

Bridging the Gap between Microfinance and SME Financing in Bangladesh: Unlocking the Potentials

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Abstract: The SME sector has significant contribution in the GDP of Bangladesh. But this sector is not getting wide attention from the policy makers and mainstream financial institutions. Although the Microfinance industry of the country has reached its maturity stage, it is yet to contribute remarkably for SME development. Uplifting the Microfinance clients to SME level is a big challenge for MFIs. Various constraints especially inadequate financing hinder the growth of SMEs. The most important issue that needs to be addressed is bridging the gap between Microfinance and SME financing. Up scaling the program of MFIs and downscaling the financing process of banks and non-bank financial institutions are important to bridge the gap and to tap the microenterprise clients, who have been identified as missing middle. To strengthen the SME sector favorable government policy, smooth funding, business development services and backward and forward linkage are essential. If the SME sector could be boosted, it will contribute to the overall macroeconomic growth of the country.

1. Introduction

Bangladesh is mainly an agrarian based country. The economy of Bangladesh has undergone rapid structural transformation towards manufacturing and services. The contribution of the agriculture sector to GDP has declined from 50 percent in 1972-73 to around 20 percent in 1999- 2000 and 15 percent in 2004-2005 (Bangladesh Bureau of Statistics Bangladesh Bank websites). Although the contribution of agriculture sector to GDP is moving downward, still this sector is the main employment provider. The growth of industrial production has achieved more than 6% over the last 5 years. Moreover, the export sector has also accelerated with an average growth of 30% over the last 5 years. Along with growth of industrial sector which includes large industry as well as small and

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medium enterprises, the Microfinance sector is also contributing to the GDP silently by playing a significant role in the rural economy. The member-based Microfinance Institutions (MFIs) constitute a rapidly growing segment of the Rural Financial Market (RFM) in Bangladesh. To provide financial services to the poor people, Grameen Bank was established in 1983 under a special law with the initial support from Bangladesh Bank. Besides Grameen Bank, there are more than 1000 MFIs operating mostly in the rural sector of the country. Among them BRAC, ASA, and PROSHIKA are being considered three big NGOs/MFIs. These institutions have an explicit social agenda to cater to the needs of the poorer sections of population, and have a focus towards women clients. (Bangladesh Bank Website). In the industrial sector, the Small and Medium Enterprise (SME) is widely believed to be the potential engine of economic growth of Bangladesh. According to the 2003 National Private Sector Survey of Enterprises in Bangladesh, the SME sector accounts for around 40 percent of gross manufacturing output, 80 percent of industrial employment, and 25 percent of the total labor force in this economy. The survey estimated that micro, small, and medium enterprises contributed around 20–25 percent of GDP. The sector was found to encompass about 79,754 establishments, of which 93.6 percent were small and 6.4 percent medium (ADB, 2004). Despite the significant contribution of SME sector to the economy, this sector has been seriously suffering from the limited access to financial services. The enterprises in this sector are not small enough to get credit facilities from MFIs and at the same time not large enough to get loans from formal financial institutions. (Bangladesh Bank, 2006).

2. Objectives of the Study

The objectives of the study are:

- To explore the present scenario of SME sector in Bangladesh
- To identify funding sources of SME financing
- To identify the challenges to upscale Microfinance clients to Micro-entrepreneurs
- To identify the constraints of SME sectors
- To bridge the gap between Microfinance and SME financing
- To provide policy recommendations to boost SME sector in Bangladesh

3. Methodology

The study has been conducted through analyzing the information and data from the secondary materials. The information has been collected from different research studies

of Bangladesh Bank, Bangladesh Enterprise Institute (BEI), Centre for Policy Dialogue (CPD), International Finance Corporation (IFC), South Asia Enterprise Development Facility (SEDF), Ministry of Finance and Ministry of Planning of Government of Bangladesh. Moreover, information and data has been collected from websites of various organizations like Palli Karma-Sahayak Foundation (PKSF), BRAC, Grameen Bank, and Association of Social Advancement (ASA) etc.

