

Policies for SME Development: A Comparative Analysis of Bangladesh, India and Pakistan

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Abstract

Small and Medium Enterprises (SMEs) play a vital role in the economies of India, Pakistan and Bangladesh. However, each of the countries have their own approaches towards providing policy support to the sector. Some of them are similar, while others are different across countries. This paper is an attempt to find out the similarities among the policies for SME development in India, Pakistan and Bangladesh, as well as the differences, through methods used by OECD and ASEAN to construct SME Policy Indices. Another goal of this paper is to identify the best practices in the three countries, while pinpointing which country has performed better in terms of providing policy support to the SME sector. The major findings of the paper indicate that while India has a separate ministry for supporting their SME sector, Pakistan has an autonomous body for the same purpose while Bangladesh has the SME Foundation, which is a non-profit organization running under the Ministry of Industries. The policy support in Bangladesh isn't that much detailed as India or even Pakistan. Other findings also indicate that Bangladesh still has a long way to go in designing policies for SME development, while India has the most comprehensive framework for policy support to this sector among the three countries under study.

Key Words: SME Policy, South Asia, Bangladesh, India, Pakistan, SME Development.

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1.0 Introduction

SMEs have always played a vital role in rural development and employment generation, while contributing to the GDP of India, Pakistan and Bangladesh. The three countries have a shared history, as well as some similarities among them with regards to the socio-economic framework, but the overall structure and framework of the strategies, policies and initiatives for SME development differ, both in terms of approach and implementation. While the small-scale industries contribute to around 3.64 percent of GDP in Bangladesh (Bangladesh Economic Review, 2016), SMEs account for around 2 percent of GDP in Pakistan (SMEDA, 2016) but around 37 percent in India (MSME Annual Report, 2015-16)¹.

If economic theory is considered, then strong opinions generally exist in favor and against any public policy, and it also exists for SME support programs. It is often argued that since SMEs employ a large portion of the population, providing extra incentives towards this sector in the form of credit facilities, subsidies, tax incentives, etc would generate more employment. This would reduce poverty and generate growth. Moreover, as Ibararan, Maffoli and Stucchi (2009) point out, many argue that SMEs are more dynamic, flexible and productive than large firms, but they are usually constrained by specific market failures, such as lack of access to finance, uneven competition, etc, and hence they require specific policies. On the other hand, those arguing against such policies have the argument of market distortion, claiming that these policies distort the allocation of resources, which is harmful for the overall productivity of the industry sector of the country. Others, as Ibararan et al (2009) points out, argue that there are not enough documented results which show that such policies are actually effective.

This paper is an attempt at a comprehensive and a comparative analysis of the whole policy framework of India, Pakistan and Bangladesh for SME development. The study aims at providing an overview of the policy framework regarding the initiatives of the governments and its agencies in different areas of SME development, while developing comparable data for an objective view of where each country stands in terms of advances in SME development policies.

1. The relatively smaller contribution of small scale industries in Bangladesh and Pakistan is partly due to the fact that data is only separately available for small scale industries, and so the combined contribution of small and medium enterprises could not be accounted for.

2.0 Literature Review

Although there are arguments against policy interventions, there is no doubt that SMEs generally do not enjoy all the benefits the large enterprises enjoy; hence, it is imperative that some sort of policy support at the national level is given to this sector, as it generally plays a big role in the development of the country. A strand of literature views SMEs as ‘development agents’, as shown in Caloghirou et al (2004), Audretsch (2000), etc. For example, Audretsch (2000) suggested that SMEs do not always have a representative share of economic activity, and this can be theoretically explained by the static and dynamic role of SMEs. Helmsing (2003) suggested that SMEs play a role in community economic development, enterprises development and locality development.

There is another strand of literature that tries to identify the areas that should be center of focus of policies for SME development. From the work of Caloghirou et al (2004) and the conclusions of Visser (1999), it is clear that policy measures generally focus too much on cluster development, hence measures taken by the policy makers effect groups instead of firms, which is problematic if firms that cannot be identified as belonging to a cluster, but which has vast potential. Also, Eriksen and Knudsen (2003) conclude that although both firm and industry effects exist, effects of firm specific characteristics tend to be more than the effect of industry structure, which further emphasizes the importance of focusing more on firm specific characteristics. Visser (1999) studied small-sized firms in the clothing industry of Lima and concluded that clustered firms showed better performance, but still interactions among clustered producers were notably absent. Cheshire and Malecki (2004), however, suggested that the attention has been changing from the region to the economic actors within regions and also the determinants of their behavior in a spatial context.

There have been some studies in Pakistan as well which highlight the constraints for development of SMEs. World Bank (2001) argues that procedures for getting credit for SMEs in Pakistan is too difficult, and the collateral requirement is very high, because banks in Pakistan are risk averse. The process of getting credit is also plagued by delays, which arise due to policies of the State Bank of Pakistan (Khan, 1997), which restricts the ability of banks to lend credit for SMEs on an unsecured basis. There is also the fact that there is low demand for SME credit from formal sectors, as SME businesses prefer to substitute loans with their own savings, since the opportunity cost of equity financing from their savings, friends and family is very low compared to borrowing from banks. With respect to growth of SMEs, MacRae (1991) found that the education, training and experience of senior managers are major differences between high growth and

low growth SME firms. In fact, Nager and Merwe (1999), Jennings and Beaver (1995) etc. have argued that small business failure is generally a result of poor managerial competency. There are also training related issues in this sector, the biggest problem being formal training, as smaller firms are less likely to provide training to all grades of workers than larger firms (Jones and Pettigrew, 1991; Johnson, 1999). There have been many studies in India as well regarding this sector. Singh et al (2010) analyzed the performance of the small scale industry of India and concluded that this sector has made good progress in terms of production and employment. The study recommended technology development and strengthening of financial infrastructure to boost the development of this sector.

There have been many studies on the constraints and challenges of SME development in Bangladesh, India and Pakistan. Among them, Bhattacharya and Hossain (2006) and Ahmed (2002) indicated complex documentation processes, lengthy releasing and clearing goods from ports, corruption in the customs department, lack of automated customs procedures etc. as major problems obstructing the growth of any business in Bangladesh, let alone SMEs. Ahmed, Rahman & Haque (2011) attempted to identify the constraints of development of manufacture based SMEs in Bangladesh. According to their study, lack of infrastructural support, political unrest, shortage as well as price hike of raw materials, high financing cost and inadequate utility facility are some of the key factors for the slow development of manufacture based SMEs. Nagaraju and Vani (2013) in their study on India showed that commercial banks being the largest source of financing for SMEs, more participation in lending can result in excellent opportunities by proving a wide market to serve and make SME lending a profitable banking operation. Chowdhury et al. (2013) attempted to identify problems of SMEs in Bangladesh and potential solutions to that. The study surveyed 100 SME consumers and the problems identified by them were long waiting period for getting initial finance from banks because of tedious paper works, inability to provide collateral to get loans, inexperience in preparing sound financial systems for getting loans. As remedies the respondents advised financial incentives for sound business plan and public-private partnership in providing effective training.

However, the studies do not focus on the measurement or comparison of SME policies and a critical analysis of the policy frameworks of India, Pakistan and Bangladesh. This is important because policy making in this sector has to be analyzed from a regional point of view, as the countries share some common socio-economic characteristics, which would allow replication of better practices. This study aims to fill in this gap in the existing literature.

3.0 Overview of SME Sector

The SME sector of all the three countries, namely, India, Pakistan and Bangladesh, is vibrant and continuously contributing to the GDPs of the respective countries. In India, the share of micro, small and medium enterprises was 37.33 percent of total manufacturing output in 2012-13. It is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. Despite the significant contributions of the MSME sector, the sector continues to face certain constraints like, as pointed out in PM's Task Force Report, 2010, availability of adequate and timely credit, high cost of credit, collateral requirements, access to equity capital and rehabilitation of sick enterprises, etc. It thus emerges that adequate, timely and affordable credit is one of the bigger issues for the MSME sector.

The Small and Medium Enterprise (SME) sector of Pakistan is also one of the pillars of Pakistan's manufacturing sector. The Economic Census of Pakistan-2005 lists 3.2 million business enterprises nation-wide and SMEs constitute over 99 percent of all. Their share in industrial employment according to an estimate is 78 percent and in value addition approximately 35 percent. Nearly 53 percent of all SME activity is in retail trade, wholesale, restaurants and the hotel business whereas the contribution of industrial establishments and those involved in service provision is 20 percent and 22 percent respectively. The sector also has an important role in Bangladesh as well. According to the latest available Survey of Manufacturing Industry (SMI) carried out by the BBS (BBS 2013b), there were about 43 thousand manufacturing enterprises in the country with 10 or more workers, employing a total of nearly 5 million workers. Of these about 41% belonged to micro enterprise category while the shares of small and medium enterprises in the total number of enterprises were 36.6% and 14.3% respectively. In contrast, the shares of these three size groups micro, small and medium enterprises in manufacturing employment with 10 or more workers were 5.4%, 14.7% and 20.8% respectively, and the share in gross value added were 5.9%, 23.7% and 23.3% respectively. Thus, SME comes out as a significant component of the manufacturing sector (with 10 or more worker) in Bangladesh accounting for 50.9% of the establishments, 35.5% of employment and 47% of gross value added.

