



Economic Policy Paper
on
Benchmarking of Regional SME Policies:
Identification of Policy Intervention Areas for Bangladesh

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List of Acronyms and Abbreviations

ADB = Asian Development Bank
ADBP = Agricultural Development Bank of Pakistan
APCTT = Asia Pacific Center for Technology Transfer
ASSOCHAM = Association of Chambers of Commerce and Industries
BCSIR = Bangladesh Council of Scientific & Industrial Research
BDS = Business Development Service
BDSM = Developing Business Service Markets
BDSPs = Business Development Service Providers
BIDS = Bangladesh Institute of Development Studies
BIP = Business Improvement Program
BIS = Bureau of Indian Standards
BISNET = Business Information services network
BOI = Board of Investment
BSCIC = Bangladesh Small and Cottage Industries Corporation
BSTI = Bangladesh Standards and Testing Institution
CCI = Council for Common Interest
CDC = Consultancy Development Centre
CED = Centre for Entrepreneurship Development
CETRA = China External Trade Development Council
CIB = Credit Information Bureau
CIDA = Canadian International Development Agency
CII = Confederation of Indian Industries
CSIO = Central Small Industries Organization
CSIO = Central Small Industries Organization
DCCI = Dhaka Chamber of Commerce and Industry
DCSSI = Development Commissioner, Small Scale Industries
DFID = Department for International Development
DIC = District Industries Center
DVP = Design Venture Programme
EDII = Entrepreneurship Development Institute of India
EEF = Equity & Entrepreneurship Fund
EFS = Export Finance Scheme
EOBI = Employees Old Age Benefits Institution
EPB = Export Promotion Bureau
EPZ = Export Processing Zones
ESSI = Employees Social Security Institutions
ETDC = Electronics Test and Design Centres
FASSI = Federation of All India Small Scale Industries
FASSI = Federation of All India Small Scale Industries
FBS = Federal Bureau of Statistics
FCCISI = Federation of Chambers of Commerce and Industry
FI = Financial Institutions

FICCI = Federation of Indian Chambers of Commerce & Industry
FOSMI = Federation of Small and Medium Industries
FPPCI = Federation of Chamber of Commerce and Industry
GDP = Gross Domestic Product
GOB = Government of Bangladesh
GoP = Government of Pakistan
GTZ = Deutsche Gesellschaft für Technische Zusammenarbeit
HEC = Higher Education Commission
HEC = Higher Education Commission
HRD = Human Resource Development
ICSI = Indian Council of Small Industries
IDB = Industrial Development Board
IED = Institute of Entrepreneurship Development
IFC = International Finance Corporation
ILP = Industry Links Program
INSMED = Institutes of Small and Medium Enterprise & Entrepreneurship Development
INSMED = Institutes of Small and Medium Enterprise & Entrepreneurship Development
ISIC = International Travel Identity Cards
IT = Information Technology
JOBS-USAID = Job Opportunities and Business Support-United States Agency for International Development
JSF = Japan Special Fund

List of Abbreviations

LUMS = Lahore University of Management Sciences
MCCI = Maharashtra Chamber of Commerce & Industry
MEDIPIP = Ministry of Enterprise Development, Industrial Policy & Investment Promotion
MFA = Multi Fiber Agreement
MOI = Ministry Of Industries
MoITT = Ministry of Information Technology & Telecom
MoITT = Ministry of Information Technology & Telecom
MoST = Ministry of Science & Technology
MoST = Ministry of Science & Technology
NCB = Nationalized Commercial Banks
NCPC = National Cleaner Production Centre
NIESBUD = National Institute of Entrepreneurship and Business Development
NISIET = National Institute of Small Industry Extension Training
NPC = National Productivity Council
NRDC = National Research Development Corporation
NSIC = National Small Industries Corporation
NSIC = National Small Industries Corporation
PCQCA = Pakistan Standard and Quality Control Authority
PDTC = Prototype Development and Training Centers
PDTC = Prototype Development and Training Centers
PPAF = Pakistan Poverty Alleviation Fund
PPTA = Project Preparatory Technical Assistance

PRSP = Poverty Reduction Strategy Paper
PSEB = Pakistan Software Export Board
PSEB = Pakistan Software Export Board
QA = Quality Assurance
R&D = Research And Development
RBI = Reserve Bank of India
RRB = Regional Rural Banks
SBP = State Bank of Pakistan
SCI = Small and Cottage Industries
SDC = Swiss Agency for Development and Cooperation
SE = Small Enterprise
SEDF = South Asia Enterprise Development Facilities
SFC = State Financial Corporations
SIDA = Swedish International Development Cooperation Agency
SIDBI = Small Industries Development Bank of India
SIDC = Small Industry Development Corporations
SIDC = State Industrial Development Corporation
SIDO = Small Industries Development Organization
SISI = Small Industries Service Institute
SISI = Small Industries Service Institutes
SLR= - Sri Lankan Rupee
SME = Small and Medium Enterprises
SMED = Small and Medium Enterprise Developers
SMEDA = Small and Medium Enterprise Development Authority
SME-DEEP = SME Development and Export Expansion Program
SMESDP II = Small and Medium Enterprise Sector Development Programme
SME-SPI = Small And Medium Enterprise Support Program, India
SMETEF = SME Trade Enhancement Facility
SMI = Small and Medium Scale Industries
SSE = Small Scale Enterprise
SSI = Small Scale Industries
SSI = Small Scale Industry
TA = Technical Assistance
TANSTIA-FNF Center = Tamil Nadu Small and Tiny Industries Association, Chennai –
Friedrich Naumann Foundation, Germany
TASF = Technical Assistance Special Fund
TCOs = Technical Consultancy Organizations
TIC = Technology Innovation Centers
TIC = Technology Innovation Centers
WASME = World Assembly of Small and Medium Enterprises
WTO = World Trade Organization

Benchmarking of Regional SME Policies: Identification of Policy Intervention Areas for Bangladesh

A. BACKGROUND

Small and medium enterprises (SMEs) are the major driving economic forces for many developing countries and least developed countries. Bangladesh is not an exception to that. SMEs are spread over both in formal and informal sectors. There is no authentic statistics as regards contribution of SMEs to the national income. However, given the definition, both previous and current, SMEs comprise more than 75 per cent of the economy of Bangladesh. Despite such huge contribution to the national economy, SMEs remained out of focus of the policy makers. Until formation of SME taskforce in 2003, there was no separate policy to promote SMEs in Bangladesh. Promoting SMEs in Bangladesh was a part of Industrial Policy. Since independence, entrepreneurs received a number of policies regarding industrial development.¹ The latest one was adopted in 2005. There is also no specific institution, which can look after the promotion and growth of this sector. In this context, the government formed an SME task force for development of SMEs under the Ministry of Industries, which submitted a report in September, 2004. The task force proposed, *inter alia*, some elements for formulation of an SME Policy, which have been considered in the business community as a logical outcome of the exercise by the task force.

As a focal point of SMEs in Bangladesh, Dhaka Chamber of Commerce and Industries (DCCI) holds its own view as regards development of SMEs in the country. The foundation of such view lies in understanding SME policies of neighbouring countries, and in taking a cue where appropriate, in formulation of our own policies. There are many analyses about problems of SMEs in Bangladesh and abroad, however, a few countries could match policy intervention with those problems and promote SMEs as a driving force of the economy. It is very important to understand those policies and translate them to the realities in Bangladesh, where appropriate. Thus, DCCI commissioned a study to understand the SME policies in South Asian countries and identify good practices for replication in Bangladesh.

B. VARIETY OF SME DEFINITION AND ITS IMPLICATIONS FOR SELECTED COUNTRIES

The definition of SMEs varies widely in South Asia. Some countries define the SMEs in terms of asset value excluding cost of land and building or only land, other define them in terms of number of employees. A number of countries recognise micro category of enterprise [Table 1, Annex A].

India, Bhutan and Nepal are more delicate towards smallest players in the market and developed a category of tiny or micro enterprises. The maximum limit of asset for tiny enterprises in India is only Rs. 2.5 million, which is progressive in terms ensuring access

¹ Industrial Policy 1982, Industrial Policy (Revised) 1986, Industrial Policy 1991, Industrial Policy 1999, Industrial Policy 2001, and Industrial Policy 2005.

to special support. Such special categorization within the SMEs creates scope of facilitating this important cluster of the economy with more care.

On the other hand, India and Bangladesh define separately the services industries within SMEs, which is a very progressive step, given the growing importance of services sector globally and within the economy. India goes further with special incentives for the SMEs with 50% export portfolio.

TABLE 1. COMPARISON OF DEFINITIONS OF SMES IN SELETED COUNTRIES

	Manufacturing			Service/Non-manufacturing			Special
	Tiny	Small	Medium	Tiny	Small	Medium	
India	<=Rs. 25 lakhs	<= Rs. 1 crore For some special types <= Rs. 5 crores	-	-	<= Rs. 10 lakhs	-	If a unit >50% exports, get special incentives
Pakistan	-	Employee: =50; Asset: Rs. up to 30 million Annual sales: Rs. =100 million	Employee: 51 - 250; Asset: Rs. 30 - 100 million Annual sales: Rs. 100 -300	-	Employee: service: =50, trade: =20; Asset: service &trade: Rs. up to 20 million Annual sales: Rs. =100 million	Employee: service: 51 - 250, trade: 21 - 50; Asset: Rs. = 100 million Annual sales: Rs. 100 -300	
Bhutan	<= Nu 100 million			-	-	-	
Nepal	<= Rs. 200000	<= Rs. 30 million	<= Rs. 30 - 100 million	-	-	-	
Sri Lanka	-	<= Rs. 1 -20 million	<= Rs. 50 million	-	-	-	
Malaysia			Employee: <= 150			Employee: <= 50	

		Annual Sales turn over: RM 25 million		Annual Sales turn over: RM 5 million
Philippines		Employee: <= 200		
		Annual Sales turn over: P 45 million	- - -	
Japan		Employee: <= 300 Asset: Y 10 million		Wholesale Employee: <= 50 Asset: Y 30 million Retail Employee: <= 50 Asset: Y 10 million
Bangladesh	Investment: <= Tk. 15 million	Investment: <= Tk. 15 - 100 million	Employee: <= 25	Medium : 25 - 100

Source: Various Policy Documents of Respective Countries.

In terms of asset or investment size India and Bangladesh are equally flexible. The asset size for Indian small enterprises is Rs. 10 million, whereas in Bangladesh it is Taka 15 million. Recent SME Policy changes of Pakistan under new SME Policy 2006 make the SME sector also flexible in Pakistan.

As a whole, the Bangladeshi definition for small and medium enterprise is suitable for development of the sector, given that the incentive package is designed properly. However, absence of a category of micro enterprise in the Industrial Policy 2005 would not be helpful in making micro enterprise competitive in today's globalised economy. A specialized category with a ceiling of asset of Taka 2.5 million would be useful for huge number of micro enterprises functioning both in formal and informal economy.

C. IMPORTANCE OF SMES IN SELECTED COUNTRIES

In the following table an attempt was made to capture some features of SMEs in South Asia, which are relevant to show the importance of SMEs for the respective economies. Despite substantive effort, it was not possible to generate statistics for the table; as a result, a majority of the cells of the table remains blank. The table is presented just to show that how poor is the statistics for the SMEs. Lack of statistical data hinders seriously SME policy making.

In terms of share of SMEs in total number of industrial units, it is vivid that their share is overwhelming, at least for Bangladesh, Bhutan and India. Contribution of SMEs in industrial employment is also high in a number of countries. As regards value addition in manufacturing sector Nepal counts for 80%, where contribution in value addition for Bangladesh is maximum 50%. Contribution of SMEs in civilian employment is 70 per cent in Pakistan, whereas in Bangladesh it is only 23 per cent.

There is no doubt that cost of creation of a job in SMEs is much cheaper than in large enterprises. Furthermore, SME is the source of capital formation in a country like Bangladesh, where big capital formation is limited due to weak industrial base. However, lack of credible figures hinders policy makers in making pro-SME measures.

TABLE 2. IMPORTANCE OF SMES IN SELECTED COUNTRIES

	Banglade sh	Bhuta n	India	Maldiv es	Nepal	Pakistan	Sri Lanka
Number of Enterprise	600000				47228	2.88 million	
Share in total industrial units	90%	85%	95%			90%	
Share in total industrial investment					40%	20%	
Share in industrial output			40%				
Share in GDP						30%	
Share in national exports			35%			25%	14%
Contribution to total civilian employment	23%					70%	
Contribution to industrial employment	80 -85%				98%	78%	
Contribution to manufacturing value addition	45 – 50%				80%	35%	

Source: Various Policy Documents of Selected Countries.

D. CONTRIBUTION OF SMES IN NATIONAL ECONOMIES OF SOUTH ASIA

Bangladesh: There is no doubt that overall contribution of SMEs to the national economy is dominant comparing to large-scale industries. However, controversies continue with extent of contribution of this sector. The various categories of SMEs together contribute between 80 to 85 percent of industrial employment and 23 percent of total civilian employment [SEDF, 2003]. The robustness of SME contributions to employment generation is a common phenomenon in most developing countries in that

the magnitude varies between 70 to 95 per cent in Africa and 40 to 70 per cent in the countries of the Asia-Pacific region [Ahmed, M.U. 1999]. The most commonly quoted figure by different sources (ADB, World Bank, Planning Commission and BIDS) relating to value added contributions of the SMEs is seen to vary between 45 to 50 per cent of the total manufacturing value added.

While compiling statistics on SMEs, one can get figures published by BSCIC, which covers only manufacturing units albeit partially. The latest BSCIC estimates suggest that there are currently 55,916 small industries and 511,612 cottage industries excluding handlooms. Number of cottage units shoots upto 600,000 units once the figure also counts the handloom sector, which indicates numerical superabundance of the SCIs in Bangladesh. According to Planning Commission the number of medium enterprises (undefined) is around 20,000 and that of SCIs to be between 100,000 to 150,000. This wide variation in the BSCIC and Planning Commission estimates of the numerical, size of the SMEs might be due to at least two reasons: (a) different set of definitions of the SMEs, and (b) different coverage of SME families [Ahmed, M.U 2001]. Whatever the correct magnitude, the SMEs are undoubtedly quite predominant in the industrial structure of Bangladesh comprising over 90% of all industrial units. This numerical predominance of the SMEs in Bangladesh's industrial sector becomes visible in all available sources of statistics [Ahmed, M.U 2001].

This variety strongly suggests the need for adopting and using a uniform set of definitions for SMEs by all government agencies to help formulation of pro-active SME promotion policies. As the new definitions have been adopted in the Industrial Policy 2005 of the country, it would be very timely to harmonize the definitions by a number of key institutions: Bangladesh Bureau of Statistics, Finance Division of Ministry of Commerce, Planning Commission, Bangladesh Bank and all financial institutions, Export Promotion Bureau, Ministry of Commerce, and of course Ministry of Industry.

Nepal: In Nepal innumerable small enterprises are spread across the country both in the formal as well as informal sector [Table 3]. These enterprises include mostly small family enterprises involved in manufacturing, trading and personal services which are usually locally owned and operated by one person and rely on unique skills of owners. More than 80 percent of the national value addition in the manufacturing sector comes from SMEs, the share possibly being even higher in the non-manufacturing sectors. SMEs employ 98 percent of the non-agricultural labour force and attract around 40 percent of all industrial investment.

TABLE 3. DOMINANCE SMALL INDUSTRIES IN NEPAL

Category	10 or more Employees**	Less than 10 Employees*	Total	% Of Industries having less than 10 Employees
Number of establishments	3557	43,671	47,228	92%
Number of employees	196,708	121,270	317,978	38 %
Output in Million	54,927	25,945	80,872	32%

Rupees

Value Added in Million Rupees	21,875	6,675	28,550	23%
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Source: (i) Census of Manufacturing Industry, 1996 - 1997, Central Bureau of Statistics, Katmandu, Nepal. (ii) Survey of Small Manufacturing Industries, 1999 - 2000, CBS.

The table shows that small industries with less than 10 employees (which include household manufacturing enterprises having at least one hired labourer and the household manufacturing units without hired labour; but the enterprises are sole-income sources to run the house) represents 92% of the total manufacturing industries. There is a dearth of data on industries other than manufacturing industries. Nevertheless, the number of small enterprises in trade and service are tremendously high. A great number of such small firms, which are mostly informal sector firms, represent the majority of the enterprise sector in Nepal.

Bhutan: The Bhutanese economy is dependent mainly on hydropower, whose exports account for some 45 percent of the government revenues. The rugged terrain of Bhutan provides her with an enormous hydropower potential – currently estimated at 30,000 megawatts – in addition to substantial forest resources and biodiversity [World Bank, 2006]. In the short run, the hydropower sector will continue to be the mainstay of the economy. However, given the high capital intensity and low employment elasticity of this sector, the government is providing incentives for development of other industries and services such as the information technology industry, and controlled expansion of tourism and tourism-related services. Cottage and mini industries comprise about 85 percent of the country's total establishments, and SMEs are expected to play a greater future role in absorbing the growing number of young and educated Bhutanese, because public sector employment will be limited. However, trade liberalization has made the Indian market, which until recently was a ready market for finished and semi-finished product from Bhutan, increasingly competitive.¹

India: In India development of the SME sector has been a consistent element of industrial and employment policy since the 1970s, with the objectives of creating jobs and reducing economic imbalance, notably in rural and less developed areas. Today, small-scale industry (SSIs) account for some 95 percent of all industrial units, 40 percent of industrial output and 35 percent of national exports. This suggests some success in implementing SME policy, although poverty and lack of employment opportunities are still prevalent. The current Tenth Five Year Plan 2002-07 expects the SSI sector to grow by 12 percent and create 4.5 million jobs (nine percent of the total), in particular by taking advantage of the potential of India's natural resource base and large domestic market to stimulate real value and jobs along supply chains².