4. An Overview of Microfinance in Bangladesh

The microfinance industry in Bangladesh has been able to demonstrate a remarkable growth during the last two decades and to provide access to credit to around 30 million poor households¹. There are around 1410 hundred microfinance institutions (MFIs) currently in Bangladesh². Bangladesh is considered a pioneer in micro-credit. If the growth of Microfinance industry in Bangladesh is critically analyzed, we will find that the growth of

Microfinance took place during several distinct phases over the last three decades (Zaman, 2004). The origin of the current micro-credit model evolved through action research and piloting in the late 1970s, carried out by academics as well as practitioners organizations that were involved with the relief and rehabilitation activities of post-independence Bangladesh. At the same time a team of researchers at Chittagong University, led by Professor M. Yunus, now the Noble Peace Laureate 2006, began an action-research program that provided loans to poor households in 'Jobra' village (Zaman, 2004). At that time, it was difficult to conceive that these initiatives would lead to a major Microcredit movement, which would make Bangladesh known to the rest of the world (PKSF,2004). The success of Grameen Project paved the way for the establishment of the Grameen Bank under a special ordinance in 1983.

During the early 1980s, several NGOs experimented with different ways of delivering credit and provided loans for group projects compared to offering loans to individuals. But group credit approach could not become popular due to lack of strong monitoring, operational complexity and group project failure, which negatively impacted on recovery

¹ This information excerpted from Microfinance Statistics, Volume 17, December 2004, Credit and Development Forum (CDF), Bangladesh, and the websites of Grameen Bank, BRAC and ASA.

² This information extracted from Member composition(2003 data) of CDF, provided for publication of Global Directory of Regional and Country-Level Microfinance Networks, posted in the website: www.seepnetwork.org

rate. So, by the late 1980s, the NGOs shifted towards providing individual loans to a target group of poor households, with peer monitoring and strong MFI staff follow-up and this model became predominant. The early 1990s was the period of rapid expansion of the Grameen-style Microcredit approach. (Ahmed 2003). Due to rapid expansion MFIs were facing huge fund shortage and demand for fund increased. With a view to meet the demand for fund for re-lending by the development partners (NGO/MFIs), and due to an urge to coordinate the flow of such funds to appropriate use, the Palli Karma-Sahayak Foundation (acronym PKSF and the full Bengali name can be translated in English as "Rural Employment Support Foundation") was established by the government in 1990. In the Mid-1990s some MFIs, which were emerging, offered diversified financial services for different cliental groups by keeping low operational costs. These diversified financial products also attract some other MFIs and during the Mid-1990s there was a significant growth in the Microfinance sector of the country.

5. Present Scenario of SME sector in Bangladesh

The SME sector of Bangladesh has developed steadily since early 1980s with the needs and demands of the economy. But until 1991 when the 'Industrial Policy' was enacted, the SME sector did not get any attention from both government and private sector. The Industrial Policy of 1991 defined about 'Small Industry'. Later, the Industrial Policy 1999 distinguished medium industry from large industry and defined the size categories in terms of both capital and employment size. In the latest Industrial Policy 2005, a distinction was made between manufacturing and non-manufacturing enterprises. In the case of the manufacturing enterprises, sizes had been defined in terms of the value of the fixed assets while in the case of the non-manufacturing enterprises the cut-off line had been identified in terms of employment size. Thus, large industry is now defined as units with fixed capital of more than Tk. 100 million (US \$1.6 million) excluding the value of land and building while non-manufacturing large enterprise is defined as units having more than 100 workers. Medium industry is defined as units with fixed capital of Tk. 15-100 million (US \$246 thousand - \$1.6 million) excluding the value of land and building while non-manufacturing medium enterprises are those with employment size between 25 and 100 workers. Manufacturing enterprises with fixed assets of less than Tk. 15 million excluding the value of land and non-manufacturing enterprises with fewer than 25 workers are to be treated as small enterprise (Alam et al., 2006). Although the SMEs are playing a significant role for the economic development of Bangladesh and they comprise over 90% of all industrial units, but still there comprehensive statistical information about these industries at the national level is not available. The latest BSCIC estimates suggest

that there are currently 55,916 small industries and 511,612 cottage industries excluding handlooms. Including handlooms, the number of cottage units shoots up to 600,000 units (Ahmed, 2001).

