangladesh

1.0 INTRODUCTION

A focused strategy is needed to address the problems besetting the SMEs for facilitating their optimum contribution to the overall growth of the national economy. Small and Medium enterprises (SMEs) have been playing a significant role for socioeconomic development in all countries, particularly in the developing economies. In Asia, they play even a greater role, as the sector constitutes about 98% of all enterprises, accounting for 30% of total employment and 30% of direct exports.¹ However, SMEs face a plethora of challenges in terms of lack of access to information, technological disadvantages, lack of adequate finance and backdated marketing and managerial skills. Bangladesh being one of the last developing countries and faced with several constraints has not been able to meet the challenges in SMEs sectors

¹ Talal Redwan Babar, Constraints to growth of SMEs in Bangladesh, FE daily News paper, Sunday July 8, 2007, p. 4.

appropriately. This has deprived the country of the substantial benefits that could come from the SMEs through their contribution to overall development of national economy. According to a study conducted by Canadian Integrated Development Association (CIDA), there are about 6.00 million SMEs in Bangladesh and among them only 27 thousand enterprises are ready to expand and export. SMEs contribute 50 per cent of total industrial output employing 82 per cent of industrial labour force. This statistics show that the productivity of labour is low as 82 per cent of workforce is producing only 50 per cent of output. Therefore, there is a high labour-capital ratio. Although Bangladesh is an- overpopulated country with abundance of labour, a large portion of its total workforce still remains unskilled and semiskilled. The trade policy of Bangladesh also merits consideration here he import procedures have been substantially deregulated. Import tariffs have been lowered and quantitative restrictions, virtually abolished. Liberalization of industrial and trade regimes along with the Globalization were expected to have had significant effects on the Bangladesh's SMEs. The impact of such policy moves has, on the whole, been mixed. Since one of the objectives of trade policy reforms is to reduce the anti-export bias, it might be that export-oriented SMEs have benefited more relative to import-substituting SMEs. SMEs of Bangladesh create value addition to local price and generate significant employment opportunities by establishing forward and backward linkages.² Besides, they produce exportable surplus and help to earn foreign exchange. Micro-credit financing of SMEs in off-farm rural economic activities have not attracted significant interest of banks and institutional lenders. Essentially, these are largely dependent on equity financing from personal and family savings. The large potential of employment generation by SMEs has however attracted attention of the policy makers. A range of initiatives for channeling loans to SMEs is at work. The present government has already been taken various programmes to provide financial assistance to expand SMEs through commercial banks, financial institutions, refinanced, refinanced from Bangladesh Bank, non-bank financial institutions, refinanced from IDA credit fund, refinanced from ADB fund, non-bank financial institutions etc.³

1.1 STATEMENT OF THE PROBLEM

To face challenging situation of open market economy and globalization, the government considers that private sector-led industrial development as a prime mover of economic growth. Beside this, government, by now, has liberalized the trade regime by introducing a range of reforms so that the entrepreneurs can set up industries and operate them profitably without any misgivings. Meanwhile, the government has handed over a number of SOE's to the private ownership. The government creates little initiatives to formulate a separate SME policy to provide required guidelines and strategic support to set up SME industries across the country. In order to establish economically viable industrial enterprises, there is no initiative to set up Industrial and Special Economic Zones (ISEZ) so that the huge land area of these industrial zones is may be effectively used to set a new trend for industrialization which would facilitate creation of lots of employment opportunities. To attract foreign investment, potential investors no step were taken for incorporating the industrial policy. So for additional strengthen the process of industrialization, the government should take necessary steps regarding Small and Medium Enterprises (SMEs) sector as a priority sector and also as an engine of industry. So guidelines and strategies would be incorporated in the SME policy, which will be followed to establish SME industries in Bangladesh. Considering this gap the study is planned.

² Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2004, p.90

³ Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2006, pp. 92-93.

1.2 OBJECTIVES OF THE STUDY

The selected objectives of the study are as follows:

1. To measure the financing Institutions, organizations, Banks, NGOs, Non-Bank Financial Institutions for SMEs in Bangladesh.
2. To measure the contribution of SMEs to GDP during 1998-99 to 2005-06.
3. To highlight the effective role & contributions of SMEs in Bangladesh from an LDC
4. To highlight the major problems of SMEs in Bangladesh.
5. To identify the causes of lower growth & productivity of SMEs up to 2006.
6. To focus SWOT mix regarding SMEs in Bangladesh.
7. To make the necessary suggestions for the development of SMEs in Bangladesh.

