

Revisiting SME Financing in Bangladesh

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Abstract : Small and Medium Enterprise (SME) Financing is a topic of significant research interest to academics and an issue of great importance to the policy makers around the world. Economic, as well as technical and social arguments warrant the promotion of SMEs, as they create large scale, low-cost employment opportunities, use locally available inputs and technologies, mobilize small and scattered private savings, develop entrepreneurship, and correct the regional imbalance in development that exists in developing countries. Despite all these potentials, SMEs are disappearing, abandoning the potential role they could have played in economic development. Several studies have identified the major obstacles that include, but not limited to, financing, infrastructure facilities, taxes and regulations and stability in policies. This paper focuses on the financial constraints in Bangladesh. In Bangladesh, among the formal sources, commercial banks are not interested because of the high risk and high supervision cost associated with this type of financing. Absence of sound collateral puts SMEs at a relative disadvantage. However, we have found that some of the commercial banks have some 'innovative' products or services targeting at SMEs only, while others have 'repackaged' some of their existing products as SME products. The contribution of commercial banks is meager except BASIC Bank Ltd. and BRAC Bank Ltd. It has been observed in the study that commercial banks disburse loans to this sector only when government introduces 'credit guarantee scheme' in different capacity. 'Relationship lending technologies' should be introduced in case of the existing 'transaction lending technologies'.

I. Introduction

Access to credit is now considered as 'human right' not 'gift' or 'sympathy' of an individual or an institution. Recently there has been a phenomenal growth in activities of microcredit in many countries, especially in the third world. The first Microcredit Summit Meeting held in Washington DC, USA in 1997 has added a momentum in a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. Consequently, the UN has declared 2005 as the "International Year of Microcredit." The Year of Microcredit calls for building inclusive financial sectors and strengthening the powerful, but often untapped, entrepreneurial spirit existing in communities around the world (International Year of Microcredit, 2005).

While the resurgence of the small and medium enterprises (SMEs) began in the early 1970s, the trend continued well in the 1990s and has been maintained ever since. The recent global outburst of interest in SMEs has brought the issue on to the center-stage of academic discourse as well as of governmental policy making process, especially backed by proactive donor support.

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This is the right time to focus on the experiences of Bangladesh, the birthplace and the country with the biggest and most vibrant microfinance sector. This is because the microcredit movement is in mature stage in our country, and we have a clearer picture of its strengths as well as limitations. Necessarily, to move forward for a sustainable achievement, we need to be more effective, and increase outreach, design products to include the poorest, and also provide finance for growth and employment oriented SMEs which are needed to spread the poverty alleviation net wider, so that significant decline in poverty takes place.

This paper is an updated extension of an earlier paper titled “the Denationalized Commercial Banks’ Contribution in Developing Small and Cottage Industries (SCIs) in Bangladesh” and summarizes the SME financing experiences of the country over the years, and the contribution of different commercial and specialized banks in developing this sector. For this purpose financial contribution of different types of bank from 1991 to 2005 (June) has been reviewed. Moreover, it tries to emphasize on the importance of developing SMEs in the country as well as the obstacles the entrepreneurs are facing in shaping their ventures mainly in accessing the institutional credit facilities.

2 . Definitions Small and Medium Enterprises (SMEs)

There is no universally accepted definition of SMEs, in fact it is not possible. Because it depends not only on investment level and number of workers but also on technologies and technical complexities of production, degrees of skills demanded from workers and managers, end use of products and so on, which varies from country to country (please see Appendix A). For example, the EU members state Germany defines SME as an enterprise with a limit of 500 employees, while in Belgium it is only 100. There is no standard definition for a small business in the United States also. Generally it is determined by the industry in which it competes, where income and number of employees will determine whether a company is a small business or not.