6. SME Financing in Bangladesh

It has been observed that banks usually do not express interest towards SME financing. The reason behind this conservativeness is higher operational cost, but less return and high risk associated with the SME financing. Due to small loan size, the operational cost is higher and they require intensive monitoring and supervision. The main reason of higher risk is that small and medium entrepreneurs are highly unlikely to comply with the collateral requirements as typically they do not have immovable properties. With the excuse of collateral sometimes banks and Non-Bank Financial Institutions (NBFIs) are reluctant to finance SMEs. But when steps taken by the Government and International Agencies have identified SMEs as a priority sector, the government, in cooperation with Bangladesh Bank and different development partners, has initiated a number of measures with a view to making financial services easily available to this sector. As part of such measures, recently the Bangladesh Bank has introduced a scheme of BDT one billion to offer refinancing facility to scheduled banks and financial institutions against their loans to SMEs (MOF, 2005). Besides, World Bank, under Enterprises Growth and Bank Modernization Program (EGBMP), has provided USD 10 million, and ADB, under SME Sector Development Program (SMESDP), has approved USD 30 million loans in order to extend credit facilities to SME entrepreneurs. (ADB, 2005). Due to support of the Government and donor agencies, the disbursement of loan in SME sector is increasing. The following table-1 illustrates the refinancing facility given to banks and NBFIs till April, 2005.

Table-1 : Refinancing Facility to Banks/ NBFIs for the SME Sector

Category	Amounts refinanced (in million BDT)				No. of beneficiary enterprises	Portion of World Bank
	Working capital	Medium term loan	Long term loan	Total		
Banks(n=7)	149.32	626.04	6.63	781.99	1766	219.75
NBFIs(n=8)	23.76	230.09	201.41	455.26	426	17.51
Total	173.08	856.13	208.04	1237.25	2192	237.26

Source: Ministry of Finance (2005) & reported in Bangladesh Bank Financial Sector Review, 2006

In pursuing the important of SMEs, recently a number of commercial banks, NBFIs and NGOs/MFIs have come forward with special initiatives of different types. Agrani Bank has launched Employment Generation Project for the Rural Poor (EGPRP) and Small Enterprises Development Project (SEDP) in collaboration with some international agencies. A few banks such as the BRAC Bank and the Eastern Bank are currently rendering a special service named SME banking. Leasing companies are also offering attractive products for SMEs. The Microfinance industry has made a remarkable growth in Bangladesh over the last one decade. Some large MFIs like Grameen Bank, BRAC, ASA and PROSHIKA are offering Microenterprise loan to their graduate clients³. The following Table-2 demonstrates the sharp growth of micro enterprise loan made by 4 leading MFIs (Grameen Bank, BRAC, ASA and PROSHIKA).

Table-2 :Trend of Credit Flows to Micro-Enterprises made by Leading MFIs(in million BDT)

Name of MFIs	2001	2002	2003	2004	2005
Grameen Bank	n.a.	794.10	1507.76	4278.43	7920.44
BRAC	632.07	1250.67	3614.17	4132.80	5944.77
ASA	n.a.	n.a.	206.72	535.44	667.55
Proshika	71.87	120.28	176.17	183.59	245.98
Total	703.94	2165.05	5504.82	9130.26	14778.74

Source: The main sources of this information are websites of concerned MFI, & Bangladesh Bank Financial Sector Review, 2006. n.a. means data is not available.

During the period from 2001 to 2005 total yearly micro-enterprise lending increased by an amazing 2000 percent from BDT 703.94 million to BDT 15161.24 million. More or less the same trend is believed to be true of all the MFIs. Along with large NGOs/MFIs, many medium and small MFIs are also offering Microenterprise products to their graduated clients.

Usually the scheduled banks have a common practice of providing loan for small and cottage industries. The loan activities of schedule banks related to small and a cottage industry is presented by Table-3.

³ Graduate clients mean the clients who have been active borrower with the respective MFIs more than three years. There is no unique definition of graduate clients. The definition of graduate clients varies according to the size of NGOs/MFIs.