Therefore, the analysis of SME production and proliferation enabling policies in the countries become important. The following sections outline the whole process and the findings.

4.0 Methodology

The general method of reviewing policies would encompass providing a general view of the policy tools for SME development in India, Pakistan and Bangladesh. However, that would not provide a categorical view, which would clearly reveal the main characteristics of those policies. In other words, generic overviews do not provide a solid benchmarking tool that is comparable. One such tool that is both converted to quantitative data and is comparable is the SME Policy Index. The index was developed in 2006 by OECD, in partnership with the European Commission, The European Bank for Reconstruction and Development (EBRD), and the European Training Foundation (ETF). OECD publishes the SME Policy Index each year, and they have a five-point scale of categorizing each element of the total SME Policy framework of a country. Another such index is the ASEAN SME Policy Index. However, the index is not constructed for South Asian countries.

In this paper, not only would an overview be presented of the policy frameworks of the countries under study, but also the policy initiatives would be scored, such that the data can be compared. This paper would use a methodology of scoring similar to the process followed by OECD, with elements from the methodology of the ASEAN SME Policy Index. Due to data limitations, the full methodology of OECD and ASEAN SME Policy Indices could not be adopted in the present analysis. However, following the OECD SME Policy Index and the ASEAN SME Policy Index (with a few modifications), the detailed method of scoring for each subsection is given in table 4.1.

Table 4.1: Scoring Methodology

	Level 1	Level 2	Level 3	Level 4	Level 5
	Definition and Implementation Agency				
Definition of SMEs and Related Concepts	No SME Definition	There are different definitions, but no unique definition	There is a uniform definition, but there is no legislation	There is a uniform definition established through legislation	There is a uniform definition established through legislation detailing every aspect (such as pricing)
SME Policy Implementation Agency or	No SME Policy Implementation Agency	Several institutions act as policy	There is an active agency with basically	There is an active agency with strong	There is a ministerial level policy

	Level 1	Level 2	Level 3	Level 4	Level 5
Equivalent		implementation agencies	policy advisory functions	legislative basis	implementation agency established through separate legislation and rules
Intergovernmental Coordination	No coordination	Too many agencies are involved with low coordination	The coordination levels are outlined in the SME policy, not detailed	The coordination levels are only outlined in legislation, not detailed	The coordination levels are established through legislation and are detailed
SME Development Strategy					
Basic Strategic Initiatives	No SME Development Strategy	A Strategy for SME development is under preparation	Basic Strategic Initiatives outlined in government approved policy	Basic Initiatives outlined in quantifiable terms backed by legislation	Basic Initiatives outlined through strong legislation and detailed like SME acts of the developed nations
Legislative and/or Policy Support	No legislation or policy for this sector	A policy is under formulation	There is an established SME development policy	There is an established SME Policy with quantifiable outcomes	There is an established SME Development Act, and other supporting rules
Defined Outcomes	No defined outcomes for SME strategy	A policy is under formulation	There is an established SME development policy with vague outcomes	There is an established SME development act with defined outcomes	There is an established SME Development Act, and other supporting rules with defined outcomes and details
Access to Finance					
Institutional Framework	No institutions for SME loans	There are plans to initiate schemes for providing SME loans	The SME policy implementation agency only provides different SME loan schemes	The SME policy implementation agency, government organizations and other banks provide SME loans	There is a unique and established agency which deals solely with SME loans
Types of Funding	No specific credit schemes exist	Formulation of SME credit schemes underway	Existence of different SME credit schemes not backed by unique organizational framework	Existence of different SME credit schemes backed by unique SME financing institution	Existence of Credit subsidies, collateral free credit, requirements for commercial banks to increase SME loans by specific percentages along with other loan schemes backed by

	Level 1	Level 2	Level 3	Level 4	Level 5
					legislation and unique SME financing institution
Rehabilitation of SMEs	No specific schemes for rehabilitation of SMEs	Schemes for rehabilitation of SMEs is under formulation	Different refinancing schemes available, not backed by SME financing agency	Different refinancing schemes available, backed by SME financing agency	Comprehensive rehabilitation and revival framework backed by legislation and ministerial level supervision
Operational Environment					
Procurement	No procurement scheme	Formulation of procurement schemes underway	Presence of public procurement schemes backed by legislation	Presence of public procurement schemes backed by legislation and SME policy implementation agency	Presence of public procurement schemes backed by legislation, SME policy implementation agency and ministerial level oversight
Registration	No support services for SME registration	Support services for registration of SMEs in formulation stage	Some advisory services by agencies for SME registration	Easy SME registration services backed by government and legislation	Easy SME registration services with full online support backed by government and legislation
Marketing	No support for marketing products of SMEs	Support services are in formulation stage	Schemes have been formulated and are to be implemented	Advisory services provided by SME Policy implementation agency	High profile marketing assistance schemes backed by legislation, different government agencies and ministerial oversight
Entrepreneurial Education and Training					
Institutional Framework	No formal training provided by agencies	Weak infrastructure with lack of focused training institutes	Strong institutional framework backed by a network of agencies	Strong institutional framework backed by a designated ministry	Strong institutional framework backed by a designated ministry with ease of access everywhere in the country
Types of Training	No training institute exists	Training institutes are being developed	Limited types and levels of training programs with no specialized training for all sub-sectors	High profile schemes backed by legislation, training institutes and ministerial	High profile schemes backed by legislation, training institutes and ministerial level supervision with international level

	Level 1	Level 2	Level 3	Level 4	Level 5
				level supervision	training.
Incentives	No incentives for SME development	Incentive schemes are being designed	SME policy implementation agency informally encourages SME development	Existence of business plan competitions	National level awards for SME entrepreneurs, awards in other categories, and business plan competitions
Support Services					
Technological Support	No technological support	Schemes are in formulation stage	Weak institutional framework, SME policy implementation agency carrying out some schemes	Strong institutional framework, established technology centers and government initiated schemes	Strong institutional framework, established technology centers and government initiated schemes with international standard services
Infrastructure Related Support	No infrastructure related support	Schemes are in formulation stage	Lack of government initiated schemes; existence of some support from SME policy implementation agency focused on cluster development	Government initiated schemes and programs, testing centers, cluster development focus, programs for employment generation	Government initiated schemes and programs, testing centers, cluster development focus, programs for employment generation with internationally standard services
Support for Sub-Sectors	No support for sub-sectors within the SME sector	Schemes are in formulation stage	Some support for sub-sectors, but not specific and lacks proper institutional framework	Institutions are being established for supporting sub-sectors, existence of specific policy	Tailored services for different sub-sectors within the SME sector, existence of separate legislation and government bodies

The method outlined is just for analyzing the level of SME policy development of the country, so that comparisons could be made on the same grounds. The list is not exhaustive, and does not consider the impact of these policies, as it is outside the scope of this paper.

The scores of each subcomponent would be averaged to get raw scores of each policy area. Each subcomponent would be scored on a scale of 1 to 5 using the scale outlined in table 3.1. The scores of these subcomponents would be averaged in order to obtain the score of that particular policy area. For example, let us

suppose that a country gets a score of 5 in the case of ‘technological support’, a score of 4 for ‘infrastructure related support’ and 3 for the ‘support for sub-sectors’ subcomponent. Adding the scores gives a total of 12 (5+4+3), and dividing it by 3, the score of that country in providing policy support for ‘support services’ would be 4. The scores for each policy area would then be averaged to get the total score. For example, if the scores of the country in all the six criteria (namely, definition and implementation, SME development strategy, access to finance, operational environment, entrepreneurial education and training, support services) are 5,4,5,4,3,4,4 respectively, then the total score would be 4.83 for that country.

The present study is only concerned with the initiatives and activities of governments and government agencies for SME development of the countries under study. The study does not analyze the private initiatives for the development of the SME sector, nor the impact of the specific policies, as the main objective of this paper is to identify the policy frameworks of the countries, not their impacts.