2.0 METHODOLOGY

The study is based on secondary data. Main emphasis was given on secondary data, collected from the Economic Trends in Bangladesh, resume of the activities of Financial Institutions in Bangladesh, annual reports, Bangladesh Bank Bulletin, Statistical Year Books, Bangladesh Economic Survey, Bangladesh Economic Review, Economic Advisor's Wing, Finance Division, Ministry of Finance, Government of the people's Republic of Bangladesh during 2000-05 etc. This study is prepared based on the information during 1998-99 to 2005-06.. For analysis and interpretation of the available data of the banks like Mean, SD, CV, AGR, AAGR, TREND, Maximum level, & Minimum level etc.

3.0 MAIN FEATURES OF REFINANCING AND REPAYMENT SCHEME OF SME ARE SHOWN BELOW; ⁴

3.1 A. Refinancing Scheme.

1. Banks and financial institutions applies for refinance to Bangladesh Bank in the prescribed forms against disbursement of loans on quarterly basis.
2. Refinance will be available for short-term working capital loans as well as for medium; and long-term loans. Working Capital loans will have a maximum maturity period of one year while medium and long-term loans will have maximum maturity of three years and five years respectively.
3. An enterprise having fixed assets not exceeding Tk. 1.00 crore (Tk. one crore) is considered as a small enterprise for the purpose of the scheme.
4. Bank and financial institutions interested in securing refinance facility under the scheme submits a statement to Bangladesh Bank stating estimated fund requirement over a six-month period.
5. Banks and financial institutions gives 100 percent refinance against disbursement of both working capital and term loan to the small enterprise sectors; the amount for an individual borrower shall range from Tk. 2.00 to 50.00 lakh. Refinance will be available on first come-first-serve basis.
6. Interest on Bangladesh Bank refinance charges at prevailing bank rate.
7. The lending banks or financial institutions applies their own interest rate on the loans made to the ultimate borrowers.

3.1 B. Repayment Scheme:

3.2 Working capital loan: Repayable within one year from the date of disbursement in two equal half yearly installments with interest.⁵

Medium term loan: Repayable within three years including six months grace period in five equal half yearly installments with interest.

⁴ op cit.

⁵ Bangladesh Bank, 2004.

Long term loan: Repayable within five years including six months grace period in nine equal half yearly installments with interest.

Table-1: Characteristics of a Sample of SMEs by Ownership Pattern⁶

By Ownership Pattern	%
Sole Proprietorship	32.20
Joint Venture	09.10
Private Limited Company	45.50
Public Limited Company	07.30
Total	100.00

The contribution of the industry sector to Bangladesh economy has been on the increase.⁷ In 2005-06, the growth of the manufacturing industry reached double-digit level. It is expected that this upward growth trend of the industrial sector help to reach the national growth rate at 7 percent level. Among the fifteen sectors identified for computing national income, the greater industry sector includes five sectors such as mining & quarrying; manufacturing; construction; electricity-gas and water supply. Among these sectors, the contribution of the manufacturing sector is the highest. In 2005-06, the contribution of the industry sector to real GDP is 29.01% while it was 17.31% in 1980-81. According to provisional estimate, in 2005-06 the contribution of the manufacturing sector to GDP is 17.05 percent, which is 0.54 percent higher than that of the previous year. In 2005-06, the growth rate in the manufacturing sector is estimated at 10.45 percent, which is 2.26 percent higher than that of the previous financial year.

Table - 2: Contribution of Manufacturing Sector in GDP and Growth Rate during 1998-99 to 2005-06.
(At constant prices of 1995-96)

Year	Types of Industries								
	Small & Cottage		Trends of % of GDP	Medium-Large		Trends of % of GDP	Total		Trends of % of GDP
	Tk. In Crore	% of GDP		Tk. In Crore	% of GDP		Tk. In Crore	% of GDP	
1998-99	8184.90	0.75	3.60	20803.30	4.20	3.75	28988.80	3.20	3.67
1999-00	8659.30	5.80	4.45	21708.60	4.40	4.58	30367.90	4.80	4.50
2000-01	9267.40	6.60	5.31	23130.20	7.00	5.40	32397.60	6.70	5.34
2001-02	10699.60	7.20	6.17	24194.10	4.60	6.22	34174.20	5.50	6.17
2002-03	10780.00	8.00	7.03	25780.80	6.60	7.05	36480.80	6.80	7.01
2003-04	11496.00	7.45	7.88	27572.03	6.95	7.87	39068.80	7.10	7.85
2004-05	12408.50	7.93	8.74	29860.50	8.30	8.70	42269.00	8.19	8.68
2005-06	13529.70	9.04	9.60	33156.30	11.04	9.52	46686.00	10.45	9.52
Avg.	10628.18	6.60	6.60	25775.73	6.64	6.64	36304.14	6.59	6.59
SD	1854.24	2.55	2.10	4228.34	2.31	2.02	6089.66	2.19	2.05
CV	17.45	38.70	31.84	16.40	34.87	30.42	16.77	33.26	31.05
AGR	-53.33	182.50	161.69	16139.56	162.86	153.78	61.05	226.56	159.51