² **Experience of Sme in South and south-East Asia** By Anil Sinha :www.bei-bd.org/beireport/sme/Experience%20of%20SMEs%20in%20South%20and%20South-east%20Asia.pdf

Pakistan: According to the recent Census of Establishments conducted by the Federal Bureau of Statistics (FBS) there are about 3.2 million economic establishments in Pakistan. Out of these small and medium size enterprises (with employment base up to 99) constitute about 90% of all private enterprises employing approximately 78% of non-agriculture labor force¹. SMEs contributed over 30% to GDP, 25% in export earnings besides sharing 35% in manufacturing value addition [SMEDA, 2006]. While 99 percent of the 2.3 million enterprises that are very small absorb 60 to 70 percent of labour in the manufacturing industry, service and trade sectors. Units employing between 10 and 99 workers absorb an additional 20 percent of labour.

Though in Pakistan in the past 50 years, government policies have not been supportive of SMEs and have in many ways impeded the growth of the sector. Despite this lack of positive support, and whilst only 20 percent of investment is made in SMEs, the sector has generated around 70 percent of total employment, contributing more than 30 percent to GDP and absorbing more than 80 percent of non-farm employment.

Having recognised the sector's employment generating potential, increasing incomes and reducing poverty, the government now affords much higher priority to the development of SMEs, and its I-PRSP emphasises the importance of the private sector and enhanced investment as core elements of the strategy for high growth and employment generation.

Sri Lanka: Although SMEs encompass agriculture, manufacturing and service sector establishments, reliable data are available only for the manufacturing sector. Within the manufacturing sector, small and medium scale industries (SMI) account for about 96 per cent of industrial units, 36 per cent of industrial employment and 20 per cent of value added. However, the total contribution of SMEs to the national economy cannot be estimated due to paucity of information [Table 4].

TABLE 4. CONTRIBUTION OF SMES TO THE NATIONAL ECONOMY OF SRI LANKA

Size Group	1983			1996		
	Establishments	Employment	Value Added	Establishments	Employment	Value Added
Small	86.6	29.2	11.3	85.4	18.7	4.9
Medium	11.4	19.4	19.8	10.7	17.6	14.7
Large	2.0	51.4	68.9	3.9	63.7	80.4

Source: *National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka*, White paper, Prepared by Task Force for Small and Medium Enterprise Sector Development Programme, December 2002, Sri Lanka.

In Sri Lanka a recent survey³ revealed that the SME sector comprises largely well-established businesses, of which sole proprietorships and partnerships account for 80

¹ **Experience of SME in South and south-East Asia** By Anil Sinha: www.bei-bd.org/beireport/sme/Experience%20of%20SMEs%20in%20South%20and%20South-east%20Asia.pdf

percent of all SMEs surveyed. This might suggest that the sector is not particularly dynamic, in terms of either new entrants or growth of established businesses. SMEs with less than 30 employees account for 85 percent of all SMEs. The average current employment size being 22.7 employees for all SMEs surveyed, whilst survey findings show that 82 percent of SMEs have an average annual business turnover of SLRs 10 million or less. The principal business market for 86 percent of SMEs surveyed is mainly domestic, with 14 percent engaged in predominantly export markets or a combination of domestic and export markets.

Other Countries: Small and medium industries (SMIs) constitute approximately 84% of the manufacturing establishments in Malaysia. In 1997, their contribution to the manufacturing sector was 17.47% of total output, 19.13% of value added and 12.27% of total employment. The SMEs in Thailand constitute about 95.8% of the total number of industrial entities in 1997. In terms of employment, SMEs employed 1.33 million of 7.33 million industrial forces in 1996 [Hall, 2002; Myint, 2000; Reguier, 2000; SMIDEC, 2002; Tambunan, 2000]

E. SECTORAL CONCENTRATION OF SMES

Sectoral concentration of SMEs vary from country to country. However, given the diversity of economic activities in India, the products produced by the SMEs in India are very diverse, starting from the low end products and ending up to the sophisticated electronic products [Table 5]. All of these products produced by SMEs receive various incentives and support form Indian central and state governments. Bangladesh's SME policy document suggests 11 sectors for special support. The list of sectors excludes some obvious candidates for support: wood works and furniture, hand made paper and textile, IT enabled services, etc.

The sectoral picture of other countries was not possible to gather. However, the list of the sectors will vary insignificantly. For Nepal, major sector is handmade carpet and cashmere.

³ Conducted by Enterplan in February to April 2003 on behalf of ADB and the Ministry for Enterprise Development, Industrial Policy, Investment Promotion and Constitutional Affairs under TA No 3822-SRI.

TABLE 5. SECTORAL CONCENTRATION OF SMES

Classification	Bangladesh	India
Manufacturing	Electronics and Electrics	Electrical Machinery & Parts
	Light Engineering and Metal Works including automobiles.	Metal Products
	Agro-processing	Food Products
	Specialized farming	
	Tissue culture and related business	Jute, Hemp and Mesta Textiles
	Leather and leather goods	Leather & Leather Products
	Knitwear and ready made garments	Hosiery & ready-made garments
	Plastics and synthetics	Rubber & Plastic Products
	Pharmaceuticals	drugs and pharmaceuticals
	Cosmetics and toiletries	soap and detergents
	Fashion rich personal effects, wear and consumption goods	Cotton Textiles
	Jute goods and Jute mixed goods	Wool, Silk, Synthetic Fibre Textiles
	Ceramics	Basic Metal Industries
	Artificial Flower Production	Chemical & Chemical Products
	Frozen Food	Machinery & Parts Except Electrical goods
	Integrated Shrimp Cultivation	Wood Products
	Flower Cultivation	Non-metallic Mineral Products
	Infrastructure	Paper Products & Printing
	Jewellery and Diamond Cutting and Polishing	Transport Equipments & Parts
	Oil and Gas	Beverages, Tobacco & Tobacco Products
	Silkworm and Silk Industry	stationery items
	Stuffed Toys	domestic utensils
	Basic Chemicals/Raw Materials used in industries	- toothpaste and toothpowder
	Dye and Chemicals used in textile industry	safety matches
	Optical Frame	preserved foods and vegetables
	Furniture	- wooden and steel furniture
	Luggage Fashion Based goods	paints and varnishes
	CR oil	Television sets
	Handicrafts	Calculators
	Stationary goods	microwave components
	Herbal Medicines	plastic film capacitors
	Commercial plantation	carbon film registers
	Horticulture	electro medical equipments
	electronic teaching aids	
	digital measuring equipments	

		air-conditioning equipments optical lenses electric motors pesticide formulators photographic sensitised paper razor blades collapsible tubes
Service	Software Development and ICT goods Educational services Health care and diagnostics Tourism Industry	Repair Services

F. MAJOR CONSTRAINTS OF SMES' GROWTH AND POLICY MEASURES IN SELECTED COUNTRIES: CASE STUDY PAKISTAN

SME Definition

Pakistan did not have a single definition of Small and Medium Enterprises. Various Government agencies, e.g., State Bank of Pakistan (SBP), Federal Bureau of Statistics (FBS), Provincial Labour Depts., etc. used their own definition. Absence of a single SME definition made it difficult to identify target firms, align development programs, collect data and monitor progress.

In the new SME Policy 2006 a single SME definition [Annex A] was proposed with a two-year transition period so that all public and private agencies can align their current SME definition in line with the SME Definition proposed in this Policy.

Business Environment

In Pakistan the fiscal, labour and enterprise regulations of the Federal and Provincial Governments do not provide for a focus on SMEs that is in line with their specific needs. Generally the fiscal regulations divide enterprises by income levels and labour related regulations realize only two forms of enterprises small and large, thus, not providing laws and implementation mechanisms that are sensitive to SME needs. Largely, the support and grievance redressal regime of the Government does not differentiate between enterprises on the basis of their size thus making it difficult for SMEs to access public support programs and attention of public authorities when competing for it with the large firms. This dilutes the ability of SMEs to effectively compete with large firms.

The new SME Policy provides outline to resolve these issues through following specific measures:

- The new SME Act (in addition to addressing other issues related to SMEs) provides for identification of fiscal, registration, labour and inspection laws that may not apply to Small and/or Medium Enterprises and simplification of those that are required to be complied with;
- Under the new regime a business entity can be certified as an SME by a simple process to be exercised by SMEDA in partnership with other government agencies, chambers of commerce and industries, trade associations and other private sector representative organizations. The process of SME Certification is proposed to be voluntary for those firms who choose to do so, to benefit from the support mechanism and simplified regulatory regime proposed through this Policy;
- A concessional and simplified tax policy for Small Enterprises (SEs) on the lines of 0.75 turnover tax for retailers is under consideration of the Federal government;
- The Federal Government encourages periodic review of all fiscal laws in force with a view to facilitate and improve growth of the small & medium enterprises;
- Periodic review of Labour Legislation will take place with a view of facilitating small enterprise growth may be undertaken where by applicability of certain laws may be relaxed for SEs for a certain period of time. However, provision of education/assistance to SMEs to achieve proper safety at work and compliance with international conventions shall be essential;
- SME Desks will be established at the Federal, Provincial, Banking and Tax Ombudsman Offices for handling and addressing SME grievances. The Complaint Cell established at State Bank of Pakistan to also facilitate redressal of SME complaints;
- A minimum quota will be established for SMEs for allocation of land in the Industrial Estates and Export Processing Zones (EPZs). SMEs may be charged a concessional rate of land (at no profit no loss basis) as compared to the cost offered to large-scale enterprises;
- All public sector procurement will encourage participation of SMEs with certain products/contracts exclusively to be competed amongst the SMEs;
- GoP supports establishment of an SME Promotion Council (including its local chapters) and SME specific Trade Associations for organizing SMEs and providing them with a platform to lobby for favourable government policies;
- Government is working to ensure adequate provision of physical infrastructure (roads, utilities etc.) in existing SME clusters;
- Capacity building and strengthening of existing CCIs and TAs, will be undertaken, making them more effective for supporting their members including SMEs, with special focus on WTO & its impact on local industry. Moreover, Government functionaries in tax, registration, labour, etc. departments are proposed to undergo specialized training for handling SME related issues;
- Genuine SME representatives will be inducted in all federal monitoring and dispute resolution schemes with private sector participation;
- Regulatory regime for specialized sectors in provinces (such as mining) will be developed as per their specific requirements keeping in view their regional dynamics;

- GoP will follow an effective strategy to reach out and communicate with SMEs using appropriate electronic and print media. Regulatory compliance procedures will be widely communicated to SMEs. Communication will increasingly use Urdu & local languages where useful;
- GoP will work for improving and enforcing Intellectual Property Rights for SMEs.

Access to Finance

According to the Investment Climate Assessment 2003, banks provide for only 7-8% of the total funding requirement of SMEs. Also, as per a study by LUMS on ‘*Barriers to SME Growth in Pakistan: An Analysis of Constraints*’, access to finance, was identified by the SMEs, as the single most important impediment to growth. This problem increases in magnitude with reduction in size and experience of the firm.

With the promulgation of the Prudential Regulations for SME Financing by SBP, the basic regulatory framework for promoting SMEs’ access to formal financing has been provided. However, increased SME access to financing will require interventions in all three areas of SME financing, i.e., demand side (Banks), supply side (SMEs) and intermediaries and regulators (SBP, SMEDA, etc).

Interventions designed under new SME Policy 2006 are:

- Incorporation of SME financing in the Annual Credit Plan of the SBP and monitoring to cater for underserved segment of the SMEs;
- Review of Prudential Regulations, periodically, in line with the SME credit demand and supply data;
- Establishment of Credit Guarantee and Credit Insurance agencies, operating inline with sound international practices, to provide incentives and risk cover for banks, so as to provide them the relevant comfort in financing SMEs;
- Support to FIs in designing and launching industry based program-lending schemes;
- Capacity building of the CIB to report positive and negative data & sharing of SME financing data by the SBP;
- Improvement in the regulatory procedures and fiscal incentives for Venture Capital companies;
- Introduction of Bankruptcy Laws with dedicated and effective judicial process;
- Expansion in the role of Banking Ombudsman to include redressal process for SME complaints;
- Awareness and promotion of options for formal financing and good accounting practices amongst SMEs;
- Promotion of Islamic mode of financing for SMEs.

Human Resource Development

The poor national performance on the Human Development Index of the UN has its consequences for SMEs in Pakistan. These include inadequate and generic education and insufficient, poorly focused and under-serving training infrastructure. SMEs mostly draw their human resource (including the owners) from either the higher education institutions or the technical training infrastructure, both of which are not attuned to the SME needs nor are they equipped to address them. This situation limits the capacity and capability of SMEs to innovate, add value, upgrade technology and devise new marketing strategies. Adding to these woes are the limited options available to SMEs to invest in HRD, technology and exploration of new markets. As a result, the SME sector in Pakistan is usually engaged in low value added manufacturing using inefficient labour, outdated technology and operating in limited and traditional markets. The SME sector neither possesses the financial strength nor the collective wisdom to climb its way out of this 'low equilibrium' enterprise activity.

Public sector institutions alone can not adequately provide HRD, technology and marketing support. However, currently, there exists an insufficient capacity of the private sector Business Development Service Providers (BDSPs) to address SME needs and limited demand for such services by SMEs (because of lack of awareness or capacity to pay).

The following interventions have been identified in the new SME Policy of Pakistan:

- Need Assessment Survey to identify major SME needs in HRD, technology upgradation and marketing;
- Establishment of Institutes of Small and Medium Enterprise & Entrepreneurship Development (INSMED) in select business schools;
- Capacity building and up-gradation (curriculum redesign, provision of equipment, teachers training, SME liaison, etc.) of selected sector specific technical training institutes serving in major SME clusters and establishment of such institutes where none exist;
- Encouraging use of the technical training infrastructure by the private sector BDSPs serving SME sector and incentives for investment in setting up SME training facilities;
- Induction of genuine SME representatives in private sector boards of the technical training institutes.

Technology Up-gradation

- Introduction of SME specific research projects supporting R&D and University-Industry liaison programs by Ministry of Science & Technology (MoST), Higher Education Commission (HEC), Pakistan Software Export Board (PSEB), Ministry of Information Technology & Telcom (MoITT) and others;
- Establishment of Technology Innovation Centers (TICs) offering common facility, technology up-gradation, R&D and design related services to SMEs;
- Launching of pilot technology up-gradation projects for major SME clusters on cost sharing basis.

In tandem with the incentives being proposed in Pakistan's Medium Term Development Framework 2005-10, following is also proposed as part of the SME Policy:

- Incentives for Investment in new Emerging Sectors and Skills upgrade in the form of reduced taxes and subsidized training for enterprises (as given below) which sign up for up-gradation of business products, processes, quality accreditation, through a Business Improvement Program (BIP) provided they:
 - Join BIP for technology, products, processes and managerial skills, and are confirmed in this improvement by an approved agency;
 - Invest in ventures on their own or with strategic foreign partners in designated high technology areas, or in export related manufacturing or electronic services as part of a larger supply chain;
 - Join the Industry Links Program (ILP) offered through various CFCs.

TABLE 6. FISCAL AND FINANCIAL INCENTIVES FOR SMES IN TECHNOLOGY UPGRADATION IN PAKISTAN

Sr. No.	Nature of Tax, Bills	Incentive for Small Enterprise	Incentive for Medium Enterprise
1	Registration	Zero (No condition)	Zero (No condition)
2	Business Improvement Program(BIP) with subsidized training for managerial, quality and technology up-grades.	Eligible upto (1 month*1/5 of staff) every year for 3 years. (Pays 25% of training cost in first year, then 10% in for the next two years,(this cost is refundable if unit is finally accredited by PCQCA or designated agency)	Eligible upto (1 month*1/5 of staff) every year for 3 years. (Pays 50% of training cost in first year, then @ 25% in for the next two years.
3	Sales Tax	Zero (Initially for 5 years, renewable for 5 years, if unit accredited by PCQCA or designated agency after training ,HRD and managerial up gradation))	50% (Initially for 5 years, renewable for 5 years, if unit accredited by PCQCA or designated agency after training ,HRD and managerial up gradation))
4	Electricity Tariffs	50% of Industrial Rates (Initially for 5 years, renewable for 5 years, if BIP successfully implemented exports are > 15% of turnover)	75% of Industrial Rates (Initially for 5 years, renewable for 5 years, if BIP successfully implemented exports are > 15% of turnover)

5	Statutory Income Tax/Withholding Tax	Zero, if (Initially for 5 years, renewable for 5 years periods if exports are > 15% and grow @10%per annum, and there is compliance with EOBI and ESSI)	Zero, if (Initially for 5 years, renewable for 5 years periods if exports are > 15% and grow @10%per annum, and there is compliance with EOBI and ESSI)
		OR	OR
		(Initially for 10 years, if investment in designated high technology/pioneering areas, renewable for another 5 years)	(Initially for 10 years, if investment in designated high technology/pioneering areas, renewable for another 5 years)

Source: SMEDA, 2006.

