



**REVIEW OF SUBSECTOR WORK IN BANGLADESH:  
FINAL REPORT**

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**USAID Bangladesh**

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## ABBREVIATIONS

ADTP-II	Agro-based Industries & Technology Development Project—Phase II
AFE	Action for Enterprise
BDS	Business Development Services
BS	Business Services
DBSM	Development of Business Service Markers Project
JOBS	Jobs, Opportunities, and Business Support Program
MSME	Micro, Small, and Medium-scale Enterprises
SBS	Subsector / Business Service Approach
Tk	Taka
USAID	United States Agency for International Development

## EXECUTIVE SUMMARY

As USAID Bangladesh begins to define its strategy for subsector-based enterprise development programs, there is a need to consolidate and compile the subsector-based data and research already conducted. Action for Enterprise (AFE) was contracted to assist USAID Bangladesh in this process.

The specific objectives of this assignment were to:

- Develop a data base that catalogues subsector studies conducted by donors and development programs over the past five years;
- Create a physical library of subsector studies;
- Develop a matrix of current and future donor initiatives in subsector development;
- Identify knowledge gaps and outstanding questions in existing subsector studies;
- Identify subsectors with high potential for growth and increased income of micro, small, and medium-scale enterprises (MSMEs); and
- Present principal findings to USAID and other interested donors

Activities carried out by AFE to achieve these objectives included:

- A survey of donors and donor programs to determine the breadth of subsector-based activities currently being implemented or planned for the future
- Collection of over 48 subsector-related documents and studies
- Establishment of a physical library of these studies and negotiation of agreement with the "Developing Business Services Markets" (DBSM) Project to house the library at their headquarters. DBSM has agreed to host the library and promote it as an information clearing house for all interested donors and practitioners in Bangladesh
- Development of a database that electronically catalogues the subsector studies (also to be housed at the DBSM)
- Development of an industry/subsector classification system
- Development of a methodology to assess existing subsector studies and identify information gaps
- Assessment of at least 22 subsector studies, identification of information gaps, and documentation of findings
- Development of donor matrix that presents the breadth of subsector-based activities by donors and donor-funded projects
- Organization of a one-day focus group discussion with eight Bangladeshi business leaders to identify subsectors with high growth potential and capacity to impact large numbers of MSMEs
- Presentation of consultancy results to donors involved in MSME development programs

Based on the results of the focus group discussion held with business leaders, and interviews with key informants, the following six subsectors were identified as having high potential for growth and participation of large numbers of MSMEs (shown in no particular order):

- |                        |                               |
|------------------------|-------------------------------|
| ✓ ICT/ITES             | ✓ Processed Fruits/Vegetables |
| ✓ Leather Products     | ✓ Dairy Products              |
| ✓ Fish/Shrimp Products | ✓ Poultry Products            |

This list represents a set of subsectors for further consideration by USAID Bangladesh. Final decisions on specific target subsectors should be based on a review of these subsectors using additional selection criteria.

Finally, AFE proposes the following recommendations for USAID Bangladesh consideration:

*Recommendation:* together with the other relevant donors, formalize and support the proposed role and responsibility of DBSM to host and maintain the subsector library.

*Recommendation:* explore opportunities to coordinate its subsector selection activities with DBSM to develop a common approach for subsector-based business development programs in Bangladesh and to avoid duplication of efforts.

*Recommendation:* consider incorporating aspects of the Subsector/Business Service program design approach into its planning process for subsector-based enterprise development programs.

*Recommendation:* continue to promote the idea a “BDS working group”, within the Local Consultative Group on Private Sector Development (LCG-PSD) or other appropriate venues, to serve as a forum for sharing plans and coordinating investments in business service development programs in Bangladesh.

## I. INTRODUCTION

Many donors and development programs have carried out numerous subsector studies in Bangladesh over the years. However, this information has not been consolidated for easy reference and use by the development community. Bringing this information together can result in significant savings of time and resources as donors embark on new subsector-oriented enterprise development programs.