⁶ Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2004, p. 92.

⁷ Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2005, p. 87.

Max. Lev.	13529.70	9.04	9.60	33156.30	11.04	9.52	46686.00	10.45	9.52
Min. Lev.	8184.90	0.75	3.60	20803.30	4.20	3.75	28988.80	3.20	3.67

Source: Bangladesh Bureau of Statistics

Note: Figures in parentheses indicate rate of growth during 1998-99 to 2005-06.

Over the last decade, a discernible change across the globe was evident in terms of women's participation in socio-economic activities particularly in the sphere of industry. The present industrial policy, therefore, attaches significant priority to the issue of creating more women entrepreneurs and ensuring more participation of women entrepreneurs in the process of industrialization. For hygienic preservation and marketing of Bangladesh agricultural products steps will be taken to make them frozen, pasteurized, canned or turn them into dry food, so that all these locally produced commodities can be exported round the year. In this age of ICT, it is possible to provide accurate and rapid customer services by using ICT for cost effectiveness and improvement of the quality of products. This is why, providing encouragement to the intensive use of ICT on certain specific areas is another important feature of present industrial policy.

Table - 3: Summary Information on SME Refinancing (up to June 2006)

Name of Banks / FIs Refinanced	Amount Refinanced (In Million)				No. of Beneficiary Enterprises			
	Working	Mid Term	Long Term	Total	Industrial	Commercial	Service	Total
Bangladesh Banks / Financial Institutions Refinanced								
1. Bangladesh Bank	23.05	76.71	36.32		343	1503	318	2164
2. IDA	17.94	37.52	15.45	70.91	174	695	61	930
3. ADB	1.66	10.23	7.81		40	88	59	187
Sub-Total (a, b & c)	42.65	124.46	59.58		557	2286	438	3281
Refinanced from Bangladesh	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. NCC Bank Ltd.	1.56	07.75	00.00	9.31	00	225	03	228
2. Jamuna Bank Ltd.	1.81	00.84	00.00	2.65	05	12	01	18
3. National Bank Ltd.	0.60	00.00	00.00	0.60	01	00	00	01
4. One Bank Ltd.	0.58	02.45	00.00	3.03	05	64	00	69
5. The Premier Bank Ltd.		02.06	00.72	11.46	39	52	18	109
6. BRAC Bank Ltd.	3.81	28.23	00.00	32.03	97	896	02	995
7. Southeast Bank Ltd.	2.79	00.15	00.00	2.94	00	31	10	41
Sub-Total (1-7)	19.82	41.48	00.00	62.03	137			

Source : Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2006, p. 92.

3.3 Bangladesh Bank: Bangladesh Bank disburses Tk 226.69 crore for refinancing.⁸ Out of this, the contribution of IDA and ADB was Tk. 70.91 crore and Tk. 19.70 crore respectively while that of Bangladesh Bank was Tk. 136.08 crore (Table No. 3). Bangladesh Bank disburses Tk 1237.34 million for refinancing,⁹ out of this, the contribution of World Bank was Tk. 237.26 million while that Bangladesh bank was Tk. 999.98 million during 2005. **IDA:** IDA has provided US\$ 10 million to Enterprises Growth and Bank Modernization Project (EGBMP) during 2004-05. **ADB** has finalized an agreement with Bangladesh Bank

⁸ Loc. cit.

⁹ Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2005, p. 90.

to provide additional US\$ 30 million to this sector. These huge resources would strengthen the financing programme of EGBMP. This results in employment generation in one hand and enhancement of purchasing power of the poor on the other hand. Under this programme, the financing capabilities of various financial institutions and banks have been enhanced during 2006.¹⁰ **anks and other Financial Institutions (FIs):** Banks and other FIs are supporting this effort of the Government by extending industrial credit and other necessary assistance to this sector. In 2004-05, term loan disbursement in the industrial sector stood at Tk. 8704.52 crore, which is 30.39 percent higher than that of the same period of the previous year.