Small and cottage industries (SCIs) in the previous versions of the Industrial Policy of Bangladesh has been replaced by SME in the Industrial Policy 1999, which defines “small industry” as an enterprises (excluding cottage units) employing fewer than 50 workers and/or with a fixed capital investment of less than BDT 100 million and “medium industry” as enterprises employing between 50 to 99 workers and/or with a fixed capital investment of between BDT 100 million and BDT 300 million (GOB, 1999). This definition has the second highest upper limit on fixed assets for SMEs in South Asia and Southeast Asia, after Singapore, and does not accurately reflect the size of SMEs (ADB, 2004). However, the existing definition is now under revision in the Industrial Policy 2004, which is yet to be finalized and officially published. Both the existing and the proposed definitions do not consider other important factors, like technological requirements, technical complexities of production, degrees of skills required in workers and managers, degree of value addition and turnover, import requirements, need for working capital, and probable trade barriers to market access (Mintoo, 2004). The lack of any single standard definition makes it difficult to interpret data on SMEs and target assistance for SME sector development.

3. SMEs in Bangladesh

Like many other developing countries, Bangladesh has utilized the traditional “blunt” approaches to rural development, such as the “green revolution” in agriculture, which was once thought to be capable of eradicating poverty through trickle-down effects on income and employment for the poor. In the 1960s, “industrialization” was also thought to be able to absorb the surplus labor released from agriculture following ‘capital-intensive’ technological innovations, which was also failed. The policy makers failed to realize that we should develop ‘labor-intensive’ industries rather than ‘capital-intensive’ industries because Bangladesh is a labor abundant but capital scarce country and SMEs have a natural comparative advantage. And it is widely claimed that relative to large capital-intensive industries, SMEs are more labor-intensive, that is they employ more labor relative to capital than large enterprises producing the similar products. Moreover, SMEs have high potential for employment generation; require much lower investment per worker compared to large industries. A Bangladesh Small and Cottage Industries Corporation (BSCIC) estimate shows that BDT 50,000 and BDT 5,000 are required per worker in small industries and cottage industries respectively compared to BDT 500,000 in large scale industries (BSCIC Annual Report, 1997-‘98).

Though the economic significance of the SMEs in our national development efforts has been ritualistically recognized in all the Five Year Development Plan of both pre- and post-independent Bangladesh, the sector received very little attention in terms of allocations of public investments or operational policy formulation and institution building (Sarder, 1995). SCIs were declared a priority sector for the first time in the Third Five Year Plan (1985-1990) and a set of promotional measures was envisaged to be offered facilitating their development. After a long time, SME sector has been declared as a “priority sector” in the Industrial Policy, 2004 and various measures have been initiated to help maximize the SMEs' growth potential. Moreover, special emphasis has given to this sector in the Interim Poverty Reduction Strategy Paper (I-PRSP) of Government of Bangladesh.

Despite all these initiatives, the entrepreneurs in this sector face a number of problems from initial financing of their enterprises to marketing of their final products comparing with their larger counterparts, already identified by several studies, briefly discussed in Section VI.

4. SMEs Population

There is information limit regarding the total number and types of SMEs existing in Bangladesh. Moreover, estimates of the SME population vary in line with different definitions of SMEs. Based on the Economic Census, the total number of SMEs is estimated at 79,754 establishments, of which 93.6% are small and 6.4% are medium (ADB, 2004). Another study, the “National Private Sector Survey of Enterprises in Bangladesh” by the International Consultancy Group (ICG), UK, in collaboration with the Micro Industries Development Assistance and Services (MIDAS), in 2003, revealed that there were approximately 6 million micro, small and medium enterprises (MSMEs), which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40% of the population of the country of age 15 years and above (Mintoo, 2004).

5. Arguments for Promoting SMEs

A number of studies has already argued for promoting SMEs in the developing countries. For a country like Bangladesh, Ahmed (2006) has identified some oft-cited economic, technical and social arguments that put forward in favor of SME promotion, such as creation of large scale, low-cost employment opportunities, use of locally available inputs and technologies, mobilization of small and scattered private savings, development of industrial entrepreneurship, promotion of linkages through subcontracting and dispersion of industries and reduction of income inequalities. A careful scrutiny of these arguments would reveal that the underlying justification for emphasizing SME development in the developing countries is derived from the factor proportion disequilibrium (i.e., scarcity of capital and abundance of labor) facing these countries.