With support from USAID Bangladesh, Action for Enterprise (AFE) conducted an assessment of the subsector<sup>1</sup>-related studies and programs in Bangladesh. The specific objectives of this assessment were to:

- Develop a data base that catalogues subsector studies conducted by donors and development programs over the past five years;
- Create a physical library of subsector studies;
- Develop a matrix of current and future donor initiatives in subsector development;
- Identify knowledge gaps and outstanding questions in existing subsector studies;
- Identify subsectors with high potential for growth and increased income of micro, small, and medium-scale enterprises (MSMEs); and
- Present principal findings to USAID and other interested donors

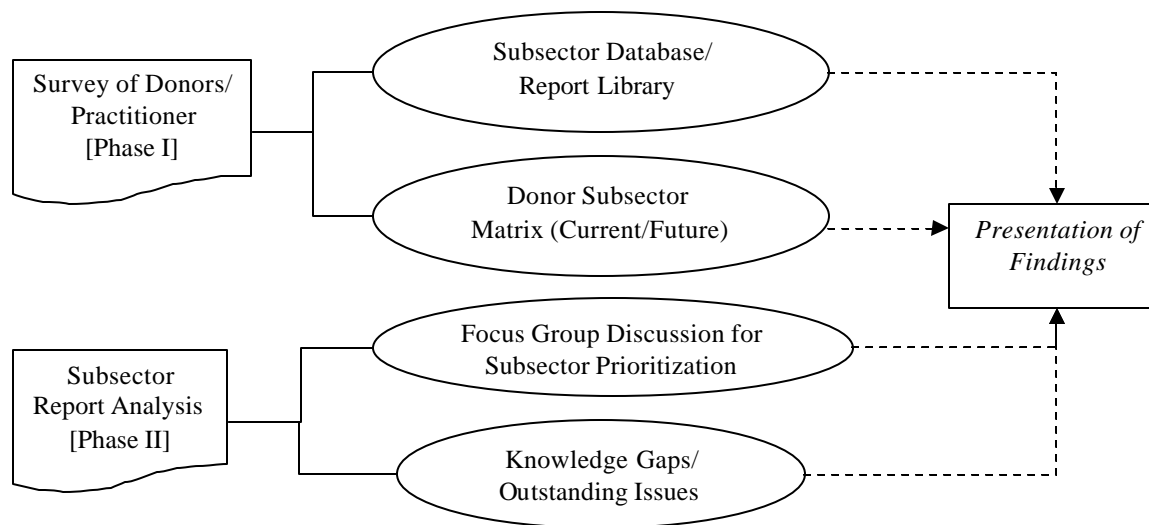
The activities of this consultancy were conducted in two phases:

Phase I – Survey of Existing Subsector Studies and Donor Programs; and

Phase II – Assessment of Subsector Studies.

The major deliverables for each of the two phases is presented in Figure 1 below.

**Figure 1. Flow of Major Deliverables**



<sup>1</sup> A subsector can be defined as all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers (e.g. producers, processors, input suppliers, wholesalers, and retailers). Subsectors are generally defined by a particular finished product or service (i.e., wood furniture, dried tomatoes, clothing production, legal consulting, etc.).

This report describes the preparation and activities completed under each phase, followed by a presentation of the findings and summary recommendations. See Appendix 1 for an itinerary and calendar of activities completed during this assignment.

## **II. ACTIVITIES**

### **2.1 Preparatory Activities**

In accordance with the Scope of Work for this assignment (see Appendix 2) AFE contracted a local subsector specialist (Mr. Mrinal Sircar) to provide technical support, follow-up, and logistical facilitation in Bangladesh. Mr. Sircar provided invaluable on-going support throughout this assignment and co-facilitated the focus group discussion with business leaders.

AFE submitted a detailed work plan to USAID Bangladesh on for review and consideration by the Mission's technical team. A few suggestions were made to broaden the interpretation of "subsector studies" to include all relevant subsector-related documents, and to ensure that discussions with private sector business leaders were also scheduled.

### **2.2 Survey of Donors and Donor Programs**

The first activity was to complete a survey of current donors and development programs in Bangladesh involved in subsector-based development activities. The objectives of this survey were to:

- identify and collect subsector studies or assessments carried out by these organizations during the past five years;
- identify the organizations' current or future initiatives for subsector work;
- solicit information and opinions that will assist in identifying high priority and low priority subsectors; and
- identify other organizations that have done subsector work over the past five years

A preliminary questionnaire was developed to guide the interview process. In addition, a list of donors, donor programs, NGOs, and other prospective interviewees was compiled with the assistance of USAID Bangladesh.

AFE met with a range of organizations and donors involved in subsector-related programs in Dhaka (see Appendix 3 for a list of all programs and organizations surveyed). Interviews were conducted and information compiled about their subsector related programs and perspectives.