Table - 4: Summary Information on SME Refinancing (up to June 2006)

Non-Bank Financial Institutions	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. Uttara Finance & Investment	0.78	5.44	9.65	158G	00.00	0	90	90
2. Prime Finance & Investment	1.40	1.40	0.60	3 39	2	13	2	17
3. Midas Financing Ltd.	0.05	18.2G	7.74	2604	110	201	97	408
4. IDLC of Bangladesh	0.00	1.06	1.35	241.00	4	1	2	7
5. Phoenix Leasing Co. Ltd.	0.12	1.59	4.27	5.99	23	2	2	27
G. United Leasing Co. Ltd.	0.40	5.34	7.47	13.21	25	4	51	80
7. Vanik Bangladesh Ltd.	0.03	0.05	0.00	0.08	2	0	0	2
8. Bay-Leasing	0.25	0.52	0.47	1.24	7	0	1	8
9. Fidelity Assets & Securities	0.00	0.59	3.48	4.07	17	0	34	51
10. Islamic Finance	0.20	1.00	0.57	1.77	6	2	5	13
Sub-Total (1-10)	23.05	76.71	36.32	136.08	343	1503	318	2164
(b) Refinanced from IDA Credit Fund								
Banks	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. NCC Bank Ltd.		5.59	4.13	9.82	2	228	5	235
2. BRAC Bank Ltd.		28.22	0.00	28 22	128	35G	6	490
3. Southeast Bank Ltd.		0.17	0.35	5.85	6	36	3	45
4. The Premier Bank Ltd.		0.27	0.00	4.40	4	14	6	24
5. One Bank Ltd.			0.00	1.47	1	30	0	31
6. Dutch-Bangla Bank Ltd.		0.00	0.00	7.80	17	20	1	38
Sub-Total (1-6)								

Source : Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2006, p. 92.

Table - 5: Summary Information on SME Refinancing (up to June 2006)

Non-Bank Financial Institutions	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. Fidelity Assets & Securities Co.		0.06	0.00	006	0	1	0	1
2. IDLC		1.21	0.48	1.69	4	5	4	13
3. Phoenix Leasing Co. Ltd.		0.65	4.72	5.62	12	5	6	23
4. Uttara Finance & Investment		0.20	5.77	5.98	0	0	30	30
Sub-Total (1-4)	17	37.52	15.45	70.91	174	695	61	930
(C) Refinanced from ADB Fund								
Banks	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. One Bank Ltd.			0.50	2.17	3	33	0	36
2. Eastern Bank Ltd.			0.00	1.28	1	9	1	11
Non-Bank Financial Institutions	Amount Refinanced (in Crore)				No. of Beneficiary Enterprises			
1. People's Leasing Co. Ltd	0.00	0.27	1.85	2.12	2	11		13

¹⁰ Op cit.

2. Midas Financing Ltd.	0.00	2.63	1.90	4.53	24	24	14	62
3. IDLC of Bangladesh	0.00	1.63	0.35	1.98	4	0	5	9
4. Islamic Finance	0.00	3.09	1.26	4.35	6	11	9	26
5. Uttara Finance & Investment	0.00	1.32	1.95	3.27	0	0	30	30
Sub- Total (c)	1.66	10.23	7.81	19.70	40	88	59	187
Grand Total (a + b + c)	42.65	124.46	59.58	226.69	557	2286	438	3281

Source : Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2006, p. 93.

On the basis of above table that up to June 2006 Bangladesh Bank distributed Tk. 226.69 crore as refinancing to 8 banks and 10 other financial Institutions. It mentioned that the same amount of money was distributed by the above banks and financial institutions to 3281 SMEs earlier as loan. Out of the total loan, Tk. 42.65 crore has been provided as working capital, Tk. 124.46 crore as mid-term loan and Tk. 59.58 crore as long-term loan for the development of SMEs in Bangladesh.