5.0 Findings

5.1 Definition and Implementation Agency

Definition of SMEs and Related Concepts: There are clear definitions of SMEs in all the countries under study. The definition of SMEs and other related concepts in Bangladesh has been detailed in the *National Industrial Policy, 2016*, where industries are divided into three categories: micro, small and medium enterprises. Similarly, in Pakistan, the *SME Policy, 2007* details the definitions of SMEs and other related issues. In India, however, the *Micro, Small and Medium Enterprise Development (MSMED) Act, 2006* outlines the definition of SMEs, and different other related concepts, and like Bangladesh, the act defines three types of enterprises: micro enterprises, small enterprises and medium enterprises.

Among the three countries, India only has a solid legal framework regarding the definition of micro, small and medium enterprises, as these definitions are established by law, while Pakistan and Bangladesh have no established laws as of yet which encompass these issues. All the policy frameworks of the countries under study have defined criteria, which are measurable.

However, other details specified in the SME policies of developed countries, such as the specific data to be used for size determination, variations according to industry, exceptions, etc are not included in any of the policy frameworks of India, Pakistan and Bangladesh. So, according to the scoring method described in

section 3, due to solid legal foundation, which, however, is not close to the best practices in the world, India's policy framework regarding definition of SMEs is at level 4, while Pakistan and Bangladesh both have reached level 3.

Table 1: Definition and Implementation Agency

Issue	India	Pakistan	Bangladesh
Definition of SMEs	<ul style="list-style-type: none"> - Strong legal basis due to Micro Small and Medium Enterprises Development Act, 2006 (MSMED Act, 2006) - Measurable Criteria - Not Detailed (as compared to the developed nations) - Score: Level 4 	<ul style="list-style-type: none"> - Weak legal basis, due to absence of specific act; backed by SME Policy of 2007 only - Measurable Criteria - Not Detailed (as compared to the developed nations) - Score: Level 3 	<ul style="list-style-type: none"> - Weak legal basis due to absence of specific act; backed by Industrial Policy, 2016 and SME Policy only - Measurable Criteria - Not Detailed (as compared to the developed nations) - Score: Level 3
SME Policy Implementation Agency or Equivalent	<ul style="list-style-type: none"> - Name: Ministry of Micro, Small and Medium Enterprises (MSME) and other agencies under the ministry - Formulates policy and takes steps for implementation - Strong legal basis due to amendment of the Government of India (Allocation of Business) Rules, 1961 - Resembles the best practices of the world - Score: Level 5 	<ul style="list-style-type: none"> - Name: Small and Medium Enterprises Development Authority (SMEDA) - Serves basically policy advisory functions, helps policy implementation indirectly - Weak legal basis, due to absence of specific act; runs by the guidelines of SMEDA Ordinance, 2002 - Score: Level 3 	<ul style="list-style-type: none"> - Name: Small and Medium Enterprises Foundation (SME Foundation) - Serves basically policy advisory functions, helps policy implementation indirectly - Weak legal basis due to absence of specific act, registered through the Companies Act, 1994. - Score: Level 3
Intergovernmental Coordination	<ul style="list-style-type: none"> - Details of coordination among ministries included in MSMED Act, 2006 - Strong legal basis due to the act - Resembles best practices in the world - Score: Level 5 	<ul style="list-style-type: none"> - Details of coordination among ministries included in SME Policy, 2007 - Weak legal basis due to absence of specific acts - Score: Level 3 	<ul style="list-style-type: none"> - Coordination issues among ministries not detailed in SME Policy - Weak legal basis due to absence of specific acts - Score: Level 3
Average Score	Total Score: 4.67	Total Score: 3	Total Score: 3

Source: Different policy documents, acts and author's calculations.

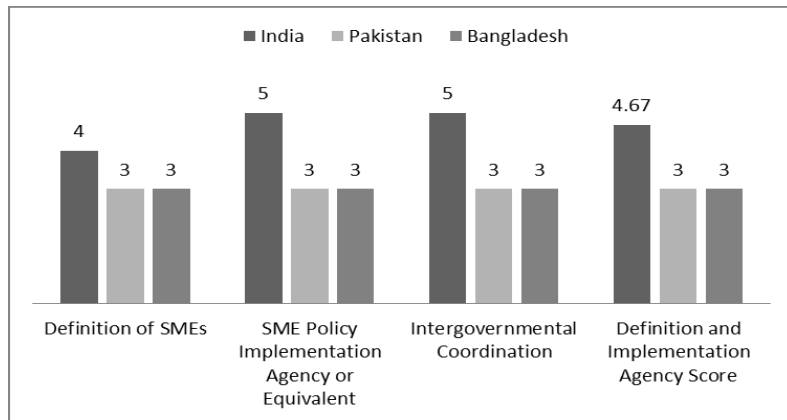
SME Policy Implementation Agency or Equivalent: All three countries have an SME policy implementation agency or an equivalent foundation; however, the level of authority and legal basis differs.

India has a full-fledged ministry dedicated for this sector, named *Ministry of Micro, Small and Medium Enterprises (MSME)*, established in 2007 through an amendment of the Government of India (Allocation of Business) Rules, 1961. There are also other autonomous and public enterprises who work closely with the ministry, like the *National Small Industries Corporation (NSIC)*. The ministry is responsible for policy implementation in India. The apex institution of the Government of Pakistan for developing the SME sector is called *The Small and Medium Enterprises Authority (SMEDA)*, which was established under the Ministry of Industries and Production, and which runs its activities under the guidelines of the *SMEDA Ordinance, 2002*. In Bangladesh, the *Small and Medium Enterprise Foundation (SME Foundation)*, a limited company licensed by the Ministry of Commerce as a not for profit organization, registered under the Companies Act (Act XXVIII) of 1994 and running under the Ministry of Industries, is the premier institution for SME development in the country.

Given that the ministry of MSME of India is a level higher than SMEDA of Pakistan and SME Foundation of Bangladesh, both in terms of legal basis and authority level, and that it is in line with the best practices in the world, India is at level 5. Pakistan and Bangladesh both have reached level 3, as there is some form of legal basis, with defined and measurable targets of these institutions; but there is no specific act for the establishment of these two institutions, hence the legal basis is not strong enough. Moreover, the institutions are policy advisory institutions, not in charge of the implementation of policy like the Ministry of MSME of India.

Inter-governmental Coordination: Pakistan has specified the levels and types of coordination between different ministries of the government in its SME Policy of 2007. The MSMED Act 2006 of India has detailed mentions of Inter-governmental coordination between Ministries; also, central and state level policies for SME development further detail the amounts and levels of coordination. On the other hand, the policy strategies for SME development in Bangladesh does not detail inter-governmental coordination. Hence, regarding this issue, India is at level 5, Pakistan is at level 3 and Bangladesh is at level 2.

Figure 1: Definition and Implementation Agency



Given the situation, the average score for India, regarding definition of SMEs and implementation agency characteristics, is 4.7; the score of Pakistan is 3 and the score of Bangladesh is 2.67 (calculated using the method outlined in the methodology section).

5.2 SME Development Strategy

Basic Strategy: The basic strategy for SME development in India, as outlined in the MSMED Act, 2006 is providing support services and in many cases, initiating policy interventions for skill development of employees, management and entrepreneurs, technological upgrading, marketing facilities and cluster development. The total policy framework of India aims at supporting the whole value chain of SMEs in the country. For encouraging startups, there are credit facilities, initiatives for better access to raw materials, different training institutes all over the country, initiatives for ease of registration, and different organizations which provide advisory services. For running operations, there are many institutes which provide training and support for technological upgrading. After production, for helping the industry, the government provides basic procurement preferences, under which a specific percentage needs to be procured by the government directly from the SME entrepreneurs. Also, there are many marketing support activities as well. In all the stages of production, there are credit facilities and there are credit subsidy facilities as well.

The basic strategy for Pakistan and Bangladesh are more or less the same. Bangladesh is in process of formulating a comprehensive strategy through a program called INSPIRED (Integrated Support to Poverty and Inequality Reduction). It is funded by the Government of Bangladesh and the European Union, and has three components: designing of a comprehensive SME Development Strategy, SME Competitiveness Grant Scheme and support SME Banking. The main beneficiaries are the SME Cell (SMCE) of the Ministry of Industries, SME Foundation, Business Intermediary Organizations and their members, Bangladesh Bank, Bangladesh Bank Training Academy (BBTA) and Bangladesh Institute of Bank Management (BIBM). Cluster development receives priority in Bangladesh, and SMEF engages in identifying and determining the needs for development of the clusters. Cluster development also is given priority in the policy documents of India and Pakistan.

However, issues such as access to raw materials, procurement policies and initiatives of that sort are missing or not detailed in the policy documents of Bangladesh and Pakistan. Hence, as the strategy of India is more institutionalized, has a specifically designed act and a full-fledged ministry for implementation, and is close to the best practices of developed countries in the world, India receives a score of 5, while Pakistan and Bangladesh receive scores of 4 each.