#### **2.2.1 Classification of Sectors and Subsectors**

In order to facilitate the presentation of subsector studies and donor programs, AFE developed a classification of broad sectors and related subsectors. This was based on the economic and industry data categories used by the central Bangladesh Bank, as well as discussions with business leaders in the private sector. The classification presents subsectors (and specific products within those subsectors) for which studies have been conducted or in which donors have current or planned activities. A cross-cutting category of "SME Development" was also

included to reflect donor programs not targeted at a specific subsector but still focused on enterprise development. See Table 1 below.

**Table 1. Sector and Subsector Categories Used**

SECTOR	SUBSECTOR	SPECIFIC PRODUCTS WITHIN SUBSECTOR
<b>Agriculture and Natural Resources</b>		
	Dairy/Livestock	– milk and dairy products
	Fish and Shrimp Products	– frozen shrimp – dehydrated fish
	Forestry and Forest Products	– cane and bamboo products
	Grains and Legumes	– fine rice – soybean
	Horticultural Crops	– fresh fruits and vegetables
	Jute Products	– including jute-based furniture, plastic products, paper and packaging, carpet, etc.
	Poultry	– poultry products
	Processed fruits/vegetables	– fruit juices; prepared vegetable products; etc.
	General Agribusiness	– this includes a broad range of multi-subsectoral reports and activities within the agricultural sector
<b>Manufacturing</b>		
	Bakery Products	– baked goods
	Electronic Goods	– small electronic products
	Furniture	– home furniture
	Garments/Ready-made Garments (RMG)	– hosiery and knitwear – personal protective equipment (PPE)
	Leather Products	– footwear – leather goods
	Light Engineering Products	– agricultural implements – bicycle parts (incl. rickshaws) – small motor parts/spares – other small parts/spares (incl. nuts, bolts, etc.)
	Paper Products and Printing	– stationery – corporate gifts – packaging materials
	Plastic Products	– plastic-based products
	Textiles	– specialized handloom/home textiles – textile dyeing and printing services – floor coverings/handmade carpets
<b>Services</b>		
	Information Technology/ICT <sup>2</sup> Services	– IT Enabled Services (ITES) <sup>3</sup> – communication centers / cyber cafes – software training and development
<b>Non-Subsector Specific</b>		
	SME Development	– this includes donor projects that are focused on SME development but have not targeted a specific subsector

<sup>2</sup> “ICT” = Information & Communications Technology: Electronic means of capturing, storing and communicating information. Modern ICT generally includes telephones, fax, photocopiers, computer hardware and software, and the Internet (e-mail and Web).

<sup>3</sup> ITES refers to IT-related business processes which are generally outsourced offshore (such as financial accounting services, human resources administration, customer care services).



As stated above, the subsectors and specific products listed in Table 1 are only those where subsector-related studies have been recently completed, or where donors have current or planned activities. It is not meant to be an exhaustive list of subsectors in the country.

### **2.2.2 Develop a matrix of donor subsector work**

Based on the findings of the donor surveys and discussions with key informants, AFE completed a matrix to present various donors' current and future subsector-based activities in Bangladesh (see Appendix 4).

Using the subsector categories shown in Table 1, the matrix reflects self-reported subsectors where donors are active, or plan to be active, with private sector enterprise development activities.

The matrix is meant to serve as a tool for donors and donor-funded projects to pinpoint areas where business development support may be concentrated, and to identify potential subsectors to target (or avoid). However, given the dynamic nature of some of these subsector-related projects (i.e., starting up, phasing out, etc.), the matrix should be viewed as providing only a “snapshot” of information. Occasional updates of this donor matrix would be necessary for it to remain current and relevant.