Marketing

- Encourage establishment of SME sector specific export marketing companies by providing matching grants in conducting international marketing research, developing marketing strategies, developing marketing material, packaging, branding, participating and conducting trade fairs and undertaking promotional and marketing activities;
- Matching grants for developing ‘world-class’ trade and product directories for major SME clusters (e.g., Members directory by Pakistan Association of Automotive Parts & Accessories Manufacturers);
- Establishment of SME quota in trade delegations supported by EPB . Compilation and dissemination of data on local markets using manufacturers, distributors and retailers data;
- Provision of support to SME associations in exploiting local market opportunities by holding domestic product exhibitions;
- Establishment of Annual SME Awards (on the lines of Annual FPPCI Export Trophy Awards) for recognizing outstanding performance in domestic and international markets, technology innovation, HRD practices, etc.

Entrepreneurship Development

Pakistan is a society of ‘employees’. The education and social system does not encourage entrepreneurship as a preferred career option amongst the youth.

Entrepreneurship is usually undertaken by those belonging to the existing business families. As a result the economy witnesses a small number of new enterprises being

created and that too in traditional areas of business overcrowding the supply/product base and their markets.

On the other hand, there are no limitations in the entrepreneurial capabilities in the populace. If, this entrepreneurial potential can be unleashed, by providing level playing field, information, awareness and support in establishing enterprises, Pakistan can witness fast paced growth in establishment of new enterprises creating new employment opportunities, improving distribution of wealth and exploiting the opportunities offered by international markets in the liberalized WTO regime.

The past Government programs to encourage entrepreneurship such as Self Employment Scheme, Youth Investment Promotion Society and Yellow Cab Scheme were limited and not too comprehensively designed and thus achieved little in promoting entrepreneurship amongst the educated Pakistani youth. There is a need for Govt. to actively promote entrepreneurship through changes in education curricula, by creating awareness amongst youth and by providing effective support to those who wish to establish new enterprises.

The policy measures proposed for overcoming the difficulties in entrepreneurship development are as follows:

- Revision in primary and higher education curricula for promoting entrepreneurship amongst the educated youth;
- Inclusion of 'Entrepreneurship' courses in (all professional degree awarding) higher education, technical and vocational training institutions in Pakistan;
- Entrepreneurship Competitions at university level to culminate in Annual Entrepreneurship Competition at National level for selecting best business plans/models and providing grant for project implementation; Establishment of technology and business incubators in selected universities in Pakistan;
- Identification of investment opportunities offered by backward and forward linkages of successful services/products.

Institutional Framework

In the recent past SMEDA stands out as a significant step towards GoP commitment to SME development. Created as an autonomous institution with private sector led governance structure, SMEDA promises to become an important institution spearheading Government's SME development efforts. However, in absence of a coherent SME development Policy framework it is unrealistic to expect a single organization such as SMEDA, to be able to implement aggressive SME development initiatives because:

- Issues to be addressed for SME development fall within the purview of a large number of Ministries and Departments at the Federal, Provincial and Local government levels. SMEDA has no institutional jurisdiction or linkage with such institutions; and
- SMEDA has limited budget and manpower, posing restrictions on its capacity to launch capital intensive initiatives and extend its outreach.

Creation of the SME Bank also marks the Government's commitment towards SME development agenda. The Bank however, is in its early days of a major restructuring exercise and focuses on a single issue faced by SMEs, i.e., access to finance, and that too on a very limited scale.

G. ROLE OF REGIONAL/ INTERNATIONAL FINANCIAL INSTITUTIONS IN SELECTED COUNTRIES FOR SME DEVELOPMENT

A number of international and regional financial institutions as well as bi-lateral donor agencies provide support to SME development in South Asia. Among them the World Bank, ADB, GTZ, SDC, SIDA are prominent. South Asia Enterprise Development Facilities (SEDF) was an umbrella initiative for South Asian SME development. The focus of this programme was Policy development Capacity building targeting the SMEs and GOB. The duration of the project is 2002 - 2007. Total fund estimated is 3.8 million.

India: India has been a member of ADB since 1966. ADB extended support to India for SME development titled Small and Medium Enterprise Finance Sector Development Project. The TA was to prepare the SME loan aimed at improving SME growth and competitiveness and at developing SME finance in collaboration with the Government and other key stakeholders. The total cost and financing of the plan is USD 800,000.00 totally funded by DFID.

World Bank, IFC and GTZ, public sector Indian banks launched a SME Project focusing on general enabling environment and financial sector reform. The duration of implementation of the project is 2004-2011. Total fund for the project is USD 25 million. SIDBI (Small Industries Development Bank of India) launched a Technical assistance program SME-SPI focusing on financial sector reform, private sector advocacy and dialogue on labour standards. The duration of the project is 2002- 2009. Total fund was USD 250000.

World Bank provides support for SME development under its project titled *SME Financing & Development*. The duration of the project is 2004 – 2008. The objective of the *Small and Medium Enterprise (SME) Financing and Development Project* is to improve SME access to finance (including term finance), and business development services, thereby fostering SME growth, competitiveness, and employment creation, key to achieving economic growth and poverty reduction. Total Project Cost is USD 173.4 million⁴.

World Bank financed a project titled *Industrial Technology Development Project* with an objective of boosting technology acquisition, development and commercialization in India. The project was also targeted for financing technology innovation by small and medium enterprises through four venture capital schemes. The project continued for 9 years (1989 - 1997). Total Project Cost was USD 200 million. Total fund was distributed

⁴(<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=223547&menuPK=158863&Projectid=P086518>)

among three major components: Industry and trade (General industry and trade sector, 56%), Finance (Micro- and SME finance, 28%) and Public Administration, Law, and Justice (Central government administration, 16%).

A sector specific project was also financed by the world Bank, where SME sector received 29% of total allocation amounting USD 210 million. A major goal of the project was policy reform to foster an electronics industry that will become internationally competitive. The project continued for the same 9 year period. (1989 – 1997).

Maldives: Similar project was also taken in Maldives. For enhancing SME growth and competitiveness and increasing the private sector's role in accelerating economic growth and poverty reduction, especially in the atolls. The total cost and financing of the plan was USD 600,000 totally funded by TASF.

Maldives received credit from the World Bank for a project titled *Integrated Human Development Project- Restoration of Post-Tsunami Cancelled Funds* in 2004. The total Project cost is USD 14.4 million. While health sector is the focus of the project, 55 of total fund is allocated for SME financing⁵.

Pakistan: Pakistan is one of the most successful countries in the region in terms of attracting foreign resources for SME development.

Pakistan has been a member of ADB since 1966. Pakistan is one of the countries in South Asia, which could attract significant resources for SME development.

Under the *Agricultural Credit Project* the World Bank financed USD 150 million, of which 48% fund was allocated for finance (micro and SME finance). The project supports medium- and long-term lending both by Agricultural Development Bank of Pakistan (ADBP) and nationalized commercial banks (NCBs). The project duration was 1990 -1996.

The goal of the technical assistance project “SME Sector Development” was to support an enabling environment for SMEs and increase their potential as catalysts for pro-poor growth and employment. It was envisaged that small and medium enterprises, key SME service intermediaries would obtain improved access to services enhancing their revenue and employment. The total cost and financing of the plan was USD 800,000 totally funded by TASF.

Under the Micro enterprise Project the World Bank provided support to Pakistani SMEs during 1991 – 1998. The total amount of support was USD 26 million. The whole amount was spent for finance (Micro- and SME finance).

⁵(<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=223547&menuPK=158863&Projectid=P098583>)

Pakistan also received a *SME Sector Development Project Loan* under for supporting the implementation of policy reforms and the building of a market-based infrastructure for business development services (BDS) and financial services to SMEs. Pakistan received total USD 18 million under this project. Under the comprehensive package Pakistan received also SME Sector Development Program Loan, goal of which was to improve SMES' contribution to economic growth, employment, and poverty reduction. The size of the programme loan was USD 152 million.

Pakistani exporters, particularly SME Exporters, are collateral deficient they face problems in accessing foreign exchange financing because of the country's weak balance-of-payments position, and commercial banks' reluctance to take exporters' non-performance or foreign buyers' non-payment risks. So far, exporters have relied on the rupee resources raised from the EFS to buy foreign exchange. To resolve the problem a SME Trade Enhancement Facility (SMETEF) was designed and implemented with a total budget of USD 370 million.

Pakistan received a significant financial support from the World Bank under its Second Poverty Alleviation Fund Project, which started in 2003. With an allocation of USD 368 million the project will continue up to 2009. seventy percent of allocation is earmarked for financing of micro enterprises and SME, which is a very positive sign for the SMEs in Pakistan, given that the fund are spent properly. The remaining 30% goes to health and other social services (Other social services, 10%), water, sanitation and flood protection (Water supply, 10%), Transportation (Roads and highways, 5%) and Agriculture, fishing, and forestry (Irrigation and drainage, 5%). It is to be mentioned that the first *Pakistan Poverty Alleviation Fund (PPAF)* was only of USD 90 million, which was closed in 2004 after starting in 1999. Half of this fund went for Micro- and SME finance). The rest of the allocation went for health and other social services (Other social services, 19%), transportation (Roads and highways, 15%) and water, sanitation and flood protection (Water supply, 8%)⁶.

Sri Lanka: Sri Lanka has been a member of ADB since 1966. For SME development ADB extended support under SME Sector Development programme in two phases. The purpose of SMESDP II is to further promote the growth and sustainability of SMEs in Sri Lanka. The total Cost and Financing of the Plan was USD 550,000 totally funded by JSF.

GTZ provides support for promotion of Micro, Small and Medium Enterprises, promotion of the Microfinance Sector, information Services for Small and Medium Enterprises (SME) to make use of Trade Opportunities in South Asia.

The *Poverty Alleviation Project* of the World Bank in Sri Lanka received USD 57.5 million for increasing income earning opportunities among the poor and improving the nutrition status of children under three years of age and pregnant and lactating mothers. The project continued from 1991 to 1997. Among major sectors Water, sanitation and flood protection (General water, sanitation and flood protection sector) got 9%, Finance

⁶(<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=223547&menuPK=158863&Projectid=P082977>)

(Micro- and SME finance) got 47%, Health and other social services (Other social services) got 26%, Transportation (Roads and highways) got 9% and Agriculture, fishing, and forestry (Irrigation and drainage) got 9% of the total allocation.

Under the title of *Sub Committee on Immediate Humanitarian & Rehabilitation Needs (SIHRN)* the World Bank financed USD 100 million mainly for improving health and social services (70% of total allocation), where 15% fund was earmarked for finance (Micro- and SME finance). The remaining 15% was allocated for agriculture, fishing, and forestry (General agriculture, fishing and forestry sector).

Nepal: In Nepal World Bank financed a project of USD 6.5 Millions titled Cottage and Small Industries Project (1981-1986). Another project titled Cottage and Small Industries Project (02) started in 1986 and was completed in 1995. In both projects Small scale enterprises received 100% allocation⁷.

Nepal received finance from the World Bank for the Poverty Alleviation Fund Project. Total project cost is USD 16.6 million and will continue up to 2009 (starting year 2004). There are five main project components, of which financing micro and SME components receives only 45 of total allocation⁸.

Nepal Power development project of USD 133.4 million comprise a small component of micro and SME financing, where only 3% of total allocated fund goes to SMEs. The majority of the fund are earmarked for power generation. The project duration is 6 years (2003 – 2009)⁹.

Bangladesh: CIDA, SDC, Sida and, Government of Bangladesh launched a program for capacity building targeting the SMEs and focusing on the general enabling environment in 2003 for five years with a scope of extension. This Developing Business Service Markets (DBSM) programme was branded as Katalyst. Total USD 15 million was allocated for this purpose.

Bangladesh has been a member of ADB since 1973. Under the auspices of ADB a SME Development and Export Expansion (PPTA) project was taken in Bangladesh in 2002 with total endowment of USD 600000. The target beneficiaries of SME-DEEP were SMEs, women entrepreneurs, work force including women, financial institutions, and business service providers are the beneficiaries¹⁰.

German Technical Cooperation (GTZ), the development support wing of German government provides systematic support to Bangladesh SME development since

⁷(<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=223547&menuPK=158863&Projectid=P010165>)

⁸(<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=223547&menuPK=158863&Projectid=P081968>)

⁹(<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=223547&menuPK=158863&Projectid=P043311>)

¹⁰ (<http://www.adb.org/Documents/Profiles/PPTA/35225012.ASP>)

independence. One of the support areas is economic reform and development of the market system: Promotion of private sector, especially Micro, Medium and Small Enterprises. GTZ currently provides support for promotion of Private Sector Small and Medium Enterprises in the post-Multi-Fibre Arrangement (MFA) era, rural Infrastructure Improvement Project Barisal und Khulna and rural Infrastructure Improvement Project Dhaka, Rajshahi and Chittagong¹¹.

A Water Supply Project was financed by the World Bank, which was started in 2004 and will continue up to 2010. Total budget of the project is USD 55.11 million. The total fund is being spent for three clusters: water, sanitation and flood protection (Water supply, 85%), finance (Micro- and SME finance, 10%) and Public Administration, Law, and Justice (Sub-national government administration, 5%)¹².

The World Bank financed a project titled Financial Services for the Poorest which started in 2002 and continue up to 2006. Total project cost is USD 181 million. World Bank expects that within the framework of the Country Assistance Strategy to substantially reduce poverty in Bangladesh, the Financial Services for the Poorest Project will contribute to this goal, by offering opportunities to targeted groups, by developing skills, and improving income generation and asset accumulation. Among the major sectors Finance (Micro- and SME finance) gets 96% and Public Administration, Law, and Justice (Central government administration) gets 4% of the total allocation¹³.

Micro and small enterprises receive 40% of allocation under the Second Poverty Alleviation Microfinance Project (Microfinance II). Out of USD 6 million major part (60%) goes to micro credit programme. It is to be noted that the first phase of the project, amounting USD 137 million, which continued during 1996 – 2000, did not have any SME financing component¹⁴.

As a whole, Pakistan was the most successful recipient of international support for SME promotion with India in second position. During last one decade Pakistan received total USD 1.16 billion for SME development. India received USD 610 million, where as Bangladesh could attract USD 257 million for SMEs development.

H. POLICY EVOLUTION FOR SMES IN BANGLADESH AND SELECTED COUNTRIES

India

¹¹ (<http://www.gtz.de/en/weltweit/asien-pazifik/bangladesch/1574.htm>)

¹² (<http://www.worldbank.org.bd/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=295760&menuPK=295794&Projectid=P086661>)

¹³ (<http://www.worldbank.org.bd/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=295760&menuPK=295794&Projectid=P074731>)

¹⁴ (<http://www.worldbank.org.bd/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=295760&menuPK=295794&Projectid=P059143>)

Early years of independence: The Industrial Policy Resolution of 1948, which marked the evolution of Indian Industrial Policy, outlined the broad contours of the policy and defined the role of the state in industrial development both as an entrepreneur and a regulatory authority. In order to optimize the utilization of scarce resources and reduce the threat of re-colonization by the multinationals, centralized planning was adopted with wide ranging controls on private trade, investment, land ownership and foreign exchange. The foundations of the policy for the small scale industry were laid in the Second Five Year Plan. In 1956, the government announced its second industrial policy which unambiguously chose equity as the guiding principle for small industry development. The operative statement says: “small scale industries provide immediate large scale employment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized”.

1977: A high watermark in the evolution of the policy for small industry was the ‘Industrial Policy Statement’ of 1977. It was then that the protection of small industry touched its acme. The guarded initiatives of earlier years were cast aside by a heightened zeal for an expanded role for this sector, in particular, the reservation of products for exclusive manufacturing by the small industry, begun in 1967, was greatly extended to many more products. The important planks of the 1977 industrial policy statement were:

- Whatever can be produced by small, cottage industries must only be so produced.
- The number of products reserved for SSI was increased from 180 to 504 and further to 836 items in 1996.
- Special attention to be given to the ‘Tiny Sector’ defined as enterprises with investment in plant and machinery of upto Rs. 1 lakh and situated in towns and in villages with population less than 50,000.
- Special Legislation was planned under this policy to be introduced to give due recognition and adequate protection to the self-employed in cottage and household industries.
- The focal point of development for small sector and cottage industries was planned to establish instead of big cities and state capitals to the district headquarters. It was decided that in each district, there would be one agency to deal with all requirements of small and village industries. This would be called “District Industries Centre”.
- Special arrangements for marketing of the products of Small Scale Sector would be made by providing services such as product standardization, quality control, marketing surveys, etc.

1980s: The recognition of the importance of ancillary industry found expression in the policy statement of 1980 which laid emphasis on ancillaries. Moreover, the program for the development of rural and backward areas was accelerated. The Industrial Policy Statement of 1985 made incremental changes and took into account the impact of inflation. The investment ceiling for SSI was raised to Rs. 35 lakh and for ancillaries to Rs. 45 lakh.

1991: The Industrial Policy of July 1991 marks a conscious shift from the regulated and controlled policy to a liberal one. Most of the medium and large industrial units, with a few exceptions, would no longer require licenses. Full foreign ownership henceforth was allowed in export-oriented enterprises. Import of capital goods was significantly made free from restrictions. Foreign equity participation was also encouraged. The openness that came with the ongoing economic reform process during 1990s hastened several changes and the debate was shifted from the 'whys' to 'hows' indicating high level of acceptability of the reform process. With the lifting of several trade and investment related restrictions, India was witnessing a mini-revolution in its economic growth faced with the challenges of global market and competitiveness.