Table 2: SME Development Strategy

Issue	India	Pakistan	Bangladesh
Basic Strategy	<ul style="list-style-type: none"> - Provides support at all levels of the value chain - Has procurement and access to raw materials support - Strong legal basis, but not similar to best practices of the world - Score: Level 4 	<ul style="list-style-type: none"> - Provides support at most levels of value chain - Has no procurement and access to raw materials support - Weak legal basis, due to absence of specific act; - Score: Level 3 	<ul style="list-style-type: none"> - Provides support at most levels of value chain - Has no procurement and access to raw materials support - Weak legal basis, due to absence of specific act; - Score: Level 3
Legislative and/or Policy Support	<ul style="list-style-type: none"> - Micro Small and Medium Enterprises Act, 2006 outlines the policy - Strong legal basis - Not detailed enough to resemble the best practices of the world - Score: Level 4 	<ul style="list-style-type: none"> - Has no specific act - There is an SME Policy, 2007 and other supporting policies - Weak legal basis - Score: Level 3 	<ul style="list-style-type: none"> - Has no specific act. - There is an SME Policy and an Industrial Policy - Weak legal basis - Score: Level 3

Issue	India	Pakistan	Bangladesh
Outcomes	Strong Legal Basis Measurable and Detailed Criteria Not similar to best practices in the world Score: Level 4	- Weak legal basis - Measurable criteria; not detailed - Score: Level 3	- Weak legal basis - Criteria not measurable and not detailed - Score: Level 2
Average Score	Total Score: 4	Total Score: 3	Total Score: 2.67

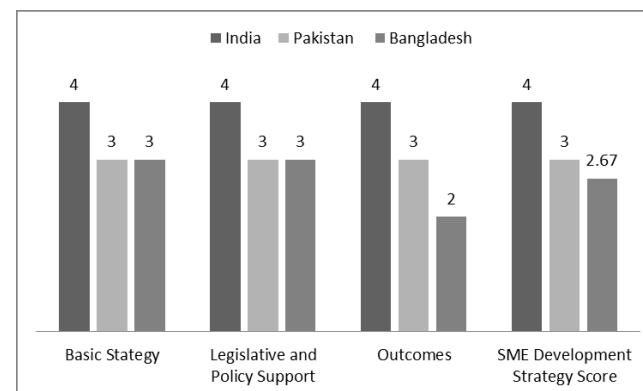
Source: Different policy documents, acts and author's calculations.

Legislative and/or Policy Support: India has a comprehensive legislation called “The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006”, and it covers almost the entire sector of MSME's in the country. The Office of the Development Commissioner (MSME) is responsible for the implementation of this act. For the protection of the SME entrepreneurs' rights, there are specific provisions in the SME act detailing the penalties for delayed payments to the suppliers. The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015 has also been introduced in the Lok Sabha in 2015, which aims at increasing the existing limit for investments considering price and cost changes, increasing the scope, etc.

There is no specific act designed for SMEs in Bangladesh or Pakistan; there are only policy documents aiming at improvement of SMEs in those countries. However, both the countries are in process of designing a clear strategy for this purpose. As the act of India is not as detailed as the developed countries, India receives a score of 4, while, due to the lack of solid legal framework, Pakistan and Bangladesh are still at level 3.

Outcomes: The policy outcomes in the policy documents of Bangladesh and Pakistan are not detailed enough. The policy documents of Bangladesh only state the development objectives, but they don't specify targets, like a specific rate of growth or a specific timeline. The policy documents of Pakistan, along with annual plans, project some details about those targets. However, the policy schemes for SME development of India, implemented under the Ministry of MSMEs, have specific targets, which are revised each year, and designated annual reports detail the measurable outcomes and targets. However, there are still lacks in detail, which means the policy practices in India are not similar to the best practices of the world as of yet. Hence, India receives a score of 4, while due to lack of detailed measurable indicators and absence of specific laws, Pakistan receives a score of 3. Bangladesh specifies no measurable outcome data in its policy documents, so Bangladesh is still at the level 2.

Figure 2: SME Development Strategy



Given the scores of the subcomponents, the total scores in the area of SME Development Strategy are 4, 3 and 2.67 for India, Pakistan and Bangladesh respectively. India is ahead due to the backing of a full-fledged ministry for MSMEs, while Pakistan does not have such strong institutional framework. Bangladesh, on the other hand, not only lacks the institutional backing like India, but also does not have detailed measurable criteria stated in the policies for development.

5.3 Access to Finance

Institutional Framework: In India, the main institution for the promotion, development and especially financing Micro, Small and Medium Enterprises (MSMEs) is the *Small Industries Development Bank of India (SIDBI)*, set up on April 2, 1990 under Small Industries Development Bank of India Act. A similar type of institution is in place in Pakistan, called the *SME Bank Ltd.*, which is incorporated as a public limited company under the Companies Ordinance 1984, and which exclusively handles the financing needs of the SME sector. However, there is no specialized institution in Bangladesh to exclusively cater the needs of the SME sector; the SME Foundation takes care of supporting SMEs through their specialized financial program, while Bangladesh Bank, the central bank of Bangladesh, has a dedicated department, namely the SME and Special Programs Department, which handles the financing issues. The central banks of all the three countries under study have different schemes for enhancing the credit flow towards the SME sector. Private commercial banks of these countries have their separate SME loan policies and modalities, and they also participate in different

government and central bank initiated programs. Due to strong legal and institutional frameworks similar to the best practices of the world, India and Pakistan both receive a score of 5 each; however, due to absence of a designated bank or other financial institution to deal exclusively with the SME sector, and a relatively weak legal basis, Bangladesh receives a score of 4.

Table 3: Access to Finance

Issue	India	Pakistan	Bangladesh
Institutional Framework	<ul style="list-style-type: none"> - Small Industries Development Bank of India (SIDBI) is the main institution which takes care of access to finance for SMEs - Government and central bank has different schemes - Close to best practices - Score: Level 5 	<ul style="list-style-type: none"> - SME Development Bank plays the main role in providing access to finance to SMEs - Government and central bank has different schemes - Close to best practices - Score: Level 5 	<ul style="list-style-type: none"> - No designated financial institution for SME financing - SME Foundation and central bank has different schemes - Not close to best practices of the world; has legal structure and support - Score: Level 4
Types of Funding	<ul style="list-style-type: none"> - Collateral free credit schemes - Credit subsidy schemes - Banks are required to increase growth of SME loans by specific percentages - Close to best practices in the world - Score: Level 5 	<ul style="list-style-type: none"> - Has different credit schemes like India - No specific requirements for banks - Not close to best practices in the world; good legal basis - Score: Level 4 	<ul style="list-style-type: none"> - Has different credit schemes - No specific requirements for banks - Weak institutional basis due to absence of a designated bank like the other countries - Score: Level 3
Rehabilitation of SMEs	<ul style="list-style-type: none"> - Comprehensive rehabilitation and revival framework - Implemented by ministry, so strong legal and institutional framework - Corrective Action Plans (CAPs) are designed to revive the SMEs - Close to best practices in the world - Score: Level 5 	<ul style="list-style-type: none"> - Different refinancing schemes available - Implemented by the central bank, SME bank and others - No scope for CAPs - Good legal and institutional framework, but not similar to the best practices around the world - Score: Level 4 	<ul style="list-style-type: none"> - Different refinancing schemes available - Implemented mainly by the central bank - No scope for CAPs - Weak institutional framework due to the absence of a designated financial institution - Score: Level 3
Average Score	Total Score: 5	Total Score: 4.33	Total Score: 3.33

Source: Different policy documents, acts and author's calculations.

Types of Funding: The MSMED Act, 2006 of India clearly emphasizes on 'progressive' policies and practices regarding the flow of credit to MSMEs, which may be specified from time to time in the guidelines or instructions of the Reserve Bank of India (RBI), the central bank of India. The act also states that there would be funds formed for improvement of this sector. India has varied types and levels of financing for SMEs. *The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)* makes available credit to micro and small enterprises for loans up to Rs. 100 lacs without collateral or third party guarantee requirement. It is implemented through 129 eligible institutions comprising public, private and foreign banks. *The Ministry of MSME is operating a Credit Linked Capital Subsidy Scheme (CLCSS)* for technological upgrading of micro and small enterprises. The ministry also has a microfinance program, under which the government provides funds to SIDBI under the *Portfolio Risk Fund (PRF)* which is utilized for security deposit requirements of loans. There are also specialized schemes such as *Interest Subsidy Eligibility Certificate (ISEC) Scheme* for funding khadi program undertaken by khadi institutions.

