

**CRITICAL ANALYSIS OF MICRO ENTERPRISE
POLICY DEVELOPMENT IN DEVELOPING
COUNTRIES: A CASE OF BANGLADESH**

A Thesis Submitted for the Degree of Doctor of Philosophy

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Abstract

MEs are considered as the major sources of employment creation. Global experiences show that an efficient ME sector is conducive to industrial growth and a flexible industrial structure, which are the cornerstones of a vibrant entrepreneurial economy. The contributions of MEs to the national economy can be measured in terms of some inter-related issues: economic (income generation), social (poverty reduction) and political (wealth redistribution). Current studies show a strong link between entrepreneurship and economic development (ED). The impact of entrepreneurship on ED depends on the level of business performance, and economy is an affect for which entrepreneurship is the cause. ED theories generally emphasise on employment creation by industrialisation with the use of advanced technology. Thus economic histories of the developed countries show the notion that ED has benefited from widespread large scale entrepreneurial activity. However, developing countries (DC) have begun to realize the necessity of encouraging entrepreneurship to achieve their ED goals. But, they in reality can't achieve these goals like the developed countries, because they don't have sufficient capital and advanced technology. As a result they need to depend on small scale enterprise development by exploiting available resources, small capital, and indigenous technology. It indicates a strong link between micro enterprise development (MED) and entrepreneurship development. Therefore, national ED policies of DCs should focus on linking MED, entrepreneurship development and ED.

Despite these recognized importance, MEs face severe problems and challenges in DCs. They lack appropriate policies and programmes to promote MEs towards ED. This study critically examines the existing MED Policies (MEDP) and the role of different MED Organizations (MEDOs) with a view to articulating appropriate policy recommendations. Based on the objectives and literature review four themes (state of affairs of MEDPs, support services to MEs, financing MEs and networking of ME stakeholders) were identified to establish the interview protocols. This study employed a qualitative inductive approach, case study strategy and in depth interviews with semi-structured protocols to collect primary data based on phenomenology. Thirty five respondents from different ME stakeholders (policy makers, implementing agencies, and the recipients) were interviewed and interpretative phenomenological analysis technique was used for data analysis.

The findings confirm that there are fragmentations and incoherency in existing MEDPs, as a result, they failed to achieve the goals of MED. Specifically, support services and infrastructural facilities to MEs are not well designed, financing systems are not fully supportive to all the MEs, and networking of ME stakeholders are very floppy. Overall a favourable entrepreneurial culture to MED is absent in Bangladesh. The government has failed to plan realistically to mobilize the resources, to exercise control over factors of MED and to give appropriate direction to the developmental process.

This study offers a list of practical recommendations to formulate a coherent and comprehensive MEDP based on solid evidences. Especially, a model for appropriate government intervention to MED by linking the main three concepts of this study MED, entrepreneurship development and ED, and an alternative model for 'interest free ME financing' are proposed. This study hopes that these recommendations will provide appropriate inputs to the policy makers and concerned ME stakeholders in the DCs, particularly Bangladesh and more generally to the MED literature.

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(AMIR MOHAMMAD NASRULLAH)

DECLARATION

This is to declare that this thesis is my original work and written by me. I am solely responsible for the whole work. All the verbatim extracts have been distinguished and the sources have specifically acknowledged in the thesis. During my study here in Brunel University London, one paper was published as Dickson, K. and Nasrullah, A.M. (2010), “Analysis of Micro Enterprise Development in Bangladesh”, in *South Asian Business Review*, 2 (2), BIMTECH, India.

I also declare that this thesis has not been submitted to any other institution within a degree programme and any mistakes in this thesis are of my sole responsibility.

(AMIR MOHAMMAD NASRULLAH)

DEDICATION

This thesis is dedicated to the memory of my late father Mohammad Abdus Salam, who is my inspiration to be engaged in a noble profession, teaching. This thesis is also dedicated to my mother Mrs. Rizia Begum (who took all the pains alone at home during my study in London); my uncle Alhaj Shamsul Islam and my aunty Alhaj Motahera Begum (who took my responsibility soon after my father's death in 1984); and my father in law Alhaj Rashid Ahmed Choudhury and mother in law Alhaj Shamsed Begum (who gave me all the way mental support to come and finish my PhD in London).

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ABBREVIATIONS

ADB	Asian Development Bank
ASA	Association of Social Advancement
BRAC	Building Resources Across Communities
BBS	Bangladesh Bureau of Statistics
BDSPO	Business Development Service Providing Organization
BSCIC	Bangladesh Small and Cottage Industries Corporation
BITAC	Bangladesh Industrial Training and Technical Assistance Centre
BSTI	Bangladesh Standard and Testing Institution
CCCI	Chittagong Chamber of Commerce and Industries
DC	Developing Countries
DCCI	Dhaka Chamber of Commerce and Industries
ED	Economic Development
EEF	Equity Entrepreneurship Fund
FDI	Foreign Direct Investments
FI	Financial Institution
GB	Grameen Bank
GEM	Global Entrepreneurship Monitor
GO	Government Organization
GoB	Government of Bangladesh
IP	Industrial Policy
IOR	Inter Organizational Relations
ILO	International Labour Organization
InM	Institute of Microfinance
ME	Micro Enterprise
MED	Micro Enterprise Development
MEDO	Micro Enterprise Development Organization
MEDP	Micro Enterprise Development Policy
MEPD	Micro Enterprise Policy Development
MFI	Micro Financial Institution
MIDAS	Micro Industries Development Assistance Services
MoI	Ministry of Industries
MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprise
NBFI	Non Banking Financial Institution
NGO	Non Government Organization
OECD	Organization for Economic Cooperation and Development
PO	Private Organization
PKSF	Palli Karma Sahayak Foundation
PRSP	Poverty Reduction Strategy Paper
SCB	State Commercial Banks
SEDF	South Asia Enterprise Development Facility
SEF	Small Enterprise Fund
SCI	Small and Cottage Industry
SME	Small and Medium Enterprise
SMEF	Small and Medium Enterprise Foundation
TMSS	Thengamara Mohila Sabuj Sangha
YPSA	Young Power in Social Action

CHAPTER 1

INTRODUCTION

1.1 Introduction

Micro Enterprises (MEs) have been recognized as a major source of job creation in the world. Although the role of MEs is different at different stages of economic development (ED) in the world, their role is particularly important for developing countries (DCs). Beck (*et al.* 2005) has found a strong association between micro enterprise development (MED) and GDP per capita (Moazzem 2008). The word ‘micro enterprise’ has as many interpretations as they have applications. It has been used inter-changeably by the researchers, policy makers, and business advisors. They are informal sector, small business, small firms, small-scale industries (SSI), small scale enterprise (SSE), small and medium enterprise (SME), medium and small scale industry (MSSI), micro, small and medium enterprise (MSME) and micro enterprise (ME) etc. Variants of expressions are used among and within the different countries. For example, “small business” is generally used in the USA, “small firm” is generally used in the UK and European countries, and while in the south Asia, the term “small and cottage industries” is used more often. In the Caribbean countries, the term “vendor”, “hucksters”, “haggler” and “trader” is used to describe the persons who carry out trades in small business (ILO 2001). Whatever the name is used, this sector is a potential instrument for employment generation and poverty reduction, even though they are treated as “missing middle”, as such, remained neglected for ages in the DCs.

1.2 The Study of Micro Enterprise Development

MED is inextricably linked with the development process in DCs, because of a high proportion of MEs exist there. The varieties of different services that MEs provide underline its integral role in the economy of most DCs. These include amongst others: bicycle repair, baking, blacksmithing, brick making, carpentry, carving, computer services, dry cleaning, electronics, furniture making, knitting, motor

repairs, photography, pottery, retailing, shoe making, tailoring, transport and welding, vegetable gardening, animal husbandry, hatchery, and fish cultivation. It is obviously difficult to quantify accurately the impact of such a diversity of enterprises, especially as they are often best described in qualitative, ideological or even emotive terms, but evidence suggests that this sector plays a prime role in the economy. Contribution of this sector to the national economy can be assessed in terms of a range of inter-related economic, social and political issues. The economic contribution of MEs includes employment creation, wealth creation, increased output, mobilization of local resources and adaptation of indigenous technologies. The social benefits include a reduction of poverty, balanced development, provision of goods and services appropriate to local needs, a seed bed for new initiatives, redistribution of both income and opportunity in the community in general and a greater degree of personal involvement and commitment. The political benefits result from the redistribution of wealth, opportunity and therefore power within the community (Hailey 1991).

Providing meaningful, productive, financially remunerative and creative employment opportunities for the people is the primary concern of DCs. For the last three decades, DCs have become increasingly aware of the role of MEs and entrepreneurship development in accelerating the overall socio-economic development by formulating suitable policies and programmes. They have started working in this direction, but the expected results are yet to be achieved. They still face different challenges and problems. However, they need appropriate guidelines to develop this sector.

1.2.1 Micro Enterprise Development: Some Initial Theoretical Reflections

Marxist theory predicts that capitalism will degenerate into economies dominated by a small number of large enterprises (LEs) and society will polarise between those that own them and those that work in them. To a Marxist, the rise of MEs is just another subtler way for this trend to manifest itself. MEs are dependent upon LEs for their custom and well-being. They absorb risk and push down pay and condition for workers, as they are rarely un-unionized. However, the successful growth of so many MEs over the period, the increasing fragmentation of industries and markets, and the

increasing popularity of self-employment by choice would seem to belie this theory (Burns 2007).

People like Schumacher (1974) would have us believe that the growth of MEs is part of a social trend towards a more democratic and responsive society 'small is beautiful'. To him the quality of life is more important than materialism. He is very much in favour of 'intermediate technology' with production on a smaller scale and more locally based, which is simpler, cheaper and easier to use. However, the technologies that have fuelled the growth of MEs at the end of the twentieth century have been far from simple and for many qualities of life have improved alongside materialism, which leads us onto free-market economies. At one extreme, the growth of the MEs can be seen as the triumph of the free market and the success of 'enterprise culture'. Increasing numbers of MEs are the natural result of increased competition and a drive to prevent private and public monopoly. Traditional industrial economists would explain the growth of new enterprises in terms of industry profitability, growth, barriers to entry and concentration. However, they are more concerned with 'entry' to an industry, rather than whether this is by a new or an existing enterprise. They assume an endless supply of potential new entrants. They would say that entry to an industry is high when expected profits and growth are high. High barriers and high concentration deter entry, when collusion between existing enterprises can take place. Indeed, Acs and Auderetsch (1989) show that entry by small, primarily new enterprise is not the same as entry by LEs and the birth of that ME is lower in highly concentrated industries and ones where innovation plays an important part.

By way of contrast, labour market economists have been more interested in what influences individuals to become potential entrants to an industry by becoming self-employed. Psychologists have also contributed greatly to this work, which has focused on the character or personality of the individual, the antecedent influences on them such as age, sex, education, employment status, experience and ethnicity as well as other societal influences (Burns 2007). This is entrepreneurship that influence a person to be self employed and this is where entrepreneurship starts. To

create self-employment and employment for others MED is considered the best instruments.

1.2.2 Micro Enterprise Development and Economic Development Agenda

Partly for ideological reasons and partly because of the emphasis on government-sponsored development and associated preference for major industrial and infrastructural projects, it took time for development strategies to recognize the contribution of MEs in promoting balanced development. In the 1950s economists like Hoselitz (1952) reviewing the relationship between entrepreneurs and economic growth attempted to establish entrepreneurship and MEs on the development agenda. Their work was followed in 1965 by Staley and Morse in their study “Modern Small Industries for Developing Countries”. The research not only provided evidence supporting the role of MEs in ED, but also offered one of the first conceptual frameworks of the policies and institutional support necessary to promote a range of MEs.

In 1970s, the process of fixing entrepreneurship and MEs on the development agenda gathered pace. In 1971, Peter Kilby’s *Entrepreneurship and Economic Development* was published. This much-quoted collection of research studies highlighted the role of entrepreneurs and MEs in the development process; as did Schumacher’s *Small is Beautiful* (1974). This book not only captured the public’s imagination but helped to legitimize the work of those trying to promote sustainable small scale enterprises. Schumacher (1974) argued that it was only in such businesses that ‘private ownership is natural, fruitful and just.

Mainstream development thinkers were also beginning to recognize the potential role of such small-scale self-sustaining ventures. Seers (1972) for example, had identified five primary objectives of development. These are: to ensure adequate family income to provide subsistence essentials; to create sufficient employment to allow for the continued redistribution of income and opportunity; to increase access to education and improve literacy rates; to enhance the ability of the population in general to participate in government; and to promote national independence.

However, Seers (1977) later acknowledged that he had omitted a key ingredient from this analysis – the need for any individual to become self-reliant. Because of which he began to emphasize the importance of “ownership as well as output” as an integral part of the development process.

This belated recognition of the need to promote individual self-reliance and individual ownership reflected a growing awareness in mainstream development thinking that individual entrepreneurs and ME sector in general was an integral part of the development process. This shift in thinking was given further impetus in mid 1970s when researchers and policy makers acknowledge the significance of informal sector. In many DCs, informal sector, which often encompassed the majority of the population, was the centre of entrepreneurial activity, and MEs common to this sector generated a significant proportion of national ED activity. This in turn further focused the attention of researchers and policy makers on the role of entrepreneurs and MEs.

The 1970s and the 1980s were marked by growing economic instability, indebtedness, and unemployment within the formal sector. Governments faced with such economic constraints had to reduce their role in the economy, adopt stringent readjustment policies, and turn to the private sector as a vehicle for growth. Aid agencies established MED programmes and a new breed of specialist and enterprise development professionals were created. It was therefore no coincidence that ME sector became established on the development agenda. A state of affairs was reinforced by the recognition of the contribution of ME sector to wider socio-political development. Entrepreneurs and ME community have been credited with playing a role in promoting independence and generating a more egalitarian society marked by democratic political structures. It is argued that the dynamics of ME community foster a climate of self-reliance, create new internally derived opportunities and generate confidence in indigenous abilities (Hailey 1991).

1.2.3 Contributions of Micro Enterprises in the World Economy

Creation of job opportunities and expansion of economic activities are considered important development strategies in response to the impact of financial crisis of the

DCs. Around the world, MEs are increasingly seen as the creators of new jobs. Global experiences show that an efficient ME sector is conducive to industrial growth and a flexible industrial structure (Hall 2001). They are the seeds for a vital entrepreneurial economy. For many economies, MEs not only contribute to poverty alleviation and employment creation but also nurture the large-scale industrialization through entrepreneurship development (Joneja 2000). The ILO has actively supported its member countries in creating new job opportunities through MED. According to ILO, this sector contributes to attain several national development goals in a number of significant ways and help increasing GDP per capita (ILO/UNDP 2000). Therefore, ILO member countries around the globe have been taking various steps to promote and develop this sector in their own countries. The robustness of ME contribution to employment generation is a common phenomenon in most DCs, but the magnitude varies between 70% to 95% in Africa and 40% to 70% in the countries of the Asia-Pacific region (Ahmed 2003).

Contribution of MEs in DCs

MEs contribute to the economy of DCs in various ways. They provide 71% in Sri Lanka and 87% in Bangladesh. They share 54% of total national production in Bangladesh and 40% in Sri Lanka. In Bangladesh, the various categories of MEs together contribute between 80% to 85% of industrial employment and 23% of total civilian employment (SEDF 2003 and Miah 2007). In Nepal, more than 80% of the national value addition in the manufacturing sector comes from MEs, the share possibly being even higher in the non-manufacturing sectors. MEs employ 98% of the non-agricultural labour force and attract around 40% of all industrial investment in Nepal (CBS 1999-2000). In Pakistan, the MEs employing approximately 70% of total employment and absorbing more than 80% of non-farm employment. MEs contribute over 30% to GDP, 25% in export earnings besides sharing 35% in manufacturing value addition (SMEDA 2006). In Sri Lanka within the manufacturing sector MEs account for about 96% of industrial units, and 36% of industrial employment. In India, MEs account for some 95% of all industrial units, 40% of industrial output and 35% of national exports (SMESDP 2002).

Contribution of MEs in Developed Countries

In the developed countries, MEs are also considered as an important employment provider. In the UK, MEs generate over a quarter of GDP. They generate 44% of employment. The trends are all upward. The share of employment provided by MEs is also mentionable. ME sector is also a vital part of all the EU economies, accounting for 65% of EU turnover. They dominate many service sectors, particularly hotels, catering, retailing and wholesaling and construction. Across the EU, MEs generate 66% of employment. Particularly, in Italy, the proportion is 79%, in France, it is 63%, in Germany it is 60% and in the UK, it is 61.5%. In the USA, it is estimated that MEs now generate 50% of GDP and in Japan they provide 81% employment (Bridge 2003).

1.3 Key Concepts Introduced

The key concepts of this study are micro enterprise, micro enterprise development, micro enterprise development policies, entrepreneur, entrepreneurship, entrepreneurship development, economic development and developing countries. They are briefly defined below for a better understanding.

Micro Enterprise (ME)

There is no universal definition of MEs, but there are some agreements regarding their general characteristics. These are: very small scale of operation, low level of technology, low access to finance and managerial capacity. According to Christen (1989), “a micro enterprise represents the smallest economic unit which functions independently, manages its own investment capital, and involves a manufacturing, commerce or service activity”.

Micro Enterprise Development (MED)

MED constitutes a blend of efforts to develop entrepreneurship. It denotes a major transformation and change in the MEs which is desirable, broadly predicted or planned or administered or at least influenced by the functions of its authorities. MED offers real opportunities to implement meaningful development programmes that can benefit the “poorest of the poor” and bring significant positive changes to

desperately poor countries. USAID (2008), defined MED as an activity undertaken by donors, host-country governments, or non-government organizations to improve the lives of the poor people by encouraging the formation of MEs and/or the improved performance of existing MEs and the overall process of improvement in the performance of MEs.

Micro Enterprise Development Policy (MEDP)

A policy is a plan to achieve organizational objectives. MEDP is a detailed action plan taken by the governments or any other organizations to guide the decisions or achieve the rational outcomes of the ME sector.

Entrepreneur

An entrepreneur is s/he, who combines the land of one, the labour of another and the capital yet of another and thus produces a product. By selling the product in the market, s/he pays interest on capital, rent on land, wages to labourers and what remains is his or her profit. Casson (1982) defined entrepreneur as: “someone who specialises in making judgemental decisions about the co-ordination of scarce resources.”

Entrepreneurship

Entrepreneurship is the creation of new enterprise (Low and MacMillan 1988). Timmons (1997) says, it is the way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach and leadership balanced.

Entrepreneurship Development

Entrepreneurship development has become a matter of great concern all over the world. It is a process of developing a purposeful and systematic innovation which included not only the independent businessman but also company directors and managers who actually carry out innovative functions.

Economic Development (ED)

ED is the development of economic wealth of countries or regions for the well-being of their inhabitants. It is a branch of economics, which deals with the study of macroeconomic causes of long-term economic growth, and microeconomic issues of individual households and firms, especially in DCs. Generally, ED refers to the problems of underdeveloped countries and economic growth to those of developed countries (Sullivan *et al.* 2003 and Deardorff 2009).

Developing Country (DC)

In general, DCs are those, which have not achieved a significant degree of industrialization relative to their populations, and which have, in most cases a medium to low standard of living. Different terms are used to define DCs, such as, less developed countries (LDCs), least economically developed countries (LEDCs), underdeveloped nations or third world nations, and non-industrialized nations. Since no single definition of the term DC is recognized internationally, the levels of development vary widely within them. Some DCs have high average standards of living (Sullivan *et al.* 2003).

The above concepts are further discussed in details in the literature review chapters 3 and 4.

1.4 Statement of the Problem

A vibrant ME sector provides a strong foundation to economic growth, innovation, regional development and job creation. Despite the internationally recognized importance, MEs still face different challenges and problems in many DCs and transition economies. DCs specially confronted with problems like a high rate of population growth, a relatively low rate of economic growth, a low level of per capita income and hard-core poverty, unemployment, underemployment and mounting increase in the figures of educated unemployed. Besides these, the challenges of business entry, survival and growth are often substantial. The availability of financial resources, lack of capacity to handle complex business management issues, as well as complicated and bureaucratic environment present

major obstacles. This picture is viewed in the context of an abundance of material and human resources in the DCs. Researchers suggest that MEs with small investment and indigenous technology can be very potential instrument to solve the problems of DCs. Steps have already been taken in DCs. Government organizations as well as NGOs, INGOs and POs are working in this direction. However, expected development is yet to occur. Governments of DCs have failed to give appropriate directions to the developmental process for MED. As a result, there is an urgent need for ME policy development to improve the situation (Miah 2007; Moazzem 2008).

1.5 Aim and Objectives

MEs have increasingly become more important part of global economies. Therefore, more and more researchers are seeking to understand the practices and activities of this sector. This often reflects the interest of government, government agencies, academia and particularly those that are charged with responsibility for enterprise development (Hill and McGown 1999). This research is also one of the attempts in this direction. The aim of this study is to identify the idiosyncrasies of MED and MEDPs with a view to articulating appropriate policy recommendations.

1.5.1 Specific Objectives

More specifically the study spells out the following objectives:

- Ob 1: Review existing literature on MED and MEDPs of DCs with special focus on MEs, entrepreneurship development and ED;
- Ob 2: Examine the various support services to MEs;
- Ob 3: Examine the existing systems of ME financing;
- Ob 4: Examine the nature of networking among the ME stakeholders; and
- Ob 5: To identify the major problems of MED to offer appropriate recommendations and suggestions for possible policy change, and to overcome the problems, as well as, to contribute to the MED literature.

1.5.2 Scope of the Research

In Bangladesh, several governmental, non-government, and private organizations are engaged in MED. The scope of this study was limited to the area of impact of MED policies and programmes of various MEDOs. Accordingly three governmental organizations, two financial institutions, five non-government organizations, three private organizations, and few professional organizations were studied and the top level executives of which were interviewed. Moreover, selected policy makers, entrepreneurs and independent experts at various levels were also interviewed. The scope of the study was further extended to include suggestions and recommendations for the future policy development of this sector in DCs, particularly Bangladesh.

1.6 Introduction to Research Methodology

Generally, research methodology involves a list of methods followed systematically in a particular discipline. This study involved a systematic sequence of procedural steps in its methodology. The complete journey of this study is discussed below in brief.

1.6.1 Philosophical Position

There is a longstanding debate in management and social sciences about the most appropriate philosophical bases from which methods should be derived. Among the various philosophical foundations of research, two views dominate the literature: phenomenology, and positivism. They are widely used by the researchers. Positivism focuses on the social world exists externally and its properties are measured through objective method rather than subjectively. On the other hand, phenomenology emphasises on peoples subjective experiences and interpretations of the world (Saunders *et al.* 2000). Each of these positions has to some extent been elevated into a stereotype often by the opposing side. Although there has been a trend away from positivism towards phenomenology over the last few years there are many researchers especially management field who adopt a pragmatic view by deliberately combining methods drawn from the traditions (Easterby-Smith *et al.* 2008). However, considering the nature and aim and objectives of the study phenomenology was chosen as the philosophical position of this research.

1.6.2 Research Approach

Two approaches are dominant in management and social research: deductive and inductive. Deductive approach is used to develop a theory and hypothesis and design a research strategy to test the hypothesis. On the other hand, inductive approach is used to collect data and develop a theory as a result of data analysis (Saunders *et al.* 2000). This research used an inductive approach that is interpretive and owes to phenomenology.

1.6.3 Method of Analysis

The methods of analysis used in management and social research are: quantitative and qualitative. Quantitative analysis is a systematic empirical investigation of quantitative properties and phenomena, and their relationships. On the other hand, qualitative analysis is an interpretive technique that seeks to describe, decode, translate and otherwise comes to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world (Easterby-Smith *et al.* 2008). This study used a qualitative method as technique of data analysis.

1.6.4 Research Strategy

Research strategy is a general plan of how the research questions will be answered. It contains a clear set of objectives and derives from research questions, specify the sources from which the researchers intend to collect data and consider the constraints which they inevitably have, e.g. access to data, time, location and money and ethical issues (Saunders *et al.* 2000). Different strategies that researchers usually employ are experiments, surveys, case study, grounded theory, ethnography, action research, exploratory, descriptive and exploratory research etc. Some of those clearly belong to deductive tradition and some of those clearly belong to inductive tradition. However, this research used case study as the strategy, that is an intensive study of a specific context.

1.6.5 Data Collection Method

Data collection method involves a list of tasks, such as sampling, sources of data and collection of data, techniques used in data collection etc. The method of data collection in this study is described below:

Sampling

Sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for determining parameters or characteristics of the whole population. A list of 44 samples from all the relevant ME stakeholders, such as policy makers e.g. ministers, political leaders, secretary of the ministry of industries; top level executives of the sample governmental organizations; financial institutions; non-government organizations; private promotional organizations; and independent experts e.g. academics, researchers, professional experts, practitioners and selected entrepreneurs were contacted for the interviews. Though the sample size is small, this research covered all the relevant and representing ME stakeholders in Bangladesh by dividing them into six different sample groups.

Sources of Data

Both primary and secondary data were used in this study.

Collection of Primary Data: This study used an in-depth interview technique for primary data collection. The interviews were mainly face to face. However, one was telephonic interview. Semi-structured interview protocols based on the research themes and questions were used at the interview to achieve the objectives of the study.

Collection of Secondary Data: For collecting secondary data various literatures on MED were reviewed. Published books, journals, periodicals, published and unpublished articles, research papers, annual reports, and monographs were included among them. Various archival documents from the official websites of different governmental, non-government and private organizations, such as annual reports, research reports were also reviewed for the purpose.

1.6.6 Data Analysis

Qualitative analysis is very challenging, because it is hard to manage a large volume of data. A mass of primary and secondary data on MED, entrepreneurship development, ED, and MEDP, such as, interview transcripts and published documents were collected in this study, which were reviewed, interpreted, analyzed and discussed. This research used Interpretative Phenomenological Analysis (IPA), as a technique, to interpret, code, and analyse the collected data. Coding in this study was a three step process: open coding, axial coding and selective coding. Finally a SWOT analysis of the findings was done to highlight the strengths and opportunities, and weaknesses and threats to MED to offer appropriate recommendations and suggestions for future MEDP, such as ME policy formulation, implementation and entrepreneurial success in DCs, particularly Bangladesh.

1.7 Organization of Thesis

The whole thesis is organized into eight chapters. The following table shows the contents of those chapters in brief:

Table 1: Organization of Thesis

Chapter No	Content of Chapters
Chapter 1 Introduction	The first chapter deals with the study of micro enterprises includes initial theoretical reflections of MED, MED and ED agenda, role of MEs in the world economies; key concepts of the study; statement of the problem; aim and objectives, research methodology includes research philosophy, approach, analysis, strategy, data collection and data analysis.
Chapter 2 State of Micro Enterprises in Bangladesh	Chapter two deals with the context of the study. A brief background of Bangladesh includes its present administrative and economic condition; an overview of MEs includes major ME facts, national strategies of MED, the organizational efforts to MED, access to finance, present scenario of ME financing, and broader affects of NGO-MFI funded MED activities, are discussed in depth. A discussion on major problems and challenges of MED in developing countries are also discussed at the end of the chapter.
Chapter 3 Micro Enterprise, Entrepreneurship and Economic Development	Chapter three deals with the introductory issues of MEs, entrepreneurship and ED. It deals with the definition, classification and characteristics of MEs, operational definitions of MEs, and the socio-cultural perspectives of MEs. The concept of MED, MED model, ME financing, the concept of entrepreneurship and economic development, theoretical perspectives of entrepreneurship and economic development are also discussed elaborately. This chapter ends with discussing the links among MEs, entrepreneurship, and economic development.

Chapter 4 Micro Enterprise Policy Development	In chapter four the discussion is on micro enterprise policy development. Definition of policy includes process of policy development; ME policy stakeholders includes theory of stakeholders, different views of stakeholder theory, MED stakeholders; MEPD includes importance of MEPD, role of government in MEPD; government intervention for MEPD includes various types of government interventions and enterprise, entrepreneurship and MED policies includes distinction between entrepreneurship policy and ME policy, ME policy objectives are discussed elaborately. This chapter also discusses MEDPs of selected developing countries. Especially, MEDPs of India, Pakistan, Sri Lanka and Bangladesh are discussed in this chapter with a comparative overview.
Chapter 5 Research Methodology	Chapter five deals with the research methodology of this study. The aim and objectives of the study includes specific objectives, research themes and questions; framework of research includes mapping research constructs, link among the constructs; research process includes research philosophy, research approach, method of analysis, research strategy, data collection and data analysis. Data collection method also includes sampling and selection of samples, different sample size and groups, justification of sample size, collection of primary and secondary data, and data analysis technique also includes steps followed in analysis, and coding.
Chapter 6 Data Presentation	Chapter six deals with the presentation of primary data. Data are presented here under the four main themes of the study on the basis of the key points perceived from coding.
Chapter 7 Summary of Findings, Analysis and Discussion	Chapter seven includes the summary of the major findings, analysis and discussion of the study.
Chapter 8 Contributions and Conclusions	The last chapter involves with contributions, recommendations for possible policy change for MED in DCs, especially Bangladesh and concluding remarks. It elaborates the contribution of this research to the policy makers and other stakeholders, conclusion about research questions, contribution to the literature of MED, limitations of the research, future research area, and concluding remarks.

References and bibliography, and appendices are added at the end of the thesis.

CHAPTER 2

STATE OF MICRO ENTERPRISES IN BANGLADESH

2.1 Introduction

Bangladesh, one of the emerging developing countries in the world, was considered as a special case, to know the state of MED. This chapter started with the introductory discussion of Bangladesh at a glance. This chapter explores the overview of MEs such as major ME data, national MED strategies, organizational efforts to MED, present scenario of ME financing, and broader effects of NGO-MFI led MED activities in details. The chapter ended with the discussion of the major problems and challenges of MED in Bangladesh including an overview of the same in the DCs.

2.2 Bangladesh: At a Glance

Bangladesh is bordered by India on all sides except for a small border with Myanmar to the far southeast and by the Bay of Bengal to the south. The borders of present-day Bangladesh were established with the partition of Pakistan and India in 1947 from British Administration, when the region became the eastern wing of the newly formed Pakistan. However, it was separated from the western wing by about 1,000 miles across India. Political and linguistic discrimination as well as economic neglect led to popular agitations against West Pakistan, which led to the war for independence in 1971 and the establishment of Bangladesh. However, the new state had to endure famines, natural disasters and widespread poverty, as well as political turmoil and military coups. The restoration of democracy in 1991 has been followed by relative stability and economic progress.

It is one of the most densely populated countries in the world with nearly 80% population living on less than \$2 a day. However, per-capita GDP has more than doubled since 1975, and the poverty rate has fallen by 20% since the early 1990s. The country is listed among the "Next Eleven (N 11)" economies in the world. Dhaka, Chittagong and other urban centres have been the driving force behind this growth (Mahajan 2007).

Geographically, the country straddles the fertile Ganges-Brahmaputra Delta and is subject to annual monsoon floods and cyclones. The nature of government is a parliamentary democracy. Bangladesh is a member of Commonwealth of Nations, SAARC, BIMSTEC, OIC, and D-8. As the World Bank notes in its report of July 2005, the country has made significant progress in human development in the areas of literacy, gender parity in schooling and reduction of population growth (World Bank 2005). However, Bangladesh continues to face a number of major challenges, including widespread political and bureaucratic corruption, and economic competition relative to the world.

Figure 1: Map of Bangladesh Surrounding by its Neighbours



Source: Google Maps, September 2010

The following table shows some general information of Bangladesh at a glance.

Table 2: Bangladesh: At a Glance

Independence	From Pakistan, December 16, 1971
Area	147,570 km ²
Capital (and largest city)	Dhaka, 23°42' N and 90°21' E
Government	Parliamentary Republic
Literacy Rate (2008 Economic Review)	56.1%
Population (2010 World Population Reference)	164 Million
Population Growth Rate	1.292% (2010 World Population Reference)
Male Female Ratio	105.5 (in 2008)
Population Density	979 / km ²
Total Civilian Labour Force 2005/06	49.5 Million (Male: 37.4 and Female: 12.1)
Total Active Civilian Labour Force 2005/06	47.4 Million (Male: 36.1 and Female: 11.3)
Youth Labour Force (Percentage of total CLF)	36% (Male: 35.4% and Female: 38%)
Not in CLF 2005/2006	35.1 Million (Male: 5.7 and Female: 29.4)
Unemployed Population	2.1 Million (Male: 1.2 and Female: 0.9)
Unemployment Rate	4.2% (Male: 3.4% and Female: 7.0%)
Total Agricultural Labour Force	48.10%
Total Industrial Labour Force	14.55%
Total Other Labour Force	37.35%
Poverty Trends National Level	40.4% (Absolute Poverty)
Poverty Trends Rural Level (Absolute Poverty)	39.5%
Poverty Trends Urban Level (Absolute Poverty)	43.2%
GDP Growth Rate (2007/2008)	6.21%
GDP Per Capita	\$554

Source: Bangladesh Economic Review 2008, BBS Statistical Pocket Year Book 2008, and *Population Bulletin: "World Population Highlights: Key Findings from PRB's 2010 World Population Data Sheet"*

2.2.1 Administrative Divisions

Bangladesh is divided into seven administrative divisions, each named after their

Figure 2: Administrative Divisions of Bangladesh

Source: Google Maps, July 2011

respective divisional headquarters: Dhaka, Chittagong, Rajshahi, Khulna, Barisal, Sylhet and Rangpur. These divisions are subdivided into 64 districts each of which are further subdivided into *upazila* (sub-district) or *thana* ("police station"). The area within each police station, except for those in metropolitan areas, is divided into several *unions*, which are also divided in wards with each ward consisting of multiple villages. In the metropolitan areas, police stations are divided into wards, which are further divided into *mahallas*. Direct elections are held for each *Upazilla* and *union* (or ward), electing a chairperson and a number of members. Dhaka is the capital and largest city of Bangladesh. Other major cities include Chittagong, Rajshahi, Khulna, Barisal, Sylhet and Rangpur. These metropolitan cities have mayoral elections, while other municipalities elect a chairperson. Despite continuous domestic and international efforts to improve economic and demographic prospects, Bangladesh remains a developing nation (CIA World Factbook 2007).

2.2.2 Economy

The economy of Bangladesh is characterized by a dominant traditional agricultural sector, low industrial base, acute unemployment, and low per capita income. Nowadays, the growth of manufacturing, construction and service sector is in a notable position. Bangladesh grows very significant quantities of rice, tea and mustard. Although two-thirds of Bangladeshis are farmers, more than three quarters of Bangladesh's export earnings come from the garment industry, which began attracting foreign investors in the 1980s due to cheap labour and low conversion cost. In 2002, the industry exported US\$5 billion worth of products. The industry now employs more than 3 million workers, 90% of whom are women. A large part of foreign currency earnings also comes from the remittances sent by expatriates living in other countries. Obstacles to growth include frequent cyclones and floods, inefficient state-owned enterprises, mismanaged port facilities, a growth in the labour force that has outpaced jobs, inefficient use of energy resources (such as natural gas), insufficient power supplies, slow implementation of economic reforms, political infighting and corruption. According to the World Bank report, among the most significant obstacles to growth in Bangladesh are poor governance and weak public institutions. Despite these hurdles, the country has achieved an average annual growth rate of 5% since 1990, according to the World Bank. It has achieved a year-

upon-year GDP growth of 6.21% as compared with, 6.51% in 2006/2007, 6.63% in fiscal year 2005/2006 and 5.38% in fiscal year 2004/2005. Per capita GDP has recently surpassed US\$500. From 1% during the 1970's growth rate of GDP per capita has ramped up to over 3% since the early 1990's and since 2003/2004 even higher, to 4 off percent. Growth has been more stable too. Bangladesh is among the handful of countries that have sustained positive per capita growth in each year since the early 1990s. This performance has been underpinned by rising agricultural and non-farm rural output and a rapid expansion in export of readymade garments (World Bank 2005 and Miah 2007).

Faster economic growth has helped Bangladesh to reduce poverty rate by about 1% per year since 1990. Poverty felt from 60% in 1990 to 50% in 2000. Although the latest data are still being collected, proxy indicators suggest that good progress on poverty reduction and social development has continued in recent years. The rate of gross investment in GDP is 24.33% in 2006/2007 in Bangladesh. The relative share of private sector in gross investment, which has been growing secularly, is 18.73% in 2006/2007. Between 2005-2006 and 2006-2007 credit to the private sector grew by 11.2%. Growth rate of manufacturing output of Bangladesh is on an increasing trend. Manufacturing growth during 1992-1996 averaged 8.21%. In the next four years, the corresponding growth averaged more than 9% annually. Service sector grew at an average rate of 4.9%, which is lower than that of manufacturing enterprise sector. The quantum index of MEs has grown by 5.4%. The export of readymade garments both woven and knitwear has picked up a commendable mode of growth, which earns over 76% of total export earnings (Mahajan 2007 and Moazzem 2008).

Bangladesh has seen expansion of its middle class, and its consumer industry has also grown. In December 2005, four years after its report on the emerging "BRIC" economies (Brazil, Russia, India, and China), Goldman Sachs Investment Bank named Bangladesh as having a high potential of becoming one of the "Next Eleven (N 11)" along with Egypt, Indonesia, Iran, Nigeria, Philippines, South Korea, Turkey, Pakistan and Vietnam (GSB 2007). Bangladesh has seen a dramatic increase in foreign direct investment. A number of multinational corporations and local big

business houses such as Beximco, Square, Akij Group, MM Ispahani, AK Khan Group, PHP Group, Navana Group, Habib Group, Abul Khayer Group, TK Group, S Alam Group, Mustafa Group, KDS Group and multinationals such as Unocal Corporation and Chevron, have made major investments, with the natural gas sector being a priority.

One significant contributor to the development of the economy has been the widespread propagation of microcredit by Professor Dr. Muhammad Yunus through the Grameen Bank. By the late 1990s, Grameen Bank had 2.3 million members, along with 2.5 million members of other similar organizations (Schreiner 2003). Dr. Yunus was awarded the Nobel Peace prize in the year 2006 along with the Grameen Bank for his efforts in poverty alleviation. In order to enhance economic growth, the government has set up several export processing zones to attract foreign investment.

2.3 Overview of Micro Enterprises in Bangladesh

The importance of MEs in Bangladesh in generating employment opportunities, reducing the extent of unemployment and alleviating extreme poverty seems to be recognized in the ED policy of the country since pre-independence days. The potentialities of MED are very great in the view of fact that the country is substantially endowed with raw materials for various types of MEs, cheap supply of labour and a vast domestic market. Crops like rice, jute, sugarcane, tobacco, oil seeds, pulses, wheat, potato and fruits like mango, banana, pineapple, jackfruit, coconut, and guava are grown here in large quantities. Bangladesh is also rich in forestry and fisheries, while natural gas resources are abundant. The prospect of finding oil is considered good. The expanding demand for ME products in the foreign market is also an encouraging factor for the development of this sector. Entrepreneurial spirit among the people with initiative for development of new ideas, imagination to produce new things and innovative new methods of production and distribution, ability to take risk, all these qualities seem to be available in Bangladesh and a foundation for future prospects. The contribution of MEs to the national income in Bangladesh is very high. Despite huge contribution to the national economy, this sector remained out of focus of the policy makers. However, until the

formation of the SME taskforce in 2003, there was no separate economic policy to promote MEs in Bangladesh. For the first time the government's SME Policy Strategy 2005 highlighted MED as a flagship policy arena for sustainable ED of Bangladesh to deal with the challenges of free market economy and globalization. Industrial policies also highlighted the importance of ME sector in achieving the goal of national ED (Miah 2007).

2.3.1 Major ME Facts

The contribution of ME sector to Bangladesh economy is increasing day by day. In the fiscal year 2006/07, the contribution of ME sector in GDP was £1.4865 million and the growth rate was 9.69% and 9.21% in the fiscal year 2005/2006. On the other hand, the contribution of medium enterprise was £3.6507 million and growth rate was 9.74 % and 11.41 % in the fiscal year 2005/2006 (Bangladesh Economic Review 2008). Some data with a national scope that are pertinent to characterizing MEs in Bangladesh as of 2001/2003 are presented in table 3. The highlights of this table are: there are some 78,440 private-sector establishments of various sizes in Bangladesh with some 3.5 million workers employed in them.

Table 3: Number of Units and Levels of Employment in MEs
(All numbers are in thousands)

Descriptions		No. of Units	% of Total No. of Units	Employment	% of Total Employment
Urban	Small	39.9	50.9	740.4	21.14
	Medium	3.17	4.0	211.5	6.0
	Large	4.036	5.1	1712.67	48.9
Rural	Small	29.0	38.1	516.8	14.8
	Medium	1.29	1.6	85.85	2.4
	Large	0.88	1.11	234.669	6.7
Total	Small	68.96	87.9	1257.2	35.9
	Medium	4.46	5.7	297.4	8.5
	Large	5.01	6.4	1947.3	55.6

Source: BBS Census of Enterprise 2003

Of these, urban Bangladesh accounts for some 60% of units and 76% of employment in the overall private-sector enterprise with rural Bangladesh accounting for the rest. Among all the units 93.6% belong in the ME category, i.e. have between 20 and 99 employees. However, MEs account for only 44% of the total employment of the enterprise sector. The proportion of MEs that are incorporated as proprietorship is a

high 81%, while private companies limited by liability account for strictly a very small proportion of the total number of MEs in Bangladesh.

Table 4 shows the average employment per establishment within each of the small and medium classes for urban and rural Bangladesh in 2003. The following results are worth highlighting. It is to be noted that these are weighted averages. First, where small establishments are concerned, the average employment size per establishment clusters around a narrow range, such as, 17–20 workers across the seven divisions. A similar clustering of average employment size for medium sized enterprises was found in a narrow range of between 65–69 employees. In addition, taking the administrative divisions individually, measures of average employment levels do not differ greatly in between urban and rural Bangladesh, the values are strung together.

Table 4: Average Head-count per Establishment across Bangladesh's Industries

	Small	Medium	SME	Large	All
Food and Tobacco	18.6	65.1	21.0	470.5	38.9
Textile manufacturing	19.1	66.2	21.9	490.9	56.6
Ready-to-wear Apparels	17.8	70.3	22.9	512.7	249.6
Wood, Leather & Paper Printing	17.0	66.8	19.7	373.9	38.0
Chemicals and Plastics	19.1	67.0	22.7	367.2	58.0
Non-metallic Mineral Products	26.0	70.3	41.5	196.8	83.4
Fabricated Goods, Electrical and Means of Transport	17.0	65.7	20.3	282.5	35.1
Mining and Manufacture	24.6	65.5	32.7	227.7	58.9
Various Personal Services	17.5	66.0	19.9	293.3	28.2
Education/ Healthcare	18.1	65.5	20.3	292.4	26.7
All Industries	18.2	66.7	21.2	388.5	44.6

Source: BBS Census of Enterprises 2003

Table 5 shows the percentage importance, in terms of both number of units and the employment levels of MEs in the overall world of enterprises. The main result to report is that the number of ME units simply dwarfs the number of LEs, with typically more than 90% of all enterprises being in the ME class. However, the percentage share of MEs in total employment controlling for the location is usually less than for the number of units. In particular, in Dhaka, Chittagong and Khulna divisions, the share of MEs in employment is lower than the other divisions.

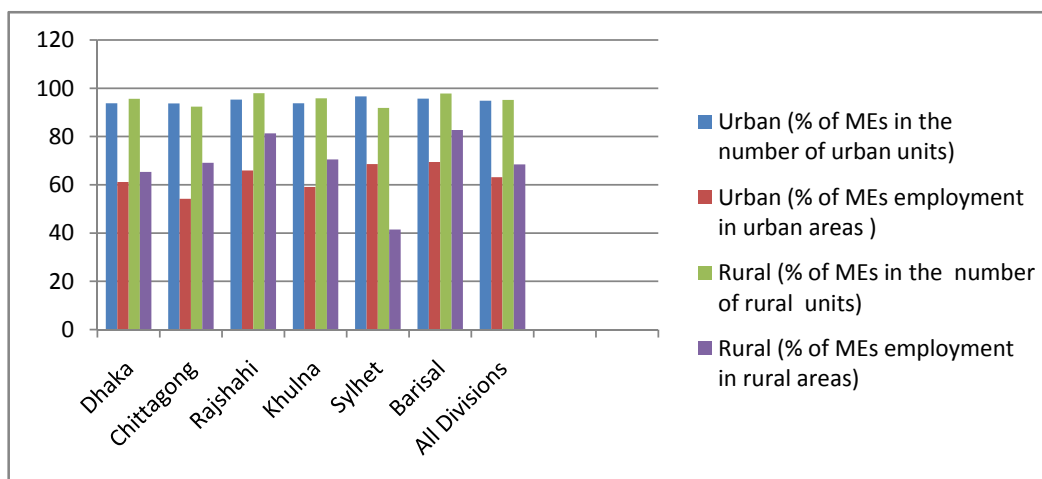
**Table 5: Structure of Industries in Bangladesh with Respect to Size of Firms
(% is relative to the total number of establishment and employment by private sector MEs)**

	% of Establishments			% of Total Persons Employed		
	Small	Medium	Large	Small	Medium	Large
Food and Tobacco	6.7	0.4	.03	2.8	0.5	3.1
Textile manufacturing	14.2	0.9	1.2	6.0	1.3	13.2
Ready-to-wear Apparels	1.8	0.2	1.7	0.7	0.3	20.1
Wood, Leather & Paper Printing	2.9	0.2	0.2	1.1	0.2	1.4
Chemicals and Plastics	1.7	0.1	0.2	0.7	0.2	1.7
Non-metallic Mineral Products	1.6	0.9	0.9	0.9	1.3	4.0
Fabricated Goods, Electrical and Means of Transport	4.3	0.3	0.3	1.6	0.5	1.7
Mining and Manufacturing	0.2	0.1	0.1	0.2
Various Personal Services	23.6	1.2	0.8	9.3	1.8	5.1
Education/ Healthcare	31.1	1.5	0.8	12.6	2.2	5.2
All Industries	87.9	5.7	6.4	35.9	8.5	55.6

Source: BBS Census of Enterprises 2003

Figure 3 essentially shows that the relative importance of MEs, both in terms of the numerical importance of establishments or employment within the entire world of enterprises remains roughly similar in both urban and rural Bangladesh. The role of MEs in production is therefore a-spatial.

Figure 3: Proportion of MEs in Enterprise Population and Employment, by Administrative Divisions



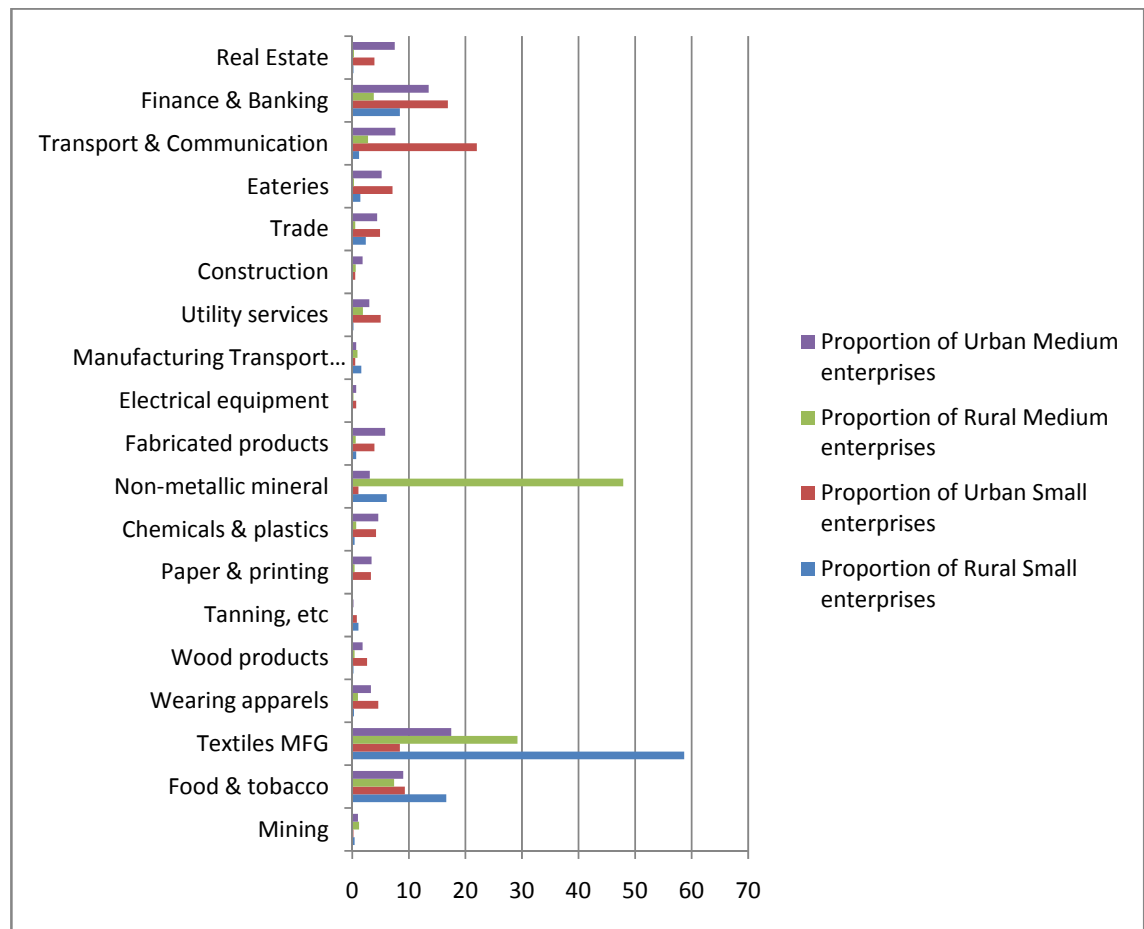
Source: BBS Census of Enterprises 2003

Note: Rangpur is a newly established Division and was included in Rajshahi Division

Figure 4 then presents some idea as to the percentage structure of small and medium enterprises, taken separately, across a large number of industries. Like in the discussion of Table 5, we again see the quantitative importance of food, beverage,

textile manufacturing, and non-metallic mineral products among manufacturing subsectors as providing the basis for small and medium enterprises in Bangladesh. Once again, the importance of services is highlighted.

Figure 4: Industrial Structure of MEs in Urban and Rural Bangladesh



Source: BBS Census of Enterprises 2003

2.3.2 National Strategies of MED

Rapid and sustainable growth of MEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact in the way of reducing poverty and unemployment, and generation of more employment. For the

purpose, government of Bangladesh is implementing various action programmes and strategies in a systematic manner. The following are few of those:

Millennium Development Goals (MDGs)

The UN has set MDG for all the countries, especially the DCs, in order to halve the level of poverty that existed in the 1990s. Bangladesh has made so far considerable progress on the goals related to social issues. For instance, in case of goal 3, to promote gender equality and empower women, the ratio of girls to boys has already reached the expected level, while the ratio is much lower in the tertiary level. In case of goal 2, to achieve universal primary education, the net enrolment rate in primary education in the base year was 74%, while in 2005, it reached 83%, but the target is 100%. In case of economic issues related to MDGs, progress is relatively slower. For example, in case of goal 1, to eradicate extreme poverty and hunger, proportion of people below \$1 per day income level, the progress so far is 49.6% in 2005 of people below the line, against the base year figure of 59%, although the target set for 2015 is 29.4%; similarly proportion of people in extreme poverty line declined from 28% in the base year to 20 in 2005 as against the target of 14%.

Therefore, a large difference exists between current progress and the target set in the MDGs. In case of goal 2, to achieve universal primary education, the net enrolment rate in primary education in the base year was 74 %, while in 2005, it reached 83%, but the target is 100%. Again, in case of goal 4, to develop a global partnership for development, the unemployment rate of 15-24 year-old people is 8%. It indicates that unless sufficient employment is created for poor and unskilled labour force both in urban and rural areas, the targets set at MDGs would not be easy to achieve at a considerable level. In this context, huge investment is required for the development of small, cottage and medium scale industries, which will be able to absorb labour force at sufficient amount and ensure a sustained income for the poor. MDG targets should be appropriately reflected in the SME policy of the country (Miah 2007 and Moazzem 2008).

Poverty Reduction Strategy Paper (PRSP)

PRSP 2004 has clearly identified some core principles and parameters at both macro and micro levels for reducing the existing poverty level at least half within 2015. The PRSP of the government has identified in different specific avenues through which the relevant policy will be pursued. Because of its crosscutting nature, ME related issues have been accommodated in most of the policy avenues, either directly or indirectly. In its second strategic block, it has emphasized on boosting critical sectors for pro-poor economic growth, which will give special emphasis on the rural, agricultural, informal and ME sectors, improved connectivity through rural electrification, roads, and telecommunications. In other strategic and supporting blocks, ME interests are broadly reflected, for example, the first one emphasizes on improved regulatory environment, higher private investment and increased flow of FDI, effective trade and competition policies and poor and gender sensitive budgetary process etc.; and the fourth strategy focuses on human development of the poor for raising their capability through education, health, nutrition.

In general, private-sector led development strategy that is considered in the PRSP has covered all major issues and concerns related to investment and business at large which in other way, covered ME related issues as well. For example, PRSP goals along with others broadly covered different issues and actionable agendas, such as tax, agriculture, RMG, backward and forward linkage, improve the international competitiveness of export, diversity of export, import liberalization, power generation, road infrastructure, railway service development, port capacity development, ICT and bio-technology development, human resource development, technical and vocational education and training development, women's empowerment etc. Examining the PRSP goals, actions and future possible actions, it is revealed that the diversities and complexities of MEs and the constraints it faces are not sufficiently reflected in the document. Absence of such policy issues and actionable agendas in the PRSP would make overall process slower for achieving the MDGs. For example, existing SME policy strategy 2005 has sufficiently focused on product-diversities, innovative areas in MEs, which is not sufficiently reflected in the PRSP. Besides, it is unclear what amount of resources needed for MED directed towards ME related activities. Although PRSP highlights on the "pro-poorness

growth”, but the policy emphasize on “growth maximization” instead, taking the trickle-down approach to reduce poverty, which may not ensure participation of the poor sufficiently. PRSP projected creation of 8.02 million new employments during the period of FY2005 to FY2007, which was applauded, but no discussion on operational modalities for the creation of employment in the document was found clearly. Unless sufficient number of small and cottage type MEs is developed in the country, such a huge employment generation would not be possible (Miah 2007 and Moazzem 2008).

SME Policy Strategy 2005 and Industrial Policy 2010

For the first time government expressed her commitment in the IP 2005 and also formulated SME Policy Strategy 2005, where MEs were considered as vehicles for quality of life improvement, economic growth and poverty alleviation of the common people. Recently the Bangladesh government has passed her new Industrial Policy 2010. This document has also emphasised on the development of MEs to foster economic development and defined ME sector in a different way than the SME Policy Strategy 2005. The government plays an important role to remove policy obstacles and neutralize market failures. Secondly, government aims to provide necessary promotional support to MEs as well. The detailed discussion of SME policy strategy 2005 of Bangladesh can be seen in chapter four in details.

2.3.3 Organisational Efforts to Micro Enterprise Development

In Bangladesh, several governmental, non-government, and private and professional organisations are engaged in the promotion and development of MEs. A list of main stream financial institutions and NGO-MFIs are engaged in financing MEs. Some of these organisational efforts are discussed below:

Major Government Organisations

Among the governmental organisations and agencies, Bangladesh Rural development Board, Divisional Development Boards, Directorate of Social Welfare, Cooperative Department, Bangladesh Women’s Rehabilitation and Welfare Foundation, Export Promotion Bureau, are noteworthy. Besides those Bangladesh Small and Cottage Industries Corporation, Bangladesh Industrial and Technical

Assistance Centre, Bangladesh Institute of Management and National Productivity Organisation are mentionable training and technical institutions under the Ministry of Industries. On the other hand, government has also set up Palli Karma Sahayak Foundation (PKSF) as an apex body to train and support all government, non-government, semi-government organisation working in the area of micro credit in 1990. Recent development is the formation of Institute of Microfinance (InM) in 2006 and Small and Medium Enterprise Foundation (SMEF) in 2007. Few of the organisational efforts are discussed below:

Bangladesh Small and Cottage Industries Corporation (BSCIC)

The BSCIC was set up in 1957 as the prime national mover for the promotion and development of small and cottage industries (SCI). Its main objectives are to strengthen the SCI sector by providing support services, including infrastructural facilities to small and tiny entrepreneurs. Services include pre-investment counselling; supply of techno economic information; credit arrangement; infrastructural facilities; management and skill development training; arranging for raw materials; diagnostic studies; market studies; subcontracting arrangements; inter-organizational coordination; and product development. The BSCIC provides services to entrepreneurs under different schemes through its central office and its institutional network, which regularly covers all districts in the country. The BSCIC offers training support mainly through the Bangladesh Small and Cottage Industries Training Institute (SCITI), established in 1984-85. The main aim is to meet the training needs of small entrepreneurs, as well as staff from BSCIC, and other promotional agencies (GoB Website, accessed on 25/01/2011). BSCIC's contributions to entrepreneurship development have more been in the nature of every-day infusion of counselling, credit, and market-intelligence to micro entrepreneurs so that they could start their own business, howsoever lowly and initially challenging. This has undoubtedly made a not insignificant contribution to the emergence of small and tiny businesses in Bangladesh owned by men and women who would otherwise have had no opportunities to open their own businesses. BSCIC is also acting as a state-run policy coordinator, service developer and distributor of facilities in the ME sector. A major responsibility of the corporation is to mobilize policy support for an improvement in the economic environment,

particularly to the benefit of MEs. Its services include inputs in the areas of land development (estate building), technology transfer, credit rationing, training, and design development. Unfortunately, BSCIC could not perform as expected although its achievement in physical terms, particularly in estate building over the past 40 years, is impressive. Eighty-one percent of the developed plots (7069 out of 8763) had been allotted to entrepreneurs as of October 2003. But, only 2495 i.e. 30% of the plots have been used for actual industry building. There has been a substantial waste of public money in idle investments in BSCIC (Miah 2007 and Moazzem 2008).

Palli Karma-Sahayak Foundation (PKSF)

PKSF, since its establishment in 1990, has been working as an apex microcredit and capacity building organisation for eradicating poverty, initially in the rural areas and subsequently in the urban areas. PKSF does not directly lend money to the people rather reaches its target groups through its partner organisations (PO). It provides greater thrust to institutional development, both its own capacity as an apex organisation as well as the capacities of PO. It also acts as an advocate for appropriate policies and regulations useful for the microcredit sector. PKSF currently provides loanable funds to 192 POs under its four mainstream credit programmes: rural microcredit; urban microcredit; microenterprise credit and microcredit for the hardcore poor. It charges differential service charges for its two categories of POs: 7% for the big partner organisations and 4.5% for the small and medium POs. It also operates a loan programme for capacity enhancement of POs at a subsidized rate of 1% service. It provides customized training courses and has a well-developed training strategy including outsourcing to private and public sector institutes. PKSF under a separate lending window provides loans to its POs to finance MEs of 'graduates' of microcredit programmes. Up to December 2008, 132 small and medium POs have 102,377 borrowers and £82.36 million outstanding loans. PKSF's loan recovery rate is over 98%. Independent evaluation studies have shown that PKSF's microcredit programme implemented through its partner organisations has been helping to alleviate poverty in Bangladesh (PKSF Annual Report 2008; Miah 2007; and Moazzem 2008).

Institute of Microfinance (InM)

InM is a non-profit organisation established primarily to meet the research and training needs of the national as well as of global micro finance related programmes. It was initiated and promoted by PKSf in November 2006. As of its mission statement, InM contributes to the capacity building of the ME sector in Bangladesh through training and academic programmes, and research activities for the benefits of the sector. The institute has emerged as a centre of excellence in microfinance, poverty, enterprise development, and other allied areas at the national and international levels through building network with MFIs, ME stakeholders, researchers, thinkers and professionals. InM provides different services in the area of: Research includes feasibility analysis, baseline survey, impact assessment, evaluation etc.; Training includes training needs assessment and capacity building planning, training of trainers, curriculum and module development, training evaluation, etc.; Consultancy such as microfinance programme management, developing policy advice, strengthening local governance, strategic planning, monitoring and evaluation, and institutional development, etc.; and Programme Management includes technical assistance to management services, project and programme cycle management, monitoring, review and evaluation etc (InM website, accessed on 25/01/12).

Small & Medium Enterprise Foundation (SMEF)

SMEF is an independent centre of excellence created in 2007 and generously capitalized by the government of Bangladesh. The abiding mission of the government regarding MED, is the primacy of pro-poor development of MEs in the present age of unceasing globalization, and all-consuming re-structuring. This flagship mission translates into more measurable goals of spurring growth rate of MEs, upgrading capacities and productivities by existing MEs and providing stimulus to the emergence of new enterprises, their capacity to generate employment and reduce poverty. The SME Foundation is acting as a pivotal platform for the delivery of all planning, developmental activities, financing, awareness raising, evaluation and advocacy services to MEs in Bangladesh. In its action plan for 2007-08 the following activities were listed: research, policy advocacy, gender equality, database and ICT Development, credit whole selling programme, business support services,

technology development, extension and diffusion, as well as public-private partnership initiatives and one stop ME Service. In the fiscal year 2007-2008 the government has allocated an endowment fund of £10 million for the SMEF to provide credit to MEs through private commercial banks under the Foundation's credit wholesaling programme. The government has continued allocating resources in every fiscal year to support MEs. However, the coverage of these support programmes is found to be inadequate (Miah 2007 and Moazzem 2008).

Private and Professional Organizations

For the promotion of MEs, various private and professional organizations are also working in Bangladesh. The following are few of those mentionable:

Micro-Industries Development Assistance and Services (MIDAS)

MIDAS has been working for the promotion and development of micro and small enterprises. Two of the organization's most important programmes for promoting MEs are the new business creation programme (NBC) and the micro industries development initiative (MIDI). The NBC aims to select, train, motivate, and assist potential and existing entrepreneurs who want to diversify or introduce new products. Its basic approach is to act as midwife for the energy and creativity that already exists in individuals wanting to establish small enterprises. The NBC programme is not linked with credit or other follow-up assistance. MIDAS has several credit programmes that operate independently, but NBC training programme participants do not automatically qualify. During the course, however, participants are assisted in preparing a bankable project, which is then evaluated by MIDAS and bank officials, thereby establishing a linkage between trainees and financial institutions. No follow-up studies are conducted to determine what percentage of trainees does receive credit from the banks or MIDAS, or how many potential entrepreneurs have actually started a new enterprise. Under its MIDI programme MIDAS provides short-term loans on easy terms to existing entrepreneurs for further development of their enterprises. Special emphasis is given to providing credit to female entrepreneurs. No collateral is charged for loans up to £2000 loans range in size from £500 to £5000, but must be secured by the personal guarantee of the

sponsor or a third party, interest rate is 14.5% (declining method) and loan duration is 12-36 months. Out of 221 projects financed under this programme (MIDI), 35% are owned by women. MIDI provides counselling services to borrowers. MIDI only lends to enterprises having as legal entity (a proprietorship, partnership, or private limited company). In 1996, a novel project known as MIDAS MINI MART was developed and implemented to provide marketing outlets for female entrepreneur products (MIDAS Annual Report 2008 and MIDAS website, accessed on 25/01/2011).

Katalyst

Katalyst is funded by DFID, SIDA and Swiss Development Corporation (SDC). It is one of the largest private sector development projects of its kind funneling embedded services to MEs in Bangladesh. Katalyst's has developed an integrated approach based on the sub-sector services methodology. It consists of five stages: research; analysis; service market, identification, intervention design; and monitoring and evaluation. The key characteristic is that prior to the interventions in the markets, their constraints and the opportunities need to be understood and analyzed with respect to the possible relevance for business services. Katalyst's goal is to increase the competitiveness of MEs in selected areas and sectors with a purpose to develop more effective markets for business services in the Bangladesh economy. Katalyst has worked with a wide range of sub-sectors, with very highly varying densities of MEs within them. Crop diversification in agriculture, fisheries, manufacturing, crosscutting support services, business process improvements are in the mix of activities undertaken by Katalyst. Katalyst has tasked itself to make a difference, inter alia, by making industrial and rural services available mainly for the following seven product areas, namely, agro-tools, furniture, plastics, vegetable, fisheries and bamboo. As well, Katalyst has a centre of expertise and regulations to offer advocacy services to the Government in advisory capacity (Katalyst website, accessed on 25/01/2011).

South Asia Enterprise Development Facility (SEDF)

SEDF is funded by the IFC and other donors, which has targeted its efforts towards greater ME financing from local Bangladeshi banks. Local banks have, according to SEDF literature, since responded very positively to SEDF's access to finance programme: Dhaka Bank has signed an agreement with SEDF to collaborate on training on information technology, marketing, human resource development and credit management. SEDF is also working with numerous other local FIs to make them aware of the profitability potential of Bangladesh's large ME sector. SEDF undertakes technical assistance programs for the partner financial institutions (PFIs) revolving around four strategic pillars; commitment, knowledge, efficiency and tools. The underlying principle driving all technical assistance programs is sustainability. SEDF has developed credit scoring modules for its. This enabled these PFIs to reduce the time requested for screening ME loan applications (SEDF website, accessed on 25/01/2011).

Dhaka Chamber of Commerce and Industries (DCCI)

DCCI serves as the first point of business contact for penetration into new market and a vibrant platform putting forward facts-based opinions, suggestions and recommendations for a brighter tomorrow in the sphere of trade, commerce and the overall economy. It was established in 1958 as the voice of MEs in Bangladesh. It serves as a model of non-profit, service-oriented organization for the development of business and industry in Bangladesh. Regular DCCI training programmes include access to export markets; letters of credit for export operations; effective business communications; garment buying; operations and management; export marketing of leather and leather products; starting a dairy farm; shares, stocks, and securities markets; operating an international export/import business; market surveys and research; export quality control and packaging; advertisement: a tool for marketing; export documentation; generalized system of preferences (GSP); export financing; and entrepreneurship development. The entrepreneurship development training programme of DCCI is a four-day course covering the concept of entrepreneurship; the industrial environment; project formulation; sources of finance; enterprise management; taxation policy; industrial relations; and performance analysis. The

prime objective is to improve and upgrade the functional knowledge of entrepreneurs for better planning, managing, and expanding business enterprises. Other training programmes are helping to strengthen entrepreneurial capacity for the successful operation of enterprises (DCCI website, accessed on 25/01/2011).

Chittagong Chamber of Commerce and Industries (CCCI)

CCCI, established in 1959, is a pioneer Chamber in the country. It represents the prime maritime port city and commercial capital of the country, endowed with country's biggest industrial base and highest business activities. The basic objective of CCCI is to promote and protect the trade, commerce & industry of Bangladesh in general and those of Chittagong in particular, and also to enable the government and other authorities to perform these functions by rendering assistance, information and advice. One of the most important activities of CCCI is MED. It has a special committee for MED. They believe that to help recognize the threat and opportunity associated with MEs and then adopt appropriate measures, ME entrepreneurs should be imparted with knowledge on modern managerial tools and techniques. Recognizing the essentiality, CCCI has recently established a Business Training Institute (BTI) with package curriculum for human resource and women entrepreneurship development. The objective of setting up the institute is to imparting effective training to potential & existing entrepreneurs and business executives on IT and other related field of business on cost based charges to help them attain professional skill, efficiency and business intelligence to cope with the challenges of globalized and liberalized economy. CCCI believes, taking training from this institution, entrepreneurs and business executives will be well equipped with required professional skill & efficiency and modern managerial tool & techniques to run their business smoothly and be able to cope with the challenges emanating from direly competitive globalized economic arena (CCCI website, accessed on 25/01/2011).

National Association of Small and Cottage Industries of Bangladesh (NASCIB)

A private-sector trade association with 6,000 members for the promotion and development of the SCI sector, NASCIB is the apex organization of entrepreneurs. NASCIB offers its members a range of services, including credit availability;

infrastructural support; SCI sector policy formulation; technological support; marketing assistance; training; database activity; and information dissemination. NASCIB programmes are directed at assisting existing SCI entrepreneurs. Even their new business creation (NBC) course is basically organized for NASCIB members, who are already entrepreneurs, to help expand or diversify their businesses. NBC is a three-day training programme covering entrepreneur identification, project idea selection, location of business, preparation of business plan, technical, and marketing. It includes a field visit to a small industrial unit to collect practical ideas about marketing, technical, financial, and organizational management (Moazzem 2008).

2.3.4 Access to Finance

Access to finance is one of the most important problems for MED in Bangladesh. In Bangladesh, various sources exist for financing MEs. Central Bank of Bangladesh has taken various steps to ease financing ME sector. The following are few of those steps:

Equity Entrepreneurship Fund

The government had instituted the EEF, as a ME refinancing scheme of central bank of Bangladesh in the early 2002. It was an effort to make funding more widely available for agro-processing and information technology businesses in the country. Agro-processing was thought to have been characterized by high risks, and therefore a natural candidate for assistance through purposeful intervention. IT and software was thought to be a newly emerging industry, with relatively high entry barriers. In the fiscal year 2008-2009, government has allocated £50 million, up from £30 million the previous year. The allocation of EEF in the FY 2008-2009 has been targeted at IT related industries; in FY 2007-2008 the EEF allocation was targeted at agro-based industries. A total of £46.96 million has been disbursed as of April 2008 in 215 agro-based projects and 34 IT related projects. Major projects included fish hatchery (93), shrimp hatchery (50), software development (32) and poultry and fish feed projects (18). However, the EEF covered only about 38.1 % of the total cost of the projects. This needs to be increased to provide adequate support to the eligible business activities (Bangladesh Bank website, accessed on 25/01/2011; and Moazzem 2008).

Small Enterprise Fund (SEF)

SEF was established to give also refinancing facilities by the Bangladesh Bank in 2002 with its own funds as well as those from the donor agencies such as ADB, World Bank and SEDF that supports the commercial banks to deliver better financial services to selected MEs. It has encouraged the commercial banks as well as many other NBFIs to take greater participation in ME financing in the recent years (SMEF Website accessed on 26/01/2011).

A. ME Financing by the Commercial Banks

A list of commercial and specialized banks is working for MED in Bangladesh. It is mentionable here that recently under the direction of the central bank of Bangladesh, all the banks both public and private have started SME windows to provide advisory and financial support to ME owners. Two samples from both the public and private sector banks are briefly discussed below:

Bangladesh Small Industries and Commerce Bank (BASIC Bank)

BASIC Bank, a state owned scheduled bank, established as a banking company. Activities of the bank are grouped into industrial credit, commercial credit, and micro credit. Its services are directed towards entrepreneurs in the small industry sector. Short-term trade related loans and other non-fund businesses get special attention in the bank. It offers services to exporters and importers. The bank has special services for MED. They are full-fledged commercial banking service including collection of deposits; short term trade finance; working capital finance in processing and manufacturing units and financing international trade; and technical support to small scale industries (SSIs) in order to enable them to run their enterprises successfully; and micro credit to the urban poor through linkage with NGOs, with a view to facilitating their access to the formal financial market for the mobilization of resources. BASIC Bank works closely with its clients, the regulatory authorities, the shareholders (GoB), banks and other financial institutions. In the fiscal year 2007-2008, a period of high growth in loans and advances with 22.48% increase compared to 23.86% increase in 2007. Growth of industrial finance was

moderate and loans to small and medium industries were 23.91% of total loans and advances. The industrial loan of £172.264 million was distributed among 13 sectors. Textile sector registered the highest concentration being 36.24% of industrial loans and 23.59% of total loans. Textile sector is followed by: food & allied industries 13.73% of industrial loans and 8.94% of total loans, chemical & allied industries 12.97% of industrial loans and 8.44% of total loans and engineering 11.44% of industrial loans and 7.45% of total loans. The recovery rate for micro-credit during this period registered at 97% (BASIC bank website, accessed on 26/01/2011).

BRAC Bank Limited

BRAC bank limited, a privately owned scheduled bank has started its operation in 2001 with a vision to be the market leader through providing all kinds of banking services suitable to the dynamic demands of both business and individual in the competitive market. The bank operates under a “double bottom line” agenda where profit and social responsibility go hand in hand, as it strives towards a poverty-free, enlightened Bangladesh. BRAC bank focuses on pursuing unexplored market niches in the MEs, which until now has remained largely untapped within the country. In Bangladesh, MEs do not get the same access to banks and financial institutions as big companies do, but MEs have a significant role in employment generation, poverty alleviation and overall economic growth, especially for a developing economy like that of Bangladesh’s. BRAC bank started its business in 2001 with a clear vision to work as a catalyst for the vibrant yet unbanked ME sector in Bangladesh. BRAC bank has wide distribution coverage across Bangladesh in ME business. Being the pioneer, BRAC bank still holds the ‘number one’ position in ME business. In 2009, alone they distributed loans to 67,047 ‘small and medium entrepreneurs’ amounting to £322 million; they also opened 29 ME service centres across the country. BRAC bank, being the youngest bank, took a step to break away from usual tradition and tapped into the true suburb entrepreneurial initiatives (BRAC Bank Website, accessed on 26/01/2011).

B. ME Loan Schemes of Different Banks: A Comparative Overview

The following table shows a comparative overview of ME loans of different banks working for the development of MEs in Bangladesh.