3.4 The Sectors Under SMEs

The important sectors under SMEs are handlooms and handicrafts, small machine shops, printing press, bicycle and rickshaw assembling, agro-products, wood and steel furniture, light engineering, electronics, foot ware, plastic products, textile dyeing and block printing (manual), computer software and information technology, specialized silk wearing, small grocery stores etc.¹¹

4.0 Findings and discussion

The government took effective measures for the augmentation of the industrial growth and diversification of the industrial sector.¹² Currently, the manufacturing sector including local textile, leather products, agro-based industry, bicycle and light engineering etc., are given cash support to augment export. To boost up industrial investment, the ationalized commercial banks have reduced the rate of interest from 10-12.50 percent to 9 percent in the thrust industrial sectors, such as textile industry (including readymade garments), agro-based industries, computer software and information technology, data export, production of artificial flowers, frozen food, (including frozen poultry and meat), gift items, 100 percent export oriented finished leather goods and jute goods, jewellery, diamond cutting and polishing, oil and gas, cocoon cultivation and sericulture and stuffed toys. The rate of interest has been reduced from 8-10 percent to 7 percent for preshipment and packaging credit for export of RMG, frozen food and agricultural commodities. Besides, bank rate has been reduced from 7 percent to 5 percent to induce reduction of interest rate of bank loans.

4.1 Causes of Lower Growth & Low Productivity of SMEs

One of the few reasons hindering the growth of SMEs towards capturing a larger market access is the assurance of quality products. Bangladesh Standards and Testing Institute (BSTI) are responsible in securing quality assurance (QA) certificates from registrars of QA. Such issues have already been brought up in the WTO negotiations.

- Poor marketing campaign and promotion is another important factor that acts as a key constraint to healthy growth of SMEs.

¹¹ Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2004, p.90

¹² Bangladesh Economic Review, Economic Advisor's wing, Finance Division, Ministry of finance, Govt. of the People's republic of Bangladesh, 2005, p. 88

- Most of the enterprises lack in proper marketing strategy and have poor promotional strategy of their products. Lack of innovation and ideas is responsible for this.
- Thus, failure of timely delivery has been slowing down the process of SME growth in Bangladesh.
- Lack of diversified products for export is yet another factor that has adversely affected the SMEs sector. Diversified product is a key issue in attaining greater market access.
- Besides such constraints operating on the demand side, there are problems on the supply side too.
- The SMEs in Bangladesh do not have access to sufficient finance and this is one of the major factors, responsible for their slow rate of growth.
- Access to credit is a big problem for SME market development.
- And whenever the credit is available, the rate of interest is high and is at par with that for large enterprises.
- Other constraints to SMEs growth are lack of access to technology, lack of information and knowledge, absence of confidence, poor productivity due to unskilled labour, poor research and development.

SWOT MIX FOR SMEs

Items	Components
Strengths:	Govt. guidance, commitment to the customers, good feedback systems, good management competence, heavy competition, experienced & skilled manpower, sound HRM, good monitoring, proper supervision, social welfare attitude, Large scale Experienced Human Resource Management etc. are the strength of SMEs.
Weakness:	Lack of motivation of employees, dependence on head office, lack of good entrepreneurs, high cost of fund, promotion systems, no job satisfaction, poor salary structure, technological barriers, limited users of the products, environmental constraints, excess liquidity, salary structure as per market economy, lack of market information & relationship etc. are the major weakness of SMEs.
Opportunity:	Infrastructure Facilities, foreign exchange, sound remittance, strong supervision of loan good monitoring systems, foreign services, pressure of market economy etc. are the major threats of SMEs
Threats:	Special rules & regulations, control on fund management, political unrests, dependence on govt.'s decisions, political violence & pressure, poor recovery performance due to willful defaulters, CBAs and trade union pressure & organizational discipline, environmental difficulties like hartal, political unrests, lack of sufficient equity, political violence & pressure, delay legal action & drastic action against fraud, poor job security, misuse of communication cost (misuse of telex, mobile, telephone, fax, ac cost, internet bills), government policy, political concepts & privatization policy etc. have the major threats

5.0 Conclusion, Suggestions & Policy implications

At present, Our Bangladesh imports huge quantity of different types of products including food, cosmetics, toys, instruments, medical instrument, luxurious items, electric appliances and electronics items, parts and machinery, furniture, medical items and other products. For this purpose Bangladesh has to pay huge amount of import bill every year. As a result foreign currency reserve is under pressure pushing prices of dollar increase, which automatically impact, on import of raw materials and intermediate goods causing inflation in the economy. Its impact is reflected on the prices of imported products. Thus, in capturing a larger market, both domestic and international, Bangladesh, like other developing countries in Asia, faces many constraints and such constraints operate from both demand and

supply sides. When efforts will be made in a coordinated way to overcome such constraints, this will benefit the economy of Bangladesh.