The impact of these reforms that were started in the year 1991-92 was in mid 1990s. According to the Economic Survey for 1995-96, growth of GDP at factor cost during 1995-96 was estimated to be 6.2% in 1994-95 that went up from a level of 0.8% in the crisis year of 1991-92. After a low employment growth during the crisis year of 1991-92, annual total employment growth averaged at 6.3 million jobs per year over 1992-93 to 1994-95 and reached 7.2 million during 1994-95. The Gross domestic savings rates touched a record high of 24.4%. Real gross and capital formation also reached a record of 22.2% in 1994-95. After declining by 6.2% in the crisis year 1991-92, the growth of real wages of unskilled agricultural labour averaged 5.1% per annum in the following three years. After registering a decline in the dollar value of exports in 1991-92, the country witnessed a strong three year boom with annual export growth averaging 19% during the period 1993 to 1996. The country's external debt growth situation showed a marked improvement by averaging at \$2.2 billion per year during the period 1991 to 1995 as against an average of \$ 4.9 billion during the period from 1986 to 1991. The industrial sector showed a growth of 12 % in the year 1995-96. The agricultural production increased from 168 million tonnes in 1991-92 to 191 million tonnes in the year 1994-95.

Promotion of Small and Medium Enterprises (SMEs) entailed enhancement of the competitiveness of the economy and generation of additional employment. Recognition of Small and Medium Enterprise (SME) sector as a thriving source of growth paid off in case of India.

Institutional Framework in India: Worth to Look at

New policies/measures for SSEs:

In order to help the sector integrate with the industry at large within liberalized economic framework, the government of India announced new policy measures in 1991. The salient features of the policy measures are as follows;

- a. The investment ceiling for the purpose of definition of a small unit was raised to Rs. 6 million (Rs. 7.5 million if the unit concerned undertakes to export 30 percent of its output or if it is an ancillary unit i.e. a firm supplying at least 50 percent of its output to large scale industries);

- b. Other investors (including large scale enterprises and foreign investors) are now allowed 24 percent equity participation in a small scale unit;
- c. The Act on Delayed Payments to Small and Ancillary Enterprises was promulgated. Under this act, buying/mother units would be required to pay interest on delayed payments for supplies bought from SSI units if the payments are delayed beyond the negotiated and agreed upon time period.
- d. The Reserve Bank of India announced a package of measures to ensure a better flow of credit to the SSI through measures such as expansion of 'single window' loan scheme. Banks are encouraged to open specialized SSI branches and to give greater priority to the sector in their annual credit budgets.
- e. Access to inputs had been improved by giving SSI priority to allocation of iron and steel from public sector undertakings and by removing obstacles to imports of a range of raw materials and intermediate products.
- f. The number of products which are reserved for SSI stands at 836 in 1994. This represents a decrease of only 7 items since the economic reform process had been initiated in 1991. The Government of India during the pre liberalization period i.e. before 1991 had several incentives and subsidies for promotion of SSI sector. These included providing term finance at concessional rates of interest, higher debt-equity ratio, capital investment subsidies to encourage investment in less developed areas, incentives for starting electronic industries etc.

The government promotional framework

The central and state governments in India together set up an elaborate 3 tier structure for promoting the small scale sector:

National level: In pursuance of the recommendations of International Perspective Planning team (1953-54), several institutions have been set up. There is 'Central Small Industries Organization' (CSIO) which has been renamed as 'Small Industries Development Organization' (SIDO). During the last three and a half decades, this institution has emerged as the core promotional agency at the central level with a professional staff of more than 13,000 in the year 1993. It consists of 28 Small Industries Service Institutes (SISIs), 30 branch SISIs, 37 extension centres in specific products and 74 workshops as in the year 1993. However subsequently, some of these have been wound up due to their financial unsustainability. These institutions provide technical and management consultancy, organize training programs, conduct techno-economic surveys, prepare project profiles and help prepare unit specific project reports.

Besides, there are four regional testing laboratories with state of the art equipment and 19 field testing stations which are meant to promote awareness on quality control and standardization, provide testing facilities, provide pre-shipment inspection as required by the 'Export Promotion Councils' and organize related training programs. In addition, there are two 'Prototype Development and Training Centers' (PDTC) to develop new technologies and upgrade the existing ones. There are a number of other technical institutions that are working closely with SIDO, which are more specialized in the fields of Tool designing, Electronics and Measuring instruments, Prototype development and

Hand tools etc. Four 'Central Tool Rooms' in Delhi, Calcutta, Bangalore and Ludhiana, have been set up under bilateral assistance programs.

'National Small Industries Corporation' (NSIC) is another important institution set up in 1955 that supplies primarily imported machinery on easy finance terms, provides marketing assistance, operates 'Prototype Development and Training Centres' (PDTC) in specific fields such as machine tools, injection moulding, leather manufacturing equipment etc. NISIET (now called National Institute of Entrepreneurship and Business Development i.e. NIESBUD) was set up to train and promote personnel, industrial managers and entrepreneurs.

Other national level institutions that are supporting the small scale sector are 'National Research Development Corporation' (NRDC), 'Bureau of Indian Standards' (BIS), 'National Productivity Council' (NPC), 'Consultancy Development Centre' (CDC) and 'Electronics Test and Design Centres' (ETDC). The central financial institutions have also set up the Entrepreneurship Development Institute of India (EDII) at the national level to promote entrepreneurship.

All the above mentioned institutions are largely meant for the modern small scale industry. In order to promote khadi and village industries, a separate high level commission has been set up under the Ministry of Industry. Similarly for the handlooms, handicrafts, sericulture and other non-modern small units there are separate divisions to promote them.

State level: the governments have set up institutions as follows:

- Small Industry Development Corporations (SIDCs) to develop infrastructure in the form of industrial plots and industrial sheds.
- State Financial Corporations (SFCs) to provide long term credit facilities.
- State Exports Promotion Corporations to provide marketing assistance for exports from the small scale sector.
- Technical Consultancy Organizations (TCOs) that provide technical, financial and marketing consultancy to the sector.
- Centre for Entrepreneurship Development (CEDs) and Institute of Entrepreneurship Development (IEDs) have been set up to promote entrepreneurship through training.

District level: In the year 1978, the central government launched a program of establishing District Industries Centres to provide under a single roof all the support services, clearances, licenses and certificates required by the small entrepreneurs. There are more than 400 such centres, one each in a district.

Institutional Finance for Small Scale Industries:

The following agencies through their various schemes provide finance to small scale industries sector under the overall policies and guidelines evolved by Reserve Bank of India.

At the National Level:

1. Small Industries Development Bank of India (Mainly through re-finance)
2. National Bank for Agriculture & Rural Development
3. National Small Industries Corporation
4. Khadi & Village Industries Commission
5. Nationalised Banks
6. Development Commissioner, Small Scale Industries (DCSSI)

At the State Level:

1. State Financial Corporations (SFCs)
2. State Industrial Development Corporation (SIDCs) - Infrastructure/Finance
3. State Cooperatives Banks
4. Khadi & Village Industries Board

At Regional & District Level:

1. Regional Rural Banks (RRBs)
2. District Central Cooperative Banks
3. Primary Cooperative Banks
4. Branches of State level institutions & nationalised banks about 65,000 in number
5. Khadi & Village Industries Commission
6. District Industries Center (DIC)

The non government promotion structure:

There are three national associations representing all type of industries, small and large. These are 'Federation of Indian Chambers of Commerce and Industries' (FICCI), Confederation of Indian Industries (CII) and 'Association of Chambers of Commerce and Industries' (ASSOCHAM). These associations represent mainly the interests of large scale industries. However, these associations have membership of small sector as well and represent mainly the policy related interests of SSI sector.

The exclusively small industry related associations are diversified geographically and sectorally and are supposed to have been linked with 'Federation of All India Small Scale Industries' (FASSI), 'Federation of Small and Medium Industries' (FOSMI) and also Indian Council of Small Industries (ICSI). However these institutions are weak in character due to their working for cross purposes and lack of dynamic perspective for small scale sector growth. They have virtually no linkages with the small industry in general and their local associations in specific. Another institution that is concerned with the small and medium enterprises is 'World Assembly of Small and Medium Enterprises' (WASME). There are only a few of the local associations that are involved in providing specific individual level services to the small industry. However, all the associations are

involved in lobbying with the government to provide one or the other facilities or benefits to the sector¹⁵.

Pakistan

Pakistan is an economy comprising mainly of SMEs. The significance of their role is clearly indicated by various statistics. According to more recent estimates there are approximately 3.2 million business enterprises in Pakistan. Enterprises employing up to 99 persons constitute over 95% of all private enterprises in the industrial sector and employ nearly 78% of the non-agriculture labour force. They contribute over 30% to the GDP, Rs.140 billion to exports, and account 25% of exports of manufactured goods besides sharing 35% in manufacturing value added¹⁶.

The various levels of the Government in Pakistan have, in the past, formulated and to an extent implemented small-scale business promotion policies. However, these policies were limited in their scope, to begin with, and are not in line with the dynamics of present time. There has been concern that in Pakistan the SME sector could not realize its full potential. The SMEs continue to suffer from a number of weaknesses, which hamper their ability to take full advantage of the opening of economy and the increasingly accessible world markets. The areas of constraints are normally identified as labour, taxation, trade capacity, and finance and credit availability.

Government of Pakistan, initiated small industries promotion through formation of the West Pakistan Small Industries Corporation. Although the Corporation created an impact in its early years yet its Provincial successors could not sustain its contribution due to various limitations.

The following features of the Provincial Small Industries Corporations make them inappropriate and insufficient in present time:

- Over emphasis on industrial and manufacturing activities with little focus on service sectors
- Over emphasis on ‘hardware’ support (land, electricity, machinery, etc) with little or no emphasis on ‘software’ support, i.e. information, business development services etc.
- Lack of coherent policy framework that determines the role of all relevant stakeholders other than the dedicated institutions created for small scale industry support
- Lack of complimentary skill development initiatives.

It is understood that despite previous efforts the SME sector did not receive due priority on account of segregated efforts and non-consolidation of programs to achieve well targeted results.

¹⁵ Source: GENERAL REVIEW STUDY OF SMALL & MEDIUM ENTERPRISE (SME) CLUSTERS IN INDIA

¹⁶ (SME Policy Development: <http://www.smeda.org/main.php?id=111>)

1990s: The Youth Investment, Yellow Cabs and Self-employment promotion initiatives of the 80s and 90s followed the small-scale industrial promotion policy of the 60s and 70s. These schemes were limited in scope and designed as such that they did not address the core issues of enterprise development and employment growth and suffered from political manipulation accruing to bad loan portfolios of the banks and loss of public funds. These schemes contributed little in economic growth and employment creation. In some ways these initiatives created the mindset of the banking community, that is to date, responsible for a cautious stance towards SME financing in Pakistan.

The Small and Medium Enterprises Development Authority (SMEDA) was established in 1998 under the Ministry of Industries and Production in order to foster the development of SME in the economy and was expected to take a key role in this process. Its functions included, *inter alia*, the facilitation on policy making and the provision of overall planning, programming, research and evaluation of matters related to SME in Pakistan; monitoring and evaluation; encouraging and facilitating development of SME and to protect their interests.

New Millennium: The Government of Pakistan constituted the SME Task Force¹⁷ in 2004, which was to define the basic elements of our SME policy. The task force identified that implementing change requires formulation of a policy for SME development and assigning specific responsibilities for its implementation and continuous improvement.

In order to enable the SME Task Force to work effectively, four Working Committees were setup to carry out technical analyses and deliberate the findings.

- i. *Working Committee on Business Environment:* Creating a favourable business environment for SME in Pakistan's economy and eliminating unnecessary obstacles;
- ii. *Working Committee on Access to Finance:* Increasing SMEs' access to formal finance including equity financing while addressing the question of "lacking documentation" and banks' technical capabilities and improving SMEs' capacity to become bankable.
- iii. *Working Committee on Access to Resources & Services:* Improving the delivery mechanisms for assistance and the access to resources for SME in Pakistan, *inter alia*, business development services, qualified human resources, and technology, so as to improve their productivity and capacity for employment generation.
- iv. *Working Committee on SME Definition, feedback, Monitoring & Evaluation Mechanism:* Establishing appropriate and harmonized definitions for Pakistan

¹⁷ Notification No.1(68)/2003-Inv-III of 29 January 2004 of the Ministry of Industries and Production of Pakistan

of what are to be considered micro, small, medium, and large enterprises. Furthermore, the establishment of a sound mechanism by which their development of the SME sector and the effectiveness of the assistance provided to SME can be monitored.

The recently adopted SME Policy 2006 set the objective of SME Policy is to provide a short and a medium to long- term policy framework with an implementation mechanism for achieving higher economic growth based on SME led private sector development. An SME Act was also developed in 2005. Public –Private partnership was emphasized in SME Act.

Sri Lanka

1940s - 1960s: Although the industrial sector, as a focus of economic policy, was neglected during the colonial era, it was also given little attention during the 1950s and 1960s. After independence in 1948, Sri Lanka did not experience many problems for an approximately ten-year period. Import -export trend showed a positive picture within the decade. Economic balance was maintained due to plantation crop exports, mainly tea. There was therefore scarcely any industry, and in the early 1950s there was no industrial policy or any proper planning.

Until the late fifties, industrialization did not receive much attention due to the relative contemporary prosperity of the country brought about by favourable market conditions for traditional exports, especially by the rubber boom during the Korean war (1950- 52) and the tea boom (1954- 55). There was thus no attention paid to industrialization because there were no major economic problems until the late fifties.

Afterwards, Sri Lanka faced a number of economic problems, such as the balance of payments deficits, unemployment, slow economic growth, etc. Such problems and challenges led to various policy changes including import substitution industrialization policy.

In 1965, a new policy package was introduced through the *White Paper of 1966 on foreign investment*. It was an attempt to attract foreign direct investments into the industrial sector with a view to enhancing the technological and managerial capabilities of local industry. At the same time, a dual exchange rate system, the official lower exchange rate and the higher normal exchange rate, was introduced by the government.

Under the scheme, small enterprises had some advantages because small firms were allowed to import raw materials at the lower official exchange rates, while large firms had to import raw materials at the higher premium exchange rates.

1970s: As a result of failure of the import-substitution industrial policy in many countries in 1970s, there was a notable shift of emphasis from import-substitution industrialization to export-oriented industrialization. Sri Lanka is no exception to such policy shift. However, in Sri Lanka, the policies focused mainly on large-scale industries. A number

of large -scale industrial enterprises were set up as state ventures. Due to a high degree of protection provided to industrialists there were substantial inefficiencies in new industry as a whole, and financial losses were heavy in state industrial enterprises. However, within this import substitution industrialization strategy, industrial enterprise promotion activities were not observed at all.

In 1970 the newly elected government moved back to the pre-1965 style control regime. The government ideology was of state capitalism. Heavy and essential industry was reserved for state ownership. The allocation of resources not only between industry and other sectors but also among different industries was determined by the state. Again rigorous controls were introduced and the exchange of currency was restricted, while import substitution was encouraged.

Again, in 1978, with the change of government, a more market-oriented economic policy package was introduced, comprising: liberalization of import trade and exchange payments; abolition of the dual exchange rate practice, devaluation of the currency and the introduction of a unified exchange rate system within a floating exchange regime; removal of a number of key price controls; adoption of measures to attract direct foreign investments such as the setting up of Free Trade Zones, privatising existing public ventures, introducing new institutions to support export promotion (Lakshman 1986). The banking system was also liberalized, with interest rates being allowed to fluctuate and the opening of private and foreign banks.

1980s: Although economic difficulties were experienced again in 1983 and the late 1980s, further liberalization policies to achieve a free-market economy were put in place in 1989. Dunham and Kelagame (1993) identified this as the second phase of liberalization.

1990s: In 1991, a new government came to power but the liberalized economic policy has continued. It is the third phase of the liberalization, according to Dunham and Kelagame (1995) the small enterprises have generally failed to take advantage of the opportunities opened up by liberalization, either trade or financial liberalization, and have been harmed in many cases by its direct and indirect consequences. They had to depend on the mediation of large -scale trade. Accordingly, in many cases liberalization put the small enterprises at a relative disadvantage vis-à-vis the large firms.

Small firms were also affected by competitive pressure from outsiders (due to their high technology and better quality). The incentives provided for export promotion have not worked for small enterprise development. Financial liberalization also did very little to help small enterprises in Sri Lanka.

Since independence in 1948 there has been no clear development strategy and industrial policy. The policies have been changed from time to time with changes in political power. When looking at the small business sector, the situation has been even worse. There has been no macro-level policy for the development of the sector although there have been some incentives provided by different programs. However, recently there have

been a large number of institutions directly involved in the promotion of the small business sector in Sri Lanka.

Bangladesh

1970s: Before independence SMEs were neglected seriously and there was no policy base. There was only Karachi Centred “Heavy Industrialization”. In the First Industrial policy (1971-1975) SMEs were neither given any incentive nor threatened any more. All the major industries were nationalized following inward looking policy. SME was defined as an enterprise having maximum investment of TK 20.5 million.

The Second Industrial policy (1975-1981) hardly touched anything related to the development of the SME sector. There was a planned shift from public to private led growth, heading towards “free enterprise system”.

1980s: the Third Industrial policy (1981-1990) was relatively SME friendly. However, the policy remained only in paper due to no or weak implementation measures in practice. Again further emphasis was given on “free enterprise system”, privatization and export oriented industrialization. In this phase the definition remained the same as in the First Industrial policy.

1990s: A modest change in policy environment was seen during the fourth Industrial policy (1991-1995) but it produced some policy induced constraints hindering SME development. Preparedness for globalization, privatization and export oriented industrialization was seen in the industrial policy. Here investment ceiling was extended up to Tk 30 million.