Table 6: ME Loan Schemes of Different Banks: A Comparative Overview

Name of the Bank	Product Name	Loan Size
AB Bank	Choto Punji Loan	Maximum BDT 10 Lac
	Digun	Maximum BDT 1 Crore
	Aparajita	Maximum BDT 2 Crore
	Prasar	Maximum BDT 5 Crore
	Gati	Maximum BDT 5 Crore
	Sathi	Maximum BDT 5 Crore
Bank Asia	Sacchanda	From BDT 3 Lac to BDT 50 Lac
BRAC Bank	Anonno	From BDT 3 Lac to BDT 9.5 Lac
	Prothoma	From BDT 3 Lac - maximum of BDT 9.5 Lac
	Digoon	Minimum of BDT 5 Lac to maximum of 30 Lac
	Apurbo	From BDT 8 Lac to maximum of BDT 30 Lac
	Pathshala	From BDT 3 Lac to maximum BDT 30 Lac
	Aroggo	From BDT 3 Lac to maximum of 30 Lac
	Women Entrepreneur Loan	Any business purpose loan from BDT 1 to 50 Lac
Dutch-Bangla Bank	Cash Credit	Minimum BDT 1 Lac
	Term Loan	Minimum BDT 1 Lac -Maximum: 50 Lac
	Financing Scheme	Collateralized : Up to BDT 5 Lac
Eastern Bank	EBL Agrim	Any legal business purpose, BDT 2 Lac to 9.5 Lac
	EBL Uddog	Any legal business purpose, BDT up to 50 Lac
	EBL ASha	Any business purpose loan, BDT 2 Lac to 9.9 Lac
	EBL Puji	Any business purpose loan, BDT 5 Lac to 50 Lac
	EBL Banijjo	Any legitimate import business, up to BDT 2Crore
	EBL Mukti	Up to BDT 3 Lac in any legitimate business
	EBL Subidha	Minimum BDT 1 Lac, minimum deposit requirement for interest earning BDT 1 Lac
Islami Bank Bangladesh	Small Business Investment Scheme	Minimum BDT 2 Lac - maximum BDT 30 Lac
	Transport Invest Scheme	
	Women Entrepreneurs Investment Scheme	Minimum BDT 2 Lac - maximum BDT 30 Lac
	Investing SMEs	
IDLC	Small Business Loan	From BDT 3 Lac to BDT 50 Lac
	Women Entrepreneur Loan	From BDT 3 Lac to BDT 50 Lac
	Medium Business Loan	From BDT 3 Lac to BDT 50 Lac
Janata Bank	SME Loan	Minimum : BDT 0.5 Lac - BDT 20 Crore
National Bank Ltd.	Benefits	Maximum BDT 3 Lac (Festival Scheme) and Maximum BDT 5 Lac (Small Business Scheme)
Pubali Bank	Karma Uddog	From BDT 3 Lac to BDT 10 Lac
	Sujan Loan	From BDT 3 Lac to BDT 10 Lac
	Subarno Loan	From BDT 3 Lac to BDT 10 Lac
Prime Bank	Restricted Business	Small Enterprise: Max. BDT 2.5 Lac, medium Enterprise: Max BDT 7.5 Lac, no proposal for less than BDT 1 Lac
Sonali Bank	SME Loan	Minimum BDT 0.5 Lac- maximum BDT 10Crore
Standard Bank	Small Enterprise Financing	Limit 0.5 Lac to 10 Lac
	Bee -Hatchery	Limit BDT. 0.5 Lac to 5 Lac

	Self-Employed Loan	Limit BDT 0.5 Lac to 10 Lac
	Mushroom Production and Marketing	Limit BDT 0.5 Lac to 5 Lac
	Imitation Jewellery	Limit BDT 0.5 Lac to 10 Lac
	Weaving	Limit BDT 1 Lac to 5 Lac
	Varieties Handicrafts	Limit BDT 1 Lac to 5 Lac
	Hardware & Software	Limit BDT 0.5 Lac to 5 Lac
	Rot Iron	Limit BDT 1 to Lac to 5 Lac.
	Conventional Wooden Furniture	Limit BDT 1 Lac to 5 Lac.
	Bakery/Grocery/Stationary/Fast Food/Hotel/Restaurant	Limit maximum BDT 1 Lac
	Decorator	Limit BDT 1 Lac to 3 Lac
	Potteries	Limit BDT 0.5 Lac to 2 Lac
	Ledh Machine Factory	Limit BDT 1 Lac to 5 Lac.
	Welding Machine /Grill workshop	Limit BDT 1 Lac to 5 Lac
Shahjalal Islami Bank	Prottasha for Small Enterprises	Minimum BDT 2 Lac - BDT 30 Lac
	Prottasha for Women Entrepreneur	Minimum BDT 2 Lac -BDT 15 Lac
South East Bank	SME Credit	For small enterprise: BDT 2 Lac to 30 Lac, For medium enterprise: BDT 2 Lac to 50 Lac
Standard Chartered	Business Instalment Loan	Maximum: BDT 7 Lac - Minimum: BDT 10
	Orjon	Maximum: BDT 7 Lac - Minimum: BDT 10
	Loan Against Property	Maximum: BDT 28 Lac - Minimum BDT 14 Lac
	Trade and Working Capital Financing	Facilities of up to BDT 12 Crore for single customers and up to BDT 15 Crore for groups
Trust Bank	Agri-Business Loan	Loan facility from BDT 2 Lac to 1 Lac to setup Agro Processing Units or to meet up working
	Entrepreneurship Development Loan	Any Business Loan BDT 2-20 Lac to purchase Equipments or to meet up Working Capital
	Loan For Light Engineering	Loan facility from BDT 2 to 50 Lac for Working Capital or to purchase Machinery & Equipment.
	Loan For Poultry Farm	Loan facility from BDT 2 to 20 Lac for Poultry Business to meet up working capital requirement.
	Loan For Shopkeepers	One Lac to purchase inventory Shopkeepers may enjoy credit facility from BDT 2 to 50 Lac
	Peak Seasons Loan	Loan Facility from BDT 2 to 20 for purchasing inventory to meet peak season's demand .
The City Bank	City Muldhan	Loan amount from BDT 5 Lac to 40 Lac
	City Sheba	Loan amount from BDT 5 Lac to 40 Lac
	City Shulov	Loan amount from BDT 5 Lac to 40 Lac
	City Munafa	Loan amount from BDT 5 Lac to 40 Lac

(NB: BDT 100=£1, BDT 10 Lac=1 Million, 1 Crore=10 Million)

Sources: Bangladesh Bank and SME Foundation websites, accessed on 26/01/2011

The table shows that all the commercial banks in Bangladesh have different types of eye catching ME loan schemes, which are very much favourable to MED. However, the main problem is that their terms and conditions are very rigid to especially very small and tiny enterprises. Medium and LEs can easily get access to those loans. Moreover, all the banks look for various collaterals or deposits that normally a new

entrepreneur lacks. As a result especially a big portion of entrepreneurs are out of getting access to bank financing though a lot of eye catching ME loan schemes are being advertised by the commercial banks in Bangladesh.

C. Non Government Organization-Micro Finance Institutions (NGO-MFIs)

Following the SME policy strategy, various NGO-MFIs have been also working in Bangladesh for MED. Grameen Bank, BRAC, ASA, Jagorani Chakra Foundation, Shakti Foundation for Disadvantaged Women, BURO Bangladesh, IDEAS International, International Development Fund, Concern Bangladesh, Prathikrit Proshika, Tengamara Mohila Sabuj Sangha, and Young Power in Social Action etc. are mentionable among others (Bangladesh Bank Website, accessed on 26/01/2011). The sample NGO-MFIs are briefly discussed below:

Grameen Bank

The Grameen Bank, almost a household word in Bangladesh, is a success story in rural poverty alleviation admired around the world. Household members who own less than 0.5 acres of arable land or assets not exceeding the value of one acre of medium land is eligible to receive loans made available to individuals and groups for self-employment and income-generating activities. The major activities financed are milk cows, paddy husking, cattle fattening, seasonal crop trading, and grocery shops. Since 1982, credit has been issued to collective enterprises (group entrepreneurship) related to irrigation equipment, rice hulling, oil milling, power looms, and leasing markets and leasing land for cooperative farming (Grameen Bank website, accessed on 26/01/2011). Though this bank was established in 1983 by an ordinance, it started its activities in 1976 as an experimental project. Later it expanded the operation by organizing the asset less people and providing them credit support for income generation and capital and asset building. In 2009, GB has disbursed £166.54 million as ME loans only, listed under broad categories of business activities, such as processing and manufacturing (10.96%), agriculture and forestry (17.57%), livestock and fisheries (21.09%), services (2.66%), trading (29.89%), peddling (1.40%) and shop-keeping (16.43%), through 700,766 borrowers. Another report says GB provides larger ME loans for 1-3 years. The cumulative number of borrowers is 1,643,775 (in December 2008) with outstanding loan of £82.37 million. The overall

recovery rate is reported to be 98% since 1998. Grameen model has been replicated in several countries around the globe (Alamgir 2009).

Building Resources Across Communities (BRAC)

BRAC, formerly known as *Bangladesh Rural Advancement Committee* has been operating in Bangladesh since 1972 that implements a number of multi-sectoral programmes in pursuit of its two major goals of poverty alleviation and empowerment of the poor. BRAC activities, directed towards poor, disadvantaged women, stem from the belief that people can change their own destiny through individual and cooperative action. Training is an integral part of every BRAC programme, especially in the areas of human development and occupational skill development. Skill development training is provided in poultry and livestock development, fisheries, irrigation, forestation, vegetable cultivation, and sericulture. Programme duration varies from 1-30 days. Trainees are selected from among BRAC group members based on individual need. The training facilities include a network of training and resource centres staffed by experienced and trained resource persons. Largely, training is conducted at the village level, away from the classroom setting. The programme has a strong rural bias and aims to serve poor and disadvantaged persons, especially women. BRAC provides an integrated package of assistance including training, credit, and other necessary support assistance (BRAC website, accessed on 26/01/2011). A key part of the credit programme of BRAC is the Rural Enterprise Project (REP). REP aims to increase employment and income-generating opportunities for the landless by identifying and promoting new or improved businesses that can be owned, operated, and managed by the poor. The REP approach follows a pattern of idea generation, feasibility studies, project selection, project planning, project implementation, monitoring and evaluation. Projects have been tested and successfully disseminated in brick making, rice milling, shrimp culture, yarn and cloth dyeing, yarn twisting, mushroom culture, and horticulture. Another key programme of BRAC is *Progoti* programme (formally known as MELA) established in 1996 currently serves two types of clients both in rural and urban areas: ‘graduates’ of microfinance programme, and the non-poor micro entrepreneurs. Loans are provided to individuals ranging from £500 to £3000 for 12-18 months at an interest of 30% and paid in monthly instalments. *Progoti*

does not ask for any matching funds from borrowers but requires collateral from the non-poor, but not from poverty graduates, whose loans may be secured by personal guarantees, and hypothecation of assets. Loans are primarily used to finance working capital, and occasionally for the acquisition of fixed assets. At the end of December 2008, *Progoti* had 242,512 borrowers with average loan size of more than £1100. The loan outstanding at the end of 2008 is £24.62 million. In general, 70% go to the trading sector, 10% to manufacturing, and 20% to other sectors; loans are generally given in 20 specific sub-sectors. *Progoti* has separate management structure to manage the programme. The recovery rate is 99.27%, which is very satisfactory (Alamgir 2009).

Association for Social Advancement (ASA)

ASA has been working relentlessly to assist the poor since its inception in 1978. The major drive behind ASA is to gradually eradicate poverty from society. ASA introduced microcredit as a pilot project for first the instance that has gradually transformed into a globally renowned "Cost-effective and sustainable microfinance model". Following this model, ASA became self-sustainable within a short span of time and the organisation declared itself a "self-reliant MFI" in 2001. It has been adopted by many MFIs around the world. ASA has two specific ME loan programmes: small enterprise loan (SEL) and small business loan programme. SEL targets MEs for 'productive purposes' (for example, manufacturing and processing), that is, ASA under this programme avoids traders. The loan range is £300 to £3000 and interest rate is 28.8% per annum. Loans are for 12, 18 or 24 months collected in monthly instalments. SEL had 83,584 borrowers at the end of 2008 with £32.96 million in loan outstanding. Under SBL programme ASA lends between £250 to £500 to shop owners in rural market places to finance inventory. The interest rate is similar to the mainstream microfinance, i.e. 28.8% per annum. The outreach reach is 393,006 members with loan outstanding of £43.61 million (ASA website, accessed on 26/01/2011; and Alamgir 2009).

Thengamara Mohila Sabuj Sangha (TMSS)

TMSS has been working for poverty alleviation, socioeconomic development, and empowerment of women since its inception in 1980. Since its inception, TMSS believes that family is the focal point of women development and it always gives emphasis on capacity building of the absolute poor and hard-core poor and of vulnerable women groups in the society and utilization of untapped local resources. Illiterate people, having below 0.50 acres of land and worst victims of oppression and exploitation are the beneficiaries of TMSS. Prime objective of TMSS is to develop the socio-economic status and condition of the poorest of the poor, especially ultra hard core poor through implementation of grass root decisions and utilizing local human and material resources. Entrepreneurship development programme (EDP) is the mainstream business development window of TMSS. TMSS believe that MED may contribute as the engine for socio-economic development of the country. TMSS microfinance programme has a wide coverage into 45 district out of 64 in Bangladesh. As of February 2011, the total loan outstanding of TMSS is £52.48 million to 524682 borrowers. The cumulative recovery rate is 99.26% (TMSS website, accessed on 26/01/2012).

Young Power in Social Action (YPSA)

Being inspired by spirit of international youth year some conscious youths of Chittagong, Bangladesh began to motivate and organize the youth community to establish a development organization. In this way a social development organization called YPSA began its course of participation in the development process in 1985. YPSA is a voluntary, non-profit, social development organization that envisions a society without poverty where everyone's basic needs and rights are ensured. YPSA exists to participate with the poor and vulnerable population with all commitment to bring about their own and society's sustainable development. One of the core programmes of YPSA is MED programme. It contains many projects that intend to promote decent employment for marginalized and potential people of the society. These are: micro enterprise savings credit (MESC); women empowerment through decent employment (WEDE); and micro enterprise for youths (MEY). The main goal of YPSA MED programme is to promote decent employment for marginalized and potential people within the society, to assist grassroots' entrepreneurs through

increasing the demand and quality of their product and ensure proper price of product along with product publicity. As of December 2011, the total outstanding in MEY programme is £0.65 million among 2328 borrowers. On the other hand, £0.753 million among 9927 borrowers of another YPSA microfinance programme. The recovery rate of MEY programme is 99.52% and micro finance programme is 99.02%. YPSA has a coverage of 4 district in the country (YPSA website, accessed on 26/01/2012).

D. Areas of Investment of NGO-MFIs

It is very difficult to know exactly the actual areas of investment because of two reasons: borrowers keep on changing income-generating activities within the year, and often loan money is mixed with other family money.

Table 7: Different Sectors Financed by NGO-MFIs (%)

Sectors	2007 (N=475)	2006 (N=370)
A. Productive Activities	30.55	31.87
A1. Agricultural Sector	24.85	26.28
a) Crops	9.89	9.84
b) Livestock	11.84	13.12
c) Fisheries	3.12	3.32
A2. Processing and Industries Sector	5.70	5.59
a) Food processing	3.71	3.71
b) Cottage Industries	1.99	1.87
B. Trade and Transport Sectors	45.18	45.16
a) Small business	42.42	42.65
b) Transport	2.76	2.51
C. Social Sectors	1.81	2.02
a) Health	0.53	0.73
b) Education	0.09	0.18
c) Housing	1.19	1.11
D. Others	22.46	20.95

Source: CDF 2008 and Alamgir 2009

Table 7 presents the areas of investment based on information from a large number of MFIs as mentioned in the loan application by the borrowers. The trend over the last five years has remained the same: trade and transportation (45.18% in 2007) topped the list followed by agriculture (24.85%). Within agriculture the highest amount went for livestock (11.85%), followed by crop production (9.89%), and fisheries (3.12%). In coming years, the crop sector is expected to grow larger because of the expansion of microcredit in this sector. However, one must be aware

that the rural economy is not diversifying fast, which is precisely the reason of similar patterns of investment (Alamgir 2009).

2.3.5 Present Scenario of ME Financing by Banks and NGO-MFIs

Until the end of June 2009, banks and non-banking NGO-FIs disbursed £12.43 million to a total of 29014 MEs under the refinance schemes. Of the total enterprises funded, nearly 60% were trade sector units and only 25% were industrial establishments. Further, 70% of the refinanced loans were of medium to short-term duration and only 25% constituted long-term loans. The clear message here is that the banks' preferences is towards quick profit making by short-term working capital lending as opposed to growth oriented long-term lending. Due to lack of close monitoring, the lending operations conducted under the refinance schemes also failed to ensure geographical parity, gender balance and balance between promoting new and existing enterprises. True, the banks and the NGO-MFIs are currently responding favourably to the government initiatives towards channelling more funds to the MEs as conduits for employment generation and poverty alleviation. As of end of June 2009, the share of ME loans to total outstanding bank loans stood at nearly 22%, rising from 10.9% in June 2006 and registering an annual average yearly growth of 26% during the three year periods. After approval by the central bank of Bangladesh, as many as 139 ME service centres have been opened by the banks (mostly private banks) in 2009 to facilitate ME lending and other ME banking needs. These centres helped enhance the outreach of the banks as they are. The most recently completed (2009) national sample survey of nearly 4000 enterprises from twenty ME sectors reports that only 23%, of the sample enterprise had access to a bank loan. However, only 10% of the MEs in the sample report any exposure to bank loans (Alamgir 2009).

Distribution of Sector wise Advances by Different Banks in 2005/2004

Table 8 gives an idea of the role of small and medium sized enterprises as destinations for bank credit in 2004 and 2005. Bangladesh's classification of bank advances lumps medium sized enterprises with the LEs, while small units are lumped with cottage-based units. As such, unfortunately, it is not possible to speak of the access to finance issues for MEs per se. We know however separately that

MEs corresponds to more than 99% of all productive establishments in Bangladesh. Out of 3.8 million establishments of all kinds in Bangladesh, only 10798, or just about 0.3% falls in either medium or LEs based on employment size. The percentage is even much lower in manufacturing or trade, the two subsectors from which the case studies in this paper are drawn. And yet, such staggering smallness of the proportion of medium and LEs is coupled with a preponderance of large and medium sized enterprises in total credit disbursements from the banking system. It is quite safe to assume that of total credit disbursed to large-and-medium class, an overwhelming majority, perhaps, 80% or so is arrogated by LEs. It becomes quickly clear that MEs, for all their numerical superiority among establishments, receiving bank credit is the exception and not the rule (Nayeem and Miah 2006).

**Table 8: Distribution of Sector-wise Advances by Different Banks
(Numbers are Percentages; Last Row Shows the Disbursements in £ Million)**

Name of Sectors and Type of Financing	PCB, 2005	PCB, 2004	FCB, 2005	FCB, 2004	SCB, 2005	SCB, 2004
Agriculture	0.8	0.6	0.1	0.1	56.7	10.8
Large & Medium Industry	14.0	11.4	10.9	11.1	17.9	21.1
SCI	0.7	0.6	0.6	0.6	0.9	1.1
WC Large / Medium Industry	17.2	14.4	27.2	26.3	7.1	17.9
WC for SCI	0.9	0.7	1.4	1.3	0.4	0.9
Construction	8.7	15.7	0.9	0.8	1.6	6.7
Transportation	1.8	7.8	2.2	1.0	0.2	0.8
Storage	0.2	1.6	0.0	0.0	3.0	1.3
Trade Financing	46.6	39.0	24.9	21.2	7.7	30.2
Miscellaneous	9.1	8.2	31.7	37.6	4.6	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total Advances £	530.29	402.98	78.198	66.29	106.37	376.62

Notes: PCB; Private Commercial Banks; FCB: Foreign Commercial Banks; SCB: State Commercial Banks

Source: Bangladesh Bank Statistics 2005; and Nayeem and Miah 2006

The access to finance for the MEs in Bangladesh not even based on neutral ground, not to speak of rosy or good. This is because the issue of bank credit is based on the ownership of collateral: bankers insist on immovable property for collateral. Only about 15-20% of the owners of MEs own any immovable property at all in which the bankers are interested. This automatically excludes about 80% of MEs from being among the privileged client of a bank loan (Miah 2007).

Distribution of ME Loans by Different NGO-MFIs

Table 9 summarizes loans of different NGO-MFIs. Their loan programme has started slowly but has reached significant size in 2008.

Table 9: An Overview of Borrowers and ME Loans of Major NGO-MFIs

Name of NGO-MFI	Number of Borrowers up to 2008	ME Loan Outstanding up to Dec 2008, (£ million)
ASA	445,236	76.57
BRAC	242,512	24.62
Grameen Bank (cumulative)	1,643,775	38.42
PKSF-Small Partner Organizations (132 Partners in 2008)	102,377	82.36
Total	2,433,900	221.97

Source: Alamgir 2009 and the Author

The above table shows that a total of 2.44 million borrowers were benefited by the different ME loan programmes of major NGO-MFIs of Bangladesh, who borrowed a sum of £221.97 million as of December 2008. Moreover, an estimated 33 million members and 26.78 million borrowers (81.1%) including multiple memberships or so-called overlapping are served by the sector at the end of December 2008. A total of 14,441 branches of NGO-MFIs serve these members. The total estimated portfolio is £1588 million of which ASA (22.50%), BRAC (28.81%) and Grameen Bank (27.96%) account for about 79.26%. The rest 20.74% is under about 700 smaller NGO-MFIs that shows heavy concentration of portfolio in these three organizations. The important issue is that the three MFIs have become so big that microfinance sector cannot afford any one of them to fail. Due to resource and management constraints the smaller MFIs are not expected to grow fast to increase market share. Such skewed structure is expected to continue (Alamgir 2009).

Rate of Interest of NGO-MFIs

The rate of interest on loan product is a controversial issue in Bangladesh. Although the rate of interest of microcredit programmes is expected to be higher than commercial bank's lending rate due to small size of loan and high delivery cost but there is general public perception that MFIs charge 'excessive' interest on loan. Such views have been vented by the political leaders and government officials in public forums. The following table provides the interest rates of the prominent NGO-MFIs of Bangladesh both on savings and credit products:

Table 10: An Overview of the Interest Rate of NGO-MFIs ME Loans

Organizations	Interest on Credit Products (%) (Flat Rate)	Approximate Effective Rate on Credit Products (%)	Interest on Savings (%)
ASA	14.4	28.8	<5%
BRAC	15	30	
Grameen Bank	10	20	Regular Savings: 8.5 Time Deposit: 12.5
PKSF Funded MFIs	Hardcore Poor: 10 Others: 12.5	Hardcore Poor: 20 Others: 25	4-5
Other MFIs	15	30	4-6

Sources: Respective Organizations (up to May 2009)

The rate of interest on loans varied to different organizations. The most renowned MFI Grameen Bank charges 10 to 20%, which is lowest in the market. However, other organization ASA and BRAC charge a bit higher rate of interest, which ranges from 15- 30%. ASA and BRAC continued to charge 15% (flat) rate but they later reduced their rates to 12.5% for a short period but both moved to 15% in 2009 to reflect rising cost of operations (ASA) and cost of fund (BRAC). According to their reports, the following factors determine the rate of interest on loan, which have changed over the years: cost of funds; operating cost; cost of risk; and lending rate. If the above factors are considered each MFI in principle should have different lending rate but in reality they all follow either 25% or 30% as the going rate in the sector (Alamgir 2009).

2.3.6 Broader Effects of NGO-MFI funded MED Activities

The following can be considered as the direct broader effects of massive proliferation of NGO-MFI led MED activities in Bangladesh:

Employment Generation and Decline in Dependence on Moneylenders

NGO-MFIs are the largest employers for men and women in Bangladesh. An estimated 171,599 persons are directly employed by the NGO-MFIs excluding the Grameen Bank. Their loan schemes have helped to reduce dependence on moneylenders who would only lend to a few of their choice, of course at an exorbitant rate (120% per annum). Besides, such personal lending-borrowing relationship creates an undignified situation where lender may take other advantages.

Savings and Credit Services

Aside from impact due to increase in income the proliferation of MFIs has allowed people to transact with formal FIs. It can be said that 33 million poor have savings account with accumulated savings of £917.47 million. At no time in the history of the nation so many poor people had access to formal institutions, be it for savings or for loan. It is an achievement by itself that formal institutions are reaching the poor with professional financial services and poor people in their life have access to them.

Market and Technological Information

The interaction of members within the groups provides opportunities for informally receiving market information such as price of various inputs, commodities, and farm produces. Besides this, access to technological information and demonstration of production technologies has benefited the participants of microfinance programmes.

Training Services

Many government and donor agencies and NGOs provide training on numerous topics mostly for free. Most common training courses are awareness building on social issues, poultry and livestock rearing, fisheries, health and family planning, various agricultural products such as vegetable and crop production, tailoring, business management, accounting etc. However, these supply-driven training courses may not be always effective but over a long period of time and long association with NGO-MFIs has enhanced skills, confidence as well as technological skills of millions of poor.

Expansion of Service Providers

Individuals and private institutional providers have emerged to provide management and technological training to the group members as well as to MFIs (staff members and organisations). MFIs and groups have also participated in other programmes such as health, family planning, renewable energy promotion etc where microcredit groups have been used as platform for dissemination of information and ideas.

Expansion of Non-farm Businesses

Main recipients of microcredit are trading, shops and small processing/manufacturing, repairing and many other services (rural transport). This has enabled millions of households to access capital to develop and earn from non-farm sources that has reduced pressure on agriculture for creating new jobs. Besides, the poultry, livestock and fisheries sector, that is, non-crop agricultural activities got serious boost due to microcredit creating employment and generating income from these sub-sectors. That is, the process has enabled diversification within broad agricultural sector. However, this is not to mean that only microfinance contributed to this situation. Other business services have also proliferated to aid the situation.

2.4 Major Problems and Challenges of Micro Enterprise Development

Although NGO-MFI and other FI funded MED activities show different benefits to MEs, this sector still faces several problems and challenges. Recent studies on the issue (Alamgir 2009; Miah 2007; Raihan and Rumanna 2007; and Moazzem 2008 among others) considered the following as major problems and challenges to MED in Bangladesh:

Lack of Sufficient Capital

MEs require different types of financial supports, such as ‘start up capital’ to cover preliminary expenses, ‘working capital’ to cover running expenses, ‘reserve capital’ to meet the expenses not only for unexpected contingencies, but also for personal and family maintenance. In most cases, these enterprises receive ‘working capital’ from the FIs, but ‘start up capital’, which is crucial is often not supported by FIs.

Poor Physical Infrastructure

Poor physical infrastructure increases the cost of production and reduces the competitiveness of ME products. Major problems related to infrastructure include frequent power failures and poor transport facilities, which seriously hamper the smooth production and delivery of products.

Lack of Skilled Manpower

In order to enhance productivity and manufacture high end products, entrepreneurs often demand an adequate supply of skilled workers. An upgrade of technologies, important for manufacturing better products, always requires skilled workers. Huge public investment is necessary to develop human resources. A number of public and private initiatives were undertaken in order to upgrade worker's skill.

Absence of a Favourable Enterprise Culture

The concept of enterprise culture and entrepreneurship is not native to every culture or society. Starting a business requires courage: the courage to assume the risks of putting money into ideas and the courage to take a leap into an unknown future. Throughout the world millions of entrepreneurs, display such courage. However, the fear of failure produced by the highly volatile socio-politico-economic conditions of Bangladesh has deepened into the minds of potential entrepreneurs. Consequently, new and energetic entrepreneurs are not emerging in the market.

Lack of Entrepreneurship and Management Skills

Many owner-managers and entrepreneurs often lack wider managerial skills, which hinder their long-term success. Strategic planning, medium to long-term vision, marketing, commitment to quality, knowledge of quality systems, communicating in foreign languages, cash-flow management, and information technology are a few critical elements of management required to meet the challenges of the market economy, especially in the global market environment.

Inefficient Marketing Practices

MEs in Bangladesh, especially the very small enterprises, do not have enough marketing capabilities or networks. Majority of MEs do not have resources to invest in marketing. Moreover, export-oriented MEs have also very little marketing activities and most of them try to survive by linking up with multinational buyers or setting up subcontracting relationships with them. In the domestic market, MEs are confronted with cheap imports and are hard pressed to hold on to their market share. Lack of resources and skills make it difficult for MEs to take advantage of market promotional activities.

Poor Institutional Support

Specific institutional support for MED, particularly training and research & development is absent in Bangladesh. Government as well as other private organizations have different types of training programmes, but these are found unable to meet the current needs of the ME sector. Moreover, these organizations follow traditional method of training and dated curriculum that seriously hamper MED in Bangladesh.

Absence of Innovation and Technology Development Policy

A full technology development policy is absent in Bangladesh. Fragmented approach in this regard may not work properly. The institutional structure for innovation and the development of technology also requires reform, which can focus on dynamism and cope with the latest technological development.

The above are considered the major problems and challenges to MED in Bangladesh.

2.4.1 Major Problems and Challenges of MED: An Overview of DCs

Based on existing literature and the recent studies the following are considered as the major problems, and challenges among others, of ME sector development in some DCs, which are listed in the table 11.

Table 11: Major Problems and Challenges of MED in DCs

Country Experience	Problems and Challenges to MED: An Overview of Some DCs	References
India	Low capital base Difficulties in accessing technology Credit constraints Low access to business services Constraint of quality of human resources Low awareness Low lobbying capacity Rapid changes in policy environment	Kharbanda 2001; Mukherjee 2002; IGS 2004; Sinha <i>et al</i> 2006; Stuti 2005; Kamath <i>et al</i> 2008;
Pakistan	Inadequate Infrastructure Financing barriers and disincentives Adverse government policies Shortage of skilled personnel Technological constraints and lack of innovation Entrepreneurial handicap	Roomi and Hussain 1998; Chaudhury 2000; Nishat 2000; SDPC 2000; SMEDA 2001; Bari 2002; Bari <i>et al</i> 2005; Khawaja 2006;
Sri Lanka	Policy interim High interest rate and emphasis on collateral Low level of technology and absence of technological and managerial skills Lack of market information and marketing skills Lack of adequate infrastructural facilities Outdated labour legislation Competition from low priced sub-standard goods Regulatory role of government	Wickramasinghe 1993; Ranasinghe 1996; Aturupane 1999; Gamage 2000; ADB 2001; SMESDP Task Force 2002; Richards <i>et al.</i> 2002; Gamage 2003; Shaw 2004; Dasanayaka 2009
Bangladesh	Lack of a Comprehensive Policy Framework Absence of a concrete road map Legal framework is incomplete Lack of capital Lack of adequate investment; Lack of modern technology; High rate of interest on ME loans; Inadequacies of physical infrastructure Irregular/inadequate supply of power; Poor physical infrastructure and high transportation cost; Lack of research & development facilities; Inadequacies of markets Inadequate availability of raw materials; Lack of skilled technicians and workers; Poor information about market opportunities and requirements; Other adverse conditions Fierce competition; Absence of effective and transparent legal system; Corruption and Political Instability	Uddin 2003; BEI 2004, ADB 2005; Ahmed 2005; Moazzem 2006; Nayeem and Miah 2006; Miah 2007; Chowdhury 2007; Raihan and Rumanna 2007; Nasrullah 2008; Moazzem 2008; and Alamgir 2009

Source: Author

The table highlights that the nature and types of problems and challenges to MED are almost same in DCs. Such as lack of finances, inadequate physical infrastructure, lack of proper market information, adverse government policies and enterprising manpower etc are mentionable among others. These problems and challenges were

considered in framing the research protocols, to examine the present condition of those in Bangladesh that are further analyzed, and discussed in chapter 7 to understand the outlook of the problems and challenges in order to place appropriate policy recommendations.

2.5 Summary

This chapter discussed the context of the study in details. The current state of MEs in Bangladesh and a brief introduction to Bangladesh are discussed here. The discussion shows that ME sector is playing a great role in the development of national economy in Bangladesh. The employment situation there is in a critical stage, but the potentials of employment creation are huge as the country is endowed with different resources, such as human capital and natural resources. However, there is a lack of a proper policy framework and appropriate initiatives to MED. Various organizations, both at government and non-government level are working here for the development of MEs. They have different programmes and policies but expected development is yet to occur. Government organizations have failed to develop this sector efficiently, though they have enough facilities and manpower. But recently established InM and SMEF have been working very good, but still need a strong policy directions. Traditional Financial institutions such as banks both public and private have plenty of eye-catching ME loan schemes, but these are not easily accessible to the tiny and small enterprises. By taking this situation as a benefit, NGO-MFIs have been charging an excessive rate of interest. This is simply because of an effective and coherent policy framework. Existing MED policy initiatives are not too friendly to develop this sector. The discussion on the wide variety of MED initiatives in Bangladesh suggests fragmentations, which are further discussed and analysed in the following chapters. Discussion also shows that there are many scopes to amend the existing policies. The chapter ended with the discussion of different problems and challenges of MED in Bangladesh and an overview of the major problems and challenges to MED in some DCs. It shows that DCs are facing almost same types of problems that are considered responsible for the slow growth of entrepreneurship as well as ED.

CHAPTER 3

MICRO ENTERPRISE, ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

3.1 Introduction

MEs have been playing a pivotal role in terms of economic growth, employment generation and industrialization through entrepreneurship development. MEs need low capital but it gives rise to greater opportunities for direct or indirect employment. In a positive environment, MEs offer sustainable business solutions that simultaneously fight poverty and accelerate economic growth (Agbeibor 2006). Although the role of MEs is different at different stages of economic development, their role is particularly important for DCs (Moazzem 2008). Beck (*et al.* 2005) has found a strong association between MED and GDP per capita but the relationship between growth and overall business environment for MEs overshadow the former relationship. Harvie (2004) postulates, for the DCs, especially MEs are potential instrument for poverty alleviation. Mead and Liedholm (1998) show that MEs have been recognized as major sources of employment and income in many countries of the third world. For DCs, the problem of rural unemployment, which results in an unhealthy rural urban migration, can be solved through MED in rural areas (Liedholm *et al.* 1994). This chapter outlines the definitional issues of MEs and MED such as definitions, differences between MEs and LEs, verities of MEs, operational definitions, social and cultural perspectives of MEs, MED model, training and development activities and financing MEs. It also discusses the concepts of entrepreneurs, entrepreneurship, entrepreneurship development, determinants of entrepreneurship development, and its process and some theoretical perspectives. Finally, this chapter discusses the concept of ED, different models of ED, and link among ED and entrepreneurship development.

3.2 Micro Enterprises: Definitional Issues

For this study, the main focus is MEs. There is no universal definition of MEs, but there are some agreements regarding their general characteristics. These are very small scale of operation, low level of technology, low access to finance and managerial capacity. Efforts to define MEs have led to a remarkable diversity of definitions and generated an unresolved debate as to the different approaches to defining MEs. Certainly anyone

reviewing the current literature is struck by the diversity of the terms used, let alone the range of definitions applied. An oft-quoted report noted that in the mid 1970s, seventy five different countries had over fifty different formal definitions of MEs (Auciello 1975). There is strong body of opinion supporting this view that such diversity of definitions is necessary and should be encouraged, if only because for a definition to have any validity, it must be appropriate to the context to which it is applied. As Malcolm Harper (1984) points out,

The scale of a business needs only to be defined for a specific purpose, and there is no point in attempting to produce a universally or even nationally accepted standard. Any discussion of definitions should be preceded by a very clear understanding of the purpose for which the definition is to be used.

This point of view was further articulated at the 1988 *World Conference on MEs in DCs*, a major forum for small scale enterprise promotion, where participants reacted to attempt to achieve a common definition by accepting that because definitions of MEs varied from country to country, there could be no clear global definition (Levistky 1989). Yet, despite the difficulties in reaching a common definition for MEs, there is still some value in attempting to reach an agreed definition. Hertz (1982) argues that agreed international definitions are essential in order to promote multilateral understanding, share research findings, and promote economic cooperation. Agreed national definitions are of value not only for research purposes, but also for reasons of consistency of legislation, and for focusing the discussion of policy makers as well as work of banks and enterprise support agencies generally (Hailey 1991).

3.2.1 Definitions of MEs: Qualitative and Quantitative

There have been numerous attempts to define MEs and these are usually based on either quantitative or qualitative characteristics. Mentionably, DCs are more likely to apply quantitative definitions, and industrialized nations to apply qualitative measures. In part this reflects the purpose for which such definitions are applied in DCs, particularly their use in the development planning process. As Neck (1977) commented, “most definitions appear to be governed by the interests of the perceiver, the purpose of the definition, and

the stage of development of the particular environment in which the definition is to be employed” (Harper 1984).

Qualitative Definitions

Qualitative definitions of MEs are inherently subjective, broad based and less precise than quantitative definitions. In addition, although such definitions are of limited use in identifying eligibility for preferential treatment or for fiscal purposes, their value is that they offer conceptual flexibility and breadth of purpose. They commonly refer to operating styles, the degree of specialization, overall aims and objectives, or the relationship with the local community and the wider commercial environment; for example in Tanzania MEs are those “within the reach of people” (Harper 1984). Increasingly such qualitative definitions, with implicit societal connotations are gaining prominence. These are exemplified by the definitions of the MEs in the “informal sector”, which emphasise ease of entry, reliance on indigenous resources, family ownership etc. (Levitsky 1989), or the perceptions of practitioners like Professor Dr. Mohammad Yunus, noble laureate in peace in 2006 and founder of the Grameen Bank in Bangladesh, who sees little point in focusing on the characteristics or the size of MEs, but prefers to dwell on their role in development which he suggests is to create employment, generate income and is so doing reduce poverty (Hailey 1991).

Quantitative Definitions

Quantitative definitions of MEs rely on clearly defined parameters, or combinations of parameters, which include one of the following: the number of employees, sales turnover, assets, capital, net worth, or even specific industry wide measures. In general, quantitative measures are applied where it is necessary to clearly identify a specific target group and to exclude LEs from preferential treatment. However, quantitative definitions are marked by their range and diversity and accordingly are of little use of purposes of international comparison (Hailey 1991). The extent of the disparity between quantitative definitions is most clearly seen in the attempts to define MEs by the size of its workforces. National definitions of MEs range from ventures which accurately employ fewer than 10 employees (Western Samoa) to those employing fewer than 300

(Japan). Nevertheless, it is amongst those researching in this field that one can find the greatest disparity of definition. Thus D' Ambosie and Muldowney (1998) can report that “for a growing number of researchers and reporting organizations, the small business is generally considered to employ no more than 500 persons and to have sales less than US\$20 million” whilst at the other end of the spectrum the 1988 *World Conference on MEs* generally agreed that their target group comprised very small units possibly employing only one person or merely members of a family (Levitsky 1989).

The European Union

In February, 1996 the European Commission adopted a communication setting out a single definition of MEs and applied this across EU programmes and proposals with the effect from January 1998. These are as follows:

Table 12: Definition of MEs by European Commission

Category of MEs	Definitions
Self Employed Enterprise	An enterprise should be treated as self-employed if it has only 1 employee.
Micro Enterprise	An enterprise should be treated as “micro” if it has less than 10 employees.
Small Enterprise	An enterprise should be treated as “small” if it has 10-49 employees with a annual turnover of Euro 7 million or annual balance sheet total of Euro 5 million and maximum 25% share owned by one or jointly by several enterprise not satisfying the same criteria.
Medium Enterprise	An enterprise should be treated as “medium” if it has 50-249 employees with an annual turnover of maximum Euro 40 million or annual balance sheet total of maximum Euro 27 million and maximum 25% share owned by one or jointly several enterprises not satisfying the same criteria.

Source: Carter and Jones-Evans 2000

3.2.2 Definition of MEs in the Developing Countries

MEs in Bangladesh are defined for the purposes of industrial policies by the MoI. Historically, this definition has been in terms of fixed-investment brackets, and a dual-mode definition is in place, separate for manufacturing establishments, and service establishments. SME Policy Strategy 2005 and Industrial Policy 2005 had almost same definitions of MEs in Bangladesh. In India, MSMED Act 2006 defines and divides MEs in two categories: manufacturing and service. On the other hand, in Pakistan, various agencies, e.g., State Bank of Pakistan, Federal Bureau of Statistics, and Provincial Department etc. use their own definitions.

Table 13: Definitions of MEs in some Developing Countries

Category	India	Pakistan	Bangladesh	Sri Lanka
Micro	<p>For manufacturing, an enterprise where investment in plant & machinery does not exceed Rs 25 lakh is micro enterprise.</p> <p>For service, an enterprise where investment in equipments does not exceed Rs 10 lakh is micro.</p>			<p>Micro enterprises are those where there are employment opportunities for 1-9 employees and an investment of less than Rs. 1 Million.</p>
Small	<p>For manufacturing, an enterprise where investment in plant & machinery are more than Rs 25 lakh but does not exceed Rs 5 crore Rupees is small.</p> <p>For service an enterprise where investment in equipments are more than Rs 10 lakh but does not exceed Rs 2 crore is small.</p>	<p>For manufacturing, an enterprise where employee involvement is less than 50 and asset worth is up to Rs 30 million is small.</p> <p>For service, an enterprise where employee involvement is less than 50 and asset worth is Rs 20 million is small.</p> <p>For Trading, an enterprise where employee involvement is less than 20 and asset worth is Rs 20 million is small.</p>	<p>For manufacturing, an enterprise should be treated as “small” if, in today’s market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs (e.g. of turn-key consultancy services,) excluding land and building, were to be up to BDT 15 million.</p> <p>For service, an enterprise should be treated as “small” if it has less than 25 workers, in full-time equivalents.</p>	<p>Small enterprises are those where there are employment opportunities for 10-49 employees and an investment between Rs. 1 Million to 20 Million.</p>
Medium	<p>For manufacturing, an enterprise where investment in plant & machinery are more than Rs 5 crore but does not exceed Rs 10 crore is medium.</p> <p>For service, an enterprise where investments in equipments are more than Rs 2 crore but do not exceed Rs 5 core is medium.</p>	<p>For manufacturing, an enterprise where employee involvement is 51-250 and asset worth is Rs 30-100 million is medium.</p> <p>For service, an enterprise where employee involvement 51-250 and asset worth is less than Rs 100 million is medium.</p> <p>For trading, an enterprise where employee involvement is 21-50 and asset worth is less than Rs 10 million is medium.</p>	<p>For manufacturing, an enterprise would be treated as “medium” if, in today’s market prices, the replacement cost of plant, machinery, and other parts/components, fixtures, support utility, and associated technical services (such as turn-key consultancy), etc excluding land and building, were to be up to BDT 100 million.</p> <p>For services, an enterprise would be treated as “medium” if it has between 25 and 100 employees.</p>	<p>Medium enterprises are those where there are employment opportunities for 50-99 employees and an investment between Rs. Million 20 to 50 Million.</p>

Sources: SME Policy Strategy 2005 of Bangladesh, SME Act 2006 of India, SME Policy 2007 of Pakistan and Sri Lankan Ministry of Small and Rural Industries in Dasanayaka 2009

Absence of a single definition makes it difficult to identify target enterprises, align development programmes, collect data and monitor progress. Having said that, an alternative albeit, informal definition of SMEs is used by the Bangladesh Bureau of Statistics. They use head-count for its basis. Enterprises with up to 9 employees are treated as 'micro'; with between 10 and 49, as 'small'; with between 50 and 99, as 'medium', and all the rest, as 'large'. For statistical purposes, this is the definition that we use in this paper. The Bangladesh government has passed her new Industrial Policy 2010 recently. In the policy, MEs are defined in a different way than the SME Policy Strategy 2005. They categorized the ME sector into four: Cottage, Micro, Small and Medium enterprise. The following table shows the definition of MEs in different DCs at a glance. However, the category and the definition of MEs in Bangladesh are still not adequate for this study. To arrive at a suitable operational definition the definition and category of enterprises in both the developing and developed countries in the world are being reviewed.

3.2.3 Characteristics of Micro Enterprises

'Micro' may be employed as a relative term, rather than an absolute one. One definition of ME is therefore simply a business with a scale of operations significantly below the average, or below the minimum size usually necessary for efficient operations in its sector. MEs tend to share a number of qualities. They are generally enterprises that serve only local customers and have only a very limited share of the available market; that are owned by one person, or by a small group of people; and are managed by their owners, who deal with all management issues usually with little other help; and they are independent businesses, not parts of or owned by LEs. A definition based on only one of these qualities would be in danger of excluding some enterprises that others would regard as micro. A number of qualitative characteristics should therefore be included. One attempt to do so, which possesses at least two of the following four characteristics (Carson and Cromie 1989): Management of the enterprise is independent. Usually the managers are also the owners; Capital and ownership are provided by an individual or a small group; The areas of operation are mainly local, with the workers and owners living in one home community. However the market needs to be local; and The relative

size of the business within its industry must be in terms of sales volume, number of employees or other significant comparisons.

The Bolton committee first made a well-known attempt to provide a description of the key characteristics of MEs in its report on small firms in 1971. The committee stated that “a small firm is an independent business, managed by its owner or part of owners in a personalized way, and not through the medium of a formalized management structure, having a small market share and the owner-manager should be free from outside control in taking their principal decisions”. There are different types of MEs that although sometimes bewildering in their variety can help to define the distinctions between different types of businesses and their characteristics. These are sole trader, partnership, company, cooperative, community business, and family business.

3.2.4 Micro Enterprises and Large Enterprises: Key Differences

The above characteristics distinguish MEs from LEs on a basis other than scale. The following table shows the key dimensions, other than size per se based on empirical evidences by which MEs and LEs differ from each other.

Table 14: Key Differences between MEs and LEs

Aspects (References)	MEs	LEs
Risk of failure (Honjo 2000; Harhoff <i>et al.</i> 1998; Hart and Oulton 1996)	Much more likely to cease trading than LEs. It is the risk of failure that fundamentally distinguishes MEs from LEs.	Whilst LEs fail, often spectacularly and with considerable media coverage, the risk of failure is not as ever-present as it is with MEs.
Market Power	No Market power to set prices, except sometimes in very local markets. They have to seek to compete in other ways such as service, quality and timeliness.	Much more likely to have power to set prices, although this has to be used carefully to avoid attracting the attention of competition of authorities.
Management (Cosh <i>et al.</i> 2005)	MEs are generally owned and managed by the same individuals.	Owners are normally private shareholders or financial institutions, with management being undertaken by professionals who generally are only most owners of shares.
Motivation of owner (Gray 2002; Hart and Oulton 1996)	Some are lifestyle owners. Their primary object is to obtain a comfortable living for themselves or to pass on their businesses to family members. In contrast others may wish rapid growth of their business.	Traditionally the owners or shareholders of LEs seek to maximize the value of the company. The task of management is to achieve maximization of shareholder value.
Brand (Shocker <i>et al.</i> 1994; Hatten and Schendel 1977)	No brand value, apart from some local loyalty	Brand can be a major positive factor influencing sales. It provides the customer with awareness leading to confidence and ultimately loyalty.

Strategy (Man <i>et al.</i> 2002; Rangone 1999)	Has to be flexible, since it lacks the opportunity to reap scale economies. So more likely to be shifting to new products / services and new customers.	LEs seek to exploit its price advantages and advantage obtained by heavy investment in people, plant or research and development.
Internal Organization (Curran and Blackburn 2001)	Informal. Because their business is small, the owner can make decisions and ensure they are implemented. There is little incentive to document decisions. However, in some cases the informality can be a clock for exploitation.	Procedural. In a large organization there are many middle managers who can 'water down' decisions made by top managers. One way to ensure that everyone is aware of decisions, and why they were taken, is for this to be communicated in writing.
Wages and benefits (Brown <i>et al.</i> 1990; Troske 1999)	MEs generally pay lower wages and provide fewer fringe benefits.	LEs pay higher wages and provide more fringe benefits.
Human Resources (Vickers <i>et al.</i> 2005; Forth <i>et al.</i> 2006)	At their best MEs provide a happy environment in which to work. At their worst they can unsafe, exploitative, working environments	LEs are more likely to attract prime age workers, with formal qualifications, and those seeking a career
Training and Recruitment (Carool <i>et al.</i> 1999, Storey 2005)	MEs provide less on formal training and recruit new staff through informal channels	LEs are much more likely to provide formal training and use formal channels to recruit new staff
Investment policies (Cosh and Hughes 1994)	MEs spend relatively less on fixed equipment, especially that which cannot easily be converted to alternative uses in the event of changes in demand.	Heavy investment is central to achieving scale economies that under pine the cost advantage of LEs
Sources of Finances (Ang 1991)	ME owners have a pecking order which favour internal to external sources of finances. External providers of finance have imperfect information of MEs	LEs have a wide choice of sources of finance. Information imperfections are much less than with MEs
Innovation (Van Praag and Versloot 2007)	MEs are more likely to commercialize innovations but less likely to adopt innovations	LE innovation capabilities depends on heavy expenditure on formal research and development.
Competitive advantages (Jennings and Beaver 1997)	Flexible, responsive to the customer and innovative.	Able to undertake investment and provide a more comprehensive service.
Political influence (Dannreuther 1999)	MEs acting alone, will have minimal impact on government. Only by joining a lobby organization can this be overcome. Unfortunately most ME owners are not, by nature, joiners which means that the members of ME lobby organizations are not typical MEs, except in countries where membership is compulsory.	LEs are widely consulted by governments, even at the early stage when legislation is considered. Since there are only small numbers of LEs, this consultation is convenient and easy for government.
How MEs see themselves	MEs see themselves as customer focused, placing emphasis on service.	LEs see themselves reliable, with a reputation to uphold.
Key words	Uncertainty, Diversity, Flexibility, and Failure	Reliability, Brand, Market Power, and Influence

Source: Storey and Greene 2010 and the author

Wynarczyk *et al.* (1993), strongly influenced by Casson (1982), argue that the much greater role played by uncertainty innovation and firm evolution is the real defining characteristic of MEs. MEs face more uncertain markets than the LEs. They have a

limited customer base and often cannot influence price. The owner-manager's own aspirations and motivations may also be uncertain. The effect of this high degree of uncertainty is to force decision making to become short term. Therefore, MEs should get special types of facilities than the LEs.

3.2.5 Operational Definition of Micro Enterprises

Because of the definitional diversity and the inherent constraints in both quantitative and

Table 15: Operational Definition of Micro Enterprises of this Research

Categories of MEs	Definition of Manufacturing Enterprises	Definition of Non-manufacturing Enterprises
<i>Tiny Enterprise</i>		Tiny enterprise are those that exist at the bottom of the business layer, such as micro trading enterprises including street vending. These are enterprises that create only self-employment.
<i>Cottage Enterprise</i>	For manufacturing, an enterprise should be treated as "cottage" if in today's market prices, the replacement cost of the plant, machinery and other parts, fixtures, support utility and associated technical services by way of capitalized costs excluding land and building were up to BDT 0.5 million.	For service and trading, an enterprise should be treated as "cottage" if it has less than 5 workers in full-time equivalents.
<i>Micro Enterprise</i>	For manufacturing, an enterprise should be treated as "micro" if, in today's market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc, excluding land and building, were to be up to BDT 1 million.	For service and trading, an enterprise should be treated as "micro" if it has less than 10 workers (0-9) in full-time equivalents.
<i>Small Enterprise</i>	For manufacturing, an enterprise should be treated as "small" if, in today's market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc, excluding land and building, were to be up to BDT 5 million.	For service and trading, an enterprise should be treated as "small" if it has less than 25 workers (10-24) in full-time equivalents.
<i>Medium Enterprise</i>	For manufacturing, an enterprise would be treated as "medium" if, in today's market prices, the replacement cost of plant, machinery, and other parts/components, fixtures, support utility, and associated technical services etc, excluding land and building, were to be up to BDT 50 million.	For service and trading, an enterprise would be treated as "medium" if it has between 26 and 100 employees.

Source: Author

qualitative approaches, there has been increasing acceptance of the limitations of definitions per se; particularly so when they are applied for reasons of international comparability. As a consequence, when definitions are used there is a tendency to merge quantitative measures with qualitative precepts. Such definitions often include operational characteristics, market share, turn over and number of employees (Levitsky

1989). In the light of this, and given business conditions in many DCs, MEs can be taken for the purpose of this study, to refer to as the following five categories:

3.3 Social and Cultural Perspectives of Micro Enterprises

MEs do not operate in a closed world. In turn their activities and behaviour affect many of us and they are affected by economic, political, social and cultural trends. Specially, enterprise culture view, ME actors and structures, micro enterprises stakeholders and ME embeddedness are mentionable among others. These are discussed below:

3.3.1 Enterprise Culture View

Recently there has been an over-emphasis on enterprise culture, particularly with the idea that it explains the position of MEs in the society. Enterprise culture is a contested concept, which help explaining what MEs do and how they behave. But in recent years, a critical stance, has been developed towards enterprise culture. Ritchie (1991) positions the idea of enterprise culture held by the owner-manager. He suggests it is a self-descriptive notion from the perspective of the owner-manager. This contrasts with the view held by the policy makers, politicians, and ME advisers. Finally, he considers how academics view the notion of enterprise culture, and he believes that this group sees it as a carefully attested concept, which needs to be handled with some caution.

3.3.2 Micro Enterprise Actors and Structures

There are many actors in the world of MEs. They may be part of MEs themselves, or may well be in other organizations, working in the public sector, in the private sector, in banks, as accountants, or as consultants, in other enterprises – whether large, medium, small, or micro, or even in the families of an owner-manager. Within the environment of MEs, the role actors, like the owner-manager, employees, and even ME advisers, and the role of structures, such as government policy or other institutional strategies, for instance LE strategy, are very important. When the term ‘micro enterprise actor’ is used, it refers to those key individuals who have some affect on the way things are organized in the ME domain. When the term ‘structures’ is used, it refers to the conditions in

which MEs exist. Structures operate in and around the ME in such a way that they enable certain things to take place, but at the same time, they impose some form of constraints on what can actually take place. When in business literature some comes across the term ‘driving forces’, it is often a reference of structures. Structures might be political, social or cultural (Hall *et al.* 1992).

3.3.3 Stakeholders of Micro Enterprise

The actors of MEs are referred through the phrase ‘stakeholder’. Stakeholder is also used in an interchangeable way with the word actor. Stakeholders of MEs have their own ways of knowing and doing when they work with MEs. These are based on the different forms of knowledge they possess about the operation of MEs, such as, the bank manager has ways of knowing about the financial management of MEs; the customer has ways of knowing the products or services of MEs; the employee has ways of knowing about the working procedure operated by the owner-manager; and so on. In fact, while many people have pointed to the ME sector as being diverse, it is important to understand that ME stakeholders are also diverse, covering many different groups.

3.3.4 Micro Enterprise Embeddedness

‘Embeddedness’ refers to the actions an owner-manager takes to support the day to day activities of running a business, but which cannot be defined solely as economic activities. For instance, as the owner-manager tries to win trade, he or she needs to build up relations of trust, which become central to the process of transaction. Aspects of ME activity such as, this have been considered elsewhere. Granovetter (1985) points out that ‘embeddedness’ is rational, self-interested behaviour in business is affected minimally by social relations. He suggests that developing trust in business is essential. Being aware of the development of malfeasance is equally as important. The social and cultural world of MEs can provide a different view towards understanding what MEs do and how they do it. This view is not an alternative to thinking about MEs, as economic entities, but complements many traditional ways of thinking about business activities. However, it is not a case of a ME having attributes, which can be called economic and political or alternatively social and cultural. Rather, to develop a better understanding of

what MEs mean to contemporary society, there is a need to constantly review their role, the role of the stakeholders, how they interact with the rest of the society and ultimately the way we think about them. As a result, it is very difficult to develop an awareness of how we should think about the combination of social, cultural and economic activity.

3.4 Micro Enterprise Development

MED is a dynamic and rapidly changing field. It is not the panacea for underdevelopment and poverty, but it has fostered the evolution of some remarkably successful development initiatives that have significantly improved the lives of desperately poor people. MED offers real opportunities to implement meaningful development programmes that can benefit the “poorest of the poor” and bring significant positive changes to desperately poor countries. It is a meaningful tool for addressing the structural conflict, which exists between rich and poor across the globe.

According to Christen (1989) ‘MEs represent the smallest economic unit which functions independently, manages its own investment capital, and involves a manufacturing, commerce or service activity. Village fruit gardening, small-scale furniture making and family rug weaving are all examples of micro businesses. MED simply represents the strategies that are to facilitate the establishment, and insure the long-term sustainability of these MEs.

Hatch (1991) made an important point two separate and distinct kinds of MED. Hatch perceived the first type of MED as the lending of money to the not so poor, so this group could in turn create jobs for the poorest of the poor, so they can create their own jobs. The poorest of the poor is another term arises when discussing MED. Since poverty exists in varying degrees, a person who may be classified as the poorest of the poor in Costa Rica may not fit the category in Somalia or in Bangladesh. As a result, this is a very hard concept to pin down. Mentionably, poorest of the poor, are those who are living at a subsistence level, above the starvation and basic survival levels, but with

little hope of raising their standard of living any higher without any assistance, like credit, structural and policy reforms in their national economy (Hatch 1991).

According to Beinhart (1994) MED consists of the following:

“to create sustainable credit programmes, and remove restrictive legal structures, in order to facilitate the establishment and maintenance of the smallest possible economic entity in a country, which is either operated by or employs people who are living at a bare subsistence level”.

MED is not a universal remedy for the underdevelopment that plagues so much of the world's population, but it can be an effective component in a new development paradigm. There are many strategies for facilitating MED projects and these vary according to the culture, economic structure, and social dynamics of a particular country or region. Because of this variability, it is essential to approach MED with flexibility and creativity and not advocate the imposition of a single 'successful model'.

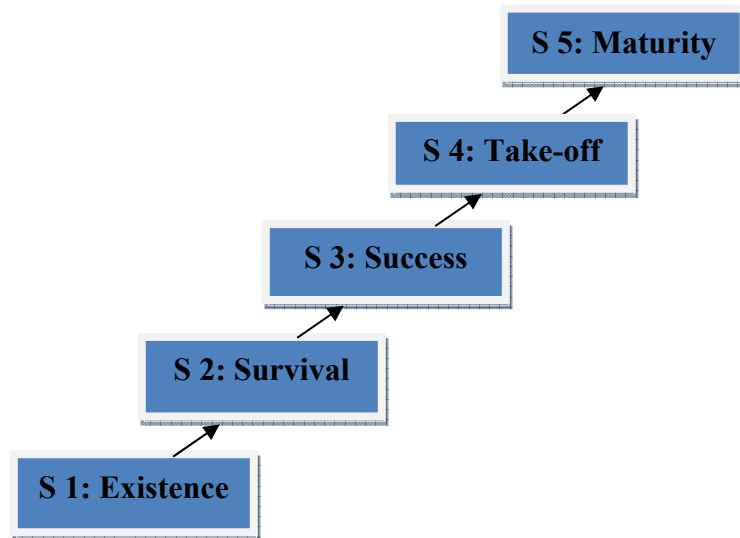
3.4.1 Micro Enterprise Development Model

Despite the relevance of the entrepreneur's viewpoint, MEs continue to be focused of much attention. However they are defined, MEs exhibit considerable variety. In considering them and in particular in trying to establish their needs and the issues facing them it can be helpful to try to distinguish groups or categories of them with common characteristics. One of the usual ways of categorizing businesses has been by the stages of their development (Bridge *et al.* 2009). There are many models of the different stages and the sequence in which the businesses occur, but the reality is that very few businesses actually follow the models. Many of the models in the way they are presented imply steady growth, for instance by presenting a steadily rising line on a plot with axes of size and time. Growth however is not the norm, and where there is growth, it is generally achieved through a number of discrete steps, rather than by a steady, even progression.

Churchill and Lewis Model of Business Development

Because the development process is not divided by natural boundaries, there is no single, generally accepted business development model. Many different ways have been suggested of segmenting the development of a business. One of the most used models is Churchill and Lewis model. Churchill and Lewis (1983) proposed a model of five stages for business growth. This study considered this model as the best model for MED.

Figure 5: Stages of Business Development



Source: Churchill and Lewis 1983, and the author

Stage 1: Existence

In this stage organization structure is simple, where the owner does everything and supervises subordinates. Systems and formal planning are minimal to nonexistent. In this stage, the company's strategy is simply to remain alive. The owner is the major supplier of energy, direction and with relatives and friends and capital. Enterprises in the existence stage range from newly started restaurants and retail stores to high technology manufacturers that have yet to stabilize either production or product quality. The main problem in this stage is obtaining customers and delivering the product or service contracted for.

Stage 2: Survival

In the survival stage, the business has demonstrated itself as a workable entity. It has enough customers and satisfies them sufficiently with its products or services. The key

problem thus shifts from mere existence to the relationship between revenues and expenses. The organization structure is still simple, that have a limited number of employees supervised by a sales manager or a general supervisor. Formal planning is at best cash forecasting. The major goal is still survival and the owner is still synonymous with the business. In this stage, the enterprise may grow in size and profitability and move on to stage three.

Stage 3: Success

In this stage the owners try to exploit the company's accomplishment and expand or keep the company stable and profitable, providing a base for alternative owner activities. Thus a key issue is whether to use the company as a platform for growth or as a means of support for the owners as they completely or partially disengage from the company.

Stage 4: Take-off

In this stage the organization is decentralized and at least in part divisionalized, usually in either sales or production. The managers must be very competent to handle a growing and complex business environment. Both operational and strategic planning is being done and involves specific managers. The owner and the business have become reasonably separate, yet the company is still dominated by both the owner's presence and stock control. This is a pivotal period in a company's life. If the owner rises to the challenges of a growing company, both financially and managerially, it can become a LE, if not, it can be sold at a profit, provided the owner recognizes his or her limitations soon enough.

Stage 5: Maturity

The greatest concerns of a company entering this stage are: to consolidate and control the financial gains brought on by rapid growth and to retain the advantages of small size, including flexibility of response and the entrepreneurial spirit. An enterprise in this stage has staff and financial resources to engage in detailed operational and strategies

planning. The management is decentralized, adequately staffed and experienced. The owner and the business are quite separate, both financially and operationally.

According to Churchill and Lewis (1983), the above scheme can be used to evaluate all sorts of business situations, even those that at first glance appear to be expectations. A company's development stage determines the managerial factors that must be dealt with. Knowing the development stage and future plan of MEs enables managers, consultants and investors to make more informed choices and to prepare themselves and their companies of later challenges. While each enterprise is unique in many ways, all face similar problems and all are subject to great changes. That may well be why being an owner is so much fun and such a challenge. Other models, however, have additional stages that come either prior to or after the Churchill and Lewis model. A model proposed by the Forum of Private Business, for instance, does not stop at maturity, but includes the stages of 'decline' and 'termination' while the Krueger model recognizes that the commencement of trading is not itself the beginning of the process but that there are stages before the formation of a business which, while not strictly stages in the development of that particular business, are nevertheless relevant to the development of the entrepreneur and to an understanding of the inception of the business.

3.4.2 Micro Enterprise Development Training Activities

The evidence shows that provision of workforce training for the MEs has the potential to provide wide-ranging benefits to both employees and employers. Blundell *et al.* (1999) reported that employees, who make the use of employer-provided and vocational training, could expect their earnings to increase by at least 5%. Yet despite this evidence MEs considerably less likely to provide formal training for their employees than LEs. Kitching and Blackburn (2004), and Patton (2005) confirm that there is a plenty of evidence that employees of MEs receive less formal training than the employees of LEs. The reasons are: entrepreneurs are not aware of the benefits of training, they don't know that right training (cost and appropriateness) can be offered for MEs, and they also don't know that the negative attitude of the entrepreneurs towards training could be overcome (Storey and Greene 2010).

Lack of awareness of the benefits of training seems to be a legitimate barrier, but upon reflection it seems curious that entrepreneurs, who are often presumed to be able to identify and exploit opportunities, do not recognize and nurture the key skills of their workforce. Secondly, training is viewed as more expensive for MEs than the LEs (Beaver and Hutching 2004). Patton (2005) also suggests that another commonly held reason for the poor take up of training is that the available training is often inappropriate. For example, trainers may not offer a tailored programme that meets the need of MEs. He also suggests that there may be too many training programmes available, making it difficult for the MEs to identify the right training programme for their employees. However, these arguments fail to take account of the fact that the entrepreneurs have to continually make judgments about the cost, availability and appropriateness of a wide range of inputs of capital and labour. It is assumed that they are able to make appropriate decision on these matters and yet somehow be unable to make good decisions on formal training.

Entrepreneurs hold negative attitudes towards training. Matlay (1999) argued that the provision of MED training is strongly influenced by the characteristics of the entrepreneurs. Matlay (1999) found that training in MEs is most likely to take place where the entrepreneurs has educational qualifications, and since entrepreneurs were generally less likely to be educationally well qualified than those managing LEs, it is this which explains why MEs are less likely to train. Again, there will be entrepreneurs who are prejudiced against training but if they were, this would be expected in their proper performance and might be expected to lead to a change in behaviour. It is assumed that because LEs provide formal training for their employees and implicitly that they are 'better managed' than MEs, MEs should do likewise. On the other hand micro entrepreneurs are also less likely to undertake training for all than the managers of LEs. The reasons are entrepreneurs believe that they are successful because of their personality. Therefore, since personality is given, there is little point in training something that is not there, the best form of training is doing the job, and entrepreneurs might consider that the trainers are likely to be less entrepreneurial, so there is little

point in seeking training from people with inferior entrepreneurial skills (Storey and Greene 2010).

3.4.3 Financing Micro Enterprises

To some extent, ME financing vary from country to country. In many former communist countries in central and Eastern Europe the banking system has been very undeveloped and unreliable and especially when this is combined with the need to charge very high interest rates in times of high inflation the result had been that businesses there rarely used bank financing. Even in Western Europe, the use of bank financing varies from country to country. The majority of MEs however rely on internally generated funds to finance new activities. Moreover, NGO-MFIs are now financing MEs in developing countries. They mainly use Grameen Bank model of ME financing (micro credit) introduced by Noble Laureate Professor Dr Mohammad Yunus.

In many countries, there are claims that MEs are particularly disadvantaged because finding appropriate funding sources for them is harder than it is for LEs. There is no doubt that the difficulty of financing MEs is one of the most frequently heard complaints. The reasons are (Bridge *et al.* 2003): they are not a good risk; new MEs do not have track record; providing small amounts of money is not cost-effective; MEs lack security for loans; and MEs can be equity-averse.

3.4.4 Sources of Micro Enterprise Finances

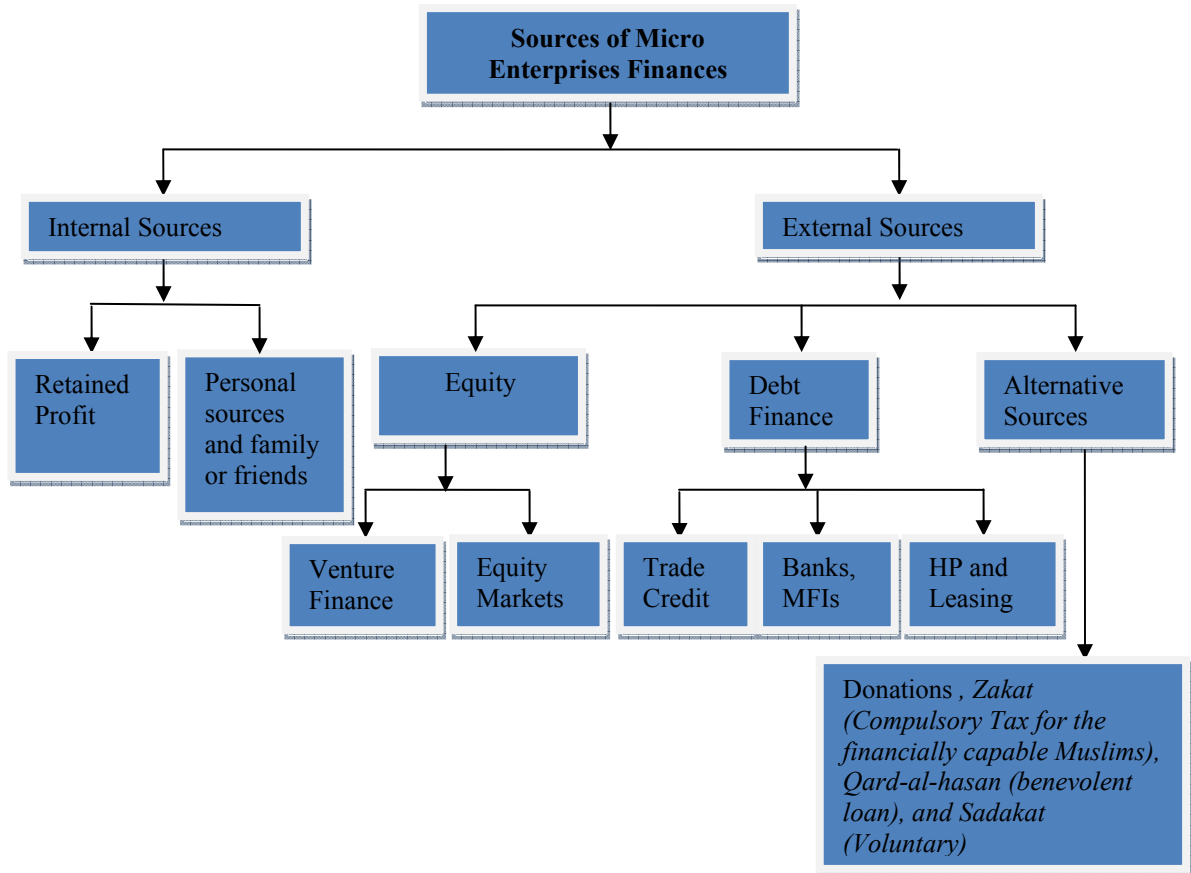
The sources of finances that are generally used by MEs, especially, when they are very small and are in the early stages of development, are the owners own savings or the resources of family and friends. The sources of ME finances are shown in the following figure. They are classified as internal and external.

Internal Sources

Internal sources include the personal equity of the entrepreneur, usually in the form of savings, remortgage, or perhaps money raised from family and friends. This is sometimes referred to as the '3Fs' of ME start-up finance that is, family, friends and

founder. After the initial start-up of the enterprise retained profits and earnings provide internal capital. Usually within MEs, it is normal for internal sources to provide the major proportion of the enterprise's capital and finance structure of MEs.

Figure 6: Various Sources of ME Finances



Sources: Bridge *et al.* 2009, Deakins and Freel 2006 and the Author

External Sources

The principal external sources are advances debt finances from banks, and other nonbanking NGO-MFIs, short-term trade credit, equity from venture capitalists and informal investors, hire purchase, leasing, and alternative sources. Alternative sources may include donations (charitable), *Zakat*, *Qard-al-hasan* and *Sadakāt*.

Donation

Donation is a gift given by physical or legal persons, typically for charitable purposes and/or to benefit a cause. Donation may be in various forms, including cash, services,

new or used goods including clothing, toys, food, and vehicles. It also may consist of emergency relief or humanitarian aid items, aid support, and can also relate to medical care needs as i.e. blood or organs for transplant. Charitable gifts of goods or services are also called gifts in kind. However, donations are gifts given without return consideration. Here in this model donation is used as a voluntary gift as of money mode to some worthwhile cause. The cause is employment creation to alleviate poverty.

Zakat

The Arabic word *zakat*, means growth and development, not charity or poor-due. Keeping this meaning in full view, *zakat* is a compulsory tax for the financially capable Muslims which is supposed to ultimately lead to growth and development of all human beings and it is supposed to remove the need for charity or poor-due in the long term. The economics of *zakat* and its relevance to modern times is a hotly debated issue in both the religious and liberal Muslims. It is one of the fundamental principles of Islamic value orientation pattern. *Zakat* is the third pillar of Islam. The Qur'an mentions *zakat* many times along with prayer *salat* to emphasize the importance of it. It does not literally imply giving away. It is the willingness of an obedient Muslim to part with a portion of the wealth in his possession (Mashreque and Nasrullah 2005; Begum 2004). Contrary to the beliefs of both religious and secular Muslims, the Prophet's achievements were based not on ephemeral but on the permanent values of the Holy *Quran*. He brought about the greatest revolution, even an economic and political miracle in human history (Hart 1992). In a very short time after the prophet migrated to Medina and implemented the system of *salaat* and *zakat*, the economic condition of the people changed. Prophet (sm) says: "if a single person were to sleep hungry in a town, then God's protection is lifted from such a town" (Described by Masnad Imam Ahmad). This *Hadith* emphasizes that no one (Muslim or non-Muslim) under this system should go hungry. Thus, *zakat* system created the first universal welfare system in the human history. It also gradually transformed the existing slave-based economy to a universal welfare-based economy. By the end of the Prophet's period, the entire Arabian Peninsula enjoyed economic as well as political security. This system reached its pinnacle during

Khalifa 'Umar's time, a time when history tells us, hardly anyone was in need of charity (Hart 1992).

Qard-al-hasan

The term *Qard-al-hasan* means benevolent loan, gratuitous loan, interest free loan, or beautiful loan. Chapra (1995) has defined *Qard-al-hasan* as a loan which is returned at the end of the agreed period without any interest or share in the profit or loss of the business". Therefore, *Qard-al-hasan* is a kind of gratuitous loan given to the needy people for a fixed period without requiring the payment of interest or profit.

Sadakat

The root meaning of *sadakat* is truth and power. It is anything that is given in the way of Allah *voluntarily* to prove one's promise and belief in Him as opposed to *zakat*, which is *compulsory*. Therefore, *sadakat* has a different purpose in Islam than *zakat* and both cannot be equated with each other. Initially, Allah asks us for *sadakat*, which is used to gradually change a wrong, unbalanced economic system (based on capitalist politics of greed) to a balanced one that guarantees equal economic opportunities and protection to all. The rich are asked to give their surplus wealth back to the nascent Islamic state for the benefit of the poor and suffering, the ones who really worked hard for creating that wealth in the first place (Mashreque and Nasrullah 2005).

Entrepreneurs face real difficulties in raising external finance. This is the great concern of the policy makers that has given rise to the range of assistance for the MEs and entrepreneurs. In the UK, MEs get soft loans from government bodies. Small scale loan schemes or micro credit schemes have also been established in the UK in deprived areas where it can be difficult for potential entrepreneurs to raise external finance because of limited wealth and personal savings. Start-up enterprises in such localities may also be seen as having greater risk than those in other localities by potential funders and may pay higher interest rates as a result (Deakins and Freel 2009).

3.5 Entrepreneur, Entrepreneurship and Entrepreneurship Development

Entrepreneurs play an important role in developing the economy of a country. Drucker (1970) says, entrepreneurs are those who always search for changes, responds to it and exploits it as an opportunity. Entrepreneurship is a process involving various actions to be undertaken to establish an enterprise. Schumpeter (1949) for the first time assigned a crucial role of innovation to the entrepreneurs in his magnum opus “Theory of Economic Development”. He considered ED as a discrete dynamic change brought by entrepreneurs by instituting new combinations of productions.

3.5.1 Entrepreneur and Entrepreneurship

Entrepreneurship is the character, practice, and skills that combine innovativeness, readiness to take risk, sensing opportunities, heightened initiative, perceiving and mobilizing potential resources, concern for standard of excellence, persistence in achieving the goal, positive orientation to problem solving and constant strive for growth and excellence. When all these attributes are developed in one person, the person becomes an entrepreneur (Akhouri 1990).

Entrepreneur

Cantillon (1971) an Irish man living in France, first introduced the word ‘entrepreneur’ in his unique risk bearing function in economics in the early 18th century. In French language, it meant to designate an organizer of musical or other entertainments. He defined entrepreneurs as an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. Furthermore, Say (1827) defines entrepreneur with the functions of coordination, organization and supervision. He opines an entrepreneur is he who combines the land of one, the labour of another and the capital yet of another and the thus produces a product.

By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his or her profit.

Entrepreneurs should have some basic skills, which are broadly known as managerial skills: identifying goods, services or activity for entrepreneurial career; development of a project which implies careful analysis and evaluation of different aspects of the projects; building their own enterprises, which place them in contact with the infrastructure, institutions and the policy environment. These require what are known as “coping capabilities”, i.e. ability to manage diverse at times difficult situations.

Entrepreneurship

Entrepreneurship has been a subject of much debated and discussed. While someone calls entrepreneurship as ‘risk bearing’, others view it ‘innovating’ and yet others consider it as ‘thrill-seeking’ (Khanka 2002). In a conference on entrepreneurship held in the USA, the term entrepreneurship was defined as: “entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition” (Kao and Stevenson 1984). Schumpeter (1949) considered “entrepreneurship as the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development”.

Knight (1921) and Drucker (1970) view entrepreneurship, as about taking risk. The behaviour of the entrepreneur reflects a kind of person willing to put his or her career and financial security on the line and take risks in the name of an idea, spending much time as well as capital on an uncertain venture. Despite its stress on the human factor in the production system, the Harvard tradition never explicitly challenged the equilibrium-obsessed orthodox economic theory. This was challenged by the neo-Austrian School, who argued that disequilibrium, rather than equilibrium was the likely scenario and as such, entrepreneurs operate under uncertain circumstances. The essence of entrepreneurship consists in the alertness of market participants to profit opportunities.

To sum up, entrepreneur is performing various functional roles such as risk taker, decision maker, organizer or coordinator, innovator, employer of factors of production, gap seeker and input completer, arbitrageur, etc. The most appropriate definition of entrepreneurship that would fit into the rural development context, argued here, is the broader one, the one which defines entrepreneurship as: “a force that mobilizes other resources to meet unmet market demands”, “the ability to create and build something from practically nothing”, “the process of creating value by pulling together a unique package of resources to exploit an opportunity”.

3.5.2 Types of Entrepreneurship

Baumol (1990) shows that each society, both in the past and in the present, displays three types of entrepreneurship: productive, unproductive and destructive.

Productive Entrepreneurship

It is the innovation leading to wealth creation and ED, which advances not only the individuals but also wider society. Baumol (1990) cites the historic example of the Cistercian monks of the middle ages. These monks were able to acquire land, invest in animal flocks, and create and maintain water mills.

Unproductive Entrepreneurship

It is some form of bureaucracy that typically benefits an individual but not necessarily society.

Destructive Entrepreneurship

It benefits the individual more than the society by bribery and corruption. Baumol (1990) suggest that both ancient Rome and medieval China one of the acceptable ways of gaining wealth was through political payments. Bribery and corruption are still a central problem in many societies. World Bank (2004) has estimated that \$1 trillion is paid in bribes every year, representing 3% of the worlds GDP.

Baumol (1990) points out that, entrepreneurs are always with us in every society. The task of the society is to ensure that the ‘rules of the game’ are such that the benefits to the individuals are greater by using a productive, rather than an unproductive or destructive entrepreneur. The implication of Baumol’s approach is that, society should not focus up on changing the attitudes of its people. Instead, it should seek to channel such individuals into productive, rather than destructive/unproductive activities. In short, there is never a shortage of entrepreneurs, merely an imperfection in their distribution between productive and unproductive or destructive activities.