Developments of a strong SME sector for Bangladesh is vital for a self-sustained manufacturing sector and reduce dependency on import. Some of the important SME sectors of Bangladesh are Handicrafts, Ready Made Garments (RMG), Light engineering, Leather & leather goods, Frozen Foods. Ceramics, Jute, Electronics, Agro based Industries, Information Technology etc. It is seen that we have only one predominant sector i.e.. RMG. About 76% of total export earnings come from RMG sector. But we have to spend overwhelming major portion of the export earnings for importing raw materials of RMG sector. Export earnings from RMG was US \$ 6.41 billion in 2004-05 but lions share of export earnings was spent for importing of raw material. It is not safe to depend on only one sector. If we lose this sector to the more competitive exporters like China, India & Pakistan then a catastrophe may be seen in this sector. So we should develop other sectors and diversity exports to survive in the global competition. We need to develop a short, medium and long-term SME development strategy in a planned manner to face such situation boldly.

Suggestions for Growth & Development of SMEs

- Proper training facilities for the staff and setting up of information booths or display centres for SME products, both domestic and international, may help improve the situation.
- In order to capture a larger market share, both domestic and international, it is very important that the products are delivered to the consumers at the right time at the right place, and of course, at the right quality & quantity.
- In addition to that, supplies should be available according to the demand or the needs of the consumers. When consumers face a lack of variety in products, they have a limited range of choice.
- SMEs should be produced exportable surpluses of commodities, which would be significant contribution to the economy of Bangladesh.
- SMEs need some supports in areas of getting an improved access to credit at a lower rate of interest. Export-oriented SMEs should also be supported with the services of an export credit agency to mitigate their risks of exporting. Here the support of working capital from banks and other financial institutions should be facilitated.

6. Regarding Manufacturing Units:

Small : Investment up to Tk 15 Million (excluding cost of land & building).

Medium: Investments of Tk. 15 Million to 100 Million (excluding cost of land & buildings)

Regarding Non-manufacturing Units

Small : Number of Employees upto 25 Million ,

Medium : Number of Employees 25 to 100 persons.

Policies & Strategies for Development of Small & Medium Enterprises (SMEs)

The following steps may be taken for the development of SMEs & should be implemented the policies for the development of SME sector towards economic development of Bangladesh;

- Properly arranging the assisting systems for loan sanctioned without collateral.
- Assist to select SMEs which can be offered financial support.
- To develop ICT related support for growth & development of SME.
- To encourage FDI, Good governance and develop code of ethics with ICT based knowledge.
- To help by the necessary steps against resolve legal disputes.
- To develop the infrastructure side that will facilitate SME growth & development.
- Civil Society Organizations should be promoted, which support the growth of enterprises and growth of SMEs like Management/Monitoring/leadership etc.

- Reorient the fiscal and regulatory measures with other government support institutions towards facilitating SME achievement.
- To provide government policy systematically to assist the SMEs growth.
- The government's policies shall be integrated in the PRSP of the government.
- To accept SME as player in national development
- A SME Technology Policy should be implemented:
- Arrange easy financing for SME entrepreneurs
- Build up an effective distribution channel and information system Stop import of foreign goods, which we can produce in our home country.
- Monitor the implementation activities strongly provided for the same.
- Create accountability for not implementation of the policy.
- Ensure sufficient infrastructure facilities needed by SMEs by all agencies
- Request the developed countries for providing modern technology with technical knowledge;
- Reduce interest rate for loan capital;
- Ensure transport and warehouse facilities;
- Remove corruption, dilly-dallying and harassment affecting development of SME sector;
- Easy access to loan for the farmers and encourage farmers for processing of the products;
- Accord Tax Holiday of 15 years for SMEs for processing agro-products and establishment of agro-industries in predominantly agricultural areas like munga-hit North Bengal.
- SME Foundation should be formed as a pivotal platform for rendering necessary services like planning, organizing, motivation, financing, advocacy & ensuring services etc.
- The SMEs should be introduced revenue & financial incentives according to Industrial Policy 2005.
- The government of Bangladesh should be committed to SME development for economic growth and poverty alleviation of the common people.
- The government should be played the role of a facilitator removing obstacles, neutralizing market failures and providing necessary promotional support for the development of Bangladesh.
- Urgently selected policies must be taken to accelerate the development of SME sector.

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