The 'Policy Package for Stepping up Credit to Small and Medium Enterprises (SMEs)' of the government of India has introduced different measures to increase credit flow to SMEs. Under this package, public sector banks have to achieve a minimum 20 percent annual growth in credit to the SME sector, while commercial banks are to make efforts to provide credit to at least 5 new tiny, small and medium enterprises at each of their semi-urban/urban branches annually. Other measures include issuance of detailed guidelines by Reserve Bank of India (RBI) for debt restructuring, use of existing RBI guidelines for more liberal policies (of banks) for advances to SMEs, formation of empowered committees by RBI to review the progress of SME financing, adoption of cluster based approaches for SME financing, etc. RBI also has issued detailed guidelines for implementing the policy package and other schemes, while the National Small Industries Corporation (NSIC) provides financial support such as short term credit facilities for procurement of raw materials, marketing activities, etc., and for that, it has entered into a memorandum of understanding with various nationalized and private sector banks.

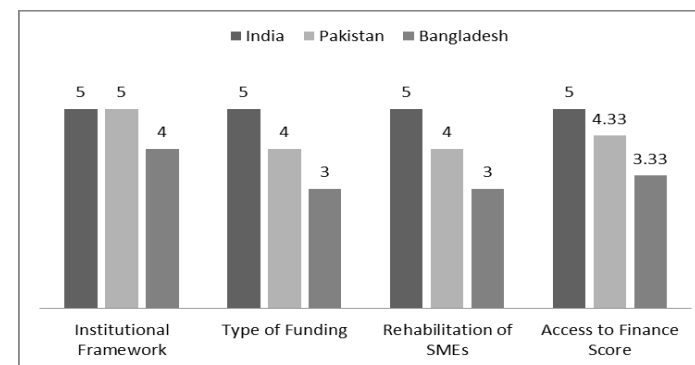
In Bangladesh, *Bangladesh Bank (BB)* has a credit refinance scheme for SMEs, implemented through different participating institutions. For this, the fund of BB, International Development Assistance (IDA) and Asian Development Bank (ADB) is being channelized through this scheme. Bangladesh Bank also encourages target setting for SME financing by commercial banks, although no specific criteria has been set for growth of this target. In addition, the bank

provides for special arrangements for women entrepreneurs of this sector, while providing strict guidelines for easing up SME credit flow from different banks and financial institutions. *SME Foundation (SMEF)* of Bangladesh has a regular program called the Credit Wholesaling Program under which collateral free single digit interest loans are given to the targeted entrepreneurs of selected clusters, sectors and clientele groups through partner financial institutions (banks and non-bank financial institutions), while special preference is given to women entrepreneurs from outside of Dhaka. In Pakistan, there is a designated bank for SME development, called the SME Bank, which specializes in loans for the SME sector. Also, the central bank of Pakistan implements different initiative like Bangladesh through different financial organizations.

Due to strong legal basis of the schemes backed by the Ministry of MSMEs of India, and similarities with the best practices of the world, India receives a score of 5. A strong institutional framework, but dissimilarities with the best practices of the world allows Pakistan to get a score of 4, while Bangladesh receives a score of 3 due to lack of designated financial institution for this sector.

Rehabilitation of SMEs: The issue of rehabilitation of the SMEs that go bankrupt is a vital one; and to address that the Ministry of Micro, Small & Medium Enterprises has notified a Framework for Revival and Rehabilitation of MSMEs on 29th May, 2015, under which any enterprise can seek revival and rehabilitation benefit through a committee constituted by banks with representatives from State Governments, experts and others. The steps that are carried out for the implementation of this is identification of incipient stress, suggestion of Corrective Action Plans (CAPs), identifying willful defaulters and non-cooperative borrowers and taking necessary action, etc. The annual reports published show measurable targets and progress. Reserve Bank of India (RBI) forms committees for rehabilitation of sick small and medium units, and it has specific criteria for measuring sick units. It also has detailed guidelines on debt restructuring, which banks are expected to follow and liberalize advances towards SME sector as much as possible. There are refinance schemes in Bangladesh and Pakistan as well, but initialization of corrective action plans, formation of committees for this purpose, etc. are absent in these two countries. Here, since India follows policy initiatives similar to those of the world, India receives a score of 5, while Pakistan and Bangladesh receive a score of 4 each.

Figure 3: Access to Finance



The average scores for access to finance are, therefore, 5, 4.33 and 3.33 for India, Pakistan and Bangladesh respectively. Due to strong institutional framework (such as a designated ministry and a bank) and comprehensive credit schemes, India is ahead of the other two countries. Pakistan also has a designated bank for SME credit services, but lacks comprehensive programs; while Bangladesh lacks a designated financial institution for this purpose also.

5.4 Operational Environment

Procurement: Government initiated SME procurement schemes are followed in many countries around the world. In India, under the MSMED Act, 2006, the government notified a Public Procurement Policy for Micro and Small Enterprises Order, 2012, through which every central ministry, department and state owned enterprise is required to annually procure at least 20 percent of total annual purchases from micro and small enterprises. They are also required to report the progress and targets to the concerned authorities. Bangladesh and Pakistan have no such policies in place till date. Hence, while India receives a score of 5 in this criteria, Bangladesh and Pakistan receive a score of 0 each.

Table 4: Operational Environment

	India	Pakistan	Bangladesh
Procurement	Public procurement schemes to enhance SME development - Similar to best practices in the world - Score: Level 5	Absence of procurement schemes to enhance SME development - Score: 0	Absence of procurement schemes to enhance SME development - Score: 0
Registration	Government initiated one page registration forms	SMEDA provides consultancy and	SME Foundation provides consultancy

	Self-attestation to speed up process Bar code assistance Score: Level 4	advisory services No high profile government initiated scheme Score: Level 3	and advisory services No high profile government initiated scheme Score: Level 3
Marketing	Government initiated high profile marketing assistance schemes Schemes initiated by other agencies for technical and other assistance National and International Fairs and Exhibitions Score: Level 5	SMEDA provides advisory services along with some technical assistance No high profile government initiated schemes National and International Fairs and Exhibitions Score: Level 4	SME Foundation provides advisory services along with some technical assistance No high profile government initiated schemes National and International Fairs and Exhibitions Score: Level 4
Average Score:	4.67	2.33	2.33

Source: Different policy documents, acts and author's calculations

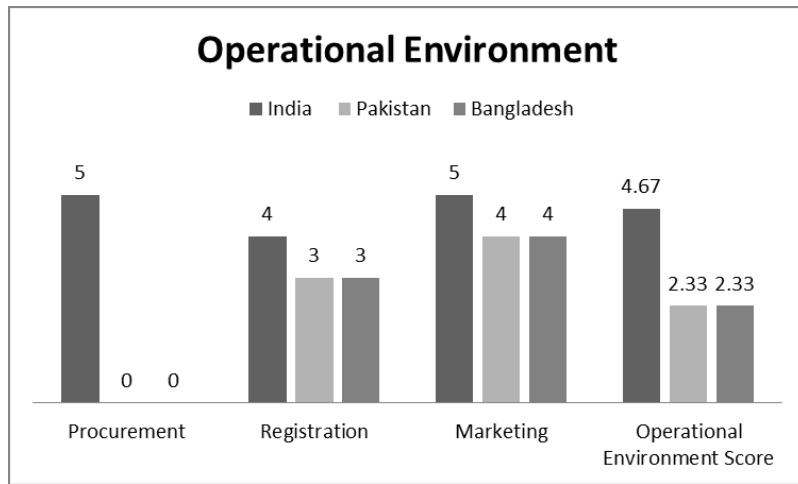
Registration: In India, in order to ease the registration process of SMEs, Ministry of MSME has notified a simple one-page registration Form 'Udyog Aadhaar Memorandum' (UAM) in 2015, and in that one page registration form MSME's self-certify their details, while they receive unique UAM numbers. No supporting documents are required to be uploaded or submitted. Also, there is an SSI (Small Scale Industry)-MDA (Market Development Assistance) Scheme which has the provision for reimbursement of 75% of one time registration fees and annual recurring fees (for first three years) paid by Micro and Small Enterprises (MSEs) to GS1 India for adoption of Bar Code. Although registration forms like these are not available in Pakistan or Bangladesh, SMEF of Bangladesh and SMEDA of India provide all sorts of consultancy services for enabling registration of SMEs, such that the process is smooth and hassle free. However, as schemes initiated by the Ministry has stronger legal basis than those initiated by SMEF and SMEDA, India receives a score of 4 in this case, while Bangladesh and Pakistan get a score of 3 each. India is still not at level 5, as developed countries of the world have far more advanced registration systems and policy initiatives in place.