Unfortunately we do not have much reliable information about the number and activities of SMEs and their contribution in the national economy. An informal estimate by Planning Commission of Bangladesh has reported that the SME sector accounts for more than 80% of private establishments, approximately 80% of industrial units and employs 23% of the total labor force of the country, and about half of the gross industrial output (Sia, 2003). Ahmed, *et al.* (1992) suggests that SCIs are responsible for giving birth to 59% of the new industrial enterprises in Bangladesh during 1980s. SCIs confer social and political advantages as small enterprises were thought to promote democracy and equality (Dhar and Lydall, 1961).

Regarding this sector's contribution to GDP, neither the Bangladesh Bureau of Statistics (BBS) nor the Annual Economic Review of the Ministry of Finance show segregate data for SMEs. The coverage is restricted to large and small industries, whatever might be the definitions of these two categories. The relative contributions of the large and the small industries during the last five years are shown in Table 1.

Table 1: Contribution of large and small industries to GDP (%)

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Large Industry	11.01	11.13	11.16	11.29	11.47
Small Industry	4.39	4.46	4.60	4.68	4.78
Total	15.40	15.59	15.76	15.97	16.25

Source: Economic Review, Ministry of Finance, GOB, 2004

And as far as employment is concerned, millions of men and women are engaged in SCIs, mainly in rural industries on full or part time basis. The Rural Industries Study Project (RISP, 1978-81) conducted by Bangladesh Institute of Development Studies (BIDS) found 2,17,000 persons are involved in rural on full or part time basis in the 11 study Upzilas, accounting for about 25% of the total labor force of the Upzilas (Ahmad, 1984). The sector now provides employment to roughly 5 million workforces, which accounts for 82% of the total industrial labor force and generate between 45% to 50% of the total manufacturing value added (GOB, 1998, and Sarder, 1995). On the other hand, SME uses resources more efficiently (fewer resources per unit of output) compared to its large-scale counterparts.

Regional imbalance in development that also exists in our country can be corrected through promotion of SMEs in backward areas, because SMEs are locationally flexible and can be widely dispersed geographically and are more equitable in distributing the income that they generate. Moreover, SMEs have strong backward and forward linkages with other sectors (e.g., agriculture, automobile, transportation sector). For example, there are about 11,000 light engineering industries (LEIs) presently enlisted with BSCIC which are continuously supplying various products (e.g., spare parts, equipment, small and large machinery) under sub-contracting scheme to different organizations including Bangladesh Railway, BRTA, BRTC, BIWTA (Task Force Report, 1991).

Now the question is, despite the fact that the SME sector seems so promising why aren't they doing better in Bangladesh? It is unfortunate that many of the SMEs are disappearing, abandoning the potential role they could have played in economic development. Of course, there are a number of problems in nourishing SMEs in Bangladesh. A recent World Bank study, conducted through a survey across 80 countries, covering more than 10,000 firms reveals that the SMEs face more or less common type of problems across the world. The major obstacles include problems relating to financing, infrastructure, taxes and regulations and stability in policies. In terms of ranking, financing appeared to be the top problem (Schiffer, 2001).

6. Financial Constraints in Promoting SMEs in Bangladesh

Berger and Udell (2004) argued that the differences in the financial institution structure and lending infrastructure may significantly affect the availability of funds to different types of SMEs. However, SMEs need finance to undertake productive investment in order to expand their business, to introduce new products, and to market those products. Unfortunately they encounter great difficulties raising fixed and working capital because of the reluctance of banks to provide loans to SMEs.

Much of the recent works on SME's access to financing focuses on the comparative advantages of different types of financial institutions in using *transactions lending approaches*, based on hard quantitative data that may be observed and verified at about the time of the credit origination versus *relationship lending approaches*, based significantly on soft qualitative information gathered through contact over time with the SME and often with its owner and members of the local community. Berger, *et. al.* (2005) found that large institutions have comparative advantages in transactions lending to more transparent SMEs, while small institutions have comparative advantages in relationship lending to informationally opaque SMEs based on soft information.