For example, De Soto (1989) showed that in Peru many farmers did not legally own their land. Without legal title, they found it difficult to raise external finance. Getting insurance was also impossible, except from those offering protection. By policy makers giving legal title to farmers, Peru was able to begin the process of switching people from unproductive or destructive entrepreneurship and towards productive entrepreneurship. This emphasises that entrepreneurship is about making imperfectly informed choices. If entrepreneurs are those who set up a business, then individuals make a choice between setting up a business and other forms of activity, the most likely of which is being an employee, but it may take the form of illegal or criminal activity, unemployment or retirement. Of course, although the word choice is used in this context, it does not necessarily imply that this is a fully informed choice - the individual’s knowledge of their good or bad. This means that we must be clear about, precisely what we mean by entrepreneurship in order to be able to measure or quantify it. Only by doing so, we can understand whether there is any link between entrepreneurship and socio-economic welfare and if so how this might be measured (Storey and Greene 2010).

3.5.3 Determinants of Entrepreneurship: OECD View

The OECD Framework (2008) presents six determinants of entrepreneurship that public policy can influence. It is assumed that these determinants influence entrepreneurial performance, which then determines the impact of entrepreneurship policy. The following table shows the determinants with their policy area. The table shows that if a government decides that the country lacks an ‘enterprise culture’, it might seek to

influence attitudes to risk and how entrepreneurs are viewed in the society. A government may also decide that its R&D and technology need improvement. If so, it could seek to develop policies/programmes that aim to strengthen the university/industry interface, technology cooperation between businesses or how technology is diffused. The central point of these determinants is that there are many ways to improve culture or R&D/technology.

OECD (2008) indicates that there are three broad areas, where policy makers may see MEs and entrepreneurs making valuable contribution to the society. These are: job creation; economic growth; and poverty reduction. Again, there are wide choices open to the policy makers. So, for example, when unemployment is high policy makers might place greater emphasis upon indicators that reflect job creation; when the economy is in a steady-state there might be a greater focus on raising productivity, innovation or the growth rates of businesses.

Table 16: Different Determinants of Entrepreneurship

Determinants of Entrepreneurship					
Regulatory Framework	R&D and Technology	Entrepreneurial Capabilities	Enterprise Culture	Access to Finance	Market Conditions
Administrative burdens for entry	R&D investment	Training and experience of entrepreneurs	Risk attitude in society	Access to debt funding	Anti-trust laws
Administrative burdens for growth	University / Industry interface	Business and entrepreneurship education (skills)	Attitudes towards entrepreneurs	Business angels	Competition
Bankruptcy regulations	Technological cooperation between firms	Entrepreneurship infrastructure	Desire for business ownership	Access to VC	Access to domestic markets
Safety, health and environmental regulations	Technology diffusion	Immigration	Entrepreneurship education (mindset)	Access to other types of equity	Access to foreign markets
Product and labour market regulations	Broadband access			Stock markets	Degree of public involvement
Court and legal framework	Patent systems, standards				Public procurement
Social and health security					
Income, wealth, business and capital taxes					

Source: Storey and Greene 2010

3.5.4 Entrepreneurship Development: Some Theoretical Considerations

People may have knowledge, experience, money, management capability, but may lack the motivation for initiating new ventures. The entrepreneurial initiative is often associated with risk. Even if it is allied with risk, establishing new business, with available resources is important for increasing productivity and ED of a country. This requires cooperation in stimulatory supporting and sustaining activities. Hence, a favourable environment needs to be created by the government, non-government and incubator organization to develop entrepreneurship (Islam and Mamun 2000). Entrepreneur is the person with a vision, with the drive and with the ability to bear risk. He is the spark plug who transforms the economic scene. Hence, it is said that an economy is an affect for which entrepreneurship is the cause. Entrepreneurship development has therefore become a matter of great concern in the developed and DCs all over the world (Khanka 2002).

There are different theoretical understandings regarding development of entrepreneurship, which have been introduced in different times. All the theories keep pace with the emergence of new entrepreneurs and the importance of the entrepreneurs in socio-economic development of a country (Sexton 1997; Stewart 1991).

A. Entrepreneurship Development: Economic Theories

Entrepreneurs and entrepreneurship have been a point of interest to the different economists as early as 1755. However, the views of few classical economists on the role of Entrepreneurship in ED were against. According to them, there is no room for entrepreneurship for ED. Among them, Adam Smith, the foremost classical economist, assigned no significance to entrepreneurial role in ED in his monumental work, “An Enquiry into the Nature and Causes of the Wealth of Nations” published in 1776. David Ricardo, an English political economist, identified three factors of production in his theory of ED: machinery, capital and labour, among whom the entire produce is distributed as rent, profit and wages respectively. Ricardo appreciated the virtues of profit in capital accumulation. According to him, profit leads to savings of wealth,

which ultimately goes to capital formation. Thus according to both the classical economists, in ED there is no room for entrepreneurship and ED seems to be automatic and self-regulated. They took the attitude, “the firm is shadowy entity and entrepreneur even shadower or at least is shady when he is not shadowy” (Boulding 1960).

On the other hand, Cantillon (1755), Say (1827), Knight (1921), Schumpeter (1939), Kirzner (1978) and Casson (1982) were against the above economist’s opinion. They emphasized on the role of entrepreneurship in ED. Cantillon’s treatise *Essai* was published after a long time to his death in 1755 in English as *The Principles of Economics*. According to him (1755), “the more labour is expended on it (land), other things being equal, the more it produces.” He added, as the landlord contracts out the production of his lands to farmers, he creates entrepreneurs, and an economy develops with exchange, prices, money, and competition. The role of the entrepreneur is one of Cantillon's great contributions to economic understanding. He speaks of the entrepreneur in the classic sense of the undertaker of great business adventures. Say (1827) viewed the entrepreneur as one, who generally, but not necessarily, worked with his own or borrowed capital. He also viewed that an entrepreneur should possess judgement, perseverance, knowledge of the world and business and the ability to supervise and administer to become successful. Professor Knight (1921) viewed “entrepreneur earns profits because he undertakes risk”. The main function of an entrepreneur is to act in anticipation of future events. Uncertainty-bearing is essential to production; therefore it is factor of production and the reward for it is a part of normal cost of production. The profit is a payment for the assumption of risks the entrepreneur undertakes. Entrepreneur has to cope with the various challenges which is at once unknown and unpredictable i.e. there lies uncertainty. Schumpeter (1934) is the first major theorist to put the human agent at the centre of ED process. Schumpeter posits a single constitutive entrepreneurial function, “innovation”. According to him, both interest and profit arise from progressive change and would not exist in static society. Change in turn is the work of innovative businessman or entrepreneurs. Thus to Schumpeter the manager is an entrepreneur only while he was making creative or innovative response. Kirzner (1973) sees entrepreneurs in more mundane term. He

argues the principal role of entrepreneurs is to bring markets back into equilibrium. It is the disequilibrium in the market that creates the entrepreneurial opportunity. So the entrepreneur is moving the markets back towards equilibrium. Casson sees (1982) the key role of entrepreneurs as being to process information when that information is both costly and volatile. He argues that the economic environment is continuously distributed by outside events. The entrepreneur who runs a business has to respond to these events or shocks by making decisions and he makes the judgemental decision about the co-ordination of scarce resources.

B. Entrepreneurship Development: Psychological Theories

McClelland, Hagen and Kankel emphasise on the psychological aspect of entrepreneurship development. According to McClelland (1961), a person with a high need for achievement is usually found to have little interest in performing routine tasks or in situation of high risks. However, he shows keen interest in situation involving moderate risk, where skill counts. He has a desire for responsibility and a desire for concrete measure of task performance. McClelland stressed that mere ideological values did not directly lead to entrepreneurial behaviour. According to him, the ideological values influence the family socialization pattern, which in turn, produces the need for achievement, and results in entrepreneurial behaviour. According to him, these people continue in entrepreneurial activity because of an inner urge, a desire to achieve which propels them to take to entrepreneurial activities. Hagen's (1962) creative personality in an individual characterized by a high need for achievement, order and autonomy. Hagen's view does not lay any emphasis on the spread of market, capital accumulation, the perception of profitable opportunities and willingness to save. He views the entrepreneurs as a creative problem solver interested in things in the practical and technological realm, and driven by a duty to achieve. Hagen emphasises the point that, it is not only contact with the developed world, but the ability to use this knowledge that leads to economic growth and entrepreneurial development. Kunkel (1965) elaborated the behavioural model of entrepreneurial development. According to him, entrepreneurship is a function of the surrounding social structure both past and present and can be readily influenced by manipulable economic and social incentives. Kunkel's

theory based upon experimental psychology identified sociological variables as the determinants of entrepreneurial supply (Sharma 2002 and Khanka 2002).

C. Entrepreneurship Development: Sociological Theories

Weber, Cochran and Young emphasise largely on the sociological aspect of entrepreneurship development. Famous German social scientist Weber (1930) mentioned in his famous book *The Protestant Ethic and Spirit of Capitalism* that religious values are great hindrances for creating entrepreneurs. In fact, religious values recommend the practice of feudalism. However, after the era of feudalism, when capitalism was introduced a positive relation comes into existence between capitalistic system and religious values. Some mentioned that religious values could not create entrepreneurs rather create problem in the process of entrepreneur-creation. Weber opined, the energized entrepreneurs appear in the traditional economy and set in motion a revolutionary process of creative destruction. The key to competitive success for entrepreneurs is his innovation in a thoroughgoing rationalization of every aspect of his enterprise (Islam and Manun 2002). Cochran's (1970) view on entrepreneurship development are cultural values, role expectations and social sanctions. In his theory on the process of ED, entrepreneurs are not seen as being deviant or super normal individuals but rather as representing society's model personality. This model personality is moulded by prevailing child-rearing practices and schooling common to a given culture. The performance of a businessman, according to him, will generally be influenced by three factors: his own attitude toward his occupation; the role expectations held by the sanctioning groups; and the operational requirements of the job. The determinants for the first two factors are the society's values. Changes over time in such variables as population, technology and institutional drift will impinge on the role structure by creating new operational needs. Young's (1970) theory, shares the importance of personality factors. Young is mainly concerned with inter-group relations and his theory of change is based on the incorporation of reactive sub-groups of the society. He looks at entrepreneurship as an organizational phenomenon and observes: "whatever else it may be, ED involves a reorganization of productive resources, whether one things of it in institutional terms as the development of new forms such as modern

capitalization or whether one conceives of it as the succession of leading sectors. According to Young, instead of looking at individuals one must find clusters, ethnic communities, occupational groups or politically oriented functions. Naturally, not all of these will qualify as entrepreneurial groups, for to do so, they must show a certain creativeness or solidarity.

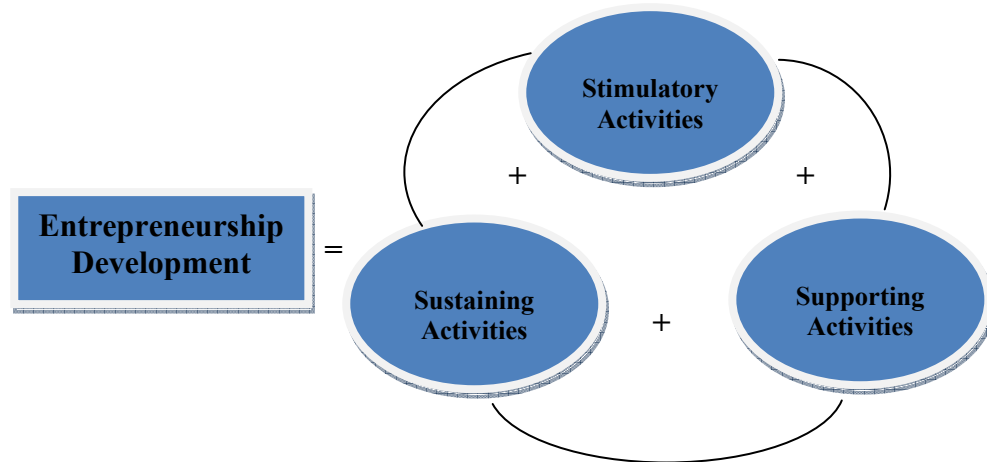
The above discussion on the theories of entrepreneurship development and entrepreneurial behaviour, highlights that entrepreneurial behaviour is a result of an interaction of individual factors and experiential factors; individuals differ in their potentiality for entrepreneurship; even a high degree of potential need not invariably result in entrepreneurial success; in view of this factors of training, institutional support and other factors assume importance. Policy makers may consider this and devise suitable measures to identify the right type of training, provide effective institutional support and devise suitable modes of evaluating the impact of such efforts (Sharma 2002 and Khanka 2002).

3.5.5 Entrepreneurship Development Process

Two major factors have played important roles in developing entrepreneurship: the development of human factor-entrepreneur himself, and the development of environment where entrepreneurial activities can flourish and grow. The human factor refers to the attitude, desire and motivation of an individual, his ability to perceive the environment changes and opportunities as well as his ability to solve problems, which he is likely to face. The training is effective in developing all these aspects of human factors provided it is planned well with balanced emphasis on all the aspects (Akhaouri 1990). An analysis of the entrepreneurship development process reveals that it follows a sequence of development of individual personality, capabilities and abilities. The first generation of entrepreneurs require developing: entrepreneurial quality/motivation; capability for enterprise launching/resourcing; ability for enterprise management; and sense of responsibility to the society that promotes/supports them.

The process follows a cycle consisting of stimulatory, support and sustaining activities. The following figure shows the cycle in brief:

Figure 7: Entrepreneurship Development Cycle



Source: Author

Stimulatory Activities

The stimulatory activities ensure the supply of entrepreneurs ready to take initiative and organize their enterprises by taking risks.

Support Activities

The support activities, however, provide infrastructural facilities, resources, ability and skills to entrepreneurs for enterprise launching and management.

Sustaining Activities

The sustaining activities refers to all such efforts that facilitates growth and continuity through expansion, modernization, diversification, technology up-gradation of on-going healthy enterprises and opportunities for rehabilitation of those enterprises which are not doing well. Each group of activity is highly interacting, supplementary and crucial to each other. The absence or negligence of anyone may render the whole effort as anfractuous.

The following table shows the different activities of entrepreneurship development cycle at a glance:

Table 17: Different Activities of Entrepreneurship Development Cycle

Sl. No	Stimulatory Activities	Support Activities	Sustaining Activities
1	Entrepreneurial education and planning of Entrepreneurial opportunities	Registration of the unit	Modernization
2	Identification of potential entrepreneurs	Arrange finance for working and fixed capital for plant and equipment	Diversification
3	Motivational and implant training to new entrepreneurs	Provide land, shed, power, water etc.	Expansion
4	Help and guidance in selecting the product and preparing reports	Help and guidance in selecting and obtaining machinery	Additional financing for full capacity utilization
5	Make available techno-economic information and feasible product profiles	Supply scarce raw materials and/ or import licences	Deferring repayment/ interest
6	Evolve new products and processes suitable to the local situation	Provide common facilities	Diagnostic industrial extension/ consultancy/ activities
7	Train officers to create local agencies for entrepreneurial counselling and promotion	Help in getting tax relief and other types of subsidy	Change/ modification in legislation/ policy for protection/ recognition of enterprises
8	Organize entrepreneurial forums	Other management consultancy including help in marketing the product	Create new avenue for marketing

Source: Akhaouri 1990 and author

All the activities are collectively important for the growth and development of MEs. The sustaining activities particularly should be emphasized for effective balance. But, the early history of entrepreneurship development, particularly in the DCs, reveals the imbalanced emphasis on stimulatory, support and sustaining activities (Akhaouri 1990). Therefore during the 1990's one can expect greater emphasis on: extension efforts for ensuring expansion, diversification, modernization of stagnating MEs and rehabilitation of those MEs that are not doing well; development of greater diagnostic and counselling skills among the industrial extension workers; efforts to resolve issues related to success and failure concept by distinguishing entrepreneurship from entrepreneurs; generating appreciation among support agencies about the inherent susceptibility towards sickness; and balanced emphasis on all stimulatory, support and sustaining activities.

The promoters of entrepreneurship are expected to develop the capacity among the potential entrepreneurs to examine the opportunity carefully and select their goods and services. There may be greater need to exchange the experiences from different countries in the field of MED. New strategies are likely to be evolved with rational application of creativity and technology (Barua 1993).

3.6 Economic Development

ED is a broad term that generally refers to the sustained, concerted effort of policymakers and community to promote the standard of living and economic health in a specific area. Such effort can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. The scope of ED includes the process and policies by which a nation improves the economic, political, and social well-being of its people (O'Sullivan and Sheffrin 2003). The *University of Iowa's Center for International Finance and Development* states that:

'ED' is a term that economists, politicians, and others have used frequently in the 20th century. The concept, however, has been in existence in the West for centuries. Modernization, Westernization, and especially Industrialization are other terms people have used when discussing economic development. Although no one is sure when the concept originated, most people agree that development is closely bound up with the evolution of capitalism and the demise of feudalism (Conteras CIFD 2010).

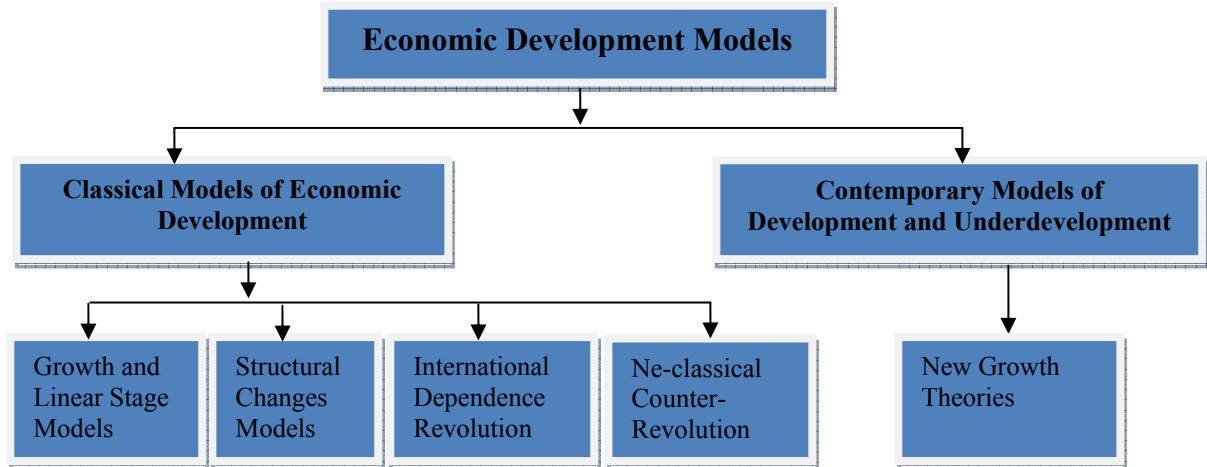
However, as a concept, ED can be seen as a complex multi-dimensional concept involving improvements in human well-being.

3.6.1 Economic Development: Some Theoretical Considerations

ED is a multidimensional process involving the reorganization and reorientation of entire economic, social and administrative structures as well as in popular attitudes and in many cases even customs and beliefs. In the historical and intellectual evolution in scholarly thinking about ED, we find four major classical and often competing theories

in the literature. There are newer models of development and underdevelopment as well. The following figure shows the major ED models:

Figure 8: Various Economic Development Models



Source: Todaro and Smith 2006

3.6.2 Classical Models of Economic Development

The post-World War II literature on ED has been dominated by four major and sometimes competing strands of thoughts: A) Growth and the Linear Stage Models; B) Structural Changes Models; C) International Dependence Revolution and D) Neo-Classical Counter-revolution.

A. Growth and the Linear Stage Models

Theorists of the 1950's and early 1960's viewed the process of development as a series of successive stages of economic growth through which all countries must pass. It was primarily an economic theory of development in which the right quantity and mixture of savings, investment and foreign aid were all that was necessary to enable developing nations to proceed along to economic growth path that had historically been followed by the more developed countries. Development thus became synonymous with rapid, aggregate economic growth (Todaro and Smith 2006). The following are the competent growth and linier stage theories of ED.

Rostow's Model: Stages of Economic Growth

The American economic historian Rostow (1960) suggested, the transition from underdevelopment to development can be described in terms of a series of steps or stages through all countries must proceed. According to Rostow, as he described in his book:

“it is possible to identify all societies, in their economic dimensions, as lying within one of the five categories: the traditional society, the condition for take-off into self-sustaining growth, the take-off, the drive to maturity, and the age of high mass consumptions. These stages are not merely descriptive. They are not merely a way of generalizing certain factual observations about the sequence of development of modern societies. They have an inner logic and continuity. They constitute, in the end, a theory about economic growth and a more general, if still highly partial, a theory about modern history as a whole” (Todaro and Smith 2006).

The advanced countries, it was argued, had all passed the stage of “take off into self sustaining growth” and the underdeveloped countries that were still in either the traditional society or the “pre-conditions” stage had only to follow a certain set of rules of development to take off in their turn into self-sustaining economic growth. Rostow also argued development requires substantial investment in capital. But for the economies of LDCs to grow the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs at take-off stage the economy needs to have reached in self-sustaining stage. If the stage self-sustaining stage has been reached then injections of investment may lead to rapid growth.

Many development economists argue that Rostow's model was developed with Western cultures in mind and not applicable to LDCs. In addition its generalised nature makes it somewhat limited. It does not set down the detailed nature of the pre-conditions for growth. In reality policy makers are unable to clearly identify stages as they merge together. Thus as a predictive model it is not very helpful. Perhaps its main use is to highlight the need for investment.

Harrod-Domar Model of Economic Growth

The Harrod-Domar Model developed independently by a synthesis of analyses of growth process by two economists, Sir Roy Harrod of Britain and E.V. Domar of the USA in the 1930s, delineates a functional economic relationship. The Harrod-Domar model in the early post-war times was commonly used by DCs in economic planning, with a target growth rate while the required saving rate is known. If the country is not capable of generating that level of saving, a justification or an excuse for borrowing from international agencies can be established. The Harrod-Domar model helps analyzing the business cycle, as well as, 'explains' economic growth. It concluded that economic growth depends on the amount of labour and capital. As LDCs often have an abundant supply of labour, it is a lack of physical capital that holds back economic growth and development. More physical capital generates economic growth. Net investment leads to more capital accumulation, which generates higher output and income. Higher income allows higher levels of saving. The key to economic growth is to expand the level of investment both in terms of fixed capital and human capital. To do this, policies are needed that encourage saving and/or generate technological advances which enable enterprises to produce more output with less capital i.e. lower their capital output ratio.

B. Structural Change Models

The linear stages approach was largely replaced in the 1970's by structural changes models, one of the two competing economic schools of thought in this era which focus on theories and patterns of structural change, used modern economic theory and statistical analysis in an attempt to portray the internal process of structural change by which underdeveloped countries transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanized, and more industrially diverse manufacturing and service economy that a "typical" DC must undergo, if it is to succeed in generating and sustaining a process of rapid economic growth. The well known structural change models are the "two sector surplus labour" of Arthur Lewis and the "patterns of development" of Hollis B Chenery. These are described below:

Two-sector Surplus Labour Theory

One of the best known early theoretical models of development that focuses on the structural transformation of a primarily subsistence economy was that formulated by Nobel Laureate Lewis in the mid 1950s and later modified, formalized and extended by Fei and Ranis. This model of Lewis became the general theory of development process in surplus labour in DCs during most of the 1960s and early 1970s. It still has many adherences today (Barro and Sala-i-Martin 2003). This classical model takes the peculiar economic situation in DCs into account: unemployment and underemployment of resources (especially labour) and the dualistic economic structure (modern vs. traditional sectors). This model uses the classical assumption of subsistence wage. Here it is understood that the development process is triggered by the transfer of surplus labour in the traditional sector to the modern sector in which some significant economic activities have already begun. The modern sector entrepreneurs can continue to pay the transferred workers a subsistence wage because of the unlimited supply of labour from the traditional sector. The profits and hence investment in the modern sector will continue to rise and fuel further economic growth in the modern sector. This process will continue until the surplus labour in the traditional sector is used up, a situation in which the workers in the traditional sector would also be paid in accordance with their marginal product rather than subsistence wage. The existence of surplus labour gives rise to continuous capital accumulation in the modern sector. In this model, saving and investment are driving forces of ED. This is in line with the Harrod-Domar model but in the context of LDCs.

Structural Change and Patterns of Development

Like the earlier Lewis model, the patterns of development analysis of structural change focuses on the sequential process through which the economic, industrial and institutional structure of an underdeveloped economy is transformed over time to permit new industries to replace traditional agriculture as the engine of economic growth. However, in contrast to the Lewis model and the original stages view of development, increased savings and investments are perceived by patterns of development analysis as

necessary but not sufficient condition for economic growth. In addition to accumulation of capital, both physical and human, a set of interrelated changes in the economic structure of a country are required for the transition from a traditional economic system to a modern one. These structural changes involve virtually all economic functions, including the transformation of production and changes in the composition of consumer demand, international trade, and resource use as well as changes in socioeconomic factors such as urbanization and the growth and distribution of a country's population.

Empirical structural change analysts emphasize both domestic and international constraints on development. The domestic ones include economic constraints, such as country's resources endowment and its physical and population size as well as institutional constraints such as government policies and objectives. International constraints on development include excess to external capital, technology and international trade. Differences in development level among DCs are largely ascribed to these domestic and international constraints. However, it is the international constraints that make the transition of currently DCs differ from that of now industrialized countries. To the extent that DCs have access to the opportunities presented by the industrial countries, as sources of capital, technology and manufactured imports as well as markets for exports, they can make the transition at an even faster rate than that achieved by the industrial countries during the early periods of their ED. Thus unlike the earlier stages model, the structural change model recognizes the fact that DCs are the part of an integrated international system that can promote as well as hinder their development. The best known model of structural change is the one based largely on the empirical work of the late Harvard economists Chenery and his colleagues (1975) who examined patterns of development for numerous DCs during the post-war period.

C. International Dependence Revolution

During the 1970s, international dependence models gained increasing support, especially among developing country intellectuals, because of growing disenchantment with both the stages and structural-change models. Essentially, international dependence models view DCs as beset by institutional, political and economic rigidities both

domestic and international, and caught up in a dependence and dominance relationship with rich countries. Within this general approach, there are three major streams of thought: the neo-colonial dependence model, the false paradigm model and the dualistic development thesis (Todaro and Smith 2006).

The Neo-colonial Dependence Model

The Neo-colonial Dependence model is an indirect outgrowth of Marxist thinking. It attributes the existence and continuation of underdevelopment primarily to the historical evolution of a highly unequal international capitalist system of rich country-poor country relationships. Whether because rich nations are intentionally exploitative or unintentionally neglectful, the coexistence of poor and rich nations in an international system dominated by such unequal power relationship between the centre (the developed nations) and the periphery (LDCs) renders attempts by poor nations to be self-reliant and independent difficult and sometimes even impossible. Certain groups in DCs including landlords, entrepreneurs, military rulers, merchants, salaried public officials, and trade union leaders, who enjoy high incomes, social status, and political power, constitute a small elite ruling class whose principal interest knowingly or not is the perpetuation of the international capitalist system of inequality and conformity in which they are rewarded. Directly or indirectly, they serve and are rewarded by international power groups, including multinational corporations, national bilateral-aid agencies, and multilateral assistance organizations, like the World Bank or the IMF, which are tied by allegiance or funding to the wealthy capitalist countries. In short, the neo-Marxist, neo-colonial view of underdevelopment attributes a large part of the developing world's continuing poverty to the existence and policies of the industrial capitalist countries of the northern hemisphere and their extensions in the form of small but powerful elite groups in the developed countries.

The False Paradigm Model

The false paradigm model is a less radical international dependence approach to development which attributes underdevelopment to faulty and inappropriate advice provided by well-meaning but often un-uniformed, biased, and ethnocentric

international expert advisers from developed country assistance agencies and multinational donor organizations. These experts offer sophisticated concepts, elegant theoretical structures and complex econometric models of development those often lead to inappropriate or incorrect policies. Because of institutional factors such as the central and remarkably resilient role of traditional social structures (tribe, caste, class etc.) the highly unequal access to credit, these policies based as they often are on mainstream, neoclassical models, in many cases merely serve the vested interests of existing power groups, both domestic and international. In addition, according to this argument, leading university intellectuals, trade unionists, high-level government economists, and other civil servants all get their training in the developed countries where they are unwittingly served an unhealthy dose of alien concepts and elegant but inapplicable theoretical models. Having little or no useful knowledge to enable them to come to grip real development problems in effective way, they often tend to become unknowing or reluctant apologists for the existing system of elitist policies and institutional structures. As a result, desirable institutional and structural reforms are neglected.

Dualistic Development Thesis

Implicit in structural-change theories and explicit in international-dependence theories is the notion of a world of dual societies, of rich and poor nations and in the DCs, pockets of wealth within broad areas of poverty. Dualism represents the existence and persistence of increasing divergences between rich and poor nations and rich and poor people on various levels. Specifically the concept of dualism embraces four key arguments: different sets of conditions of which some are “superior” and others “inferior” can co-exist in a given space; this co-existence is chronic and not merely transitional; it is not due to a temporary phenomenon in which case time could eliminate the discrepancy between superior and inferior elements; and international co-existence of wealth and poverty is not a simply a historical phenomenon that will be rectified in time. The interrelations between the superior and inferior elements are such that the existence of the superior elements does little or nothing to pull up the inferior elements, let alone “trickle down” to it. In fact, it may actually serve to push it down to “develop its underdevelopment”.

D. Neo-classical Counter-revolution

Throughout much of the 1980's and the early 1990's a fourth approach prevailed. Which is called neo-classical, sometimes called neo-liberal; counterrevolution in economic thought emphasized the beneficial role of free markets, open economies and the privatization of insufficient public enterprises. In developed nations, this counterrevolution favoured supply-side macroeconomic policies, rational expectations theories, and privatization of public corporations. Especially in the 1980s USA, Canada, Britain, and (West) Germany came with this theory. In DCs, it called for freer markets and the dismantling of public ownership, statist planning and government regulation of economic activities. The neo-classical challenge to the prevailing development orthodoxy can be divided into the following three approaches (Todaro and Smith 2006):

The Free Market Approach

This approach argues that markets alone are efficient – product markets provide the best signals for investments in new activities; labour markets respond to these new industries in appropriate ways; product know best what to produce and how to produce it efficiently and product and factor prices reflect accurate scarcity values of goods and resources now and in the future. Competition is effective, if not perfect; technology is freely available and nearly costless to absorb; information is also perfect and nearly costless to obtain. Under these circumstances, any government intervention in the economy is by definition distortionary and counterproductive. Free market development economists have tended to assume that developing-world markets are efficient and that whatever imperfections exists are of little consequence.

The Public Choice Approach

This approach is also known as new political economy approach. It goes even further to argue that governments can do nothing right. This is because public choice theory assumes that politicians, bureaucrats, citizens, and states act solely from a self interested perspective, using their power and the authority of government for their own selfish end. Citizens use political influence to obtain special benefits (called rents) from government

policies (e.g. import licenses or rationed foreign exchange) that restricts access to important resources. Politicians use government resources to consolidate and maintain positions of power and authority. Bureaucrats and public officials use their positions to extract bribes from rent-seeking citizens and to operate protected businesses on the side. Finally, states use their power to confiscate private property from individuals. The net result is not only a misallocation of resources but also a general reduction in individual freedoms. The conclusion therefore is that minimal government is the best government.

The Market Friendly Approach

This is the most recent variant on the neoclassical counterrevolution. It is associated principally with the writings of the World Bank and its economists, many of whom were more in the free-market and public choice camps during the 1980s. This approach recognizes that there are many imperfections in LDC product and factor markets and that governments do have a key role to play in facilitating the operation of markets through “non-selective” (market friendly) interventions, for example, by investing physical and social infrastructure, health care facilities, and educational institutions and by providing a suitable climate for private enterprise. The market-friendly approach also differs from the free market approach and public choice approach by accepting the notion that market failure are more widespread in DCs in areas such as investment coordination and environmental outcomes. Moreover, phenomena such as missing and incomplete information, externalities in skill creation and learning, and economies of scale in production are also endemic to LDC markets.

Traditional Neoclassical Growth: Solow Model

Another counter stone of the neoclassical free market argument is the assertion that liberalization of national markets draws additional domestic and foreign investment and thus increases the rate of capital accumulation. In terms of GDP growth, this is equivalent to raising domestic savings rates, which enhances capital-labour ratios and per capita incomes in capital-poor DCs. The neoclassical growth model of Robert Solow, the Nobel Laureate in economics, represented the seminal contribution to the neoclassical theory of growth. This theory places emphasis on the role of technological

change. Unlike the Harrod-Domar model, the saving rate will only determine the level of income but not the rate of growth. The sources-of-growth measurement obtained from this model highlights the relative importance of capital accumulation (as in the Harrod–Domar model) and technological change (as in the neoclassical model) in economic growth (Chen 1979). However, when looking at the growth rate put forward from the neoclassical growth model, it seems to suggest that countries with same characteristics and technology will eventually converge to the same rate of growth. However, one should know that the knowledge presented in countries that promotes technological advancement is not stationary, that means knowledge is linked to individual and not to the country.

3.6.3 Contemporary Models of Development and Underdevelopment

After more than a half century of experience with attempting to encourage modern development, we have learned that development is both possible and extremely difficult to achieve. Thus, an improved understanding of impediments and catalysts of development is of the utmost importance. Since the late 1980's significant strides have been made in the analysis of ED and underdevelopment. This analysis has led to an entirely new insights into is what makes the study of ED so hard to achieve (as witnessed in sub-Saharan Africa) but also possible (as witnessed in East Asia) to achieve (Todaro and Smith 2006). The most influential of the new contemporary models of ED that are also known as new growth theories are summarized below:

New Growth Theories

The poor performance of neoclassical theories in illuminating the sources of long-term economic growth has led to dissatisfaction with traditional growth theory and the emergence of new growth theories. The following Romer model and O'Ring model are mentionable among them.

Romer Model

Romer endogenous growth model addresses technological spillovers that may be present in the process of industrialization. Thus, it is not only the seminal model of endogenous

growth but also particularly relevant for DCs. Romer's (1992) model keeps innovation in modelling technology spillovers-without presenting unnecessary details of savings determination and other general equilibrium issues.

O-Ring Model

It is an innovative and influential model that provides important insights into low-level equilibrium traps which was provided by Michael Kremer (1993). The notion is that the modern production especially in contrast to traditional crafts production requires that many activities be done well together in order for any of them to amount to high value. The key feature of the O-Ring model is the way it models production with strong complementarities among inputs. The most prominent feature of this type of production function is termed positive assortative matching. This means that workers with high skills will work together and workers with low skills will work together. To compare economies by this model, this type of matching means that high value products will be concentrated in countries with high value skills. In this model, everyone would like to work with the more productive workers. There are five major assumptions of this model: firms are risk-neutral, labour markets are competitive, workers supply labour in elastically, workers are imperfect substitutes for one another, and there are sufficient complementarities of tasks.

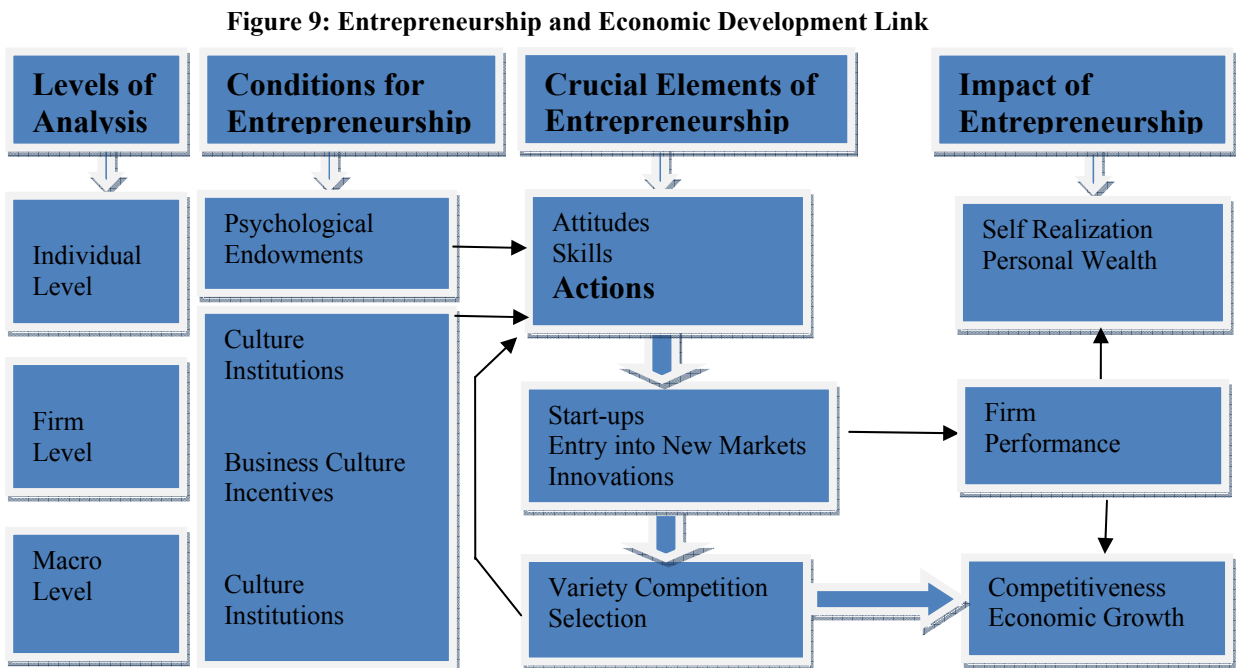
An important shortcoming of the new growth theories is that it remains dependent on a number of traditional neoclassical assumptions that are often inappropriate for LDC economies. For example, it assumes that there is but a single sector of production or that all sector are symmetrical. This does not permit the crucial growth-generating reallocation of labour and capital among the sectors that are transformed during the process of structural change. Moreover, economic growth in DCs is frequently impeded by inefficiencies arising from poor infrastructure, inadequate institutional structures and imperfect capital and goods markets.

3.7 Linking Entrepreneurship to Economic Development

Entrepreneurship is generally accepted as a necessary condition for sound and long-term ED (Carree and Thurik 2003). Entrepreneurs introduce new production processes in which the existing firms are forced to innovate in order to survive and face the pressure generated by the new firms. As a result, entrepreneurship has a rejuvenating effect on economies. This theoretical relationship has shown a positive effect between entrepreneurship and economic growth (Praag *et al.* 2007). However, it is still an open question whether entrepreneurship has the same positive role in DCs as it has in the developed world (Koster and Rai 2008). It is very important when viewing the role of policy and how it might influence the achievement of objectives, to have some kind of picture of how key components and elements in the system relate to one another. Nevertheless, if ED is an objective, an apparent relationship between entrepreneurship and ED might suggest that an entrepreneurship policy should at least be tried. However, it is evident that there is still some way to go before there is such an understanding of how our economic systems operate. Specifically, the nature and functioning of the link between individuals, entrepreneurship and ED is not yet adequately understood. Therefore, it is not surprising, that there is also a general lack of clarity about whether and how to develop integrated entrepreneurship and MEDPs. Perhaps more important than the immediate contribution MEs make to employment and income generation, is the widely held belief that there exists a positive link between entrepreneurship and ED. In addition, while entrepreneurship is not the exclusive province of MEs the two are often conflated in policy and academic discussions. To this end MEs are thought to act as agents of change and are the sources of considerable innovative activity (Acs and Audrestch 1990). A vibrant ME sector stimulates industry evolution and generates a disproportionate share of new jobs. Accordingly, Wennekers and Thurik (1999) observe, 'many economists and politicians now have an intuition that there is a positive entrepreneurship on the growth of GDP and employment. Unfortunately, this 'intuition' has yet to be unequivocally supported by empirical evidence (Deakins and Freel 2009).

3.7.1 Model of Entrepreneurship and Economic Development Link

Wennekers and Thurik (1999) have presented a framework for linking entrepreneurship to economic growth and development. Lundstrom and Stevenson (2001) also illustrated the model in their paper. The historical views of entrepreneurship by Schumpeterian and Austrians are explicitly relevant for explaining economic growth. On the other hand, the neo classical views have no explicit room for the role of an active entrepreneur. The endogenous growth theory may offer new theoretical perspectives for entrepreneurship, as, yet it does not offer any concrete starting points. Economic history is the foremost field in which entrepreneurship is considered crucial for the economic growth of nations. The microeconomic level of management literature of large organizations devotes explicit attention to the importance of entrepreneurship for performance. Porter’s work offers distinctive starting points for the role of entrepreneurship in explaining ED of nations. In the work of Eliasson, entrepreneurship is also considered crucial for ED (Wennekers and Thurik 1999). The following figure shows the link between entrepreneurship and ED.



Source: Wennekers and Thurik (1999) and Lundstrom and Stevenson (2001)

In discussing the above model Wennekers and Thurik (1999) concentrated on entrepreneurship, economic growth and what links them together. According to them, linking entrepreneurship to economic growth also means linking the individual level to the firm and macro level. Entrepreneurship is a concept operational at the individual level. While requiring skills and other qualities essentially entrepreneurship has to do with behaviour. Entrepreneurial actions take us to the firm level. Entrepreneurs need a vehicle to transform their qualities and ambitions into actions. MEs where the entrepreneurs have a controlling stake provide such a vehicle. LEs often mimic smallness using organizational form like business units, subsidiaries or joint venture, to introduce corporate entrepreneurship. The outcome of these entrepreneurial manifestations at the firm level generally has to do with newness. This newness can be through product, process and organizational innovation, entry of new markets and innovative business start ups (Lundstrom and Stevenson 2001).

At the aggregate level of industries, regions and national economies the many individual entrepreneurial actions compose a mosaic of new experiments, which can be called variety in evolutionary terms. A process of competition between these various new ideas and initiatives takes place continuously, leading to the selection of the most viable firms and industries. Variety, competition, selection and imitation expand and transform the productive potentials of a regional or national economy. They enhance its international competitiveness and thereby its market share. Viewed from within a closed economy or the world economy as a whole, one could say that the additional productive potential in a competitive environment would create its own demand. Wennekers and Thurik (1999) assume that the outcome of this chain of variables linking the individual level to the macro level will be economic growth.

Next to the linkages from the individual level to the aggregate level, it is likely that there are important feedback mechanisms. Competition and selection amidst variety undoubtedly enable individuals and firms to learn from both their own and others failure and successes. These learning processes enable individuals to increase their skills and adapt their attitudes. The outcome of these so-called spillovers will be new

entrepreneurial actions, creating a recruitment chain of linkages. The outcome of these dynamic processes depends in a set of conditions. Given the psychological endowments of the population, conditions refer to the environment in which an individual carries out his or her entrepreneurial activities. First, this refers to the national or regional cultural environment, and to the internal culture of corporations. The linkages between culture and entrepreneurship are by no means simple and straightforward, and much is still unknown about these processes. As the history of the rise and fall of nations has shown cultural vitality thriving sciences and high tide in entrepreneurship often coincide. Secondly, the institutional framework both on the national level and within the enterprises defines the incentives for individuals to turn their ambitions into actions, and determines to what extent unnecessary barriers will hamper them. Both culture and institutional framework are important conditions codetermining the amount of entrepreneurship in an economy and the way in which entrepreneurs operate in practice. Finally, the outcome of this process, the impact of entrepreneurship on ED depends on the level of firm performance and that if the development of national industries and economies (Wennekers and Thurik 1999).

However, based on GEM data Wong (2005) shows that having a higher degree of entrepreneurship or new business creation prevalence does not guarantee enhanced economic performance and faster rate of economic growth. This is seen from the irrelevance of the overall total entrepreneurship activity rate which defines entrepreneurship in broad terms: the propensity to be involved in start-up attempts and to manage-own newly created businesses. This suggests that at the microeconomic level, only certain activities and functions of entrepreneurs may stimulate growth.

3.8 Summary

This chapter discussed the core concepts of this study. The discussion shows that MEs are very diverse in nature. The definitions of MEs both in DCs and developed countries are discussed. The discussion shows that MEs have some common characteristics: shortage of cash, single market, small number of customers, independence, personal

influence, etc which are distinctive than the LEs. This chapter also highlighted that the socio-cultural perspectives of MEs, such as enterprise culture, ME stakeholders, play a great role in developing MEs. The chapter also pointed out that, lack of appropriate training and development activities and sufficient finance, MEs may terminate from the growth track before maturity. Discussion show that MEs are treated not a good risk, as they have no good track record. They require small amount of money. Financers are not willing to provide such an small amount. MEs lack security of loans though they have different sources of finances. FIs such as commercial banks are not willing to finance MEs, which are very small, micro and tiny. They intend to finance medium and LEs. However, nowadays, non-banking NGO-MFIs are one step ahead than the banks to finance those MEs, as they consider ME sector is a good area of investment. Discussion also shows that there are some alternative sources of ME finances, such as *Zakat*, *Qard-al-hasan*, *Sadakat* and donations. These sources can be used in financing MEs. However, there is a need of an appropriate model to use these sources for ME financing. This issue is further discussed in details in the later chapters.

This chapter also illustrated the concepts of entrepreneurship development and ED . The discussion shows that entrepreneurs play an important role in ED. An entrepreneur is he who creates something new, organized production and undertakes the risks of economic uncertainty involved in an enterprise. He is the person who plays an important role in developing the economy of a country. On the other hand, entrepreneurship is the purposeful activity of an entrepreneur or a group of entrepreneurs undertaken to imitate or aggrandize profit by production or distribution of economic goods and services. An entrepreneur might be productive, unproductive or destructive. Different views of entrepreneurship development have different views. This chapter briefly discusses the views of economists, psychologists and sociologists on entrepreneurship development. For example classical economists opined there is no room for entrepreneurship in ED. But the economists like Cantilon, Schumpeter, and Say emphasized on the role of entrepreneurship on ED. They emphasize on small scale entrepreneurship development for the DCs as they lack resources and advanced technology. On the other hand, views of McClelland, Hagen and Kunkel on entrepreneurship development are psychological

and while Max Weber, Frank Young and Cochran emphasized on the sociological aspects of entrepreneurship development. They highlighted that entrepreneurial behaviour is an interaction of individual factors and individuals differ in their potentiality for entrepreneurship. Therefore, policy makers may consider these to devise their MED plans and programmes.

This chapter also highlighted ED theories. Discussion shows that all most all the ED theories emphasized on income generation and employment creation to increase GDP per capita and increase the standard of living of the peoples in one sense. Dominating ED theories in the literature can be classified as classical theories and contemporary theories. Classical theories emphasize on capital formation and use of surplus labour. These theories focus on using the huge supply of surplus labour in the DCs in different income generating activities. The contemporary theories emphasize more on market and product information and advanced technology. All the theories have their own limitations. This is the responsibility of the concerned authority to choose the best model suitable for the respective country. Definitely, it depends on the socio-economic conditions of the respective country. The researchers, such as Wennekers and Thurik, and Lundstrom and Stevenson found strong link between entrepreneurship, economic growth and development. They have developed a model of entrepreneurship and economic development link. They identifies that the impact of entrepreneurship on economic growth and development depends on the level of business performance at the individual (entrepreneur) level. Even though GEM data shows that higher degree of entrepreneurship does not guarantee faster economic growth. Therefore, DCs need to provide appropriate entrepreneurship education to create a favourable and appropriate enterprise culture in the country to achieve the national economic development goals.

CHAPTER 4

MICRO ENTERPRISE POLICY DEVELOPMENT

4.1 Introduction

Despite the internationally recognized importance, MEs still face various challenges in many DCs and transition economies. The challenges of business entry, survival and growth are often substantial. The availability of financial resources, lack of capacity to handle complex business management issues, as well as complicated and bureaucratic environment present major obstacles. As a result, there is an urgent and continuous need for policy development to improve the situation. This chapter provides a brief idea about the definitional issues of policy, policy development, policy development process, micro enterprise policy stakeholders and micro enterprise policy development in details. It also discusses the various roles of government in MEPD, and rationale and types of government intervention. This chapter ends with discussing enterprise, entrepreneurship and MED policies, and evolution of MEDPs of selected DCs, specially, Indian, Pakistan, Sri Lanka and Bangladesh with a comparative overview.

4.2 Policy and Policy Development

The word “policy” is not a tightly defined concept but a highly flexible one, used in different ways on different occasions. A policy is a detailed plan of action to guide decisions and achieve rational outcomes. Policy merely guides actions towards achieving a desired outcome. Although a policy is like a decision, it is not just a “one-off”, independent decision, a policy is a set of coherent decisions with a common long-term purposes. When decisions are “one-off”, incoherent or opportunistic, complaints are made that a government “does not have a policy”.

Policy

David Easton (1953) defines policy, as the authoritative allocation of values for the whole society, but it turns out that only the government can “authoritatively” act on the ‘whole’ society, and everything the government chooses to do or not to do results in the ‘allocation of values’. On the other hand, Harold Lasswell (1970) defines policy, as “a projected programme of goals, values, and practices”.

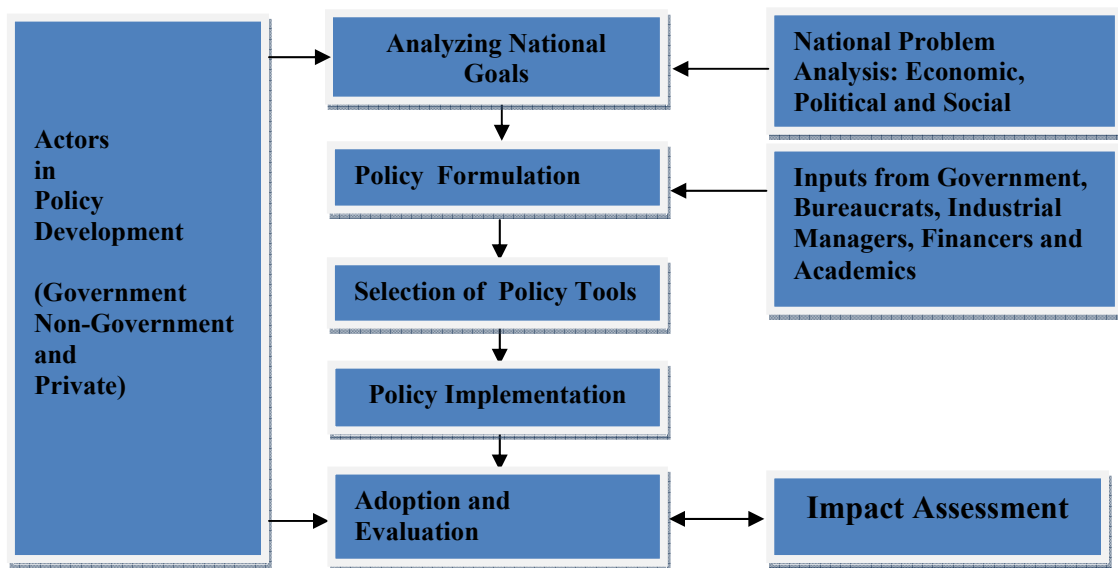
Policy Development

Policy development generally involves research, analysis, consultation and synthesis of information to produce recommendations. The whole activity of policy development also involves an evaluation of options against a set of criteria used to assess each option.

4.2.1 Policy Development Process

The process of policy development begins with recognizing the policy needs. It is also called policy cycle as a “stagiest approach”. A standard version of the process of policy development given by Rothwell and Zogeveld (1985) is as follows:

Figure 10: Policy Development Process



Source: Rothwell and Zogeveld 1985 and the Author

Figure 10 offers a simple schema of the policy development process. This schema emphasizes that the assessment of policy effectiveness has something to do with all the five phases.

Analyzing National Goals

In the first case national problems like political, social and economical should be analysed elaborately. Because, if the analysis of these national problems is wrong, a favourable outcome from subsequent initiatives based on this analysis might not come.

Policy Formulation

Secondly, given the establishment of appropriate aims, there is then the problem of formulating appropriate policies and of selecting appropriate tools. This will generally involve many actors who might represent different and sometimes conflicting interests. These actors are political, administrative, and private actors. Government herself and other political parties play major role as the political actors in the process of policy development. On the other hand, public bureaucracy plays an important role as the administrative actor. Moreover, there are some other actors like private organizations, chamber of commerce and industry, academics, entrepreneurs, financiers, nongovernmental organizations, international organizations that also play an important role in policy development. In the policy development process all the above actors should be considered. These are also called policy stakeholders.

Selection of Policy Tools

Selection of policy tools is a very important step in policy development process. For example, if political dogma outweighs economic considerations and the wrong tools used, wrong will be established. The point is that the policy makers should be aware of these possibilities when assessing particular policy tools: there might be little inherently wrong with the tools or its mode of use.

Policy Implementation

Next is to invest the implementation and delivery system. Such factors as bureaucracy, lack of dissemination, lack of regional representation, and unclear or inappropriate decision criteria, can all invalidate the use of entirely appropriate tools based on solid policy analysis. Therefore, in the implementation stage, all the factors associated with the policy development process must be considered.

Policy Adoption and Evaluation

Finally, in the adoption and evaluation stage, the costs and benefits associated with the use of a policy tool must be considered. It is instrumental in determining the rate of take-up and evaluation should be concerned with eliciting these perceptions and discovering the reasons underlying them.

4.3 Micro Enterprise Policy Stakeholders

Wright (2000) defined policy stakeholders as “all those who share a common interest or an identity with a policy focus, which can be defined in terms of products, services, technologies or enterprise sizes.” Therefore, the concept specifies all those who wish to play some part in determining public policy. The nature and configuration of the ME policy stakeholders will differ between the different localities and different regions depending on: the geography of the locality (e.g. the extent of urban areas compared to rural areas); the industrial and economic structure of the area; the population structure (e.g. gender, ethnicity); and the dynamics of the business community (Bennett and McCoshan 1993; Storey 1994). As a group, three broad categories of organization can be conceptualized as the ME policy stakeholders such as government, semi government and private.

4.3.1 Theory of Stakeholders

For more than one decade, the stakeholder approach to understand the enterprise in its environment has been a powerful heuristic device, intended to broaden management’s vision of its roles and responsibilities beyond the profit maximization function to include interests and claims of non-stockholding groups. Stakeholder theory in contrast, attempts to articulate a fundamental question in a systematic way: which groups are stakeholders deserving or requiring management attention and which are not? It is a modern extension of older conceptions of business enterprise that argue that doing business is more than a matter of making money. It is one of the popular theories used in business and social research. It addresses morals and values in managing an

organization. It was first originated by Edward Freeman in 1984 in his book *Strategic Management: A Stakeholder Approach*. This theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power and normative validity. Stakeholder management is the central theme nowadays in business and society text (Mitchel *et al.* 1997).

4.3.2 Stakeholder and Stake

There is not much disagreement on what kind of entity can be a stakeholder. Persons, groups, neighbourhoods, organizations, institutions, societies, and even the natural environment are generally thought to qualify as actual potential stakeholders. Thompson (*et al.* 1991) defines stakeholders as groups “in relationship with an organization”. Most scholars, however, have attempted to specify a more concrete definition of stakeholder, albeit with limited success. The etymology of the word ‘stakeholder’ reveals something important for normative theories that employ the term. Using ‘stakeholder’ to refer to various interests involved in running a business including employees, suppliers, customers and creditors as well as shareholders became fashionable in business schools in the 1980s. However, William Safire traces the theoretical use of the term ‘stakeholder’ at least to 1965. More interestingly, Safire speculates that the origin of the word ‘stakeholder’ lies in the 19th century American Western frontier. A ‘grub stake’ meant an advance of money or food on the job. For example, a cowboy’s meals while herding cattle. A stakeholder therefore holds a bet or a wager on the outcome of an enterprise as well as, perhaps also originally, the result of a gamble or a horse race (Orts and Strudler 2001).

4.3.3 Views of Stakeholder Theory: Narrow versus Broad

The etymology of the word ‘stakeholder’ supports to what Clarkson calls the narrow view of stakeholder theory. Clarkson (1995) argues that placing some property or other asset ‘at risk’ in a business firm must be considered a key characteristic of a proper conception of stakeholder. Participants in a business enterprise who may be considered ‘stakeholders’ under this economic risk based approach include not only shareholders who risk the loss of their investment, non-payment of dividends or bankruptcy, but also

creditors who risk default on their loans or bonds, employees who risk being dismissed or paid less compensation in return for their work, and suppliers and customers who have a more than an arms-length spot market contractual relationship with a particular business enterprise and thus also risk the loss of some economic interest. All these participants in a business have some kind of economic stake directly at risk in an enterprise (Clarkson 1995).

On the other hand, Friedman and Miles (2002) develops the most well-known version of the broad view of Stakeholders Theory, who counts, “a stakeholder in an organization is by definition, any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Friedman and Miles 2002). As other critics of broad views of the meaning of a stakeholder point out, however, virtually anyone and anything can ‘affect or be affected’ by the decisions and actions of a business enterprise. This theory helps accurately to identify the different groups, which are important stakeholders of a business enterprise or an organization.

Donaldson and Preston (1995) argued that a key distinction could be drawn between the conventional input-output model of the enterprises and the tenets of the stakeholder theory. The conventional input-output model sees the enterprises as converting investor, suppliers and employee inputs into customer outputs, which customers buy, thereby returning some benefits to the enterprises. According to this model, enterprises only address the need and benefits of those four parties: investors, employees, suppliers and customers. In contrast Stakeholder theory argues that there are other parties involved. Every legitimate person or group participating in the activities of an enterprise does so to obtain benefits and that the parties of the interests of all legitimate stakeholders are not self-evident. Therefore, governmental bodies, political parties, trade associations, trade unions, communities, associated corporations, prospective employees, prospective customers, and the public at large are also involved.

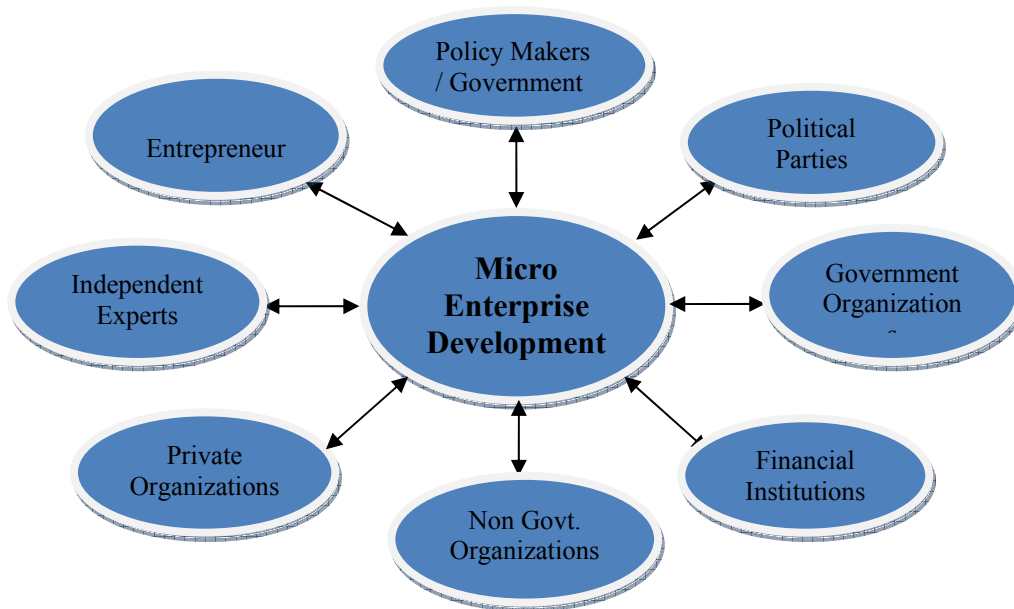
Mitchell (*et al.* 1997) derives typology of stakeholders based on the attributes of power, legitimacy, and urgency. By examining the combination of these attributes in a binary

manner eight types of stakeholders are derived along with their implications for the organization. These are government, political parties, investors, suppliers, trade associations, communities, employees and customers. Friedman and Miles (2002) explore the implications of contentious relationships between stakeholders and organizations by introducing different interests and connections as additional attributes with which to examine the configuration of these relationships.

4.3.4 Micro Enterprise Stakeholders

Considering the above arguments on stakeholder theory different ME stakeholders are shown in the following figure. The figure also shows the relationship among them. The ME stakeholders include, policy makers, political parties, government organizations, financial institutions, non-government organizations, private organizations, independent experts, and entrepreneurs which have a reciprocal relation. For appropriate ME sector development the role of these stakeholders are very much important in any country. Among the above stakeholders, government performs her role as a regulator and an economic agent and others perform different roles, such as providing services to MEs. They can also act as pressure group for MED.

Figure 11: Different Micro Enterprise Stakeholders



Source: Author, based on Stakeholders Theory

4.4 Micro Enterprise Policy Development

Conceptually, MEPD is an action programme taken by the government to the development of MEs. Studies from commentators such as Birch (1979) and Storey and Johnson (1987) have stressed the importance of MEs to job and wealth creation and economic regeneration in the world. Within developed market economies, such as the UK, there has been a renaissance in the ME sector. The majority of enterprises employ less than 10 employees and MEs have become a major contributor to private sector employment. Therefore, throughout the world governments intervene in the economies of their countries to develop a favourable MEDP.

4.4.1 Importance of Micro Enterprise Policy Development

MEs make important contributions to socio-economic development. In all economies, they constitute the vast majority of business establishments. In many countries, they have been the major engine of growth in employment and output. In DCs, they are seen as a major 'self-help' instrument for poverty eradication. In transition economies, they provide the best illustration of the changes in ownership structures, business culture and entrepreneurial behaviour over the past decade. In all the economies, many MEs and self-employed persons operate outside the 'formal' sector. One of the major challenges to governments in designing institutional, organizational and regulatory frameworks is therefore to encourage entrepreneurs to engage in legitimate activity. In pursuing this goal, governments have moved away from earlier, rather simplistic approaches, recognizing that MEs not only create jobs but also play a wider role in socio-economic and political development. They are increasingly seen as central to creating a democratic society and developing an 'enterprise culture'. Governments alone cannot create 'enterprise culture', but their actions can destroy or facilitate it. A major difficulty is that the ME sector is always highly differentiated. This makes a coherent public policy approach to ME needs difficult. The aim must be to empower 'bottom up' approaches to development within a national framework in a way that rewards and enhances 'enterprise culture'. In formulating an appropriate MEDP framework the vital

instruments (OECD 2004) are: a culture of enterprise in society which rewards individual as well as collective initiative and innovation in all its citizens, including the socially excluded and other minority groupings; an economic, political and social climate that encourages a high rate of business start up and survival leading to an overall increase of ME stock; a significant proportion of quality MEs contained in the new stock; an economic and social climate which encourages existing MEs to grow; and a sympathetic and entrepreneurial stakeholder's environment for MEs.

The last point is particularly important and highly relevant for any country. MED does not take place in a vacuum. If the culture of government, education, regulatory authorities, banks, the professions and the large corporate sector lacks empathy with MEs, then it will be difficult for the sector to survive and grow. The stakeholders environment must therefore be as entrepreneurial as the ME sector itself. Stakeholder organizations facilitating and supporting entrepreneurship are the key elements in the creation of a 'level playing field' and of a solid base for enterprise culture.

Official MEDPs can be evaluated against their impact upon enterprise culture, start-up, survival and growth of MEs, and stakeholder empathy. Each of these criteria feeds off the others. Enterprise culture will be strong where there are high rates of ME growth. Where MEs are dominant features in the local and regional economic and social environment, stakeholders themselves will be influenced and will adjust their behaviour accordingly. This pattern of culture and business and stakeholder development may be used in very different country contexts. Each country has different problems and opportunities and therefore priorities for change and resource availability will vary. These factors will dictate not only how many areas can be targeted, but also the scale on which any programme of change can be pursued. Targets also move dramatically over time. MEDPs in Western Europe, for example, focused on employment creation in the late 1980s and early 1990s. By the end of the century, the emphasis had changed to international competitiveness and innovation. As a result, policy targets moved towards technology issues and creation of an enterprise culture. In transition economies, a major focus has been upon creating an enabling environment for the market economy. Hence

much of ME policy has targeted the building of an appropriate regulatory environment, privatization and restructuring, development of the financial sector and mechanisms for private and public ME support. In addition to ME policies, many countries have adopted ME legislative acts, including such countries with economies in transition as Russia, Hungary, Poland, the Czech Republic and Bulgaria and DCs such as India and Pakistan. Within the national framework, acts may specifically target the local level. Their content varies but usually includes a declaration of ME support, a definition for public policy purposes and principles on which support for the sector will be based (OECD 2004).

4.4.2 Micro Enterprise Policy Development: Role of Government

The first point on which it is important to be clear is that entrepreneurs and managers, not the governments develop MEs. But government can have a profound effect on how all enterprises particularly MEs, operate and their opportunities to grow. Indeed, government policy and its influence on the institutional environment of a country, region, or locality has become a key focus of efforts to help improving how MEs develop and economies compete. As a result, almost all the countries now have an active policy for improving competitiveness within which, a strong element focused on what, in policy terms, are usually referred to as MEs. There are three main dimensions to the governmental role in MEPD:

Government as Regulator

Government rules determine how trade rules operate both nationally and internationally, and the legal form of companies, the extent of legal limits on company liabilities and the strength of anti-trust, restrictive practices and anti-monopoly regulations. Government also influence regulations on conditions at work, consumer protection, food, health, safety, environmental and planning regulations and licensing.

Government as Economic Agent

Government taxes, charges, fees, raise debts and spend. The way in which this operates has a profound effect on business finance and risk taking. Government taxation and fee levels affect entrepreneurial incentives and market entry. Government debt levels

severely affect the economic climate. Government spending influences the competitive environment and procurement rules for government contracts influence markets; the growth of government services, particularly education, health and transportation services, influences the factor inputs for MEs. As a significant employer, government wage rates and employment conditions affect local and national pay bargaining, the role of trade unions and employment conditions. Government redistribution policies and social engineering influence work incentives and the labour markets.

Government as Strategic Planner and Promoter

Government finance can be used to offer grants, subsidies, loans or information and advisory support to MEs; and can seek to improve the infrastructure of business factor inputs. Notable examples are education and skills, research and development, marketing and productivity initiatives and international trade protection or barriers.

4.4.3 Rationale of Government Intervention to MEPD

Government intervention to promote more enterprise, more entrepreneurship and/ or more growth is considered because these are thought to be beneficial. However, intervention should only be considered if it will indeed enhance the level of enterprise, entrepreneurship and / or growth of MEs and thus actually deliver the benefits sought. The argument that it will do so is generally that there are obstacles and barriers occur because there has been failure of some sort; and that intervention can correct this failure. The nature of failures, whether it is in the market, in governance or in economic systems will determine what sort of intervention should be considered.

Failure in the Market

It is argued that MEs face particular challenges compared to LEs. They face discriminatory barriers that prevent a 'level playing field', and these are generally classified as 'market failures'. According to neo-classical economic theory, there is a tendency towards perfect markets. Attending to intervene in a perfect market would not result in any improvement in that market. The value of any apparent benefits in one area would be outweighed by the cost of displacement effects elsewhere, and there would be

no economic benefits. However, after a disruption in the market there may be some factors that delay the return of the market to perfection. Intervening to address these inherently temporary factors could therefore produce benefits. Such factors are market failure in that they represent a failure of the market to perform perfectly. The result is, many 'markets failures', which place MEs at disadvantage and are likely to be permanent unless steps are taken to address them (Mentzberg 1983).

Failure in Governance

Failure in governance occur when government intervenes where markets would have worked better if they had been left alone. MEs tend to shoulder a relatively heavy burden in terms of regulation since overly bureaucratic administration practices can impose high fixed costs in individual firms. For example, when implemented inadequately, standardization can prevent flexibility, which is an important source of competitiveness for MEs, especially in the case of new technology based enterprises. Another example relates to the networks which are proving to be instrumental in increasing ME performance: their development is often confronted with various information and regulatory barriers, which may prevent them from taking shape spontaneously or, at least, significantly slow their development. Also lags and deficiencies in information, complexity of regulatory measures, delays in their implementation and poor quality delivery limit the scope for successful government involvement in rapidly evolving fields (OECD 2000).

Failure in the Economy

Failure in the economy is related to institutional interactions in the economy, occur partly because ME polices remain the concern of specific ministries and/ or government agencies directly in charge of MED even though responsibilities in areas affecting MEs are scattered among different ministries and agencies. In the past, MEDPs were viewed as having a distinct role, targeting a specific and disadvantageous group of firms and as different from other economic policies in that they were serving not only economic but also social objectives. In many countries, there has been a lack of understanding among government officials not directly in charge of MEs of the importance and special

economic issues relating to ME performance. There has been insufficient attention to MEs in the broader economic context, reflecting an outdated perception that MEs are of limited importance to technology development or growth despite their potential for job creation. This has resulted in a piecemeal development of policy measures, aiming to deal with specific problems at a given time and often protecting MEs from normal business pressures. Insufficient coordination between government bodies and policies has reduced the efficiency of MEDPs and thus limited their potential to fuel economic growth (OECD 2000).

4.5 Types of Government Intervention for MEPD

Normally there are five types of intervention practiced by the governments throughout the world. These broadly correspond to the ME policy elements of the OECD framework: developing an enterprise culture; correcting ‘market failure’ in access to finance; advice and assistance; supporting technology and innovations; and supporting particular groups (Storey and Greene 2010). They are briefly discussed below:

4.5.1 Developing an Enterprise Culture

The rationale for developing an enterprise culture is that if individuals in society develop a more entrepreneurial mindset then there is a greater likelihood of them considering the entrepreneurial option for themselves. If policies can make business entry more attractive, individual are other things being equal, more likely to start up a business. These new businesses in turn, may subsequently grow and deliver economic benefits to the rest of the society, such as providing employment or taxes. Equally, an enterprise culture has important wider spillover benefits in that it reinforces positive cultural attitudes towards entrepreneurship both in terms of setting up a business for one’s self or in terms of acting in an entrepreneurial way inside a larger organization. Some public policy makers may also perceive that an additional rationale for public policy in this area is that there is an ‘enterprise culture gap’ between their country and ‘competitor’ countries. These policies have been primarily targeted at young people and

cover changes to the education system, graduate self-employment and work placements in MEs.

Changing Education System

The easiest mechanism for developing an entrepreneurial culture is the education system. The rationale, therefore, for intervening in education system is that young people need to develop more entrepreneurial skills and abilities and the education system has a duty to prepare them for the 'world of work'. Different countries have, therefore, developed a range of policies to promote entrepreneurship at different stages of the education process. For example, in primary stage, programmes like mini society in the USA, entrepreneurial city in the Netherlands attracting students. In the secondary stage there are huge number of schemes funded either by the public sector or by other means such as Young Enterprise in the UK, Youth Enterprise Society in South Africa, and Young Enterprise in New Zealand are mentionable. In tertiary level the need is the explosion of entrepreneurship courses. Kuratko (2005) identifies that in the USA alone there were 2200 entrepreneurship and small business courses. This growth, he argued, has occurred since the 1980s. Wilson (2008) argued that similar developments have occurred in Europe since the 1980s. Moreover, there have been numerous other extra-curricular initiatives introduced since the 1980s. Some have sought to raise awareness of the entrepreneurial option amongst young people either through providing information and awareness support or by using the media.

Graduate Self-employment

Businesses founded by the graduates were more likely to grow than those established by non-graduates. It is, therefore, perhaps unsurprising that public policy makers are interested in supporting graduate entrepreneurship. The rationale for such policies is often framed not just in terms of the growth potential of graduate businesses but also in terms of the problems experienced by graduate entrepreneurs or potential entrepreneurs, most notably their relative lack of financial, social or human capital. Overall policy makers have become interested in using the education system to promote entrepreneurial 'mindsets'. The rationale behind is that education is a necessary part of a 'pipeline'

leading people to go on to set up and grow their own business. A huge number of programmes around the world provide such education experiences. However, their value is unclear given the lack of policy coherence and the absence of an effective mechanism for evaluating outcomes.

Provide work experience for young people in MEs

One of the objectives of modern education policies has been to ease the transition between the worlds of education and work. Reflecting this was the belief that too many students were leaving schools and university without the requisite skills and abilities needed by employers (Weiner 1981). Hence, in secondary education students have been encouraged to spend time working in a business to gain experience of the ‘world of work.’ Higher education students have also been given the opportunity to gain work experience in a ME. In general, support for young people in the education system may serve as a useful transmission mechanism for developing an enterprise culture and there is evidence that there has been some attitudinal shift towards entrepreneurship, particularly in Europe.

Factors Influence in Shaping Culture

Wickham (2006) shows some important factors that influence in shaping enterprise culture in a country. The following are few of those:

Corruption

Corruption is the single feature of bad governance that is certain to discourage entrepreneurial activity. It is a matter of degree. In the west, a government official taking a free holiday in return for a small favour may make big news. In other parts of the world, corruption is so rife and endemic that the governments are simply labelled kleptocratic, ‘rule by thieves’. Corruption distorts entrepreneurial activity in several ways. First, bribes are usually charged on transactions or in return for government permission (for example, to set up a new business). Secondly, corruption distorts the behaviour of both the entrepreneurs and the officials.

Religious Beliefs

Religious belief is also an important factor in shaping a culture. It leads to a view of the world, which influences the individuals approach to entrepreneurship. The sociologist Max Weber famously associated the industrial revolution in Western Europe and the USA with the attitudes engendered by Protestant religious beliefs. Modern commentators speculate on the influence of Confucian discipline to the success of Asian economies. Islamic belief disallows (or at limits) the setting of interest rates. Such prohibitions on usury were a common part of Christian belief until quite recently. Modern economies sees interest rates not so much as a powerful lender exploiting a weaker borrower, but as something fundamental to setting the price of money and directing it to where it will work hardest. The Islamic banking system has adopted an alternative system of monetary charges to achieve this. Some religious systems set in place quiet rigid social stratifications that dictate the class and even job that an individual may take up. Modernisation is providing one means for enterprising individuals to break out of this structure. In India many entrepreneurs have emerged from the Jain community because their strict vegetarianism and historical refusal to work with animal products excluded them from most conventional occupations, hence they turned to trading (Wickham 2006).

Networks

A network is the framework of individual and organizational relationships, which form the stage upon which entrepreneurial performance is played. It is composed of personal and social contacts as well as economic relationships that is shaped by the culture in which it is formed. It is a conduit for information. A well developed network is crucial if entrepreneurial behaviour is to express itself. It defines the terrain in which new business opportunities might be evaluated and shared. It offers an escape route for people who do not think their investments are safe. This occurs not only through formal structures but also through informal confidences and relationships. The structure and functioning of such networks is sensitive to a wide range of cultural factors.

4.5.2 Correcting 'Market Failure' in Accessing Finance

MEs are more likely to be subjected to financial constraints than LEs. Governments have therefore chosen to use public funds to enable MEs to overcome these constraints. Three micro approaches are mentionable, which are either loans or equity.

Loan Guarantee Scheme

The rationale for a loan guarantee scheme is that some MEs may be denied debt finance only because they lack collateral. In other words, it is a business proposal that the bank would fund if collateral were available. The role of the public guarantee is then to provide assurance to the profit-seeking bank by underwriting a proportion of the loan in the event of a default by the borrowers. Hence, although the borrowers typically pay a premium, either in fees or in higher interest rates or both, for their loan, they are not denied debt finance. This resolves the credit constraint faced by smaller businesses, which lack collateral.

Grants to MEs

The rationale for providing grants to MEs is twofold. First, there are equity considerations: businesses in areas of relative regional deprivation provide jobs and so providing grants gives them an effective cost subsidy, which, other things being equal, makes them more competitive. Second, if careful targeting of growth businesses can be achieved, grants may enable businesses to invest more in equipment or training and consultancy support for their managers and employees.

Equity Finance

One of the typical aims of public policy is to improve the opportunities for business growth. One reason why this may be constrained is an inadequate supply of equity finance. Equity finance might be more appropriate to the small fast growth businesses than debt finance because for example, a high technology business has fewer assets to offer as security for any loan.

4.5.3 Advice and Assistance

The following can be provided as advice and assistances to new MEs by the government:

Subsidised advice to individuals

This type of support is justified on two grounds. First many individuals who are considering starting an enterprise have imperfect information about their own suitability for this task and the factors likely to influence the success of their business. Massey (2006), for example shows the New Zealand government provides ‘signposting’ services to private sector advice (e.g. accountants), general business advice and help with formulating a business plan. Secondly, there is a ‘spillover’ benefits from providing advice and assistance. If assistance is given, the argument is that it will enable the business to grow, creating further employment and tax income for the government. Lambrecht and Pirany (2005) show that in the Wallon area of Belgium external consultancy support is provided to MEs so that they can grow and develop.