Table-3: Dynamics of Schedule Bank's Term Loan (Yearly Disbursement) to Small and Cottage Industries (in million BDT)

Bank category	2003	2004	2005
Nationalized Commercial Banks(NCBs)	1272.1	2408.8	4968
Private Commercial Banks(PCBs)	1928	3011.8	5785.4
Foreign Commercial Banks(FCBs)	0.00	0.00	0.00
Development Financial Institutions(DFIs) / Specialized Banks(SBs)	1120.9	1088.4	1507.2
Total	4321	6509	12260.6

Source: The main sources of this information is Bangladesh Bank database and reported in Bangladesh Bank Financial Sector Review, 2006

The Table suggests that banks are gradually becoming more inclined to small enterprise financing. The zero figures for FCBs do not necessarily downplay the role of Foreign Commercial Banks in SME financing. They merely indicate the non-existence of loan made by the FCBs in the specific name of small and cottage industries. Indeed several foreign banks are now engaged in SME banking.

7. Challenges to uplift Microfinance Clients to Micro-entrepreneurs

Although some large and medium size NGOs/MFIs are offering Microenterprise loan products to their graduate clients, still they are facing different challenges. The medium size MFIs are offering Microenterprise loan product with the financing from PKSF. PKSF started this program in early 2002 and so far an amount of US \$ 13 million has been disbursed to about 66000 graduate micro credit borrowers. Individual loan ranges between US \$350 to 3000 (Khan, 2005). The major challenges to upscale Microfinance clients to Micro-entrepreneurs are:

Lack of Managerial Capacity of clients: Most of the Microfinance clients are rural poor women and they are not educated enough to manage enterprises. The male family member of the clients usually manage the enterprises, but they too lack managerial capacity.

Inadequate Technical knowledge: It is true that Microenterprise clients of MFIs have some technical knowledge on their respective ventures. But their technical knowledge in-

terms of operations and also accounts keeping are not adequate enough to expand their enterprises.

Insufficient training and Business Development services: The MFIs do not provide sufficient skill development training and business development services to their Microenterprise clients. But both skill development training and business development services are essential for Microenterprise clients. For marketing the products business development services is important.

Insignificant Backward and forward linkage: Large MFIs have some forward linkage facilities for their Microenterprise clients, but most of the MFIs do not have any backward and forward linkage facilities. Due to insignificant backward and forward linkage facilities up scaling of Microfinance clients are not observed to that extent.

Lack of capacity of MFI staffs: Most of the MFIs do not have professional operational staffs, who will provide necessary supports along with financing to the Microenterprise clients. Due to lack of capacity, the MFIs staff sometimes ignores Microenterprise clients for the fear of delinquency and increase of portfolio at risks.

No insurance coverage: Usually the MFIs offer Microinsurance product to their clients. But in most of the case they cover death risks of client which is also related with loan protection. But there is no insurance coverage facility for the enterprise of the clients.

No linkage opportunity with mainstream financial institutions: Usually the formal financial institutions do not express interest to finance the SMEs on a large scale especially to the micro entrepreneurs graduating from the micro credit programs. The MFIs also do not undertake any initiative to link their Microenterprise clients with mainstream financial institutions.

8. Constraints of SME sector in Bangladesh

The SME sector in Bangladesh is facing several constraints on broad aspects like policy issues, legal, administrative and regulatory constraints, and financial constraints (Hossain, 1998). Each of the broad aspect consists of several constraints issues. Another important issue is enabling business environment or market environment.

Government Development Expenditures: Small, medium and cottage enterprises have been identified as priority areas in Poverty Reduction Strategy Paper (PRSP). But the government's development expenditures do not focus SME development policy.

Trade Policy: During the last few years substantial reforms have been carried out in the external trade regime of Bangladesh due to Globalization and trade liberalization policy. The import procedure has been greatly eased and deregulated. Import tariffs have been lowered and quantitative restrictions virtually eliminated. All these have facilitated greater access of domestic producers to imported raw materials. However, import liberalization has also exposed domestic producers to competition from foreign goods. Liberalization of industrial and trade regimes along with globalization are likely to have had significant effects on Bangladesh's SMEs (Ahmed, 2003; Bhattacharya *et. al.*, 2000).