Various surveys and studies conducted in Bangladesh have identified access to finance as the main problems facing the SMEs. For example, in one recent private enterprise survey, Daniels (2003) identifies that as many as 58% of the surveyed businesses reports the problem of lack of investment funds, whereas 35% mentions the problem of lack of operating funds. Another study conducted in 1996, by the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) finds out the following constraints to industrial sector growth and investment as perceived by industrial entrepreneurs and businessmen of different classes, such as (1) industrial credit; (2) power supply; and (3) administrative reforms (Mintoo, 2004). However, the Job Opportunities and Business Support (JOBS) program of the Institutional Reform and the Informal Sector (IRIS) finds electricity, credit, and law and order are respectively the three top ranked

problems followed by legal barriers, intense competition, and dearth of technical assistance (Meagher, 1998). The Report of the Task Forces on Bangladesh Development Strategies for the 1990s (Policies for Development) identified that SMEs face constraints on both supply and demand sides as well as in respect of policies (Task Force Report, 1991). Hossain (1998) has also identified some constraints in developing SMEs in Bangladesh.

Why commercial banks are so reluctant to extend loans to this sector? That is because of the high risk and supervision cost associated with this type of financing. Hossain (1998), Bhattacharya, *et. al.* (2000) and Sia (2003) identified that banks are shy to lend to SME activities, as they do not consider them as attractive and profitable undertakings. SMEs are also regarded as high risk borrowers because of their low capitalization, insufficient assets, and high mortality rates (Sia, 2003) and consequently, they are not offered any attractive deals in terms of loans and interest rate. Banks charge high rate of interest from SME loan because of high cost of supervision. For example, in secured credit transactions, interest rates vary from 14% (subsidized in cases defined by Bangladesh Bank policies) to 22% or more (Meagher, 1998). Furthermore, the loan application forms for investment financing from banks are long, tedious, and redundant (Hossain, 1998).

For small enterprises access to bank credit is even very limited. For 'term loan' it is almost impossible; for 'working capital', it is somewhat better. Cookson and Forrest (1999) estimate that 20% - 25% small enterprises have working capital relationships and probably 50% of medium size firms have working capital relationships. On the other hand, 3% - 7% of the small enterprises have term loans compared to 20% for medium size establishment. That is why small enterprises turn most often to moneylenders and other informal sources. Islam, *et. al.* (2005) have found that bank is the mostly used (identified by 54% of the respondents) source, followed by self-finance (46%) and family and friends (21%). Another such study has revealed that within the non-institutional sources, friends and relatives were the dominant contributors followed by the local lenders. The relatively high incidence of borrowing from friends and relatives may not be surprising given that it might have been easier for the borrowers to approach such lenders and to obtain loan from them on more flexible terms than those received from other lenders (Ahmed, 1984).

On the other hand, one of the major obstacles that have impaired the flow of institutional finance into SMEs is banks' pre-occupation with collateral based lending. Traditionally banks have used fixed asset ownership, particularly land ownership as the basis for judging credit-worthiness of a customer. This puts SMEs at a relative disadvantage, as large entrepreneurs are often able to get around the problem because of their influence and contacts by putting up collateral of dubious valuation. Real estate security, required in nearly every case, is normally taken in the amount of 200% of the loan amount (Meagher, 1998). Bhattacharya, *et. al.* (2000) also confirmed this high collateral requirement, which many SMEs are not capable to provide.

7. Contribution of Banks to SME Sector

SME financing is a high risk service with low profit, discouraging the banking sector to extend loans to this sector. However, banks cannot ignore an emerging sector like SMEs. That is why, banks are continuously endeavoring to evolve appropriate model(s) of financing SMEs. Generally, banks provide both working and other than working capital financing to large and medium as well as small industries. Unfortunately, information regarding financial contribution by banks to this

sector is not segregated. We have reviewed the contribution of different type of banks to this sector from 1991-2005 (June), published by Bangladesh Bank. It is clear that both working capital and other than working capital financing is higher in large and medium industries than that of small industries. Recently, working capital financing has been increased in large and medium as well as in small industries. That may be because of the recently formulated USD 30 million “Small and Medium Enterprise Sector Development Project” in Bangladesh Bank. A complete picture of the contribution by different banks is available in the Appendix B.