Subsidised visit to overseas trade fairs

MEs normally make the vast majority of their sales in local or regional or to some extent national market places. However, businesses, which grow rapidly, are significantly more likely to sell overseas where markets are potentially much bigger. Governments in many countries, therefore seek to widen the horizons of MEs by providing subsidies to attend trade fairs and other marketing opportunities overseas. The justification is that MEs without the subsidy would not have sufficient resources to attend the trade fair but if they do so, they may win orders, which significantly enhance the growth of the business. From government perspective, these new orders then lead to additional employment and competitiveness, thereby justifying the use of taxpayer’s funds.

4.5.4 Supporting Technology and Innovations

MEs are often linked with innovation. Public policy makers see the advantages in supporting the innovatory abilities of prospective and existing MEs because they believe that such businesses will increase economic growth in their country. Such interventions

are usually justified on the ground of imperfect information or spillover 'market failures'. Acs and Audresch (2003) argue that policy interventions in this are also potentially necessary because of the advantages of spillovers. They suggest that this is important because MEs diffuse their own business ideas of other businesses to consumers. For example, they may be able to notice ideas developed in a university and seek ways to commercialise them. Hence, the argument is that public policy has a role in facilitating the development of such spillovers. The following are the two examples of such policy interventions:

Business Incubators

Business incubator is a term used to describe services, facilities or conditions, which help businesses to develop. Tamasy (2007) has argued that since the early 1980's the supply of incubator services for prospective and existing businesses have grown markedly. Such incubator facilities are evident in the UK, USA, Germany and south East Asia.

R&D Funding

Financial support for new-technology-based MEs is justified by the spillovers from such businesses. The UK government offers four types of grants for R&D projects. These are: micro projects with less than 10 employees; research projects to investigate the technical and commercial feasibility on innovative technology; development projects to develop a pre-production prototype of a new product or process that involves a significant technological advance; and exceptional projects these constitute significant technological advances that are strategically important for a particular technology or industrial sector.

4.5.5 Supporting Particular Groups

Public policies should have also been directed towards particular groups in the society: women, ethnic minorities, the unemployed and the young people, to enable them to be more enterprising. Although these programmes are expected to have economic outcomes, they are justified primarily on equity or distributional grounds. Enterprise

support is intended to enable individuals to break free from discrimination and disadvantage, obtain a better standard of life and in doing so, and provide role models for others to follow (Storey and Greene 2010).

Women

Women are less likely to go into business and less likely to own either large or fast growth businesses. Public policy has been concerned about these issues. Prowess (2009) suggests that if the entrepreneurial deficit by women could not be made up in the UK there would be another 150,000 start ups per annum, that majority women owned businesses contribute £130 billion to the UK economy and that women are more likely to come from a background of unemployment than men (Storey and Greene 2010). Despite these suggested advantages in supporting female-owned businesses, the central policy question is whether outcomes reflect different endowments of talent, different choices made by women, or instead whether they reflect a market failure such as imperfect information or discrimination. If there is a discrimination, then there is a clear economic, as well as, social case for intervention by the government. If it is imperfect information then the intervention has to be made on social grounds, perhaps implying some form of economic penalty in terms of output foregone, which is paid for by the rest of the society.

Ethnic Minorities

Self-employment rates varied amongst the ethnic minorities considerably. But there is no clear evidence that the ethnicity of the founder influenced business growth rates. Nonetheless, ethnic minority businesses are a powerful political and economic grouping. Ram and Jones (2008) estimated that ethnic minority businesses contributed £15 billion in the UK economy. USA has also specific programmes to support ethnic minority businesses. However, as with women, the central policy question is whether outcomes experienced by ethnic minorities reflect differences in individual talent, the choices made by individuals or some form of discrimination. Evidence here is somewhat clearer than with women. There was robust evidence of discrimination against Blacks seeking finance in the USA (Blanchflower *et al.* 2003). If this is the case, it presents a clear

market failure and a strong justification for publicly funded programmes to overcome such discrimination.

The Unemployed

Policies to support the conversion of the unemployed into business ownership have a clear attraction for policy makers. First, in all developed economies the state provides unemployment benefits which for economic reasons alone, it would like to minimise. Second, unemployed people particularly if they are long term unemployed are also potentially more likely to experience other forms of social disadvantages (poor health). These outcomes may lead to negative ‘spillovers’ (e.g. the unemployed have less income which reduces overall demand). Third geographical clustering of the unemployed and in such areas is likely to be higher levels of deprivation and crime. There are other justifications for supporting the unemployed to start a business. Unemployed people all else being equal, may find that their routes into employment are blocked. They may also be more likely to suffer from a lack of confidence, be less aware of the self-employment options, and have difficulties in accessing finance. All these reasons justify ‘micro’ support for some to make the transition into self-employment.

Young People

There are three main justifications for support schemes directed at young people. First, young people have imperfect information about entrepreneurial opportunities and / or they lack information on how to start or grow a business compared with older people. Second justification is that young people have restricted access to finance. Unlike older people who have had the opportunity to acquire resources throughout their lifetime, this is not the case for young people. Again, this potentially justifies micro-loan programmes targeted at young people. Third, if support is provided then it will be rewarded because young people have creative and noble ideas, and the energy and enthusiasm to carry them through. Even if they fail, it is argued they have plenty of time to learn from their experience and start again. In short, the returns to society for supporting enterprise amongst the young people are considerably greater than assisting middle-aged or older

individuals. In addition, if they are successful, it has spillover benefits to other young people because they act as positive role models. Engaging young people in self-employment may also have other benefits because it may prevent negative spillover effects such as unemployment and criminality (Storey and Greene 2010).

4.6 Enterprise, Entrepreneurship and Micro Enterprise Development Policies

Because of the growth in the perceived importance of MEs for ED, virtually every country in the developed and developing world is now intervening in some way to promote enterprise skills to encourage more indigenous businesses. There are different methods used for the promotion of entrepreneurship and MEs in different countries, and indeed often the strategies appear to be missing. In the UK, despite apparently hundreds of initiatives since the end of the 1970s, an overall strategy in the sense of a coherent set of objectives and associated means of achieving them has been lacking. The last real attempt in the UK to articulate a coherent ME policy in a single document, some claim, was the *Bolton Committee Report on Small Firms* in 1971. At least part of the reason for this gap lies in the fact that ME sector is characterized by very considerable diversity with competing interests, making the prioritization of needs very difficult for politicians and policy makers. This has led Bennett (1996) among others to suggest that 'Fragmentation of government ME programmes appears to reflect the fragmentation and variety of the problems that MEs confront. An OECD paper reviews the experience of its member countries in encouraging entrepreneurship and their contribution to job creation (Stevenson 1996). Among the observations the following are mentionable: member governments lack the presence of a comprehensive strategy towards entrepreneurship and job creation; the explicit promotion of entrepreneurship as a source of job creation is scarce in policy formulation; and better policy coordination is needed to exploit more fully the potential of entrepreneurship and new business in order to help start-ups and existing firms in the creation of new jobs.

Lundstrom and Stevenson (2001) reflect that

“(Because) entrepreneurship itself is still not a well defined concept and the differences between SME and entrepreneurship policies are unclear, efforts to become a more ‘entrepreneurial economy’ are somewhat impeded. Instead of assuming an integrated approach to stimulating a higher level of entrepreneurial activity, governments currently tend to add on projects and activities in a piecemeal incremental fashion”.

The lack of clear definitions of ‘enterprise’ and ‘entrepreneurship’ make also confusion about what is meant by enterprise, entrepreneurship and ME policies. They can be perceived as interchangeable, overlapping or quite separate and as a result, important policy differences can often be obscured or ignored. There can be at least three distinct policy areas which some people now distinguish with the levels have also been used with less discrimination. The following figure shows the policy areas in brief:

Table 18: Micro Enterprise Policy Areas

Policy Areas	
ME Policies	These are policies for stimulating growth of already established micro enterprises, variations of which have also been called a ‘growth’ or ‘business growth’ policy and a ‘backing winners’ policy. This sort of policy tends to focus on the businesses and what will help them to grow, not the entrepreneurs behind them.
Entrepreneurship Policies	These are policies for encouraging and facilitating more people to take up self employment. These policies are centred on people and on what will persuade or help them to start businesses, although they can be referred to as ‘business start’ or ‘business birth-rate’ policies. These policies have a primary role in primary, secondary and tertiary education; the promotion of entrepreneurship in the media and in society; the reduction of administrative, legislative and regulatory barriers, and support for people seeking to set up in business.
Enterprise Policies	These are policies for encouraging enterprise in its broad sense, much, but not all of which may be manifest as new business starts. These policies are clearly focused on people, both as individuals and in groups, and seek to develop skills and attitudes likely to assist people to be more successful in any chosen career or endeavour. However, the description of ‘enterprise’ may also be applied to policies, which try to incorporate the promotion of both entrepreneurship and micro enterprise growth, or the term ‘enterprise policy’ may be used to describe a combination of both entrepreneurship and ME policies.

Source: Bridge et al. 2009 and the Author

This terminology facilitates a distinction, which is important because it can at least separate entrepreneurship from ME policy. These policies require very different approaches. ME policy should be about business development while policies for entrepreneurship and enterprise should be about wider social and economic development. Unfortunately, however this distinction is often not appreciated, with the result that even those who formulate the policies sometimes mix them up and therefore mix different objectives or fail to select appropriate means for achieving those.

4.6.1 Distinction between Entrepreneurship Policy and ME Policy

Lundstrom and Stevenson (2007) provide a useful distinction between entrepreneurship and ME policies. This is shown in the following figure. Firstly, they have shown that there is a set of policies focused principally on the pre-start up and early stages of a business. They defined those as entrepreneurship policies, because they are:

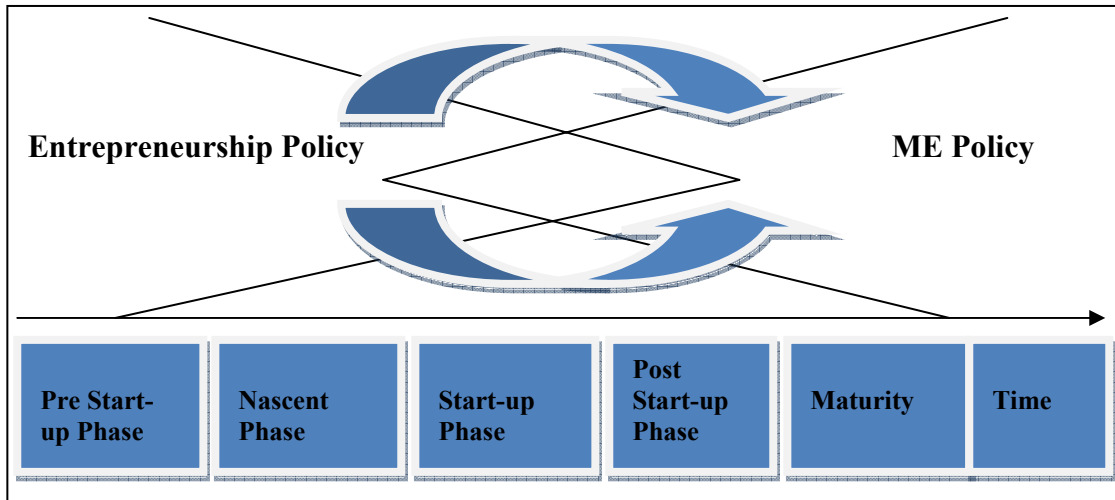
“... aimed at the pre-start, the start-up and early post start-up phases of the entrepreneurial process, designed and delivered to address the areas of motivation, opportunity and skills, with the primary objective of encouraging more people in the population to consider entrepreneurship as an option, move into the nascent stage of taking actions to start a business and proceed into the entry stages of the business”.

In contrast ME policies are focused around the post start-up phase of the existing business and its survival/growth. They again said, “the primary aim of ME policies are to level playing field for MEs through measures to overcome their disadvantages in the market place resulting from their smallness and resource poverty and to improve their competitiveness”. The implication is that ME policy has two main aims. The first is to reflect that these businesses are not disadvantaged by the competitive behaviour of LEs. The second aim is to provide support that will allow MEs to maximise their potential. It is likely, therefore, that an ME policy will focus on the business rather than the individual and that the provision will be on hard support such as loans and grants.

As figure 12 suggests that there is obvious linkages between entrepreneurship policy and ME policy since entrepreneurial activity (fast growth) may persist amongst some businesses as they develop, implying that entrepreneurship policies can extend into the

ME policy arena. Whilst the distinction of Lundstrom and Stevenson (2007) is unlikely to fully capture the diversity of entrepreneurship and ME activities of policies (Storey and Greene 2010).

Figure 12: Distinction between Entrepreneurship Policy and ME Policy



Source: Lundstrom and Stevenson 2007; Storey and Greene 2010

4.6.2 ME Policy Objectives: Lessons for Developing Countries

Having a strategy implies having objectives and targets, and therein lies a problem for policy makers. The objectives of entrepreneurship or ME strategies are often not explicit. European Union publications, such as white paper *Growth, Competitiveness, Employment: The Challenge and Ways Forward in the 21st Century*, 1993, have emphasized the objectives of employment growth, economic growth and competitiveness of enterprises and these appear to have had some impact on member states’ policies. Nevertheless, to be able to understand and evaluate strategies, the objectives must be explicit. Often they are not. Storey (1994) claims that the objectives of public policies to assist MEs are rarely specified directly. Instead, it is necessary for analysis to infer objectives by observing the policies in operation, rather than by finding them being clearly stated as a coherent response to an agreed role that government plays.

Koning (*et al.* 1992) shows that this is true of most the European countries. Inferring objectives is made harder by the frequent failure of policy makers to distinguish between means and ends. However, the generally agreed objectives are: increased wealth through economic growth; employment creation; increased competition; promotion of and spread of innovation and technology; greater diversification and choice; revitalisation of traditional sectors/international competitiveness; expanding and strengthening the production chain; more efficient markets; and greater social cohesion including removal of discrimination.

The experience from the UK shows that they have a strong enterprise policy that made her the most enterprising economy in the world. In the year 2004, Department of Trade and Industry (DTI) and Small Business Services (SBS) set seven objectives of the UK enterprise policy. These are: building an enterprise culture; encouraging a dynamic start-up market; building the capability of ME growth; improving access to finance; encouraging more enterprise in disadvantaged communities and in under-represented groups; improving ME experience of government services and developing better policy and regulation. Recently in 2008, the UK government had produced *Enterprise: Unlocking the UK's Talent*, which converted the above seven 'pillars' into four 'enablers' to make the UK most enterprising economy in the world. These are culture; knowledge and skills; access to finance; regulatory framework; and business innovation (Storey and Greene 2010).

The EU member states pursued four main objectives in ME policy (Koning *et al.* 1994). These are creation of employment; competition; strengthening the production chain; and diversification. However, these objectives have had to be inferred from observing policies in operation. Only a few countries overtly select employment creation as an objective. None of them emphasises competition, strengthening of the production chain or diversification explicitly as an objective. DCs need to realize their own needs to formulate their own ME policies. The experiences from the developed countries may help to set the objectives of their ME policy.

4.7 Evolution of MEDPs in Some Selected DCs

Every country has its own policies for MED. The following section discusses the evolution of MEDPs of some selected DCs: India, Pakistan, Sri Lanka and Bangladesh.

4.7.1 MEDPs of India

Earlier Policies

In all the policy resolutions from 1948-1991 recognition was given to the MEs, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprise Development Organizations, known as Small Industries Development Organization (SIDO) was set up 1954 as an apex body for sustained and organized growth of MEs. Within 1956, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. During the last three and a half decades this institutions have emerged as core promotional agencies at national level. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the priority sector lending programme of commercial banks, excise exemption, reservation under the government purchase programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial skill development. MSME-Development Institutes [earlier known as Small Industries Service Institute (SISI)] were set up all over India to train youth in skills/ entrepreneurship and Tool Rooms were established for providing technical services essential to MEs as also for skill training (Raihan and Rummana 2007).

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. Special attention was given to the 'Tiny Sector' defined as enterprises with investment in plant and machinery of up to 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 enterprises. 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. In the year 1978, the central government launched a programme 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. Special arrangements for marketing of the products of SSI were made by providing services such as product standardization, quality control, marketing surveys etc.

In the 1980s and 1990s

The recognition of the importance of ancillary industry found expression in the policy statement of 1980, which laid emphasis on ancillaries. Moreover, the programme 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 new policy for Small, Tiny and Village Enterprises of August 1991, laid the framework for government support in the context of liberalization, which sought to replace protection with competitiveness to infuse more vitality and growth to MSMEs in the face of foreign competition and open market. Supportive measures concentrated on improving infrastructure, technology and quality. Testing Centres were set up for quality certification and new Tool Rooms as well as sub-contracting exchanges were established. The Small Industries Development Bank of India (SIDB) and a Technology Development and Modernization Fund were created to accelerate finance and technical services to the sector. A delayed payment act was enacted to facilitate prompt payment of dues to MSMEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries.

In the New Millennium

The ministry of MSME (earlier known as Ministry of Small Scale Industries and Agro and Rural Industries) came into being from 1999 to provide focused attention to MED. The new policy package was announced in August 2000 sought to address the persisting

problems relating to credit, infrastructure, technology and marketing more effectively. A Credit Linked Capital Subsidy Scheme was launched to encourage technology up-gradation in the MSME sector and Credit Guarantee Scheme was started to provide collateral free loans to micro and small entrepreneurs particularly the first generation entrepreneurs. A market development assistance scheme for MSMEs was also introduced. In 2006, the long awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprise Act. The MSME Act 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and non-manufacturing and service entities. It defines enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions.

Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmes for this purpose, progressive credit policies and practices, preferences in government procurement to products and services of the micro, small and medium enterprises and more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of businesses by these enterprises are some of the other features of the Act (GoI 2007).

4.7.2 MEDPs of Pakistan

Earlier Policies

Pakistani economy comprises mainly of SMEs. The significance of their role is clearly indicated by various statistics. The Government of Pakistan has 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 ME sector could not realize its

full potential. MEs 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. Pakistan initiated ME 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, such as, over emphasis on industrial and manufacturing activities with little focus on service sectors; over emphasis on ‘hardware’ support (land, electricity, machinery) with little or no emphasis on ‘software’ support, i.e. information, business development services; lack of coherent policy framework that determines the role of all relevant stakeholders other than the dedicated institutions created for small scale industry support; and 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 programmes to achieve well targeted results (Raihan and Rummana 2007).

In the 1980's and 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 ME financing in Pakistan. The Small and Medium Enterprises Development Authority (SMEDA) was established in 1998 in order to foster the development of MEs 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 MEs; monitoring and evaluation; encouraging and facilitating MED and to protect the interests of ME sector.

In the New Millennium

Pakistan constituted the SME Task Force in 2004, which was to define the basic elements of the SME policy. The Task Force identified that implementing change requires formulation of a MED policy and assigning specific responsibilities for its implementation and continuous improvement. The SME Policy 2007 was the outcome of the Task Force report, the objective of which is to provide a short and a medium to long term policy framework with an implementation mechanism for achieving higher economic growth based on ME led private sector development. The vision of the policy is “SME led economic growth resulting in poverty reduction, creation of jobs and unleashing the entrepreneurial potential of the people”.

The policy statement is “to create globally competitive SMEs by creating a hassle free business environment, ensuring provision of modern infrastructure and institutional support structures for access to resources and services. The government shall take measures for the promotion of women entrepreneurship, cluster development and also focus on neglected/untapped sectors of the economy. Strengthening industry-academia linkages shall also be a key feature of the policy.” The policy put MED at the centre stage of all economic growth policies of Pakistan. It also offers viable options for private sector led growth that will create huge jobs. Public-Private partnership was also empathized in policy (GoP 2007, Raihan and Rumanna 2007).

4.7.3 MEDPs of Sri Lanka

Earlier Policies

Although in Sri Lanka, 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. 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. 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 FDIs into the industrial sector with a view to enhancing the technological and managerial capabilities of local industry. Under the scheme, MEs had some advantages because they were allowed to import raw materials at the lower official exchange rates, while LEs had to import raw materials at the higher premium exchange rates.

In 1970s, there was a notable shift of emphasis from import-substitution industrialization to export-oriented industrialization in Sri Lanka like other countries. 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. In 1978, 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 FDIs such as the setting up of Free Trade Zones, privatizing 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 (Raihan and Rummana 2007).

In the 1980s and 1990s

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. 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 MEs 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 MEs at a relative disadvantage vis-à-vis the LEs. MEs 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 MED. Financial liberalization also did very little to help MEs in Sri Lanka.

In the new Millennium

Since independence 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 ME sector, the situation has been even worse. There has been no macro-level policy for MED although there have been some incentives provided by different programmes. However, recently there have been a large number of institutions directly involved in MED in Sri Lanka. Having recognized the policy requirements to MED, the ministry of Industrial Development appointed a Task Force in October 2001 to inquire into the needs, problems and future requirements of SMEs and to develop a national strategy for Sri Lanka. The Task Force made a white paper on National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka in 2002. The white paper addressed the concerns of the entrepreneurs of ME sector within a national economy framework. Government made an action plan based on the recommendation of the white paper for appropriate ME sector development. The recent development in ME Sector in Sri Lanka is the outcome of the white paper.

4.7.4 MEDPs of Bangladesh

Earlier Policies

Before independence MEs were neglected seriously because of basically no policy base. There was only Karachi centred “Heavy Industrialization” policy. Since independence, entrepreneurs received a number of policies regarding industrial development in Bangladesh. The latest one, IP 2010 adopted in the early 2011. In the first industrial policy (1971-1975) MEs were not given any special incentives. All the major industries were nationalized following an inward looking policy. MEs were defined as enterprises having maximum investment of BDT 20.5 million. The second industrial policy (1975-

1981) hardly touched anything related to MED. There was a planned shift from public to private led growth, heading towards “free enterprise system”.

In the 1980's and 1990's

The third industrial policy (1981-1990) was relatively ME friendly. However, the policy remained only in paper due to 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. A modest change in policy environment was seen during the Fourth Industrial Policy (1991-1995) but it produced some policy-induced constraints hindering MED. Preparedness for globalization, privatization and export-oriented industrialization was seen in the policy. 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 MEs (Raihan and Rummana 2007).

In The New Millennium

ME sector has been treated as priority sector in the Industrial Policy 2005. In the policy the development and expansion of MEs is regarded as a very important medium of achieving industrialization and economic growth. To this end, forward and backward linkage, value addition activities and productivity improvement were identified for acceleration in order to establish and expand manufacturing MEs. Industrial Policy 2005 mentioned that MEs would be established on a greater scale across the country in order to bring about poverty alleviation, unemployment reduction and creating more employment opportunity so that national economic growth can be attained. To this end the government took the initiatives to draw up a separate ME policy with a view to provide necessary guidelines and strategic assistances throughout the country.

Following the plan of introducing SME policy, a document titled “Policy Strategies for Development of Small and Medium Enterprises (SME) 2005 was formulated. The policy strategy proposed 11 broad objectives. However, the document shows trails of incoherence and incompleteness in many places. For example, the document does not

have any critical analysis of needs for specific measures proposed and principles for providing support to SMEs have not been set. There is no indication for defining or determining the criteria for nurturing and collaborating with civil society institutions to deliver needed services, leadership, initiation, counselling, mentoring, tutoring etc. Eleven broad sectors have been identified as “boosters” sectors, although it is not clear what does it mean. These criteria are enough to exclude all potential new entrepreneurs who plan to start business with support designed under the policy. As a whole, there is a move towards making MEs functional and vibrating for unleashing its full potential in Bangladesh. However some critical inconsistency and misalignment may be important to be resolved for the betterment of the sector (Raihan and Rummana 2007).

Recently the government has passed her new Industrial Policy 2010 that aims at increasing industrialization in the country and maintaining a balanced control over the national economy. The new policy emphasizes on continuous balanced partnership on entrepreneurship development for rapid industrialization and development of the country. It redefined MEs for the benefit of banks and financial institutions as below, but still not satisfactory. The following table shows those definitions:

Table 19: Definition of MEs in IP 2010 of Bangladesh

ME Category	Manufacturing MEs	Non-manufacturing MEs
<i>Medium Industry /Enterprise</i>	In manufacturing, medium industry/enterprise would be those with assets worth BDT 100 to 300 million (minus land and factory building, and including replacement value) and/or 100 to 250 workers.	In service industry and in business, medium enterprises will be those which employ 50 to 100 and have assets worth BDT 10 to 150 million.
<i>Small Industry /Enterprise</i>	In manufacturing, small industry/enterprise would be those with assets worth BDT 5 to 100 million and/or 25 to 99 workers.	In service industry and in business, small enterprises will be those which employ 10 to 25 and have assets worth BDT 0.5 to 10 million.
<i>Micro Industry /Enterprise</i>	In manufacturing, micro industry/enterprise would be those with assets worth BDT 0.5 to 5 million and/or 10 to 24 workers or less.	In service industry and in business, micro enterprises will be those which employ 10 or less people and have assets worth BDT 0.5 or less.
<i>Cottage Industry /Enterprise</i>	In manufacturing, cottage industry/enterprise would be those with assets worth BDT 0.5 to 5 million and/or 10 to 24 workers or less.	In service industry and in business, cottage enterprises will be those which employ 10 or less people and have assets worth BDT 0.5 or less.

Source: SME Foundation Website, accessed on 26/01/11

However, there is still necessity to emphasize progress in ME definitions for the appropriate growth and development of MEs in Bangladesh.

4.8 A Comparative Overview of MEDPs of the Selected DCs

The following table shows a comparative overview of the inclusion of some key points of MEDPs of selected DCs:

Table 20: Inclusion of key Points of MEDPs of the Selected DCs

Sl. No	Key Points	India	Pakistan	Sri Lanka	Bangladesh
1	Principles and Objectives of MEDPs		✓	✓	
2	Legal Framework of MED	✓	✓	✓	✓
3	Institutional Arrangement for MED	✓	✓	✓	✓
4	Identification of MEs		✓		✓
5	Dedicated Financing Window	✓	✓	✓	✓
6	Encouragement of venture capital		✓	✓	✓
7	Bundle approach for MEs	✓			✓
8	Enhancing legislative support to BDSPOs			✓	
9	Management of Finances			✓	
10	Creating Favourable Exit Policy		✓	✓	
11	Advisory Services and Policy for Technology Development	✓	✓	✓	✓
12	Quality Control Systems	✓		✓	✓
13	Timely Information for enhancing market access	✓			✓
14	Enhancing Marketing Skills	✓	✓	✓	
15	District Industries Centre	✓			
16	Feeder to LEs	✓			
17	Public Procurement for Promotion of SMEs		✓	✓	
18	Entrepreneurship Skills, Retraining and Management		✓	✓	
19	Cleaner Production and Environmental Issues			✓	
20	Indicators for Monitoring and Evaluation of MEDPs		✓		

Sources: Current MEDPs of India, Pakistan, Sri Lanka and Bangladesh

The above table highlighted some special features of the respective MEDPs of India, Pakistan, Sri Lanka and Bangladesh. It is found that different countries have their own features, which ensure special benefits to the ME sector of their respective country. The following section elaborated the above features for a better understanding which are further discussed and analyzed in the later chapters.

Key Point 1: Principles and Objectives of MEDPs

ME Policies of Pakistan and Sri Lanka set a number of principles to be considered for taking action in MED. Those principles actually set the underlying assumptions and realities on the ground. They have a short term and medium to long term policy objectives with an implementation mechanism for achieving higher economic growth based on ME led private sector development.

Key Point 2: Legal Framework of MED

India has enacted MSME Act 2006 and they have their industrial policy. Pakistan has enacted SME Act 2006 and also formulated SME Policy 2007 that provides for identification of fiscal, registration, labour and inspection laws that may not apply to small and/or medium sized enterprises and simplification of those that are required to be complied with. The government of Sri Lanka has taken action to review and amend a number of outdated regulations and rigid administrative laws. Such as companies act included simplification of procedures enabling SMEs to enter, exit and change their business in response to market signals. Sri Lanka has also enacted anti-dumping law to protect domestic suppliers from cheap low quality import. There is no specific MED act in Bangladesh but the SME Policy Strategy 2005.

Key Point 3: Institutional Arrangement for MED

In India several national institutions have been set up. Small Industries Development Organization is one of them, which has emerged as the core promotional agency during the last three and a half decades. Federation of All India Small Scale Industries, Federation of Small and Medium Industries and Indian Council of Small Industries are three dedicated small industry related associations. SME Development Authority was formed in Pakistan for providing one-stop support to MEs. ME Desks are established at the Federal and Provincial levels, Banking and Tax Ombudsman Offices are also established for handling and addressing ME grievances. The Complaint Cell established at the State Bank of Pakistan to facilitate redressal of SME complaints. SME Foundation

in Bangladesh was established in 2007 which is providing one stop services to MEs. Moreover, BSCIC has been working for MED since 1957 with some others.

Key Point 4: Identification of MEs

Pakistan established a voluntary mechanism of certification where SMEDA provides certification to MEs that enables it to get all the facilities and benefits extended to MEs. In Bangladesh, the IP identified MEs under sectoral approach that may mislead, because the major criteria of MEs are size and investment.

Key Point 5: Dedicated Financing Window

India has well-developed mechanism for ME financing under the guidance of Reserve Bank of India (RBI). There are six categories of ME 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 and at district level, six types of FIs are working for providing financial support to the MEs. In Pakistan ME financing is incorporated to cater for underserved segment of MEs. Sri Lankan government has established SME Bank and Lanka Puthra Bank for resolving problems of ME financing. In Bangladesh BASIC Bank is to provide financial support to the MEs. However, the portfolio of the bank is limited and branches are not available in major contours of ME concentration.

Key Point 6: Encouragement of Venture Capital

In Pakistan, improvement took place in the regulatory procedures and fiscal incentives for Venture Capital companies. Sri Lanka is encouraging venture capital companies through legislative protection of risk takers. In Bangladesh, venture capital funds are within the purview of SME policy. Entrepreneurs Equity Fund (EEF) is in operation for long time with mixed outcome. A large portion of the fund has been misappropriated.

Key Point 7: Bundle Approach for MEs

In India, Credit and advice are mutually inclusive factor in MED. For minimizing risk of lending FIs can provide advisory services to the ME borrowers. BRAC Bank in Bangladesh currently follows this approach.

Key Point 8: Enhancing Legislative Support to BDSPOs

In Sri Lanka legislative support is being provided to the BDSPOs to play an active role in management and supervision of MEs, especially for reducing credit risks of ME lending.

Key Point 9: Management of Finances

In Sri Lankan ME policy documents feasible options on management of finances are identified, which include training of ME owners in the elements of financial management and involvement of BDS providers in disbursing loans, monitoring and following repayment. Both of these activities can be made part of loan programme and implemented as package of assistance in MED.

Key Point 10: Creating Favourable Exit policy for MEs

Pakistan introduced Bankruptcy Laws with dedicated and effective judicial process. Sri Lanka has also designed simpler exit policy. Bangladesh has no such exit policy.

Key Point 11: Advisory Services and Policy for Technology Development

There are two 'Prototype Development and Training Centres' (PDTC) to develop new technologies and upgrade the existing ones in India. In Pakistan, introduction of SME specific research projects supporting R&D and University-Industry liaison programmes by different ministries have undertaken. Technology Innovation Centres (TICs) have also been offering common facility, technology up-gradation, R&D and design related services to MEs. Industrial Development Board (IDB) of Sri Lanka 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. In Bangladesh, SME policy envisages international technology exchange programme between countries with similar stages of

development and with a similar maturity of the infrastructural development for MEs shall be implemented in the interest of rapid technology transfer.

Key Point 12: Quality Control System

In India, there are four regional testing laboratories with state of the art equipment and nineteen field testing stations to promote awareness on quality control and standardization, provide testing facilities and pre-shipment inspection as required by the 'Export Promotion Councils' and organize related training programmes. In Sri Lanka, only 20% of the firms had their own laboratory facilities. In Bangladesh, BSTI is proposed to be the focal point for offering assistance concerning securing quality-assurance certification from the Quality Assurance Authority.

Key Point 13: Timely Information for Enhancing Market Access

In India, industry on its own has taken some initiatives. The Federation of Indian Chambers of Commerce and Industry has started BISNET, where information on trade inquires, technological offers of joint ventures/collaborations etc. are made available online through computers. Institutions such as National Small Industries Corporation and Asia Pacific Centre for Technology Transfer in the government sponsored and supported institutions have started providing on line information services to the entrepreneurs. In Bangladesh, an ME web portal has been developed under the SMEF for the divining of technology, products and market trends.

Key Point 14: Enhancing Marketing Skills

India has established Export Promotion Council for the products with high potential of exports that provides information and advice to the exporters. Their services also include providing assistance about market, technology and procedures for exports, procuring orders from buyers and pass them on to the prospective suppliers etc. Bangladesh Export Promotion Bureau is working in this direction. Pakistan encourages establishment of ME specific export marketing companies by providing grants for conducting marketing research, developing marketing strategies, branding, participating

and conducting trade fairs, and different other marketing activities. In Sri Lanka, considering comparative disadvantages in access to market information and existing information technology facilities creation of SME website was considered a timely and an appropriate action for MED. The purpose is to provide e-business facilities through an e-commerce portal at district level. The potential benefits would include dissemination of trade information into remote areas, reducing the costs of doing business, and improving linkages with the global economy.

Key Point 15: District Industries Centre

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

Key Point 16: Feeder to LEs

In India MEs play a feeder role to many LEs, both export oriented and target domestic industries. Such relationship of MEs with LEs give them stability and sustainability. ME promoting institutions play a role of broker for MEs to identify suppliers and buyers.

Key Point 17: Public Procurement for Promotion of MEs

In Pakistan, all public sector procurement encourages participation of MEs with certain products /contracts exclusively to be competed amongst the MEs. In Sri Lanka, existing tender procedures and guidelines provide incentives for local value added industry as against suppliers of imported products.

Key Point 18: Entrepreneurship Skills, Retraining and Management

Pakistan conducts Need Assessment Survey to identify major ME needs in HRD, technology up gradation and marketing. Institute of Small and Medium Enterprise and Entrepreneurship Development is established in selected business schools. Selected sector specific technical training institutes are initiating capacity building and up gradation programmes such as curriculum redesign, provision of equipment, teachers

training, and ME liaison. Pakistan revised primary and higher education curricula for promoting entrepreneurship amongst the educated youth and included entrepreneurship courses in higher education, technical and vocational training institutions. Entrepreneurship competitions at university level are being organized to culminate in annual entrepreneurship competition at national level for selecting best business plans and providing grants for project implementation. In Sri Lanka, a number of strategic initiatives recommended by the national employment policy strategies to promote tertiary and vocational training.

Key Point 19: Cleaner Production and Environmental Issues

Sri Lanka has initiated certain activities as a part of its recent efforts to integrate cleaner production practices to industrial development. The establishment of the National Cleaner Production Centre at the federation of Chambers of Commerce and Industry with donor funding is a major achievement as well.

Key Point 20: Indicators for Monitoring and Evaluation of MEDPS

SME Policy of Pakistan set specific indicators for monitoring progress of SME policy implementation. These are: number of MEs; gender of owners; major sectors of enterprise activity; levels of satisfaction recorded; feedback received; total cost of service; total benefit of service in terms of employment, growth and income per beneficiary enterprise.

4.9 Summary

This chapter highlighted the policy development, especially MEPD issues. The discussion shows that in the process of policy development the role of stakeholders is very important. The theory of stakeholders and involvement of stakeholders in MEPD is discussed in details. It is said that stakeholders influence and perform very important role in MED. Therefore, government cannot ignore their voices. Government must involve them in the policy making process. This chapter also discussed the role of government in MEPD. It clears that government performs the role as a regulator, as an

economic agent and a strategic planner. Therefore, government must intervene for MEPD. It is the government, who can take the risk to handle the systemic and market failures. To correct these failures, developing an appropriate enterprise culture is must in any country. Government can take real initiatives to create an effective culture. Literature shows that to develop an enterprise culture it is necessary to make changes in the education system. Government can intervene for accessing to and provision of finance, advice and assistance, support to technology and innovation and support to particular groups. All these activities will help developing a favourable entrepreneurial climate in the country. From the discussion, it is clear that DCs need to; at least, formulate three distinct policies, under one umbrella. These are ME Policies, entrepreneurship policies and enterprise policies. Lundstrom and Stevenson (2001) clearly identifies the distinction between the entrepreneurship and ME policies. ME policy objectives of some DCs, to draw lessons for DCs are also discussed here, which include, building enterprise culture in the country, improving access to finance, enhance knowledge and skills, developing regulatory framework, and innovations. This is the responsibility of the respective government, how they will consider and accommodate those for their ME policy.

The chapter also discussed the MEDPs of some selected DCs such as India, Pakistan, Sri Lanka and Bangladesh. The discussion shows that MEDPs of different DCs have their own understanding and they have formulated their policies and acts based on their national demands and needs. Discussion shows that there are lessons for others in the policies of each and every country. Such as, District level Micro Industries Centres in India is a mentionable task that provides all the support to ME owners under one umbrella; SME Development Authority in Pakistan provides one stop support to MEs all over the country; and providing legislative support to BDSPOs to MEs in Sri Lanka etc are mentionable for other countries. Especially, in India they have strong institutional arrangements to provide financial and other BDS support to MEs. They have a specific MSME Act for MED. They have formulated state level and national level policies and established organizations to develop the sector. On the other hand Pakistan is also very much constructive in developing MEs. They have formulated SME

act and as well as specific SME policy in 2007 and working forward. The institutional arrangement for MED in Pakistan is also very strong. Their SME policy has got a strong base and found well thought. Establishment of Institute of Small and Medium Enterprise and Entrepreneurship Development in the Business Schools of selected Universities in Pakistan is a good step in promoting entrepreneurship education and creating an appropriate enterprise culture. Sri Lanka also has a strong foundation for MED based on the white paper published in 2002. Bangladesh is the only country in this region, which has no strong policy bases for MED. SMEF, established 2007, in Bangladesh, under the guidance of SME Policy Strategy 2005 providing one stop services to MEs, but still they need a strong policy framework. At the end of the chapter a comparative overview of the summary of key points of the MEDPs is tabled and discussed, which are further considered in the discussion and analysis in the later chapters.

CHAPTER 5

RESEARCH METHODOLOGY

5.1 Introduction

Methodology refers to the choice of methods in planning and executing a research. On the other hand, method is, how one will go about studying a phenomenon where a specific technique is to be employed in different steps. There are four components of a methodology: a preference for certain methods; a theory of scientific knowledge; a range of solutions, and a systematic sequence of procedural steps to be followed in a research (Silverman 2006). Easterby-Smith (*et al.* 2008) states, research methodology combines some techniques used to enquire into a specific situation that has become a way of approaching a question and a way of justifying an answer. This is where research methodology meets epistemology. Epistemology is concerned with the theory of knowledge. It attempts to provide answers to the questions, how and what can we know? This involves thinking about the nature of knowledge itself, about its scope and about the validity and reliability of claims to knowledge. In simple terms, epistemology is the philosophy of knowledge or of how we come to know (Collis and Hussey 2009). On the other hand, methodology is focused on the specific ways and the methods that provide ways of approaching and hopefully answering research questions. It can be described as the way to the goal. Epistemology and methodology are intimately related: the former involves with the philosophy of how we come to know the world and the latter involves with the practice. This chapter provides the discussion of the methodological issues of this research. More specifically aim and objectives, research themes, research questions, scope and the research framework are discussed in details. This chapter also discusses the research process that includes, philosophical foundation, research approach, method of analysis, research strategy, data collection method includes selection of sample groups, justification of the sample group and size, sources of data, and data analysis technique in details.

5.2 Aims and Objectives of Research

MEs have increasingly become more important part of the global economies. So, more and more researchers are seeking to understand the practices and activities of this sector.

This often reflects the interest of government, government agencies, academia and particularly those that are charged with responsibility for enterprise development (Hill and McGown 1999). This research was one of the attempts in this direction. The main aim of this research was to critically examine the MEDPs and MED activities of DCs, particularly Bangladesh as a special case, with a view to articulating appropriate policy recommendations.

5.2.1 Specific Objectives

More specifically the study spells out the following objectives:

- Ob 1: Review existing literature on MED and MEDPs of DCs with special focus on MEs, entrepreneurship development and ED;
- Ob 2: Examine the various support services to MEs;
- Ob 3: Examine the existing ME financing systems;
- Ob 4: Examine the nature of networking among the ME stakeholders; and
- Ob 5: To identify the major problems of MED to offer appropriate recommendations and suggestions for possible policy change, and to overcome the problems, as well as, to contribute to the MED literature.

5.2.2 Research Themes and Questions

Existing researches on the topic show that a strong ME sector provides the main foundation of ED. Albeit the internationally recognized importance of MEs, this sector still face different problems. Specially, in the DCs they lack an appropriate policy framework, face problems in accessing finance, access to BDS facilities, and also complicated bureaucratic environment also hampers their growth. This study aimed at knowing the exact picture of this sector. For the purpose, on the basis of the objectives the following were identified as the main research themes: state of affairs of existing MEDPs; support services to MEs (infrastructural, training and development and research and development); financing MEs; networking of ME stakeholders; and barriers to MED. Finally, the following research questions were identified:

RQ 1: There are different MEDPs existing in Bangladesh, under the direction of which different organization are trying to develop ME sector. The first research question of this study was: are the existing MEDPs appropriate and effective in promoting ME sector; and are those linked to national ED?

RQ 2: Government as well as different non government and private MEDOs have various activities in Bangladesh. The second research question was: are the existing MED activities, such as, BDS, infrastructural support services appropriate and effective for the development of MEs in Bangladesh?

RQ 3: In Bangladesh traditional FIs such as Banks, and other non banking MFIs such as NGOs, are working to provide financial supports to MEs. The third research question of this study was: is the ME financing system of both the banks and NGOs easy and accessible and appropriate to MEs in Bangladesh?

RQ 4: Various MEDOs, such as government, non government, private, professional, donor agencies, research organizations etc. are working together for the development of MEs in Bangladesh. The fourth research question of this study was: is the nature of networking among the different ME stakeholders favourable to MED?

RQ 5: Researchers found different challenges and problems to MED in Bangladesh. The fifth research question was: what is the nature of those challenges and problems and how they can be overcome?

The above research questions were the main foundation to construct the semi-structured interview protocols, which were used in the interviews (appendix A can be seen for more details of the interview protocols). Six sets of interview protocols were set for the selected six groups of samples.

5.2.3 Scope of Research

In Bangladesh, several governmental, non-government and private organizations are engaged in MED. Among the government organizations Divisional Development Boards, Chittagong Hill Tracts Development Board, Directorate of Social Welfare, Cooperative Department, Bangladesh Women's Rehabilitation and Welfare Foundation, and Export Promotion Bureau are noteworthy. To provide various types of help and assistance to various MEDOs, government has set up Palli karma Sahayak Foundation (PKSF) in 1990. Moreover, government has also set up SME Foundation in 2007 that is now playing the prime role in MED.

On the other hand, Bangladesh Small and Cottage Industries Corporation, Bangladesh Industrial and Technical Assistance Centre, Bangladesh Institute of Management, National Productivity Organization and Institute of Microfinance are mentionable training and technical institutions for MED in Bangladesh.

For the promotion of MEs through private sector activities various organizations such as MIDAS and various donors funded projects such as KATALYST, SEDF and the JOBS and various professional bodies and business associations such as FBCCI, DCCI, CCCI, BWEA, NASCIB etc. are working in Bangladesh.

Following the government policy strategy, various NGOs are also working in Bangladesh for the development of this sector. Grameen Bank, Building Resources Across Communities formerly known as Bangladesh Rural Advancement Committee, Association of Social Advancement, Proshika, Tengamara Mohila Sabuj Sangha, Prathikrit, IDEAS International, Young Power in Social Action, International Development Fund and Concern Bangladesh etc. are mentionable among others.

A recently established specialized bank for industrial development namely Bangladesh Development Bank, a list of nationalized banks such as Sonali Bank, Agrani Bank, Krishi Bank, Janata Bank and Bank of Small Industries and Commerce, and private commercial banks such as BRAC Bank, Dutch Bangla Bank, Islami Bank Bangladesh,

Prime Bank, South East Bank, National Bank, United Commercial Bank Limited are working for the promotion of MEs in Bangladesh. A notable thing is that recently under the order of the central bank of Bangladesh all the banks both public and private have started SME cell to provide advisory and financial supports to the MEs.

The scope of the study was basically limited to the impact of the state policies to MED in Bangladesh. Accordingly, three government organizations, two financial institutions both from public and private sector, five non government organizations, three private promotional organizations were studied in depth. Selected policy makers, professionals, entrepreneurs and independent experts at various levels were interviewed. The scope of the study was further extended to include suggestions and recommendations for the future policy development of this sector in DCs as well as for Bangladesh.

5.3 Research Framework

DCs are characterized by a dominant traditional agricultural sector, low industrial base, and acute unemployment, under employment, poverty, overpopulation and low per capita income. Creation of huge employment opportunities can reduce the above problems that can foster national ED. Different researchers show that MEs are the seeds of a vital entrepreneurial economy and in many economies, MEs are contributing for job creation and also nurture the large scale industrialization through entrepreneurship development. Different theories on ED and entrepreneurship development give directions to the policy makers to foster national ED. This study aimed at articulating inputs for MEDPs to help achieving the goal of ED in DCs. However, the framework of this research was based on the major theoretical understanding of ED and entrepreneurship development.

5.3.1 Economic Development and Micro Enterprise Development

Naturally in the DCs the national ED goals are: increasing production and productivity in the industrial sector; maximum harnessing and utilization of material and human resources; solving problems of unemployment and underemployment; cutting the rate of

growth of population; equitable distribution of wealth and income; increasing GDP; increasing the real per capita income; improving the quality of life; and alleviating poverty. The large scope and potential to achieve these goals lie in the development of industrial sector of the national economy. Theoretically, the desired quantum of industrial development could be supported by a few of large investment and capital-intensive units run by a small number of big entrepreneurs (Setty 2002). However, what is envisaged is to have the same quantum of industrial development with a wider spread consisting of a large number of small entrepreneurs all over the country. This would result in MED all over the country and would create employment opportunities to the educated unemployed, skilled people and other potential entrepreneurs from various segments of the society. Thus we can achieve the above mentioned economic and social development goals.

5.3.2. Economic Development and Entrepreneurship Development

The word development is used in so many ways that its precise connotation is often baffling. Nevertheless, ED essentially means a process of upward change whereby the real per capita income of a country increases over a long period. Then a simple but meaningful question arises: what causes economic development? This question has absorbed the attention of scholars of socio economic change for decades. The economic history of presently developed countries like the UK, USA, Japan, Germany, and France tends to support the fact that the economy is an affect for which entrepreneurship is the cause. The crucial role played by the entrepreneurs in the development of the Western countries has made the people of DCs, too much conscious about the significance of entrepreneurship for national ED. Now, people have begun to realize that for achieving the goal of ED, it is necessary to increase entrepreneurship both quantitatively and qualitatively. It is only active and enthusiastic entrepreneurs who can fully explore the potentialities of the country's available resources - labour, technology, and capital to entrepreneurship development (Khanka 2002). Therefore, appropriate entrepreneurship development policies and programmes are necessary for the DCs.

People like Cantillon (1755), Say (1806), Walker (1870) and Schumpeter (1949) visualized the entrepreneurs as the key figures in ED, because of their role in introducing innovation. On the other hand, Parson and Smelser (1956) described entrepreneurship as one of the two necessary conditions for ED, the other being the increased output of capital. Harbison (1965) also includes entrepreneurs among the prime movers of innovation and Sayigh (1962) simply describes entrepreneurship as a necessary dynamic force. It is also opined that development does not occur spontaneously as a natural consequence when economic conditions are in some sense 'right': a catalyst or agent is needed and this requires an entrepreneurial ability. It is the ability that he perceives opportunities which either others do not see or, care about. Essentially the entrepreneurs search for changes, see need and then bring together the work force, material and capital required to respond to the opportunity what he sees (Setty 2002; Khanka 2002).

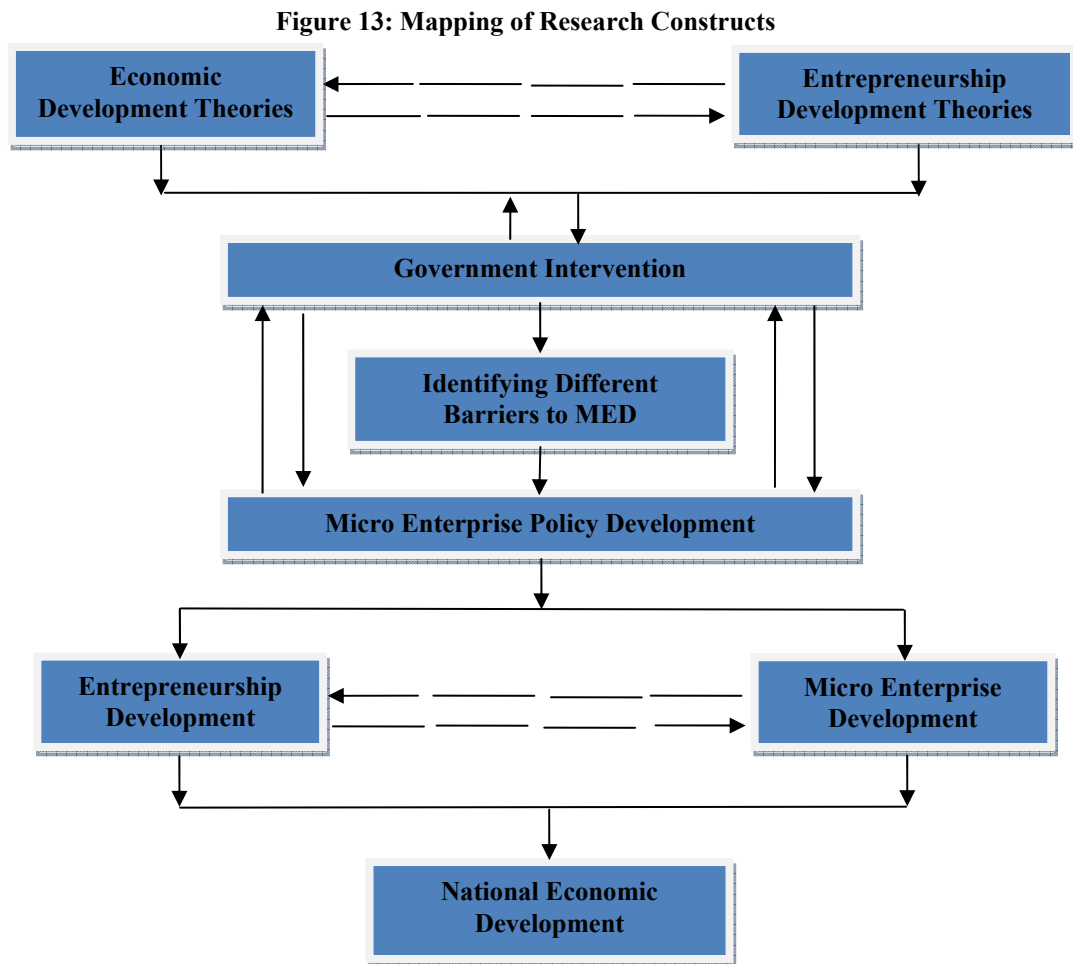
The role of entrepreneurship in ED varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of political leadership to the entrepreneurial function. The entrepreneurs contribute more on favourable opportunity conditions than in the economies with relatively less favourable opportunity conditions. Viewed from the opportunity point of view, the underdeveloped regions, due to paucity of funds, the lack of skilled labour and non-existence of minimum social and economic overheads are less conducive to the emergence particularly of innovative entrepreneurs. In such regions, entrepreneurship does not emerge out of industrial background with well developed institutions to support and encourage it. Therefore, entrepreneurs in such regions may not be an "innovator" but an "imitator" who would copy the innovation introduced by the "innovative" entrepreneurs of the developed regions. In these areas, some people with high achievement motivation come forward to behave in an entrepreneurial way to change the stationary interim, as they would not be satisfied with the present status that they have in the society (Khanka 2002).

Under the conditions of paucity of funds and the problems of imperfect market in underdeveloped regions, the entrepreneurs are bound to launch their enterprise on a

small scale. As imitation requires lesser funds than innovation, it is realized that such regions should have entrepreneurs that are more imitative. In addition, it is also felt that imitation of innovation introduced in developed regions also. However, it does not mean that such imitation requires in any way lesser ability on the part of entrepreneurs. In this regard, Berna (1960) opines that it involves often what has aptly been to do things, which have not been done before by the particular industrialists even though unknown to him, the problem may have been solved in the same way by the others. These imitative entrepreneurs constitute the main spring of development of underdeveloped regions (Khanka 2002; Setty 2002).

5.3.3 Mapping Research Constructs

The following figure shows the mapping of the research constructs of this study.



Source: Author

The figure shows the relation among ED, entrepreneurship development and MED. To ensure national ED government intervention is needed to identify barriers to MED that will help formulating appropriate ME policies. In this regards, existing ED and entrepreneurship development theories help government to get directions towards MEDP. The main constructs of this study are discussed below in brief which were elaborated in detail in the previous chapters.

Economic Development

ED is the increase in the amount of people in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy (Deardorff 2009). The scope of ED includes the process and policies by which a nation improves the economic, political, and social well-being of its people (O'Sullivan and Sheffrin 2003).

Economic Development Theories

In the historical and intellectual evolution in scholarly thinking about ED, we find four major classical and often competing theories in the literature. Four major and sometimes competing strands of thoughts: growth and the linear stage models; structural change models; international dependence revolution and neo-classical, free market counter-revolution. There are newer models of development and underdevelopment as well. The most influential of the new contemporary models of economic development are new growth theories, such as Romer model, O'Ring Model etc. These theories have their own directions, which are discussed in details in the previous chapter.

Entrepreneurship Development

Entrepreneurship development is the process through which individuals and teams create value by bringing unique packages of resources and inputs to exploit opportunities in the environment together. It can occur in any organizational context and results in a variety of possible outcomes including new ventures, products, services, processes, markets and technologies.

Entrepreneurship Development Theories

Different theoretical understandings on entrepreneurship development have been introduced in different times. All the theories such as economic, psychological and sociological tried to keep pace with the emergence of new entrepreneurs and made the readers think how important entrepreneurs are, for social and ED of a country (chapter 3 can be seen for a brief understanding of the theories of entrepreneurship development).

Government Intervention

Government plays important role in different ways in MED, such as: as a regulator, as an economic agent and as a strategic planner. MED activities are hampered seriously because of different failures, such as market failure, systemic failure, and /or government failure. It is government who can intervene to take appropriate actions in correcting these failures.

Barriers to MED

Different barriers related to the policy, finance, BDS and networking issues of MED are found in DCs. These are considered responsible for the low growth of entrepreneurship and ED. Government role is important to identify the nature of those barriers and find out solutions to overcome them.

Micro Enterprise Development Policies

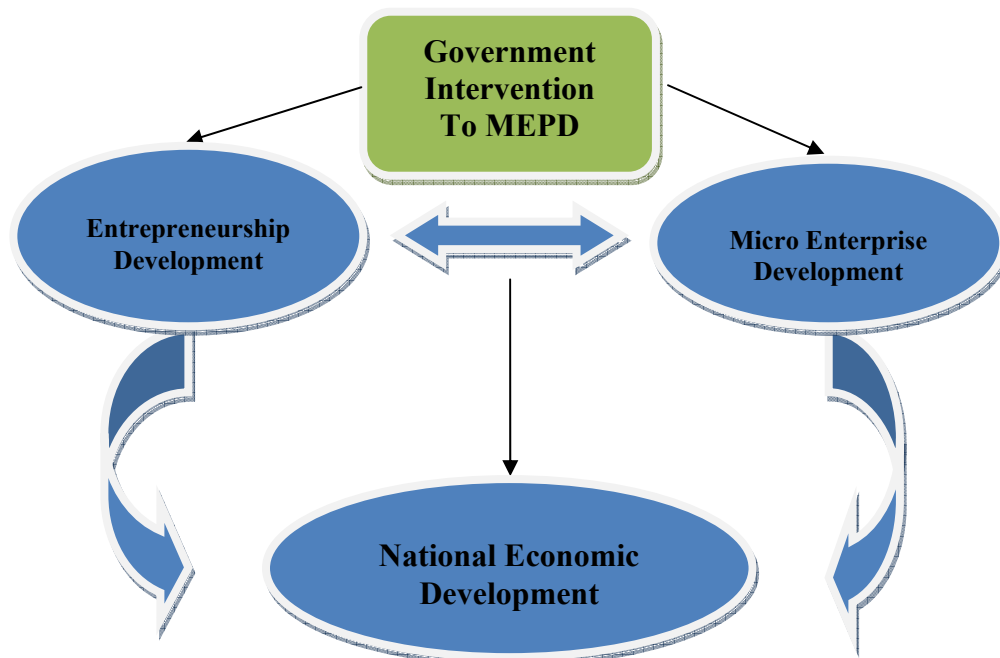
Policy is an action plan that guides to achieve rational outcomes in the organisations. MEDPs are action plans taken by the governments to the development of ME sector.

5.3.4 Proposed Research Framework

ED theories generally emphasized on income generation and employment creation by large scale industrialization with advanced technology to ensure socio-economic well being. But, DCs lack sufficient capital, skilled manpower and advanced technology. Entrepreneurship development theories emphasize on the emergence of new entrepreneurs and on how important the entrepreneurs are for socio-economic development of a country. Current literature (Lundstrom and Stevenson 2001;

Wennekers and Thurik 1999 etc.) shows that there is a link between entrepreneurship and ED. It shows that the impact of entrepreneurship on ED depends on the level of business performance. To upgrade the level of performance in business it is mandatory to create productive entrepreneurs. Moreover, literature shows that economy is an affect for which entrepreneurship is the cause. In DCs MED plays a vital role in ED that indicates a strong link between MED and ED. But, current literature on MED lacks suitable model in linking MED with national ED. Moreover, the nature and functions of the link between individual, entrepreneurship and ED is yet to be adequately understood. Therefore, new knowledge is needed in the literature of MED and ED that can give inputs for particular government intervention to formulate an appropriate MED policy. The following figure shows the proposed research framework of this study.

Figure 14: Proposed Research Framework



Source: Author

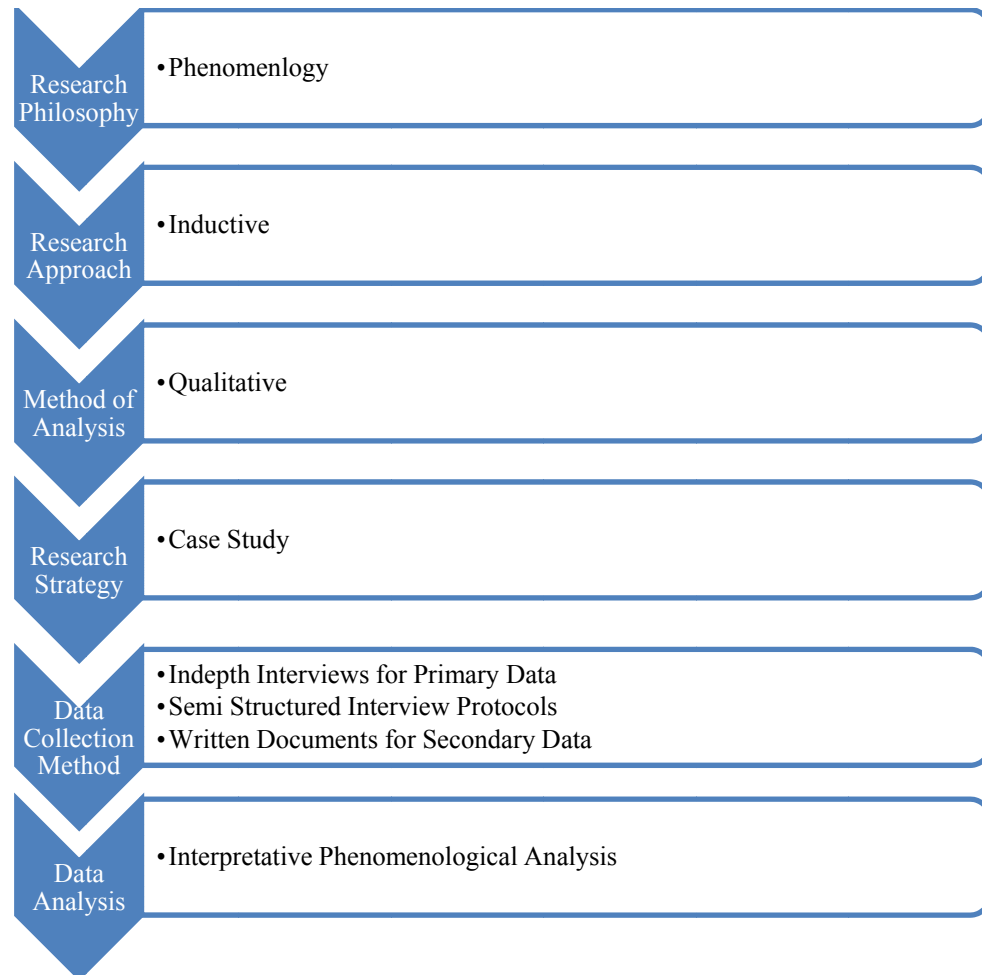
The framework presents the links among the main concepts of this study: MED, entrepreneurship development, and ED. It also shows that to ensure national ED government intervention to MEPD is essential, as these concepts are internally linked,

DCs need special government intervention to formulate an appropriate and coherent MED policy by linking them together towards sustainable economic development.

5.4 Research Process

The research process is the complete picture of a study at a glance. It states the research philosophy, research approach, research strategy, data collection methods, and data analysis. The following figure shows the details of the process of this research:

Figure 15: Research Process



Source: Author based on Saunders *et al* 2000

5.4.1 Research Philosophy

Research philosophy is the way, researchers think about the development of knowledge. This seems rather profound, and not something about which researcher would normally give much thought. Yet the way they think about the development of knowledge affects, albeit unwittingly, the way they go about doing research. Two views about the research process dominate the literature: positivism and phenomenology. They are different, if not mutually exclusive, views about the way in which knowledge is developed and both have an important part to play in business and management research. The key idea of positivism is, the social world exists externally and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection, or intuition. Positivism suggests that there is a straightforward relationship between the world (i.e., objectives, events, and phenomena) and our perception and understanding of it. The goal of positivist's research is to produce objective knowledge that is impartial and unbiased, based on a view from the outside, without personal involvement or vested interests on the part of the researcher (Gill and Johnson 1997). On the other hand, phenomenological school of thought emphasizes a focus on people's subjective experiences and interpretations of the world. That is, the phenomenologist wants to understand how the world appears to others. Phenomenological paradigm involves detailed examination of participant's personal experience and is concerned with an individual's personal perception or account of an object or event as opposed to an attempt to produce an objective statement of the object or event itself. The phenomenological paradigm is a two stage interpretative process. The participants try to make sense of their world, the researcher try to understand the point of view of the participants. It develops idea through induction from data (Smith and Osborn 2003; Easterby-Smith *et al.* 2008).

There is a longstanding debate in social sciences and management about the most appropriate philosophical foundation from which methods should be derived. Each of the above discussed philosophical positions has to some extent been elevated into a stereotype often by the opposing side. Although there has been a trend away from

positivism towards phenomenology over the last few years there are many researchers especially management field who adopt a pragmatic view by deliberately combining methods drawn from the traditions. The line of argument on philosophical position is persuasive in the case of business and management research. Business situation are not only complex, they are unique and a function of a particular set of circumstances and individuals. These features immediately raise questions about the generalisability of research that aims to capture the rich complexity of social situations. However, the phenomenologist would argue that the generalisation is not of crucial importance. They would also argue that only research methods rooted in the philosophy of phenomenology offer the opportunity of discovering the virtual world of the reality working behind the reality (Easterby-Smith *et al.* 2008; Saunders *et al.* 2000). However, considering the research questions and proposed research framework based on the above arguments, the researcher found that an interpretative philosophical base is necessary to achieve the aims and objectives of this research. As to why, phenomenology was chosen as the philosophical foundation of this research.

5.4.2 Research Approach

There are two dominating approaches in management and social research: deductive and inductive. Deductive approach is used to develop a theory and hypothesis and design a research strategy to test the hypothesis. As such, it is the dominant research approach in the natural sciences where laws provide the basis of explanation, permit the anticipation of phenomena, predict their occurrence and therefore allow them to be controlled (Hussey and Hussey 1997). On the other hand, inductive approach is used to collect data and develop a theory as a result of data analysis. It also refers to the method of inquiry appropriate in many different academic disciplines, traditionally in the social sciences, but also in business and management. Inductive approach is primarily interpretive. Insofar, as it is useful to attach these approaches to the different research philosophies, the deductive approach owes more to positivism and the inductive approach to phenomenology (Saunders *et al.* 2000).

As this study has chosen phenomenology as its philosophical foundation, an inductive approach was found suitable to achieve the aim and objectives.

5.4.3 Method of Analysis

In management and social research, two dominant methods are used for analysis: quantitative and qualitative. Quantitative method is a systematic empirical investigation of quantitative properties and phenomena and their relationships. The objective of quantitative analysis is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative analysis, because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. On the other hand, qualitative method of analysis is an inquiry used in many academic disciplines, traditionally in the social sciences, but also in management and further contexts. Mannen (1983) defines qualitative method, as an array of interpretive techniques which seek to describe decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world. Qualitative researchers aim to gather an in-depth understanding of human behaviour and the reasons that govern such behaviour. It also investigates the why and how of decision making, not just what, where, when. Hence, smaller but focused samples are more often needed, rather than large samples.

Based on the above arguments, however, this research used a qualitative method of analysis.

5.4.4 Research Strategy

Research strategy is a general plan of how the research questions will be answered. It contains a clear set of objectives and derived from research questions, specify the sources from which the researchers intend to collect data and consider the constraints which they inevitably have, e.g. access to data, time, location and money and ethical issues (Saunders *et al.* 2000). The different research strategies that researchers usually employ are experiments, surveys, and case study.

Some of the above stated strategies clearly belong to deductive-quantitative tradition and some of those clearly belong to inductive-qualitative tradition. However, often allocating strategies to one tradition or the other is unduly simplistic. What matters, is not the attached label to a particular strategy, but the appropriateness of the strategy for the research questions and objectives. Considering the philosophical base, research aim and objectives, research approach, and method of analysis this study found case study was appropriate and suitable, as, this strategy helps the researcher to gain a rich understanding of the context of the research and the process being enacted (Morris and Wood 1991); and it is an intensive study of a specific individual or specific context to generate answers to the questions ‘why’, as well the ‘what’ and ‘how’ (Robson 1993).

5.4.5 Data Collection Method

The method of data collection is a very important step in management research that involves a list of tasks. The major tasks involved in this study are selection of samples, different sample groups, justification of sample group and size, sources of data, and collection of primary and collection of secondary data. These are discussed below:

Selection of Samples

A sample is the representative part of a population for determining parameters or characteristics of the whole population. Selection of appropriate samples for data collection is a hard task. Different researchers use different ways to select samples for their respective researches. This study followed stakeholders theory for selecting appropriate samples from different stakes involved in this sector as discussed earlier in the chapter 4.

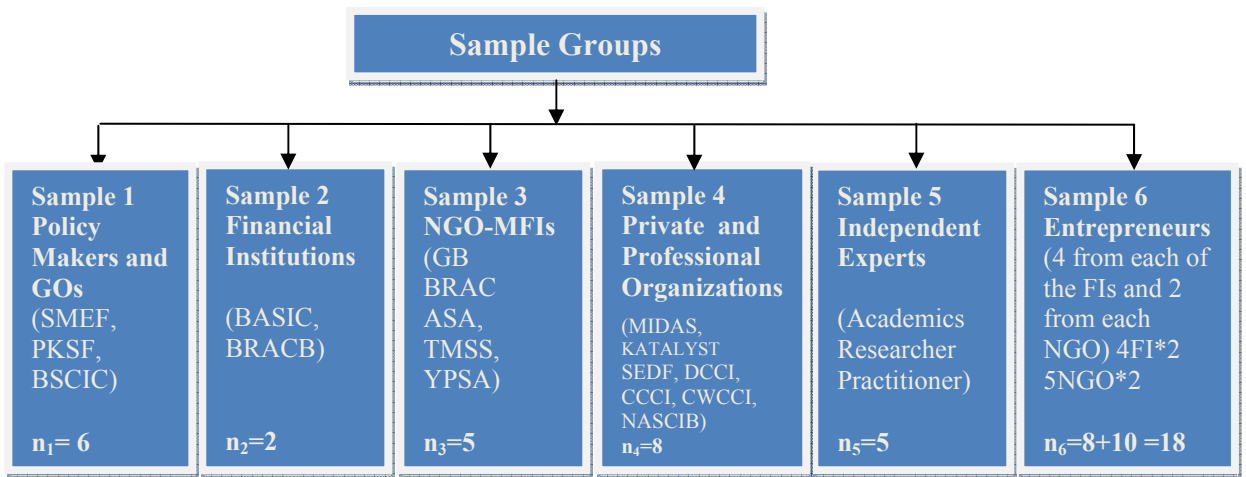
Six categories of samples, covering all the ME stakeholders were identified that include policy makers, includes ministers and political leaders, government organizations, financial institutions, non-government organizations, private promotional organizations, professional bodies, donor organizations, academics and independent researchers, and entrepreneurs. From all the six sample groups forty four respondents were contacted for

the interview. Nine respondents were not formally interviewed, because of their important official and governmental schedules but they supplied some important printed documents related to the interview protocol to the researcher, which were very much helpful during data analysis. Thirty five of them responded with showing interest. They were formally interviewed. Maximum of them were interviewed face to face, two of them were interviewed over telephone and three of them send their filled up questionnaires by e-attachment. However, the response rate is 80%.

Different Sample Groups

The following figure shows the different sample groups of this study at a glance.

Figure 16: Different Sample Groups with Sample Size



Total Samples N = (n₁+n₂+n₃+n₄+n₅+n₆) = 6+2+5+8+5+18 = 44

Source: Author

Sample Group 1 (Policy Makers and Government Organizations): The universe for the policy makers and the government organizations covered the ministers, political leaders and the government organizations involved and executing various programmes for MED in Bangladesh. Among the government organizations, SMEF, PKSF, and BSCIC were selected under sample group 1.

Sample Group 2 (Financial Institutions): The universe for the financial institutions covered all the nationalized and private banks in Bangladesh. All the institutions are

working under the policy of Bangladesh Bank (the central bank of Bangladesh). Among them one nationalized bank, BASIC Bank and one private bank, BRAC Bank were selected under sample group 2.

Sample Group 3 (Non-Government Organizations-Micro Financing Institutions): The universe for the NGO-MFIs covered all the NGO-MFIs involved in MED in Bangladesh. Among them five large NGO-MFIs such as GB, BRAC, ASA, TMSS YPSA were selected under sample group 3.

Sample Group 4 (Private and Professional Organizations): The universe for the private and professional organizations covered the entire private and donor funded MEDOs, chambers and business associations working for MED in Bangladesh. Among them three leading organizations namely, MIDAS, KATALYST and SEDF four Chambers such as, FBCCI, DCCI, CCCI, CWCCI, one national association, NASCIB, were selected under sample group 4.

Sample Group 5 (Independent Experts): The universe for independent experts covered the concerned academics, researchers, and practitioners in the country. Among them two research organizations, Bangladesh Enterprise Institute, D.net, and three senior academics were selected under sample group 5.

Sample Group 6 (Entrepreneurs): The universe for the entrepreneurs covered all the listed entrepreneurs that are engaged with the sample MEDOs. Eighteen entrepreneurs from each of the sample FIs and NGO-MFIs were selected under sample group 6.

Justification of the Sample Groups and Size

Samples for qualitative studies are generally much smaller than those used in quantitative studies. Ritchie (*et al* 2003) provide reasons for this ground. There is a point of diminishing return to a qualitative sample, as the study goes on, more data does not necessarily lead to more information. This is because one occurrence of a piece of data, or a code, is all that is necessary to ensure that it becomes part of the framework of

analysis. Frequencies are rarely important in qualitative research, as one occurrence of the data is potentially as useful as many in understanding the process behind a topic. This is because qualitative research is concerned with meaning and not making generalized hypothesis statements (Crouch and McKenzie 2006). Moreover, qualitative research is very labour intensive and analyzing a large sample can be time consuming and often simply impractical (Mason 2010).

This study, based on stakeholder's theory, tried to cover all the stakeholder groups of ME sector. Especially, as this study aims at articulating policy recommendations, the qualitative views of the policy level executives of professional bodies, NGO-MFIs, donor funded private initiatives, academics, researchers and entrepreneurs are very important, which were covered in the sample groups.

Regarding the size of the sample groups it is to be noted that though the size is small they represent the whole stakeholders group. Such as this study covered all the parties in sample group 1: concerned policy makers, political leaders, and government officers; in sample group 2: both government and private banks; in group 3: leading NGO-MFIs; in group 4: leading private, professional and donor funded MEDOs and associations; in group 5: leading academics, experts, and researchers in this area; and in group 6: entrepreneurs from all the sample organizations and representing all the ME category such as manufacturing, trading, and service and gender. Moreover, limitation of time and fund were also important factors in considering sample size of this study. Therefore, it can be said that the sample group and size of this study is justified and representing.

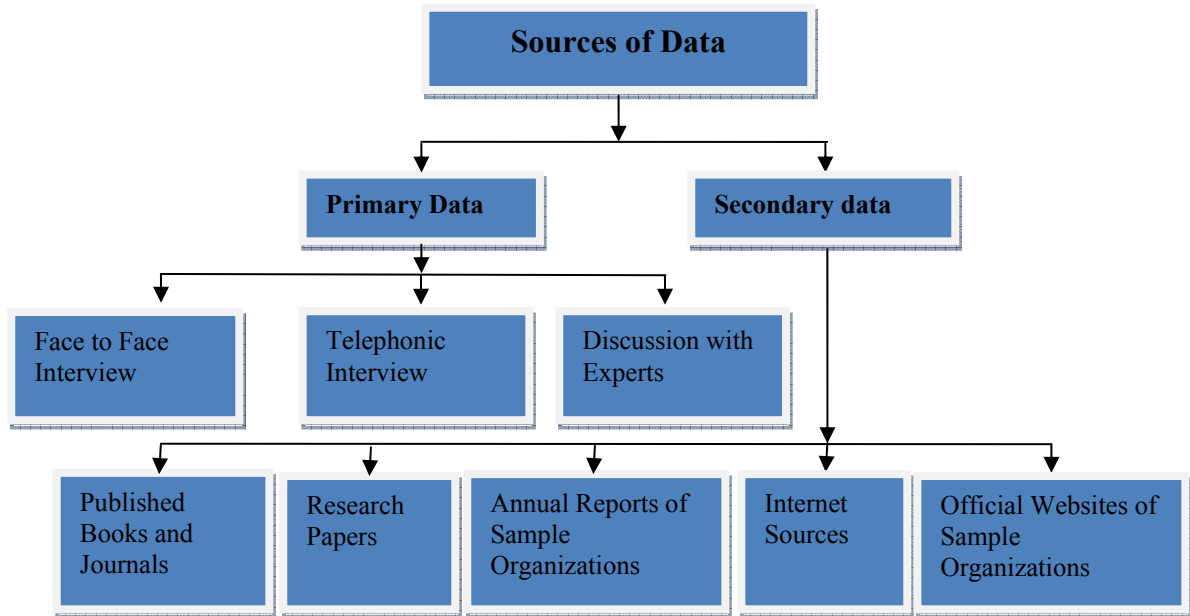
Sources of Data

The following table shows the various sources used for data collection in this research.