Tariff rationalization and proper valuation: The tariff policy on raw materials and finished goods is still irrational. There is no rational tariff policy that encourages domestic production by importing raw materials rather than importing finished goods. As there is not adequate gap between duty on raw materials and duty on finished products, so possible under-invoicing and dumping is very common.

Tax incentive: Although the cottage industries are exempted from Value Added Tax(VAT), the manufacturer, producer and those who render service are required to pay tax. Similarly, there are no differentiated treatments of SMEs either with respect to duty on capital machinery or direct taxes.

Legal and regulatory framework: Creating an appropriate and effective legal and regulatory framework is an important precondition for the establishment of a legitimate private sector. The absence of an effective and transparent legal system discourages small firms in exploring into risky ventures of business. There are a number of redundant formal requirements to start and run business that create high compliance costs and become barriers to SME development, growth and market entry.

Lack of Physical Infrastructure: The physical infrastructure of a country is essential for industrial development specially the SME sector development. It is obvious that in countries with poor infrastructure, business must devote more resources to such tasks as acquiring information, procuring inputs, and getting their products to market (World Bank and BEI, 2003). Physical infrastructure like roads and highways, electricity, gas, water, telephone etc. facilities in Bangladesh is not sufficient enough to provide congenial environment for SME development.

Transportations cost: Higher transportation cost has been hindering the growth of SME sector. The World Bank-BEI (2003) enterprise level survey finds transport is to be a bigger problem in Bangladesh than in some other countries. It is proven that road transportation cost is higher than water and railway transportation. Although we have the

opportunity to use our rivers for water transportation, still this transportation doesn't get wide attention.

Lack of Access to Finance: The government and donor agencies have undertaken various initiatives for SME financing, but it is not up to the mark. One of the most severe problems affecting the growth of SMEs is access to finance. SMEs need finance to expand business, to introduce new products, and to market them. Various survey and micro studies in Bangladesh have identified access to finance as the main problems facing the SMEs.

Lack of Entrepreneurship and Managerial Skills: Entrepreneurship skill lies at the heart of business activities of the modern world. Today's entrepreneurs must have management skills, should have access to up-to-date information, and must be capable enough to analyze events related to market opportunities, risks, and trends. Most owner-managers and entrepreneurs often lack wider managerial skills that 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, information technology are a few critical elements of management required to meet challenges of the market economy, especially in the international market environment (Razzaque, 2003).

Domestic Political and Business Environment: The domestic political and business environment is essential for vibrant private sector development. Due to political unrest and inconvenient business environment both the large industry and SMEs are affected. But the SMEs are affected so badly that sometimes they become sick industry heading to liquidation. Political turmoil in Bangladesh is seriously affecting the growth and development of SME sector.

Backward and Forward Linkage: The backward and forward linkage is the key to success of SME development. But in Bangladesh, there is no established backward linkage facilities for SMEs as well as large industries. Sometimes, SMEs could become backward linkage for large industries. But this facility is also not observed here. Moreover, in terms of forward linkage, SMEs in Bangladesh, especially the small enterprises, do not have enough marketing capability and network. An overwhelming majority of small firms do not have resources to be invested in marketing. Advertisement is an important determinant of demand but SMEs in Bangladesh in most cases are not in a position to use this as a marketing tool.

9. Bridging the gap between Microfinance and SME Financing

The Microfinance industry in Bangladesh has reached a mature stage over the last three decades. During this time, the Microfinance industry has created many entrepreneurs and a large portion of them are women. But among these Microenterprise clients, very small number of clients is linked with mainstream financial institutions. So there is a need for a bridge to link these Microenterprise clients with mainstream financial institutions. If we critically analyze the enterprise landscape of a Least Developed Countries (LDCs), we will find there are five layers of the pyramid. In the bottom of the pyramid Micro-business or Microenterprise is located, which constitute 65-75% of total market, small businesses capture 20% market share, medium businesses cover 5-10%, large businesses cover 0.9%; and corporate and multinationals cover 0.1% of total market share(Naim,2005). The bottom clients of Micro-business or Microenterprise of pyramid are financed by the MFIs. The target clients of mainstream financial institutions like banks and NBFIs are the top two layers of the pyramid, which consist of large businesses, and corporate and multinationals. But the middle two layers of the pyramid where small and medium businesses are located are usually untapped both by the mainstream financial institutions and also the MFIs. This group has been named the missing middle.