## **2.3 Compilation of Reports and Set-up of Subsector Library**

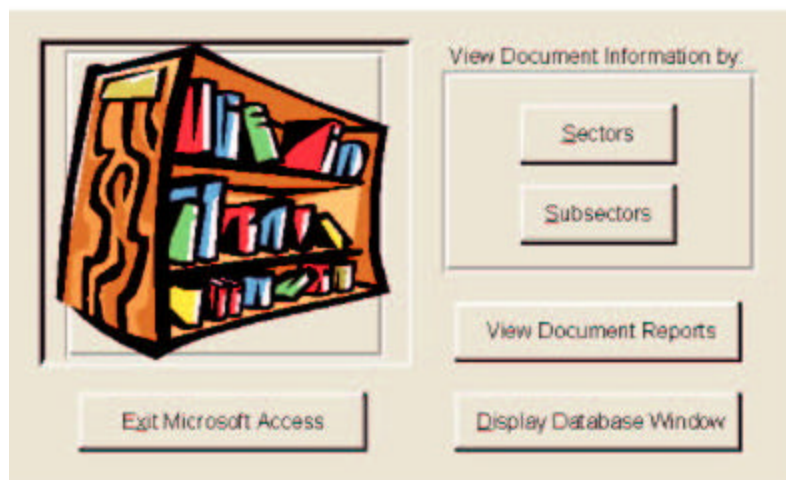
### **2.3.1 Develop data base that catalogues subsector studies**

AFE developed a simple, user-friendly database to catalog the studies and assessments identified in Activity 2.1 above. This database includes the following main fields of information for each study:

- (1) Subsector Assessed
- (2) Date of Assessment
- (3) Assessment Conducted by
- (4) Funding Source
- (5) Electronic Copy Available (yes/no)
- (6) Comments/Remarks

Created using Microsoft Access, the database is easily accessible, even for those with little or no previous experience in database use. It was designed so that information on subsectors could be accessed in a quick and easy manner.

The database starts with an intuitive “switchboard” screen (see Figure 2.) which allows users to view document information by subsector or by sector, or to view a variety of document reports:

**Figure 2. Subsector Database: Main Switchboard**

The “View Document Reports” button (see Figure 3) enables users to generate, view, and print lists of the database documents by: (i) subsector. (ii) sector, (iii) funding source, or (iv) author:

**Figure 3. Subsector Database: Document View Options**

Examples of the reports generated by the database can be found in Appendix 5.

### **2.3.2 Create Physical Library of Subsector Studies**

In collaboration with the Development of Business Service Markets (DBSM) project, AFE initiated efforts to establish and set-up a physical library for the subsector assessments collected during this assignment.

The DBSM project has offered to house the library and to support the maintenance and updating of the database. Given its central location in Dhaka, the DBSM office will allow greater access for potential library users. DBSM has also offered to provide (restricted) access to the library holding via its eventual website. Over time, and with additional on-going contributions by other donors, this library could truly serve as an information clearing house for subsector-based reports and related data in Bangladesh.

## 2.4 Analysis of Subsector Studies and Reports

### 2.4.1 Background

The objectives of this activity were to:

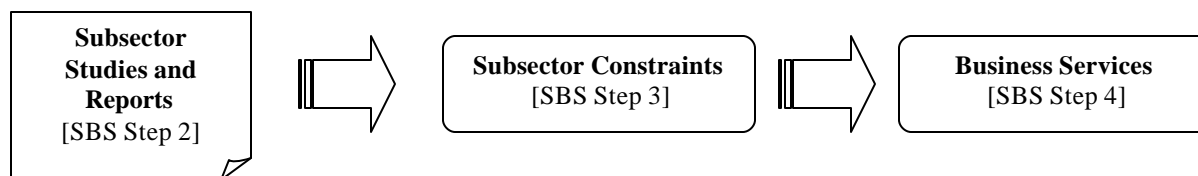
1. conduct analysis of the subsector assessments and qualitative data obtained during the first phase of this assignment (Activities 2.3. and 2.4 described above), and
2. identify knowledge gaps or questions that should be answered in the subsectors reviewed.

In order to achieve these objectives, AFE applied the principles and concepts of its "subsector/business service approach (SBS)" which combines subsector analysis tools with a business services development orientation in order to increase the incomes and profitability of micro, small, and medium-scale enterprises (MSMEs). Key aspects of the SBS approach are to *identify constraints* in growth-potential subsectors, and then *promote commercial strategies* to improve access to sustainable business services that address those constraints. The SBS approach is described in further detail in Section 3.2 below.

### 2.4.2 Assessment Framework

The framework used by AFE to assess subsector reports was based on these aspects of the SBS approach. Efforts were made to determine whether the reports and studies reviewed contained enough information to identify major subsector constraints, and to determine which commercial business services can best address the challenges and opportunities within the subsector (see Figure 4).

Figure 4.