Collection of Primary Data

Collecting primary data in qualitative research is extremely varied in nature. It includes any virtual information that captured not numerically. Qualitative data are normally transient, understood only within the context and are associated with an interpretative

Figure 17: Various Sources of Data



Source: Author

methodology that usually results in findings with a high degree of validity. The most fundamental method of primary data collection in qualitative research is in-depth interviewing (Easterby-Smith *et al.* 2008). It can be conducted with individuals or groups, using face to face, telephone or video conferencing methods (Collis and Hussey 2009). Data can be recorded in a wide variety of ways including written notes, stenography, audio recording or video recording. In interview, selected participants are asked questions to find out what they do, think or feel. Probes and prompts may be required. Under an interpretive paradigm, interviews are concerned with exploring ‘data on understandings, opinions, what people remember doing, attitudes, feelings and the like, that people have in common’ (Arksey and Knight 1999).

Considering the philosophical base, research approach and strategy, the researcher found in-depth interview was suitable for primary data collection in this study. For the purpose all the selected samples as discussed earlier were interviewed, where a well designed semi-structured interview protocol was used. The protocol contained a set of questions by which the interviewees were guided rather than dictated.

Collection of Secondary Data

Secondary data can be collected from a variety of sources that exist as written documents. Usually this refers to existing documents. It includes newspapers, magazines, books, websites, memos, annual reports, research articles, theses, and so on. For collecting secondary data various literatures on MED were reviewed. Published books, journals, periodicals, various articles, research papers, monographs and websites of different MEDOs and research organizations around the globe were included among them. Various annual reports, official documents of the government and NGO-MFIs were also reviewed for the purpose

5.4.6 Data Analysis Technique

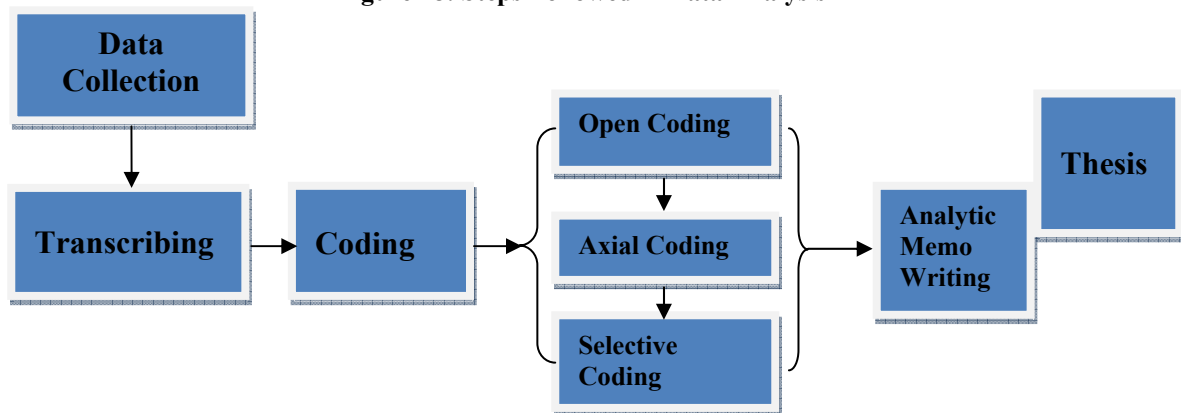
The qualitative method of data analysis is very challenging, because it is hard to manage a large volume of data both primary and secondary. According to Collis and Hussey (2009), data analysis stage is very difficult than the collection stage. For analysing data in qualitative method, the researchers use various techniques, such as content analysis, interpretative phenomenological analysis (IPA) etc. The analysis stage in any research is very critical and linked to the philosophical foundation of the research. The researchers using content analysis go by numbers and frequency. This is deductive in nature and used for hypothesis testing. On the other hand, researchers following interpretative phenomenological analysis go by feel and intuition, aiming to produce common or contradictory themes and patterns from the data, which are used as a basis of interpretation. In this technique, researchers need to stay close to the data and any observations made have to be placed carefully in context. This technique is inductive in nature and testing out the themes of the study. IPA also emphasizes on the researcher's active role in the dynamic process of research. This is a two way interpretative activity (Smith and Osborn 2008). The analyst reflects upon own preconceptions about the data, and attempts to suspend these in order to focus on grasping the experiential world of the research participant (Easterby-Smith *et al.* 2008).

Considering the philosophical base, approach, strategy and data collection method the researcher found the IPA was suitable for analyzing data in this study. IPA in this study aimed at exploring in details, how participants were making sense of their personal and social world.

Steps of Data Analysis

For the purpose of this study, a mass of qualitative data on MED were collected by in-depth interviews and from secondary sources which were reviewed, interpreted and analysed. This research followed the steps below to analyse and interpret the collected data based on IPA:

Figure 18: Steps Followed in Data Analysis



Source: Author

Transcribing

The first step of data analysis was transcribing, i.e. noting the key issues. In this research, written data from the interview transcripts were conceptualized line by line in this step.

Coding

The second step was coding: comparing interview data with one another. It is very hard to reduce mountains of raw data into manageable piles. Coding make this hard job easy that identifies the categories and their properties (sub categories) which are equivalent to the central themes and sub themes of the research. It has a different meaning in qualitative research. Researchers code data by organizing the raw data into conceptual

categories and creates themes or concepts. It is an integral part of data analysis guided by research questions (Neuman 2007). A completed coding sheet can be seen in the appendix B.

The Process of Coding: It was a three steps process: open, axial and selective coding.

Open Coding: It brings the themes of any study to the surface from deep inside the data. Here in this study, all the data were carefully read and reviewed in this stage, then codes were created which captured the themes that came from the initial research questions, the concepts and the literature.

Axial Coding: In this step researcher begins with preliminary concepts and then moves toward organizing the themes and identifies the axis of key concepts in analysis. All the codes created during open coding were organized into a structure by separating them into different major levels by showing relations among the codes.

Selective Coding: This is the last step in coding through which all the previous codes were scanned. Researcher looks selectively for cases that illustrate themes then compares and contrasts with the original data notes for entering them into the final report. Researcher also reorganizes specific themes identified earlier and elaborates them into more than one major themes.

Analytic Memo Writing

It is a memo or discussion of thoughts and ideas about the coding process that researcher himself writes. It forges a link between the concrete data and theoretical thinking. It is the researcher's reflection on and thinking about the data and coding. This analytic memos form the basis for analyzing data in the research report. In fact rewritten sections from quality analytic memos become the part of the final report in this study.

The above steps were followed systematically in this study to interpret, analyse, and code the collected data for the purpose of writing the final thesis.

5.5 Summary

This chapter discussed the detailed methodology used in this study. This chapter started with the detailed discussion of the aim and objectives, research themes, research questions, and scope of the study. This chapter also illustrated the theoretical framework of this research. The framework shows the relations among the main constructs of this study: MED, entrepreneurship development, and ED. The discussion shows that MEs contribute huge to the development of national economy of a country. To ensure the contribution of this sector, government must intervene to formulate an appropriate policy focusing MED and entrepreneurship development. Because, current researches show that entrepreneurship development in DCs depends on the development of MEs, as they lack sufficient funds, appropriate advanced technology, and skilled manpower. Sufficient literature is not found on the issue, i.e. MEDPs that link MED and ED together. Therefore, more and more researches on the topic is needed. The framework of this study was based on the notion that for sustainable ED of DCs like Bangladesh, government must intervene in formulating MEDP in an appropriate and coherent way, by linking the interrelated concepts: MED, entrepreneurship development and ED.

In discussing the research process, this chapter shows that this study used a phenomenological philosophy and an inductive research approach. Phenomenological basis of research is interpretative which uses an inductive approach. Moreover, this study used qualitative method of analysis. Qualitative method is also interpretative. On the other hand, for collecting primary data this study used an in depth interview technique where a semi structured protocol was used. Secondary data were collected from the archival documents. This chapter also justified why this study used the above mentioned methods and the size of the sample groups. The chapter ends with discussing the technique used in data analysis. It shows that this research used IPA technique for data analysis, where systematic steps were followed to interpret, code, synthesise, categorise and discuss the data to find out appropriate recommendations.

CHAPTER 6

DATA PRESENTATION

6.1 Introduction

This chapter presents the primary data collected by in-depth interviews during 2010. A semi-structured interview protocol was applied based on the five broad themes and the research questions as developed and discussed in chapter 5 to attain the aim and objectives. For the convenience of the presentation and necessary referrals, the emerging issues of MED are subtitled, under the main themes and research questions are boxed before the presentation of data. Data are described collectively based on the responses of different sample groups, which are further analyzed and discussed in the later chapters. Examples of responses from all the selected sample groups can be seen in appendix A.

6.2 State of Affairs of Existing MEDPs in Bangladesh

The responses on the different issues of state of affairs of existing MEDPs in Bangladesh are stated below.

6.2.1 Micro Enterprises and Economic Development

Q 1. Do you think that development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer?

Q 2. Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

Q 3. Do you think that those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

The responses on the aspects of MEs and ED are presented below:

Policy Makers and Government Organizations

The respondents in this group agreed that, MED in a country as Bangladesh, is not only very important, but also essential because of its economic level and structure. One respondent said,

“At the existing economic level, Bangladesh has not the sufficient investable surplus (financial resources) to establish high-tech LEs. Moreover, infrastructural support facilities to setup LEs are not yet sufficiently available. Therefore, Bangladesh needs to depend on MED.”

Another respondent added that,

“There is a scarcity of highly skilled manpower in Bangladesh, although labour is very cheap. In such a situation, MED is considered the most appropriate ED strategy of Bangladesh”.

All the respondents said in the same tune that, the present MEDPs in Bangladesh are not aggregate and specifically sector friendly. As a result, those sometimes fail to achieve the objectives of national ED.

Financial Institutions

The respondents in this group agreed that, in Bangladesh MEs are major contributors to the development of national economy. Development of micro entrepreneurship ensures sustainable growth and makes the country self sufficient in different aspects. One of them claimed that,

“The number and presence of MEs in Bangladesh is so obvious and massive that overall ED is not possible without developing them. MEs generate employment which ultimately reduces pressure on government expenditure”.

They agreed, MEs support the larger and medium sized enterprises as these can work as backward and forward linkage enterprises. They also concurred that, the link between present MEDPs and national ED policies is not clear and categorically not ME friendly.

Non-Government Organizations-Micro Finance Institutions

The respondents in this group agreed that, in Bangladesh, MEs are playing a vital role for the development of the national economy. One of them said that,

“At present MEs are contributing 20%-25% in GDP in Bangladesh. As a developing country, we do not have enough capital to establish large-scale industries. For this, we have to concentrate in the area of MED”.

All of them agreed that, MEs help generating employment opportunities, reducing unemployment especially by creating employment for the rural unemployed young

people, ensures rural development, and empowers women, while two of them opined that MEs help increasing cash flow, decrease import, and benefits the missing middle class. All the respondents also agreed that, the guidelines of present MEDPs have linkage with national ED, but not specific and target oriented. One of them claimed that, “without a proper link no policy can sustain. There should be guidelines that are more specific in the policies for MED”.

Private and Professional Organizations

All the respondents in this group concurred that, MEs play an important role in national ED of Bangladesh. One of them claimed that, “MEs contribute substantially to GDP and provide employment to more than 90% of the total industrial labour force”. Another respondent specifically noted that,

“Outsourcing to MEs offers substantial cost advantages to LEs (especially newer firms) engaged in exporting merchandise that are labour intensive. LEs that depend heavily on MEs to produce part or all of their exportable products, as compared to those that are less dependent, grew in size, in terms of both the number of MEs and the number of hired employees. Thus MEs contribute greatly to the export earning in particular and also to the overall industrialization of Bangladesh”.

Another respondent in this group also added that,

“All the policies and guidelines are generally aimed at socio-economic development of a country. However, it is the responsibility of the concerned stakeholders, service providers, etc about how they approach and deal with the policy while implementing their respective programmes”.

Independent Experts

An independent expert claimed that,

“MED is of course important in the context of Bangladesh Economy. Bangladesh is an overpopulated country, where a large segment (about 40%) is under poverty line. Employment situation is in a critical stage. Self employment is the best way for creating employment in Bangladesh. Therefore, MED is must which help creating self employment with small investments”.

All of them agreed that, MEs contribute towards employment generation, growth of GDP, balanced industrialization of the country, socio-economic development of rural as well as urban people of the country, increasing living standard of the citizens, and while

one of them consented that MEs also ensure sustainable economic growth. All the respondents gave the same opinion that, to some extent, the guidelines in the present IP 2010 and SME Policy Strategy 2005 are linked with national ED. One of them stated that, “as those policies are supported by tax policies, fiscal policies and many other important policies, they might be linked to national ED”. On the other hand another respondent specifically claimed that, “those policies are not categorically ME sector friendly”.

Entrepreneurs

All the entrepreneurs stated in the same tune that, MEs are playing an important role in Bangladesh economy by generating employment opportunities for the rural as well urban unemployed and vulnerable middle class. Seven of them also agreed that, MEs help alleviating poverty and empowering rural poor women”. One of them also stated that, “MEs are linked to industrialization as a feeder channel for the LEs”. All the respondents also agreed that, they do not have any clear idea about the link of the present MED policies and national ED and even 11 of them said they have no clear idea about the MEDPs, while two of them highlighted that of course the present policies must have a good link with the national ED.

6.2.2 Significant Issues of Micro Enterprise Development

Q 4. What according you are the major Challenges and Issues (C&I) of MED in Bangladesh?
Q 5. What according to you are the main factors to be considered in MEDPs in Bangladesh?
Q 6. In your opinion, how are those factors can be incorporated in the MEDPs in Bangladesh?

Responses on the significant issues of MED in Bangladesh are as follows:

Policy Makers and Government Organizations

All the respondents agreed that, there is no specific MED policy in Bangladesh, as to why, government organizations as well as others need to follow the guidelines of the

present Industrial Policy, SME Policy Strategy and Environment Policy etc. One of them claimed that,

“Present policies give no specific incentives and facilities to all types of MEs. As a result, all the incentives and benefits automatically are being enjoyed by the medium enterprises and LEs. Moreover, MEs cannot compete with the medium and LEs in accessing to credit facilities”.

The major challenges of MED are, as two of the respondents stated, huge number of potential entrepreneurs lives in the rural areas, while the support facilities mostly lay in the urban areas. The level of productivity of ME products are very low in most cases. Another respondent specifically claimed, “the practicing bureaucracy is not sufficiently efficient to face the problems of MEs and to provide necessary services to them”.

They also stated about several important factors. The priority factors to be considered in MEDPs, according to two of the respondents are the use of local resources and indigenous technology, creation of employment and ensuring financial support. One of the respondents said that, “alleviation of poverty and specialized support for sub sector are also important factors in MED in Bangladesh. “Government can incorporate the above factors in her policies easily”, one of the respondents claimed. All the respondents also stated, to incorporate the factors in MED programmes, political commitment, consultation with ME stakeholders and government will (intention) is needed, while one of the respondents claimed that, “specific focus on the factors is must”.

Financial Institutions

The major challenges and issues of MED are, as one of the respondents in this group said, “lack of coordination among the MEDOs; unable to define the range of micro, small and medium enterprises; and lack of coordination between private and public sector”. While other respondent claimed, “absence of proper regulatory framework and misunderstanding on the conceptual and technological gap on the issue are the main challenges”. All the respondents agreed that, the important factors to be considered in MED policies in Bangladesh are accessible financial services; commitment to this sector; traditional documentation process; and ensuring sustainable growth.

“Government can incorporate those factors into her MED policies, if they want”, said one of the respondents. Both of them suggested that, to ensure easy access to finance for MEs new non-banking NGO-MFIs can be promoted by the government. Central bank should concentrate more on MED through commercial banks by imposing different guidelines. Government should take actions for this in her new policies.

Non-Government Organizations-Micro Finance Institutions

The respondents of this group concurred that, the major challenges and issues of MED in Bangladesh are: absence of proper regulatory framework, misunderstanding on conceptual and technological gap on the issue, and policy makers especially the ministers have little knowledge on the issue, lack of sufficient funds, and lack of infrastructural facilities. While three of them agreed that the main issues to be considered are absence of proper human resource development initiatives; research and development activities are not properly issue based and absence of formal link with the banks and limited access to market, natural catastrophic like flood, cyclone, drought etc.

Three respondents in this group said that, the factors to be considered in MEDPs in Bangladesh are: employment generation, rural urban migration, and utilization of local resources, while two of them agreed that, development of capital market and capacity building are the major issues to be considered in the MEDPs.

One respondent in this group claimed that,

“The formal financial sector (banks) still reluctant to finance all the MEs in the tier. They always prefer financing medium and LEs. Therefore, in the absence of formal financial sector, the informal financial organizations like NGOs-MFIs are adopting their own policies and have been trying to develop MEs. Government should emphasize on this factors properly by amending MEDPs.”

Two of the respondents agreed that, research activities should be proper issue based, findings must be incorporated in the policies and innovative ideas should be implemented. One of them also stated that, “we need a think tank to build awareness and media campaign to pressure government for MED”.

Private and Professional Organizations

The respondents in this group concurred that, a large number of MEs in Bangladesh are yet to receive organizational assistances. The major challenges and issues of MED are limited financial, technological and infrastructural facilities, absence of an appropriate enterprise culture, natural calamity and absence of a favourable MED policy. The main factors to be considered in MEDPs in Bangladesh are, “employment generation and economic development” as all the respondents in this group agreed.

One of the respondents in this group claimed that,

“adequate facilities and provisions may be incorporated in the industrial policy for MED. BSCIC may be equipped and empowered to provide extensive training and support to MEs, where NGOs might also be involved. A coordination cell can be formed covering concerned ministries and directorates to minimize formalities for getting projects approval and other incentives and supports”.

All the respondents agreed that, awareness programme can be executed by involving local organizations, associations of MEs, NGOs and GOs.

Independent Experts

One of the respondents in this group stated that,

“The profile of MEs is not so clear in Bangladesh. They are diverse in nature, so in MEDPs, profile of this sector should be well defined and understood”.

He said the challenges and issues of MED are: “the demographical nature of ME clusters, absence of a clear definition of rural and urban MEs, complex procedural formalities and the bureaucratic attitudes of the government officials”. All of them also agreed that, absence of entrepreneurs involvement in MEPD process, lack of proper entrepreneurship education, lack of proper training and awareness about government policies and incentives among the micro entrepreneurs, lack of access to MED information, shortage of fund and absence of formal networking of the ME stakeholders are the major C&I, while one of them specifically claimed that,

“Uneducated workforce without having formal knowledge and training, unawareness about modern technology, and frequent changes in the nature of business by the entrepreneurs are major challenges of MED in Bangladesh”.

The factors to be considered in MEDPs in Bangladesh are, as all the respondents of this group concurred: limited financial strength, access to conventional fund and information sources, and one stop service for MEs. Two of them also agreed that, establishing sub-contracts among the MEs, MEs and LEs, absence of appropriate entrepreneurship development programmes, competition with LEs and capacity to comply with complex and enormous business rules are the main factors to be considered in MEDPs. On the other hand one of them noted that, “training to the potential ME entrepreneurs, educational background of the entrepreneurs, and uneducated labour force of the country are the main factors to be considered in MEDPs in Bangladesh”.

Another respondent noted that,

“MEs remained as an effective arm of NGOs to enhance their popularity and prove their existence to get funding from donor organizations. The money that has been spent for MED so far in Bangladesh, MEs should have much better picture. PRSP, Sixth Five Year Plan all have addressed poverty reduction as number one criterion but extensiveness of poverty have not yet been reduced, whatever progress we have achieved, it is very slow. Government should make an effective ME policy immediately”.

Entrepreneurs

All the respondents in this group claimed that, access to bank finance, infrastructural facilities, supply of raw materials, skilled workers and natural disaster like cyclone and flood are the major challenges and issues of MED in Bangladesh. Two of them stated that, policy makers ME view is not clear and they themselves are confused about MED. These issues should be considered properly. Natural disaster, loan process, infrastructural facilities, and rehabilitation of sick MEs are the major factors to be considered in MEDPs, said ten of the respondents in this group. Five other respondents said that, monitoring activities of the government, absence of a strong network among the MED stakeholders, are the main factors, while three of them agreed that, communication gap between policy makers and entrepreneurs, corruption and

bureaucratic mentality of the government officers are the main factors to be considered in MEDPs in Bangladesh.

All the respondents in this group agreed that, government should invite the involved organizations in this sector such as NGOs, POs, professional bodies, and business association, to get their suggestions and government should formulate a coherent MEDP, where particular directions should be provided to all the concerned MEDOs. Ten respondents concurred that, this sector needs regular government monitoring, while eleven of them stated, entrepreneur’s participation in the policy making meetings and suggestions of the entrepreneurs must be incorporated in the MEDPs.

The following table summarizes the views of all the respondents on the major challenges and issues of MED in Bangladesh:

Table 21: Major Challenges and Issues of MED

Major Challenges and Issues of MED
Absence of a Proper Regulatory Framework
Complex Procedural Formalities
Absence of a Clear Definition of Rural and Urban MEs
Policy Makers Especially the Ministers have Little Knowledge on the Issue
Demographical Nature of ME Clusters
Access to Funds
Natural Catastrophic like Flood, Cyclone, Drought etc
Absence of Appropriate Entrepreneurship Education
Entrepreneur’s Involvement in MEPD Process
Networking among the ME Stakeholders
Access to MED Information

Notes: n=35 respondents

Source: Fieldwork by the Author 2010

6.2.3 Changing Categorization and Markets of Micro Enterprises

Q 7. According to SME Policy Strategy ‘05 and Industrial Policy 05’ in Bangladesh MEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of MEs in Bangladesh? Following the definition and categorization of MEs of WB and India, should we re-categorize and redefine MEs in Bangladesh? Give reasons for your answer.
Q 8. In your opinion, which sectors should be considered under the MEs in Bangladesh?
Q 9. In your opinion what should be the target markets for the ME sector in Bangladesh?

Responses on the changing categorization and markets of MEs are stated below:

Policy Makers and Government Organizations

All the respondents in this group agreed that, we should re-define and re-categorize the ME sector. It should be MSMEs (micro, small and medium enterprise) and all of them should be clearly defined and categorized based on investment and the number of employment. They also claimed, the ME sectors outlined in the SME policy strategy 2005 should be more specific, such as, trading and non-trading, agricultural and engineering, rural and urban etc. Of course, those sectors should be the main target.

Financial Institutions

One of the respondents said, “About the categorization of MEs, in one sense existing categories are justified. But considering the size of economy, rate of unemployment, opportunities and prospect for MEs, rate of inflation, availability of resources and contribution of economy to the global economy re-categorization of MEs is obvious”, while another respondent claimed that,

“We should obviously redefine MEs as there is a group which is distinctly different from small and medium enterprises. Just to explain the difference between small and medium enterprises and micro enterprises in a simple term let us compare the target market of MFIs and target market of SME focused banks. Mostly MFIs are targeting tiny enterprises, whose turnover is very low, like small scale manufacturers (such as packet manufacturers, greeting cards, handy crafts, etc), street shops, handicrafts prepared the house wives, local small grocery stores, etc. On the other hand, Banks are concentrating mostly a bit higher segment than these tiny enterprises. So, a clear definition and separation will ensure a focused and planned initiative to develop MEs”.

One of the respondents in this group said, “textile, manufacturing of jute products, various tools and parts for LEs, garments accessories, agro processing industries, i.e. food processing, and computer assembling etc should be targeted in the targeted ME sector and market”. While the other highlighted on “street shops, hawkers, small family businesses (handicrafts, small scale family dairy/poultry business) and tailoring shops, and all other businesses with low turnover should be targeted as ME sector, as they create huge self-employment with very small capital.”

Non-Government Organizations-Micro Finance Institutions

Bangladesh should re-categorize and redefine the existing MEs. There are many entrepreneurs out of the two categories: small and medium. To recognize those entrepreneurs access into financial assistance, technical support, market linkage we must re-categorize those, agreed two of the respondents of this group. All of them specifically concurred that, we should re-categorize the MEs into three, micro, small and medium so that, we can focus more on the very small and micro enterprises. One of them claimed that, “because of the category medium and LEs are getting more focus than the small and tiny enterprises by the banks”. Another respondent also added,

“Considering the pattern and size of business and enterprise in Bangladesh there are huge number of tiny enterprises, which should be considered as MEs, the contribution of which in the national economy is remarkable”.

The respondents in this group agreed that, handicraft, agro-based like fisheries, poultry, livestock, food grains, nursery, grocery shop, confectionary, etc should be targeted for the ME sector. One of them noted that, “satellite call operator, cold storage, beauty parlour, transportation also be included in the target sector of MEs”, while the other respondent claimed that, “Agriculture sector (food grains) should get main priority, because we have shortage of food and innovative sector like energy sector (bio-gas, low cost housing, solar energy) should be targeted for the ME sector in Bangladesh.”

Private and Professional Organizations

One of the respondents in this group said that,

“MEs are viewed as missing middle, as such, remained neglected for ages. They are not too big to draw the attention of mainstream financial sector, and also not too small to approach NGO-MFIs (that mainly caters to the micro credit). Therefore they should be re-categorized and redefined on the basis of the size of the enterprises”.

Two of them specially focused on categorizing MEs into five: medium, small, micro, cottage and tiny. They agreed to provide equal facilities to all types of enterprises, government should redefine them, otherwise, small and tiny enterprises will not get access to facilities, as they will not be able to compete with the medium sized and LEs.

Independent Experts

An independent expert said,

“In Bangladesh the rural MEs are treated as cottage enterprises, which are operating in different rural areas of the country. A large portion of distressed women and men are involved in this sector. These people could not able to avail any kind of facilities provided by the government, NGOs and formal FIs, if MEDPs do not specify them”.

Interestingly, there are different definitions by different organizations, which differ in several respects. There are definitions by World Bank, Bangladesh Bank, NBR, and Industrial Policy etc. There is a serious need of a single definition that would help these tiny enterprises to get more facilities provided for them.” The respondents in Independent Experts group agreed that, agro-based enterprises like poultry, fishery, food processing, handicrafts etc should be the main target for the MEs. One expert said that,

“mostly home made products are qualified under the ME sectors, such as handicrafts made of different products like cane, jute, bamboo, dry flower etc. Some home based food products, utilities, small furniture used by rural people, handmade towel, some special dresses, can also be targeted as ME products”.

Another expert claimed that, light engineering, electric and electronic products, also to be included in the ME sector”, while the other added, “in fact it should be categorized mainly on size of capital and labour force. Nevertheless based on our competitive edge and potentials following sector can be considered under MEs: handmade or less mechanized leather shoe and goods, spare parts, plastic goods, garments manufacturing, food preparation and processing, furniture and packaging and printing.”

Entrepreneurs

All of the respondents in this group concurred that, “tiny enterprises, such as tea stall, corner shop, departmental store should get place in the MEDPs. Because they can’t compete with the medium and large enterprises in getting financial assistances from the banks and NGO-MFIs. There should be five categories of MEs: medium, small, micro, cottage and tiny, with clear definition to ensure sustainability”. All the entrepreneurs in this group also highlighted that, enterprises which can be established with a very small

fund should be included in the target area of priority such as beauty parlour, agro-based enterprise like poultry, fisheries, handicrafts, sanitary items, carpentry, and handloom etc. Ten of them highlighted that indigenous technology user small factories should be targeted like, wooden furniture, shoe making, production of consumer goods, sanitary items and electrical goods.

The following table summarises the views of all the respondents regarding the prioritised sectors to be considered that are suitable for MEs in Bangladesh. These are summarized under three distinct categories: agro based, technology based (indigenous and low tech) and others (trading and service) for a better understanding.

Table 22: Prioritized Sectors to be considered for MED

Prioritized Sectors to be Considered for MED
Agro Based
Food Grains and Vegetable Gardening
Food Processing
Live Stock
Mushroom and Honey Production
Nursery and Social Forestry
Poultry, Fisheries and Dairy Industries
Technology Based (Indigenous and Low Tech)
Backward Linkage Industries
Computer Assembling
Electrical Goods Sales and Electrical Works
Garment Accessories
Handicraft: Jute, Bamboo Products
Handloom
Innovative MEs: Bio-gas, Solar Energy, Low Cost Housing
Light Engineering
Less Mechanized Shoe and Leather Goods
Pharmaceutical Industries
Packaging and Printing Industries
Production of Plastic Goods, Sanitary Items and Consumer Goods
Textile Industries
Others (Trading and Service)
Beauty Parlour
Cold Storage
Departmental Store/ Corner Shop
Grocery Shop
Pottery
Rural Transportation
Satellite Call operating
Street Shops / Street Vending
Tourism and Hospitality
Tailoring Shop
Wooden Furniture

Source: Fieldwork by the author 2010

All the 35 respondents agreed that, Bangladesh has a large domestic market, which has to be targeted first. Twenty five of them also added that, we have a good prospect in the foreign market, while two respondents from independent experts and professional organizations group highlighted that, we have to identify which ME products have the potentials to be exported. Actually, it depends on the nature and the quality of the products manufactured by the MEs.

6.2.4 Micro Enterprise Development Activities of NGO-MFIs

Q 10. In Bangladesh, a lot of NGOs are working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Justify your answer.

Q 11. Are there any monitoring activities on the NGO led MED programmes by the government? Do you think that those monitoring activities are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

The responses on NGO-MFI led MED activities in Bangladesh are presented below:

Policy Makers and Government Organizations

The respondents in this group agreed that, NGO activities are very important for MED in Bangladesh. One of them said that,

“a wide network of NGO activities on MED exists in Bangladesh. They can take more initiatives to help local entrepreneurs by reaching the entrepreneurs of remote areas, providing them financial accessibility, linking them with national and international buyers, provide them product quality development training. But they should not be entrepreneurs rather helping the local entrepreneurs”.

While another respondent claimed that “there must be coordination among MED activities in between GO and NGOs which can be based on sectoral development and/or geographical area”. All of them also agreed that, government monitors NGO activities by NGO Affairs Bureau. Government has established Micro Credit Regulatory Authority and Micro Credit Regulatory Act in 2006; other government organizations have also their own monitoring cells. One of them said, “NGOs are charging high rate of interest on their ME loans. It should be decreased to a tolerable level for the MEs”.

Financial Institutions

All the respondents in this group concurred that, NGO activities on MED in Bangladesh is must, because they are the development partners of the government. But their activities sometimes found profit motive. Government regularly monitors their activities by different agencies. Government has Micro Credit Regulatory Act to control and monitor NGO activities. These activities must be more transparent and accountable; otherwise, they will not bring expected results.

Non-Government Organizations-Micro Finance Institutions

The respondents in this group claimed that, NGOs are working for MED in Bangladesh. The government cannot do everything alone for MED. Their activities are very important. One of them specifically noted that, “considering the accessibility, affordability and commitment, NGOs are in the right position to the development of MEs and they are doing a lot”. All the respondents also agreed that, government monitoring on NGO activities are very strong in Bangladesh. NGO Affairs Bureau regularly supervises and monitors the NGOs. Government has recently established Micro Credit Regulatory Authority to monitor NGO activities. These cells work through reports, field visit, and audit programmes. One of them strongly claimed that, “these monitoring activities are not too effective, these should be more appropriate. NGOs have their own monitoring activities. Therefore, over control by the government could be very harmful. We need user friendly relation with government”.

Private and Professional Organizations

All the respondents stated that, NGOs are playing an important role in MED. They mainly provide group-based micro credit of smaller amounts, i.e., £50–£200, which traditional banks don't want to do. It is appreciable but should be more structured and guided by the government. Another respondent noted that, “it is mentionable here that NGOs generally do not assist individual MEs, but in some cases they provide larger loans to their graduate successful borrowers, like banks, which should be continued.” One of the respondents also said, “The process of monitoring has not yet been

streamlined, it needs to go a long way. Regulatory authorities are there with regulatory apparatus. Private sector has requested for a level playing field so that they can sustain in the competition with the NGOs, as a large number of them is in operation”.

Another respondent claimed specifically that,

“The monitoring activities are not appropriate and effective up to the expectation. NGOs are working in the urban, sub-urban and rural areas of the country. No appropriate agencies and authorities involved to look after and monitor their activities. There is also lack of coordination among the activities performed by different NGOs and among NGOs-GOs”.

Independent Experts

One of the respondents in this group said, “NGO activities are effective for MED, but they should have a target to graduate a certain percentage of Micro to Small and then to Medium Enterprise. In practice, these are not happening. MEs always remain at the bottom layer forever”. All of them agreed that, most of the loans distributed by them are not utilized in a proper way by the entrepreneurs. Diversification of fund is a regular practice. They use the money in other familial purposes. The rate of interest charged by them is also very high. One of them also added that,

“The entrepreneurs are always in fear in paying their instalments, due to the legal actions of the NGOs. If NGOs play proactive role, this will be supportive for MED, particularly the tiny and cottage enterprises. Monitoring should be stronger so that entrepreneurs can’t misuse the money”.

All the respondents in this group gave the same opinion that, government has own monitoring activities over the NGO led MED activities, but earlier it was not so much effective. Government has formed Micro Credit Regulatory Authority and an Act for streamlining these issues and strengthening monitoring activities of NGOs. One of them specially noted that, “Monitoring activities on the MED activities of NGOs are very much ineffective. Sometimes the concerned ministry raised the question of monitoring but there is no adequate rules and regulations regarding this. Government recently formulated MRA regulations, let us see what happened”. While another respondent in this group claimed that, “the local government authorities are not directly involved in MED. They might be involved to look after NGO activities in the local area”.

Entrepreneurs

All the respondents in this group agreed that, government alone can't do all the development activities, NGOs are working as development partners with the government. NGOs are working with very tiny enterprises with a very small amount of loan. It is to be noted that they accommodate huge number of vulnerable people with their MED activities, which is not possible for the banks. Twelve of them said that no other organizations are so helpful to the tiny enterprises, like the NGOs. Therefore NGO-MFI led MED activities must be continued. Five of them said that, group formation for ME loans by the NGOs is very tough and time consuming. Moreover, NGO officers nowadays do not come to the MEs regularly. For every single purpose, the entrepreneurs need to go to the NGO offices, which is not expected. All the respondents in this group also stated that, Government has its own monitoring activities. However, we do not have any idea about the effectiveness of those activities.

6.2.5 Efficacy of Current MED Policies

Q 12. Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

The responses on efficacy of current MEDPs in Bangladesh are stated below:

Policy Makers and Government Organizations

Two respondents of this group agreed that, the Industrial Policy 2005 and SME Policy Strategy 2005 are favourable but not totally specific sector friendly. There are huge scope for favourable amendments and addition in those MED policies. One of them claimed that, "there should be a specific MED Act in Bangladesh". While another respondent said, new Industrial Policy 2010 seems to be highly biased to the service and trading enterprises rather than the manufacturing enterprises. This will create various risks, to the medium and small size manufacturing industries in Bangladesh. Therefore, the policy for manufacturing industries should be separated from non manufacturing".

Financial Institutions

The respondents in this group agreed that, present MEDPs such as Industrial Policy 2005 and SME Policy Strategy 2005 are seemed not well thought out in terms of sector wise development guidelines. It should be amended to be more specific, sector based and target oriented.

Non-Government Organizations-Micro Finance Institutions

All the respondents in this group concurred that, the present MED policy guidelines are not specific and implementation guidelines are not clear. Actual MEs should be identified in case of financing by the banks. One of them claimed that,

“The World Bank and other International Organizations are giving subsidized loans to nationalized banks but they are incapable to utilize those in proper sector development. So we need some sort of specialized banks as traditional commercial banks are doing very little in developing this sector”.

Private and Professional Organizations

One of the respondents in this group said, “the present MEDPs are not specifically sector friendly, small and tiny enterprises are neglected there”, while another respondent noted that, “development is a continuous process and focus on any specific area may change with the passage of time.”

Independent Experts

All the respondents in this group agreed that, for MED in Bangladesh, Industrial Policy 2005 and SME Policy Strategy 2005 have very little to do, they are not well thought out, there could be a separate policy for MED highlighting support from micro enterprise to help small enterprise and medium sized enterprise as a sub-contractor.

One of the respondents specifically noted that, “Industrial Policy 2005 and SME Policy Strategy 2005 are for medium sized and LE development, where small, micro and other tiny enterprises have been neglected. Medium enterprises are mostly manufacturing based, small and micro enterprises are constituted with a large number of traders.

Medium sized enterprises have completely different feature while small and micro enterprises are different. Therefore we need a specific sector focused policy”.

On the other hand, another respondent said that,

“From time to time government increases facilities for MED in the policies, but the implementation is not up to the mark. SMEF must be more active and their services should be extended to the different sub urban and rural areas. Capacity building and training packages should be strengthened”.

While one of them also claimed that,

“The present MED policies were not prepared with enough consultations with the target group and experts. To formulate a practical policy, adequate consultation with experts and target groups are to be made, as well as an in-depth study is to be carried out in line with its requirements, capacity and compliance ability. Therefore, we must need a new and separate MED policy”.

Entrepreneurs

All the respondents in this group said that, they do not have a clear idea about the MEDPs. Ten of them agreed that, the process of financing by the banks is very complex and not sector friendly. On the other hand, seven of them agreed that, the rehabilitation process is also not specific and clear. In the policies, there must be specific rehabilitation activities for all the types of MEs.

6.3 Support Services to Micro Enterprises in Bangladesh

Different types of MED support services are being provided by the government as well as other non-government and private organizations in Bangladesh. Regarding the support services for MED the responses are described below.

6.3.1 Attracting Participants

Q 13. In your opinion, what motivational efforts should be attempted to attract entrepreneurs for establishing MEs? Please tick as appropriate.

The following table shows the views of all the respondents on the different motivational

efforts to be attempted to establish MEs by the BDSPOs in Bangladesh.

Table 23: Attracting Participants

Efforts to attract Participants	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
Awareness Building Campaign	3	2	5	5	3	15	33	95
Arrange Preliminary Motivational Training	3	2	4	5	3	15	32	92
Information Centre at <i>Upazilla</i> Level	3	2	5	5	2	15	32	92
Networking of MEs	2	2	5	5	3	15	32	92
Announcement of Incentives	3	2	4	4	3	15	31	89
Survey Research and Organizing Seminars		2	5	5	3	15	30	86
Organizing Trade Fairs	2		3	5	1	10	21	60
Acknowledging the Success of the Entrepreneurs and Ensuring their Profit			4	3	1	10	18	51
Relaying Success Stories of Different MEs			3			10	13	37

Notes: n=35 respondents; RG1: Policy Makers and Government Organizations-Micro Finance Institutions (3 Respondents); RG2: Financial Institutions (2 Respondents); RG3: Non-Governmental Organizations (5 Respondents); RG4: Private and Professional Organizations (6 Respondents); RG5: Independent Experts (4 Respondents) and RG6: Entrepreneurs (15 Respondents)

Source: Field Work by the author 2010

6.3.2 Business Development Service Activities

Q 14. What type of Business Development Services (BDS) do you provide for the development of MEs in Bangladesh? How effective do you think those BDS are?
Q 15. In your opinion what type of supports services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

BDSPOs both government and non-government provide different BDS for MED in Bangladesh. The following table shows the respondents views regarding the most effective BDS for MED in Bangladesh:

Table 24: Most Effective among Current BDS Activities

Most Effective among Current BDS Activities	RG 1	RG 3	RG 4	Total	%
Entrepreneurship Development	3	5	6	14	100
Business Management	3	5	4	12	85
Business Skill Development	2	5	4	11	78
Enterprise Development	3	3	4	10	71
New Business Creation	3	3	4	10	71
Training of Trainers	3	2	4	9	64
Support to get information from Counselling Centre	1	2	6	9	64
Credit Management	2	3	3	8	57
Sub sector Development	2	2	3	7	50
Establishing Linkages with Banks and Market	1	2	4	7	50
Financial Analysis	2	2	3	7	50
Project Design	1	2	4	7	50

Notes: n=14 respondents; RG codes as for table 23

Source: Field Work by the author 2010

According to the annual reports of the respective BDSPOs, all of the above BDS are effective for MED. The respondents ranked the activities on their effectiveness.

On the other hand, views on the expected BDS from the BDSPOs of all the respondents are presented in the following table.

Table 25: Expected Business Development Services

Expected BDS	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
Basic Information and Legal Services								
Information on MED Policies	3	2	5	6	4	15	35	100
Information on Fiscal Incentives and facilities	2	2	4	5	4	15	32	92
Information for Start-up Entrepreneurs	2	2	4	5	4	15	32	92
Information for Company Registration		2	2	3	3	7	17	48
Consulting Services								
Business Planning for MEs	2	2	4	5	4	15	32	92
Banking and Credit Financing	2	2	4	5	4	15	32	92
Accounting and Book Keeping	3	2	4	3	3	15	30	86
Credit Assessment (Loan application)	2	2	4	4	3	14	29	83
Presenting Business Plan to the Banks	2	2	3	4	3	13	27	77
Seminars & Exhibitions for MEs	2	2	3	3	3	12	25	71
Market Research	2	2	2	3	3	12	24	68
ME Laws (Lawsuit, Enterprise Law)	1	2	1	2	1	11	18	51
Employment (Recruitment)	1	1	1	2	1	8	14	40
Searching for Potential Investor		1	1	2		8	12	34
Marketing								
Advertising	3	2	3	5	4	15	32	92
Marketing Plan	3	2	3	5	4	15	32	92
Marketing Research	2	2	5	4	4	13	30	86
Marketing Strategy	2	2	5	5	3	13	30	86
Product Promotion	2	2	3	3	4	10	24	68
Accounting								
Business Planning	3	2	5	4	4	14	32	92
Book Keeping	2	2	5	4	4	13	30	86
Cash Flow	3	2	4	4	3	13	29	83
Taxation	1	1	2	2	2	11	19	54
Audit and Financial Reporting	1	1	1	3	1	10	17	48
Human Resources Management								
Training and Promotion	2	2	5	4	4	15	32	92
Management Skills	2	2	5	4	4	15	32	92
Selection and Recruitment	2	2	4	4	3	13	28	80
Motivation of Staff	2	1	1	3	1	10	18	51
Performance Appraisal	1	1	1	2	1	6	12	34
Production / Technology								
Product Design	2	2	5	4	4	13	30	86
Production Management System	1	1	1	2	1	9	15	43
Software Development (IT)	1	1	1	2	2	5	12	34

Notes: n=35 respondents; RG codes as for table 23

Source: Field Work by the author 2010

6.3.3 Technical and Infrastructural Facilities

Q 16. In your opinion what type of technical and infrastructural facilities should be provided by the government for the development of MEs in Bangladesh?
Q 17. Do you think there should be special types of technical and infrastructural facilities for the development of non-manufacturing enterprises? Give reasons for your answer.
Q 18. Do you think that R&D activities are required for the development of MEs in Bangladesh? Give reasons for your answer.
Q 19. What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

Following table shows the expected technical and infrastructural facilities to be provided by the government as well as other BDSPOs for MED in Bangladesh.

Table 26: Expected Technical and Infrastructural Facilities for MEs

Expected Technical and Infrastructural Facilities for MEs	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
Electricity, Gas and Water supply	1	1	5	2	4	15	35	100
Infrastructural Facilities (Industrial Plots)		2	5	2	5	15	35	100
Well Structured Communication System	1	1	3		1	12	34	97
Sector Wise Technical Training	2	1	4	1	4	13	33	95
Telephone and Internet		1	3		1	12	30	86
Consultancy Services	2	2	5	3	5	15	22	63

Notes: n=35 respondents; RG codes as for table 23

Source: Field Work by the author 2010

Three of the respondents from the Independent Experts and Professional Organizations group stated that, non-manufacturing enterprises need some different facilities than the manufacturing enterprises. They added, some service enterprises in the field of ICT are growing in the ME sector. Some examples are mobile lady, agro help line etc. Telecentres are progressing as service enterprises. Not only that, health care centres, hairdressing, dress making are some of these sectors emerging. They need special training to deliver their services smartly.

Responses on the issue of R&D activities on MED are presented below:

Policy Makers and Government Organizations

All the respondents agreed that, both the government and other non-government organizations have their specific plan of research and development. However, maximum

of those are not done on a regular basis. One of them noted that, “some organizations have need-based R&D activities”. He also added that, “research results of the different organizations are also found under red tape. They are not being considered in the MED policies properly.”

Financial Institutions

The respondents in this group concurred that, R&D activities are extremely important for the MED in Bangladesh. R&D activities help to know customer satisfaction, product ideas and test a product’s compatibility before launching and also help for product reviewing. However, R&D activities of different organizations are not target oriented. They also added that, research results of the different organizations are rarely found considered in the government policies. One of them claimed that, “Political commitment towards MED is also absent”.

Non-Government Organizations-Micro Finance Institutions

The respondents in this group agreed that, R&D activities are necessary for MED in Bangladesh. NGOs have separate R&D unit. The unit is responsible to conduct study, research and design different programmes in the light of research results. They also added, the research results of the NGOs are merely considered in government policies.

Private Professional Organizations

One of the respondents in this group claimed that, “R&D is important to cope up and survive in the ever changing business environment”. “Many organizations have no specific R&D activities, however, when situation demands, they initiate need based programmes”, he added. However, the main thing is that, the recommendations of the research activities are rarely adopted in the government policies, they agreed.

Independent Experts

The respondents in this group stated that, R&D is very much required. Because of the absence of R&D activities, we are continuously failing to address the global issues.

They also added that, the result of those researches must be incorporated in the policies of the government. One of them noted specially that,

“R&D is required, because we are mostly copying others, we do not have our own technology. By R&D activities we can update the quality of product; adapt the product with changing needs of the consumers; increase efficiency in operations; face competition and enter into the niche market; identify the reasons for becoming an enterprise sick and find the way to revive; and adopt the measures to provide proactive incentives and facilities to the entrepreneurs. In a nutshell, R&D activities are must for the sustainability of the MEs”.

Entrepreneurs

Respondents in this group opined in the same tune that of course research and development activities is must to develop this sector, specially to establish innovative MEs. One of them said that,

“Sometimes we see some researchers come to our enterprises with foreigners and NGO officials, they ask some questions, we gave time to answer their questions, but what happens next we don't know.”

6.3.4 Micro Enterprise Development Training Activities

Q 20. Outline the types of MED training programmes that you provide for the entrepreneurs? Specify objectives, duration and frequency of those.
Q 21. In your opinion, what type of training and development should be provided for the entrepreneurs? Please specify. Do you think those training programmes should be intended to be income generating? Give reasons for your answer.
Q 22. What curriculums should be there in those training programmes and how should they be developed? Do you think those curriculums should be updated as a regular basis?
Q 23. Do you think those training programmes should be evaluated, if yes, how?

All the government, non-organization and private organizations working on MED in Bangladesh provide different types of training to the entrepreneurs. These trainings are of different durations. The following table shows the different training activities of the samples MEDOs:

Table 27: Different MED Training Courses

Name of the Training Courses	Duration
ME Management and Skill Development	(4 days/ 15 days/ 1 month);
Marketing and Sales	based on needs
Institutional Self Sufficiency	based on needs
Accounting and Financial Management	based on needs
Training New Business Creation	(12 days);
Marketing Courses	for 3 days
Costing and Accounting	for 3 days
Business Promotion and Growth	for 4 days
Enterprise Development Training	based on needs
Sewing Training	15 days, 1 month
Training on Fashion & Design Making	based on needs
Training on Block & Batick	6days
Cow/ Goat Rearing	6 days
Beef Fettering	6 days
Poultry Rearing	6 days
Homestead Gardening	6 days
Social Plantation	6 days

Notes: n=11 respondents

Source: Field Work by the author 2010

Responses on expected training and development activities on MED are presented below. All the independent experts stated that, the T&D activities should be need based and of course intended to be income generating. One of them said,

“We need to make the trainees understood that they would need to tell their issues to the appropriate authorities. The types of training should be on, how to maintain quality of their products, how to assess the demand of their products etc. They should have enough coordination among themselves to raise their voices to the appropriate levels. The nature of those T&D activities should be income generating, it is well understood that, ME are family based, training will cost them as they have to spare their family members at the cost of their living”,

While another Independent Expert noted that,

“the types of training and development activities should be on, how to identify and exploit business opportunities, how to make feasibility studies of a project, how to organize and manage a business and how to analyze risk and set strategy. As training helps the trainees to transfer their learning in their businesses, which develop their confidence to become entrepreneurs, it should be income generating in nature. Hence it will increase their motivation to employ more time and effort to make their venture successful”.

On the other hand, another respondent said, “there should be training on marketing, management, product selection, quality improving and maintaining, technology

adaptation and up-gradation and also on skill development”. According to the opinion of one of the respondents of Private and Professional Organizations group,

“entrepreneurship development, new business creation, business improvement, management of the enterprise, marketing and sale, enterprise development and financing, financial analysis, skill development and accounting and financial management etc might be the different types of training and development activities to be provided to the entrepreneurs both existing and new”.

Following table shows the summary of the views of all respondents about the expected MED Training activities:

Table 28: Expected MED Training Activities

Expected MED Training Activities
Analyzing Risk and Set Strategy
Business Planning and Operation
Business Improvement and Management of Enterprise
Computer and Information Technology
Entrepreneurship Development
Managerial Skill Development
Product Selection, Marketing and Sales
New Business Creation
Project Preparation and Loan Application
Quality Improving and Maintaining
Technology Adaptation and up-gradation
Training on Business Development, Finance and Marketing
Technical Skill Development

Notes: n=24 respondents

Source: Field Work by the author 2010

The responses on the curriculum of MED training activities, one of the independent experts claimed that,

“Training Need Analysis is required to set the curriculum of the MED training activities, because MEs are very diverse in nature. Quite some time they remain very informal, so training needs will also be diverse in nature”.

All the respondents highlighted that; the training curriculum should cover the following: maintaining quality of products; diversifying design, accessing to technology, getting ICT facilities, involving with marketing chain, maintaining accounts, sustaining in the markets, and targeting the markets etc. Another respondent noted that, “Of course, the curriculum should be updated based on the need and change of the consumer behaviour”. While the other highlighted that, “globalization has made consumer as the king, at a very interior market of a village, a ME product is facing competition with

cheap imported goods, so in order to face the competition training courses should be updated”. An independent expert said,

“preparation of project and feasibility study of a project, recruitment, selection, and training, management of business, setting marketing strategy, managing risks and finance, examples of successful entrepreneurs, case study of different MEs should be included in the curriculum of the T&D activities. He also added that the curriculum should be updated regularly by considering the changing requirement of environment and needs of business and policy of the government”.

On the evaluation of T&D activities all the respondents agreed that, of course MED training activities should be evaluated on a regular basis. An independent expert also said, “A simple evaluation questionnaire should be circulated among participants, or they may be asked to share their success after the training”.

On the other hand, another respondent from NGO group stated that, “it should be evaluated by using questionnaire method, actual involvement of trainees in business or ventures, attitude survey of trainees, and comparing the outcomes of the training with the expectation of trainees”. While another respondent from Financial Institution group noted that, “every training programme must be evaluated regularly in respect to the feedback of the target group and achievement of its objective and corrective action needs to be taken, if there is any mismatch.”

6.3.5 Efficacy of Support Services to Micro Enterprises

Q 24. Do you think the support services provided by the government and other organizations are appropriate and effective for the development of ME sector in Bangladesh? Give reasons for your answer.

Responses on the efficacy of ME support services of different MEDOs are as follows:

Policy Makers and Government Organizations

The respondents of this group stated in the same tune that, government organizations provide different types of BDS for MEs. These BDS are so far effective according to the organizational reports, but sometimes fail to achieve the main goals of MEs.

One of them highlighted that,

“Government provide training to NGO officials and entrepreneurs, such as demonstration, value chain development, and sub-sector development, etc. NGOs also provide different BDS, but the participants who receive BDS do not follow them properly in their practical business life. As to why they become unsuccessful, which raise negative questions to the effectiveness of the BDS.”

Financial Institutions

One of the respondents in this group claimed that, “BDSs are very important for the Growth of MEs and in Bangladesh all the organizations involved in this sector provide different supports services. These are found effective according to the organizational reports, but the main thing is that the receivers do not follow the guidelines in their practical business life”. One of them also added that, “they receive BDS as an official task as the financier asks them to do. BDS is not mandatory; as a result they neglect it, and often fail to develop their MEs properly”.

Non-Government Organizations-Micro Finance Institutions

The respondents in this group stated that, NGOs provide different BDS to the entrepreneurs, such as entrepreneurship development and business management, enterprise development training, skill development training, information on business creation and start-ups. One of the respondents noted, “those BDS are informal, all the NGOs as well as GOs offering BDS in general. We should be more specific and need based in providing BDS to the entrepreneurs”. Another respondent also highlighted, “especially for the uneducated and unskilled labour force of Bangladesh, we need BDS with special curriculum to make them human resources.

Private and Professional Organizations

The respondents in this group agreed that support services of government and other BDSPOs are to some extent effective. However, the fact is that the micro entrepreneurs receive those BDS as a fashion. All the financing organizations should make BDS mandatory as a condition to sanction loans.

Independent Experts

One of the respondents in this group claimed,

“Support services provided by the government organizations are to some extent effective, but it needs to be upgraded. Responding quickly with the need of the MEs at this stage of globalization is very difficult for government organizations. The structure and mind set of the government organizations do not match with the need of the hour”.

Another respondent said, BDS of different organizations needs to be upgraded a lot, there remain a gap always between needs and the supply of services, and there are duplications and over lapping”. One of them also added,

“There is a large number of training institutes and MEDOs both government and non-government those are in general providing training services. They are not well thought out. There is a serious need for specific skill development and technology access related training for the expected development of MEs in Bangladesh”.

Five of them agreed that, the BDS providers lack practical knowledge on the very scenario of the sector. They are very much dependent on the theoretical aspects and their knowledge is based on the books and not on running MEs. Due to bureaucratic formalities and complexities real entrepreneurs could not get even these facilities.

Another respondent also claimed that,

“A large number of entrepreneurs in the rural areas could not avail the facilities and services provided by the government and even they don't know how to avail these facilities though those are quite insufficient in respect to need and demand of the sector”.

Entrepreneurs

All the respondents agreed that, the BDS is so far effective but the level is very low. “Though there are a lot of BDSPOs both government and non-government in Bangladesh, the entrepreneurs do not aware and also do not care about that BDS, because those are not realistic and practical”, said one the entrepreneurs in this group. Another respondent added that, “The BDSPOs should have some mandatory and specific BDS for the new entrepreneurs”.

6.3.6 Survival of Micro Enterprises

Q 25. There is saying that “MEs are growing in bulk and dying also in bulk in the developing countries”. Do you agree with the statement and what sort of action are you taking to make the MEs more sustainable?

Q 26. Do you think there should be surveys to identify the unsuccessful enterprises and their problems at the end of each and every financial year? Please specify.

Q 27. What is your suggestion about the unsuccessful enterprises and to overcome their problems? Should they be rehabilitated, if yes how? Please specify.

Regarding the survival of MEs the responses are as follows:

Policy Makers and Government Organizations

The respondents in this group said, yes, to some extent this is true that MEs in Bangladesh grow and die in bulk. They agreed, to make MEs sustainable BDSPOs need continuous R&D activities and target oriented training and development activities. One of them specifically noted that, “motivational activities for the micro entrepreneurs and necessary financial support must be provided if they are found unsuccessful. There should be yearly surveys to know the condition of the MEs”. Regarding the surveys to identify the unsuccessful enterprises all the respondents agreed that, government organizations have these types of activities, but these are found ineffective. These activities are not regular and continuous. They also agreed that government should formulate regulations to rehabilitate the sick MEs.

Financial Institutions

All the respondents in this group agreed that MEs in Bangladesh are growing in bulk and die also in bulk quantities. They added that for the sustainability of MEs they need advice and support in business decision-making; supervision and monitoring by the financers. They also concurred that, the system of identifying the unsuccessful MEs by the government as well as non-government organizations is not appropriate. They should have an appropriate system. Regarding the unsuccessful MEs the respondents said, government must formulate a rehabilitation policy as soon as possible.

Non-Governmental Organizations-Micro Finance Institutions

“It is true that in the DCs entrepreneurs face capital shortage. Bureaucratic red tape obstructs MEs to get access in government services. As a result, MEs failed and die in bulk. Government should make easy access to the facilities and loans for ME entrepreneurs for their survivality”,

... said one of the respondents in this group. All of them also concurred that, to make MEs sustainable we must provide: proper BDS support, training, technical support (if necessary) and of course re-finance (if necessary). They also added that, the identification of unsuccessful enterprises and taking steps to develop them is important issue. It can be done yearly basis through analysis of financial & growth status report, while one of them claimed that, “we need to find out the reasons and meet up the problems like economic, social, technical and of course there must be special surveys by the respective organizations as well as by the Government”. They agreed that, there should be an unsuccessful enterprise rehabilitation policy. One of them, also added, “Respective MEDOs must have their own rehabilitation policy”.

Private and Professional Organizations

Respondents in this group agreed that, MEs in Bangladesh grow and die in large number, this is true. They suggest, the following steps can be taken on a regular basis to ensure sustainability of MEs: identifying and selecting right entrepreneurs; regular monitoring of financed enterprises; counselling and arranging establishment of network of entrepreneurs; providing marketing assistance through organizing trade fairs; establishing organized and combined sales outlet; sending entrepreneurs to attend overseas trade fairs.

One of them also added that, “we should provide them need based technical assistances and capacity building training for the entrepreneurs to make the MEs more sustainable”. Regarding the surveys, they stated that, surveys help among others identifying unsuccessful enterprises. However, because of huge cost and considerable time involved in conducting such surveys, it may not be wise to carry out surveys on yearly basis. It

might be every two years. They also concurred that there must be a policy of rehabilitation for the sick MEs.

Independent Experts

An independent expert stated that,

“it is true to some extent that MEs in Bangladesh grow in bulk and die also in bulk. Because of liberal tax policies, some of the MEs are dying quickly as they have become uncompetitive. They are also not capable to use safeguard measures allowed under WTO. They may like to use these safeguard measures and improve quality of products at the same time reduce cost of doing business. To make them more sustainable we must provide: proper feasibility study relating to marketing, operations, finance, competitive position, and risk before starting a new enterprises; monitoring should be continuous, changing the design and ingredient of product based on need, facilities and support should be communicated and provided to the ME entrepreneurs in time”.

One of them also added that, “changing market trend, customer’s habit, needs, demand and change of technology etc must be informed to the entrepreneurs by the relevant government authorities time to time”.

Regarding the unsuccessfulness of the MEs all the respondents agreed that, there are provisions of surveys to find out the causes of unsuccessfulness of MEs, but these are not so effective. One of them highlighted that, “there could be an Unsuccessful Enterprises Rehabilitation Act, which will clearly describe an exit procedure”. They also claimed that, there can be yearly basis special survey which would provide the scope to rehabilitate the problematic enterprises before becoming unsuccessful and help to identify the reasons of becoming unsuccessfulness.

Entrepreneurs

All the respondents in this group agreed that yes, MEs in Bangladesh are growing in bulk and dying in bulk. There must be yearly basis special surveys to identify the unsuccessfulness of MEs and necessary supports should be provided to those MEs. The following table summarizes the views of all the respondents relating to overcome the problems of the unsuccessful MEs:

Table 29: Overcoming Problems of Unsuccessful MEs

Overcoming Problems of Unsuccessful MEs
Rescheduling Loan Instalment
Decreasing Interest Rate for Unsuccessful Enterprises
Exhaustive Survey to Know the Problems of this Sector
Formulating Unsuccessful Enterprises Rehabilitation Act
Increasing Efficiency of Business Operation
Imposing Barriers on Imported Goods
Identify the Root Causes of Unsuccessfulness of MEs
Identifying and Selecting Right Entrepreneurs
Improving Quality of ME products
Providing Information on Advanced Technology
Opening ME Counselling Centres at <i>Upazilla</i> Level
Providing Marketing Assistance and Strengthening Marketing Channels
Providing Special Incentive Packages to MEs by the Government
Regular Monitoring on Financed Enterprises
Updating MED Policies Regularly based on their Needs

Notes: n=35 respondents

Source: Field Work by the author 2010

6.4 Financing Micro Enterprises in Bangladesh

The views of all the respondents regarding Financing MEs are stated below:

6.4.1 Financing Micro Enterprises by Banks and NGOs-MFIs

Q 28. Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing MEs is not flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.
Q 29. Financing system of MEs by the banks and the NGOs is different in Bangladesh. In your opinion, which system is more effective? Give reasons for your answer.
Q 30. There are complaints that the micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.

Responses on ME financing by the banks and NGOs in Bangladesh are as follows:

Policy Makers and Government Organizations

One of the respondents in this group said,

“Nationalised banks have a wide network in Bangladesh. The problems of financing MEs lie with the socio-political culture of the country. The ME policy of the nationalized banks is more structured and systematic than those of private sector. However, the power-group people of the states misuse those flexibilities

of NBs. However, the organizational cultures of the NBs are also not friendly to the entrepreneur's. They are reluctant to finance the new entrepreneurs easily”.

Another respondent also noted that, “The promotional activities of the nationalized banks to find new entrepreneurs are not up to the mark though they have different diverse MED programmes”. One of them also highlighted that,

“Actually, financing systems of the banks and NGO-MFIs is same but the ways or mode of financing activities and delivery mechanisms are different. Both the systems are effective from the context of the respective organizational reports. Even after many sufferings lies with banks for ME financing is still better and cheaper than the NGO-MFIs”.

On the issue of the rate of interest, all the respondents concurred that NGO-MFIs are charging an exorbitant rate of interest. But, one of them highlighted that,

“Whether the rate of interest is high or low is a debatable subject. The rate is high because of the delivery mechanisms. In some cases, the complaint is fully correct, that NGOs are charging very high rate of interest. For example the interest rate of very renowned MFI Grameen Bank and others is about 30-40%, which is not ME friendly in any consideration”.

Financial Institutions

All the respondents in this group agreed that, nationalized banks have a wide network than the private banks. Therefore, they can play greater role in MED. However, the bureaucratic nature of the nationalized banks creates the main obstacle in this respect. One of them said, “They should adopt more relaxed ME financing policy and guidelines. They also agreed that, bank system is more effective in ME financing than the NGOs. Because banking system is more structured and works systematically. From sanctioning to recovery, banks follow and abide by rules and regulations formulated by the central banks and other regulatory bodies and as well by their own.

Regarding rate of interest one respondent said that,

“If we think of the rate of inflation prevailing over the couple of years it is seen that the rate of interest remains static against the increase in the inflation. The DCs, like Bangladesh face shortage of capital for required investment. So to encourage people for savings banks are to set attractive rate of interest for depositors. To harmonize deposit rate with lending rate bank is to fix a rate which satisfy both the groups”.

Though all the respondents in this group concurred that, “The rate of interest charged by the FIs is relatively higher than the banks as it covers higher risks”.

Non-Government Organizations-Micro Finance Institutions

All the respondents agreed that, nationalized banks have a wide network in Bangladesh. However, they are not too flexible in financing MEs. They need to change commercial mentality. They also concurred that, financing system of NGOs is more client friendly and customer oriented. They provide customized loan rather than the banking sector. One of them noted that,

“In the views of the clients, NGO system is better. Because NGOs provide loan without a security, provide the loan on time, without any bureaucratic hassle. They have strong supervision and monitoring, door level access and regular follow up”.

All of them agreed that, the rate of interest of the NGO loans depends on the organizational administrative cost and the rate of interest of their financier. As they are receiving loans from different organizations and financiers, they are to charge a bit higher rate of interest from their borrowers. In such a situation, the present rate of interest of NGO loans is not so high.

One of them highlighted that,

“In Africa, the interest rate of NGO loans is 45-50% and in Latin America, it is almost 90-100%. In our country the rate of interest of banks is also almost same to the NGOs. These are comments without knowing the facts”.

Private and Professional Organizations

All the respondents agreed that, nationalized banks should be more flexible in financing MEs. With their countrywide network, they would be able to reach this segment easily than other private commercial banks. One of them noted that, “If the objective and intentions are well defined, then both the systems may be equally effective”. Regarding the rate of interest one respondent claimed that, “NGOs are charging a high rate of interest, but I think they have reasonable grounds for charging higher interest rates”.

Independent Experts

All the respondents agreed that, due to a wide network across the country the nationalized banks could provide better services in financing MEs. One of them highlighted that,

“Central bank can assign these responsibilities to nationalized banks like the private banks. Steps undertaken by the central bank through its directives for disbursing loan to the small entrepreneurs by the nationalized banks are encouraging. We need to change the attitude and parochial mindset”.

While another respondent also added,

“Some nationalized banks are doing good job like Agrani, Sonali and Krishi Bank. They are providing easy loans to agricultural firms. Banks and MFIs should have collaboration with the entrepreneurs to develop innovative projects”.

The respondents in this group agreed that, financing system of NGO-MFIs is easier and accessible to all categories of MEs. However, their rate of interest is higher than the banks. The loan amount is not also adequate for the MEs. They also added that, more documentations and formalities made the bank financing system harder. One of them highlighted that,

“There is also a tendency among the entrepreneurs to diversify the fund and not to refund the instalments in due time. Considering all the circumstances, the bank financing system is more effective than the NGO-MFIs”.

Regarding the rate of interest, all of them agreed that, NGO-MFIs are charging high rate of interest. They are very much aggressive to get back their fund earlier and sometimes they charge extra service charge amount in addition to the interest rate.

Entrepreneurs

All the respondents in this group concurred that NGO-MFIs are more flexible than the nationalized banks in ME financing, though the rate of interest of the NGO-MFIs is very high. They added banks simply ignore them.

6.4.2 Problems of Micro Enterprise Financing and Remedial Measures

Q 31. In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

Q 32. In your opinion, what measures should be taken to overcome those problems in financing MEs in Bangladesh? Please tick as appropriate.

The following table shows the opinion of all the respondents regarding the problems of ME financing in Bangladesh:

Table 30: Problems of ME Financing

Problems of ME Financing	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
High Rate of Interest	3	2	5	6	4	15	35	100
Insufficient Collateral	3	2	5	6	4	15	35	100
Poor Documentation	2	1	4	4	2	12	25	71
Religious Prohibition on Interest Based Loans	0	2	3	3	2	15	25	71
Lack of Management Efficiency	2	2	4	5	4	8	24	68
Previous Credit Record	3	2	2	2	2	9	20	57
Project Proposal not Accepted	3	2	2	1	1	8	17	49
No Personal Contact in Lending Institutions	0	0	0	0	2	10	12	35
Own Contribution Too Small	2	0	1	3	1	1	8	23

Note: n=35 respondents; RG codes as for table 23

Source: Field Work by the author 2010

The following table shows the views of all the respondents on measures to be taken to overcome the problems of ME Financing:

Table 31: Remedial Measures to Overcome Problems of ME Financing

Remedial Measures to overcome Problems of ME Financing	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
Providing Collateral Free Loans	3	2	5	6	4	15	35	100
Providing Interest Free Loans	3	2	5	6	4	15	35	100
Reducing Interest Rate of ME Loans	3	2	5	6	4	15	35	100
Making the Banking System more Flexible	3	0	5	6	4	15	33	95
Private Banks Should Open Rural Branches	3	0	5	6	4	15	33	95
Awareness Campaign on ME Rights and Facilities	1	2	5	6	4	15	33	95
Legal Status to NGOs for ME Financing	1	1	5	6	4	15	32	92
Easing the Procedural Formalities of any ME Loans	1	1	5	6	4	15	32	92
Strengthening ME Financing Windows in the Banks	2	0	5	6	4	15	31	89
Training on Loan Processing	2	0	5	6	4	15	31	89

Notes: n=35 Respondents; RG codes as for table 23

Source: Field Work by the author 2010

6.5 Networking of Micro Enterprise Stakeholders in Bangladesh

Responses on the issue of Networking of ME stakeholders are presented below:

6.5.1 Networking among the Stakeholders

Q 33. Do you think networking in the form of inter-organizational relations (IOR) and interactions among the MEDOs in Bangladesh are important? Give reasons for your answer.

Q 34. Do you find any link among the MEDOs (GOs and NGOs) in Bangladesh? If yes, what is the nature of those links?

The responses on networking and IOR among the ME stakeholders are as follows:

Policy Makers and Government Organizations

The respondents of this group stated that, networking is very important for MED, because it helps to understand better business environment; updating policies and ensure sustainability. One of them claimed, “the number, size and characteristics of MEs in Bangladesh are multifarious. Their needs and requirements are therefore different. It can be fulfilled by cordial relationship among all the concerned organizations”. Regarding the link among the ME stakeholders they said, no direct link between the different ME stakeholders is found, though they have their own existences countrywide.

Financial Institutions

All the respondents concurred that, networking is very much important for MED as it effects in making the initiatives more aligned, but in practice there is no formal link among the ME stakeholders. Moreover, the present informal link is also very poor.

Non-Government Organizations-Micro Finance Institutions

All the respondents claimed that, networking is important among ME stakeholders. It can raise strong voice to develop the policy, get legal support, financial accessibility. If one partner (NGO, BANK) would become responsible to enterprise loan in one *Upazilla* (sub-district) level there will be no chance of overlapping. One of them specially noted

that, “Networking can help minimizing gap between the GO-NGO, Government-ME stakeholders and NGO-NGO relationship and avoiding overlapping which is big factor of destroying a business. Strong network also reduce the unhealthy competition among the competitors”. All of them also agreed that, there is a functional but informal link works among the ME stakeholders in Bangladesh which is not so effective. It must be more formal.

Private and Professional Organizations

The respondents in this group agreed that, networking and interactions among the ME stakeholders are important for MED. The reason is concerned organizations know who is doing what. One of them highlighted that, “GOs and NGOs involved in MED, have different patterns of functioning. Most of the organizations work independently and as such there is no noticeable links among them”.

Independent Experts

The respondents in this group agreed that, there are overlapping and duplication of MED activities. Therefore, to avoid overlapping, to maintain consistency in their work and to cover more entrepreneurs in the MED programmes networking and IOR is very important. One of them highlighted that, “attitudes of GOs should be changed. Their bureaucratic attitude is not ME-friendly. Moreover, there should be policy consistency to avoid contradiction”.

Entrepreneurs

All the respondents in the entrepreneurs group stated that networking is very important for MED. However, they do not have any idea about the present IOR and links among the ME stakeholders.

6.5.2 Efficacy of Networking

Q 35. Do you think those links are appropriate and effective for the development of MEs in Bangladesh? If no, what should be the nature of those links? Please specify.

Q 36. Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes? Give reasons for your answer.

On the issue of efficacy of networking among the ME stakeholders in Bangladesh all the 35 respondents agreed that, the networking and IOR is very much informal and not effective. It must be more practical and formal. One respondent highlighted that, “Government of Bangladesh has established SME Foundation. We think SME Foundation can play a vital role to make this link-up initiatives among the involved organizations”, while another respondent noted that,

“Government organizations work with a separate group of people which are not targeting people of other financial institutions or banks. There should be more coordinated and collaborative efforts among the ME stakeholders”.

All the respondents also concurred that respective ME stakeholders should participate in the planning meeting of government, as well as meet annually as conference/ network meeting with presence of government representatives. One of the independent experts said, “Usually government sometimes invites some organizations to participate in the planning meetings, and they mention very important suggestions and workable formula but government do not do the right thing, political factors hampers the decisions”.

Another respondent from NGO group highlighted that,

“Participation of ME stakeholders in the MEDP planning meetings would expedite MED in the country and increase the effectiveness of their programme. Moreover different incentives, facilities and support services can be made available in due time. It will provide the organizations a platform to uplift their concerns and both ways communication will result in competent policy development”.

Another respondent from financial institution group noted that,

“The ME stakeholders know what the MEs need and what the entrepreneurs need. If it is possible to involve the ME stakeholders in the planning process officially, than ME sector will get a chance to gear up. In the context of Bangladesh the resources are very limited so this type of initiative will play a vital role to use maximum utilization of resources”.

6.6 Barriers to Micro Enterprise Development and Remedial Measures

Existing literature shows that different problems create obstacles to MED in Bangladesh. Regarding the barriers to MED in general in Bangladesh and remedial measures to overcome those barriers the responses are as follows:

6.6.1 Barriers to MED

Q 37. In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

Following table shows the responses of all respondents relating to the different types of barriers of MED in Bangladesh:

Table 32: Barriers to MED in Bangladesh

Barriers to MED in Bangladesh	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
Difficulty in Accessing to Credit	3	2	5	6	4	15	35	100
Political Unrest	3	2	5	6	4	15	35	100
Lack of Clear Government ME Programme	1	2	5	6	4	15	33	95
Insufficient Support from Local Authorities	2	1	5	5	4	15	32	92
Absence of IOR among MED Stakeholders	2	1	5	5	4	15	32	92
Unstable Legal Environment	2	1	5	5	4	15	32	92
Corruption and no Political Commitment	1	2	5	5	4	15	32	92
Poor Law and Order Situation	1	2	5	5	4	15	32	92
Lack of Qualified Human Resources	3	2	5	6	4	10	30	86
Lack of Proper Marketing Skills	3	2	5	6	4	10	30	86
Lack of Market Information	2	2	5	5	4	12	30	86
Procedural Difficulties in Starting New MEs	1	2	5	3	2	14	27	77
Uncompetitive Products	3	2	3	5	4	10	27	77
Poor Transportation	2	2	3	3	2	15	27	77
Technical Support from Financer	1	1	4	2	2	12	22	63
Lack of Management Skills	2	1	3	3	2	10	21	60
Low Purchasing Power of the Population	2	1	3	3	1	10	20	57
Difficulty in Accessing Foreign Market		1	2	2	1	10	16	46
High Level of Taxation	1	1	1	1	1	10	15	43
Negative Image of the Entrepreneurs	1	1	1	1	1	5	10	29
Own Contribution Too Small	1	1	1	1	1	3	08	23

Notes: n=35 respondents; RG codes as for table 23

Source: Field Work by the author 2010

6.6.2 Remedial Measures

Q 38. In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate.

Following table shows the views of all respondents on remedial measures to be taken to overcome the barriers of MED in Bangladesh:

Table 33: Remedial Measures to Overcome MED Barriers

Remedial Measures to Overcome MED Barriers	RG 1	RG 2	RG 3	RG 4	RG 5	RG 6	Total	%
Facilitating Access to Finance (Creation of ME Funds, etc)	3	2	5	6	4	15	35	100
Formulation and Implementation of Effective ME Policy	3	2	5	6	4	15	35	100
Creating Appropriate Enterprise Culture	3	2	5	6	4	15	35	100
Political Stability and Reducing Corruption	3	2	5	6	4	15	35	100
Creating Strong Network among ME Stakeholders	2	2	5	6	4	15	34	97
Special Rehabilitation Programmes for Unsuccessful MEs	2	2	5	6	4	15	34	97
Promote ME Counselling and BDS	2	2	5	6	4	15	34	97
Entrepreneurship Development Training for New Entrepreneurs	2	2	5	6	4	15	34	97
Creating One-stop Shop for ME Support	1	2	5	6	4	15	33	95
Ensuring Political Commitment on MED	1	2	5	6	4	15	33	95
Creating Strong Network of ME Stakeholders	1	2	5	6	4	15	33	92
Improving Law and Order Situation	1	2	5	5	4	15	32	92
GOs should be more Active and Free from Corruption	2	2	2	6	4	15	31	89
Determining ME Laws More Concretely	1	2	4	5	4	14	30	86
Publishing More Information for MEs	0	2	4	5	4	15	30	86
Planned Rural MED Programmes	2	2	2	5	4	15	30	86
Supporting Innovative MEs	2	2	4	2	3	15	28	80
Improving Transportation System	2	2	3	3	2	15	27	77
Simplifying Registration of New Enterprises	2	1	3	5	1	13	25	71
Priority to Women Entrepreneurs	2	2	5	3	4	8	24	69
Imposing More Tax on Imports	2	2	2	5	2	10	23	65
Creating Special Funds for Business-skilled Staff	2	1	2	3	1	10	19	54
Simplify Tax System for the Micro Entrepreneurs and Especially Exporters	1	1	1	3	1	10	17	48
Creating Business Incubators or Technology Parks for New MEs	2	1	3	3	2	5	16	45

Notes: n=35 respondents; RG codes as for table 23

Source: Field Work by the author 2010

6.7 Summary

This chapter presents the primary data that were collected by the researcher during 2010 through in depth interviews. The collected data are presented here based on the five selected themes of the study. Each theme was subtitled under several key emerging issues of MED. The key issues are as of theme one: MEs and ED, Significant Issues of MED, Changing Categorization and Markets of MEs, MED Activities of NGO-MFIs,

and Efficacy of Current MEDPs; theme two: Attracting Participants, Business Development Services, Technical and Infrastructural Facilities, Micro Enterprise Development Training Activities, Efficacy of Support Services to Micro Enterprises, and Survival of Micro Enterprises; theme three: Financing by Banks and NGO-MFIs, and Problems of ME Financing and Remedial Measures; theme four: Networking among the Stakeholders and Efficacy of Networking. After data presentation, strengths and opportunities, and weakness and threats to MED in Bangladesh and overall problems and challenges to MED and the remedial measures to overcome those problems are summarised. Different questions, asked to the respondents under the different themes, are boxed for better understanding. Moreover, data from each interviewee were compiled and presented under their respective group heading to avoid any kind of distortion and overlapping. The following chapter provides the summary of findings with researchers own analysis and discussion.