Further emphasis on globalization, privatization and export oriented industrialization in the fifth Industrial policy (1996-2001) continued more policy induced constraints that hindered the development of SMEs. The investment ceiling was extended up to Tk 30 lacs.

New millennium: In the Industrial policy in 2002 small industries were defined as enterprises with fixed capital investment of less than Tk 250 million. Cottage industries were defined as enterprises with fixed capital investment of less than Tk 1 million employing only family members. Medium industries were defined as enterprises with fixed capital investment between Tk 250-500 million.

In the eighth Industrial policy in 2004 the small and medium enterprises received more attention. The definition of SMEs was clarified following the observations by the specialists and chambers.

In the policy strategies for development of SME were categorized into manufacturing and service providing SMEs. In the manufacturing industry small enterprise was defined as small if ,in current market prices, the replacement cost of plant machinery and other parts /components ,fixtures support utility and associated technical services by way of

capitalized costs (of turn key consultancy services, for example), etc, excluding cost of land and building, were to be up to tk15 million. An enterprises would be treated as medium if in current market prices replacement cost of plant machinery and other parts /components, fixtures support utility and associated technical services by way of capitalized costs (such as turn key consultancy services), etc, excluding cost of land and building, were to be up to tk100 million. In non-manufacturing activities (such as trading or other services) small enterprise is treated as small if it has less than 25 workers, in full time equivalents, where as medium enterprise would be treated as medium if it has between 25 and 100 employees.

Japan: While policy evolution for SMEs in South Asia is the focus of the study, it would worthwhile to look into successful SME promoting country like Japan, which could perceive the importance of SMEs and took appropriate policy mix along with its mainstream industrial development. According to Japan's 1997 White Paper on SMEs [56], Japan's SME policy can be divided into the following four stages.

- i. First stage (1945-1954): Reconstruction period after World War II
- ii. Second stage (1955-1972): High economic growth period
- iii. Third stage (1973-1984): Stable economic growth after first oil crisis
- iv. Fourth stage (1985-present): Transition period after the Plaza Accord

During the first stage, the SME Agency was established in the government administration and the government laid the foundation for an SME policy. This policy primarily focused on financial and organizational support and of counselling and information services for SMEs. In the area of finance, several specialized financial institutions and credit guarantee associations were established. In terms of organization, the SME Association Law was introduced in order to vitalize and improve the organizational structure of SMEs. In addition, support systems were set up to provide advice and guidance for SMEs.

During the second stage, the government took further measures in all three areas, i.e. finance, organization, and counselling and information. In the area of finance, preferential tax treatment for SMEs was introduced and financial support was given through local governments to update obsolete equipment of SMEs. The Credit Insurance Public Corporation was also established during this period to strengthen the credit guarantee system for SMEs. Various laws were also enacted to provide SMEs with organizational support. In accordance with the Law on SME Organizations, a number of industrial and commercial associations were set up. In the area of counselling and information, a law on guidance for SMEs was introduced, and based upon it, the guidance system for SMEs was strengthened. In addition, reflecting the high economic growth, sectoral measures to modernize the equipment and facilities of SMEs and enhance their technology were also introduced, in particular for machineries, textile and fabrics.

The third stage is characterized by support in the area of human resource training and technology enhancement. The milestone of this period was the enforcement of the Basic Law on SMEs in 1963. This law stipulates that the purpose of SME policy is first to address the economic and social disadvantages of SMEs, and second to encourage independent efforts by SMEs. Based on this law, sectoral policies for modernization and revitalization were introduced and implemented. The Basic Law also included provisions to provide SMEs with guidance on how to prepare for the trade and capital account liberalization after Japan's upgrade to an IMF Article VIII country in 1964. Since the 1990s, the government has placed greater emphasis on supporting SMEs in launching new businesses or changing businesses, promoting R&D and streamlining and concentrating SME businesses. It seems that the government has come to realize the importance of enhancing the market competitiveness of SMEs rather than just protecting them.

Overall, Japan's White Paper concluded that past SME policy tended to restrict market competition and protect SME, but that it had moved toward a more market-oriented type policy. Human resource training, information services and support for SMEs entering new businesses or changing business all aim to support the ability of SMEs to play an important role in the market, so that the market economy as a whole can further develop.

Malaysia: Malaysia is another success story in economic growth with a flourishing SME sector. Under its Eighth five-year planning period (2001-2005), the Government introduced a wide range of assistance programmes for SMEs, all aimed at making them stronger and more competitive. Under this plan assistance was provided through the Small and Medium Industries Development Corporation (SMIDEC) to help SMEs to enter export markets. The Bumiputera Commercial and Industrial Community (BCIC) was created focusing on entrepreneurial, managerial and technical skills development. ICT-based SMEs received special care through assistance to local ICT and multimedia SMEs, particularly the start-up companies. A number of schemes were introduced for improving SME access to financing through Bank Negara Malaysia, and other banking institutions.

I. SME POLICIES IN THE REGION AND LESSONS FOR BANGLADESH

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
Policy Objectives	Pakistan: a short term and a medium to long term policy framework with an implementation mechanism for achieving higher economic growth based on SME led private sector development.	The document titled "SME Policy Strategies" proposes 11 broad objectives of the SME policy.	Broad policy objective should be one, specific objectives may be as many as required.
Principles of SME policy	Pakistan's SME Policy and Sri Lanka policy documents set a number of principles to be considered for taking action in SME development. Those principles actually set the underlying assumptions and realities on the ground.	The SME policy document for Bangladesh does not have any critical analysis of needs for specific measures proposed and no principles have not be set.	A set of principles may be worth for having benchmark and clear cut priorities.
Legal Framework	Pakistan: Pakistan enacted SME Act 2006 that provides for identification of fiscal, registration, labour and inspection laws that may not apply to Small and/or Medium Enterprises and simplification of those that are required to be complied with. India: India does not have any	There is specific act related to SME development.	A specific act on SME development may be useful given the existing lack of coordination and enforcement of coordination.

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	special policy for SMEs. However, industrial policy takes care of small scale industries.		
Institutional Arrangement	<p>Pakistan:</p> <ul style="list-style-type: none"> • An SME Development Authority was formed for providing one-stop support to SME in throughout the whole value chain of SME functioning. • SME Desks will be established at the Federal, Provincial, Banking and Tax Ombudsman Offices for handling and addressing SME grievances. The Complaint Cell established at State Bank of Pakistan to also facilitate redressal of SME complaints. • GoP will consider to support establishment of 	<p>SME Advisory Panel has been formed as proposed in the SME policy with the President's circular, signed on June 20, 2005. This is the first step towards formation of SME Foundation as proposed in the policy document. The Panel will work together with SME cell under the Ministry of Industries. It is however not clear, how the existing institutions dealing with SMEs will function in tandem with newly formed bodies.</p>	<p>Unlike in Pakistan and India, where SME related bodies are dominated by government officials, representation of NGOs and private sector is noticeable in Bangladeshi bodies. It is not clear whether it is a positive sign or negative sign. Out of 16 members of the Advisory Panel 10 members are from academia, NGOs and private sector associations.</p> <p>Instead of SME Foundation, an SME Development Authority might be more meaningful, which would be constituted under an SME Act. It is also important to understand how BSCIC and other SME related bodies will work with new body.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>an SME Promotion Council (including its local chapters) and SME specific Trade Associations for organizing SMEs and providing them with a platform to lobby for favourable government policies.</p> <ul style="list-style-type: none"> • Expansion in the role of Banking Ombudsman will take place to include redressal process for SME complaints. <p>India:</p> <ul style="list-style-type: none"> • At national level, in pursuance of the recommendations of International Perspective Planning team (1953-54), several institutions have been set up. There is 'Central Small Industries Organization' 		

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>(CSIO) which has been renamed as 'Small Industries Development Organization' (SIDO). During the last three and a half decades, this institution has emerged</p> <ul style="list-style-type: none"> • as the core promotional agency at the central level with a professional staff of more than 13,000 in the year 1993. It consists of 28 Small Industries Service Institutes (SISIs), 30 branch SISIs, 37 extension centers in specific products and 74 workshops as in the year 1993. • Federation of All India Small Scale Industries (FASSI), Federation of Small and Medium Industries (FOSMI) and Indian Council of Small 		

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	Industries (ICSI) are three dedicated small industry related associations.		
Identification of SMEs	Pakistan: A voluntary mechanism of certification has been placed, where SMEDA provides certification to an SME, which enables it to get all benefits extended to SMEs		Identification of SMEs is very important for extending preferential support to the SMEs. Pakistani model may be followed for having a systematic effort in doing so.
Fiscal Measures	Pakistan: A concessional and simplified tax policy will be applied for all SMEs on lines of 0.75 turnover tax for retailers	Only the industrial enterprises under Industrial Policy 2005 as thrust sectors including SMEs will enjoy special fiscal and financial incentives (as stated in the paragraph 4.7 of the document)	The provision of the industrial policy does not cover all categories defined in the policy strategies. An interim amendment may be made for extending support to all types of SMEs, including those in the non-manufacturing sector. Releasing SMEs from labour and tax obligations for at least five years of business operation may also be effective.
Labour Laws	Pakistan: Periodic review of Labour Legislation with a view of facilitating small enterprise growth may be undertaken		Review of labour laws is long overdue.

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	where by applicability of certain laws may be relaxed for SEs for a certain period of time. However, provision of education/assistance to SMEs to achieve proper safety at work and compliance with international conventions shall be essential.		
Pro-SME motivation	Pakistan: Capacity building and strengthening of existing CCIs and TAs, will be under taken, making them more effective for supporting their members including SMEs, with special focus on WTO & its impact on local industry. Moreover, Government functionaries in tax, registration, labour, etc. departments are proposed to undergo specialized training for handling SME related issues.	SME orientation of the government bodies and chambers are relatively better in Bangladesh. The composition of the bodies including Advisory panel is a manifestation towards that. However, the level of motivation is not adequate in the institutions like banks, customs, and registration authorities.	Targeted motivation campaign is required based on mapping exercise.
Creating Level Playing Field in true sense	Sri Lanka: Sri Lankan SME white paper identified this very important point for	In the Industrial Policy 2005 it is mentioned that the facilities provided to those industries	The establishment of BOI as a 'one stop shop' to help large firms in obtaining administrative

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>discrimination favouring large and foreign enterprises.</p> <p>To create a level playing field the new SME policy includes provision for providing one-stop services for SMEs as well, which have been provided only to establishment registered under the BOI.</p>	<p>that are established in EPZ areas including export-oriented industries can also be provided to the thrust sector. The objective will be to use domestic technology, import substitution, adjustment and/or export augmentation. But entrepreneurs under the thrust sector will not receive these facilities automatically. The government will determine the facilities to be received by thrust sector entrepreneurs after analyzing and reviewing the performances and contributions of their sub-sectors/industrial enterprises to the national economy. Most of SME sectors are included in the list of thrust sector.</p>	<p>clearance and infrastructure support was yet another major policy initiative during post-liberalisation period. The end result however, was the presence of two policy regimes, BOI and non-BOI, with discriminatory policy support and incentives, for BOI firms.</p> <p>Among the non-BOI firms, large-scale export oriented firms were relatively in a better position due to heavy emphasis on export led growth strategy. In the Industrial Policy 2005 the similar facilities for SMEs are left with ad-hoc policy prescriptions and weak institutional support.</p> <p>A dedicated one stop service system can be developed to foster growth of SMEs, which would be helpful to bring the SMEs, particularly small enterprises into the formal economy. Such system should be spread across the</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
			country.
Formation of Dedicated institution for SME development	Pakistan: There is an SME Development Authority to look after the SME sector. In Sri Lanka, recently an SME Development Authority was approved by parliament.	The Task Force recommended forming an SME Advisory Panel under the Ministry of Industries. The Task Force also proposed to form an SME cell to help MOI implement SME policy. It is proposed that in the medium term the SME cell will morph into an SME Foundation.	The formation of SME Foundation in the mid term will further delay the prospect of growth of SME through a coordinated effort. The name SME Foundation may be less convincing for the stakeholders, rather SME Authority could be formed with exclusive authority to facilitate SME sector and coordinate efforts of other relevant agencies.
Finance			
<i>Availability of Funds</i>			
Dedicated lending or financing window	Sri Lanka: Sri Lanka is in the process of establishment of a SME Bank for resolving problem of access to finance. Pakistan: SME financing will be incorporated in the Annual Credit Plan of the SBP and monitoring to cater for underserved segment of the SMEs.	In Bangladesh BASIC Bank is to provide financial support to the SMEs. However, the portfolio of the bank is limited and branches are not available in major contours of SME concentration.	Specialised banks alone may not yield the desired result if those are to operate on the principle of market economy. While SME Bank can be established, it is important that branches of that bank are spread across the country. Mandatory SME portfolio with refinancing facilities can also make

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>India: India has well-developed mechanism to provide financial support to SMEs under the guidance of Reserve Bank of India (RBI). There are six categories of SME financing institutions at national level, of which Small Industries development Bank of India (SIDBI) is the refinancing window of the RBI. At state level, there are four categories of financing institutions. Furthermore, at district level six types of financial institutions are working for providing financial support to the SMEs.</p>		<p>breakthrough in financing. Motivation of the banks should be part of such initiative.</p>
<p><i>Reducing demand for finance through rental of capital component of establishment</i></p>	<p>Sri Lanka: In Sri Lanka 40-60% of the cost of establishing an industry is incurred in acquiring land, building and infrastructure. SME Policy of Sri Lanka envisages reduction of demand for funds through leasing out of state land for minimum of 50 years and leaseholds may be transferable.</p>	<p>Clusters will be supported in Chittagong and Dhaka, however it is still open which types of support will be rendered to the SMEs in these two metros. it is not clear how the specialised small and cottage industry clusters across the country which are functioning inefficiently.</p>	<p>The support for infrastructure should be re-designed based on expert analysis.</p> <p>The practice in Pakistan to offer land at concessional rate may be considered.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>Furthermore, special estate can be built with utilities and other supports like security and bonded stores etc.</p> <p>In Sri Lanka as a remedy to the problem of access to finance, which is costly, the government is planning to encourage banking and financial institutions by reducing tax on profits on the lending to the SME sector.</p> <p>Pakistan: A minimum quota is proposed to be established for SMEs for allocation of land in the Industrial Estates and Export Processing Zones (EPZs). SMEs may be charged a concessional rate of land (at no profit no loss basis) as compared to the cost offered to large-scale enterprises.</p>	<p>Bangladesh is ahead of other South Asian countries in terms of providing physical infrastructure support to the SMEs in number of districts. However, those facilities were not used efficiently. As a result, the desired impact was not achieved. The leasehold provided to the enterprises is non-transferable, as a result inefficient and non-viable enterprises face problems in shutting down their enterprises.</p>	
<i>Restructuring of Credit guarantee scheme</i>	Sri Lanka: Sri Lanka is thinking to restructure and reform the	The SME Policy document does not contain any plan to	A review of credit guarantee scheme may be effective for

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>current credit guarantee scheme so that it can facilitate lending rather than increasing transaction cost for SMEs.</p> <p>Pakistan: Credit Guarantee and Credit Insurance agencies will be established, operating inline with sound international practices, to provide incentives and risk cover for banks, so as to provide them the relevant comfort in financing SMEs.</p>	<p>review credit guarantee scheme</p>	<p>making SME finance for effective.</p>
<p><i>Encouragement of venture capital with legislative protection of risk takers</i></p>	<p>Sri Lanka: Sri Lanka is going encourage venture capital companies through legislative protection of risk takers.</p> <p>Pakistan: Improvement will take place in the regulatory procedures and fiscal incentives for Venture Capital companies.</p>	<p>Venture capital funds are within the purview of SME policy. However, modalities of such fund are yet to be finalised. It is mentioned that an expert panel will be formed to evaluate project of venture funding.</p> <p>A publicly mandated venture capital scheme will also be created.</p> <p>Entrepreneurs' equity fund (EEF) is in operation for more</p>	<p>The venture capital market is not yet mature.</p> <p>The problem with EEF shows that there is severe dearth in skills and control mechanism in selection of good proposal. Moreover, nepotism and collusion of fund receivers and create problem of moral hazard, which can be overcome only with proper accountability and prudential mechanism.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
		<p>than five years, with mixed outcome. A large portion of the fund has been misappropriated and Bangladesh Bank currently suspended any further disbursement from EEF. The budget of FY 2006-07 allocated more funds.</p>	<p>The good initiative is dying for lack of proper designing and monitoring, which should be investigated and proper action should be taken to carry forward this financing tool.</p> <p>Lack of governance is killing a promising mechanism which is being explored by the whole world, which can not be allowed.</p>
<i>Access to Funds</i>			
<p>Access to funds hampers primarily due to collateral. Most of SME owners do not have land for collateral, even the lands owned by SMEs is not bankable due to title problems.</p>	<p>Sri Lanka: To overcome this situation, in Sri Lanka, state land will be leased out for minimum periods of 50 years and leasehold made transferable. The Registrar of Companies will require mortgages of moveables and immoveables of companies to be filed with him. This facility will be extended to partnerships and proprietorships and stricter rules applied so that moveable too could have greater security for the lender.</p>		<p>Similar approach as in Sri Lanka may be followed in Bangladesh.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
<i>Bundle approach for SMEs, which include both credit and advice and guidance.</i>	Credit and advice are mutually inclusive factor in SME development. For minimizing risk of lending financial institutions can provide advisory services to the SME borrowers. Disburse loan and allied facilities with assistance of BDS providers	This approach is currently followed by BRAC Bank.	This approach may be made compulsory for all commercial banks and financial institutions.
<i>Enhancing role of BDS providers for reducing credit risk of SME lending.</i>	In Sri Lanka Legislative support has to be provided to the BDSs to play an active role in management and supervision of SMEs.	This approach is not in practice currently in Bangladesh	This approach may be adopted to reduce additional cost for commercial banks and financial institutions.
<i>Cost of Funds</i>			
<i>Reducing cost of lending</i>	The relatively high spread ratios of commercial banks especially state owned banks have also been cited as an important casual factor for high interest rates in Sri Lanka. Continued subsidized funding is not likely to come by within pro-competitive policy regime. What is therefore needed is to work towards reducing the margin paid by SMEs by	There is no explicit policy guidelines for reducing spread of commercial banks, which may eventually play a role in greater SME financing.	Bangladesh Bank may work out specific guidelines for reducing spread of commercial banks, which will include a number of policy instruments, including policy for reduction of non-performing assets.