The subsector studies/reports were also analyzed to determine to what extent they contained the following information:

- final sales market(s) and market segments;
- market channels/supply chains and trends within the subsector;
- primary actors in the subsector, their roles, and interrelationships (with emphasis on linkages with targeted MSMEs);
- a subsector map that describes the above;
- constraints and opportunities that are holding back growth and competitiveness;
- business services that can address subsector constraints and opportunities

In order to assess the subsector studies in this manner, the AFE team developed a list of questions, broken down according to categories. These categories serve as a guide to systematically determine whether enough information exists in the study to identify the major

challenges facing MSMEs in each category, and to move from there to the identification and assessment of business services that can address those challenges (see Table 2 below).

**Table 2. Major Categories of the Subsector Assessments**

ASSESSMENT CATEGORIES	ILLUSTRATIVE QUESTIONS
<i>Product Development/Technology</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– appropriateness of existing tools/ machinery/ technologies</li> <li>– whether MSMEs have technical skills and production techniques able to meet buyer specification</li> <li>– whether MSMEs have access to sufficient information on product demand (in terms of design and other product specifications)?</li> </ul>
<i>Market Access</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– linkages between MSMEs and large buyers</li> <li>– whether MSMEs have ready access to markets</li> <li>– the role that marketing organizations or brokers play or could play?</li> <li>– whether MSMEs have sufficient information on product demand?</li> <li>– whether MSMEs have appropriate marketing techniques or methods</li> <li>– opportunities in all major markets (local/regional/international)</li> <li>– whether there is unmet market demand</li> <li>– the extent to which transportation issues are affecting MSME business?</li> </ul>
<i>Input Supply</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– the quality of raw materials</li> <li>– whether MSME have sufficient access to affordable and quality inputs</li> <li>– whether existing suppliers have sufficient outreach</li> </ul>
<i>Management/Organization</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– the organization of producers</li> <li>– MSME opportunities to increase economies of scale</li> <li>– whether MSMEs lack financial management, internal organization, and/or production skills</li> <li>– extent of communication and/or cooperation between different stakeholders</li> </ul>
<i>Policy &amp; Regulatory</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– import taxes that potentially penalize local producers</li> <li>– the effect of price subsidies (if they exist)</li> <li>– the impact of general policies and regulations in the subsector on MSMEs</li> </ul>
<i>Finance</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– availability and terms of supplier credit for MSMEs</li> <li>– MSME access to commercial funding</li> <li>– alternatives to traditional bank lending</li> <li>– collateral options for MSMEs</li> </ul>
<i>Infrastructure</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– the state of access to roads, electricity, refrigeration facilities, telecommunications, etc. and the impact this has on MSMEs?</li> </ul>

ASSESSMENT CATEGORIES	ILLUSTRATIVE QUESTIONS
<i>MSME Involvement</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– the role of MSMEs in the subsector</li> <li>– characteristics of MSMEs involved in the subsector</li> </ul>
<i>Major Subsector Actors</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– all of the major subsector actors (including their characteristics, prevalence, and role they play)</li> </ul>
<i>Inter-relationships between Subsector Actors</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– the inter-relationships between subsector actors (i.e. development of a subsector map)</li> <li>– major supply chain channels in the subsector</li> </ul>
<i>Business Service Identification</i>	Does the study include information on: <ul style="list-style-type: none"> <li>– business services (new or existing) which can address the major subsector constraints</li> </ul>

Relative rankings of “high”, “medium”, and “low” were then used to reflect the depth of information (both qualitative and quantitative) in each of these areas. A “high” rating in a specific assessment area meant that sufficient data exists in the selected study to move forward to the next stage of MSME program design (i.e. identification/assessment of business services that can address challenges in that area); “medium” meant that some information is present but the report lacks sufficient data relative to challenges facing MSMEs in this area; and a “low” meant that no significant information is available in this assessment area.

Using this methodology, detailed assessment ratings for selected subsector studies and a summarized matrix showing the overall assessment ratings for these reports (see Appendix 6) were completed.

## 2.5 Prioritization of Subsectors

In order to identify and prioritize specific subsectors for USAID consideration, a half-day focus group discussion (FGD) was held with major private sector firms and business leaders on November 7, 2002. The objectives of the FGD were to:

- review and validate a list of selected subsectors, and
- short-list subsectors with the highest potential for further analysis

Although the timing of the FGD coincided with a public holiday and the beginning of Ramadan, representatives from eight leading business participated in the discussions (see Appendix 7 for a complete list of participants). By conducting the subsector prioritization process in a fully participatory manner, AFE was able to ensure private sector opinions were reflected and considered in the process. The session plan developed in preparation for the FGD can be found in Appendix 8.