CHAPTER 7

SUMMARY OF FINDINGS, ANALYSIS AND DISCUSSION

7.1 Introduction

This chapter provides a summary of the findings extracted from the presentation of data in the previous chapter. These are presented under the main themes of the study established in chapter 5. For the convenience of understanding, this chapter described the key points under several sub-headings that reflect the researcher's analyses together.

7.2 State of Affairs of Existing MEDPs in Bangladesh

7.2.1 Micro Enterprises and Economic Development

This study reveals huge potentialities for MEs to contribute to the development of the national economy of DCs. The following five key points arise from the researcher's own analyses.

Micro Enterprises Development and Creation of Employment Opportunities

Bangladesh is an overpopulated country, where a large segment (about 40%) lives under poverty line. Employment situation is in a critical stage. Literature shows that, with small investments and indigenous technology MEs can create huge self-employment as well as employment for others. Considering the employment situation MED is the best alternative for the people of Bangladesh.

Outsourcing to MEs offers substantial cost advantages to LEs engaged in labour intensive exporting merchandise. LEs that depend heavily on MEs to produce part or all of their exportable products, as compared to those that are less dependent, grew in size, in terms of both the number of MEs for outsourcing and the number of hired employees. Thus, MEs contribute greatly to the export earning in particular and to the overall industrialization of Bangladesh.

MED as Appropriate Economic Development Strategy

MED in a DC like Bangladesh, is not only very important, but also essential because of its economic level and structure. At the existing economic level, Bangladesh has no

sufficient investable surplus to establish high-tech LEs. Moreover, infrastructural support facilities to setup LEs are also not sufficiently available. There is also the scarcity of highly skilled manpower in Bangladesh, although it is identified that the labour is very cheap there. In such a situation, MED is considered as the most appropriate ED strategy in Bangladesh.

Moreover, MED can ensure sustainable growth and makes the country self sufficient in different aspects. Generation of employment by MEs ultimately reduces pressure on government expenditure that leads to economic contribution. Reducing poverty and balanced growth is the social contribution of MEs and on the other hand, redistribution of income and wealth is the political benefits created by MEs. In this way, MEs can ensure sustainable growth in a country.

However, the existing MEDPs, such as SME Policy Strategy, Industrial Policy and related other policies are not well connected to ED. It is to be mentioned here that they are supported by tax policies, fiscal policies and many others. Generally, all the policies and guidelines are aimed at socio-economic development of a country. However, it is the responsibility of the concerned stakeholders about how they approach and deal with the policy while implementing their respective programmes.

Identification of Micro Enterprises

MEs are very diverse in nature. All the MEs, manufacturing and non-manufacturing, service and trading, rural and urban, and tiny enterprises such as street shops and street vending, are totally different in nature. Present MEDPs did not identify and categorise all the MEs properly. As a result, all the incentives and benefits automatically are being enjoyed by the medium sized and LEs of manufacturing category. Moreover, MEs in the lower level of the tier, such as, the small, micro, cottage and tiny cannot compete with the medium sized and LEs in accessing credit facilities. Moreover, in the rural areas huge entrepreneurs live, while support services mostly lie in the urban areas. As a result, rural MEs are neglected. This is only because of the policy makers narrow views to MED. They themselves are confused about MED.

7.2.2 Significant Issues of Micro Enterprises Development

The researcher's analyses highlights the following several significant issues of MED.

Role of Government in MED

Role of government in MED must be proactive. However, the findings show that government intervention for MED is not proactive in Bangladesh. Government MED organizations like BSCIC are equipped and empowered but their support services are very bureaucratic and slow. Moreover, the practicing bureaucracy is not sufficiently efficient to face the problems of MEs and to provide necessary services to them. The attitude of the government officials is found very bureaucratic. Therefore, all the legal processes are found very slow.

Government sometimes invites some organizations in the planning meetings of ME policy development, such as NGOs, POs, and professional bodies to get their suggestions. However, government does not really value their recommendations and suggestions. The study finds absence of a strong political commitment towards MED.

Major Challenges of Micro Enterprises Development

Table 21 summarises the major challenges of MED in Bangladesh. It highlights that Bangladesh lack a proper regulatory framework and a comprehensive MED policy. Policy makers especially the ministers have little knowledge on the issue. The procedural formalities of start-up MEs are very complex and a clear definition of different categories of MEs is absent. Moreover, natural catastrophic like flood, cyclone, drought etc; lack of proper entrepreneurship development and absence of entrepreneur's involvement in government policy development process are also considered major challenges and issues of MED in Bangladesh. The quality of the most ME products are not yet capable to compete in the world market, and the level standard of ME products are very low in most cases. The only quality control mechanism in Bangladesh, BSTI is found inefficient. As a result, MEs are not in a position to maintain an international standard of their products.

The formal financial sector, Banks are still reluctant to finance MEs of small, micro and tiny category. They always prefer financing medium sized and LEs. In the absence of formal financial sector, the non banking financial organizations like NGOs-MFIs are working for MED but their rate of interest is very high. Moreover, the World Bank and other International Donor Organizations provide subsidized loans to nationalized banks, but they are not able to utilize those in proper ME sector development. Therefore, a specialized bank such as MED Bank is needed to be established, which will focus only on this sector.

Moreover, most of the NGO-MFI funded MEs remain at the bottom of the layer forever. The main reason is that most of the loans distributed by them are not utilized in proper way by the entrepreneurs. The study findings show that, entrepreneurs sometimes use the money in other familial purposes. They take loans from different NGO-MFIs at a time for the same purpose. As a result, their MEs do not grow in a systematic way. The monitoring and evaluation system of NGOs on their MED activities is found ineffective. They look forward to collect the monthly instalments. It seems that they are doing profit making business rather creating employment opportunities by MED. Moreover, nowadays the NGO officers are found not supportive to the entrepreneurs.

Political instability and corruption are also very important challenges to MED in Bangladesh. Political instability such as *hartal* (strike), is still a chronic problem in Bangladesh, though a democratic and parliamentary government is present in the country. It seriously hampers the production of not only MEs, but also the whole industrial sector. On the other hand, corruption of the officers of different MEDOs distorts entrepreneurial activity. Bribes are charged on loan sanctions and transactions, or in return for government permissions that seriously discourages the entrepreneurs.

7.2.3 Changing Categorization and Markets of Micro Enterprises

MEs are viewed as missing middle, as such, remained neglected for ages in Bangladesh. Because of the absence of a specified category and definitions, medium sized and LEs

are getting more focus than small, micro, cottage and tiny enterprises. Considering the pattern and size of business, a huge number of enterprises exist in Bangladesh, which should be considered within the categories of MEs, the contribution of which in the national economy is remarkable. Some of those, such as micro, cottage and tiny, are not too big for drawing the attention of mainstream financial sector (Banks), and some of those such as small and medium are also not too small for approaching NGO sector. MEs, like tiny, cottage, micro, and others (such as handicrafts, tea stall, corner shop, departmental stores, small trading, and street vendors) should be included in the policy framework. Moreover, in the rural areas a huge number of vulnerable and distressed people are engaged in some MEs. The nature of these MEs is not same as those of urban areas. These people are not aware about the MEDPs and facilities provided by the government. These MEs should also be considered in the category of MEs in the national policy. On top of that, considering the size of economy, rate of unemployment, opportunities and prospect for MEs, availability of resources and contribution of economy to the global economy re-categorization of MEs is obvious in Bangladesh. The New IP 2010 of Bangladesh has re-categorized and redefined MEs. Nevertheless, there is still a serious need for re-categorisation and redefinition of the existing MEs, i.e., a single definition that would help the MEs to get equal facilities provided for them. These will help to expand this sector rapidly.

Sectors and Market for Micro Enterprises

There are some common sectors of MEs in Bangladesh, where banks and NGO-MFIOs normally finance. Moreover, SME Policy Strategy 2005 of Bangladesh identified 11 ME sectors. However, based on the competitive edge and potentials the respondents emphasise on some specific sectors to be targeted. Table 23 shows the responses of the sectors to be targeted in Bangladesh. It shows three specific categories of MEs, such as agro based, technology based (indigenous and low tech) and others (trading and service). These sectors should be specifically categorized under the MEDPs. On the issue of target market, the study findings show that, Bangladesh has a large domestic market that should be targeted first. Moreover, Bangladesh has also a good prospect in the foreign market. However, we have to identify which ME products have the

potentials to be exported. The respondents emphasized on the nature and quality of the product for the target market.

7.2.4 Micro Enterprises Development Activities of NGO-MFIs

NGOs are treated as the development partners of the government in DCs. A wide network of NGO led MED activities exists in Bangladesh. They are playing an important role in employment creation through their MED programmes and other related assistances. NGOs mainly provide group-based micro credit of smaller amounts, i.e., £50-250, which traditional banks do not do. But, in some cases they provide larger loans to their graduated successful borrowers, which reached up to £1000. However, study findings also show that NGOs utilize MEs as an effective arm of their activities to enhance popularity and prove their existence to get funding from donor organizations. The money that has been spent by the NGOs so far in Bangladesh, MEs should have a much better picture. MDG, PRSP, Sixth Five Year Plan, IP 2010 and SME Policy Strategy 2005, all have addressed poverty reduction as number one criterion but extensiveness of poverty have not yet been reduced, whatever progress have been achieved is very slow. However, NGOs help local entrepreneurs both in urban and rural areas by providing financial accessibility, linking them with national and international buyers, providing product quality development training etc. This is a positive sign for the development of MEs in Bangladesh.

Monitoring and Supervision of NGO-MFIs led MED Activities

Government regularly monitors NGOs led MED activities. NGO Affairs Bureau is the prime organisation to monitor and supervise the activities of NGO-MFIs in Bangladesh. Moreover, government has established Micro Credit Regulatory Authority and they have specific regulations and Act. These bodies regularly monitor all the activities of NGOs through reports, field visit, and audit programmes. However, these monitoring activities are found not transparent and accountable. As a result, NGO-MFIs are taking the benefits of the weakness of micro entrepreneurs in Bangladesh.

7.2.5 Efficacy of Current Micro Enterprises Development Policies

Present MEDPs were not prepared with enough consultations with the stakeholders of MEs. To formulate a practical and effective policy, adequate consultation with the experts and target groups are necessary and it is a part of policy development process, as well as, an in-depth study is to be carried out in line with its requirements, capacity and compliance ability. As a result, present MEDPs failed to meet the needs of this sector. Especially, SME Policy Strategy 2005 have very little to do for the development of MEs in Bangladesh, as it is found not well thought out. There are huge scopes for favourable amendments in the strategy. The respondents emphasized in formulating a specific MED act and a separate ME policy. Government has published the new Industrial Policy 2010. Commentators criticized that it seems highly biased to the service and trading enterprises rather than the manufacturing enterprises. This might create various risks, obstacles and barriers to the respective manufacturing industries in Bangladesh.

Entrepreneurs at grass roots level do not have clear idea about the MEDPs. Some entrepreneurs are totally unaware about the national MED and industrial policies. They know only their financiers rules and regulations. They believe on what their financiers say. Definitely, it is the failure of government and concerned MEDOs. They failed to aware the entrepreneurs at all level by their MED awareness raising activities.

Time to time updating the MEDPs based on the current condition of the economy and international situation is must for the proper development of MEs. However, the study findings reveal that it is absent in Bangladesh. Moreover, the implementation process of the MEDPs is very slow. Corruption, bribery, political unrest and absence of a strong political commitment towards MED hamper the growth of MEs in Bangladesh.

7.3 Support Services to Micro Enterprises in Bangladesh

The following few points highlighted the key issues of support services to MEs.

7.3.1 Attracting Entrepreneurs

MEDOs use different kinds of efforts to attract the entrepreneurs in MED programmes in Bangladesh. Table 23 presents the responses on the most effective effort in attracting the entrepreneurs into MED activities of different MEDOs. The table highlights that to attract the entrepreneurs towards various MED activities awareness raising campaign and arranging motivational training are the most effective efforts. Information centres at the sub-district level and networking of the ME stakeholders are also very effective. It clears that entrepreneurs at the grass root level have very little idea about the MEDPs. Therefore, government should establish countrywide ME information centre and arrange preliminary motivational training for the roots level entrepreneurs. On the other hand, acknowledging success of the entrepreneurs and relaying their stories are found less effective efforts, but survey research on MED and organizing seminars and trade fairs are found effective.

7.3.2 Business Development Service Activities

BDSPOs, both government and non-government such as PKSF, BSCIC, BITAC, NGOs, and POs provide different BDS for the development of MEs in Bangladesh. Table 24 shows the responses on the effective BDS of different BDSPOs. The table highlights the current BDS activities provided by the BDSPOs in Bangladesh. It shows that among the BDS activities, entrepreneurship development, and business management are most common BDS activities in Bangladesh. Skill development, enterprise development and new business creation are also arranged by the BDSPOs. On the other hand, training for trainers, support to get information from counselling centres, credit management, sub-sector development training, network, financial analysis and project design are less common to the BDSPOs. Current studies show much importance on entrepreneurship development.

The study findings show that entrepreneurship development activities of the BDSPOs are below standard and not done in a systematic way, though the organizational reports say, all of the above BDS activities are very effective. It is also highlighted that the training of the trainers must be considered as number one along with the

entrepreneurship development training as the performance of the training activities depends on the performance of the trainers.

Regarding the most expected and specific BDS for MED the responses were presented in table 25. The table highlights the most expected BDS in six specific categories for MED in Bangladesh. The study inferred that on the basic information and legal service category the most expected BDS is information on MEDPs that essentially directs toward the awareness raising campaign. Information on fiscal incentives and start up entrepreneurs are also expected, while information on company registration is found less expected. In consulting services category the most expected BDS is business planning and credit financing; advertising and marketing plan in marketing; book keeping and cash flow in accounting; management skills and training and development in human resource management; and product design in production and technology category are the most expected BDS for the MEs.

The study findings also confirm that all the MEDOs in Bangladesh have these BDS activities, but they are not all effective. The reason is BDS providers according to the respondents lack practical knowledge on MED, they emphasize more on theoretical knowledge. Therefore, appropriate measures must be taken immediately.

7.3.3 Technical and Infrastructural Facilities

For the development of MEs government and other BDSPOs provide sector wise various infrastructural and technical facilities. Table 26 presents the responses on the most expected technical and infrastructural facilities for MED. The table highlights that the most expected infrastructural facilities are electricity, gas, water supply, and industrial plots without which no MEs can be established. Moreover, well structured communication and transportation system, sector wise technical facilities and facilities on information technology are also expected by the MEs. Government provides those facilities to MEs by BSCIC, but those are found not adequate, considering the number of MEs exist in Bangladesh. Government must increase these facilities. Moreover, GOs

are very much bureaucratic and are not free from corruption. As a result, to get even the existing limited facilities MEs face various unexpected hassles.

Non-manufacturing MEs need some different types of facilities than the manufacturing enterprises. Some service enterprises in the field of ICT are growing in Bangladesh, such as mobile lady, agro help line etc. Tele-centres are also progressing as service enterprises. Not only that, health care centres, hairdressing, beauty parlour, dressmaking are also emerging in the ME sector. They need special training to produce, deliver and market their services effectively. However, findings reveal that support services to non-manufacturing MEs are very limited.

Micro Enterprises Development Research Activities

R&D activities are very important to cope up and survive in the ever-changing business environment. By these activities, MEs can update the quality of product to meet the changing needs of the consumers, increase efficiency in operations, face competition and enter into the niche market, identify the reasons for sickness and find the way to survive, and MEDOs can initiate the measures to provide proactive incentives and facilities to the entrepreneurs. However, the study findings confirm that many organizations have no specific research and development activities. But, when situation demands, they initiate need-based programmes and very interesting thing is that, the recommendations of the research activities are rarely adopted in the government policies. They are kept under red tape.

7.3.4 Micro Enterprises Development Training Activities

Training helps the entrepreneurs to transfer their learning in their businesses, which develop their confidence to become successful entrepreneurs. Therefore, MED training activities should be need based and income generating in nature. Hence, it will increase their motivation to employ more time and effort to make their venture successful. Different organizations provide different training and development activities for the development of MEs, such as PKSf report shows that they have almost 22 different types of training modules (PKSF 2008). Table 27 shows few noteworthy training

activities provided by the MEDOs in Bangladesh. These are found very eye catching and attractive. Among those ME management and skill development, marketing and sales, accounting and financial management, new business creation, business promotion and growth are mentionable. According to some of the organizational reports, these activities are found very effective. But, according to the report of a sample organization, “during last five years we have trained 3575 participants and expected that at least 50% will be able to apply their gained knowledge in their respective fields” (MIDAS 2008). The question is why they are expecting only 50%? The reason is either the BDSPOs are failure or the participants are failure. However, the study findings confirm that evaluation of those training activities is not regular. It is very important to note that updating the training courses based on the evaluation of the stakeholders is must, otherwise those will not be able to meet the demands of the MEs. A simple evaluation questionnaire can be circulated among participants, or they might be asked to share their stories after the training to evaluate the training programmes.

Table 28 shows the responses of all the respondents on the expected MED training for the entrepreneurs in Bangladesh. The table highlighted that MEs need training on entrepreneurship development, analyzing risk and set strategy, business planning, managing business, use of technology and technological skill development, marketing and sales, and new business creation etc among others. These are essentially very important for MED in Bangladesh. Moreover, the trainers of the BDSPOs need special training which is called training of trainers.

The curricula of the MED training activities are prepared by the respective organizations. They are designed based on the course title. However, to be very effective, a Training Need Analysis (TNA) is required to set the curricula, because MEs are very diverse in nature. Based on the needs of the entrepreneurs, curricula should be designed. Respondents highlighted the following are needed really to be included in the MED training curriculum: maintaining quality of products, diversifying product design, getting access to technology, involving in marketing chain, setting marketing strategy, and managing risks and finance. This is also very important that curriculums should be

updated regularly by considering the changing requirement of environment and needs of the MEs and the policy of government.

7.3.5 Efficacy of Support Services

BDS of different organizations in Bangladesh are very effective according to the organizational reports, but practically they fail to fulfil the needs of the MEs. The study findings show that, MEDOs provide BDS as an official tasks, it is not being monitored and evaluated properly. As a result, entrepreneurs do not follow them in their practical business life and they have become unsuccessful. On the other hand, BDS providers lack practical knowledge on the very scenario of the sector. They are very much dependent on the theoretical aspects and their knowledge is based on the books and not on running MEs. Moreover, due to bureaucratic formalities and complexities real entrepreneurs could not get these facilities from the GOs.

7.3.6 Survival of Micro Enterprises

The identification of the root causes of the unsuccessfulness of the MEs and taking steps to overcome those is an important issue. MEDOs should have yearly surveys to find out the reasons of unsuccessfulness of the MEs and meet up those problems.

DCs have abundance of raw materials and cheap supply of labour. As a result, MEs grow there in bulk quantity, but entrepreneurs face different problems such as access to technology, capital shortage, and access to marketing. As a result, MEs die also in a large quantity. It is found that because of liberal tax policies some of the MEs are dying quickly. A well-designed rehabilitation programme can help these MEs to survive. However, study findings show that Bangladesh lacks such rehabilitation programmes and policies.

To overcome the problems of unsuccessful MEs several measures were suggested by the respondents that are summarised in table 29. The following are found some important steps among those: identify the root causes of the unsuccessfulness of MEs by doing exhaustive surveys, decreasing interest rate and deferred payment of loan instalments

after rescheduling of their loans, training to upgrade their products and strengthening marketing channels, and regular monitoring. These steps might be helpful to overcome the problems of unsuccessful MEs.

To make the MEs more sustainable the respondent emphasises to provide proper BDS support by doing proper feasibility study relating to finance, operations, and marketing. They also emphasize that risk should be analyzed before the decision taken to start MEs. MEDOs should also provide meaningful incentives, facilities and supports to the MEs in time. There could be an unsuccessful enterprises rehabilitation act, which must state the exit procedure, refinance, and rescheduling of loans to ensure sustainability of the unsuccessful MEs.

7.4 Financing Micro Enterprises in Bangladesh

Financing MEs is a very important issue in DCs. Generally, MEs face severe capital shortage, though several financial institutions both government and non-government provide financial services to MEs. The following points are considered important from the analysis of the researcher.

7.4.1 Financing Micro Enterprises by Banks and NGO-MFIs

Banks both nationalized and private, are more structured and work systematically in financing MEs. From sanctioning to recovery, banks follow and abide by rules and regulations formulated by the central banks and other regulatory bodies and as well by their own. They have very attractive and eye catching ME loan programmes (table 6 in chapter 2 can be seen for more details). Some nationalized banks are doing very good in MED. For example, BASIC Bank, Janata Bank, Agrani Bank, Sonali Bank, and Krishi Bank of Bangladesh are providing easy loans to agricultural firms and MEs. Private Banks such as, BRAC bank, Islami Bank Bangladesh and others have also very successful MED schemes. But the study findings show that, considering the loan process and sanctioning procedures they are very bureaucratic. As a result MEs,

specially very small and tiny are not easily getting access to conventional finance of banks, except medium sized and LEs.

Nationalized banks (NB) have a wide network than the private banks in Bangladesh. Therefore, they can play greater role in MED. ME financing policy of the NBs is more flexible than those of private sector and even the other MFIs. But, study findings show that, the people who are in the political power misuse those flexibilities. Moreover, the personnel culture of the NBs is also not friendly to the entrepreneurs. They are reluctant to finance the new entrepreneurs easily. The promotional activities of the NBs to find new entrepreneurs are also not up to the mark. On the other hand, private banks in Bangladesh have also attracting ME loan programmes and they are more flexible in ME financing than the NBs, but still reluctant to finance MEs. Moreover, they have very limited branches and operate mainly in urban areas. As a result, their facilities are not available to countrywide MEs.

ME financing system of NGO-MFI is found very easier and accessible to all MEs. NGO-MFIs provide loans without security, provide the loan on time, and there is no bureaucratic attitude for approval. They have strong supervision and monitoring, door level access and regular follow up activities according to their organizational reports. However, their rate of interest is higher than the banks. Moreover, the amount of NGO-MFI loans is not sufficient for the MEs to run their business. The study findings show that there is a debate on the issue of “rate of interest is high or low”. The respondents from NGO-MFI group claim that the rate of NGO-MFI led ME loans is not too high. On the other hand, other respondents concurred that the complaint is fully correct that, NGO-MFIs are charging an exorbitant rate of interest. For example, the interest rate of very renowned Grameen Bank, BRAC, and ASA is about 20-30%, which is not ME friendly in any consideration (table 10 can be seen for more details on the interest charged by the NGO-MFIs). However, their (NGO-MFI group) opinion is that the rate of interest charged by the MFIs is relatively high, as it covers higher risks, and it depends on the organizational administrative cost and the rate of interest of their financier. As they are receiving loans from different organizations and financiers, they are

to charge a bit higher rate than their borrowers. In such a situation, the present rate of interest of NGO-MFI loans is not so high. They cite some examples, such as in Africa, the rate of interest of NGO loans is 45-50% and in Latin America, it is almost 90-100%.

7.4.2 Problems of Micro Enterprises Financing and Remedial Measures

Several problems are found in financing MEs in Bangladesh. Table 30 represents the responses on the major problems of ME financing. The table highlighted that rate of interest of ME financing is very high and MEs lack collateral, which is mandatory in some cases of ME loans of banks. Moreover, the respondents also emphasized on the poor documentation process and lack of management efficiency of entrepreneurs as well. Collateral really discourages entrepreneurs to go to banks for ME loans. Findings also show that most of the entrepreneurs do not have land for collateral, even the land owned by MEs is not bankable due to title problems. As a result, bottom level, MEs are not getting access to institutional finances. On top of that, religious belief, which is one of the most important factors in developing enterprise culture (chapter 3 can be seen for more details) prohibits interest based loans. Some entrepreneurs are discouraged to go to banks and NGO-MFIs for loans. They look for loans based on Islamic system. Some Islamic banks are working in Bangladesh, such as Islami Bank Bangladesh, Al-Arafah Islami Bank, Shahjalal Islami Bank etc. Islami Bank Bangladesh has an attractive MED scheme, which is very popular among the entrepreneurs, but still because of very rigid banking system micro entrepreneurs don't get easy access to that facilities.

Table 31 shows the views of the respondents on the remedial measures to be taken to overcome the problems of ME Financing in Bangladesh. The respondents highlighted on providing collateral free and interest free loans to MEs. They also highly emphasised on reducing the interest rate of ME loans, especially NGO loans to an affordable level. They have also highlighted to make the banking system easier and widen the network of private banks in the rural areas and giving more emphasis on ME awareness raising campaigns. These really can easily be done by the concerned organization for MED, but providing interest free loans is relatively a new idea in ME financing and really an issue of more research. Evidence shows that Muslim Aid UK and FINCA Afghanistan are

working for providing interest free loans based on Islamic contracts (Chapra 2009). But they lack an appropriate model. On top of that, emphasis is also given to give legal status to NGO-MFIs for ME financing, easing procedural formalities of loans, strengthening ME financing windows of banks both public and private, and arranging special training on processing loan applications.

7.5 Networking of Micro Enterprise Stakeholders in Bangladesh

Networking is very important for MED. It can raise strong voice to develop policy, get legal supports, and financial accessibility. The respondents highlight the importance of networking among ME stakeholders in Bangladesh.

7.5.1 Networking among the Stakeholders

The respondents highlighted that networking helps to understand better business environment and can make all the MED initiatives more aligned. It can help minimizing gap between the government and ME stakeholders, and among the ME stakeholders. Strong network also can reduce the unhealthy competition among them. But the findings reveal that the network and IOR of ME stakeholders and specially between the government and the MEDOs in Bangladesh is very informal. They added without the true presentation of the ME stakeholders how far the policies will be appropriate is really an important question.

Moreover, there must be strong coordination among MED activities of the GOs and NGOs to avoid overlapping. It can be based on sectoral development and/or geographical area basis. NGOs should have a target to graduate a certain percentage of micro enterprises to small enterprises and then to medium enterprises. However, study findings show that, in practice these are not happening in Bangladesh and coordination between GO and NGOs is not friendly. Same programmes are being implemented by government and as well as other non-government organizations.

7.5.2 Efficacy of Networking

ME stakeholders should be formally included in the MEPD planning committee. Because, they know what the MEs need and what the entrepreneurs need. If ME stakeholders participate formally in the MEPD planning meetings and can provide their opinions, this sector will get its real face. Therefore, inclusion of ME stakeholders in the planning committee would expedite MED in the country and increase the effectiveness of their programmes. Moreover different incentives, facilities and support services can be made available in due time. It will provide the organizations a platform to uplift their concern and both way communication will result in competent policy development.

7.6 Barriers to Micro Enterprises Development and Remedial Measures

Different types of problems are found to MED in Bangladesh. The responses of the interviewees are discussed and analysed below.

7.6.1 Barriers to MED

Table 32 demonstrates the responses on the barriers to MED in Bangladesh. The table highlights that among the main barriers to MED, difficulty in accessing credit, political instability and lack of clear government ME policy and programmes are found the most important barriers in Bangladesh. They also highlighted on insufficient support from local authorities to MED, coordination among MEDOs, corruption and poor law and order situation, unstable legal environment and political commitment towards MED are also important barriers. On top of the above mentioned barriers, findings also show that, lack of qualified and skilled manpower, information on market, poor communication system, and lack of technical support are also dominating factor toward MED. While low purchasing power of the population, difficulty in accessing foreign market, high level of taxation and negative image of the entrepreneurs are found not too important, but still create obstacles to MED.

7.6.2 Remedial Measures

Table 33 presents the responses on the issue of the remedial measures to be taken to overcome the problems of MED. The table highlights the most important remedial measures. The respondents highly emphasized to provide easy and equal access to finance for all MEs on a priority basis. On top of that government must formulate a comprehensive and a clear-cut MED policy, specifying sector wise MED programmes, which needs an honest and strong political commitment towards MED, favourable law and order situation, corruption free bureaucracy and political stability in the country are necessary. Without these, ME sector will not boom in an expected way. Moreover, special rehabilitation programmes for the unsuccessful MEs, one stop ME support shop and ME counselling centre at local level, awareness raising programmes by publishing more ME information, providing specific sector wise BDS, and entrepreneurship development training are also very important measures to be considered for MED. The new entrepreneurs must have some management and marketing skills training before starting their MEs. The respondents also emphasized on improving communication systems, supporting innovative MEs, simplifying tax system and ME start up systems, and supporting particular groups such as women, ethnic minority to consider in the government MEDPs. They also added Government needs strong political commitment to devise a coherent policy to develop MEs in an expected way.

7.7 Strengths and Opportunities to MED in Bangladesh

The perceived strengths and opportunities to MED in Bangladesh are summarised below under the four main themes:

7.7.1 State of Affairs of Existing MEDPs

The perceived strengths and opportunities on the existing state of affairs of MEDPs are summarised below:

Existence of MED Policies

Bangladesh has its own SME Policy Strategy 2005 and Industrial Policy 2010, which are the main guidelines for MED. The findings and analyses reveal that the guidelines of present MEDPs are indirectly linked towards national ED. They are supported by several other policies such as tax policies, fiscal policies and many others. However, it is the responsibility of the concerned stakeholders, and service providers, to approach and deal with the policies, while implementing the respective MED programmes.

Bangladesh, situated between South Asia and Southeast Asia, occupies a central position in the Asia and Pacific region. Lying in close proximity to three of the SAARC countries Bhutan, India and Nepal in the north, northeast and west, and Myanmar in the southeast, Bangladesh has the opportunity to exploit potential business linkages such as increased trade. Bangladesh can easily export her ME products to those neighbouring countries as well as to the Middle East, European and North American countries. To realize this potential, however, it needs to formalize and increase trade and economic cooperation with adjoining and possible other countries and formulate a comprehensive MED policy.

Institutional and Infrastructural Supports

A plethora of GOs, NGOs, POs and professional bodies are working for MED in Bangladesh. They have their own MED activities ranging from providing, infrastructural supports and BDS to finances. Government organizations such as SMEF, BSCIC, and PKSF among others provide various institutional and infrastructural supports to MEs as key organisations. Recently Bangladesh government has established Institute of Micro Finance (InM). Different donor organizations and IGOs such as SEDF, Katalyst, and JOBS are also working with favourable MED activities in Bangladesh. This is obviously a good platform for MED. Moreover, NGO-MFIs are also playing very important role in creating employment opportunities, through their own MED programmes and other related assistances. They are treated as the development partners of the government of Bangladesh. The findings show that a wide network of NGO led MED activities exists in Bangladesh (chapter 2 can be seen for

more details on NGO-MFI led MED programmes). They target local entrepreneurs and help them by reaching remote areas, providing them financial accessibility, giving them business development training and linking them with national and international buyers.

Bangladesh has a growing communication network of railways, roads, air transport, and waterways. Many international airlines route services to the capital city of Dhaka. Bangladesh Shipping Corporation operates an international marine transport network. Television, radio, telecommunication and ICT networks are also in place. This shows a favourable communication network for MED in Bangladesh.

Investment Opportunities

Though Bangladesh is less industrialized, some sub-sectors have developed with special strengths. Study shows that, *saris* in Tangail and Dhaka area, the silk industry in northwest, dry and frozen fish in south and southwest, *Nakshi Katha* in Jessore area, and light engineering and metalwork in the Saidpur region, all represent valuable skills bases. Another important sub-sector is ship breaking and still works in Chittagong area. The country also has plenty of historical sites and beautiful countryside, such as world longest sandy sea beach in Cox's Bazar, world famous mangrove forest in Sundarban, untapped resources for tourism, particularly where development efforts might be linked with those of surrounding countries.

Bangladesh has a great potential for agricultural resource based industries. Predominantly agricultural, Bangladesh is also rich in forestry, livestock, and fisheries. Rising incomes promise growing domestic demand for processed food, and other essential consumer goods, such as textiles and clothing, furniture, transportation, and cultural and recreational services. Study findings inferred that local planning based on rational exploitation of local resources could become a powerful force for change, leading to innovative MEs. The above can be the important sectors for MED.

Sustainable Growth and Development

Bangladesh is an overpopulated country, where a large segment (about 40%) lives under poverty line. Employment situation is in a critical stage, though the country has abundance of cheap supply of labour force (chapter 2 can be seen for more details on the labour force). In such a situation, there is an enormous opportunity to involve them in self-employment by developing MEs, which can ensure sustainable economic growth and make the country self sufficient in different aspects.

Outsourcing to MEs offers substantial cost advantages to labour intensive export oriented LEs. This study reveals that LEs that depend heavily on MEs to produce part or all of their exportable products, as compared to those that are less dependent, grew in size, in terms of both the number of MEs for outsourcing and the number of employees. Thus, MEs contribute greatly to the export earning in particular and to the overall industrialization of Bangladesh.

Moreover, labour-intensive products should find a ready export market. The findings illustrate that apart from the readymade garments and frozen fish sector, Bangladesh has experienced little success in gaining access to the foreign market. However, the export market represents huge potentials for Bangladeshi ME products, specially handicrafts, readymade garments and consumer goods.

7.7.2 Support Services to Micro Enterprises

The perceived strengths and opportunities relating to support services to MEs are summarised below:

BDS and Techno-infrastructural Facilities

Government MEDOs, such as BSCIC provides infrastructural such as industrial plots, water, gas and electricity supply. BITAC provides technical facilities to MEs in Bangladesh. Different other MEDOs provide plenty of BDS to MEs in Bangladesh. Table 24 summarises the most effective among the current BDS activities of different MEDOs. Findings show that the existing support services are very eye-catching. Table

25 shows the most expected specific BDS for the MEs. What BDSPOs need is appropriate selection of BDS for sector wise MED. The MEDOs should widen their activities throughout the country for expected MED.

MED research activities are very important to cope up and survive in the ever-changing business environment. Many organizations both government and non-government have specific research activities. They initiate need based research programmes for the growth and development of MEs.

Micro Enterprises Development Training

Government organizations such as PKSF, BSCIC, BITAC, and SMEF have different MED training programmes. They target existing and potential entrepreneurs, (selected by their different partner organizations, like NGOs, and business associations), NGO officers, unemployed youths and women. Among those, financial management, micro enterprise development, group dynamics, savings and microcredit, business creation, monitoring and evaluation are noteworthy. On top of that, NGOs and POs have also different types of MED training activities such as entrepreneurship development, new business creation, management of the enterprise, business improvement, marketing and sales, skill development, accounting and financial management etc. They also target the existing and potential entrepreneurs, BDS providing officers, business executives and managers, educated youth etc. These initiatives show a favourable platform for MED in Bangladesh.

7.7.3 Financing Micro Enterprises

The perceived strengths and opportunities relating to financing MEs are summarised below:

Financing System of NGO-MFIs and Banks

The study illustrates that the country has a well-developed banking system operating under the guidance of the central bank. Specialized FIs (banks) and non-banking FIs (NGO-MFIs) operate in their respective fields to assist and develop the concerned

sector. Nationalized banks in Bangladesh have a wide network than the private banks. Their financing system is more structured and systematic. The findings demonstrate that from sanctioning to recovery nationalized banks follow and abide by strict rules formulated by the central bank and by their own. On the other hand, financing MEs by the NGO-MFIs is easier than the banks. They have also a countrywide network and provide ME loans without collateral. They provide loans on time without any bureaucratic hassles.

7.7.4 Networking of ME Stakeholders

The perceived strengths and opportunities relating to networking of ME stakeholders are as follows:

Networking is very important for MED, because they help to understand better business environment. It effects in making the development initiatives more aligned, helps avoid duplication of activities in the same target areas, raise strong voice to develop policy, help minimizing gap between the GO-NGO and NGO-NGO relationship and enhance relations among the stakeholders. The study findings demonstrate that in Bangladesh a strong inter organizational network of ME stakeholders, such as, GOs, NGOs, POs, business associations, chambers, academics and experts, entrepreneurs association etc., can be built as they exist throughout the country.

7.8 Weaknesses and Threats to Micro Enterprise Development in Bangladesh

The perceived weaknesses and threats to MED in Bangladesh are summarised below based on the four main themes of the study:

7.8.1 State of Affairs of Existing MEDPs

The perceived weaknesses and threats to the state of affairs of existing MEDPs are:

Absence of a Coherent and Comprehensive MEDP

Existing MEDPs lack concrete road map towards MED. They are yet to recognize MED as a strategy for employment creation, income generation and overall ED. The findings also reveal that government policies emphasise on the role of MEs in national ED but what are missing are well developed guidelines and well-structured programmes to motivate the entrepreneurs onto MED programmes.

For the rapid growth of all the MEs fiscal incentives is must. Bangladesh has got new industrial policy in the early 2011. It is found that, new IP is biased to services and trading sector. It is barrier to the growth of manufacturing enterprises. For a steady growth and development of the sector equal emphasis should be given to all the enterprises in the policy measures.

Legal provisions and procedures, labour laws and social stigma are the major factors hampering the closure of MEs, which are heading for ultimate collapse at much more costs to all concerned. This study confirms that there is no such favourable ME exit policy strategy. Moreover, the Companies Act 1994, the legal and regulatory framework for MEs in Bangladesh is very rigid to enable MEs to enter, exit and change their business in response to the market signals. Moreover, the findings also reveal that the legal processes for MED are very slow because of the bureaucratic red-tape characteristics of the government officers. Abuse of power of some high officials and trade union leaders also creates obstacles to MED.

Effective ME awareness activities are must for the proper growth and development of MEs. In Bangladesh, all the MEDOs have their own awareness raising activities. But the study findings reveal that many potential, rural as well as urban entrepreneurs, who are basically uneducated, are totally unaware about the government MEDPs and government facilities, especially supports and services, and incentives relating to MED in Bangladesh.

All public sector procurement should encourage participation of MEs with certain products. It is very important for the promotion of MEs. But study findings show that in Bangladesh there is no such provision in the Industrial Policy or SME policy strategy, which provide preferences partially or fully to procure local ME products.

Lack of Participation and Political Commitment towards MEPD

The political leaders are the drivers of the nation. But, the study findings show that the leaders who become ministers lack both theoretical and practical knowledge about their concerned ministry. Their ME views are not clear, as a result, they themselves are confused about MED. Therefore, they cannot give appropriate directions for policy development. Moreover, they lack strong political commitment.

To formulate a practical and promotional policy, adequate consultation with experts, target groups, and the concerned stakeholders and government will are important. An in-depth study should be carried out in line with its requirements, capacity and compliance ability before formulating policies (chapter 4 can be seen for more details on policy development). However, this study reveals that the present MEDPs were not prepared with enough consultations with the target group, experts and all the stakeholders, as these are failed to meet the needs of the sector.

Moreover, political structures remain confrontational in Bangladesh. Political enmity between rivals, frequent *hartal* (strikes), and the lack of respect for elementary principles of democratic governance have become the principal characteristics of the country's political system. A series of prolonged *hartal* affect the socio-economic and political conditions of the country. The average cost of *hartal* during the 1990s to the Bangladesh economy was 3-4% of GDP (UNDP 2005). These syndromes have given birth to a culture of corruption, bribery, hooliganism, and brinkmanship, and discourage the development of entrepreneurial talent and initiative in the country through the non-adherence of any rule of law (Moazzem 2008).

Imperfect Categorization of MEs

MEs are diverse in nature, so in the MEDPs profile of this sector should be well defined. This study finds that considering the size of economy, rate of unemployment, opportunities and prospect for MEs, availability of resources and contribution of national economy to the global economy the present category in the SME Policy Strategy and even in the new Industrial Policy 2010 is not perfect. Definition of medium, small, micro, cottage, and tiny enterprises should be included in the ME policy and defined properly.

Moreover, rural and urban MEs should be classified clearly, because the nature of MEs in the urban and rural area is totally different in Bangladesh. In the rural areas huge number of vulnerable women are engaged in rural MEs, who have no idea about the national policies. They do not have any access to banks. The study also reveals that only the NGO-MFIs target the micro and tiny enterprises, whose turnover is very low, such as small scale manufacturers (like packet manufacturers, greeting cards, handy crafts, etc.) street shops, street vendors, handicrafts made by house wives, local small grocery stores, corner shops etc. and banks are concentrating mostly on the higher segment than these MEs. Therefore, a clear definition and specific categorization will ensure focused and planned initiatives to develop all the MEs. Moreover, because of the absence of a specified category in the MEDPs medium sized and LEs are getting more focus than the other types of MEs. The findings show that some of these MEs such as cottage, micro and tiny, are not too big to draw the attention of main stream financial sector, and some of these such as small, medium sized are also not too small to approach NGO-MFIs.

Absence of an Appropriate Innovation and Technology Development

Accessing appropriate technology is very important for MED. However, it is found that MEs in Bangladesh have limited access to information and technology. The selection of equipment and technology is mostly based upon their limited expose, experience and information from suppliers. There is also absence of advisory services to access appropriate technology in Bangladesh. But MEs require advice for technology

up-gradation to improve the quality and quantity of products and to keep up with the competition in the market is not widely available in Bangladesh.

Moreover, for the development of innovative MEs a technology development policy is needed. Fragmented approach does not work properly. Therefore, innovative MEs are not growing. The findings illustrate that in Bangladesh there is no such technology development policy. The institutional structure for innovation and the development of technology requires reform. It should focus on dynamism to cope with the latest technological development.

Insufficient Institutional Supports

Different types of MEs grow in different areas of the country. The entrepreneurs need all the institutional supports locally to establish MEs. It is very hard for a local entrepreneur to go to the capital city to do the formalities to establish MEs. In India to avoid such problems, central government established District Industries Centres in 1978 that provides all the support services under a single roof, such as clearances, licenses and certificates required by the MEs, which is very effective and helpful to the development of MEs (chapter 4 can be seen for more details). This study reveals that in Bangladesh there is no such centre in the district level. Even in the SME policy strategy or Industrial policy, there is no direction regarding this.

Local government organizations can directly play a vital role in MED. They can raise voice to create MED awareness among the local entrepreneurs by arranging trade fairs, seminars with the involvement of local associations of MEs, NGOs, business organizations and GOs. They can also introduce special MED programmes for local entrepreneurs. But findings show that local government organizations are not directly involved in MED in Bangladesh, though there are elected representatives in the local administration (in the village level *Union Parishad*, and in the sub-district level *Upazilla Parishad*). The study also reveals that in the sub-district level, there are some government MED programmes, but the implementation process of those is very slow.

There is a clash of competition found between the local MPs (member of parliament) and the *Upazilla* chairmen in providing these facilities to their own people.

Inefficient Government Organizations

Government MEDOs such as BSCIC, BITAC, and BRDB etc. are equipped and empowered to provide extensive training and supports to the MEs. However, the findings confirm that, they lack efficiency. They have sufficient manpower and infrastructural facilities, eye catching programmes, but their performance is very much low. The procedural formalities to start new MEs in Bangladesh are very complex. As a result, entrepreneurs lose their attention. Moreover, the personnel culture is very much bureaucratic. The study also claims that ME owner's face harassment by the tax officials and members of law enforcing agencies at the time of monthly VAT payments, yearly corporate tax payments, during delivery of goods and so many. It is one of the major problems for the entrepreneurs in Bangladesh. But it is a matter of hope that recently formed SMEF and the apex body PKSF is working well towards MED, but they still lack an appropriate policy framework.

Slow MEDP Implementation and Evaluation

Implementation, monitoring and evaluation of MEDPs are very important for the steady growth and development of MEs. The findings inferred that the implementation process of existing MEDPs is very slow. SME Foundation is trying to do actively, but their services are centred in the capital, which should be extended to the different sub urban and rural areas. From the centre, this organization can do nothing for the whole country. Specific set of indicators for monitoring and evaluation of MEDPs made the process very easy. Pakistan sets specific indicators to evaluate their SME development policy, which is a very good step. The findings conclude that there are no specific set of indicators for monitoring and evaluation of MEDPs in Bangladesh. It causes slow growth and development of MEs.

NGO-MFIs have countrywide MED activities in Bangladesh. Respondents claim that the money that has been spent for MED by the NGO-MFIs so far in Bangladesh, this

sector should have a much better picture. Whatever progress have been achieved is not satisfactory. This study reveals that in some cases NGO-MFIs themselves have become entrepreneurs, rather helping the local entrepreneurs. In the name of the entrepreneurs, they are doing business for their own interest, even though government regularly monitors the NGOs those working on MED in Bangladesh. NGO Affairs Bureau and Micro Credit Regulatory Authority regularly monitor the NGOs. These bodies regularly monitor the ME activities through reports, field visit, and financial audit. However, the study findings confirm that these monitoring activities are found not very effective. Transparency and accountability of the monitoring agencies are questionable.

7.8.2 Support Services to Micro Enterprises

The perceived weaknesses and threats relating to the support services to MEs are summarised below:

Insufficient BDS and Infrastructural Support

BDS providers lack practical knowledge on the ME sector. The study shows that they are very much dependent on the theoretical aspects and not on practically running MEs. As a result, the entrepreneurs who receive BDS remain unsuccessful and could not reach in a position to utilize the learning into their practical business life. BDS to the entrepreneurs must have a good market orientation. But the findings show that existing BDS lack emphasis on market orientation.

All the MEDOs have their own T&D and R&D departments. They have different eye-catching programmes. However, the study findings reveal that MEs need specific institutional support, particularly training, and research. Entrepreneurship Development Institute of India (EDII) is a specific sector development institution that undertakes different research and development activities on various MED issues and gives training to the entrepreneurs and BDS providers. It is very good step towards MED. In Bangladesh, there is no such kind of institution, except recently established InM. It has been working in this direction, specially training and research, but the scope is very limited.

Electricity, water, gas, telecommunications and road access are keys to the competitiveness of the market of MEs. The findings clear that the pipeline water is almost absent in semi-urban areas of Bangladesh. Maximum MEs are using deep tube-well for water supply. Adequate power supply is important for the machineries, which is also absent in Bangladesh. MEs cannot afford captive power generation like LEs. Investment is needed in generating power; failure in power supply may make all other good efforts futile, particularly for the MEs. As a result, MEs face severe problems. However, ICT and telecommunication service is better than any other infrastructural supports in Bangladesh.

GOs especially BSCIC, provide infrastructural facilities to the MEs, like industrial plots, but it is very limited. The findings show that the process of obtaining a plot in the BSCIC industrial estate is very lengthy, competitive and bureaucratic. Study findings show that in an industrial estate, few plots are unused for several years and in some industrial estates some plots are vacant, but officially allotted. This bureaucratic culture hampers MED.

Research activities can help MEs to update the quality of their products; adapt the products with increasing changing needs of the consumers; increase efficiency in operations; identify the reasons for the sickness of an enterprise and find the way to revive; and adopt the measures to provide proactive incentives and facilities to the entrepreneurs. MEDOs in Bangladesh have their own plan of research and development activities. However, the study findings show that those activities are not regular and target oriented. Research results should be exposed and considered in the MEDPs. In Bangladesh, it is found that, research results are kept under red tape. They are rarely considered into the government MEDPs. As a result, they failed to address the appropriate global issues of MEs. If there were an institution like EDII, specific R&D activities can be carried out regularly that would help developing this sector properly.

Appropriate quality control system is must for the ME products to be competitive in the world market. The findings state that the steps to quality control systems taken by MoI are positive but incomplete. BSTI is the only body to do this in Bangladesh. It is impossible for one institution to control the whole country's business sector. There are also no regional quality control laboratories. International certification, which is found present in Bangladesh, may not be feasible for the small local producers.

Absence of Appropriate Entrepreneurship Education and Enterprise Culture

Educated entrepreneurs are more successful than the others. Low level of education of the entrepreneurs is an important barrier to MED. The concept of entrepreneurship is not native to every culture or society. Starting a business requires courage to assume the risks of putting money into ideas and to take a leap into an unknown future. Throughout the world millions of entrepreneurs display such courage. However, the fear of failure produced by the highly volatile socio-politico-economic conditions of Bangladesh has deepened into the minds of potential entrepreneurs. Consequently, new and energetic entrepreneurs are not emerging in the market. The traditional and cultural values of the country tend to keep women (half of the population in Bangladesh) inside their family homes, while they shoulder the burden of the poverty. The government policies should have directions on building a favourable enterprise culture to develop a favourable environment for creating new entrepreneurs and new MEs.

Appropriate entrepreneurship education is mandatory to build a favourable enterprise culture in the country. Nevertheless, the efforts to develop entrepreneurship by the academic institutions and BDSPOs are not well designed in Bangladesh. The acquisition of relevant vocational training, technical and business skills, management and entrepreneurial skills are crucial for the dynamic growth and development of MEs. The findings also demonstrate that most of the ME owners have not been even trained in business management and even lack book keeping knowledge to facilitate vital financial decisions. As a result, they face many management problems including under-estimation of required funding, use of out dated technology, over-estimation of target markets and

marketing capabilities. Moreover, the study also reveals that the vocational and technical training systems in Bangladesh are under-equipped and under-funded.

Lack of Market Information and Marketing Skills

Information regarding market access, such as information and support services for selecting target markets, product development and packaging, development of sales promotion are the most powerful competitive edges for business success. However, findings confirm that those are not widely available in Bangladesh. In addition to domestic competition from LEs, presence of competition pressure from foreign sources clearly demonstrates the need for an efficient, timely and affordable information system for MED. MEs 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 MEs 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 MEs are grossly inadequate and the lack of success to modern information technology has further aggravated the situation.

In Bangladesh, MEs have a vast domestic market and they have an increasing demand in the foreign market for their products. However, the study findings show that the quality of the most ME products are not yet capable to compete in the world market, and the quality of the level of productivity of ME products are very low in most cases. As a result, they failed to catch the foreign market. Even they cannot compete with the low cost imported foreign products in the domestic market.

Marketing skills at enterprise level make the MEs more market oriented rather than becoming more production oriented. The study shows that many MEs 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 MEs 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. High cost

of advertising is another obstacle. In fact, the absence of marketing skills has resulted in the early demise of business enterprises.

7.8.3 Financing Micro Enterprises

The perceived weaknesses and threats to financing MEs are summarised below:

Rigid Financing Procedures of Banks and Non-Banking NGO-MFIs

Banks follow a very structured and systematic process under the guidance of central bank and their own for sanctioning any loan. From loan application to sanction, the documentation process is very complicated and lengthy. The study confirms that to borrow from banks, entrepreneurs need to visit banks several times to meet the officers to process and advance their loan applications. Findings show that for an entrepreneur, who is generally less educated or uneducated, it is very difficult to make a proper business plan or project profile and to meet the concerned officers in the banks. This also discourages the local entrepreneurs to go to the banks for loans.

Moreover, banks are reluctant to extend loan facilities to the micro entrepreneurs, who do not have strong financial background and collateral though they have specialized ME windows to support MEs, under the instruction of the central bank of Bangladesh. All banks are mostly providing credit facilities to those MEs who have good financial background and /or collateral. The findings show that most of the ME owners in Bangladesh do not have land for collateral, even the lands owned by the MEs is not bankable due to title problem. As a result, most of the MEs are not getting easy access to institutional financial sources.

On the other hand, insufficient working capital could be viewed as a contributory factor towards high cost of money. Findings show that banks are also reluctant to provide adequate working capital through a term loan. As a result, a large portion of working capital requirements for MEs are often met through overdraft facilities through post dated cheques. As the cost of these types of credit is substantially higher, it is an additional cost burden for the MEs.

Exorbitant Interest Rate of NGO-MFI Loans

Though NGO-MFIs have a wide network of MED activities and easy ME loan facilities, their rate of interest is very high. They charge an exorbitant rate of interest. For example, the interest rate of renowned NGO-MFIs in Bangladesh is found about 20-30%, which is not ME friendly in any consideration (table 10 in chapter 2 can be seen for more details on the rate of interest of different NGO-MFIs). Their (NGO-MFIs) opinion is that, the rate of interest is relatively high, as they cover higher risks. Moreover, the rate of interest of the NGO-MFI loans depends on the organizational administrative cost and the rate of interest of their financier. As they are receiving loans from different organizations and financiers, they are to charge a bit higher rate of interest from their borrowers. In such a situation, the present rate of interest of NGO loans is not so high. Nevertheless, criticism on NGO funded MED and other activities is still increasing day by day. However, they are working as non-profit organizations, their rate of interest and earnings from the loans are more than their costs. It is also said that NGOs are selling old wine in new bottle. They are working like the old fashioned (*Mohajon*) money lender. There are different glaring examples of suicide of the NGO loan borrowers found in India and Bangladesh, who lost their house, land everything to refund the money lent from NGOs. The findings also reveal that NGO-MFIs are very much harsh in collecting their loan instalments. The business and profit motive tendency of the NGOs has made the traditional interest based model of micro finance questionable. People look for something new and sustainable, such as, interest free loans for their MEs.

On the other hand, in Bangladesh 90% populations are Muslims. In Islamic economic system, interest is strongly prohibited in financial activities. However, the mainstream financial institutions follow traditional banking system, based on interest. Some entrepreneurs are reluctant to take credit facilities from them. As a result, a big section of the entrepreneurs lacks financial crises. They look for loans based on Islamic system of finance. A number of Islamic banks have been working in Bangladesh, such as Islami Bank Bangladesh, Shahjalal Islami Bank, Al-Arafah Islami bank etc. and some

traditional banks have opened Islamic banking wings. However, these are not enough to meet the needs of the concerned entrepreneurs. They don't have any appropriate model of ME financing. They need a sustainable ME financing model to meet the needs of the entrepreneurs.

Absence of Specialized Micro Enterprise Development Bank

The World Bank, ADB and other International Donor Organizations give subsidized loans to nationalized banks and NGOs. However, study shows that they are not capable to utilize those funds in appropriate ME sector development. The reason is banks normally concentrate on medium sized and LEs. Moreover, they have different other sector development activities. If some specialized bank were exist in Bangladesh, such as Small Industries Development Bank (SIDB) or Regional Rural Banks (RRB) in India, the loans could be used in an appropriate sector development. The findings confirm that some state owned banks, such as Bangladesh Development Bank (recently established) and BASIC bank are working in this direction but their coverage is very limited and concentrate mainly in the urban areas.

7.8.4 Networking of Micro Enterprise Stakeholders

The perceived weaknesses and threats relating to the networking of ME stakeholders are summarised below:

Poor Networking among the Stakeholders

Networking and IOR are very important for MED. These can raise strong voice to develop policy, get legal supports, and access to financial services. It can help to understand better business environment and can make all the MED initiatives more aligned. It also can help minimizing gap between the government and ME stakeholders; and among the ME stakeholders. There are quite a few government, non-government and private organizations working for MED in Bangladesh. But, IOR and networking among the ME stakeholders is very informal and poor. The study confirm that because of the absence of such a network and IOR there is overlapping of MED programmes.

Sometimes it raises unhealthy competition among the MEDOs, as well as to the entrepreneurs that hampers the promotion and development of MEs.

ME orientation of the government bodies and chambers are found relatively better. Government sometimes invites the ME stakeholders in the MEPD planning meeting such as NGOs, POs, chambers, entrepreneurs associations etc to get their suggestions. It is really a good step for MED. However, the study reveals that government does not value recommendations and suggestions of the invited organizations. Moreover, business chambers sometimes act as government's spokesperson. They do not value the voice of the mass entrepreneurs rather the interest of themselves and of the political government.

All the above perceived strengths and opportunities, and weaknesses and threats to MED, particularly, relating to existing micro enterprise development polices, support services to MEs, financing MEs, and networking of ME stakeholders in Bangladesh are further considered in the following chapter in order to recommend appropriate policy intervention.

7.9 Overall Major Problems and Challenges to MED and Remedial Measures

Previous pages presented, discussed and analysed major problems and challenges to MED, side by side the possible remedial measures to be taken to address those problems and challenges on the basis of the responses of the interviewees. The following table shows the overall major challenges and problems to MED in Bangladesh. It highlights the overall major problems and challenges related to MEDPs, support services, financing and networking among the ME stakeholders in Bangladesh. It is found that high rate of interest, insufficient collateral, difficulty in accessing credit, political unrest in the country are most significant problems to MED in Bangladesh, among others. Bangladesh also lacks a coherent MED policy and planned MED programmes. As a result expected development of this sector is not occurring. As discussed earlier, in chapter 3, to develop ME sector, a favourable enterprise culture is must in the country,

and in shaping, a favourable enterprise culture the country needs a corruption free bureaucracy, stable political environment and strong political commitment towards MED. Corruption is one of the main factors that destroy the growth of enterprise culture.

Table 34: Overall Major Problems and Challenges to MED

Overall Major Problems and Challenges	%
Policy Issues	
Lack of Clear Government ME Policies and Programmes	100
Political Unrest	100
Insufficient Support from Local Authorities	92
Unstable Legal Environment	92
Corruption and absence of Political Commitment towards MED	92
Poor Law and Order Situation	92
Procedural Difficulties in Starting New MEs	77
Difficulty in Accessing Foreign Market	46
Issues on Support Services	
Lack of Qualified Human Resources	86
Lack of Proper Marketing Skills	86
Lack of Market Information	86
Uncompetitive Products	77
Poor Transportation	77
Lack of Management Efficiency	68
Technical Support from Financer	63
Lack of Management Skills	60
Financing Issues	
High Rate of Interest	100
Difficulty in Accessing to Credit	100
Insufficient Collateral	100
Religious Prohibition on Interest Based Loans	71
Poor Documentation	71
Previous Credit Record	57
Issues on Networking and Others	
Absence of Inter Organizational Relations among MED Stakeholders	92
Low Purchasing Power of the Population	57
Project Proposal not Accepted	49
No Personal Contact in Lending Institutions	35
Negative Image of the Entrepreneurs	29
Own Contribution Too Small	23

Note: n=35 Respondents

Source: Field Work by the author 2010

Moreover, religious beliefs and network also influence enterprise culture (chapter 3 can be seen for more details). Findings confirm that corruption, religious prohibition on interest based loan, absence of political commitment and poor network among the MEDOs are other significant problems to MED in Bangladesh. Bribes are charged in different ways, such as sanction and transaction of ME loans, in return for any

government permission etc. In Bangladesh, 90% people are Muslims. Interest in any financial transactions is prohibited in Islam. Because of this religious prohibition, a significant number of micro entrepreneurs do not go to traditional financial institutions for ME loans, as those are based on interest. As a result, they face severe capital shortage to run their MEs. Few Islamic banks are working in Bangladesh. Among them IBBL is very popular to the local entrepreneurs for its MED loan scheme, namely, rural development scheme (RDS). They provide this loan on a profit sharing basis, based on, Islamic system, the share of which is relatively lower than the rate of interest of NGO-MFIs and other banks. Still they have very bureaucratic system of approval. They lack a planned and sustainable ME financing model. On the other hand, lack of qualified human resources, insufficient market information, and lack of marketing skills, uncompetitive products, poor documentation, are also found very important problems towards MED. Study findings show that all the MEDOs in Bangladesh have different types of BDS activities but ineffective. As a result, growth of MEs in Bangladesh is very slow.

The above table also highlights that a small number (23%) of respondents concurred that the contribution of entrepreneurs in MED is too small. It clearly indicates that the contribution of entrepreneurs in MED is very significant in Bangladesh. Therefore, it is very important for the policy makers and BDS providers to provide appropriate skills development training and entrepreneurship development education and training to the entrepreneurs otherwise MEs will not survive. The table also highlights that a significant number of respondents agreed that personal contacts in the lending institutions help them in getting ME loans, which is not favourable to mass ME owners. It clearly indicates that ME loan sanctioning depends on some sort of bribery.

Remedial Measures

The following table shows the overall remedial measures to be taken to overcome the above discussed problems and to meet the challenges to MED in Bangladesh. They are also summarised under the four main themes of the study.

Table 35: Overall Remedial Measures to the Problems and Challenges to MED

Remedial Measures	%
Policy Issues	
Formulation and Implementation of a comprehensive ME Policy	100
Reducing Corruption and Ensuring Political Stability	100
Creating an Appropriate Enterprise Culture	100
Special Rehabilitation for Programmes Unsuccessful MEs	97
Political Commitment towards MED	95
Awareness Building Campaign on ME Rights and Facilities	95
Improving Law and Order Situation	92
Determining ME Laws More Concretely and Exactly	89
Planned Rural MED Programmes	86
Publishing More Information for MEs	86
Government Organization should be more Active and Free from Corruption	86
Supporting Innovative Technological Enterprises	80
Improving Transportation System	77
Simplifying Registration of New Enterprises	71
Imposing More Tax on Imports	65
Simplify Tax System, Decreasing the Amount and Number of Taxes for ME Owners	48
Issues on Support Services	
Entrepreneurship Development Training for New Entrepreneurs	97
Promote ME Counselling and BDS	97
Enhancing One-stop Service for ME Support	95
Training on Loan Processing	89
Creating Business Incubators or Technology Parks for New MEs	45
Financing Issues	
Providing Collateral Free Loans to MEs	100
Providing Interest Free Loans	100
Reducing Interest Rate of ME Loans	100
Facilitating Access to Finance (Creation of ME Funds, etc)	100
Making the Banking System Flexible	95
Private Banks should open Branches in the Rural Areas	95
Legal Status to the NGOs for ME Financing	92
Easing the Procedural Formalities of any ME Loans	92
Strengthening ME Financing Windows of all the Banks	89
Creating Special Funds for Business-Skilled Staff	54
Issues on Networking and Others	
Building Strong Network of ME Stakeholders	97
Enhancing IOR among the MEDOs	95
Priority to Women Entrepreneurs and Less Privileged Groups	69

Note: n=35 Respondents

Source: Field Work by the author 2010

The table highlights that regarding the policy issues most of the respondents emphasise formulating a comprehensive and coherent MEDP, ensuring political stability, and a corruption free bureaucracy. Moreover, creating enterprise culture in the country is also emphasised significantly by all the respondents. Enterprise culture is the concept that explains the ‘pros and cons’ of the MEs (chapter 3 can be seen for more details). An

appropriate enterprise culture can help developing MEs easily. This is the responsibility of the concerned government of the DCs to take appropriate intervention to create an enterprise culture. Change in education system is necessary in this regard, which must need to include appropriate entrepreneurship development education in the different levels of education system.

On the issues of support services the respondents emphasised on entrepreneurship development training for the new entrepreneurs, promoting awareness on MED and ensuring appropriate BDS. On finance issues the respondents highlighted on facilitating easy access to finance, providing interest free loans, reducing interests of ME loans, providing collateral free loans, and on the issue of networking they focused on building strong network among the ME stakeholders to overcome the problems of MED in Bangladesh. Providing interest free loans is relatively a new concept in ME financing. Muslim Aid UK and FINCA Afghanistan have been working on it. But, they lack an appropriate model of such loans. In order to overcome the barriers to MED in Bangladesh, governments and others concerned must take appropriate intervention based on the above remedial measures as appropriate. Respondents also emphasized on simplifying tax system and imposing more taxes on imports. This will help entrepreneurs to be engaged in MED. More taxes on importing goods will help ME entrepreneurs to catch the local markets easily.

7.10 Summary

This chapter discussed the summary of findings extracted from the previous chapter with researcher's own analyses. The findings are analyzed and summarized under the main themes of the study. From the findings of the research, the chapter highlights several positive and negative issues to MED that must be considered immediately in Bangladesh. The positive issues among others MED can be an effective strategy for sustainable economic growth and development, as it is found that MEs help generating huge employment opportunities for the people, both skilled and unskilled, with available existing resources and indigenous technology. However, because an appropriate policy

framework is absent there, MEs face several problems related to infrastructural, support services, financing and networking. The findings confirm that, government organizations provide different infrastructural and technological facilities to MEs, but they are very inadequate, considering the number of MEs, both existing and potential. Support services to MEs are plenty in number, provided by the MEDOs, but they lack practical exposure, and to some extent ineffective. The conventional financial supports to MEs are huge, but they are very complex and bureaucratic. Moreover, NGO-MFIs have a very wide network, easy and flexible schemes, but their rate of interest is very excessive and also the amount of loan is very nominal. The study also shows that the existence of ME stakeholders is countrywide, but their networking and IOR is very poor. As a result, ME sector is not growing up to the expectation, even though all the facilities exist in Bangladesh.

The chapter also tries to find out the strengths and opportunities, and weaknesses and threats to MED from the above findings and analyses. The analyses are presented here with researcher's own analytical judgment based on the interpretation of existing literature, research objectives and research findings. The analyses demonstrate that MEs are very important vehicle for the development of national economies of DCs. MEs create enormous self-employment opportunities as well as employment for others. Government of DCs, especially Bangladesh formulated several policy guidelines for MED. Government as well non-government and private MEDOs are providing different business development support services and financing to MEs. Still they face different problems and challenges related to policy, BDS, finance and networking. These make the MEs very challenging in DCs and hamper the growth of MEs. The following chapter tries to address the problems and challenges to MED by giving some new recommendations to the policy makers for possible policy change and to take appropriate intervention to create a favourable entrepreneurial climate.

CHAPTER 8

CONTRIBUTIONS AND CONCLUSIONS

8.1 Introduction

This chapter provides the contributions and concluding remarks of the study based on the researcher's own analyses and judgment. The chapter starts with discussing the conclusions about the research questions, contributions to the policy makers and concerned stakeholders, and contributions to the MED literature. At the end of the chapter limitations of this research, further research in this area and concluding remarks are included.

8.2 Conclusions about the Research Questions

This study aimed at critically examining the existing MEDPs and the role of MEDOs in DCs, especially Bangladesh in order to articulate appropriate MED policy recommendations. The research questions that were introduced in chapter 5 are:

RQ 1: Are the existing MEDPs appropriate and effective in promoting ME sector?

RQ 2: Are the existing MEDPs linked to national ED?

RQ 3: Are the existing MED programmes and activities such as BDS activities effective for the development of MEs?

RQ 4: Is the ME financing system of both the banks and NGOs easy and accessible and appropriate to MEs in Bangladesh?

RQ 5: Is the nature of networking among the different ME stakeholders favourable to MED?

RQ 6: What is the nature of the problems and challenges of MED and how they can be solved?

Reviewing the literature the study finds that DCs lack appropriate MEDPs and planned MED programmes, sufficient funds, appropriate technology, and effective business development services. But there are strong prospects for MED through entrepreneurship development, which can help achieving the goals of national ED. Literature shows that DCs can ensure ED by developing MEs where local resources and indigenous technology can be used (chapters 3 and 4 can be seen for details). Chapters 6 presented the views of the respondents on the research questions based on solid evidences (primary data) and simultaneously chapter 7 analysed and discussed the findings on the above questions based on the researchers own judgment.

In addressing question number one it can be concluded that, the existing MEDPs are not appropriate and effective in promoting ME sector in Bangladesh. It is found that existing MEDPs are not specifically ME friendly, not comprehensive and well thought out.

In addressing question number two it can be concluded that, the existing MEDPs such as SME policy strategy and related others, are not directly linked towards national ED. There are many supportive policies such as tax policies, import policies, and fiscal policies and many others in Bangladesh. So it is to be said that existing MEDPs are indirectly linked toward national ED.

In addressing question number three it can be concluded that, the existing BDS activities are not appropriate and effective for the development of MEs. It is found that Bangladesh has available resources, indigenous technology and huge supply of human capital both skilled and unskilled. Moreover, various institutional and infrastructural supports, and different types of business development services exist in Bangladesh, but these are found inadequate, inappropriate and ineffective.

To consider question number four it can be concluded that, the existing ME financing systems are not easy and accessible to all types of MEs in Bangladesh. It is found that financial facilities provided by the conventional banks, are very bureaucratic, complex and not easily accessible to all types of MEs, though they have a countrywide network. On the other hand, NGO-MFIs have also a countrywide network to finance all the MEs in the bottom of the tail, but they charge an exorbitant rate of interest.

In addressing question number five it can be concluded that, networking and inter-organizational relations among the ME stakeholders are not well bonded, though huge number of ME stakeholders exist countrywide and are working for MED. Their inter-organizational relations and networks are found very loose and informal.

To address the last question, it is to be concluded that this study identified a list of problems and challenges to MED in Bangladesh that hinder the growth and development of ME sector. To overcome all the problems and meet the challenges to MED, government needs to take an appropriate intervention by formulating an effective, coherent and comprehensive MED policy. This study suggested a list of recommendations to overcome the problems and challenges to MED. It is hoped that the recommendations offered in the following pages will help the government and other concerned ME stakeholders to overcome the problems and meet the challenges of MED and finally will contribute to MED, entrepreneurship development and national ED in the DCs especially Bangladesh.

8.3 Contributions to the Policy

Considering the reviewed literature, and perceived strengths and opportunities, and weaknesses and threats to MED based on the solid evidences (primary data), this study proposes the following recommendations for possible MEPD and/ or MED policy change in the DCs, particularly Bangladesh. The recommendations are presented here under four main broad areas based on the main themes of the study: ME Policy Development; Providing Sufficient Support Services; Ensuring Finance; and Developing a Strong Network.

8.3.1 Micro Enterprise Policy Development

Recommendations to MEPD are presented under three sub areas: the nature of MEDPs, role of the government and practical aspects of MEDPs.

A. The Nature of MEDPs

A well thought out MEDP should be formulated with enough consultation with all the stakeholders. To achieve the MED goals, it is a necessary to formulate such a policy that includes policies of micro enterprise, entrepreneurship and enterprises (chapter 3 can be seen for more details). Government must act appropriately to formulate a comprehensive MEDP. The following key areas are proposed to be covered in the above

mentioned comprehensive policy: stakeholders development, includes the way in which policy can be sensitive to and shape the environment in which the ME sector operates; development of specialist institutions, includes the potential direct intervention supporting MED; programme development, includes BDS, specifically designed to support MED key areas such as finance, counselling and consultancy, training and development, information and communication technology, innovation, and incubation etc.

Overall objectives of the proposed MEDP might include employment creation, productivity, competitiveness, GDP growth, as well as social, sectoral and regional equality including poverty reduction. Positioning MEDP against national targets makes it easier to co-ordinate the relevant activities of different ministries and to prioritize goals (chapter 4 can be seen for more details). Specific objectives can be set regarding the ME contribution to job creation, poverty reduction, the welfare of specific groups, such as, women or indigenous business development in different localities, or major sectoral targets, for example in tourism or agro-based development. Specific targets relating to international competitiveness might also be improved the focus of new MED initiatives. Without this link to specific macro goals, MEDP may drift over time as one priority succeeds another. On the other hand, policy makers should be aware that priorities must be reviewed regularly to reflect new development challenges.

Re-categorization of Micro Enterprises

Re-categorization and redefinition of MEs is obvious to ensure equal access to government facilities and finances for all types of MEs. The proposed comprehensive ME policy may consider the categorization and definitions of MEs for the betterment of the sector proposed in the following table 36 below.

Tiny enterprises such as street shops, street vendors/ hawkers, small family businesses and local tailoring shops, and all other businesses with such low turnover both in urban and rural areas should be specified and targeted in the MEDPs. Moreover, DCs, includes

Bangladesh have food shortages. Their economy is based on agriculture. Therefore, agricultural sector especially, producing food grains should be targeted for MEs.

Table 36: Proposed Categorization and Identification of MEs

Categories of MEs	Definition of Manufacturing Enterprises	Definitions of Non-manufacturing Enterprises (Trading and Service)
<i>Tiny Enterprise</i>	Tiny MEs are those that exist at the bottom of the business tier, such as micro trading enterprises including street vending. These are enterprises that create only self-employment.	
<i>Cottage Enterprise</i>	For manufacturing, an enterprise should be treated as “cottage” if in today’s market prices, the replacement cost of the plant, machinery and other parts, fixtures, support utility and associated technical services by way of capitalized costs excluding land and building were up to BDT 0.5 million.	For service and trading, an enterprise should be treated as “cottage” if it has less than 5 workers in full-time equivalents.
<i>Micro Enterprise</i>	For manufacturing, an enterprise should be treated as “micro” if, in today’s market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc, excluding land and building, were to be up to BDT 1 million.	For service and trading, an enterprise should be treated as “micro” if it has less than 10 workers (0-9), in full-time equivalents.
<i>Small Enterprise</i>	For manufacturing, an enterprise should be treated as “small” if, in today’s market prices, the replacement cost of plant, machinery and other parts/components, fixtures, support utility, and associated technical services by way of capitalized costs etc, excluding land and building, were to be up to BDT 5 million.	For service and trading, an enterprise should be treated as “small” if it has less than 25 workers (10-24), in full-time equivalents.
<i>Medium Enterprise</i>	For manufacturing, an enterprise would be treated as “medium” if, in today’s market prices, the replacement cost of plant, machinery, and other parts/components, fixtures, support utility, and associated technical services etc, excluding land and building, were to be up to BDT 50 million.	For service and trading, an enterprise would be treated as “medium” if it has between 26 and 100 employees.

Source: Author

Indigenous technology user small factories should also be targeted such as, wooden furniture, handicrafts made of cane, jute, or bamboo, and paper made dry flower, handmade or less mechanized shoe and leather goods, packaging and printing, consumer goods production, plastic goods, sanitary items, home based food products and utilities, confectionary, and electrical goods. Because these enterprises can create employment opportunities with small amount of capital and in a small place. Moreover, innovative MEs, such as biogas, solar energy, and low cost housing, should be encouraged in the MEDPs with special incentives.

DCs have a large domestic market, which should be targeted first for the ME products. They might have a good prospect in the foreign market. DCs need to identify which ME products have the potentials to be exported. Obviously, it depends on the nature of the products manufactured by the MEs.

Formulation of Technology Development Policy

MEs are largely family based and have limited access to information and technology. They mainly use indigenous technology. The selection of equipment and advanced technology is mostly based upon their limited exposure, experience and information from suppliers and relatives. Required advice for technology up-gradation is often not widely available. An innovation and technology development policy should be formulated with sufficient funds. The existing institutional structure should be reformed to focus on the dynamism of the ME sector and cope with the latest technological development. Collaboration can be made with successful countries in fostering technology development for MEs. Technical services should be provided at the district level include quality control, common facilities for instrumentation, testing and calibration. The idea of deploying industrial extension officers in different parts of the country is an excellent practice in Sri Lanka (chapter 4 can be seen for more details). 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. This requires capacity building of R&D institutions. Professional bodies such as Chamber of Commerce and industries should be encouraged to actively participate in providing these common facilities.

Formulation of Unsuccessful ME Rehabilitation Act

Unemployment situation is going worst in the DCs. If one ME closes down at least four to five people have become unemployed. Therefore, government must take appropriate measures to help surviving the MEs. A yearly basis extensive survey might be done to find out the root causes of the unsuccessfulness of the MEs, so that before dyeing they can be rehabilitated. Moreover, MEDPs need to be implemented properly in the right

time. They need time to time update on the basis of the sector wise needs and needs of the market and an unsuccessful enterprise rehabilitation act can be enacted to support unsuccessful MEs. It might help surviving the MEs.

B. Role of Government

Role of government in MEPD is very important. Because government acts as a regulator, an economic agent, and as a strategic planner and promoter. For a steady growth and development of MEs every country must have a strong political commitment. Because, in absence of a favourable law and order situation and political stability and strong political commitment corruption and bribery increases into an intolerable level. This increases the costs of production of MEs. Therefore, government must ensure political stability, and an improved law and order situation for any kind of expected development and this is government who can ensure it.