However, in an earlier paper, we have shown that in terms of contribution to SCIs, nationalized commercial banks (NCBs) come first followed by private commercial banks (PCBs) and specialized banks (SBs). The reason behind the upward contribution of PCBs is that a fund of BDT 116.00 Crores under the Credit Agreement No. 1070-BAN (SF), signed between the GOB and ADB on 25 January 1991 (Siddiquee, 2003). Credit disbursements under the above credit scheme totaled BDT 95.33 Crores against 183 SCI projects on 8 October 1998. The growth rate of PCBs declined thereof. Under another credit guarantee scheme, Government released BDT 25.00 Crores to Bangladesh Bank for providing guarantee facility to investors in SCIs. However, the growth became quite sluggish in the year 2000 and 2001 because of the abeyance of new proposals under the scheme as per decision of the Ministry of Finance of 14 September 1999 (Bangladesh Bank Annual Report, 2000-2001).

Moreover, only the NCBs have extended credit to priority sectors in response to government directives that at least 5% of a bank's loan portfolio be set aside for SCIs financing, although this is not sufficient. The contribution of PCBs in developing this sector is very meager. It seems that they even do not care for the government directives. For example, in 2001, NCBs have outstanding loans and advances of BDT 504.93 Crores in SCIs, which is 1.54% of total loans and advances outstanding, whereas PCBs have BDT 303.32 Crores (0.86% of total loans and advances outstanding) and SBs have BDT 110.74 Crores (1.02% of total loans and advances) (Siddiquee, 2003).

8. Credit Products and Services Available For SMEs in Bangladesh

SME financing is a new product in the range of services provided by banks. SME loan is different from other loans, not only because this is small in size, but also because its modalities are different. Nevertheless, to foster the growth of SME sector, various financial institutions now offer a wide range of products and services to SMEs in many countries. Unfortunately Bangladesh still has a scarcity of SME financing institutions or SME financing products and services. For example, two banks namely BASIC Bank (SME financing covers almost 100% of the loan portfolio) and BRAC Bank Limited (extends over 50% of the loan portfolio) are specifically devoted to SME financing. Other commercial banks are also open for SME finance, though their coverage is low. However, commercial banks should not be the only source of SME financing. There are other financial institutions, which finance SMEs worldwide, such as the SME Department of International Finance Corporation (IFC), World Bank Group.

IFC has extended the SME financing facilities to Bangladesh through the South Asia Enterprise Development Facility (SEDF) along with the 13 local Partner Financial Institutions (PFIs). The PFIs include commercial banks (such as Arab Bangladesh bank Ltd., BRAC Bank Ltd., Dhaka

Bank Ltd., Southeast Bank Ltd., and The City Bank Ltd.), leasing companies (e.g., Industrial Development and Leasing Company of Bangladesh Ltd. (IDLC) and United Leasing Company Ltd), and SME Banks. SEDF PFIs have subscribed to the concept of SME finance and have worked towards this.

SEDF has already developed Credit Scoring modules at 7 PFIs. This enables these PFIs to reduce the time requested for screening SME loan applications. Moreover, a comprehensive risk grading framework has been developed for a PFI which enables the company to better manage its lending risks and adopt risk-based loan pricing policies. SEDF assists two PFIs in setting up separate SME departments. This includes establishing the appropriate strategy, organizational structure, operational processes and risk management. SEDF is also conducting a detailed segmentation study of the SME market in Bangladesh. The contribution of PFIs is summarized in Table 2.

Table 2: Performance Summary of PFIs (Dec 02 – Dec 03)

Description	Dec'02	Dec'03	Growth
No. of SME Clients	3,383	9,428	178.7%
SME Portfolio (in BDT million)	22,797	36,785	61.4%
Loan Processing Cycle (in days)	29	26	-11.3%
SME Staff in PFIs	56	144	157.1%

Source: Sinha, 2004.