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	improving their risk profile and to enable SMEs to have greater access to the formal lending sector instead of informal sector.		
<i>Resolving the problem of Insufficient working capital</i>	There are no specific instruments in south Asian countries to address this issue.		<p>Insufficient working capital could also be viewed as a contributory factor towards high cost of funds. Banks are very reluctant to provide adequate working capital through a term loan and, as a result, a larger portion of SMEs' working capital requirements is often met through overdraft facilities and financing through post-dated cheques. As the cost of these types of credit is substantially higher, it is an additional cost burden for SMEs.</p> <p>Serious research is needed to identify specific solution to this issue.</p>
<i>Management of Finances</i>			
	Sri Lanka: In Sri Lankan SME policy documents feasible options in this regard identified,	JOBS-USAID undertook very successful training programme for the SMEs in this regard,	Management of finances could be attributed to several factors: insufficient equity base, high cost

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>which include training of SME owners in the elements of financial management and involvement of BDS providers in disbursing loans, monitoring and following repayment. Both these activities can be made part of loan programme and implemented as package of assistance in SME development.</p>	<p>which was discontinued due to its project approach.</p>	<p>of finance, over ambitious business acceleration, lack of financial management experience, non separation of business and private expenditure, over expenditure on status symbols such as cars, offices etc, slow down in economy and market change, unexpected policy change etc. Except last two the rest can be improved through proper financial discipline at enterprise level.</p> <p>The approach of bundling loan with BDS related to financial management and training of SME owners on financial management should be taken seriously and adopted in the lending programmes to the SMEs initiated by commercial banks and financial institutions.</p>
<p><i>Creating favourable Exit policy for SMEs</i></p>	<p>Sri Lanka: Sri Lanka is going to design simpler exit policy for SMEs. Pakistan: Pakistan will introduce Bankruptcy Laws</p>	<p>There is no exit policy which is SME friendly.</p>	<p>Legal provisions and procedures, labour laws and social stigma are the major factors hampering the closure of enterprises which are heading for ultimate collapse at</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	with dedicated and effective judicial process.		<p>much cost to all concerned. Thus, legal provisions and procedure must be simplified for closure.</p> <p>A favourable and easy exit policy must be designed for minimising loss in case an SME looks for shut down. It is also important to provide advice to the SMEs in their daily course of operation to receive signals of serious trouble, so that they can start exit activities minimising their individual loss and massive social loss.</p>
<p>Access to Appropriate technology <i>Advisory Services for Access to appropriate technology</i></p>	<p>In Sri Lanka, Industrial Sri Lanka: Development Board (IDB) appoints industrial extension officers to provide advice related to technology selection and up gradation. however, the outreach of Industrial Extension Officers from IDB and other government agencies is limited to resource constraints.</p>	<p>In Bangladesh, there is a provision for agricultural extension officers deployed in every village of the country, which is relatively effective mechanism for dissemination of new technology to the farmers. However, for the industrial sector there is no such system. BCSIR has a show room of new technology, which is located only in Dhaka,</p>	<p>SMEs are largely family based enterprises and have limited access to information and technology. The selection of equipment and technology is mostly based upon their limited exposure, experience and information from suppliers and relatives. Required advice for technology upgrading is often not widely available.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
		and remains closed generally.	The idea of deploying industrial extension officers in different part of the country is an excellent one, which is in practice in Sri Lanka. For deployment of extension officers a training facility can also be established. Digital content can be made for this purpose and distributed to the information centres across the country.
<i>Quality control system</i>	<p>Quality control for all South Asian countries is yet another aspect relating to low level of technological sophistication.</p> <p>Sri Lanka: In Sri Lanka, majority (94%) of the entrepreneurs received no training on quality control and only 20 percent of firms had their own laboratory facilities.</p> <p>India: there are four regional testing laboratories with state of the art equipment and 19 field testing stations which are meant to promote awareness on</p>	<p>BSTI is proposed to be the focal point for offering assistance with regards to securing quality-assurance (QA) certification from registrars of QA.</p> <p>Suitable SME related industry associations shall be empowered to issue non-mandatory certification, albeit with high professional integrity, with regard to quality assurance. Such associations will receive grants from the government towards the cost of setting up required testing</p>	<p>The steps to be taken by the Bangladesh MOI are a positive, however incomplete. International certification may not be feasible for small local producers. Thus, regionally available quality control laboratories may be more feasible and accessible for the SMEs and can be the stepping stone towards international certification.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	quality control and standardization, provide testing facilities, provide pre-shipment inspection as required by the 'Export Promotion Councils' and organize related training programs.	laboratories and other facilities. Co-financing grants will be available for registration with globally branded QA registrars (e.g., ISO 9001: 2001) or equivalents).	
<i>Policy for promoting and nurturing innovation and technology development</i>	Experience from East Asia: Singapore: Singapore used highly selective policies towards foreign direct investment to promote particular activities and induce the upgrading of technologies and skills. ¹⁸ All these policies involved integrated and targeted interventions in both product and factor markets, the building of support institutions and close involvement of the enterprise sector. Hong Kong: Funding for technological innovation has	SME policy envisages international technology exchange programme between countries with similar stages of development and with a similar maturity of the infrastructural development for SME shall be implemented in the interest of rapid technology transfer. A package of capacity building is included in the SME policy strategy document, which includes an R&D programme with potentially high impact profiles.	A full blown technology development policy is required with technology development fund. Fragmented approach may not work. The institutional structure requires reform, which can focus on dynamism of the sector and cop with latest technological development. Collaboration with successful countries in fostering technology development for SMEs. Technical services required at the district level include quality control, common facilities for instrumentation, testing and

¹⁸ Singapore Productivity and Standard Board. 200. SME 21: Promoting SMEs for the 21st Century.

¹⁹ Industry Development (Hong Kong SAR Government). 1999. Small and Medium Enterprise Development Support Plan.

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>been taken up strongly by the government. For example, in 1999, 'Small Enterprise Research Assistance Scheme' was established under a major 'Innovation and technology Fund' of HK\$ 5 billion.¹⁹</p> <p>Strategies for strengthening technological capabilities of SMEs in Sri Lanka need to be developed paying attention to the following: a. expansion of technical support network at district level, b. establish "Technology Development Fund", c. provide funding facilities, d. create a market of local research and development.</p> <p>Pakistan:</p> <ul style="list-style-type: none"> • Introduction of SME specific research projects supporting R&D and University-Industry liaison programs by Ministry of Science & Technology 		<p>calibration. This requires capacity building of R&D institutions. Private chambers of Commerce and industries should also be encouraged to actively participate in providing these common facilities as the efforts made by state have often failed in the past</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>(MoST), Higher Education Commission (HEC), Pakistan Software Export Board (PSEB), Ministry of Information Technology & Telcom (MoITT) and others.</p> <ul style="list-style-type: none"> • Establishment of Technology Innovation Centers (TICs) offering common facility, technology up-gradation, R&D and design related services to SMEs. • Launching of pilot technology up-gradation projects for major SME clusters on cost sharing basis. <p>India:</p> <ul style="list-style-type: none"> • There are two 'Prototype Development and Training Centers' (PDTC) to develop new technologies and upgrade the existing ones. There are a number of other 		

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>technical institutions that are working closely with SIDO, which are more specialized in the fields of Tool designing, Electronics and Measuring instruments, Prototype development and Handtools etc.</p> <ul style="list-style-type: none"> • Four 'Central Tool Rooms' in Delhi, Calcutta, Bangalore and Ludhiana, have been set up under bilateral assistance programs. 		
Access to Information and Market			
<i>Timely Information for enhancing market access</i>	<p>India:</p> <ul style="list-style-type: none"> • Industry on its own has taken some initiatives. The Federation of Indian Chambers of Commerce & Industry (FICCI) has started 'BISNET', where information on trade inquires, technological offers, offers of joint ventures/collaborations etc. 	<p>An SME web portal is planned under the SME Cell/ Foundation for the divining of technology, products and market trends. A web-based virtual front office providing all start-up assistance to SMEs and an one-stop service, with all interactions between the user and web portal will be provided.</p>	<p>Information is expensive and not widely available and yet it is the most powerful competitive edge for business success. More Specifically, this refers to information and support services required for selecting target markets, product development, and packaging, development and sales promotion. In addition to domestic competition from</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>are made available on line through computers.</p> <ul style="list-style-type: none"> • Institutions such as 'National Small Industries Corporation' (NSIC) and 'Asia Pacific Center for Technology Transfer' (APCTT) in the government sponsored and supported institutions have also started providing on line information services to the entrepreneurs. • In the private sector, 'Maharastra Chamber of Commerce & Industry' (MCCI) based in Pune and 'TANSTIA-FNF Center' in Madras have set up these ventures in the private sector. Similarly, some of the consultancy organisations also maintain product - wise information on external trade and domestic production etc. 	<p>For accessing information by the SMEs a high performance fibre-optic backbone is planned to establish in six major cities of the country.</p>	<p>large-scale enterprises, presence of competition pressure from foreign sources clearly demonstrates the need for an efficient, timely and affordable information system for SME development.</p> <p>Small firms virtually have no sources of information on other markets or opportunities outside their immediate surroundings. The lack of knowledge and limited access to information on market opportunities have caused small-sector enterprises to depend on judgment and speculation. In a competitive business environment, this is very costly and limits their ability to expand the market. Existing arrangements to supply such information to SMEs are grossly inadequate and the lack of success to modern information technology (IT) has further aggravated the situation.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
<i>Enhancing Marketing Skills</i>	<p>Taiwan: In Taiwan, the China External Trade Development Council Centre²³ encourages local companies to improve product design. The DVP covers part of the enterprise's approved design product costs such as design research, consultancy fee, data collection and analysis, and the production of three-dimensional mock-ups.</p> <p>Hong Kong: The Trade Development Council (TDC) in Hong Kong assists SMEs in obtaining world-wide trade and industry information. It also runs a "Virtual SME Centre" on the TDC website to broadcast up-to date business information to SMEs 24 hours a day. With respect to services that enhance the market</p> <p>Sri Lanka:</p>		<p>The absence of marketing skills at enterprise level has led to SMEs being more production oriented rather than becoming more market oriented. Many of the SMEs especially small-scale enterprises lack skills on product design, packaging and sales promotion which are vital for being attractive and competitive in the market. The typical selling method of SMEs especially small-scale enterprises is to operate through their own outlets. Many of them are also not in a position to promote their products and services through advertising and sales promotion mainly due to lack of skills and high costs. In fact, the absence of marketing skills has resulted in the early demise of business enterprises.</p> <p>SMEs should be given opportunities to participate in trade promotion exhibitions. Proper e-commerce with on-</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>Considering SMEs comparative disadvantage in access to market information and existing information technology facilities in Sri Lanka, creation of an SMI website was considered as timely and appropriate for SME development. The purpose is to provide e-business facilities for SMEs through an e-commerce portal at district level. The potential benefits such a system would include dissemination of trade information into remote areas, reducing the costs of doing business, and improving linkages with the global economy.</p> <p>Sri Lanka plans to publish annual business report. In addition to providing general information on SMEs and macro economic trends, such a report will feature industry</p>		<p>line payment system should be designed. Business report on annual basis should be published.</p> <p>Approach of Indian Export Promotion Council to procure orders from buyers and pass them on to the prospective suppliers in the country is a very laudable initiative. Such initiative could be extremely helpful for the small producers having export potential.</p> <p>Pakistani approach of encouragement of establishment of export marketing companies with matching grants can be considered for Bangladesh.</p> <p>Matching grants for product directories for major SME cluster can also be considered.</p> <p>SME Award is already</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>overviews, company profiles, interviews; trade show reports, as well as information on manufacturers and exporters.</p> <p>Pakistan: Encourage establishment of SME sector specific export marketing companies by providing matching grants in conducting international marketing research, developing marketing strategies, developing marketing material, packaging, branding, participating and conducting trade fairs and undertaking promotional and marketing activities.</p> <p>Matching grants for developing 'world-class' trade and product directories for major SME clusters (e.g., Members directory by Pakistan Association of Automotive Parts & Accessories Manufacturers)</p>		<p>launched, which is a very progressive step.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>Establishment of SME quota in trade delegations supported by EPB</p> <p>Compilation and dissemination of data on local markets using manufacturers, distributors and retailers data</p> <p>Establishment of SME awards</p> <p>India: The 'Central Leather Research Institute' at Chennai performs the function of designing and development, information dissemination, technology upgradation and training of skilled persons.</p> <p>The Government has established 'Export Promotion Councils' for the products with high potential of exports. These councils provide information and advise to exporters. Their services also include providing assistance about market, technology and procedures for</p>		

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>exports. Some of these councils also procure orders from buyers and pass them on to the prospective suppliers in the country.</p>		
<p>Business Development Services</p>	<p>Sri Lanka: In Sri Lanka the BDS system is supply driven and found mostly in urban centres of the Western Province. Only a few BDS deliver effective and valued services for SMEs. The initiatives of the "Wasanthaya Programme" to prepare a directory of BDS providers is a positive step. Similarly, the IDB has already redefined its role as a facilitator rather than continue as a direct service provider.</p>	<p>The BDS market in Bangladesh is underdeveloped and there are a few market players, which cater only the high end part of the industries. A number of efforts are in place by SEDF, KATALYST and GTZ, however with any visible improvement. In many cases, their approaches are elitist and fail to reach the mass of SMEs, who actually want the BDS facilities.</p>	<p>The emphasis should be placed on market orientation of BDS. The role of the government should include identification of BDS opportunities for SME development, stimulating demand for BDS, and linking BDS providers and SMEs. Private sector, particularly larger BDS providers should be encouraged through incentives to redesign their products/services focusing on specific BDS requirements of SMEs.</p> <p>A comprehensive database of BDS providers will be helpful for SMEs. Promoting business incubation programme requires</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
			continuation.
Clustering and Sub-contracting	<p>Sri Lanka: In Sri Lanka, private sector organizations and the donor community promote sub-contracting practices among SMEs.</p> <p>The application of 'industry cluster approach was initiated by the Competitiveness Initiative Project of the USAID focusing on 8 industry clusters: a) ICT, b) rubber, c) tea, d) tourism, e) ceramics, f) coir, g) jewellery, h) spices and allied products. Subsequently, the MEDIP adopted the sector strategy of promoting industry clusters relating to 18 sub-sectors in manufacturing. These efforts need to be continued with proper targeting and policy support.</p> <p>India: In India there are 350</p>	Three to four clusters of industries will be identified in Dhaka and Chittagong to provide productivity support. Several technical assistance supports will be conducted to this end.	Cluster approach should be nurtured with proper plan and systematic support.

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>SME clusters. These clusters are overwhelmingly predominant with small industries and the share of medium and large industries in the sales turnover, production and employment is nominal. The size in terms of the number of units and the quantum of output of clusters may vary significantly. Some of them are so big that they produce upto 70 to 80% of the total volume of that particular product produced in India.</p>		
Infrastructure			
<p><i>Developing adequate infrastructure support</i></p>	<p>Sri Lankan government identified power, road transport, telecommunication, and land as priority sector for policy reforms. Sri Lankan SME policy plans to create industrial park for SMEs in rural areas.</p>		<p>Power, water, telecommunications and road access are key to market competitiveness of SMEs. The pipeline water and telecommunications are almost absent in semi-urban areas of Bangladesh. This support needs to be the part of SME action plan.</p> <p>Adequate and quality power</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
			supply is important machineries and computers, which is absent in Bangladesh. SMEs can not afford captive power generation like larger business units. Investment is needed in power generation. Failure in power supply may make all other good efforts futile, particularly for the SMEs.
<i>Enabling legal and regulatory framework</i>	<p>Sri Lanka: It is recognised in Sri Lanka that outdated regulations and rigid administrative procedures imposed by public sector institutions raise cost of business and dynamism in trade and industry.</p> <p>Success of Singapore, Honk Kong, Dubai and Mauritius has been partly attributed to less regulatory orientation of such economies.</p> <p>According to an <i>Action Program for Deregulation</i> (2001) the government of Sri Lanka has taken already</p>		Companies Act 1994 should be amended to ensure included simplification of procedures enabling SMEs to enter, exit and change their business in response to market signals.