### 2.5.1 Review and Validation of Short-listed Subsectors

Based on the survey conducted in Phase I of this assignment and other discussions with key informants, AFE short-listed a total of 14 subsectors for consideration during the FGD. After further clarification and suggested contributions from the participants, the final list of subsectors for FGD prioritization consisted of the following:

- dairy/livestock
- handicrafts
- processed fruits/vegetables
- leather products (footwear and leather goods)
- personal protection equipment (PPE)
- poultry products
- light engineering products
- electronic goods
- handloom products
- ICT/ITES
- paper products, printing
- plastic products
- fish/shrimp products
- wood furniture

**2.5.2 Prioritization of the Short-listed Subsectors**

The main exercise conducted during the FGD was the completion of an “Attractiveness Matrix” which shows the relative rating of each proposed subsector (i.e., high, medium, low) against two critical selection criteria. Any sub-sector falling within a pre-determined “not attractive” range could be considered as low priority, while subsectors rated with high potential in both criteria are considered more “attractive” and of higher priority consideration.

Prior to the FGD, it was determined that the most important factors for USAID Bangladesh consideration were the potential impact and outreach of a subsector. Therefore, AFE used the following two criteria to complete the Attractiveness Matrix and to determine the relative priority of short-listed subsectors:

- Market Growth and Demand: evidence of strong effective unmet demand for subsector products/services; including local, regional and/or possible export demand.
- Number of MSMEs Involved: number of MSMEs involved in the subsector either through backward or forward linkages; could be a measure of outreach as well as potential employment opportunities.

Using these criteria AFE facilitated the discussion of FGD participants to prioritize the short-listed subsectors. Each subsector was examined primarily in light of its potential for market growth, and its potential for MSME engagement.

The results of the FGD are presented in Figure 5 below. The subsectors listed within the boxes below are presented in alphabetical order and does not reflect any relative priority ranking.

**Figure 5. Subsector Attractiveness Matrix: Results of FGD**

*Potential Market Demand and Growth*

High

- electronic goods	- handloom products	- dairy/livestock
- paper products and printing	- light engineering products	- fish/shrimp products
	- plastic products	- ICT/ITES

		<ul style="list-style-type: none"> <li>- leather products</li> <li>- poultry products</li> <li>- processed fruits/vegetables</li> <li>- wood furniture</li> </ul>	
Medium		<ul style="list-style-type: none"> <li>- handicrafts</li> <li>- personal protection equipment (PPE)</li> </ul>	
Low			
	Low	Medium	High

*Potential No. of MSMEs involved*

Justifications given by FGD participants for placing subsectors in the highest quadrant included:

- *dairy/livestock*: the unmet market demand for dairy products is high; bulk of supply is currently imported (i.e., powdered milk and milk products). The potential for small-scale dairy farmers was also considered to be high.
- *ICT/ITES*: growth in this subsector would result in overall image-building of Bangladesh as a knowledge-based economy; this is a designated “thrust” industry for the government with a considerable amount of donor interest. The growing local and international market potential for local IT services was considered to be high.
- *leather products*: high use of locally available materials; export potential for this subsector was also considered to be high.
- *poultry products*: increased dietary diversity and nutrition which represents substantial unmet market potential; backward and forward linkage opportunities to MSMEs are high throughout the subsector.
- *processed fruits/vegetables*: market growth potential is considered high; this also a “thrust” industry for the government; as an agricultural industry, the backward and forward linkages with MSMEs are the highest among all of the other priority subsectors.
- *fish/shrimp products*: high export market potential (shrimp) and large unmet local demand (fish products); linkages to MSMEs considered to be very high throughout the subsector – backward and forward.
- *wood furniture*: large number of small-scale wood producers; local market potential for wood products.

**2.5.3 Follow-up and Next Steps for Subsector Selection**

Following the FGD, AFE conducted visits and more in-depth interviews with two companies from subsectors selected as high priority. The objective of these visits was to validate some of the discussions and findings to date. These companies, and their related subsectors, included: Pran Foods/Agricultural Marketing Company Ltd. [processed fruits/vegetables], Datasoft Ltd.

and the Bangladesh Association of Software and Information Systems (BASIS) [ITES], and Saabera/Apex Leather Craft & Fashion Accessories Co. [leather products].