Depending on the entrepreneurs' financing needs and the suitability of such financing to their ventures, a wide variety of products offered in the market. The products or instruments available globally for channeling funding to SMEs include but not limited to term loans, leasing, industrial hire-purchase for asset acquisition/business expansion, overdraft (OD), revolving credit, factoring, letter of credit (L/C), trust receipts, bankers' acceptance (BA), foreign exchange contracts, bills of exchange purchased, etc. for working capital needs, outward/inward bills for collection (OBC/IBC) for trade services and Bank Guarantee (BG), and Shipping Guarantee (SG) for different guarantee services. For example, IFC has developed products like Leasing, SME Risk Capital, Equity Funds and services like Credit lines, Credit bureaus etc. that can expedite the total process of SME financing.

To enquire about the availability of SME financing products and services, we have surfed a number of commercial banks' website as well as the websites of other financial institutions, such as IDLC of Bangladesh and IPDC of Bangladesh. We have found that some of them do provide some 'innovative' products or services solely targeting SMEs, while others have 'repackaged' some of their existing products as SME products. For example, BRAC Bank introduces 'Anonno', The City Bank Ltd. has Cash Credit (Hypothecation), Cash Credit (Pledge), Secured Overdraft, SOD Against Work Orders), Dutch Bangla Bank Ltd. has 'Small Shop Financing Scheme', Overdraft, Cash Credit (Hypothecation), Eastern Bank Ltd. has Current A/C, STD A/C, Fixed Deposit A/C, Overdraft/Cash Credit, Demand loan, Time Loan, Term Loan, Letter of Credit, Import Loan, Guarantee, Local Bill Purchase, Foreign Bill Purchase), Prime Bank Ltd. introduces "Small & Medium Enterprise (SME) Cell," which has access to USAID funds; Pubali Bank Ltd. has mere Term Loan; Social Investment Bank Ltd. has Special Credit Line for Small and Medium shop owners; and South East Bank Ltd. has only Term Loan.

Among the non-bank financial institutions (NBFIs), IDLC of Bangladesh mainly focus on SME financing by providing business solutions through financial products like business loan, machinery loan, double loan and lease finance. They have introduced 'factoring' first in the country. Among other sophisticated SME financing instruments, Industrial Promotion and Development Company (IPDC) of Bangladesh has introduced the first asset securitization in Bangladesh in 2004, followed by IDLC of Bangladesh with Asset Backed Securitized Zero Coupon Bonds of BDT 190 million in 2005 (Siddiquee, et. al., 2006).

9. Conclusion

A vibrant SME sector is considered as one of the principal driving forces in the development of a market economy. They stimulate private ownership and entrepreneurial skills, and are flexible and can adapt quickly to changing market demand and supply situations, generate employment, help diversify economic activity, and make a significant contribution to exports and trade. Even in the developed market economies SMEs account for a large share in output and employment.

There are many constraints in developing the SME sector in Bangladesh. Several studies have identified different constraints, ranging from access to credit to marketing their products and services. However, access to credit is considered as the main constraint. Commercial banks are found reluctant to extend credit to the SME sector. The main reasons are high risk and monitoring cost. To meet the challenge and reduce the perceived risk in lending to SME sector, the Bangladesh Bank has embarked on a program to expand and redesign the existing refinance window of Bangladesh Bank into Small Enterprise Fund (SEF). However, it was thought that the introduction of "Credit Guarantee/Insurance Scheme" or adequate "refinancing facilities" by the Bangladesh Bank may be of substantial help in increasing the participation of the commercial banks in SME financing. Private banks cannot be expected to undertake this type of financing as additional costs and high risk involved. On the other hand, NCBs that cater to a variety of sectors, from large industries to SMEs will not also be expected to give special attention that SME financing calls for.

The lending institutions should be encouraged to emphasize on the relationship lending technologies, which is based on "soft" information. The soft information may include the character and reliability of the SME's owner based on direct contact over time by the institution's loan officer; the payment and receipt history of the SME gathered from the past provision of loans, deposits, or other services to the SME by the institution; or the future prospects of the SME garnered from past communications with SME's suppliers, customers, or neighboring businesses.

Monitoring of the banking sector in the aspects of loans and advances disbursement should be streamlined as nobody is following government directives. We need to develop various credit products and services, such as credit lines, risk sharing activities, leasing, credit scoring and expert decisioning, efficient credit bureaus. Banking norms and attitudes towards SME financing should be changed as because small enterprises differ considerably from the traditional clientele and do not conform to the norms detailed in the manual of banking norms and procedures. So, it needs a concerted effort of different financial institutions, such as Bangladesh Bank, BSCIC, NCBs, PCBs, SBs or even insurance companies to make SME financing a success.