Marketing: In India, the National Small Industries Corporation (NSIC) provides different kinds of support for marketing the products of SMEs. It implements a 'Marketing Assistance Scheme' on behalf of the government, for Micro and

Small Enterprises (MSEs), the main objectives of which include enhancing marketing capabilities and competitiveness of the MSMEs, showcasing the competencies of MSMEs, providing updated marketing related knowledge to MSMEs, enhancing marketing skills of MSME entrepreneurs, etc. Other services of NSIC include raw material distribution, forming consortia of units manufacturing same products, organizing and participating in national and international exhibitions and meetings among buyers and sellers, etc. SSI-MDA Scheme has the provision for reimbursement of 75% of one time registration fees and annual recurring fees (for first three years) paid by Micro and Small Enterprises (MSEs) to GS1 India for adoption of Bar Code. Among other initiatives, the National Manufacturing Competitiveness Program (NMCP), initiated by the government in 2007-08, has a marketing assistance and technology upgrading scheme for MSMEs, under which activities such as technology upgradation in packaging, skills upgradation/development for modern marketing techniques, competition studies of threatened products etc. are carried out. Also, the Office of DC (MSME) provides assistance under the marketing development assistance scheme by exhibiting their products through participation in international trade fairs.

SME Foundation of Bangladesh organizes SME fairs each year at the national level to promote SME products. Also, the foundation provides training for marketing of bakery and confectionary food, leather products, bamboo products, etc. It has a product display and information center as well. SMEDA of Pakistan, along with other agencies, provides similar sort of services. But the activities of India, which are initiated mainly under the guidance of the designated ministry, have more sound institutional framework than the activities of the sort in Pakistan and Bangladesh. As the marketing support of India is close to the best practices of the world, India is at level 5, while Pakistan and Bangladesh are at level 4 in this policy area.

Figure 4: Operational Environment



The average score for India is 4.67 due to similarities with the best practices in the world. Bangladesh and Pakistan both do not have programs like those of India which help SMEs, and there are no procurement schemes in the two countries. Hence, both get low average scores (as calculated using the scoring outlined in the methodology section) of 2.33.

5.5 Entrepreneurial Education and Training

Institutional Framework: In India, the Office of the Development Commissioner (DC) functions as a link between the Ministry/Department and field organizations, and under this office, currently a network of 30 MSME Development Institutes, along with 28 Branch MSME Development Institutes provide assistance and consultancy services to new and existing MSME units, run management and skill development programs, provide intensive technical assistance, etc. For improving the skill of SME entrepreneurs, the Ministry of MSME, India, runs an entrepreneurship skill development program, which is implemented through National Institute for Entrepreneurship & Small Business Development (NIESBUD), Indian Institute of Entrepreneurship (IIE), National Institute for Micro, Small and Medium Enterprises (NI-MSME), and the National Small Industries Corporation Ltd (NSIC). These organizations also impart training through various partner institutions. All the organizations are either established through specialized acts or through existing acts. The Mahatma

Gandhi Institute for Rural Industrialization (MGIRI) aims at accelerating rural industrialization for sustainable village economy so that KVI sector coexists with the mainstream industries. Their activities include setting up linkages with other reputed institutes, sponsor projects, provide services to rural entrepreneur's pilot projects, etc. The Coir Board, established by the Coir Industry Act, 1953, promotes the overall development of the coir industry through research and development activities, development of new products and designs, publicity for promotion of exports, marketing of coir and coir products in India and abroad, ensuring remunerative returns to producers and manufacturers, etc.

To enhance development of the small and cottage industries (SCI) sector, Bangladesh Small and Cottage Industries Corporation (BSCIC) was established in 1957 by the BSCIC Act, 1957; besides its headquarter in Dhaka, it has four regional offices, sixty-four district offices (Industries Service Center), seventy-four industrial estates and fifteen skill development centers in different areas of the country. For human resource development, it has a number of institutes like Small and Cottage Industries Training Institute (SCITI), fifteen skill development centers (SDCs) and one design center. Bangladesh Handloom Board also imparts training on handloom.

In Pakistan, the Pakistan Industrial Technical Assistance Center (PITAC), Technical Education and Vocational Training Authority (TEVTA), Pakistan Welding Institute (PWI) etc. provide few training services for the entrepreneurs. The Trade Development Authority of Pakistan (TDAP), which works for the development and promotion of exports, provides different training services, and SMEs across various clusters benefit from those services. The SME Development Authority (SMEDA) of Pakistan organizes training programs, seminars, workshops etc. for raising awareness and capacity building of SMEs. The organization seeks to establish a network of Training Service Providers (TSPs) for SME training; aims at developing and launching SME focused priority training through those TSPs, etc. However, the SME Policy, 2007 of Pakistan recognizes the lack of adequate institutes for training of SME entrepreneurs.

Therefore, the institutional framework for providing training for SME entrepreneurs in India is vast, is backed by specially designed or established acts, and each have specific targets with measurable criteria. But it is still not close to the best practices of the world, where the number of institutes imparting training

are much higher and have stronger networks. So, India is at level 4. Bangladesh has a recognized institutional framework, with a strong legal basis due to established acts, but its capacity needs to be broadened, so gets a score of 3. The institutional framework of training of SME entrepreneurs of Pakistan is the weakest, as it has no solid national network for training the entrepreneurs which focus specially on the SME sector; hence, it is at level 2.

Table 5: Entrepreneurial Education and Training

	India	Pakistan	Bangladesh
Institutional Framework	<ul style="list-style-type: none"> - Strong institutional framework - A network of training institutes all over the country - Strong infrastructure for training - Not close to the best practices of the world - Score: level 4 	<ul style="list-style-type: none"> - Weak institutional framework - No strong network of training institutes - Weak infrastructure for training - Lack of training institutes solely focusing on SME entrepreneurship - Score: level 2 	<ul style="list-style-type: none"> - Reasonably good institutional framework - Good network of training institutes - Lacks strong legal and institutional focus due to absence of designated ministry or department. - Score: level 3
Types of Training Programs	<ul style="list-style-type: none"> - Presence of high profile schemes announced by government; strong legal and institutional basis - Varied levels and types of training programs - Specialized training for sub-sectors - Training not equal to best practices in the world - Score: level 4 	<ul style="list-style-type: none"> - Lack of high profile schemes initiated by government - Lacks strong institutional basis - Types and levels of training programs limited - No specialized training for sub-sectors - Score: level 3 	<ul style="list-style-type: none"> - Lack of high profile schemes initiated by government - Lacks strong institutional basis - Types and levels of training programs limited - No specialized training for sub-sectors - Score: level 3
Incentives	<ul style="list-style-type: none"> - National level awards for SME entrepreneurs - Awards in different categories for those involved with SME development - Business Plan Competitions - Equals best practices - Score: level 5 	<ul style="list-style-type: none"> - Absence of national level awards for SMEs - Business Plan Competitions - Does not equal best practices - Score: level 4 	<ul style="list-style-type: none"> - National level awards for SME entrepreneurs - Awards in different categories for those involved with SME development - Business Plan Competitions - Equals best practices - Score: level 5
Average Score	4.33	3	3.67

Source: Different policy documents, acts and author's calculations.

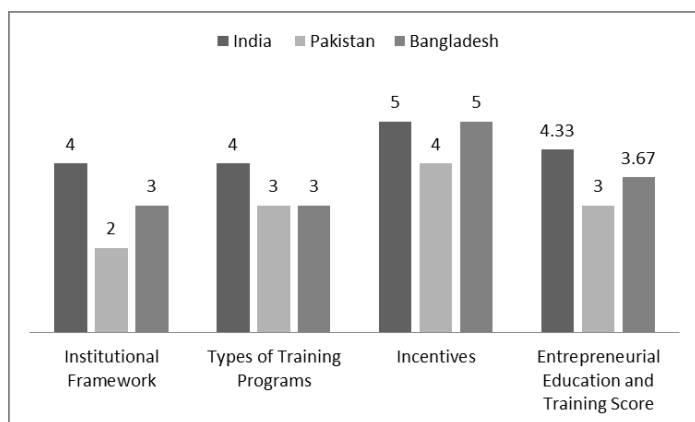
Types of Training Programs: The MSME Development Institutes (MSME – Dis) conduct entrepreneurship development training programs for first generation potential entrepreneurs, along with industrial motivation campaigns in India. The Micro and Small Enterprises Cluster Development Scheme (MSE – EDP) of India aims at setting up common training facilities for clusters of MSEs. The Scheme for Assistance to Training Institutions (ATI), operated under the Ministry of MSMEs, provides assistance to existing and new training institutions. The Rajiv Gandhi Udyami Mitra Yojana (RGUMY) scheme provides assistance for a call center for information, support and guidance.