The results of the FGD, supported by interviews conducted by AFE, identified the following six subsectors as having high potential for growth and participation of large numbers of MSMEs (shown in no particular order):

- |                        |                               |
|------------------------|-------------------------------|
| ✓ Fish/Shrimp Products | ✓ Poultry Products            |
| ✓ ICT/ITES             | ✓ Processed Fruits/Vegetables |
| ✓ Leather Products     | ✓ Dairy Products              |

This list represents a set of subsectors for further consideration by USAID Bangladesh. Final decisions on specific target subsectors should be based on a review of these subsectors (and others) using additional selection criteria (see Section 3.2 for suggested follow-up activities).

Additional subsector selection criteria should be based on the specific developmental priorities of USAID Bangladesh but could include the following:

- potential for backward linkages to rural enterprises – to gauge the opportunities for direct impact on the rural poor;
- potential for sustained international competitiveness – to determine the extent to which possible threats to subsector growth in export markets (e.g. expiration of the multi-fiber agreement in 2005, minimum pesticide residue requirements for agricultural exports to the EU, etc.) have been identified and addressed;
- potential impact on the environment – to ensure that any negative effects on the environment are considered;
- potential impact on women – to review the employment and income-generating opportunities for women in the subsector;
- etc.

## 2.6 Presentation of Principal Findings

A detailed debriefing and presentation was made to USAID Bangladesh on November 13 and included the following topics:

1. Demonstration of the subsector study data base and library
2. Presentation of the matrix of current and future donor initiatives in subsector development
3. Overview of knowledge gaps and outstanding questions in existing subsector studies.
4. Presentation of matrix that presents relative attractiveness of subsectors in relation to growth and income earning potential

Comments and suggestions made during the meeting with USAID were noted and incorporated into the final report.

In addition, as chair of the Local Consultative Group on Private Sector Development (LCG-PSD), USAID convened a meeting in which AFE was able to present its principal findings to the wider donor community and other interested organizations in Bangladesh.



### III. RECOMMENDATIONS

#### 3.1 Finalize Subsector Library and Maintenance

The subsector library and database will require on-going support and maintenance to keep it up-to-date and relevant for all interested donors and practitioners. DBSM has generously offered to host and provide support to the library.

*Recommendation:* USAID, together with the other relevant donors, formalize and support the proposed role and responsibility of DBSM to host and maintain the subsector library.

#### 3.2 Identify Subsector Selection Criteria

The Mission should identify the criteria it wants to use for the selection of subsectors it wishes to target. It should then gather information on those subsectors according to those criteria. The result will allow the mission to make choices on subsectors to target in a more systematic fashion (this selection process went beyond the mandate of this consultancy).

Since the DBSM project is also planning to go through a comprehensive subsector selection process, USAID may want to consider jointly coordinating their efforts to collect data, share information, and avoid duplication. While the ultimate programs may differ, there are opportunities to develop common approaches and improve the efficiency of the selection process for all future subsector-based enterprise development initiatives in Bangladesh.

*Recommendation:* USAID should explore opportunities to coordinate its subsector selection activities with DBSM to develop a common approach for subsector-based business development programs in Bangladesh and to avoid duplication of efforts.

#### 3.3 Incorporate a Subsector/Business Service Approach to Program Design

*Recommendation:* USAID should consider the following steps during the design of its subsector-based enterprise development programs:

**Step 1: Subsector Selection** – choose a subsector with the greatest potential for growth in MSME income and employment.

**Step 2: Subsector Analysis** – gain a greater understanding of the operating context for MSMEs and intelligence on the various subsector actors, their roles, and interrelationships.

**Step 3: Identification of Constraints and Opportunities** – determine key issues hindering MSME growth and competitiveness in the subsector.

**Step 4: Identification of Business Services** – determine which new or existing business services can best address the constraints identified in Step 3.