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Appendix A

Definition of SMEs	
<p>World Bank Micro-enterprise: up to 10 employees, total assets of up to \$100,000 and total annual sales of up to \$100,000; small enterprise-up to 50 employees, total assets of up to \$3 million and total sales of up to \$3 million; medium enterprise-up to 300 employees, total assets of up to \$15 million, and total annual sales of up to \$15 million.</p>	<p>EU Micro-enterprises: < 10 employees; Small enterprises: 10-49 employees with maximum turnover up to 7 million euros. Medium-sized enterprises: 50-250 employees with maximum turnover up to 40 million euros. Maximum balance sheet total is 5 million for small euros and 27 million for medium size enterprises.</p>
<p>Albania Micro-enterprises: < 10 employees; Small enterprises: 10-40 employees. Medium-sized enterprises: 50-250 employees.</p>	<p>Latvia Small enterprises: < 25 employees; max. turnover < Lats 200,000; and max. balance sheet total < Lats 70,000.</p>
<p>Azerbaijan Small enterprises: < 50 employees in industry; < 15 employees in transport; < 25 employees in construction; and < 10 employees in retail trade and servicing. Medium-sized enterprises: 51-250 employees in industry; 16-75 employees in transport; 26-150 employees in construction; and 11-50 employees in retail trade and servicing.</p>	<p>Lithuania Small enterprises: < 50 employees and max. turnover < litas 500,000.</p>
<p>Bulgaria Small enterprises: < 50 employees and max. assets in balance sheet BGL 20 million.</p>	<p>Moldova Micro-enterprises: with employees < 20; Small enterprises: with employees between 20 and 75 persons. Medium-sized enterprises: No definition exists.</p>
<p>Belarus Small enterprises: < 200 employees in industry with maximum annual turnover < Rbl 20 million; < 100 employees in innovation with maximum turnover < Rbl 5 million; < 50 employees in construction and other production spheres with max. turnover < Rbl 5 million;</p>	<p>Romania Small enterprises: 1-20 employees and turnover between LEI 10 million and 2 billion. Medium-sized enterprises: 21-200 employees and turnover between LEI 10 million and 2 billion.</p>

<p>< 50 employees in catering and public services with max. turnover < Rbl 2 million; < 25 employees in retail trade; and < 25 employees in other non-production spheres with max. turnover < Rbl 1.5 million. Medium-sized enterprises: No definition exists.</p>	
<p>Hungary Small enterprises: 11-50 employees; maximum turnover < HUF 500 million and maximum balance sheet total < HUF 200 million. Medium-enterprises: 51-250 employees; maximum turnover < HUF 2 billion and maximum balance sheet total < HUF 1.25 billion.</p>	<p>Russian Federation Small enterprises: < 100 employees in industry and construction; < 60 employees in agriculture; < 60 employees in science; < 50 employees in wholesale trade; < 30 employees in retail trade and household services; and < 50 employees in other production and non-production spheres. Medium-sized enterprises: No definition exists.</p>
<p>Uzbekistan Small enterprises: < 300 employees. Medium-sized enterprises: 300-1,000 employees.</p>	<p>Estonia Small enterprises: < 80 employees and max. turnover < EEK 15 million.</p>
<p>Malaysia Annual sales turnover no exceeding RM25 million and fulltime employees not exceeding 150.</p>	<p>Tajikistan Small enterprises: < 50 employees in industry and construction; < 15 employees in other economic spheres. Medium-sized enterprises: No definition exists.</p>
	<p>Ukraine: Small enterprises: < 200 employees in industry and construction; < 50 employees in other production spheres; < 100 employees in science; < 25 employees in non-production spheres; < 15 employees in retail trade. Medium-sized enterprises: No definition exists.</p>

Source: Compiled from UNECE (2002), "Definition of SMEs in Countries in Transition", World Bank website, and SMI Business Directory 2002 of Malaysia.