In Bangladesh, the only training institute for supporting the entrepreneurs in the SME sector and their employees, the Small and Cottage Industries Training Institute (SCITI) carries out its activities through six faculties, namely entrepreneurship development, marketing management, financial management, industrial management, general management and research and consultancy. However, the training is mostly theoretical, with field visits and practical work. The Design Center of BSCIC, from 1960, has been disseminating training services through thirteen departments and twelve training courses such as batik, block, ceramics, doll making, cane and bamboo products, etc. Also, BSCIC introduced Skill Development Training Program in the nineties, with the financial assistance of UNDP, ILO and Government of Bangladesh (GoB). The trainings imparted focus on different types of services such as electrical house wiring, motor winding, welding, radio and television repairing, refrigerator and air conditioner, computer courses, embroidery and knitting, etc. In addition, the SME Foundation (SMEF) of Bangladesh imparts training and organizes workshops on different issues as well. The Human Resource Development (HRD) wing of SMEF provides training in the areas of entrepreneurship development and management leadership, cluster based skill development programs such as training for bakery and confectionary food preparation and marketing, leather products, bamboo products, fashion design, basic beautification, handicrafts, etc. Bangladesh Handloom Board also has different courses on the handloom industry of Bangladesh. However, there are no specialized courses for more traditional trades in Bangladesh such as Jamdani, nokshikatha, etc. The agencies of Pakistan also provide similar types of trainings, but has no focus on subsectors with a lot of potential. Hence, Pakistan and Bangladesh are still at level 3. India has still not equaled the best practices in the world, but has a strong framework of training courses, and also has training

services which focus on special sectors, such as coir industry and khadi industry; hence, it is at level 4.

Incentives: Under the scheme of national awards, the Ministry of Micro, Small and Medium Enterprises (MSMEs) of India annually presents National Awards to selected entrepreneurs and enterprises in categories such as product/process innovation, outstanding entrepreneurship, awards to banks for excellent lending to SMEs, etc. Special awards are also given to women entrepreneurs. Similar sort of awards are presented by SME Foundation of Bangladesh as well, although the categories are not as many as the ones of India. However, no high profile awards of the sort are given out in Pakistan. All the three countries organize business plan competitions, however, to provide incentives for new SME entrepreneurs. Hence, due to similarities with the best practices in the world, given the context of the countries, India and Bangladesh both have reached level 5, while Pakistan has reached only level 4.

Figure 5: Entrepreneurial Education and Training



The average score for India in this policy area is 4.33, for Pakistan it is 3 and for Bangladesh it is 3.67. Pakistan lags behind in terms of providing incentives and mainly in establishing a strong network of training institutes, while India has the strongest institutional framework among the three countries.

5.6 Support Services

Technological Support: The Ministry of MSMEs of India has established 18 technology centers which provide tech support to MSMEs. Also, in order to

upgrade and expand the network of MSME Technology Centers, a program entitled “*Technology Center Systems Program (TCSP)*” is being implemented in the country. A scheme for *Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE)* was launched by India in 2015 for setting up technology centers and incubation centers in order to promote start-ups in the rural and agriculture based industry. It has specific yearly targets, and many of its targets have been fulfilled. The *National Manufacturing Competitiveness Program (NMCP)* also provides services such as promotion of information and communication tools (ICT), design clinics scheme, enabling manufacturing sector to be competitive through Quality Management Standards (QMS) and Quality Technology Tools (QTT), etc. NSIC provides technology support services through its technical services centers, and activities include vocational training for skill upgradation, testing facilities, energy audit, etc.

SME Foundation of Bangladesh, under its Technology Development Program, provides hands on training on heat treatment, welding and cutting, surface treatment, ICT in business communication, etc. Also, the organization provides training on techniques for productivity improvement. The HRD wing of SMEF has a comprehensive month-wise annual training calendar. SMEDA of Pakistan provides technological upgrading services for new and existing SMEs in areas such as quality standards, materials inspection, materials testing, etc.

As all the initiatives of India are operated under the Ministry of MSMEs, they automatically have a strong level of institutional framework and legal basis; however, the technological support of countries like UK, USA etc. towards their SMEs are much more focused and advanced. So, India has not yet reached level 5, but has reached level 4. Bangladesh and Pakistan, on the other hand, have weaker institutional frameworks than India, and so are at level 3.

Infrastructure related Support: The e-Office initiative was introduced in India to achieve paperless office in the Ministry of MSME in India, and it is in use from January, 2016. The website of the Ministry and Office of MSME has also been made mobile friendly. Some other new developments in the area of software include Physical Performance of Plan Schemes (PPPS), Energy Efficiency Technology Upgradation (EET), MY MSME App (MSME Helpline) etc. Also, there is an Information and Facilitation Counter (IFC), which provides speedy and easy access to information on the services and activities of the Ministry of MSMEs and its organizations. A scheme in India called the ‘Support for Entrepreneurial and Managerial Development of SMEs through Incubators’ is operational since April 2008, under which individual innovators are promoted. Another scheme call the “Building Awareness on Intellectual Property Rights

(IPR) for the Micro, Small and Medium Enterprises (MSME) tries to enhance awareness of MSMEs about Intellectual Property Rights such that their ideas and business strategies can be protected. The Office of DC (MSME) operates four MSME Testing Centers, which provide testing and calibration facilities to industries in general and MSMEs in particular. In addition, the ministry of MSME has adopted the cluster development approach as a key strategy, and so has launched the Micro and Small Enterprises Cluster Development Program (MSE-CDP). Main approaches in this case include soft interventions through awareness creation, counseling, training etc; establishing common facility centers (CFCs) like common production and processing centers, design centers, testing facilities, training centers, common logistic centers, etc; creation of infrastructure development centers, and providing financial assistance. Also, vendor development programs are being organized by the MSME – DIs in which large scale organizations interact with MSEs with a view to identifying potential vendors, and also aims to create awareness on public procurement policy.

Table 6: Support Services

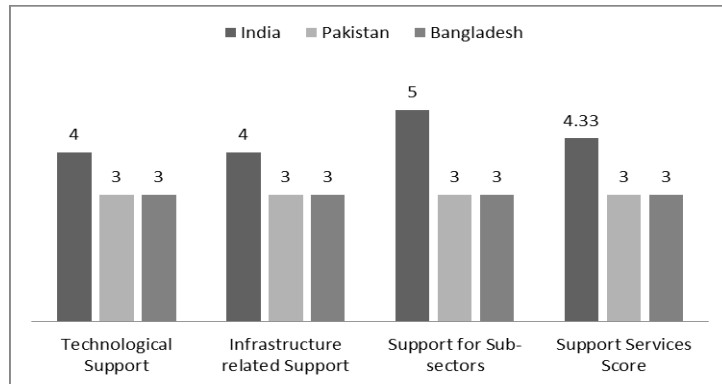
	India	Pakistan	Bangladesh
Technological Support	<ul style="list-style-type: none"> - Technology centers established by Ministry of MSMEs - Government initiated schemes - Strong Institutional Framework - Score: level 4 	<ul style="list-style-type: none"> - SMEDA imparts technology upgrading services - Not enough government initiated programs - Weak Institutional Framework - Score: level 3 	<ul style="list-style-type: none"> - SME Foundation has technology development program - Not enough government initiated programs - Weak Institutional Framework - Score: level 3
Infrastructure related Support	<ul style="list-style-type: none"> - Government initiated schemes and programs - Testing centers - Focus on Cluster Development - Program for Employment Generation - Score: level 4 	<ul style="list-style-type: none"> - Lack of government initiated schemes and programs - Lack of testing centers - Focus on Cluster Development - Program for Employment Generation - Score: level 3 	<ul style="list-style-type: none"> - Lack of government initiated schemes and programs - Lack of testing centers - Focus on Cluster Development - No focused Program for Employment Generation - Score: level 3
Support for Sub-sectors	<ul style="list-style-type: none"> - Tailored services for Khadi industry - Tailored services for Coir Industry - Equals best practices - Score: level 5 	<ul style="list-style-type: none"> - Lack of tailored services for specific high potential sub-sectors - Score: level 3 	<ul style="list-style-type: none"> - Lack of tailored services for specific high potential sub-sectors - Score: level 3
Average Score	4.33	3	3

To encourage employment in this area, in India, a scheme titled “Prime Minister’s Employment Generation Program” (PMEGP) aims at generating employment opportunities in rural as well as urban areas through financing projects of unemployed traditional artisans as well as unemployed youths. Pakistan has a similar sort of a scheme, called the Prime Minister’s Youth Business Loan Scheme, which provides institutional credit to start-ups and existing businesses, and SMEDA is a partner in this scheme.