**Step 5: Selection of Business Services** – target specific business service(s) for more in-depth analysis.

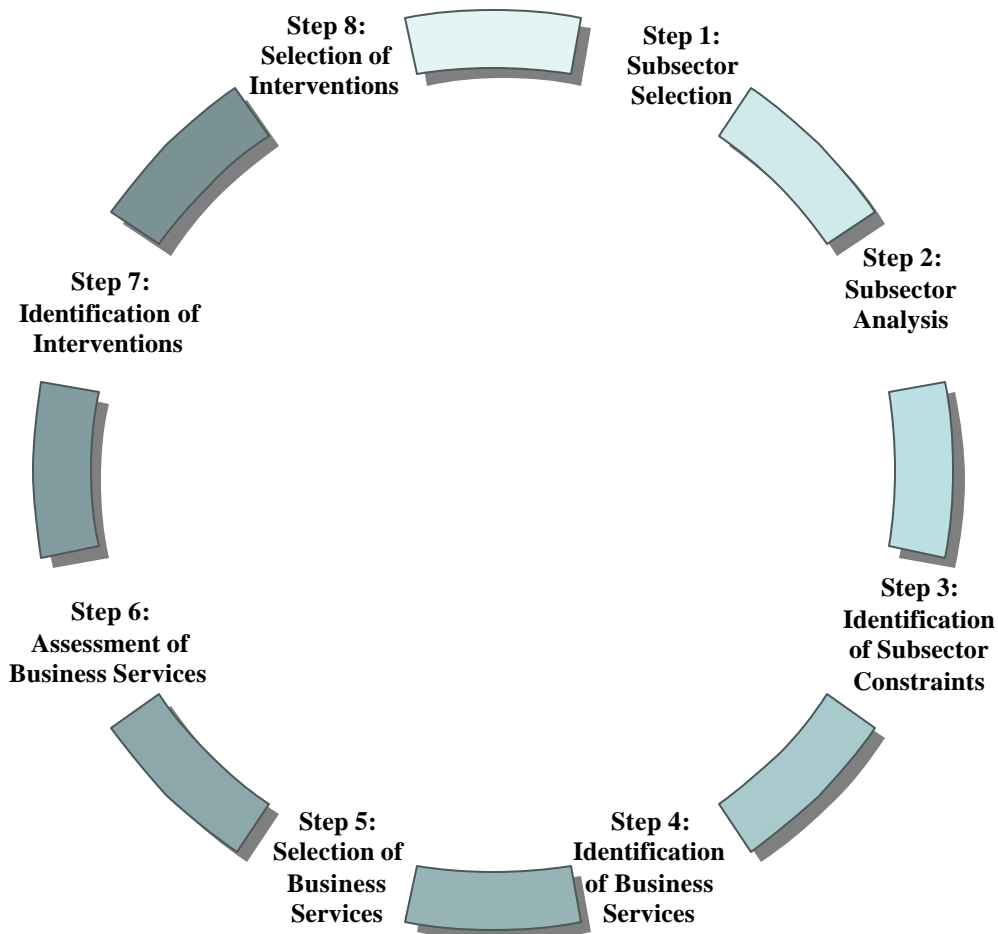
**Step 6: Assessment of Business Services** – analyze constraints to the sustainable supply/demand of the targeted business service(s).

**Step 7: Identification of Facilitation Activities** – determine facilitation activities which address the constraints of the business service(s).

**Step 8: Selection of Facilitation Activities** – choose the most appropriate interventions activities for a business service facilitator<sup>4</sup> to implement.

These steps are presented graphically in Figure 6 below:

**Figure 6.**



<sup>4</sup> A business service facilitator refers to an international or local institution which has as its primary aim to promote the development of private business services that can be sustainable in the market. Currently, most business service facilitators are public institutions, NGOs, or development projects and are usually funded by governments or donors.

The application of these steps can vary. For example, a number of methods for more focused subsector analysis can be used. These include the traditional form of subsector studies, more participatory methods such as workshops and focus groups, as well as "dive-in/incremental" approaches that limit initial analysis in favor of continuing it once actual program implementation begins.

AFE experience has shown that these approaches are not mutually exclusive. In fact, based on the time and resources available, some combination of all three methods is perhaps the most appropriate.

### **3.4 Maintain Donor Coordination Efforts**

With an increasing number of donor initiatives taking a commercial business services approach to implementation, it will be important to maintain close coordination. The application of different enterprise development approaches, by various donors operating in the same subsector, may undermine efforts to achieve sustainable impact. For example, in a particular subsector, one donor project may be actively involved in the direct provision of subsidized business services while another is trying to promote services that are sustainable through commercial transactions between MSMEs and private providers. As a result, conflicting and confusing signals would be sent to the private sector.

The Local Consultative Group on Private Sector Development (LCG-PSD) is a good forum for coordination of broad-based private sector development issues, but may be too general for specific programs focused on the development of business service markets.

*Recommendation:* continue to promote the idea a "BDS working group", within the LCG-PSD or other appropriate venues, to serve as a forum for sharing plans and coordinating investments in business service development programs in Bangladesh.

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