To bridge the gap between Microfinance and SME financing, this missing middle is to be addressed both by the mainstream financial institutions as well as MFIs. The banks and NBFIs should downscale their SME financing activities in a way that addresses at least the upper portion of the missing middle. Again, the MFIs should also upscale their Microenterprise programs that cover the bottom portion of the missing middle. So that there will be a bridge between the clients of bottom layer of the pyramid with upper layer and their will be no gap. If the missing middle could be eliminated by absorbing them through financing by both mainstream financial institutions and MFIs then there will be no gap and when the enterprises of Microfinance clients expanded then these enterprises could be linked with mainstream financial institutions.

The main advantage of MFIs is the commitment of devoted staffs. But the main disadvantage to scaling up Microfinance clients to SME financing is existing nature of product. The organizational structure and the financial structure are set which makes it slightly difficult to expand the products and services. Small businesses need a variety of financial products whereas, the micro financial institutions are normally offering one or a few limited financial products. For example, small business may need to finance fixed investment which needs longer term maturity, it may need a gestation period before a project can generate cash flow, it may need different forms of services, not only working

capital but letters of credit and it may need equity. These products are quite often produced by the larger financial institutions. But the problem with them is that they feel small business lending is risky, it's high cost to serve (Sinha,2004) .

10. Recommendations

Microfinance has been considered a good strategy for poverty alleviation. On the other hand, SME has been considered as thrust sector which contributes in to the macroeconomic growth. But for the country's overall macroeconomic growth and economic development bridging the Microfinance and SME is very important. If the bridging could be done in a proper way then the Microfinance would be a very effective tool for SME development and through this process the SME sector could gradually become large industry. The following recommendations are very important for Microfinance and SME development and bridging the gap between them.

Uplifting Microfinance clients: Although the Microfinance sector has been operating successfully over the last three decades and it has been considered as effective tool for poverty alleviation, still there is a big challenge for the sector to uplift the clients to successful entrepreneurs.

Managerial skill development training: It is true that most of our enterprise clients do not have enough managerial skills. So managerial skill development training for enterprise clients should be organized. The MFIs could take responsibilities of their respective Microenterprise clients and the Federation of Bangladesh Chamber of Commerce and Industries (FBCCI) or other organization like the up coming SME Foundation or donor/international agencies like South Asia Enterprise Development Facilities (SEDF) could take responsibility of training for SME sector.

Enhancing Technical Knowledge: The MFIs should take the responsibility to provide technical knowledge development training like bookkeeping and accounts keeping, product costing and pricing etc. to their clients. The same training could also be organized for SME sector.

Enterprise development training: It is universal that entrepreneurship capacity is inherent and everybody can not become entrepreneur. But training sometimes could make people successful entrepreneur. Enterprise development training is extremely important for Microfinance clients to upscale them to successful entrepreneurs.

Business Development Services (BDS): It is found from a study that marketing assistance is the greatest need for all size of enterprises. BDS is important to improve the performance, services and expand market of SMEs (USAID, 2001). The BDS is an integrated approach where skill development training, management and marketing training and enterprise development training are included. So BDS is essential for SME development of the country.

Backward and Forward Linkage: It is obvious that for any industrial development both backward and forward linkage is essential. In Bangladesh, the backward and forward linkage facilities has not developed substantially to provide support to the large industry as well as SMEs. The backward linkage facilities are important for both large industries and SMEs. If the backward linkage facilities develop, then the production cost would be less and our products could be sold in competitive price in both domestic and foreign market. In most of the cases the SMEs act as backward linkage for large industry. Although forward linkage is not very essential for the large industry, but it is crying need for SMEs; because SMEs do not have adequate information, linkage, marketing skills, and capital for marketing their products. Sometimes, SMEs need to sell their products in low price with small profit margin. If the forward linkage for SMEs could be established then the profit margin of SMEs will be higher. In this respect, the government, FBCCI, NGOs/MFIs and donor agencies should come forward.