Appropriate Government Intervention

Government plays a very important role as facilitator, regulator, and strategic planner of a country for any kind of development activities. To ensure MED, government must play her role in a very positive way to formulate an appropriate MEDP. This study suggests an appropriate government intervention in the following specific areas: developing an enterprise culture towards entrepreneurship; correcting market failure in accessing finance by loan guarantee scheme, grants to MEs, and/ or equity finance; advice and assistance to new and existing MEs, ranging from subsidized advice to individuals prior to starting or currently operating a new or existing MEs, and to subsidized visit to overseas trade fairs; supporting technology and innovation and facilitate business incubators that facilitates all the services and facilities to business to develop, and provide R&D funding on innovation and technology; and supporting entrepreneurial development of particular groups such as ethnic minority groups, women, youth, and the unemployed people (see chapter 4 for more details).

Development of Entrepreneurship and Enterprise Culture

The issue of entrepreneurship in the DCs is not only relevant as a contribution to the development of academic knowledge on the link between entrepreneurship and ED, but also relevant for policy. The understanding of entrepreneurship and ED in the DCs would allow policy makers and concerned stakeholders to use this knowledge to formulate MEDP (Koster and Rai 2008). On the other hand, a society with an enterprise culture is a society in which, the potential for individuals and groups to start a business is maximized. The common element is a set of values and attitudes underpinning a belief that economic and social development can be best achieved by the maximization of individual, small group and local community effort and responsibility. It is important for the policy makers, to recognize that entrepreneurial behaviour arises from the need of individuals and organizations of all kinds to cope with, enjoy and sometimes create high levels of uncertainty and complexity as a means of personal fulfilment. The broad strategy for MED, should be, to change the culture of organizations of all kinds, to facilitate entrepreneurial behaviour enabling and encouraging individuals to enjoy a stronger sense of ownership; choose the form and control the direction of their organization, maximizing the opportunity to engage in 'total' management; enable them to make decisions under conditions of uncertainty and ambiguity; take responsibility to see things through and build a long term commitment to a venture; build 'know who' networks with key public and private sector partners; link rewards and the evaluation of behaviour to credibility with stakeholders and customers; learn from the stakeholders and from mistakes and experiments; and encourage strategic thinking rather than formal planning and personal contact as a basis for management by trust (OECD 2008). These guidelines are very important particularly for designing the organizations culture that will interface with the ME sector. Additionally, in supporting the development of an entrepreneurial society this study suggests developing entrepreneurial attitudes among all the relevant stakeholders, local empowerment, a greater belief in 'trust' than in regulations and the encouragement of initiative at all levels. To develop an effective enterprise culture MEDPs must target young people, and cover changes to the education system, graduate self-employment, provide work placements in the existing MEs.

Government needs to change in the academic system in a positive way with an entrepreneurial mindset (chapter 4 can be seen for more details). Developed countries have a range of policies to promote entrepreneurship at different stages of their education system. DCs should consider these steps in the different levels of their academic system to ensure entrepreneurship and MED. Moreover, it is necessary to develop entrepreneurship profile for the country, which will help the entrepreneurs to utilize their innovative ideas.

To ensure entrepreneurship development government must initiate some important activities (chapter 3 can be seen for more details), such as, stimulatory activities that include the supply of entrepreneurs ready to take initiative and organize the MEs; support activities that include infrastructural facilities, ability and skills to the entrepreneurs and sustaining activities that include growth and expansion, modernization, diversification etc. Moreover, this study suggests the governments to ensure the six determinants of entrepreneurship development as suggested by OECD framework (chapter 3 can be seen for more details): a strong regulatory framework, advanced R&D and technology development, enhancing entrepreneurial capabilities, creating favourable enterprise culture, easy and equal access to finance, and favourable market conditions. For getting better results, government should also take policy initiatives to strengthen the interface between university and ME sector. Pakistani experience of Micro Enterprise and Entrepreneurship Development Institute (chapter 4 can be seen for more details) can be established in selected Business Schools in some selected Universities.

Promoting Public-Private Partnership

Involving private sector implies that, efforts are focused substantially on raising the capacity of the ME sector to help itself and contribute more substantially to the solution of broader problems of development including poverty alleviation, entrepreneurship, health, education and social exclusion. With this focus, the stance of government moves away from direction (management and regulation) towards governance (facilitation).

This involves new partnership with private sector, for supporting individuals and collective initiatives i.e. public-private partnerships, with a special focus on MED.

C. Practical Aspects of MEDPs

In the MEDPs of Bangladesh one stop shop for MEs are left with weak institutional support. Currently SMEF is providing these services to MEs, but it is not adequate for the countrywide MEs. A dedicated one-stop service system can be developed throughout the country, to foster MED, which would be helpful to bring the MEs, particularly micro, cottage and tiny enterprises to contribute to the national economy. Such system should be spread out across the country. Moreover, SMEF is not enough to foster MED. The name SMEF may be less convincing to the stakeholders. A MED Authority could be formed with exclusive authority, power and fund to facilitate ME sector and coordinated efforts of other relevant agencies including SMEF.

Various organizations, both government and non-government and private organizations are working for MED in Bangladesh. However, the findings show that government monitoring and evaluation on the MED activities is not adequate and not effective, though government has special monitoring and supervising agencies. They should be more effective, transparent and regular.

Institutional Support and Involvement of Local Government

To make the ME support services available to all the existing and possible entrepreneurs in the country, district ME centres can be established. The example of India (see chapter 4 for details) can be followed in this regard. It will facilitate all the services from licensing to BDS for MED. Moreover, local government bodies can play a key role in promoting MEs. There are limitations to central government's role in supporting MEs and developing entrepreneurship. The basic elements of entrepreneurship cannot be supplied by central government, and a 'bottom up' development philosophy in favour of MEs can only function with substantial local government, as local and regional authorities are closer to their business communities. Government must take initiatives to involve the local government bodies to promote MED activities. In fact, local

government bodies in Bangladesh are very strong and elected. They must be involved with special programmes to MED. Moreover, ME counselling and information centre at the *Upazilla* (Sub-district) level under the supervision of the proposed District ME Centre can also be established to attract and help the rural entrepreneurs.

8.3.2 Providing Sufficient Support Services

For MED various business development support services are necessary. Relating to effective and appropriate BDS to MEs the following recommendations are offered:

Improving Entrepreneurial Skills

New entrepreneurs should get appropriate training before and after starting their enterprise. It should be on the basis of their nature of business. The acquisition of relevant vocational training, management and entrepreneurial skills are crucial for MEs to become dynamic and growth orientated. ME owners must be trained in business management, entrepreneurship development and book keeping system to facilitate vital financial decisions. A national skill development fund should be created and national entrepreneurship development institute should be established to ensure all the above facilities to MEs. The Indian experience of this type of Institute can be followed (chapter 4 can be seen for details). The EDII is a landmark institution in developing entrepreneurship and MED in the world.

Various motivational efforts must be introduced to attract the entrepreneurs easily. Awareness raising activities on MED, arranging preliminary motivational training and establishing information centre at *Upazilla* level might be most effective efforts to attract the entrepreneurs. However, study findings show that government has some MED programmes at *Upazilla* level on poverty alleviation offered by some ministries. Nevertheless, these activities are very limited. On top of the above efforts, networking of ME stakeholders, organizing trade fair, advertisement and regular publication on MED must be ensured to improve the entrepreneurial climate in the country.

Providing Adequate Infrastructural Support

Electricity, water, telecommunications and road access are keys to market competitiveness of MEs. Adequate electricity supply is important. The pipeline water and telecommunications are almost absent in semi-urban areas of Bangladesh. This support needs to be the part of MED action plan. MEs cannot afford captive power generation like LEs. Government should emphasize in electricity generation. Transportation system is one of the main pillars for MED. Therefore, road, rail and other means of communication must be easier and faster to reduce cost of communication.

Moreover, non-manufacturing MEs need some different facilities than the manufacturing enterprises. Some services sector in the field of ICT are growing in the ME sector in Bangladesh. Some examples are Mobile Lady, Agro help line etc. Telecentres are progressing as service enterprises. Not only that, health care centres, hairdressing, dress making are some of these sectors are emerging. They need special training to deliver their services smartly. MED research activities of different MEDOs must be regular and the results must be incorporated in the government policies.

Providing Appropriate Business Development Services

MEDOs also must provide appropriate BDS to MEs. The findings highlight that for the expected MED, BDSPOs should provide some specific support services. The study proposes six specific categorical support services to all the existing as well as new entrepreneurs. Those are: on basic information and legal services category BDSPOs should provide information on business law and policies, information on fiscal incentives, and information for start-up entrepreneurs accurately. These are important for the new, as well as existing entrepreneurs. On consulting services category supports on business planning, accounting and bookkeeping, and credit assessment should be provided properly. On marketing category supports on marketing plan, marketing research and strategy; followed by on accounting category supports on cash flow and audit financing; on HRM services category support on training and management, skill development; and finally on production and technological services category supports on product design should be provided specifically.

It is found that, BDSPOs in Bangladesh have already these support services but they lack appropriateness. These activities are found theory oriented and lack practical knowledge. As a result, those failed to achieve the expectation of the entrepreneurs. Government must intervene to identify BDS opportunities for MED, stimulating demand for BDS, and linking BDS providers and MEs. Private sector, particularly larger BDS providers should be encouraged through incentives to redesign their products/services focusing on specific BDS requirements of MEs. A comprehensive database of BDS providers may also be made.

Providing Micro Enterprise Development Training

MED training activities should be needs based. BDSPOs need to make the trainees understood that they would need to tell their issues to the appropriate authorities. They should have enough coordination among themselves to raise their voices. Training helps the trainees to transfer their learning in their businesses, which develop their confidence to become entrepreneurs. Therefore, they should be income generating in nature. Hence, it will increase their motivation to employ more time and efforts to make their venture successful. Different categories of MEs such as manufacturing and non-manufacturing, rural and urban are very diverse in nature and their training needs also different. Without appropriate curriculum, no training will be effective. Therefore, it is important to set appropriate curriculum for MED by identifying the exact needs of the entrepreneurs. To identify the exact need of the entrepreneurs MEDOs can apply training needs analysis. The curriculum should be updated based on the needs and change of the consumer behaviour.

Globalization has made the consumer as the king, at a very interior market of a village, a ME product is facing competition with cheap imported goods, so in order to upgrade product quality training courses should also be upgraded. The curriculum of MED training activities should cover the following areas: maintaining quality of products, diversifying design, getting access to technology, involving with marketing chain, maintaining accounts, targeting markets, preparation of project and feasibility study of

projects, setting marketing strategy, and managing risks and finance etc. The curriculum should be updated regularly by considering the changing requirement of environment and needs of business and policy of the government. T&D activities should be evaluated on a regular basis. A simple evaluation questionnaire should be circulated among participants, or they might be asked to share their success after the training. Moreover, training for the trainers should get number one preference to be included in the action plan of the MEDOs. Because trainers are the main drivers of all the BDS activities.

Providing Market Information and Developing Marketing Skills

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 required for selecting target markets, product development, packaging, and sales promotion etc. In addition to domestic competition from LEs, presence of competition pressure from foreign sources clearly demonstrates the need for an efficient, timely and affordable information system for MED.

The absence of marketing skills at enterprise level has led MEs being more production oriented rather than becoming more market oriented. Many of the MEs 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 MEs 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. MEs should be given opportunities to participate in trade promotion exhibitions.

Moreover, MEs need to improve their products quality to compete with the international competitor. Effective quality control is must to make the ME products more competitive. The steps in Bangladesh are positive, however incomplete. International certification may not be feasible for MEs. Thus, regionally available quality control

laboratories may be more feasible and accessible for the MEs and can be the stepping-stone towards international certification.

8.3.3 Ensuring Equal Access to Finances

Finance is considered the heart of MEs. For ME financing the following recommendations are offered. They are stated under the following sub-areas institutional supports, and availability of ME finances:

A. Institutional Supports

Entrepreneurs should get proper financial management training to solve problems of finance at the enterprise level. The approach of bundling loan with BDS should be taken seriously and adopted in the lending programmes to the MEs initiated by the banks and other MFIs. Commercial private banks in Bangladesh are operating their activities mainly in urban areas. Rural entrepreneurs are not getting their facilities. Therefore commercial private banks should open their branches in semi urban and rural areas. Moreover, they should make their loan process easy and flexible. Entrepreneur's identification and selection process for ME loans must be appropriate. Sometimes because of inappropriate selection criteria, true entrepreneurs are not being identified. As a result, some destructive entrepreneurs are being created in society.

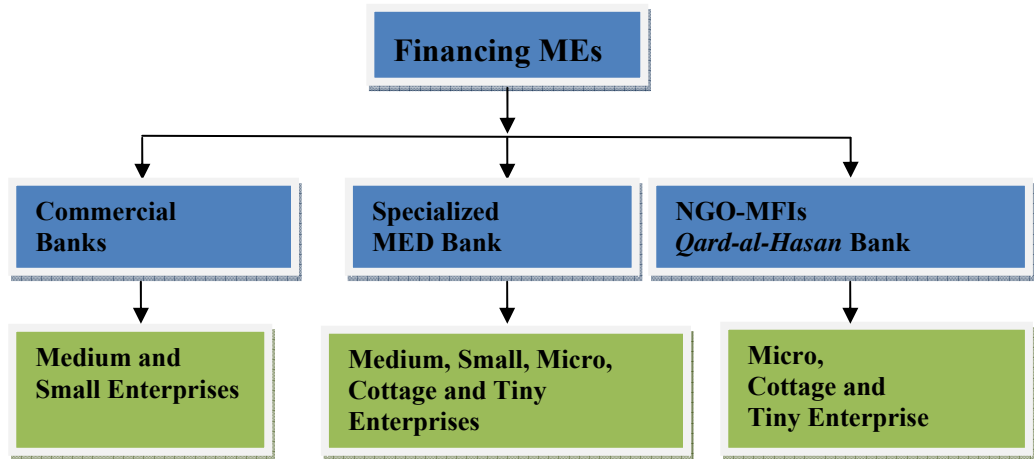
Banks should offer attractive rate of interest to encourage people for savings in the banks. A specialized bank, such as Micro Enterprise Development Bank (MEDB) should be formed with special focus on all the MEs: small, micro, cottage and tiny (as proposed in table 36). Moreover, traditional banks should strengthen and broaden their ME windows all over the country to support MEs. Specialized banks alone may not yield the desired result, if those are to operate on the principles of market economy. While MEDB will be established, it is important that branches of that bank must be spread across the country. Mandatory ME portfolio with refinancing facilities can also make breakthrough in financing. Motivation of the banks should be part of such initiative. Another specialized bank can be established namely, *Qard-al-Hasan* Bank based on the alternative sources of finances *Qard-al-Hasan* (chapter 3 can be seen for

more details). This type of bank can easily introduce interest free loans and establish MEs by the alternative ME financing model proposed in this study.

Categorization of Financial Institutions

Even though there is a wide network of mainstream FIs and non banking NGO-MFIs exist in Bangladesh, MEs still face problems to get easy and equal access to finance. It is found that there are overlapping on the MED programmes of different FIs. As a result, mainstream FIs are still reluctant to finance micro and tiny enterprises. This study proposes to categorize all the financial institutions both banking and non-banking into three groups to provide equal and easy access to funds to all the MEs as proposed in table 36. The following figure shows the proposed category of the FIs in this regards:

Figure 19: Categorizations of FIs for Easy and Equal Access to Finance



Source: Author

Government must formulate specific guidelines to finance MEs with the establishment of the proposed specialized bank, and categorise existing FIs, to avoid overlapping or discrimination in ME financing.

B. Availability of ME Finances

Access to funds hampers primarily due to lack of collateral. Most of ME owners do not have land for collateral, even the lands owned by MEs is not bankable due to title problems. Therefore, government must ensure to provide collateral free loan to MEs by

the FIs. Similar approach as in Sri Lanka may be followed in Bangladesh. Interest rate of NGO-MFIs is excessive. It should be reduced to a tolerable level. Central bank should formulate policy regarding this issue based on the current condition of the national and global economy. Government may establish loan guarantee schemes, grants and/or equity finance (chapter 4 can be seen for more details) for those MEs who lack collateral.

The venture capital market can be promoted in Bangladesh. The problem with EEF shows that there is severe dearth in skills and control mechanism in selection of good proposals. Moreover, nepotism and collusion of fund receivers create problem of moral hazards, which can be overcome only with proper accountability and prudential mechanism. 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. Lack of good governance is killing a promising mechanism, which is being explored by the whole world that cannot be allowed.

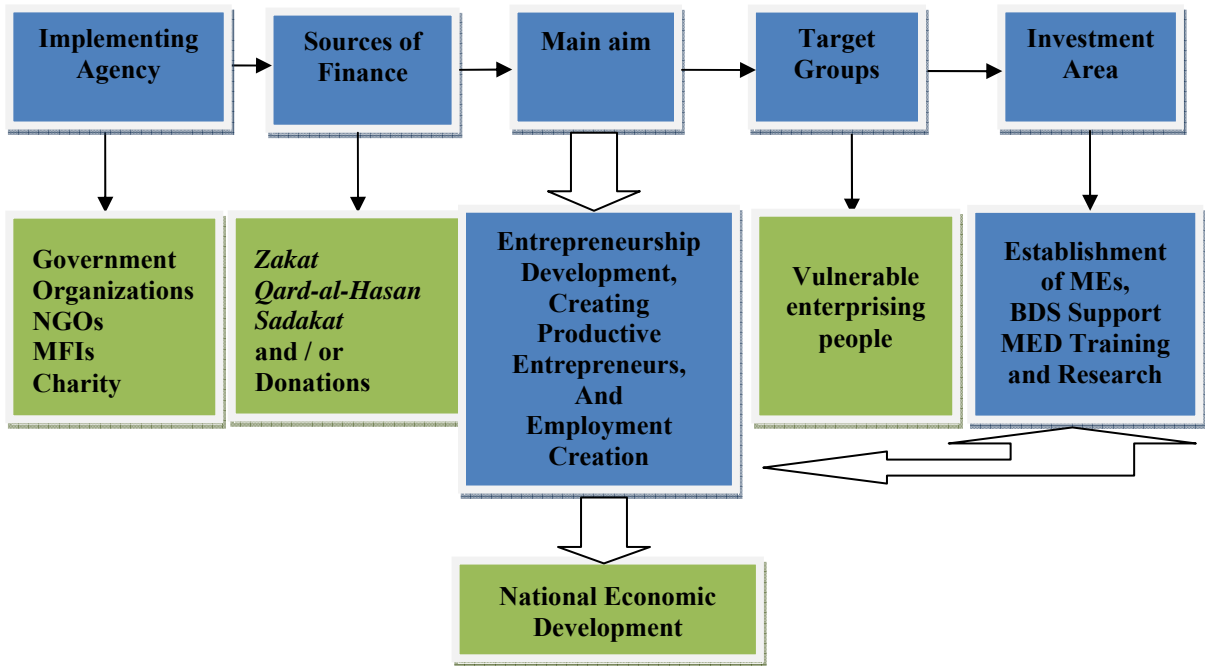
A bundle approach may be made compulsory for all the commercial banks and financial institutions. In this bundle, FIs should provide loan, MED advice and allied facilities with the assistance of BDSPOs. Bangladesh Bank may work out specific guidelines for reducing spread of commercial banks, which will include a number of policy instruments, including policy for reduction of nonperforming assets.

Alternative Model for Interest Free ME Financing

The findings reveal the necessity of an interest free ME loan model. But the question is how loans can be provided without interest or profit. Existing literature show that Muslim Aid UK and FINCA Afghanistan have been introducing interest free loans to their borrowers. But they lack an appropriate model. Chapter 3 shows various external sources of ME financing. One of them is alternative sources. *Zakat*, *Qard-al-Hasan*, *Sadakat* and / or donations are offered as alternative sources of ME finance (chapter 3 can be seen for more details). This following figure 20 proposes an alternative model for interest free ME financing. The figure essentially shows the sources of finances,

implementing agency, aim of the model, target group and the area of investment at a glance. However, there is lack of strong literature on the topic, how *Zakat*, *Qard-al-Hasan*, and *Sadakat* can be used as sources of interest free ME loans. Nevertheless, this research proposes the following model for providing interest free ME loans.

Figure 20: Proposed Alternative Model for Interest Free ME Financing



Source: Author

Implementing Agency

This model is proposed to be implemented by the government organizations, NGOs, MFIs, or any other charitable organizations in the country.

Sources of Funds

This model proposes to use the three alternative sources of finance: *Zakat*, *Qard-al-Hasan*, *Sadakat* and / or Donations (chapter 3 can be seen for more details). This model suggests to provide interest free loans to MEs to help creating productive entrepreneurs.

Main Aim

This model aims at creating employment opportunities for the vulnerable people of the society, who lacks access to conventional funds by initiating entrepreneurship development programmes.

Target Group

The target group proposed by this model is the vulnerable poorest section of the society, who lacks funds from traditional FIs such as Banks. Loans are proposed to provide to the individuals as well as to the group.

Selection of the Borrowers and the Group Members: Individuals as well group will be selected by the concerned implementing agency. A member will be selected as the group leader. The criteria for selecting the group for interest free loans are:

- ✚ Members must be poor and vulnerable and eligible for receiving *Zakat*;
- ✚ Members must be young, energetic and enterprising;
- ✚ Members must be at least having signing knowledge and unemployed; and
- ✚ Lacks access to traditional funds.

Terms and Conditions of Loans: The initial terms and conditions of the proposed interest free loan are:

- ✚ A loan will be sanctioned based on the accepted proposal for three years initially;
- ✚ A service charge will imposed for the loan to support the administrative costs;
- ✚ First six months will be calculated as ME maturity period while no loan instalment will be collected;
- ✚ Instalments will be collected from the seventh months of the loan period on monthly basis;
- ✚ Loans based on *Zakat* sources will be given for ever but with some conditions beneficial to the community members;
- ✚ Borrowers will have to maintain a savings account with the implementing agencies, the amount of which will be used to support them at the time future financial crises (if any) as rehabilitation support;
- ✚ Borrowers must submit a monthly progress report to the implementing agency;

- ✚ The loan is renewable on a reasonable ground, such as unsuccessfulness within the maturity period;
- ✚ Borrowers must have to take training on running the business depending on the nature of their enterprises from the implementing agency, so that they become successful; and
- ✚ Implementing organizations will monitor and supervise the funded MEs with strong mechanism.

Investment Area

The investment area proposed by this model is mainly ME sector, so that employment opportunities can be created easily by using local resources and indigenous technology. Moreover, the area will cover also the area of MED, entrepreneurship development and other MED training and research.

There might be a question raised, regarding the management of the implementing organizations, specially on how they will manage their administrative costs. It is to be noted here that, in the Islamic system, there are some specific guidelines for those who are involved in the management of collecting and distributing *Zakat*, *Qard-al-Hasan* and *Sadakat* money. Implementing organizations will follow those guidelines to support their administrative costs as well a service will be imposed on the loans.

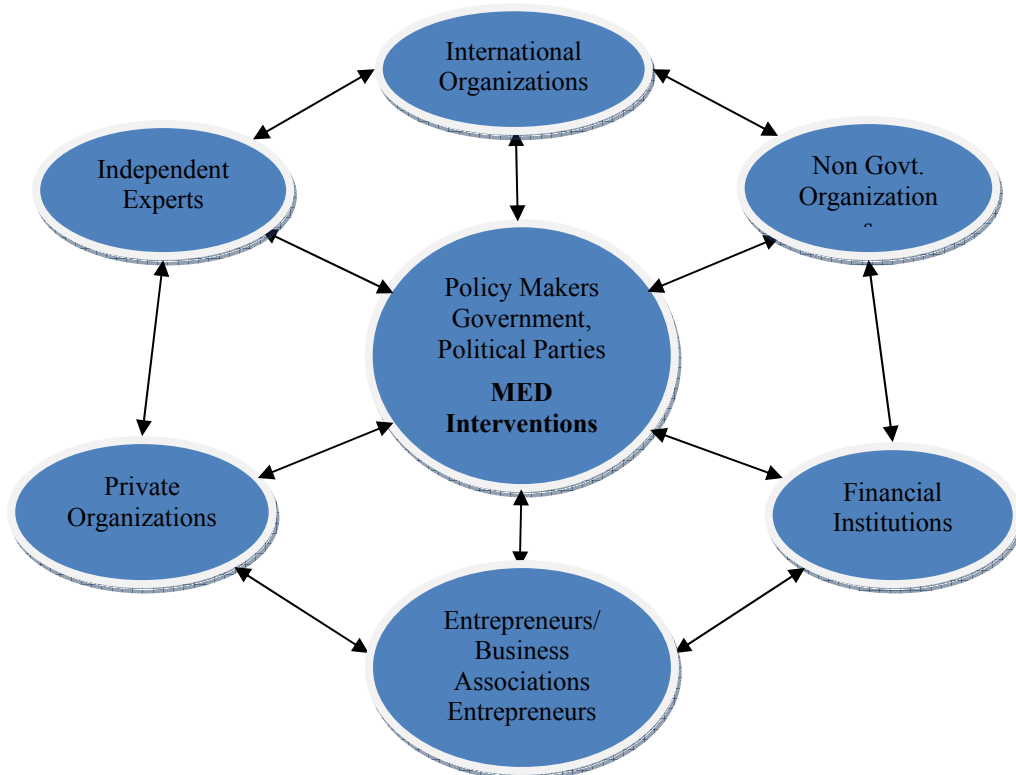
This study suggests that, for further development and to make the model fully operationalized, further research is needed, as it is a *Quranic* matter. There are some issues relating to *Zakat* money to be discussed with the Islamic scholars to reach in a consensus (*Ijma*). However, this study hopes that this model can be initially implemented as a test case. Questions might be arisen, as this model is based on Islamic sources, such as, how can it be applied in non-Muslim countries? As this model proposes not only Islamic components as alternative sources of finances, but also “donations”, this model can easily be applied in any country.

8.3.4 Developing a Strong Network of ME Stakeholders

Networking and IOR of ME stakeholders are very much essential for MED. They are the most important factors in shaping an appropriate enterprise culture in a country (chapter 4 can be seen for more details). However, in Bangladesh, it is found very much informal and not well bonded, though ME stakeholders exist countrywide. There should be more coordinated and collaborative efforts among the ME stakeholders by establishing an effective network. This study suggests that SMEF should take the responsibility to establish a strong network among existing ME stakeholders and building IOR in Bangladesh.

This study proposes a reciprocal IOR and network among the ME stakeholders that are shown in the following figure:

Figure 21: Proposed Nature of Network and IOR of ME Stakeholders



Source: The Author

Inclusion of Stakeholders in MEPD Planning Committee

ME stakeholders should be included in the MEPD planning committee of the Governments. The stakeholders can meet annually as conference/ network meeting with the presence of government representatives. The study hopes that this type of efforts would expedite the development of MEs in the country and increase the effectiveness of the programmes. Moreover, different incentives, facilities and support services can be made available in due time. It will provide the ME stakeholders a platform to uplift their concern and direct contact with the government will result in competent policy development. ME stakeholders know what the MEs need and what the entrepreneurs need. If they can participate in the planning meeting and government value their opinion this sector will get a chance to gear up shortly.

A MED Think Tank could be established to raise awareness and media campaign. This is needed to pressure government for taking appropriate MED interventions. Different ME stakeholders, such as MEDOs, business associations, professional bodies, chambers of commerce, entrepreneur's forum, NGOs-MFIs, banks, academics and experts and civil society members might be involved in this think tank. This can work as a pressure group to the government for MED.

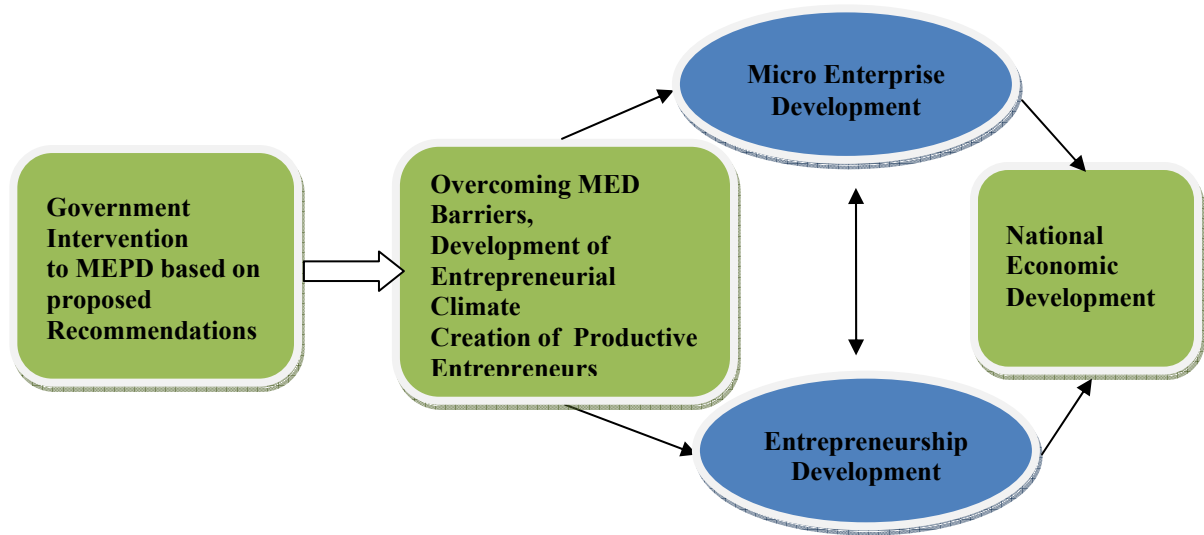
8.4 Contributions to MED Literature

This study contributes to the body of knowledge of MED by critically examining the literature on MED, MEDP, entrepreneurship development and ED; generating new knowledge about current MED practices in Bangladesh; and synthesizing and analyzing all the sources to generate new recommendations towards MED.

This study increases our understanding on the links among three main concepts of the study “micro enterprise development”, “entrepreneurship development” and “economic development.” This study proposes a model of appropriate government intervention by linking up the above concepts to ensure national ED. Based on the recommendations of this study governments of DCs can take appropriate MEPD interventions to create a

favourable entrepreneurial climate in the country. It will help overcoming the problems of MED as well as creating productive entrepreneurs, which will lead to MED, entrepreneurship development and national ED.

Figure 22: Model for Government Intervention to MED



Source: Author

The above model essentially shows a link among MED, entrepreneurship development and ED, for which appropriate government intervention is needed. Theories of entrepreneurship development, such as economic, psychological and sociological emphasise strongly on the creation of entrepreneurs and their significant role in all sorts of economic activity. ED theories emphasise on employment creation, and income generation to ensure socio-economic well being by promoting large scale entrepreneurial activities that depends heavily on capital and advanced technology. DCs have abundance of manpower, natural resources and indigenous technology, but shortage of capital and lack an appropriate enterprise culture. As a result productive entrepreneurs are not created and they need to depend on small scale entrepreneurial activities, i.e. MED. This study, therefore suggests, formulating a coherent and comprehensive MED policy, favourable to create an appropriate entrepreneurial climate in the country with the focus on linking MED and entrepreneurship development

towards ED. The above figure essentially shows the model for appropriate government intervention to MEPD for the DCs, specially Bangladesh.

This research contributes to the literature of not only MED but also to entrepreneurship development and ED. The literature shows a strong link between entrepreneurship development and ED. However, the main subject here is that what links them together. The model of entrepreneurship development and ED link (figure 9) shows that linking individuals to the firm and macro level ensures ED. On the other hand, entrepreneurship is operational at the individual levels. Thus, this study proposes to develop an appropriate entrepreneurial culture by providing entrepreneurship education to the individual enterprise levels that is conducive to link MED, entrepreneurship development and ED.

This study also discovers that traditional FIs, i.e., banks, are reluctant to finance MEs, except medium sized enterprises. This study proposes to establish specialized banks, such as, Micro Enterprise Development Bank (MEDB) and *Qard-al-Hasan* Bank to solve the problem of finance. This study also proposes to divide the existing financial institutions into three categories to provide equal and easy access to finance to all types of existing MEs and to avoid overlapping of ME financing (figure 19).

All the previous studies on the subject tried to investigate the barriers of MED, especially ME financing, but they lack in developing any appropriate model of equal, easy and interest free access to ME finance. Therefore, the another novelty of this research is the proposed alternative ME financing model, to provide interest free ME loans (figure 20). This study proposes to approach this model in the DCs, particularly Bangladesh. The justification of this model derived from the study of Wickham (2006) which shows that religious belief is an important factor in developing enterprise culture. Such as, success of West European and US economy was fuelled by the belief of Weberian protestant ethics and the success of East Asian economies was fuelled by the belief on Confucian principles of ethics. Thus this study hopes this model will

contribute substantially to solve the problem of ME financing in Bangladesh as well as DCs.

DCs lack a clear set of definitions of MEs. This study reveals that because of a set of clear cut definitions and categories, MEs face problems to get equal and easy access to finance, and BDS facilities. Therefore, this study recommends a clear set of categories and definitions of MEs (table 36 can be seen for more details) so that they can get equal and easy access to finance, specific BDS facilities to survive and to become successful.

Theory of stakeholders emphasizes on the important role and involvement of the various stakeholders in the policy development process (see chapter 4 for details). But the study findings show that inter-organizational relations and network among the ME stakeholders is very floppy and very informal in Bangladesh. This study proposes a model of reciprocal inter-organizational relationship and networking among the ME stakeholders (figure 21), which can make the policy more aligned, effective and perfect for MED.

On top of the above contributions of this research, it is also to be mentionable here that it is one of the very few researches on MEPD in the DCs, particularly Bangladesh. The suggestions and recommendations made in this research can be generalized to the development of MEs in the DCs. But, it is sometimes risky to generalize new knowledge based on a case study of one country to such as a diverse set of developing nations as those in Africa, Asia and Latin America.

Nevertheless, Todaro and Smith (2006) shows some common economic features of DCs that permit to view them in a broadly similar framework. These common characteristics are: low levels of living, characterised by low incomes, inequality, poor health, and inadequate education; low level of productivity; high rates of population growth and dependency burdens; substantial dependence on agricultural production and primary-product exports; prevalence of imperfect markets and limited information; and dominance dependence and vulnerability in international relations. The context of this

study Bangladesh is one of among those DCs that pose the above common characteristics. In this notion this study hopes that the contribution of this study can be generalised to other DCs like Bangladesh.

8.5 Limitations of the Research

Despite the promising implications of this research, some limitations should be noted here that must be addressed in future research on the topic. These limitations refer to general limitations of a theoretical or conceptual nature, as well as methodological issues. The thesis should to be examined in the light of these limitations. These are stated below under some important themes such as: dynamism of the topic, data reliability, sample constraints, limitations of the interview process, generalisability and resources shortages.

Dynamism of the Topic

The main limitation of this research may be the dynamic nature of the topic. The ME sector is the fastest growing economic area in DCs that significantly contributes to the development of their national economies. Because of its dynamic nature and vibrant characteristics, this sector faces many constant challenges in the DCs. Moreover, the national economies of DCs are frequently changing, especially in case of Bangladesh, where political instability and corruption severely hampers policy development and national economic growth. Therefore, for a steady growth of the ME sector, DCs need continuous policy adjustments. Consequently, the recommendations made in this study might not be always feasible for the growth of MEs in all DCs with their differing contexts and changing circumstances. Therefore, policy makers need to undertake specific research on the topic on a regular basis to update policies and suggest appropriate recommendations to amend their respective policies.

Data Reliability

Another limitation of this research may the absence of comparable data sets. No organizations, both government and non-government, have the same data sets. Differing

definitions of different constructs of this study were found amongst the sample organizations. For example, ME loans of one MFI may be considered mainstream micro credit in another MFI. In addition, the up-to-dateness of data may be another limitation of this study. Most of the sample organizations did not have up-to-date data. As a result, the researcher faced problems to compare and contrast collected data. Nevertheless, the researcher used various sources to get up-to-date information of the sample organizations, which can ensure the reliability of the findings and analysis of this study.

Sample Constraints

Another limitation of this research may be the scope and size of the samples. As it is one of the very few studies in the area of MEPD, a larger number of samples from the different stakeholders would strengthen the research findings. But, time constraints inhibited the researcher to broaden the scope and size of the samples of this study. Nevertheless, the samples used amongst the various stakeholder groups were sufficiently representative to ensure as high validity and reliability of data as possible in the constrained circumstances.

On top of that, data repetition of the respondents of the entrepreneurs group may be another limitation. It might be because of the poor educational background of the respondents of this group. As a result, the researcher had to limit interviewing more entrepreneurs. Most of the respondents of this group were of very poor educational background. At the time of interview they depended on their managers/interpreters and also were frequently asking the researcher to clarify the questions again and again. However, the researcher guided the interviewees of this sample group with patience for getting relevant data that was as accurate as possible.

Limitations of the Interview Process

Some limitations relating to the interview process should also be noted. One of the limitations in this issue may be the inexperience and social position of the respondents of the entrepreneurs sample group, especially the female entrepreneurs (some of whom were of low caste). Some respondents were extremely reticent to speak to the researcher

at the time of interview. They were constantly looking around for support and consulting with their husbands (who, in the case of female entrepreneurs, were present throughout the interview) and their respective representatives (representatives from the financier/NGO-MFIs) before answering the questions. Nevertheless, the information gathered was deemed to be sufficiently reliable, as corroboration was often found from other interviews.

The other limitation relating to the interview process may be that as this study was based on qualitative interviews with the use of semi structured protocols, it implies that common method bias might have occurred in other research using the same method. In addition, data obtaining from a single source may be problematic for causal prediction. Thus multiple methods might be useful in future research. This limitation proposes that in-depth interviews along with quantitative data would be more strong and helpful.

Moreover, the length of the interview protocols that were constructed in order to accommodate all the constructs of the study may be another limitation, which required long time from the interviewees to fill up. If the protocols were more comprehensive, the study might have the highest response rate. However, the response rate was 80%, which is considered to be representative to the population of the ME stakeholders in Bangladesh.

Generalisability

Generalisability may be the other limitation of this research. The collected data and the analyses were on the Bangladeshi MEDOs, therefore might be limiting the generalisability of the research findings. Nevertheless, the economy and MEDOs of DCs show similar characteristics to Bangladesh that allow the researcher to consider them in a broadly similar framework. On top of that, this study made a brief comparative analysis of MEDPs of some selected DCs of south Asian region that show some similarities, where the researcher found some common lessons for the DCs, each other. Therefore, some of the findings and recommendations of this study are applicable to other DCs.

Shortage of Resources

Shortage of sufficient funds and time may be the major limitation of this study. As it was a self-funded study, it was not possible to conduct an extensive survey before the in-depth interviews and also not feasible to include a larger number of samples. Nevertheless, it is mentionable here that, this study covered all the representing ME stakeholder groups in selecting samples based on the stakeholder theory and reviewed a large set of secondary literature on the topic. Therefore, it is hoped that the findings and recommendations of this study are contributory to the development of MEs in DCs. However, it is highly recommended in future research to conduct an extensive survey before the qualitative interviews and include a large number of samples.

8.6 Further Research

The findings of this research contribute to the literature of entrepreneurship development, ED and particularly micro MED. This study is one of the very few studies on the topic in the DCs especially in Bangladesh. Therefore, there are still many avenues for further research.

This study examined the existing state of affairs of MEDPs in Bangladesh and made a comparative overview of the MEDPs of some selected DCs. Further research can be made on the comparative analysis of MEDPs of DCs.

This study examined the existing supports and services for MED in Bangladesh. Further research can be made on the comparative analysis of the supports and services for MED of some DCs, as well as a comparative analysis can be made on the supports services of GOs and NGOs in DCs.

This research examined ME financing of different FIs in Bangladesh, such as banks, and NGO-MFIs in general. Further research can be made on a comparative analysis of the ME financing system of banks and nonbanking MFIs in DCs, as well as Bangladesh.

Moreover, a performance analysis can be made on the NGO-MFI led MED activities in generating employment opportunities in DCs, especially Bangladesh.

This study proposed an interest free ME loan model (see figure 20) based on *Zakat*, *Qard-al-Hasan*, *Sadakat* and/ or Donations. *Zakat*, *Qard-al-Hasan*, and *Sadakat* are *Quranic* sources. In Islamic financial system there are some specific rules for *Zakat* and *Sadakat*. This research proposed a new avenue for using *Zakat* and *Sadakat* money for MED. So, further research is needed to the total development of this model and to make the model fully operationalized. Moreover, more research can be done on the distribution of *Zakat*, *Qard-al-Hasan*, and *Sadakat* money as ME loan, its management and its recovery process, as it is new in the literature of MED.

The study reveals an important role of enterprise culture in MED. An empirical study can further be done on the role of enterprise culture in DCs in MED.

Finally, further research can be done on the comparative analysis of the MEDPs of DCs.

8.7 Concluding Remarks

A well built and animated ME sector can provide a strong foundation to create employment opportunities which can lead to the regional as well as sustainable ED. This study focused more on ensuring socio-economic justice in terms of providing all the basic human rights through the creation of employment opportunities for the vulnerable people by establishing MEs in DCs for which an appropriate MEDP is necessary. This study does not try to give any economic theory nor financing theory for MED. It focused more on creating MEs by formulating a coherent MEDP, not the performance of micro credit or micro finance programmes. Despite the internationally recognized importance, MEs still face various challenges and problems in the DCs. This thesis reveals that MEs in the DCs confronted with problems, such as, lack of the availability and equal access to finance, lack of advanced technology, lack of skilled manpower, complicated and bureaucratic environment, absence of a formal network of ME

stakeholders, lack of favourable enterprise culture, and an appropriate policy framework. This picture is viewed in the context of an abundance of available raw material, cheap supply of labour and availability of indigenous technology in the DCs. This study particularly emphasised on the four specific issues of MED, such as, existing state of affairs of MEDPs, support services to MEs, financing MEs and networking of ME stakeholders to find out the exact nature of the problems of MED in DCs, in order to articulate appropriate policy recommendations.

The study findings confirm that the existing MEDPs failed pragmatically to achieve the goals of MED in Bangladesh. The support services of different MEDOs are not well thought-out and well designed. Financing systems are also not equally supportive to all the MEs though a countrywide network of financial institutions, both banking and non-banking, and plenty of eye-catching ME financing schemes exist there. Moreover, inter organizational relations and networking of the ME stakeholders are not well bonded. Overall, Bangladesh lacks an appropriate entrepreneurial climate to foster MED and government is yet to recognise MED as the main strategy to national ED. As a result, expected development of this sector is not cropping up.

As a facilitator and an economic agent, government must provide and ensure all the above facilitates to MEs to ensure sustainable ED. However, the study reveals that government has failed to plan practically to mobilize and harness the available resources, to control the factors of growth and development of MEs, and to give appropriate direction to the developmental process to create an appropriate and favourable entrepreneurial climate in the country. Consequently, there is an urgent need for ME policy development to advance the situation. However, this study recommends various steps for MED based on the solid findings and the researcher's own judgement. The study hopes that the above recommendations will help the policy makers and the other stakeholders to advance and progress the situation of the sector in an expected way, in the DCs, particularly Bangladesh.

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APPENDICES

APPENDIX A

SAMPLE OF COMPLETED INTERVIEW PROTOCOLS

COVER LETTER

Title of the PhD Research:

A Critical Analysis of Micro Enterprise Policy Development in Developing Countries

Name of the Researcher:

Amir Mohammad Nasrullah

Principal Supervisor:

Professor Keith Dickson

Brunel Business School, Brunel University West London, UK

Micro enterprises have been playing a pivotal role in entrepreneurship development in terms of economic growth, employment generation and even industrialization. Their role is particularly important for developing and less developed countries (LDC) like Bangladesh. Many economists articulate the importance of small scale entrepreneurship for national economic development. The economic history of developed countries tends to support this notion that economic development has benefited for diverse and widespread entrepreneurial activity. LDCs have begun to realize that to achieve economic development goals, it is necessary to encourage entrepreneurial activity. In a developing country like Bangladesh the potential to achieve national economic goals lies in the development of small scale entrepreneurship. In Bangladesh Micro Enterprises have moved into centre-stage as a major plank of poverty reduction amid globalization, the various categories of which together contribute between 80% to 85% of industrial employment and 23% of total civilian employment. This sector comprises more than 75% of the national economy of Bangladesh. Despite huge contribution to the national economy this sector remained out of focus of the policy makers. Until the formation of SME taskforce in 2003 and SME policy strategy 2005, there was no separate policy to promote MEs in Bangladesh.

Recent studies in Bangladesh reveal strong prospects for micro enterprise development with available raw materials, small capital, indigenous technology and a vast internal and demanding foreign market. In the developing countries like Bangladesh small businesses grow in bulk and they die also in bulk. They are facing different types of micro and macro level problems. This is due to the absence of a proper management and policy framework. As a result, there is an urgent and continuous need for policy development to make up a good entrepreneurial climate.

This study employs a qualitative research approach – interview to collect and analyse data from relevant stakeholders including the government, government organizations, non-government organizations, financial institutions, micro enterprise founders, private promotional agencies and independent experts in the development of this sector in Bangladesh with a view to articulating appropriate policy recommendations. The results of the analysis should be of interest to the stakeholders in Bangladesh and those in other developing economies.

We would like to request you to complete this questionnaire anonymously. You will not be identified as an individual participant and all responses will be treated with strictest confidentiality. Only aggregate results will be used for academic purposes. We look forward to your complete and candid responses. Please be free and frank in answering the questions even though your answer contradicts with others.

Please note that your answers would be of high value to us as we would like to unearth the true situation of micro enterprises in Bangladesh.

We appreciate your valuable time and wish to acknowledge your support by our sincere thanks.

Amir Mohammad Nasrullah
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And
Assistant Professor (On Study Leave)
Department of Public Administration, University of Chittagong, Chittagong-4331, Bangladesh

Special Note:

If you wish to have a copy of the summary of findings of this interview result, please enter your minimum contact details below. This slip will be detached as soon as the responses are received. Alternatively, you may send us your email or other contact details to this email address:

amir.nasrullah@brunel.ac.uk

Or

nasrullahctg@yahoo.com

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**COMPLETED INTERVIEW PROTOCOL FOR PRIMARY DATA COLLECTION
SAMPLE GROUP 1: POLICY MAKERS AND GOVERNMENT ORGANIZATIONS
PERSONAL PROFILE OF THE INTERVIEWEE IS KEPT CONFIDENTIAL**

Theme 1: Existing Micro Enterprise (ME) Development Policy

1.1 Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

Yes, development of Micro Enterprises is important for the development of national economy of a country like Bangladesh. Because it helps generating Employment, Increasing Income, Alleviating Poverty and Linking with larger enterprises as their feeder channel

1.2 Outline the main MED policies of your organization? Who is responsible for formulating those policies in Bangladesh?

No specific policy for MED.

PKSF follows Industrial Policy 2005, SME Policy Strategy 2005

PKSF provide two types of loans: Micro Credit (MC) Loan (Below BDT 30,000) and Micro Enterprise (ME) Loan (Above BDT 30,000 to 3 Lac)

Micro Credit Graduate borrowers get ME loans only. They are those who have successfully used MC loan for two years and experienced.

1.3 What according you are the major Challenges and Issues (C&I) encountered in formulating and implementing policies and programmes of ME development in Bangladesh?

As there is no specific MED policy PKSF needs to follow the guidelines of IP 2005 and SME Policy Strategy 2005, Environment policy etc. Present government policies give no specific incentives and facilities to micro enterprises. All the incentives and facilities are for medium and larger enterprises.

Besides these, as the policy is for SMEs and there is no definition of micro enterprises in the policy strategy, all the benefits automatically goes to those enterprises only, and even the small enterprises are also not getting any benefits because of the completion by the medium and large enterprises.

1.4 What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

Specialized support for sub sector

Actual need assessment (N/A) for the ME sector

Specific policy for Micro Enterprise, Small Enterprise and Medium Enterprise

Financial support and One stop BDS support

1.5 In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

Formulation of specific policy for MEs, Special focus by the government in MEs and Government will.

1.6 Outline the major MED programmes of your organization. How are they implemented?

See our annual report

1.7 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh MEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of MEs in Bangladesh? Following the definition and categorization of MEs of WB and India should we re-categorise and redefine MEs in Bangladesh? Give reasons for your answer.

Yes, We should re-define and re-categorise the ME sector. It should be micro, small and medium enterprise sector. Because, without specific categorization and definition the smallest sector will not be able to get its benefits and compete with the larger enterprises.

1.8 In your opinion which sectors should be considered under MEs in Bangladesh?

Within the 13 sectors, outlined in the SME policy strategy 2005, all the sectors should be specific. Like, trading enterprise and non-trading enterprise, agricultural, engineering, etc.

1.9 In your opinion what should be the target markets for the ME sector in Bangladesh?

Both the domestic and foreign market should be targeted. But we have to identify which items have the potentials to be exported. We should emphasize on product bases for the target market.

1.10 In Bangladesh many NGOs are also working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

*Yes, NGOs should work for the development of MEs side by side the GOs.
In special cases they should take initial steps
NGOs can help local entrepreneurs
NGOs should not be entrepreneurs rather they help the local entrepreneurs*

1.11 Do you find any difference between the MED policies and programmes of your organization and NGOs? Give reasons for your answer.

Yes, PKSF directly doesn't implement MED programmes. PKSF basically supports local NGOs and implements MED programmes by the NGOs under certain rules and regulations.

1.12 Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

The IP 2005 and SME policy strategy 2005 are favourable but not totally specific sector friendly. There are huge scope for favourable amendments and addition in the policies for MED. There should be a specific ME act for MED.

1.13 Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

The policies are not aggregate and specific as a result those sometimes fail to achieve the objectives of national economic development.

Theme 2: ME Supports and Services

Sub-Theme: General

2.1 What type of Business Development Services (BDS) do you provide for the development of MEs in Bangladesh? How effective do you think those BDS are?

*Yes we provide some BDS for MED. For details see the annual report.
Training to the NGO officials, entrepreneurs
Study visits/ demonstration
Value chain development
Sub sector development projects, etc.*

2.2 How do you attract the entrepreneurs onto your organizational MED programmes? Please tick as appropriate.

- A. Arrange preliminary motivational training*
- B. Announcement of incentives, And*
- Awareness building through NGO officials and Advocacy to the micro entrepreneurs*

2.3 How the entrepreneurs are identified to the ME start-up programmes of your organization?

From RMC

Those who are 2 years graduate borrowers and potential are selected for ME start up programmes

2.4 What according to you the type of help and guidance should be provided to the entrepreneurs by the BDS providing organizations? Please tick as appropriate.

- A. In preparing the business plan*
- B. In obtaining information regarding financial*
- C. In obtaining technical / product information*
- D. Product Marketing*
- E. Others (If yes, please specify): Product development and diversification*

Sub-Theme: Training and Development

2.5 Outline the types of MED training programmes that you provide for the entrepreneurs? Specify objectives, duration and frequency of those.

See annual report for details

ME management and Skill training based on needs (4 days/ 15 days/ 1 month)

Apprentice training

2.6 Who are the target of your organizations MED training programmes and how are they identified and/or selected?

ME borrowers selected by Partner Organizations (NGOs) on the basis of the will of the ME borrowers

2.7 Who are the trainers for your organization's MED training programmes and do they have specialities on ME development?

Professional Trainers are hired for the Skill Trainings

And one day training for the PO officers.

Yes, experienced trainers are hired.

2.8 What are curriculums for the different training MED programmes of your organization and how are they developed?

On the basis of the subject the trainers developed the curriculums but they follow the guidelines of PKSF.

2.9 Have the curriculum been updated since it was first initiated? Is it a regular process?

All the training and curriculums are need based. So update is must. Its a regular process.

2.10 How many participants have been trained by your organization in the last five years and what is the ratio of adopters of different ideas learned during the training onto their MED programmes?

See annual report 08/09, page-30. The ratio is almost 100%

2.11 How do you evaluate the MED training programmes of your organization? Please specify.

Yes, Through Projects

Sub-Theme: Technical and Infrastructural Facilities

2.12 Outline the types of technical and infrastructural facilities, if any that you provide for the MEs?

N/A

2.13 Do you provide any special facility, technical or infrastructural for the non-manufacturing enterprises? Please specify.

N/A

Sub-Theme: External and Internal Services

2.14 Do you think the supports and services provided by your organization are appropriate and effective for the development of MEs in Bangladesh? Give reasons for your answer.

Yes, PKSF provides financial, advisory and technical supports to existing ME owners so that they may sustain

2.15 In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

Basic Information and Legal Services

B. Information on Bangladeshi Business Law, **C.** Information about fiscal incentives and policies in Bangladesh, **E.** Providing package of information for company registration

Consulting Services

A. Business planning for MEs (Presenting to the bank or investors), **F.** Seminars & exhibitions for MEs on specific subjects (international services), **G.** ME law (lawsuit, enterprise law), **H.** Accounting and book-keeping and **J.** Employment (Recruitment)

Marketing

A. Marketing plan, **C.** Product promotion and **E.** Advertising

Accounting

A. Cash flow, **B.** Book keeping, **D.** Taxation and **E.** Business planning

Human Resources Management

A. Selection and Recruitment, **B.** Management skills, **C.** Motivation of staff, **D.** Performance appraisal and **E.** Training and Promotion

Production / Technology

A. Product design, **B.** Production management system

Promotional Activities

A. Seminars and exhibitions (In special cases) and **B.** Advertising

Others (If any, please specify): All the above requirements are needed in the initial stages of the MEs. All the BDS must be sustainable.

Sub-theme: Research and Development Activities

2.16 Do you think that R&D activities are required for the development of MEs in Bangladesh? Do you have any R&D activities in your organization? Please specify.

Yes, We have specific plans and those plans are product or sector based.

2.17 How frequent the R&D activities should be carried out for the benefit of MEs in Bangladesh, in your opinion?

R&D activities in PKSF are need based and a continuous process. Those are not target oriented.

2.18 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

My opinion should be included in the policies.

Yes, PKSf tries to include the research results in their policies.

Sub-theme: Sustaining Activities

2.19 There is saying that “MEs are growing in bulk and dying also in bulk in the developing countries”. Do you agree with the statement and what sort of action are you taking to make the MEs more sustainable?

Yes, R&D, Training, Motivation and Financial Support

2.20 Do you think there should be special surveys to identify the sick enterprises and their problems at the end of each and every fiscal year? Please specify.

Yes, PKSf is very aware of the sick enterprises. We should take initiatives for those

2.21 What is your suggestion about the sick enterprises to overcome their problems?

Should identify the root causes of sickness. If the causes are related to policy, policy makers should take those into consideration at the time of policy making. All the policies must be updated according to the need base. Need based support should be given to those sick enterprises

2.22 Do you think that the sick enterprises should be rehabilitated, if yes how? Please specify do you have any rehabilitation programmes for the sick enterprises provided by your organization?

Yes, Of course rehabilitation programmes should be taken if those sick enterprises are considered financially viable otherwise not. See annual report for the PKSf rehabilitation programmes

Theme 3: Financial Services to support MEs

3.1 Do you provide any type of financial services to the MEs, if yes how?

Yes, See our report

3.2 What are the terms and conditions of the assistance, i.e., loan amount, rate of interest, collateral, repayment method etc.?

See report

3.3 Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

Yes, nationalized banks are not flexible like other private banks. These are not policy related issues but behavioural.

Yes, I think nationalised banks should be more ME friendly than the private banks because of their wide network and government support.

3.4 Financing system of MEs by the banks and the NGOs is different in Bangladesh. In you opinion which system is more effective? Give reasons for your answer.

Actually, financing systems of the banks and NGOs is same but the ways or mode of financing activities and delivery mechanisms are different.

I think both the systems are effective from the context of the respective organizations.

3.5 There are complaints that the micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.

Yes, but there is debate on this issue.

I think the rate is high because of the delivery mechanisms.

3.6 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

B. Poor documentation , **D. Previous credit record** , **E. No personal contact in lending institutions** , **F. Own contribution too small** , **G. High rate of interest** and **H. Other** (If any, please specify)

The Micro entrepreneurs are not aware about the collateral, rate of interests and rights from the FIs.

3.7 In your opinion what measures should be taken to overcome those problems in financing MEs in Bangladesh?

Let the entrepreneurs know the rights, and facilities given by the FIs:

Awareness building, Training and Motivation etc.

Theme 4: Networking

4.1 Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

Yes, For better business environment, Updating business environment and Sustainability of MEs

4.2 Do you find any link among the MED activities of your organization and other GOs and NGOs in Bangladesh, if yes, what is the nature of those links?

Yes, But informal

4.3 Do you think those links are appropriate and effective for the development of MEs in Bangladesh, if no, what should be the nature of those links? Please specify.

Yes, PKSF works with a separate group of people which are not targeting people of other Financial Institutions or Banks.

4.4 Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes by the government? Give reasons for your answer.

Yes, To give inputs for policy update, To give business information and Raise their voices

4.5 Do you think that your organization needs cooperation from other organization for the maximum benefit of the MED programmes?

Yes, There should be formal cooperation within the related organizations.

4.6 Do you find any duplication or overlapping of the functions for the development of MEs with other organizations / agencies? If yes, in what areas and how does the duplications affect the responding agencies? Please specify.

NO

4.7 In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

*A. Unstable legal environment , B. Uncompetitive products , D. Low purchasing power of the population
E. Insufficient support from local authorities, H. Difficulty in accessing to credit , I. Low coordination
between organizations supporting MEs , J. Lack of qualified human resources , K. Lack of clear
government ME programme , L. Lack of market information , M. Lack of management skills, N. Too high
cost of money , O. Lack of proper marketing skills*

4.8 In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

A. Simplify the registration of new enterprises , B. Help to create one-stop shop based on existing agencies for ME support , C. Facilitate access to financing (creation of ME funds, etc), E. Decrease the number of taxes and simplify the tax system , H. Determine laws more concretely and exactly , J. Publish more information for small business , K. Help to create business incubators or technology parks for new enterprises where they can be based for first 1-2 years , L. Create special funds for business-skilled staff , M. Support innovative technological enterprises and N. Others (If any, please specify): ME favourable tax system

COMPLETED INTERVIEW PROTOCOLS FOR PRIMARY DATA COLLECTION
SAMPLE GROUP 2: FINANCIAL INSTITUTIONS
PERSONAL PROFILE OF THE INTERVIEWEE IS KEPT CONFIDENTIAL

Theme 1: Existing Micro Enterprise (ME) Development Policy

1.1 Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

Yes Micro enterprises development is important as it contributes to the development of a country's economy as in Bangladesh Micro enterprises are major contributor of the economy. The development of micro entrepreneurship ensures sustainable growth of the economy and making the country self sufficient in different aspects.

i. Number and presence of MEs in our economy is so obvious and massive that overall economic development is not possible without developing them

ii. Support to big/medium industries as these can work as backward n forward linkage

iii. Employment generation which will ultimately reduce pressure on government expenditure

iv. ME Development will obviously create a synergy with the effort to develop the SME sector

1.2 Outline the main MED policies of your organization? Who is responsible for formulating those policies in Bangladesh?

We do not have any separate policy for MEs, as this segment is been served by NGOs, multipurpose co-operative societies and our parent organization BRAC is also quiet active in serving this sector. So far NGO Bureau, Polli Koromo Shohayok Foundation (PKSF), and Bangladesh Bank has direct/indirectly formulated policies for this sector so far.

1.3 What according you are the major Challenges and Issues (C&I) of ME development in Bangladesh?

The major challenges encountered in formulating these policies are;

- Unable to define the range of micro, small and medium enterprises

- Lack of coordination between private and public sector

- Lack of concentration in the sector by both government and private sector

1.4 What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

Ensuring accessible financial services

Traditional documentation process and requirement will not work for them

Ensuring creation of proper environment

ensuring a sustainable growth and reaching higher levels like Small Business

1.5 In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

Micro Financing is invented to ensure easy access for MEs to financing, New non banking financial (mostly Micro Financing organizations) institutions are promoted to serve MEs, Bangladesh Bank is concentrating on development of SME sectors directly through commercial banks by imposing different guidelines, which is obviously helping the MEs to transit in SME sector and ensuring a sustainable growth

1.6 Outline the major MED programmes of your organization. How are they implemented?

As we mentioned earlier we do not focus that segment that much as we are mainly focused in SME sector. But we promote the transition of one ME to SME as our parent organization is directly working with ME.

1.7 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh SMEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of SMEs in Bangladesh? Following the definition and categorization of SMEs of WB and India should we re-categorise and redefine SME sector in Bangladesh? Give reasons for your answer.

We should obviously redefine these categories as there is a group which is distinctly different from SMEs. Just to explain the difference between SMEs and MEs simple terms, let's compare the target market of Micro Finance Organizations and target market of SME focused banks (Like BRAC Bank). Mostly Micro financing programs are targeting micro enterprises, whose turnover is very low, like: small scale manufacturers (like: packet manufacturers, greeting cards, handy crafts, etc), Street shops, house wives preparing handicrafts, local small grocery stores, etc. And Banks are concentrating mostly a bit higher segment than these MEs. Though we have not defined MEs separately but we have initiatives to support and facilitate the sector (via NGOs and other co-operative societies). But a clear definition and separation will ensure a focused and planned initiative to develop MEs.

1.8 In your opinion which sectors should be considered under MEs in Bangladesh?

Street shops (mostly cigarette, tea, sellers)

Hawkers (mobile vegetable, meet, toy, etc sellers)

Small family businesses (like house wife preparing handicrafts, family dairy/poultry business in small scale)

Local tailoring shops, and all other businesses with such low turnover

1.9 In your opinion what should be the target markets for the ME sector in Bangladesh?

Obviously manufacturing and agricultural sector.

Tertiary will be promoted automatically

1.10 In Bangladesh many NGOs are also working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

Yes activities of NGOs are very important for the development of this sector.

- *NGO activities helps in proper public and private sector joint effort*
- *Many NGOs has good network that can reach to many micro enterprises*
- *NGOs provide a comfort to foreign donors to donate funds for developing MEs*

1.11 Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

No Comment

1.12 Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

No Comment

Theme 2: ME Supports and Services

Sub-Theme: General

2.1 Do you provide any Business Development Service (BDS) for the entrepreneurs? If yes, what is the nature of those?

Financial service like loans under easy terms are provided beside other financial services

- Trainings and road shows to develop this sector - Capacity Building - Awareness creation - Skill Development - Other support services are also there, - Fire Insurance and - Life Insurance

2.2 How do you attract the entrepreneurs onto your organizational MED programmes? Please tick as appropriate.

N/A

2.3 What according to you the type of help and guidance should be provided to the entrepreneurs by the Financial Institutions? Please tick as appropriate.

A. Selecting the product

B. In preparing the business plan

C. In obtaining information regarding financial

D. In obtaining technical / product information

E. Product Marketing

F. Others (If yes, please specify): last but not the least entrepreneurs should must get the access to the finance,

Sub-Theme: Training and Development

2.4 Do you provide any MED training programmes for the entrepreneurs? If yes, specify objectives, duration and frequency of those.

Though we are not focusing in the named segment, as our training sessions are open for all, many MEs come and take lessons from there.

Sub-Theme: Technical and Infrastructural Facilities

2.5 Do you provide any technical and infrastructural facilities for the entrepreneurs?

Technical supports (ad-hoc basis)

- Training in Agricultural sector (Safety measures from Bird Flue in Poultry Sector)

- Training in Premises development and safety measures in manufacturing sector

2.6 Do you provide any special facility, technical or infrastructural for the non-manufacturing enterprises? Please specify.

- Training for Woman Entrepreneurs (i.e. Beauty Parlours)

Sub-Theme: External and Internal Services

2.7 Do you think the supports and services provided by your organization are appropriate and effective for the development of MEs in Bangladesh? Give reasons for your answer.

- N/A

2.8 In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

Basic Information and Legal Services

B. Information on Bangladeshi Business Law, C. Information about fiscal incentives and policies in Bangladesh, D. Information for start-up entrepreneurs

Consulting Services

A. Business planning for MEs (Presenting to the bank or investors), C. Search for a potential investor using the business plan, D. Market Research, H. Accounting and book-keeping, and I. Credit assessment (Loan application)

Marketing

D. Marketing strategy, E. Advertising

Accounting

B. Book keeping, E. Business planning

Human Resources Management

B. Management skills, C. Motivation of staff, E. Training and Promotion

Production / Technology

A. Product design

Promotional Activities

B. Advertising

Sub-theme: Research and Development Activities

2.9 Do you think that R&D activities are required for the development of MEs in Bangladesh? Do you have any R&D activities in your organization? Please specify.

Yes it is extremely important to have R&D activities for the development of MEs. We do:

- Customer Satisfaction survey*
- FGDs to initiate product ideas*
- FGDs to test a product's compatibility before launching and regularly for product reviewing*

2.10 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

N/A

Sub-theme: Sustaining Activities

2.11 There is saying that "MEs are growing in bulk and dying also in bulk in the developing countries". Do you agree with the statement and what sort of action are you taking to make the MEs more sustainable?

To some extent it is very true. We need to ensure other Business Development Supports besides only financing them through micro financing.

2.12 Do you think there should be special surveys to identify the sick enterprises and their problems at the end of each and every fiscal year? Please specify.

Yes it is required to execute special surveys to identify the sick enterprises and provide them with financial and non financial supports. Also it helps the organization to identify the industries those are facing problems.

2.13 What is your suggestion about the sick enterprises to overcome their problems?

Sick enterprises needs adequate financial support and other technical solutions so that they can overcome the problems and manage their businesses in a better way.

2.14 Do you think that the sick enterprises should be rehabilitated, if yes how? Please specify do you have any rehabilitation programmes for the sick enterprises provided by your organization?

N/A

Theme 3: Financial Services to support MEs

3.1 Outline the nature of financial services that your institution provides for the development of MEs in Bangladesh.

Out of scope

3.2 What are the terms and conditions of the financial assistance, i.e., loan amount, rate of interest, collateral, repayment method etc.?

N/A

3.3 Are you satisfied with the repayment rate of loan installments of your organization's stakeholders? If no, why, please specify.

N/A

3.4 Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

National Banks must provide loans in flexible and at a better interest rate so that the wide area coverage and facilities can be obtained by larger number of entrepreneurs.

3.5 Financing system of MEs by the banks and the NGOs is different in Bangladesh. In your opinion, which system is more effective? Give reasons for your answer.

Different customer segments should be served by NGOs and Banks so that maximum benefit can be obtained. Different financing system is effective for different size of enterprises.

3.6 There are complaints that the banks as well as other micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.

No as the rate of interest charged by financial institutions is relatively high as it covers higher risks.

3.7 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

A. Insufficient collateral, F. Own contribution too small, and G. High rate of interest

3.8 In your opinion what measures should be taken to overcome those problems in financing MEs in Bangladesh?

A. Providing Collateral Free Loans to MEs , B. Providing Interest Free Loans, C. Reducing Interest Rates of ME Loans, D. Making the Banking System More Flexible, E. Private Banks Should Extend Branches in Rural Areas, F. Awareness Building Campaign on ME Rights and Facilities, G. Legal Status to NGOs for ME Financing, H. Easing the Procedural Formalities of any ME Loans, I. Strengthening ME Financing Windows of all the Banks

Theme 4: Networking

4.1 Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

Yes inter organizational relations is required as it will effect in making the initiatives more aligned.

4.2 Do you find any link among the MED activities of your organization and other GOs and NGOs in Bangladesh, if yes, what is the nature of those links?

N/A

4.3 Do you think those links are appropriate and effective for the development of MEs in Bangladesh, if no, what should be the nature of those links? Please specify.

N/A

4.4 Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes by the government? Give reasons for your answer.

Yes. It will provide the organizations a platform to uplift their concern and both ways communication will result in competent policy development.

4.5 Do you think that your organization needs cooperation from other organizations for the development of MEs? If yes, what is the nature of that cooperation?

N/A

4.6 Do you find any overlapping of the Micro Enterprise Development functions with other organizations? If yes, in what areas and how does the overlapping affect the responding organizations? Please specify.

N/A

4.7 In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

A. Unstable legal environment, E. Insufficient support from local authorities, I. Low coordination between organizations supporting MEs, K. Lack of clear government ME program, N. Too high cost of money, P. Other (If any, please specify) Financers (NGOs and micro financing institutions) are only providing funds, beside this they should provide some technical and other supports, political problems like hartal, bribery of the officials in sanctioning loans or any permission etc.

4.8 In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

C. Facilitate access to financing (creation of ME funds, etc), G. Give priority to women-entrepreneurs and create program for them , H. Determine laws more concretely and exactly , J. Publish more information for small business , M. Support innovative technological enterprises , N. Others (If any, please specify) Political commitment, and good political environment.

**COMPLETED INTERVIEW PROTOCOLS FOR PRIMARY DATA COLLECTION
SAMPLE GROUP 3: NON-GOVERNMENT ORGANIZATIONS
PERSONAL PROFILE OF THE INTERVIEWEE IS KEPT CONFIDENTIAL**

Theme 1: Existing Micro Enterprise (ME) Development Policy

1.1 Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

To Contribute our National Economy, Employment Generation, Decrease import, Women Empowerment And Cash flow

1.2 Outline the main MED policies of your organization? Who is responsible for formulating those policies in Bangladesh?

Group Selection , Group Formation, Savings Collection, Interest paid on saving to members, Savings Withdrawal & Adjustment, Duration of loan, Grace Period, Loan realisation , Utilization of loan , Technical Support for members. Micro Credit Regulatory Authority, Institute of Microfinance, PKSF, Credit Development From is responsible for formulating those policies in Bangladesh.

1.3 What according you are the major Challenges and Issues (C&I) of ME development in Bangladesh?

Trade license issue, Product-market analysis, existing trading rules, capital market, formal linkage with the bank, political unrest, natural Disaster, social disaster, NGO vs. NGO overlapping.

1.4 What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

Economic Development , Social Development, Employment Generation, Reduce migration from rural to urban areas, utilisation of local resources, Develop Capital Market, To improve technical skill , Reduce dependency burden.

1.5 In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

ED: Per Capita Income- National Income

Social Development: Human Development Index,

Employment Generation: Recruit manpower under small scale & medium Scale industry.

Reduce Migration: Reduce Migration from vulnerable areas

Utilization local resources: Natural Human Resources Utilize

**To accumulates Organizational Fund*

** Implementation of Innovative ideas.*

1.6 Outline the major MED programmes of your organization. How are they implemented?

Area Survey for Group selection, Data collection by field organizers about members' member selection & admission, maximum 50 tk. Savings half monthly by all the members, yearly interest on savings, the members considered to get loan with the specific savings, provide training on enterprise development, skill Development, product Development, Provide information on necessary resources, trade license.

1.7 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh MEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of MEs in

Bangladesh? Following the definition and categorization of MEs of WB and India should we re-categories and redefine MEs in Bangladesh. Give reasons for your answer.

Yes, Bangladesh should re-categories and redefines the existing SME Policy Strategy & Industrial Policy. There are lots of entrepreneurs out of the 2 categories. To recognize the entrepreneurs get access then into govt & private financial assistance, to get the technical support, market linkage.

1.8 In your opinion which sectors should be considered under MEs in Bangladesh?

Handicraft, Fisheries, poultry, Livestock, Grocery, Stationary, Confectionary, Satellite call operator, Nursery, Cold storage Beauty Parlor, Transportation.

1.9 In your opinion what should be the target markets for the ME sector in Bangladesh?

Agro Business, Commodity Producing

1.10 In Bangladesh many NGOs are also working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

Yes, to reach the entrepreneurs from remote areas, financial accessibility, Market Linkage with National & International buyer, provide into on product quality development.

1.11 Do you find any difference between the MED policies and programmes of your organization and the GOs? Give reasons for your answer.

YPSA's policy is clearer than Govt. policy. YPSA give attention to many small entrepreneurs.

1.12 NGOs are working independently for the development of MEs in Bangladesh. Are there any monitoring activities on the NGO led MED programmes by the government? Please specify.

Yes, PKSF, MRA regularly monitoring the ME activities though reports, field visit, audit program & finance.

1.13 Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

No, the Industrial policy '05 and SME policy strategy '05 are not appropriate. The SME policy should be more details & specific including Micro, Small, Medium enterprises. Those policy have no guideline how the enterprises operation, loan processing, trade license issues etc.

1.14 Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

Yes Those guidelines have linkage with national economic development policy. Without linkage no policy can be sustain.

Theme 2: ME Supports and Services

Sub-Theme: General

2.1 What type of Business Development Services (BDS) do you provide for the development of MEs in Bangladesh? How effective do you think those BDS are?

Entrepreneur development & Business Management , Enterprise Development Training, Skill Development training, Linkage with Bank, Technical support to get trade license support to get

information from Business Counselling Centre, project related govt. & private department, Resource Person.

2.2 Do you receive any support and services from the government for the development of MEs? Please specify.

Financial support from PKSf, technical training from PKSf.

2.3 How do you attract the entrepreneurs onto your organizational MED programmes? Please tick as appropriate.

A. Arrange preliminary motivational training, D. Regular publication, Others: Area Survey, Data Collection & Assessment.

2.4 How the entrepreneurs are identified to the ME start-up programmes of your organization?

The Entrepreneurs age limit 18-50 years minimum 02 years working relationship minimum 02 years working relationship minimum 90 y. Attendance at group meetings able to invest, more than tk. 20000 permanent resident.

2.5 What according to you the type of help and guidance should be provided to the entrepreneurs by the BDS providing organizations? Please tick as appropriate.

In preparing the business plan, In obtaining information regarding financial, In obtaining technical / product information, Product Marketing,

Sub-Theme: Training and Development

2.6 Outline the types of MED training programmes that you provide for the entrepreneurs? Specify objectives, duration and frequency of those.

Sewing Training: 15 days, Yearly, 1 month, yearly; Training on Fashion & Design Making: Training on Block & Batick: 6days half yearly; Cow/ Goat rearing: 6 days half yearly Beef fettering: 6 days half yearly; Poultry rearing: 6 days half yearly Homestead gardening: 6 days half yearly; Social Plantation: 6 days half yearly

2.7 Who are the target of your organizations MED training programmes and how are they identified and/or selected?

Selected Entrepreneurs considering their need from different areas. The Entrepreneurs communication skill , educational qualification etc.

2.8 Who are the trainers for your organization's MED training programmes and do they have specialities on ME development?

YPSA has separate training pole. The members are expert on different issues. The MED trainers are skilled on accounting, financial management, skill development, Business Development, Human Resources Development.

2.9 What are curriculums for the different MED training programmes of your organization and how are they developed?

YPSA has different MED training programmes: Manual on Group Formation & Motivation, Training on Fashion & Design Making , Training on Block and Batick, Cow Goat rearing, Beef fettering , Poultry rearing, Homestead gardening and Social Plantation

2.10 Have the curriculum been updated since it was first initiated? Is it a regular process?

Yes, YPSA updated the curriculum annually to incorporate update information.

2.11 How many participants have been trained by your organization in the last five years and what is the ratio of adopters of different ideas learned during the training onto their MED programmes?

A total of 1360 entrepreneurs trained by YPSA in the last 05 years. More than 60% entrepreneurs adopt the ideas learned from the training.

2.12 How do you evaluate the MED training programmes of your organization? Please specify.

During the training YPSA Conduct pre-test and post-test to evaluate their knowledge. Besides that YPSA regularly follow up the entrepreneurs, their activities, project progress, and Product promotion.

Sub-Theme: Technical and Infrastructural Facilities

2.13 Outline the types of technical and infrastructural facilities, if any that you provide for the MEs?

*Training venue facilities,
Financial Facilities,
Technical facilities to get trade license, market access.*

2.14 Do you provide any special facility, technical or infrastructural for the non-manufacturing enterprises? Please specify.

Yes, YPSA provide financial & technical support to catering service, Agro-based firm, Grocery, Confectionary, Saloon, Pharmacy, Photocopy, Transportation, Clinic, ICT, Tele centre, Satellite Cable Operator etc.

Sub-Theme: External and Internal Services

2.15 Do you think the supports and services provided by your organization are appropriate and effective for the development of MEs in Bangladesh? Give reasons for your answer.

YPSA working in Chittagong division but the support in not enough for entrepreneur. Because there is lots of demand from the entrepreneur about their larger volume of loan, One stop services from Govt. to get the license, BISIC etc.