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>action to review and amend a number of laws: Inland revenue, Revenue Authority Law, Fiscal Responsibility Law, Termination of Employment of Workers Act, Industrial Disputes Act, Workers Compensation Ordinance. A number of other laws are on card; New Companies Act, Corporate tax regulations, labour laws, laws and regulations relating to utilisation of state land, government tender procedure, anti-dumping legislation and duty anomalies. Companies Act enactment included simplification of procedures enabling SMEs to enter, exit and change their business in response to market signals.</p>		
<p>Public Procurement for Promotion of SMEs</p>	<p>Pakistan: Existing tender procedures and guidelines issued by the government of Sri Lanka provide some incentives for local value-</p>	<p>There is no provision in the Industrial Policy or SME policy strategies, which provide any preference [partial or full] to local SMEs in case of</p>	<p>A certain portion of supply can be reserved for SMEs to promote SMEs with sure local market.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>added industry as against suppliers of imported products. The procedures will be amended further to benefit SMEs in true sense. Like relaxation of conditions of immediate supply of large quantity, at least 10 years of track records.</p> <p>Pakistan: All public sector procurement will encourage participation of SMEs with certain products/contracts exclusively to be competed amongst the SMEs.</p>	government procurement.	
<i>Anti-dumping Law</i>	Sri Lanka is going to enact anti-dumping law to protect domestic suppliers from cheap low quality import.		Similar law is needed for Bangladeshi producers, particularly SMEs.
<i>Entrepreneurship Skills, retraining and Management</i>	nSri Lanka: A number of strategic initiatives recommended by the National employment Policy Strategies to promote tertiary and vocational training in Sri Lanka. The government has		The acquisition of relevant vocational training, technical skills and business skills is generally regarded as one of the critical factors for success SMEs. Management and entrepreneurial skills are crucial

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>already incorporated some of these recommendations into the 2003 Budget Proposal. e.g., establishment of a Human Resource Development Fund and financial incentives for Corporate.</p> <ul style="list-style-type: none"> • Define role of the government as a facilitator, standard setter and regulator in vocational training; • Formation of a national human Capital training systems restructured to meet future demands • Facilitating Government-Industry relationships • Financial incentives to Corporate • Financial assistance to disadvantaged groups. <p>Pakistan:</p> <ul style="list-style-type: none"> • Pakistan is going more systematic about HRD. 		<p>for enterprises to become dynamic and growth orientated. Most of the SMF owners have not been trained in business management and lack a proper book keeping system to facilitate vital financial decisions. As a result they face many management problems including under-estimation of required finding, use of out-dated technology over-estimating of target markets and marketing capabilities.</p> <p>Both the vocational and technical training system are under-equipped and under-funded. The entire training system is inflexible and less responsive to industrial and technological requirements of the business sector.</p> <p>A national skill development fund should be established. Introduction of e a voucher system as a strategy for effective</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>The government will conduct <i>Need Assessment Survey</i> to identify major SME needs in HRD, technology upgradation and marketing.</p> <ul style="list-style-type: none"> • Institutes of Small and Medium Enterprise & Entrepreneurship Development (INSMED) will be established in select business schools. • Capacity building and upgradation (curriculum redesign, provision of equipment, teachers training, SME liaison, etc.) of selected sector specific technical training institutes serving in major SME clusters • Establishment of technical training institutes in clusters where none exist. • Pakistan will provide incentives to investors in 		<p>utilization of funds set apart for skills development.</p> <p>Pakistani approach of introduction of entrepreneurship course in BBA and MBA programmes of the universities can be considered as well.</p> <p>Entrepreneurship Seed grants can also play a tremendous role in promoting entrepreneurship among the youth.</p>

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	<p>setting up SME training facilities</p> <ul style="list-style-type: none"> • Encouraging use of the technical training infrastructure by the private sector BDSPs serving SME sector • Revision in primary and higher education curricula for promoting entrepreneurship amongst the educated youth • Inclusion of 'Entrepreneurship' courses in (all professional degree awarding) higher education, technical and vocational training institutions in Pakistan • Entrepreneurship Competitions at university level to culminate in Annual Entrepreneurship Competition at National level for selecting best business plans/models and providing grant for project 		

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	implementation		
Cleaner Production and Environmental Issues	Sri Lanka: The MCPIP in Sri Lanka has already initiated certain activities as a part of its recent efforts to integrate CP practices to industrial development. The establishment of the National Cleaner Production Centre (NCPC) at SMED of the federation of Chambers of Commerce and Industry (FCCISI) with donor funding is a major achievement in this regard.		The highly regulatory character and less development orientation of the environmental protection institutions have caused various administrative and procedural problems for SMEs. The capacity limitations of public sector institutions (technical skills, laboratories facilities etc.) and the absence of BDS providers in the area of waste management and clean technology have further worsened the situation. It is recommended to achieve environmental compliance through incentive-based strategies rather than through the conventional command-and-control approach.
Resource Allocation	Pakistan: Pakistan has clear cut resource allocation in four thematic areas under its SME policy. Total of Rs. 13.13 billion has been allocated for implementation of SME	No resource allocation plan is seen in the SME Policy.	Resource allocation plan under Pakistani SME policy is a historical move, which can be followed in Bangladesh. Such approach can ensure that all good policies will not remain

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	policy, which is a very pragmatic step.		only in papers.
Monitoring, Evaluation and Continuous Improvement of SME Policy	<p>SME Policy of Pakistan set specific indicators for monitoring progress of SME policy implementation, which are:</p> <ul style="list-style-type: none"> • Number of micro, small, and medium enterprises served • Gender of owners • Major sectors of enterprise activity (ISIC) • Levels of satisfaction recorded • Feedback received • Total cost of service (direct and indirect) in PKR per beneficiary enterprise • Total benefit of service in terms of employment, growth and income (during service and after service) 		Setting up specific indicators for evaluating progress hints about seriousness of Pakistan in SME development. Such approach is essential for Bangladesh as well

Items	Country experiences	Bangladesh's SME Policy/ Task Force Report	Measures to be taken
	per beneficiary enterprise		

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ANNEX A. DEFINITION OF SMES IN SOUTH ASIAN COUNTRIES

	Micro Enterprises		Small Enterprises		Medium Enterprises		Remarks
	Employment	Total Assets / Total Annual Sales	Employment	Total Assets and Total Annual Sales	Employment	Total Assets and Total Annual Sales	
World Bank	up to 10 employees Cottage	Total Assets up to \$10,000 or Annual Sales up to \$100,000	up to 50 employees less than 50	up to \$3 million fixed capital	up to 300 employees between	up to \$15 million fixed capital investment	The Industrial Policy 1999
Bangladesh	Industry household-based - family Labour.		less than 25 workers	Asset up to Taka 15 million	25 - 100 workers	Asset up to 100 million	
Bhutan	Investments up to Nu100 million are categorized as Micro or Cottage, small and medium enterprises based on the invested capital						Ministry of Trade and Industry Norms for Registration under different Laws recognize employment as one of the criteria (10 persons for industries with power, 20 persons for those with out power.
				Rs.10 million	Up to Between RS10-100million		
India	<ul style="list-style-type: none"> • The Small Scale Industries (SSIs) are industrial undertakings in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire purchase does not exceed Rs. Ten million. • The Small Scale Service and Business (Industry related) Enterprises (SSSBEs) are industry related service and business enterprises with investment in fixed assets, excluding land and building upto Rs. One million 						

Nepal		fixed assets up to 200,000 million rupees		up to 30 million rupees		between 30-100 million rupees	Industrial Enterprise Act, 1992 was amended in 1997
			10-35 employees	Productive Assets of Rs 20 million	36-99 employees	Productive Assets of Rs. 20-40 million	SMEDA
Pakistan			manufacturing and service: = 50 Trade: =20	up to Rs. 30 million Service and trade: Up to 20 million Annual sales: Rs. =100 million	manufacturing and service: 51 - 250 Trading: 21 - 50	manufacturing: Rs. 30 - 100 million Service and Trade: Rs. 20 - 50 million Annual sales: Rs. 100 - 300 million	SME Bank
Sri Lanka	Up to 10 employees		Up to 10-49 employees		Up to 50-99 employees		

Source: Policy Documents of various Countries.

ANNEX B. WEB RESOURCES ON SMES

A.WEB SITES OF REGIONAL OR WORLD WIDE INSTITUTIONS

1. APEC

<http://www.apecsec.org.sg/>

Asia-Pacific Economic Cooperation (APEC) is a forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. The organization's [Center for Technology Exchange and Training for Small and Medium Enterprises](#) aims to foster and promote technology exchange and training among SMEs. The Center facilitates various projects, trainings, activities, fora, workshops and events for SMEs through coordination with relevant agencies and institutions in the APEC region.

2. ASEAN +3 SME Network

<http://www.asean3.net/index.jsp>

The ASEAN+3 SME Network was established by the Association of Southeast Asian Nations (ASEAN) in collaboration with China, Japan, and the Republic of Korea. It works to improve the business relationships for the ASEAN+3 countries with the rest of the world. ASEAN+3 SME Network operates and maintains [eTradeShow.org](#), an e-trade hub that serves as an electronic marketplace, providing trade leads, matchmaking services and more.

3. Committee of Donor Agencies for Small Enterprise Development

<http://www.sedonors.org/>

The committee promotes enterprise development, particularly for small enterprises, in developing countries. It provides a forum, in which member agencies can exchange information about their programmes, and the lessons learned through those programmes. Building on experience, the committee publishes common guidelines for member agencies.

4. European Commission on Promoting Entrepreneurship and SMEs

http://europa.eu.int/comm/enterprise/entrepreneurship/index_en.htm

The European Charter for Small Enterprises calls upon the Members States and the Commission to take action to support small enterprises and to improve the business environment in which SMEs operate. The main EU policy instrument for the promotion of entrepreneurship and SMEs is the multi-annual programme for Enterprise and Entrepreneurship for 2001-2005.

5. European Council for Small Business and Entrepreneurship

<http://www.ecsb.org/>

The European Council for Small Business and Entrepreneurship (ECSB) is a non-profit organization whose main objective is to advance the understanding of entrepreneurship and to improve the competitiveness of SMEs in Europe. The ECSB is an affiliation to the ICSB (International Council for Small Business).

6. European Association of Craft, Small and Medium-sized Enterprises

<http://www.ueapme.com/EN/index.shtml>

European Association of Craft, Small and Medium-sized Enterprises (UEAPME) is an employer's organisation representing the interests of European crafts, trades and SMEs at EU level. UEAPME is a recognised European Social Partner and acts on behalf of crafts and SMEs in the European Social Dialogue and in discussions with the EU institutions. As the European SME umbrella organisation, UEAPME incorporates 78 member organisations consisting of national cross-sectorial SME federations, European branch federations and other associate members.

7. Global Information Network for SME

<http://www.gin.sme.ne.jp/>

The Global Information Network for SMEs works towards developing an environment where SMEs can exchange information on products, technologies, human resources, etc. freely, and to overcoming obstacles of distance and borders. The web site provides access to information on SMEs in various parts of the world, including Canada, France, Germany, Italy, Japan, United Kingdom, United States of America and the European Commission.

8. International Finance Corporation

www.ifc.org

The International Finance Corporation (IFC), which belongs to the [World Bank Group](#), promotes sustainable private sector investment in developing countries as a way to reduce poverty and improve people's lives. The [SME Development](#) web site provides an overview of how IFC supports small and medium-sized enterprises (SMEs) through its investment, technical assistance and advisory work. The site features useful utensils such as the [SME toolkit](#) which provides free software, business forms, training, and more to help small businesses in emerging markets grow and succeed. Furthermore, IFC manages the [South Asia Enterprise Development Facility](#), based in Dhaka, Bangladesh. SEDF focuses on the need of SMEs in Bangladesh, Bhutan, Nepal and North East India.

9. Institute for SME Finance

<http://www.smeinstitute.org/>

The Institute for SME Finance is a Washington-based international development organization. Its purpose is to increase the availability and effectiveness of risk capital investment for small and medium enterprises in developing countries and emerging market-based economies. Its two principal activities are the provision of advisory services and training.

10. International Council for Small Businesses

<http://www.icsb.org/>

The International Council for Small Businesses (ICSB) serves as an umbrella organization that integrates the activities of diverse organizations and professionals who deal directly with small business. It creates and distributes new information on small business management and entrepreneurial development.

11. International Network for SMEs

<http://www.insme.it/page.asp>

The International Network for Small and Medium Sized Enterprises (INSME) is an international non profit association. Its mission is to stimulate transnational cooperation and public and private partnership in the field of innovation and technology transfer to SMEs.

12. Organisation of Economic Co-operation and Development (OECD)

<http://www.oecd.org>

The Organization for Economic Cooperation and Development (OECD) groups 30 member countries sharing a commitment to democratic government and the market economy. The [Centre for Entrepreneurship, SMEs and Local Development](#) is an initiative of the OECD Secretary-General. The centre aims at disseminating best practices on the design, implementation, evaluation and promotion of entrepreneurship and SME policies and local development initiatives. Furthermore, OECD's web site also features information on the [Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs](#), and the [Bologna-Charter](#) which serves as frame of reference for the design of SME policies.

13. Small Enterprise Evaluation Project (SEEP)

<http://www.seepnetwork.org/>

The SEEP Network is an organization of more than 50 North American private and voluntary organizations that support micro and small business and microfinance institutions in the developing world. Its mission is to advance the practice of micro and small enterprise development among its members, their international partners, and other practitioners.

14. SME TechWeb

<http://sme.cordis.lu/home/index.cfm>

A European Commission web site that provides information and resources for technology-oriented companies with fewer than 250 employees – especially those wishing to innovate and internationalize.

15. SME Trade Center

<http://www.smetradecenter.net/>

SME Trade Center is a web portal for doing business with small businesses in Central Asia. The portal features news, events, information resources, business directories, and various trade and support services. SME Trade Center is managed by the [Pragma Corporation](#) and funded by [USAID](#).

16. Technology Bureau for Small Enterprises

<http://www.techsmall.com>

Technology Bureau for Small Enterprises (TBSE) provides a platform where small enterprises can tap opportunities at the global level for acquisition of technology or establish business collaboration. It results from a joint venture initiative of the [United](#)

Nations' Asian and Pacific Centre for Transfer of Technology (APCTT) and the Small Industries Development Bank of India (SIDBI).

17. UNECE - Entrepreneurship and SME Development

<http://www.unece.org/>

UNECE strives to foster sustainable economic growth among its 55 member countries. To that end UNECE provides a forum for communication among States; brokers international legal instruments addressing trade, transport and the environment; and supplies statistics and economic and environmental analysis. The web site [Entrepreneurship and SME Development](#) is a gateway to a wide array of SME related resources.

18. World Association for Small and Medium Enterprises (WASME)

<http://www.wasmeinfo.org/>

WASME is the largest global non-governmental organization of SMEs with members comprising of national governments, chambers of commerce and industry, small business authorities and associations, banks and financial institutions, training and consultancy agencies serving micro, small and medium enterprises, primarily in developing countries. WASME produces “[World SME News](#)”, a quarterly publication.

19. WIPO

<http://www.wipo.int>

The World Intellectual Property Organization (WIPO) is an international organization dedicated to promoting the use and protection of works of the human intellect. [WIPO's program of activities for SMEs](#) aims to encourage a more effective use of the intellectual property system by SMEs worldwide. The program seeks to raise awareness of the relevance of intellectual property for small and medium-sized business and promotes initiatives to make the intellectual property system more accessible, less cumbersome and more affordable for SMEs. WIPO also disseminates a monthly [SME newsletter](#).

B. WEB SITES OF INSTITUTIONS WITH NATIONAL FOCUS

Features a list of SME Development and Promotion institutions, which mainly have a national focus.

Governmental organizations, or organizations with strong Government support, are marked with an asterisk.

Information Source URL

1.Armenia

Development of Small and medium Entrepreneurship*, Ministry of Trade and Economic Development of the Republic of Armenia

<http://www.minted.am/en/smednc.html>

2.Australia

Canberra Business Advisory Service*

<http://www.canbas.com.au>

Council of Small Business <http://www.cosboa.org/>

Home Business Manual* <http://www.homebusinessmanual.com.au/hbm/>

Small Business Commissioner* <http://www.sbc.act.gov.au/>

Small Business Development Cooperation*, Western Australian State Government

<http://www.sbdc.com.au/>

Small Business Unit*, Department of Industry, Tourism and Resources

[http://www.industry.gov.au/content/itrinternet/cmsindexpag
objectid=48A33B79-20E0-68D8-
ED9772A05DDC83D5](http://www.industry.gov.au/content/itrinternet/cmsindexpag
objectid=48A33B79-20E0-68D8-
ED9772A05DDC83D5) e.cfm?