Training of MFIs staffs: Although the Microfinance sector has reached a maturity stage over the last three decades, but the capacity of operational level staffs has not enhanced to that extent. Moreover, still the sector has been facing the problem the lack of professional staffs. It is observed that in most of the cases due to lack of capacity and expertise, the MFIs staffs are not interested to provide Microenterprise loan with the fear of delinquency and increasing portfolio at risks. Moreover, they don't have enough skill for monitoring and providing necessary supports to their Microenterprise clients. So training of MFIs staffs is required. Besides, the MFIs should recruit professional staffs and experts from private sector.

Ensure Insurance coverage facilities: The most of the SMEs of this country are not covered by insurance. There are two reasons behind this, overlooking from both supply and demand side, one is the insurance companies usually ignores these SMEs and the other is the owners of these SMEs either are not aware about insurance or inadequate knowledge about insurance or due to fund constraint they couldn't afford insurance facilities. It is observed that usually when disaster or adversity occurs then many SMEs either shut down or become sick or go to liquidation. If there is mandatory insurance for these SMEs, then these SMEs could be revived after any disaster.

Linkage opportunity with mainstream financial institutions: It is important for Microenterprise clients of MFIs. The MFIs should take initiatives to up scale their Microenterprise clients to SME level and provide necessary support to link these clients with mainstream financial institutions.

Increase Public Development Expenditures: The government should have a clear policy for public development expenditures and increase it especially for SME sector. If the sector has to make much headway, there is need for substantial increase in public investment in the sector particularly in the area of training, extension, research, market promotion, etc. A collaborative effort of the government with business associations, non-governmental organizations NGOs and other development partners is recommended in such public outlays.

SME friendly trade policy to be undertaken: It is true that to cope with globalization the government has been undertaking various trade policies. But the trade policy should be reformed in such a way that SME sector will not be affected.

Appropriate tariff rationalization and valuation: Tariff should be rationalized in such a way that the SME sector will not be affected. Besides, proper monitoring of valuation of imported goods to be taken into account. So that the possibilities of dumping would be reduced that would be helpful for sustainable growth of SME sector.

Tax holiday and incentive: Along with foreign investors and also large investors, the SME sector should also be given substantial tax holiday and tax incentive facilities for their sustainable growth.

SME friendly legal and regulatory framework: The government needs to consider SME sector during enacting any legal and regulatory framework. The government should reduce the legal barriers and create enabling regulatory framework for the SME sector.

Expand Transportation facilities: To reduce the transportation cost the government can undertake initiative to increase water and railway transportation facilities. If the government expand water and railway transportation facilities then the SME sector will be benefited by reducing their transportation costs.

Availability of investment fund and working capital: It is obvious that the SME sector is facing tremendous shortage of investment fund and working capital. Although the Bangladesh bank has undertaken initiatives for SME financing but still it is not adequate enough for this large sector. Moreover, the mainstream financial institutions should also

come forward and instead of conservative attitude they need to become more flexible in SME financing.

Congenial Domestic Business and Political Environment: It is a long term process and needs greater commitment and cooperation of different groups like political parties, businessman, students, labors, bureaucrats and civil society. If congenial domestic business and political environment could be ensured then along with large industry the SME sector will also develop.

11. Conclusion

The Microfinance industry in Bangladesh has made a remarkable growth during the last decade with diversified products and services. Due to diversified products and services, some poor people have become very good entrepreneurs. But still the main criticism of Microfinance sector is that the sector could not upscale their clients to the SMEs to such a large extent, which the sector is supposed to do. Now the Microfinance sector has taken a challenge to uplift their clients to SMEs and bridging the gap between Microfinance and SMEs. To bridge the gap both Microfinance and SME sector should redesign their products and services in such a way that the MFIs should upscale their operations and the mainstream financial institutions should downscale their financing policy to eliminate the missing middle. If the missing middle could be addressed with financing then there will be no gap and if even there is small gap, then bridging the gap between Microfinance and SMEs will be possible. The proper bridging between Microfinance and SME financing will ensure the sustainable growth of SME sector that will have positive impact on overall macroeconomic growth.

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