SME Foundation, through its different wings, provides necessary information on trade license, registration, VAT registration, preparing business plans, etc. It engages in policy advocacy and effective lobbying for advancing women entrepreneurship, organizes conferences and seminars, etc for developing women entrepreneurship in the area of SME development. SMEDA provides a similar sort of service in Pakistan, by extending legal advice and consultancy services to SME entrepreneurs. Both of these organizations also have activities related to cluster development. However, the institutional framework is not strong enough due to lack of designated ministries, hence Pakistan and Bangladesh have only reached level 3. India still remains at level 4, as India still has to advance more in this area to equal the best practices around the world.

Support for Sub-sectors: Tailored services for SME subsectors are common among the developed nations. Among the three countries under study, only India has focused agencies, under the Ministry of MSMEs, for special sub-sectors, namely the khadi industry and the coir industry. The Khadi and Village Industries Commission (KVIC), working under the Ministry of MSME, focuses on the promotion and development of khadi and village industries. It undertakes training activities through its 39 departmental and non-departmental training centers, makes quality raw materials available to khadi institutions, workshed scheme for khadi artisans, strengthening the infrastructure, providing assistance in marketing, providing financial assistance, insurance benefits, organizing exhibitions, etc. There is also the Coir Board, which is a government organization dedicated to the promotion of coir fiber and products, and the development of export markets for those products. Pakistan and Bangladesh both provide some policy support to SME subsectors; however, strong institutional frameworks like those initiated by the Ministry of MSMEs of India are absent. So, while India is at level 5 in this case, equaling the best practices in the world, Bangladesh and Pakistan are still at level 3.

Figure 6: Support Services

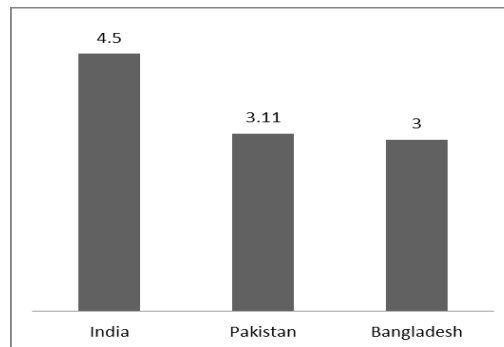


Using the scoring method outlined in the methodology section, the average scores for India, Pakistan and Bangladesh in this policy are 4.33, 3 and 3 respectively. In all the sub-categories, especially in the case of tailored services for high-potential SME sub-sectors, India is way ahead of Pakistan and Bangladesh.

5.7 Total Scores of SME Development Policy Framework

After averaging the scores of different policy areas, the total score of India is found to be 4.5. On a scale of 5, this is impressive, indicating that India has progressed a lot in terms of providing policy support towards the SME sector of the country. This has been possible due to the establishment of a separate ministry for the sector, which has provided strong institutional and legal basis for all the initiatives for the development of the sector.

Figure 7: Total Scores



Pakistan and Bangladesh have close scores, 3.11 and 3; Pakistan lags in some policy areas while Bangladesh lags in others. But both are quite far behind India. This is basically due to the absence of a strong institutional framework, like that of India. Also, some policy initiatives of India, like procurement policies, focus on sub-sectors, are absent in Pakistan and Bangladesh.

6.0 Effectiveness

The analysis in the previous sections suggests that India is well ahead of Pakistan and Bangladesh in terms of different criteria of policy initiatives; however, the applicability of these policies can only be justified if they are found to be effective. Hence, if the policies initiated by India are found to be effective in the country, then some conclusions can be drawn with regards to their applicability in Pakistan and Bangladesh.

The positive effects of a strong legal framework (backed by a designated ministry for SMEs) in India is evident from the services provided by its legally established institutions targeted for SME development, namely, Office of Development Commissioner (MSME), Khadi and Village Industries Commission (KVIC), Mahatma Gandhi Institute for Rural Industrialisation (MGIRI) and last but not the least, National Small Industries Corporation Limited (NSIC). According to the annual report of MSME of 2015-16, through these institutions, around 142 thousand people were imparted training on different trades; more than 1500 technologies under 51 products/sub-sectors have been approved and 38,675 units have availed subsidy of 2267.34 crores under the Credit Linked Capital Subsidy Scheme (CLCSS) till February, 2016; under the Credit Guarantee Fund Trust Scheme for Micro and Small Enterprises (CGTMSE), etc. The growth in SMEs, as described in that report, has been constant, and is as follows:

Table 7: Growth of Micro and Small Enterprises (MSMEs) in India

Year	Growth (in %)
2007-08 to 2008-09	11.77
2008-09 to 2009-10	10.45
2009 -10 to 2010-11	11.83
2010-11 to 2011-12	18.45
2011-12 to 2012-13	14.30
2012-13 to 2013-14	12.44
2013-14 to 2014-15	17.18
2014-15 to 2015-16	18.74

Source: Annual Report of Ministry of Small and Medium Enterprises (MSME), India, 2015 – 16.

Other positive impacts of the policy initiatives include the easing of registration of SMEs, resulting in 2.3 lac more SME units being registered (as of February, 2016), establishment of business incubators, creating market access for MSMEs through mandatory annual procurement from MSMEs, etc. Needless to say, these have established an enabling environment in India for SME development.

Table 8: Growth of Production of Small Scale Enterprises in Bangladesh

Year	Growth (in %)
2007-08	7.15
2008-09	7.3
2009-10	8.17
2010-11	5.67
2011-12	6.58
2012-13	8.81
2013-14	6.33
2014-15	8.54
2015-16*	9.06

Source: Bangladesh Economic Review, 2016

*Projected

The growth of the small scale enterprises in Bangladesh has been around 6 to 8 percent in the years 2007-08 to 2014-15, while it reached its highest growth rate in 2015-16, which is 9.06 percent. The growth rate of the SME sector in Pakistan has been almost similar, hovering around 8 percent per year. These growth rates are evidently lower than the growth rates of MSMEs in India, indicating better performance of the SMEs in India than it's South Asian counterparts.

Table 8: Growth of Production of Small Scale Enterprises in Pakistan

Year	Growth (in %)
2007-08	8.34
2008-09	8.57
2009-10	8.47
2010-11	8.51
2011-12	8.35
2012-13	8.28
2013-14	8.29
2014-15	8.24*

Source: Pakistan Economic Survey, 2014-15

*Projected

Hence, the policy initiatives followed by India have proved to have positive impacts in that country, and can act as a guideline for formulating effective SME policies in Pakistan and Bangladesh.

7.0 Policy Implications

From the analysis presented in this study so far, several implications for policy can be identified.

Firstly, Bangladesh and Pakistan need to move towards an established legislation rather than policies for SME development. A stronger legal framework would boost the development initiatives in those countries.

Secondly, a designated ministry for SMEs should also be established in Bangladesh and Pakistan, as SMEs are equally important in these countries as in India. A ministry would be able to play the role of policy maker rather than policy advisor or consultant, like agencies currently present in Bangladesh and Pakistan.

Thirdly, while the policy framework of India covers almost all levels of the value chain of SMEs of the country, Bangladesh and Pakistan still has some unexplored areas. These areas include support for raw materials accumulation, support through procurement, etc. The procurement issue needs to be seriously considered, since there are many countries around the world who support their SME sectors by procuring a specific percentage of total government procurement from the SME sector.

Fourthly, Bangladesh needs to establish a specialized financial institution to handle the financing issues of SMEs, like the SME development banks of India and Pakistan. The designated bank, or financial institution, would be able to bring all the financial initiatives under one umbrella, while initiating programs in partnership with other financial institutions.

Finally, there should be special focus on high potential small and medium industries in Bangladesh and Pakistan. India already has two boards under its Ministry of MSMEs for the khadi industry and coir industry. Agencies like these could boost production in traditional sectors of Bangladesh and Pakistan. Also, all the countries need to take into account the best practices in the world and reformulate the whole policy framework as much as possible, given the contexts of the countries.

8.0 Conclusion

While there are arguments for and against supporting a specific sector through policy initiatives, there is no doubt that SME sector suffers from constraints that the large industries generally don't have to face. India, Pakistan and Bangladesh all have their own policy frameworks and initiatives for supporting their SME sectors. However, India has stronger institutional support for the sector due to some advances in their policy initiatives, while Bangladesh and Pakistan are lagging behind. The three countries can exchange their knowledge base regarding SME development, which could certainly help boost the SME sector of all the three countries. Also, if the trade of SME products between the countries could be intensified, that would work wonders for SME development for all the three countries under study.

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