Small Enterprise Association of Australia and New Zealand
(SEAANZ)

<http://www.seaanz.asn.au/>

3.Azerbaijan

Small and Medium Enterprise Development Agency

<http://www.kosia-smeda.com/>

State Support to Entrepreneur*, Ministry of Economic Development

<http://www.sahibkar.biz/en/index.html>

4.Bangladesh

Local Knowledge Centre of IFC's SME Toolkit

<http://www.smetoolkit-bd.com/>

Bangladesh Online Business Information network

www.bobin.biz

5.Brunei Darussalam

Brunei Darussalam Small and Medium Enterprises Net*, Ministry of Industry and
Primary Resources

(MIPR)

<http://www.bsmentet.org.bn/>

3.Cambodia

SME Cambodia <http://www.smecambodia.org/>

4.China

China SME online <http://www.sme.gov.cn/>

Sources in Chinese: <http://www.smehen.gov.cn>, <http://www.smejx.gov.cn/>,

<http://www.pyqy.gov.cn/>, <http://www.cnsme.com/>,

<http://www.nasme.org.tw>

5.Georgia

Center for Small and Medium Enterprise Development and Assistance

http://www.csmeda.ge/index_en.html

6.Hong Kong, China

Hong Small and Medium Enterprise Association

<http://hksmea.asiansources.com/>

SME Centre*, Hong Kong Trade Development Council

<http://sme.tdctrade.com/index.asp?lang=en>

SME Centre*, Innovation and Technology Fund of the Hong Kong SAR Government

<http://www.smecentre.com/carenet/index.asp>

SME Development Fund*, Trade and Industry Department

<http://www.smefund.tid.gov.hk/eng/sdf.html>

SME Net, The Chinese Manufacturers' Association of Hong Kong

<http://www.sme-cma.org.hk>

The Virtual SME Information Centre*, Trade and Industry Department

<http://www.sme.gcn.gov.hk/smeop/english/index.cfm>

World SME Expo*, Hong Kong Trade Development Council

<http://www.worldsmeexpo.com/index.htm>

7.India

Federation of Indian Micro and Small & Medium Enterprises

<http://www.fisme.org.in/>

Institute of Small Enterprises and Development

<http://www.isedonline.org/>

Ministry of Small Scale Industries*, Government of India

<http://www.smallindustryindia.com/>

National Small Industries Corporation Limited

<http://www.nsicindia.com/>

Small and Medium Development Centre of India

<http://www.smecentreofindia.com>

Small Industries Development Bank of India

<http://www.sidbi.com/index.asp>

Small Industry Extension Training Institute

<http://www.nisiet.com/aboutus.asp>

SME Forum of the National Association of Software and Service Companies

<http://www.sme.nasscom.org>

SME network

<http://www.smenetwork.net/>

8.Indonesia

Ministry of Cooperative, Small and Medium Enterprises

<http://www.depkop.go.id/>

Program for Eastern Indonesia Small and Medium Enterprise Assistance (PENSA),
International Finance Corporation

<http://www.ifc.org/pensa>

9. Islamic Republic of Iran

Iran Small Industries & Industrial Parks Organization.

<http://www.sme.ir/index.php?LangID=1>

10. Japan

Organization for Small & Medium Enterprises and Regional Innovation*

<http://www.smrj.go.jp/utility/english/index.html>

Small and Medium Enterprise Agency*

http://www.chusho.meti.go.jp/sme_english/

Small and Medium Enterprise Information of Japan

<http://www.sme.ne.jp/japane.html>

11. Republic of Korea

Korea Small Business Institute

<http://www.kosbi.re.kr/index.asp>

Korean Marketplace*

<http://eng.bestsme.com/>

Small and Medium Business Administration*

<http://www.smba.go.kr/main/english/index.jsp>

12. Lao People's Democratic Republic

The National Small and Medium Sized Enterprise Promotion and Development Office*

<http://www.smepdo.org/>

13. Malaysia

SME Information and Advisory Centre*

<http://www.smidec.gov.my/index.jsp>

SMI Association of Malaysia <http://www.smisme.com/smi/index.asp>

14. New Zealand

Business Information Zone*

<http://www.biz.org.nz/public/home.aspx?sectionid=53>

New Zealand Centre for SME Research

<http://sme-centre.massey.ac.nz/>

New Zealand Industry and Regional Development Branch*, Ministry of Economic Development

http://www.med.govt.nz/irdev/ind_dev/smes/

Small Business Enterprise Centres of New Zealand

<http://www.sbecnz.org.nz/>

Small Enterprise Association of Australia and New Zealand

<http://www.seaanz.asn.au/>

15.Pakistan

SME Bank

<http://www.smebank.org/>

Small and Medium Enterprise Development Authority*

<http://www.smeda.org.pk/>

16.Philippines

CESO International Services - Philippines Bilateral

<http://www.ceso-saco.com/philippines.htm>

Knowledge Emporium*

<http://www.neda.gov.ph/Knowledge-Emporium/default.asp>

Small and Medium Enterprise Development Council – Cebu*, Department of Trade and Industry, Cebu Provincial Office

http://www.dticebu.net.ph/04_f_01.html

Small Economic Enterprises Development (SEED), Inc.

<http://www.seed.org.ph/>

SME Agenda*, Department of Trade and Industry

<http://www.dti.gov.ph/contentment/66/69/554.jsp>

SME Community Philippines

<http://www.sme.com.ph/>

17.Russian Federation (the)

Foundation for Assistance to Small Innovative Enterprises (FASIE)*

<http://www.fasie.ru/eng>

Russian SME Resource Centre

<http://www.rcsme.ru/eng/>

Small Business Working Group of the United States of America and the Russian Federation*

<http://www.smb-support.org/sbwg/>

18.Singapore

Association of Small and Medium Enterprises

<http://www.asme.org.sg/index.html>

SME Credit Bureau

<http://www.smecreditbureau.com.sg/>

SME First Stop*

http://www.spring.gov.sg/portal/products/smeservices/sme_first_stop.html

19.Sri Lanka

Federation of Association of Small and Medium Enterprises, National Chamber of Commerce of Sri Lanka

<http://www.sme.nccsl.lk/>

SMED - Small and Medium Enterprise Developer

<http://www.smed.lk/>

20.Thailand

Office of Small and Medium Enterprises Promotion*

<http://www.sme.go.th/DesktopPage.aspx?ulang=en>

Small and Medium Enterprise Development Thailand

<http://www.smebank.co.th/eng/index.php>

SME Thai*, Department of Industrial Promotion

<http://www.smethai.net/en/>

21.Turkey

Small and Medium Enterprises Trade Centre

<http://www.smetc.com/>

Small and Medium Industry Development Organization*, Republic of Turkey

Ministry Of Industry And Trade

<http://www.kosgeb.gov.tr/Index.asp>

22.Turkmenistan

Small and Medium Enterprise Development Agency

<http://www.turkmenistanembassy.org/turkmen/business/smeda.html>

23.Viet Nam

Agency for SME Development (ASMED)*, Ministry of Planning

<http://www.business.gov.vn/>

Business Information Portal for Small and Medium Enterprises in Viet Nam, Vietnam

Chamber of Commerce and Industry

<http://www.smenet.com.vn/DefaultE.asp>

Enterprise Development for Economic Growth and Poverty Reduction

<http://www.sme.com.vn/>

Small and Medium Enterprise Development Support Centre

<http://www.smedec.com/>

ANNEX C. INTERVIEW WITH STAKEHOLDERS ON SME POLICIES

Dr. Aiub Miah
Ministry of Industries

Importance of SMEs: Developing a large industry requires huge amount of investment, which is not feasible in a country like Bangladesh. Therefore we have to concentrate on SMEs. It requires less capital but creates larger employment. Countries like Japan and China built the backbone of their industry by SMEs.

Sectors to be considered under SMEs: He agreed with the list of sectors presented in the Policy Strategies Document.

Definition of SMEs: The definition in the industrial policy is already set in.

Problems and Constraints of SMEs:

- Irregular/inadequate Supply of power.
- Lack of access to credit.
- Poor enabling environment.
- 4. Inadequate business development services and capacity building assistance.
- Poor information about market opportunities and requirements.

Measures to be Taken:

- Separate Institutional Framework.
- Special SME development Fund.
- Entrepreneurship Development support Institutional Framework .
- Financial incentive Scheme.

Target market for SMEs: The SMEs should target both the domestic and foreign markets.

Opinion about Dedicated Institution: It is needed. Establishment of a SME foundation is in the process.

Need for Separate SME Policy: There is a separate SME policy.

Mrs. Selima Ahmad
President, BWCCI

Importance of SMEs: SMEs create 70% of the total employment in the private sector that comprise 80% of the total employment in Bangladesh. They are also a source of government revenue. As such they are called Key and engine of growth.

Sectors to be considered under SMEs:

- Computer software and Information Technology.
- Spares /components of automobiles
- Agroprocessing Products
- Textile dyeing and Block printing.
- Plastic Products.

- Home textile

Definition of SMEs:

Manufacturing

Small: Investment upto BDT 7.5 million (excluding cost of land and building)

Medium: Investment upto BDT 15 to 100 million.(excluding cost of land and building)

Large: Investment above BDT 100 million.(excluding cost of land and building)

Non-manufacturing units:

Small: Number of employees 25-100.

Medium: Number of employees 25 to 100.

Large: Number of employees more than 100.

Problems and Constraints of SMEs:

- Lack of access to credit.
- Poor state of the enabling environment.
- Lack of modern technology
- Lack of research and development facilities
- Poor information about market opportunities and requirements.

Measures to be Taken:

- Special SME development Fund
- Separate Institutional framework
- Entrepreneurship Development support Institutional framework
- Technology Exhibition for SMEs

Target market for SMEs: First SMEs should concentrate on local market and then go global. Even an 100% export oriented house should also have a domestic market.

Opinion about Dedicated Institution: Yes, but needs transparency and accountability.

Need for Separate SME Policy:

- Enabling business environment
- Access to finance without colla teral.(1 lakh to 5 lakhs)
- Technological know how(research and development)
- Development of home textile.
- Capacity building of enterprises
- Design diversification

Mr. Saiful Islam

Managing Director, Concord Garments

Sectors to be considered under SMEs:

- Agro possessing Products
- Light Engineering

- High value added garments
- IT

Definition of SMEs:

Large: Number of employees –2000 at Concord

Problems and Constraints of SMEs:

- Important areas are unidentified.
- Lack of skilled /trained people.
- Lack of vocational training
- Absence of reliable data(feasibility study)
- Lack of business oriented market data.
- Inconsistency of govt. policy in terms of coordination among Industrial policy, import policy and import duty structure.
- Poor information about market opportunities and requirements.
- Lack of design culture.(handloom, leather etc.)
- Failure of women entrepreneur in the transition from Micro to a corporate one.
- Poor information about market opportunities and requirements

Measures to be Taken:

- % of total lending pool of a bank should be kept for SMEs, failure to disbursement of which may result in a penalty.
- Establishment of a SME bank
- Identification of strength(e.g. the entrepreneurial skill and manual dexterity of women is very good)

Target market for SMEs: First an SME starts a business, becomes competitive and then be global.

Opinion about Dedicated Institution: A separate SME ministry is required.

Dr. Farook Sobhan

President, Bangladesh Enterprise Institute

and

Member, SME Advisory Council.

Importance of SMEs: SMEs are needed for the growth and development of a country. Without a dynamic, competitive and rapidly growing SME sector Bangladesh will be left far behind in the region.

Sectors to be considered under SMEs:

- Computer software and Information Technology
- Specialised Handlooms and Handicrafts.
- Agro processing Products
- Plastic Products.

- Footwear and Leather products.

Definition of SMEs: The definitions in the industrial policy is enough.

Problems and Constraints of SMEs:

- Lack of access to credit.
- Poor enabling environment.
- Inadequate business Development Services and Capacity Building
- Irregular/inadequate Supply of power
- Absence of an effective and transparent legal system
- Lack of adequate financing facilities
- Corruption

Measures to be Taken:

- Credit guarantee scheme.
- Separate Institutional Framework.
- Institutional Network
- Entrepreneurship Development support Institutional Framework .
- Fiscal incentives
- Specialised research and development facilities for SMEs.

Target market for SMEs: The SMEs should target the foreign market and concentrate on local market - both.

Opinion about Dedicated Institution: Yes, provided this is located within the private sector and in face of government control and restrictions. It must run on professional lines with top experts.

Need for Separate SME Policy: Yes, SME taskforce has provided such a policy.

Dr. S. K. Rabbani
Professor, University of Dhaka

Definition of SMEs: Dr. Rabbani proposes to define MME (Micro and Mini Enterprises) as:

	Manufacturing	Non-Manufacturing
Proposed Category	Ceiling of fixed* investment, Million taka	No. of Employees
Micro**	0.15	5
Mini	1.5	10
Small	15***	25***

* Fixed investments, excluding land and buildings

** Micro includes Cottage industry as well

*** As defined by Industrial Policy 2005, based on SME Taskforce recommendation

Planning for Small & MMEs: In the context of our country, Small & MME's should get the focus instead of SME's. We need deep understanding as the poorest group (majority of the 14 crore people) could easily be dislocated, and deprived of their existing livelihood if poorly designed or wrong policies are forced on them. Two third of the world poor live in Asia in which China and India have the highest share despite high growth rate in their economies. This reveals the inherent error in global and national policies currently undertaken. Any scheme taken should have arrangement to get feedback directly from the target population and should have adequate flexibility to adapt to changes as demanded by situations created by a programme - to incorporate "Learning by doing".

Sectors to be considered under SMEs: Based on the enhancement of quality of life Dr. Rabbani identified the important sectors under the Micro, Mini and Small Manufacturing Enterprises as:

- Agricultural machinery (to help improve Agricultural methods)
- Machinery to produce items of daily use (e.g., Improved cooker, water purifier, Candle, lamps, sandals, etc.)
- Electrical & Electronic products & Accessories (items of daily use)
- Engine powered small river transport (boat, launch)
- Small automobiles for public transportation (3 wheel/ 4 wheel)
- Spares /components of above machinery and vehicles
- Health and Medical Equipment
- Sanitary and Toiletries
- Agro/Food processing
- Plastic products (items of daily use)
- Low cost Educational equipment for schools
- Wooden and steel furniture.
- Computer software and Information Technology.

Problems and Constraints of SMEs: Concentrating only on manufacturing, the major constraints for Small & MME's in Bangladesh, according to Dr. Rabbani, are:

- Inverse Govt. tax (import duty, VAT, etc.) policies favouring import of finished products compared to local manufacture. For many items made by Small and MME's, total tax incidence -TTI on imported finished products is less than the TTI on imported raw materials /components for production of the same items. Such policies since 1998 has almost destroyed the local electronic industry. Many similar instances are there in the Light engineering sector as well. This renders Small and MME's unprofitable losing concerns.
- High VAT at production (15%), which result in an effective VAT of more than 35% on imported raw materials for Small & MME's (which cannot import raw materials directly, and procure from bulk importers). This further increases the cost.
- The above wrong policies force the small entrepreneurs to revert to tax evasion and make them hostage to the tax officials.

- Harassment by tax officials and members of Law enforcing agents (at monthly VAT payment, at yearly Corporate tax payment, during delivery of goods, etc.)
- Access to market: Presently most small enterprises sell through wholesale dealers who exploit them (pay in long drawn instalments, full payment not done)
- Lack of knowledge based Technology to improve product quality and to keep up in competition.
- Poor information (publicity of supportive policies of Govt., technology, marketing, etc.)
- Access to finance (Requirement of collateral in getting loans, difficult conditions and procedures, high interest, bribe). However, finance is not a problem for Technologically Innovative Entrepreneurs (Technopreneur) while initiating a manufacturing enterprise from scratch.

Why Govt policies fail: Corrupt officials are influenced by vested interest groups (mostly traders of imported items), so they become committed in formulating policies to favour their *clients*. Small & MME's seek help from honest officials who would write favourable notes on the appeals, but will not go out of the way to fight out a favourable policy for them. Therefore, ultimately it is the corrupt group that wins.

Major Recommendations for Small and MME's (Manufacturing Sector only):

Basic concepts (with gradation for Micro, Mini and Small categories):

- Correction of inverted duty structure at import (Finished items vs. Raw materials) to make Small & MME's profitable
- De-regulation (total freedom) from any inhibitory mechanism (Tax, VAT, Corporate Tax, Labour Law, etc. Any intended regulation should be done first as a campaign to make people aware. Later should be implemented through relevant Associations together with Govt. representatives. It should not be done with Govt. employees alone, which naturally ends up in corruption.
- Waiver from formalities (registration, Tax ID no - TIN, etc.) to join Associations, etc., or to sell to Government and Semi-Govt bodies.
- Support for marketing (co-operative, group marketing)
- Promotion of Entrepreneur and Business Development Centres (Private or through Associations) for Product development (R&D), trial marketing, Industrial designing, Entrepreneurial requirements, information, hands-on training.
- Provision of Collateral free loans to Technopreneurs having a good track record of technology innovation and growth.

Measures to be Taken:

Table-1: Proposed incentives and disincentives for MME & Small enterprises								
Proposed Category	Ceiling of fixed* investment, Million taka	Trade License Requirement	Registration Requirement	Labour Law Requirement	Production stage VAT	Corporate Tax	Micro-Finance through NGO	Institutional (bank) Loan
Micro	0.15	No	No	Motivate	Nil	Nil	Yes	None ^{\$}
Mini	1.5	Yes	No	Motivate	Nil	Nil	Yes	None ^{\$}
Small	15**	Yes	Yes	Yes	2.5% on turnover	Tax Holiday for 10 years [#]	No	Yes
<p>* Fixed investments, excluding land and buildings</p> <p>** As defined by Industrial Policy 2005, based on SME Taskforce recommendation</p> <p># To be counted from the day of registration as a Small enterprise if 'graduating' from a lower category</p> <p>\$ This disincentive is suggested to prevent abuse (No tax-VAT, no bank loan)</p>								

A lowest slab of MME's, particularly in Engineering based manufacturing enterprises, should be given a complete free environment, devoid of any taxes or any regulation. The challenges of setting up a technology based enterprise is itself very high in our country. If Government regulation also create additional challenges, we would be doing a disservice to the nation. MME's are like baby plants. They have to be nurtured without asking anything in return, otherwise they will simply die away. On the other hand if we nurture them, protect them, they will grow like large trees when they can give back a lot more and can survive a lot of obstacles and challenges.

We must think of long term potentials while planning, rather than getting bogged down with immediate short term relief which are adequately taken cover of by different aid programmes.