2.16 In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

Basic Information and Legal Services

√ Providing basic information on entrepreneurs for searching partners in Bangladesh, √ Information about fiscal incentives and policies in Bangladesh, √ Information for start-up entrepreneurs,

Consulting Services

√ Business planning for MEs (Presenting to the bank or investors), √ Market Research, √ Seminars & exhibitions for MEs on specific subjects (international services) , √ Accounting and book-keeping , √ Credit assessment (Loan application), √ Employment (Recruitment)

Marketing

√ Product promotion, √ Advertising

Accounting

√ Book keeping, √ Taxation

Human Resources Management

√ Selection and Recruitment, √ Management skills, √ Training and Promotion

Production / Technology

√ *Product design*

Promotional Activities

√ *Seminars and exhibitions*

Sub-theme: Research and Development Activities

2.17 Do you think that R&D activities are required for the development of MEs in Bangladesh? Do you have any R&D activities in your organization? Please specify.

Yes, R&D activities necessary for the development of ME's in Bangladesh. YPSA has separate Research & Development unit. The unit is responsible to conduct study, research, design program in light of research results.

2.18 How frequent the R&D activities should be carried out for the benefit of MEs in Bangladesh, in your opinion?

R&D activities should be carried out every three years for the benefit of ME's in Bangladesh.

2.19 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

Research results should be authentic. The research results should be adopted in govt policies for the betterment of ME in Bangladesh.

Sub-theme: Sustaining Activities

2.20 There is saying that "MEs are growing in bulk and dying also in bulk in the developing countries". Do you agree with the statement and what sort of action are you taking to make the MEs more sustainable?

It is true that developing countries entrepreneurs are to face capital shortage, Bureaucratic redtapism to get access in govt services. So, I am agreeing with the statement. Govt should make easy access to loan for entrepreneurs under financial institution to reduce the Bureaucratic redtapism within its departments.

2.21 Do you think there should be special surveys to identify the sick enterprises and their problems at the end of each and every fiscal year? Please specify.

Yes, it is necessary to indentify sick enterprise every year, try to find out reasons and meet up the problems like economic, social, technical etc.

2.22 What is your suggestion about the sick enterprises to overcome their problems?

Find out causes to become sick, meet up their needs, technical support about product & services, market promotion, competitors.

2.23 Do you think that the sick enterprises should be rehabilitated, if yes how? Please specify do you have any rehabilitation programmes for the sick enterprises provided by your organization?

The sick enterprises having innovation with product, services as well as potentiality, market demand should be rehabilitated. The rehabilitation through redesign their policies, product, technology etc.

Theme 3: Financial Services to support MEs

3.1 Do you provide any type of financial services to the MEs, if yes how?

Yes, Loan

3.2 What are the terms and conditions of the assistance, i.e., loan amount, rate of interest, collateral, repayment method etc.?

Among new member the 1st loan will be maximum tk.20000 and gradually it will be up to tk. 3,00,000. The PSCP graduated members will receive primarily 25000. The members using tk.17000 to tk.20000 loan, they can receive 1st loan amount tk.30000 from ME program. 2nd term loan will increase tk.10000 but it is not compulsory. Rate of Interest: 12.5 flat rate. Repayment Method: 22 Instalment & 14 Days grace period

3.3 Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

Yes, private national bank should review their policy. To reach the Micro Enterprises Nationalized bank should review their policy. The present policy is not effective to reach the micro Enterprise.

3.4 Financing system of MEs by the banks and the NGOs is different in Bangladesh. In your opinion, which system is more effective? Give reasons for your answer.

NGO loan is easy to get: Because they provide: Loan without a security, Provide the loan on time, There is no bureaucratic problem for approval., Strong supervision & monitoring, Door Level access and Regular follow up.

3.5 There are complaints that the micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.

Because of high interest of organization --- High administrative cost. The member of PKSF is 250 in Bangladesh, it is not sufficient to conduct ME program. The rate of Bank interest 10.5% and PKSA 4.5%. NGO are to charge high interest when they receive loan from bank and PKSF.

3.6 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

√ Poor documentation, √ Own contribution too small, and √ High rate of interest

3.7 In your opinion what measures should be taken to overcome those problems in financing MEs in Bangladesh?

A. Providing Collateral Free Loans to MEs, B. Providing Interest Free Loans, C. Reducing Interest Rates of ME Loans, D. Making the Banking System More Flexible, E. Private Banks Should Extend Branches in Rural Areas, F. Awareness Building Campaign on ME Rights and Facilities, G. Legal Status to NGOs for ME Financing, H. Easing the Procedural Formalities of any ME Loans, I. Strengthening ME Financing Windows of all the Banks. Arrange more training on process documentation, financial systems, provide technical support to develop policy and guideline of ME.

Theme 4: Networking

4.1 Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

Networking is important among Micro Enterprises. The IOR can raise strong voice to develop the policy, get legal support, financial accessibility.

If one partner(NGO,BANK) would become responsible to enterprise loan in one upazilla there is no chance to overlapping.

4.2 Do you find any link among the MED activities of your organization and other GOs and NGOs in Bangladesh, if yes, what is the nature of those links?

Yes, YPSA's ME policy and Govt is similar. But YPSA's policy is more specific to ME Services. Other organization has also policy and the difference is not large.

4.3 Do you think those links are appropriate and effective for the development of MEs in Bangladesh, if no, what should be the nature of those links? Please specify.

No comment

4.4 Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes by the government? Give reasons for your answer.

All the respective organization should participant in planning to develop the policy as well as meet annually as conference/ network meeting with presence of Govt. representative.

4.5 Do you think that your organization needs cooperation from other organization for the maximum benefit of the MED programmes?

YPSA always believe learning and sharing for the betterment of entrepreneurs .

4.6 Do you find any duplication or overlapping of the functions for the development of MEs with other organizations / agencies? If yes, in what areas and how does the duplications affect the responding agencies? Please specify.

Yes, in Chittagong Division has duplication among the entrepreneurs.

4.7 In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

√ Procedural difficulties in starting a company, √ Difficulty in accessing to credit, √ Low coordination between organizations supporting MEs , √ Lack of qualified human resources, √ Lack of clear government ME program, √ Lack of market information, √ Too high cost of money, P. Other (If any, please specify) Absence of Political Commitment to MED, political violence and corruption

4.8 In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

√ Facilitate access to financing (creation of ME funds, etc) , √ Give priority to women-entrepreneurs and create program for them , √ Determine laws more concretely and exactly, √ Publish more information for small business , √ Create special funds for business-skilled staff, √ Support innovative technological enterprises , √. Others (If any, please specify): Strong Political Commitment towards MED, Corruption free bureaucracy and political stability.

**COMPLETED INTERVIEW PROTOCOLS FOR PRIMARY DATA COLLECTION
SAMPLE GROUP 4: PRIVATE AND PROFESSIONAL ORGANIZATIONS
PERSONAL PROFILE OF THE INTERVIEWEE IS KEPT CONFIDENTIAL**

Theme 1: Existing Micro Enterprise (ME) Development Policy

1.1 Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

Yes, Micro Enterprise Development plays very important role in Bangladesh. The reasons are:

- *Micro Enterprises (ME) contribute substantially to GDP and provide employment directly and indirectly to more than 90% of the total industrial labour force.*
- *Outsourcing to MEs offers substantial cost advantages to Large Enterprises (LE) (especially newer firms) engaged in exporting merchandise that are labour intensive to produce.*
- *LEs that depend heavily on MEs to produce part or all of their exportable products, as compared to those that are less dependent, grew in size, in terms of both the number of MEs for outsourcing and the number of hired employees. Thus MEs contribute greatly to the export earning in particular and also to the overall industrialization of Bangladesh.*

1.2 Outline the main MED policies of your organization? Who is responsible for formulating those policies in Bangladesh?

Since inception in 1982, MIDAS is committed to the development of a sound and rapidly growing micro, small and medium-scale enterprise sector in Bangladesh. Accordingly, its policy aims at

- (i) Continuously developing its institutional capabilities for attaining self-reliance,*
- (ii) Identifying exceptionally promising micro, small and medium-scale enterprises for providing financial, managerial, and technical assistance,*
- (iii) Developing entrepreneurship and enabling entrepreneurs prepared to exploit new business opportunities,*
- (iv) Enhancing capability of micro, small and medium enterprise promotion organizations, and*
- (v) Serving as a catalyst force for the growth of a sustainable micro, small and medium business in the country.*

MIDAS Board is responsible for formulating policies.

1.3 What according you are the major Challenges and Issues (C&I) of ME development in Bangladesh?

There is large number of MEs in Bangladesh yet to receive organizational assistance from any quarter. With limited resources, MIDAS is unable to offer its service throughout the country and as such concentrating efforts to the major cities.

1.4 What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

Employment Generation.

1.5 In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

Please refer to answer given in 1.1

1.6 Outline the major MED programmes of your organization. How are they implemented?

*Capacity Building through training
Information services*

*Consultancy and research
International expert service
Financial services, etc*

MIDAS operates through Programs Department and Finance, Accounts and Administration Department. The Managing Director is the Chief Executive Officer responsible for administering the program activities. MIDAS implements its programs with the help of its own team of qualified professionals specialized in techno-financial, marketing and socio-economic fields.

MIDAS in-house professionals having experience and expertise in various fields such as Business Administration, Economics, Finance, Management, Marketing, Engineering, Statistics, Information, Accounts Management, Computer Software, etc..

1.7 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh MEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of MEs in Bangladesh? Following the definition and categorization of MEs of WB and India should we re-categorize and redefine MEs in Bangladesh? Give reasons for your answer.

MEs are viewed as missing middle, as such, remained neglected for ages. They are not too big for drawing the attention of main stream financial sector, and also not too small for approaching NGO sector that mainly caters to the micro credit. With this situation prevailing in Bangladesh, I support present categorization of MEs in to two: Small and Medium.

1.8 In your opinion which sectors should be considered under MEs in Bangladesh?

Please refer answer given in 1.7.

1.9 In your opinion what should be the target markets for the ME sector in Bangladesh?

Any enterprise falling under the said category of ME may be the potential target market.

1.10 In Bangladesh many NGOs are also working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

NGOs mainly provide group-based micro credit of smaller amounts, i.e, Tk 5000 – 20,000. NGOs are playing an important role in poverty alleviation through their micro credit program and other related assistances. It may be mentioned NGOs generally do not assist individual MEs. But in some cases NGOs provide larger loans to their graduated successful borrowers.

1.11 Do you find any difference between the MED policies and programmes of your organization and NGOs? Give reasons for your answer.

MIDAS activity and that of NGOs are completely different. MIDAS provides larger loans to individual borrowers / enterprises where as NGOs provide micro credit of smaller amount to enlisted groups.

1.12 Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

Development is a continuous process and focus / attention on any specific areas may change with the passage of time. Government has prepared Draft Industrial Policy 2009 and are in the process of soliciting comments on it. As such there is no point in dwelling with the past industrial policy 2005.

1.13 Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

All the policies and guidelines are generally aimed at socio-economic development of the country. However, it is the responsibility of the concerned stakeholders, service providers, etc about how they approach and deal with the policy while implementing their respective programs.

Theme 2: ME Supports and Services

Sub-Theme: General

2.1 What type of Business Development Services (BDS) do you provide for the development of MEs in Bangladesh? How effective do you think those BDS are?

MIDAS BDS activities are mentioned below. Since inception in 1982, MIDAS gained valuable experience and expertise in providing effective delivery of BDS services. MIDAS BDS services are greatly acknowledged by the clients in Bangladesh.

Sub sectors/Areas	BDS Activities
Study Relating to Business Organizations	<ul style="list-style-type: none"> ▪ Techno-economic feasibility studies of industrial projects ▪ Diagnostic studies ▪ Market study and research ▪ Technical studies/improvement of industrial productivity ▪ Financial studies ▪ Management studies ▪ Business plan preparation ▪ Outplacement counseling ▪ Employees' compensation package development for business organizations
Sub-sectoral Studies and Analysis	<ul style="list-style-type: none"> ▪ Studies on state of affairs and identification of areas for intervention for development ▪ Sub-sectoral analysis manual preparation ▪ Studies on different sectors/sub-sectors to identify investment opportunities
Socio-Economic Studies	<ul style="list-style-type: none"> ▪ Market survey ▪ Baseline survey ▪ Research studies related to education, agriculture and demography ▪ Preparation of technology database/ directories ▪ Preparation of development resource database/ directories
Transfer of Foreign Technology	<p>PUM-Senior Expert Service, Netherlands MIDAS is working as Resident Representative of PUM in Bangladesh. Through PUM, MIDAS sources volunteer advisors from the Netherlands for transferring of technology in the field of production, management, marketing information, engineering, HRD, accounts and finance to Bangladeshi companies.</p>
Human Resource Development and Training	<p>Training courses, workshops, seminars, etc. are regularly organized for human resource development in the fields of:</p> <ul style="list-style-type: none"> ▪ Entrepreneurship development ▪ New business creation ▪ Business improvement ▪ Management ▪ Marketing and sale ▪ Enterprise development and financing ▪ Financial analysis ▪ Institutional self sufficiency ▪ Skill development ▪ Credit management ▪ Training of trainers ▪ Accounting and financial management, etc.
Information & Library Services	<p>MIDAS provides useful information services through its quite rich technical libraries in its head office and regional offices and in other ways.</p>

2.2 How do you attract the entrepreneurs onto your organizational MED programmes? Please tick as appropriate.

✓A. Arrange preliminary motivational training, ✓B. Announcement of incentives, ✓C. Organizing entrepreneurial forum, ✓D. Regular publication, Other activities for attracting entrepreneurs:- Advertisement-Organizing own trade fairs-Participating trade fairs organized by others-Visiting prospective clients-Mailing promotional letters with printed brochures-Networking with business community, chambers, associations, etc.

2.3 How the entrepreneurs are identified to the ME start-up programmes of your organization?

Entrepreneurs are attracted and then potential entrepreneurs are identified with the following activities:
-Advertisement-Organizing own trade fairs-Participating trade fairs organized by others-Visiting prospective clients and their surrounding business locations-Mailing promotional letters with printed brochures-Networking with business community, chambers, associations, etc.

2.4 What according to you the type of help and guidance should be provided to the entrepreneurs by the BDS providing organizations? Please tick as appropriate.

E. Selecting the product ✓F. In preparing the business plan ✓G. In obtaining information regarding financial ✓H. In obtaining technical / product information ✓I. Product Marketing ✓J. Others (If yes, please specify) ✓Capacity Building through Training (i) Entrepreneurship Development, ii) Sales and Marketing, iii) Product costing iv) Project specific skill development training, etc.)

Sub-Theme: Training and Development

2.5 Outline the types of MED training programmes that you provide for the entrepreneurs? Specify objectives, duration and frequency of those.

MED training programs are mentioned below, objective of those are self explanatory. Duration of these courses is 1-2 weeks. On an average, MIDAS conducts about 50 courses in total per year.

Entrepreneurship development; New business creation; Business improvement; Management of the enterprise; Marketing and sale; Enterprise development and financing; Financial analysis Skill development; and Accounting and financial management, etc.

2.6 Who are the target of your organizations MED training programmes and how are they identified and/or selected?

Target recipients of MIDAS training programs are:

Exiting and potential entrepreneurs; Enterprise development officers; Business executives, managers of enterprises; Personnel of BDS providing organizations; Business Promotion Organizations, etc.

The participants are identified and or/ selected through:

-Advertisement; -Participating in idea sharing workshops / seminars; -Visiting prospective clients -Mailing promotional letters with printed brochures; - Sending emails and announcement of the training program in the MIDAS website; and -Networking with business community, chambers, associations, etc.

2.7 Who are the trainers for your organization's MED training programmes and do they have specialities on ME development?

MIDAS in-house professionals mostly conduct training programs and they have necessary expertise to work as trainers. When required MIDAS engages other qualified trainers from the MIDAS roster of Trainers.

2.8 What are curriculums for the different training MED programmes of your organization and how are they developed?

MIDAS have set curriculum for different training courses, developed by the MIDAS in-house trainers.

2.9 Have the curriculum been updated since it was first initiated? Is it a regular process?

Yes.

2.10 How many participants have been trained by your organization in the last five years and what is the ratio of adopters of different ideas learned during the training onto their MED programmes?

A total of 3,575 participants were trained during last five years by MIDAS. It is expected that about 50% of the participants applied their gained knowledge in their respective fields.

2.11 How do you evaluate the MED training programmes of your organization? Please specify.

MIDAS is one of the pioneers in conducting entrepreneurship development and business management courses in the country. Its training capabilities are acknowledged within and outside the country. MIDAS has provided training to entrepreneurs/ individuals, executives, officials of various govt. agencies, national and multinational companies, NGOs, donor assisted projects, commercial banks, etc. We also feel that our training courses are very effective in the sense that active participatory methods as well as action learning exercises are extensively used in MIDAS training programs.

Sub-Theme: Technical and Infrastructural Facilities

2.12 Outline the types of technical and infrastructural facilities, if any that you provide for the MEs?

MIDAS provides technical services through its activities mentioned earlier.

2.13 Do you provide any special facility, technical or infrastructural for the non-manufacturing enterprises? Please specify.

MIDAS provides technical services through its activities irrespective of the type of enterprises (Manufacturing / Non_ manufacturing enterprises) as such, does not have any special program for non-manufacturing enterprises.

Sub-Theme: External and Internal Services

2.14 Do you think the supports and services provided by your organization are appropriate and effective for the development of MEs in Bangladesh? Give reasons for your answer.

The feedback that we receive from our clients suggests that MIDAS activities are contributing towards the development of MEs in Bangladesh.

2.15 In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

Basic Information and Legal Services

B. Information on Bangladeshi Business Law ✓, D. Information for start-up entrepreneurs ✓, E. Providing package of information for company registration ✓, F. Others (If any, please specify)

Consulting Services

A. Business planning for MEs (Presenting to the bank or investors) ✓, D. Market Research ✓
E. Banking and credit financing ✓, G. ME law (lawsuit, enterprise law), H. Accounting and book-keeping ✓

Marketing

A. Marketing plan ✓, B. Marketing research ✓, C. Product promotion ✓, D. Marketing strategy ✓,
E. Advertising ✓,

Accounting

B. Book keeping ✓, E. Business planning ✓

Human Resources Management

B. Management skills ✓, E. Training and Promotion ✓

Production / Technology

A. Product design ✓, B. Production management system ✓

Promotional Activities

B. Advertising ✓

Others (If any, please specify)

Sub-theme: Research and Development Activities

2.16 Do you think that R&D activities are required for the development of MEs in Bangladesh? Do you have any R&D activities in your organization? Please specify.

R&D is important to cope up and survive in the ever changing business environment. MIDAS does not have any specific R&D activities in particular, however, when situation demands, initiates need based program.

2.17 How frequent the R&D activities should be carried out for the benefit of MEs in Bangladesh, in your opinion?

The frequency of R&D is irrelevant as it is a continuous process that facilitates achieving goals.

2.18 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

Yes, if found suitable and accepted by the wider section of the community.

Sub-theme: Sustaining Activities

2.19 There is saying that “MEs are growing in bulk and dying also in bulk in the developing countries”. Do you agree with the statement and what sort of action are you taking to make the MEs more sustainable?

The above statement is more or less true. The steps that MIDAS takes on a regular basis for ensuring sustainability of MEs are outlined below:

- *Identifying and selecting right entrepreneurs*
- *Regular monitoring of financed enterprises*
- *Counselling and arranging establishment of network of entrepreneurs*
- *Providing need based local or foreign technical experts*
- *Providing marketing assistance through organizing trade fairs*
- *Establishing organized and combined sales outlet*
- *Sending entrepreneurs to attend overseas trade fairs*
- *Capacity building of entrepreneurs through training, etc.*

2.20 Do you think there should be special surveys to identify the sick enterprises and their problems at the end of each and every fiscal year? Please specify.

Surveys are one way among others for identifying sick industries. However, because of huge cost and considerable time involved in conducting such surveys, it may be not be wise to carry out surveys on yearly basis.

2.21 What is your suggestion about the sick enterprises to overcome their problems?

There may be many reasons for an enterprise becoming sick. Need based assistance are to be provided to sick industries to overcome the adverse situation. One suggestion may be suitable for any particular unit, that suggestion may not be useful for others

2.22 Do you think that the sick enterprises should be rehabilitated, if yes how? Please specify do you have any rehabilitation programmes for the sick enterprises provided by your organization?

It is not possible to rehabilitate all the sick industries. Only the identified and deserving sick industries may be given another chance for survival. Nature of rehabilitation depends on the proper and detailed diagnostic assessment of concerned sick industry. Yes, MIDAS does have rehabilitation program only for MIDAS financed projects.

Theme 3: Financial Services to support MEs

3.1 Do you provide any type of financial services to the MEs, if yes how?

Yes. MIDAS has various financial services. As mentioned earlier, financial services are provided to individual enterprises after conducting feasibility study of projects.

3.2 What are the terms and conditions of the assistance, i.e., loan amount, rate of interest, collateral, repayment method etc.?

Micro Enterprise Development Initiative (MIDI)

Short-Term and Medium Term loans are provided to micro enterprises, business persons, and women entrepreneurs.

The terms and conditions of loan:

- *Legal Status of the Project : Proprietorship / Partnership /Private Limited Company*
- *Loan Size- Tk. 50,000 - Tk. 1,000,000*
- *Service Charge- 16.78% per annum (simple) on reducing balance*
- *Loan Repayment Period- 1-4 Years*
- *No collateral security needed (up to Tk. 750,000)*

Small Enterprise Development (SED)

Credit facility in the form of project loan and working capital loan is provided for establishment as well as expansion of small and medium enterprises in the private sector under its SED program.

Terms and conditions of SME loan:

- *Legal Status of the Project: Proprietorship / Partnership / Limited Company*
- *Loan Size: Tk.0.50 million - 20.00 million*
- *Total Project Cost: Tk.300.00 million (maximum)*
- *Rate of interest: 16% per annum (simple) on reducing balance*
- *Project Implementation Period: 2 years (maximum)*
- *Loan Period: 8 Years (maximum) including implementation period*
- *Mode of Repayment: Monthly/Bimonthly or Quarterly instalments*

Security of Loan

- a. Personal guarantee of the sponsor(s)*
- b. Hypothecation of project assets*
- c. Collateral security for loans above Tk.750,000.00*

Lease Financing

Lease finance facility is extended to manufacturing and service industries sectors and also to individuals and institutions.

Terms and Conditions

- *Lease Period: 2 – 5 years*
- *Instalment: Monthly*
- *Implementation Period: 3 months (maximum)*
- *Lease Security Deposit: 2 (two) rental instalments*
- *Terminal Value: 1% of the lease amount*

Security –

- *Mortgage of land and building*
- *Corporate Guarantee*
- *Bank/Insurance Guarantee*
- *Marketable Securities*
- *3rd Party Guarantee*

3.3 Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

Yes, Nationalized Banks should be more flexible to finance MEs. With their country wide network, they would be able to reach this segment easily than other private commercial Banks.

3.4 Financing system of MEs by the banks and the NGOs is different in Bangladesh. In your opinion, which system is more effective? Give reasons for your answer.

If the objective and intentions are well defined, then both the systems may be equally effective.

3.5 There are complaints that the micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.

Yes I agree, then again MFIs have their reasons for charging higher interest rates.

3.6 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

A. Insufficient collateral ✓, B. Poor documentation ✓, C. Project proposal not accepted ✓, F. Own contribution too small ✓, G. High rate of interest ✓

3.7 In your opinion what measures should be taken to overcome those problems in financing MEs in Bangladesh?

A. Providing Collateral Free Loans to MEs, B. Providing Interest Free Loans, C. Reducing Interest Rates of ME Loans, D. Making the Banking System More Flexible, E. Private Banks Should Extend Branches in Rural Areas, F. Awareness Building Campaign on ME Rights and Facilities, H. Easing the Procedural Formalities of any ME Loans, I. Strengthening ME Financing Windows of all the Banks,

Theme 4: Networking

4.1 Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

Yes IOR and Interactions are Important. The reasons are:

- *Concerned organization will know who is doing what*
- *Avoid duplication of activities in the same target areas*
- *Will be able to complement each other when needed*

4.2 Do you find any link among the MED activities of your organization and other GOs and NGOs in Bangladesh, if yes, what is the nature of those links?

As mentioned earlier, very few of GOs/NGOs are involved in promoting MED in Bangladesh and their general pattern of functioning is different from MIDAS. Most of the organizations work independently and as such there is no noticeable links among the MED activities of various organizations.

4.3 Do you think those links are appropriate and effective for the development of MEs in Bangladesh, if no, what should be the nature of those links? Please specify.

Please refer answer of 4.2

4.4 Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes by the government? Give reasons for your answer.

Yes. The reasons are:

- Ensure participation of all concerned
- Sharing of ideas leading to formulation of a workable plan
- Role, duties and responsibilities of concerned organizations could be identified and ensured

4.5 Do you think that your organization needs cooperation from other organization for the maximum benefit of the MED programmes?

Yes, because no organization can work alone for overall development of ME in the country.

4.6 Do you find any duplication or overlapping of the functions for the development of MEs with other organizations / agencies? If yes, in what areas and how does the duplications affect the responding agencies? Please specify.

Don't have any specific information in this regard.

4.7 In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

E. Insufficient support from local authorities ✓, G. Procedural difficulties in starting a company ✓, H. Difficulty in accessing to credit ✓, I. Low coordination between organizations supporting MEs ✓, J. Lack of qualified human resources ✓, L. Lack of market information ✓, M. Lack of management skills ✓, N. Too high cost of money ✓, O. Lack of proper marketing skills ✓, P. Other (If any, please specify) Political instability like Strike, corruption of government officers and absence of honest political commitment to MED

4.8 In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

A. Simplify the registration of new enterprises ✓, B. Help to create the one-stop shop for MEs based on existing agencies for ME support ✓, C. Facilitate access to financing (creation of ME funds, etc) ✓, G. Give priority to women-entrepreneurs and create program for them ✓, J. Publish more information for small business ✓, L. Create special funds for business-skilled staff ✓, M. Support innovative technological enterprises ✓, N. Others- Arrange Entrepreneurship Development Training for new entrepreneurs, political stability, and corruption free bureaucracy ✓

COMPLETED INTERVIEW PROTOCOLS FOR PRIMARY DATA COLLECTION
SAMPLE GROUP 5: INDEPENDENT EXPERTS
PERSONAL PROFILE OF THE INTERVIEWEE IS KEPT CONFIDENTIAL

Theme 1: Existing Micro Enterprise (ME) Development Policy

1.1 Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

Development of Micro Enterprise is of course important in the context of Bangladesh Economy. Bangladesh is a overpopulated country a large segment of our population(about 40%) is under poverty line. Because of the private-sector led growth strategy, role of government is mostly as a facilitator, private sector is in the driving seat. Employment situation is at the critical state. Self employment is one of the way for creating employment. So development of micro enterprise can create self employment at a small investment. Also there are positive policies and packages for entrepreneur.

1.2 What according you are the major Challenges and Issues (C&I) of ME development in Bangladesh?

The profile of ME is not clear to us. MEs are diverse in nature, so in formulating policies Profile of this sector is to be well-understood. In order to bridge the gap following is necessary:

1. *Formalize the ME Sector.*
2. *Bridge the information gap*
3. *ME Clusters have to be identified based on the locality and demographical nature,*
4. *ME problems and how they are supporting SMEs.*
5. *Rural and Urban MEs*
6. *Definition of MEs*

1.3 What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

1. *How do we like to see MEs contribution to the GDP/Exports/Manufacturing etc.*
 2. *Marketing of ME products*
 3. *Establishing Sub-contracting among ME-SMEs and Large.*
 4. *Women Entrepreneurship development in ME.*
 5. *Improving quality of ME products.*
 6. *Accommodate ME in to the mainstream policy so that a stable ME sector can be developed.*
 7. *Technology for ME*
- ME –how effectively can contribute towards poverty alleviation and eradication.*

1.4 In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

1. *Some of these factors are incorporated but some are not.*
2. *ME has remained as an effective arm of NGOs to enhance their popularity and prove their existence to get funding from donor organizations.*
3. *The money that has been spent so far in Bangladesh, MEs should have much better picture.*
4. *PRSP-2, Sixth Five Year Plan all have addressed poverty reduction as number one criterion but extensiveness of poverty have not yet reduced, whatever progress we have achieved, it is very slow.*
5. *In the Industrial Policy, ME has been defined as Cottage Industry, Industrial Policy (available in the Internet) has given definition of six Industrial sectors have been waiting for approval.*
6. *MEs if not tagged with SME and Large is not possible to sustain and come out from this poverty circle.*

- 1.5 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh MEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of MEs in Bangladesh? Following the definition and categorization of MEs of WB and India, should we re-categorise and redefine MEs in Bangladesh? Give reasons for your answer.

As I mentioned in the earlier question, MEs are defined as Cottage Industries, I understand that as it is named as SME Policy Strategy it has given definition of small and medium only, IP05 has also included Cottage Industry definition, as family members engaged in this sector full-time or part time. IP 2009 has given a definition as, investment of taka 5 lac and family member (10) as employment. Interestingly, there are different definition by different organization, which differs in several respects. There are definitions by World Bank, CMI, Banks, Bangladesh Bank, NBR, Industrial Policy etc. etc. There is a serious need of a single definition.

- 1.6 In your opinion, which sectors should be considered under MEs in Bangladesh?

Mostly homemade products are qualified as ME sectors, Handicrafts made of different products like cane, jute, bamboo, dry flower etc. Some home based food products, utilities, small furniture used by rural people, handmade towel, some special dresses, can be termed as ME products. DCCI has prepared a WE Directory, I am attaching a product List for your understanding, of course not all of them are ME products

- 1.7 In your opinion what should be the target markets for the ME sector in Bangladesh?

Micro Enterprises mainly target for domestic market. If they are managed efficiently they can supplier to those targeting export markets, by these way they can get benefits of deemed export.

- 1.8 In Bangladesh, a lot of NGOs are working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

Yes NGOs activities are effective for ME development, but they should have a target to graduate a certain percentage of ME to SE and then to MedE. In practice these have not happened, ME always remain at the bottom layer forever.

- 1.9 NGOs are working independently for the development of MEs in Bangladesh. Are there any monitoring activities on the NGO led MED programmes by the government? Please specify.

Earlier monitoring was not so much effective, but now government has been in the process of preparing a Micro Credit Loan Authority and its procedure for streamlining these issues and strengthening Monitoring activities of NGO

- 1.10 Do you think that those monitoring activities are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

I think still the process has not been streamlined, it needs to go a long way. Regulatory authorities are yet to be ready with their regulatory apparatus. Private sector have requested for a level playing field so that they can sustain competition with the NGOs as a large number of NGOs are in business now.

- 1.11 Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

Actually for ME development IP05 and SME Policy Strategy have very little to do, there could be a separate policy for ME development highlighting support from ME to help SE and ME as a sub-contractor. IP 05 and SME policy Strategy are for SME development where ME has almost nothing to do. ME are mostly manufactured base, SME are constituted with a large number of Traders. ME has completely different feature where nature of SME are different.

There are also contradictory opinion, where Bangladesh and many other countries again and again emphasizing on the role of SMEs in employment creation and value addition, without support of large scale enterprises sustenance of Small and Medium are almost impossible at this global economy.

1.12 Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

You mean, guidelines in the Industrial Policy and SME Policy Strategy? Yes, there are guidelines which are supported by tax policies, fiscal policies and many other important policies.

Theme 2: ME Supports and Services

Sub-Theme: General

2.1. Many organisations provide Business Development Services (BDS) for the development of MEs in Bangladesh. How effective do you think those BDS are?

BDS services needs to be developed a lot, there remain a gap always between needs and the supply of services, there are duplications and over lapping. E.g., Training activities, there are a large number of training institutes providing training services, but there are a serious need for specific skill development and Technology Access related training which is required very much for ME.

2.2 In your opinion what type of help and guidance should be provided to the entrepreneurs by the BDS providing organizations? Please tick as appropriate.

A. Selecting the product , B. In preparing the project (Very much required), C. In obtaining information regarding financial, technical, production etc. E. Marketing (very important) and F. Others (If any, please specify) *How to get Financial Support without Middlemen, How to Market Quality Product on time and How to face transportation problem by using IT facilities through Tele-centres*

2.3 In your opinion what motivational efforts should be attempted to attract entrepreneurs for establishing MEs? Please tick as appropriate.

A. Arrange preliminary motivational training , B. Announcement of incentives, C. Organizing entrepreneurial forum , D. Regular publication , E. Mass media by relaying success stories and Acknowledgement of their success and ensuring their Profit

Sub-Theme: Training and Development

2.4 In your opinion what type of training and development programmes should be provided for the entrepreneurs? Please specify.

1. *We need to make them understood that they would need to tell their issues to the appropriate authorities.*
2. *How to maintain Quality of their products*
3. *How to assess demand of their products.*
4. *They should understand that Government of Bangladesh may not be that much capable to carry forward their grievances to the international world, they should have enough coordination among themselves so that they raise their voices to the appropriate levels.*

2.5 Do you think those training programmes should be intended to be income generating? Give reasons for your answer.

Yes it should be, it is well understood, that ME are family based enterprises. Training will cost them as they have to spare their family members at the cost of their living. Mentorship can also be developed so that providing Training can also be an Income Generating activities.

2.6 What curriculums should be there in those training programmes and how should they be developed?

A Training Need Analysis will be required, you will understand that rural ME and urban ME are very diverse in nature. Quite some time they remain very informal, so training needs will also be diverse in nature. Some General type of Training like, how to maintain Quality of products, Where to get best raw materials, How to diversify Design, How to get best access to Technology, How to get ICT facilities, How to get involved Marketing Chain, How best to use packaging materials, How to storage products., How maintain Accounts, Behavioural attitudes to sustain in the markets, Target Markets and How to Graduate from ME to SE etc.

2.7 Do you think those curriculum should be updated as a regular process?

Of Course, it should be updated based on the need and change of the consumers behaviour. Globalization has made consumer as the king, at a very interior market of a village, a ME product is facing competition with cheap imported goods, so in order to upgrade skill, training courses should also be changed.

2.8 Do you think those training programmes should be evaluated, if yes, how?

Yes, it should be evaluated. A simple evaluation in Bengali should be circulated among participants . Or they may be asked to share their success after the training(e.g Poultry and goat rearing, beef fattening, collecting chicks, vegetable gardening etc.)

Sub-Theme: Technical and Infrastructural Facilities

2.9 In your opinion what type of technical and infrastructural facilities should be provided by the government for the development of MEs in Bangladesh?

MEs in Bangladesh are almost running without Technology or whatever Technology is available in the country they cannot use it. They need Technical Support in the following field:

How to apply for Credit, Where to get Credit, How to get best raw materials, How to build Marketing Skill, How to build a Cluster to use Common Facilities to reduce cost of doing business, Infrastructural Facilities: Micro Enterprise in Bangladesh are almost in a informal stage, they have to pay a high interest rate as they have to take loans collateral free. High Interest Rates is one of the serious barriers for MEs. When the highest rate of interest for other entrepreneurs is 13%, ME have to pay 22% above., ME needs good storage facilities to maintain their quality of products, most of the MEs inherit business from their fore fathers, can not improve quality because of higher education. Some of MEs who have been able to graduate from ME to SE and MEE are quite better off but their number is very few. ME needs better marketing facilities, uninterrupted electricity, gas better communication and many others.

2.10 Do you think there should be special types of technical and infrastructural facilities for the development of non-manufacturing enterprises? Give reasons for your answer.

Yes I do. It should be based on the needs of the sectors they are dealing. Non-Manufacturing enterprises needs different facilities. Some services sector in the field of ICT are developing in ME sector. You are aware of the Mobile Lady. Now some Agro help line, Telecentres are progressing as service enterprises. Not only that, health care centres, Hair Dressing, Dress and Cloth making are some of these sectors are emerging. They need special training to deliver services smartly.

Sub-Theme: External and Internal Services

2.11 Do you think the supports and services provided by the government and other organizations are appropriate and effective for the development of ME sector in Bangladesh? Give reasons for your answer.

Supports provided by the government are to some extent effective. It needs to be upgraded. Responding quickly with the need of the MEs at this stage of globalization is very difficult for government organization. The structure and mind set of the government organization do not match with the need of the hour. Banks are also reluctant to quality ME to give loans because they consider MEs as costly areas to invest.

2.12 In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category...

Basic Information and Legal Services

B. Information on Bangladeshi Business Law, D. Information for start-up entrepreneurs , yes of course , F. Others (If any, please specify): For ME Basic Legal issue is to get Registration with RJSC/MCC.

Consulting Services

*A. Business planning for MEs, D. Market Research, E. Banking and credit financing
F. Seminars & exhibitions for MEs on specific subjects (international services), G. ME law (lawsuit, enterprise law), I. Credit assessment (Loan application)*

Marketing

A. Marketing plan, B. Marketing research, C. Product promotion, D. Marketing strategy and E. Advertising

Accounting

A. Cash flow, B. Book keeping, C. Audit and financial reporting,

Human Resources Management

A. Selection and Recruitment, B. Management skills, E. Training and Promotion

Production / Technology

A. Product design, B. Production management system

Promotional Activities

A. Seminars and exhibitions, and B. Advertising

Sub-theme: Research and Development Activities

2.13 Do you think that R&D activities are required for the development of MEs in Bangladesh? Give reasons for your answer.

R&D is very much required, because of absence of R&D we are continuously failing to address the global issues. Why R&D is required:

- 1. We are mostly copying from others, we do not have technology on our own, we are very much dependent, because here R&D is limited, people do not encouraged for innovation, one is for fund another is for not acknowledgement.*
- 2. Most of the R&D(whatever it is) are in the public sector where individual recognition is absent, so people discouraged, we need to encourage them with ackn so that more innovations new products are in the markets.*
- 3. We cannot diversify our products, reasons for which is the lack of R&D, unless we diversify our products, our sustenance in the markets will be uncertain.*
- 4. In future when TRIPS will be in full operation, BD will not be able to copy, we will have to pay royalties which will enhance costs, so we should go for R&D, govt should have large budget for R&D.*
- 5. Our education system should be upgraded so that we can show out original products.*
- 6. Presently we are producing only ordered products, we do not have competitiveness for branding our own products.....*

There are in-numerous for R&D necessities

2.14 How frequent the R&D activities should be carried out for the benefit of micro and small enterprises in Bangladesh?

1. As I have already mentioned most of our R&D are done by the Public sectors, like, BCSIR, BIDS, BUET etc
2. BCSIR has got a few patents which they commercialize through mostly NGOs, BUET mostly do ordered services for the pvt sector- Commercialization of these products are very poor and as the patented goods have very poor thresh hold private sector are not interested for using these R&D based benefits.
3. SMEs are to some extent benefited, but the amount is insignificant, they mostly depend on foreign partners or from who they buy capital machineries. In that respect Joint venture industries are doing good than the 100% domestic industries.

2.15 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

It is not possible to adopt all researches in the policies, some of the results have been adopted by the government. In most of the cases policies are suggested by the donor organizations, govt has not that much flexibilities to disagree on these issues. Even in terms of WTO-governing the world trade has given some flexibilities for LDCs-we cannot use these benefits through our policies. Because of weak R&D and skill in that respects.

Sub-theme: Sustaining Activities

2.16 There is saying that "MEs are growing in bulk and dying also in bulk in the developing countries". Do you agree with the statement? If yes, what is your suggestion to make the MEs more sustainable in Bangladesh?

It is true to some extent, because of liberal tax policies some of the MEs are dying quickly as they have become uncompetitive. They are also not capable to use safeguard measures allowed under WTO. They may like to use these safeguard measures and improve quality of products at the same time reduce cost of doing business.

2.17 Do you think there should be surveys to identify the sick enterprises and their problems at the end of each and every financial year? Please specify.

There were some surveys, but it did not prove worthy. There could be a Sick Industries rehabilitation Act which will clearly describe a Exit procedure.

2.18 What is your suggestion about the sick enterprises and to overcome their problems? Should they be rehabilitated, if yes how? Please specify.

The answer is already given. The reason behind the sick should be identified, there could be some sick industries which are wilfully sick, there should be measures taken on the other hand sick for other reasons should be addressed in different manner.

Theme 3: Financial Services to support MEs

3.1 Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

Some nationalized are doing good job like Krishi Bank of Bangladesh are providing easy loan to agricultural firms, Janata Bank had a good scheme but could not work for lack of good projects. Banks and FI should collaborate with Entrepreneurs to develop new and good projects.

3.2 Financing system of MEs by the banks and the NGOs is different in Bangladesh. In you opinion, which system is more effective? Give reasons for your answer.

If it is Micro mostly the NGOs are funding them. NGOs have some other priorities. There should be some national feeling be developed so that entrepreneurs can grow and graduate from ME to SE.

3.3 There are complaints that the micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.
It is true that they are charging very high rate. BRAC Bank is charging 18-22%.

3.4 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

A. Insufficient collateral, C. Project proposal not accepted, E. No personal contact in lending institutions F. Own contribution too small, G. High rate of interest H. Other (If any, please specify): Can not select most suitable project. Do not know about marketing management and do not have management efficiency.

3.5 In your opinion what measures should be taken to overcome those problems in financing MEs in Bangladesh?

A. Providing Collateral Free Loans to MEs, B. Providing Interest Free Loans, C. Reducing Interest Rates of ME Loans, D. Making the Banking System More Flexible, E. Private Banks Should Extend Branches in Rural Areas, F. Awareness Building Campaign on ME Rights and Facilities, G. Legal Status to NGOs for ME Financing, H. Easing the Procedural Formalities of any ME Loans, I. Strengthening ME Financing Windows of all the Banks, K. Other (If any, please specify: They should be provided with adequate information on market and competition and on how to improve their quality of products.

Theme 4: Networking

4.1 Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

To some extent I agree with this options. It is true that there are overlapping and duplication of activities for MEs.

4.2 Do you find any link among the MED activities of the various GOs and NGOs in Bangladesh? If yes, what is the nature of those links?

Yes it could work. Nature of GO work should be changed, process and bureaucracy pattern should be changed, it should be ME-friendly, there should be policy consistency and avoid contradiction.

4.3 Do you think those links are appropriate and effective for the development of MEs in Bangladesh? If no, what should be the nature of those links? Please specify.

This could help ME development in Bangladesh. Government should finalize its policy effectively and monitor its implementation.

4.4 Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes? Give reasons for your answer.

Usually they participate, they mention very important suggestions and workable formula but they do not do the exact thing, political risk always hampers decisions.

4.5 In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

A. Unstable legal environment, B. Uncompetitive products, E. Insufficient support from local authorities, G. Procedural difficulties in starting a company, H. Difficulty in accessing to credit, I. Low coordination between organizations supporting MEs, K. Lack of clear government ME program, L. Lack of market information, M. Lack of management skills, O. Lack of proper marketing skills, and P. Other (If any, please specify): All the above issues are true in developing ME in Bangladesh but the most important

thing is Skill development by quality education and use benefits of digitization of services. Besides these political instability and corruption also hampers MED in Bangladesh.

4.6 In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

A. Simplify the registration of new enterprises, B. Help to create the one-stop shop for MEs based on existing agencies for ME support, C. Facilitate access to financing (creation of ME funds, etc), F. Decrease taxes for Bangladeshi exporters, G. Give priority to women-entrepreneurs and create program for them, H. Determine laws more concretely and exactly, J. Publish more information for small business, K. Help to create business incubators or technology parks for new enterprises where they can be based for first 1-2 years, L. Create special funds for business-skilled staff, M. Support innovative technological enterprises, and N. Others (If any, please specify): Simplification of Tax policy, reducing corruption, political stability and commitment, transparency of implementation of policies and mind set for really contributing for ME development.

**COMPLETED INTERVIEW PROTOCOLS FOR PRIMARY DATA COLLECTION
SAMPLE GROUP 6: ENTREPRENEURS
PERSONAL PROFILE OF THE ENTREPRENEUR IS KEPT CONFIDENTIAL**

Theme 1: Existing Micro Enterprise (ME) Development Policy

1.1 Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

Yes, Employment generation, MEs are linked to industrialization ad a feeder canal, Income generation and Poverty reduction

1.2 What according you are the major Challenges and Issues (C&I) encountered in formulating and implementing policies and programmes of ME development in Bangladesh?

Policy makers SME view is not clear and Policy makers themselves are confused

1.3 What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

Communication gap between policy makers and entrepreneurs and Clear definition

1.4 In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

Entrepreneurs Participation in the policy making meetings and Collecting views of the entrepreneurs to consider in the government policies.

1.5 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh MEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of MEs in Bangladesh? Following the definition and categorization of MEs of WB and India should we re-categorise and redefine MEs in Bangladesh? Give reasons for your answer.

Yes, Specifically there should be three categories with clear definition and To ensure sustainability of the MEs.

1.6 In your opinion which sectors should be considered under MEs in Bangladesh?

Agro based sector, Mechanical, and Consumer goods production

1.7 In your opinion what should be the target markets for the ME sector in Bangladesh?

Domestic as well as foreign market

1.8 In Bangladesh a lot of NGOs are working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

Yes, They are providing facilitation service for marketing, distribution and production, and Business planning

1.9 Please list the name of ME policies in Bangladesh of which you are aware? Do you think that those are enough for the development of MEs in Bangladesh? Please specify.

I know about the IP 2005 but I find no interest for the development of MEs

1.10 What is your opinion about the guidelines for the development of MEs in the present Industrial Policy '05 and SME Policy Strategy '05? Give reasons for your answer. If you have any suggestion please specify.

No idea

1.11 Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

I am not sure, but they should be linked with national economic development.

Theme 2: ME Supports and Services

Sub-Theme: General

2.1 Many organisations provide Business Development Services (BDS) for the development of MEs in Bangladesh. How effective do you think these BDS are?

Yes there are a lot of BDS organizations but their BDS are not so effective I think. Their BDS should be more realistic, and practical.

2.2 In your opinion what type of help and guidance should be provided to the entrepreneurs by the BDS providing organizations? Please tick as appropriate.

A. Selecting the product, B. In obtaining information regarding financial, technical, production etc. C. Marketing

2.3 In your opinion what motivational efforts should be attempted to attract entrepreneurs for establishing MEs? Please tick as appropriate.

B. Announcement of incentives, D. Regular publication

2.4 Have you ever asked any type of support from any of those BDS providing organization?

If yes, what is the name of that organization, what type of support you have asked for and at what stage have you asked for that support? Please tick as appropriate and write the type of support.

Yes:√..... No:

Name of Organization

*E. Banks and financial institutions
F. Government SME Service Centres BSCIC*

Type of Support

*B. Search for Partner / Distributor, D. Information about ME Legislation, E. Training
G. Business Planning, and H. Information for Access to Financing*

Stage

B. During the Process of Enterprise set up

Sub-Theme: Training and Development

2.5 Have you ever got any type of training from any government or non government organization? If yes, what is the type, duration and objective of that training, please specify.

Yes, BSCIC - SME business
 MIDAS – Small business planning
 IFLDC – Small business financing

2.6 In your opinion what type of training and development programmes should be provided by the government for the entrepreneurs? Please specify.

Technical knowledge - sector wise

2.7 Do you think those training programmes should be intended to be income generating? Give reasons for your answer.

Yes of course

Sub-Theme: Technical and Infrastructural Facilities

2.8 In your opinion what type of technical and infrastructural facilities should be provided by the government for the development of MEs in Bangladesh?

Infrastructural facilities including Gas, electricity, water supply, Communication facilities and Telephone

2.9 Do you think there should be special types of technical and infrastructural facilities for the development of non-manufacturing enterprises? Give reasons for your answer.

Yes, For the real entrepreneurs like business planning, marketing, financing etc

Sub-Theme: External and Internal Services

2.10 Do you think the supports and services provided by the government and other organizations are appropriate and effective for the development of MEs in Bangladesh? Give reasons for your answer.

Less effective and not practical oriented

2.11 In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

Basic Information and Legal Services

A. Providing basic information on entrepreneurs for searching partners in Bangladesh (their addresses and their offers) , B. Information on Bangladeshi Business Law , C. Information about fiscal incentives and policies in Bangladesh , D. Information for start-up entrepreneurs and E. Providing package of information for company registration

Consulting Services

A. Business planning for MEs (Presenting to the bank or investors), B. Help with the presentation of business plan to the banks , C. Search for a potential investor using the business plan, D. Market Research , E. Banking and credit financing , F. Seminars & exhibitions for MEs on specific subjects (international services) , G. ME law (lawsuit, enterprise law), J. Employment (Recruitment)

Marketing

*A. Marketing plan , B. Marketing research , C. Product promotion
 D. Marketing strategy, and E. Advertising*

Accounting

A. Cash flow , B. Book keeping , C. Audit and financial reporting, D. Taxation, E. Business planning

Human Resources Management

A. Selection and Recruitment, B. Management skills, C. Motivation of staff, D. Performance appraisal , E. Training and Promotion

Production / Technology

A. Product design,

Promotional Activities

A. Seminars and exhibitions and B. Advertising

Sub-theme: Research and Development Activities

2.12 Do you think that R&D activities are required for the development of MEs in Bangladesh? Give reasons for your answer.

Yes, We need institutional research to find out the real problems of the sector

2.13 How frequent the R&D activities should be carried out for the benefit of micro and small enterprises in Bangladesh?

Half Yearly

2.14 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

We want implementation of the research results. Government should consider the research results in the policies

Sub-theme: Sustaining Activities

2.15 There is saying that “MEs are growing in bulk and dying also in bulk in the developing countries”. Do you agree with the statement? If yes, what is your suggestion to make the MEs more sustainable in Bangladesh?

Yes, I agree

To ensure sustainability of the MEs government should provide

Training on sector wise technical know how

Training on business management

Marketing

2.16 Do you think there should be surveys by the government to identify the sick enterprises and their problems at the end of each and every financial year? Please specify.

Yes, It is must

2.17 What is your suggestion about the sick enterprises and to overcome their problems? Should they be rehabilitated, if yes how? Please specify.

After proper survey government should take effective and proper rehabilitation programmes

Theme 3: Financial Services to Support MEs

3.1 Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

Yes, Should be more flexible and moderate

3.2 Financing system of MEs by the banks and the NGOs is different in Bangladesh. In you opinion, which system is more effective? Give reasons for your answer.

Both are affective I think. But NGOs should be closely monitored by the government.

Nationalized banks must be more flexible (ME financing system must be easier)

3.3 Have you ever raised finance form any Bank or any financial institution for your enterprise? If yes, what is the name of the Bank and how easy the process of getting loan from that Bank?

Yes, BASIC bank. It was easier than other nationalized and private banks, I tried several other nationalised banks, but failed due to strict rules and bureaucratic process.

3.4 There are complaints that the micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify your opinion on the issue.

Yes, Interest rate is very high. There are also hidden charges that must be excluded

3.5 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

A. Insufficient collateral , D. Previous credit record - CIB report, G. High rate of interest

3.6 In your opinion what measures should be taken by the government to overcome those problems in Bangladesh?

Proper ME friendly policy and its implementation

Theme 4: Networking

4.1 Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

Must be needed for betterment of the ME sector

4.2 Do you find any link among the MED activities of the various GOs and NGOs in Bangladesh? If yes, what is the nature of those links?

In practical there is no link I find, all are in paper and pages

4.3 Do you think those links are appropriate and effective for the development of MEs in Bangladesh? If no, what should be the nature of those links? Please specify.

No, It should be institutional and effective

4.4 Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes? Give reasons for your answer.

Yes, Those should be participatory so that the problems of the concerned sector can easily be traced

4.5 In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

E. Insufficient support from local authorities, F. Negative image of the entrepreneurs, H. Difficulty in accessing to credit , I. Low coordination between organizations supporting MEs, K. Lack of clear government ME programme, L. Lack of market information, O. Lack of proper marketing skills

4.6 In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

A. Simplify the registration of new enterprises, B. Help to create the one-stop shop for MEs based on existing agencies for ME support, G. Give priority to women-entrepreneurs and create program for them , J. Publish more information for small business , K. Help to create business incubators or technology parks for new enterprises where they can be based for first 1-2 years , M. Support innovative technological enterprises

APPENDIX B

EXAMPLE OF A CODED INTERVIEW PROTOCOLS

SAMPLE GROUP 2: FINANCIAL INSTITUTIONS

Special Note:

The key issues are highlighted which are extracted from the primary data. These were coded and finally analysed for the purpose of the study. Data from all the sample groups were coded and analysed in the same way.

Theme 1: Existing Micro Enterprise (ME) Development Policy

Q. 1.1. Do you think development of Micro Enterprises is important for the development of national economy of a country like Bangladesh? Give reasons for your answer.

BASIC

Yes, Of Course

*Because, It helps **creating employment** opportunities and also help reducing poverty*

BRAC

*Yes Micro enterprises development is important as it contributes to the development of a country's economy as in Bangladesh. Micro enterprises are major **contributor of the economy**. The development of micro entrepreneurship ensures **sustainable growth of the economy** and making the country self sufficient in different aspects.*

i. Number and presence of MEs in our economy is so obvious and massive that overall economic development is not possible without developing them

ii. Support to big/medium industries as these can work as backward n forward linkage

iii. Employment generation which will ultimately reduce pressure on government expenditure

iv. ME Development will obviously create a synergy with the effort to develop the SME sector

Key Points / issues Extracted from the data to be coded:

MEs Generate Employment, MEs Contributes to National Economy, MEs Support LEs, MEs Ensures Sustainable Growth

Q. 1.2. Outline the main MED policies of your organization? Who is responsible for formulating those policies in Bangladesh?

BASIC

We have different micro enterprise development activities. For policies See website and annual report.

BRAC

*We do not have any separate policy for MEs, as this segment is been served by NGOs, multi purpose co-operative societies and our parent organization **BRAC is also quiet active** in serving this sector. So far NGO Bureau, Polli Koromo Shohayok Foundation (PKSF), and Bangladesh Bank has direct/indirectly formulated policies for this sector so far.*

Key Points / issues Extracted from the data to be coded:

NGOs Support MEs,

Q. 1.3. What according you are the major Challenges and Issues (C&I) encountered in formulating and implementing policies and programmes of ME development in Bangladesh?

BASIC

*Lack of coordination among the organizations involved in this sector
Unable to define the different MEs: micro, small, medium and others*

BRAC

The major challenges encountered in formulating these policies are;
 - *Unable to define the range of micro, small and medium enterprises*
 - *Lack of coordination between private and public sector*
 - *Lack of appropriate concentration on the sector*

Key Points / issues Extracted from the data to be coded:

Lack of Coordination among stakeholders, Inappropriate Concentration on the Sector, Inappropriate Definitions of Different MEs,

Q. 1.4. What according to you are the main factors to be considered in formulating ME policies in Bangladesh?

BASIC

*Inaccessible financial services,
Improper environment and lack of Commitment to this sector*

BRAC

*Ensuring accessible financial services
Traditional documentation process and requirement
Ensuring creation of proper environment
Ensuring a sustainable growth and reaching higher levels like Small Business*

Key Points / issues Extracted from the data to be coded:

Inaccessible Financial Services, Improper Environment, Traditional Documentation

Q. 1.5. In your opinion, how are those factors incorporated in the programmes and functions of ME development in Bangladesh?

BASIC

*Government are incorporating those factors into her various MED policies, such as **Central bank is emphasizing on MED through commercial banks.***

BRAC

*Micro Finance is invented to ensure easy access for MEs to financing. New **non banking financial institutions should be promoted** to serve MEs. **Bangladesh Bank is concentrating on development of SME sector directly through commercial banks by imposing different guidelines, which is obviously helping the MEs to transit in SME sector and ensuring a sustainable growth***

Key Points / issues Extracted from the data to be coded:

Central bank Emphasise on MED,

Q. 1.6. Outline the major MED programmes of your organization. How are they implemented?

BASIC

We have different MED programmes. For details see website and annual report.

BRAC

As we mentioned earlier we do not focus that segment that much as we are mainly focused in SME sector. But we promote the transition of one ME to SME as our parent organization is directly working with ME.

Key Points / issues Extracted from the data to be coded:

Q. 1.7 According to SME Policy Strategy '05 and Industrial Policy 05' in Bangladesh SMEs are categorized into two: Small and Medium. But countries like India and also the World Bank (WB) categorize this sector into three: Micro, Small and Medium. What is your opinion about the categories of SMEs in Bangladesh? Following the definition and categorization of SMEs of WB and India should we re-categorise and redefine SME sector in Bangladesh? Give reasons for your answer.

BASIC

*About categorization of SME, actually when any policy like SME is formulated, then opinion from all concerns as they relate to it are sought and accordingly the policy is adapted taking into account the observation of all these entities. So in this context, we can say that existing categories are justified. And as regards re-categorisation, our comment is that categorisation of MEs in an economy covers the issues like, size of economy, rate of unemployment, opportunities and prospect for SMEs, rate of inflation, availability of resources, contribution of any economy to the global economy. So we suggest **re-categorisation of MEs** with time taking into consideration these issues.*

BRAC

*We should obviously **redefine these categories** as there is a group which is distinctly different from SMEs. Just to explain the difference between SMEs and MEs simple terms, let's compare the target market of Micro Finance Organizations and target market of SME focused banks (Like BRAC Bank). Mostly Micro financing programs are targeting micro enterprises, whose turnover is very low, like: small scale manufacturers (like: packet manufacturers, greeting cards, handy crafts, etc), Street shops, house wives preparing handicrafts, local small grocery stores, etc. And Banks are concentrating mostly a bit higher segment than these MEs. Though we have not defined MEs separately but we have initiatives to support and facilitate the sector (via NGOs and other co-operative societies). But **a clear definition and separation will ensure a focused and planned initiative** to develop MEs.*

Key Points / issues Extracted from the data to be coded:

Re-categorisation of MEs, Redefinition of MEs Ensure Focused Initiatives

Q. 1.8. In your opinion which sectors should be considered under MEs in Bangladesh?

BASIC

Textile, manufacturing of Jute related goods, tools and small parts for large industries, garments accessories, agro processing industries, i.e. processed foods, assembling of computers etc.

BRAC

Street shops (mostly cigarette, tea, sellers)

Hawkers (mobile vegetable, meat, toy, etc sellers)

Small family businesses (like house wife preparing handicrafts, family dairy/poultry business in small scale)

Local tailoring shops, and all other businesses with such low turnover

Q. 1.9 In your opinion what should be the target markets for the ME sector in Bangladesh?

BASIC

***Domestic** as well as foreign market.*

BRAC

***Domestic market should target first** as Bangladesh has a vast domestic market. But some products have strong prospect to be exported, such as handicrafts. We should search for the foreign market should ease the export policies.*

Key Points / issues Extracted from the data to be coded:

Domestic Market Should be Targeted, Foreign Market also be Targeted,

Q. 1.10. In Bangladesh many NGOs are also working for the development of MEs. Do you think that the NGO activities for the development of this sector in Bangladesh are important? Give reasons for your answer.

BASIC

Yes, NGO activities are important for the development of this sector in Bangladesh, because government can not perform the development activities alone. She needs partners like NGOs.

BRAC

Yes, activities of NGOs are very important for the development of this sector.

NGO activities help in proper public and private sector joint effort

Many NGOs has good network that reach to many micro enterprises

NGOs provide a comfort to foreign donors to donate funds for developing MEs

Key Points / issues Extracted from the data to be coded:

NGOs are Development Partner of Government, Strong NGO Network help MED

Q. 1.11. Do you think the guidelines for the development of ME sector in the present Industrial Policy '05 and SME Policy Strategy '05 in Bangladesh are appropriate and effective? Give reasons for your answer. If you have any suggestion please specify.

BASIC

Yes, so far appropriate but should be more specific and target oriented.

BRAC

Not specific.

Key Points / issues Extracted from the data to be coded:

Inappropriate ME policies,

Q. 1.12. Do you think those guidelines are linked with the national economic development policies of Bangladesh? Please specify.

BASIC

Yes, but again should be more specific.

BRAC

No Comment

Key Points / issues Extracted from the data to be coded:

Theme 2: ME Supports and Services

Sub-Theme: General

Q.2.1 Do you provide any Business Development Service (BDS) for the entrepreneurs? If yes, what is the nature of those?

BASIC

Financial services

BRAC

Financial service like loans under easy terms are provide, beside financial services we provide:

- Trainings and road shows to develop this sector

- Capacity Building

- Awareness creation

- Skill Development

- Other support services are also there,
- Fire Insurance
- Life Insurance

**Key Points / issues Extracted from the data to be coded:
FIs provide Financial Services as well as BDS to MEs**

Q.2.2. How do you attract the entrepreneurs onto your organizational MED programmes? Please tick as appropriate.

BASIC

- A. Arrange preliminary motivational training
- B. Announcement of incentives
- D. Regular publication
- E. Mass media by relaying success stories

BRAC

- B. Announcement of incentives
- D. Regular publication
- E. Mass media by relaying success stories

**Key Points / issues Extracted from the data to be coded:
A-1, B-2, D-2, E-2**

Q.2.3. What according to you the type of help and guidance should be provided to the entrepreneurs by the Financial Institutions? Please tick as appropriate.

BASIC

In obtaining information regarding financial assistance

BRAC

*In obtaining information regarding financial support
Others (If yes, please specify): entrepreneurs must get the access to the finance*

**Key Points / issues Extracted from the data to be coded:
Information of Finance**

Sub-Theme: Training and Development

Q.2.4. Do you provide any MED training programmes for the entrepreneurs? If yes, specify objectives, duration and frequency of those.

BASIC

No.

BRAC

Though we are not focusing in the named segment, as our training sessions are open for all, many MEs come and take lessons from there.

**Key Points / issues Extracted from the data to be coded:
FIs do not provide any MED training**

Sub-Theme: Technical and Infrastructural Facilities

Q. 2.5. Do you provide any technical and infrastructural facilities for the entrepreneurs?

BASIC

No.

BRAC

- Technical supports (ad-hoc basis)
- Training in Agricultural sector (Safety measures from Bird Flue in Poultry Sector)
- Training in Premises development and safety measures in manufacturing sector

**Key Points / issues Extracted from the data to be coded:
Technical support to agro-based MEs by BRAC Bank**

Q.2.6. Do you provide any special facility, technical or infrastructural for the non manufacturing enterprises? Please specify.

BASIC

No, we don't.

BRAC

- Training for Woman Entrepreneurs (i.e. Beauty Parlours)

**Key Points / issues Extracted from the data to be coded:
Training for Women Entrepreneurs by BRAC bank**

Sub-Theme: External and Internal Services

Q.2.7 Do you think the supports and services provided by your organization are appropriate and effective for the development of MEs in Bangladesh? Give reasons for your answer.

BASIC

Yes, it is, Because,

*No industry will come into being unless necessary money is arranged for that. It is proper financing and other services to any project that are key to success and our bank specially works at this end. We provide credit facilities at lower interest rate in comparison to other commercialized banks and provide other facilities for MED. Therefore, **we believe our supports and services are effective and appropriate.***

BRAC

No comments. See our reports.

**Key Points / issues Extracted from the data to be coded:
FIs provide supports and services with finances.**

Q.2.8. In your opinion what type of supports or services from the BDS providing organizations both government and non government does the ME sector require in Bangladesh? Please tick as appropriate from the following different category.

Basic Information and Legal Services

BASIC

- A. Providing basic information on entrepreneurs for searching partners in Bangladesh (their addresses and their offers)*
- B. Information on Bangladeshi Business Law*
- C. Information about fiscal incentives and policies in Bangladesh*
- D. Information for start-up entrepreneurs*

BRAC

- A. Providing basic information on entrepreneurs for searching partners in Bangladesh (their addresses and their offers)*
- B. Information on Bangladeshi Business Law*
- D. Information for start-up entrepreneurs*

Key Points / issues Extracted from the data to be coded:**A=2; B=2; C=1; D=2***Consulting Services*

BASIC

*B. Help with the presentation of business plan to the banks**E. Banking and credit financing**F. Seminars & exhibitions for MEs on specific subjects (international services)**I. Credit assessment (Loan application)*

BRAC

*A. Business planning for MEs (Presenting to the bank or investors)**B. Help with the presentation of business plan to the banks**E. Banking and credit financing**F. Seminars & exhibitions for MEs on specific subjects (international services)***Key Points / issues Extracted from the data to be coded:****A=1; B=2; E2=1; F=2; I=1***Marketing*

BASIC

A. Marketing plan , B. Marketing research , C. Product promotion , D. Marketing strategy and E. Advertising

BRAC

*C. Product promotion and D. Marketing strategy***Key Points / issues Extracted from the data to be coded:****A=1; B=1; C=2; D=2; E=1***Accounting*

BASIC

A. Cash flow , B. Book keeping , C. Audit and financial reporting and E. Business planning

BRAC

*A. Cash flow and B. Book keeping and D. Taxation***Key Points / issues Extracted from the data to be coded:****A=2; B=2; C=1; D=1; E=1***Human Resources Management*

BASIC

B. Management skills, C. Motivation of staff and E. Training and Promotion

BRAC

*B. Management skills***Key Points / issues Extracted from the data to be coded:****B=2; C=1; E=2***Production / Technology*

BASIC

A. Product design and B. Production management system

BRAC

A. Product design and C. Software development (IT)

Key Points / issues Extracted from the data to be coded:
A=2; B=1; C=1;

Promotional Activities

BASIC

A. Seminars and exhibitions and B. Advertising

BRAC

A. Seminars and exhibitions

Key Points / issues Extracted from the data to be coded:

A=2; B=1;

Sub-theme: Research and Development Activities

Q.2.9 Do you think that R&D activities are required for the development of MEs in Bangladesh? Do you have any R&D activities in your organization? Please specify.

BASIC

Yes, these are as follows:

Formulation of SME policy, guidelines for financing SMEs

Development of different products, like BASIC Kalyani for women entrepreneurs

BRAC

Yes it is extremely important to have R&D activities for the development of MEs.

We do

- *Customer Satisfaction survey*
- *FGDs to initiate product ideas*
- *FGDs to test a product's compatibility before launching and regularly for product reviewing*

Key Points / issues Extracted from the data to be coded:

R&D Activities are extremely important

Inputs for Government policies

Inputs for Customers Satisfaction

Q.2.10 What is your opinion about the research results? Do you think the results of those researches should be adopted in the government policies?

BASIC

Yes, of course.

BRAC

Yes, of course research results should be incorporated in the government policies.

Key Points / issues Extracted from the data to be coded:

Incorporation of Research Results in the government policies.

Sub-theme: Sustaining Activities

Q.2.11. There is saying that "MEs are growing in bulk and dying also in bulk in the developing countries". Do you agree with the statement and what sort of action are you taking to make the MEs more sustainable?

BASIC

Yes, I do agree.

For sustainability of MEs we provide:

Advice in decision making;*BMRE of the project;**Supervision and monitoring of business activities of the project;*

BRAC

*To some extent it is very true. We need to ensure other Business Development Supports instead of only financing.***Key Points / issues Extracted from the data to be coded:***MEs are not sustainable**Need Strong Supervision and monitoring**Advice in decision Making**Need Specific BDS*

Q.2.12. Do you think there should be special surveys to identify the sick enterprises and their problems at the end of each and every fiscal year? Please specify.

BASIC

*Yes, we think so.**By exhaustive survey we can find the difficulties and bottlenecks of this sector which can be placed before the government bodies for remedial actions.*

BRAC

*Yes it is required to execute special surveys to identify the sick enterprises and provide them with financial and non financial supports. Also it helps the organization to identify the industries those are facing problems.***Key Points / issues Extracted from the data to be coded:***Exhaustive survey to identify sick MEs*

Q.2.13. What is your suggestion about the sick enterprises to overcome their problems?

BASIC

*BMRE;**Strengthen the marketing channels;**Loan rescheduling**Impose barriers on imported goods;**Arrange training;**Opening counselling centre;*

BRAC

*Sick enterprises need adequate financial support and other BDS, so that they can overcome the problems and manage their businesses in a better way.***Key Points / issues Extracted from the data to be coded:***Loan rescheduling;**Sustainable training;**Appropriate counselling*

Q.2.15 Do you think that the sick enterprises should be rehabilitated, if yes how? Please specify do you have any rehabilitation programmes for the sick enterprises provided by your organization?

BASIC

*Yes, of course, sick enterprises should be rehabilitated.**Rescheduling; Restructuring; Charging lower interest; and Waiver of interest*

BRAC

Yes, sick enterprises should be rehabilitated in a sustainable way.

Rescheduling; Charging lower interest; and Waiver of interest

Government can formulate Sick Enterprise rehabilitation act.

Key Points / issues Extracted from the data to be coded:

Sick enterprises should be rehabilitated

ME Rehabilitation Act

Theme 3: Financial Services to support MEs

Q.3.1 Outline the nature of financial services that your institution provides for the development of MEs in Bangladesh.

BASIC

See annual reports and website;

BRAC

See our annual reports and website

Key Points / issues Extracted from the data to be coded:

Q.3.2. What are the terms and conditions of the financial assistance, i.e., loan amount, rate of interest, collateral, repayment method etc.?

BASIC

See report and website

BRAC

See website

Key Points / issues Extracted from the data to be coded:

Q.3.3 Are you satisfied with the repayment rate of loan instalments of your organization's stakeholders? If no, why, please specify.

BASIC

Yes.

BRAC

Yes

Key Points / issues Extracted from the data to be coded:

Loan Recovery is satisfactory

Q.3.4. Nationalized Banks have a wide network in Bangladesh. But there are complaints that the way they are financing the MEs is not so flexible like the private banks. Do you think nationalized banks should change their policy or be more flexible to finance the MEs? Give reasons for your answer.

BASIC

Yes, we believe so.

*Nationalized banks have more branches than private banks. So they can play greater role in developing MEs. The **bureaucratic nature of the nationalized banks** is one of the main constraints in this respect. They **should adopt more relaxed policy and guidelines** which can resolve the problems. Change of mindset as well as proper expertise and **link and network are also essential**.*

BRAC

National Banks must provide loans in flexible and at a better interest rate so that the wide area coverage and facilities can be obtained by larger number of entrepreneurs.

Key Points / issues Extracted from the data to be coded:

*NBs are very **Bureaucratic***

*Need **Strong Network***

*Policies must be **Flexible***

Q.3.5. Financing system of MEs by the banks and the NGOs is different in Bangladesh. In your opinion, which system is more effective? Give reasons for your answer.

BASIC

***Bank system is more effective than the NGOs.** Because banking system is **more structured** and works systematically. From sanctioning to recovery banks follow and **abide by rules and regulations** formulated by the central banks and other regulatory bodies and as well by their own.*

BRAC

Different customer segments should be served by NGOs and Banks so that maximum benefit can be obtained. Different financing system is effective for different size of enterprises.

Key Points / issues Extracted from the data to be coded:

Bank system is more effective than NGOs

Bank system is more structured

Q.3.6 There are complaints that the banks as well as other micro finance institutions in Bangladesh have been charging an exorbitant rate of interest on their loans to MEs. Do you agree with statement? Please specify.

BASIC

No, I am not agreed with this.

If we think of the rate of inflation prevailing over the couple of years it is seen that the rate of interest remains static against the increase in the inflation. In the least developed countries like Bangladesh faces shortage of capital for required investment. So to encourage people for savings banks are to set attractive rate of interest for depositors. So to harmonize deposit rate with lending rate bank is to fix a rate which satisfy both the groups.

BRAC

*No as the **rate of interest charged by financial institutions is relatively high** as it covers **higher risks**.*

Key Points / issues Extracted from the data to be coded:

Rate of interest is relatively high

But MFIs cover higher Risks

Need encouraging peoples savings

Q.3.6 In your opinion what are the problems the MEs are facing to get finance from the banks and other financial institutions in Bangladesh? Please tick as appropriate.

BASIC

*A. **Insufficient collateral***

*B. **Poor documentation***

C. Project proposal not accepted

BRAC

*A. Insufficient collateral**B. Poor documentation**C. Project proposal not accepted**G. High rate of interest***Key Points / issues Extracted from the data to be coded:****A=2; B=2; G=1**

Q.3.7. In your opinion what measures should be taken to overcome those problems in financing MEs in Bangladesh?

BASIC

*C. Reducing Interest Rates of ME Loans**D. Making the Banking System More Flexible**F. Awareness Building Campaign on ME Rights and Facilities**H. Easing the Procedural Formalities of any ME Loans**I. Strengthening ME Financing Windows of all the Banks**J. Training on loan processing*

BRAC

*B. Ensure Collateral Free Loan**C. Reducing Interest Rates of ME Loans**D. Making the Banking System More Flexible**E. Private Banks Should Extend Branches in Rural Areas**F. Awareness Building Campaign on ME Rights and Facilities**H. Easing the Procedural Formalities of any ME Loans**I. Strengthening ME Financing Windows of all the Banks**J. Training on loan processing***Key Points / issues Extracted from the data to be coded:****B=1; C=2; D=2; E=1; F=2; H=2; I=2; J=2****Theme 4: Networking**

Q.4.1. Do you think inter-organizational relations (IOR) and interactions among the organizations that are working for the promotion and development of MEs in Bangladesh are important? Give reasons for your answer.

BASIC

*Yes, IOR is very important for MEDOs.**Entrepreneurs might receive all information from investment to business development through coordination among the organizations. It can uphold their voices to the government.*

BRAC

*Yes inter organizational relations is must. Because it will effect in making the initiatives more aligned.***Key Points / issues Extracted from the data to be coded:**

Q.4.2. Do you find any link among the MED activities of your organization and other GOs and NGOs in Bangladesh, if yes, what is the nature of those links?

BASIC

Yes,

Government, Bangladesh Bank and other donor agencies like ADB provide financial assistance and loan to different NGOs through our Bank at cheap interest rate like ADB assistance to Second Crop Diversification Project at the northern and south western region of Bangladesh.

BRAC

Yes, but not formal.

Key Points / issues Extracted from the data to be coded:

Q.4.3. Do you think those links are appropriate and effective for the development of MEs in Bangladesh, if no, what should be the nature of those links? Please specify.

BASIC

Yes,

Channelize smooth flow of financial assistance to these farms.

BRAC

No Comment

Key Points / issues Extracted from the data to be coded:

Q.4.4. Do you think all the respective organizations involved in this sector should participate the planning meeting of the MED programmes by the government? Give reasons for your answer.

BASIC

Yes,

For steady growth of MEs.

BRAC

Yes. It will provide the organizations a platform to uplift their concern and both ways communication will result in competent policy development.

Key Points / issues Extracted from the data to be coded:

Q.4.5. Do you think that your organization needs cooperation from other organizations for the development of MEs? If yes, what is the nature of that cooperation?

BASIC

Yes, The nature should be on how financial institutions can easily give support to MEs and Sourcing of fund at lower interest rate towards more investment in MEs.

BRAC

Yes, the cooperation must be relating to the ME sector development.

Key Points / issues Extracted from the data to be coded:

Q.4.7. Do you find any overlapping of the Micro Enterprise Development functions with other organizations? If yes, in what areas and how does the overlapping affect the responding organizations? Please specify.

BASIC

No.

BRAC

No

Key Points / issues Extracted from the data to be coded:

Q.4.8. In your opinion what are the main barriers of ME development in Bangladesh? Please tick as appropriate.

BASIC

- E. Insufficient support from local authorities*
- G. Procedural difficulties in starting a company*
- H. Difficulty in accessing to credit*
- I. Low coordination between organizations supporting MEs*
- K. Lack of clear government ME program*
- L. Lack of market information*
- O. Lack of proper marketing skills*

BRAC

- A. Unstable legal environment*
- E. Insufficient support from local authorities*
- H. Difficulty in accessing to credit*
- I. Low coordination between organizations supporting MEs*
- K. Lack of clear government ME program*
- P. Other (If any, please specify) Financers (NGOs and micro financing institutions) are only providing funds, beside this they should provide some technical and other supports*

Key Points / issues Extracted from the data to be coded:

A=1; E=2; G=1; H=2; I=2; K=2; L=1; O=1; P=1

Q.4.9. In your opinion what should be the measures to be taken by the government to overcome those barriers for the development of ME sector in Bangladesh? Please tick as appropriate:

BASIC

- A. Simplify the registration of new enterprises*
- B. Help to create the one-stop shop for MEs based on existing agencies for ME support Facilitate access to financing (creation of ME funds, etc)*
- C. Facilitate access to financing (creation of ME funds, etc)*
- E. Simplify the tax system*
- H. Determine laws more concretely and exactly*
- J. Publish more information for small business*
- M. Support innovative technological enterprises*

BRAC

- C. Facilitate access to financing (creation of ME funds, etc)*
- H. Determine laws more concretely and exactly*
- J. Publish more information for small business*
- M. Support innovative technological enterprises*

Key Points / issues Extracted from the data to be coded:

A=1; B=1; C=2; E=1; H=2; J=2; M=2